

MARKET COMMENTARY

November 3, 2017

Stocks posted strong gains in October, with all three major domestic equity indices registering their best monthly gains since February, as investors embraced improved prospects for tax cuts, robust economic data and outsized corporate profits. Relative to the two other primary U.S. benchmarks, the Dow Industrials posted the strongest October gain, adding 972 points for a 4.44% total return. The NASDAQ Composite advanced 3.62% last month, finishing October at a new record high for the 62nd time this year, while extending its year-to-date gain to over 26%. Investor sentiment was boosted by an advance report showing the economy expanded at a 3.1% annualized pace during the third quarter, topping projections for a 2.6% increase. Together with the 3.1% expansion during the second quarter, it is the strongest two-quarter GDP growth since 2014. The third quarter earnings reporting season is nearly two-thirds complete, with 71% of S&P 500 reporting companies announcing results above analysts' projections. This compares favorably to a 68% beat-rate average over the past three years. Finally, the S&P 500 is trading at 18.8x its forward 12-month estimated earnings, which S&P Dow Jones Indices notes is a 15% valuation premium to its 16.3x average since 2000.

Within the S&P 500, 7 of its 11 major sectors advanced in October, led by Technology (+7.76%), Utilities (+3.90%) and Materials (+3.87%). Telecom (-7.62%) and Consumer Staples (-1.40%) declined the most last month. On a YTD basis, Technology (+37.24%), Materials (+20.30%) and Healthcare (+19.39%) remain this year's best performing sectors, while Telecom (-11.95%) and Energy (-7.25%) once again are the only sectors that remain negative in 2017. Large cap stocks, as measured by the S&P 500, performed best in October, widely outperforming small and mid cap companies. Small cap companies, as measured by the Russell 2000 Index, rose 0.85% last month, while the Russell Mid Cap Index gained 1.67%. Large cap stocks also gained the most year-to-date, up 16.91% versus 13.60% for mid caps and 11.89% for small caps. Growth stocks outperformed value stocks in October, with the Russell 1000 Growth Index up 3.87%, while the Russell 1000 Value Index rose 0.73%. The outperformance in growth stocks continued to widen in 2017, with growth shares advancing 25.40% YTD, while value stocks trailed with an 8.70% YTD gain.

In international equities, the MSCI EAFE Index, a broad performance measure of global developed markets outside the U.S. and Canada, underperformed relative to domestic equities in October, rising 1.52%. In U.S. dollar denominated

performance, Japan's Nikkei 225 Index advanced 7.12%. Also in contrast, the MSCI Emerging Markets Index outperformed the U.S., posting a 3.51% gain last month and 32.26% YTD. The MSCI All Country World Index excluding the U.S. rose 1.89% in October and 23.92% YTD.

Turning to bonds, prices on benchmark 10-year U.S. Treasury notes declined in October, sending its yield down 4.6 basis points to end the month at 2.38%. The Bloomberg Barclays U.S. Municipal Bond Index gained 0.24% last month, outperforming the Bloomberg Barclays U.S. Aggregate Bond Index. The Aggregate Bond Index, a broader measure of U.S. investment grade bonds, rose just 0.06%. At the other end of the credit risk spectrum, the Bloomberg Barclays U.S. Corporate High Yield Index, a proxy for below-investment grade corporate bonds, gained 0.42% in October, extending its YTD gain to 7.45%.

Source: Tower Square Investment Management ®



SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q3 2017	3.0%	↑	The first estimate for Q3 came in at 3.0%. Consumer spending slowed as a result of two major hurricanes. Government spending was a detractor and residential investment also declined from the prior quarter.
Global Real GDP Growth (ann. rate; Source: IMF)	Q3 2017	3.0%	n/a	The prospects for stronger global growth in 2017 are led by expectations of more robust global demand, reduced deflationary pressures and optimism in financial markets.
Non-Farm Employment Growth	Oct 2017	261,000	↓	US employers hired at a strong pace in October, especially in food services and drinking places. However, the labor force participation rate decreased slightly for the month.
Unemployment Rate	Oct 2017	4.1%	↓	The unemployment rate fell to its lowest level since December of 2000. Since January, the number of unemployed persons has decreased by 1.1 million.
ISM Manufacturing Index	Oct 2017	58.7	↑	Manufacturing activity retreated slightly in October, but still posted a solid figure representing firmness in the manufacturing sector. This was the 14 th consecutive month of new order growth.
ISM Non-Manufacturing Index	Oct 2017	60.1	↑	Activity in service-related industries increased in October, posting the highest reading since August of 2005. Sixteen of the 18 non-manufacturing industries reported growth in October.
Capacity Utilization	Sep 2017	76.0	↔	Capacity utilization for the industrial sector increased in September. Utilization for mining and utilities increased, while utilization for manufacturing was unchanged for the month.
Consumer Price Index (CPI, SA)	Sep 2017	0.5%	↑	A 13% increase in the gasoline index accounted for about three-fourths of the total increase in CPI. The food index also rose slightly. There were price decreases in new vehicles and household furnishings.
Producer Price Index (Finished Goods, SA)	Sep 2017	0.4%	↑	Producer prices advanced in September, as prices for both final demand goods and services climbed. Prices for most components rose, while real estate loans, automobiles, and apparel declined.
Leading Economic Indicators Index (LEI)	Sep 2017	-0.2%	↑	This was the first decline in LEI in the last 12 months, partly due to the impact of recent hurricanes. Despite the decline, the trend in LEI remains consistent with solid growth in the US economy.
10-year Treasury Yield	Oct 2017	2.33%	↓	The 10-year Treasury yield was little changed in October. The yield curve was at its flattest level since before the financial crisis.

*NOTE: The "Value" column shows the most current level or change over the prior month or quarter.

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	October Close	October	Year-to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	23,377	4.44%	20.58%	32.07%	13.18%	15.12%
S&P 500	2,575	2.33%	16.91%	23.63%	10.77%	15.18%
Nasdaq	6,728	3.61%	26.07%	31.13%	14.60%	19.17%
Russell 2000	1,503	0.85%	11.89%	27.85%	10.12%	14.49%
International Indices						
MSCI EAFE (Developed)	7,920	1.53%	22.31%	24.01%	6.58%	9.01%
MSCI EM (Emerging)	2,428	3.51%	32.64%	26.91%	6.08%	5.21%
US Fixed Income						
Bloomberg Barclays US Aggregate	---	0.06%	3.20%	0.90%	2.40%	2.04%
Bloomberg Barclays US TIPS	---	0.21%	1.94%	-0.11%	1.40%	-0.11%
Commodities and Real Estate						
Bloomberg Commodity Index	176	2.14%	-0.79%	2.35%	-9.54%	-9.37%
Crude Oil (\$/bbl)	---	\$54.38	\$53.72	\$46.86	\$80.54	\$86.24
DJ US Select REIT	9,450	-1.09%	0.64%	3.94%	5.25%	9.12%



Sources: Bloomberg, MSCI. Non-US index returns are shown in US Dollar terms and are considered to be currency unhedged. Total returns include dividend and income accruals and price changes. Returns for three and five years are annualized and assume the reinvestment of interest and dividend payments. Investors cannot invest directly in any of the above indices. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

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GLOSSARY

The **Bloomberg Barclays Capital U.S. Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly. The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Many of the sub-indicies of the Municipal Index have historical data to January 1980. In addition, several sub-indicies based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.

The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.

The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **MSCI ACWI Excluding the U.S.** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets without the inclusion of the United States. The MSCI full ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey* and United Arab Emirates.



The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.

The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Mid Cap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

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