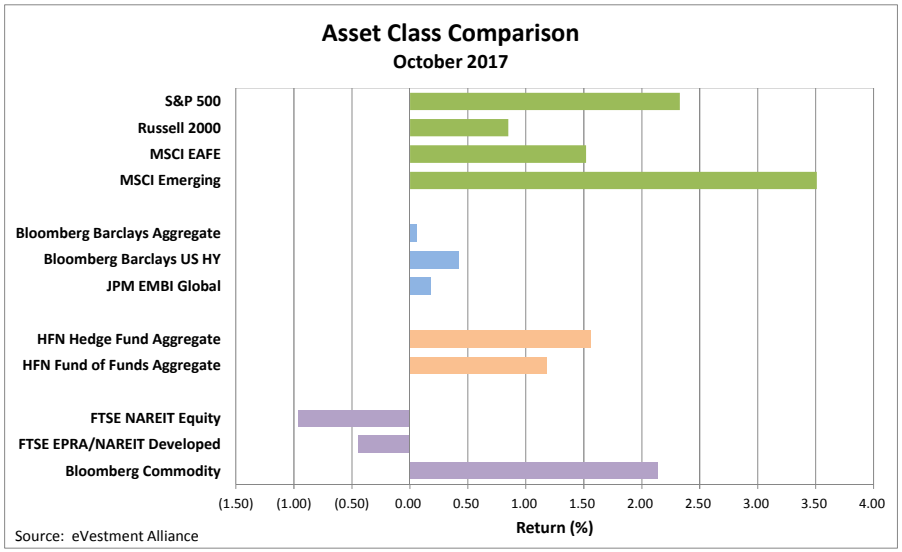
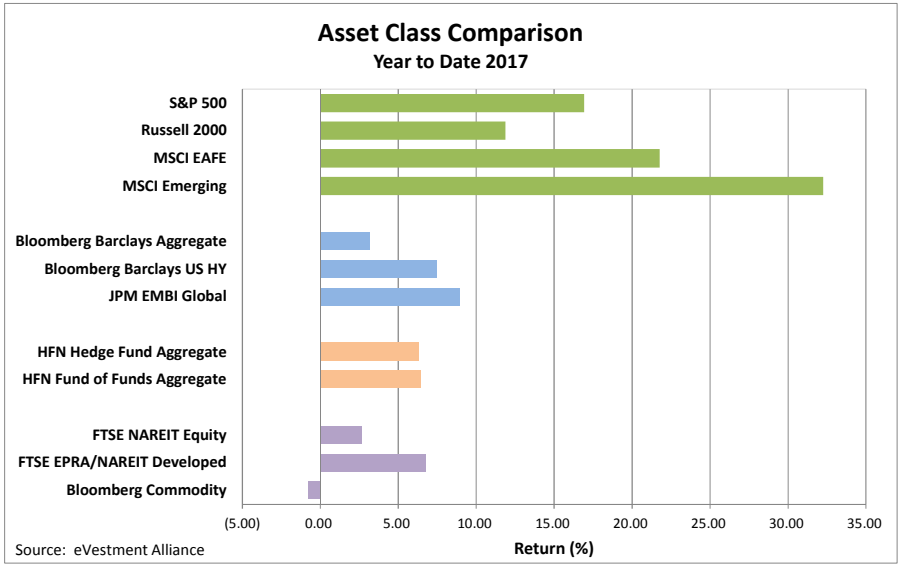
MESA: Monthly Market Flash

October 2017





Market Overview

- Positive economic data and solid initial 3rd quarter corporate earnings data influenced investors in October, helping the global equity markets push higher. Political factors appeared to have less of an impact during the period. Wrangling in the U.S. over tax reform, and the declaration of independence by Catalonia in Spain, were major headlines during the period, but neither was perceived to have a meaningful impact on investor sentiment. Investors remain convinced tax reform will be passed in the U.S. at some point this year, while little is likely to change in Spain given the quick removal of Catalonian leadership by Spain's government late in the month.

- Economic data in U.S. was overwhelmingly positive during the month with wage growth, retail spending and home sales all trending higher. New highs were achieved by various equity indices in the U.S. as technology and growth-oriented sectors drove performance. While 3rd quarter earnings were not as robust as the past couple quarters, the slowdown was attributed to large insurance losses as reserves were dramatically increased following an elevated level of natural disasters during the quarter. Non-U.S. economies demonstrated similar trends, with solid economic data and corporate earnings across both European and Asian markets. Third quarter GDP for the Eurozone came in at 2.5%, the highest since 2011, while export growth in Japan was seen as a positive for that market. The emerging markets continued to see solid investor flows, although results across regions were quite mixed.

