

BNY MELLON Monthly Market Roundup

2 January 2018

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

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

HEADLINES

WHAT IT MEANS FOR INVESTORS

Growth: Broadening Cyclical Improvement

- US Strength Improving and Sentiment Historically High:** Q4 2017 GDP (% q/q, saar) is estimated to be 2.7% by Bloomberg consensus, 3.9% according to the New York Fed, and 2.8% per the Atlanta Fed. Markit manufacturing PMI advanced to 55.1 in December from 53.9 and is the highest since Q1 2015. Conference Board consumer confidence fell in December but remains near the highest since 2000. Small business optimism surged in November to the third highest since 1975. CEO confidence in the economy 12-months forward remained steady in December and is the best since January 2006. Housing market gained positive traction as new and existing home sales accelerated in November to the most since 1H 2007 while housing starts and new building permits are near their highest since 2H 2007. Unemployment remained at 4.1% in November while wage growth improved modestly to 2.3% y/y and is expected to increase in 2018.
- Eurozone Accelerating as Acknowledged by the ECB:** ECB raised their 2017 growth estimate by 0.2% to 2.4% and increased 2018's forecast by 0.5% to 2.3%. Manufacturing PMI increased and beat expectations in December and is the highest in the survey's history (20-years). Consumer confidence increased further to the best since the beginning of 2001. All countries had positive GDP growth (% y/y) in Q3 2017 and we expect the proportion of countries with accelerating growth rates to rise. Expectations on Merkel's ability to achieve a coalition increased causing political uncertainty to retreat yet unresolved issues remain.
- Japan on a Growth Streak:** Q3 GDP growth (% q/q, saar) revised up to 2.5% for the seventh consecutive quarter of positive growth or the longest stretch since Q2 1999 to Q1 2001.
- China Resilient but Deleveraging Headwinds Remain a Concern:** While growth has held up in 2017, a slowing real estate market and tighter credit conditions could generate lower growth in 2018. GDP growth is expected to fall from 6.8% in 2017 to 6.5% in 2018.

Subdued Inflation Expected to Move Slightly Higher in 2018

- US CPI 2.2% y/y in November 0.2% higher vs. October while core inflation decreased to 1.7%. The Fed's preferred measure of PCE inflation increased to 1.8% and has steadily gained since mid-2017. The Fed does not expect PCE inflation to surpass 2.0% by 2020.
- ECB raised its inflation estimate for 2018 to 1.4% from 1.2%, kept the forecast for 2019 constant at 1.5%, and expects 1.7% by 2020.
- UK headline inflation increased 0.1% to 3.1% in November and is the highest since Q1 2012 while core held steady at 2.7%.
- Japan inflation (excluding fresh food) increased 0.1% to 0.9% y/y in November and is the strongest price gain since March 2015.

Fiscal Policy Positive for Markets & Growth

- The tax reform plan was signed into law by President Trump and is expected to lift GDP growth by 0.5%-1.0% and S&P 500 earnings by 5.0% to 10.0%. While a near-to-medium term boost is expected, there is more uncertainty towards the longer term impact.

Monetary Policy Shifting Towards a Gradual and Dovish Tightening Cycle Led by the US

- For 2018, the Fed expects three interest rate hikes while the market only sees two. Jerome Powell begins his tenure as the new Fed Chairman in February 2018 and is expected to maintain the dovish stance of the Fed. When compared to other major economies, in our view, the US has the greatest likelihood of overheating and causing policy to tighten faster than expected.
- The ECB's reduced asset purchase program begins in January and is currently scheduled to last through September 2018. We don't expect interest rate hikes until mid-2019 at the earliest.
- BOJ kept policy steady and reassured markets it will lag other major central banks in ending its quantitative easing program despite increased rhetoric that economic conditions could warrant a shift to tightening earlier than expected.
- China's central bank announced it will continue its prudent policy and maintain reasonable credit growth in 2018.

