

BNY MELLON Monthly Market Roundup

2 November 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 Continues Even As Structural Issues Linger

- US Growth Gaining Momentum:** Q3 GDP growth of 3.0% q/q driven by strong personal consumption and business investment. Output gap (proxy for economic slack) of -0.16% in Q2 2017 is the highest since Q4 2007 and significantly above the crisis low of -6.11% reached in mid-2009. ISM manufacturing PMI accelerated further in September and rose to the highest since May 2004. ISM services PMI broke out of a range and surged to the highest in twelve years. Labor force participation rate in September increased to 63.1% which is the strongest since September 2013, a healthy signal for the labor market. UMichigian consumer sentiment jumped to 100.7 in October and is at the highest level since January 2004. While still elevated relative to history, small business optimism momentum has faded YTD. U6 unemployment rate, which includes those marginally attached to the labor force and workers employed for part-time economic reasons, fell to 8.3% in September which is only slightly above the pre-crisis low of 7.9%.
- Eurozone Growth Accelerating:** Q3 GDP growth of 2.5% y/y highest since Q1 2011. October manufacturing PMI gained to 58.6 and is the highest reading since the beginning of 2011. In contrast, services PMI fell to 54.9 and is below the YTD peak of 56.4 reached in April. Consumer sentiment improved again in October and is the best since April 2001. Since 1985, consumer confidence has only been higher than the current level between January 2000 and April 2001. Business confidence improved further in September to 113.1 and is the best since mid-2007. Headline unemployment rate dipped 0.1% to 8.9% in September. Eurozone youth unemployment has improved to 18.7% but still above the pre-crisis low of 15.1%.
- China Stabilizing but Remains a Concern:** Q3 GDP came in at 6.8% y/y just below the prior two quarter's reading of 6.9%. Manufacturing PMI fell slightly in October to 51.6 from 52.4 which is the largest since April 2012. Growth in residential housing prices continues to cool off particularly in first tier cities. Xi Jinping scored a big win for the consolidation of his power; no obvious successor. Questions as to whether government will be more involved in explosive tech sector.

Low Inflation Despite Improving Growth; UK an Exception

- US headline CPI (2.2% y/y) in September higher vs. August (1.9%) and 0.6% above the YTD low in June. Core inflation remained at 1.7% for the fifth consecutive month but is at the lowest level since mid-2015. Inflation continues to miss Fed target of 2%.
- Eurozone CPI fell 0.1% to 1.4% y/y in October and is below the YTD peak of 2.0% in February while core slipped 0.2% to 0.9%.
- UK headline inflation of 3.0% in September highest since April 2012 and core remained at 2.7% or the highest since the end of 2011.

Fiscal Policy: Still Cautiously Optimistic

- The Senate and House passed a budget setting the stage to begin work on a tax bill in earnest. The market is increasingly beginning to reflect optimism for a tax cut.

Monetary Policy Easy but Less So

- Markets are pricing in a 85% chance of an interest rate hike by the end of 2017. For 2018, there remains a disconnect between the Fed and market on the forecast for interest rates. The Fed expects three rate hikes while markets see a 34% probability of one additional hike and 32% for two. President Trump is expected to announce a Fed Chair nominee who will maintain the dovish stance of the Fed.
- ECB left rates steady; said it would slow bond purchase program starting in January 2018 and continue through at least September 2018.
- Shinzo Abe won decisively in Japan's snap elections increasing the likelihood BOJ Governor Kuroda is reappointed; policy stays easy.

FINANCIAL MARKETS

Global Equities Continue to Grid Higher and Climb the Wall of Worry

- Global equities gained in October (+2.0%) on increasing headlines of global upswing in growth, improved US corporate fundamentals, and reviving US tax bill expectations: EM (3.5%) outperformed DM (1.8%). In the US, S&P delivered +2.2% MTD (15.0% YTD). S&P 500 Q3 earnings season roughly 65% complete with blended growth rate for Q3 EPS at 4.7%. Over 75% of companies reported beat the consensus EPS estimate. This earnings season is strong on the revenue side as well, with blended growth of 5.6%. October S&P 500 sector leaders: Information Technology (+7.7%), Utilities (+3.9%). Sector laggards: Telecom (-8.7%) and Consumer Staples (-1.6%).
- In October, European equities rallied (1.8%) led by France (3.3%) and Germany (3.1%) and gained even with ECB's plan to cut monthly bond purchases in half.

Fixed income: US 10-year Crossed 2.40%; US IG Credit Spreads Tightest Since 2007

- Avg. G-4 10-year yields moved lower in October to 1.04% (-2 bp MTD; US +5 bp, Germany -10 bp, Japan +0 bp, UK -3 bp).
- Credit spreads continued to tighten in October (US IG -6 bp, US HY -9 bp, EM USD -8 bp). US IG corporate spreads are now tightest since June 2007, and US HY since June 2014. Eurozone peripheral spreads all tightened in October, even with Spain's Catalonia troubles (Portugal -21 bp; Ireland -6 bp; Italy -19 bp; Greece -7 bp; Spain -4 bp).

