

BNY MELLON Monthly Market Roundup

4 December 2017

Market Strategy Group: Alicia Levine, Lale Akoner, Bryan Besecker

Please see important footnotes for returns and charts on the last page.

HEADLINES

WHAT IT MEANS FOR INVESTORS

GLOBAL ECONOMY

Growth: Cyclical Improvement Gaining Momentum

- **US Strong:** Q3 GDP growth revised to 3.3% from 3.0%. If Q4's estimate of 2.7% were to hold, it would be the third consecutive quarter above 2.5% for the first time since 2004-2005. Manufacturing PMI retreated to 53.9 in November from 54.6. Services PMI increased further in October to the highest since mid-2005. Productivity growth increased 1.5% y/y in Q3 to the best in two years and has improved for five consecutive quarters. Business investment has also steadily gained and the 4.4% growth (y/y) in Q3 reached the highest since Q1 2015. Growth in leading economic indicators continues to rise. Despite the ongoing tightening cycle, financial conditions remain historically easy.
- **Eurozone Growth Accelerating:** Manufacturing and services PMI beat expectations collectively signaling the strongest pace of expansion since mid-2011. Positive trends in business and consumer sentiment persisted in November and remain historically elevated. Despite the political breakdown in coalition talks within the German government, growth has remained strong and business sentiment is at an all-time high. GDP growth among the other largest economies including France, Italy, and Spain also paint a positive picture.
- **UK Sees a Glimmer of Hope in Brexit Process:** An outline deal on the divorce bill was reached with EU negotiators, though it still needs national governments' approvals to be finalized. If bill is accepted and Irish border issue is solved, trade talks will start on 12/14.
- **China Resilient but Deleveraging Headwinds Remain a Concern:** Manufacturing PMI increased and beat expectations in November. While growth has held up in 2017, a slowing real estate market and tighter credit conditions could generate slightly lower growth in 2018.

Low Inflation Despite Improving Growth Could Make Policy Normalization More Difficult

- US headline CPI (2.0% y/y) in October lower vs. September (2.2%). Core inflation increased 0.1% to 1.8% after staying at 1.7% for the five previous months and remains low relative to the last couple years. Inflation continues to miss the Fed's target of 2% and Janet Yellen recently reaffirmed "the mystery" behind the muted price gains.
- Eurozone CPI was 1.5% y/y in November; unable to break higher despite an improving economy and improving labor markets.
- UK headline inflation remained at 3.0% in October and is the highest since April 2012 while core held steady at 2.7%.
- Japan core inflation increased to 0.8% y/y in October but still remains below target. Total inflation fell to 0.2%.

Fiscal Policy: Remain Optimistic

- The Senate passed sweeping revisions to the U.S. tax code. The House and Senate will need to reconcile their tax plans in the next two weeks to get it to the President's desk for signing in order to pass the law before the end of the year. The centerpiece in both bills is lowering the corporate rate from 35% to 20% and lowering individual rates.

Monetary Policy Shifting Towards a Gradual and Dovish Tightening Cycle

- Markets are pricing in a near certain interest rate hike at the next Fed meeting on December 13. For 2018, there remains a disconnect between the Fed and the market with the Fed expecting three and the market only one additional hike. President Trump nominated Jerome Powell as the new Fed Chairman who is expected to maintain the dovish stance of the Fed and supports legislation that deregulates the banking sector. Since the new Fed Chair and several vacancies on the Fed's board, it is unclear how the Fed will proceed with its normalization process if inflation and wages remain subdued.
- While the ECB will slow its pace of asset purchases in 2018, officials indicated there was broad agreement that an ample degree of monetary stimulus was still needed but were divided on the program's end date which could impact the start date for interest rate hikes.

