



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

DECEMBER 2017
Capital Markets Update

Market commentary

ECONOMIC CLIMATE

- On December 13th, the Federal Reserve raised its benchmark interest rate by 25 bps to a target range of 1.25%-1.50%. The Fed also raised its 2018 real GDP growth forecast from 2.1% to 2.5%.
- President Trump signed the Tax Cuts & Jobs Act on December 22nd. Analysts are expecting earnings for large corporations to increase by roughly 2% in the U.S. as a result of the bill.
- U.S. Consumer Confidence fell from a 17-year high of 128.6 in November to 122.1 in December, according to the Conference Board. However, consumer expectations remain at historically strong levels.
- ISM Manufacturing PMI rose to 59.7 during the month, up from 58.2 in November, and above the consensus estimate of 58.1. New orders and raw materials prices were the main drivers of the gain.
- The NFIB Small Business Index fell from a record high of 107.5 in November to 104.9 in December. However, the index remains elevated compared to recent history. A net 37% of small businesses are expecting the economy to improve from current conditions.

DOMESTIC EQUITIES

- Domestic equities experienced positive returns during the month, as the S&P 500 index rose 1.1%.
- According to FactSet, as of January 5th, the estimated Q4 earnings growth rate of the S&P 500 is 10.5% YoY, with revenue growth of 6.7%. Energy and materials companies are expected to lead all other sectors with earnings increases of 132.7% and 28.1%, respectively.

DOMESTIC FIXED INCOME

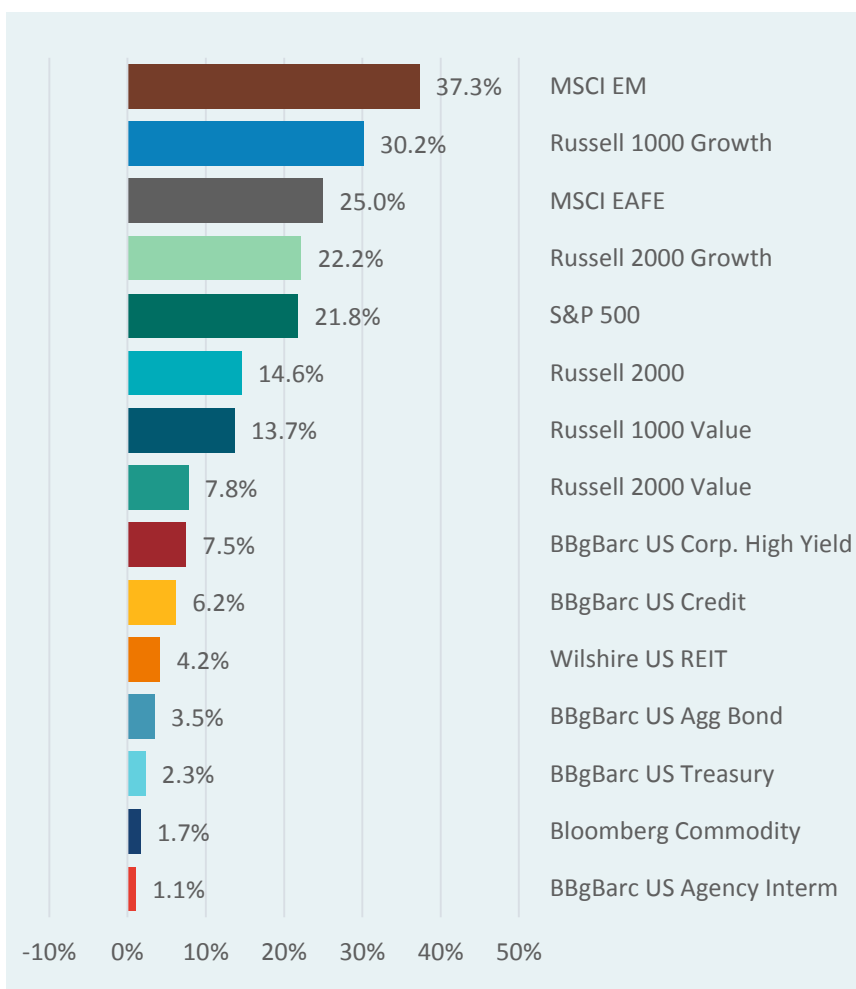
- Domestic fixed income returns were positive in December as the Bloomberg Barclays U.S. Aggregate Index returned 0.5%.
- U.S. investment grade spreads contracted during the period to 0.93%, down from 0.97% at the end of November.
- The U.S. Treasury yield curve continued to flatten over the month, as the 10-year minus 2-year spread contracted 13 bps to 0.51%, the lowest differential since October 2007.

