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ECONOMY: Trade & Growth Uncertainty Impact Policy

More Political Risks

Political risks continued to loom large after it was reported that House Speaker Nancy Pelosi would announce a formal impeachment inquiry of President Donald Trump. The impeachment inquiry is almost certain to dominate the headlines and overshadow most economic reports. More importantly, the impeachment investigation might make it even more difficult to reach a meaningful trade deal with China.

Business vs. Consumer

The final estimate of Q2 U.S. GDP was confirmed at 2.0% growth. The data confirmed that U.S. business investment contracted sharply during the quarter and was offset by the strongest consumer spending in over 4 years.

Not Consumer Spending Too?

Consumer spending, which accounts for the bulk of U.S. economic activity, climbed just 0.1% in August. This was well below economists expectations of 0.3% increase and the weakest reading in six months. Spending slowed even as personal incomes rose 0.4%, in line with expectations.

Jobs Weakness Remains

After a weak August, employers added 136K new jobs in September. While that represents a slowdown in hiring, the labor market remains tight. The unemployment rate declined to 3.5%, the lowest reading since December 1969 and the underemployment rate—a measure of labor market slack—fell to 6.9% to match the lowest reading on record.

Small Businesses Optimistic

The NFIB Small Business Optimism Index maintained a historically solid reading, but fell in September. September's figure falls within the top 20% of all readings in the Index's 46-year history. The survey shows no sign of a recession and indicated continued job creation, capital spending, and inventory investment, all consistent with solid, but slower growth.

Monetary Policy Watch:

- **U.S**. - The Federal Reserve reduced interest rates 0.25%, continuing to cite economic weakness overseas and "muted inflation pressures."
- **Europe** - The European Central Bank (ECB), announced a fresh wave of stimulus measures. The ECB said it would reduce deposit interest rates by 0.10%, restart asset purchases, and provide more favorable bank funding.
- **UK** – The Bank of England (BoE) unanimously decided to keep policy rates on hold. BoE policymakers noted how Brexit uncertainty could weigh on inflation expectations.
- **Japan** - The Bank of Japan (BoJ) left policy unchanged, but hinted that it may ease policy at its next meeting, citing the risk of losing momentum toward its inflation target.
- **Latin America** - Central banks in Latin America were also active as Brazil, Mexico and Chile reduced interest rates by 0.50%, 0.25% and 0.50% to stimulate economic growth.
- **Australia** - The Reserve Bank of Australia (RBA) cut rates another 0.25% to 0.75%, marking the third interest rate cut this year and the lowest policy rate on record.
- **India** – The Reserve Bank of India (RBI) cut rates for the 5th time, and will continue further monetary policy easing to revive growth and ensure inflation remains on target.

