The principal catalyst for global markets has been and continues to be, the strength of the US economy. Above-trend domestic growth has been fueled by record low unemployment numbers, a pickup in wages, strong and resilient corporate earnings and elevated consumer confidence. While some are predicting an end to the nearly ten-year bull market for stocks, we see the positives outweighing the negatives and remain constructive, going forward.

Much significance has been placed on the Federal Reserve's continued policy of interest rate tightening and its effect on stock prices; as bond yields increase, the risk premium with stocks narrows, encouraging some investors to switch to the relative safety of bonds. Similarly, rising rates have other economic implications, mainly higher borrowing costs for corporations and increasing mortgage rates, all of which have led to heightened near-term volatility in the stock market.

On the flipside, rising rates signal a strong economic backdrop and confidence in the future direction of the economy. This is illustrated in the recent change in the yield curve spread, or the difference between long and short-term rates. For the last several years, the Fed has been increasing short-term rates (which it directly controls), while longer-term rates have remained low, perhaps an indication that investors were skeptical that growth would be robust enough to justify higher levels. In August, the spread was a mere 0.18 percent, essentially flat, yet more recently the spread has nearly doubled, to 0.35 percent. Long-term rates have hit multi-year highs, moving in a direction consistent with an optimistic outlook and indicating that the recovery has room to run. Underpinning this expectation is the historically strong labor market, sustained wage growth and still-subdued inflation.

Thanks to this economic strength, as well as corporate tax cuts and strong productivity gains in the second quarter, earnings growth is expected to top 20 percent for the third consecutive quarter. US equity markets have responded well to these developments, though recent turbulence has overshadowed what otherwise would be considered an excellent quarter for profits and stock prices both.

Recently, escalating trade tensions have weighed on stocks, especially tech, as the past two weeks have seen the sector down over 7.5 percent. Many of the companies that had been the strongest drivers of the market, i.e. Visa, Alphabet, Facebook and Netflix, ceded chunks of their previous gains. Spillover effects from Trump's nationalist trade agenda have also infected emerging markets, as the combination of tighter restrictions and a strong US dollar have led to their worst performance since 2015. Similarly, the European market has shown some softness amid Brexit concerns, an uncertain political climate and muted growth prospects. That being said, we see much of the trade uncertainty as already priced in, especially in emerging stocks and see attractive valuations given the recent declines and a supportive growth backdrop.

Looking ahead, there is certainly potential for heightened uncertainty and volatility, yet we continue to see more catalysts rather than detractors. We are confident that above-trend growth, most notably in the US, is sustainable. On the fixed income side, we remain positioned for a rising rate environment, which has paid off handsomely so far this year. We expect strong third quarter earnings to help stocks recover from the recent slide and though volatility may continue at elevated levels, the fundamentals are quite robust.

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A copy of Form ADV, our registration statement, is available at brokercheck.finra.org, or by contacting us directly