

# Economic & Market Commentary

## Market Update – October 2018

From Hong Kong to New York, stock markets were slammed by a wave of fears about slowing growth, trade wars, and higher interest rates. Even though markets enjoyed a sweet Halloween rebound, the S&P 500 lost nearly 7% in October, its worst month since September 2011. The pain spread to overseas markets, which were already slumping in 2018. Despite a rough October for stocks, market fundamentals remain strong with consumer confidence at all-time highs.

### Economy

- The first estimate of 3<sup>rd</sup> quarter real GDP growth came in at an annualized rate of 3.5%.
- Inflation, measured by the Consumer Price Index for all goods, dropped slightly to 2.3% year-over-year.
- Unemployment remains at 3.7% - its lowest point since 1969.
- Consumer confidence rose even higher for the fourth month in a row.
- Strong hiring and low unemployment resulted in a 3.1% increase in average hourly earnings year-over-year.

### Stocks

- U.S. large stocks were down in the month of October. The S&P 500 lost 6.8% while U.S. small stocks lost 10.9%.
- International large stocks fell 8.0%, while international small stocks (-10.0%) experienced another month of declines.
- Following a year in which emerging markets led stocks to higher highs, they have since struggled to keep the momentum in 2018 and are down 15.7% year-to-date.

### Bonds

- Bond returns were mixed for the month of October. Short-term bonds increased slightly (+0.1%) while intermediate bonds fell 0.1%.
- International bonds are now up 1.5% year-to-date.
- Inflation-protected bonds suffered the worst losses, down 1.4% in the month of October.

### Alternatives

- Global REITs (-3.2%), commodities (-2.2%), and managed futures (-1.4%) experienced losses during October.
- Reinsurance finished the month flat.

Sources: Bureau of Economic Analysis (BEA), Federal Reserve, Morningstar Direct, Standard and Poor's, MSCI

## Capital Gains Distributions

Mutual fund capital gains distributions are often misunderstood and can be an unpleasant surprise for investors with taxable accounts. No investor sets out to pay more taxes than necessary when selecting mutual funds. However, capital gains distributions can catch you off guard if you are not familiar with what they are and how they work. It is important to educate yourself now about capital gains distributions and how they might affect your tax bill every April.

Each year, generally in November and December, mutual fund shareholders face the possibility of receiving capital gains distributions. These capital gains distributions are the result of fund managers selling shares of underlying holdings within the fund during the taxable year. If the fund manager decides to sell a stock that has appreciated in price, the fund manager must distribute the gains to mutual fund shareholders. The distribution is taxable to the fund shareholders unless the fund is held in a qualified account (IRA, 401(k), etc.).

For example: ABC mutual fund purchased one share of stock 25 years ago for \$1. Today the position is worth \$50. This results in a long-term capital gain of \$49. When the fund sells the underlying stock, the fund must distribute the gains to current shareholders and the shareholders must report the gain on their personal tax return. These gains are treated as either short- or long-term capital gains, so any short-term capital gains will be taxed as ordinary income rates while long-term gains receive preferential tax treatment.

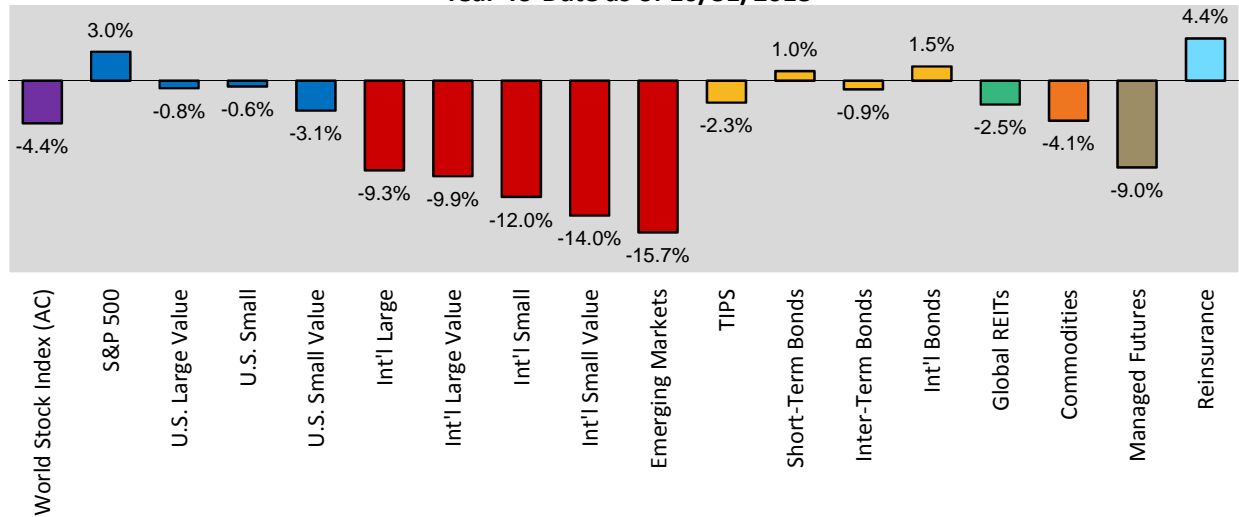
Investors typically focus on maximizing their returns, and rightfully so. However, focusing on return and ignoring other factors, in this case potential capital gains distribution tax, can have the effect of lowering your total after-tax return. If you own mutual funds in a taxable account, you may want to focus on low-turnover funds, which include index funds and tax-efficient mutual funds. Savant utilizes low-turnover, tax-efficient mutual funds that are designed to avoid unnecessary taxes. By doing this, investors are able to keep more of their return instead of paying it back to the government in April.