Global Equities Continue to Surge

- Global stocks surged by +1.8% in November after recovering from a mid-November sell-off. EM (+0.2% MTD, 30.0% YTD) underperformed DM (2.0% MTD, +18.6% YTD) due to end-of-month sell-off. S&P 500 (+2.8% MTD, 18.3% YTD) showed improved performance in the second half of the month after increasing optimism over tax proposal's fate. VIX saw intraday jump to 14.5 on November 15, highest intraday level since August but reversed course to an all-time intraday low of 8.6 on November 24. November S&P 500 sector leaders: Telecom (+5.9%), Consumer Staples (+5.4%). Sector laggards: Materials (+0.7%) and IT (0.9%). European markets (-2.2% MTD, +7.0% YTD) underperformed in November, due mostly to disappointing corporate news coming from several megacaps. Additionally, German stocks (-1.6% MTD, +13.4% YTD) were volatile due to rising political uncertainty after the coalition talks broke down when the liberals left the table - a grand coalition is the base case currently albeit with a likelihood of talks failing again.

Fixed income: US Corporate Credit Spreads Widened, Led by US HY Bonds

- Avg. G-4 10-year yields stayed in place (0 bp MTD) in November at 1.04% (US 2.42%, Germany 0.37%, UK 1.33%, Japan 0.04%).
- Among spread-sectors, US corporate credit spreads widened in November, led by US HY's significant spread widening in mid-November (+41 bp MTD through November 15), normalizing subsequently to close the month at +6 bp. HY spread widening was concentrated in a few sectors, most notably communications (+42 bp) which makes up 20% of the index. EM USD spreads tightened by -3 bp in November,

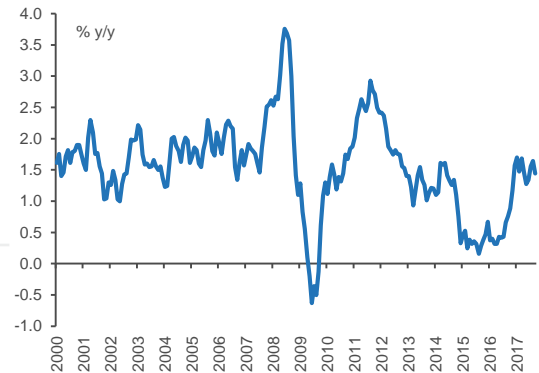
FX: Euro Stronger, USD Weaker

- US majors dollar index lost in November (-1.6% MTD, -9.0% YTD). The Euro continued its strong performance this year with November's +2.2% against the USD, and Sterling gained +1.8%. Among major currencies' gains against the USD this year, Euro tops (+13.2% YTD).

Commodities: Oil and Gold Higher

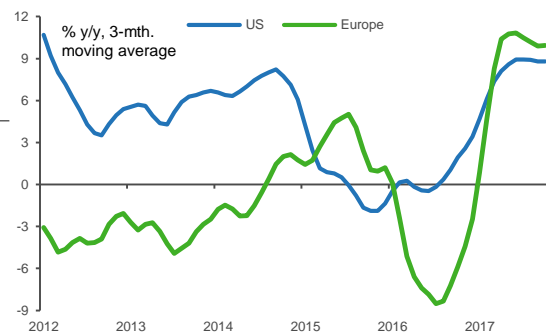
- Oil surged +5.6% MTD (+6.9% YTD) for another month, on continuation of the reduction in the imbalance between supply and demand. OPEC and non-OPEC producers led by Russia agreed to extend oil-production cuts to end-2018.

Low Inflation in G-7 Countries is a Hurdle for Monetary Policy Normalization



Average inflation rate (% y/y) of US, Japan, Germany, Italy, UK, France, and Canada. Source: Bloomberg
Charts are provided for illustrative purposes and not indicative of the past or future performance of any product.

Strong Equity Market Performance Coinciding With Improved Earnings Estimates



Percentage Change y/y in 12-mth. forward EPS: 3-month moving average. Source: Bloomberg

Abbreviations: Month-to-date (MTD); quarter-over-quarter (q/q); Purchasing Managers Index (PMI); Consumer Price Index (CPI); West Texas Intermediate (WTI); year-over-year (y/y); year-to-date (YTD); European Union (EU); basis points (bp); gross domestic product (GDP); first-half (H1); second-half (H2); Investment grade (IG); High yield (HY); Emerging markets (EM); EPS: Earnings per share



