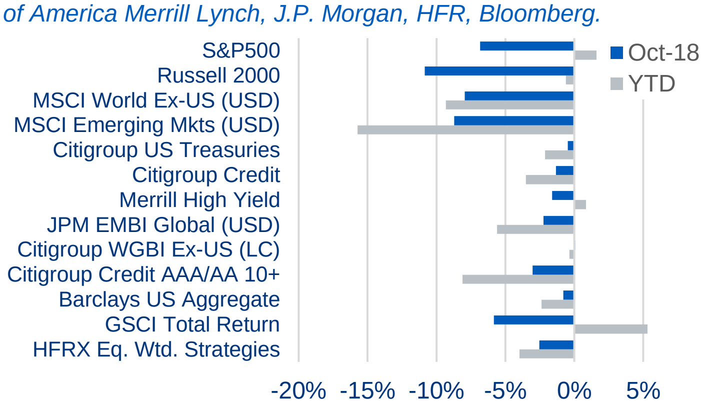
Global Market Review

Macro Summary

Stocks plummeted in October as investors pondered a litany of potential woes, including rising interest rates, slowing growth, lofty tech valuations, shrinking central bank balance sheets, geopolitical turmoil, economic policy disarray, and a peak in earnings. The IMF lowered its global growth forecasts citing protectionist policies, vulnerable emerging economies, tighter financial conditions, and narrowing output gaps. Portfolios had nowhere to hide as losses spread across asset classes, even as U.S. unemployment approached 50-year lows, consumer sentiment rose to new highs, and both third quarter earnings and economic growth continued to impress. Bonds fell globally as yields rose and oil led commodities lower.

Performance of Major Market Indices

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

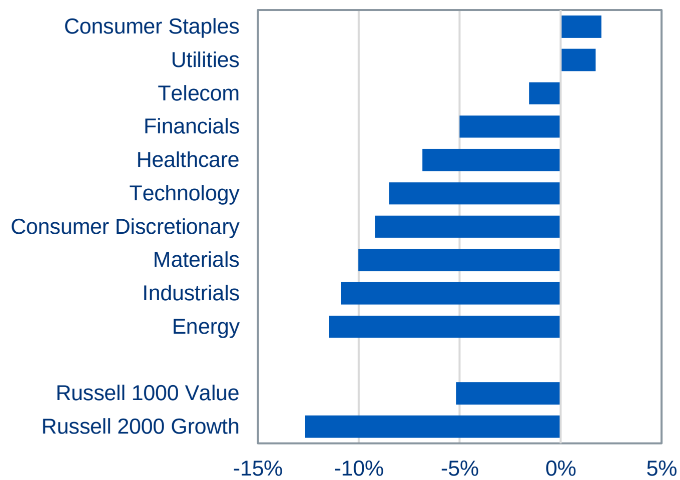


Red October

U.S. equities were poised to turn negative for the year before a rally late in the month softened October's blow. The Russell 3000 Index fell 7.4% during the month, but remains up 2.4% for 2018. Growth and small cap stocks, which had previously been a bright spot for equities, suffered most as the Russell 2000 Growth Index plummeted 12.7%, nearly erasing all of the year's gains. In contrast, the Russell 1000 Value Index fared relatively better, falling a "mere" 5.2%. Across industries, the lofty tech sector led the rout early in the month, but strong earnings were supportive in late sessions. Tech shares ended October just ahead of energy, materials, and industrials, all of which fell more than 10% (Exhibit below). The defensive, non-cyclical sectors, utilities and consumer staples, were the lone winners.

Losses Mixed Across Sectors and Styles

Source: Bloomberg. As of October 31, 2018.



Earnings continued to show strength in the third quarter, but tempered outlooks from major tech and industrial players like Amazon, Alphabet, 3M, and Caterpillar fueled investors' fears of a peak in earnings and slowing growth. These were among the many concerns that contributed to October's turbulence, which outweighed several positive developments for the U.S. economy. Unemployment dipped to 3.7% – the lowest rate since 1969 – as wage growth accelerated, consumer sentiment rose to levels not seen in 18 years, and the economy grew at an estimate-beating 3.5% in Q3.

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Global Equities Offer Nowhere to Hide

Both developed and emerging equity markets had already been on shaky ground for much of this year due to fears of waning economic growth. These concerns came to a head this month as the IMF lowered its global growth forecasts for both 2018 and 2019, citing intensifying trade and political tensions and capital outflows from emerging markets plagued by fragile fundamentals.

China led losses for global stocks, with the MSCI China Index down 11.5% as the government scrambled to curtail slowing growth. Latin America was the sole positive region across international equities, rising 3.5%, led by Brazil where markets climbed in response to the election of far-right, populist candidate Jair Bolsonaro. The broad MSCI Emerging Markets Index lost 8.7%.