INTERNATIONAL MARKETS

- International equities (MSCI ACWI ex U.S. +2.2%) outperformed domestic equities in December (S&P 500 +1.1%). The hedged MSCI ACWI ex U.S. Index returned +1.6% in the month.
- Headline inflation in the Eurozone fell to 1.4% YoY during the month, down from 1.5% in November. Non-energy industrial goods were the primary detractor, increasing just 0.5% YoY.
- The Eurozone labor market continued to tighten in November, as the Euro Area unemployment rate fell to 8.7%, down from 8.8% in October, and 9.8% from a year prior.
- The Bank of Japan announced it will trim purchases of longer maturity bonds by 20 billion yen going forward. Purchases of 10 to 25-year bonds, and 25 to 40-year bonds will be cut by 10 billion yen each, to 190 billion and 80 billion yen per month, respectively.
- The Canadian economy added 78,600 jobs in December, bringing the 2017 total to an increase of 422,500 jobs. The unemployment rate also fell to 5.7%, the lowest rate since 1976.

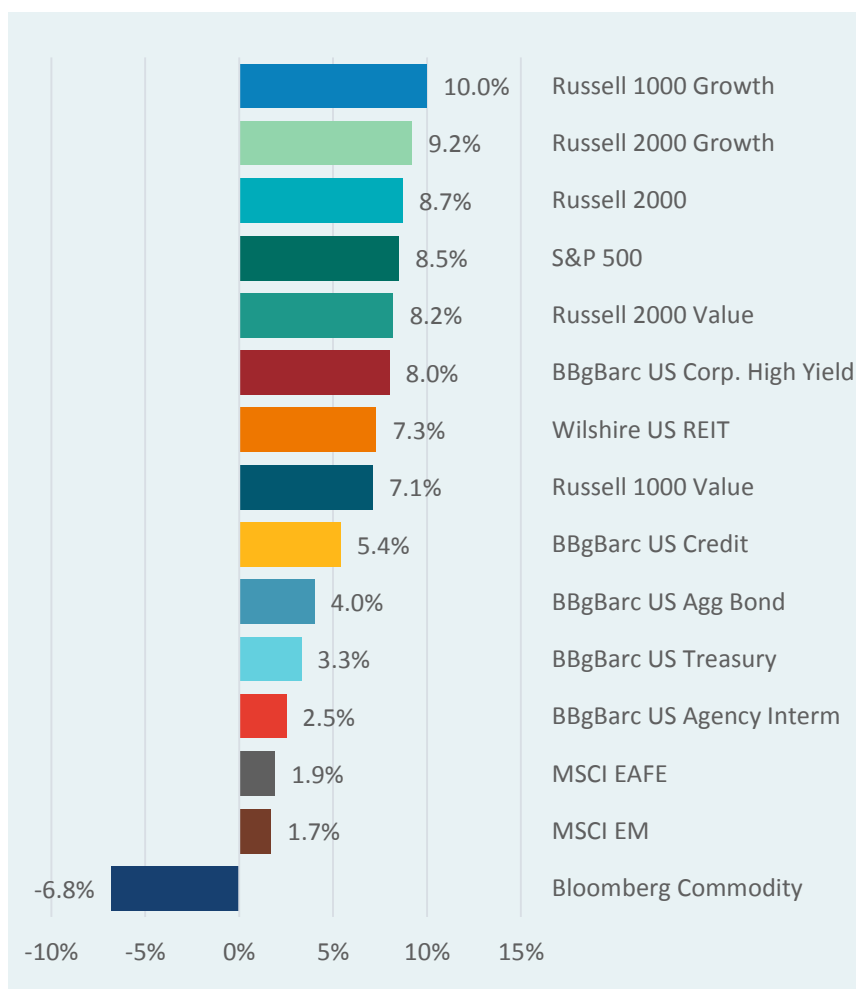
Major asset class returns

ONE YEAR ENDING DECEMBER



Source: Morningstar, as of 12/31/17

TEN YEARS ENDING DECEMBER



Source: Morningstar, as of 12/31/17

U.S. large cap equities

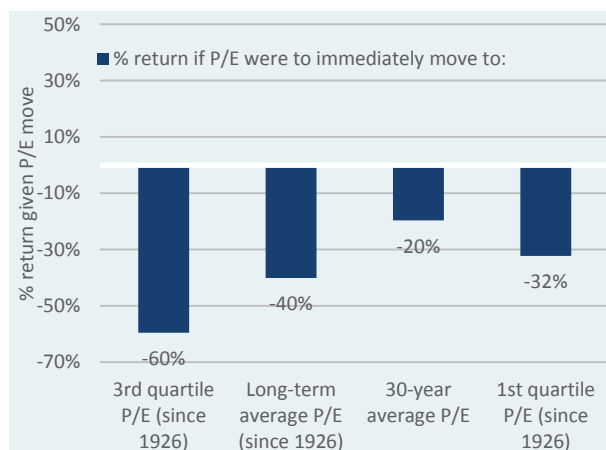
- Domestic large cap equities appreciated in December (S&P 500 +1.1%). Realized volatility remained suppressed at 5.6% (annualized), well below the 5-year average of 11.8%.
- Telecommunication and energy were the two leading S&P 500 sectors during the period, returning 5.8% and 4.9%, respectively. The worst performing sector was utilities, which fell by -6.1% in December.
- According to FactSet, as of January 5th, the estimated 2018 full year earnings growth rate of the S&P 500 is 13.1% YoY. This figure was revised upward from the December 1st estimate of 11.1% after the tax cuts were passed. The result of this revision is a much lower blended 12-month forward P/E ratio for the S&P 500 compared to the trailing 12-month P/E ratio.

