



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

SEPTEMBER 2017
Capital Markets Update

Market commentary

ECONOMIC CLIMATE

- As of October 2nd, the Q3 Atlanta Fed GDPNow forecast for real U.S. GDP growth was 2.7% (QoQ annualized). The forecast was adjusted downward from the September 1st estimate of 3.2% on lower expectations of private fixed investment.
- On September 20th, the Federal Reserve announced the fed funds target rate would remain unchanged at 1.00% - 1.25% and confirmed that the balance sheet unwind would begin in October 2017.
- The implied probability of a rate hike in December increased after the September FOMC meeting comments were perceived as relatively hawkish. Additionally, FOMC members have projected three rate hikes to take place in 2018.
- The U.S. dollar continued its downward trend and depreciated by -1.0% in September against a trade weighted basket of currencies. The currency was down -8.7% year-to-date.
- President Trump and Democratic congressional leaders raised the federal debt ceiling. The Bipartisan Policy Center estimated that the legislation effectively pushed the next debt limit deadline to March of 2018.

DOMESTIC EQUITIES

- Domestic equities provided positive returns in September (S&P 500 +2.1%). Domestic small cap equities outperformed large cap equities by over 4%, as the Russell 2000 returned 6.2% in the month.
- According to FactSet, as of October 6th, the estimated Q3 earnings and revenue growth rates of the S&P 500 were 2.8% and 4.9% YoY, respectively.

DOMESTIC FIXED INCOME

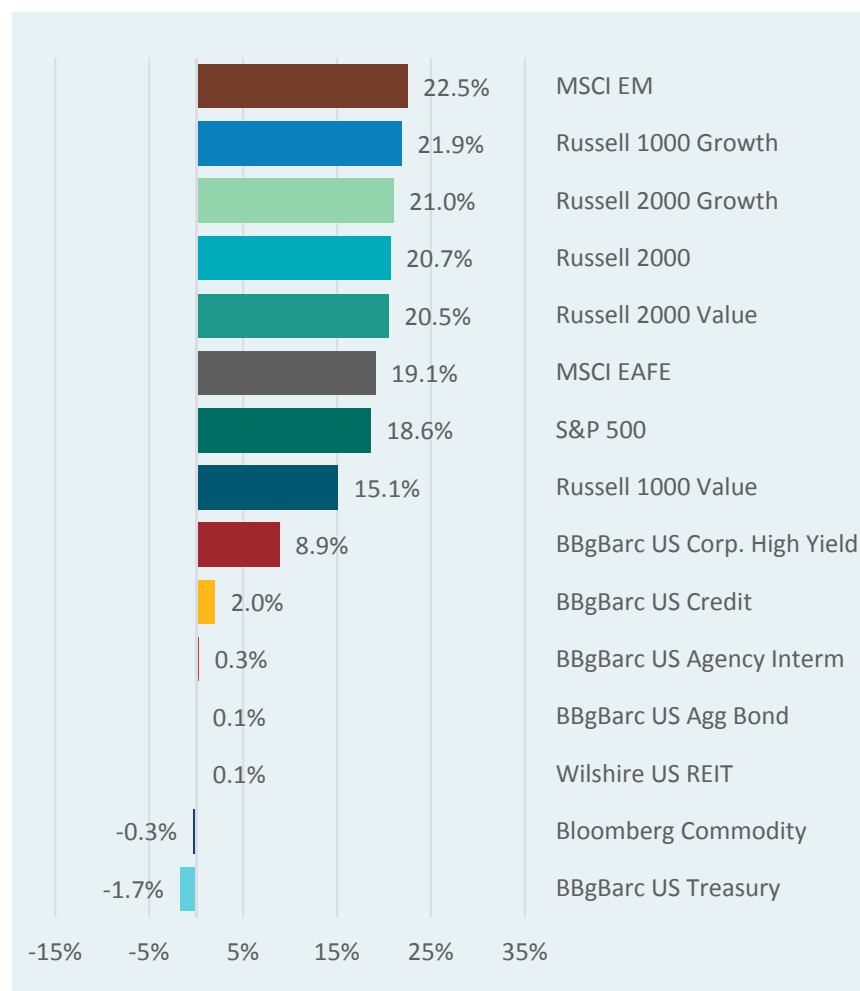
- Domestic fixed income returns were negative in September as the Bloomberg Barclays U.S. Aggregate Index returned -0.5%.
- U.S. Treasury yields broadly increased – 10-year yield rose by 21 bps to 2.33%. The yield curve steepened slightly as the 10-year minus 2-year expanded 7 bps to 0.86%.
- On September 8th, U.S. 10-year Treasury Inflation-Indexed yields hit their lowest point since November 2016 (+0.25%) before ending the month at 0.49% (+13 bps month-over-month).

INTERNATIONAL MARKETS

- Developed international equities underperformed domestic equities (S&P 500 +2.1%) as the MSCI ACWI ex U.S. Index returned 1.9% (+2.2% hedged).
- Eurozone CPI was relatively stable in September and increased by 1.5% YoY, unchanged from August. CPI ex Energy was 1.3% YoY, 10 bps higher than the prior month.
- U.K. manufacturing (PMI 55.9) expanded in September, but at a slightly lower rate than August, while U.K. construction activity contracted (PMI 48.1). Construction was negatively affected by a material decrease in civil engineering activity. PMI readings above 50 indicate a general expansion.
- According to the IMF, the prospects of global economic growth have strengthened. Their global growth projections increased by 10 bps to 3.6% in 2017 and 3.7% in 2018. The U.K. was the only G7 country projected to experience slowing growth.