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| GLOBAL EQUITIES (USD, % chg.) | Level | MTD (%) | YTD (%) | 1Y (%) | 3Y (%) ¹ | 2016 (%) |
|--|----------|---------|---------|--------|---------------------|----------|
| MSCI All-Country World | 505 | 1.8% | 19.8% | 22.3% | 5.9% | 5.6% |
| MSCI World - DM | 2,077 | 2.0% | 18.6% | 21.3% | 6.1% | 5.3% |
| MSCI EAFE | 2,020 | 0.9% | 20.0% | 24.0% | 3.2% | -1.9% |
| MSCI EM | 1,121 | 0.2% | 30.0% | 29.9% | 3.7% | 8.6% |
| COUNTRY EQUITIES (Local, % chg.) | | | | | | |
| US (S&P 500) | 2,648 | 2.8% | 18.3% | 20.4% | 8.6% | 9.5% |
| US (NASDAQ) | 6,874 | 2.2% | 27.7% | 29.1% | 12.8% | 7.5% |
| US (Russell 2000) | 1,544 | 2.8% | 13.8% | 16.8% | 9.6% | 19.5% |
| Japan (NIKKEI 225) | 22,725 | 3.2% | 18.9% | 24.1% | 9.2% | 0.4% |
| EU (STOXX 600) | 387 | -2.2% | 7.0% | 13.1% | 3.7% | -1.2% |
| UK (FTSE 100) | 7,327 | -2.2% | 2.6% | 8.0% | 2.9% | 14.4% |
| France (CAC 40) | 5,373 | -2.4% | 10.5% | 17.4% | 7.0% | 4.9% |
| Germany (DAX 30) | 13,024 | -1.6% | 13.4% | 22.4% | 9.3% | 6.9% |
| China (SHANGHAI A SE) | 3,474 | -2.2% | 6.9% | 2.1% | 7.3% | -12.3% |
| FIXED INCOME (USD, % chg.) ² | | | | | | |
| Global Treasury ex. US | -- | 0.4% | 2.0% | 2.4% | 3.2% | 5.0% |
| US Treasury | -- | -0.1% | 2.0% | 1.9% | 1.3% | 1.0% |
| Global IG Corporate | -- | -0.1% | 5.1% | 5.8% | 3.7% | 6.2% |
| Global High Yield | -- | -0.3% | 8.0% | 10.0% | 6.8% | 15.6% |
| US Leveraged Loans | -- | 0.1% | 3.7% | 4.9% | 3.9% | 10.2% |
| EM USD Denominated | -- | -0.2% | 7.8% | 9.0% | 5.3% | 9.9% |
| COMMODITIES (USD, % chg.) | | | | | | |
| Bloomberg Commodity Index | -- | -0.5% | -1.2% | 0.5% | -8.4% | 11.8% |
| Oil (WTI, USD / Barrel) | 57.4 | 5.6% | 6.9% | 16.1% | -4.6% | 45.0% |
| Gold (USD / Troy Ounce) | 1,275.0 | 0.3% | 11.1% | 8.7% | 3.0% | 8.1% |
| SPREADS (OAS, bp chg.) ³ | | | | | | |
| US Investment Grade Corporate | 97 | 2 | -26 | -32 | -27 | -42 |
| US High Yield | 344 | 6 | -65 | -111 | -105 | -251 |
| EM USD Denominated | 235 | -3 | -66 | -79 | -93 | -105 |
| KEY RATES (bp chg.) ⁴ | | | | | | |
| 3M US Libor | 1.48 | 10 | 48 | 55 | 125 | 39 |
| 2Y US Treasuries | 1.78 | 18 | 58 | 67 | 131 | 14 |
| 10Y US Treasuries | 2.42 | 4 | -3 | 5 | 24 | 18 |
| 10Y German Bund | 0.37 | 0 | 16 | 9 | -33 | -42 |
| 10Y UK Gilt | 1.33 | 0 | 9 | -9 | -60 | -72 |
| 10Y Japanese Bond | 0.04 | -3 | -1 | 1 | -38 | -22 |
| CBOE VIX | 11.28 | 10.18 | 14.04 | 13.33 | 13.33 | 18.21 |
| US 30Y Fixed Rate Mortgage | 3.82 | -1 | -24 | -16 | -10 | 16 |
| FOREIGN EXCHANGE (vs. USD, % chg.) ⁵ | | | | | | |
| Euro | 1.1904 | 2.2% | 13.2% | 12.4% | -1.5% | -3.2% |
| British Pound | 1.3525 | 1.8% | 9.6% | 8.1% | -4.7% | -16.3% |
| Japanese Yen | 112.5400 | 1.0% | 3.9% | 1.7% | 1.8% | 2.8% |

All data as of November 30, 2017 close.