U.S. LARGE CAP EQUITIES



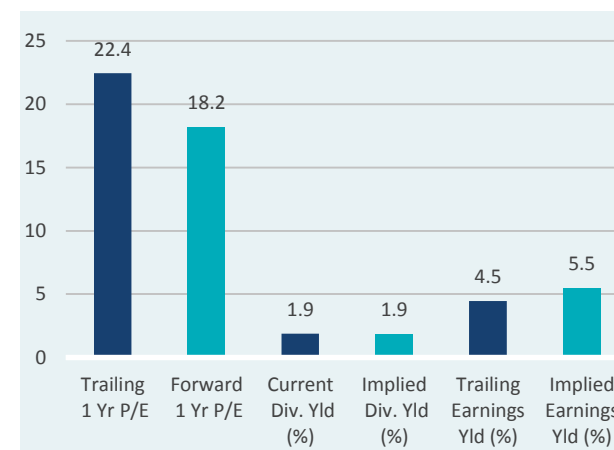
Source: Bloomberg, as of 12/31/17

RETURNS IF TRAILING P/E MOVED TO HISTORIC AVERAGE



Source: Yale/Shiller, Verus, as of 12/31/17

S&P 500 VALUATION SNAPSHOT

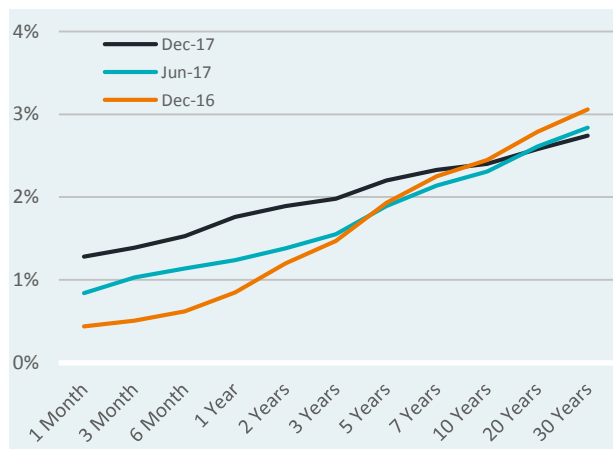


Source: Bloomberg, as of 12/31/17

Fixed income

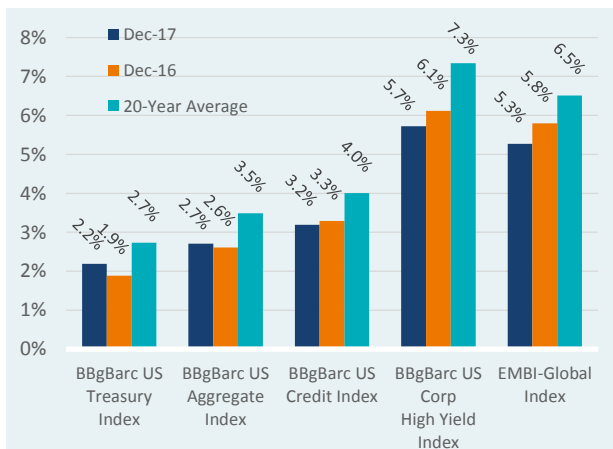
- The U.S. Treasury curve continued to flatten during the period as the 10 minus 2-year yield spread fell 13 bps to 0.51%. The BBgBarc U.S. Treasury Long Index outperformed the BBgBarc 1-3 Year U.S. Treasury Index by 1.7% in December, and 8.1% in 2017.
- As expected, the Fed raised interest rates in December to a target range of 1.25%-1.50%. The Fed has also communicated plans for three rate hikes in 2018, although the market is only pricing in two hikes based on fed funds futures pricing.
- Expectations for future inflation increased during the month based on TIPS breakeven rates. The 5 and 10-year implied inflation rates increased to 1.9% and 2.0%, up from 1.7% and 1.9%, respectively, in November.
- High yield spreads remained compressed near historically low levels in December. Default rates were also mostly unchanged, and remained low, during the month.

U.S. TREASURY YIELD CURVE



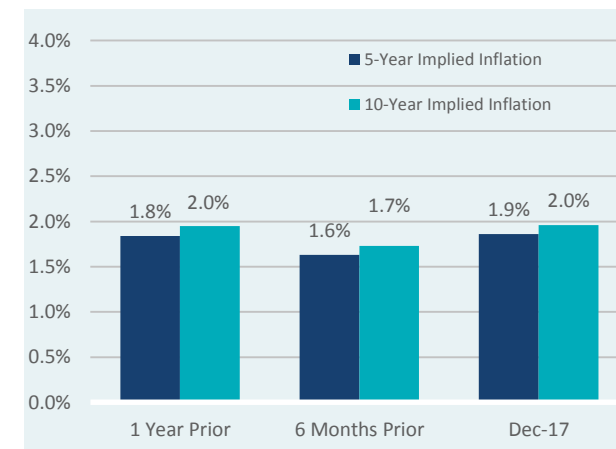
Source: Federal Reserve, as of 12/31/17

NOMINAL FIXED INCOME YIELDS



Source: Morningstar, as of 12/31/17

IMPLIED INFLATION (TIPS BREAK-EVEN)