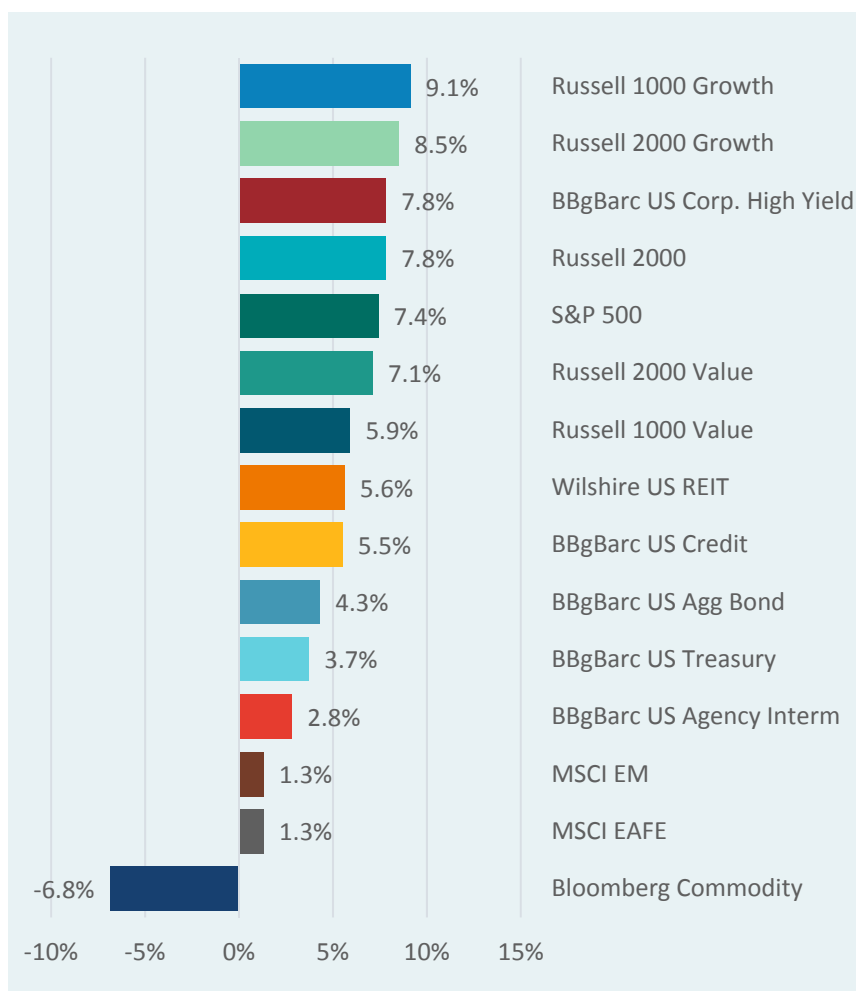
Major asset class returns

ONE YEAR ENDING SEPTEMBER



Source: Morningstar, as of 9/30/17

TEN YEARS ENDING SEPTEMBER



Source: Morningstar, as of 9/30/17

U.S. large cap equities

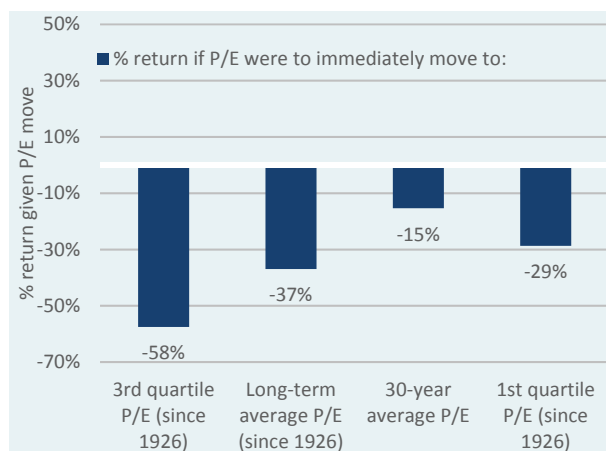
- Large cap equities posted a positive return for an eleventh consecutive month (S&P 500 +2.1%).
- According to FactSet, as of October 6th, the estimated Q3 earnings growth rate of the S&P 500 was 2.8% YoY, down from 7.5% on June 30th. Hurricane impacts contributed to most of this decline. Q3 earnings estimates for the insurance industry dropped 48% to \$5.1 billion.
- Energy was the best performing sector in September, returning 9.9% during the month (-6.6% year-to-date). The sectors' Q3 bottom-up EPS estimate increased 3.1% during September.
- The Shiller P/E ratio of the S&P 500 rose to 31.2. The cyclically adjusted valuation metric remained above its 10-year average of 23.2. The forward P/E ratio also increased in September to 19.3, above its 10-year average of 15.4.

