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## October 2017

### Market Update

(all values as of  
09.29.2017)

#### Stock Indices:

Dow Jones	22,405
S&P 500	2,519
Nasdaq	6,495

#### Bond Sector Yields:

2 Yr Treasury	1.47%
10 Yr Treasury	2.33%
10 Yr Municipal	2.01%
High Yield	5.50%

#### YTD Market Returns:

Dow Jones	13.37%
S&P 500	12.53%
Nasdaq	20.67%
MSCI-EAFE	17.21%
MSCI-Europe	19.87%
MSCI-Pacific	12.92%
MSCI-Emg Mkt	25.45%

US Agg Bond	3.14%
US Corp Bond	5.19%
US Gov't Bond	3.49%

#### Commodity Prices:

Gold	1,283
Silver	16.68
Oil (WTI)	51.67

#### Currencies:

Dollar / Euro	1.17
Dollar / Pound	1.34
Yen / Dollar	112.67
Dollar / Canadian	0.90

### Macro Overview

The aftermath of Hurricanes Harvey, Irma, and Maria are expected to have uncertain affects on government data and continued ambiguity on economic activity. The hurricanes will distort economic reports quite possibly for months, as labor and material costs weigh on employment and inflation numbers, clouding actual economic results.

Despite major disruptions caused by the storms, equity markets managed to post gains in September as the prospect of rebuilding efforts fueled growth estimates across various industry sectors.

Tax reform proposals spurred discussion and anticipation about their impact on the economy and the markets. Among the plan's primary particulars are: reduce the number of tax brackets from seven to three, double the standard deduction amount, eliminate state and local tax deductions, tax "pass through businesses" at a 25% rate, eliminate the estate tax and the alternative minimum tax (AMT).

From the perspective of the equity markets, the tax proposals include a generous cut in the corporate rate from 35% to 20%. The corporate tax proposals also include a penalty for companies taking advantage of foreign tax havens, where U.S. companies earning profits overseas will have to pay a minimum 10% tax on foreign income even if it isn't brought home.

Since the tax plan is still only based on proposals, not an actual bill, market reaction to the proposals may change as to what actual details may pass and are eventually enacted. Economists believe that the Federal Reserve will continue to find it difficult to normalize monetary policy until an appropriate fiscal policy is in place.

The most recent median household income data revealed a 3.2% rise over the past year, net of inflation, according to the U.S. Census Bureau. The larger than expected increase helped stoke support for a Fed rate hike later in the year. Overall indicators of inflation are mixed, with rent and gasoline accounting for the primary rise in inflation while grocery costs and service related fees fell.

Puerto Rico, which earlier this year filed the largest bankruptcy in U.S. municipal history, is struggling to regain economic stability in the face of a \$72 billion debt load and near insolvent public health and pension systems. Eleven days after the devastating storm wiped out power, water and communications systems, about half of the 3.4 million people on the island did not have access to drinking water, and 95 percent remained without power, according to the U.S. Defense Department.

The Equifax data breach affecting 143 million consumers has led to numerous investigations and actions taken by various governmental entities including the FBI, Federal Trade Commission, House Financial Services Committee, and the Consumer Financial Protection Bureau. Compromised information included Social Security numbers, birthdates, names, addresses, and driver's license numbers. A data breach of this magnitude has never occurred, infuriating the public as well as congressional leaders. (Sources: U.S. Treasury, WhiteHouse.gov, FTC, U.S. Defense Dept., myFlorida.com)

### Historically Bad September Pulls Through – Equity Update

Equity markets rose in September fueled by improving economic data and optimism surrounding the proposed tax plan for corporations. The third quarter saw the Dow Jones Industrial Average Index rise 4.9%, its eight consecutive quarterly advance. For September, the Dow Jones Industrial Average Index rose 2.08%, versus an average loss of -1.09% for the month over the past 100 years. All but one of the 11 industry sectors comprising the S&P 500 ended the quarter higher. Banks, industrial, and energy sector companies all saw gains for the quarter.

