

DeMarche Dashboard

October 2017

Global Economy and Markets

Global Overview – Global markets advanced in October. Worldwide volatility remained low despite geopolitical concerns in Asia, the Middle East, and Europe. Tensions on the Korean peninsula remained high, while an independence referendum in Catalonia and the start of reforms aimed at consolidating power in Saudi Arabia provided concerns for investors. Energy prices continued their slow rebound as signs pointed to an ongoing reduction in the global supply glut.

- **Developed markets** in October once again saw the United States, Europe, and Japan all gain ground. Third quarter GDP growth in the United States was strong on rebounding of consumer spending. Japanese Prime Minister Abe's victory in a general election late in October signaled that the nation's current fiscal and monetary policies would continue. Europe continues to deliver steady economic growth, with 3rd quarter GDP results only slightly below the 2nd quarter.
- The backdrop of global growth and rising commodity prices helped the **emerging markets** outpace developed markets in October. The announcement of a government plan to recapitalize state owned banks boosted Indian markets. China's Party Congress proceeded as anticipated, with the only major surprise coming from the lack of a clear successor to Xi Jinping. Taiwan's technology sector led strong gains in that country's markets. Mexico was hurt by speculation that talks related to the future of NAFTA may ultimately fail.

U.S. Economy and Markets

- The S&P 500 Index gained 2.3% in October. Seven out of 11 sectors were positive for the month.
 - Information Technology, Utilities, and Materials were the strongest performing sectors. Telecomm Services, Consumer Staples, and Health Care were the weakest performing sectors.
- Due to strength in certain stocks (3M and Caterpillar are two examples) the Dow Jones Industrial Index strongly outperformed the S&P 500, 4.4% vs. 2.3%. During the recent past, the two indexes had tracked more closely on a monthly basis.
- Small cap stocks trailed large cap stocks. Growth led value stocks across all market capitalizations except micro-cap.
- The Russell 2000 Index gained 0.9%. Five out of 11 sectors were positive.
 - Technology, Utilities, and Producer Durables were the strongest performing sectors. Energy, Biotechnology, and Health Care were the weakest performing sectors.
- Payrolls increased by 261,000 in October. The unemployment rate fell to 4.1%. The gains were attributable to rebounds in food service establishments following sharp declines after Hurricanes Harvey and Irma. Gains also occurred in professional and business services. Labor force participation rates

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dropped slightly. Wages showed no growth during the month. Average wage increases over the past 12 months remain under 2.5%.

- The Consumer Confidence Index rose in October to 125.9 from September's level at 120.6. Confidence is at its highest level in 17 years, as assessments of current conditions improved.
- The 10-year Treasury yield trended up during October, rising to as high as 2.46% before falling back to finish at 2.37%. Investment grade corporate spreads narrowed again, falling to 1.01% from 1.07% at the end of September. High-yield spreads fell during October, ending at 351 basis points over similarly dated Treasuries.
- The Bloomberg Barclays Aggregate Index gained 0.1% for the month, while the Investment Grade Corporate Index and Bloomberg Barclays US High Yield Index each gained 0.4%.

International Markets

- The MSCI EAFE Index posted a return of 1.5% in October. Singapore, Japan, and Austria were the strongest performing countries. New Zealand, Israel, and Finland were the weakest performing countries. Small cap stocks slightly outperformed large caps. The MSCI EAFE Small Cap Index posted a gain of 1.7%.
- By style, international developed markets' growth stocks strongly outperformed value. The MSCI EAFE Growth Index gained 2.3%, while the MSCI EAFE Value Index rose 0.8%.
- The MSCI Japan Index gained 4.6%, while Asia excluding Japan rose 4.7%. The Europe-wide index gained 0.5%, while the United Kingdom also posted a 0.6% gain.
- The MSCI Emerging Markets Index gained 3.5% as emerging markets outpaced developed countries. South Korea, India, and Taiwan were the strongest performing countries. Columbia, Pakistan, and Mexico were the weakest performing countries.
- MSCI's China Index advanced 4.0%. Asia overall was the strongest performing emerging region. Mainland Chinese equities (A Shares) rose 7.8%. Emerging European countries were led by Hungary and Poland. South Africa and the UAE also posted gains.
- The MSCI Frontier Markets Index gained 1.2%. Vietnam, Argentina, and Kazakhstan were the strongest performing countries. Tunisia, Kuwait, and Bangladesh were the weakest performing countries.
- Government bond yields rose slightly in October. The JPM German government bund index lost -0.9%, while the Japanese equivalent index also dropped -0.9%. The UK index fell -0.8%. The Bloomberg Barclays Euro Universal Index dropped -0.5% in dollar terms. The Bloomberg Barclays Global Treasury Ex-US Index lost -0.8%.
- Emerging Markets hard currency debt posted a slight gain of 0.2% after being flat in September.