U.S. LARGE CAP EQUITIES



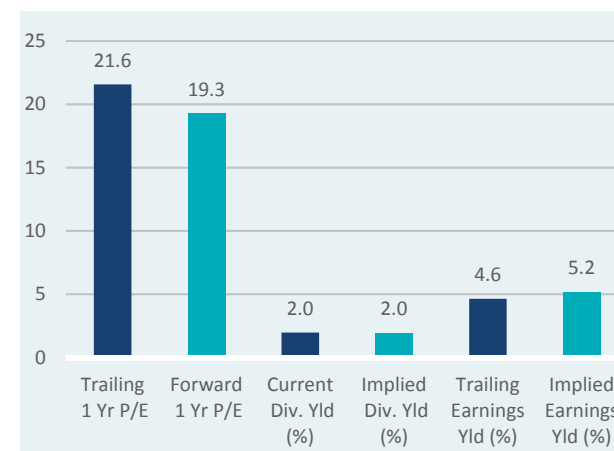
Source: Bloomberg, as of 9/30/17

RETURNS IF TRAILING P/E MOVED TO HISTORIC LEVEL



Source: Yale/Shiller, Verus, as of 9/30/17

S&P 500 VALUATION SNAPSHOT

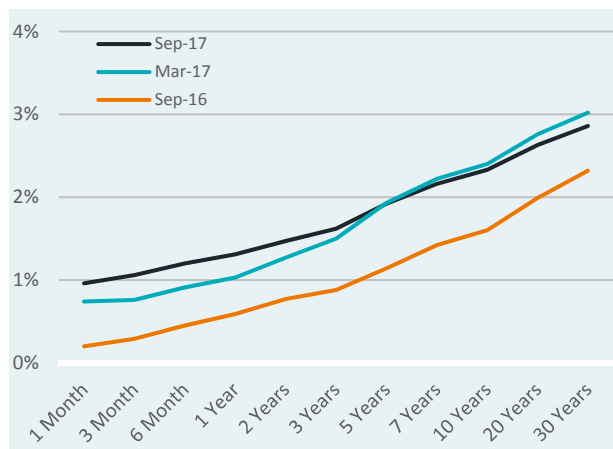


Source: Bloomberg, as of 9/30/17

Fixed income

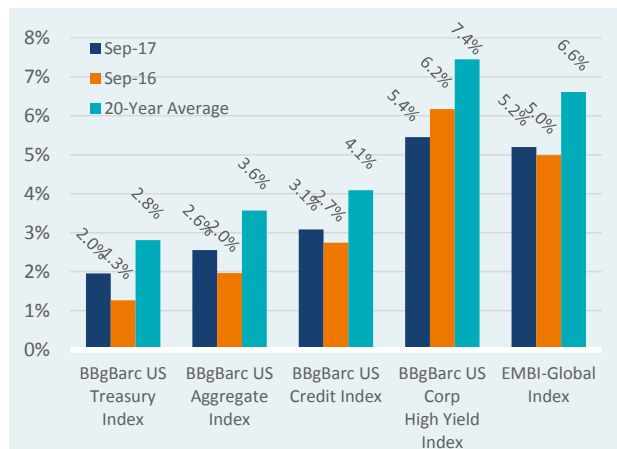
- U.S. Treasury yields rose across all maturities in September. The 10-year yield increased 21 bps to 2.33%. The shorter duration Bloomberg Barclays U.S. Treasury 1-3 Year (-0.2%) outperformed the broad U.S. Treasury Index (-0.9%).
- Market-based implied inflation rose slightly during the month. The 5-year TIPS breakeven rate increased 10 bps to 1.7%, below the recent high in January of 1.9%.
- The Federal Reserve held the fed funds target rate unchanged at 1.00% - 1.25% and confirmed that the balance sheet unwind would begin in October. As planned, \$6 billion in Treasuries (allocated across maturities) and \$4 billion in mortgage-backed securities will be rolled off of the balance sheet, increasing every three months to a limit of \$30 billion and \$20 billion, respectively.

U.S. TREASURY YIELD CURVE



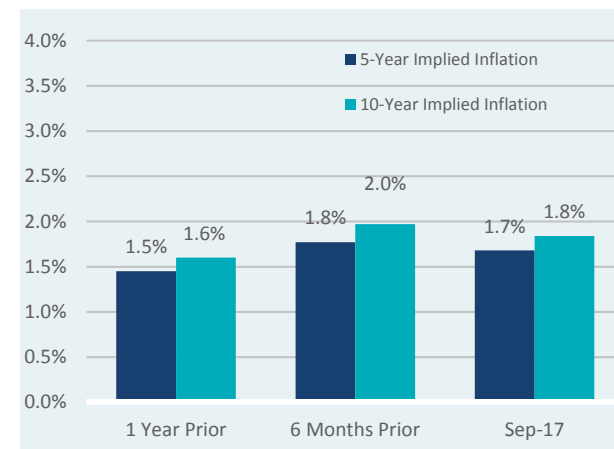
Source: Federal Reserve, as of 9/30/17

NOMINAL FIXED INCOME YIELDS



Source: Morningstar, as of 9/30/17

IMPLIED INFLATION (TIPS BREAKEVEN)