Please see important footnotes for returns in appendix.

BNY MELLON
Monthly Sector Performance

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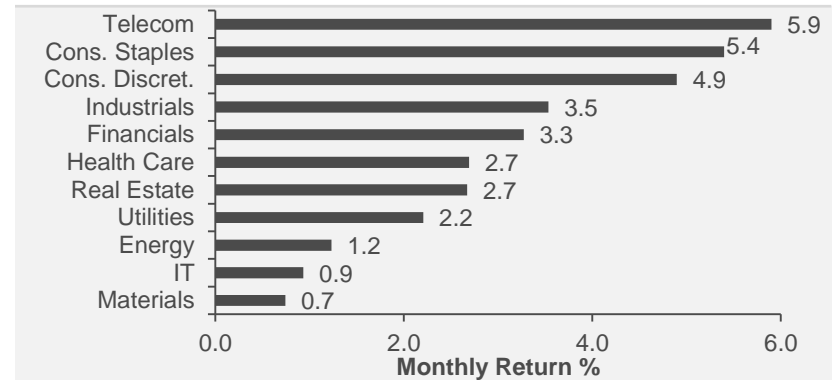
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| S&P 500 SECTORS | MTD | YTD | 1Y | 3Y Annualized | 2016 | 5Y Annualized |
|----------------------------|------|--------|-------|---------------|-------|---------------|
| Information Technology | 0.9% | 37.0% | 39.0% | 16.7% | 12.0% | 19.1% |
| Financials | 3.3% | 17.9% | 22.3% | 11.8% | 20.1% | 16.3% |
| Health Care | 2.7% | 20.9% | 21.7% | 6.3% | -4.4% | 15.8% |
| Consumer Discretionary | 4.9% | 18.5% | 18.4% | 10.9% | 4.3% | 16.1% |
| Industrials | 3.5% | 16.5% | 16.8% | 9.2% | 16.1% | 14.6% |
| Consumer Staples | 5.4% | 8.3% | 11.5% | 4.6% | 2.6% | 9.6% |
| Energy | 1.2% | -8.2% | -6.5% | -4.7% | 23.7% | -1.2% |
| Utilities | 2.2% | 15.7% | 21.0% | 7.0% | 12.2% | 8.8% |
| Real Estate | 2.7% | 8.2% | 12.4% | 3.3% | 0.0% | 6.9% |
| Materials | 0.7% | 19.3% | 19.2% | 6.9% | 14.1% | 10.3% |
| Telecommunication Services | 5.9% | -11.1% | -3.9% | -0.8% | 17.8% | 1.1% |