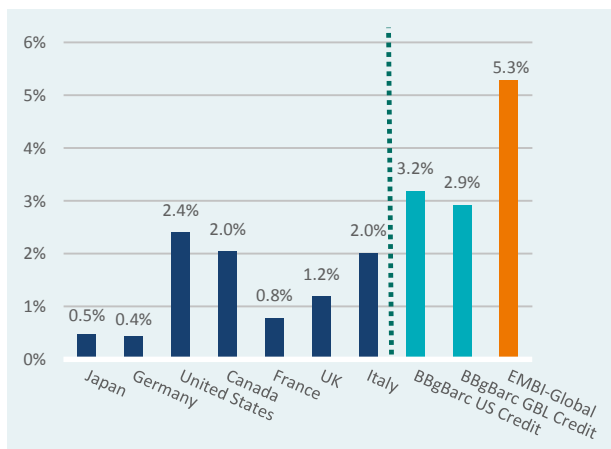


Source: Federal Reserve, as of 12/31/17

Global markets

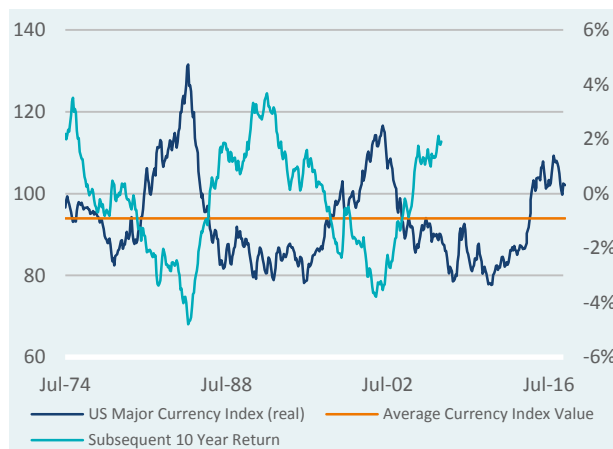
- Emerging market currencies rallied during the month of December as the J.P. Morgan Emerging Markets Currency Index returned 1.7%. The U.S. Dollar Index Spot price (DXY) fell -1.0% during the same period.
- Positive Q4 earnings revisions outnumber negative revisions by the most on record, dating back to 2000, according to Citi's Global Earnings Revision Index.
- Sovereign yields rose across most of the developed world in December. Italian and Canadian bonds led the way, with 10-year yields climbing 27 bps and 16 bps, respectively.
- U.K. equities (MSCI U.K. +5.0%) outperformed broad international equities during the month (MSCI ACWI Ex U.S. +2.2%) on an unhedged basis. The pound (-0.1%) was a slight detractor from performance.

GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS



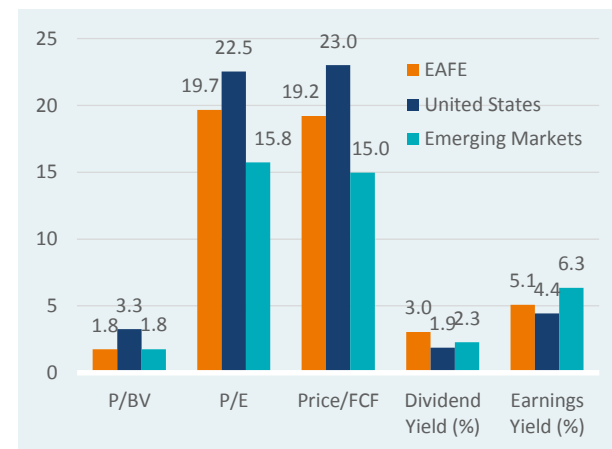
Source: Morningstar, as of 12/31/17

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 12/31/17

MSCI VALUATION METRICS (3 MONTH AVERAGE)

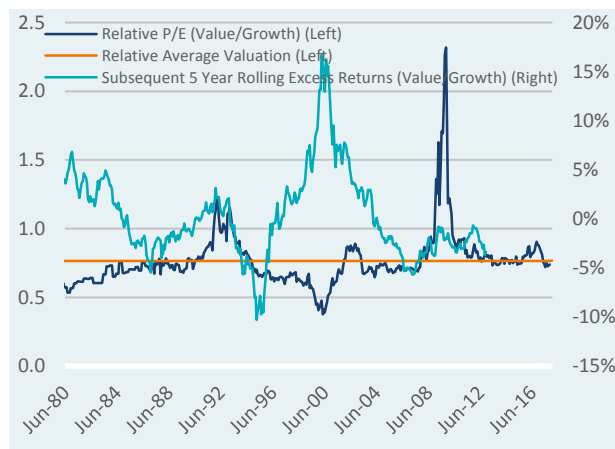


Source: Bloomberg, as of 12/31/17

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

- Value equities outperformed growth equities in December, as the Russell 1000 Value and Russell 1000 Growth returned 1.5% and 0.8%, respectively.
- The Russell 1000 Value index was positively affected by the energy sector in December. The sub-index returned 5.1% during the month, while the Russell 1000 Growth Index was hindered by the technology sector (-0.1%).
- The relative trailing P/E ratio of value to growth equities increased slightly to 0.74, which remains just below the long-term average ratio of 0.77, meaning that value is slightly cheap relative to history.

