

# BNY MELLON Monthly Market Roundup

1 September 2017

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

Please see important footnotes for returns and charts on page 4.

## HEADLINES

## WHAT IT MEANS FOR INVESTORS

### Growth: Cyclical Improvement Even As Structural Issues Linger

- **US Growth Steady; Expansion Increasingly Mature:** 3.0% q/q (annualized) Q2 GDP growth is the fastest pace in two years on gains in household spending and business investment. Unemployment rate (4.4%) still near 2000 lows but wages are unable to break higher. US Manufacturing PMI up in August (fastest pace since 2011) and at a strong level relative to post-crisis. Leading economic indicators projecting further gains. Consumer confidence (Conference Board) higher in August, second highest since 2000. Disconnect between sentiment (soft) and hard data continues to be a potential issue. Economic slack has improved but output remains below potential helping to keep a lid on inflation.
- **Eurozone a Bright Spot Led by Germany:** Q2 2.2% y/y best since Q1 2011. Eurozone's jobless rate fell to an eight-year low of 9.1%. Manufacturing PMI for August recovered July's dip. Eurozone consumer confidence rose to the highest level since before the financial crisis. With Eurozone break-up worries easing following elections in core countries, policy uncertainty has come down. Economic slack, similar to the US, improved but has further room to catch-up on a relative basis.
- **UK a Weak Spot:** Consumer confidence continues to dip lower and is near the lowest since late 2013 as Brexit uncertainty lingers. Latest retail sales brought y/y 4-month average to 4-year lows and real wages remain under pressure signaling consumer weakness. Expect uncertainty surrounding Brexit and its implications to linger.
- **China Stabilizing but Remains a Concern:** Despite weak investment, growth stabilizing after multi-year downtrend – Q2's 6.9% same as Q1. China August manufacturing PMI came above expectations and in expansion territory but directionally range-bound since late 2016. Excess credit and shadow banking issues expected to remain.

### Low Inflation Helping Monetary Policy Stay Accommodative

- US headline and core CPI in July (1.7%) y/y near lowest in 2017 and core inflation the least since May 2015.
- Eurozone inflation (1.5%) in August down from 2.0% in February which was the largest since the beginning of 2013.
- UK headline inflation (2.6%) in July and core (2.4%) steady over last several months after steady increase since H2 2015.

### Fiscal Policy: Cautiously Optimistic

- With monetary policy potentially at its limit, a pivot towards structural reforms, lower taxes, and greater fiscal spending is needed for a faster and a more sustainable economic growth outlook. However, implementation continues to disappoint and could persist given heightened political uncertainty and elevated debt levels. Immediate focus on US tax reform progress.

### Monetary Policy Remains Easy but Divergence in Future Expectations

- Fed: the market is pricing in a lower probability of additional rate hikes in 2017; plans for balance sheet normalization expected within next several meetings; shallow tightening cycle still anticipated; next meeting September 19-20.
- ECB left rates and asset purchases unchanged and may announce tapering plans at next meeting on September 7.
- BOE kept borrowing costs the same despite higher inflation over concerns on the growth outlook.

### Global Equities Continue to Grind Higher and Climb the Wall of Worry

- Markets reflected unease with geopolitical risk and Washington tensions but ultimately shrugged off immediate concerns. Upcoming focal points for markets include the announcement of the Fed unwind, debt ceiling, and progress of US tax reform.
- Global equities gained modestly in August (+0.2%) pressured by geopolitical risk and US political uncertainty (S&P 500 +0.1%). EM (+2.0 %) outperformed DM (-0.1%) in August, in-line with a continuation of EM-supportive macro environment (gradual monetary policy normalization in DM; improving growth; weaker USD).
- August S&P500 sectoral leaders: IT (+3.2%), Utilities (+2.7%). Sectoral laggards: Energy (-5.7%) and Telecom (-3.1%).

### Fixed income: Low Bond Yields Persist; Spreads Widened but Still Low

- In line with rising risk aversion, G-4 10 year yields were all down in August, US (-18 bp MTD; 2.12%), Germany (-18 bp; 0.36%), UK (-20 bp; 1.03%), Japan (-7bp; 0.01%). Japan 10-year yield fell to zero after North Korea's missile launch.
- US IG and HY corporate spreads (+8 bp MTD; +26 bp) rose the most since early 2016 but still near lowest since 2010.

### FX: USD Weakness vs. Euro Strength

- US Majors dollar index lost modestly in August (-0.2%) dragging YTD return to -9.3%. Supportive of US equity markets.
- Euro reached the highest vs. USD since January 2015 during August; GBP sunk against the euro.

### Commodities: Gold Delivers Again

- WTI oil dipped (-5.9% MTD, -12.1% YTD) to \$47.2. Oil continues to struggle to gain positive momentum above \$50 per barrel due to oversupply concerns and modest demand.
- Gold gained 3.1% MTD (+12.7% YTD), Continuation of subdued inflation in the US and depressed long term rates may provide a tailwind for Gold.