Global Equities Finish the Year on a Positive Note; Most Major Regions Above 20% for 2017

- Global stocks continued to accelerate in December and gained 1.5% bringing the calendar year return to 21.6% led by strong earnings and growth data along with US tax reform optimism. EM's 3.4% topped DM (1.3%) again culminating in a ~14% outperformance for 2017. In the US, large caps were 1.0% higher during the month while small caps fell -0.6% despite an improving economy and the signing of Trump's tax bill into law. Despite having half the performance for the full year in 2017, US value stocks beat growth in December (1.3% vs. 0.4%; 2017 - value: 12.3%; growth: 24.5%). For the S&P 500, sector leaders in December were telecom (5.8%), energy (4.7%), and consumer discretionary (2.3%) while utilities (-6.4%), real estate (-1.0%), and health care (-0.8%) lagged.

Fixed Income: Interest Rates Mixed and Spreads Lower

- Avg. G-4 10-year yields stayed roughly in place (-2 bp) in December at 1.02% (US 2.40%, Germany 0.43%, UK 1.19%, Japan 0.05%) and are only 3 bp higher for 2017. While 10-year US Treasuries fell 2 bp, 2-year Treasuries advanced 11 bp. For the year, 2-year US Treasuries climbed 69 bp and fell 5 bp for 10-year Treasuries thereby flattening the curve. US IG corp. spreads fell 4 bp (2017: -30 bp) while US HY slipped 1 bp (-66 bp) and EM -9 bp (-75 bp).

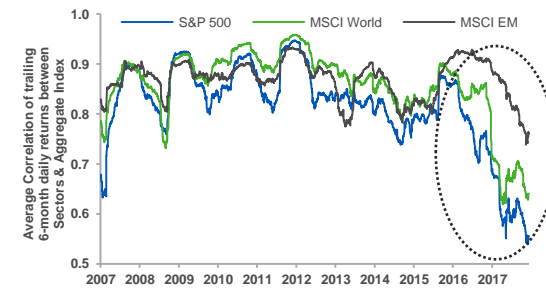
FX: Further USD Weakness

- US majors dollar index declined again in December (-1.0%; 2017: -9.9%). The Euro's strength against the USD persisted and advanced 0.8% (14.1%) while the sterling and yen were flat yet stronger against the USD for 2017.

Commodities: Strength All-Around

- Oil surged 5.3% on continuing demand growth and lower production bringing the annual gain to 12.5%. Gold was 1.1% higher and 11.9% for 2017 while industrial metals jumped 8.2% driving 2017's return to 31.0%.

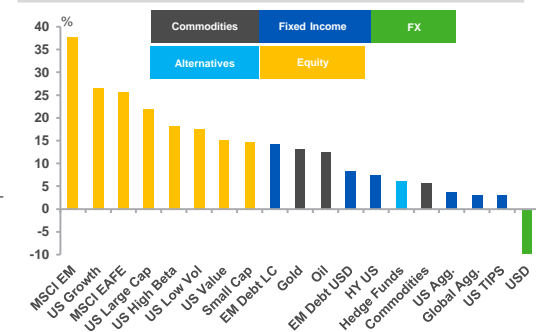
Declining Equity Correlations between Sectors a Boost for Active Management



Data as of December 29, 2017. Returns in USD. Source: FactSet

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

2017 Capital Market Performance (%): EM and US Growth Stocks Lead While the USD Lags



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 Central Bank (ECB); basis points (bp); gross domestic product (GDP); first-half (1H); second-half (2H); investment grade (IG); high yield (HY); emerging markets (EM); developed markets (DM); corporate (corp.); personal consumption expenditure (PCE); seasonally adjusted annualized rate (saar)

