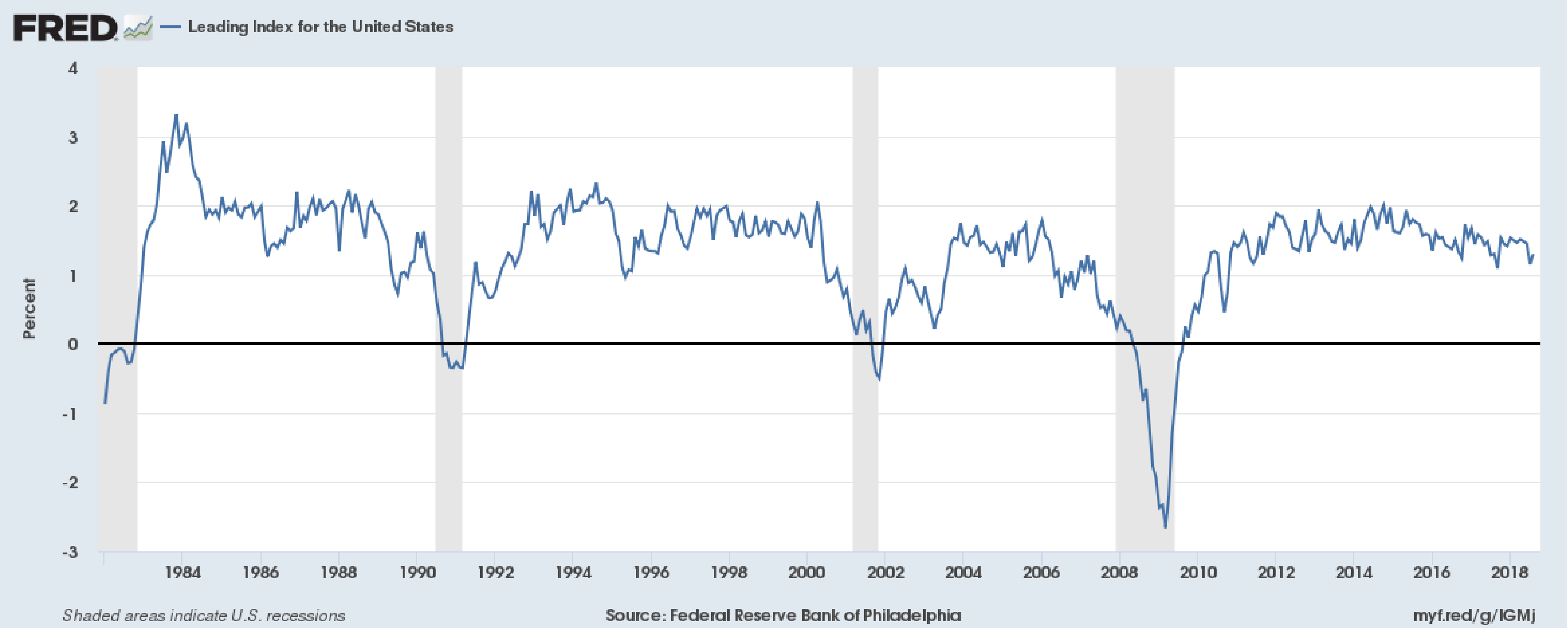
ECONOMIC UPDATE
OCTOBER 24, 2018

Dattilio & Ash Capital Management, LLC
Tony Ash, MBA, CFA
Dave Dattilio, CPA
Tony Cell phone: (508) 868-5763
www.DattilioAsh.com

