Asset Class	MTD Performance	YTD Performance
Hedge Funds	1.08%	9.25%
Private Equity	0.98%	24.52%
Real Estate	(0.07%)	6.74%
Commodities	4.80%	2.46%
Asset Backed Securities	0.00%	1.63%
Equities	2.22%	15.03%
Fixed Income	0.41%	5.66%

Hedge Funds

Hedge Funds have seen year to date returns of 9.25%, well below the 15.03% year to date return the S&P saw through October. The strongest performing strategy in October was Long/Short Equity which produced a return of 1.16% and now has year to date returns of 11.79%. The continued strong returns from Equity markets have helped Equity Strategies to succeed, boosted by strong global economic growth. Macro Strategies saw a monthly return of 0.98% in October, making the year to date return for the strategy 3.66%. Event Driven strategies saw a return of 0.39%, well below last month's performance. Event Driven Strategies now have a year to date return of 8.48%. Hedge Funds that utilize Credit Strategies saw a return of 0.30% in the past month, making their year to date returns 8.48%. Macro Based strategies have been by far the worst performer this year, as they have had returns well below the S&P 500. Macro Strategies have also seen an outflow of money, as investors are switching from Macro strategies to fundamental strategies to capitalize on strong equity returns (Segal). Macro strategies may have also seen better returns in October due to slightly increased volatility in the markets. The Long-Short Equity strategy saw returns of 1.16% this month. Although it has been by far the best performing strategy with a current YTD of 9.97%, the strategy saw better returns in the month of September of 1.61%. The current returns from the L/S equity strategy are attributed to the solid performance of the equity market, a lack of sudden jumps in volatility in the prices of assets, and no disruptions within the fixed income market (Lyxor).

For more hedge funds data: HFR, Preqin

Private Equity

Trends from last month’s report regarding over-valued EBITDA multiples as a result of upward pressure on demand for deals are persisting. Additionally, dry powder levels are still at very high levels, indicting the GP’s (general partner’s) lack of interest in making acquisitions, most likely due to two factors: high valuations and low-quality target companies, as mentioned in the previous report. In terms of public-equity index valuations on private equity firms, the Red Rocks Global Listed Private Equity Index MTD return is 0.98% and YTD return is 24.52%, outperforming the S&P500 by 8.28% YTD, indicating strong sentiment for the private equity industry. This makes sense, as capital commitments from LP’s (limited partners) to private equity funds are at very high levels. US-based funds garnered $62.4 billion in commitments across 58 vehicles in 3Q 2017, according to Pitchbook. This is due to the fact that limited partners, particularly pension funds, are shying away from public equities due to the fact that they believe the market is over-valued, according to Pitchbook. Pension funds are increasingly allocating money to less liquid alternatives.

Additionally, low interest rate policies are propping up leveraged returns within PE funds, which is also contributing to the attractiveness of PE as an asset class. On a negative note, US PE-backed IPO's have been struggling a lot this year, according to data from Pitchbook. Around half of the IPO listings so far in 2017 have priced below their initial price ranges—a ratio not seen since 2009. This raises many questions as to the benefits of remaining private. Overall, there is a lot of mixed sentiment about the state of the economy that one can draw from the situation that the private equity industry is facing. High private and public valuations as well as increased LP concentration to private equity are causing there to be excess levels of cash within funds. Is this indicative of a potential valuation-correction within the near future? Possibly. If exit valuations decrease along with acquisition valuations, then this could hurt returns within the PE-industry, and contribute more to the growing liabilities of pension plans.

For more private equity data: Alps Red Rocks PE

Real Estate

As demand continues to grow for Industrial Real Estate there are three major threats to its current successful run. Overbuilding, Political Policy and Unrealistic seller pricing are the three major concerns. Overbuilding has become a potential issue because the market has continued to have a higher demand than the current supply which has allowed for rising prices. However, there is belief that there will be a shift in the market sooner than later due to completion of new buildings and warehouses. Industrial real estate is a global operation and potential global trade policies can affect the market significantly. Rising prices with the possibility of increased supply will force owners to lower their prices or face the possibility of high vacancy (Bisnow). Developers are producing fewer homes, resulting in a graph of thousands of housing starts against years that is very similar to the leading up to the housing crisis in 2008. This similarity is worry some to investors who feel that this could indicate that developers might know something we don't about the near future for the housing market. This dip in newly developed housing could continue decreasing due to the uncertainty of Trump's new tax reform, which could impact the construction of new low income housing. Analysts worry that the reform could disincentivize large banks if the tax benefits for investing in the low income housing market are decreased.

