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Monthly Market Commentary

October 2017

ECONOMY: Q3 US GDP Again Tops 3%

Q3 GDP ESTIMATES STRONG

U.S. GDP rose faster than expected in Q3, showing that consumer and business spending remained strong. The Commerce Departments initial estimate of Q3 GDP came in at 3%, hitting this mark for the second consecutive quarter. Many economists had revised growth forecasts downward following hurricanes Irma and Maria.

ON TO DECEMBER…

The Federal Reserve left rates unchanged at its most recent policy meeting and noted that "the labor market has continued to strengthen" and "economic activity has been rising at a solid rate despite hurricane-related disruptions." Amidst a change in leadership, the Fed is poised to raise rates at its December meeting.

COSTLY TAX CUTS?

The proposed Republican tax cuts will not pay for themselves through growth, and will add "significantly" to long-term U.S. debt, according to Fitch Ratings. The estimates from the credit rating agency undercut the argument that cutting taxes will spark major economic growth and replace lost revenue. The U.S. federal debt was 77% of GDP at the end of the last fiscal year. Fitch expects it to rise to 120% of GDP by 2027.

M&A ACTIVITY SLOWS

The market for U.S. mega merger targets fell significantly in Q3, declining 60.4% in deal value among deals worth $10 billion and up. The broader U.S. merger market also declined, with 45.1% fewer deals and a 15.5% decline in the value of those deals compared with Q2. During Q3, acquirers proposed or announced acquisitions totaling $307.7 billion, $252.5 billion behind the second quarter totals and the worst since the fourth quarter of 2013.

BUSINESS MOMENTUM CONTINUES

The ISM manufacturing and nonmanufacturing indexes continued to show strong economic activity. While the ISM manufacturing index fell slightly, the ISM non-manufacturing index hit another new high in October.

EXIT EU, RAISE RATES

The Bank of England's (BoE) monetary policy committee voted 7-2 in favor of increasing rates to 0.50% from 0.25%. The BoE said that it would be cautious with future hikes and warned that there "remain considerable risks to the outlook, which include the response of households, businesses and financial markets to developments related to the process of EU withdrawal." This was the BoE's first rate hike since 2007.

ECB LOWERS & EXTENDS STIMULUS

ECB officials said the bank will continue buying European government bonds through September 2018 but reduce the amount from the current €60 billion a month to €30 billion a month, starting in January. That is an extension of the ECB's bond-buying timeline and also signals that interest rate increases are not imminent.

GROWTH CONTINUES IN CHINA

China's economy grew 6.8% in Q3, helped by higher commodity prices and industrial activity. Consumption accounted for 64.5% of GDP growth, up from 61.7% a year earlier. Meanwhile, at the country's twice-a-decade party congress, President Xi Jinping consolidated his power as he begins his second five-year term.

