

BNY MELLON Monthly Market Roundup

2 October 2017

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

HEADLINES

WHAT IT MEANS FOR INVESTORS

Growth: Cyclical Improvement Even As Structural Issues Linger

- **US Growth Steady:** Q2 GDP growth revised upward to 3.1%, fastest since Q1 2015, from 3.0%. Unemployment increased to 4.4% in August which is equivalent to the pre-crisis low reached in 2007. Wages remained at 2.5% y/y for the fifth consecutive month despite economic improvement. ISM manufacturing PMI broke out in September to the highest level in 13 years after being range-bound YTD. Economic surprises continue to rise but the disconnect between hard and survey-based soft data remains. Existing and new home sales falling and at the lowest YTD. Expect the impact of hurricanes to distort data to the downside in the near term. Growing number of reports highlighting negative growth impact of income inequality.
- **Eurozone Growth Momentum Widens:** All countries are experiencing positive GDP growth and a higher proportion are experiencing rising growth rates. Manufacturing PMI for September advanced for the eleventh gain out of the last 12-months to the highest since early 2011. Eurozone consumer confidence highest since 2001 and business confidence rose again in September to best since 2007. Unsurprisingly, Merkel won Germany's federal election further easing Eurozone break-up worries, yet she faces a challenging process of forming a coalition which may have negative spillover effects.
- **UK a Weak Spot:** Theresa May offered to pay EU membership fee beyond 2019 in return for a transitional period of tariff-free trade. Although the offer was received positively by the EU, chief negotiator Barnier signaled the trade deal talks will not start in October as originally planned. Expect political turbulence, further uncertainty, and growth risks to remain skewed towards the downside.
- **China Stabilizing but Remains a Concern:** September manufacturing PMI broke out of a range; increased to the highest level since early 2012. The housing market remains under pressure as residential price growth continues to trend lower helped by policymakers' efforts to cool off the rapid expansion. Trade growth has risen from the lows reached in H2 2015-H1 2016 but lost momentum over last several months. Growth in retail sales slowed in August to near the lowest since H1 2006. FX reserves climbed for the seventh consecutive month reducing concerns of capital flight. S&P cut credit rating from AA- to A+ for first time since 1999 citing the risk from rising debt.

Low Inflation a "Mystery" and Helping Monetary Policy Stay Accommodative

- US headline CPI (1.9% y/y) in August higher vs. July (1.7%) and above YTD low of 1.6% in June. Core inflation (1.7%) in August same as prior three months and lowest since mid-2015. Low inflation continues to surprise as highlighted by Janet Yellen.
- Eurozone CPI remained steady at 1.5% y/y in September and is below the YTD peak of 2.0% in February while core slipped to 1.1%.
- UK headline inflation (2.9%, highest since mid-2013) in August and core (2.7%, highest since 2H 2011) 0.3% above July's reading.

Fiscal Policy: Cautiously Optimistic

- The White House announced details of their tax reform proposal. If enacted, this could be positive for economic growth and growth-sensitive assets along with corporate earnings. The administration signaled that the repatriation tax would be in the 10% range.

Monetary Policy Easy but Less So

- Federal Reserve announced plans to begin reducing its balance sheet in October. No additional rate hikes are being priced in until the December meeting (66% probability) with expectations for a shallow tightening cycle into 2018.
- ECB left rates and asset purchases unchanged but is expected to announce tapering plans at the next meeting on October 26.

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

- Global equities gained in September (+1.8%); DM (+2.1%) outperformed EM (-0.5%) helped by stronger USD and the Fed's reassurance of tighter policy. In the US (S&P +1.9% MTD, 12.5% YTD), markets welcomed potential tax reform, solid continued earnings, positive economic data, and diminishing debt ceiling worries. September S&P 500 sector leaders: Energy (+9.8%), Financials (+5.1%). Sector laggards: Utilities (-3.0%) and Real Estate (-1.9%) as expectations of higher rates clipped their attractiveness.
- US, Europe, and Japan realized and expected earnings continue to grow. S&P 500 Q3 earnings growth y/y expected to be -4.0%.

Fixed income: Bond Yields Edged Higher, Spreads Tighter

- Despite higher risk aversion initially due to natural disasters and North Korea concerns, interest rates reversed course and edged higher due to supportive data and tighter monetary policy. Avg. G-4 10-year yields moved higher in September to 1.06% (+18 bp MTD; US +21 bp, Germany +10 bp, Japan +6 bp, UK +33 bp). Credit spreads tightened in September (US IG -9 bp, US HY -31 bp, EM USD -12 bp).
- Eurozone peripheral spreads tightened MTD with the exception of Greece. Negotiations on the third review of Greece's bailout to start mid-October. Markets worry about dragging of the third review, particularly with the possibility of a weaker German coalition, and the uncertainty it will ensue.