For more real estate data: FTSE EPRA/NAREIT

Commodities (Agriculture, Metals, Oil)

In the month of October 2017, WTI crude oil spiked from 50.96 to 54.38, a 6.71% jump in part due to a growing demand. Declining Venezuelan production as well as disruptions in output in both Nigeria and Libya are underlying factors to also consider. Natural Gas on the other hand fell slightly from 2.916 to 2.896. Prices tumbled as traders do not believe that hurricane Nate will have any effect on production in the short term. Also, warmer than normal temperatures over most of the east coast, has significantly reduced any early fall cooling demand. Inventories remain in good share, on par with the 5-year average as the U.S. heads into the heating season. The Brent Crude moving average jumped from 56.12 to 61.37 as a possible extension of major producers' ongoing production cut and falling US and global crude oil inventories could help oil prices in 2018. Mine closures in South Africa and Zimbabwe during 2017 put a dent in the platinum supply leading to a -6.67% return year to date. The federal reserve announced higher interest rates in September. This factor impacted the strength of the dollar, which typically trades inverse to gold and silver. However, the strength of the stock market and potential tax reform tax reform are both in question. The skepticism behind potential government policy and interest rate hikes balanced gold and silver returns in the month of October leaving returns flat. EU regulators have planned to cut greenhouse emissions from cars by 30% by 2030, which is expected to boost electric car sales and therefore the demand for cobalt. Cobalt is an important component in the use of the lithium-ion batteries that power electric vehicles. The European Commission also plans to invest 800 million euros in expanding and standardizing electric charging stations in Europe, and will dedicate 200 million euros for battery development. As the demand for batteries continues to grow, so does the demand for cobalt. However, Amnesty International, a global human rights movement, has recently spoken out against human rights violations in the cobalt supply chains. Aluminum prices rose to a five-year high this past month on reports that two Chinese aluminum producers are cutting output two months before winter restrictions come into effect. A 56% surge in the price of alumina - the raw material used in the making of aluminum – since August has also affected the price increase in aluminum. The price of raw materials is important, as smelters who make aluminum are "stocking up on alumina for when they restart production." UBS Group analysts also believe the current ratio between aluminum and alumina prices is "extreme," concluding that either aluminum prices must increase, or alumina prices must decrease. Firm housing prices in China have contributed to an increase in the price of copper, as construction accounts for about half of the Chinese copper demand. On-warrant LME inventories (which are not available for delivery and are available to the market) in warehouses dipped to the lowest level in more than two months at 147,799 tonnes. Commodity prices tend to rise with lower inventories. The dollar index added 0.3 percent, and a stronger dollar makes copper more expensive for holders of other currencies. The World Agricultural Supply and Demand projected higher corn crops. Furthermore, the USDA estimated an increase in ending stocks from 2.340 to 2.487 billion bushels, the highest in 12 years. This then led to a decrease in the price of corn futures. The high in the previous month prompted an outside reversal also driving soybean prices down as well.

For more commodities data: DBIQ Optimum Yield Diversified Commodity Index

Asset Backed Securities

The MTD and YTD return on the Bloomberg Barclays Aggregate ABS Index are respectively 0.0038% and 1.63%. However, Harker expects one more rate increase this year and a "boring" balance sheet unwinding. Analyst are 92% positive that during the December 13 meeting of the Federal Reserve, that rates will be hiked between 1.25-1.5%. The probability of the rate hike and the lowering of the mortgage interest deduction from 1 million to 500 thousand in the new tax plan are expected to lower issuance by $15 Billion. Overall while the environment has been quite negative for MBS with most analysts giving a neutral/underweight rating, MBS has still generated a MTD return of 0.07% and an YTD return 2.36% based on Bloomberg. As of today, the MBS TBA market still shows that MBS are preforming better than the 10-year treasury by 0.02-0.07%, further solidifying that the MBS market is still staying strong. However, losses could be seen due to the tax reform and other headwinds in the future. The auto ABS market has remained relatively stable this month with some minor gains of approximately 0.1%. The subprime market has hit southern motorists the hardest. These drivers have been found to be the riskiest borrowers. In South Carolina, the average interest rate is at 18.36% while the average rate of Alabama, Georgia, Tennessee, and Mississippi is at 17.3%. These are somewhat concerning considering how the standard in subprime autos have hit an all-time low. In fact, Equifax has described the current subprime auto market as being awful. These conditions are exasperated by the fact that household debt and student loan debt are currently very high. Nonetheless, the auto ABS market seems to be stable at the moment. According to Moody's, auto loan securitization is becoming less important meaning that there may be a decrease in supply of ABS in the future. Of approximately $1.1 trillion in outstanding auto loans, about 14% are financed via securitizations. Prior to the financial crisis, about 20% of auto loans were financed via securitizations. According to Moody's, this may be a continuing trend in the market. Student Loan ABS have experienced more volatility this month compare to last. According to the Bloomberg Barclays U.S ABS Floating Rate index for Aa-rated student loans, the market is about 106% more volatile than it had previously been, and this arises from various factors. The first of these events is the stable outlook on newly issued class A notes by the Navient Student Loan trust 2017-6. The notes, rated AAA, consist of $751m of FFELP loans which accounts for 71.5% of the notes issued in November thus far. The current value of issuances for November are $1.05b and barely creeping out the amount issued last November, at $967m. In terms of month to month, the mid point for November issuances is lagging behind the $1.44b of SLABS issued at the same time last month. A fair justification for this difference is the decreasing availability of student loans to securitize, given that student loans are primarily securitized within a few months of their signing, which typically occurs in August.

