Monthly Market Roundup

While global equities advanced again in September, performance was modest and EM equities continued their descent even as overall risk aversion moderated. U.S. sentiment remains favorable due to a supportive fundamental backdrop that continues to diverge from the rest of world. The Fed raised rates as its policy normalization pulled away further from other major central banks. We expect the trade spat with China to escalate as the U.S., Canada, and Mexico agreed to a new deal.

Global Economy

Global growth continues to be led by the U.S., with activity and confidence separating further from the rest of world. Gently rising inflation has kept the Fed on track for continued policy normalization, leading other major central banks. Trade remains focused on the U.S. and China as tensions have moderated elsewhere.

Financial Markets

Global equities gained modestly in September. While U.S. equities were slightly higher, market sentiment is still upbeat on the strong fundamental backdrop relative to other major economies. Core global sovereign bond yields all edged higher, led by the U.S., as the Fed hiked rates by another 25 bp. The USD and euro finished the month unchanged, while EM currencies overall recovered some of August’s losses. Commodities were strong, led by oil’s rally as supply constraints continue.

Market Roundup

Capital market performance across asset classes.

Sector Performance

U.S. small and large cap sector returns.

Factor Performance

MSCI U.S. and EAFE factor returns.
GROWTH

U.S. momentum continues to pull away from activity overseas, contributing to further divergence in inflation and policy normalization. While EM risk aversion recently moderated, the market remains focused on trade, China’s growth, and potential contagion.

INFLATION

While rising inflationary pressures are the strongest and clearest in the U.S. amongst major economies, the market and policy makers do not anticipate a rapid acceleration in prices. Eurozone inflation has improved but is still modest.

CENTRAL BANK POLICY

The Fed hiked rates, reiterated its outlook for further tightening through 2020, and removed “accommodative” from its statement while other major central banks’ policies were unchanged.
GLOBAL ECONOMY

U.S. momentum continues to pull away from activity overseas, contributing to further divergence in inflation and policy normalization. While EM risk aversion recently moderated, the market remains focused on trade, China’s growth, and potential contagion.

• **Global Growth Remains Strong, but Forecasts Being Lowered.** OECD cut its estimate for global growth in 2018 and 2019 by 0.1% and 0.2% to 3.7%. Downside risks include growth desynchronization, trade disputes affecting investment, and faster-than-expected policy normalization in developed economies.

• **Solid U.S. Economic Growth Separating Further from Rest of World and Expected to Continue.** The Fed upgraded its 2018 GDP forecast by 0.3% to 3.1% (vs. market’s 2.9%), 0.1% for 2019 to 2.5% (equal to market), and kept 2020 unchanged at 2.0% (vs. market’s 1.9%). Industrial production growth reached the best since 2010, capacity utilization increased to near the strongest since Q1 2015, and leading indicators continue to suggest the expansion will persist. Productivity improved to 1.3% y/y and is at the upper end of the range post-crisis. The labor market tightened further with wages expanding the fastest in nine years.

• **Eurozone Struggling to Regain Upward Momentum.** The ECB lowered its 2018 and 2019 growth estimates by 0.1% to 2.0% and 1.8%, respectively, and kept 2020 at 1.7%. Eurozone manufacturing PMI is in expansion territory but has dropped to the lowest in two years from a record high in December 2017 led by softening exports. Despite recent weakness, policy makers expect a gradual and broad-based expansion to continue with risks broadly balanced.

• **Japan Still in Need of Ultra-Easy Stimulus.** Q2 growth was revised up to 3.0% q/q (saar), the best since Q1 2016.

• **U.K. Brexit Risks Rising.** UK PM Theresa May said that Brexit talks reached an “impasse,” indicating the UK needs to prepare for a no-deal outcome. Manufacturing PMI increased after falling to the lowest since mid-2016.

• **Trade Risks Centered on China and U.S. as Tensions Have Moderated Elsewhere.** Tariffs of 10% were implemented on $200 billion of Chinese imports and 5–10% on $60 billion of U.S. imports on September 24. U.S. and Canada reached a trade deal with Mexico to replace NAFTA.

**NFIB U.S. SMALL BUSINESS OPTIMISM BY CATEGORY AND HISTORICAL PERCENTILE**

- Capex Plans
- Job Openings Hard to Fill
- Hiring Plans

**TAKEAWAY:**

U.S. economic strength has significantly boosted small business confidence reflected across multiple categories from capital spending to jobs.


Please see important footnotes for returns and charts on page 22.
While rising inflationary pressures are the strongest and clearest in the U.S. amongst major economies, the market and policy makers do not anticipate a rapid acceleration in prices. Eurozone inflation has improved but is still modest.

