Monthly Market Review

Economic Highlights

- The nomination of a replacement chair for the Federal Reserve Board and the introduction of legislation proposing the biggest change in Federal tax code since 1986 barely rippled the bond market. Both may still have an impact as Congressional debates and hearings await each one.
- The initial estimate of third quarter gross domestic product (GDP) indicated the U.S. economy grew at an annualized pace of 3.0% despite the rough hurricane season. Three percent growth in each of the second and third quarters was the fastest back-to-back quarterly pace since 2014. Personal spending, business investment and net exports were significant contributors.
- The labor market rebounded, adding 261,000 jobs in October. Importantly, the prior month's hurricane-induced decline was revised to a gain of 18,000 jobs. The unemployment rate fell to a sixteen-year-low of 4.1%.
- Inflation remained well short of the Federal Reserve's (Fed) target level of 2%. The Fed's preferred metric, core personal consumption expenditures (PCE), excluding food and energy, grew only 1.3% year-over-year (YoY) through September. Despite the low inflation reading, the positive overall economic backdrop led U.S. central bankers to signal they would continue to tighten monetary policy.
- The Federal Open Market Committee (FOMC) kept interest rates unchanged at its November 1 meeting while affirming the likelihood of an additional rate hike before year-end.
- Major central banks overseas maintained loose monetary policies, but are beginning to slowly shift to a bias toward reducing accommodation. The European Central Bank (ECB) confirmed the continuation of its asset-purchase program, but may begin to taper its purchases in 2018. Meanwhile, the Bank of England hiked rates for the first time since 2007, from 0.25% to 0.5%, reversing the emergency action taken after the Brexit vote last year.

Bond Markets

- Bond investors largely shrugged off the Fed leadership nomination and potential tax changes. Short-term rates rose 0.1%-0.15%, as it became clearer that the Fed would raise short term rates in December, but intermediate- and long-term rates barely budged.
- Notably, the nomination of Fed Governor Jerome Powell to chair the Federal Reserve Board is not expected to affect monetary policy, at least in the near term. Powell has been supportive of current chair Janet Yellen's cautious and data-dependent approach to monetary policy.
- The yield on two-year Treasury notes rose 11 basis points (bps) to 1.60%, pushing to a nine year high. The yield on 10-year Treasury notes rose 5 bps to 2.38%. The modest sell-off caused most Treasury benchmarks to book negative returns for the month.
- Federal agency yields kept pace with those of Treasuries, as yield spreads remained narrow. Agency indices generally outperformed similar-maturity Treasury indices.
- Investment-grade corporates continued to outperform comparable-maturity Treasuries. Robust third quarter earnings results have kept the demand for corporate bonds strong.

Equity Markets

- Investor ebullience resulting from positive third quarter corporate earnings, coupled with strong consumer sentiment, continued to drive stocks higher. Major U.S. equity indices including the S&P 500, Dow Jones and NASDAQ logged new records in October.
- Most sectors within the S&P 500 had positive performance, with seven of 11 sectors posting higher returns. Information Technology was the best performing sector, with a 7.8% return. The Telecom sector finished as the worst performing sector, falling 7.6%.
- Extending its recovery, the U.S. dollar strengthened modestly amidst expectations of higher interest rates and potential tax reform. Other major equity indices in the Americas, including Canada, Mexico and Brazil, declined over the month in U.S. dollar terms. However, most other international equity indices including those in Europe and Asia, rose in October.