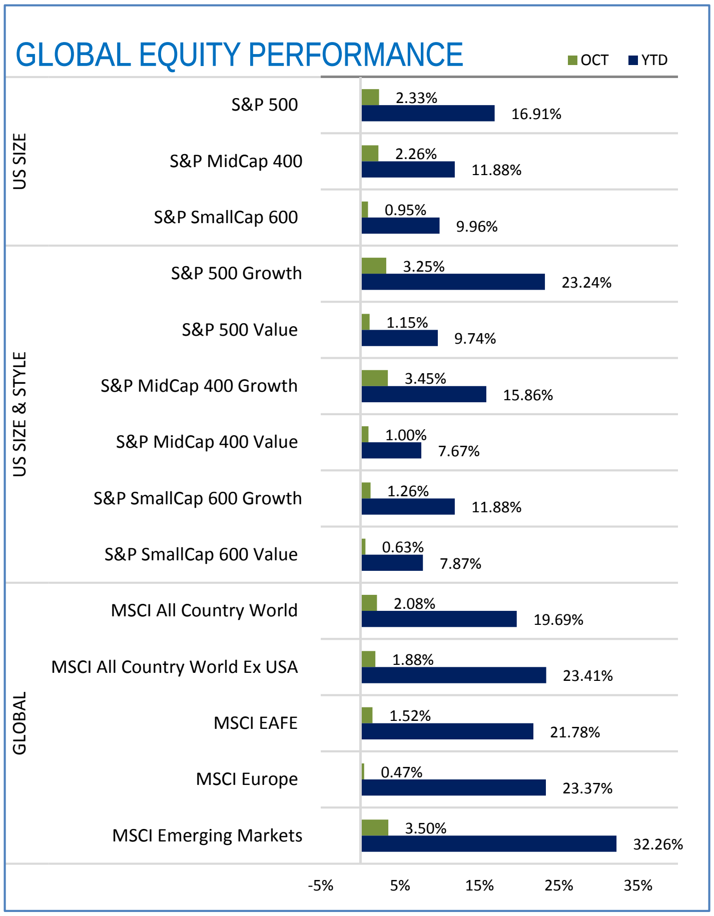
ABE RE-ELECTED

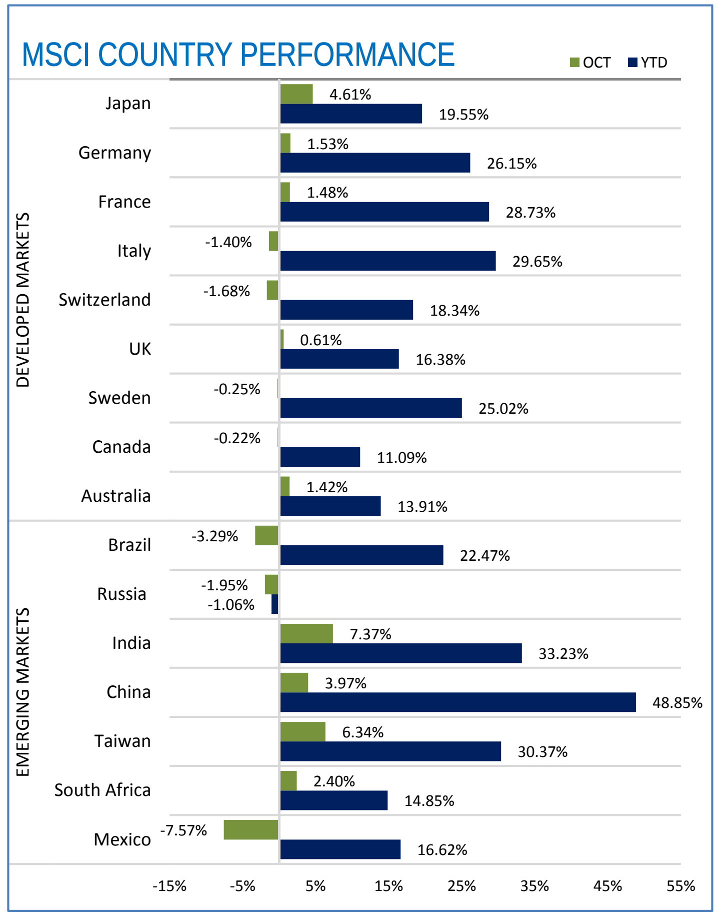
Prime Minister Shizo Abe was re-elected in Japan and is on pace to become Japan's longest serving prime minister in the post-war era. This also ensures that Japan continues to implement his economic growth plans through monetary policies, fiscal stimulus, and structural reforms. These policies have produced 6 consecutive quarters of GDP growth and the lowest unemployment rates since 1994.

NAFTA NEGOTIATIONS WORRY MEXICO

Mexico is increasing efforts to diversify its markets as it prepares for the possibility that negotiations over the future of the North American Free Trade Agreement (NAFTA) could break down. Economists estimate that the Mexican economy could contract 2-4% without NAFTA.

