ECONOMY: Data Continues to Support U.S. Growth

**STRONG Q3 GROWTH**
The initial estimate of Q3 U.S. GDP growth came in at 3.5%, beating consensus estimates of 3.4% growth. Consumer spending, which accounts for more than two thirds of U.S. economic activity, grew by 4% in the Q3, the strongest since Q4 of 2014. This helped offset a 7.9% decline in business spending, the largest quarterly decline since Q1 of 2016.

**FED WATCH**
The Federal Reserve is set to gather in early November to discuss monetary policy. Despite rosy economic data since the Fed last met, it is widely anticipated that they will not hike rates until later in the year. Fed Chair Powell recently noted that central bankers may have to “move a little bit quicker” if they see the economy getting “stronger and stronger” and “inflation moving up.” Thus far, inflation has remained around the Fed’s preferred target of 2%.

**JOB GROWTH REBOUNDS**
After a weaker than expected September, the U.S. economy added 250,000 jobs in October, surpassing expectations for a 200,000 job gain. Job growth was broad-based, with strong gains in manufacturing, education & health services and leisure & hospitality. Average hourly earnings also rose above a 3.0% year-over-year pace for the first time since 2009.

**LEI CONFIRMS STRONG GROWTH**
The Conference Board Leading Economic Index (LEI) for the U.S. increased 0.5% in September, following a 0.4% increase in August, and a 0.7% increase in July. "The US LEI improved further in September, suggesting the US business cycle remains on a strong growth trajectory heading into 2019. However, the LEI’s growth has slowed somewhat in recent months, suggesting the economy may be facing capacity constraints and increasingly tight labor markets. Economic growth could exceed 3.5% in the second half of 2018, but, unless the momentum in housing, orders and stock prices accelerates, that pace is unlikely to be sustained in 2019."

**TRADE WAR SPOOKS MARKET**
Markets returned their focus to global trade developments in October after a statement from President Trump that he would announce tariffs on the remainder of Chinese goods by early December if talks with Chinese President Xi did not result in a favorable trade deal. This announcement simply represents the latest escalation in U.S. rhetoric around potential further trade measures against China. The U.S. has already imposed tariffs on $250 billion of Chinese goods, with the 10% tariff on $200 billion of those goods set to increase to 25% by year end if a deal is not reached.

**ITALY SLOWING EUROPE?**
The Eurozone economy grew just 0.2% in Q3, while the year-over-year growth pace slowed to 1.7%, the lowest since 2014. Much of the weakness appeared to be due to the sluggish Italian economy, which did not grow in Q3 and is up only 0.8% over the previous year. This could complicate the country’s push for additional fiscal stimulus, as it has already been criticized for having overly optimistic growth targets.

**SLOW MONTH FOR GLOBAL MONETARY POLICY**
• The Bank of Japan (BoJ) made no changes, but rather reaffirmed its commitment to highly accommodative monetary policy.
• The Bank of England (BoE) kept rates unchanged, but noted that further rate hikes may be necessary, especially in the wake of any Brexit deal.
• The European Central Bank (ECB) also kept rates unchanged in October and confirmed that its plan to end monetary easing by the end of the year remained on track.
• Likely the closest to U.S. monetary policy, the Bank of Canada (BoC) delivered a widely anticipated 0.25% rate hike.
• The central banks of Sweden, Norway, Russia and Turkey all kept rates unchanged. Policymakers in Turkey and Russia both noted that future rate hikes may be necessary to combat inflation.
GLOBAL EQUITIES: A Bad Month, But Not A Time To Panic

IS THE SKY FALLING?
Global equity markets suffered deep losses in October. While it’s difficult to identify a singular reason, the reality is it was likely the confluence of many factors:

- **Interest Rates**: Many fear that continued tightening of monetary policy through the normalization of interest rates will slow the economy down. A slower economy could pressure corporate earnings and stock prices.
- **Economic Growth**: The diminishing impact of fiscal stimulus from tax reform along with higher interest rates could affect U.S. economic growth.
- **Mid Term Election**: Markets dislike uncertainty, and the mid-term elections may see significant changes in Congress. This could impact any additional tax cuts or fiscal spending.
- **Corporate Earnings**: Corporate earnings growth for 2019 is currently running at approximately 9%, with 23% growth in 2018. Slower economic growth and higher interest rates could pressure earnings growth.
- **Trade**: A continued and/or prolonged trade dispute with China could impact corporate margins and earnings. Many companies have already noted disruptions to supply chains as a result of the retaliatory tariffs.
- **Valuations**: Equities have been rising for nearly 10 years, while economic and corporate earnings growth have also been strong for a considerable period of time. Valuations may imply that these conditions are expected to continue and equities may be vulnerable to data that implies any weakness ahead.

NOPE....JUST A CORRECTION
Many global equity markets hit correction territory in October, defined as a drop of at least 10% from a recent high. Corrections are actually quite frequent. According to research from Deutsche Bank, corrections occur once every 357 days – about once a year. Corrections are nearly impossible to predict, and we are left to evaluate the cause(s) after the fact (See Above). Corrections also tend to be short lived, lasting approximately 72 trading days, and should have little impact on your long term investment strategy. Corrections do present an opportunity to rebalance, reinvest, or reallocate assets at lower prices. They are also useful as a gauge of your risk tolerance and asset allocation.
TREASURY YIELDS CONTINUE TO MOVE HIGHER...AGAIN
Interest rates rose and equity market volatility spiked in October. The yield on the benchmark 10-yr U.S. Treasury reached a closing level high for the year of 3.23% in early October, before falling back to 3.16% by month’s end. For a second month, higher Treasury rates translated to negative returns across investment-grade bonds, especially in longer maturities. Shorter duration, high-quality sectors posted small gains, while U.S. high yield corporate bonds fell 1.60%. The Barclays U.S. Aggregate Bond Index fell 0.79% in October, and is down 2.38% YTD.

MUNI ISSUANCE UP, RETURNS DOWN
The Barclays Municipal Bond Index declined -0.62% in October, bringing the fixed income sectors’ YTD losses to 1.01%. High yield issues and long-maturity bonds were the weakest performers, declining 1.25% and 1.23% respectively. Losses were minimal, however, for short-term, higher credit quality and pre-refunded bonds. Net of redemptions, issuance was $8.8 billion in October, the second largest monthly net issuance this year. However, weakening retail demand and higher rate volatility proved to be negatives for monthly performance.
HEDGE FUNDS STRUGGLE
Hedge funds followed the global markets and posted declines for October, with the HFRX Global Hedge Fund Index declining 3.11%. Not a single strategy in the broad HFRX Hedge Fund universe posted a gain for the month. The HFRX Equity Hedge Index declined 3.95% for the month due to losses in fundamental and market neutral strategies. Trend following global macro strategies declined 2.65% and 3.63% respectively, as many trends quickly whipsawed during the month. Event driven strategies also had steep declines in special situations and distressed strategies.

REGAINING A LITTLE LUSTER
Elevated equity market volatility in October prompted investors to revisit gold and gold ETFs, according to data from the World Gold Council (WGC). North American funds had inflows of $561 million while European funds posted inflows of $678 million last month, according to figures provided by the WGC. Gold benefited from flight-to-safety investment flows as this marked the first monthly inflow in four months for global gold-backed ETFs. The price of gold rose 2.89% in October.