- U.S. CPI inflation declined m/m for the first time since December 2017 to 2.7% y/y from 2.9%. Since December 2017, inflation has risen 0.6%, the largest YTD gain since 2011. Core CPI also declined 0.2% to 2.2% y/y, the first m/m descent since November of last year. Core PCE, the Fed’s preferred measure, was unchanged at 2.0% y/y but is up from 1.6% at the end of 2017. The Fed’s latest forecasts for core PCE inflation were unchanged from June: 2.0% for 2018 and 2.1% for 2019 and 2020. As reiterated during the press conference, this suggests the Fed does not see inflation surprising to the upside. Plans to raise compensation amongst small business are historically high, suggesting additional upside pressure to inflation. While elevated compared to post-crisis levels, input costs have moderated over the last several months. Despite the clear uptick in inflation, longer-term market and survey-based expectations remain anchored and stable.

- Eurozone’s CPI gained 0.1% to 2.1% y/y, the highest since the end of 2012. Headline inflation has climbed 0.7% YTD, the most since 2011. Core CPI fell 0.1% to 0.9% y/y and has treaded between 0.9%–1.2% since the middle of 2017. While the ECB kept its forecasts of 1.7% inflation through 2020 steady, ECB president Mario Draghi said “uncertainty surrounding the outlook is receding,” reinforced by a strengthening labor market.

- Japan’s inflation advanced 0.1% to 1.0% y/y, the fastest pace since March 2015.

- UK inflation was 0.2% higher to 2.7% y/y and has increased over the last several months after moving lower for most of 2018.

**TAKEAWAY:**
While still modest, consumer estimates for inflation in the near-term have increased to the highest since 2014 but have remained stable when projecting further out.

**UMICHIGAN U.S. CONSUMER SURVEY OF SHORT AND LONGER-TERM INFLATION EXPECTATIONS**

The Fed hiked rates, reiterated its outlook for further tightening through 2020, and removed “accommodative” from its statement while other major central banks’ policies were unchanged.

- The Fed met on September 26 and raised its target range to 2.00%–2.25%, the eighth time in the recovery since the financial crisis. The Fed’s probability of another hike increased for this year but the conviction around estimates for 2019 and 2020 were unchanged. In addition, the Fed removed the phrase “the stance of monetary policy remains accommodative” from its statement, which was interpreted as dovish since it indicates the Fed could be closer to concluding rate hikes. However, we put more weight towards the Fed’s dot plots. The market has priced in a 72% probability of another hike in December, up from 42% in the middle of the year but only slightly higher compared to early September. For 2019, the market’s projections are below the Fed.

- The ECB confirmed plans to end bond purchases at the end of 2018 and keep interest rates unchanged through at least next summer. One member discussed that the ECB should provide more clarity to the market on the pace of future rate increases. Currently, the market does not anticipate a hike until the fall of next year but given its increased confidence surrounding the outlook for inflation, the ECB could surprise and tighten sooner than expected.

- The BOE kept rates unchanged after raising them 25 bp in August; however, Governor Mark Carney warned of the dramatic downside risks of a disorderly Brexit. Going forward, the central bank will have to weigh the impact of any further rate hikes against rising risks from a no-deal Brexit and elevated inflation.

- The BOJ kept policy the same as its normalization process continues to lag all other major central banks.

TAKEAWAY: Financial conditions remain accommodative.

TAKEAWAY: The Fed’s rate forecasts, four hikes total in 2018 followed by three in 2019 and one in 2020, were unchanged and remain above the market’s expectations.
GLOBAL EQUITIES
Global equities gained modestly in September. U.S. equities failed to show a strong performance, but continue to enjoy favorable sentiment on solid economic and corporate fundamentals. In emerging markets, contagion worries from Argentina and Turkey dissipated and markets mostly shrugged off tariffs imposed on China.

FIXED INCOME
Core global sovereign bond yields were higher in September led by the U.S. and credit spreads tightened across the board, led by emerging markets.

FOREIGN EXCHANGE
The USD was unchanged against major currencies, though showed upward momentum later in the month especially following the Fed’s rate hike. Emerging markets currencies were up, led by the Turkish lira’s strong recovery.

COMMODITIES
Commodities gained thanks to oil’s strong rally as the U.S. sanctions on Iran are set to begin in November.
Global equities gained modestly in September. U.S. equities failed to show a strong performance, but continue to enjoy favorable sentiment on solid economic and corporate fundamentals. In emerging markets, contagion worries from Argentina and Turkey dissipated and markets mostly shrugged off tariffs imposed on China.

- Global equities (+0.3% MTD, +2.2% YTD) gained slightly in September, with developed markets (+0.4% MTD, +3.8% YTD) stocks outperforming emerging markets (-0.8% MTD, -9.5% YTD) for another month. Japan (+5.5% MTD) and China (+3.5%) fared the best during the month with strong gains, while Germany (-0.9%) and Europe as a whole (+0.2%) lagged behind others on weak economic data.