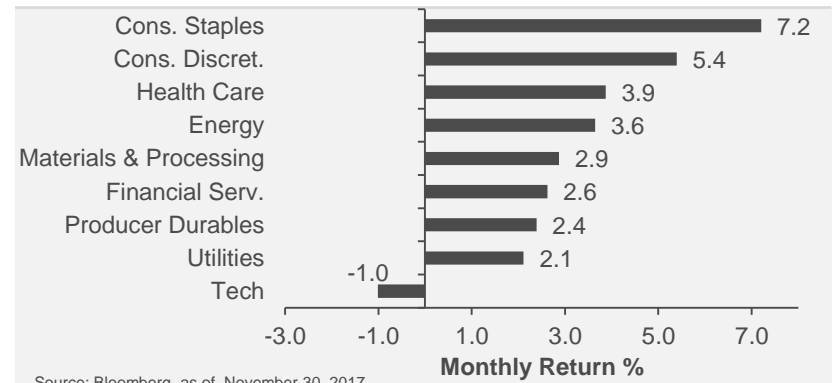
| RUSSELL 2000 SECTORS | MTD | YTD | 1Y | 3Y Annualized | 2016 | 5Y Annualized |
|--------------------------|-------|--------|--------|---------------|-------|---------------|
| Financial Services | 2.6% | 5.8% | 11.8% | 10.7% | 27.0% | 12.4% |
| Technology | -1.0% | 19.5% | 22.1% | 16.8% | 25.5% | 19.4% |
| Producer Durables | 2.4% | 17.2% | 19.2% | 9.6% | 25.4% | 13.4% |
| Consumer Discretionary | 5.4% | 13.7% | 15.3% | 5.8% | 12.6% | 11.7% |
| Health Care | 3.9% | 34.8% | 33.0% | 12.8% | -7.2% | 19.8% |
| Materials and Processing | 2.9% | 14.8% | 15.6% | 12.7% | 42.8% | 13.0% |
| Utilities | 2.1% | 15.1% | 20.4% | 11.2% | 18.5% | 11.5% |
| Energy | 3.6% | -22.5% | -20.3% | -17.2% | 32.9% | -13.4% |
| Consumer Staples | 7.2% | -0.8% | 4.7% | 5.6% | 13.4% | 13.7% |

S&P 500 NOVEMBER SECTORAL PERFORMANCE



Source: Bloomberg, as of November 30, 2017.

RUSSELL 2000 NOVEMBER SECTORAL PERFORMANCE



Source: Bloomberg, as of November 30, 2017.

All data as of November 30, 2017 close.

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FOOTNOTES FOR RETURNS AND CHARTS

¹ Total 3Y% change annualized for equities, commodities, foreign exchange and fixed income

² Total returns in USD. USD hedged for Global Treasury ex US, Global Investment Grade – Corporate, and Global High Yield

³ OAS: option-adjusted spread. Both level and change in bp

⁴ Current level of interest rates (%) shown in "Level" column except for CBOE VIX. For CBOE VIX the value as of each date is shown not the change

⁵ "Level" for each exchange rate: USD/1 Euro; USD/1 British Pound; Japanese Yen/1 USD. Changes for Japanese Yen calculated using USD/1 Japanese Yen

Reflects reinvestment of dividends and, where applicable, capital gain distributions. Investors cannot invest directly in an index.

