MONTHLY MARKET REVIEW

10 2019

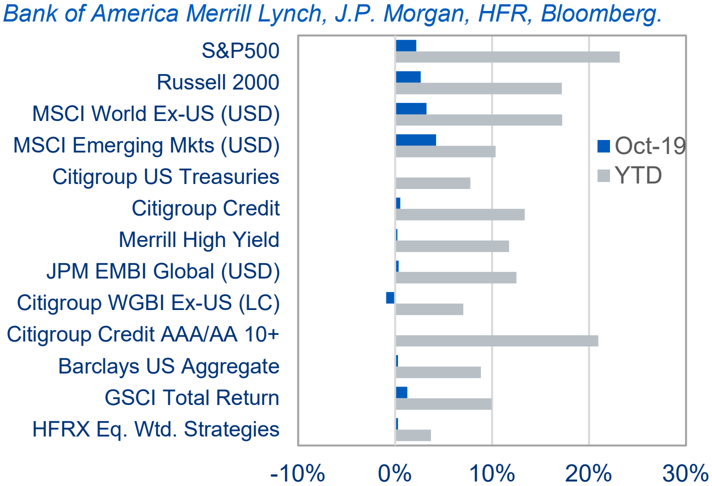
Global Market Review

Macro Summary

Global equity markets rose sharply in October, led by emerging markets, extending already strong gains for the year. With the exception of the long end of the maturity spectrum in the U.S., most global bond prices also rose during the month as credit spreads narrowed and short-term yields declined. Monetary ease – the Fed cut rates again in October – solid corporate earnings and (at least temporarily) waning trade tensions helped support the rally of risky assets. Commodities, and in particular, livestock prices, rose while the dollar fell against most advanced and emerging market currencies.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



Global equities build on strong gains for the year.

U.S. Stocks Hit Record High

Despite the release of weaker-than-expected U.S. GDP growth, the S&P 500 hit a record high during the last week of the month, capping a rise of over 20% this year. The third of a series of rate cuts by the Fed and cautious optimism around ongoing U.S.-China trade negotiations pushed stocks higher. Positive news around corporate earnings further buoyed sentiment. Although earnings are on track to decline for the third consecutive quarter, about 75% of the companies in the S&P 500 that have posted results have beaten expectations.

Following the strong outperformance of value stocks in September, growth stocks rebounded in October. The dispersion between the two styles was most apparent among large-cap stocks, with the Russell 1000 Growth Index outperforming its value counterpart by 140 basis points. The technology sector, a large constituent in the growth index, has risen over 34% over the year, outperforming all other market sectors by over 10 percentage points.

ECB Stimulus Supports European Equities

Shrugging off continued global political uncertainty, global equity markets marched upward in October, with the MSCI ACWI ex-US Index posting gains of 3.5%. Optimism around trade discussions between the U.S. and China and strengthening currencies led the emerging markets index to outperform developed, posting gains of 4.2%. Elsewhere, Sterling continued its volatile path through 2019, slipping over 4% against the U.S. dollar.

Brexit turmoil continued early in October, as Prime Minister Boris Johnson again threatened a no deal exit if Parliament rejected his proposals to Brussels. The FTSE 100 saw its largest one-day drop in over three years, falling 3.2% on October 2. Later in the month, however, Parliamentary developments began to spur some rare optimism for the Brexit saga. UK lawmakers for the first time endorsed a Brexit deal, but rejected Johnson's efforts to put it on a fast track. The EU soon approved a further extension of negotiations to the end of January, while MPs voted to hold the UK's first December election in almost 100 years. Each opposing party hopes the election will solidify its position in Parliament ahead of the new deadline. Markets were bullish on these developments and UK equities jumped 2.5%.

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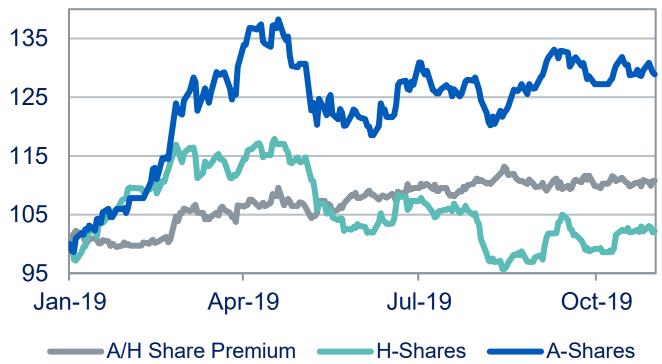
Political tensions also rattled emerging markets through October. Anti-government protests continued into their 21st week in Hong Kong, paralyzing public services, denting business confidence, and scaring off tourists. With no resolution in sight, new data showed that the local economy shrank by 3.2% over the third quarter, pushing the island into its first recession in over a decade. The impact on businesses has been meaningful, with Chinese stocks listed in Hong Kong (H-Shares) significantly underperforming those on the mainland (A-Shares) (Exhibit below).

