

Market Maps

Monthly Performance Report

Local Currency Edition

October 2018

FTSE
Russell

Mounting macroeconomic uncertainty drives widespread volatility and defensive leadership

Despite a late rally, global equity markets registered large negative returns in October. This was in response to hawkish Fed commentary indicating rate hikes are likely to continue despite slowing global growth and simmering US-China trade tensions. The question facing markets now is whether valuations adequately reflect current global macro risks.

Global Asset Classes

In a global retreat from risk, US and international equities fell in October. After initial weakness, US government bonds rallied in the latter half of the month, buoyed by their safe haven status. Commodities were mixed, with gold up and oil lower. (pg. 3)

Global Equity Markets

October losses were widespread, with the US, Europe, Japan and emerging markets sharply lower. South Korea paced developed market declines, while China led the emerging markets sell-off. (pg. 4)

Regional Industry Groups

Defensive industries outperformed globally amid increased risk aversion. Utilities, health care and telecom stocks generally held up, while cyclical sectors, including industrials, materials, energy and technology were hit hardest. (pg. 5)

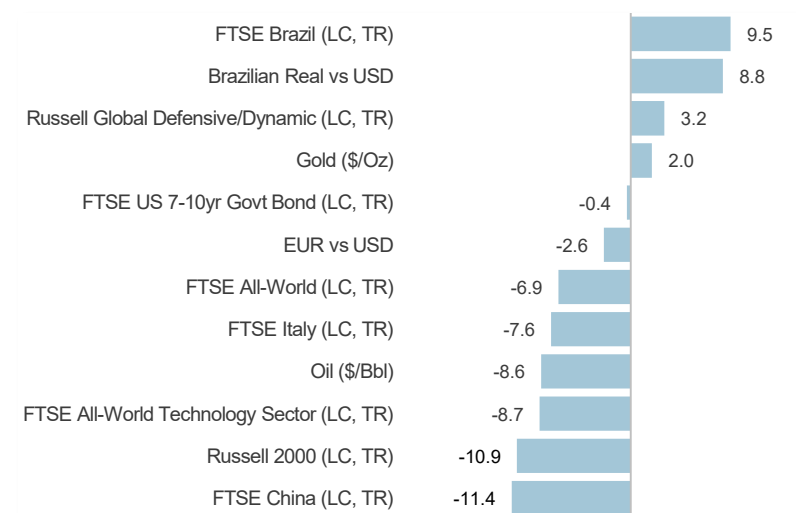
Regional Style and Factors

Small caps underperformed large caps globally, while growth trailed value across most regions. (pg. 8)

Foreign Exchange

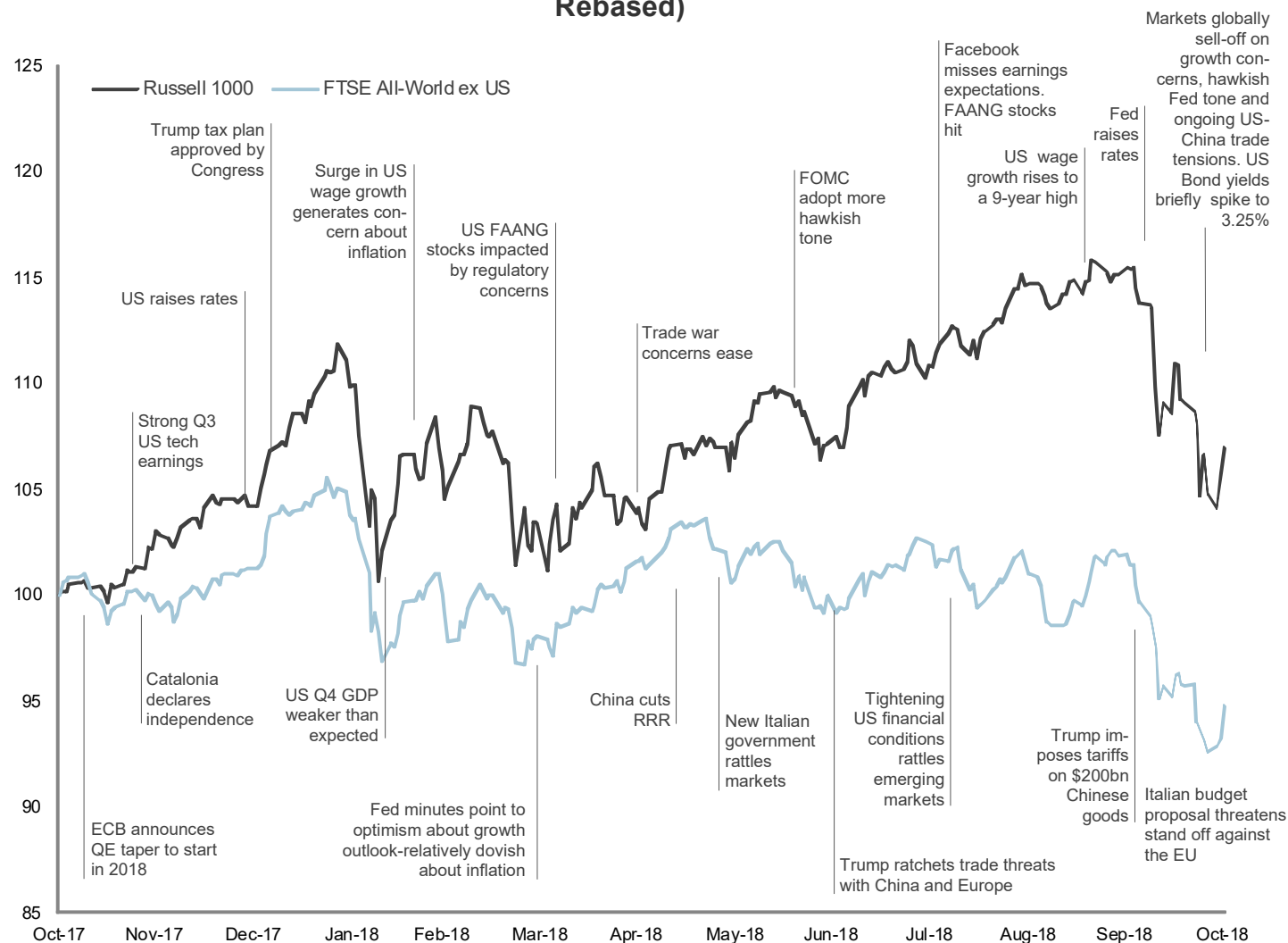
The US dollar strengthened versus the Chinese yuan, euro and sterling. The yen was the exception, rising versus the dollar amid higher safe haven demand. (pg. 9).

