Since we wrote our last Outlook, we've experienced Hurricanes Harvey and Irma, two of the most costly storms in history, sandwiched around a major earthquake in Mexico. Mother Nature aside, the Equifax data breach, arguably the biggest ever, suddenly threatens an estimated 143-million people with possible identity theft. North Korea continues to fulminate about our nuclear destruction and fire one test missile after another. Through all of these "Black Swan" events, the major stock market indexes continue to advance from one all-time high to the next, while the 10-year Treasury yield remains on a downward path that began in February. (Chart, below.)

The S&P 500 Index has rallied for 10 months without so much as a 3% sell-off, the third-longest such stretch since World War II. Historically, bull markets have seen periods of sharp, short-lived declines of 5%-10%, especially around domestic or global geo-political events, but not in this case. You could say that the market is overdue for a correction, but economic growth seems to be accelerating in the U.S. and overseas. Credit conditions remain favorable, as central banks here and abroad are hesitant about removing stimulus in other than a very gradual fashion. And corporate earnings have just come off their best first half in six years, with expectations for the second half of the year and 2018 continuing to rise.

Because of the natural disasters, the economic data is likely to get messy for a while. Jobless claims rose in the aftermath of the hurricanes. Car sales, consumer sentiment, and other measures are sure to follow as storm related "one-offs" wind their way through the economy. What will follow, however, is the rebuilding period. Projected losses for

Harvey and Irma already exceed $260-billion, more than half of the combined costs of all hurricanes over the last 50 years, including Katrina ($133-billion), Sandy ($75-billion), and Andrew ($46-billion). Reconstruction costs will be huge and will be positive for stocks, with the notable exception of insurance stocks.

There are other positive economic signs, as well. The Institute of Supply Management (ISM) non-manufacturing index, which monitors the purchasing activity of 400 service enterprises across 60 sectors, indicates that the service economy is strengthening, with new orders and employment measures at two-year highs. On the manufacturing side, durable goods orders in August rose more than expected, and non-defense capital goods orders rose at the fastest rate in six months. On a year-over-year basis, both factory orders and capital expenditures are climbing at their fastest pace since 2012.

The technical condition of the market has strengthened in the last month as well, despite the string of natural disasters and other bad news. In our September *Outlook*, we noted that while the S&P 500 Index was at or near its all-time high, only 60% of the individual stocks in the Index (red line in the chart, below) were trading above their 200-day moving

average. That important measure of market breadth was down from more than 80% back in February, as fewer stocks were participating in the market advance. Breadth has improved dramatically in the last month, however, with 70% of all stocks now trading above their longer term averages.

Undoubtedly, much of the favorable economic backdrop is surely priced into the market at these levels. The S&P 500 is 20% above where it was last November, and heightened earnings expectations will have to be met to justify current valuations. We should also note that we are entering a traditionally seasonally weak period for the market. But we would view any weakness as temporary, and maintain our long term optimism for a market supported by an improving global economy and favorable credit and liquidity conditions, all supportive of continuing earnings growth.

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