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



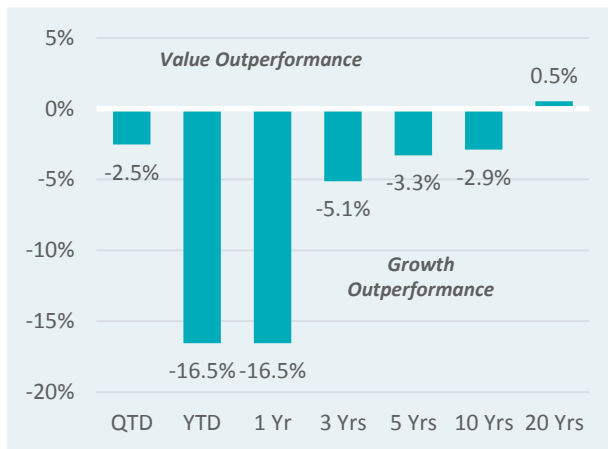
Source: Russell, Bloomberg, as of 12/31/17

U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

	RUSSELL 1000 VALUE	RUSSELL 1000 GROWTH
	ANNUALIZED RETURN TO DATE %	ANNUALIZED RETURN TO DATE %
QTD	5.3	7.9
YTD	13.7	30.2
1 YEAR	13.7	30.2
3 YEARS	8.7	13.8
5 YEARS	14.0	17.3
10 YEARS	7.1	10.0
20 YEARS	7.4	6.9
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.81	1.23
5 YEARS	1.35	1.63
10 YEARS	0.49	0.68
20 YEARS	0.42	0.36

Source: Morningstar, as of 12/31/17

U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE

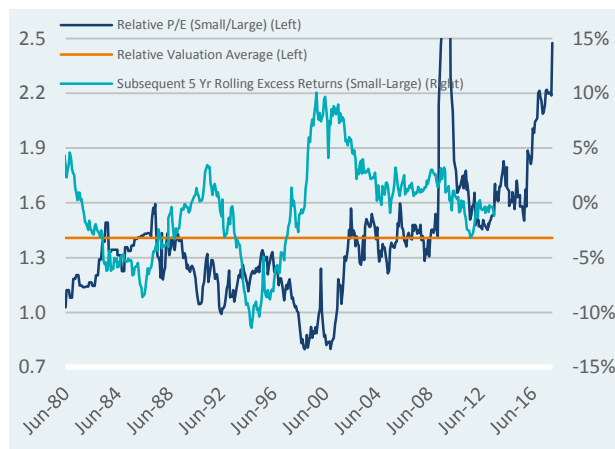


Source: Morningstar, as of 12/31/17

Style tilts: U.S. large vs. small

- Large cap equities outperformed small cap equities during December (Russell 1000 +1.1% and Russell 2000 -0.4%).
- Over all the time periods examined below, large cap equities have provided superior risk-adjusted returns (Sharpe Ratio) relative to small cap equities.
- The largest deviation in performance between large cap and small cap equities was experienced by the utilities and financial services sectors, where large cap companies outperformed small cap companies by 3.9% and 3.7%, respectively. Healthcare and energy were the only sectors where small cap companies outperformed (+1.5% and 1.2%, respectively).

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



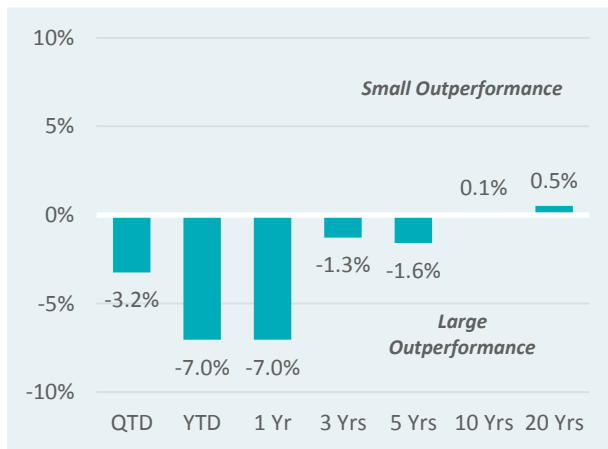
Source: Russell, Bloomberg, as of 12/31/17