PFM Outlook

- A disconnect persists between apparent economic reality and investor appetite for risk. Despite heightened political risk in East Asia and the Middle East, investor optimism persists, buoyed by solid growth in the U.S., a strengthening global economy, and central banks that are cautious about weaning markets from accommodative policies. For the moment, markets appear to dismiss potentially disruptive news as rhetoric and continue to trend upward.
- Nevertheless we are cautious, maintaining portfolio durations that are neutral to benchmarks and diversifying assets across sectors and maturities.
- Supply of federal agency securities remains light, and yield spreads on supranationals have narrowed. We will continue to participate in those new issues with attractive concessions, but will otherwise look to alternative sectors that offer better value.
- U.S. corporate issuance has been elevated this year, but we expect new supply will decelerate for the remainder of 2017, due to seasonal factors driven by lower funding needs. We will continue to add issues on a case-by-case basis, where advantageous.
- Potential tax code change remains in the spotlight, with the potential reduction of corporate taxes likely to dominate the headlines. Legislation that prompts cash repatriation may reduce supply from short-term credit issuers, and may affect relative valuation in the short-term markets.

U.S. Treasury Yields

Maturity	Oct 31, 2016	Sep 30, 2017	Oct 31, 2017	Monthly Change
3 Month	0.30%	1.05%	1.13%	0.08%
6 Month	0.50%	1.19%	1.28%	0.09%
2 Year	0.84%	1.49%	1.60%	0.11%
5 Year	1.31%	1.94%	2.02%	0.08%
10 Year	1.83%	2.33%	2.38%	0.05%
30 Year	2.58%	2.86%	2.88%	0.02%

Yields by Sector and Maturity as of October 31, 2017

Maturity	U.S. Treasury	Federal Agency	Corporates-A Industrials	AAA Municipals
3 Month	1.13%	1.10%	1.46%	-
6 Month	1.28%	1.22%	1.52%	-
2 Year	1.60%	1.66%	1.90%	1.07%
5 Year	2.02%	2.10%	2.46%	1.44%
10 Year	2.38%	2.63%	3.14%	2.12%
30 Year	2.88%	3.06%	3.85%	2.95%

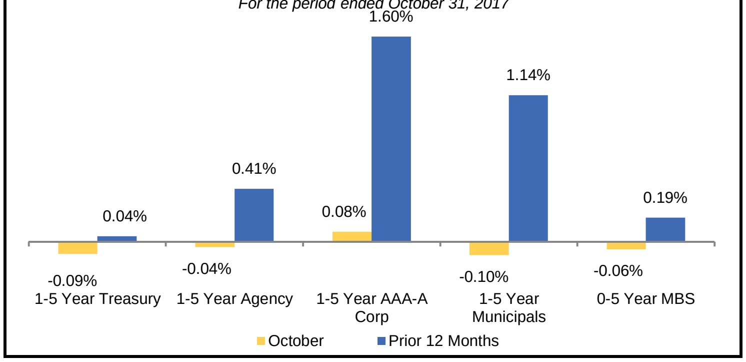
Spot Prices and Benchmark Rates

Index	Oct 31, 2016	Sep 30, 2017	Oct 31, 2017	Monthly Change
1 Month LIBOR	0.53%	1.23%	1.24%	0.01%
3 Month LIBOR	0.88%	1.33%	1.38%	0.05%
Effective Fed Funds Rate	0.31%	1.06%	1.07%	0.01%
Fed Funds Target Rate	0.50%	1.25%	1.25%	0.00%
Gold ($/oz)	$1,273	$1,282	$1,271	-$11
Crude Oil ($/Barrel)	$46.86	$51.67	$54.38	$2.71
US Dollars per Euro	$1.10	$1.18	$1.16	-$0.02

