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ECONOMY: Global Growth Steadies Ahead of U.S. Election

ECONOMIC GROWTH ACCELERATES
Gross domestic product rose 2.9% in Q3 after averaging just 1.1% over the first two quarters of the year. Consumer spending, greater business investment and net exports all supported growth for the quarter.

FED HOLDS AGAIN
The FOMC left policy unchanged in October, but noted that "the case for raising the fed funds rate has continued to strengthen." A December rate hike is widely expected.

LABOR MARKETS CONTINUE TO IMPROVE
The labor market continues to steadily improve. Job gains for October came in at 161,000 and the prior two months were revised up by a net 44,000. The unemployment rate fell back to 4.9% in October, consistent with the Fed's estimated range of full employment. Average hourly earnings rose 0.4% in October and are now up 2.8% over the past year, the strongest pace of the expansion.

HOUSEHOLD FINANCES STRONG
Real per capita net worth has grown steadily and is currently at an all-time high, aided by financial and real estate asset gains since the Great Recession. As a percentage of total assets, deposits are at their highest level since the mid-1990s, suggesting households remain somewhat cautious and are well-positioned to deal with new developments, such as higher interest rates or a slowdown in employment growth.

CONSUMER CONFIDENCE SLIPS
The Conference Board ***Consumer Confidence Index***®, which had increased in September, declined in October. *"Consumer confidence retreated in October, after back-to-back monthly gains. Consumers' assessment of current business and employment conditions softened, while optimism regarding the short-term outlook retreated somewhat. However, consumers' expectations regarding their income prospects in the coming months were relatively unchanged. Overall, sentiment is that the economy will continue to expand in the near-term, but at a moderate pace."*

INSTITUTE FOR SUPPLY MANAGEMENT-REPORTS ON BUSINESS
Economic activity in the non-manufacturing sector grew in October for the 81st consecutive month, while the manufacturing sector also expanded in October. The overall economy grew for the 88th consecutive month.

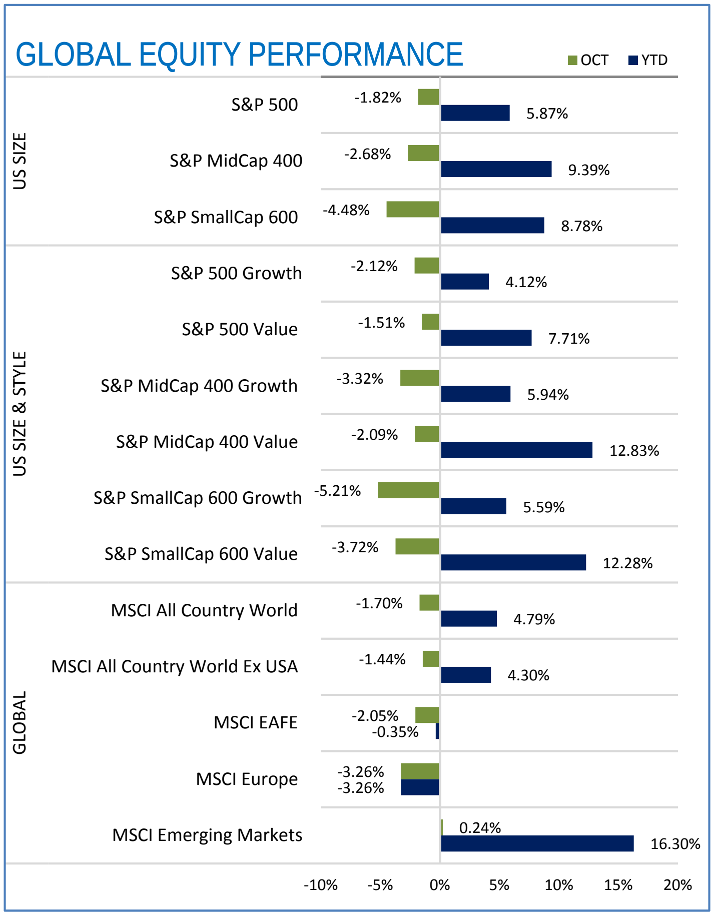
BOE HOLDS RATES
The Bank of England (BOE) stayed put on interest rates as well as its asset purchase program in October. The BOE kept its asset purchase program at £435 billion with the target for the purchase of corporate bonds at £10 billion and the bank rate at 0.25%.

