

**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%.

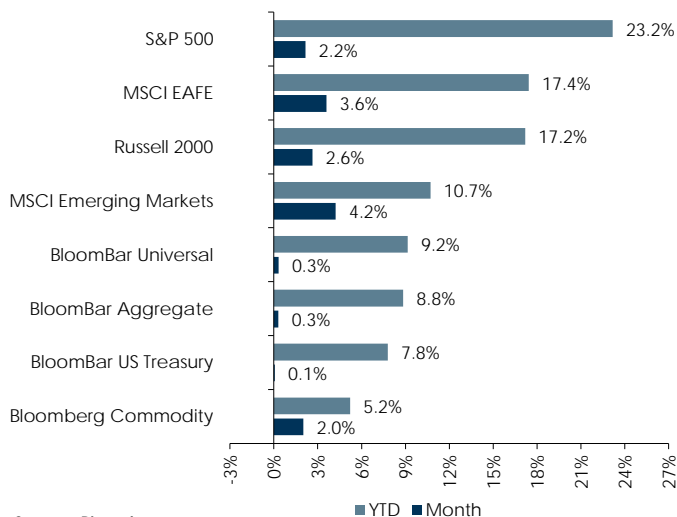
128,000 new jobs were added in October, well above expectations, and the prior two months were revised up as well. The unemployment rate rose slightly to 3.6%, as the labor participation rate moved higher. Average hourly wage gains remain moderate, advancing at a year-over-year pace of 3.0%. The Core 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 (%)
<b>Equity</b>							
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
<b>Fixed Income</b>							
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 Govt 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
<b>Real Assets</b>							
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
<b>Cash and Equivalents</b>							
US T-Bills 90 Day	0.19	2.01	2.40	1.60	1.02	0.56	1.40

## 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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