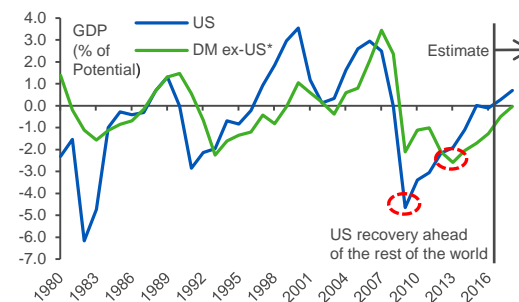
FX: USD Stronger, Euro Weaker

- US majors dollar index gained in October (+1.6% MTD, -7.5% YTD). Euro down against the USD (-1.4% MTD, +10.7% YTD). Sterling lost 0.9% against the USD in October (+7.6% YTD). Yen lost -1.0% in October (+2.9% YTD).

Commodities: Oil Higher; Gold Lost

- WTI oil (+5.2% MTD, +1.2% YTD) edged higher amid signs global oversupply is diminishing and rising Middle East tensions following the Kurdistan referendum.
- Gold suffered in October as well (-0.6% MTD, +10.8% YTD) amid stronger USD and decreasing risk aversion.

US Growth Recovery Leading the Rest of the World



*Actual GDP as a percentage of potential. DM ex-US calculated as a simple average of advanced economies with available output gap data. **2017 and 2018 forecasted per IMF. Source: BNY Mellon using data from FactSet and IMF

Charts are provided for illustrative purposes only and are no indicative of the past or future performance of any product.

US Yield Curve Continues to Flatten



US 10-year Treasury yield - US 2-year Treasury yield. Source: Bloomberg

Abbreviations: Institute for Supply Management (ISM); Bank of England (BoE); European Central Bank (ECB); US Federal Reserve (Fed); month-to-date (MTD); quarter-over-quarter (q/q); Purchasing Managers Index (PMI); 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); Developed markets (DM); Consumer price index (CPI); US GDP growth q/q reported on a seasonally adjusted and annualized basis (saar).

Not FDIC-Insured. Not Bank-Guaranteed. May Lose Value.



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GLOBAL EQUITIES (USD, % chg.)	Level	MTD (%)	YTD (%)	1Y (%)	3Y (%) ¹	2016 (%)
MSCI All-Country World	497	2.0%	17.7%	20.8%	5.8%	5.6%
MSCI World - DM	2,037	1.8%	16.3%	20.5%	6.0%	5.3%
MSCI EAFE	2,003	1.5%	18.9%	20.2%	3.3%	-1.9%
MSCI EM	1,119	3.5%	29.8%	23.6%	3.3%	8.6%
COUNTRY EQUITIES (Local, % chg.)						
US (S&P 500)	2,575	2.2%	15.0%	21.1%	8.5%	9.5%
US (NASDAQ)	6,728	3.6%	25.0%	29.6%	13.3%	7.5%
US (Russell 2000)	1,503	0.8%	10.7%	26.1%	8.6%	19.5%
Japan (NIKKEI 225)	22,012	8.1%	15.2%	26.3%	10.3%	0.4%
EU (STOXX 600)	395	1.8%	9.4%	16.6%	5.5%	-1.2%
UK (FTSE 100)	7,493	1.6%	4.9%	7.7%	4.6%	14.4%
France (CAC 40)	5,503	3.3%	13.2%	22.0%	9.1%	4.9%
Germany (DAX 30)	13,230	3.1%	15.2%	24.0%	12.4%	6.9%
China (SHANGHAI A SE)	3,554	1.3%	9.4%	9.5%	11.9%	-12.3%
FIXED INCOME (USD, % chg.) ²						
Global Treasury ex. US	--	0.6%	1.6%	0.8%	3.5%	5.0%
US Treasury	--	-0.1%	2.1%	-0.7%	1.7%	1.0%
Global IG Corporate	--	0.6%	5.1%	3.7%	4.0%	6.2%
Global High Yield	--	0.6%	8.4%	9.2%	6.7%	15.6%
US Leveraged Loans	--	0.6%	3.6%	5.1%	4.0%	10.2%
EM USD Denominated	--	0.4%	7.9%	5.8%	5.3%	9.9%
COMMODITIES (USD, % chg.)						
Bloomberg Commodity Index	--	2.1%	-0.8%	2.3%	-9.5%	11.8%
Oil (WTI, USD / Barrel)	54.4	5.2%	1.2%	16.0%	-12.3%	45.0%
Gold (USD / Troy Ounce)	1,271.5	-0.6%	10.8%	-0.5%	2.7%	8.1%
SPREADS (OAS, bp chg.) ³						
US Investment Grade Corporate	95	-6	-28	-37	-23	-42
US High Yield	338	-9	-71	-139	-77	-251
EM USD Denominated	238	-8	-63	-64	-65	-105
KEY RATES (bp chg.) ⁴						
3M US Libor	1.38	4	38	49	114	39
2Y US Treasuries	1.60	13	40	74	110	14
10Y US Treasuries	2.38	5	-7	54	3	18
10Y German Bund	0.36	-10	16	20	-48	-42
10Y UK Gilt	1.33	-3	9	9	-92	-72
10Y Japanese Bond	0.07	0	3	12	-39	-22
CBOE VIX	10.18	9.51	14.04	17.06	14.03	18.21
US 30Y Fixed Rate Mortgage	3.83	3	-23	32	-14	16
FOREIGN EXCHANGE (vs. USD, % chg.) ⁵						
Euro	1.1646	-1.4%	10.7%	6.1%	-2.4%	-3.2%
British Pound	1.3283	-0.9%	7.6%	8.5%	-6.0%	-16.3%
Japanese Yen	113.6400	-1.0%	2.9%	-7.8%	-0.4%	2.8%

