

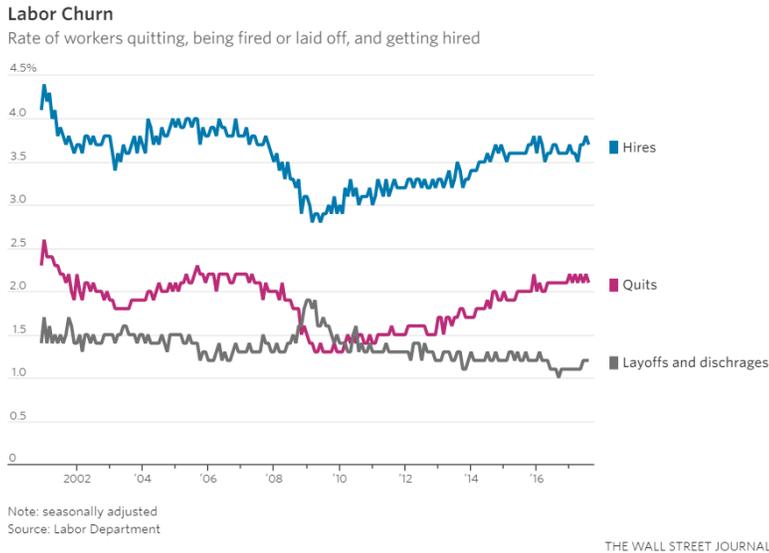


Five Things to Consider

a weekly note from your VALIDUS Portfolio Managers

October 27, 2017

1. Record Job Openings Aren't Enticing Workers to Quit



Per the Labor Department's most recent Job Openings and Labor Turnover Survey, the rate that workers quit their job slightly declined, from 2.2% to 2.1%. This is generally seen as a signal of workers' confidence in their ability to leave their current job for a new one. Some economists have pointed to the lack of growth in this rate as a possible reason for the lack of wage growth in the U.S. labor market. Investors looking at sectors sensitive to consumer spending could use this indicator to help gauge their forward growth estimates for consumer discretionary stocks.

<https://blogs.wsj.com/economics/2017/10/11/record-job-openings-arent-enticing-workers-to-quit/>

2. Euro-Area Exports Leap Despite Currency Gain



Eurozone exports increased in August by 2.5% (adjusted for seasonality). Economists and market participants are intimating this increase as evidence that the ECB will start to wind down its latest iteration of their quantitative easing (or QE) program. This information has two major takeaways for investors. First, expansion of Eurozone exports indicates GDP, and possibly earnings, could be growing at a better-than-expected rate, which hopefully shows up in Eurozone company earnings. Second, if the monetary

policy in the Eurozone becomes constrictive, then the recent strength of the Euro against the Dollar (or the dollar's recent slide in value), could be reversed. Investors with global (particularly Eurozone) exposure could find this information useful in analyzing the effect of currency movements on their holdings.

<https://www.wsj.com/articles/euro-area-exports-leap-despite-currency-gain-reassuring-ecb-1508144600>



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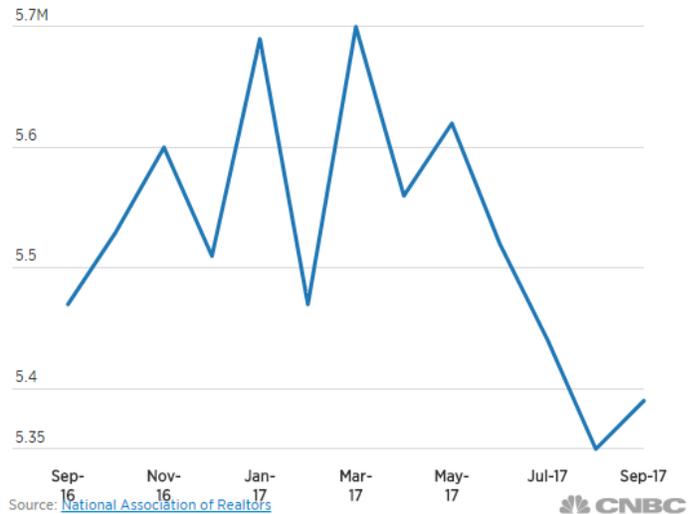
3. US existing home sales unexpectedly rebound in September

During the month of september, existing home sales increased 0.7%. This contrasted with the average estimate of economists, which was for sales to decrease by 1%. However, despite this positive uptick, continued supply constraints of new homes will continue to limit the volume of home sales. This raises many macro-economic issues for investors to investigate, including whether this will continue to stunt household formation pushing consumers to continue to rent if home affordability continues to be a problem.

<https://www.cnn.com/2017/10/20/us-existing-home-sales-unexpectedly-rebound-in-september.html>

U.S. Existing Home Sales

Existing home sales include condos, co-ops, and single-family homes.



4. Beyond blockchain: what are the technology requirements for a Central Bank Digital Currency?

Requirement	Summary
Resilience	High operational availability (>99.999%), 24/7/365
Security	Secure against cyber attacks
Scalability	Potential for several thousand transactions per second
Transaction processing	Near-instantaneous, real-time, with settlement finality
Confidentiality	Private, but not anonymous
Interoperability	Interoperable with existing systems and other CBDCs
Innovation	Enable the overlay of innovative features/services
Future proofing	Ability to upgrade and enhance, without impacting service

This Bank Underground (blog run by Bank of England employees) post, by Simon Scorer, breaches a topic that will become more frequently discussed as countries and companies attempt to deal with cryptocurrencies. The massive use (and rise in value) of bitcoin since its creation has forced institutional thinkers to consider how fiat money (i.e. paper money issued by governments not backed by a commodity) works with or can be replaced with a cryptocurrency. As

cryptocurrencies such as Bitcoin become mainstream, countries who have traditionally controlled their own money supply are working to adapt to the new medium(s) for transferring value from one party to another. Some countries such as China have sought to limit or ban trading of the currency(ies), as the government may see the currency as a challenge to the tightly controlled Yuan. There are many technologies in play, ranging from the form of a digital currency itself to the distribution of the currency. Investors should take a deep look at the various aspects of new technologies before investing in a cryptocurrency or currency technology, which may only be a speculative instrument or even merely a demonstration of the capabilities of the technologies underlying cryptocurrencies.

<https://blogs.wsj.com/economics/2017/09/27/global-trade-growth-picks-up-wto-says-but-can-it-be-sustained/>



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5. Weekly Portfolio Insight: Shrinking The Fed's Balance Sheet

In the first month of balance sheet reductions, the Fed seems to have held to a strategy described by the former Federal Reserve Board Chairman, Ben Bernanke, in his blog-post from earlier this year. In the post, he discussed several ideas, including the notion that the Federal Reserve would not begin to wind down its balance sheet until the federal funds rate normalization was well under way. While Mr. Bernanke cannot articulate the Federal Reserve's strategy for unwinding its balance sheet, he can provide insight to what he (and the staff while he was the Chairman) were trying to achieve with various policy tools. In this post he emphasized that the balance sheet wind-down should occur while the interest rate policy was being normalized, in a consistent, and almost passive manner. Investors may wish to take his viewpoints into consideration while analyzing the various factors that go into constructing a portfolio, such as interest rate sensitivity.

<https://www.brookings.edu/blog/ben-bernanke/2017/01/26/shrinking-the-feds-balance-sheet/>

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