The U.S. equity market continues on its historic run, with the S&P 500 Index reaching new highs on a recurring basis, amid exceedingly low volatility. The index's average daily change so far this year has been just 0.3%, the smallest in 52 years, and it has closed lower by 1% or more just four times – the fewest for a full year since 1964. We have now gone almost 13 months (269 trading days) without so much as a 3% correction from a previous high, the longest streak since such records were kept beginning in 1928. And we are now more than 78 months removed from the last true correction of 10% or more.

While the major indices, themselves, have continued to rise, the market has nevertheless experienced selloffs among its various sectors. We have undergone an almost invisible, rolling correction affecting, in turn, industrials, energy, consumer, and (most recently) technology stocks. And with earnings growing at an accelerating pace, the current forward price/earnings multiple of 18, while not cheap, is also not a level from which steep declines have begun.

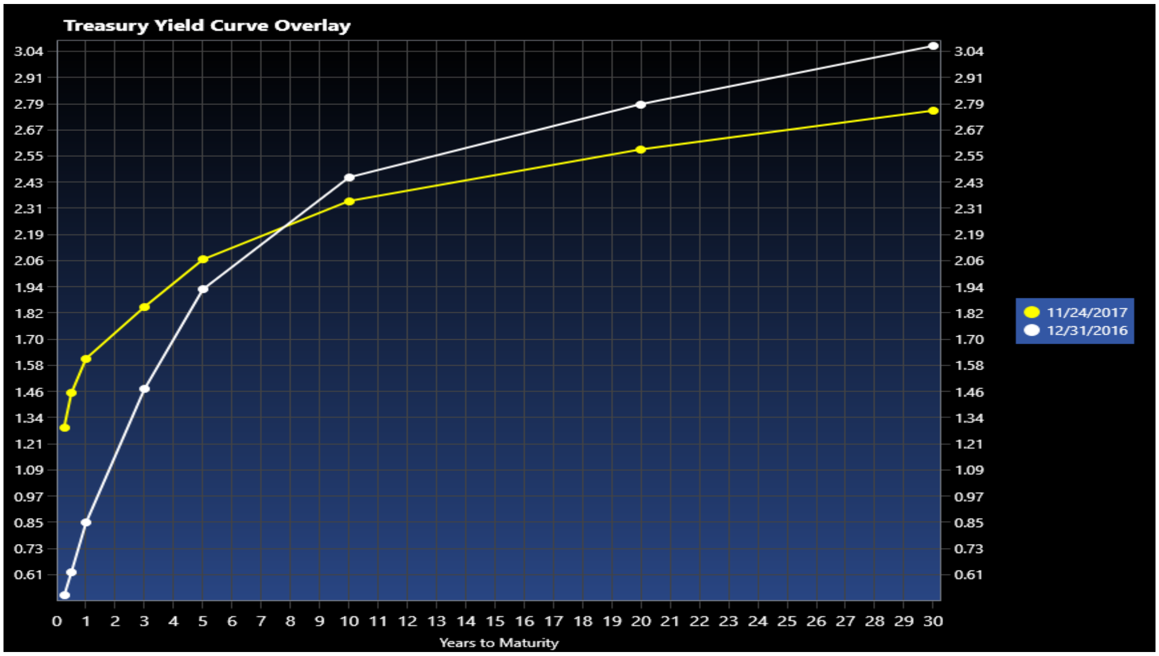
It is especially encouraging that despite this unprecedented run – in duration, if not in scope – much skepticism still abounds. Investors seem puzzled and concerned more than elated, and this is a good sign. It indicates that the concept of risk has not been obliterated, and that the "wall of worry" that drives all bull markets is still intact, and has not been replaced by "irrational exuberance."

If the above is true of most individual investors, it must be said that Investment Advisors are exhibiting a fair degree of schizophrenia at this point. More than half of those surveyed believe that the market is overvalued, but 62% are forecasting that the market will be higher still at the end of 2018. To the extent that psychology and momentum drive the market, they will probably be right. To the extent that fundamentals and the Fed will matter, they *may* be right, but returns will surely decelerate at some point.

