

KEY TAKEAWAYS

- Investors often get jittery when October rolls around, and this year was no different. Stocks lost ground in advance of the U.S. election, with the S&P 500 falling 1.8% for the month.
- There is plenty of uncertainty regarding stock market direction over the remainder of the year (a short timeframe for sure). On one hand, markets will need to move past any election surprises, digest a likely upcoming Federal Reserve rate hike, and avoid any new threats to anemic global economic growth. On the other hand, we are entering into what historically has been the best season of the year for markets (the November-January timeframe) and stocks tend to rally late in election years.
- Regardless of election results, we expect the slow-growth U.S. expansion to continue for now—the labor and housing markets look relatively healthy, corporate earnings are on the mend, and the Fed remains generally accommodative. The risk of a correction may be rising thanks to concerns about potential policy mistakes by the Fed (either raising rates too fast or falling behind the inflation curve), but we do not see a shift in the business cycle happening anytime soon.
- Inflation expectations are drifting upward thanks to stabilizing energy prices, rising housing costs, and a glimmer of wage pressures. Higher inflation could diminish the appeal of bonds (especially those with longer duration), but most do not expect inflation to widely overshoot Fed targets given slack in the economy.

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INDEX PERFORMANCE (as of 10/31/16)

Equity	October	Year-to-Date	One-Year
U.S. Large Cap	-1.8%	5.9%	4.5%
U.S. Small Cap	-4.8%	6.2%	4.1%
Developed Non-U.S.	-2.0%	0.1%	-2.7%
Emerging Market	0.2%	16.6%	9.7%
Real Assets			
Real Estate	-5.0%	5.4%	4.3%
Commodities	-0.5%	8.3%	-2.6%
Natural Resource Equities	-3.3%	20.5%	6.4%
Fixed Income			
<u>Core Plus</u>			
U.S. High Yield Debt	0.4%	15.6%	10.1%
Emerging Market Debt	-0.8%	16.1%	11.0%
<u>Core Bonds</u>			
U.S. Aggregate Bonds	-0.8%	5.0%	4.4%
U.S. Treasuries	-1.1%	3.9%	3.3%
U.S. Municipal Bonds	-0.6%	2.0%	2.4%
Month-End Values/Yields	Current	Prior Month	One-Year Ago
CBOE Volatility Index	17.1	13.3	15.1
10-Year Treasury Yield	1.8%	1.6%	2.1%

Sources: Bloomberg, Morningstar

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