

Global Economy

October was a dismal month across the globe, with trade tensions between the US and China escalating, Brexit negotiations alternately starting and stopping, Italy's budget causing issues with the EU, and Germany's chancellor announcing she will not run again. US mid-term elections were also on the minds of investors.

The Federal Open Market Committee (FOMC) did not meet in October, but an off-the-cuff comment by Chairman Powell at an event on October 3rd seemed to catalyze a period of heightened market concern. Specifically, he stated "We may go past neutral. But we're a long way from neutral at this point, probably." Other factors certainly played a role, but concern over how high rates will go caused the S&P 500 to trade down in 15 of the subsequent 18 trading days.

The initial estimate of 3Q-18 GDP came in slightly above expectations, at an annualized rate of 3.5%. Consumer spending remains robust given elevated sentiment overall, although there was a notable deceleration in non-residential/business fixed investment. Expectations are generally in the mid-2% range for 4Q-18 and much of 2019 as policy stimulus wanes.

The unemployment rate held steady at 3.7% in October, despite employers impressively adding 250,000 new jobs. The labor force participation rate increased during the month to 62.9%, but this reading remains somewhat flat for the year. Average hourly wages continued to rise, with the year-over-year increase of 3.1% representing the fastest pace in nearly a decade. Inflation continued to moderate, with the FOMC's preferred measure, the Core PCE index, remaining at 2.0%.

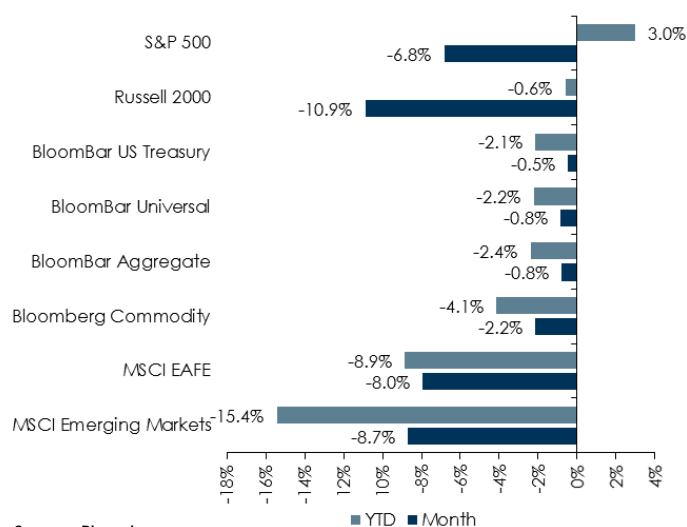
Highlighting the trend of de-synchronous global outcomes, European GDP for 3Q-18 rose at only 0.2%, the lowest level of growth in over four years. Tightening global financial conditions continue to pressure emerging markets broadly, and the region's export-driven economies remain particularly tied to Chinese demand. Disappointing growth figures could impact European Central Bank (ECB) decisions regarding asset purchases and eventual rate hikes.

	Current	Dec-17
US GDP (%)	3.50	3.20
US Unemployment (%)	3.70	4.10
CPI (Core) (%)	2.20	1.70
Fed Funds (%)	2.00 – 2.25	1.25 – 1.50
10 Year UST Yld (%)	3.14	2.41
S&P 500 Div Yld (%)	1.95	1.89
S&P 500 P/E (Trailing)	18.86	22.45
Gold/oz.	\$1,215.00	\$1,309.30
Oil (Crude)	\$65.31	\$60.42
Gasoline (Natl Avg)	\$2.90	\$2.59
USD/Euro	\$1.13	\$1.20
USD/GBP	\$1.28	\$1.35
Yen/USD	¥112.94	¥112.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Across the equity landscape, everything was haunted by aggressive price declines in October. Global benchmarks were all in negative territory, with most major indices down over 8% for the month. The S&P 500, which represents large US-based entities, was a relative outperformer, finishing down -6.8% in October, with year-to-date (YTD) returns still remaining positive at +3.0%. Consumer Staples (+2.1%) and Utilities (+1.9%) were an exception for the month, with the rest of the major sectors down, led by Consumer Discretionary (-11.3%), Energy (-11.3%) and Industrials (-10.9%). Small cap stocks declined more significantly, with the Russell 2000 down -10.9% for the month and erasing YTD gains.

In the broad international developed markets, the MSCI EAFE index was down -8.0% in October. The US dollar strengthened further versus the major currencies, with the exception of the Yen.

Already battered emerging market stocks, as represented by the MSCI Emerging Markets index, declined significantly again, with the monthly loss of -8.7% more than doubling the previous year-to-date loss to -15.4%. The benchmark has now posted negative returns in 8 of the last 9 months, building on the struggles of escalating trade frictions and local currency weakness versus the US dollar.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was down -3.7% during the month, and higher US interest rates continue to create competition for income-focused capital. The Alerian MLP index had another negative month, declining -8.0% in October. Oil dropped meaningfully, with the NYMEX contract down -10.8% as global supply increased and tensions in the Middle East appeared to ease. Losses for the more broadly diversified Bloomberg Commodity index were relatively muted (-2.2%), due in part to a "risk-off" rally in gold (+2.0%).

Global Markets (continued)

Contrary to what might be expected amid an equity sell-off, US Treasury (UST) yields trended higher in October. Concern over a potential policy overshoot, and heavy deficit-driven supply, extended the challenging environment for high-quality fixed income. Although the yield curve steepened modestly, the excess compensation for extending maturities remains quite low. The overall UST complex was down -0.5% for the month, with the longer-dated maturities declining by more than -3.0%. The commonly referenced 10-year UST yield ended off its intra-month high, ultimately advancing 8 bps to finish at 3.14%. Despite heavy criticism from within the Trump Administration, market-implied probabilities indicate a greater than 70% chance that the FOMC will hike rates by another 25 bps with its December 19th statement.

