

**Global Economy**

November was a back-and-forth month for global financial assets. While sentiment began the month relatively strong, on the heels of supportive domestic economic data and a US mid-term election that met expectations, concerns about future profit growth were building. Trade tensions between the US and China persisted, Brexit negotiations generated further animosity, and Italy continued its budget challenges with the EU.

The Federal Open Market Committee (FOMC) met in November, leaving rates unchanged and delivering an uneventful statement suggesting gradual hikes remain appropriate given underlying strength in the economy. With asset prices showing signs of stress mid-month, however, calls for a pause in the tightening cycle intensified. The perceived “dovish” reversal in a speech by Chairman Powell ultimately led investors to re-engage in risk assets at the end of the month.

The second release of 3Q-18 GDP remained at an annualized rate of 3.5%. Subsequent reports on overall spending have beaten consensus, so 4Q-18 appears to be off to a solid start. Expectations are generally in the mid-2% range for 2019 as policy stimulus wanes.

The unemployment rate remained 3.7% in November. While the addition of 155,000 new jobs fell short of expectations, the streak of job gains has now reached 98 consecutive months. Average hourly wages continue to rise at a healthy pace, with another reported year-over-year increase of 3.1%. That said, inflation reports and market expectations lack upward momentum, with the FOMC’s preferred measure, the Core PCE index, dropping from 2.0% to 1.8%.

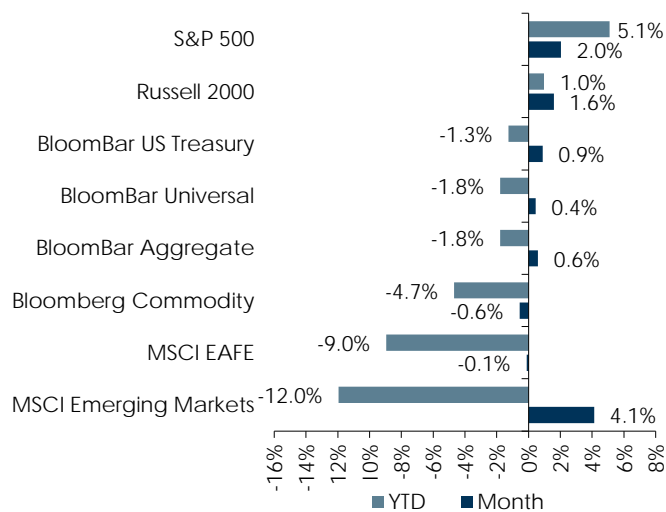
Global economic reports identified potential vulnerabilities abroad. At 6.5%. China’s GDP for 3Q-18 slowed to its lowest level since 2009, and manufacturing PMIs suggest no current growth. European PMI figures also fell short of expectations. Disappointing growth figures may impact European Central Bank (ECB) decisions regarding policy normalization.

	Current	Dec-17
US GDP (%)	3.50	3.20
US Unemployment (%)	3.70	4.10
CPI (Core) (%)	2.10	1.70
Fed Funds (%)	2.00 – 2.25	1.25 – 1.50
10 Year UST Yld (%)	2.99	2.41
S&P 500 Div Yld (%)	1.93	1.89
S&P 500 P/E (Trailing)	18.90	22.45
Gold/oz.	\$1,220.20	\$1,309.30
Oil (Crude)	\$50.93	\$60.42
Gasoline (Natl Avg)	\$2.63	\$2.59
USD/Euro	\$1.13	\$1.20
USD/GBP	\$1.27	\$1.35
Yen/USD	¥113.57	¥112.69

Source: Bloomberg

**Global Markets**

**Key Market Indices**



Source: Bloomberg

Recovering from October’s dramatic fall, global stock benchmarks generally ended in positive territory for November. The S&P 500, which represents large US-based entities, was up +2.0% and is now up +5.1% for the year. Healthcare was the sector leader at +6.8%, along with Real Estate (+5.3%). Energy stocks (-2.2%), dragged down by the declining price of oil, and IT (-2.1%), were the notable sector laggards. Small cap stocks had a decent reversal from the prior month, up +1.6% and returning to positive territory for the year.

In the broad international developed markets, the MSCI EAFE index was down slightly at -0.1% in November. The trend of US dollar appreciation versus the major currencies stalled somewhat with the FOMC’s more dovish leanings.

Emerging market stocks, as represented by the MSCI Emerging Markets index, led the way in November, posting solid returns of 4.1%. For the year, the index is still down double digits, at -12.0%. The escalation of trade frictions remains a key risk for this segment of the market, however, it’s notable that local currencies were able to stage a modest recovery versus the US dollar for the month.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up +3.8% during the month, effectively reversing October’s decline. Lower US interest rates helped to ease competition for income-focused capital. The Alerian MLP index had a slightly negative month, declining -0.8% in November, with performance at least partially affected by the significant drop in oil. The near-month NYMEX contract was down -22.0% as global supply increased and because of a lack of direction among OPEC and other major producers. The more broadly diversified Bloomberg Commodity index was slightly negative (-0.6%) in November, with gold again being slightly positive (+0.4%).

