

WEEKLY GLOBAL Market Update

OCTOBER 9, 2017

Recap for the week ended October 6, 2017



STORMS CAUSE U.S. JOBS' SLIP, BUT UNDERLYING DATA STRONG. September nonfarm payrolls were down 33,000, mainly due to early month hurricanes. More importantly, average hourly earnings improved to 2.9% year over year, likely bolstered in part because storms kept lower wage workers at home, but an important trend to follow. Also, the labor-force participation and underemployment rates improved, particularly for the 35-54 age group, whose nonworking rate was the lowest since 2008. One concern is the increased rate of the long-term unemployed, an issue lacking short-term solutions.

U.S. MANUFACTURING INDICATOR HIGHEST SINCE 2004. The Institute for Supply Management's (ISM) September manufacturing index increased to 60.8 (well above an expected 58.1) from August's 58.8. Growth was driven by strong gains in new orders and raw material prices.

MYRIAD GLOBAL EVENTS DON'T BREAK U.S. MARKET CALM. The Chicago Board Options Exchange Volatility Index reached its lowest level ever even as the S&P 500 Index reached record highs. Rates echoed the lack of concern, as the yield on the U.S. 10-year Treasury rose three basis points. Spreads on investment-grade corporate debt tightened to levels not seen in more than three years, despite credit downgrades outpacing upgrades during the third quarter. The lack of worry benefitted higher beta assets, as evident in the strong performance of small-cap equities and high-yield corporate debt.

POLITICS MOVE U.S. MUNICIPAL BONDS. The municipal market saw some volatility as the House passed its 2018 budget, which added momentum to tax-reform efforts. President Trump's comments in Puerto Rico that investors would have to "wave goodbye" to the island's debt sent its bond prices spiraling from already deeply discounted levels.

TRUMP CONSIDERING FOUR FOR U.S. FED CHAIR. The president is said to be considering four names to be the next chairman of the U.S. Federal Reserve: current chair Janet Yellen, Kevin Warsh, Gary Cohn and Jerome Powell. Warsh is considered the most hawkish whose appointment may have the most impact on interest rates. Powell is the newest name, viewed as a status-quo candidate with consensus views on interest rates and the Fed's role.

ECB ASSET REPURCHASES TO CONTINUE IN 2018. European Central Bank (ECB) September meeting minutes highlighted discussions on revising the asset purchase program. Reports suggest that at the October meeting the ECB will extend the program beyond 2017, either for six months at €40 billion per month or for nine months at €30 billion per month. The latter may be more likely due to current conditions and would continue the program beyond the next Italian general election, which must take place by May.

SPAIN RESPONDS TO CATALONIA VOTE. Spanish bonds and equities underperformed after Catalonia's referendum on independence last weekend; some reports say the Catalan parliament may declare independence in the next few days. In response, Spain made it easier for companies to relocate headquarters from Catalonia. Sabadell, Spain's fifth-largest bank, said it would move and Caixabank, Spain's third-largest bank (which accounts for half of Catalonia's banking

U.S. INTEREST RATES

	10/6/17	9/29/17	6/30/17	12/30/16	3Q17 ΔBPS	2017 ΔBPS
3-month LIBOR	1.35%	1.33%	1.30%	1.00%	3	35
2-year Treasury	1.51%	1.49%	1.38%	1.19%	10	32
5-year Treasury	1.96%	1.94%	1.89%	1.93%	5	3
10-year Treasury	2.36%	2.33%	2.31%	2.45%	3	-9
30-year Treasury	2.89%	2.86%	2.84%	3.07%	2	-17
2yr-10yr Slope (BPS)	85	85	92	126	-7	-40

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GLOBAL 10-YEAR INTEREST RATES

	10/6/17	9/29/17	6/30/17	12/30/16	3Q17 ΔBPS	2017 ΔBPS
Canada	2.12%	2.10%	1.76%	1.72%	34	41
Brazil	9.73%	9.73%	10.54%	11.40%	-80	-167
Mexico	7.08%	6.86%	6.78%	7.42%	8	-34
United Kingdom	1.36%	1.36%	1.26%	1.24%	11	13
France	0.73%	0.74%	0.81%	0.68%	-7	5
Germany	0.46%	0.46%	0.47%	0.20%	0	25
Italy	2.14%	2.11%	2.15%	1.81%	-4	33
Spain	1.70%	1.60%	1.52%	1.38%	8	32
Greece	5.55%	5.60%	5.36%	7.02%	24	-147
Japan	0.05%	0.06%	0.08%	0.04%	-2	1

