



**Brian K. Hrabak, CFA**  
*Chief Investment Officer &  
Senior Managing Director*

*For any inquiries about  
this document please  
contact*

**BHrabak@hartland.com**

**Hartland** is an independent institutional and wealth advisory firm that seeks to meet clients' investment objectives with appropriate risk and in a low-cost manner. Once this has been achieved, we seek superior returns compared to client-specific, market-based and peer group benchmarks. We believe broad diversification reduces portfolio volatility and enhances the opportunity for superior risk-adjusted returns.

October was a month of rumors; rumors of tax reform, rumors of a new Fed Chair, rumors of a Cleveland Browns win. OK, I made that last one up. So while the global economy and markets are reflecting improvement, in terms of the Browns, well, let's just say the results are not uplifting.

Solid U.S. economic data supported the equity markets, aided by hopes of tax reform. Despite two hurricanes hitting the mainland U.S., the initial report of third quarter GDP came in at 3.0%<sup>1</sup>, marking the second straight quarter of growth reaching 3% - something which had not happened since 2014. The U.S. economy continues to be led by consumer spending and business investment which is a harbinger of future productivity and profits. The IHS Markit's U.S. Manufacturing Purchasing Managers' Index (PMI) increased to 54.6 in October which is the best reading since early 2017<sup>2</sup>.

Purchasing Managers' surveys remain supportive of a broad-based pickup in global economic activity. The IHS Markit's Eurozone Manufacturing Purchasing Managers' Index (PMI) increased to 58.5 in October from September's 58.1<sup>3</sup>, with all eight nations registering growth. The data show a broad-based expansion led by Germany, the Netherlands, and Austria. Although the geopolitical sentiment stands agitated, due mostly to North Korea, the economic conditions remain favorable for global growth.

**U.S. EQUITY MARKETS**

| Index               | 1 Month | Year-to-Date | 1 Year | 3 Year |
|---------------------|---------|--------------|--------|--------|
| DJIA                | 4.4     | 20.6         | 32.1   | 13.2   |
| S&P 500             | 2.3     | 16.9         | 23.6   | 10.8   |
| Russell 2000        | 0.9     | 11.9         | 27.8   | 10.1   |
| Russell 1000 Growth | 3.9     | 25.4         | 29.7   | 13.1   |
| Russell 1000 Value  | 0.7     | 8.7          | 17.8   | 8.0    |
| FTSE NAREIT U.S.    | -0.1    | 6.6          | 8.8    | 7.2    |
| Bloomberg Commodity | 2.1     | -0.8         | 2.3    | -9.5   |

U.S. equity markets extended their gains. The S&P 500 returned 2.3% during the month, while small caps as measured by the Russell 2000 advanced 0.9%. Small Caps paused after a strong September partly on the heels of last month's tax reform developments. There was wide dispersion in sector returns during October with Technology +7.8% and Telecom -7.6%. The Technology sector has led the way in 2017 with a 37.2% return followed by Materials +20.3%. Growth styles trumped value styles based on the technology sector and is significantly ahead year-to-date.

Earnings season is in full swing with 55% of companies reporting as of last Friday. 76% of companies have reporting above estimates with 8.4% year-over-year earnings growth<sup>4</sup>. Based on U.S. equity multiples that are above historical averages, earnings can be an important driver of future returns.

## INTERNATIONAL EQUITY MARKETS

| Index                 | 1 Month | Year-to-Date | 1 Year | 3 Year |
|-----------------------|---------|--------------|--------|--------|
| MSCI ACWI ex USA      | 1.9     | 23.4         | 23.6   | 5.7    |
| MSCI EAFE             | 1.5     | 21.8         | 23.4   | 6.1    |
| MSCI Emerging Markets | 3.5     | 32.3         | 26.5   | 5.7    |
| MSCI EAFE Small Cap   | 1.7     | 28.0         | 28.0   | 12.9   |

Foreign developed equity markets, as represented by the MSCI EAFE Index, continued their advance in October, gaining 1.5%. However, not to be outdone, the MSCI Emerging Markets Index returned 3.5%, resulting in a 32.3% year-to-date return.

Japan's Nikkei index returned 8.2% after Prime Minister, Shinzo Abe, was re-elected following his ruling bloc's big election win. PM Abe's campaign promises have included rebooting economic growth and bolstering defense, a popular notion after recent flare-ups with North Korea.

The European Central Bank announced an extension of its asset purchase program through at least late 2018 but cut the size of monthly purchases in half to €30 billion. Also in Europe, Catalonia voted in favor of independence from Spain in their recent referendum. Catalonia, a region in northeast Spain, has its own language and customs and has long strived for independence based partially on financial grievances. Spain's IBEX 35 index rallied at month-end when the Spanish government took control over the regional administration.

## FIXED INCOME MARKETS

| Index                      | 1 Month | Year-to-Date | 1 Year | 3 Year |
|----------------------------|---------|--------------|--------|--------|
| BarCap US Aggregate        | 0.1     | 3.2          | 0.9    | 2.4    |
| BarCap Global Aggregate    | -0.4    | 5.8          | 1.2    | 1.2    |
| BarCap US High Yield       | 0.4     | 7.5          | 8.9    | 5.6    |
| JPM Emerging Market Bond + | -0.1    | 8.5          | 4.8    | 5.5    |
| BarCap Muni                | 0.2     | 4.9          | 2.2    | 3.0    |

Jerome "Jay" Powell is rumored to be Trump's choice for the next Fed Chair. Jay has served as a Fed board member for the past five years and is viewed as having similar thoughts to the current Board of Governors regarding the current monetary policy of gradual rate increases to avoid disrupting the recovery. The Federal Reserve initiated their balance sheet reduction program in October.

U.S. Treasury rates increased modestly across the yield curve for the second straight month, with an additional quarter point rate hike in December now expected by the markets<sup>5</sup>. The 10-year U.S. Treasury yield rose 5 basis points to 2.38% while the 30-year U.S. Treasury yield rose 2 basis points to 2.88%<sup>5</sup>. The Bloomberg Barclay's Aggregate Index total return for October was 0.06% and +3.20% year-to-date.

Strong demand supported a heavy supply of investment grade corporate bonds in October which led to tighter credit spreads. High yield's total return for October was +0.4% bringing its year-to-date return to +7.5%. The JPM Emerging Market Bond+ Index declined -0.1% in October but has been a bright spot this year, generating an 8.5% return year-to-date.

### Sources:

- 1 U.S. Department of Commerce - Bureau of Economic Analysis, 10/27/17
- 2 IHS Markit, 11/2/17
- 3 IHS Markit, 10/24/17
- 4 Factset, 10/27/17
- 5 Bloomberg

### Definitions

**Marit U.S. Manufacturing Purchasing Managers' Index:** The U.S. PMI is based on original survey data collected from a representative panel of around 600 companies.

**Markit Eurozone Manufacturing Purchasing Managers' Index:** The Eurozone PMI is based on original survey data collected from a representative panel of around 3,000 manufacturing firms.

### Disclosures

*Information provided in this article is general in nature, is provided for informational purposes only, and should not be construed as investment advice. The views expressed by the author are based upon the data available at the time the article was written. Any such views are subject to change at any time based on market or other conditions. Hartland disclaims any liability for any direct or incidental loss incurred by applying any of the information in this article. All investment decisions must be evaluated as to whether it is consistent with your investment objectives, risk tolerance, and financial situation. The performance data shown represent past performance. Past performance is not indicative of future results. Current performance data may be lower or higher than the performance data presented.*