Key market moves in October 2018 (%)



Source: FTSE Russell and Refinitiv. Yield in percentage terms. Data as of October 31 2018. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Russell 1000 vs FTSE All-World ex US Indexes (Local Currency, TR, Rebased)



October 2018

Markets tumbled globally as mounting macro risks clouded earnings visibility. Hawkish Fed commentary reminded investors rate hikes are likely to continue despite slowing global growth and simmering US-China trade tensions. Signals from the ECB and Bank of Japan added to worries about “quantitative tightening” and an impending change in the global monetary environment.

October's equity losses were widespread, with the US, Europe, Japan and emerging markets all in retreat. South Korea paced developed market declines, while China led emerging markets on the downside. Small caps and growth stocks underperformed globally.

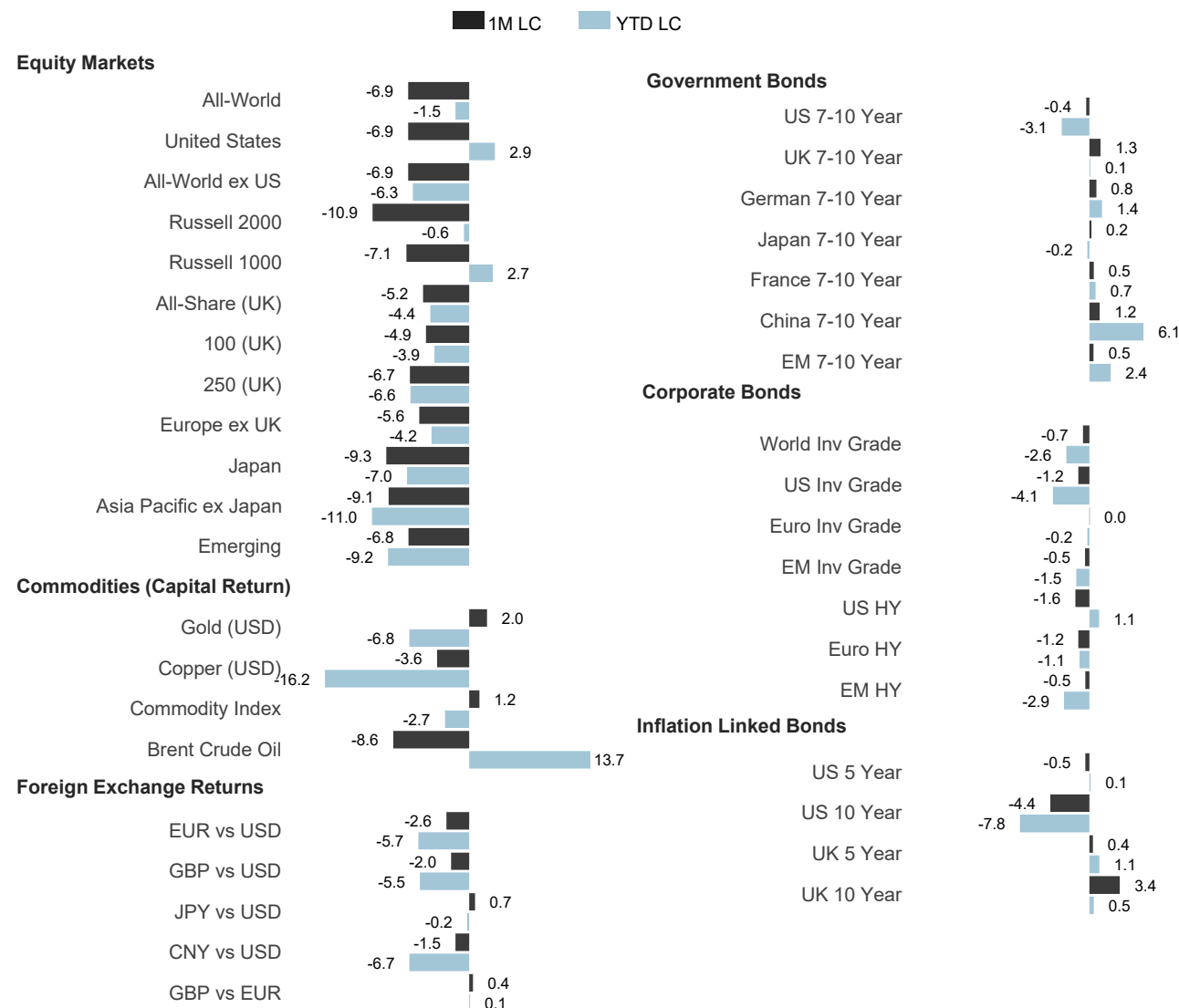
US government and corporate bonds fell as rates rose, though late-month haven buying limited declines.

Commodities declined broadly as global growth jitters dented demand prospects. Gold was the exception as investors flocked to safe havens.

October Main Events

- An agreement replacing NAFTA, renamed the United States-Mexico-Canada Agreement (USMCA), was reached. It must be ratified by the US Congress.
- Italian bond yields rose in response to tension between Italian government and EU over budget levels.
- September CPI rose 2.8% YoY. Core CPI rose 2.2%.
- The PBOC cut the bank reserve requirement ratio to 14.5% from 15.5%, the fourth cut this year.
- The IMF downgraded its 2018 and 2019 global GDP growth forecast to 3.7%, 0.2 percentage-points lower for both years than forecast in April.
- Saudi Energy Minister announced an oil production increase to 10.7 million barrels per day, aimed at offsetting sanction-related declines in Iranian oil output.
- Despite healthy Q3 earnings reports, many companies cited the trade uncertainties and the impact of tariffs on costs as reasons for cautious guidance.
- Preliminary US Q3 GDP grew at a 3.5% annualized rate, slightly ahead of consensus forecasts.

Regional Asset Class Returns – 1M vs YTD % (Local Currency, TR)



October Observations

Tightening US financial conditions, slowing Chinese growth, simmering trade tensions combined to cloud the economic and profit outlook and ignited a resurgence in risk aversion.

Equity losses were widespread. South Korea posted the largest developed-market declines, while China led emerging-market losses. Brazilian stocks were the rare bright spot, rallying on optimism surrounding its presidential elections (see page 4).