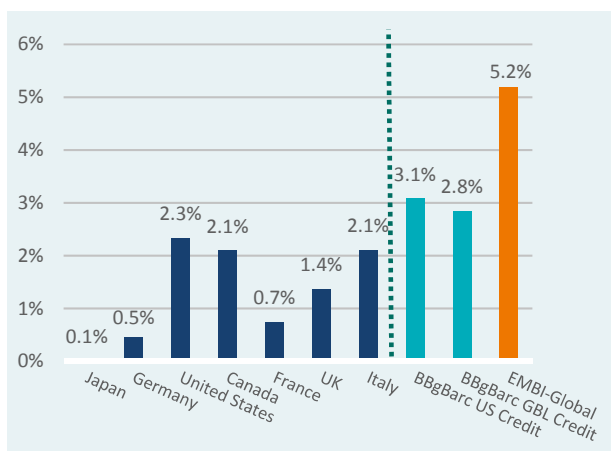


Source: Federal Reserve, as of 9/30/17

Global markets

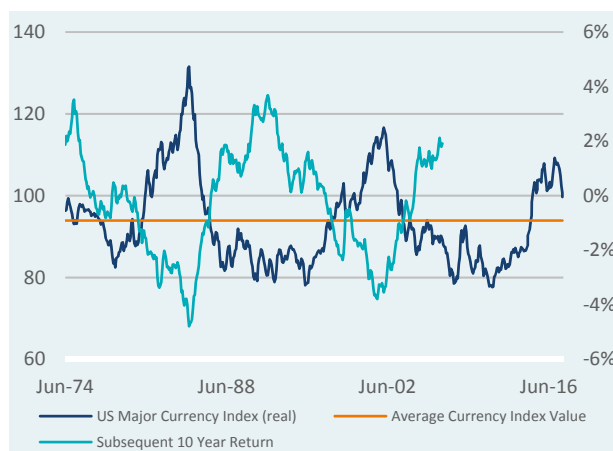
- Global sovereign 10-year bond yields were broadly up in September. U.K. 10-year yields experienced the largest change, increasing by 33 bps to 1.37% following relatively hawkish comments from Bank of England Governor Mark Carney.
- Japanese equities continued upward in September (+2.0% unhedged, +4.3% hedged) after Prime Minister Shinzo Abe's announcement to hold snap elections. The upcoming election will be in December, two years ahead of schedule.
- The Parliament of Catalonia held and passed an independence referendum on October 1st. The vote was in defiance of the Constitutional Court of Spain who deemed the vote illegal. Uncertainty remains as to whether Catalonia's leader Puigdemont will officially declare independence. Despite the political turmoil and uncertainty, the unhedged MSCI Euro equity index rose 3.9% in September (+2.9% hedged).

GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS



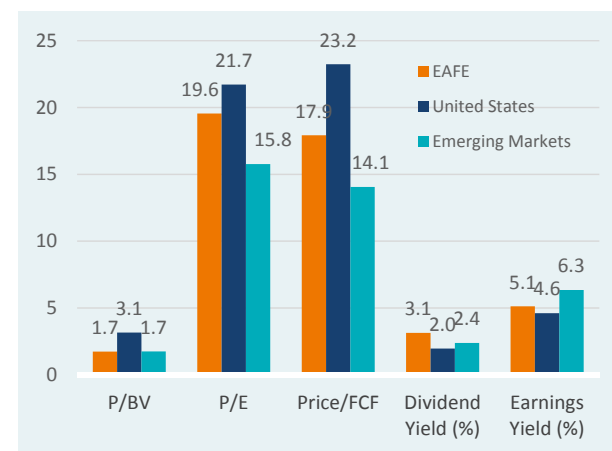
Source: Morningstar, as of 9/30/17

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 9/30/17

MSCI VALUATION METRICS (3 MONTH AVERAGE)

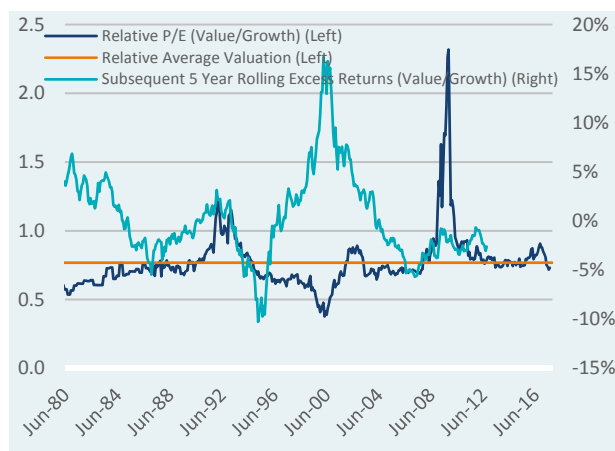


Source: Bloomberg, as of 9/30/17

Style tilts: U.S. large value vs. growth

- Value equities outperformed growth equities in September. The Russell 1000 Value and Russell 1000 Growth returned 3.0% and 1.3%, respectively.
- The relative trailing P/E ratio of value to growth equities remained below the long-term average of 0.77 at 0.73. Both value and growth trailing P/E ratios were above their 10-year highs, and ended September at 19.1 and 26.2, respectively.
- The value index benefitted from a higher relative concentration to Energy and Financial Services. The Russell 1000 Energy sub-index outperformed all of the sectors and returned 10.1% over the month. The Russell 1000 Financial Services sub-index returned 3.5%.