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GLOBAL EQUITIES (USD, % chg.)	Level	MTD (%)	YTD (%)	1Y (%)	3Y (%) ¹	2016 (%)
MSCI All-Country World	513	1.5%	21.6%	21.6%	6.7%	5.6%
MSCI World - DM	2,103	1.3%	20.1%	20.0%	6.7%	5.3%
MSCI EAFE	2,051	1.5%	21.8%	22.4%	4.6%	-1.9%
MSCI EM	1,158	3.4%	34.3%	34.9%	6.5%	8.6%
COUNTRY EQUITIES (Local, % chg.)						
US (S&P 500)	2,674	1.0%	19.4%	18.9%	8.5%	9.5%
US (NASDAQ)	6,903	0.4%	28.2%	27.1%	12.8%	7.5%
US (Russell 2000)	1,536	-0.6%	13.1%	12.6%	8.0%	19.5%
Japan (NIKKEI 225)	22,765	0.2%	19.1%	18.9%	8.7%	0.4%
EU (STOXX 600)	389	0.6%	7.7%	8.0%	4.2%	-1.2%
UK (FTSE 100)	7,688	4.9%	7.6%	8.0%	5.0%	14.4%
France (CAC 40)	5,313	-1.1%	9.3%	9.8%	7.2%	4.9%
Germany (DAX 30)	12,918	-0.8%	12.5%	12.8%	9.2%	6.9%
China (SHANGHAI A SE)	3,463	-0.3%	6.6%	6.8%	1.4%	-12.3%
FIXED INCOME (USD, % chg.) ²						
Global Treasury ex. US	--	0.0%	2.1%	1.9%	2.9%	5.0%
US Treasury	--	0.3%	2.3%	2.5%	1.5%	1.0%
Global IG Corporate	--	0.6%	5.7%	5.9%	3.9%	6.2%
Global High Yield	--	0.4%	8.4%	8.5%	7.6%	15.6%
US Leveraged Loans	--	0.4%	4.1%	4.1%	4.4%	10.1%
EM USD Denominated	--	0.4%	8.2%	8.3%	6.4%	9.9%
COMMODITIES (USD, % chg.)						
Bloomberg Commodity Index	--	3.0%	1.7%	1.5%	-5.6%	11.8%
Oil (WTI, USD / Barrel)	60.4	5.3%	12.5%	12.4%	4.1%	45.0%
Gold (USD / Troy Ounce)	1,296.5	1.1%	11.9%	13.1%	2.8%	9.1%
SPREADS (OAS, bp chg.) ³						
US Investment Grade Corporate	93	-4	-30	-29	-37	-42
US High Yield	343	-1	-66	-61	-135	-251
EM USD Denominated	226	-9	-75	-72	-158	-105
KEY RATES (bp chg.) ⁴						
3M US Libor	1.69	21	70	70	144	39
2Y US Treasuries	1.89	11	69	67	117	14
10Y US Treasuries	2.40	-2	-5	-9	18	18
10Y German Bund	0.43	6	22	25	-12	-42
10Y UK Gilt	1.19	-14	-5	-4	-63	-72
10Y Japanese Bond	0.05	1	0	1	-28	-22
CBOE VIX	11.04	11.28	14.04	13.37	15.06	18.21
US 30Y Fixed Rate Mortgage	3.85	3	-21	-24	-14	16
FOREIGN EXCHANGE (vs. USD, % chg.) ⁵						
Euro	1.2005	0.8%	14.1%	14.4%	-0.4%	-3.2%
British Pound	1.3513	-0.1%	9.5%	10.2%	-4.5%	-16.3%
Japanese Yen	112.6900	-0.1%	3.8%	3.4%	2.3%	2.8%

All data as of December 29, 2017 close.

Please see important footnotes for returns in appendix.