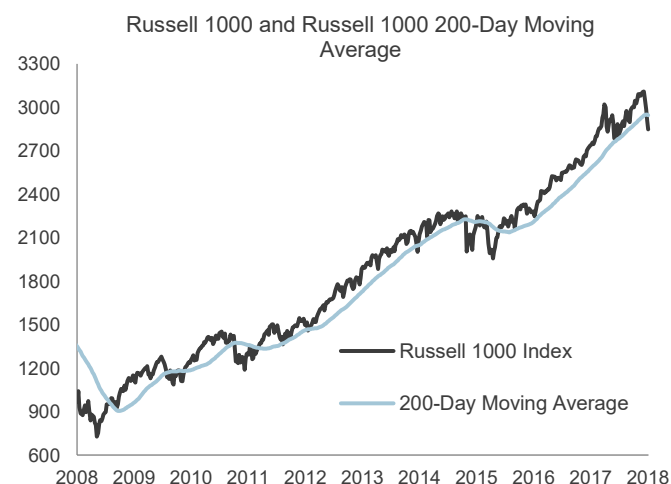
Large caps outperformed small caps globally, and value trailed growth across most regions (see page 8).

US government and corporate bonds fell as interest rates rose. However, late-month haven demand limited declines.

Commodities declined broadly as signs of slowing global growth dented demand prospects. Gold proved the exception, edging higher amid a spike in risk aversion.

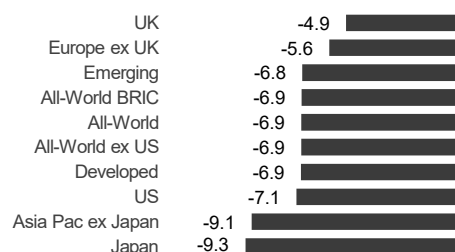
The US dollar rose versus the Chinese yuan, euro and sterling and weakened versus the yen on safe haven demand.

The Russell 1000 has breached its 200-day moving average only three times since 2009.

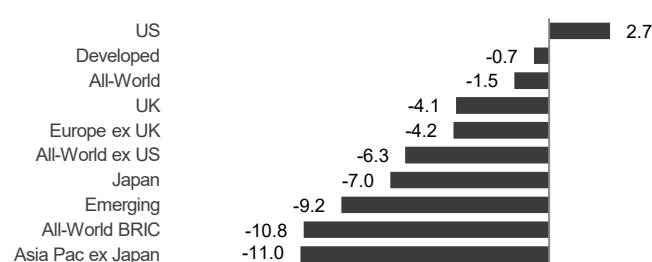


Global Equity Market Returns – 1M vs YTD % (Local Currency, TR)