RELATIVE TRAILING PE RATIO OF U.S. VALUE VS. GROWTH



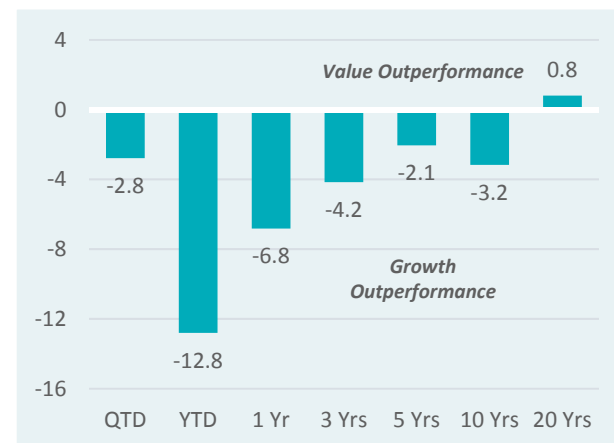
Source: Russell, Bloomberg, as of 9/30/17

U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

	RUSSELL 1000 VALUE ANNUALIZED RETURN TO DATE %	RUSSELL 1000 GROWTH ANNUALIZED RETURN TO DATE %
QTD	3.1	5.9
YTD	7.9	20.7
1 YEAR	15.1	21.9
3 YEARS	8.5	12.7
5 YEARS	13.2	15.3
10 YEARS	5.9	9.1
20 YEARS	7.3	6.5
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.65	1.05
5 YEARS	1.29	1.46
10 YEARS	0.42	0.63
20 YEARS	0.41	0.34

Source: Morningstar, as of 9/30/17

U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE

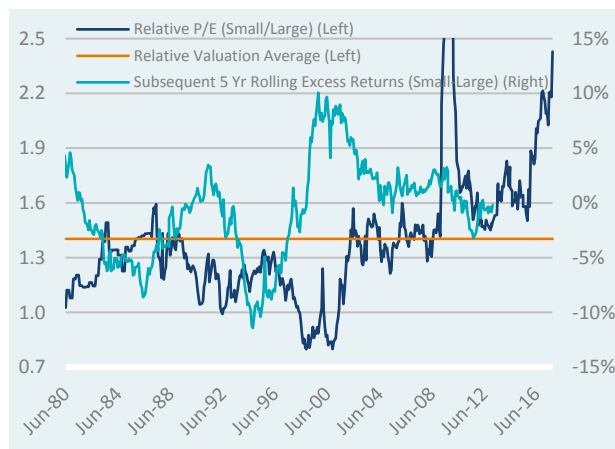


Source: Morningstar, as of 9/30/17

Style tilts: U.S. large vs. small

- U.S. small cap equities outperformed large cap equities, as the Russell 2000 index and Russell 1000 index returned 6.2% and 2.1%, respectively. Large cap equities have still outperformed year-to-date with an excess return of 3.2%.
- The Consumer Discretionary sector produced the largest performance differential between large and small cap equities. Small cap equities in the sector outperformed large cap equities by 7.1%.
- The relative trailing P/E ratio of small to large cap equities increased in September to a new business cycle high of 2.4, well above the long-term average of 1.4. According to Bloomberg, the trailing P/E ratio of the Russell 2000 index finished the month at 53.6.
- Large cap equities have provided superior risk-adjusted returns (Sharpe Ratio) relative to small cap equities over all time periods examined below.

RELATIVE TRAILING PE RATIO OF U.S. SMALL VS. LARGE



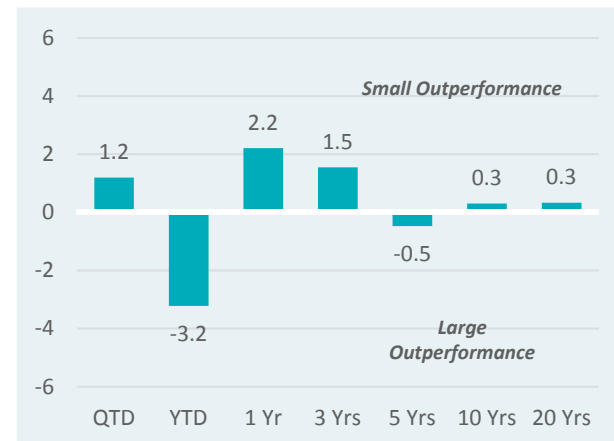
Source: Russell, Bloomberg, as of 9/30/17

U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

	RUSSELL 1000 INDEX	RUSSELL 2000 INDEX
	ANNUALIZED RETURN TO DATE %	ANNUALIZED RETURN TO DATE %
QTD	4.5	5.7
YTD	14.2	10.9
1 YEAR	18.5	20.7
3 YEARS	10.6	12.2
5 YEARS	14.3	13.8
10 YEARS	7.5	7.8
20 YEARS	7.2	7.5
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.89	0.55
5 YEARS	1.42	0.95
10 YEARS	0.53	0.44
20 YEARS	0.40	0.36

