Monthly Market Review

Is the Trump trade back? At least one leg of the trade that dominated markets after the 2016 election has now returned - rising equity prices propelled stock markets to new highs in recent weeks on the hope for strong growth and market-friendly tax policies. The second leg of the 2016 Trump trade, which led to a sharp rise in interest rates at the end of last year, has failed to recur. In fact, 30-year Treasuries ended November about 0.25% lower than they were in early January.

Economic Highlights

- Revisions to gross domestic product (GDP) for the third quarter indicated a 3.3% annualized growth pace, the fastest in three years, reflecting strong consumer spending and private investment. An uptick in housing activity, characterized by acceleration in existing and new home sales and continued home price appreciation, affirmed the strength of the housing sector.
- Recent labor market trends remain intact. Including the November jobs report, the economy has created an average of 178,000 new jobs per month since June. The unemployment rate is at or near long-term lows, while wage growth is a bit disappointing.
- The Federal Reserve (Fed) acknowledged in its November meeting minutes that recent inflation weakness may not be transitory, corroborating investor surveys that have reported reduced inflation expectations over the next five to ten years. Nevertheless, because of labor market strength and optimism about economic growth, the Federal Open Market Committee remains on the track to raise rates for a third time this year when they meet next in mid-December.
- Low market volatility has characterized the current stage of the U.S. business cycle, thus far the third longest expansionary phase on record. Enduring market tranquility – what some might consider complacency – has been a constant theme this year. This has spawned the notion that the U.S. economy may have evolved to a post business cycle state where business conditions have reached a sort of steady-state equilibrium.
- Overseas, synchronized global economic expansion in both developed countries and emerging markets has created a supportive macroeconomic backdrop.

Bond Markets

- Short-term interest rates continued to rise in anticipation of a December Fed rate hike and an elevated supply of short-term U.S. Treasury debt. Two-year Treasury rates rose the most, up 18 basis points (bps) in November. Up to one-third of all new Treasury issuance in coming months is likely to be in T-Bills of one year maturity or less. Short-term Treasury yields appear to have already fully priced in three or four Fed rate hikes in 2018, despite Fed funds futures indicating otherwise.
- In contrast, institutional demand for long-duration bonds has pushed longer-term yields lower, partially fueled by the benign outlook for inflation. Ten-year Treasuries rose three basis points last month and the spread between 10- and 2-year Treasuries compressed to a decade low.
- Short/intermediate government benchmarks posted modest positive returns in November with the Barclays 1-3 year Treasury up 0.03%. Long-maturity Treasuries returned 0.33% for the month.
- Corporate sectors generally produced strong returns as yield spreads continued to narrow, reaching a new post-Recession low.
- The mortgage-backed securities (MBS) landscape remained stable, despite initiation of the Fed's balance sheet reduction measures. Once the pace of tapering increases in future months, the MBS sector may underperform.

Equity Markets

- Stock market exuberance carried forward amidst strong corporate profits, ongoing deregulation – mostly by executive order – and growing progress toward significant corporate tax cuts. Investor optimism pushed major U.S. equity indices to new record highs at the end of November, adding between 0.9% and 2.3%. The S&P 500 and Dow Jones Industrial Average booked their eighth consecutive monthly gain; NASDAQ has been expanding for the past five straight months.
- Sector performance within the S&P was strong with all 11 sectors posting positive returns. Telecom was the best performing sector, with a 6.0% return. The Materials sector finished as the worst performing sector but still earned a positive 1.0% return.
- Softness returned to the U.S. dollar, breaking a two-month recovery and registering its steepest monthly drop since July. Growth outside of the U.S. coupled with a falling greenback drove global equity benchmarks to capture broad-based gains on the month.

