



Our investment experts share their perspectives on market events, economic data and developing themes in our monthly review of the global capital markets.

EQUITY HIGHLIGHTS

- Equity markets were positive across the opportunity set in October as the U.S. and China moved closer to a “phase one trade deal” and the odds of a no deal Brexit diminished. Equity markets also benefitted from the U.S. Federal Reserve’s 25 basis point interest rate cut. International markets led the way for the month of October as the MSCI emerging markets growth index returned 4.91%, the MSCI World Ex USA small cap index returned 4.11% and the MSCI emerging markets value index returned 3.40%. The worst performers in the opportunity set were concentrated in the U.S. with the Russell Mid Cap Value, Russell Top 200 Value and Russell Mid Cap Growth indices returning 0.54%, 1.84% and 1.85%, respectively.
- After a challenging 2018, the performance of actively-managed equity strategies has improved in 2019 with all market segments, save for U.S. Large Blend and U.S. Small Value, showing higher year-to-date returns than passive strategies.
- U.S. growth equities have outperformed value by a wide margin since the global financial crisis, driven partially by a prolonged low economic growth environment and significant outperformance from large cap information technology, communication services and consumer discretionary companies. Stretched growth valuations could lead to improvement in value relative performance.

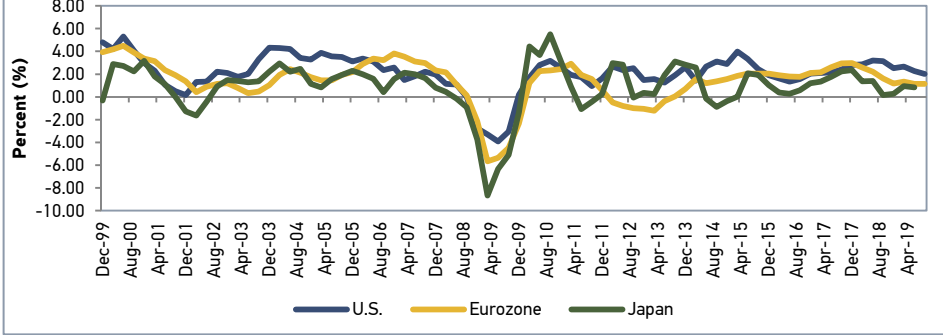
FIXED INCOME HIGHLIGHTS

- Returns across the fixed income opportunity set were primarily positive in the month of October. The Barclays U.S. Credit Index was the top performer returning 0.57% followed by the Barclays Emerging Markets USD Index returning 0.53% and the Barclays U.S. Mortgage Backed Securities Index returning 0.35%. The worst performers in the opportunity set were the Barclays Global Treasury ex U.S. Index returning -0.68%, the Barclays U.S. Government Index returning 0.07% and the Barclays U.S. TIPS Index returning 0.26%.
- Ten-year government bond yields moved higher across the opportunity set with French yields increasing by 18 basis points followed by German and U.K. yields increasing by 16 basis points. The smallest increase in yield during the month of October occurred in the U.S. where yields increased by 1 basis point.
- Municipal/Treasury yield ratios moved lower across the two-, three- and five-year maturities while ratios moved higher for the seven- and ten-year maturities. The two-, three-, five- and ten-year ratios remain below their historical average while the seven-year ratio has moved above its historical average.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
MSCI ACWI IMI	19.06%	Barclays US Aggregate	8.85%	US Fund Multialternative	5.94%	6-month	1.57%	Prime Rate	4.75%
Russell 3000	22.68%	Barclays Gbl Treas xUS Hdg	8.22%	DJ Equity All REIT	29.93%	1-year	1.53%	LIBOR (3 Mo)	1.90%
S&P 500	23.16%	Barclays US TIPS	7.85%	Bloomberg Commodity	5.22%	3-year	1.52%	Oil Price (\$/barrel)	\$54.18
MSCI EAFE	16.86%	Barclays US High Yield	11.71%			5-year	1.51%	Gold (\$/t oz)	\$1,514.80
MSCI EM	10.35%	Barclays EM Aggregate	11.38%			10-year	1.69%		
						30-year	2.17%		