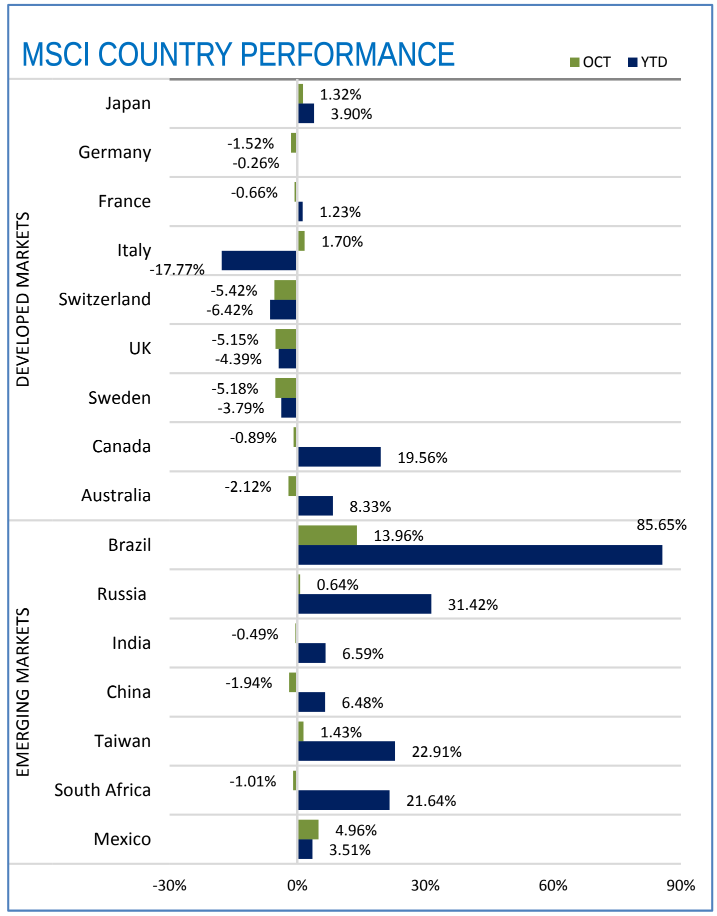
MORE BREXIT NEWS…
The British High Court, in an unanimous decision, said that since it was the British Parliament that authorized entry into the European Union (EU) then the British Parliament would have to decide if it will leave the EU. However, while the British government is expected to contest the ruling, it certainly increases the uncertainty of the process.

IMPROVING DATA FROM EUROZONE
The final Markit Eurozone PMI Composite Output Index rose to 53.3 in October, up from 52.6 in September. Faster output growth was seen in both the manufacturing and service sectors. By nation, stronger economic growth was led by a solid upswing in Germany. German output rose at the second-fastest pace YTD. France, Italy, Spain and Ireland also reported increases in economic activity, although only Spain saw its rate of expansion improve since September.

PRICING PRESSURES INCREASE
Faster global economic growth has also been accompanied by inflationary pressures. Companies' input costs increased at the fastest rate in 28 months in October according to JPMorgan, primarily reflecting rising global commodity prices. Average prices charged for goods and services globally rose at the steepest rate in just over two years as costs were often passed on to customers. However, overall rates of inflation remained relatively muted on average at the global level.

GLOBAL EQUITIES: Global Equity Markets Fall





Not Too Bad...Not Too Good

The S&P 500 fell 1.82% in October. By historical standards, that's not too bad. October has historically been a bad month for the S&P 500, which includes a number of market crashes. On Oct. 19, 1987, the S&P 500 posted a 20.47% decline, the worst single day in its history. On Oct. 28, 1929, the index suffered its second worst day when it closed off 12.34%. The following day —Oct. 29, 1929—was the third worst, down 10.16%. October 2008 included several notable declines as the index fell 16.79% that month.

