PPM AMERICA

Market Brief

NOVEMBER 2018

Both equity and bond markets continued to see high levels of volatility through the month. This period began in earnest with Federal Reserve Chair Powell's remarks on 3 October regarding rates being "a long way from neutral," which many saw as a sure sign that the Fed would relentlessly raise rates.[1] However, Powell, in remarks at the end of November, walked back that comment, saying that we are "just below" the broad range of what could be considered neutral. This caused the equity markets to again enjoy something of a relief rally of more than 2% immediately following.[2] Equity markets on a year-to-date basis, however, are still not particularly rosy. The S&P 500 has returned 5.11%, while small cap has returned 0.98%.[3]

The other driving story of November, as well as for much of the current administration, has been trade and tariff activity. Again, there was something of a moment of resolution over the final weekend of the month at the G20 meeting. At the meeting in Argentina, Presidents Trump and Xi caused something of a relief rally upon announcement of a trade war 'cease fire' between the US and China. However, market volatility has continued into early December. Whether the cease fire can lead to a sustained de-escalation in tensions remains to be seen.

NO THANKSGIVING PARDON FOR OIL

Oil was also a big story through November, consistently making headlines as the WTI price plummeted to touch below $50/bbl intramonth, from its recent October highs of over $75/bbl.[4] This slump was brought about by continued high levels of supply, growing US inventories, and amid fears of a global growth slowdown. However, an OPEC+ meeting in early December will be an opportunity for the Russians and OPEC to signal coordinated continued production cuts. In further oil news, Alberta announced that it would enact production cuts and Qatar announced that it would leave the cartel to focus on natural gas production (prices of which are up 25% YTD).[5]

Fixed income has been, in our view, one of the relatively more stable asset classes through this volatility. Treasuries rallied across the board through the month and the curve flattened, due to lowered inflation expectations and a flight to safe assets. The two-year yield fell 7 bps over the month, while the 10-year and 30-year fell 14 bps and 9 bps respectively.[4] Investment grade spreads widened 17 bps while high yield widened 48 bps through the month.[6] Bank loans fell 0.90%, the worst monthly performance since December 2015. This is also the first time since 2016 that loans have had two consecutive negative total return months.[7]

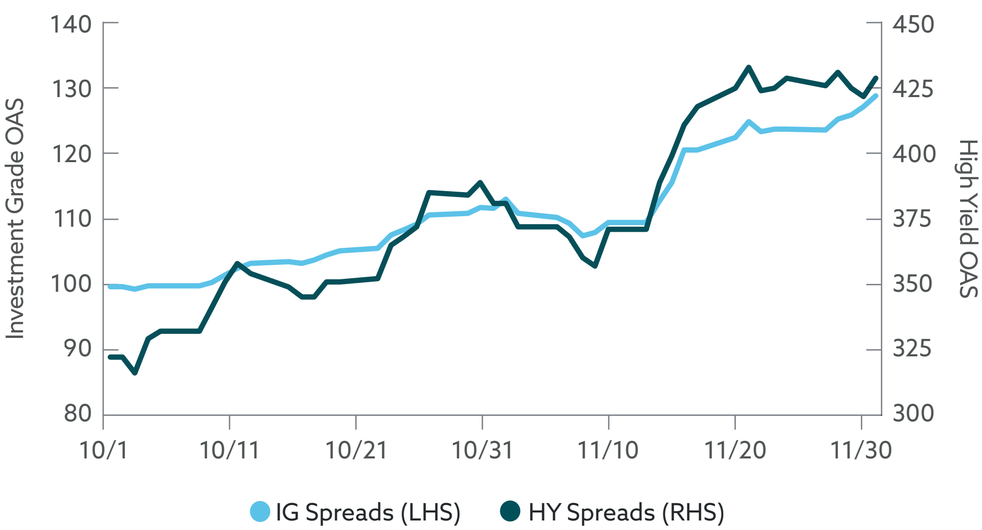
However, despite the noise, we believe that underlying macroeconomic and corporate fundamentals remain solid. US earnings expectations have drifted down from their heights over the summer, but predictions are for earnings growth to remain high, with Q4 predictions at 13.6% for earnings, and 6.7% for revenue.[8] Hard and soft economic data points remain supportive, and recession indicators remain calm. But as the market becomes more susceptible to swings, we remain focused on idiosyncratic risk and individual credit selection.

(1) Bloomberg. 3 October 2018. (2) Federal Reserve. 28 November 2018. FactSet. As measured by the S&P 500. 29 November 2018. (3) Morningstar. As measured by the Russell 2000 Index. 3 December 2018. (4) FactSet. 3 December 2018. (5) FactSet. 3 December 2018. WSJ. "Qatar to Leave OPEC as Cartel Pressured to Cut Production." 3 December 2018. (6) Morningstar. As measured by the Bloomberg Barclays US Credit Index, ICE BofAML US High Yield Index. 3 December 2018. (7) S&P/LSTA Leveraged Loan Index. 3 December 2018. (8) FactSet. 30 November 2018.
Past performance is no guarantee of future results.

OIL PRICES WELL OFF HIGHS[4]

Oil prices have cratered since their early October highs, as continued high production, growing inventories, and fears of a potential slowdown in global economic growth have managed to make markets nervous. OPEC has been in the headlines in December, ahead of a meeting at which further production cuts could be announced. We believe that a cut of 1.0-1.2mmb/d would disappoint the market and cause prices to decline from current levels, while a cut of 1.3-1.5mmb/d would provide a price floor for 2019 and possible incremental upside from current prices, though upside would likely be muted in the near term.

FIXED INCOME SPREADS WIDER QTD[6]



Fixed income assets have been affected by the oil market turmoil (energy makes up 11% of the IG index, and almost 16% of the HY index) and by broader market volatility, albeit less than equities.[9] Since the end of September, IG spreads have been pushed 29 bps wider while high yield is 101 bps wider. Both had largely held in through the initial Powell-induced volatility, but lost ground as November progressed. Higher quality bonds have outperformed in both IG and HY as markets have moved away from riskier assets.

(9) Bloomberg. As measured by the Bloomberg Barclays US Credit Index, ICE BofAML US High Yield Index. 26 November 2018.
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The **Bloomberg Barclays US Credit Index** provides a broad measure of investment grade, USD-denominated credit securities. It includes publicly-issued US and SEC-registered global corporate securities, foreign debt and secured notes.

The **ICE BofAML US High Yield Index** provides a broad measure of below investment grade, USD-denominated fixed rate corporate debt. It includes corporate bonds with risk exposures to countries that are members of the FX-G10, Western Europe or territories of the US and Western Europe.

The **Russell 2000 Index** provides a measure of US small cap stocks. It includes the bottom 2,000 stocks in the Russell 3000 Index, which provides a broad, market capitalization-weighted measure of the largest 3,000 publicly-held US companies.

The **S&P 500 Index** provides a broad, market capitalization-weighted measure of US large cap stocks. It includes approximately 500 publicly-traded stocks of the largest US companies.

The **S&P/LSTA Leveraged Loan Index** provides a broad, market value-weighted measure of US institutional leveraged loans. It includes the institutional tranches of loans syndicated to US loan investors.

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