Background

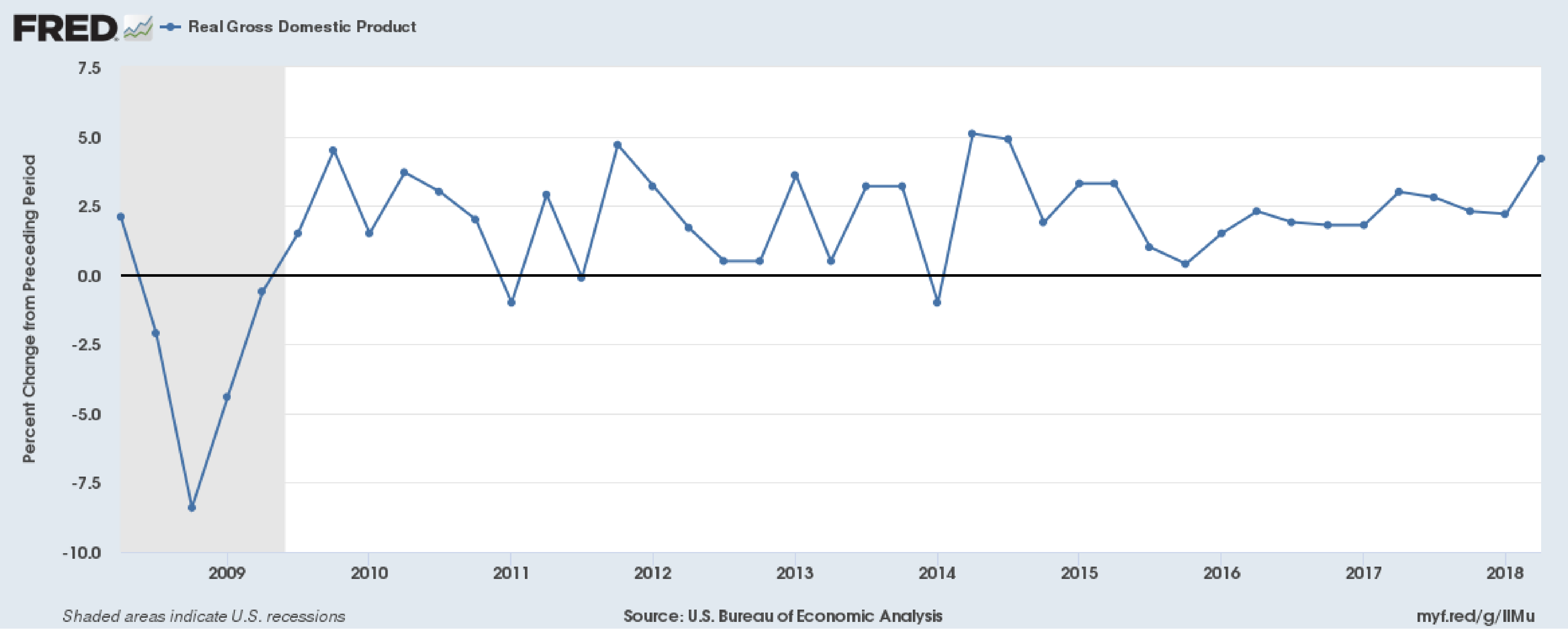
- Equity markets around the world have suffered large declines since early October. Emerging markets and small cap markets have suffered the most, but the S&P 500 has declined about 8.5% over that time horizon.
- Though technical indicators like momentum are weak, the underlying economic and capital markets continue to show support.
- The slides that follow show key economic and capital market indicators that support a continued stable and sound environment.
- We will look for additional signs of weakness in these and other statistics before we become cautious about the future.

U.S. Leading Index – some weakness, but continued strength



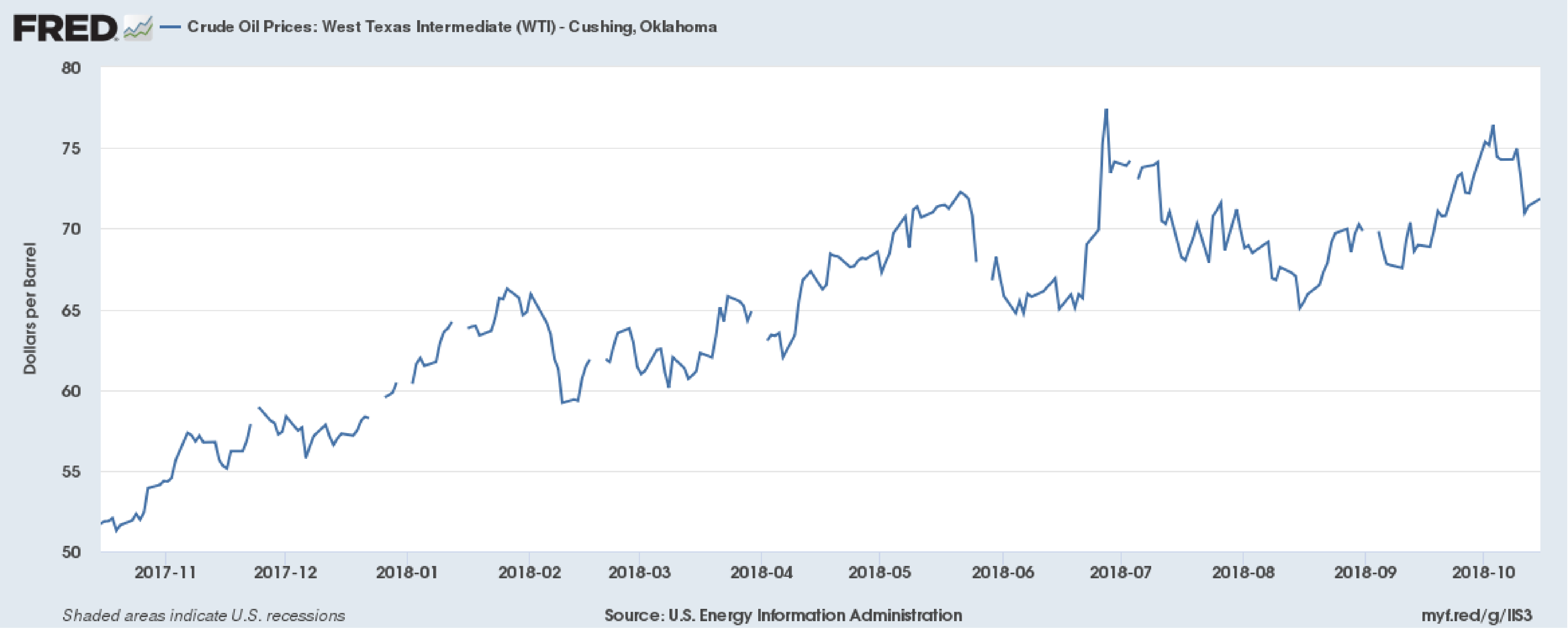
Consumer Sentiment – some weakness, but continued strength