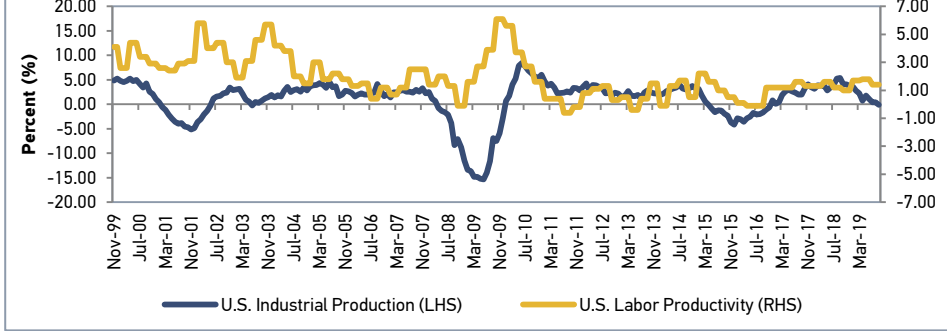


YOY Real GDP Growth (\$U.S.)



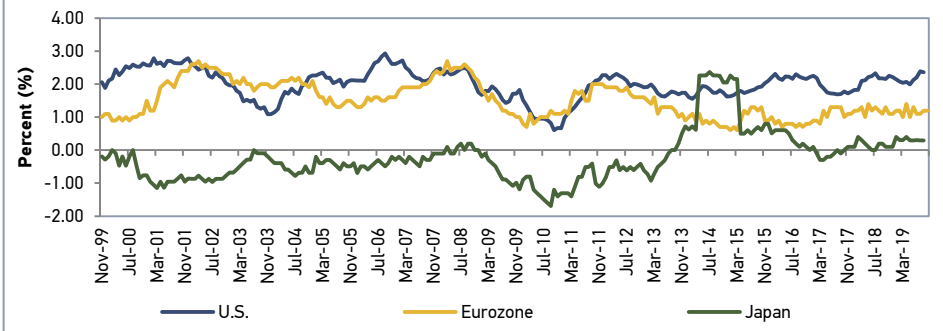
U.S. and Eurozone data as of 09.30.2019, Japan data as of 06.30.2019; Source: FactSet

YoY U.S. Industrial Production and Productivity



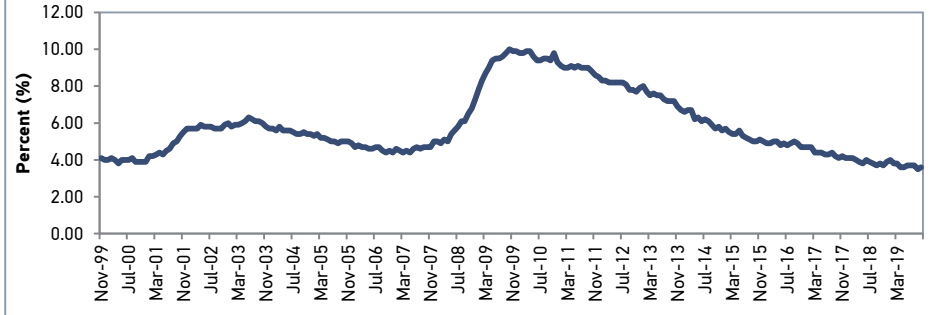
Data as of 09.30.2019; Source: FactSet

Core Consumer Price Index (YoY Growth)



U.S. and Japan data as of 09.30.2019, Eurozone data as of 10.31.2019; Source: FactSet; The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.