- In the U.S. (large caps +0.4% MTD, small caps -2.5%), equities did not show strong performance, but market sentiment continues to favor U.S. stocks on healthy economic and corporate fundamentals.

- Within the U.S., the communications sector (+4.3%, now including Facebook, Alphabet, and Netflix) led in performance in September, followed by healthcare (+2.8%) and energy (+2.4%). Financials (-2.4%) were dragged down by banks (-4.8%), finishing the month second-worst after real estate (-3.2%).

- Among developed market indices (+0.4% MTD, +3.8% YTD), Europe (+0.2% MTD, -1.5% YTD) performed better in September compared to August (-2.4%), but weak economic data for the region continue to drag down market sentiment exacerbated by Brexit and Italy worries. The Brexit backdrop worsened after the UK PM said the talks reached an “impasse,” increasing odds of a no-deal Brexit. Italy’s budget row ended with a worse-than-expected budget deficit target of 2.4% for the next year, opening the door for future credit rating downgrades.

- Emerging markets (-0.8% MTD, -9.5% YTD) finished the month in the red but sentiment improved considerably during the second half of the month. The positive sentiment was boosted by rate hikes from the central banks of problematic countries such as Turkey and Russia and markets mostly shrugging off the U.S. tariffs imposed on China (as 10% underwhelmed the initially-feared 25%).

- The U.S. equities factor performance in September showed high dividend yield stocks led (+1.3% MTD), followed by minimum volatility (+1.2%), and momentum stocks (+0.9%) while small caps disappointed (-1.9%). In the rest of the developed economies, value (+2.1%), momentum (+1.1%) and large cap (+1.1%) led, while small caps lagged (-0.7%).

**TAKEAWAY:**
The U.S. is among 2018’s top performers while EM return dispersion is evident.
Core global sovereign bond yields edged higher in September led by the U.S. and credit spreads tightened across the board. The USD was unchanged against major currencies, though showed upward momentum later in the month especially following the Fed’s rate hike. Commodities gained thanks to oil’s strong rally as the U.S. sanctions on Iran are set to begin in November.

**FIXED INCOME**
- Average G-4 10-year government bond yields spiked in September and hit highest since August 2015 (+13 bp MTD; U.S. (+19 bp), Germany (+14 bp), UK (+15 bp), Japan (+2 bp)).
- EM currencies (+0.6% MTD, -4.5% YTD) were up in September after August’s 2.0% sell-off, as contagion concerns from the Turkish lira to other EM currencies mostly dissipated. The Turkish lira’s strong recovery (+8.0% MTD against the USD) after the central bank’s larger-than-expected rate hike, was followed by the Chilean peso (+3.9%) and South African rand (+3.9). Lagging among peers for another month was the Argentine peso (-10.7%) as the central bank’s monetary policy abandoned inflation targeting framework under the agreement of a record $57.1 billion loan from the IMF.

**FOREIGN EXCHANGE**
- The USD (0.0% MTD, +3.3% YTD), after weakening during the first half of the month, bounced back especially after the Fed’s 25 bp rate hike on the U.S.’s continued monetary policy divergence compared to the rest of the developed economies.
- EM currencies (+0.6% MTD, -4.5% YTD) were up in September after August’s 2.0% sell-off, as contagion concerns from the Turkish lira to other EM currencies mostly dissipated. The Turkish lira’s strong recovery (+8.0% MTD against the USD) after the central bank’s larger-than-expected rate hike, was followed by the Chilean peso (+3.9%) and South African rand (+3.9). Lagging among peers for another month was the Argentine peso (-10.7%) as the central bank’s monetary policy abandoned inflation targeting framework under the agreement of a record $57.1 billion loan from the IMF.

**COMMODITIES**
- Commodities (+1.9% MTD, -2.0% YTD) gained in September driven by oil’s strong rally (+4.9% MTD, +21.2% YTD) as OPEC and Russia decided to leave output unchanged while Iranian sanctions are set to begin in November. Brent hit 2014 levels and led to talks of a return to the $100 per barrel era. Gold (-1.9% MTD, -8.7% YTD) had its sixth consecutive monthly drop, the longest streak of losses since 1997.

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**EM CURRENCY VOLATILITY INDEX**

The JPMorgan EM Volatility Index is calculated based on currency 3-month ATM vols, which are combined with a set of fixed weights to produce the daily result. Source: BNY Mellon Global Investment Strategy using data from Bloomberg.

**BRENT OIL PRICE ($ PER BARREL)**


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**TAKEAWAY:**

EM currency volatility declined sharply as the Turkish lira recovered August losses.

**TAKEAWAY:**

Oil hit 2014 levels and triggered talks of a return to the $100 per barrel era.
### Market Roundup

Data as of September 28, 2018 close.

