

WEEKLY GLOBAL Market Update

DECEMBER 18, 2017

Recap for the week ended December 15, 2017



U.S. POISED TO PASS FEDERAL TAX REFORM. Congressional leaders appeared to come to terms late Friday on a bill that will significantly change the U.S. tax code. President Trump maintains that he will sign a tax-reform bill into law before the Christmas holiday.

FED RAISES KEY RATE - AND GDP EXPECTATIONS. As expected, the Federal Open Market Committee raised its federal-funds rate 25 basis points in its last meeting of the year. It also raised its 2018 GDP estimates to 2.5% from 2.1%, with no change to inflation estimates. Market expectations for 2018 remain at three more rate hikes, as Jerome Powell becomes chair of the U.S. Federal Reserve in February.

U.S. RETAIL SALES REFLECT STRONG CONSUMER CONFIDENCE. November retail sales accelerated 6.4% year over year, driven by retail and food-service spending. The figure aligns with the robust consumer confidence reports going into the fourth quarter. Core inflation, as measured by the consumer price index, was a touch lower than expected at 1.7% on an annual basis.

FUND FLOWS FAVOR STOCKS, HIGHER QUALITY BONDS. Per EFPR Global, fund flows for U.S. investment-grade bond funds and ETFs decelerated for the week but were positive at \$1.2 billion. Flows were negative for U.S. high-yield and bank-loan funds as well as emerging markets funds, but improved for equity funds (up \$6.1 billion) and were positive for municipal and government-bond funds as well.

U.S. YIELD CURVE CONTINUES TO FLATTEN. U.S. 10-year Treasury yields were volatile but range-bound, between 2.32% and 2.42%, as the yield curve continued to flatten. Investment-grade corporate cash spreads were two basis points tighter while high-yield cash widened three basis points. U.S. equities moved higher as the S&P 500 Index returned 0.90%.

EUROZONE PMI STRONG IN DECEMBER. Provisional purchasing managers index (PMI) readings saw the manufacturing index rise to 60.6 (its highest since 1997), services rise to 56.5 and the composite rise to 58.0 (the latter two their highest since early 2011). Small decreases had been expected. Germany was the main driver, with manufacturing PMI increasing to a record 63.3.

ECB SEES IMPROVED FUTURE GROWTH, INFLATION BELOW TARGET. The European Central Bank (ECB) issued its latest forecasts, which now include 2020, which were much more optimistic on growth than those of September. The ECB expects GDP growth of 2.4% this year, declining annually to 1.7% in 2020. It also expects inflation of 1.5% this year, slipping to 1.4% in 2018 and climbing to 1.7% in 2020. It did revise 2018 inflation upward from 1.2%, mainly due to higher oil and food prices, but at no point is inflation seen to be close to the 2% target.

PARLIAMENT WILL HAVE FINAL VOTE ON BREXIT DEAL. The EU-U.K. Brexit talks will move to the next stage, but MPs in the House of Commons won a fight for a final vote on the ultimate Brexit deal against the wishes of PM Theresa May.

U.S. INTEREST RATES

	12/15/17	12/8/17	9/29/17	12/30/16	4Q17 ΔBPS	2017 ΔBPS
3-month LIBOR	1.61%	1.55%	1.33%	1.00%	28	62
2-year Treasury	1.84%	1.80%	1.49%	1.19%	35	65
5-year Treasury	2.16%	2.14%	1.94%	1.93%	22	23
10-year Treasury	2.35%	2.38%	2.33%	2.45%	2	-9
30-year Treasury	2.69%	2.77%	2.86%	3.07%	-17	-38
2yr-10yr Slope (BPS)	52	58	85	126	-33	-74

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GLOBAL 10-YEAR INTEREST RATES