U.S. - Unemployment Rate



Data as of 10.31.2019; Source: FactSet

- Year-over-year GDP growth in the U.S. continued to slow in the third quarter but remains above 2% and above growth in Europe and Japan.
- U.S. productivity growth slowed in the third quarter to a still solid 1.4% year-over-year rate. Industrial production growth has continued to slow this year and turned negative in the latest quarter.
- Core U.S. inflation was lower than expected in September but remains elevated at 2.4% on a year-over-year basis. European inflation ticked higher last month while Japan's inflation rate remains very low but positive.
- October employment growth exceeded expectations while the unemployment rate increased slightly following increased labor market participation.

Note: Please see Appendix for important definitions.



Leading	Initial Jobless Claims	<ul style="list-style-type: none"> In the week ending November 1st the four-week moving average of Initial Jobless Claims was 215,250 an increase of 250 from the previous week's revised average.
	Manufacturing	<ul style="list-style-type: none"> ISM Manufacturing registered 48.3% in October a 0.5 percentage point increase over the previous reading. A reading below 50.0% indicates contraction. ISM Manufacturing New Orders registered 49.1% in October a 1.80 percentage point increase over the previous reading. ISM Non-Manufacturing registered 54.7% in October a 2.1 percentage point increase over the previous reading.
	Housing/Construction	<ul style="list-style-type: none"> Building permits fell 2.4% in September and have risen 8% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none"> The Consumer Confidence Index fell in October to 125.90 compared to 126.30 in September.
	Nonfarm Payrolls	<ul style="list-style-type: none"> Total nonfarm payroll employment gained 128,000 in October while the unemployment rate rose to 3.6%.
	Industrial Production	<ul style="list-style-type: none"> Industrial Production fell 0.39% in September and is down 0.14% over the past year.
	Personal Income	<ul style="list-style-type: none"> Real Disposable Personal Income rose 0.34% in September and is up 3.48% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none"> This ratio was 0.14% in September and 0.27% year-over-year. Consumer borrowing tends to lag improvements in personal income by many months because people remain hesitant to take on new debt until they are sure that their improved income level is sustainable.
	Inflation	<ul style="list-style-type: none"> CPI (All Items) was unchanged in September and is up 1.7% over the trailing one year period. CPI (Core) rose 0.1% in September and is up 2.4% over the trailing one year period.



Nominal Trade-Weighted U.S. Dollar Major Currencies



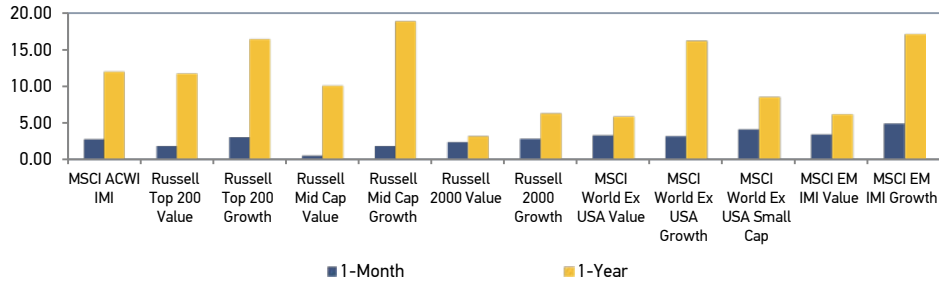
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell 1.2% through October and the index is down 0.3% year-to-date. The dollar fell 2.3% versus the Euro in October.



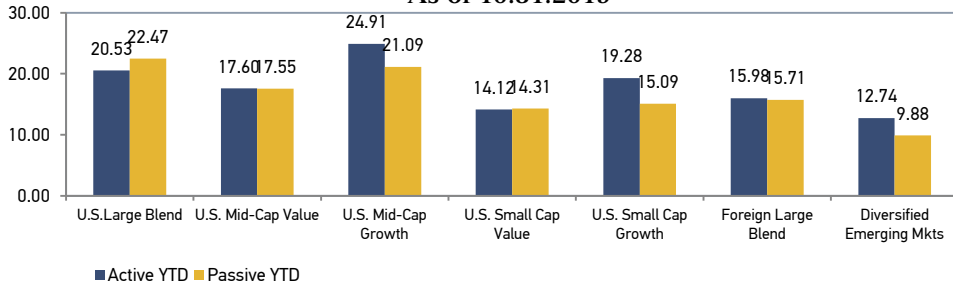
Equity Market Performance
As of 10.31.2019



