

Global Economy

The US and Euro-area economies both soared to record GDP growth in the 3rd quarter following the previous quarter's record declines. More recent indicators paint a gloomier picture as the coronavirus continues to surge, threatening additional lockdowns. Fed policy is likely to remain accommodative for the foreseeable future, but any new fiscal support has been delayed until after the election. Controlling the virus will ultimately be the key to sustained economic momentum. While the most optimistic estimates of a Covid-19 vaccine by the election have already proven unrealistic, experts are still confident a vaccine will be produced, though the timing and effectiveness remain uncertain. Many potential outcomes for the size and speed of recovery remain.

The Federal Open Market Committee did not officially meet in October. Perhaps in a sign of the limited monetary policy tools remaining, Fed officials continue to push Congress to pass more fiscal stimulus. Chairman Powell's public statements in the month urged that delaying stimulus could "lead to a weak recovery, creating unnecessary hardship for households and businesses." After a rapid expansion, the Fed balance sheet has remained stable in recent months as strained financial conditions have eased, hovering around \$7 trillion before reaching a new high in October of \$7.2 trillion.

The first estimate of 3Q-20 real GDP indicated the US GDP expanded at a record rate of +33.1% annualized. This rate did not fully offset the 2nd quarter's record decline. The expansion reflected continued efforts to reopen, leading to increases in several segments of the economy including personal consumption, private inventory investment, exports, nonresidential fixed investment, and residential fixed investment. These were partly offset by a decrease in government spending. Analysts expect growth to moderate in 4Q-20, with estimates ranging from +2.0% to +6.0% annualized.

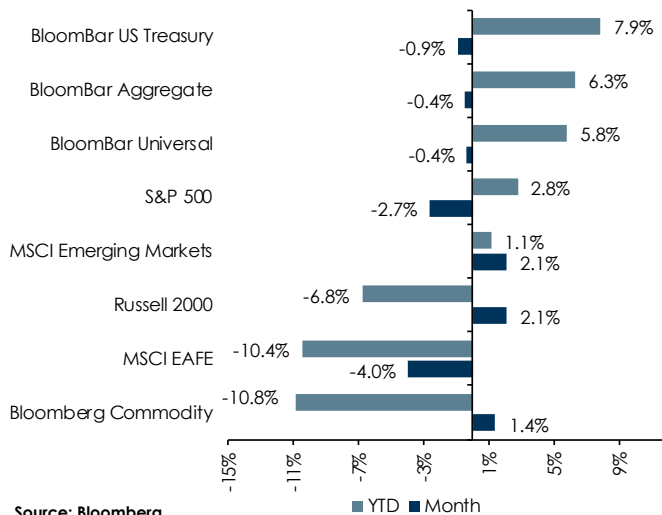
More than 66 million US workers have filed initial unemployment claims since mid-March. Weekly initial claims continued to trend downward in October but remain elevated. There were 638,000 jobs added in the month as unemployment fell to 6.9%. Notable job gains occurred in leisure and hospitality, professional and business services, retail trade, and construction. Employment in government declined. Core CPI was flat at +1.7% year-over-year, while the FOMC's preferred measure, Core PCE, increased to +1.6% year-over-year through September.

	Current	Dec-19
US GDP (%)	+33.1	2.10
US Unemployment (%)	6.9	3.50
CPI (Core) (%)	1.7	2.30
Fed Funds (%)	0.00 – 0.25	1.50 – 1.75
10 Year UST Yld (%)	0.88	1.92
S&P 500 Div Yld (%)	1.84	1.82
S&P 500 P/E (Trailing)	25.49	21.60
Gold/oz.	\$1,879.90	\$1,523.10
Oil (Crude)	\$35.79	\$61.06
Gasoline (Nat'l Avg)	\$2.23	\$2.66
USD/Euro	\$1.16	\$1.12
USD/GBP	\$1.29	\$1.33
Yen/USD	¥104.66	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for most major equity indices were negative in October. Market sentiment faded in the month as coronavirus cases surged and additional fiscal stimulus failed to materialize. The S&P 500, which represents large US-based entities, declined for the second month in a row with a -2.7% return. Utilities (+5.0%) and Communication Services (+0.5%) were the only positive performing sectors in the month while Information Technology (-5.2%) and Energy (-4.7%) had the largest declines among sectors. Small cap stocks, as represented by the Russell 2000, outperformed large caps with a +2.1% return. Financials (+9.3%), Materials (+6.0%), and Utilities (+5.0%) were the top performers while Communication Services (-3.6%) and Real Estate (-3.2%) lagged. Value outperformed Growth across the market capitalization spectrum.

In the broad international developed markets, the MSCI EAFE index fell -4.0%. The decline was broad-based, with most sectors and countries negative for the month. Communication Services (+0.4%) was the only positive performing sector while Health Care (-7.5%) and Energy (-7.0%) were the laggards. Among developed countries, New Zealand (+0.5%) and Australia (+0.0%) were the only positive performers during the month. Finland (-7.6%) and Norway (-7.1%) had the lowest developed market performance with most countries down -2% to -5%.