	12/15/17	12/8/17	9/29/17	12/30/16	4Q17 ΔBPS	2017 ΔBPS
Canada	1.83%	1.86%	2.10%	1.72%	-27	11
Brazil	10.39%	10.19%	9.73%	11.40%	65	-101
Mexico	7.49%	7.29%	6.86%	7.42%	63	7
United Kingdom	1.15%	1.28%	1.36%	1.24%	-21	-9
France	0.63%	0.63%	0.74%	0.68%	-12	-5
Germany	0.30%	0.31%	0.46%	0.20%	-16	10
Italy	1.81%	1.65%	2.11%	1.81%	-30	-1
Spain	1.45%	1.40%	1.60%	1.38%	-14	7
Greece	3.93%	4.47%	5.60%	7.02%	-167	-309
Japan	0.04%	0.05%	0.06%	0.04%	-2	0

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BLOOMBERG BARCLAYS INDICES-OPTION ADJUSTED SPREADS

	12/15/17	12/8/17	9/29/17	12/30/16	4Q17 ΔBPS	2017 ΔBPS
U.S. Corporate (IG)	95	97	101	123	-6	-28
U.S. High Yield	350	347	347	409	3	-59
Emerging Markets (USD)	234	234	246	301	-12	-67
MBS Fixed Rate	26	24	22	15	4	11
CMBS	63	65	71	75	-8	-12
ABS	35	36	44	59	-9	-24
Municipal Bond Index*	104	97	92	142	12	-38

* 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

	DEC '17 EXCESS	DEC '17 NOMINAL	2017 EXCESS	2017 NOMINAL
Munis (TE)	N/A	1.03	N/A	7.30
Treasury	N/A	0.51	N/A	2.51
U.S. Aggregate	0.08	0.55	1.12	3.64
Corporate IG	0.28	0.96	3.24	6.47
MBS	0.04	0.33	0.40	2.48
CMBS	0.14	0.37	1.51	3.43
ABS	0.00	0.01	0.92	1.54
Govt-Related	-0.10	0.30	2.15	4.30
Corporate HY	-0.06	0.09	5.80	7.27
EM Aggregate	-0.05	0.36	5.91	8.14

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MAJOR ECONOMIC RELEASES

MONDAY, DECEMBER 18

Housing Market Index (Dec)
Eurozone CPI (Nov Final)

TUESDAY, DECEMBER 19

Housing Starts (Nov)
Current Account (Q3)

WEDNESDAY, DECEMBER 20

MBA Mortgage Applications (Week Dec 15)
Existing Home Sales (Nov)

THURSDAY, DECEMBER 21

GDP (Q3, Final)
Jobless Claims (Week Dec 16)
Philadelphia Fed Business Outlook (Dec)
Chicago Fed National Activity Index (Nov)
Corporate Profits (Q3)
FHSA Housing Price Index (Oct)
Bloomberg Consumer Comfort Index (Week Dec 17)
Leading Indicators (Nov)
Fed Balance Sheet (Week Dec 20)
Money Supply (Week Dec 11)
Eurozone Consumer Confidence (Dec Adv.)
U.K. Consumer Confidence (Dec)

FRIDAY, DECEMBER 22

Durable Goods Orders (Nov)
Personal Income and Outlays (Nov)
New Home Sales (Nov)
Consumer Sentiment (Dec)
U.K. GDP (Q3, Final)

U.K. WAGE GROWTH TRAILS INFLATION. U.K.'s November headline consumer price index rose to 3.1% from 3.0% but core inflation remained at 2.7%. Employment fell by 56,000 in the three-month period to October compared to the previous three-month period to July, but unemployment remained 4.3%. Average earnings during the three-month period to October rose 2.5% year over year, up from 2.3%, with average earnings ex-bonuses up 2.3%, but earnings growth still trails inflation.

BLACK FRIDAY BOOSTS U.K. RETAILERS. Black Friday helped push November retail sales ex auto fuel up 1.2% month over month, and 1.1% including auto fuel. October's retail sales in these categories were revised up 0.3% and 0.2%, respectively.

U.K. BONDS, STOCKS RALLY. Yields fell on the two-year gilt (down six basis points) and the 10-year (down 13 basis points) despite the U.K.'s stronger-than-expected economic releases and positive Brexit news. Yields moved little on Germany's bonds or other core euro government bonds, but rose 16 basis points on Italy's 10-year bond. The U.K.'s FTSE 100 Index was up for the week, while the other major European stock indexes were down. Sterling was down 0.6% against both the U.S. dollar and euro.