PFM Outlook

- Forward-looking market metrics are favorable with leading indicators such as building permits, jobless claims, new orders, and business sentiment all positive. This should keep the Fed in tightening mode and put pressure on short rates, yet without an uptick in inflation it is hard to see rates for long maturities rising much from current levels.
- With so little to be gained by extending maturities in the government sector, investors will continue to favor federal agency, corporate, and asset-backed securities thus constraining spreads and reducing the relative value of these sectors. But, the additional yield offered, however modest, can be an important source of incremental income.
- Despite strong fundamentals, we remain cautious because of domestic political challenges and various global geopolitical risks looming in the background. Any unexpected shock could unleash a period of higher volatility. Narrow spreads and a flat yield curve really do not reward risk-taking. Accordingly, we will keep portfolios well-diversified and with high credit quality, with durations close to benchmarks.

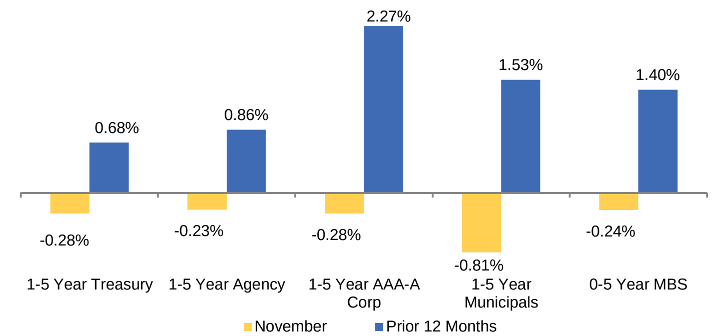
U.S. Treasury Yields				
Maturity	**Nov 30, 2016**	**Oct 31, 2017**	**Nov 30, 2017**	**Monthly Change**
3 Month	0.48%	1.13%	1.26%	0.13%
6 Month	0.61%	1.28%	1.44%	0.16%
2 Year	1.12%	1.60%	1.78%	0.18%
5 Year	1.84%	2.02%	2.14%	0.12%
10 Year	2.38%	2.38%	2.41%	0.03%
30 Year	3.04%	2.88%	2.83%	-0.05%

Yields by Sector and Maturity as of November 30, 2017				
Maturity	**U.S. Treasury**	**Federal Agency**	**Corporates-A Industrials**	**AAA Municipals**
3 Month	1.26%	1.26%	1.68%	-
6 Month	1.44%	1.37%	1.75%	-
2 Year	1.78%	1.86%	2.12%	1.32%
5 Year	2.14%	2.21%	2.60%	1.62%
10 Year	2.41%	2.68%	3.21%	2.21%
30 Year	2.83%	3.03%	3.83%	2.95%

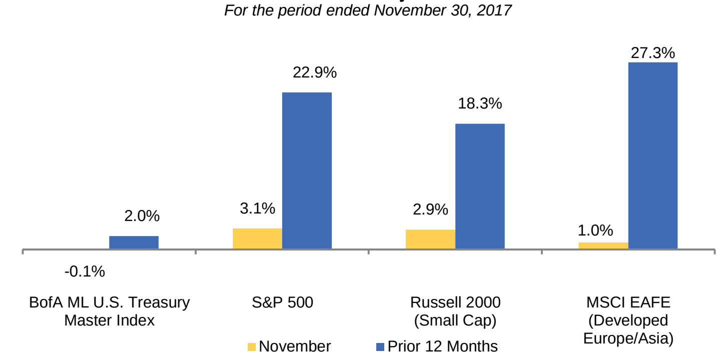
Spot Prices and Benchmark Rates				
Index	**Nov 30, 2016**	**Oct 31, 2017**	**Nov 30, 2017**	**Monthly Change**
1 Month LIBOR	0.62%	1.24%	1.37%	0.13%
3 Month LIBOR	0.93%	1.38%	1.49%	0.11%
Effective Fed Funds Rate	0.31%	1.07%	1.07%	0.00%
Fed Funds Target Rate	0.50%	1.25%	1.25%	0.00%
Gold ($/oz)	$1,171	$1,271	$1,273	$3
Crude Oil ($/Barrel)	$49.44	$54.38	$57.40	$3.02
US Dollars per Euro	$1.06	$1.16	$1.19	$0.03