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BLOOMBERG BARCLAYS INDICES-OPTION ADJUSTED SPREADS

	10/6/17	9/29/17	6/30/17	12/30/16	3Q17 ΔBPS	2017 ΔBPS
U.S. Corporate (IG)	98	101	109	123	-8	-25
U.S. High Yield	341	347	364	409	-17	-68
Emerging Markets (USD)	242	246	268	301	-22	-59
MBS Fixed Rate	22	22	32	15	-10	7
CMBS	70	71	74	75	-3	-5
ABS	45	44	46	59	-2	-14
Municipal Bond Index*	91	92	101	142	-9	-51

* 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

	OCT'17 EXCESS	OCT'17 NOMINAL	2017 EXCESS	2017 NOMINAL
U.S. Aggregate	0.07%	-0.15%	0.91%	2.98%
Treasury	N/A	-0.23%	N/A	2.02%
Govt-Related	0.04%	-0.16%	1.88%	3.71%
Munis (TE)	N/A	0.05%	N/A	6.24%
EM Aggregate	0.24%	0.03%	5.57%	7.53%
Corporate IG	0.26%	-0.03%	2.69%	5.16%
Corporate HY	0.28%	0.16%	5.64%	7.17%
MBS	-0.02%	-0.17%	0.26%	2.15%
ABS	0.00%	-0.06%	0.69%	1.50%
CMBS	0.10%	-0.08%	0.88%	2.90%

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MAJOR ECONOMIC RELEASES	MONDAY, OCTOBER 9	TUESDAY, OCTOBER 10	WEDNESDAY, OCTOBER 11	THURSDAY, OCTOBER 12	FRIDAY, OCTOBER 13
	No Releases Scheduled	NFIB Small-Business Index (Sept) U.K. Industrial Production (Aug)	Job Openings (Aug) FOMC Minutes (9/20)	Producer Price Index (Sept) Eurozone Industrial Production (Aug)	Consumer Price Index (Sept) Core CPI (Sept) Retail Sales (Sept) Consumer Sentiment (Oct) Business Inventories (Aug)

sector), may also move.

EUROZONE, U.K. PMI SEPTEMBER DATA REPORTED. The eurozone's composite purchasing managers index (PMI) for September was confirmed at 56.7. The final manufacturing PMI was revised down 0.1 to 58.1 while the services index was revised up 0.2 to 55.8. German and French indices changed little from initial estimates. Spanish indices jumped as the composite rose 1.1 to 56.4, but Italy disappointed as the composite fell to 54.3 from 55.8. U.K. PMI for manufacturing (down 0.8 to 55.9) and construction (down 3.0 to 48.1) disappointed, but services PMI increased 0.4 to 53.6, leading to a 0.1 increase on the composite to 54.1.

U.K. PM MAY FEELING SOME HEAT FROM FELLOW CONSERVATIVES. Former party chairman Grant Shapps was accused of leading a plot to replace May, saying "I think it's time we actually tackle this issue of leadership and so do many colleagues." The effort may have been helped by the PM's performance at the Conservative annual conference last week. Her concluding speech, in which she had hoped to reassert her leadership, descended into farce. Suffering from a heavy cold, she struggled to finish, was interrupted by an incognito comedian, and on the wall behind her some letters from her campaign slogan fell off.

SPAIN, PORTUGAL, ITALY YIELDS RISE. The week saw yields rise eight basis points on Spain's two-year bond and 11 basis points on its 10-year bond; Italy's and Portugal's 10-year bonds were both up four basis points. U.K. and German two- and 10-year gilt and bond yields moved little, and other core yields were similar. In equities, the FTSE 100 Index rose 2.0% as sterling fell 2.5% versus the dollar; the DAX rose 1.0% and the EuroStoxx 50 Index was up 0.2%. However, the Spanish IBEX 35 fell 1.9% and the Italian FTSE MIB Index was down 1.3%.

