Parkside Financial
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Monthly Market Update - October 2019

Global Economy

Amid ongoing economic and geopolitical uncertainty, financial markets continued to climb the proverbial wall of worry in October. As prominent equity benchmarks achieved all-time highs, fixed income markets reacted to broad policy accommodation with steeper yield curves and a bias to quality. Concerns of global manufacturing weakness spilling over into services, the labor market, consumer spending, and ultimately investor sentiment remain present. That said, a better-than-feared corporate earnings season, progress toward an initial US-China trade agreement, the reduced risk of a no deal Brexit, and a somewhat weaker US dollar have collectively provided "green shoots" of optimism.

The Federal Open Market Committee (FOMC) met in late October and, as widely expected, reduced the Federal Funds rate by 25 bps to a targeted range of 1.50% to 1.75%. The Committee's statement notably dropped prior language suggesting it would "act as appropriate to sustain the expansion." While this perhaps signals a more data dependent approach biased toward a pause rather than additional cuts, the futures market is still pricing in one more cut over the next 12-months. Prior to the official meeting, the Fed resumed balance sheet expansion via T-Bill purchases, addressing September's volatility in the overnight repo lending market and indirectly helping to reduce equity market volatility.

The advance release of 3Q-19 real GDP reported growth at an annualized rate of 1.9%, above expectations. Once again, consumer spending was an area of strength. Though weakness has been shown in private sector investment, employment continues to be strong. Consumer sentiment has dropped somewhat, but not to the level of recessionary concern. Fourth quarter estimates of GDP are coming in around 1.8%, with Atlanta Fed's GDPNow estimate at 1.0%.

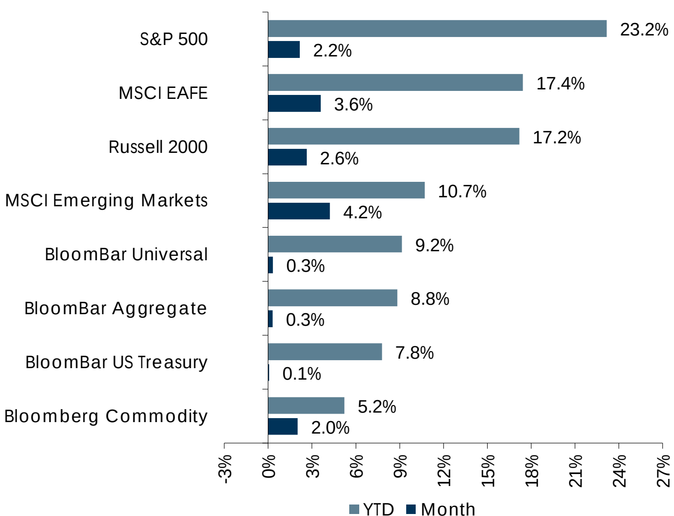
128,000 new jobs were added in October, well above expectations, and the prior two months were revised up as well. The unemployment rate rose slightly to 3.6%, as the labor participation rate moved higher. Average hourly wage gains remain moderate, advancing at a year-over-year pace of 3.0%. The Core CPI index was steady at 2.4% year-over-year, while the FOMC's preferred measure, the Core PCE index, edged down to 1.7% year-over-year through September.

	Current	Dec-18
US GDP (%)	1.90	3.40
US Unemployment (%)	3.60	3.90
CPI (Core) (%)	2.40	2.20
Fed Funds (%)	1.50 – 1.75	2.25 – 2.50
10 Year UST Yld (%)	1.69	2.69
S&P 500 Div Yld (%)	1.90	2.15
S&P 500 P/E (Trailing)	20.03	17.12
Gold/oz.	$1,514.80	$1,281.30
Oil (Crude)	$54.07	$45.41
Gasoline (Natl Avg)	$2.69	$2.36
USD/Euro	$1.12	$1.15
USD/GBP	$1.29	$1.28
Yen/USD	¥108.03	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns were up solidly across most risk assets in October, with international stocks again outperforming domestic counterparts. The S&P 500, which represents large US-based entities, established new all-time highs by appreciating +2.2% for the month and is back up over 23% for the year. Strength was generally broad based, with Healthcare (+5.0%) and IT (+3.8%) leading the way. Energy (-2.4%) was a significant laggard, with Utilities (-0.8%), Consumer Staples (-0.3%), and Real Estate (-0.2%) also in negative territory. Small cap stocks, as represented by the Russell 2000, outperformed large stocks by 40 bps at +2.6%, with Growth (+2.8%) slightly outpacing Value (+2.4%).

In the broad international developed markets, the MSCI EAFE index was again up strongly at +3.6%, with returns buoyed somewhat for US-based investors by declining strength in the US dollar. Japan continued to outperform at +4.9%, even as their "safe haven" currency lost some of its appeal. Pacific ex-Japan was the relative laggard from a regional perspective at +3.0%, and Consumer Staples (-0.3%) was the only market sector to post a negative return.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were up strongly at +4.2%. The category is still significantly underperforming other major equity indexes for the year, even as it entered double digit territory at +10.7%. Performance was positive across all major regions for the month, with Eastern Europe rising an impressive +8.1%. Extending the year-to-date trend, Europe, Middle East and Africa was relatively underwhelming.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was again up solidly at +2.5% for the month, taking year-to-date performance to +23.8%. The Alerian MLP index was down meaningfully at -6.2%, reducing its return for the year to a modest +4.2%. The near-month NYMEX oil contract was essentially unchanged in October at +0.2%, but is still up +19.3% on the year. Gold reversed the September decline and moved up +3.3% for the month. The broadly diversified Bloomberg Commodity index was up +2.0% for the month, as all categories advanced.

