

WEEKLY GLOBAL  
**Market Update**

SEPTEMBER 11, 2017

Recap for the week ended September 8, 2017



**U.S. FED DOVES, HAWKS AND A RETIREE.** The U.S. Federal Reserve members continued to offer both dovish and hawkish messages. While Governor Lael Brainerd said inflation remains “well short” of target and urged caution on rate hikes, New York Fed President William Dudley was supportive of continued tightening due to “quite favorable” economic fundamentals. Investors have low expectations of future rate hikes but markets have shown they can quickly reprice when strong data supports it. Meanwhile, Fed Vice Chair Stanley Fischer surprisingly announced he would retire in October for personal reasons, raising further speculation regarding who the Trump administration will appoint to vacant seats.

**TREASURYS RALLY.** Treasuries rallied with rates falling across the yield curve given a risk-off trade and dovish commentary from some U.S. and European central bankers. The 10- and 30-year treasuries fell 12 and 11 basis points, respectively, and the yield curve flattened further. The S&P 500 Index was off 0.6%, while gold was up \$21 an ounce and has returned 8.4% during the third quarter. Investment-grade credit was modestly wider in a short week that saw heavy new issuance.

**DOLLAR SINKS VS. YEN, WHILE CANADA TIGHTENS.** The U.S. dollar experienced a broad decline last week, most notably against the Japanese yen. The dollar’s broader decline has been led by geopolitical concerns over North Korea, lower U.S. Treasury yields and the expected impact of two major hurricanes. Meanwhile, Canada hiked its benchmark rate 25 basis points to 1%, highlighting the nation’s relatively strong growth, even with sluggish inflation.

**HURRICANE REDUX.** The Harvey damage assessment is underway as Hurricane Irma threatens to be one of the most expensive storms in U.S. history. The Irma concern has sent sugar and orange juice futures higher, boosted the shares of home-improvement retailers and put more pressure on shares of property and casualty insurers. Meanwhile, the Trump administration and Congress agreed to extend the debt limit and fund the government through December in a deal that also provides federal assistance to Harvey victims.

**EURO GAINS A SIGN OF STRENGTHENING EUROPE?** The euro gained 1.5% against the U.S. dollar last week, with the bulk of those gains following the European Central Bank’s (ECB) meeting Thursday. At a post-meeting press conference, ECB President Mario Draghi said that the majority of the committee had expressed concerns about recent exchange-rate volatility, but implied that they view euro strength as a sign of an improving European economy. The currency strength led to a 0.1% cut in ECB forecasts for 2018 and 2019 inflation to 1.2% and 1.5%, respectively. The growth forecast for 2018 and 2019 were unchanged, but rose for 2017 to 2.2% from 1.9%. This largely reflected the strength of the 2017 first half and current momentum; Tuesday’s second estimate of second-quarter eurozone GDP confirmed 0.6% growth, and also raised the year-over-year increase to 2.3% from 2.2%. The ECB made no changes to policy or forward guidance, and Draghi also said that the bulk of decisions about the asset purchase program would be in made in October.

**CORE EUROZONE BOND YIELDS FELL; STOCKS MIXED.** The German 10-year yield fell seven basis points, while Italy was the best performing

**U.S. INTEREST RATES**

	9/8/17	9/1/17	6/30/17	12/30/16	3Q17 Δ BPS	2017 Δ BPS
3-month LIBOR	1.31%	1.32%	1.30%	1.00%	1	31
2-year Treasury	1.26%	1.34%	1.38%	1.19%	-12	7
5-year Treasury	1.63%	1.74%	1.89%	1.93%	-26	-29
10-year Treasury	2.05%	2.17%	2.31%	2.45%	-25	-39
30-year Treasury	2.67%	2.78%	2.84%	3.07%	-17	-40
2yr-10yr Slope (BPS)	79	82	92	126	-13	-47

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**GLOBAL 10-YEAR INTEREST RATES**