- Equity markets were positive across the opportunity set in October as the U.S. and China moved closer to a “phase one trade deal” and the odds of a no deal Brexit diminished. Equity markets also benefitted from the U.S. Federal Reserve’s 25 basis point interest rate cut. International markets led the way for the month of October as the MSCI emerging markets growth index returned 4.91%, the MSCI World Ex USA small cap index returned 4.11% and the MSCI emerging markets value index returned 3.40%. The worst performers in the opportunity set were concentrated in the U.S. with the Russell Mid Cap Value, Russell Top 200 Value and Russell Mid Cap Growth indices returning 0.54%, 1.84% and 1.85%, respectively.

Source: Morningstar, Russell Investments

Active vs. Passive
As of 10.31.2019



- After a challenging 2018, the performance of actively-managed equity strategies has improved in 2019 with all market segments, save for U.S. Large Blend and U.S. Small Value, showing higher year-to-date returns than passive strategies.

Source: Morningstar, Russell Investments

Median return of Morningstar open-end fund category (institutional share class). Russell return of U.S. categories.

Rolling 5-Year Return Differential
Russell 3000 Growth minus Russell 3000 Value

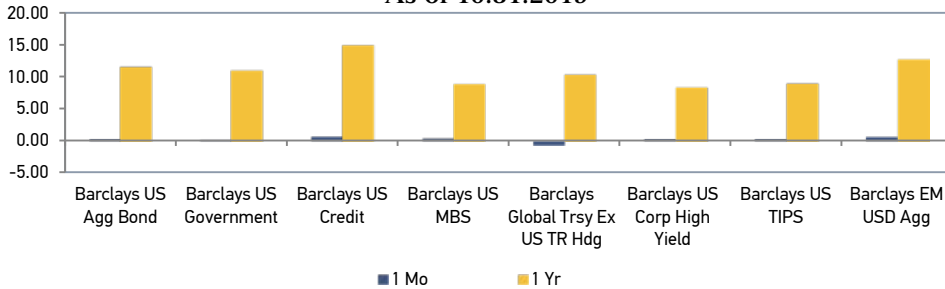


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Data as of 10.31.2019; Source: Morningstar



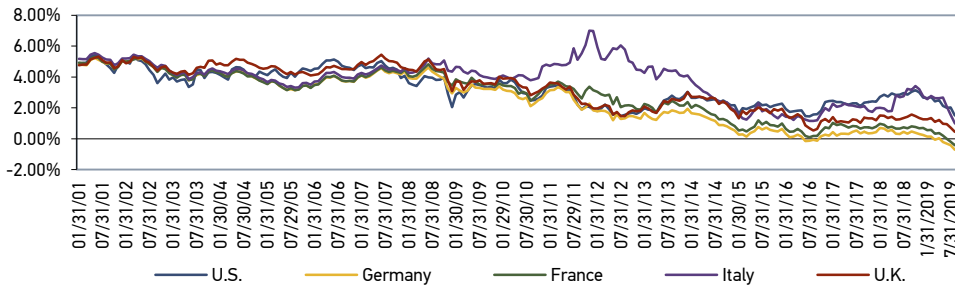
Bond Market Performance
As of 10.31.2019