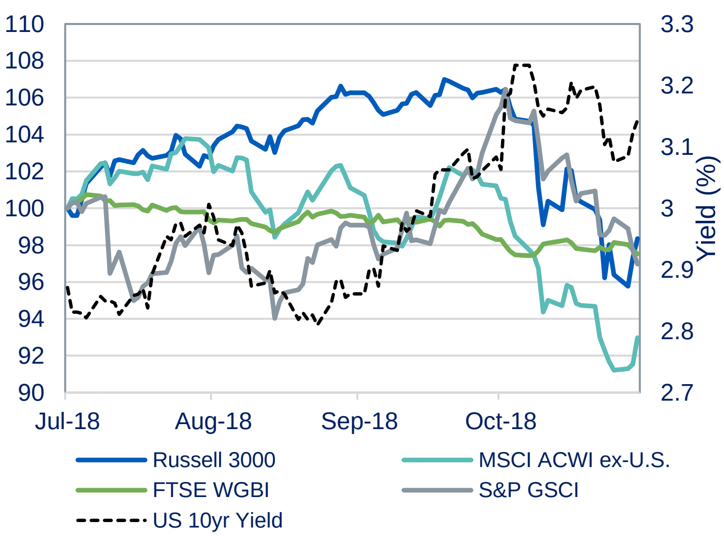
The MSCI EAFE Index fell 8% as losses spread to developed markets, but were mitigated slightly late in the month by encouraging earnings results, offsetting underwhelming growth data for the Eurozone. The region's economy is estimated to grown a slim 0.2% in the third quarter, and continued frustrations surrounding Italy's budget crisis added to market woes.

Central Banks Tighten, Bonds Fall

Treasury yields climbed early in the month after hawkish comments from the Fed and more positive signs from recent economic results. This sudden move drove the dollar higher and dragged yields upwards across international bond markets. Emerging market currencies fell especially sharply. Yields retraced somewhat by the end of October, but 10-plus year Treasuries fell 3% during the month while both the JP Morgan EMBI and the WGBI Europe Index lost over 2%.

Rising Yields Spark Global Decline

Source: Bloomberg. Indexed to June 30, 2018.



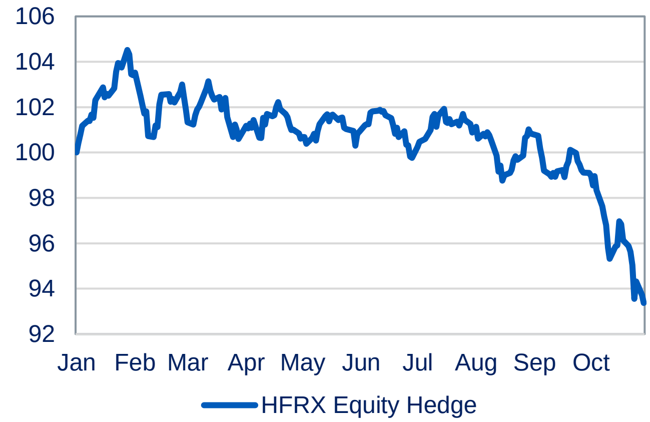
The shift in global central bank policy from quantitative easing to quantitative tightening is an increasing concern. The Fed has already begun shrinking its balance sheet at a rate of $50 billion per month and the ECB again confirmed that it will cease bond purchases by the end of 2018, despite signs of weaker growth in the Eurozone. Tighter global financial conditions roiled global capital markets (prior Exhibit).

Equity Strategies Lead Hedge Fund Losses

Hedge funds shared in October's rout, leading the HFRX Equal Weighted Strategies Index 2.5% lower. The market's sharp turn dragged equity long/short strategies 5.1% lower (Exhibit below), while event-driven hedge funds slipped 4.9%. However, funds with lower net market exposure lost less ground than their peers. Equity market neutral and relative value strategies lost 1.0% and 1.4%, respectively.

Equity-focused Hedge Funds Share in Global Rout

Source: Bloomberg. As of October 31, 2018.



Oil Supply Concerns Ease

Commodities were not safe from October's global market turmoil. After flying high in September, oil prices, falling 10.8%, dragged the GSCI index down nearly 6% in October. Supply concerns that drove up prices to new highs last month were eased when Saudi Arabia announced its ability to provide more crude to the market if the need arose. Oil still remains positive for the year, with the GSCI All Crude up over 8%.

Performance of Major Market Indices through 10-31-2018

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	-6.8%	-6.8%	3.0%	7.3%	11.5%	11.3%
Russell 2000	-10.9%	-10.9%	-0.6%	1.9%	10.7%	8.0%
MSCI World Ex-US (USD)	-7.9%	-7.9%	-9.3%	-6.8%	3.8%	1.9%
MSCI Emerging Mkts (USD)	-8.7%	-8.7%	-15.7%	-12.5%	6.5%	0.8%
Citigroup US Treasuries	-0.5%	-0.5%	-2.1%	-1.9%	0.2%	1.1%
Citigroup Credit	-1.3%	-1.3%	-3.5%	-2.8%	2.4%	2.9%
Merrill High Yield	-1.6%	-1.6%	0.9%	0.9%	6.6%	4.7%
JPM EMBI Global (USD)	-2.2%	-2.2%	-5.6%	-5.3%	3.8%	3.6%
Citigroup WGBI Ex-US (LC)	0.1%	0.1%	-0.3%	-0.3%	1.4%	3.0%
Citigroup Credit AAA/AA 10+	-3.0%	-3.0%	-8.1%	-5.7%	3.1%	4.8%
Barclays US Aggregate	-0.8%	-0.8%	-2.4%	-2.1%	1.0%	1.8%
GSCI Total Return	-5.8%	-5.8%	5.3%	11.5%	1.0%	-10.8%
HFRX Eq. Wtd. Strategies	-2.5%	-2.5%	-4.0%	-3.4%	0.8%	0.6%