Source: Morningstar, as of 9/30/17

U.S. LARGE VS. SMALL RELATIVE PERFORMANCE



Source: Morningstar, as of 9/30/17

Commodities

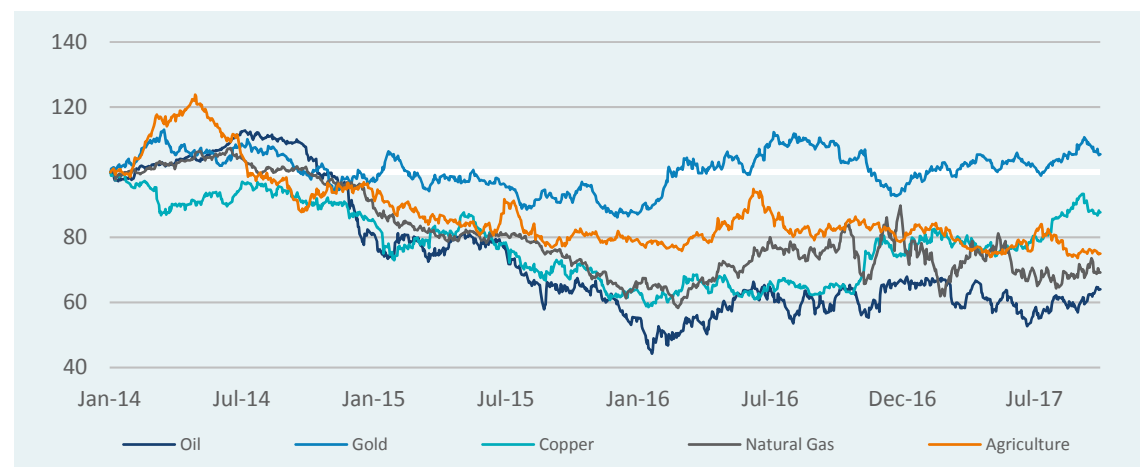
- The broad Bloomberg Commodity Index was flat in September (-0.1%) as gains from energy (3.5%) were offset by losses from industrial metals (-3.8%) and precious metals (-3.3%).
- Crude oil prices increased by 9.4% in September and ended the month at \$51.67 per barrel. U.S. oil inventories were 465 million barrels at month-end, well below the recent high of 535 million barrels in March.
- Precious Metals declined in September, as gold prices fell by -3.1% to \$1,280 per ounce and silver dropped by -5.3% to \$16.66 per ounce. Precious metals were negatively affected by an increase in real rates during the month.
- The recent rally in Industrial Metals took a step back in September – the Bloomberg sub-index fell by -3.8%. The index was negatively effected by decreases in Copper (-4.6%) and Nickel (-11.3%) prices.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(0.1)	2.5	(2.9)	(0.3)	(10.4)	(10.5)	(6.8)
Bloomberg Agriculture	(0.0)	(6.1)	(9.2)	(11.1)	(6.2)	(11.4)	(3.9)
Bloomberg Energy	3.5	9.8	(12.2)	(2.9)	(26.6)	(17.7)	(17.3)
Bloomberg Grains	1.3	(9.5)	(6.8)	(5.5)	(6.2)	(14.0)	(5.7)
Bloomberg Industrial Metals	(3.8)	9.9	16.8	24.0	(1.3)	(4.5)	(5.1)
Bloomberg Livestock	3.6	(7.5)	3.0	24.4	(9.3)	(2.3)	(7.1)
Bloomberg Petroleum	5.8	15.1	(5.8)	2.1	(25.6)	(17.1)	(11.8)
Bloomberg Precious Metals	(3.3)	2.3	8.7	(6.6)	0.4	(8.8)	4.0
Bloomberg Softs	(3.4)	(0.7)	(19.0)	(28.1)	(10.1)	(10.5)	(3.5)

