

WEEKLY GLOBAL Market Update

DECEMBER 4, 2017

Recap for the week ended December 1, 2017



EARLY-WEEK U.S. DATA POSITIVE. New-home sales in October surged unexpectedly, rising for the third straight month to a 10-year high. CoreLogic/Case-Shiller's 20-city home-price index reached its highest level since mid-2014. The Conference Board's survey also reported a 10-year high in consumer confidence. Consumer spending slowed slightly in October while incomes held steady, and initial jobless claims fell for a second straight week to a November low.

U.S. MARKETS RISE THROUGH THURSDAY ... Third-quarter GDP was revised to 3.3% from 3.0% and the Senate was in the throes of tax reform (its bill passed early Saturday morning), helping fuel a "risk-on" sentiment. The two-year Treasury yield rose to 1.78% from 1.75%, and the 10-year yield rose to 2.41% from 2.33% before slipping Friday. The 30-year moved similarly. The S&P 500 Index closed at a new high Thursday and ended the week up 1.5%. Credit spreads continued to tighten, with investment-grade corporate spreads receding to 98 basis points and high-yield bond spreads falling to 349 basis points.

... BUT POLITICAL HEADLINES WREAK HAVOC FRIDAY. Markets moved sharply when former National Security Adviser Michael Flynn pled guilty to lying to federal agents and was said to be cooperating with the Mueller investigation of the Trump administration. Treasuries rallied across the curve with the 10- and 30-year yields falling five and seven basis points, respectively. Equities also slipped: the S&P 500 Index fell more than 40 points midday only to recover to finish the day down five points. The index was up 40 points on the week.

FED HAS NEW CHAIR NOMINEE, BUT NO CHANGE EXPECTED. U.S. Federal Reserve chair nominee Jerome Powell gave no indication during Senate confirmation hearings that Fed policy would deviate meaningfully. Markets agree: a rate hike at December's meeting has a 96% likelihood, according to federal-funds futures pricing; Fed balance-sheet normalization also is expected to continue. Meanwhile, Marvin Goodfriend, an economics professor and former head of research at the Richmond Fed, was nominated to the U.S. Fed by the Trump administration to fill one of four vacancies.

BITCOIN BOOM. Bitcoin, the most popular cryptocurrency utilizing blockchain technology, capped a meteoric rise: its value surpassed \$11,000 (briefly) midweek, having passed \$8,000 on Nov. 20, \$9,000 on Nov. 27 and \$10,000 on Nov. 29. Bitcoin closed the week at \$10,899 and has appreciated 1,145% in 2017.

EUROZONE INFLATION AGAIN LOWER THAN EXPECTED. Headline inflation for November is estimated to have risen to 1.6% from October's 1.5%, likely due to increased energy costs. Core inflation remained at 0.9%. Both measures were 0.1% lower than expected.

WILL PESTICIDES POISON GERMAN GOVERNMENT COALITION? Germany's president brought together Chancellor Merkel (CDU party) and the leader of the conservative Bavarian CSU party to meet the SPD leader and discuss possibilities for a new German government. The skepticism many SPD members have of another coalition was further tested when the CSU agriculture minister switched Germany's vote in an EU committee that led to a five-year permission extension of a controversial pesticide, a move deeply opposed by the SPD.

U.S. INTEREST RATES

	12/1/17	11/24/17	9/29/17	12/30/16	4Q17 Δ BPS	2017 Δ BPS
3-month LIBOR	1.49%	1.47%	1.33%	1.00%	16	50
2-year Treasury	1.77%	1.75%	1.49%	1.19%	29	58
5-year Treasury	2.11%	2.06%	1.94%	1.93%	18	19
10-year Treasury	2.36%	2.34%	2.33%	2.45%	3	-8
30-year Treasury	2.76%	2.77%	2.86%	3.07%	-10	-30
2yr-10yr Slope (BPS)	59	60	85	126	-26	-67

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GLOBAL 10-YEAR INTEREST RATES