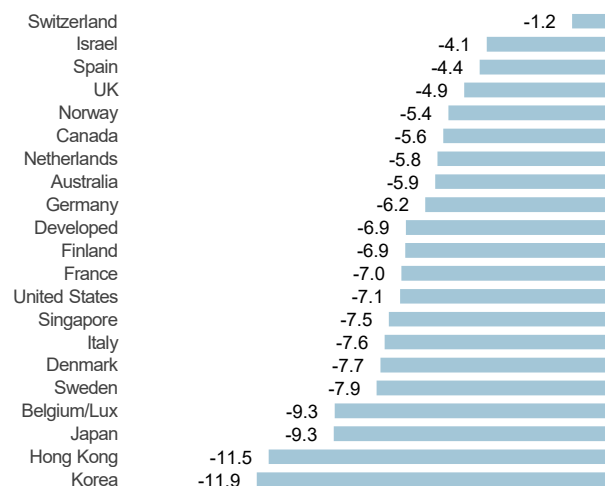
FTSE Regions 1M - Local Currency



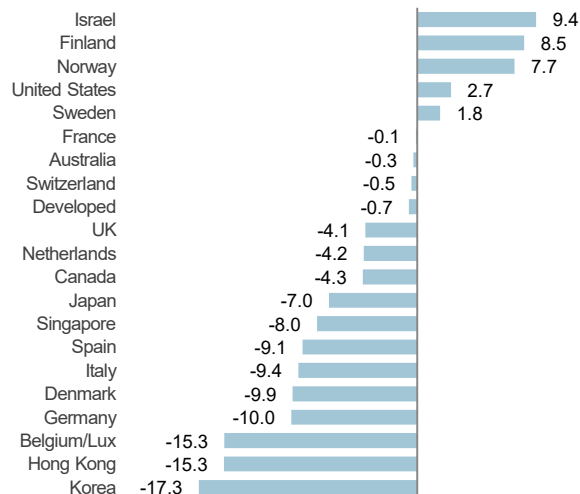
FTSE Regions YTD - Local Currency



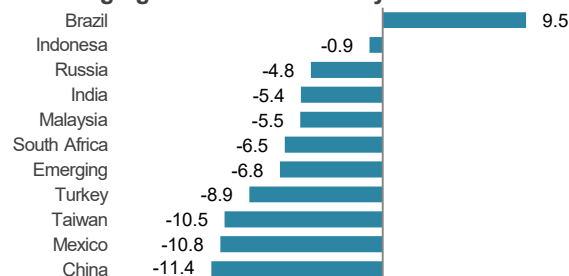
FTSE Developed 1M - Local Currency



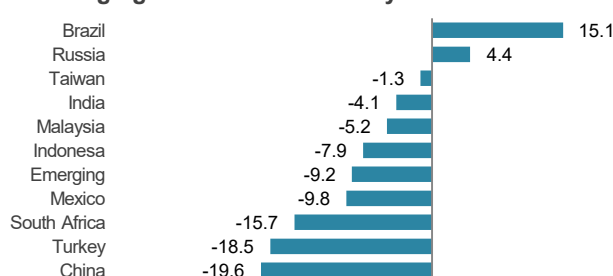
FTSE Developed YTD - Local Currency



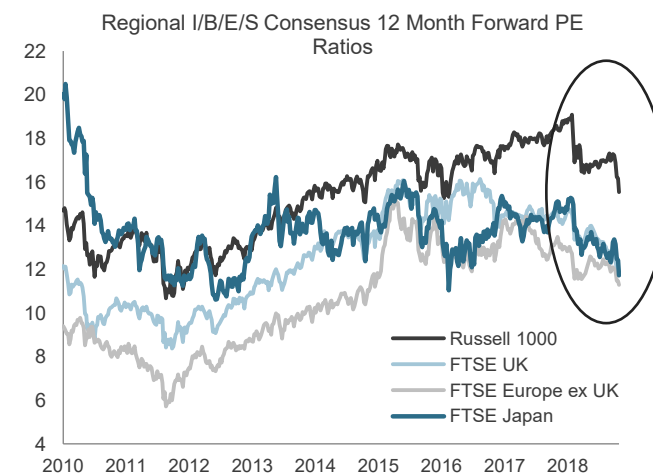
FTSE Emerging 1M - Local Currency



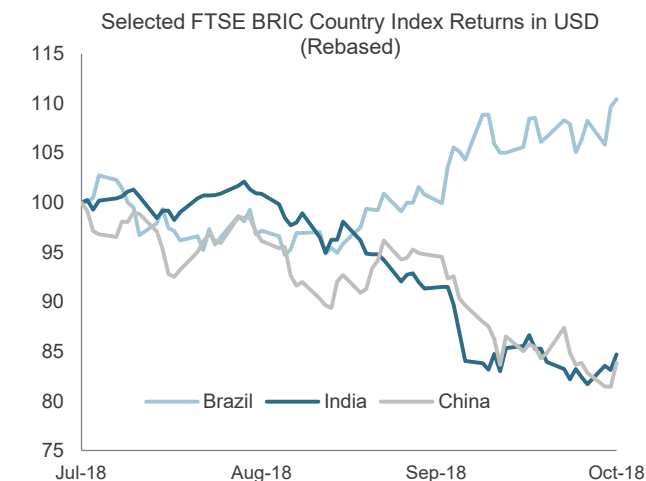
FTSE Emerging YTD - Local Currency



The October downdraft brought 12-month-forward PE multiples back to January 2016 lows.



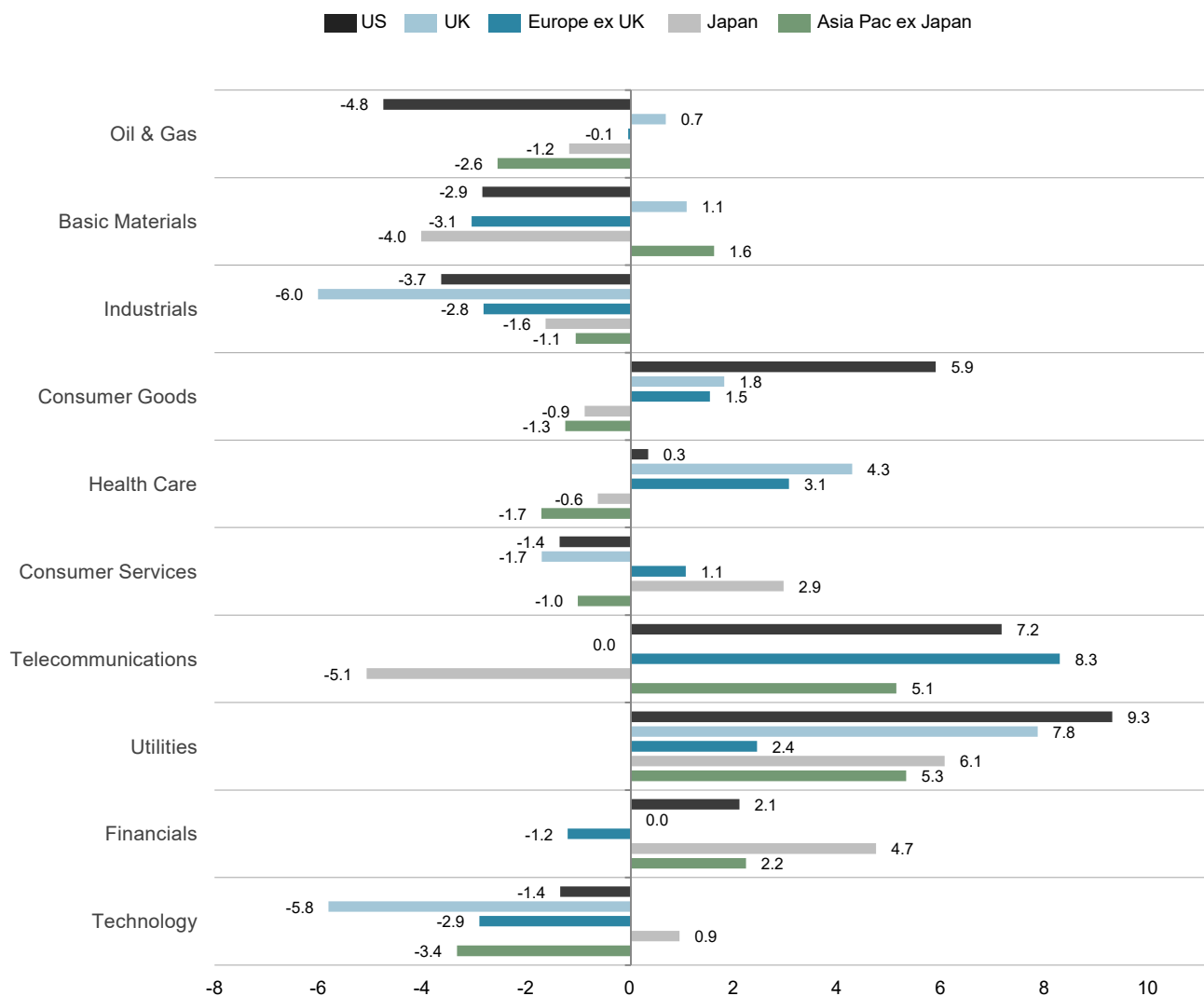
BRIC stock performance diverged in October, marked by strong gains in Brazil and continued declines in China and India.



Source: FTSE Russell and Refinitiv. All data as of October 31, 2018. Equity market data based on: FTSE Regional, FTSE Developed, FTSE All-World BRIC and Russell 1000® Indexes. Emerging market country performance data based on FTSE China, FTSE South Africa, FTSE India, FTSE Brazil, FTSE Russia, FTSE Mexico, FTSE Taiwan, FTSE Turkey, FTSE Indonesia and FTSE Malaysia. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

Regional Industry Group Returns – 1M % (Local Currency, TR, Relative)

FTSE Regional 1M Returns in Relative Terms



October Observations

Looking at the respective relative performance of regional industry groups this month, we highlight the following:

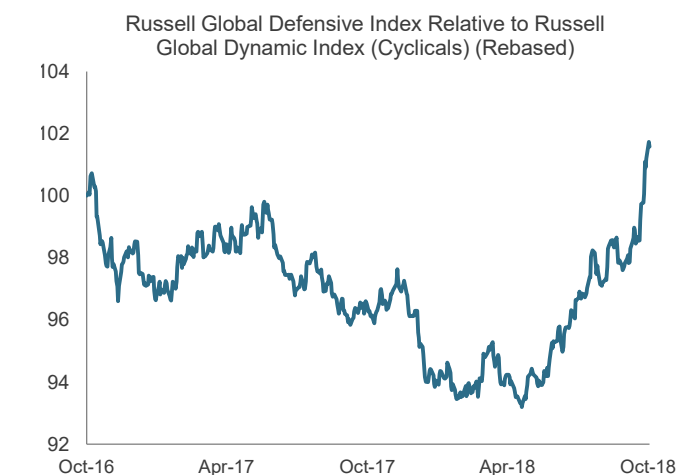
In a broad meltdown that spared almost no industry, defensive industries strongly outperformed cyclicals globally (see chart below) as investors gravitated to less economically sensitive stocks.