Small cap company stocks may be the primary beneficiaries of the proposed corporate tax cuts since smaller companies tend to pay higher effective tax rates than larger cap companies. The tax proposals pushed the small cap Russell 2000 index higher. A stronger dollar also lifted small caps as small caps don't have the international exposure that large multinationals have. (Sources: S&P, Dow Jones, Bloomberg, Reuters)

### Yields Move Up – Fixed Income Update

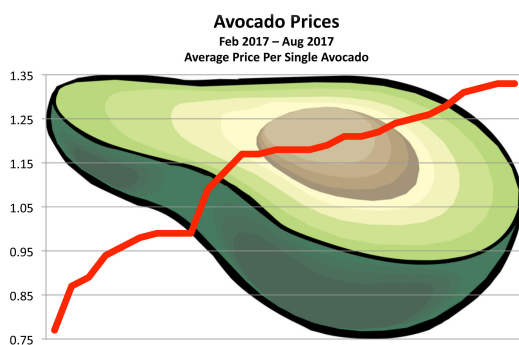
Treasury yields rose in September as the Fed indicated it would soon begin the task of reducing its holdings of government bonds. Additional influences on the bond market include tax proposals by the White House deemed to stoke inflationary pressures as well as better than expected growth data.

The fallout of the hurricanes on the credit markets seems inevitable. As insurance companies begin the process of paying out claims to those insured, they may need to liquidate holdings of corporate and government debt to meet payouts. In addition, the dire financial situation in Puerto Rico has left the municipal markets questioning how the country's distressed debt may affect mainland municipals.

Comments from the Federal Reserve in response to any possible interference caused by the hurricanes suggested that the storms were unlikely to prevent the Fed from its rising rate trajectory or from reducing its \$4.5 trillion balance sheet. (Sources: Federal Reserve, Bloomberg, U.S. Treasury)

### Avocados Are Getting Expensive – Commodity Fact

A smaller than usual harvest of avocados in California and Mexico has elevated the price of avocados nationwide. California is the largest grower of avocados in the United States, while Mexico is the largest producer of the fruit worldwide. Avocados from the U.S. account for 7% of worldwide production, while Mexico supplies 32% of the world's avocados. As a result, wholesale prices for the fruit have soared 75% since the middle of July, according to data from the Hass Avocado Board and the U.S. Department of Agriculture.



Agriculture.

In addition to a poor harvest, a growing demand for the fruit has also added upward pressure on the price. There are seven varieties of avocados grown commercially in California, with the Hass variety as the most popular, accounting for roughly 95 percent of all avocados grown. Avocados imported from Mexico have also been limited due to a poor harvest season as well. NAFTA currently allows the importation of fruits from Mexico with no tariffs.

(Sources: U.S. Department of Agriculture, Hass Avocado Board)

## Aftermath Of The Hurricanes – Economic Dynamic

Hurricanes Harvey, Irma, and Maria have impacted numerous sectors in three distinct geographical areas of the United States. Sectors affected include tourism, housing, energy, transportation, and jobs.

Hurricane Maria exacerbated financial and infrastructure issues in Puerto Rico. A frail power grid and debilitated infrastructure has left the island nation in disarray. Congress will determine if Puerto Rico, a territory of the U.S., will receive the same assistance as Texas and Florida received, following Harvey and Irma.

In the wake of Hurricane Irma, preliminary damage estimates across the state of Florida may exceed \$45 billion based on various economists reviewing the storm's impact. Irma has already prompted new state mandates for all nursing homes to quickly install power generators, which was a deadly issue during the hurricane.

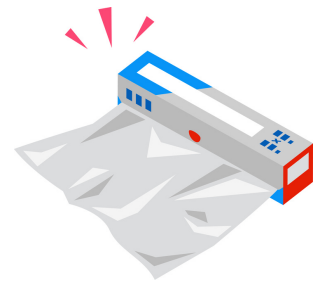
Property taxes are a vital source of state revenue for both Texas and Florida, where such funds pay for schools, roads, and other public services. Texas and Florida are 2 of 7 states that have no state income tax, creating a greater reliance on property taxes. State income tax can act as a buffer against a fall in sales tax revenues with states that impose it.

Florida state revenues could decline as residents spend cash on insurance deductibles and out of pocket damage expenses. About 76% of the state's revenues come directly from sales tax. Tourists visiting Florida make up 13% of the state's sales tax revenue, with nearly 113 million tourists visiting the state this past year. Tourism is expected to languish for some time. Much of the damage in both Texas and Florida was not due to direct hurricane damage, but from flooding. This complicates the issue since flooding is not covered by most homeowners insurance policies, thus leaving the financial burden to homeowners.