#### Global Equities

<table>
<thead>
<tr>
<th></th>
<th>Level</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI All-Country World</td>
<td>524</td>
<td>0.3%</td>
<td>2.2%</td>
<td>8.2%</td>
<td>11.7%</td>
<td>21.6%</td>
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<tr>
<td>MSCI World – DM</td>
<td>2,184</td>
<td>0.4%</td>
<td>3.8%</td>
<td>9.6%</td>
<td>11.9%</td>
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<tr>
<td>MSCI EAFE</td>
<td>1,974</td>
<td>0.6%</td>
<td>-3.8%</td>
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<tr>
<td>MSCI EM</td>
<td>1,048</td>
<td>-0.8%</td>
<td>-9.5%</td>
<td>-2.3%</td>
<td>10.3%</td>
<td>34.3%</td>
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#### Country Equities

<table>
<thead>
<tr>
<th></th>
<th>Level</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. (S&amp;P 500)</td>
<td>2,914</td>
<td>0.4%</td>
<td>9.0%</td>
<td>16.1%</td>
<td>15.7%</td>
<td>19.4%</td>
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<tr>
<td>U.S. (NASDAQ)</td>
<td>8,046</td>
<td>-0.8%</td>
<td>16.6%</td>
<td>24.7%</td>
<td>21.0%</td>
<td>28.2%</td>
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<tr>
<td>U.S. (Russell 2000)</td>
<td>1,697</td>
<td>-2.5%</td>
<td>10.5%</td>
<td>14.0%</td>
<td>15.9%</td>
<td>13.1%</td>
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<tr>
<td>Japan (NIKKEI 225)</td>
<td>24,120</td>
<td>5.5%</td>
<td>-3.8%</td>
<td>0.5%</td>
<td>6.4%</td>
<td>21.8%</td>
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<tr>
<td>EU (STOXX 600)</td>
<td>383</td>
<td>0.2%</td>
<td>-1.5%</td>
<td>-0.8%</td>
<td>3.9%</td>
<td>7.7%</td>
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<tr>
<td>UK (FTSE 100)</td>
<td>7,510</td>
<td>1.0%</td>
<td>-2.3%</td>
<td>2.6%</td>
<td>8.0%</td>
<td>7.6%</td>
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<tr>
<td>France (CAC 40)</td>
<td>5,493</td>
<td>1.6%</td>
<td>3.4%</td>
<td>3.8%</td>
<td>8.0%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Germany (DAX 30)</td>
<td>12,247</td>
<td>-0.9%</td>
<td>-5.2%</td>
<td>-3.6%</td>
<td>8.9%</td>
<td>12.5%</td>
</tr>
<tr>
<td>China (SHANGHAI A SE)</td>
<td>2,955</td>
<td>3.5%</td>
<td>-14.7%</td>
<td>-15.5%</td>
<td>-3.1%</td>
<td>6.6%</td>
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#### Fixed Income

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<th>Level</th>
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<th>1Y</th>
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<tr>
<td>Global Treasury ex. U.S.</td>
<td>635</td>
<td>-0.2%</td>
<td>1.3%</td>
<td>2.4%</td>
<td>3.0%</td>
<td>2.1%</td>
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<tr>
<td>U.S. Treasury</td>
<td>2,162</td>
<td>-0.9%</td>
<td>-1.7%</td>
<td>-1.7%</td>
<td>0.3%</td>
<td>2.3%</td>
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<tr>
<td>Global IG Corporate</td>
<td>250</td>
<td>-0.3%</td>
<td>-1.1%</td>
<td>0.2%</td>
<td>3.5%</td>
<td>5.7%</td>
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<tr>
<td>Global High Yield</td>
<td>470</td>
<td>1.4%</td>
<td>0.4%</td>
<td>1.2%</td>
<td>7.8%</td>
<td>8.4%</td>
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<tr>
<td>U.S. Leveraged Loans</td>
<td>2,913</td>
<td>0.7%</td>
<td>4.0%</td>
<td>5.2%</td>
<td>5.2%</td>
<td>4.1%</td>
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<tr>
<td>EM USD Denominated</td>
<td>1,071</td>
<td>1.3%</td>
<td>-2.3%</td>
<td>-1.6%</td>
<td>5.5%</td>
<td>8.2%</td>
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#### Commodities

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<tr>
<td>Bloomberg Commodity Index</td>
<td>176</td>
<td>1.9%</td>
<td>-2.0%</td>
<td>2.4%</td>
<td>0.1%</td>
<td>1.7%</td>
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<tr>
<td>Oil (WTI, USD/Barrel)</td>
<td>73.3</td>
<td>4.9%</td>
<td>21.2%</td>
<td>42.1%</td>
<td>18.1%</td>
<td>12.5%</td>
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<tr>
<td>Gold (USD/Troy Ounce)</td>
<td>1,183.5</td>
<td>-1.9%</td>
<td>-8.7%</td>
<td>-7.8%</td>
<td>1.3%</td>
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#### Spreads