Source: Morningstar, Barclays

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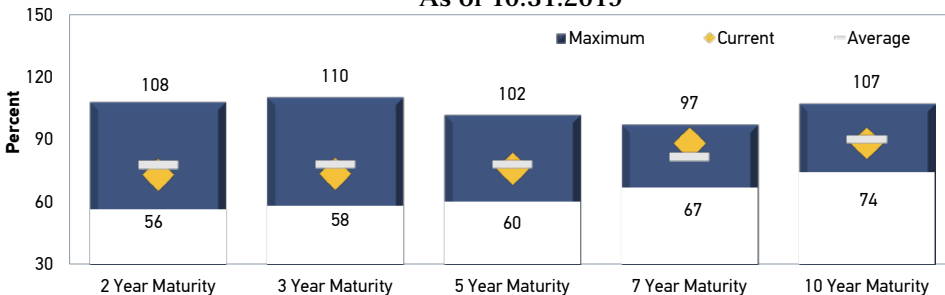
10-Year Government Bond Yields



Data as of 10.31.2019; Source: FactSet, U.S. Department of Treasury

- Ten-year government bond yields moved higher across the opportunity set with French yields increasing by 18 basis points followed by German and U.K. yields increasing by 16 basis points. The smallest increase in yield during the month of October occurred in the U.S. where yields increased by 1 basis point.

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 10.31.2019

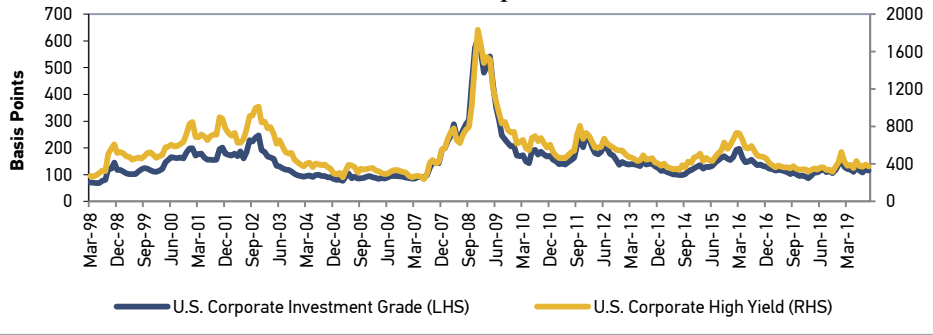


Source: Thompson Reuters; Sterling Capital Management Analytics.

- Municipal/Treasury yield ratios moved lower across the two-, three- and five-year maturities while ratios moved higher for the seven- and ten-year maturities. The two-, three-, five- and ten-year ratios remain below their historical average while the seven-year ratio has moved above its historical average.

