

# BNY MELLON Monthly Market Roundup

1 February 2018

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

Global Investment Strategy

HEADLINES

WHAT IT MEANS FOR INVESTORS

GLOBAL ECONOMY

## Growth: Broad-based and Positive Momentum Likely to Continue through 2018

- US Strength Improving:** Q4 2017 GDP growth came in strong but below forecasts at 2.6% (% q/q, saar). 2017 GDP delivered 2.3%, 0.8% higher compared to 2016 and is expected to increase further to 2.6% in 2018 which would be the second best since 2007. Markit manufacturing PMI advanced and is the highest since Q1 2015. Since June 2017, the m/m change in the manufacturing PMI has retreated only twice. In contrast, the services PMI failed to advance for the fifth consecutive month. Conference Board consumer confidence topped expectations in January and is only slightly below the peak since 2000 reached in November 2017. Small business optimism declined in December from the third highest since 1975. CEO confidence in the economy 12-months forward rose in January 2018 and has only been higher during the first-half of 2004. Industrial production increased 3.6% y/y in December and has steadily gained since the beginning of 2016. Capacity utilization also improved in December and is the strongest since early 2015. Unemployment (4.1%) and wage growth (2.3% y/y) remained steady in December while job gains were below expectations.
- Eurozone Accelerating:** Q4 2017 GDP growth of 2.7% y/y was the fourth consecutive quarter above 2.0% and the first time since Q1 2011. Overall in 2017, GDP rose 2.5% which is the strongest performance since 2007. Eurozone's growth surpassed the US both in 2016 and 2017, the first consecutive annual outperformance since 2007 and 2008. Manufacturing PMI fell slightly in January from the highest in the survey's history (20-years). Consumer confidence increased further to the highest reading since the middle of 2000.
- UK Starts 2018 Better than Expected Given Concerns over Brexit:** An unexpected growth surprise for Q4 GDP (0.5% q/q; 1.5% y/y) was coupled with easing inflation in December for the first time in six months providing a relief for real incomes of consumers. While the favorable global growth backdrop provides a tailwind for the economy, domestic weakness from Brexit uncertainties should remain in 2018.
- Japan on an Upswing:** Manufacturing PMI expanded to near the highest in four years in January.
- China Resilient but Deleveraging Headwinds Remain a Concern:** GDP growth expanded 6.9% in 2017, up from 6.7% in 2016 and the first positive change since 2010. Strength in exports, retail sales, and the property market supported the acceleration. While concerns linger, the market consensus does not view China as a serious threat to the 2018 outlook.

## Modest Inflation Expected to Drift Higher in 2018

- US inflation is expected to rise 2.2% in 2018 vs. 2.1% in 2017. In our view, the US has the highest probability of an inflation surprise to the upside. Market inflation expectations (5y5y forward) have steadily risen since mid-2017 to 2.4%.
- Eurozone prices are forecasted to stay at 1.5% in 2018 and forward inflation estimates have also gradually moved higher since mid-2017.
- Despite a surge in inflation during 2017 (0.7% to 2.7%), UK prices are estimated to decline to 2.5% in 2018.
- Japan's consumer prices are projected to climb 0.4% to 0.9% in 2018 and forward estimates are near the highest since mid-2017.

## Fiscal Policy Positive for Markets & Growth

- The new tax bill will likely provide an additional boost to an already improving US economic and earnings outlook. While a near-to-medium term benefit is expected, there is more uncertainty towards the longer term impact.

## Monetary Policy Shifting Towards Normalization but Still a Long Way to Go

- For 2018, the Fed expects 3 rate hikes, in-line with the market's forecast. Changes in tax policy were a factor in raising growth projections over the next several years. The Fed kept rates unchanged at Janet Yellen's final meeting and increased expectations for inflation.
- The ECB kept interest rates unchanged, reiterated they will keep stimulus for as long as needed, and suggested there is a low probability they will increase interest rates this year despite the market pulling forward their expectations for tightening given the strong economic data.
- BOJ kept policy steady and stated it will keep monetary easing and yield targets in place for "as long as it is necessary" to achieve its 2% inflation goal which the BOJ doesn't expect to reach until 2019. Similar to the market's shift in expectations for tightening in the Eurozone, there is increased discussion whether the BOJ will be forced to begin tightening earlier than currently anticipated given the positive data.