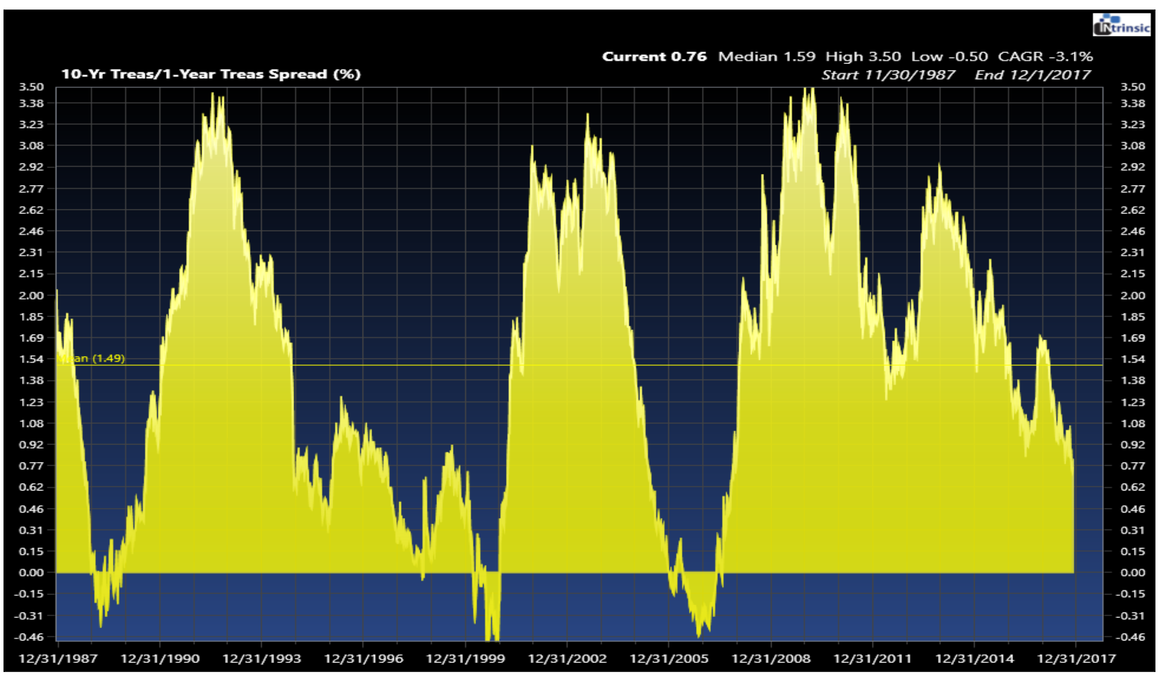
We expect that earnings will continue to remain constructive. Through the end of the third quarter, earnings gains continued to accelerate and 78% of companies reported earnings above analysts' mean expectations. Only 18% of reported earnings were below forecasts. Equally encouraging was that 66% of companies reported revenues above estimates. Analysts' earnings forecasts for 2018 and beyond continue to rise, and at some point will inevitably reach a level that is bound to produce disappointments. But for now, strong earnings continue to drive the market higher.

The Fed and, by extension interest rates, remain a wild card. Positive economic news and continuing improvement in the Index of Leading Economic Indicators should be putting upward pressure on interest rates at the long end, even as the Fed gradually tightens at the short end. Yet what we are seeing, instead, is a relentless flattening of the yield curve, as long term rates decline just as short term rates have risen, as shown in the chart, below.

The flattening of the yield curve is worrisome to many, as an actual *inversion* in the curve (where short term rates rise above long term rates) is the most accurate indicator we have of an impending recession.



The curve, while flattening, still remains upward sloping, but it will invert by the end of 2018 if it continues to flatten at its average monthly pace this year.



The chart, above, which shows the actual spread of the 10-year vs. the 1-year Treasury rate, shows that the yield curve has actually inverted three times in the last 30 years, indicated by the spread being below 0.00. Each instance, 1987-88, 1999, and 2006-07, foreshadowed periods of significant economic and market distress. As we said, we're not there yet, but one challenge for the incoming Fed chair will be to assess the stance of Fed policy in light of the conflicting indicators of strengthening economic reports and lower bond yields at the long end. And as we pointed out last month, the Fed's challenge will be made more daunting if Congress and the President continue to pursue tax cuts instead of the more needed goal of tax reform. There is no compelling case for debt-financed tax cuts at a time of Fed tightening, full employment, and large and growing demographic deficits (owing to the big 3 entitlement programs of Social Security, Medicare, and Medicaid). To the extent that tax cuts provide any fiscal stimulus, because the stimulus comes so late in the cycle, it will more than likely be offset by increased tightening by the Fed and further increases in short term interest rates. The unintended effect of this may be to bring the economic expansion to a premature demise.

No one knows what a final tax package will look like, if there is one at all. So our thoughts on the matter at this point should not dampen your Holiday mood. Investors have much to be grateful for, this year, and a growing abundance to share. We wish all a Merry Christmas, a Happy Hanukkah, and a prosperous New Year.

Joseph J. Tascone	Michael D. Blatt, CFA	Michael S. Lares,CFP
Senior Vice President &	Vice President &	Vice President &
Senior Investment Officer	Portfolio Manager	Portfolio Manager