



October 2018: Market Review

October was a dismal month for capital markets as all major asset classes other than cash posted losses. U.S. and international equities were hit the hardest, with the S&P 500 Index dropping -6.8% and the MSCI ACWI ex USA Index sliding -8.1%. Year to date, the S&P 500 has added +3.0%. The Dow Jones Industrial Average decreased -5.0% for the month, ending with a +3.4% return since December. The tech-heavy NASDAQ Composite endured the sharpest monthly decline since November 2008, falling -9.2% during the month as tech stocks plunged. The NASDAQ has added +6.7% year-to-date. October further extended year-to-date losses for the MSCI ACWI ex US to -11.0%.

In U.S. economic news, rising interest rates, a stronger dollar, and a prolonged trade war between the U.S. and China overshadowed strong economic fundamentals, propelling the broad market selloff. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up +0.2% in August, while on a year-over-year basis, prices were +5.8% higher than a year ago. Among commodities, WTI crude oil ended October at \$65 a barrel, down from September's closing price of \$73. Gold closed the month at \$1,212 per troy ounce, up from \$1,191 at the end of September.

Value stocks outperformed growth stocks across all capitalizations in this risk-off environment for the month, however growth equities maintain their year-to-date outperformance by a wide margin. Among large cap stocks, the Russell 1000 Growth Index declined -8.9% in October, returning +6.6% year-to-date. The Russell 1000 Value Index slipped -5.2% for the month, which brought its year-to-date return to -1.5%. For small cap stocks, the Russell 2000 Growth Index dropped -12.7% in October but is up +1.1% so far this year. The Russell 2000 Value Index lost -9.0% and has declined -2.5% so far in 2018. In mid cap equities, the Russell Midcap Growth Index fell -9.9% in October, curbing year-to-date returns to +2.2%. The Russell Midcap Value Index decreased -7.2% for the month and has fallen -4.3% so far this year.

International equity indexes were not immune to the broad market selloff. The MSCI EAFE Index fell -8.0% for the month, resulting in a year-to-date loss of -9.3%. The MSCI Europe Index dropped -7.6% in October and has posted a -9.9% return so far this year. The MSCI Pacific Index decreased -8.6% during the month and has fallen -8.4% in 2018. Continuing the trend from previous months, the worst performer in international equities was the MSCI Emerging Markets Index, tumbling -8.7% as returns were negatively impacted by weakness in Korea (-14.3%) and China (-11.5%), ongoing trade tensions, and tighter U.S. monetary policy. The MSCI Emerging Markets Index is down -15.7% so far this year.

Despite the risk-off environment, major fixed income indexes posted negative results in October. The yield on the 10-Year Treasury closed October at 3.16%, up from September's close of 3.06%. The Bloomberg Barclays U.S. Aggregate Bond Index fell -0.8% for the month, extending its year-to-date loss to -2.4%. The Bloomberg Barclays U.S. Treasury Index lost -0.5% in October and is down -2.1% so far this year. The Bloomberg Barclays Treasury 20+ Year Index declined -3.2% during the month, leaving it with a return of -8.9% so far in 2018. The Bloomberg Barclays Corporate High Yield Index lost -1.6% in October but has gained +0.9% year to date, the only fixed income index with positive returns over that period.

After hitting all-time highs in September, major U.S. equity indexes barely escaped correction territory in October due to a rebound in the month's last few days of trading. As volatility increased during the month, investors looked beyond strong economic conditions and solid corporate earnings. Ongoing trade tensions, high equity valuations, a strong U.S. dollar, and interest rate increases could continue to be a headwind for global equity markets.