Source: Morningstar, as of 9/30/17

COMMODITY PERFORMANCE



Source: Bloomberg, as of 9/30/17

Appendix

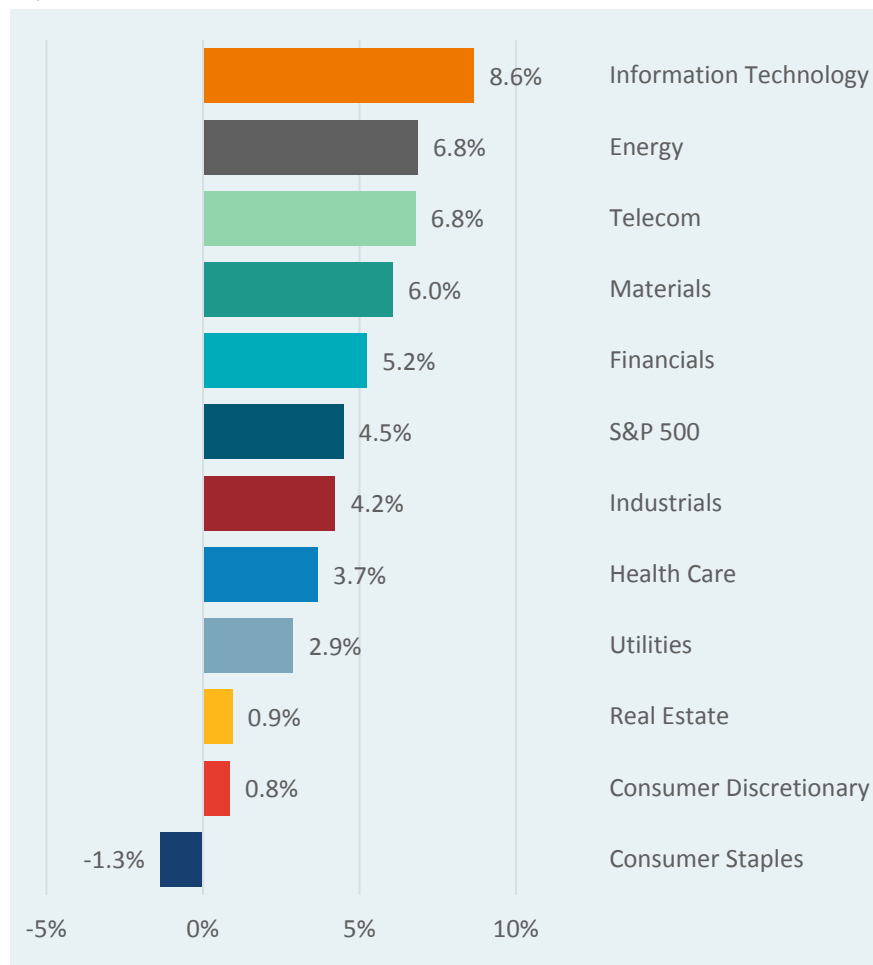
Periodic table of returns

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	5-Year	10-Year	
BEST	Emerging Markets Equity	16.6	38.4	23.2	35.2	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	27.8	15.3	9.1
	Large Cap Growth	8.1	37.8	23.1	32.9	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	20.7	14.3	8.5
	International Equity	6.4	37.2	22.4	31.8	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	20.0	14.3	7.8
	Small Cap Growth	4.4	31.0	21.6	30.5	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	16.8	13.8	7.5
	Large Cap Equity	3.2	28.5	21.4	22.4	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	14.2	13.3	7.1
	60/40 Global Portfolio	2.6	25.7	16.5	16.2	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	12.7	13.2	6.4
	Small Cap Equity	0.4	19.6	14.4	13.9	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	10.9	10.5	5.9
	Large Cap Value	-1.5	18.5	11.3	12.9	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	7.9	8.4	4.3
	Small Cap Value	-1.8	15.2	10.3	10.6	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	5.7	6.3	4.0
	Hedge Funds of Funds	-2.0	11.6	9.9	9.7	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	5.5	4.0	1.3
	Real Estate	-2.4	11.1	6.4	5.2	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	3.3	3.8	1.3
	US Bonds	-2.9	7.5	6.0	2.1	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.1	2.1	1.1
	Cash	-3.5	5.7	5.1	-3.4	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	0.6	0.2	0.4
	Commodities	-7.3	-5.2	3.6	-11.6	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	-2.9	-10.5	-6.8
WORST																											
	Large Cap Equity																										
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	Emerging Markets Equity																										
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	Cash																										
	Commodities																										
	Real Estate																										
	Hedge Funds of Funds																										
	60% MSCI ACWI/40% BBgBarc Global Bond																										

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 6/30/17.