GLOBAL EQUITIES: Global Markets Generally Positive





Sales & Earnings Drive S&P 500

The S&P 500 posted new closing highs for half of the October trading days: 11 of 22, an occurrence not seen since May 2013, and only six months have posted more than 11 since 1930. The index finished October up 2.33%, based on strong sales and earnings growth. By the end of October, 69% of S&P 500 Q3 2017 earnings were reported, with 74% beating estimates versus a historical average of 67%. Sales were also strong with 65% beating estimates, and sales expected to post a 5.6% year-over-year gain. Both sales and earnings are expected to set new records.

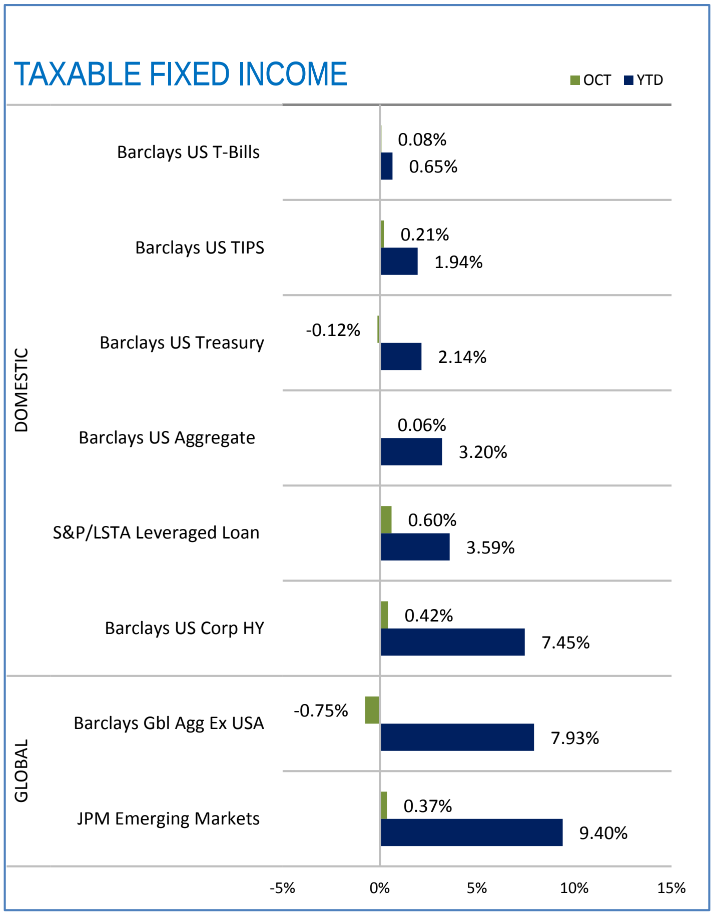
Mixed Markets In Europe

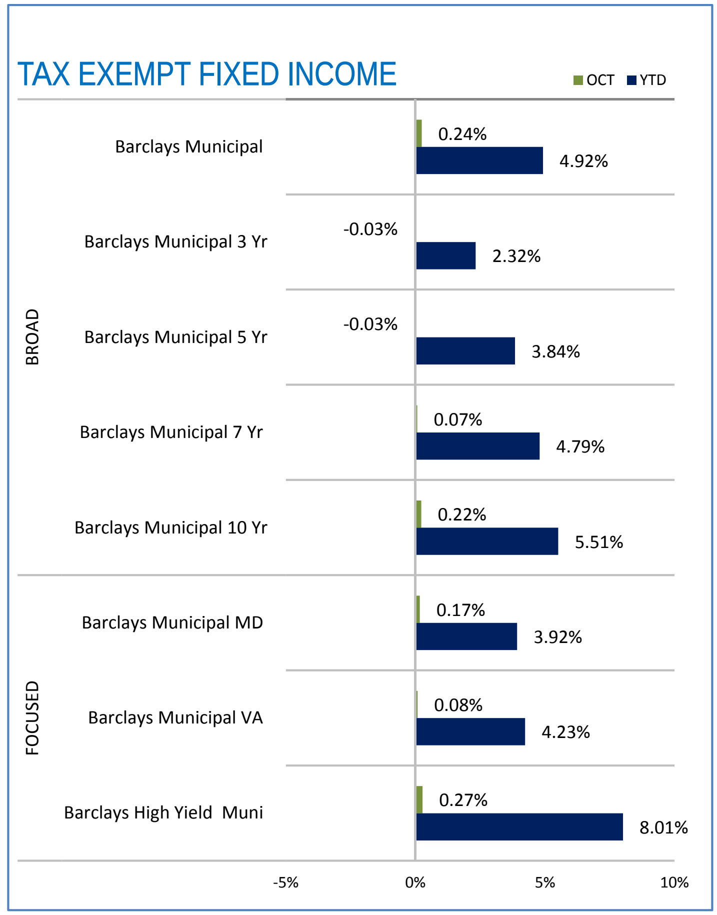
European markets were mixed in October as the month brought positive economic data, but also the specter of tighter monetary policies. The MSCI Europe Index gained 0.47%, with strong performances from Germany and France. Italy, a large beneficiary of the ECB's bond buying program, fell 1.40% in October.

