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October 2017: Market Review

Global equity markets were positive in October, as central banks in the U.S. and Europe responded to healthier economies by taking steps to tighten monetary policy. The Dow Jones Industrial Average gained 4.44% in October and is now up 20.58% year-to-date. The S&P 500 Index returned 2.33% and has added 16.91% thus far in 2017. The NASDAQ Composite Index was up 3.57% in October, bringing its year-to-date return to 24.98%.

In U.S. economic news, the initial estimate for third quarter real GDP growth came in at 3.0%, even after major hurricanes dampened economic activity in Texas and Florida. House Republicans advanced budget legislation that could pave the way for tax cuts proposed by the Trump administration. The Federal Reserve was set to begin its balance sheet reduction during the month, decreasing assets by $10 billion per month at first and gradually increasing its rate of reduction over time. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up 0.54% in August, while on a year-over-year basis, prices were 6.07% higher than a year ago. Among commodities, WTI crude oil ended October at $54 a barrel, up from September's closing price of $52. Gold closed the month at $1,267 per troy ounce, down from $1,282 at the end of September.

Growth-style equities, boosted by strong earnings reports in the tech sector, outperformed value stocks in October. Among large cap stocks, the Russell 1000 Growth Index added 3.87% during the month and has risen 25.40% year-to-date, while the Russell 1000 Value Index gained 0.73% and is up 8.70% year-to-date. For small cap stocks, the Russell 2000 Growth Index rose 1.55% and is now up 18.62% in 2017, while the Russell 2000 Value Index added 0.13% in October and has returned 5.81% year-to-date. The Russell Midcap Index gained 1.67% for the month and has returned 13.60% year-to-date.

International equities were positive in October, but underperformed the U.S. as the dollar strengthened in a reversal of the weakening seen for much of 2017. The MSCI EAFE Index was up 1.52% for the month and has returned 21.78% thus far in 2017. The European Central Bank announced that it will scale back its bond purchases to €30 billion a month starting in January 2018, down from its current monthly purchase rate of €60 billion. The MSCI Europe Index rose 0.47% and is up 23.37% year-to-date. The MSCI Pacific Index added 3.53%, lifting its gain so far this year to 19.48%. The MSCI Emerging Markets Index gained 3.51% in October and is up 32.26% year-to-date, which leads all major equity benchmarks in 2017. Positive performance from major EM countries like South Korea (+8.40%), India (+7.37%), and China (+3.97%) outweighed negative returns in October from Mexico (-7.57%) and Brazil (-3.29%).

U.S. fixed income markets were mixed in October. The yield on the 10-Year Treasury closed October at 2.37%, up from September's close of 2.33%. The Bloomberg Barclays U.S. Aggregate Bond Index added 0.06% and is up 3.20% year-to-date. The Bloomberg Barclays U.S. Treasury Index lost (0.12%) in October, but has gained 2.14% for the year. The Bloomberg Barclays Treasury 20+ Year Index dipped (0.07%) in September, but is up 6.19% in 2017. The Bloomberg Barclays Corporate High Yield Index added 0.42% for the month and has gained 7.45% year-to-date.

U.S. equity markets raced higher in October as large, multinational companies benefitted from the ongoing global recovery. Investors will be watching to see if proposed tax cuts become a reality and if the Federal Reserve can unwind its massive balance sheet without jarring markets.