Global Markets (continued)

US Treasury (UST) yields seesawed across the curve throughout October, declining early before trending higher as the economic outlook turned more optimistic. With further policy easing by the FOMC, the yield curve steepened enough to erase the inversions that had recently stoked near-term recessionary concerns. In this environment, the high-quality government bond complex returned just +0.1% for the month. The commonly referenced 10-year UST yield traded with a 30 bps intra-month range before settling at 1.69%. While still notable, the global stock of negative yielding debt continued to contract as yields for developed market sovereign bonds outside of the US followed a similar pattern.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis. With a gain of +0.3% in October, year-to-date performance of +8.9% 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 3 bps lower overall, and now resides at 2.23%.

The BloomBar 1-15-Year Municipal index returned +0.3% in October, taking year-to-date performance to +5.9%. Sustained inflows continue to benefit the category, and diminished tax-exempt municipal supply further supported the category. The 10-year municipal/UST ratio of ~88% moved slightly lower, remaining near fair value following May's historic richness.

The BloomBar US Corporate High Yield index advanced +0.3% for the month and has now delivered +11.7% year-to-date. Benchmark spreads were 19 bps wider on average, with increased dispersion and ongoing weakness in the less-liquid CCC-rated sleeve. All-in yields were essentially unchanged at 5.7%, and lag the compensation currently offered by the underperforming leveraged loan category. With US dollar depreciation, unhedged international bonds outperformed. Local currency emerging market bonds were particularly strong, as broad central bank easing supported price gains.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)

	Current	Dec-18
Japan	-0.14	-0.01
Germany	-0.41	0.24
France	-0.10	0.71
United Kingdom	0.63	1.28
Spain	0.23	1.41
United States	1.69	2.69
Italy	0.92	2.74
Mexico	6.76	8.64
Brazil	6.49	9.24

Source: Bloomberg

Indices Report (Periods Ending October 31, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	2.17	23.16	14.33	14.91	10.78	13.70	9.05
Russell 1000	2.12	23.09	14.15	14.73	10.55	13.72	9.21
Russell 1000 Growth	2.82	26.77	17.10	18.92	13.43	15.41	10.49
Russell 1000 Value	1.40	19.46	11.21	10.51	7.61	11.96	7.81
Russell 2500	1.91	19.97	8.84	11.74	8.04	13.10	9.13
Russell 2000	2.63	17.18	4.90	10.96	7.37	12.27	8.23
Russell 2000 Growth	2.85	18.62	6.40	13.22	8.38	13.38	9.07
Russell 2000 Value	2.42	15.55	3.22	8.60	6.24	11.08	7.29
Wilshire 5000 Cap Wtd	2.19	22.74	13.48	14.50	10.46	13.62	9.22
MSCI ACWI	2.76	19.94	13.22	11.93	7.66	9.39	7.66
MSCI ACWI ex US	3.50	15.98	11.84	8.60	4.31	5.43	6.14
MSCI EAFE	3.60	17.43	11.63	9.02	4.81	5.90	5.80
MSCI EAFE Local Currency	1.68	18.19	11.07	9.01	6.96	7.97	6.46
MSCI EAFE Growth	3.59	22.64	17.10	11.09	6.84	7.30	6.66
MSCI EAFE Value	3.62	12.23	6.20	6.90	2.72	4.43	4.86
MSCI Emerging Markets	4.23	10.71	12.29	7.76	3.32	4.14	8.31
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.33	3.37	4.54	1.66	1.33	1.19	2.12
BloomBar US Aggregate	0.30	8.85	11.51	3.29	3.24	3.73	4.17
BloomBar Gov't Bond	0.07	7.74	10.99	2.66	2.72	3.01	3.68
BloomBar US Credit	0.57	13.26	14.88	4.83	4.43	5.32	5.09
BloomBar 10 Yr Municipal	0.15	7.02	9.88	3.63	3.68	4.70	4.58
BloomBar US Corp High Yield	0.28	11.71	8.38	6.03	5.18	7.78	7.23
FTSE World Govt Bond	0.54	6.84	9.92	2.55	1.96	1.73	3.15
BloomBar Global Aggregate	0.67	7.03	9.54	2.77	2.13	2.36	3.46
BloomBar Multiverse	0.70	7.20	9.50	2.95	2.27	2.57	3.62
Real Assets							
FTSE NAREIT US Real Estate	1.37	28.69	23.70	9.96	8.48	13.71	8.74
FTSE EPRA/NAREIT Dev RE	2.53	23.75	21.45	9.61	6.93	9.90	7.68
Bloomberg Commodity	2.02	5.22	-2.58	-0.68	-6.65	-4.44	-3.11
Cash and Equivalents							
US T-Bills 90 Day	0.19	2.01	2.40	1.60	1.02	0.56	1.40

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