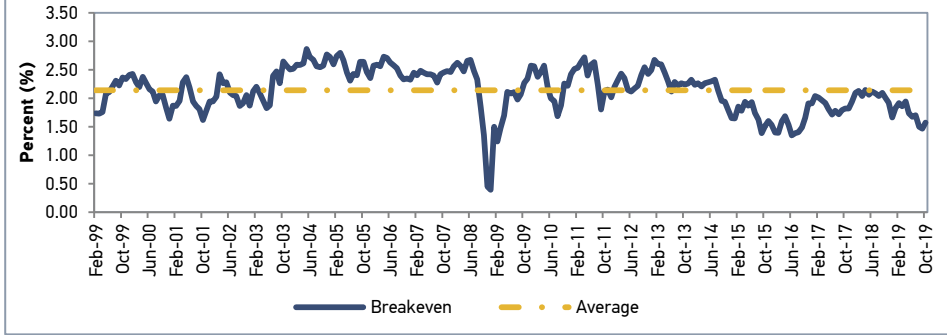


20-Year U.S. Corporate OAS



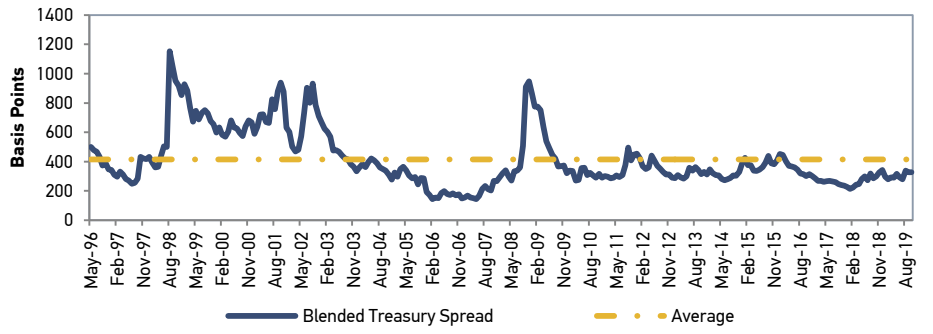
Data as of 10.31.2019; Source: FactSet

10-Year TIPS Breakeven



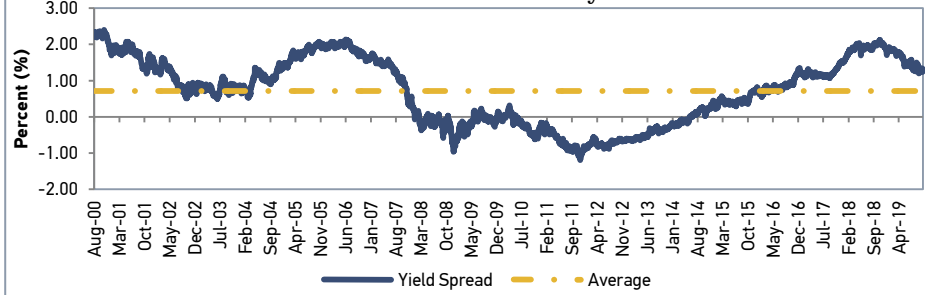
Data as of 10.31.2019; Source: Federal Reserve Board of Governors

EM Debt OAS



Data as of 10.31.2019; Source: Barclays

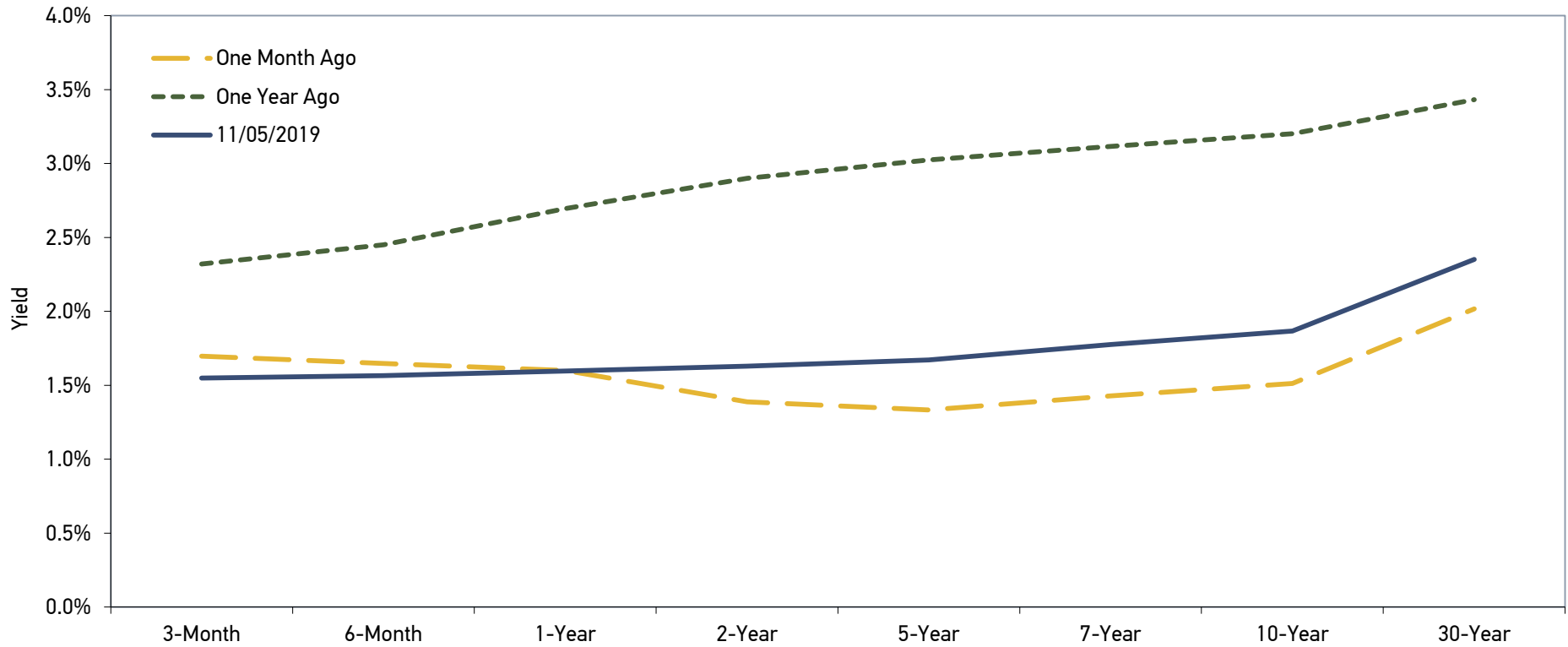
Yield Spread of Barclays U.S. Treasury Index to Global Ex-U.S. Treasury Index