- Aside from the U.S. and the U.K., developed market policy interest rates are unlikely to move meaningfully higher in the near term as low inflation readings continue to allow policy makers to keep up support in the form of low rates and other quantitative easing measures. In the U.S., however, a December rate hike remains possible, while the U.K. was expected to increase rates in November as inflation readings on a year-over-year basis exceeded 3%. Within Europe, ECB President Mario Draghi indicated that monthly ECB bond purchases would be halved, but purchases would extend until at least until September 2018, while the view that rates will remain lower for longer was unchanged. The Bank of Japan maintained its target rate at -0.1% and remains committed to its annual bond purchase program.

Equity Markets

- Stock markets around the globe were higher for the month, supported by a combination of positive economic data and 3rd quarter corporate earnings that continued to show solid growth. Within the U.S., the S&P 500 index gained 2.3% for the month, running the consecutive gain streak to 12 straight months. Growth stocks reclaimed their leadership posture during the period after a brief hiatus in September. Technology shares led the way with a 7.8% gain, while higher yielding and slower growth telecom stocks struggled the most (-7.6%). Small and midcap stocks underperformed in October. Non-U.S. stocks also posted solid gains, although U.S. dollar strength proved detrimental to the developed market returns. The MSCI EAFE index underperformed the S&P 500 despite very strong gains out of Japan and other Asian markets. Strong gains in India and China helped the emerging markets index outperform for the month, driving the year-to-date gain to over 32%.

Fixed Income Markets

- U.S. Treasury yields moved higher across the yield curve in October with the largest moves occurring on the shorter end of the curve leading to a flattening of the curve. Solid economic data and modest inflation readings continued to support expectations for additional rate hikes in the U.S. later this year and 2018, although this view has been tempered somewhat by the new Fed Chair and the desire of the current administration to ramp up economic growth. The 10-year Treasury yield increased to 2.38% from the prior month's 2.33% level, while the move for the 30-year was only 2 bps. At the shorter end of the curve, the 2-year yield was 13 bps higher, reaching a level last seen in 2008 before the financial crisis. The move higher in yields put pressure on the return for the Bloomberg Barclays Aggregate index (+0.06%) which was positive thanks to a solid showing for investment grade credit. Solid corporate earnings and a meaningful move higher in oil prices kept investor demand elevated for sub-investment grade credits and their excess yields, helping both the high yield and bank loan indices post solid gains in October.

Alternative Strategies

- The HFN Hedge Fund Aggregate Index was up 1.56% in October, the year's best monthly gain. All major strategies except distressed were positive in October, with the best gains seen from CTA/managed futures and equity-oriented managers. Despite the month's strong gains, the CTA/managed futures category remains one of the year's lagging strategies.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	2.33	16.92
Russell 2000	0.85	11.89
MSCI EAFE ($)	1.52	21.76
MSCI Europe ($)	0.47	23.38
MSCI UK ($)	0.61	16.40
MSCI Japan ($)	4.61	19.55
MSCI Pacific ex Japan ($)	1.40	19.27

Source: eVestment Alliance, MSCI

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	3.51	32.26
MSCI EM Asia ($)	5.30	39.15
MSCI EM EMEA ($)	0.99	12.59
MSCI EM Latin America ($)	(3.60)	22.17

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

	Month	Year to Date
Bloomberg Barclays Aggregate	0.06	3.21
Bloomberg Barclays Government	(0.11)	2.13
Bloomberg Barclays U.S. TIPS	0.21	1.93
Bloomberg Barclays U.S. Inv. Grade Corp	0.40	5.63
Bloomberg Barclays U.S. Mort. Backed	(0.03)	2.30
Bloomberg Barclays U.S. High Yield	0.42	7.46
Credit Suisse Leveraged Loan	0.66	3.73

Source: eVestment Alliance, Bloomberg Barclays, Credit Suisse

Non-U.S. Fixed Income Returns (%)

	Month	Year to Date
Citigroup Non-U.S. WGBI Hedged	0.75	1.69
Citigroup Non-U.S. WGBI Unhedged	(0.75)	7.82
JP Morgan EMBI Global	0.18	8.94

Source: eVestment Alliance, Citigroup, JP Morgan