Riots Drag Down China H-Shares

Source: Bloomberg. Rebased to January 1, 2019 = 100.



Concerns over growth plagued other emerging markets too. India posted weaker-than-expected GDP growth for the third quarter, with a steep decline in private consumption expenditure (to 3% from 11%), weakening manufacturing output, and mounting unemployment. Meanwhile, investors have braced themselves for further uncertainty in Argentina, after elections in which the leftist opposition defeated the pro-market government. Struggling with a deep recession, rampant inflation, and an external financing crisis, investors fear the new government's hostility toward the IMF's financing program could bring further volatility.

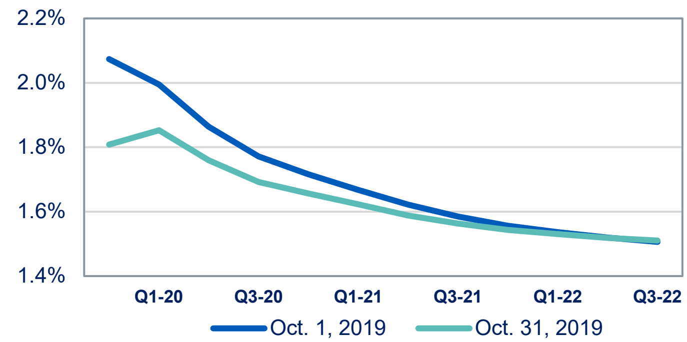
Confident Investors Seek Risk over Safety

Despite an increase in sovereign yields in October, global bonds have posted solid gains so far this year as the ECB prepared to resume its debt-buying stimulus and the Bank of Japan indicated it might consider action in light of continued below-target inflation. Closer to home, the U.S. Treasury said it would test market appetite for ultra-long 50-year bonds. The decision came on the back of a record-setting bond rally, which caused the benchmark 10-year yield to plummet to 1.5% early in the month and pushed the yield on over $17tn of debt worldwide to below zero.

The Fed cut rates again in October, its third cut since July, a stark contrast to the FOMC's message earlier in the year indicating that further rate cuts would be unlikely. Futures contracts point toward lower rates, particularly in the short-term (Exhibit below). Meanwhile, in response to September's gridlock in the short-term lending market, the central bank also announced a new T-bill buying program to ensure liquidity in overnight borrowing. The move had a considerable effect on short-term rates, sending 3-month T-bill yields sharply lower.

Fed Cuts; Expectations Fall

Source: Bloomberg.



Hedge Funds Post Modest Gains

The HFRX Equal Weighted Strategies index rose a modest 0.3% in October, and is up 3.7% for the year. Most strategies rose in October, except notably Global Macro, which fell largely because of the decline of the U.S. dollar. So far this year, hedge fund strategies with high beta (Equity Hedge) have outperformed low beta strategies (Equity Market Neutral) by 920 basis points.

Swine Flu Sparks Feverish Rise in Livestock Prices

Commodities added to their year-to-date gain as the GSCI rose 2.0%. Oil prices moved generally in tandem with global equities during the month, with prices closely following trade war developments. Elsewhere in real assets, a recent rise in Chinese demand for protein has caused a surge in livestock prices globally. The outbreak of African swine flu in China – the world's largest pork producer and consumer –has created a global supply shortage in pork, leading to rising costs now spreading to other animal protein products, a trend likely to continue into 2020.

Performance of Major Market Indices through 10-31-2019

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	2.2%	2.2%	23.2%	14.3%	14.9%	10.8%
Russell 2000	2.6%	2.6%	17.2%	4.9%	11.0%	7.4%
MSCI World Ex-US (USD)	3.2%	3.2%	17.2%	11.1%	8.3%	4.1%
MSCI Emerging Mkts (USD)	4.2%	4.2%	10.4%	11.9%	7.4%	2.9%
Citigroup US Treasuries	0.1%	0.1%	7.8%	11.0%	2.6%	2.7%
Citigroup Credit	0.5%	0.5%	13.4%	15.0%	4.8%	4.5%
Merrill High Yield	0.2%	0.2%	11.8%	8.3%	6.0%	5.2%
JPM EMBI Global (USD)	0.4%	0.4%	12.5%	13.7%	4.5%	4.8%
Citigroup WGBI Ex-US (LC)	-0.9%	-0.9%	7.0%	8.6%	2.5%	3.3%
Citigroup Credit AAA/AA 10+	0.0%	0.0%	21.0%	26.3%	7.4%	7.3%
Barclays US Aggregate	0.3%	0.3%	8.8%	11.5%	3.3%	3.2%
GSCI Total Return	1.2%	1.2%	10.0%	-10.0%	2.5%	-10.4%
HFRX Eq. Wtd. Strategies	0.3%	0.3%	3.7%	1.8%	1.4%	0.9%