U.S. MARKETS

Stocks Waffle at End of Third Quarter

U.S. shares on track to end third quarter with big gains

By Riva Gold and Jessica Menton

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U.S. stocks flipped between small gains and losses on the final trading day of the third quarter, capping a period during which all three major indexes climbed to new highs.

Stocks have retreated this week amid ongoing trade tensions and the Federal Reserve's move to raise interest rates, but they remain just below record levels.

A strengthening U.S. economy is expected to keep the rally going and has been a key factor in helping investors look past the continuing trade spat between the U.S. and China and other nations.

Analysts credit much of the economic growth to the tax overhaul passed last year. The changes, which included a cut to the corporate tax rate, sent corporate profits sharply higher through the first two quarters of the year, and analysts expect third-quarter earnings to be robust as well.

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The Dow Jones Industrial Average rose 13 points, or less than 0.1%, to 26454 on Friday. The S&P 500 added less than 0.1% and the tech-heavy Nasdaq Composite slipped less than 0.1%.

The blue chips are on track to rise 8.8% for the quarter, while the S&P 500 is up 7.1%, its best performance since the end of 2013. The Nasdaq Composite has risen 6.9%, extending its streak of gains to nine consecutive quarters.

Shares of health-care companies have led the way in the S&P 500 in the third quarter with a gain of 14%, overtaking the technology sector, which has slumped in September.

Some investors have cut their exposure to the big tech stocks that have driven much of this year's rally in the wake of Facebook 's data mishap. Google parent Alphabet slumped 2.3% in September, while Apple is down 1.1% and Facebook is off 5.1%.

Despite the recent weakness in tech stocks, all three major indexes are within about 1% of their all-time highs.

Dow components Walgreens Boots Alliance and Apple are among the biggest contributors to the blue-chip index this quarter, on course to rise 23% and 22%, respectively.

In Friday's session, Tesla shares were among the biggest movers, sinking more than 12% after the Securities and Exchange Commission accused Chief Executive Elon Musk of misleading shareholders about a corporate buyout in tweets last month. The losses put Tesla's stock on pace for largest percent decrease since Nov. 6, 2013, when it fell 14.5%.

The financial sector fell 0.5% in the S&P 500, a modest decline after European bank shares came under pressure amid worries about Italy's budget.

Peter Cardillo, chief market economist at Spartan Capital Securities, doesn't think U.S. markets

Traders working on the floor at the New York Stock Exchange on Friday. PHOTO: BRYAN R. SMITH/AGENCE FRANCE-PRESSE/GETTY IMAGES

should be too concerned.

"I wouldn't put too much weight on what's happening in Italy," Mr.Cardillo said. "We're not looking at a full-blown crisis that would equate to what we saw in Greece."

Heading into the final quarter of the year, Mr. Cardillo is watching for how international trade tensions could affect quarterly results.

Jeffrey Powell, managing partner and chief investment officer of Polaris Greystone Financial Group, thinks that most of the effect from the U.S.-China trade dispute will be priced in when companies report earnings next month.

"Most of what's going on from a trade war perspective is that the two biggest kids on the playground are sizing each other up," Mr. Powell said. "In order for the U.S. not to go into perpetuity with negative trade with other countries, we've got to level the playing field."

The Stoxx Europe 600 declined 0.8% as bank shares slid. The losses came after Italy's antiestablishment government significantly widened its budget-deficit target for next year to 2.4% of gross domestic product. That will likely put it on a collision course with the European Union, which sets a budget-deficit cap of 3% of GDP for members of the bloc. The full budget will be unveiled in October and will be scrutinized by the European Commission, which could reject it.

"It makes debt sustainability a little bit harder, but more importantly, the unwillingness [of the Italian government] to back down [on campaign spending promises] just yet is the interesting aspect to watch," said Tim Graf, head of macro strategy for EMEA at State Street Global Markets. "Even if the current impasse is resolved, the government is very popular and I don't think their attitude toward the EU will change," he said.


Italian Deputy Prime Minister Luigi Di Maio celebrates with government ministers at the end of a cabinet meeting where the government announced its first financial targets, in Rome, Sept. 27. PHOTO: ALESSANDRO DI MEO/ASSOCIATED PRESS

Earlier, stocks in Asia mostly climbed. Japan's Nikkei rose 1.4% to an eight-month high after touching its best intraday level since 1991, led by technology, electronic and chemical stocks after the yen fell to a nine-month low against the dollar.

The Shanghai Composite Index rose 1.1% and Hong Kong's Hang Seng edged up 0.3% at the end of a bruising quarter.

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