## Global Equities Off to a Near-Record Start After a Solid 2017

- Global stocks accelerated 5.6% in January, the third best start to the year since 1988 driven by positive and improving trends in earnings and economic growth. All countries except Philippines and Egypt were positive as EM (8.3%) outperformed DM again (5.2%) and delivered the third best monthly return since 2012. Europe was positive (1.6%) but one of the lower performing regions while the UK declined -2.0%. In the US, large caps were 5.6% higher during the month led by consumer discretionary (9.2%), information technology (7.6%), and health care (6.6%) while telecom (-0.6%), real estate (-1.9%), and utilities (-3.1%) trailed. US small caps gained 2.6% led by growth (3.9%) as value (1.2%) was unable to outperform given an improving economy and tax reform. US mid-cap stocks rose 2.8%.

## Fixed Income: Higher Interest Rates and Tighter Spreads

- Avg. G-4 10-year government bond yields moved 24 bp higher in January to 1.25% (US 2.72%, +32bp; Germany 0.70%, +27 bp; UK 1.51%, +32 bp; Japan 0.09%, +4 bp). US 10-year Treasuries have risen to the highest since April 2014 while 2-year US Treasuries advanced 25 bp to its highest since September 2008. This has driven the yield curve to 58 bp, which after falling throughout most of 2017 has treaded roughly between 50-60 bp since the end of November 2017. US HY spreads fell 24 bp MTD to the lowest since July 2007.

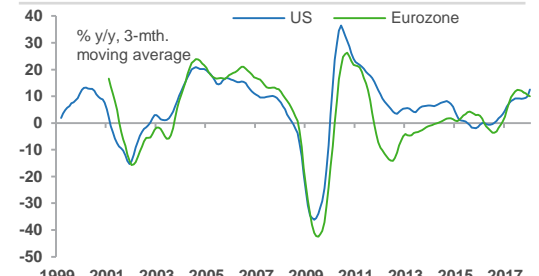
## FX: USD Weakness

- US majors dollar index fell further in January (-3.2%) to the lowest since December 2014 as all major currencies improved vs. the USD.

## Commodities: Strength All-Around

- Oil gained 7.1% helped by a weaker US dollar, gold increased 3.6%, and industrial metals climbed 5.3% on improving global growth.

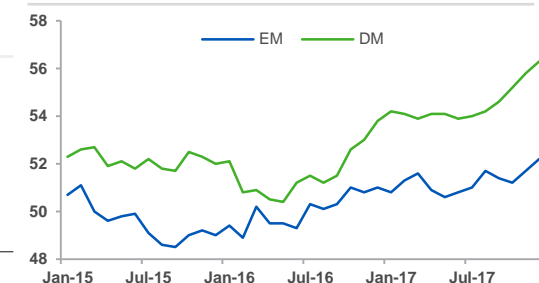
## Shifts in US and Eurozone Earnings Expectations Indicating Increased Optimism\*



\*Expectations refer to 12-month forward earnings. Monthly data through January 31, 2018. Source: FactSet

Charts are provided for illustrative purposes only and are not indicative of the past or future performance of any product.

## Global Manufacturing PMIs Continue to Rise



Monthly data as of December 31, 2017. Source: Bloomberg

**Abbreviations:** quarter-over-quarter (q/q); year-over-year (y/y); month-over-month (m/m); month-to-date (MTD); Purchasing Managers Index (PMI); West Texas Intermediate (WTI); European Central Bank (ECB); Bank of Japan (BOJ); basis points (bp); gross domestic product (GDP); emerging markets (EM); developed markets (DM); seasonally adjusted annualized rate (saar); 5y5y forward (market-implied 5-year inflation expectations 5-years from today; US dollar (USD); yield curve (difference between 10 and 2-year US Treasury yields); high-yield (HY)