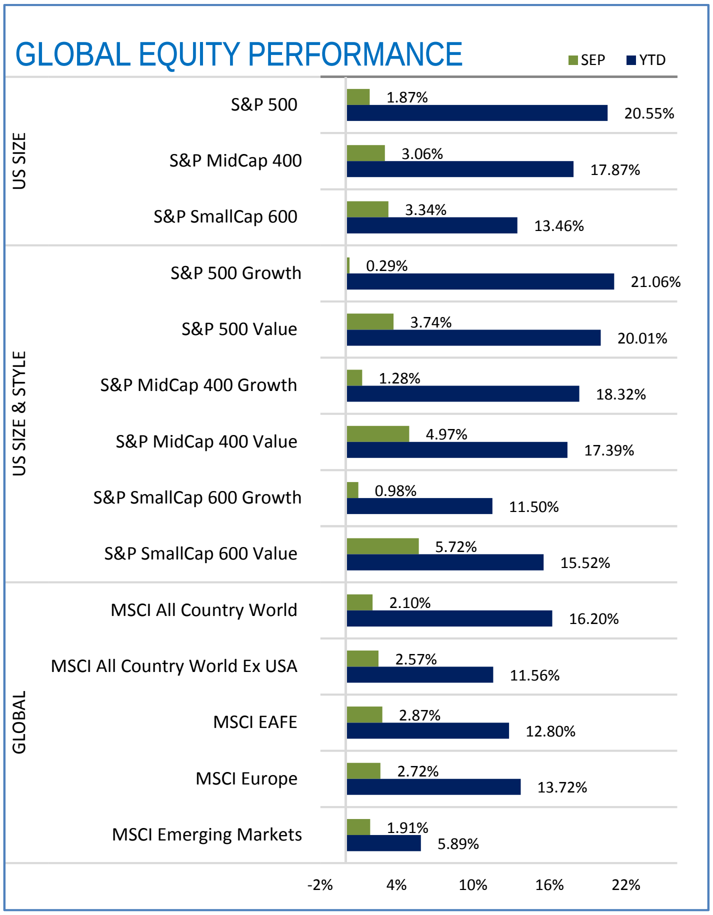
Broad Weakness In Europe

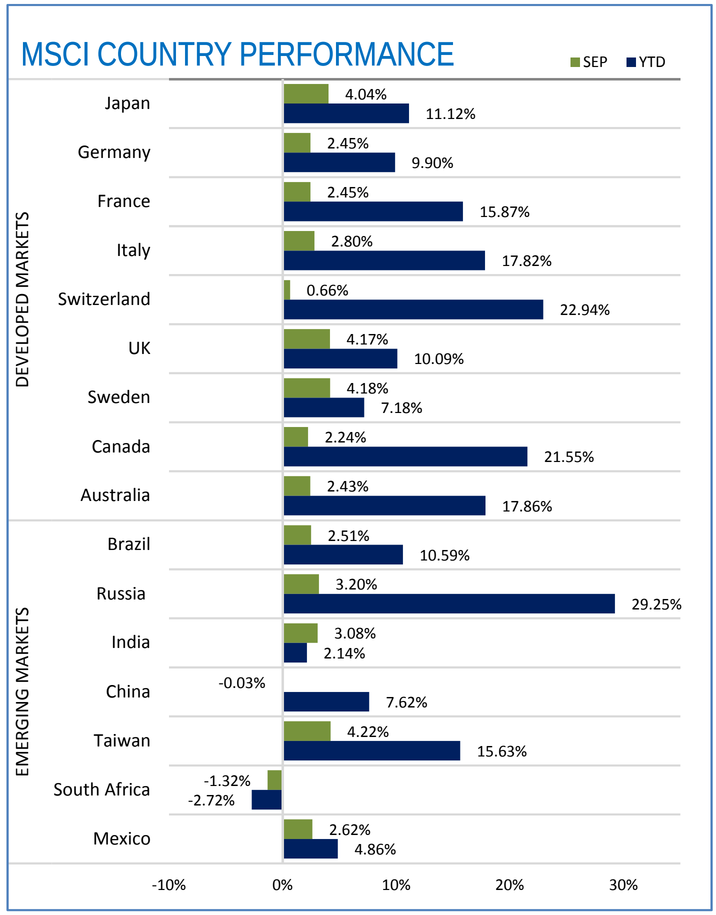
The Eurozone manufacturing index fell to 45.7 in September (below 50 signals contraction). The services sector added to the weak outlook, as this was revised lower to 51.6, nearing contraction territory. The weak figures are another sign that trade tensions, weaker global growth and Brexit uncertainties are weighing on the Eurozone economy.

Japanese Business Confidence Falls

The BoJ's September Tankan survey showed a continuing decline in business confidence among the country's biggest manufacturers amid ongoing global political and economic uncertainties. Despite concerns about the economic outlook, the government introduced an increase in the consumption tax to 10% from 8% to service public debt and to fund social care programs.