	9/8/17	9/1/17	6/30/17	12/30/16	3Q17 Δ BPS	2017 Δ BPS
Canada	1.98%	1.91%	1.76%	1.72%	22	26
Brazil	9.71%	10.00%	10.54%	11.40%	-82	-169
Mexico	6.74%	6.85%	6.78%	7.42%	-4	-68
United Kingdom	0.99%	1.06%	1.26%	1.24%	-27	-25
France	0.61%	0.68%	0.81%	0.68%	-20	-7
Germany	0.31%	0.38%	0.47%	0.20%	-16	11
Italy	1.95%	2.07%	2.15%	1.81%	-20	14
Spain	1.53%	1.59%	1.52%	1.38%	1	15
Greece	5.42%	5.48%	5.36%	7.02%	6	-160
Japan	-0.01%	-0.01%	0.08%	0.04%	-8	-5

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**BLOOMBERG BARCLAYS INDICES-OPTION ADJUSTED SPREADS**

	9/8/17	9/1/17	6/30/17	12/30/16	3Q17 Δ BPS	2017 Δ BPS
U.S. Corporate (IG)	113	110	109	123	4	-10
U.S. High Yield	381	373	364	409	17	-28
Emerging Markets (USD)	257	256	268	301	-11	-44
MBS Fixed Rate	32	30	32	15	-	17
CMBS	71	70	74	75	-3	-4
ABS	43	41	46	59	-3	-16
Municipal Bond Index*	92	87	101	142	-9	-50

\* Muni Spread = (Barclays Index YTW \* 1.4577) - 10yr U.S. Treasury Prepared by Conning, Inc., Source: Barclays Indices, POINT ©2015-2017 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. ©2015-2017 Bloomberg, L.P.

**U.S. BOND MARKET PERFORMANCE**

	SEP' 17 EXCESS	SEP' 17 NOMINAL	2017 EXCESS	2017 NOMINAL
U.S. Aggregate	-0.08%	0.27%	0.41%	3.92%
Treasury	N/A	0.37%	N/A	3.52%
Govt-Related	0.01%	0.33%	1.59%	4.70%
Munis (TE)	N/A	0.34%	N/A	6.92%
EM Aggregate	0.13%	0.50%	4.52%	7.97%
Corporate IG	-0.22%	0.23%	1.30%	5.61%
Corporate HY	-0.07%	0.17%	3.79%	6.23%
MBS	-0.08%	0.18%	-0.18%	2.74%
ABS	-0.02%	0.11%	0.70%	1.92%
CMBS	-0.09%	0.27%	0.78%	4.26%

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MAJOR ECONOMIC RELEASES	MONDAY, SEPTEMBER 11	TUESDAY, SEPTEMBER 12	WEDNESDAY, SEPTEMBER 13	THURSDAY, SEPTEMBER 14	FRIDAY, SEPTEMBER 15
	No major economic updates	NFIB Small Business Index (Aug) Job Openings (Jul) U.K. CPI (Aug) U.K. PPI (Aug)	Producer Price Index (Aug) Federal Budget (Aug) MBA Mortgage Applications (Sep, 8) Eurozone Industrial Production (Jul) U.K. Employment (Aug)	Consumer Price Index (Aug) Initial and Continuing Jobless Claims (Sep, 2) Consumer Comfort (Sep, 10) U.K. MPC Meeting	Retail Sales (Aug) Empire State Index (Sep) Industrial Production (Aug) Consumer Sentiment (Sep) Business Inventories (Jul)

market as its 10-year yield fell 12 basis points. European stock markets were mixed; the German index gained 1.3%, the Spanish index lost 1.9% and other major eurozone markets were little changed.

**U.K.'S FTSE FALLS AS STERLING GAINS.** The FTSE 100 Index, dominated by overseas earners, lost 0.8% last week as sterling gained almost 2% against the U.S. dollar and 0.4% against the euro. Gilts moved in line with eurozone markets, with the 10-year yield falling seven basis points. U.K. manufacturing production increased 0.5% in July, a 1.9% year-over-year increase and better than expected, but total industrial production, up 0.2% month over month and 4% year over year, was as expected.

**CHINA'S FOREIGN RESERVES CLIMB FOR SEVENTH CONSECUTIVE MONTH.** The nation's foreign reserves reached \$3.1 billion in August, helped by 2017's steadily appreciating U.S. dollar versus the Chinese yuan. China's dollar-based trade balance narrowed in August as export growth slowed to 5.5% from 7.2% in July, while imports accelerated to 13.3% from 11%. On the inflation front, China's August headline consumer price index (CPI) and producer price index (PPI) numbers picked up meaningfully to 1.8% and 6.3%, respectively, from 1.4% and 5.5% in July.