	12/1/17	11/24/17	9/29/17	12/30/16	4Q17 Δ BPS	2017 Δ BPS
Canada	1.91%	1.89%	2.10%	1.72%	-19	19
Brazil	10.34%	10.17%	9.73%	11.40%	60	-106
Mexico	7.25%	7.25%	6.86%	7.42%	39	-17
United Kingdom	1.23%	1.25%	1.36%	1.24%	-13	0
France	0.61%	0.69%	0.74%	0.68%	-14	-8
Germany	0.30%	0.36%	0.46%	0.20%	-16	10
Italy	1.71%	1.81%	2.11%	1.81%	-40	-10
Spain	1.41%	1.48%	1.60%	1.38%	-19	3
Greece	5.37%	5.29%	5.60%	7.02%	-23	-165
Japan	0.03%	0.02%	0.06%	0.04%	-3	-1

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BLOOMBERG BARCLAYS INDICES-OPTION ADJUSTED SPREADS

	12/1/17	11/24/17	9/29/17	12/30/16	4Q17 Δ BPS	2017 Δ BPS
U.S. Corporate (IG)	98	99	101	123	-3	-25
U.S. High Yield	349	354	347	409	2	-60
Emerging Markets (USD)	235	242	246	301	-11	-66
MBS Fixed Rate	26	24	22	15	4	11
CMBS	65	64	71	75	-6	-10
ABS	35	35	44	59	-9	-24
Municipal Bond Index*	116	111	92	142	25	-26

* 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
Munis (TE)	N/A	0.35	N/A	6.60
Treasury	N/A	0.33	N/A	2.33
U.S. Aggregate	-0.03	0.29	1.01	3.36
Corporate IG	-0.01	0.41	2.93	5.89
MBS	-0.07	0.14	0.29	2.28
CMBS	-0.03	0.19	1.34	3.25
ABS	0.01	0.05	0.93	1.58
Govt-Related	-0.05	0.22	2.20	4.21
Corporate HY	-0.13	0.01	5.72	7.19
EM Aggregate	-0.18	0.11	5.77	7.87

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MAJOR ECONOMIC RELEASES

MONDAY, DECEMBER 4

Factory Orders (Oct)
Durable Goods Orders (Oct)
Eurozone PPI (Oct)
U.K. Construction PMI (Nov)

TUESDAY, DECEMBER 5

Markit U.S. PMI (Nov, final)
Trade Balance (Oct)
Eurozone Services and Composite PMI (Nov, final)
Eurozone Retail Sales (Oct)
Eurozone GDP (Q3, final)
U.K. Services and Composite PMI (Nov)

WEDNESDAY, DECEMBER 6

MBA Mortgage Applications (Dec 1)
ADP Employment Change (Nov)
Eurozone Confidence (Nov)

THURSDAY, DECEMBER 7

Initial Jobless Claims (Nov 18)

FRIDAY, DECEMBER 8

Non-farm Payrolls (Nov)
Univ. of Michigan Consumer Sentiment (Dec, prelim.)
U.K. Industrial Production (Oct)

BREXIT TALKS MAY HINGE ON IRISH BORDER. The U.K. has reportedly agreed to increase its financial settlement with the EU to €45-€50 billion, and the main barrier to talks advancing now appears to be the Irish border. The Republic of Ireland wants its border with Northern Ireland to remain open, but U.K. PM May's government needs the support of Northern Ireland's loyalist DUP party, which is concerned that such a move would lead to a hard border in the Irish Sea. The DUP threatened to bring down May's government if it treats Northern Ireland differently "to placate Dublin and the EU."

U.K. CONSUMER CONFIDENCE FALLS, MANUFACTURING PMI RISES. Consumer confidence fell to -12 from -10 in November, matching the low seen immediately after last year's Brexit vote, with the biggest drop occurring in the Major Purchases Index. Meanwhile, U.K.'s Manufacturing Purchasing Managers Index increased to 58.2 from a revised 56.6, a 51-month high and the tenth highest in its 26-year history.

LONGER EUROPEAN GOVERNMENT BONDS RISE. Yields on the U.K. two- and 10-year gilts and the German two-year bond barely moved, while the German 10-year bond yield fell six basis points. Other core euro bonds slightly outperformed, and yields also fell on 10-year bonds in Spain (seven basis points), Italy (10 basis points) and Portugal (six basis points). Major European stock indexes were down about 1.5% except for Spain's IBEX, which was up 0.3%. Sterling gained 1.2% against the U.S. dollar and 1.5% against the euro.

