Strategic Investment Group®

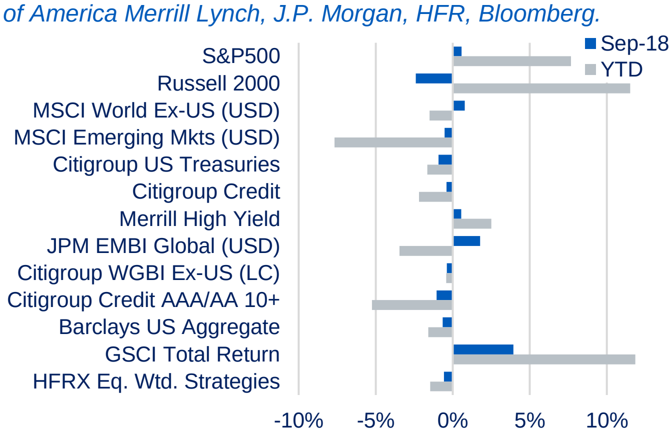
Global Market Review

Macro Summary

Economic and geopolitical developments led to divergence across global equity markets in September. U.S. stocks rose modestly to new highs while non-U.S. markets posted mixed results. European assets stalled amid a policy shakeup in Turkey and a budget crisis in Italy, while Japan surged forward on strong economic growth. Within emerging equity markets, Latin American gains and support from resurgent oil prices countered losses in Chinese equities. The Fed raised rates for a third time this year while maintaining their pace for future hikes. The U.S. yield curve flattened further. Commodities rose as Brent crude reached $80/barrel for the first time in four years.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



U.S. Equities Inch Higher

The Russell 3000 Index rose 0.2% as major U.S. stock indices inched up to new highs in September, but domestic equities were mixed overall. The large cap S&P 500 added 0.6%, but small cap stocks suffered as the Russell 2000 fell 2.4%. There was also cross-sector divergence. Energy stocks gained 2.5%, buoyed by a surge in oil prices, while financials dropped 2.6% and turned negative for the year, as the yield curve flattened further.

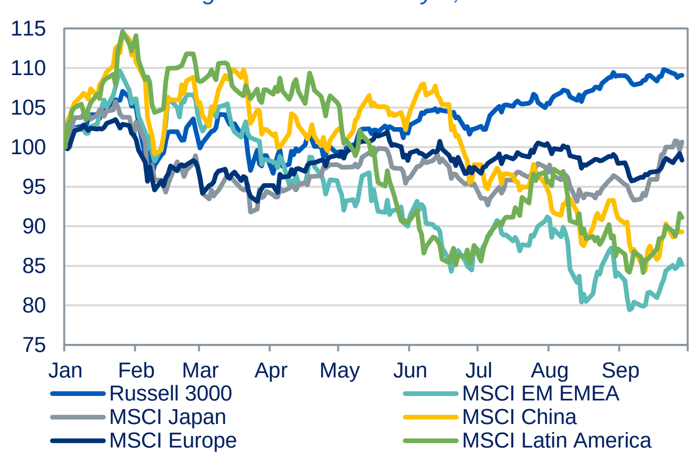
Trade relations soured as China pulled out of negotiations after the U.S. announced additional tariffs, but markets took little notice. Despite continued uncertainty around trade, strong corporate earnings have both propelled stocks higher and bolstered merger activity. September saw a surge in corporate deal-making, which reached a record high $3.2 trillion globally, a 40% increase over this time last year. A booming U.S. economy has spurred a jump in imports while Chinese tariffs have dented exports, leading to a large increase in the U.S. trade deficit.

Developed Markets Gain as EM Stumbles

As U.S. markets achieved new highs in September, global equities diverged, extending a trend for the year (exhibit below). European shares rose modestly, Japan posted healthy gains, and regions across emerging markets marched to their own drums.

Global Equities Diverge

Source: Bloomberg. Indexed to January 1, 2018.



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The MSCI Europe Index rose 0.4%, but was volatile towards the end of the month as hawkish comments from the ECB president and concerns over the impact of an Italian budget crisis on the Eurozone dampened gains.

Japanese equities led developed markets. In addition to Prime Minister Abe securing another term, Japan's economy grew at its fastest pace in two years in the second quarter, with both developments driving the Nikkei 225 to a quarter-century high. A surge in capital spending has helped stave off concerns over the potential impact of global trade tensions on the country's export-focused economy. The MSCI Japan Index rose over 3% this month.