U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

	RUSSELL 1000 INDEX	RUSSELL 2000 INDEX
	ANNUALIZED RETURN TO DATE %	ANNUALIZED RETURN TO DATE %
QTD	6.6	3.3
YTD	21.7	14.6
1 YEAR	21.7	14.6
3 YEARS	11.2	10.0
5 YEARS	15.7	14.1
10 YEARS	8.6	8.7
20 YEARS	7.4	7.9
	SHARPE RATIO	SHARPE RATIO
3 YEARS	1.06	0.71
5 YEARS	1.55	1.00
10 YEARS	0.59	0.50
20 YEARS	0.42	0.38

Source: Morningstar, as of 12/31/17

U.S. LARGE VS. SMALL RELATIVE PERFORMANCE



Source: Morningstar, as of 12/31/17

Commodities

- The broad Bloomberg Commodity Index rose 3.0% in December. The main drivers of performance were industrial metals and petroleum, whose sub-indices returned 9.2% and 6.2%, respectively.
- The Bloomberg Petroleum sub-index was positively affected by WTI crude oil prices, which ended the month at \$60.42 per barrel, the highest price since December 2014.

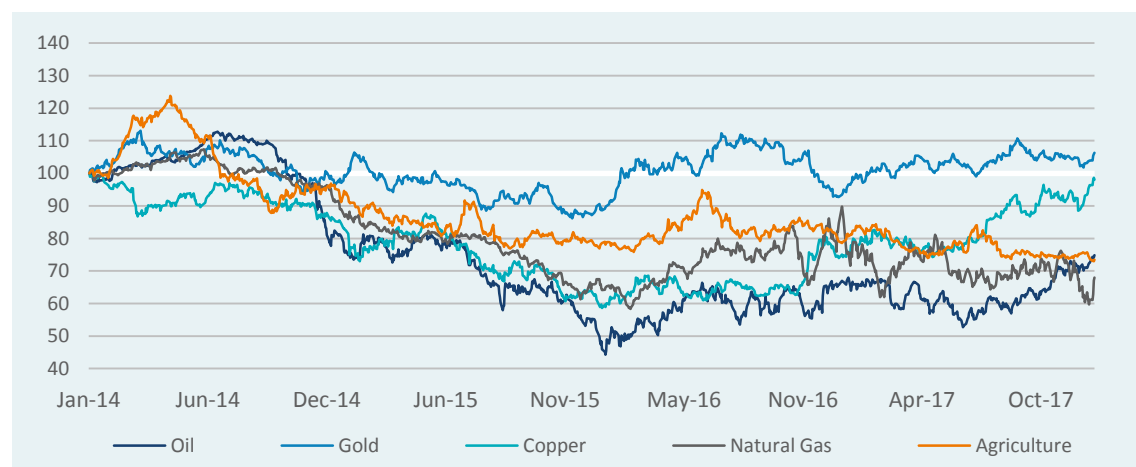
- Aluminum and copper outperformed the Bloomberg Industrial Metals Sub-Index, returning 10.7% and 7.7%, respectively during December. Prices were likely influenced by rising global growth expectations, strong manufacturing data, and a weaker U.S. dollar.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	3.0	4.7	1.7	1.7	(5.0)	(8.5)	(6.8)
Bloomberg Agriculture	(1.5)	(2.0)	(11.0)	(11.0)	(8.5)	(9.8)	(4.9)
Bloomberg Energy	3.9	8.9	(4.3)	(4.3)	(12.1)	(15.4)	(17.4)
Bloomberg Grains	(2.0)	(4.8)	(11.3)	(11.3)	(12.4)	(12.7)	(7.0)
Bloomberg Industrial Metals	9.2	10.7	29.4	29.4	4.3	(1.8)	(2.8)
Bloomberg Livestock	(0.7)	3.3	6.4	6.4	(6.6)	(2.6)	(5.8)
Bloomberg Petroleum	6.2	16.4	9.6	9.6	(8.0)	(14.3)	(12.1)
Bloomberg Precious Metals	3.0	2.0	10.9	10.9	2.5	(7.0)	3.2
Bloomberg Softs	1.6	5.2	(14.8)	(14.8)	(4.6)	(8.3)	(3.3)