For more ABS data: Bloomberg Barclays US MBS Index

Equities

In the month of October, equities grew by 1.94% according to the S&P 500 Total Return Index. The month's performance continues the strong performance of the asset class, with a YTD return of 15.92%. Equities experienced strong gains as companies continued to report strong earnings, specifically within the tech sector. October proved to be a difficult month for healthcare equities as the sector dropped 1.70% for the month with a YTD return of 17.74% according to the S&P 500 Healthcare Sector Total Return Index. The sector was specifically hurt by the poor performance of biopharmaceutical companies, as poor earnings had repercussions throughout the entire sector. One of the largest biotech companies, Celgene Corporation (NASDAQ: CELG), was battered this month (down 30.86%) due to the company discontinuing one of its drug treatments and lowering expectations on 2020 earnings. Other large biopharmaceuticals, including Amgen Inc. and Gilead Sciences Inc. slid more than 5% over the month. Yet while pharmaceuticals struggled, health insurance companies saw gains as earnings beat expectations. While these gains allowed insurers to thrive at the end of the month, analysts believe that these gains will be short lived. President Trump's October 12th executive order facilitates the purchase of health insurance across state lines as well as ending the cost sharing subsidies that existed under the Affordable Care Act, which will negatively impact the long term earning potential of insurers.

According to the S&P 500 Financials Index the month of October for the Financials Sector resulted in weak gains at 2% for the month while the YTD yield is at 15%. Key banking companies like Goldman Sachs, JPMorgan and others posted minimal gains which proved to be a big component of the overall sector's performance for the month. Goldman Sachs posted a 1.5% gain, JPMorgan a gain of 3.89%, Barclays a loss of 5.37% and Deutsche Bank a loss of 3.1%. Uncertainty over who President Trump will be appointing to be the Federal Reserve Chairman as well as continued speculation over tax reforms likely contributed to the flat yields. While the burdens of the hurricane season within the real estate market has mostly subsided towards the end of the month, optimism among homeowners is reportedly rising higher as the year is beginning to come to a close. Industrials managed to post positive returns in October with the overall sector gaining 0.79% according to the S&P Industrial Sector ETF. That puts the industrial sector up 16.55% since the beginning of the year. One of the key drivers behind the sector's performance was industrial production rising 0.9% in October. Manufacturing output, one of the three major components of industrial production, rose an impressive 1.3%. The Technology sector is up 6.84% in October, contributing to a YTD performance of 34.98%. Throughout the month, Technology outperformed the S&P 500. Amazon was the biggest winner, reporting a 34% increase in revenues this quarter, and causing its stock to jump 13.22%. Its recent acquisition of Whole Foods and expansion into cloud computing has driven returns. Microsoft, Alphabet, and Intel were also big winners this month, reporting better than expected earnings for the quarter and causing each of their stocks to rise by over 5% on their earnings release.

For more equities data: S&P 500

Fixed Income

Investment Grade Credit added 0.41% in October to yearly gains of 5.66%, outpacing September returns by 0.39%. Investment Grade credit spreads continued to tighten past multi-year lows set in September, ending the month just at just 1%. Investment grade materials and utilities gained 1.02% and 0.64%, respectively, following the destruction of an abnormally strong hurricane season. Treasury yields remained relatively stable the entire month of October, with only slight increases. The 10-year which opened the month at 2.343% closed the month up 3 basis points to 2.376%. Investors continue to expect a December rate hike due to the Fed's hawkish comments and also increases in inflation. Because October began with a 90% expectation of a Fed rate hike in December, yields did not change dramatically this month since the rate hike was almost entirely priced into yields. The S&P Muni Bond Index has had a YTD performance of 4.65% and had a performance 0.23% in October. Muni bonds had a positive movement despite interest rates being volatile. October had a muni issuance of $36.1 billion, which is 32% lower than it was in October of 2016. This could be because last year, issuers were pulling forward deals as they were nervous about the election and a Fed rate hike. The S&P High Yield Corporate Bond Index continued to contribute to yearly gains of 7.02%, adding 0.51% in October, with lower quality bonds outperforming. The top performing industries were broadcasting and retail and the two lowest performing industries were gaming and metal.

For more fixed income data: BofA Merrill Lynch Corporate Bond Index, S&P Municipal Bond Index, St. Louis Fed