Health care and bond-proxy utility and telecom stocks fell less than broad market benchmarks across most major markets.

Cyclical sectors, notably industrials, materials, energy and technology, were among the worst performers globally.

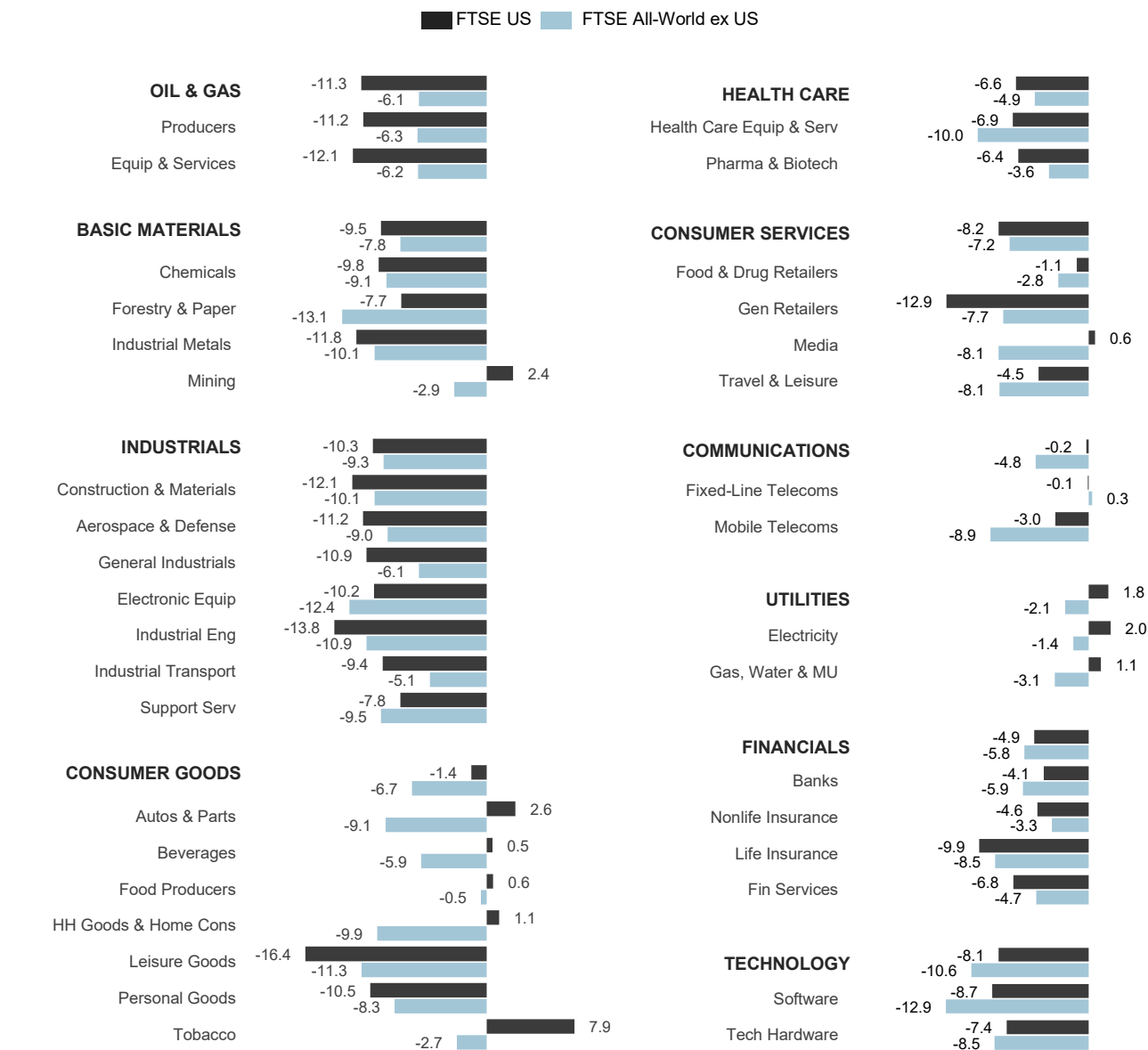
Technology stocks were particularly hard hit in reaction to discouraging guidance from high-profile industry leaders and concerns over softening global demand.

Global defensives outpaced global cyclicals as jitters over slowing world growth sparked a resurgence in risk aversion.

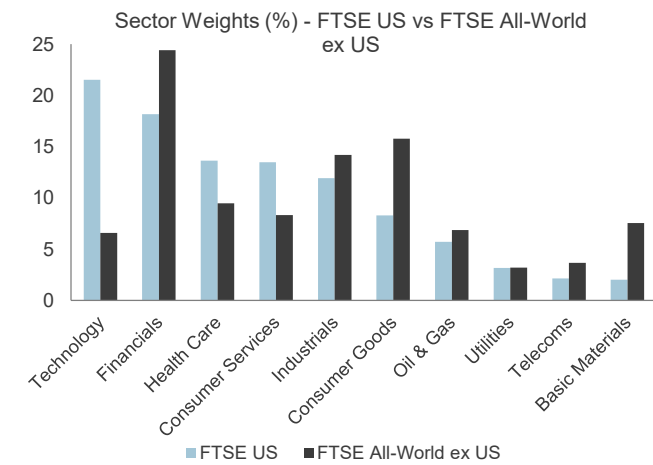


Source: FTSE Russell. All data as of October 31, 2018. Equity markets data based on: FTSE US, FTSE UK, FTSE Europe ex UK, FTSE Japan and FTSE Asia Pacific ex Japan Indexes and Industry Classification Benchmark (ICB®) industry groups. Bottom RH chart represented by Russell 1000 Defensive Index and Russell 1000 Dynamic Index. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