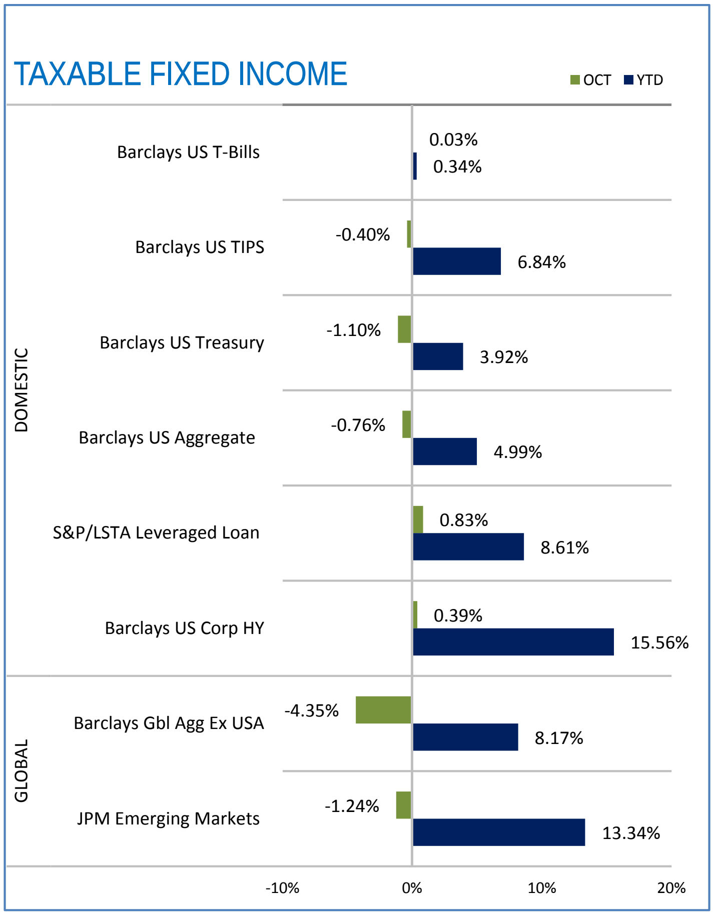
Volatility Increases Prior To Election

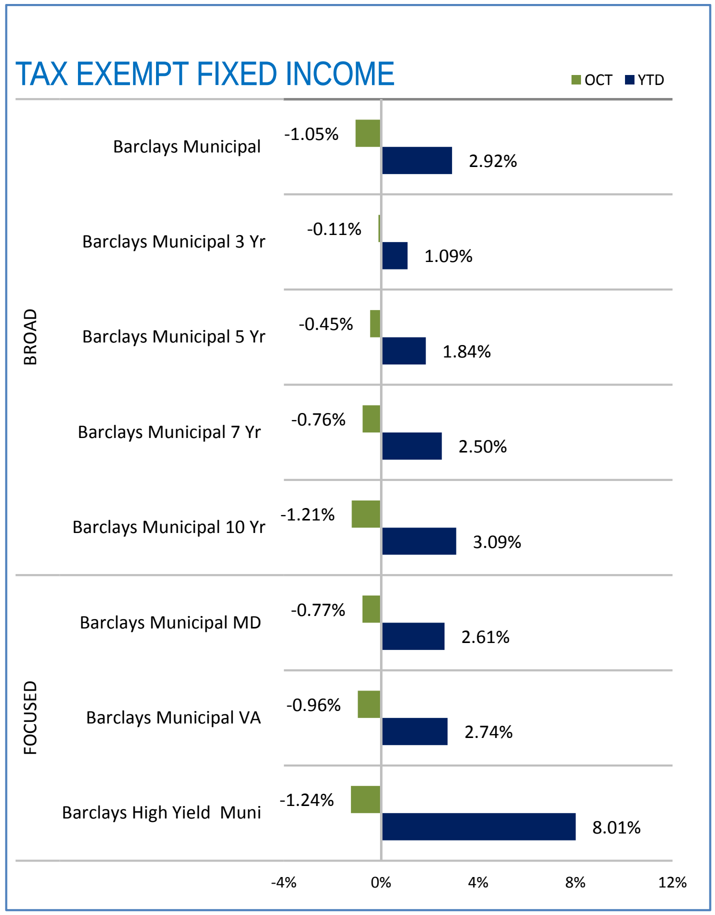
Not surprisingly, market volatility increased in October, with the CBOE Volatility Index (VIX) ending the month at 17.06, up from 13.29 at the end of September. Breadth remained negative for October, with 163 issues rising and 341 issues declining. Sector performance was mixed in October, with financials leading the group under the assumption of higher rates in December.