FX: USD Stronger, Euro Weaker

- US majors dollar index gained in September (+0.4% MTD, -8.9% YTD) on hawkish Fed tone and rising yields.
- Euro down against the USD (-0.8% MTD, +12.3% YTD). Sterling gained 3.6% against the USD in September (+8.6% YTD) due to expectations of higher interest rates in the UK stemming from rising inflation. Future sterling moves to be affected by Brexit process.

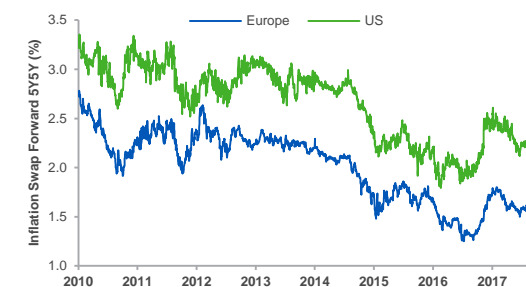
Commodities: Oil Higher; Gold Lost

- WTI oil (+9.4% MTD, -3.8% YTD) moved higher on lower global supply, lower stock piles, improving demand, and rising Middle East tensions following the Kurdistan referendum.
- Gold suffered its worst month of the year (-3.2% MTD, +11.5% YTD) amid stronger USD, rising rates, and less risk aversion.

GLOBAL ECONOMY

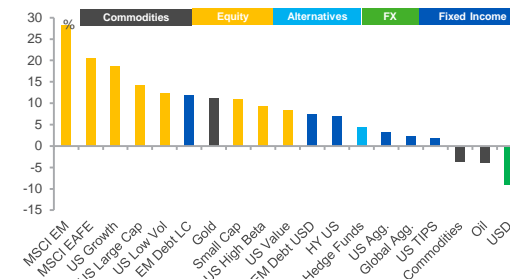
FINANCIAL MARKETS

Expected Inflation Remains Low Helping Monetary Policy Remain Easy and Supporting Risk Assets



Source: Bloomberg

2017 YTD Capital Market Returns as of September 29: EM Equity Tops, USD and Commodities Worst



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); US Dollar (USD)



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GLOBAL EQUITIES (USD, % chg.)	Level	MTD (%)	YTD (%)	1Y (%)	3Y (%) ¹	2016 (%)
MSCI All-Country World	487	1.8%	15.4%	16.6%	5.2%	5.6%
MSCI World - DM	2,001	2.1%	14.2%	16.3%	5.5%	5.3%
MSCI EAFE	1,974	2.2%	17.2%	15.7%	2.2%	-1.9%
MSCI EM	1,082	-0.5%	25.5%	18.4%	2.3%	8.6%
COUNTRY EQUITIES (Local, % chg.)						
US (S&P 500)	2,519	1.9%	12.5%	17.1%	8.4%	9.5%
US (NASDAQ)	6,496	1.0%	20.7%	23.3%	13.0%	7.5%
US (Russell 2000)	1,491	6.1%	9.9%	20.4%	10.1%	19.5%
Japan (NIKKEI 225)	20,356	3.6%	6.5%	21.9%	7.7%	0.4%
EU (STOXX 600)	388	3.8%	7.4%	13.3%	4.4%	-1.2%
UK (FTSE 100)	7,373	-0.8%	3.2%	6.6%	3.5%	14.4%
France (CAC 40)	5,330	4.8%	9.6%	19.9%	6.9%	4.9%
Germany (DAX 30)	12,829	6.4%	11.7%	23.3%	10.8%	6.9%
China (SHANGHAI A SE)	3,507	-0.4%	7.9%	11.7%	12.4%	-12.3%
FIXED INCOME (USD, % chg.) ²						
Global Treasury ex. US	--	-0.5%	1.0%	-1.1%	3.5%	5.0%
US Treasury	--	-0.9%	2.3%	-2.0%	2.0%	1.0%
Global IG Corporate	--	-0.3%	4.5%	2.0%	4.0%	6.2%
Global High Yield	--	0.7%	7.7%	8.8%	6.8%	15.6%
US Leveraged Loans	--	0.4%	3.0%	5.3%	3.9%	10.2%
EM USD Denominated	--	0.1%	7.5%	4.6%	5.5%	9.9%
COMMODITIES (USD, % chg.)						
Bloomberg Commodity Index	--	-0.1%	-2.9%	-0.2%	-10.8%	11.8%
Oil (WTI, USD / Barrel)	51.7	9.4%	-3.8%	8.0%	-18.2%	45.0%
Gold (USD / Troy Ounce)	1,279.8	-3.2%	11.5%	-3.1%	1.7%	8.1%
SPREADS (OAS, bp chg.) ³						
US Investment Grade Corporate	101	-9	-22	-37	-11	-42
US High Yield	347	-31	-62	-140	-89	-251
EM USD Denominated	246	-12	-55	-72	-56	-105
KEY RATES (bp chg.) ⁴						
3M US Libor	1.33	2	34	49	110	39
2Y US Treasuries	1.47	14	27	74	89	14
10Y US Treasuries	2.33	21	-12	77	-17	18
10Y German Bund	0.46	10	26	58	-50	-42
10Y UK Gilt	1.37	33	13	64	-108	-72
10Y Japanese Bond	0.07	6	2	15	-46	-22
CBOE VIX	9.51	10.59	14.04	14.02	15.98	18.21
US 30Y Fixed Rate Mortgage	3.80	3	-26	45	-31	16
FOREIGN EXCHANGE (vs. USD, % chg.) ⁵						
Euro	1.1814	-0.8%	12.3%	5.3%	-2.3%	-3.2%
British Pound	1.3398	3.6%	8.6%	3.3%	-6.2%	-16.3%
Japanese Yen	112.5100	-2.2%	4.0%	-10.2%	-0.9%	2.8%