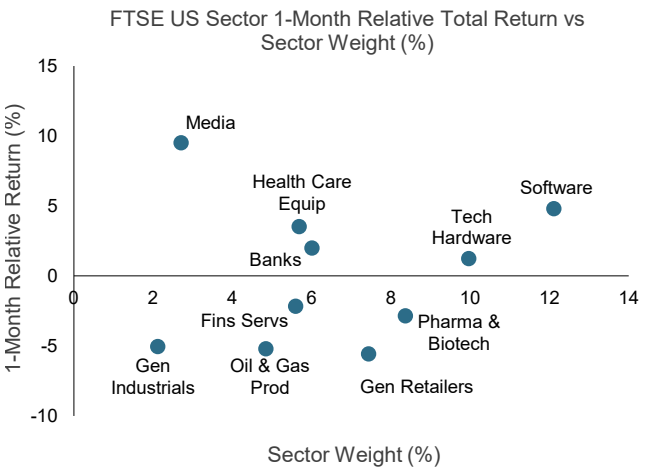
Sector Performance Comparison – 1M % (Local Currency, TR)



The FTSE US is significantly overweight technology versus global peers and underweight financials and consumer goods.

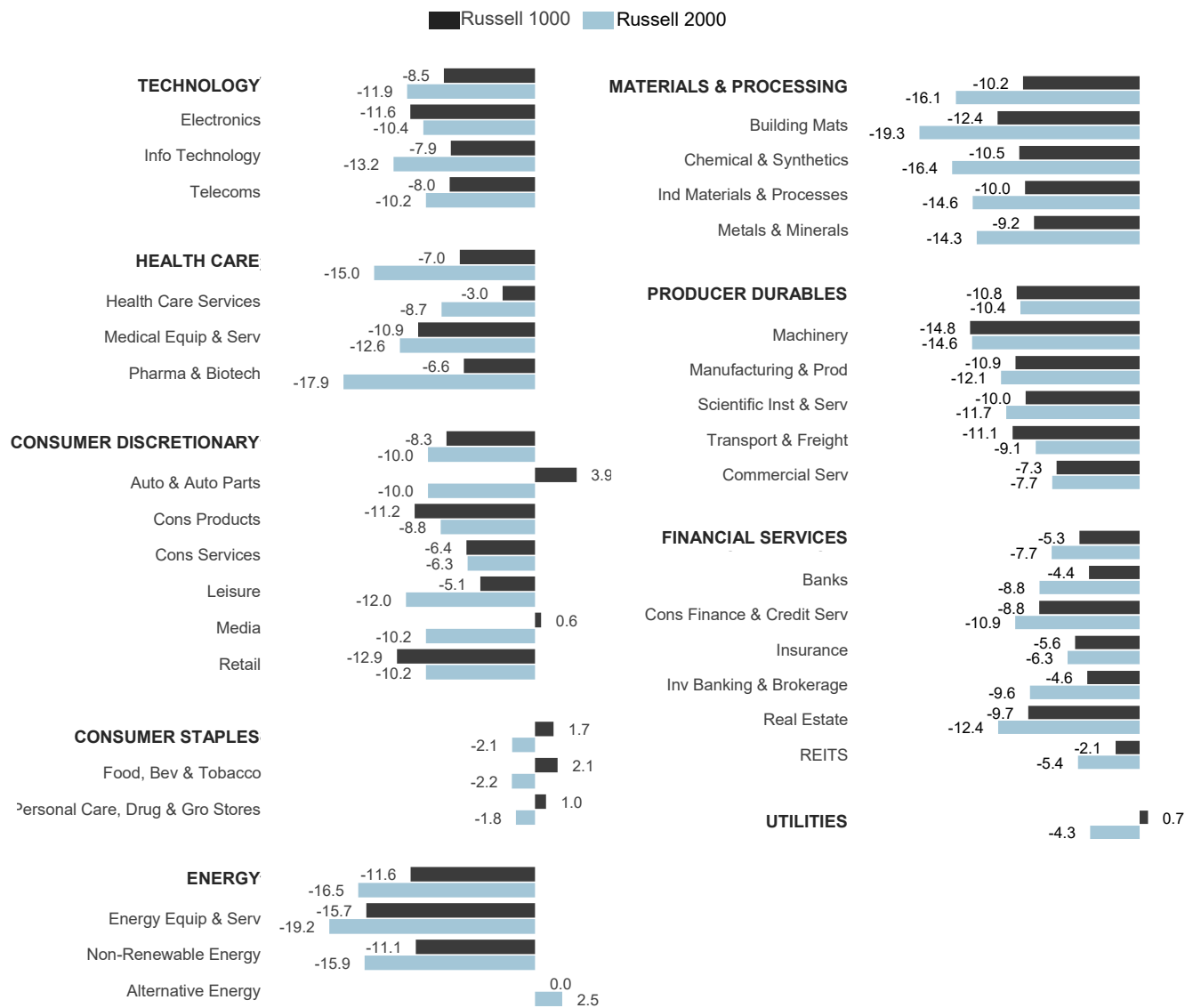


Despite declines, US software and tech hardware sectors continued to outperform their global peers in October. underperformed underperformed performance versus its global

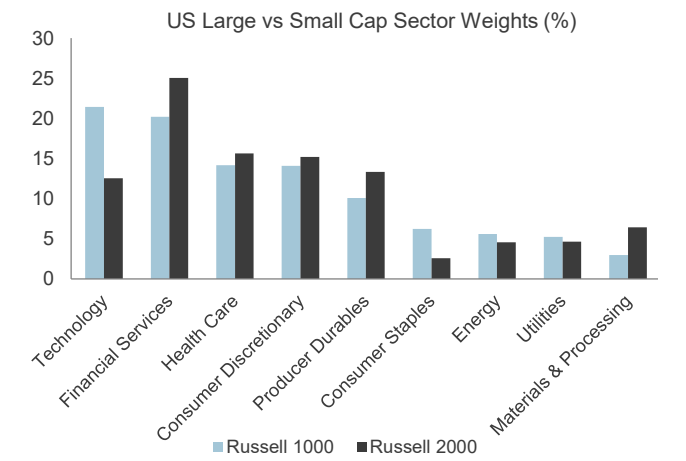


Source: FTSE Russell and Refinitiv. All data as of October 31, 2018. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

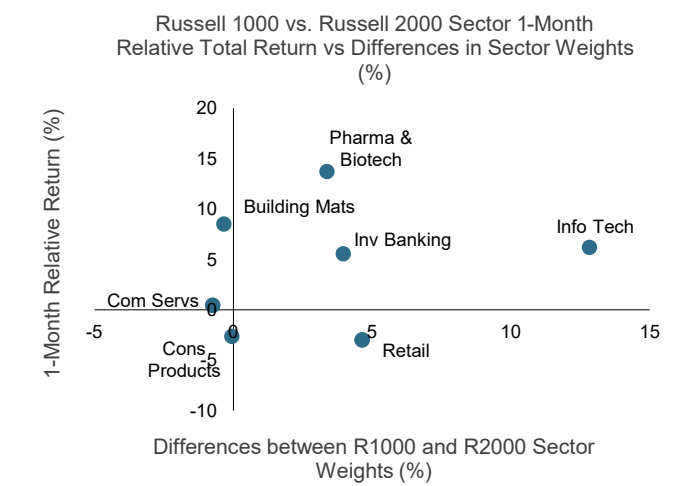
Russell 1000 vs 2000 Sector Performance Comparison – 1M % (Local Currency, TR)



The Russell 1000 Index is overweight technology and underweight financials compared to the Russell 2000 Index.