Real GDP – continued upticks, but is a lagging indicator



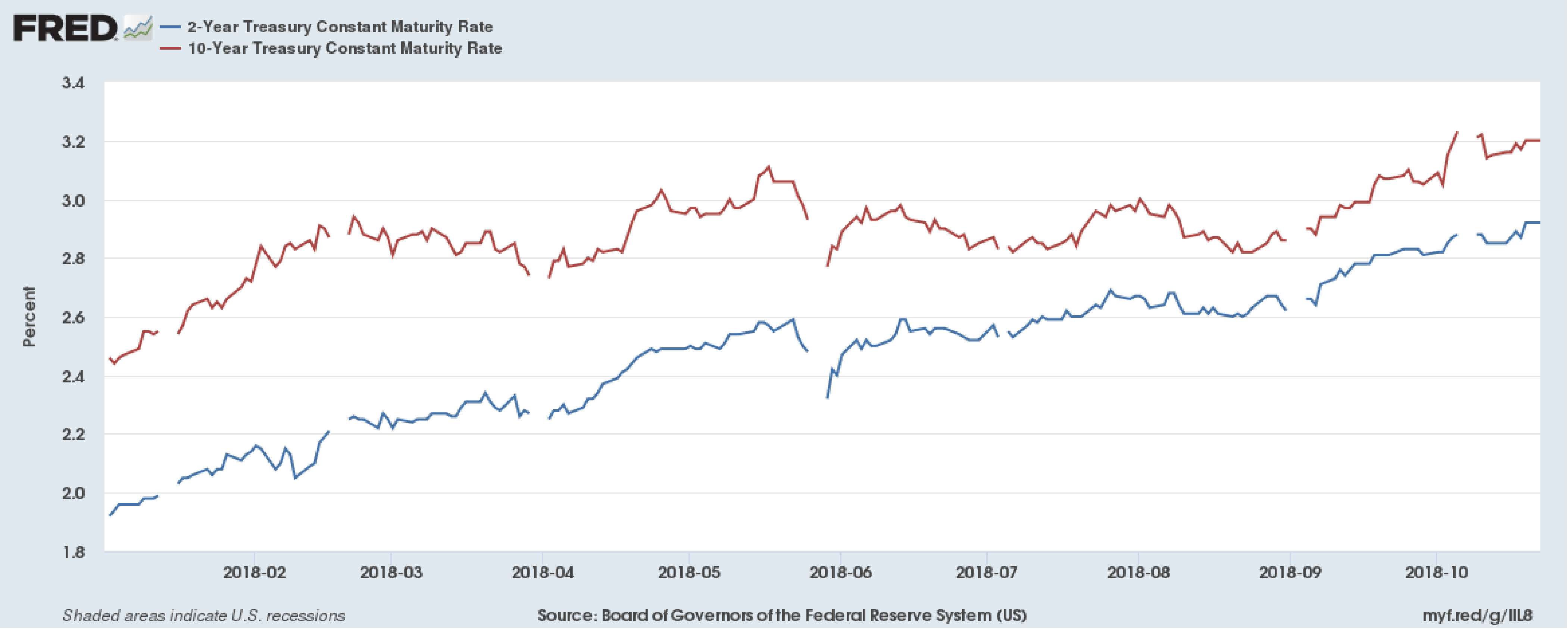
Unemployment Rate – positive, showing strong trend downward