If you would like more information on how to increase the tax efficiency of your portfolio, check out our recently updated white paper, *Approaching Zero Taxes*, which can be downloaded from our website.

For more information, call 866.489.0500  
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**MARKET RETURNS**  
Year-To-Date as of 10/31/2018



**MARKET RETURNS - Longer Term Annualized as of 10/31/2018**

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
<b>STOCKS</b>							
S&P 500	-6.8%	3.0%	7.4%	11.5%	11.3%	13.2%	8.7%
U.S. Large Value	-4.5%	-0.8%	3.6%	10.1%	9.4%	11.6%	8.3%
U.S. Small	-10.9%	-0.6%	1.9%	10.7%	8.0%	12.4%	8.7%
U.S. Small Value	-8.8%	-3.1%	-0.5%	9.6%	7.7%	12.4%	9.1%
Int'l Large	-8.0%	-9.3%	-6.9%	3.6%	2.0%	6.9%	5.8%
Int'l Large Value	-6.6%	-9.9%	-7.7%	3.2%	0.9%	6.2%	5.4%
Int'l Small	-10.0%	-12.0%	-7.9%	6.4%	5.4%	11.3%	8.8%
Int'l Small Value	-9.3%	-14.0%	-9.9%	5.6%	4.9%	11.0%	9.1%
Emerging Mkts	-8.7%	-15.7%	-12.5%	6.5%	0.8%	7.8%	8.4%
World Stock Index (AC)	-7.8%	-4.4%	-1.0%	7.8%	6.1%	10.1%	7.4%
<b>BONDS</b>							
TIPS	-1.4%	-2.3%	-1.2%	1.5%	1.0%	4.1%	3.8%
Short-Term Bonds	0.1%	1.0%	1.0%	0.5%	0.3%	0.4%	1.4%
Inter-Term Bonds	-0.1%	-0.9%	-1.1%	0.9%	1.4%	3.4%	3.3%
International Bonds	0.4%	1.5%	1.9%	3.0%	3.9%	4.2%	4.3%
<b>ALTERNATIVES</b>							
Global REITs	-3.2%	-2.5%	1.7%	4.1%	6.0%	10.7%	8.2%
Commodities	-2.2%	-4.1%	-1.7%	-0.7%	-7.3%	-4.2%	-1.5%
Managed Futures	-1.4%	-9.0%	-7.1%	-2.1%	3.0%	1.5%	5.0%
Reinsurance	0.0%	4.4%	6.6%	4.0%	4.5%	7.1%	7.2%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mtly Index, Inter-Term Bonds-Barclays Inter-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdq, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

Past performance is historical and does not guarantee or indicate future results. Index returns assume reinvestment of all distributions and unlike mutual funds, do not reflect fees or expenses. It is not possible to invest directly in an index. This report is not intended to provide personalized investment advice. Some information has been produced by unaffiliated third parties, and while it is deemed reliable, the advisor does not guarantee its accuracy or completeness.

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## Economic Indicators

Leading Economic Index Year over Year Change (%)



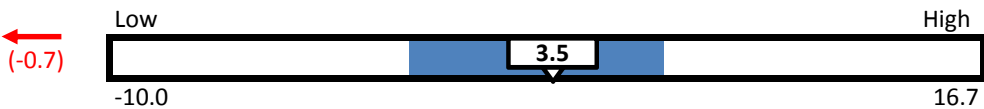
Unemployment (%)



Inflation CPI (YOY %)



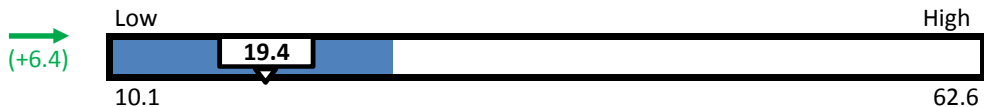
Real GDP Growth (%)



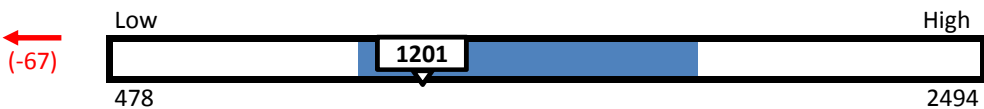
Consumer Confidence



VIX - Market Volatility



Housing Starts (000s)



10-year Treasury Yield (%)



Typical range (within 1 standard deviation of the median)

Current Value

Historical Range

Change in value since last month

\*See appendix for sources and data ra

## Appendix

### Leading Economic Index Year over Year Change (%)

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. The value shown represents the 12-month change in the index level. *(Data Source: The Conference Board. Monthly data since 1/1/1959)*

### Unemployment

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

### Inflation CPI (YOY)

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

### Real GDP Growth

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. *(Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947)*

### Consumer Confidence

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. *(Data Source: The Conference Board. Monthly data since 1/31/1991)*

### VIX

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. *(Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990)*

### Housing Starts

The number of housing starts (new construction) in the U.S. each year. *(Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959)*

### 10-year Treasury

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. *(Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962)*

### Disclosure

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