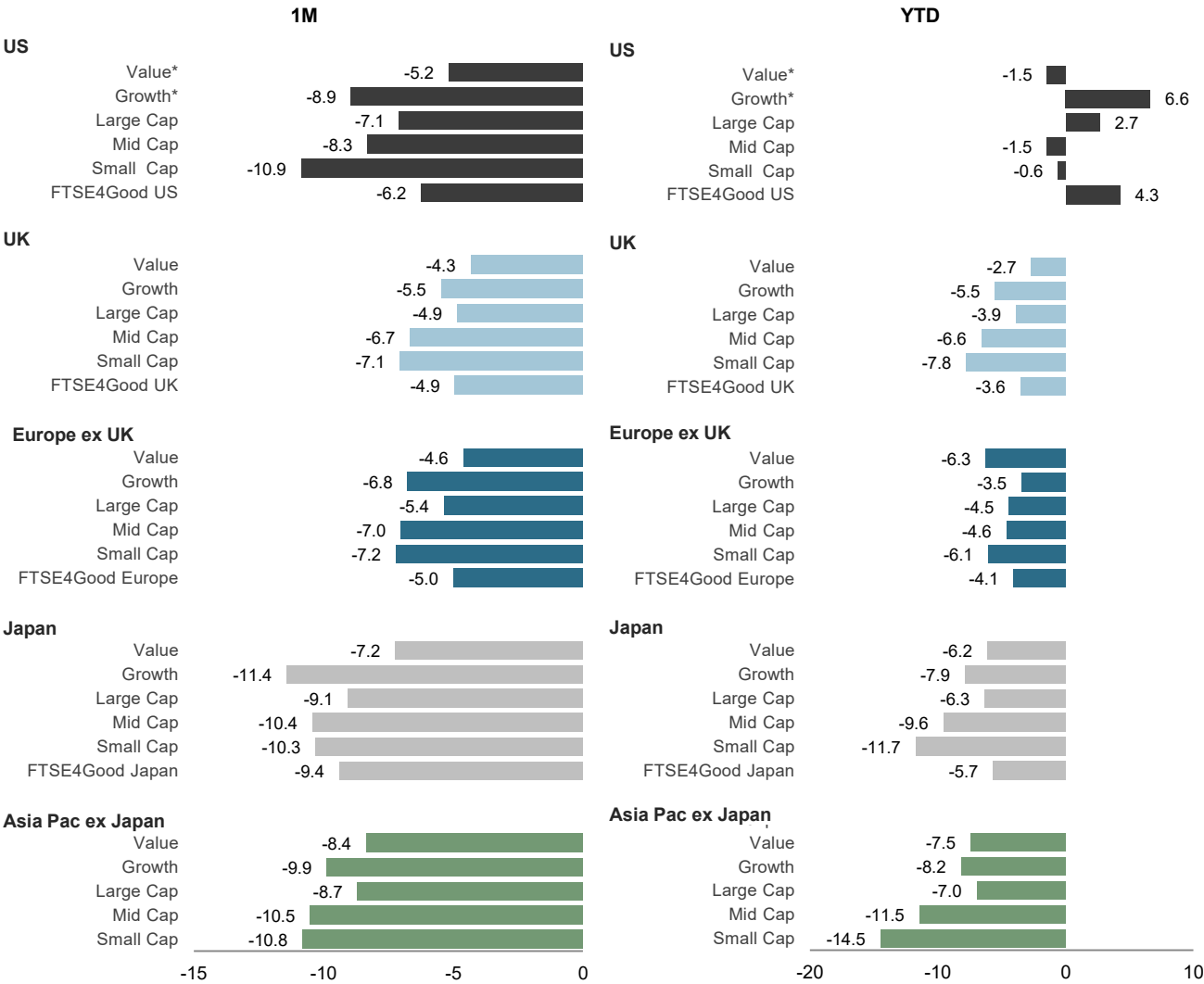


Exposures to information technology and pharma and biotech drove Russell 1000 outperformance versus the Russell 2000.

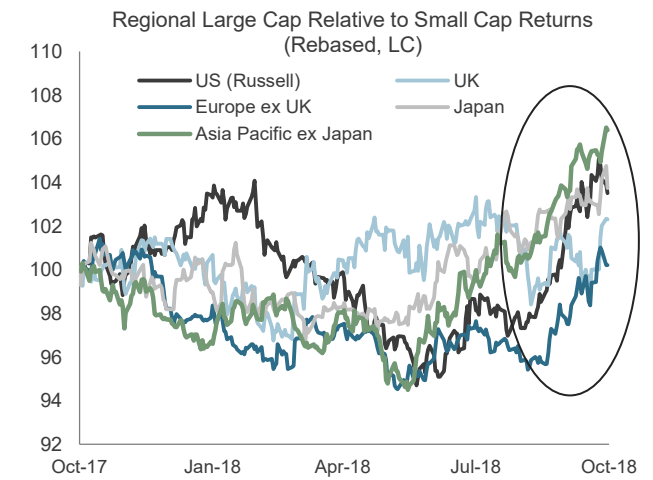


Source: FTSE Russell and Refinitiv. All data as of October 31, 2018. Equity market data based on: Russell 1000® and Russell 2000®. Past performance is no guarantee of future results. Please see the end for important legal disclosures.

