

# WEEKLY GLOBAL Market Update

NOVEMBER 13, 2017

Recap for the week ended November 10, 2017



**U.S. DATA SUGGESTS EMPLOYMENT GROWTH CONTINUING.** Job-openings and jobless-claims data both indicated ongoing strong demand for labor. Inventories were up slightly in October, and consumer sentiment slipped slightly from its 13-year high in October but remains very strong. The coming week will feature significant reports, including inflation data and retail sales, a major component of GDP.

**TREASURY YIELDS RISE AFTER LATE-WEEK SELLOFF.** The yield curve steepened with the 2s10s curve closing two basis points higher than last week. The 10- and 30-year Treasury yields were both seven basis points higher on the week. Expectations of a December federal-funds rate hike remain nearly fully priced in, although the future composition of the Federal Open Market Committee became more uncertain after Federal Reserve Vice-Chair Dudley said he will step down in mid-2018.

**U.S. CREDIT SPREADS WIDEN, CRUDE KEEPS RISING.** Investors were slow to digest recent new-issue supply and also hesitated because of credit-negative, issuer-specific headlines such as merger and acquisition announcements and earnings misses. Spreads for investment-grade corporate and high-yield bonds closed four and 21 basis points wider, respectively. Meanwhile, crude per-barrel prices appear to be settling in the upper \$50s; West Texas Intermediate prices touched a two-year high of \$58 Wednesday before closing the week at \$57.

**U.S. EQUITIES FALL ON NEWS OF SENATE TAX PLAN.** Equity markets started the week strong but turned Thursday after release of the Senate's plan, which chastened bullish sentiment of overall tax reform and increased probability that any reform might be a 2018 event. The S&P 500 was down six points for the week, even as most companies have already reported, and their earnings continue to be a strong price catalyst.

**LARGE U.S. DEALS DRAW ATTENTION.** In the technology industry, Broadcom's offer for Qualcomm weighed on sector credit spreads as Oracle's and Apple's bond issuance were uncharacteristically sloppy. Meanwhile, details on the Aetna-CVS merger are said to be coming in December.

**EUROZONE PMIS SUGGEST Q4 GDP GROWTH.** October's final Eurozone Services Purchasing Managers Index (PMI) of 55.0 was slightly stronger than expected but down from September's 55.8. The final Eurozone Composite PMI of 56.0 was also down from September's 56.7, although again better than the preliminary reading. The PMI surveys suggest 0.6-0.7% GDP growth in the fourth quarter.

**EC PREDICTS EURO-AREA GROWTH.** The European Commission's (EC) Autumn Economic Forecast projects that the euro area in 2017 will grow at its fastest pace in a decade. The EC expects euro-area real GDP to grow 2.2% this year (1.7% contributed during the spring), 2.1% in 2018 and 1.9% in 2019. The forecast also suggests that inflation will remain subdued at 1.5% in 2017, 1.4% in 2018 and 1.6% in 2019.

**U.K. PM LOSES ANOTHER CABINET MEMBER.** Prime Minister Theresa May accepted the resignation of International Development Secretary Priti Patel, whose series of undisclosed meetings with Israeli officials

## U.S. INTEREST RATES

	11/10/17	11/3/17	9/29/17	12/30/16	4Q17 Δ BPS	2017 Δ BPS
3-month LIBOR	1.41%	1.39%	1.33%	1.00%	8	42
2-year Treasury	1.66%	1.62%	1.49%	1.19%	17	47
5-year Treasury	2.05%	1.99%	1.94%	1.93%	12	12
10-year Treasury	2.40%	2.33%	2.33%	2.45%	6	-5
30-year Treasury	2.88%	2.81%	2.86%	3.07%	2	-19
2yr-10yr Slope (BPS)	74	72	85	126	-11	-51

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## GLOBAL 10-YEAR INTEREST RATES

	11/10/17	11/3/17	9/29/17	12/30/16	4Q17 Δ BPS	2017 Δ BPS
Canada	1.97%	1.95%	2.10%	1.72%	-13	25
Brazil	10.19%	10.16%	9.73%	11.40%	46	-121
Mexico	7.25%	7.24%	6.86%	7.42%	39	-17
United Kingdom	1.34%	1.26%	1.36%	1.24%	-2	11
France	0.78%	0.75%	0.74%	0.68%	3	10
Germany	0.41%	0.36%	0.46%	0.20%	-5	21
Italy	1.84%	1.79%	2.11%	1.81%	-27	3
Spain	1.57%	1.47%	1.60%	1.38%	-3	19
Greece	5.12%	5.09%	5.60%	7.02%	-48	-190
Japan	0.04%	0.05%	0.06%	0.04%	-2	0