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<tr>
<td>U.S. Investment Grade Corporate</td>
<td>106</td>
<td>-8</td>
<td>13</td>
<td>3</td>
<td>-59</td>
<td>-30</td>
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<tr>
<td>U.S. High Yield</td>
<td>316</td>
<td>-22</td>
<td>-27</td>
<td>-34</td>
<td>-305</td>
<td>-66</td>
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<tr>
<td>EM USD Denominated</td>
<td>285</td>
<td>-33</td>
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#### Key Rates

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<tr>
<td>3M U.S. Libor</td>
<td>2.40</td>
<td>8</td>
<td>70</td>
<td>106</td>
<td>207</td>
<td>70</td>
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<td>2Y U.S. Treasuries</td>
<td>2.81</td>
<td>19</td>
<td>92</td>
<td>136</td>
<td>214</td>
<td>69</td>
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<tr>
<td>10Y U.S. Treasuries</td>
<td>3.05</td>
<td>19</td>
<td>65</td>
<td>74</td>
<td>95</td>
<td>-5</td>
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<tr>
<td>10Y German Bund</td>
<td>0.47</td>
<td>14</td>
<td>4</td>
<td>-1</td>
<td>-12</td>
<td>22</td>
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<tr>
<td>10Y UK Gilt</td>
<td>1.57</td>
<td>15</td>
<td>38</td>
<td>20</td>
<td>-20</td>
<td>-5</td>
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<tr>
<td>10Y Japanese Bond</td>
<td>0.13</td>
<td>2</td>
<td>8</td>
<td>6</td>
<td>-23</td>
<td>0</td>
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<tr>
<td>U.S. 30Y Fixed Rate Mortgage</td>
<td>4.57</td>
<td>16</td>
<td>72</td>
<td>75</td>
<td>70</td>
<td>-21</td>
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#### Foreign Exchange

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<th>Level</th>
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<th>YTD</th>
<th>1Y</th>
<th>3Y</th>
<th>2017</th>
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<tbody>
<tr>
<td>USD – Major Dollar Index</td>
<td>95.1320</td>
<td>0.0%</td>
<td>3.3%</td>
<td>2.2%</td>
<td>-0.3%</td>
<td>-9.9%</td>
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<tr>
<td>Euro</td>
<td>1.1604</td>
<td>0.0%</td>
<td>-3.3%</td>
<td>-1.5%</td>
<td>1.1%</td>
<td>14.1%</td>
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<tr>
<td>British Pound</td>
<td>1.3031</td>
<td>0.5%</td>
<td>-3.6%</td>
<td>-3.1%</td>
<td>-4.9%</td>
<td>9.5%</td>
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<tr>
<td>Japanese Yen</td>
<td>113.7000</td>
<td>-2.3%</td>
<td>-0.9%</td>
<td>-1.2%</td>
<td>1.8%</td>
<td>3.8%</td>
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### S&P 500 SECTOR PERFORMANCE

Data as of September 28, 2018 close.

#### S&P 500 SECTORS

<table>
<thead>
<tr>
<th>Sector</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y Annualized</th>
<th>2017 Annualized</th>
<th>5Y Annualized</th>
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<tbody>
<tr>
<td>Information Technology</td>
<td>-0.4%</td>
<td>19.5%</td>
<td>30.8%</td>
<td>26.5%</td>
<td>36.9%</td>
<td>20.4%</td>
</tr>
<tr>
<td>Financials</td>
<td>-2.4%</td>
<td>-1.2%</td>
<td>7.1%</td>
<td>15.1%</td>
<td>20.0%</td>
<td>11.1%</td>
</tr>
<tr>
<td>Health Care</td>
<td>2.8%</td>
<td>15.2%</td>
<td>17.1%</td>
<td>14.0%</td>
<td>20.0%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>1.0%</td>
<td>19.5%</td>
<td>31.3%</td>
<td>17.7%</td>
<td>21.2%</td>
<td>14.2%</td>
</tr>
<tr>
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<td>3.3%</td>
<td>9.4%</td>
<td>16.0%</td>
<td>18.5%</td>
<td>10.3%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>0.6%</td>
<td>-5.5%</td>
<td>-0.2%</td>
<td>4.9%</td>
<td>10.5%</td>
<td>6.0%</td>
</tr>
<tr>
<td>Energy</td>
<td>2.4%</td>
<td>5.2%</td>
<td>10.6%</td>
<td>8.4%</td>
<td>-3.8%</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Utilities</td>
<td>-0.9%</td>
<td>0.0%</td>
<td>-0.7%</td>
<td>7.4%</td>
<td>8.3%</td>
<td>7.1%</td>
</tr>
<tr>
<td>Real Estate</td>
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<td>5.3%</td>
<td>7.2%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Materials</td>
<td>-2.3%</td>
<td>-4.2%</td>
<td>2.0%</td>
<td>14.1%</td>
<td>21.4%</td>
<td>6.4%</td>
</tr>
<tr>
<td>Communication Services</td>
<td>4.3%</td>
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<td>-0.9%</td>
<td>4.7%</td>
<td>-6.0%</td>
<td>1.3%</td>
</tr>
</tbody>
</table>