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<b>GLOBAL EQUITIES</b> (USD, % chg.)	<b>Level</b>	<b>MTD (%)</b>	<b>YTD (%)</b>	<b>1Y (%)</b>	<b>3Y (%)<sup>1</sup></b>	<b>2017 (%)</b>
MSCI All-Country World	542	5.6%	5.6%	25.1%	9.7%	21.6%
MSCI World - DM	2,213	5.2%	5.2%	23.5%	9.7%	20.1%
MSCI EAFE	2,153	5.0%	5.0%	24.3%	6.5%	21.8%
MSCI EM	1,255	8.3%	8.3%	38.0%	9.3%	34.3%
<b>COUNTRY EQUITIES</b> (Local, % chg.)						
US (S&P 500)	2,824	5.6%	5.6%	23.9%	12.3%	19.4%
US (NASDAQ)	7,411	7.4%	7.4%	32.0%	16.9%	28.2%
US (Russell 2000)	1,575	2.6%	2.6%	15.7%	10.6%	13.1%
Japan (NIKKEI 225)	23,098	1.5%	1.5%	21.3%	9.3%	19.1%
EU (STOXX 600)	395	1.6%	1.6%	9.8%	2.5%	7.7%
UK (FTSE 100)	7,534	-2.0%	-2.0%	6.1%	3.7%	7.6%
France (CAC 40)	5,482	3.2%	3.2%	15.4%	6.0%	9.3%
Germany (DAX 30)	13,189	2.1%	2.1%	14.3%	7.2%	12.5%
China (SHANGHAI A SE)	3,646	5.3%	5.3%	10.2%	2.7%	6.6%
<b>FIXED INCOME</b> (USD, % chg.) <sup>2</sup>						
Global Treasury ex. US	--	-0.4%	-0.4%	2.8%	2.1%	2.1%
US Treasury	--	-1.4%	-1.4%	0.7%	0.1%	2.3%
Global IG Corporate	--	-0.7%	-0.7%	4.9%	2.8%	5.7%
Global High Yield	--	0.5%	0.5%	7.4%	7.6%	8.4%
US Leveraged Loans	--	1.0%	1.0%	4.5%	4.7%	4.1%
EM USD Denominated	--	-0.2%	-0.2%	6.6%	6.1%	8.2%
<b>COMMODITIES</b> (USD, % chg.)						
Bloomberg Commodity Index	--	2.0%	2.0%	3.6%	-3.3%	1.7%
Oil (WTI, USD / Barrel)	64.7	7.1%	7.1%	22.6%	10.3%	12.5%
Gold (USD / Troy Ounce)	1,343.4	3.6%	3.6%	12.1%	2.1%	11.9%
<b>SPREADS</b> (OAS, bp chg.) <sup>3</sup>						
US Investment Grade Corporate	86	-7	-7	-35	-50	-30
US High Yield	319	-24	-24	-69	-190	-66
EM USD Denominated	213	-13	-13	-72	-212	-75
<b>KEY RATES</b> (bp chg.) <sup>4</sup>						
3M US Libor	1.77	8	8	74	152	70
2Y US Treasuries	2.14	25	25	95	167	69
10Y US Treasuries	2.72	32	32	27	104	-5
10Y German Bund	0.70	27	27	26	40	22
10Y UK Gilt	1.51	32	32	9	18	-5
10Y Japanese Bond	0.09	4	4	0	-19	0
CBOE VIX	13.54	11.04	11.04	11.99	20.97	14.04
US 30Y Fixed Rate Mortgage	4.18	33	33	14	39	-21
<b>FOREIGN EXCHANGE</b> (vs. USD, % chg.) <sup>5</sup>						
USD – Majors Dollar Index	89.1330	-3.2%	-3.2%	-10.4%	-2.0%	-9.9%
Euro	1.2414	3.4%	3.4%	15.0%	3.2%	14.1%
British Pound	1.4191	5.0%	5.0%	12.8%	-2.0%	9.5%
Japanese Yen	109.1900	3.2%	3.2%	3.3%	2.5%	3.8%

All data as of January 31, 2018 close.

Please see important footnotes for returns in appendix.