Divergence In International Equities

Developed international equity market returns were mixed in October. The MSCI EAFE Index fell 2.05% in October, and is now down 0.35% YTD. European equities trailed the pack on a relative basis, with the MSCI Europe Index declining 3.26% for the month. Emerging markets continue to be a bright spot and finished the month in positive territory. The MSCI Emerging Markets Index rose 0.24%. Brazil, which accounts for approximately 8.35% of the index, was up 13.96% in October.

FIXED INCOME: Bond Yields Rise





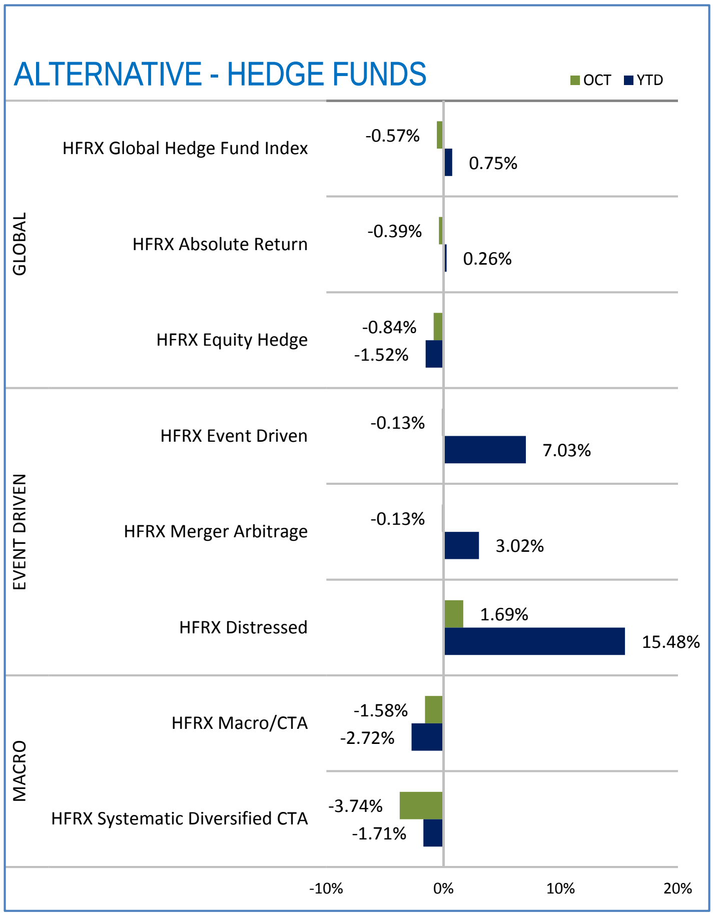
Yields Rise As QE Slows

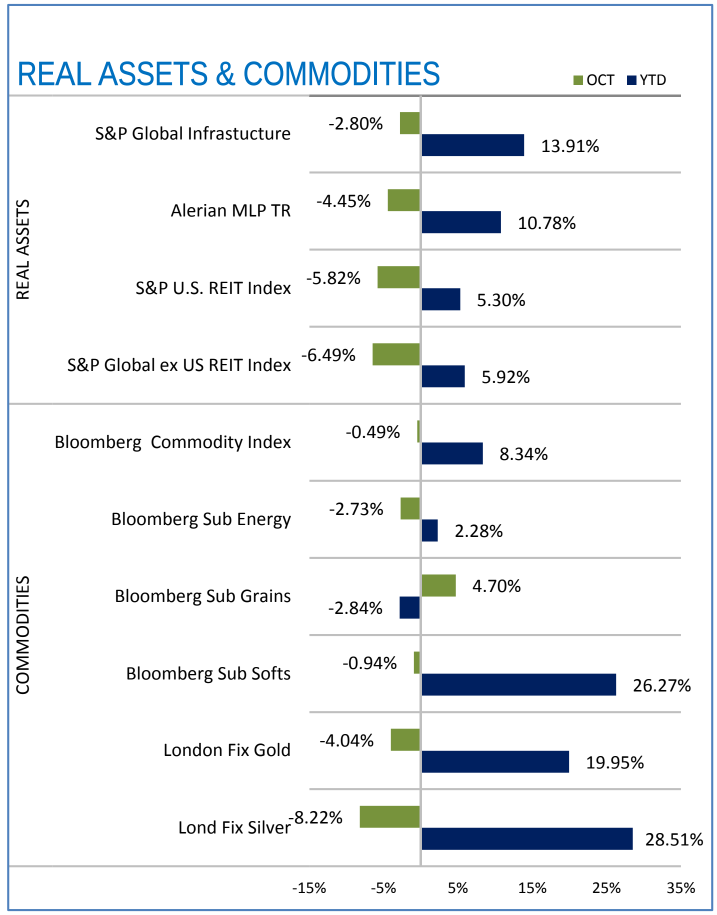
While September played host to a number of Central Bank meetings globally, October was less eventful as the market turned its attention to the U.S. election and the potential outcomes of the November Fed meeting. However, the Treasury curve steepened as long rates rose more than short rates. This push toward higher yields comes in part due to expectations of potential fiscal stimulus globally as central bankers have started to show reluctance to monetary easing to the extent they have since 2008.

Credit Sectors Hold Up

U.S. bond sectors posted mixed returns in October, with the broad Barclays U.S. Aggregate Bond Index declining 0.76% and the Barclays U.S. Treasury Index declining 1.10%. Higher credit exposure was able to offset increasing yields as the Barclays U.S. Corporate High Yield Index returned 0.39% and the S&P/LSTA Leveraged Loan Index returned 0.83% in October.