#### S&P 500 SEPTEMBER SECTOR PERFORMANCE

- **Communication Services**: 4.3%
- **Health Care**: 2.8%
- **Energy**: 2.4%
- **Industrials**: 2.1%
- **Consumer Discretionary**: 1.0%
- **Consumer Staples**: 0.6%
- **Information Technology**: -0.4%
- **Utilities**: -0.9%
- **Materials**: -2.3%
- **Financials**: -2.4%
- **Real Estate**: -3.2%

Data as of September 28, 2018 close.
### SECTOR PERFORMANCE

Data as of September 28, 2018 close.

#### S&P 500 vs. Russell 2000

<table>
<thead>
<tr>
<th>RUSSELL 2000 SECTORS</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y Annualized</th>
<th>2017</th>
<th>5Y Annualized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>-3.8%</td>
<td>3.5%</td>
<td>3.7%</td>
<td>11.8%</td>
<td>2.9%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Technology</td>
<td>-3.8%</td>
<td>20.0%</td>
<td>22.0%</td>
<td>24.2%</td>
<td>17.6%</td>
<td>15.4%</td>
</tr>
<tr>
<td>Producer Durables</td>
<td>-1.6%</td>
<td>6.0%</td>
<td>10.7%</td>
<td>17.4%</td>
<td>17.5%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>-1.4%</td>
<td>12.5%</td>
<td>20.8%</td>
<td>12.9%</td>
<td>15.7%</td>
<td>7.5%</td>
</tr>
<tr>
<td>Health Care</td>
<td>-3.0%</td>
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<td>30.6%</td>
<td>20.5%</td>
<td>35.9%</td>
<td>17.2%</td>
</tr>
<tr>
<td>Materials and Processing</td>
<td>-2.4%</td>
<td>-1.9%</td>
<td>3.3%</td>
<td>19.0%</td>
<td>14.7%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.4%</td>
<td>7.2%</td>
<td>5.4%</td>
<td>13.6%</td>
<td>8.4%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Energy</td>
<td>0.0%</td>
<td>6.0%</td>
<td>13.5%</td>
<td>1.7%</td>
<td>-17.6%</td>
<td>-16.0%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>-4.1%</td>
<td>4.1%</td>
<td>11.8%</td>
<td>7.2%</td>
<td>0.7%</td>
<td>7.4%</td>
</tr>
</tbody>
</table>

#### RUSSELL 2000 SEPTEMBER SECTOR PERFORMANCE

- Utilities: 1.4%
- Energy: 0.0%
- Consumer Discretionary: -1.4%
- Producer Durables: -1.6%
- Materials and Processing: -2.4%
- Health Care: -3.0%
- Technology: -3.8%
- Financial Services: -3.8%
- Consumer Staples: -4.1%
## FACTOR PERFORMANCE

Data as of September 28, 2018 close. Net total returns in USD.

### U.S. FACTORS

<table>
<thead>
<tr>
<th></th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y Annualized</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI U.S.</td>
<td>0.4%</td>
<td>10.2%</td>
<td>17.7%</td>
<td>17.2%</td>
<td>21.2%</td>
</tr>
<tr>
<td>Value</td>
<td>0.4%</td>
<td>3.1%</td>
<td>8.9%</td>
<td>14.1%</td>
<td>14.4%</td>
</tr>
<tr>
<td>Growth</td>
<td>0.5%</td>
<td>17.2%</td>
<td>26.5%</td>
<td>20.2%</td>
<td>28.3%</td>
</tr>
<tr>
<td>Large Cap</td>
<td>0.6%</td>
<td>10.6%</td>
<td>18.1%</td>
<td>17.6%</td>
<td>21.6%</td>
</tr>
<tr>
<td>Small Cap</td>
<td>-1.9%</td>
<td>10.5%</td>
<td>15.9%</td>
<td>17.0%</td>
<td>16.8%</td>
</tr>
<tr>
<td>Min. Vol</td>
<td>1.2%</td>
<td>9.3%</td>
<td>15.2%</td>
<td>15.3%</td>
<td>18.4%</td>
</tr>
<tr>
<td>High Div. Yield</td>
<td>1.3%</td>
<td>5.8%</td>
<td>12.5%</td>
<td></td>
<td>18.4%</td>
</tr>
<tr>
<td>Momentum</td>
<td>0.9%</td>
<td>16.2%</td>
<td>26.3%</td>
<td>22.3%</td>
<td>37.2%</td>
</tr>
<tr>
<td>Quality</td>
<td>0.7%</td>
<td>12.5%</td>
<td>22.8%</td>
<td>18.7%</td>
<td>25.3%</td>
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### EAFE FACTORS