CHINESE FINANCIAL-SECTOR REGULATIONS TIGHTEN. The nation's Securities Regulatory Commission said Friday it issued rules for mutual-fund investing in Hong Kong stocks following media reports of the regulator suspending such approvals, which contributed to Thursday's sharp decline in Hong Kong equities. Meanwhile, China's Banking Regulatory Commission Friday said it was focusing on the micro-lending industry. It will enforce caps on total costs to borrowers, bar lenders from seeking repayment through violence, intimidation or insult, and stop lending by financial institutions to non-specific purposes.

BANK OF KOREA TIGHTENS FOR FIRST TIME IN SIX YEARS. South Korea's national bank hiked interest rates 25 basis points to 1.5% on Thursday, the first tightening since 2011 from record-low levels. While inflation remains low, board members said the move was needed to prevent financial imbalances. The bank's governor said monetary policy will remain accommodative.

ASIAN ECONOMIES' GROWTH DATA POSITIVE. China's government said its manufacturing purchasing managers index (PMI) data surprised to the upside in November, rising to 51.8, while the independent Caixin China PMI indicated a more modest expansion of 50.8 versus October's 51.0. Manufacturing PMI from India, South Korea, Philippines and Thailand all point to a faster pace of expansion in November.

GLOBAL EQUITY AND COMMODITY INDICES

	12/1/17	11/24/17	9/29/17	12/30/16	4Q17 QTD % CHANGE	2017 YTD % CHANGE
S&P 500	2,642	2,602	2,519	2,239	5.3%	20.3%
S&P Growth	1,521	1,513	1,441	1,223	5.8%	26.3%
S&P Value	1,110	1,079	1,066	1,001	4.5%	13.4%
Russel 2000	1,537	1,519	1,491	1,357	3.3%	14.6%
Euro Stoxx 50	3,528	3,581	3,595	3,291	-1.7%	10.5%
FTSE 100	7,300	7,410	7,373	7,143	-0.3%	6.2%
DAX	12,861	13,060	12,829	11,481	0.3%	12.0%
MSCI Asia ex Japan	694	718	661	514	5.1%	37.8%
Nikkei	22,819	22,551	20,356	19,114	12.1%	21.4%
Hang Seng	29,074	29,866	27,554	22,001	5.8%	37.3%
China CSI 300	3,998	4,104	3,837	3,310	4.2%	23.2%
MSCI EAFE	2,004	2,023	1,974	1,684	1.8%	22.7%
MSCI BRIC	324	339	316	242	2.9%	37.1%
WTI Crude Oil (\$/bbl)	\$58	\$59	\$52	\$54	12.9%	8.6%
Gold (Per Troy oz)	\$1,281	\$1,289	\$1,280	\$1,152	0.0%	11.1%
CRB Commodity Index	431	433	427	423	0.8%	1.8%

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

CREDIT DEFAULT SWAP INDICES

	12/1/17	11/24/17	9/29/17	12/30/16	4Q17 ΔBPS	2017 ΔBPS
U.S. CDX IG	52	52	56	68	-3	-15
U.S. CDX HY*	108	108	108	106	0	2
Euro IG	48	49	57	72	-9	-24
Euro HY	230	237	254	289	-23	-58
Sov Western Europe	15	16	20	32	-5	-16
Euro Senior Financial	47	48	60	94	-12	-46

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*U.S. CDX HY is quoted in dollars

CURRENCY EXCHANGE RATES

	12/1/17	11/24/17	9/29/17	12/30/16	4Q17 QTD % CHANGE	2017 YTD % CHANGE
Yen per USD	112.17	111.53	112.51	116.96	-0.3%	-4.1%
USD per Euro	1.19	1.19	1.18	1.05	0.7%	13.1%
USD per GBP	1.35	1.33	1.34	1.23	0.6%	9.2%
GBP per Euro	0.88	0.89	0.88	0.85	0.1%	3.4%
CAD per USD	1.27	1.27	1.25	1.34	1.7%	-5.6%
USD per AUD	0.76	0.76	0.78	0.72	-2.8%	5.6%

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CONNING SECTOR STRATEGY SUMMARY

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

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