Total returns for the Bloomberg US Aggregate Bond index were down -0.8% during October, with YTD results now -2.4%. Consistent with the negative response in US equities, IG corporates were an underperforming sub-sector. Although new issue supply was restrained during the month, credit spreads widened by 12 bps and accentuated the rise in underlying base-rates. The traditional benchmark ended the month with an all-in yield above 3.5% for the first time since 2009.

The Bloomberg 1-15-Year Municipal index returned -0.4%, as tax-exempt issues sold off alongside taxable counterparts. High quality bonds outperformed riskier credits as we finally witnessed a back-up in spreads. Retail investors unnerved by rising rates resulted in four straight weeks of mutual fund outflows, but this ultimately helps to restore value opportunities.

The Bloomberg US Corporate High Yield index declined -1.6% in October, surrendering the majority of its YTD gains. The benchmark's overall spread widened by 56 bps, with riskier CCC-rated credits off by more than 100 bps. Even as global yields were better behaved, unhedged international government bonds were negative given US dollar strength. Emerging market debt provided poor outcomes for the month, with all sub-sets of the category declining by roughly 2%.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-17
Japan	0.12	0.04
Germany	0.38	0.42
France	0.75	0.78
United Kingdom	1.44	1.19
Spain	1.55	1.56
United States	3.14	2.41
Italy	3.43	2.01
Mexico	8.86	7.65
Brazil	10.21	10.26

Source: Bloomberg

Indices Report (Periods Ending October 31, 2018)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-6.84	3.01	7.35	11.52	11.34	13.24	8.74
Russell 1000	-7.08	2.67	6.98	11.31	11.05	13.42	8.89
Russell 1000 Growth	-8.94	6.62	10.71	13.67	13.43	15.45	9.58
Russell 1000 Value	-5.18	-1.46	3.03	8.88	8.61	11.30	8.07
Russell 2500	-10.15	-0.80	2.80	10.05	8.32	13.55	9.36
Russell 2000	-10.86	-0.60	1.85	10.68	8.01	12.43	8.69
Russell 2000 Growth	-12.65	1.11	4.13	10.72	8.75	13.89	9.01
Russell 2000 Value	-8.95	-2.46	-0.59	10.52	7.18	10.95	8.25
Wilshire 5000 Cap Wtd	-7.29	2.47	6.72	11.44	10.98	13.34	8.99
MSCI ACWI	-7.47	-3.53	0.00	8.33	6.72	10.34	7.71
MSCI ACWI ex US	-8.12	-10.58	-7.80	4.87	2.10	7.41	6.62
MSCI EAFE	-7.95	-8.86	-6.39	4.13	2.50	7.39	6.26
MSCI EAFE Local Currency	-6.53	-4.81	-4.13	4.77	6.22	8.29	6.45
MSCI EAFE Growth	-9.20	-8.35	-5.66	4.38	3.47	7.92	6.49
MSCI EAFE Value	-6.63	-9.39	-7.14	3.81	1.47	6.80	5.96
MSCI Emerging Markets	-8.70	-15.45	-12.19	6.92	1.15	8.20	8.76
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.16	0.45	0.25	0.47	0.57	1.01	1.94
BloomBar US Aggregate	-0.79	-2.38	-2.05	1.04	1.83	3.94	3.79
BloomBar Gov't Bond	-0.47	-2.08	-1.92	0.22	1.15	2.64	3.28
BloomBar US Credit	-1.40	-3.49	-2.81	2.34	2.81	6.43	4.57
BloomBar 10 Yr Municipal	-0.58	-1.23	-0.93	1.85	3.14	4.94	4.35
BloomBar US Corp High Yield	-1.60	0.93	0.97	6.60	4.68	11.20	7.48
FTSE World Gov't Bond	-1.10	-3.62	-2.09	1.32	-0.21	2.30	3.20
BloomBar Global Aggregate	-1.12	-3.46	-2.05	1.52	0.33	3.16	3.47
BloomBar Multiverse	-1.10	-3.43	-2.05	1.83	0.51	3.44	3.64
Real Assets							
NCREIF Property	0.00	5.27	7.16	7.76	9.58	6.42	8.96
NFI ODCE Net	0.00	5.76	7.71	7.83	9.71	4.62	7.28
FTSE NAREIT US Real Estate	-2.97	-1.21	1.26	4.55	7.56	11.28	9.06
Bloomberg Commodity	-2.16	-4.14	-1.73	-0.69	-7.31	-4.18	-1.52
Cash and Equivalents							
US T-Bills 90 Day	0.18	1.48	1.68	0.90	0.55	0.35	1.32

Definitions

Bloomberg Barclays Capital Aggregate

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

Bloomberg Barclays Capital Global Aggregate Index

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

Bloomberg Barclays Capital Muni 5 Yr

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

Bloomberg Barclays Capital U.S. Credit Index

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

The Bloomberg Barclays U.S. Treasury Index

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

The Bloomberg Barclays Capital U.S. Universal Index

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

BofA ML High-Yield Index Master II

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Bloomberg Commodity Index

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

CITI World Government Bond Index

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

FTSE EPRA/NAREIT Developed Index

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

HFRI Fund of Funds (FOF) Conservative Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

HFRI Fund of Funds (FOF) Strategic Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

MSCI ACWI Index (exU.S.)

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI EAFE® Index

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI EAFE Growth Index

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI EAFE Value Index

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI Emerging Markets Index

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Ncreif® Property Index

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

Russell 1000® Growth Index

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 1000® Value Index

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

Russell 2000® Index

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

Russell 2000® Growth Index

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

Russell 2000® Value Index

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Midcap® Index

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

S&P 500

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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