

## The Month in Review...

Global growth estimates continued to grind higher in November and U.S. tax reform bills in Congress provided an additional tailwind to U.S. equity markets. Valuations and geopolitics remain concerning and while the tax cut induced rally may have been a little optimistic, the cyclical picture remains favorable from both economic and policy perspectives.

### Market Anecdotes

- The House and Senate passed tax reform bills, projected to boost GDP by 0.8% over the ten-year budget window. The bill is front end loaded with several provisions expiring or phasing out after five years. 2018 and 2019 real GDP are expected to increase 0.2%-0.3%.
- Corporate taxes are expected to fall by \$350b over ten years, taking the effective corporate tax rate from 19% to 17%, increasing cash flow by approximately 2.5% - a fair shake less than the market run up over the past several weeks.
- Jerome Powell was nominated in early November to succeed Janet Yellen as the new Fed Chair. Markets view the nomination as a safe choice, and a very similar trajectory as Yellen's Fed.
- The BoE hiked rates by 0.25%, its first move in a decade. The ECB QE program took its balance sheet to a new record high of €4.4 trillion, equal to 40.9% of Eurozone GDP. The BoJ opted to keep its foot on the gas, holding rates at -0.1% and buying bonds to keep the 10yr Japanese government bond at 0%.
- Third quarter S&P 500 earnings registered 6.3% year over year growth. Energy grew 135% on favorable y/y comps while financials and utilities lagged. 74% of companies beat earnings expectations and 44 companies issues positive guidance, the highest number since Q2 2010.
- November saw the S&P 500 pass the 500-day mark without a 5% correction and it broke the all-time record of 370 consecutive days without a 3% correction. The NASDAQ is amid its longest 20%+ rally in history (inception 1985), well past the tech bull market of the 1990's.
- The forward 12-month P/E ratio for the S&P 500 is 18.2. This P/E ratio is above the 5-year average (15.8) and above the 10-year average (14.2).
- High yield spreads hit post crisis lows in late October of 3.38%, widening to 3.84% mid-November, before settling back to 3.6%. Selling pressure was not broad based but high yield funds had their largest week of outflows (\$5.1b) since August 2014 (Russian invasion of Ukraine).
- The 2yr/10yr yield spread fell from 0.78% to a 10 year low of 0.58% during the month. Bespoke noted that while an inverted yield curve did happen prior to each of the last three recessions, it led recessions by at least 18 months and as much as three years in one case. A nice reminder that yield curve inversion is a leading, not a coincidental, indicator.
- Equity market volatility hit a low for the year in November with the VIX touching 9.1.
- Slowed production growth from U.S. shale and quota constrained OPEC exports have taken U.S. oil inventories down below levels at this time last year. Prices have jumped from \$42 to \$59 since mid-year in response.

### Economic Highlights

- The economy generated 228,000 jobs in November, beating expectations. The 4.1% unemployment rate is the lowest level in 17 years. An upward revision to September's result moved it from net negative to net positive, re-establishing the record streak of 86 consecutive months without net job losses.
- The tight labor market has yet to translate to wage inflation which registered only 2.5% y/y in November.
- The second estimate of 3Q GDP was revised 3 tenths higher to a 3.3 percent annualized rate.
- Industrial production was revised higher for July, August, and September and surged 0.9% in October. The industrial sector is now growing close to 3% over the past 12 months.
- November's ISM Non-Manufacturing index pulled back more than expected from October's 12-year high. The reading of 57.4 missed expectations for 59-60.
- University of Michigan Consumer Sentiment for December, albeit off from October's expansion high of 100.7,

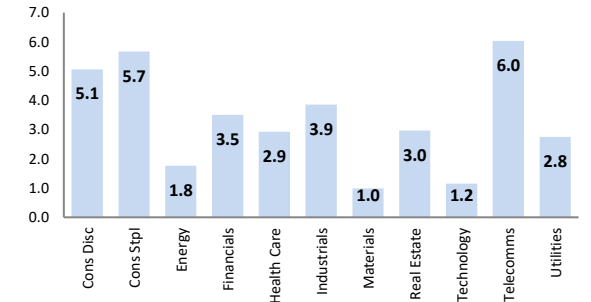
Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr	Commodities	11/30/17	9/30/17	6/30/17	3/31/17
Dow Jones	24272	4.36	11.51	25.69	30.02	13.68	Oil (WTI)	57.40	51.67	46.02	50.54
NASDAQ	6874	2.79	8.23	29.02	30.55	14.11	Gold	3.06	2.94	2.98	3.13
S&P 500	2648	3.17	8.27	20.49	22.87	10.91	<b>Currencies</b>	<b>11/30/17</b>	<b>9/30/17</b>	<b>6/30/17</b>	<b>3/31/17</b>
Russell 1000 Growth		3.27	9.26	29.21	30.81	13.10	USD/Euro (\$/€)	1.18	1.18	1.14	1.07
Russell 1000 Value		3.12	7.40	12.03	14.83	8.35	USD/GBP (\$/£)	1.35	1.34	1.30	1.25
Russell 2000		3.70	11.34	15.11	18.34	11.14	Yen/USD (¥/\$)	112.30	112.64	112.40	111.41
Russell 3000		3.23	8.56	19.93	22.27	10.75	<b>Treasury Rates</b>	<b>11/30/17</b>	<b>9/30/17</b>	<b>6/30/17</b>	<b>3/31/17</b>
MSCI EAFE		1.20	5.87	23.24	27.86	6.47	2 Year	1.78	1.47	1.38	1.27
MSCI Emg Mkts		0.54	3.39	32.97	33.30	6.53	5 Year	2.14	1.92	1.89	1.93
<b>Fixed Income</b>	<b>Δ Yield</b>	<b>1 Mo</b>	<b>3 Mo</b>	<b>YTD</b>	<b>1 Yr</b>	<b>3 Yr</b>	10 Year	2.42	2.33	2.31	2.40
US Aggregate	2.50	0.03	0.09	0.10	0.13	0.34	30 Year	2.83	2.86	2.84	3.02
High Yield	5.65	0.00	(0.13)	(0.41)	(0.53)	(0.27)					
Municipal	2.17	0.03	0.05	(0.04)	(0.08)	(0.23)					

Style Returns

	V	B	G
L	3.06	3.05	3.04
M	3.62	3.76	3.94
S	2.90	2.90	2.89

MTD

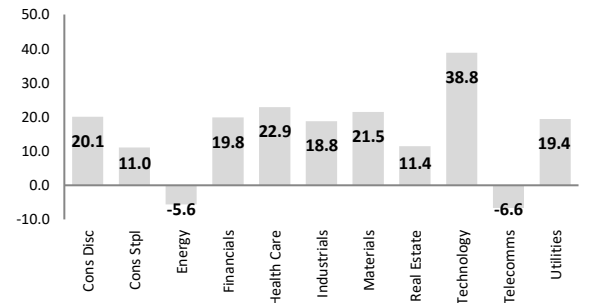
S&P 500 Sector Returns



MTD

	V	B	G
L	12.03	20.35	29.21
M	11.96	17.43	24.60
S	8.88	15.11	22.03

YTD



YTD