Big Returns For Japan

Japan's equity market gained 4.61% in October, with the gains strongly tied to the countries October elections. Prime Minister Shinzo Abe and his ruling Liberal Democratic Party won re-election by a significant majority. This will allow Abe and his party to continue their economic policies and stimulus plans that have been supportive to the economy. Furthermore, positive quarterly corporate earnings have also helped fuel gains.

FIXED INCOME: Treasury Curve Continues to Flatten





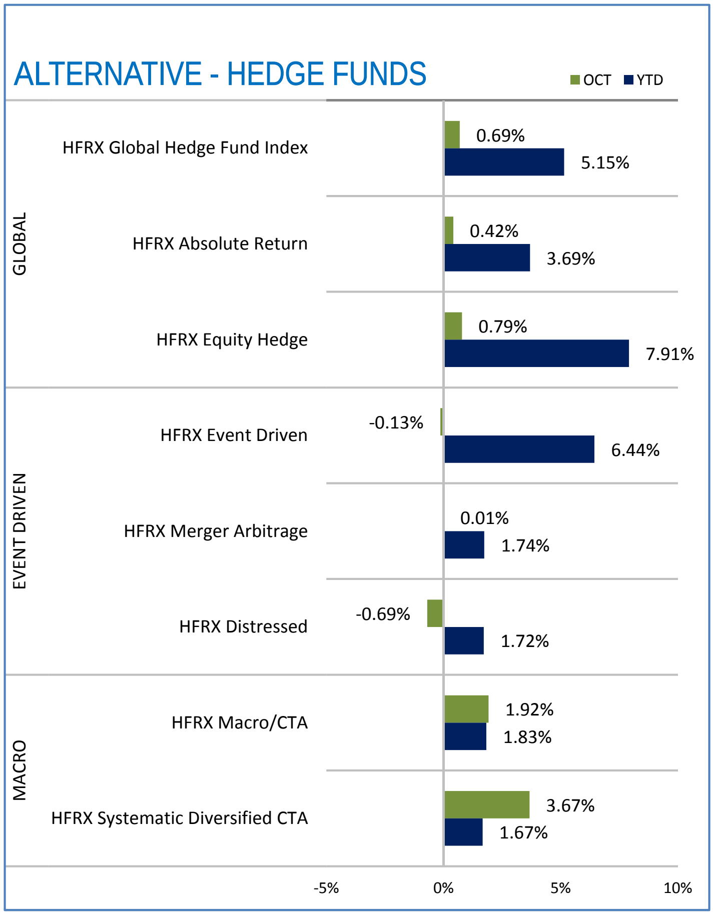
TIGHTENING LEADING TO FLATTENING?

