

Global Economy

A pervasive feeling that recession is not on the immediate horizon due to ongoing moderate growth fueled the equity markets once again in November. Optimism surrounding a US-China trade accord was present throughout the month, while mixed signals across the global economy were enough to drive key benchmarks to new all-time highs. In keeping with the risk-on theme, government bond yields increased and credit spreads extended their recent tightening trend. US Consumer Confidence declined for a fourth consecutive month, but the forward-looking expectations index improved. Impeachment hearings in the US have had seemingly little effect on the markets, yet investors will continue to be faced with this and other political wildcards such as the December 12th Brexit vote going forward.

The Federal Open Market Committee (FOMC) did not meet in November, and all indications point to no change at the upcoming meeting on December 10th - 11th. Statements made in November indicated future moves would not occur unless the economic outlook were to change materially. Minutes from the October meeting indicated continued discussion on the repo market and possible implementation of a more permanent solution to the volatility experienced in September.

The second estimate of 3Q-19 real GDP reported growth at an annualized rate of 2.1%, up 0.2% from the advance release. Upward revisions to private inventory investment and nonresidential fixed investment were offset somewhat by downward revisions to state and local spending. Personal consumption growth remained solid at 2.9%. Consensus estimates of 4Q-19 real GDP are coming in around 1.6%, in line with the recent GDPNow estimate by the Atlanta Fed.

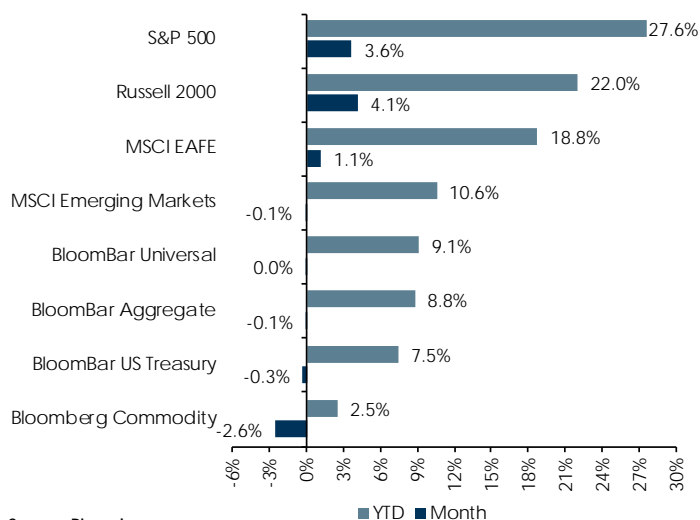
266,000 new jobs were added in November, well above expectations, and the prior two months were revised up as well. The unemployment rate returned to the 50-year low of 3.5%, matching September's rate. Average hourly wage gains remain moderate, advancing at a year-over-year pace of 3.1%. The Core CPI index declined slightly to 2.3% year-over-year, while the FOMC's preferred measure, the Core PCE index, edged down to 1.6% year-over-year through October.

	Current	Dec-18
US GDP (%)	2.10	3.40
US Unemployment (%)	3.50	3.90
CPI (Core) (%)	2.30	2.20
Fed Funds (%)	1.50 – 1.75	2.25 – 2.50
10 Year UST Yld (%)	1.78	2.69
S&P 500 Div Yld (%)	1.85	2.15
S&P 500 P/E (Trailing)	20.89	17.12
Gold/oz.	\$1,465.60	\$1,281.30
Oil (Crude)	\$55.17	\$45.41
Gasoline (Natl Avg)	\$2.67	\$2.36
USD/Euro	\$1.10	\$1.15
USD/GBP	\$1.29	\$1.28
Yen/USD	¥109.49	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns were solidly up once again across developed markets in November, with small cap stocks leading the way. The S&P 500, which represents large US-based entities, again reached new all-time highs by appreciating +3.6% for the month and is back up nearly 28% for the year. Strength was generally broad based, with IT (+5.2%), Healthcare (+4.9%), Financials (+4.8%) and Industrials (+4.1%) leading the way. Utilities (-2.3%) and Real Estate (-2.0%) were notable laggards. Small cap stocks, as represented by the Russell 2000, outperformed large stocks by 50 bps for the month at +4.1%, with Growth (+5.9%) significantly outperforming Value (+2.3%).

In the broad international developed markets, the MSCI EAFE index was up modestly at +1.1%, with returns hampered somewhat for US-based investors by increasing strength in the US dollar. The returns were fairly broad based, however, with most areas up modestly and Europe pacing the group at +1.5%. Among the major sectors, IT (+4.0%) and Healthcare (+3.4%) showed particular strength, with Real Estate (-1.9%) and Utilities (-1.8%) trailing.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were essentially flat at -0.1%. The category is still significantly underperforming other major equity indexes for the year, though still in double digit territory at +10.6%. The Latin America region was down meaningfully at -4.1% while Asia posted a positive return at +0.5%. The Consumer Discretionary sector continued to do well at +3.7% and is up +27.0% for the year.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was down for the month at -1.2%, taking year-to-date performance back to +22.3%. The Alerian MLP index was down meaningfully again at -5.7%, dragging the category into negative territory for the year at -1.8%. The near-month NYMEX oil contract was up solidly at +1.8% and is up +21.5% on the year. Gold reversed October's impressive rally, declining -3.3% for the month. The broadly diversified Bloomberg Commodity index was down -2.6% for the month, giving back half of its 2019 gains.