BNY MELLON Monthly Sector Performance

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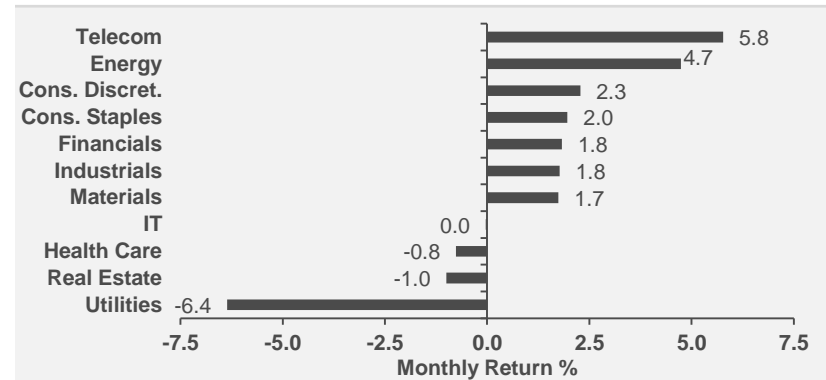
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S&P 500 SECTORS	MTD	YTD	1Y	3Y Annualized	2016	5Y Annualized
Information Technology	0.0%	36.9%	35.6%	16.2%	12.0%	19.5%
Financials	1.8%	20.0%	20.3%	11.2%	20.1%	16.3%
Health Care	-0.8%	20.0%	19.6%	6.0%	-4.4%	15.9%
Consumer Discretionary	2.3%	21.2%	20.1%	10.8%	4.3%	16.3%
Industrials	1.8%	18.5%	18.1%	8.9%	16.1%	14.6%
Consumer Staples	2.0%	10.5%	9.9%	5.0%	2.6%	10.5%
Energy	4.7%	-3.8%	-4.1%	-3.6%	23.7%	0.4%
Utilities	-6.4%	8.3%	7.8%	2.3%	12.2%	8.8%
Real Estate	-1.0%	7.2%	8.1%	2.1%	0.0%	6.4%
Materials	1.7%	21.4%	20.5%	7.0%	14.1%	10.2%
Telecommunication Services	5.8%	-6.0%	-6.4%	2.3%	17.8%	2.8%

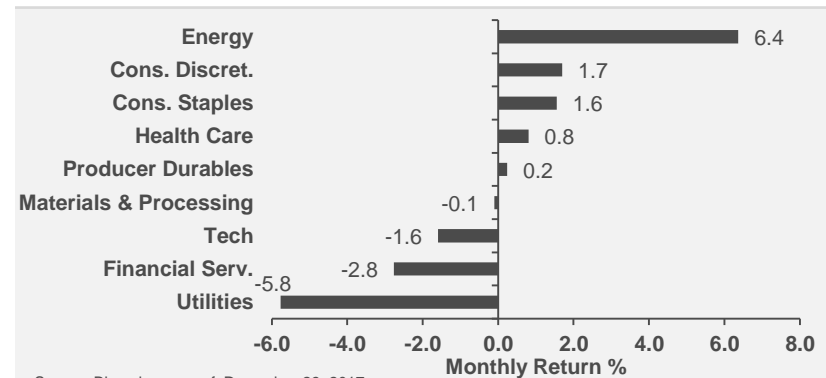
RUSSELL 2000 SECTORS	MTD	YTD	1Y	3Y Annualized	2016	5Y Annualized
Financial Services	-2.8%	2.9%	2.9%	8.0%	27.0%	11.7%
Technology	-1.6%	17.6%	16.5%	13.6%	25.5%	18.0%
Producer Durables	0.2%	17.5%	16.8%	7.7%	25.4%	12.6%
Consumer Discretionary	1.7%	15.7%	15.0%	4.8%	12.6%	11.6%
Health Care	0.8%	35.9%	35.6%	10.5%	-7.2%	20.0%
Materials and Processing	-0.1%	14.7%	13.6%	10.8%	42.8%	12.0%
Utilities	-5.8%	8.4%	7.7%	6.2%	18.5%	11.0%
Energy	6.4%	-17.6%	-18.0%	-15.5%	32.9%	-12.3%
Consumer Staples	1.6%	0.7%	0.5%	3.8%	13.4%	14.1%

S&P 500 DECEMBER SECTORAL PERFORMANCE



Source: Bloomberg, as of December 29, 2017.

RUSSELL 2000 DECEMBER SECTORAL PERFORMANCE



Source: Bloomberg, as of December 29, 2017.

All data as of December 29, 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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