DATA DEFINITIONS

| | |
|--|--|
| MSCI All-Country World | The MSCI All-Country World Index is an index that tracks the performance of both Developed and Emerging Market equities |
| MSCI World – DM | The MSCI World Index is an index that tracks the performance of Developed Market equities |
| MSCI EAFE | The MSCI EAFE Index is an index that tracks the performance of Developed Market equities across Europe, Australasia and the Far East excluding the US and Canada |
| MSCI EM | The MSCI EM index tracks the performance of Emerging Market Equities |
| US (S&P 500) | The S&P 500 is an index designed to track the performance of the largest 500 US companies. US High Beta: The S&P 500 High Beta Total Return Index measures the performance of 100 constituents in the S&P 500 that are most sensitive to changes in market returns. US Value: The S&P Composite 1500 Total Return Value Index is a subset of the S&P 1500 index tracking the performance of value stocks. US Growth: The S&P Composite 1500 Total Return Growth Index is a subset of the S&P 1500 index tracking the performance of growth stocks. US Low Vol: The S&P 500 Low Volatility Total Return Index is designed to measure the performance of the 100 least volatile stocks of the S&P 500. |
| US (NASDAQ) | The Nasdaq Composite Index is the market capitalization-weighted index of approximately 3,000 common equities listed on the Nasdaq stock exchange |
| US (Russell 2000) | The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index |
| Japan (Nikkei 225) | The NIKKEI 225 is an index that tracks the performance of the largest 225 companies traded in the Japanese market |
| EU (STOXX 600) | The STOXX 600 is an index that represents the performance of 600 large, mid and small capitalization companies across 18 countries in the European Union |
| UK (FTSE 100) | The FTSE 100 is an index that tracks the performance of the largest 100 companies traded on the London Stock Exchange |
| France (CAC 40) | The CAC 40 is an index that tracks the performance of the largest 40 companies traded on the Paris Stock Exchange |
| Germany (DAX 30) | The DAX 30 is an index that tracks the performance of the largest 30 companies traded on the Frankfurt Stock Exchange |
| China (SHANGHAI A SE) | The SHANGHAI A SE index tracks the performance of the Renminbi denominated equities traded at the Shanghai Stock Exchange |
| Global Aggregate | The Bloomberg Barclays Global Aggregate Total Return (USD hedged) Index is a broad-based measure of the global investment-grade fixed income market |
| Global Treasury ex US | The Barclays Bloomberg Global Treasury ex US index tracks fixed-rate local currency government debt of investment grade countries excluding the US and represents the Treasury sector of the Global Aggregate Index |
| US Treasury | The Barclays Bloomberg US Treasury Index is the US Treasury component of the US Aggregate Index and uses public obligations of the US Treasury with a remaining maturity of one year or more |
| U.S. TIPS | The Bloomberg Barclays US Treasury Inflation-Protected Securities Total Return Index tracks the performance of publicly issued, US Treasury inflation-protected securities that have at least one year remaining to maturity and have \$250 million or more of outstanding face value |
| Global Investment Grade - Corp. | This Index reflects the Corporate component of the Bloomberg Barclays Global Aggregate Index which is designed to provide a broad-based measure of the global investment-grade fixed income markets |
| Global High Yield | The Barclays Bloomberg Global High Yield Index is a broad-based measure of the global high yield market |
| US Leveraged Loans | The S&P/LSTA Leveraged Loan Total Return Index is designed to measure the performance of the US leveraged loan market |
| Hedge Funds | The Hedge Fund Research HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage. |
| EM USD Denominated | The Bloomberg Barclays EM USD Aggregate Index includes USD denominated debt from sovereign, quasi-sovereign, and corporate EM issuers |
| EM Debt LC | The Bloomberg Barclays EM Local Currency Government Total Return Index measures the general performance of locally issued fixed income securities by Emerging Market governments |
| Bloomberg Commodity Index | The Dow Jones UBS Commodity index is designed to provide diversified commodity exposure with weightings based on the commodity's liquidity and economic significance |
| Commodities | The S&P GSCI Total Return Index is a benchmark used to measure commodity performance over time |
| USD | The US Majors Dollar Index tracks the performance of the USD versus a basket of foreign currencies including the euro, Japanese yen, Pound sterling, Canadian dollar, Swedish krona, and Swiss Franc |
| Oil (WTII, USD / Barrel) | Generic West Texas Intermediate crude oil spot price |
| Gold (USD / Troy Ounce) | Gold London Bullion Market spot price, quoted in USD per Troy Ounce |
| US Investment Grade Corporate | The Barclays Bloomberg US Aggregate - Corporate Index is designed to measure the performance of the investment grade corporate sector in the US |
| US High Yield | The Bloomberg Barclays US High Yield Index covers the universe of fixed-rate, non-investment grade corporate debt in the US |
| 3M US Libor | Average interest rate at which a selection of banks in London lend to one another in USD with a maturity of 3 months |
| 2Y US Treasuries | Average yield of a range of Treasury securities all adjusted to the equivalent of a two-year maturity |
| 10Y US Treasuries | Average yield of a range of Treasury securities all adjusted to the equivalent of a ten-year maturity |
| 10Y UK Gilt | Average yield of a range of UK government bonds all adjusted to the equivalent of a ten-year maturity |
| 10Y German Bund | Average yield of a range of German government bonds all adjusted to the equivalent of a ten-year maturity |
| 10Y Japanese Bond | Average yield of a range of Japanese government bonds all adjusted to the equivalent of a ten-year maturity |
| CBOE VIX | Indicator of the implied volatility of S&P 500 index as calculated by the Chicago Board Options Exchange (CBOE) |
| US 30Y Fixed-Rate Mortgage | Bankrate.com 30-year US home mortgage fixed rate national average |

All investments involve risk including loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing.

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