Global Markets (continued)

Even as a flight to quality has yet to fully materialize, US Treasury (UST) yields fell modestly in November and the government bond complex returned +0.9%. The environment for high-quality fixed income was initially quite dire, as rates moved to multi-year highs and the futures market was pricing at least three more policy adjustments by the end of 2019. Market volatility ultimately drove investors to reassess the Fed's path of rate hikes, beyond the widely-expected 25 bps bump assumed to come with the December 19<sup>th</sup> statement. The commonly referenced 10-year UST yield ultimately ended 16 bps lower to finish at 2.99%.

Total returns for the Bloomberg US Aggregate Bond index were up +0.6% during November, with YTD results now -1.8%. Spreads for IG corporates widened by another 19 bps, with multiple issuer-specific headlines and heavy month-end supply causing credit to be the worst performing sub-sector. The traditional benchmark maintained its all-in yield above 3.5% as wider spreads essentially offset the decline in underlying base-rates.

The Bloomberg 1-15-Year Municipal index returned +1.0%, as tax-exempt issues again outperformed taxable counterparts. High quality bonds outperformed riskier credits in November, even as lower-rated securities maintain an edge YTD. Municipal funds have had 10 straight weeks of outflows, which ultimately helps to restore value opportunities.

The Bloomberg US Corporate High Yield index declined another -0.9% in November, and is now essentially flat for 2018. Overall benchmark spreads widened by 46 bps, with riskier CCC-rated credits off by more than 115 bps. Global yield moves were directionally consistent with US government bonds, such that unhedged international bonds were positive. Local currency emerging market debt recovered +2.8% for the month, even as wider spreads hurt US dollar-based issues.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-17
Japan	0.09	0.04
Germany	0.31	0.42
France	0.68	0.78
United Kingdom	1.36	1.19
Spain	1.50	1.56
United States	2.99	2.41
Italy	3.21	2.01
Mexico	9.14	7.65
Brazil	9.89	10.26

Source: Bloomberg

Indices Report (Periods Ending November 30, 2018)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
<b>Equity</b>							
S&P 500	2.04	5.11	6.27	12.16	11.12	14.31	8.82
Russell 1000	2.04	4.76	5.92	11.94	10.89	14.55	8.95
Russell 1000 Growth	1.06	7.75	8.59	13.97	13.04	16.54	9.58
Russell 1000 Value	2.99	1.48	2.96	9.82	8.65	12.46	8.19
Russell 2500	1.89	1.07	1.41	10.02	8.16	15.08	9.23
Russell 2000	1.59	0.98	0.57	10.08	7.50	14.04	8.55
Russell 2000 Growth	1.56	2.69	2.81	9.97	8.22	15.55	8.89
Russell 2000 Value	1.61	-0.88	-1.83	10.08	6.71	12.50	8.09
Wilshire 5000 Cap Wtd	1.12	3.61	4.73	11.69	10.59	14.42	8.97
MSCI ACWI	1.51	-2.07	-0.46	9.16	6.73	11.25	7.71
MSCI ACWI ex US	0.96	-9.72	-7.67	5.94	2.26	8.15	6.53
MSCI EAFE	-0.11	-8.96	-7.48	4.63	2.31	7.97	6.10
MSCI EAFE Local Currency	-0.20	-5.00	-3.84	4.24	5.85	8.79	6.42
MSCI EAFE Growth	0.31	-8.07	-6.51	4.73	3.35	8.66	6.35
MSCI EAFE Value	-0.54	-9.88	-8.47	4.49	1.22	7.22	5.77
MSCI Emerging Markets	4.13	-11.96	-8.75	9.81	2.27	9.50	8.96
<b>Fixed Income</b>							
ICE BofA ML 1-3 Yr Treasury	0.35	0.80	0.80	0.67	0.62	0.93	1.96
BloomBar US Aggregate	0.60	-1.79	-1.34	1.33	2.03	3.67	3.81
BloomBar Gov't Bond	0.88	-1.22	-0.92	0.64	1.38	2.25	3.34
BloomBar US Credit	-0.07	-3.56	-2.79	2.39	2.86	6.01	4.53
BloomBar 10 Yr Municipal	1.30	0.05	1.25	2.15	3.54	4.94	4.37
BloomBar US Corp High Yield	-0.86	0.06	0.36	7.09	4.39	12.19	7.31
FTSE World Gov't Bond	0.48	-3.15	-3.00	2.19	0.11	1.98	3.12
BloomBar Global Aggregate	0.31	-3.16	-2.82	2.20	0.56	2.90	3.40
BloomBar Multiverse	0.25	-3.20	-2.85	2.49	0.72	3.20	3.57
<b>Real Assets</b>							
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	4.74	3.93	3.70	6.52	9.82	14.81	9.12
Bloomberg Commodity	-0.56	-4.68	-1.83	1.64	-7.26	-3.54	-1.53
<b>Cash and Equivalents</b>							
US T-Bills 90 Day	0.21	1.69	1.80	0.97	0.59	0.36	1.33

## Definitions

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### **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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