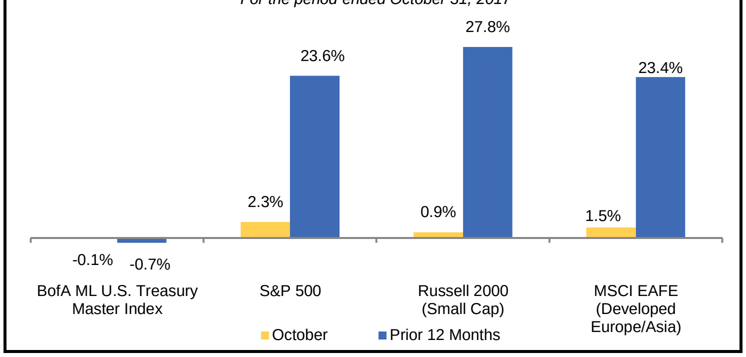
Economic Indicators

Indicator	Release Date	Period	Actual	Survey (Median)
Nonfarm Payrolls	3-Nov	Oct	261k	313k
CPI ExFood&Energy YoY	13-Oct	Sep	2.2%	2.3%
Retail Sales MoM	13-Oct	Sep	1.6%	1.7%
New Home Sales	25-Oct	Sep	18.9%	-1.1%
GDP Annualized QoQ	27-Oct	3Q (1st est.)	3.0%	2.6%
Consumer Confidence	31-Oct	Oct	125.9	121.5
FOMC Rate Dec. (Upper)	1-Nov	Nov	1.25%	1.25%

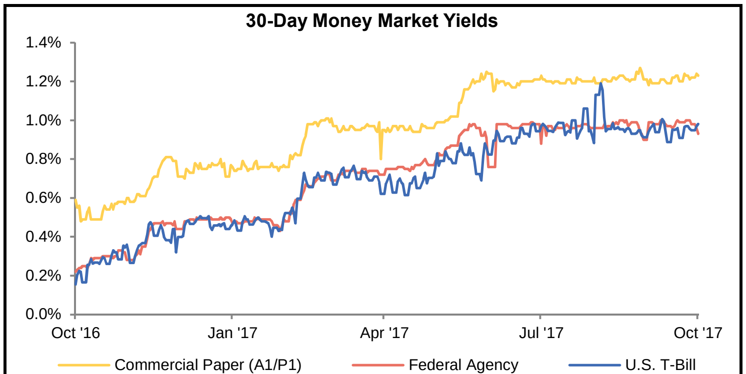
BofA ML Fixed Income Index Returns
For the period ended October 31, 2017



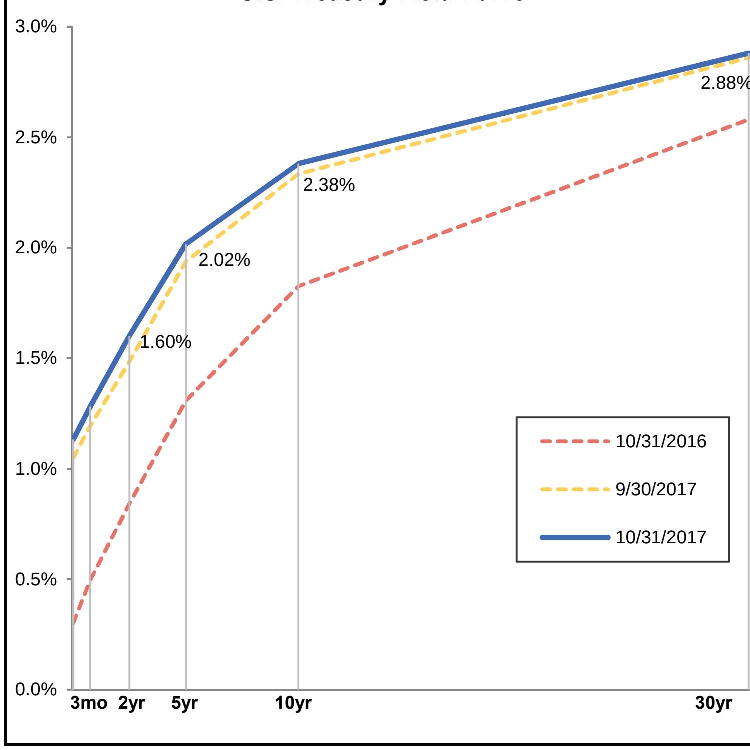
Total Return of Major Indices
For the period ended October 31, 2017



30-Day Money Market Yields



U.S. Treasury Yield Curve



Source: Bloomberg. Data as of October 31, 2017 unless otherwise noted.