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Amid mounting evidence that the US-China trade war may finally be throwing a wrench in the cogs of the global economy, the stock market experience heightened volatility in the third quarter. Despite a more reactionary, news-driven environment, the S&P 500 still managed to return 1.7% for the quarter and the fixed income markets rallied as well, as central banks either resumed, or continued an easing of monetary policy.

The simmering tensions between the US and China regarding trade policy precipitated a steep selloff in August, yet the market recovered quickly, with participants once again exhibiting their willingness to shrug off negative data points and put on their rose-colored glasses. The trade dispute has both highlighted and engendered the biggest fear regarding our current economic recovery: insufficient global growth. Manufacturing has undoubtedly been the loser, as the ISM Manufacturing Index dropped to 47.8 in September, its second consecutive reading below 50, indicating contraction. The persistent uncertainty from increasingly protectionist policies has undermined corporate confidence and slowed business spending, as we're seeing businesses hesitant to invest in the long term. In addition, a myriad of geo-political events, from the domestic political fracas, to aggression between Syria and Turkey and attacks on Saudi oil infrastructure, have all served to highlight the fragility of the global order.

That said, the economic expansion appears intact. Though recent GDP estimates have been revised downward and employment numbers have softened slightly, both are still healthy; the unemployment rate dropped to 3.5% at quarter-end, the lowest such reading since 1969. Underpinning this strength is the continued resilience of the US consumer. Several factors are contributing to consumer robustness: average hourly earnings are at a cycle high and well outpacing inflation, low interest rates are supporting spending and housing, household debt has shrunk significantly since the Great Recession and the savings rate is almost triple that of 2005. The strength of US households has certainly helped to mitigate weakness in the manufacturing sector and the record US economic expansion looks unlikely to morph in to a significant downturn as a result of such resilience.

Due to the vigor of the US consumer, as well as the Fed's dovish policy, we continue to favor US equities for their high quality and moderate valuations. We view a judicious approach to risk as prudent and see selective opportunities across the spectrum. Supportive policy and the prospect of an extended late-cycle of the current expansion reinforce our optimism. Maintaining a resilient portfolio in a time of macroeconomic uncertainty however, is of utmost importance; we continue to be discerning in our security selection and asset allocation, as we have an eye on the potential for increased volatility in the near to medium-term.

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