All data as of September 29, 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	0.6%	26.0%	27.7%	15.6%	12.0%	15.5%
Financials	5.1%	11.0%	35.7%	11.1%	20.1%	15.4%
Health Care	0.9%	18.7%	14.7%	8.3%	-4.4%	15.3%
Consumer Discretionary	0.8%	10.8%	13.7%	10.5%	4.3%	14.1%
Industrials	3.8%	12.3%	20.7%	9.6%	16.1%	13.6%
Consumer Staples	-1.1%	4.4%	2.6%	6.1%	2.6%	8.5%
Energy	9.8%	-8.6%	-1.4%	-8.8%	23.7%	-1.7%
Utilities	-3.0%	9.0%	7.3%	8.0%	12.2%	7.8%
Real Estate	-1.9%	4.7%	-1.3%	6.1%	0.0%	6.2%
Materials	3.3%	14.1%	19.6%	4.0%	14.1%	8.9%
Telecommunication Services	3.5%	-8.1%	-5.1%	0.4%	17.8%	0.7%

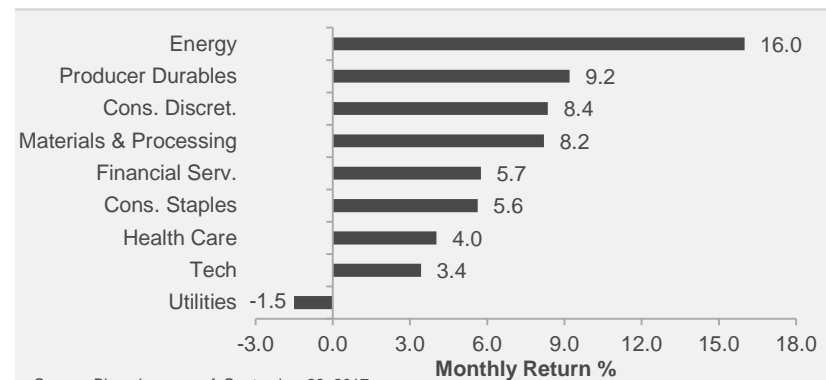
RUSSELL 2000 SECTORS	MTD	YTD	1Y	3Y Annualized	2016	5Y Annualized
Financial Services	5.7%	2.6%	20.1%	11.6%	27.0%	11.6%
Technology	3.4%	16.2%	24.0%	17.6%	25.5%	17.9%
Producer Durables	9.2%	12.5%	26.6%	9.0%	25.4%	12.6%
Consumer Discretionary	8.4%	8.2%	16.9%	6.7%	12.6%	10.2%
Health Care	4.0%	32.2%	26.7%	15.0%	-7.2%	17.2%
Materials and Processing	8.2%	9.0%	22.7%	10.8%	42.8%	12.0%
Utilities	-1.5%	9.1%	15.2%	12.1%	18.5%	10.0%
Energy	16.0%	-23.2%	-8.7%	-28.7%	32.9%	-14.3%
Consumer Staples	5.6%	-6.1%	-0.3%	6.1%	13.4%	12.1%

S&P 500 SEPTEMBER SECTORAL PERFORMANCE



Source: Bloomberg, as of September 29, 2017.

RUSSELL 2000 SEPTEMBER SECTORAL PERFORMANCE



Source: Bloomberg, as of September 29, 2017.

All data as of September 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

IMPORTANT INFORMATION

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