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**Monthly Sector Performance**

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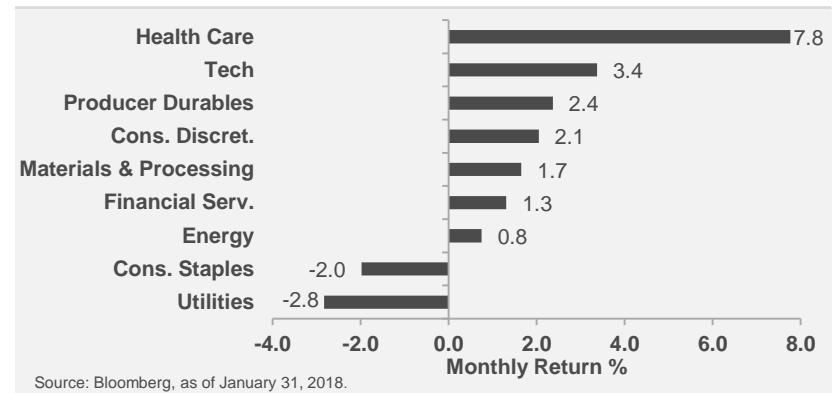
S&P 500 SECTORS	MTD	YTD	1Y	3Y Annualized	2017	5Y Annualized
Information Technology	7.6%	7.6%	41.1%	21.4%	36.9%	20.4%
Financials	6.4%	6.4%	27.5%	16.8%	20.0%	16.1%
Health Care	6.6%	6.6%	25.2%	8.3%	20.0%	15.5%
Consumer Discretionary	9.2%	9.2%	27.1%	15.6%	21.2%	16.6%
Industrials	5.3%	5.3%	23.1%	12.7%	18.5%	14.1%
Consumer Staples	1.4%	1.4%	10.4%	6.5%	10.5%	9.3%
Energy	3.8%	3.8%	3.6%	-0.3%	-3.8%	-0.7%
Utilities	-3.1%	-3.1%	3.7%	1.8%	8.3%	6.8%
Real Estate	-1.9%	-1.9%	5.2%	0.2%	7.2%	5.2%
Materials	4.1%	4.1%	20.8%	9.7%	21.4%	9.9%
Telecommunication Services	-0.6%	-0.6%	-3.2%	3.4%	-6.0%	2.0%

RUSSELL 2000 SECTORS	MTD	YTD	1Y	3Y Annualized	2017	5Y Annualized
Financial Services	1.3%	1.3%	5.8%	10.5%	2.9%	10.3%
Technology	3.4%	3.4%	18.8%	16.8%	17.6%	17.0%
Producer Durables	2.4%	2.4%	19.7%	11.5%	17.5%	11.2%
Consumer Discretionary	2.1%	2.1%	19.2%	7.0%	15.7%	10.2%
Health Care	7.8%	7.8%	40.9%	12.7%	35.9%	19.6%
Materials and Processing	1.7%	1.7%	13.6%	13.4%	14.7%	10.8%
Utilities	-2.8%	-2.8%	4.2%	6.3%	8.4%	9.0%
Energy	0.8%	0.8%	-15.1%	-12.1%	-17.6%	-13.9%
Consumer Staples	-2.0%	-2.0%	4.5%	4.1%	0.7%	12.0%

**S&P 500 JANUARY SECTORAL PERFORMANCE**



**RUSSELL 2000 JANUARY SECTORAL PERFORMANCE**



All data as of January 31, 2018 close.

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## FOOTNOTES FOR RETURNS AND CHARTS