MANUFACTURING INDICATOR RESILIENT ACROSS ASIA. A week after China reported exceptionally strong manufacturing data, September manufacturing Purchasing Managers Index figures were positive elsewhere in the region. Singapore (52.0), India (51.2), South Korea (50.6) and Indonesia (50.4) all expanded; Malaysia was the sole exception, falling into contractionary territory at 49.9. China itself was quiet this week, celebrating the 68th anniversary of the founding of the People's Republic of China.

INDONESIAN INFLATION HOLDS STEADY. The nation's headline and core consumer price index figures remained stable in September at 3.72% and 3.00%, respectively. Despite the subdued inflation, Bank Indonesia signaled it had limited room for further rate cuts as prospects of U.S. tax rate cuts and Federal Reserve monetary tightening would pose downside risk to the rupiah. Meanwhile, Indonesian foreign reserves climbed to a record high of \$129.4 billion in September.

INDIA SEEKS TO BALANCE GROWTH, INFLATION. The Reserve Bank of India kept its benchmark repurchase rate at 6% while also raising its inflation forecast and lowering growth estimates for fiscal year 2018. The bank is navigating the delicate balance between stimulating economic growth and preventing inflation from flaring up.

GLOBAL EQUITY AND COMMODITY INDICES

	10/6/17	9/29/17	6/30/17	12/30/16	3Q17 QTD % CHANGE	2017 YTD % CHANGE
S&P 500	2,549	2,519	2,423	2,239	4.5%	15.7%
S&P Growth	1,460	1,441	1,374	1,223	5.3%	20.9%
S&P Value	1,078	1,066	1,037	1,001	3.5%	9.8%
Russel 2000	1,510	1,491	1,415	1,357	5.7%	12.4%
Euro Stoxx 50	3,603	3,595	3,442	3,291	4.8%	12.7%
FTSE 100	7,523	7,373	7,313	7,143	1.8%	8.8%
DAX	12,956	12,829	12,325	11,481	4.1%	12.8%
MSCI Asia ex Japan	676	661	625	514	6.7%	34.2%
Nikkei	20,691	20,356	20,033	19,114	2.2%	10.0%
Hang Seng	28,458	27,554	25,765	22,001	8.6%	34.1%
China CSI 300	3,837	3,837	3,667	3,310	5.8%	18.2%
MSCI EAFE	1,972	1,974	1,883	1,684	5.5%	20.4%
MSCI BRIC	326	316	280	242	13.9%	37.7%
WTI Crude Oil (\$/bbl)	\$49	\$52	\$46	\$54	12.2%	-8.2%
Gold (Per Troy oz)	\$1,277	\$1,280	\$1,242	\$1,152	3.1%	10.8%
CRB Commodity Index	430	427	447	423	-4.3%	1.6%

Equity index returns include dividend reinvestment

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CREDIT DEFAULT SWAP INDICES

	10/6/17	9/29/17	6/30/17	12/30/16	3Q17 Δ BPS	2017 Δ BPS
U.S. CDX IG	54	56	61	68	-5	-13
U.S. CDX HY*	108	108	107	106	1	2
Euro IG	56	57	56	72	1	-16
Euro HY	247	254	247	289	7	-42
Sov Western Europe	20	20	19	32	1	-12
Euro Senior Financial	60	60	53	94	7	-34

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*U.S. CDX HY is quoted in dollars

CURRENCY EXCHANGE RATES

	10/6/17	9/29/17	6/30/17	12/30/16	3Q17 QTD % CHANGE	2017 YTD % CHANGE
Yen per USD	112.65	112.51	112.39	116.96	0.1%	-3.7%
USD per Euro	1.17	1.18	1.14	1.05	3.4%	11.5%
USD per GBP	1.31	1.34	1.30	1.23	2.9%	5.9%
GBP per Euro	0.90	0.88	0.88	0.85	0.6%	5.2%
CAD per USD	1.25	1.25	1.30	1.34	-3.8%	-6.8%
USD per AUD	0.78	0.78	0.77	0.72	1.9%	7.8%

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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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