Data as of 11.06.2019; Source: Barclays

- In October, Investment grade credit spreads tightened, while high yield credit spreads widened. Spreads in both markets remain below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates moved higher in October, but are well below the historical average.
- Emerging Market credit spreads were unchanged in October and remain below the long run average. The yield spread of U.S. to Global Treasuries moved lower in October but remains above the historical average.

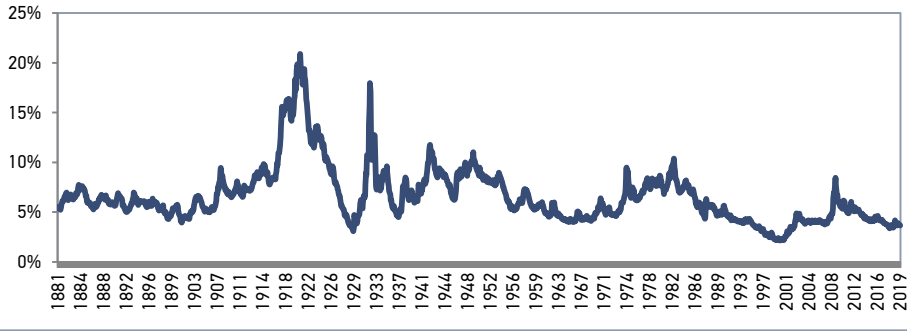
Note: Please see Appendix for important definitions.



- As of 11.05.2019, rates across the front end of the Treasury curve have moved lower compared to the prior month while rates across the belly and long end of the curve have moved higher. Curve movements over the month have resulted in a yield curve that is no longer inverted.