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

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

<sup>3</sup> OAS: option-adjusted spread. Both level and change in bp

<sup>4</sup> 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

<sup>5</sup> "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

<b>MSCI All-Country World</b>	The MSCI All-Country World Index is an index that tracks the performance of both Developed and Emerging Market equities
<b>MSCI World – DM</b>	The MSCI World Index is an index that tracks the performance of Developed Market equities
<b>MSCI EAFE</b>	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
<b>MSCI EM</b>	The MSCI EM index tracks the performance of Emerging Market Equities
<b>US (S&amp;P 500)</b>	The S&P 500 is an index designed to track the performance of the largest 500 US companies. <b>US High Beta:</b> 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. <b>US Value:</b> The S&P Composite 1500 Total Return Value Index is a subset of the S&P 1500 index tracking the performance of value stocks. <b>US Growth:</b> The S&P Composite 1500 Total Return Growth Index is a subset of the S&P 1500 index tracking the performance of growth stocks. <b>US Low Vol:</b> 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.
<b>US (NASDAQ)</b>	The Nasdaq Composite Index is the market capitalization-weighted index of approximately 3,000 common equities listed on the Nasdaq stock exchange
<b>US (Russell 2000)</b>	The Russell 2000 Index is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index
<b>Japan (Nikkei 225)</b>	The NIKKEI 225 is an index that tracks the performance of the largest 225 companies traded in the Japanese market
<b>EU (STOXX 600)</b>	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
<b>UK (FTSE 100)</b>	The FTSE 100 is an index that tracks the performance of the largest 100 companies traded on the London Stock Exchange
<b>France (CAC 40)</b>	The CAC 40 is an index that tracks the performance of the largest 40 companies traded on the Paris Stock Exchange
<b>Germany (DAX 30)</b>	The DAX 30 is an index that tracks the performance of the largest 30 companies traded on the Frankfurt Stock Exchange
<b>China (SHANGHAI A SE)</b>	The SHANGHAI A SE index tracks the performance of the Renminbi denominated equities traded at the Shanghai Stock Exchange
<b>Global Aggregate</b>	The Bloomberg Barclays Global Aggregate Total Return (USD hedged) Index is a broad-based measure of the global investment-grade fixed income market
<b>Global Treasury ex US</b>	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
<b>US Treasury</b>	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
<b>U.S. TIPS</b>	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
<b>Global Investment Grade - Corp.</b>	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
<b>Global High Yield</b>	The Barclays Bloomberg Global High Yield Index is a broad-based measure of the global high yield market
<b>US Leveraged Loans</b>	The S&P/LSTA Leveraged Loan Total Return Index is designed to measure the performance of the US leveraged loan market
<b>Hedge Funds</b>	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.
<b>EM USD Denominated</b>	The Bloomberg Barclays EM USD Aggregate Index includes USD denominated debt from sovereign, quasi-sovereign, and corporate EM issuers
<b>EM Debt LC</b>	The Bloomberg Barclays EM Local Currency Government Total Return Index measures the general performance of locally issued fixed income securities by Emerging Market governments
<b>Bloomberg Commodity Index</b>	The Dow Jones UBS Commodity index is designed to provide diversified commodity exposure with weightings based on the commodity's liquidity and economic significance
<b>Commodities</b>	The S&P GSCI Total Return Index is a benchmark used to measure commodity performance over time
<b>USD</b>	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
<b>Oil (WTII, USD / Barrel)</b>	Generic West Texas Intermediate crude oil spot price
<b>Gold (USD / Troy Ounce)</b>	Gold London Bullion Market spot price, quoted in USD per Troy Ounce
<b>US Investment Grade Corporate</b>	The Barclays Bloomberg US Aggregate - Corporate Index is designed to measure the performance of the investment grade corporate sector in the US
<b>US High Yield</b>	The Bloomberg Barclays US High Yield Index covers the universe of fixed-rate, non-investment grade corporate debt in the US
<b>3M US Libor</b>	Average interest rate at which a selection of banks in London lend to one another in USD with a maturity of 3 months
<b>2Y US Treasuries</b>	Average yield of a range of Treasury securities all adjusted to the equivalent of a two-year maturity
<b>10Y US Treasuries</b>	Average yield of a range of Treasury securities all adjusted to the equivalent of a ten-year maturity
<b>10Y UK Gilt</b>	Average yield of a range of UK government bonds all adjusted to the equivalent of a ten-year maturity
<b>10Y German Bund</b>	Average yield of a range of German government bonds all adjusted to the equivalent of a ten-year maturity
<b>10Y Japanese Bond</b>	Average yield of a range of Japanese government bonds all adjusted to the equivalent of a ten-year maturity
<b>CBOE VIX</b>	Indicator of the implied volatility of S&P 500 index as calculated by the Chicago Board Options Exchange (CBOE)
<b>US 30Y Fixed-Rate Mortgage</b>	Bankrate.com 30-year US home mortgage fixed rate national average
<b>Russell 2000 Growth</b>	The Russell 2000 Growth Index is a subset of the securities found in the Russell 2000 that tracks the performance of growth-oriented stocks.
<b>Russell 2000 Value</b>	The Russell 2000 Value Index is a subset of the securities found in the Russell 2000 that tracks the performance of value-oriented stocks.
<b>USD – Majors Dollar Index</b>	A measure of the value of the US dollar relative to a basket of currencies of the US's most significant trading partners including the euro, Japanese yen, Canadian dollar, British pound, Swedish krona, and Swiss franc.

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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