CHINESE CONSUMPTION, INVESTMENT DEMAND REMAIN ROBUST. The nation's retail sales remained strong in November but slightly slower than forecast, while fixed-asset investment growth rose to 6.3% on an annual basis from 5.8% in October. Industrial production growth in November also moderated to 6.1% year over year from 6.2% in October, driven by the winter production suspension.

PBOC RATE HIKES FOLLOW U.S.; INDONESIA HOLDS STEADY. The People's Bank of China (PBOC) raised rates for the third time this year, increasing rates on reverse repos and medium-term loans by five basis points following the U.S. Federal Reserve's rate hike. The PBOC's two previous increases on these lending facilities were both 10 basis points, and the action indicates the PBOC will maintain a neutral stance amid tighter financial regulation. Meanwhile, Indonesia's central bank left its benchmark interest rate unchanged, saying eight rate cuts in two years was sufficient to drive a recovery.

INDIA'S INFLATION UP, INDUSTRIAL PRODUCTION SLOWS. India's November consumer price index reflected a 4.9% annual increase – a 15-month high - driven by higher food, fuel, and core pressures. October's industrial production growth slowed to 2.2% year over year from a revised 4.1% in September, distorted by seasonal factors.

GLOBAL EQUITY AND COMMODITY INDICES

	12/15/17	12/8/17	9/29/17	12/30/16	4Q17 QTD % CHANGE	2017 YTD % CHANGE
S&P 500	2,676	2,652	2,519	2,239	6.7%	21.9%
S&P Growth	1,543	1,525	1,441	1,223	7.4%	28.2%
S&P Value	1,122	1,115	1,066	1,001	5.7%	14.7%
Russel 2000	1,530	1,522	1,491	1,357	2.9%	14.2%
Euro Stoxx 50	3,561	3,591	3,595	3,291	-0.7%	11.6%
FTSE 100	7,491	7,394	7,373	7,143	2.3%	9.0%
DAX	13,104	13,154	12,829	11,481	2.1%	14.1%
MSCI Asia ex Japan	694	691	661	514	5.2%	38.0%
Nikkei	22,553	22,811	20,356	19,114	10.8%	20.0%
Hang Seng	28,848	28,640	27,554	22,001	4.9%	36.2%
China CSI 300	3,981	4,003	3,837	3,310	3.8%	22.7%
MSCI EAFE	2,008	2,005	1,974	1,684	2.0%	23.0%
MSCI BRIC	325	324	316	242	3.2%	37.5%
WTI Crude Oil (\$/bbl)	\$57	\$57	\$52	\$54	10.9%	6.7%
Gold (Per Troy oz)	\$1,255	\$1,249	\$1,280	\$1,152	-1.9%	9.0%
CRB Commodity Index	430	431	427	423	0.7%	1.7%

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

CREDIT DEFAULT SWAP INDICES

	12/15/17	12/8/17	9/29/17	12/30/16	4Q17 ΔBPS	2017 ΔBPS
U.S. CDX IG	50	51	56	68	-5	-17
U.S. CDX HY*	108	108	108	106	0	2
Euro IG	48	47	57	72	-9	-24
Euro HY	238	232	254	289	-16	-51
Sov Western Europe	15	15	20	32	-5	-16
Euro Senior Financial	47	46	60	94	-13	-47

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*U.S. CDX HY is quoted in dollars

CURRENCY EXCHANGE RATES

	12/15/17	12/8/17	9/29/17	12/30/16	4Q17 QTD % CHANGE	2017 YTD % CHANGE
Yen per USD	112.60	113.48	112.51	116.96	0.1%	-3.7%
USD per Euro	1.17	1.18	1.18	1.05	-0.6%	11.7%
USD per GBP	1.33	1.34	1.34	1.23	-0.6%	7.9%
GBP per Euro	0.88	0.88	0.88	0.85	0.0%	3.3%
CAD per USD	1.29	1.28	1.25	1.34	3.2%	-4.3%
USD per AUD	0.76	0.75	0.78	0.72	-2.4%	6.1%

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CONNING SECTOR STRATEGY SUMMARY

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

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