GLOBAL EQUITIES: Monetary Policy & Trade Boost Equities





U.S. Equities Overcome Uncertainty

The U.S. equity market ended September in positive territory amid easing fears over a trade war escalation and a cut in interest rates by the Federal Reserve. Despite September historically being the worst month of the year for the S&P 500, averaging a -1% return since 1928, the index finished the month up 1.87%. The S&P MidCap 400 broadly rebounded in September, posting a 3.06% gain, which failed to cover August's 4.19% decline. The S&P SmallCap 600, which did the worst of the core indices last month, was the best in September, gaining 3.34%. September also marked a style rotation as value outperformed growth.

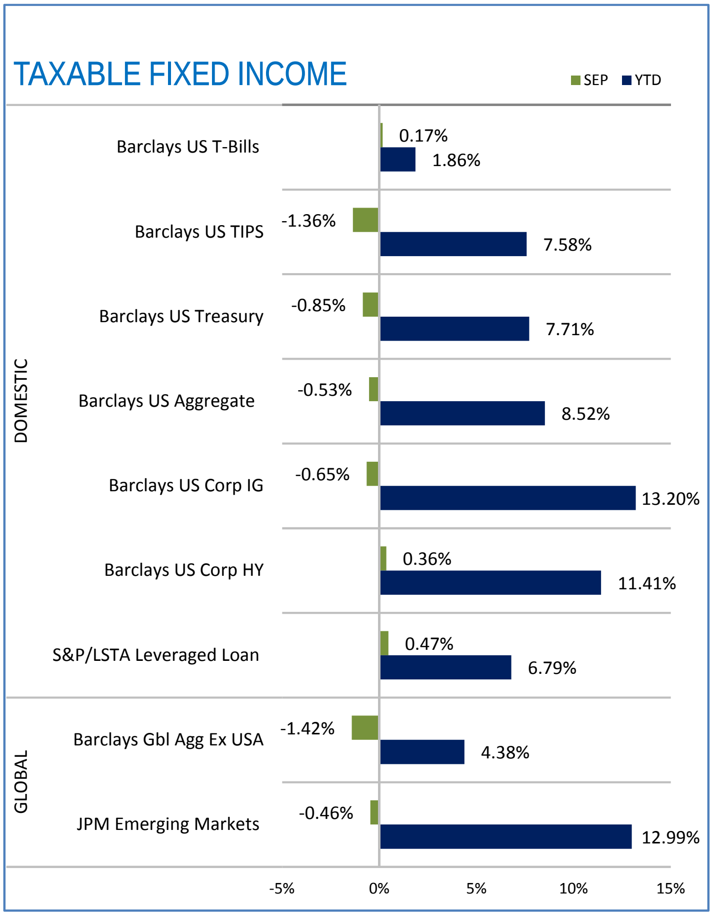
Europe Joins The Rally

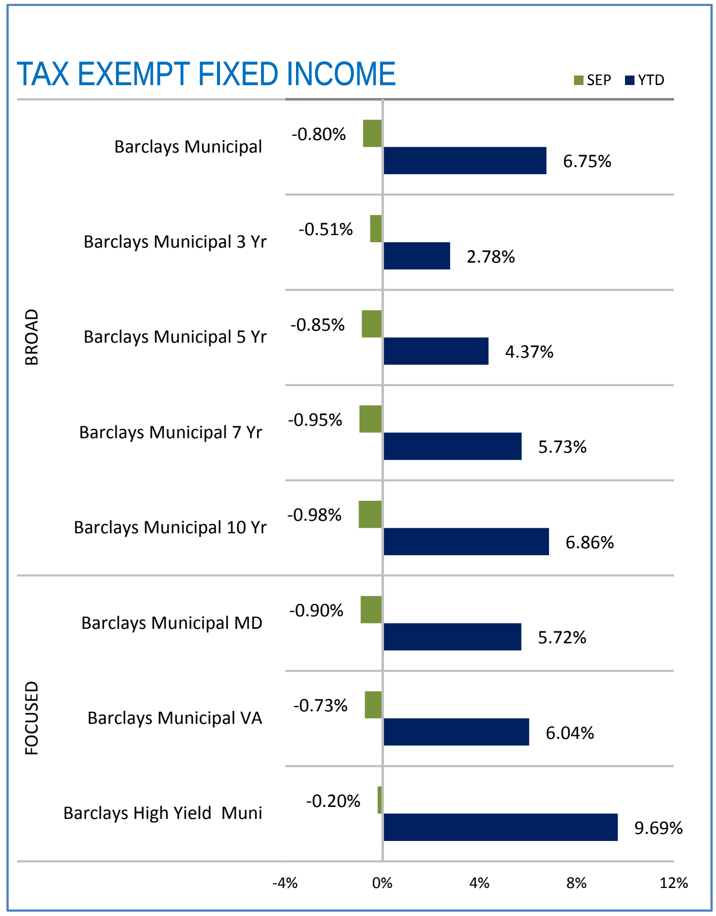
The same factors that propelled the U.S. markets higher in September, also helped rally the European equity markets – easing trade tensions and monetary stimulus. Markets in Germany, France, Italy and Belgium all rallied more than 2%, while Spain and the UK gained more than 4% for the month. The MSCI Europe Index gained 2.72% in September.