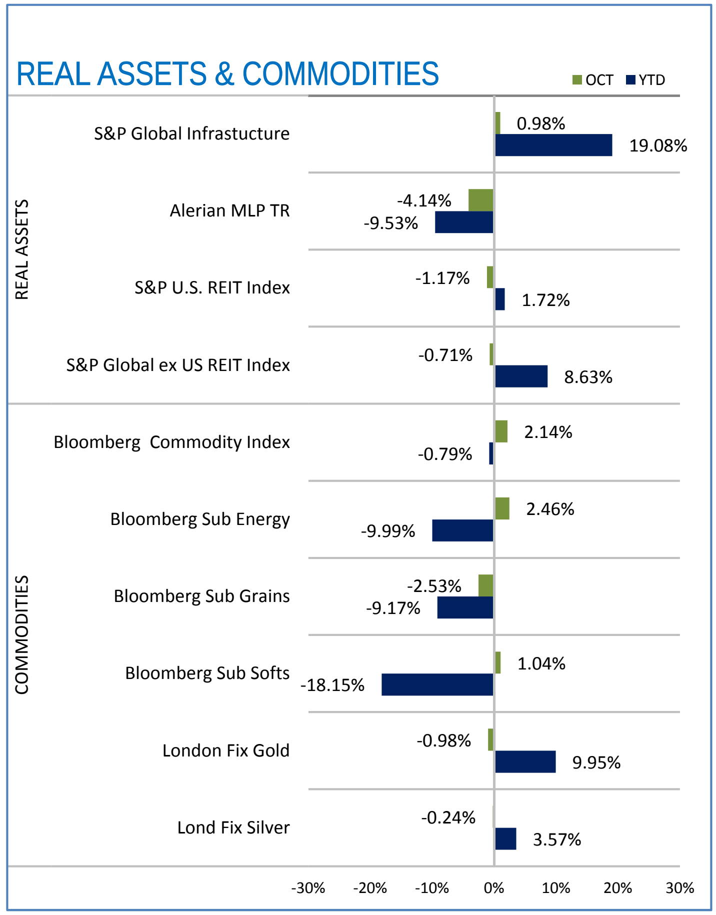
The U.S. Federal Reserve (Fed) began to reduce the amount of stimulus it is providing markets by not replacing a small portion of the bonds that mature in its portfolio. Meanwhile, the European Central Bank (ECB) announced that it would be tapering its asset purchases beginning in January 2018. While much of this was widely communicated to the market, the U.S. Treasury market yield curve continues to flatten. The spread between 2-year notes and 30-year bonds tightened for the third straight month and the eighth out of the last twelve.

THE SOVEREIGN DEFAULT RISK

Venezuelan bond prices fell and yields rose to record levels after Venezuelan President Nicolás Maduro announced plans to restructure the country’s debt, estimated between $100 billion and $150 billion. Bonds set to mature October 2019 fell from 48 cents on the dollar to 37 cents on the dollar following the announcement. For years, Venezuela has been dealing with a troubled economy that shows no signs of improving. While the country has largely gone out if its way to make debt payments, at the sacrifice of other basic services, this certainly raises the probability of default.

ALTERNATIVES: Hedge Funds Grow…MLPs Wither





Positive Returns Attract Hedge Fund Capital

Steady performance, investor inflows, and improved global economic growth through 3Q17 increased total hedge fund capital to a 5th consecutive record quarterly level. Total hedge fund capital rose to a record $3.15 trillion, an increase of $50 billion over the prior quarter, as reported by Hedge Fund Research (HFR). Net investor inflows of $1.7 billion slowed over the prior quarter but remained positive, as allocations offset both investor redemptions and the return of investor capital by certain managers. Though the YTD inflow total of $2.5 billion remains muted, it represents a sharp reversal from the $70 billion of investor outflows in 2016.

MLP's Slide – Yields & Spreads Attractive

Master Limited Partnerships (MLPs), as measured by the Alerian MLP Index, ended October down 4.14%. The index underperformed the S&P 500 Index's 2.33% return for the month, and has declined 9.53% YTD. MLP yield spreads, as measured by the index yield relative to the 10-Year U.S. Treasury Bond, ended October at 5.54%. This compares to a trailing five-year average spread of 4.59% and the average spread since 2000 of approximately 3.60%. The distribution yield on the Alerian MLP Index by the end of October was 7.9%.