Economic Indicators				
Indicator	**Release Date**	**Period**	**Actual**	**Survey (Median)**
Nonfarm Payrolls	8-Dec	Nov	261k	313k
CPI ExFood&Energy YoY	15-Nov	Oct	1.8%	1.7%
Retail Sales MoM	15-Nov	Oct	0.2%	0.0%
Consumer Confidence	22-Nov	Oct	98.5	98.0
GDP Annualized QoQ	27-Nov	3Q (2nd est.)	3.3%	3.2%
New Home Sales	29-Nov	Nov	6.2%	-6.3%
FOMC Rate Dec. (Upper)	13-Dec	Dec	1.50%	1.50%

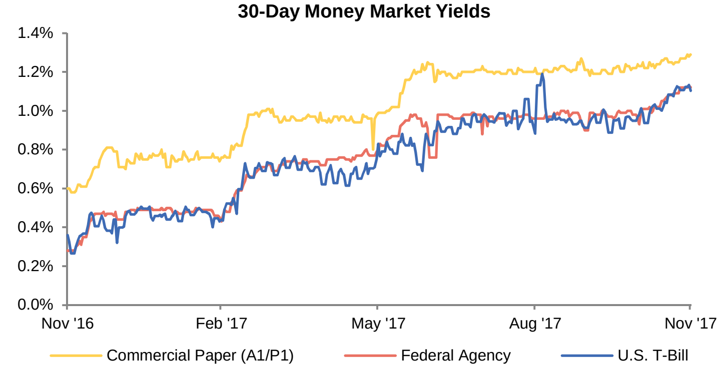
BofA ML Fixed Income Index Returns
For the period ended November 30, 2017



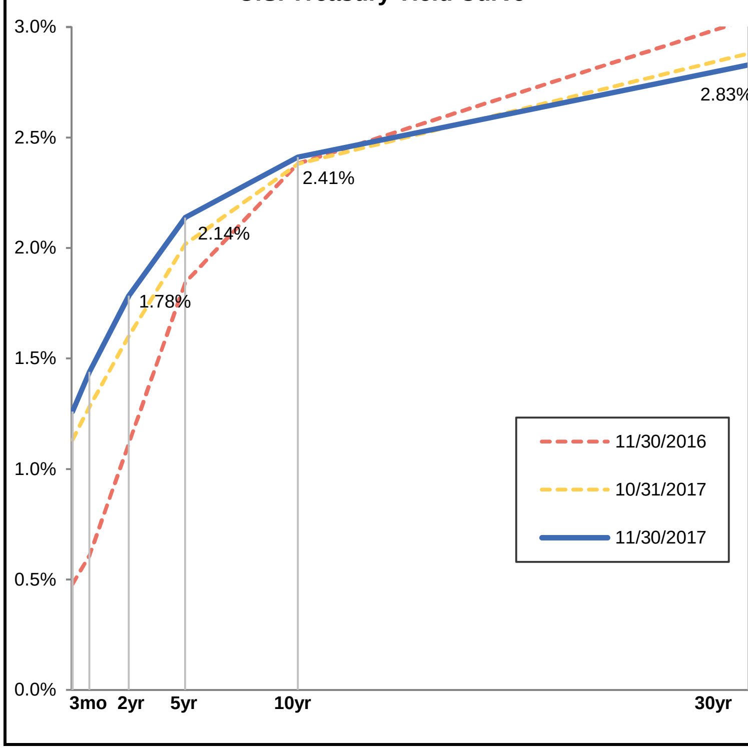
Total Return of Major Indices
For the period ended November 30, 2017



30-Day Money Market Yields



U.S. Treasury Yield Curve



Source: Bloomberg. Data as of November 30, 2017 unless otherwise noted.

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