Trade Negotiations Propel EM

Emerging equity markets advanced higher in September with all the regions registering gains. Latin America was the best performer, followed by Asia. From a country perspective, Turkey (12.33%), Pakistan (9.67%) and Argentina (8.50%) topped the group. Renewed expectations of trade negotiations between the U.S. and China bolstered investor sentiment towards emerging markets in September, and propelled the MSCI Emerging Markets Index to a 1.91% gain.

FIXED INCOME: Global Central Banks Ease





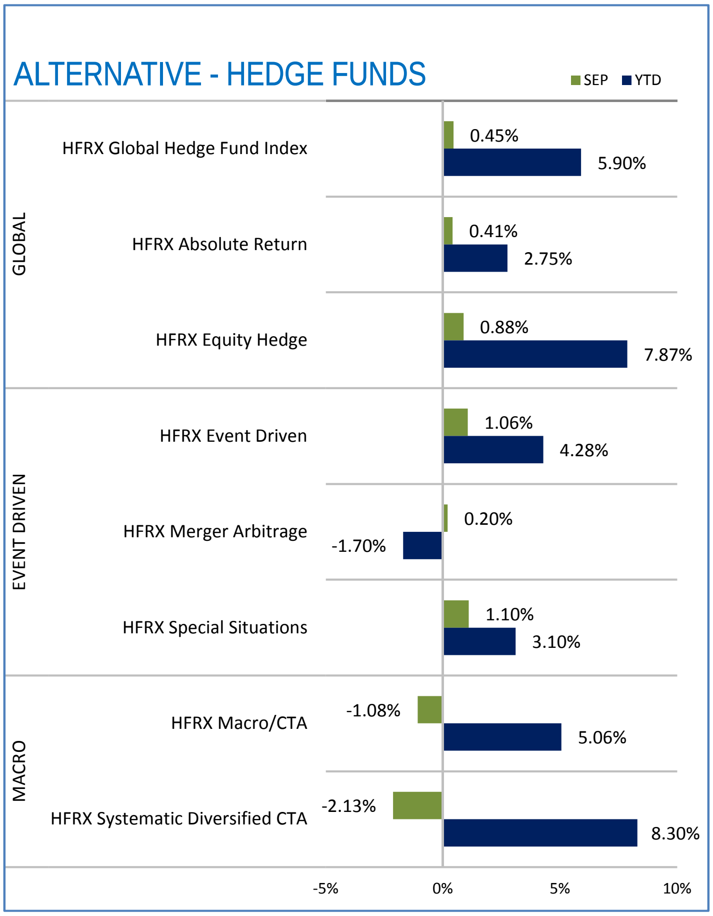
AS RATES GAIN, BONDS FALL

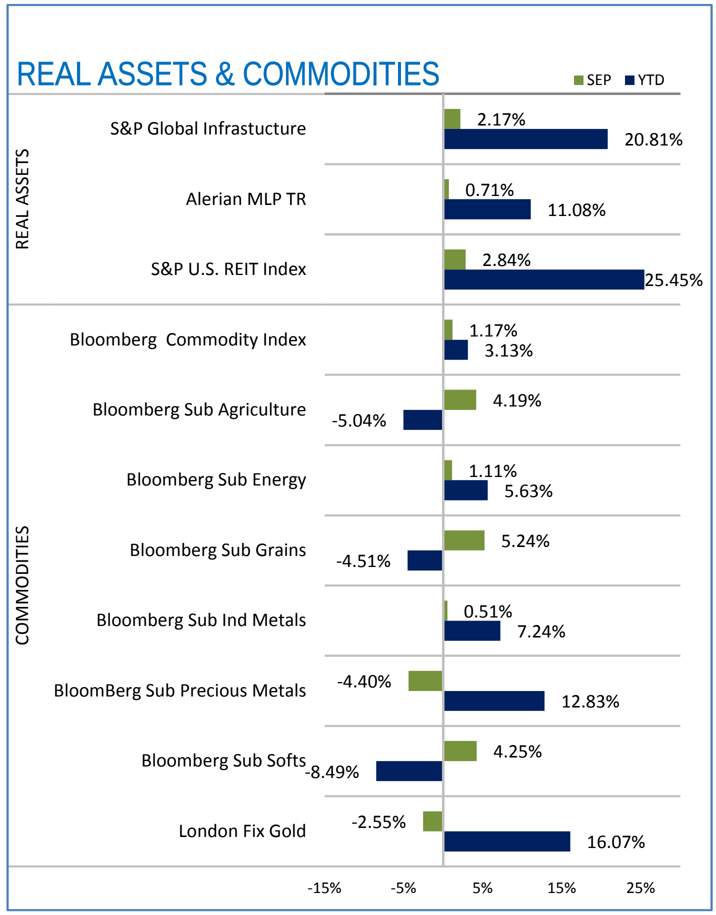
September started with a sharp rise in U.S. Treasury yields and a steeper yield curve. U.S. economic data beat expectations and showed signs of firming inflation and continued strength in the labor markets. Interest rates subsequently fell in the second half of September as the Fed again cut rates and the ECB added additional monetary stimulus to combat weakening growth. By month's end, however, rates were higher across the yield curve and bonds prices fell. The benchmark Barclays U.S. Aggregate Bond Index fell 0.53% in August.

A RARE DECLINE FOR MUNI'S

Although the Fed cut short-term rates, the tax-free yield curve flattened over the quarter as intermediate and long-term rates fell more than short term rates. Strong demand for tax-free funds continued throughout the quarter, extending the period of positive inflows to 38 consecutive weeks with total YTD inflows