Crude Oil Price – volatile, but strong recent support before weakness

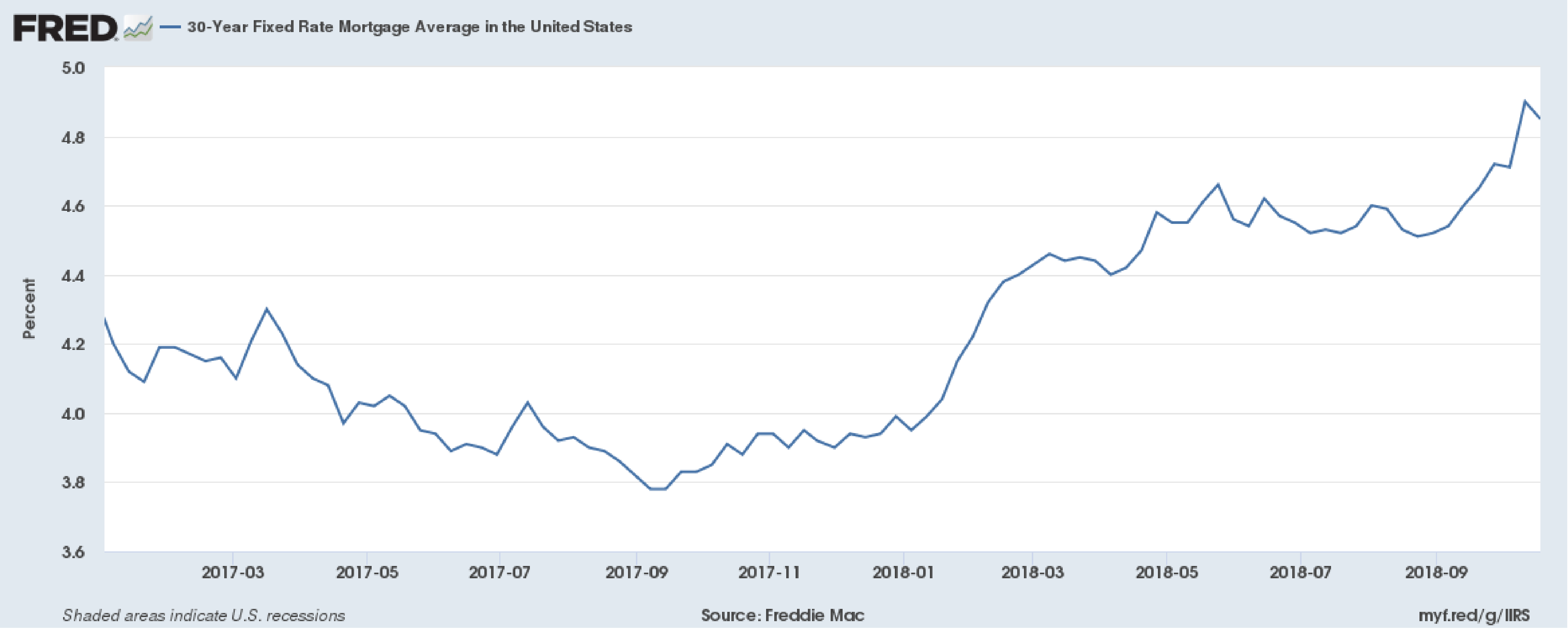


DATTILIO & ASH CAPITAL MANAGEMENT D&A

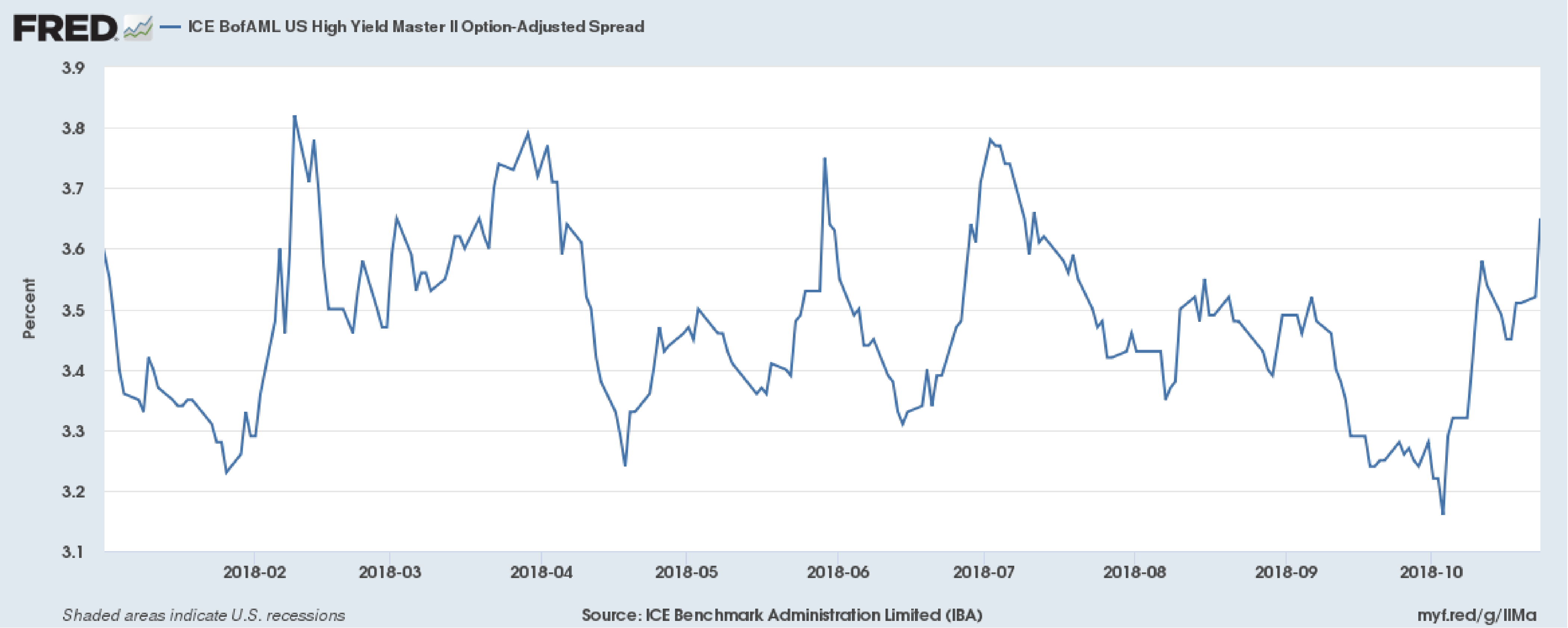
2-year and 10-year Rates – slowly increasing rates



30-year Fixed Rate Mtg – rate uptick could lead to slowdown



High Yield Credit Spread – volatile, but within trading range



U.S. Dollar Index – recent strength, but not back to 2018 highs

Factset Earnings Highlights – On balance, earnings are good

October 19, 2018: Key Metrics

- Earnings Scorecard: For Q3 2018 (with 17% of the companies in the S&P 500 reporting actual results for the quarter), 80% of S&P 500 companies have reported a positive EPS surprise and 64% have reported a positive sales surprise.
- Earnings Growth: For Q3 2018, the blended earnings growth rate for the S&P 500 is 19.5%. If 19.5% is the actual growth rate for the quarter, it will tie the mark for the third highest earnings growth since Q1 2011 (also 19.5%).
- Earnings Revisions: On September 30, the estimated earnings growth rate for Q3 2018 was 19.3%. Five sectors have higher growth rates today (compared to September 30) due to positive EPS surprises and upward revisions to EPS estimates.
- Earnings Guidance: For Q4 2018, 9 S&P 500 companies have issued negative EPS guidance and 4 S&P 500 companies have issued positive EPS guidance.
- Valuation: The forward 12-month P/E ratio for the S&P 500 is 15.9. This P/E ratio is below the 5-year average (16.3) but above the 10-year average (14.5).

ISM Manufacturing Index – Growth, but bit of slowdown

September 2018

- New Orders, Production, and Employment growing
- Supplier Deliveries Slowing at Slower Rate; Backlog Growing
- Raw Materials Inventories Growing; Customers Inventories Too Low
- Prices Increasing at Slower Rate; Exports and Imports Growing

- Purchasing Managers Index (PMI) at 59.8 at September; slowed 1.5% from August
- 113th Consecutive Month of Growth