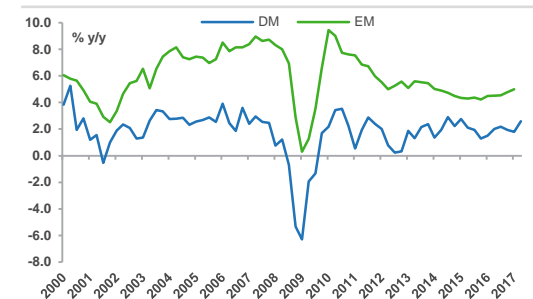
### Volatility: Historically Low but Higher MTD

- VIX 21-day average reached lowest in history (9.99) on August 8 before jumping to 16.04 on August 10, the highest daily close since the US election. S&P 500 trailing 21-day return volatility as of August 7 is the lowest since 1969.

GLOBAL ECONOMY

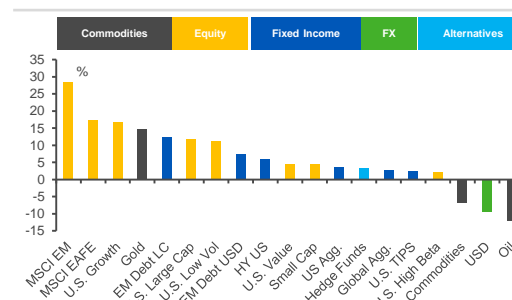
FINANCIAL MARKETS

Developed and Emerging Economies: GDP Growth Steadily Rising



Data through Q2 2017 for Developed Economies and Q1 2017 for Emerging. Source: Bloomberg

2017 YTD Capital Market Returns As of August 31: EM Tops, Oil Worst



Source: Bloomberg

**Abbreviations:** 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).



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GLOBAL EQUITIES (USD, % chg.)	Level	MTD (%)	YTD (%)	1Y (%)	3Y (%) <sup>1</sup>	2016 (%)
MSCI All-Country World	478	0.2%	13.4%	14.8%	3.5%	5.6%
MSCI World - DM	1,960	-0.1%	11.9%	14.0%	3.9%	5.3%
MSCI EAFE	1,931	-0.3%	14.7%	14.5%	0.1%	-1.9%
MSCI EM	1,088	2.0%	26.1%	21.7%	0.0%	8.6%
COUNTRY EQUITIES (Local, % chg.)						
US (S&P 500)	2,472	0.1%	10.4%	13.9%	7.3%	9.5%
US (NASDAQ)	6,429	1.3%	19.4%	23.3%	12.0%	7.5%
US (Russell 2000)	1,405	-1.4%	3.5%	13.3%	6.2%	19.5%
Japan (NIKKEI 225)	19,646	-1.4%	2.8%	16.3%	8.4%	0.4%
EU (STOXX 600)	374	-1.1%	3.4%	8.8%	3.0%	-1.2%
UK (FTSE 100)	7,431	0.8%	4.0%	9.6%	2.9%	14.4%
France (CAC 40)	5,086	-0.2%	4.6%	14.6%	5.1%	4.9%
Germany (DAX 30)	12,056	-0.5%	5.0%	13.8%	8.4%	6.9%
China (SHANGHAI A SE)	3,520	2.7%	8.3%	9.0%	14.9%	-12.3%
FIXED INCOME (USD, % chg.) <sup>2</sup>						
Global Treasury ex. US	--	0.9%	1.5%	-0.6%	3.7%	5.0%
US Treasury	--	1.1%	3.1%	-0.9%	2.1%	1.0%
Global IG Corporate	--	0.8%	4.7%	2.3%	3.8%	6.2%
Global High Yield	--	0.6%	6.9%	8.7%	5.9%	15.6%
US Leveraged Loans	--	0.0%	2.6%	5.8%	3.5%	10.2%
EM USD Denominated	--	1.4%	7.4%	4.8%	5.0%	9.9%
COMMODITIES (USD, % chg.)						
Bloomberg Commodity Index	--	0.4%	-2.7%	3.0%	-12.3%	11.8%
Oil (WTI, USD / Barrel)	47.2	-5.9%	-12.1%	5.7%	-21.0%	45.0%
Gold (USD / Troy Ounce)	1,305.8	3.1%	12.7%	-0.7%	0.5%	9.1%
SPREADS (OAS, bp chg.) <sup>3</sup>						
US Investment Grade Corporate	110	8	-13	-25	8	-42
US High Yield	378	26	-31	-112	15	-251
EM USD Denominated	258	-4	-43	-60	-29	-105
KEY RATES (bp chg.) <sup>4</sup>						
3M US Libor	1.32	1	32	48	108	39
2Y US Treasuries	1.33	-1	13	53	85	14
10Y US Treasuries	2.12	-18	-33	54	-23	18
10Y German Bund	0.36	-18	15	43	-53	-42
10Y UK Gilt	1.03	-20	-21	39	-133	-72
10Y Japanese Bond	0.01	-7	-4	7	-49	-22
CBOE VIX	10.59	10.26	14.04	13.42	11.98	18.21
US 30Y Fixed Rate Mortgage	3.77	-8	-29	37	-30	16
FOREIGN EXCHANGE (vs. USD, % chg.) <sup>5</sup>						
Euro	1.1910	0.6%	13.2%	6.7%	-3.2%	-3.2%
British Pound	1.2930	-2.2%	4.8%	-1.6%	-8.0%	-16.3%
Japanese Yen	109.9800	0.3%	6.3%	-6.0%	-1.8%	2.8%

All data as of August 31, 2017 close.