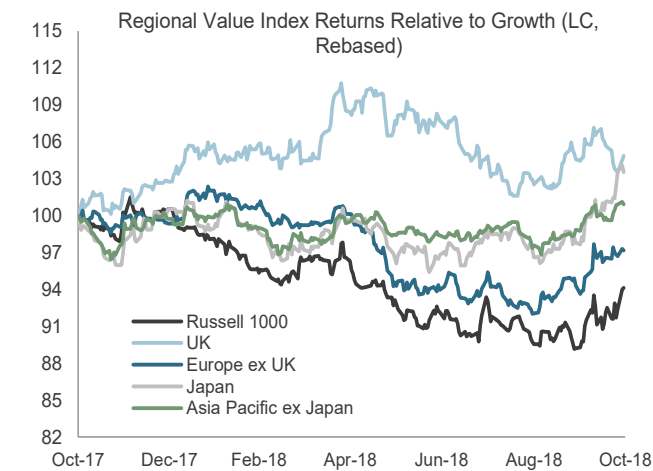
Regional Size, Factor and FTSE4Good Performance - 1M vs YTD % (Local Currency, TR)



Large caps held up better than small caps in October's global shift from risk.



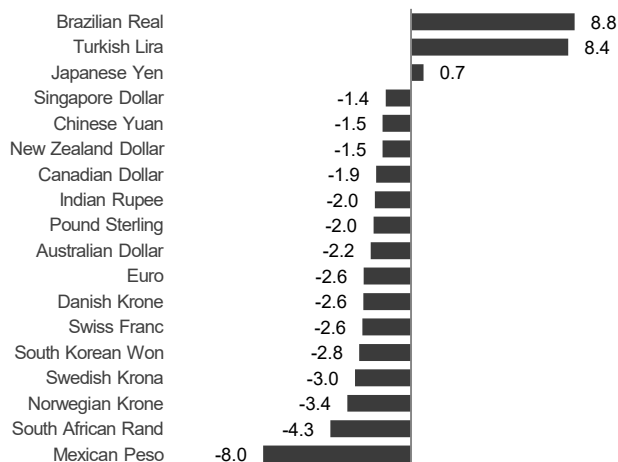
The recent rout has seen a rotation from growth to value across most regions.



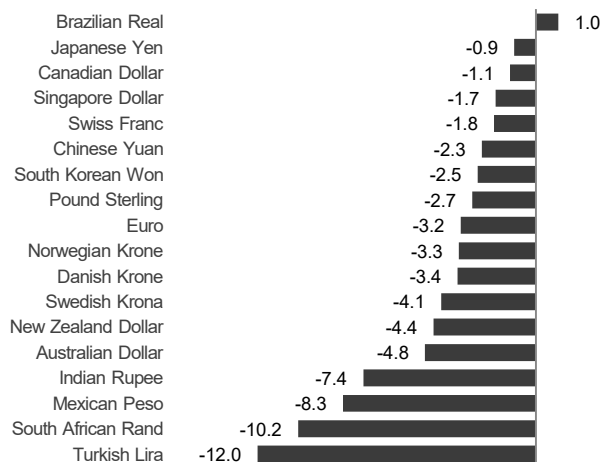
Source: FTSE Russell and Refinitiv. All data as of October 31, 2018. Equity market data based on: FTSE Regional, FTSE Developed Indexes. Past performance is no guarantee of future results. Returns shown for UK Value, Europe ex UK Value, Japan Value, and Asia Pacific ex Japan Value Indexes represent hypothetical, historical performance. Please see the end for important legal disclosures.

Foreign Exchange Returns %

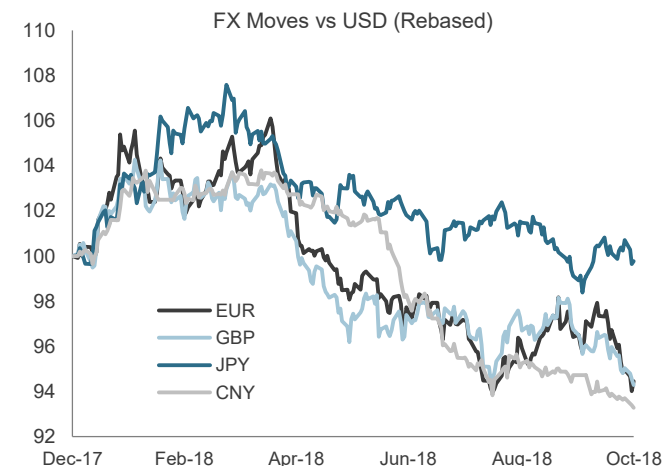
FX Moves vs USD - 1M



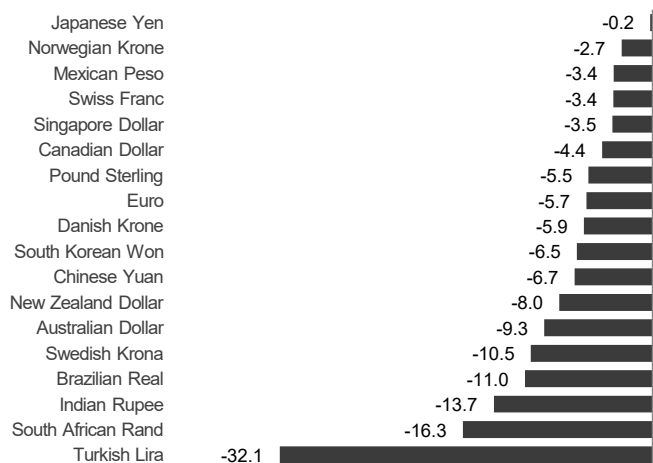
FX Moves vs USD - 3M



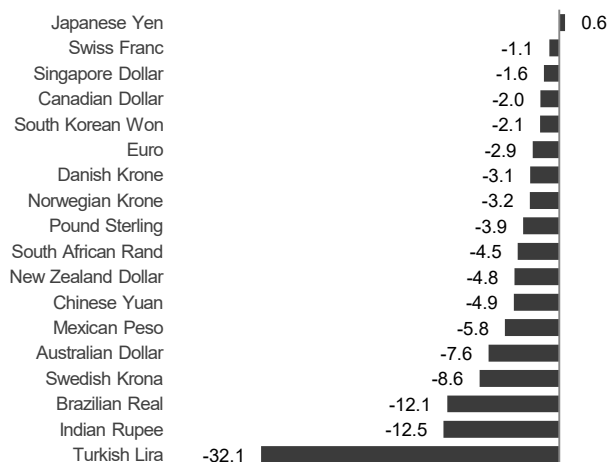
The USD firmed against the Chinese yuan, euro and pound, but weakened versus the yen amid higher haven demand.



FX Moves vs USD - YTD



FX Moves vs USD - 12M



The major EM currencies were modestly lower in October, with the Mexican peso holding up best year to date.





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