ALTERNATIVES: Commodity Gains In Grains





DON'T STRESS DISTRESSED

Hedge funds posted mixed performance as the HFRX Global Hedge Fund Index declined 0.57% for the month. The HFRX Distressed Index gained 1.69% for the period and 15.5% YTD, the best performing event driven sub-strategy this year. Distressed strategies gained from exposure to the communications, financial and energy sectors. Global Macro strategies continued to struggle as the HRFX Macro/CTA Index fell 1.58% and the HFRX Systematic Diversified CTA Index fell 3.74%.

RATE CONCERNS CONTINUE TO PRESSURE REITS

REITs came under pressure again in October due to investor concerns over rising interest rates. The S&P U.S REIT Index fell 5.82%, and now trails the S&P 500 YTD. With the exception of infrastructure REITS, all other REIT sectors fell in October.

A POSITIVE YEAR FOR COMMODITIES?

Commodity returns were mixed in October as the Bloomberg Commodity Index (BCOM) fell 0.49%. With just two months remaining in 2016, the 8.34% YTD gain in the BCOM puts it on track for an annual increase following five successive declines. Energy was an early leader in the month as crude oil rose above $50 per barrel, but the sector fell 2.73% for the month on supply concerns. Strong rallies in soybean and corn prices were the most significant drivers of broad index returns in October.