Please see important footnotes for returns on page 4.

# BNY MELLON

## Monthly Sector Performance

1 September 2017

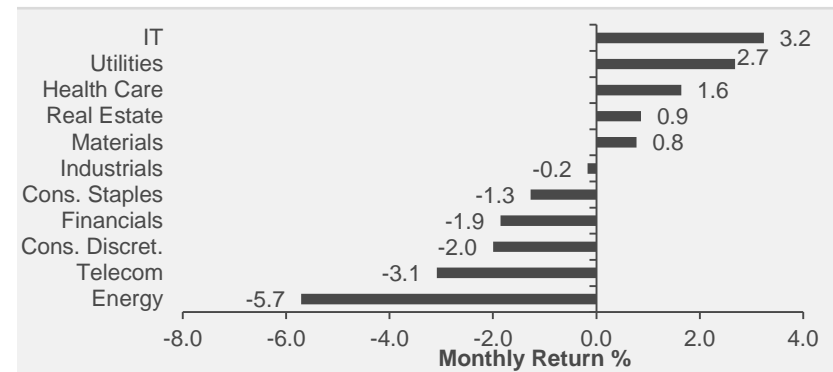
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S&P 500 SECTORS	MTD	YTD	1Y	3Y Annualized	2016	5Y Annualized
Information Technology	3.2%	25.3%	29.3%	15.0%	12.0%	15.7%
Financials	-1.9%	5.7%	23.7%	9.2%	20.1%	15.0%
Health Care	1.6%	17.7%	11.8%	8.4%	-4.4%	15.9%
Consumer Discretionary	-2.0%	9.9%	11.5%	9.3%	4.3%	14.7%
Industrials	-0.2%	8.2%	15.0%	7.8%	16.1%	13.1%
Consumer Staples	-1.3%	5.6%	1.0%	6.6%	2.6%	9.0%
Energy	-5.7%	-16.8%	-8.7%	-13.6%	23.7%	-2.9%
Utilities	2.7%	12.3%	11.6%	8.2%	12.2%	8.6%
Real Estate	0.9%	6.7%	-0.8%	4.9%	0.0%	6.4%
Materials	0.8%	10.4%	13.2%	2.7%	14.1%	8.9%
Telecommunication Services	-3.1%	-11.2%	-8.9%	-0.8%	17.8%	0.7%

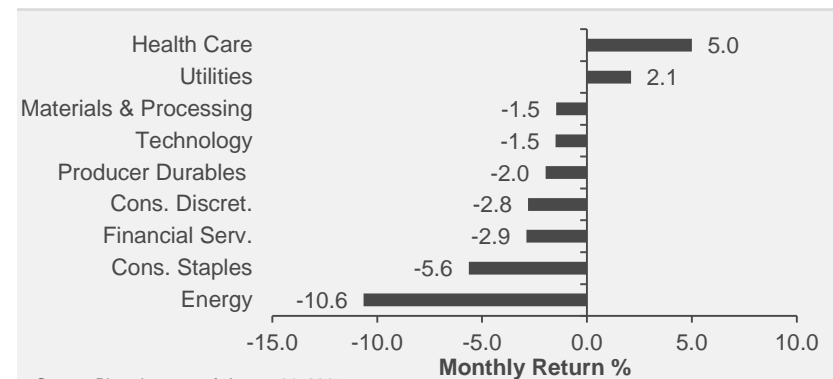
RUSSELL 2000 SECTORS	MTD	YTD	1Y	3Y Annualized	2016	5Y Annualized
Financial Services	-2.9%	-3.0%	10.6%	8.2%	27.0%	10.9%
Technology	-1.5%	12.3%	23.5%	14.7%	25.5%	17.2%
Producer Durables	-2.0%	3.0%	14.9%	3.8%	25.4%	11.4%
Consumer Discretionary	-2.8%	-0.2%	5.1%	2.6%	12.6%	9.1%
Health Care	5.0%	27.1%	26.7%	12.5%	-7.2%	17.3%
Materials and Processing	-1.5%	0.7%	13.1%	5.5%	42.8%	11.5%
Utilities	2.1%	10.8%	18.7%	10.3%	18.5%	11.1%
Energy	-10.6%	-33.8%	-18.8%	-35.5%	32.9%	-15.9%
Consumer Staples	-5.6%	-11.1%	-9.6%	3.3%	13.4%	11.3%

### S&P 500 AUGUST SECTORAL PERFORMANCE



Source: Bloomberg, as of August 31, 2017.

### RUSSELL 2000 AUGUST SECTORAL PERFORMANCE



Source: Bloomberg, as of August 31, 2017.

All data as of August 31, 2017 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

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. <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.
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

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

## IMPORTANT INFORMATION

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