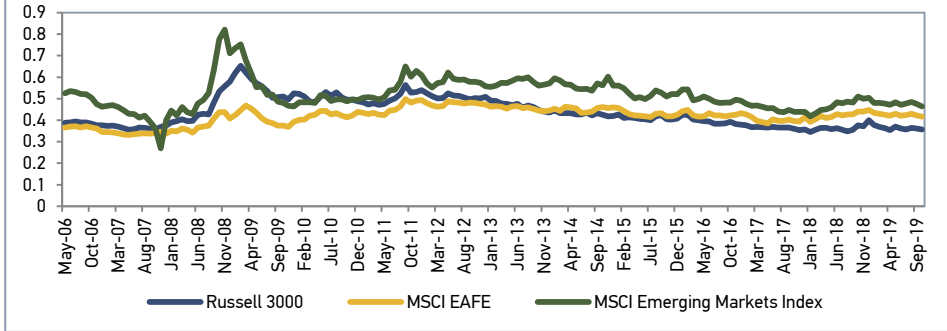


U.S. Cyclically Adjusted Earnings Yield



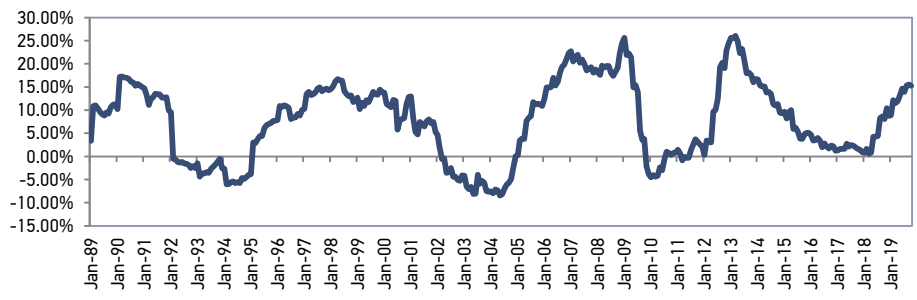
Data as of 10.31.2019; Source: Bloomberg, Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



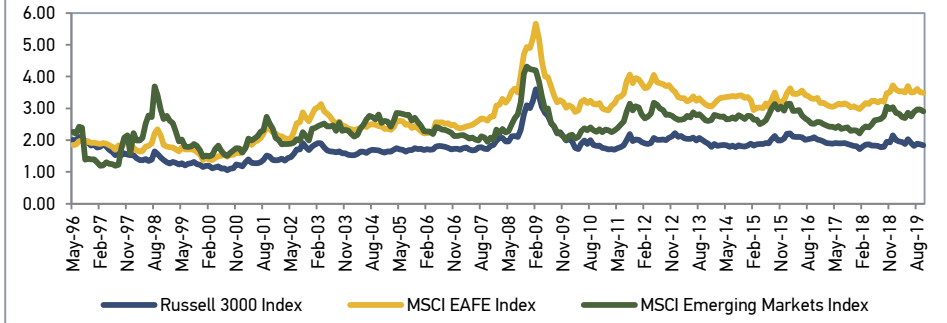
Data as of 10.31.2019; Source: Russell, MSCI

**U.S. 3 Year Real Revenue Growth
Russell 3000 Non-Financials**



Data as of 10.31.2019; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 10.31.2019; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield remains at a low level relative to history. Long-term real U.S. sales growth has strengthened this year.
- In October, the revenue to firm value ratio decreased across U.S. and international markets.
- Dividend yields moved slightly lower last month. International Developed yields continue to provide a significant income advantage over the U.S.

Note: Please see Appendix for important definitions.

Appendix



Core Consumer Price Index: Core inflation is a measure of inflation that excludes certain items, usually food and energy, that face volatile price movements.

Option Adjusted Spread (OAS): A bond's yield spread over comparable maturity government bonds, adjusted for any embedded options.

Real GDP: Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices.

Revenue to Firm Value: Total Index Revenues of the past 12 months divided by the sum of equity market value and the value of total debt. This is a measure of total sales generated on the total value (debt plus equity) of firms in the index.

TIPS Breakeven: The inflation rate implied by the spread in yield between U.S. TIPS (Treasury Inflation Protected Securities) and nominal U.S. Government Bonds of equal maturity.

U.S. 3 yr. Real Revenue Growth, Russell 3000 Non-Financials: For the Russell 3000 excluding financial firms, the percentage change in trailing 12-month inflation adjusted revenue over 12-month inflation adjusted revenue three years prior.

U.S. Cyclically Adjusted Earnings Yield: The 10-year average of annual, inflation adjusted earnings divided by the current inflation adjusted price of the S&P 500 index. This measure is the inverse of the Shiller CAPE Ratio.

YOY US Productivity Growth: The year-over-year growth in real U.S. output produced per hour worked for non-farm workers.



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