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## BLOOMBERG BARCLAYS INDICES-OPTION ADJUSTED SPREADS

	11/10/17	11/3/17	9/29/17	12/30/16	4Q17 Δ BPS	2017 Δ BPS
U.S. Corporate (IG)	101	97	101	123	-	-22
U.S. High Yield	360	339	347	409	13	-49
Emerging Markets (USD)	252	243	246	301	6	-49
MBS Fixed Rate	25	23	22	15	3	10
CMBS	61	63	71	75	-10	-14
ABS	36	38	44	59	-8	-23
Municipal Bond Index*	86	95	92	142	-5	-56

\* Muni Spread = (Barclays Index YTW \* 1.4577) - 10yr U.S. Treasury Prepared by Conning, Inc., Source: Barclays Indices, POINT ©2016-2017 Barclays Risk Analytics And Index Solutions Limited. Used with permission. Barclays and POINT are registered trademarks of Barclays Risk Analytics And Index Solutions Limited or its affiliates. ©2016-2017 Bloomberg, L.P.

## U.S. BOND MARKET PERFORMANCE

	NOV' 17 EXCESS	NOV' 17 NOMINAL	2017 EXCESS	2017 NOMINAL
U.S. Aggregate	-0.13	-0.24	0.88	2.95
Treasury	N/A	-0.11	N/A	2.02
Govt-Related	0.00	-0.12	1.96	3.76
Munis (TE)	N/A	0.41	N/A	7.06
EM Aggregate	-0.77	-0.90	5.04	6.94
Corporate IG	-0.44	-0.57	2.50	5.01
Corporate HY	-0.67	-0.78	5.16	6.62
MBS	-0.06	-0.17	0.26	2.12
ABS	0.08	0.00	0.89	1.63
CMBS	0.15	-0.01	1.49	3.38

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## MAJOR ECONOMIC RELEASES

### MONDAY, NOVEMBER 13

Federal Budget (Oct)

### TUESDAY, NOVEMBER 14

Producer Price Index (Oct)  
NFIB Small Business Index (Oct)  
Eurozone GDP, German GDP (Q3, Prelim)  
German CPI (Oct, Final)  
U.K. CPI (Oct)

### WEDNESDAY, NOVEMBER 15

MBA Mortgage Applications (Nov 10)  
Retail Sales (Oct)  
Consumer Price Index (Oct)  
Empire Manufacturing (Nov)  
Business Inventories (Sep)  
French CPI (Oct, Final)  
U.K. Employment Report (Oct)

### THURSDAY, NOVEMBER 16

Initial and Continuing Jobless Claims (Nov 11)  
Philly Fed (Nov)  
Import Price Index (Oct)  
U.K. Retail Sales (Oct)  
Eurozone CPI (Oct, Final)

### FRIDAY, NOVEMBER 17

Housing Starts (Oct)  
Kansas City Fed Manuf. (Nov)

broke protocol. May immediately promoted Penny Mordaunt to the post. This follows last week's resignation of the U.K.'s defense secretary following accusations of inappropriate behavior and is the latest in a growing series of headaches for May.

**EUROPEAN BONDS, STOCKS SLIDE.** Yields were up across most of Europe, climbing four basis points on the U.K. two-year gilt and eight basis points on the 10-year gilt. The German two-year bond yield was up a basis point while the 10-year yield rose five basis points. Other core yields performed similarly, and bonds in peripherals Spain, Italy and Portugal underperformed. The major European stock indexes were down between 1.7% and 2.6%.

**PRESIDENT TRUMP TOURS ASIA PACIFIC.** The president's first Asia summit kicked off with key stops in Japan, South Korea and China, and topics included trade agreements and tensions on the Korean peninsula. He declared that the U.S. will no longer join multilateral deals but would negotiate pacts on a bilateral basis with the region. News of business deals attributed to the trip continue to flow out of Washington.

**CHINA ANNOUNCES SIGNIFICANT FINANCIAL-SECTOR REFORM.** The nation is opening its financial industry to full foreign ownership, up from the current 51% limit. It also launched a new super financial regulator, the Financial Stability and Development Committee, which reports to the State Council and is headed by Vice Premier Ma Kai. This addresses some concerns regarding poor coordination among regulators and regulators being too close to the firms they oversee. Finally, the People's Bank of China announced more detailed guidance for foreign investors' onshore bond investments, specifically for registration and taxation, which clears a hurdle for the bonds to be included in global indices.