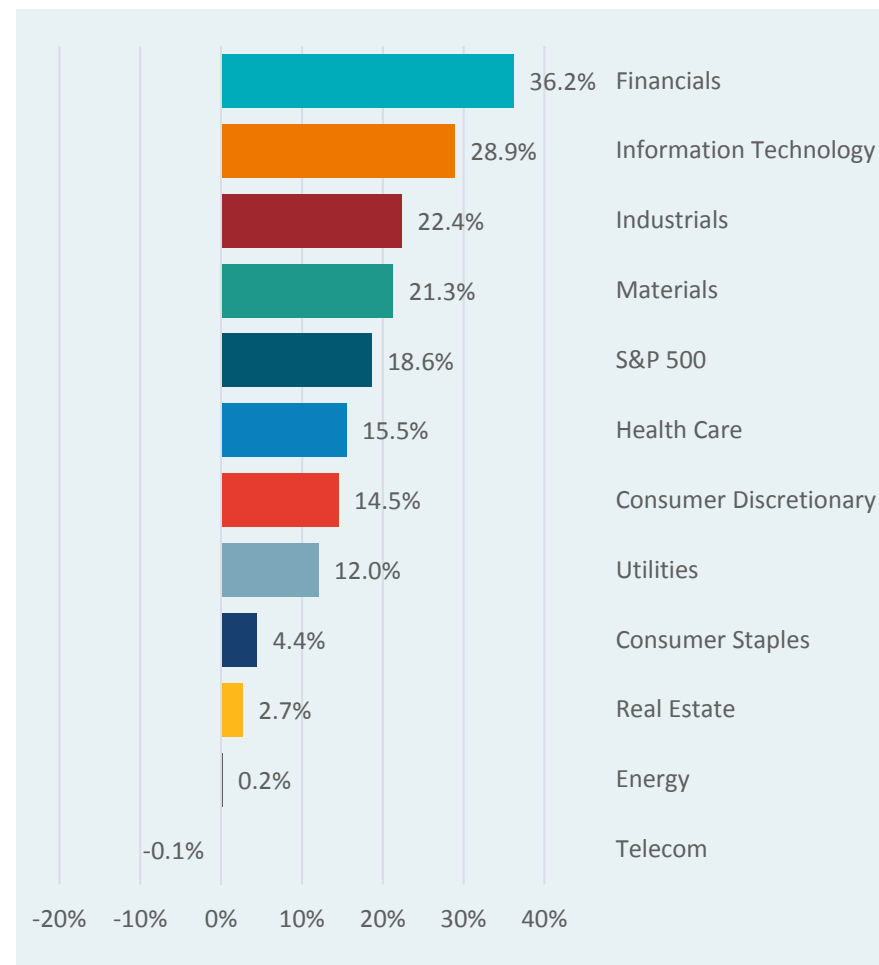
S&P 500 sector returns

QTD



Source: Morningstar, as of 9/30/17

ONE YEAR ENDING SEPTEMBER



Source: Morningstar, as of 9/30/17

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	2.1	4.5	14.2	18.6	10.8	14.2	7.4
S&P 500 Equal Weighted	2.9	3.6	11.9	16.2	10.1	15.0	8.9
DJ Industrial Average	2.2	5.6	15.5	25.5	12.3	13.6	7.7
Russell Top 200	1.9	4.9	15.1	19.8	11.1	14.3	7.3
Russell 1000	2.1	4.5	14.2	18.5	10.6	14.3	7.5
Russell 2000	6.2	5.7	10.9	20.7	12.2	13.8	7.8
Russell 3000	2.4	4.6	13.9	18.7	10.7	14.2	7.6
Russell Mid Cap	2.8	3.5	11.7	15.3	9.5	14.3	8.1
Style Index							
Russell 1000 Growth	1.3	5.9	20.7	21.9	12.7	15.3	9.1
Russell 1000 Value	3.0	3.1	7.9	15.1	8.5	13.2	5.9
Russell 2000 Growth	5.4	6.2	16.8	21.0	12.2	14.3	8.5
Russell 2000 Value	7.1	5.1	5.7	20.5	12.1	13.3	7.1

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	1.9	5.2	17.3	18.6	7.4	10.2	3.9
MSCI ACWI ex US	1.9	6.2	21.1	19.6	4.7	7.0	1.3
MSCI EAFE	2.5	5.4	20.0	19.1	5.0	8.4	1.3
MSCI EM	(0.4)	7.9	27.8	22.5	4.9	4.0	1.3
MSCI EAFE Small Cap	2.9	7.5	25.4	21.8	11.1	12.8	4.6
Style Index							
MSCI EAFE Growth	1.9	4.9	22.4	15.7	6.5	8.9	2.1
MSCI EAFE Value	3.1	5.9	17.6	22.5	3.5	7.8	0.5
Regional Index							
MSCI UK	3.3	5.2	15.7	14.6	0.8	4.9	0.7
MSCI Japan	2.0	4.0	14.3	14.1	7.7	10.6	1.7
MSCI Euro	3.9	8.0	25.9	28.4	5.6	9.9	(0.0)
MSCI EM Asia	(0.0)	7.0	31.8	23.8	8.0	7.4	2.7
MSCI EM Latin American	1.6	15.1	26.7	25.6	(0.3)	(1.9)	(0.8)

Source: Morningstar, as of 9/30/17

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US Treasury US TIPS	(0.6)	0.9	1.7	(0.7)	1.6	0.0	3.9
BBgBarc US Treasury Bills	0.1	0.3	0.6	0.6	0.3	0.2	0.5
BBgBarc US Agg Bond	(0.5)	0.8	3.1	0.1	2.7	2.1	4.3
Duration							
BBgBarc US Treasury 1-3 Yr	(0.2)	0.2	0.7	0.2	0.8	0.6	1.7
BBgBarc US Treasury Long	(2.2)	0.6	6.0	(6.4)	4.9	2.8	6.9
BBgBarc US Treasury	(0.9)	0.4	2.3	(1.7)	2.0	1.2	3.7
Issuer							
BBgBarc US MBS	(0.2)	1.0	2.3	0.3	2.4	2.0	4.1
BBgBarc US Corp. High Yield	0.9	2.0	7.0	8.9	5.8	6.4	7.8
BBgBarc US Agency Interm	(0.3)	0.3	1.4	0.3	1.5	1.1	2.8
BBgBarc US Credit	(0.2)	1.3	5.1	2.0	3.9	3.2	5.5

OTHER

Index							
Bloomberg Commodity	(0.1)	2.5	(2.9)	(0.3)	(10.4)	(10.5)	(6.8)
Wilshire US REIT	(0.1)	0.6	2.4	0.1	9.7	9.5	5.6
CS Leveraged Loans	0.4	1.1	3.0	5.4	4.0	4.4	4.4
Regional Index							
JPM EMBI Global Div	0.0	2.6	9.0	4.6	6.5	4.9	7.5
JPM GBI-EM Global Div	(0.3)	3.6	14.3	7.3	0.3	(0.9)	3.8
Hedge Funds							
HFRI Composite	0.5	2.1	5.7	6.9	3.3	4.7	3.1
HFRI FOF Composite	0.4	2.2	5.5	6.4	2.2	3.8	1.1
Currency (Spot)							
Euro	(0.6)	3.7	12.1	5.2	(2.2)	(1.7)	(1.8)
Pound	4.1	3.3	8.6	3.3	(6.1)	(3.6)	(4.1)
Yen	(2.2)	(0.2)	3.6	(10.0)	(0.9)	(7.1)	0.2

Definitions

IHS Markit/CIPS UK Construction PMI - The Purchasing Managers' Survey is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 170 construction companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on the regional and industry contribution to GDP. IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. (www.ihsmarkit.com)

IHS Markit/CIPS UK Manufacturing PMI - The IHS Markit/CIPS UK Manufacturing PMI® is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 600 industrial companies. The panel is stratified by Standard Industrial Classification (SIC) group and company workforce size, based on the industry and company size contributions to GDP. IHS Markit (Nasdaq: INFO) is a world leader in critical information, analytics and expertise to forge solutions for the major industries and markets that drive economies worldwide. (www.ihsmarkit.com)

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