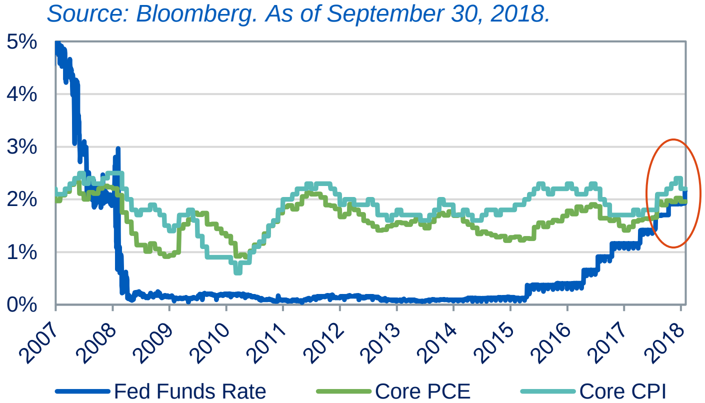
Latin American shares outperformed their emerging market counterparts in September. Argentina's renegotiated deal with the IMF along with a jump in oil prices helped support equities in the region. Argentina secured an additional $7 billion in funding and more front-loaded disbursements, easing fears of default. The MSCI EM Latin America Index jumped 4.7%. A policy reversal in Turkey pushed its markets higher, supporting a 1.8% rise in the MSCI EM EMEA Index. Continued trade concerns weighed on emerging markets overall as the broad MSCI EM Index fell 0.5%.

Fed Hikes Rates, Keeps Pace

The FOMC hiked rates this month for the third time in 2018, as expected, and signaled one more hike before year-end. Short-term interest rates are now above the 2% threshold and inflation for the first time since before the financial crisis (exhibit below). The 10-year Treasury yield had climbed substantially early in the month, but receded from recent highs after the Fed's announcement. The central bank was expected to indicate a faster pace of hikes for next year after recent wage gains and other signs of positive economic momentum. However, Powell noted that he "did not expect inflation to surprise to the upside." EM currencies rebounded and the yield curve flattened further in light of the more dovish tone.

Fed Funds Rate Rises Above Inflation

Source: Bloomberg. As of September 30, 2018.



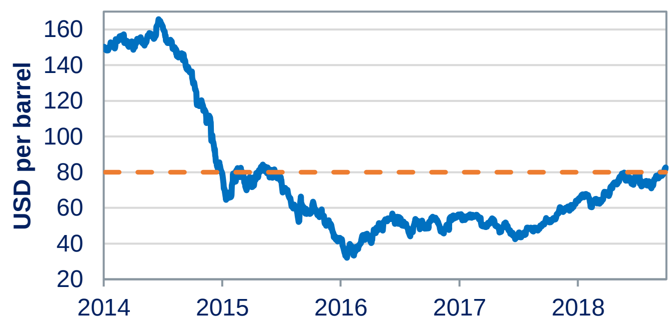
In global debt markets, Argentina's revamped IMF deal saw bonds rally and supported the JP Morgan Emerging Market Bond Index, which gained 1.8% in September. Elsewhere, Turkey's central bank hiked rates sharply in a policy reversal aimed at reining in inflation and stabilizing the lira, while European yields rose on hawkish sentiment from the ECB and a sell-off in Italian bonds after the country's government called for increased spending to spur growth. The WGBI ex-U.S. index fell over 1%.

Hedge Funds Waver

In the wake of September's many crosscurrents within both equity and debt markets, most hedge fund strategies lost ground for the month, with losses led by both market neutral and long/short equity indices. Despite the surge in corporate merger activity, merger arbitrage strategies also wavered, falling 1.2%. The lone bright spots were distressed, relative value, and convertible arbitrage funds, all of which were flat to modestly positive. The broad HFRX Equal Weighted Index dropped 0.6%, now down 1.5% for 2018.

Brent Crude Oil Passes $80 for First Time Since 2014

Source: Bloomberg. As of September 30, 2018.



Oil Jumps on Supply Concerns

Brent crude oil prices rose above $80 per barrel this month, reaching a four-year high (exhibit above). OPEC and other major producers, decided not to increase output beyond levels agreed to during June meetings. U.S. sanctions on Iran, which go into effect in November, also added to supply concerns as buyers have cut purchases from Iran to avoid financial penalties. The GSCI All Crude Index rose nearly 5%, pushing the broad GSCI 3.9% higher.

Performance of Major Market Indices through 09-30-2018

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	0.6%	7.7%	10.6%	17.9%	17.3%	13.9%
Russell 2000	-2.4%	3.6%	11.5%	15.2%	17.1%	11.1%
MSCI World Ex-US (USD)	0.8%	1.3%	-1.5%	2.7%	9.3%	4.2%
MSCI Emerging Mkts (USD)	-0.5%	-1.1%	-7.7%	-0.8%	12.4%	3.6%
Citigroup US Treasuries	-0.9%	-0.6%	-1.6%	-1.6%	0.2%	1.3%
Citigroup Credit	-0.4%	0.9%	-2.2%	-1.1%	3.1%	3.4%
Merrill High Yield	0.5%	2.4%	2.5%	2.9%	8.2%	5.5%
JPM EMBI Global (USD)	1.8%	1.9%	-3.5%	-2.9%	5.7%	4.6%
Citigroup WGBI Ex-US (LC)	-0.4%	-1.1%	-0.4%	0.3%	1.5%	3.2%
Citigroup Credit AAA/AA 10+	-1.0%	0.6%	-5.2%	-2.1%	4.3%	5.9%
Barclays US Aggregate	-0.6%	0.0%	-1.6%	-1.2%	1.3%	2.2%
GSCI Total Return	3.9%	1.3%	11.8%	22.9%	3.2%	-10.0%
HFRX Eq. Wtd. Strategies	-0.6%	-0.3%	-1.5%	-0.5%	2.1%	1.3%