<table>
<thead>
<tr>
<th></th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y Annualized</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI EAFE</td>
<td>0.9%</td>
<td>-1.4%</td>
<td>3.3%</td>
<td>9.4%</td>
<td>25.0%</td>
</tr>
<tr>
<td>Value</td>
<td>2.1%</td>
<td>-3.5%</td>
<td>0.2%</td>
<td>8.3%</td>
<td>21.4%</td>
</tr>
<tr>
<td>Growth</td>
<td>-0.2%</td>
<td>0.6%</td>
<td>6.4%</td>
<td>10.4%</td>
<td>28.9%</td>
</tr>
<tr>
<td>Large Cap</td>
<td>1.1%</td>
<td>-1.5%</td>
<td>3.0%</td>
<td>9.0%</td>
<td>24.0%</td>
</tr>
<tr>
<td>Small Cap</td>
<td>-0.7%</td>
<td>-2.2%</td>
<td>4.4%</td>
<td>12.3%</td>
<td>33.0%</td>
</tr>
<tr>
<td>Min. Vol</td>
<td>0.7%</td>
<td>1.8%</td>
<td>5.8%</td>
<td>8.8%</td>
<td>21.6%</td>
</tr>
<tr>
<td>High Div. Yield</td>
<td>0.7%</td>
<td>-1.5%</td>
<td>1.3%</td>
<td>7.6%</td>
<td>19.9%</td>
</tr>
<tr>
<td>Momentum</td>
<td>1.1%</td>
<td>2.3%</td>
<td>5.0%</td>
<td></td>
<td>28.5%</td>
</tr>
<tr>
<td>Quality</td>
<td>-0.4%</td>
<td>1.1%</td>
<td>4.7%</td>
<td>9.1%</td>
<td>25.6%</td>
</tr>
</tbody>
</table>

### MSCI U.S. SEPTEMBER FACTOR PERFORMANCE

![Graph showing factor performance for September 2018]

### MSCI EAFE SEPTEMBER FACTOR PERFORMANCE

![Graph showing factor performance for September 2018]
BNY Mellon Global Investment Strategy

Alicia Levine, PhD
Head of Global Investment Strategy

Lale Akoner
Market Strategist

Bryan Besecker, CFA, CAIA
Market Strategist

Eliana Daitch
Associate Investment Strategist

Eric Hundahl, CFA
Senior Investment Strategist

Melissa Wilson
Investment Strategist

Liz Young, CFA
Senior Investment Strategist

Abbreviations

y/y — year-over-year
m/m — month-over-month
q/q — quarter-over-quarter
MTD — month-to-date
YTD — year-to-date
Fed — Federal Reserve
ECB — European Central Bank
BOJ — Bank of Japan
bp — basis points
EM — emerging markets
DM — developed markets
USD — U.S. dollar
EAFE — Europe, Australasia and Far East
BOE — Bank of England
PBOC — People's Bank of China

HY — high-yield
G4 — U.S., UK, Germany, Japan
CPI — consumer price index
IG — investment grade
PCE — personal consumption expenditure
QE — quantitative easing
FOMC — Federal Open Market Committee (FOMC)
IIF — Institute of International Finance
GDP — gross domestic product
IMF — International Monetary Fund
EPS — earnings per share
Min. — minimum
Div. — dividend
PMI — purchasing managers index
PCE — personal consumption expenditures
Appendix

GLOBAL ECONOMY > GROWTH

NFIB U.S. SMALL BUSINESS OPTIMISM BY CATEGORY AND HISTORICAL PERCENTILE

Capex Plans   Job Openings Hard to Fill   Hiring Plans

Historical Percentile


TAKEAWAY:

U.S. economic strength has significantly boosted small business confidence reflected across multiple categories from capital spending to jobs.