Emerging market stocks, as represented by the MSCI Emerging Markets index, outperformed their developed market counterparts at +2.1%. Monthly performance was top-heavy as only a handful of countries posted positive returns. At 43% of the index China's positive month (+5.3%) provided most of the rally.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was negative for the month but performed in-line with most equities, returning -3.3%. The energy-related Alerian MLP outperformed other equities at +4.4%. The near-month NYMEX oil declined in October (-11.0%) and remains off by -41.4% year-to-date. Gold had a second straight negative month, falling 0.4%. However, the diversified Bloomberg Commodity index was up +1.4% amid mixed performance by index sub-components.

Global Markets (continued)

US Treasury yields increased across the curve in October, with the 10-year rate rising 19 bps month-over-month, the highest level since early June. The treasury curve steepened in the month, with the 10-year to 2-year difference reaching its steepest point since March 2018. Given this backdrop, the overall UST complex was down for the month at -0.9%, although year-to-date returns remain impressive at +7.9%. Sovereign yields outside of the US were mixed, and the global stock of negative yielding debt increased to \$16.5 trillion from \$15.5 trillion.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis as credit spreads closed the month slightly tighter. While the benchmark lost -0.5% in October, the 12-month performance of +6.2% remains impressive given prevailing yield levels. IG corporate issuance was less than half of last month's record total and investor demand remained strong. With slightly tighter spreads across most categories and higher UST yields, the benchmark's yield-to-worst rose 6 bps to just 1.24%.

The BloomBar 1-15-Year Municipal index outperformed US Treasuries, returning -0.3% in October. Issuance remained exceptionally high in the month as municipalities rushed to issue ahead of the election and associated uncertainty, but demand continued to be steady. The increase in Treasury yields helped push Muni/Treasury ratios down in the month across longer portions of the curve. Investors will look for clarity around additional stimulus and potential tax law changes as final votes are tallied around the US.

The BloomBar US Corporate High Yield index returned +0.5% for October, directionally consistent with small cap equities. Benchmark spreads were 8 bps tighter on average amid heavy supply and robust demand. All-in yields were roughly flat in the month and are now at 5.78%. Default volume has tapered but is forecast to close the year higher. Bank loans continued to recover while emerging market debt also had positive returns in the month.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-19
Japan	0.04	-0.02
Germany	-0.63	-0.19
France	-0.34	0.12
United Kingdom	0.26	0.82
Spain	0.13	0.46
United States	0.88	1.92
Italy	0.76	1.41
Mexico	6.28	6.89
Brazil	7.90	6.79

Source: Bloomberg

Indices Report (Periods Ending October 31, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-2.66	2.77	9.71	10.42	11.71	13.01	9.12
Russell 1000	-2.41	3.83	10.87	10.63	11.79	13.05	9.23
Russell 1000 Growth	-3.40	20.11	29.22	18.77	17.32	16.31	11.77
Russell 1000 Value	-1.31	-12.74	-7.57	1.94	5.82	9.48	6.44
Russell 2500	1.81	-4.11	2.12	4.54	8.18	10.60	8.28
Russell 2000	2.09	-6.77	-0.14	2.19	7.27	9.64	7.40
Russell 2000 Growth	0.76	4.67	13.37	7.90	10.36	11.95	9.23
Russell 2000 Value	3.58	-18.74	-13.92	-4.05	3.71	7.06	5.36
Wilshire 5000 Cap Wtd	-2.20	3.22	10.18	10.09	11.59	12.82	9.18
MSCI ACWI	-2.41	-0.68	5.42	6.08	8.70	8.48	7.04
MSCI ACWI ex US	-2.13	-7.11	-2.19	0.29	4.76	3.91	4.67
MSCI EAFE	-3.98	-10.44	-6.46	-0.76	3.35	4.31	4.14
MSCI EAFE Local Currency	-3.91	-12.64	-9.59	-1.26	2.92	6.14	4.15
MSCI EAFE Growth	-3.95	0.76	5.53	5.25	7.04	6.61	5.87
MSCI EAFE Value	-4.02	-21.21	-17.97	-6.82	-0.51	1.87	2.28
MSCI Emerging Markets	2.08	1.15	8.62	2.32	8.31	2.78	6.79
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	-0.05	3.00	3.19	2.64	1.81	1.25	2.29
BloomBar US Aggregate	-0.45	6.32	6.19	5.06	4.08	3.55	4.51
BloomBar Gov't Bond	-0.92	7.81	6.90	5.18	3.61	3.01	4.07
BloomBar US Credit	-0.22	6.15	6.66	5.99	5.60	4.88	5.50
BloomBar 10 Yr Municipal	-0.31	3.45	4.11	4.26	3.86	4.24	4.78
BloomBar US Corp High Yield	0.51	1.13	3.49	4.24	6.32	6.25	7.19
FTSE World Gov't Bond	-0.18	6.95	6.00	4.49	3.92	1.70	3.67
BloomBar Global Aggregate	0.10	5.82	5.63	4.26	3.90	2.24	3.89
BloomBar Multiverse	0.09	5.41	5.34	4.15	4.02	2.38	4.01
Real Assets							
NCREIF Property	0.00	0.45	2.01	5.11	6.28	9.37	7.43
NFI ODCE Net	0.00	-0.75	0.51	4.25	5.69	9.25	5.71
FTSE NAREIT US Real Estate	-2.61	-19.69	-21.38	-0.36	2.23	7.12	5.84
Bloomberg Commodity	1.41	-10.85	-8.75	-4.41	-2.73	-6.36	-4.32
Cash and Equivalents							
US T-Bills 90 Day	0.01	0.65	0.92	1.66	1.20	0.64	1.28

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