Looking Ahead

- President Trump announced that Jerome Powell would succeed Janet Yellen as head of the Federal Reserve. Mr. Powell has served on the Board of Governors since 2012, and is viewed as being likely to follow Yellen's approach to monetary policy and to take a cautious view on financial reform. He will formally take over in February, pending Senate approval. The Federal Reserve chose not to raise rates in October, but is widely expected to announce a rise in December.
- Focus will continue to be on Washington as plans for tax cuts and a reform of the corporate tax code were unveiled by Republicans in October. While President Trump has set an ambitious timetable for completion by the end of the year, a wide range of details, from the pacing of corporate tax rate cuts to reaching a consensus on which individual deductions will be repealed, still need to be worked out. In addition, Congress and the White House will have to reach an agreement to raise the nation's debt ceiling and avoid a government shutdown prior to the end of 2017.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates per US \$	
	Latest (Q3)	2017 ^A	2018 ^A	(Most recently available)	Sovereign Bonds, 10 Year ^B	Current	1 Year Ago
United States	2.30	2.20	2.30	4.20	2.38	-	-
China	6.80	6.80	6.40	4.00	1.50	6.65	6.78
Japan	1.40	1.50	1.20	2.80	2.80	113.82	105.14
United Kingdom	1.50	1.50	1.30	4.30	1.24	1.31	1.22
Euro Area	2.30	2.10	1.90	9.10	0.25	1.16	1.09
Germany	2.10	2.10	1.90	3.60	0.35	1.16	1.09
France	1.80	1.70	1.80	9.80	0.66	1.16	1.09
Italy	1.50	1.40	1.10	11.20	2.11	1.16	1.09
Canada	3.70	2.80	2.20	6.20	2.05	1.29	1.34
India	5.70	6.70	7.30	5.00	6.50	65.06	66.74
Mexico	1.80	2.20	2.20	3.30	6.79	19.18	18.81
Brazil	0.30	0.70	2.20	12.60	11.75	3.27	3.15

A. *The Economist* or The Economist Intelligence Unit estimate/forecast

B. Most recently available data

Sources: Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, and *The Economist*



Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	1.89	4.32	18.21	22.77	8.13	11.56	4.10
	BBgBarc US Agg Bond TR USD	0.06	0.47	3.20	0.90	2.40	2.04	4.19
	Russell 3000 TR USD	2.18	4.88	16.40	23.98	10.53	15.12	7.61
	DJ Industrial Average TR USD	4.44	7.40	20.58	32.07	13.18	15.12	8.15
	NASDAQ Composite PR USD	3.57	5.98	24.98	29.65	13.26	17.71	8.93
	MSCI EAFE NR USD	1.52	4.01	21.78	23.44	6.08	8.53	1.10
	Citi Treasury Bill 3 Mon USD	0.09	0.27	0.65	0.71	0.32	0.21	0.39
	Bloomberg Commodity TR USD	2.14	2.40	-0.79	2.35	-9.54	-9.37	-6.93
Domestic Equities	S&P 500 TR USD	2.33	4.76	16.91	23.63	10.77	15.18	7.51
	S&P MidCap 400 TR	2.26	4.64	11.88	23.48	10.71	15.13	8.96
	S&P SmallCap 600 TR USD	0.95	5.94	9.96	27.92	11.85	16.29	9.17
	Russell 1000 TR USD	2.29	4.80	16.78	23.67	10.58	15.18	7.61
	Russell 1000 Growth TR USD	3.87	7.15	25.40	29.71	13.15	16.83	9.13
	Russell 1000 Value TR USD	0.73	2.50	8.70	17.78	7.99	13.48	5.99
	Russell Mid Cap TR USD	1.67	3.67	13.60	21.09	9.04	14.87	8.09
	Russell Mid Cap Growth TR USD	2.80	6.45	20.57	26.25	9.98	15.34	8.23
	Russell Mid Cap Value TR USD	0.80	1.62	8.30	17.12	8.26	14.49	7.90
	Russell 2000 TR USD	0.85	5.78	11.89	27.85	10.12	14.49	7.63
	Russell 2000 Growth TR USD	1.55	6.95	18.62	31.00	10.51	15.36	8.16
	Russell 2000 Value TR USD	0.13	4.59	5.81	24.81	9.67	13.58	7.04
	International Equities	MSCI ACWI Ex USA NR USD	1.88	4.32	23.41	23.64	5.71	7.29
MSCI EAFE NR USD		1.52	4.01	21.78	23.44	6.08	8.53	1.10
MSCI EAFE Growth NR USD		2.27	4.78	25.23	23.63	7.60	9.30	1.95
MSCI EAFE Value NR USD		0.77	3.23	18.55	23.21	4.47	7.69	0.19
MSCI Japan NR USD		4.61	6.61	19.55	17.80	9.86	12.03	2.19
MSCI AC Asia Ex Japan NR USD		4.72	5.99	37.13	30.45	8.85	8.50	2.51
MSCI Europe NR USD		0.47	3.85	23.37	27.01	5.46	8.15	0.66
MSCI United Kingdom NR USD		0.61	3.14	16.38	21.60	1.76	4.90	0.21
MSCI EAFE Small Cap NR USD		1.69	5.45	27.54	27.51	12.51	13.03	4.18
MSCI EM NR USD		3.51	5.58	26.83	20.72	4.95	5.64	1.41
Fixed Income	BBgBarc US Govt/Credit TR USD	0.09	0.47	3.58	1.05	2.52	2.05	4.26
	BBgBarc US Govt/Credit Interm TR USD	-0.01	0.13	2.33	0.64	1.89	1.58	3.56
	BBgBarc US Govt/Credit Long TR USD	0.40	1.67	8.09	2.52	4.83	3.78	7.24
	BofAML US HY Master II TR USD	0.39	1.26	7.46	9.14	5.60	6.29	7.69
	Credit Suisse HY USD	0.42	1.28	6.90	9.02	5.42	6.13	7.38
	S&P/LSTA Leveraged Loan TR	0.60	0.95	3.59	5.06	3.99	4.15	4.68
	Citi WGBI NonUSD USD	-0.75	-0.92	7.81	0.73	0.47	-1.06	2.41
	BBgBarc Gbl Agg Ex USD TR USD	-0.75	-0.95	7.93	1.26	0.18	-0.79	2.28
REITs	FTSE NAREIT All REITs TR	-0.15	-0.10	6.58	8.79	7.21	9.90	6.01
	Wilshire US REIT TR USD	-0.90	-1.38	1.52	5.10	5.68	9.51	5.33

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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