of over $67B. The rise in rates in September led to the first negative monthly return for the municipal market since October 2018. The Barclays Municipal Bond Index fell 0.80% in September. Short maturities outperformed longer maturities, while high yield outperformed investment grade for the month.

ALTERNATIVES:





Hedge Funds Post Gains

Global financial markets posted mixed performance for September as oil experienced an intra-month spike on Mid-East volatility, the Federal Reserve cut interest rates, and global equity markets gained despite impeachment investigations and trade negotiations. Hedge Funds posted gains in September with the HFRX Global Hedge Fund Index gaining 0.45% for the month and 5.90% YTD. Global macro strategies lost 1.08% and 2.13% respectively in a difficult market environment for trend following.

Oil Spike Short Lived

Despite the largest one-day spike in oil prices since at least 1989, the broad commodities market only managed to climb modestly in September, as the Bloomberg Commodity Index gained only 1.17%. The Sept. 14, 2019, attacks on Saudi Arabia's oil facilities put the oil market back in focus for investors. The event was reported to have been the largest single supply disruption in the oil market for half a century, crippling half of Saudi oil production and temporarily halting production of 5.7 million barrels per day, or approximately 5% of global oil production. Oil prices closed 14.2% higher on Sept. 16, 2019, but were only up 1.7% by month's end.