**INDONESIA INFLATION SOFTENS, MALAYSIA IMPORTS, EXPORTS RISE.** Indonesia's headline CPI and core CPI softened further in August, providing further leeway for Bank Indonesia to cut rates deeper after a 25-basis-point cut at its latest meeting. Malaysia's July exports rose 30.9%, significantly above June's 10% and the 23% expected for the month, due to higher shipment volumes across major export products. July imports also were strong, a 21.8% increase versus 11.3% estimated.

**TENSIONS PERSIST OVER KOREAN PENINSULA.** Geopolitical tensions over North Korea remained despite the absence of further ICBM tests last week. North Korea lashed out at the U.S. after the latter's U.N. ambassador criticized and called for tighter sanctions against the isolated nation in an emergency U.N. Security Council session.

## GLOBAL EQUITY AND COMMODITY INDICES

	9/8/17	9/1/17	6/30/17	12/30/16	3Q17 QTD % CHANGE	2017 YTD % CHANGE
<b>S&amp;P 500</b>	2,461	2,477	2,423	2,239	2.0%	11.5%
<b>S&amp;P Growth</b>	1,423	1,428	1,374	1,223	3.8%	17.7%
<b>S&amp;P Value</b>	1,029	1,038	1,037	1,001	-0.3%	4.5%
<b>Russel 2000</b>	1,399	1,414	1,415	1,357	-0.9%	4.0%
<b>Euro Stoxx 50</b>	3,448	3,444	3,442	3,291	0.4%	7.7%
<b>FTSE 100</b>	7,378	7,439	7,313	7,143	1.9%	6.6%
<b>DAX</b>	12,304	12,143	12,325	11,481	-0.2%	7.2%
<b>MSCI Asia ex Japan</b>	664	664	625	514	7.1%	31.6%
<b>Nikkei</b>	19,275	19,691	20,033	19,114	-3.7%	1.9%
<b>Hang Seng</b>	27,668	27,953	25,765	22,001	8.9%	30.1%
<b>China CSI 300</b>	3,826	3,831	3,667	3,310	5.5%	17.9%
<b>MSCI EAFE</b>	1,954	1,938	1,883	1,684	4.2%	19.0%
<b>MSCI BRIC</b>	315	314	280	242	13.7%	32.9%
<b>WTI Crude Oil (\$/bbl)</b>	\$47	\$47	\$46	\$54	3.1%	-11.6%
<b>Gold (Per Troy oz)</b>	\$1,346	\$1,325	\$1,242	\$1,152	8.4%	16.9%
<b>CRB Commodity Index</b>	434	436	447	423	-2.8%	2.6%

Equity index returns include dividend reinvestment

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## CREDIT DEFAULT SWAP INDICES

	9/8/17	9/1/17	6/30/17	12/30/16	3Q17 Δ BPS	2017 Δ BPS
<b>U.S. CDX IG</b>	60	57	61	68	0	-7
<b>U.S. CDX HY*</b>	107	107	107	106	0	1
<b>Euro IG</b>	54	54	56	72	-3	-19
<b>Euro HY</b>	234	234	247	289	-13	-55
<b>Sov Western Europe</b>	18	19	19	32	-1	-14
<b>Euro Senior Financial</b>	52	53	53	94	-1	-42

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

## CURRENCY EXCHANGE RATES

	9/8/17	9/1/17	6/30/17	12/30/16	3Q17 QTD % CHANGE	2017 YTD % CHANGE
<b>Yen per USD</b>	107.84	110.25	112.39	116.96	-4.0%	-7.8%
<b>USD per Euro</b>	1.20	1.19	1.14	1.05	5.3%	14.4%
<b>USD per GBP</b>	1.32	1.30	1.30	1.23	1.3%	7.0%
<b>GBP per Euro</b>	0.91	0.92	0.88	0.85	4.0%	6.8%
<b>CAD per USD</b>	1.22	1.24	1.30	1.34	-6.2%	-9.5%
<b>USD per AUD</b>	0.81	0.80	0.77	0.72	4.8%	11.8%

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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 = Neutral</b>	<b>Euro and U.K. Duration Stance = Short</b>	

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