Please see important footnotes for returns and charts on page 22.
E V O L U T I O N  O F  T H E  F E D E R A L  R E S E R V E ’ S  2 0 1 8 − 2 0 2 0  I N F L A T I O N  F O R E C A S T

TAKEAWAY:
The Fed's forecasts for future inflation have remained stable and do not indicate it expects growth in prices to surprise on the upside, likely suggesting further gradual normalization of monetary policy.
**Appendix**

GLOBAL ECONOMY > INFLATION

**UMICHIGAN U.S. CONSUMER SURVEY OF SHORT AND LONGER-TERM INFLATION EXPECTATIONS**

Takeaway:
While still modest, consumer estimates for inflation in the near-term have increased to the highest since 2014 but have remained stable when projecting further out.
FEDERAL RESERVE VS. MARKET INTEREST RATE EXPECTATIONS

<table>
<thead>
<tr>
<th>OIS – 4/30/18</th>
<th>OIS – 10/1/18</th>
<th>FOMC Dots Median – 12/31/17</th>
<th>FOMC Dots Median – 3/21/18</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>FOMC Dots Median – 6/13/18</td>
<td>FOMC Dots Median – Latest</td>
</tr>
</tbody>
</table>

TAKEAWAY:

The Fed’s rate forecasts, four hikes total in 2018 followed by three in 2019 and one in 2020, were unchanged and remain above the market’s expectations.
Appendix

GLOBAL ECONOMY > CENTRAL BANK POLICY

NET PERCENTAGE OF U.S. BANKS TIGHTENING LENDING STANDARDS FOR BUSINESS LOANS

- Commercial and Industrial Loans for Small Firms
- Commercial and Industrial Loans for Large/Medium Firms

TAKEAWAY:
Financial conditions remain accommodative.

Please see important footnotes for returns and charts on page 22.
TAKEAWAY:
The U.S. is among 2018’s top performers while EM return dispersion is evident.
EM currency volatility declined sharply as the Turkish lira recovered August losses.
TAKEAWAY:

Oil hit 2014 levels and triggered talks of a return to the $100 per barrel era.
FOOTNOTES FOR RETURNS AND CHARTS

1 Total 3% change annualized for equities, commodities, foreign exchange and fixed income.
2 Total returns in USD. USD hedged for Global Treasury ex U.S., 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.

DEFINITIONS

MSCI All-Country World: The MSCI All-Country World 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 U.S. and Canada.
MSCI EM: The MSCI EM index tracks the performance of Emerging Market Equities.
MSCI U.S.: Index is designed to measure the performance of the large and mid cap segments of the U.S. market.
MSCI Momentum: Index is designed to reflect the performance of an equity momentum strategy by emphasizing stocks with high price momentum.
MSCI Growth: Index is designed to reflect the performance of securities exhibiting overall growth characteristics.
MSCI Value: Index is designed to reflect the performance of securities exhibiting overall value style characteristics.
MSCI Small Cap: Index is designed to reflect the performance of the small cap segment of the respective market.
MSCI Quality: Index is designed to reflect the performance of quality growth stocks by identifying stocks with high quality scores based on three fundamental variables: high return on equity, stable y/y earnings growth, and low financial leverage.
MSCI Large Cap: Index is designed to reflect the performance of the large cap segment of the respective market.
MSCI Min. Volatility: Index is designed to reflect the performance of a minimum variance strategy.
MSCI High Dividend Yield: Index is designed to reflect the performance of equities in the parent index (excluding REITs) with higher dividend income and quality characteristics than average dividend yields that are both sustainable and persistent.
U.S. (S&P 500): The S&P 500 is an index designed to track the performance of the largest 500 U.S. companies.
U.S. 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.
U.S. 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.
MSCI U.S.: The S&P Composite 1500 Total Return Growth Index is a subset of the S&P 1500 index tracking the performance of growth stocks.
Gold (USD/Troy Ounce): 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.
U.S. (NASDAQ): The Nasdaq Composite Index is the market capitalization-weighted index of approximately 3,000 common equities listed on the Nasdaq stock exchange.
U.S. (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.
U.S. Treasury: The Barclays Bloomberg U.S. Treasury Index is the U.S. Treasury component of the U.S. Aggregate Index and uses public obligations of the U.S. Treasury with a remaining maturity of one year or more.
U.S. TIPS: The Bloomberg Barclays U.S. Treasury Inflation-Protected Securities Total Return Index tracks the performance of publicly issued, U.S. 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 Bloomberg Barclays Global High Yield Index is a broad-based measure of the global high yield market.
U.S. Leveraged Loans: The S&P/LSSTA Leveraged Loan Total Return Index is designed to measure the performance of the U.S. 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 U.S. 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 (WTI, 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.
U.S. Investment Grade Corporate: The Barclays Bloomberg U.S. Aggregate – Corporate Index is designed to measure the performance of the investment grade corporate sector in the U.S.
U.S. High Yield: The Bloomberg Barclays U.S. High Yield Index covers the universe of fixed-rate, non-investment grade corporate debt in the U.S.
3M U.S. 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 U.S. Treasuries: Average yield of a range of Treasury securities all adjusted to the equivalent of a two-year maturity.
10Y U.S. 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).
U.S. 30Y Fixed-Rate Mortgage: Bankrate.com 30-year U.S. 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. Charts are provided for illustrative purposes only and are not indicative of the past or future performance of any product. An investor cannot invest directly in any index.

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