All data as of October 31, 2017 close.

Please see important footnotes for returns in appendix.

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Monthly Sector Performance

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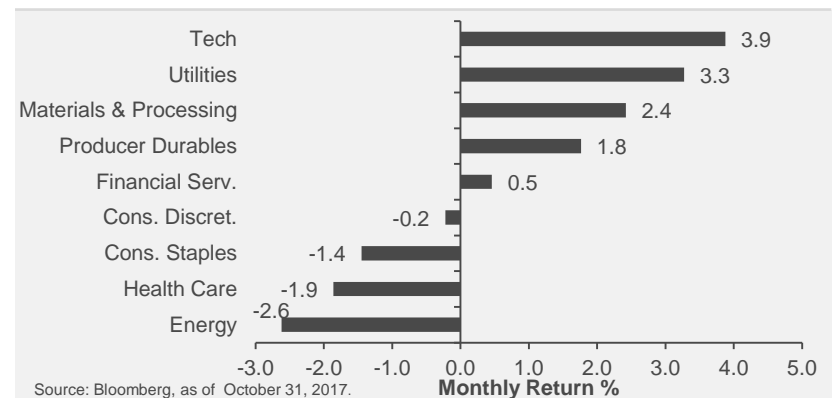
S&P 500 SECTORS	MTD	YTD	1Y	3Y Annualized	2016	5Y Annualized
Information Technology	7.7%	35.7%	36.9%	17.8%	12.0%	18.9%
Financials	2.8%	14.1%	34.6%	11.2%	20.1%	15.6%
Health Care	-0.8%	17.7%	20.5%	6.4%	-4.4%	15.2%
Consumer Discretionary	2.0%	13.0%	18.0%	10.7%	4.3%	15.0%
Industrials	0.2%	12.5%	22.4%	8.4%	16.1%	13.8%
Consumer Staples	-1.6%	2.8%	1.0%	4.4%	2.6%	8.4%
Energy	-0.7%	-9.3%	-0.4%	-7.8%	23.7%	-1.4%
Utilities	3.9%	13.2%	11.4%	6.6%	12.2%	8.3%
Real Estate	0.7%	5.4%	5.8%	3.4%	0.0%	6.3%
Materials	3.8%	18.4%	26.1%	6.7%	14.1%	10.2%
Telecommunication Services	-8.7%	-16.1%	-6.0%	-2.7%	17.8%	-0.1%

RUSSELL 2000 SECTORS	MTD	YTD	1Y	3Y Annualized	2016	5Y Annualized
Financial Services	0.5%	3.1%	22.1%	9.1%	27.0%	11.8%
Technology	3.9%	20.7%	33.9%	17.2%	25.5%	19.6%
Producer Durables	1.8%	14.5%	33.2%	7.6%	25.4%	12.9%
Consumer Discretionary	-0.2%	7.9%	20.7%	5.0%	12.6%	10.5%
Health Care	-1.9%	29.8%	38.5%	11.6%	-7.2%	18.9%
Materials and Processing	2.4%	11.6%	30.8%	10.6%	42.8%	12.3%
Utilities	3.3%	12.7%	19.8%	9.9%	18.5%	11.1%
Energy	-2.6%	-25.2%	-6.0%	-25.0%	32.9%	-14.0%
Consumer Staples	-1.4%	-7.5%	1.1%	3.5%	13.4%	12.1%

S&P 500 SEPTEMBER SECTORAL PERFORMANCE



RUSSELL 2000 SEPTEMBER SECTORAL PERFORMANCE



All data as of October 31, 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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