**ASIA PACIFIC CENTRAL BANKERS UPBEAT ON GROWTH.** Leaders of the Reserve Bank of Australia, Reserve Bank of New Zealand, Bank Negara, Bank of Thailand and Bangko Sentral Pilipinas gathered for a policy summit. All held rates unchanged, said they were optimistic on growth but had mixed views on inflation, and expressed concern regarding potential foreign exchange volatility surrounding U.S. fiscal and monetary policy decisions.

## GLOBAL EQUITY AND COMMODITY INDICES

	11/10/17	11/3/17	9/29/17	12/30/16	4Q17 QTD % CHANGE	2017 YTD % CHANGE
<b>S&amp;P 500</b>	2,582	2,588	2,519	2,239	2.7%	17.3%
<b>S&amp;P Growth</b>	1,499	1,497	1,441	1,223	4.1%	24.3%
<b>S&amp;P Value</b>	1,073	1,080	1,066	1,001	0.9%	9.5%
<b>Russel 2000</b>	1,475	1,495	1,491	1,357	-1.0%	9.9%
<b>Euro Stoxx 50</b>	3,594	3,690	3,595	3,291	0.1%	12.6%
<b>FTSE 100</b>	7,433	7,560	7,373	7,143	1.1%	7.8%
<b>DAX</b>	13,127	13,479	12,829	11,481	2.3%	14.3%
<b>MSCI Asia ex Japan</b>	703	700	661	514	6.3%	39.5%
<b>Nikkei</b>	22,681	22,539	20,356	19,114	11.4%	20.7%
<b>Hang Seng</b>	29,121	28,604	27,554	22,001	5.8%	37.4%
<b>China CSI 300</b>	4,112	3,993	3,837	3,310	7.2%	26.7%
<b>MSCI EAFE</b>	2,000	2,009	1,974	1,684	1.4%	22.3%
<b>MSCI BRIC</b>	331	327	316	242	5.0%	39.9%
<b>WTI Crude Oil (\$/bbl)</b>	\$57	\$56	\$52	\$54	9.8%	5.6%
<b>Gold (Per Troy oz)</b>	\$1,275	\$1,270	\$1,280	\$1,152	-0.4%	10.7%
<b>CRB Commodity Index</b>	431	429	427	423	0.9%	2.0%

Equity index returns include dividend reinvestment Prepared by Conning, Inc., Source: ©2016-2017 Bloomberg L.P.

## CREDIT DEFAULT SWAP INDICES

	11/10/17	11/3/17	9/29/17	12/30/16	4Q17 ΔBPS	2017 ΔBPS
<b>U.S. CDX IG</b>	56	53	56	68	0	-12
<b>U.S. CDX HY*</b>	107	108	108	106	0	1
<b>Euro IG</b>	52	50	57	72	-5	-20
<b>Euro HY</b>	242	224	254	289	-12	-46
<b>Sov Western Europe</b>	17	17	20	32	-3	-15
<b>Euro Senior Financial</b>	52	50	60	94	-8	-41

Prepared by Conning, Inc., Source: ©2016-2017 Bloomberg, L.P. and ©2016-2017 Markit Group – used with limited permission. The Sov Western Europe index is a customized index that is comprised of the 5 year CDS for France, Germany, and The United Kingdom

\*U.S. CDX HY is quoted in dollars

## CURRENCY EXCHANGE RATES

	11/10/17	11/3/17	9/29/17	12/30/16	4Q17 QTD % CHANGE	2017 YTD % CHANGE
<b>Yen per USD</b>	113.53	114.07	112.51	116.96	0.9%	-2.9%
<b>USD per Euro</b>	1.17	1.16	1.18	1.05	-1.3%	10.9%
<b>USD per GBP</b>	1.32	1.31	1.34	1.23	-1.5%	6.9%
<b>GBP per Euro</b>	0.88	0.89	0.88	0.85	0.2%	3.6%
<b>CAD per USD</b>	1.27	1.28	1.25	1.34	1.7%	-5.6%
<b>USD per AUD</b>	0.77	0.77	0.78	0.72	-2.2%	6.3%

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## CONNING SECTOR STRATEGY SUMMARY

OVERWEIGHT	MARKETWEIGHT	UNDERWEIGHT
<b>MBS</b>	<b>U.K. Corporates</b>	<b>Agencies</b>
<b>European - Corporates</b>	<b>IG Corporates</b>	<b>Treasuries</b>
	<b>European Structured</b>	<b>European Governments</b>
	<b>U.S. Equities</b>	<b>High Yield Corporates</b>
	<b>ABS</b>	<b>Municipals</b>
	<b>CMBS</b>	
	<b>TIPS</b>	
	<b>EM - Corporate</b>	
	<b>EM - Sovereign</b>	
<b>U.S. Duration Stance = Short</b>	<b>Euro and U.K. Duration Stance = Short</b>	

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