Global Markets (continued)

US Treasury (UST) yields ascended rapidly with the optimistic tone in early November, before falling back to finish only modestly higher for the month. The yield curve flattened on the longer end, but the FOMC's recent rate cuts have thus far resolved the inversions that had previously fueled recessionary concerns. In this environment, the high-quality government bond complex returned -0.3% for the month. The 10-year UST yield traded within a 25 bps intra-month range before settling at 1.78%. While still notable at over \$10 trillion, the global stock of negative yielding debt continued to contract as yields for developed market sovereign bonds outside of the US followed a similar upward pattern.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis. With a slight loss of -0.1% in November, year-to-date performance of +8.8% remains quite remarkable given prevailing yield levels. Spreads for IG corporates were another 5 bps tighter for the month, with BBB-rated issues leading in a more risk-on environment. The benchmark's yield-to-worst moved 7 bps higher overall, and now resides at 2.30%.

The BloomBar 1-15-Year Municipal index returned +0.2% in November, taking year-to-date performance to +6.1%. Record-setting mutual fund inflows continue to benefit the category, as tax-exempt yields were mostly unchanged across the curve despite heavy supply. The 10-year municipal/UST ratio fell back to ~84% with municipal outperformance.

The BloomBar US Corporate High Yield index advanced +0.3% for the month and has now delivered +12.1% year-to-date. Benchmark spreads were 22 bps tighter on average, with increased dispersion and ongoing weakness in the less-liquid CCC-rated sleeve. All-in yields were down slightly at 5.6% and lag the compensation currently offered by the comparable leveraged loan category. With US dollar appreciation, unhedged international bonds underperformed. Local currency emerging market bonds were particularly weak, with yields rising sharply in several key countries.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-18
Japan	-0.08	-0.01
Germany	-0.36	0.24
France	-0.05	0.71
United Kingdom	0.70	1.28
Spain	0.41	1.41
United States	1.78	2.69
Italy	1.23	2.74
Mexico	7.08	8.64
Brazil	6.92	9.24

Source: Bloomberg

Indices Report (Periods Ending November 30, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	3.63	27.63	16.11	14.88	10.98	13.44	9.03
Russell 1000	3.78	27.74	16.10	14.67	10.80	13.49	9.17
Russell 1000 Growth	4.44	32.40	21.01	19.79	13.71	15.23	10.56
Russell 1000 Value	3.09	23.15	11.33	9.59	7.83	11.69	7.67
Russell 2500	4.29	25.12	11.41	10.27	8.77	13.13	8.91
Russell 2000	4.12	22.01	7.51	8.57	8.22	12.38	7.92
Russell 2000 Growth	5.89	25.61	10.93	12.15	9.48	13.68	8.90
Russell 2000 Value	2.34	18.25	3.96	4.98	6.83	10.99	6.85
Wilshire 5000 Cap Wtd	3.71	27.29	15.45	14.19	10.72	13.42	9.16
MSCI ACWI	2.48	22.92	14.31	12.55	7.83	9.21	7.45
MSCI ACWI ex US	0.90	17.02	11.77	9.77	4.34	5.22	5.73
MSCI EAFE	1.14	18.78	13.04	10.17	4.77	5.81	5.41
MSCI EAFE Local Currency	2.10	20.67	13.64	9.32	6.65	8.18	6.43
MSCI EAFE Growth	1.80	24.85	18.85	13.05	6.77	7.25	6.31
MSCI EAFE Value	0.42	12.70	7.22	7.27	2.68	4.29	4.43
MSCI Emerging Markets	-0.13	10.56	7.70	9.42	3.51	3.69	7.67
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	-0.04	3.33	4.14	1.78	1.30	1.12	2.15
BloomBar US Aggregate	-0.05	8.79	10.79	4.10	3.08	3.59	4.22
BloomBar Gov't Bond	-0.29	7.42	9.70	3.46	2.50	2.85	3.74
BloomBar US Credit	0.19	13.47	15.18	5.87	4.33	5.18	5.17
BloomBar 10 Yr Municipal	0.25	7.28	8.75	5.31	3.69	4.57	4.68
BloomBar US Corp High Yield	0.33	12.08	9.68	6.31	5.40	7.71	7.16
FTSE World Gov't Bond	-1.16	5.60	8.13	3.79	1.84	1.30	2.83
BloomBar Global Aggregate	-0.76	6.22	8.37	3.91	2.05	2.03	3.23
BloomBar Multiverse	-0.75	6.39	8.41	4.05	2.20	2.23	3.39
Real Assets							
FTSE NAREIT US Real Estate	-1.51	26.76	16.33	10.02	7.73	12.78	8.32
FTSE EPRA/NAREIT Dev RE	-1.17	22.30	15.67	10.18	6.49	9.57	7.11
Bloomberg Commodity	-2.56	2.52	-4.54	-1.97	-6.36	-5.01	-3.20
Cash and Equivalents							
US T-Bills 90 Day	0.12	2.13	2.32	1.63	1.05	0.57	1.40

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