Federal Reserve member William Dudley said that the devastation caused by Hurricanes Harvey and Irma could boost U.S. economic growth in 2018 as rebuilding of infrastructure efforts get underway. The Fed also mentioned that the storms were unlikely to prevent the Fed from its rising rate trajectory or from reducing its \$4.5 trillion balance sheet. (Sources: Federal Reserve, Texas.gov, Florida.gov, IRS)

## Higher Tax On Imported Aluminum Foil From China – Trade Policy

Inexpensive imports inundating the U.S. consumer market have become a target for the Trump administration. The Commerce Department has been given the task of identifying imported products where U.S. producers and manufacturers may experience unfair trade characteristics. The imposition of a tax on aluminum foil imports from China is an initial starting point for additional tariffs and taxes eventually imposed on other, more critical aluminum products. Imports of aluminum foil from China were an estimated \$389 million in 2016, according to Commerce Department data. The tax, considered a punitive import tariff, will levy a duty of 16.5% to 81% on all imported aluminum foil products from China. Steel and other metal manufacturers in the United States claim that China's excess capacity is being dumped onto the U.S. market. Dumping is a trade tactic where countries and companies price their exports at a lower price than domestic manufacturers, thus threatening their financial livelihood and stability. Aluminum has become a focus metal because of its use in aerospace and defense, thus posing a possible threat to national security because of its use by the U.S. military. (Source: U.S. Commerce Department)



## What The FTC Is Suggesting On The Equifax Breach – Financial Planning

As additional government agencies have become involved in the Equifax breach, there have been a growing number of suggested actions for consumers to take in order to better protect themselves. The Federal Trade Commission (FTC) released various action items and links on their website [www.consumer.ftc.gov](http://www.consumer.ftc.gov) to help consumers assess their vulnerability.



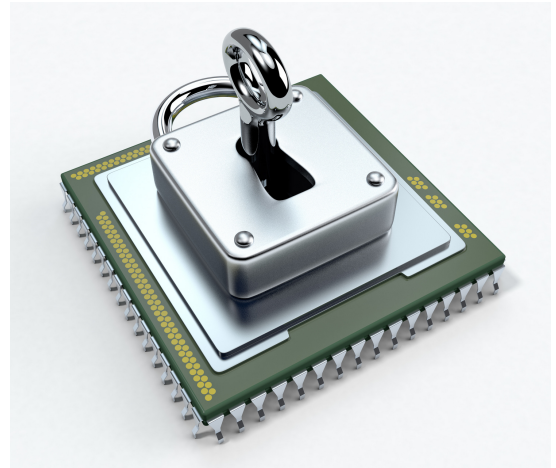
The FTC acknowledges that there were 143 million consumers affected, with the breach occurring between mid-May and July end. Social Security numbers, birthdates, addresses, and some driver's license numbers were stolen.

Equifax is offering a free credit monitoring service available at [www.equifaxsecurity2017.com](http://www.equifaxsecurity2017.com). However, this service only applies to credit reports and data maintained by Equifax. Remember that there are two other major credit reporting companies that have consumer data, Experian and TransUnion. The FTC does suggest that consumers check all

three credit reports for free via [www.annualcreditreport.com](http://www.annualcreditreport.com). Keep in mind that this free service generates reports that do not include credit scores.

To determine if you are one of the 143 million affected, the Equifax website noted above allows you to enter your last name and last six digits of your Social Security number to determine if your data was compromised. There is a button labeled "potential impact" or "am I protected" which allows you to enter this information.

Placing a freeze on your credit files is a consideration, which makes it more difficult for someone to open a new account in your name. It may also elongate the application process should you be running credit yourself for a legitimate reason.



If you decide against a credit freeze, consider placing a fraud alert on your credit files. A fraud alert warns creditors that you may be a victim of identity theft and that they should closely verify anyone seeking credit in your name. The FTC also suggests to monitor your existing credit card and bank accounts closely for charges that are not recognizable.

As we approach year end and a new tax filing season, the FTC is suggesting to file tax returns early. Filing a tax return earlier might avert a tax scammer from using your social security number to get a tax refund based on your information.

(Source: Federal Trade Commission; [consumer.ftc.gov](http://consumer.ftc.gov); The Equifax Breach: What To Do)