Source: Morningstar, as of 12/31/17

COMMODITY PERFORMANCE



Source: Bloomberg, as of 12/31/17

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	2017	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	37.3	17.3	10.0
	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	30.2	15.2	9.2
	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	25.0	15.7	8.7
	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	22.2	14.1	8.6
	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	21.7	14.0	8.2
	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	17.1	13.0	7.1
	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	14.6	10.3	6.2
	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	13.7	7.9	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	7.8	6.8	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	7.7	4.3	1.9
	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	5.1	4.0	1.7
	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	3.5	2.1	1.1
	Commodities	-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	1.7	0.3	0.3
WORST	Cash	-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	0.9	-8.5	-6.8

Large Cap Equity

Large Cap Value

Large Cap Growth

Small Cap Equity

Small Cap Value

Small Cap Growth

International Equity

Emerging Markets Equity

US Bonds

Cash

Commodities

Real Estate

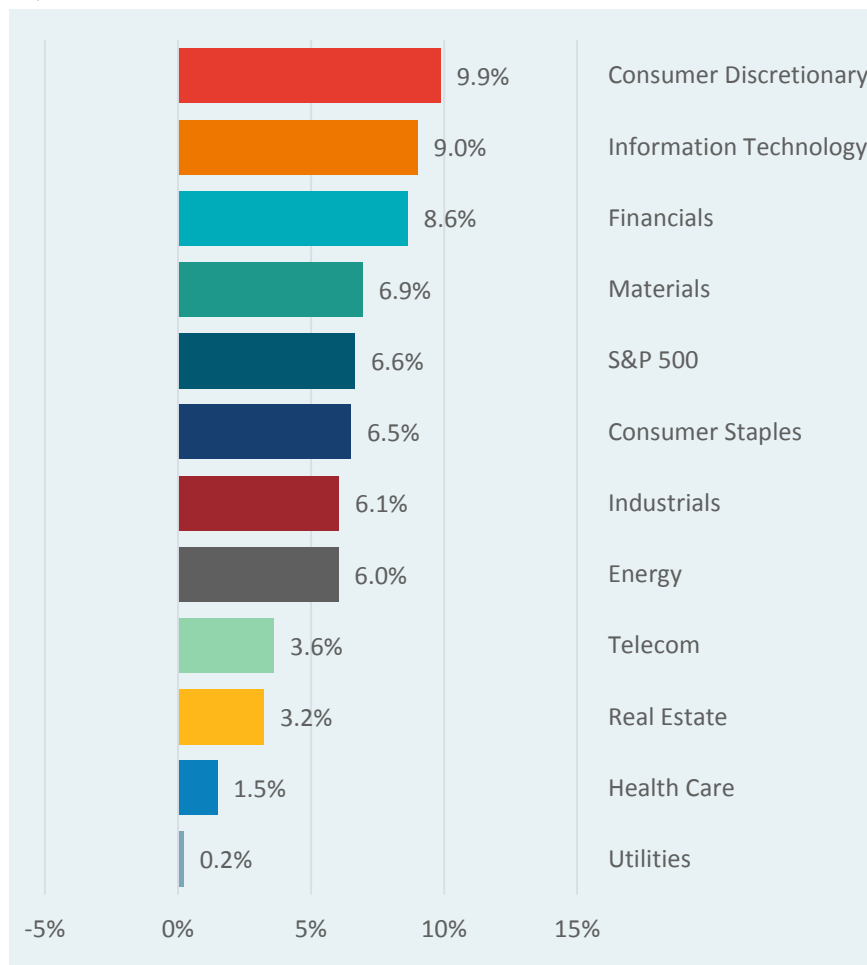
Hedge Funds of Funds

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 9/30/17.

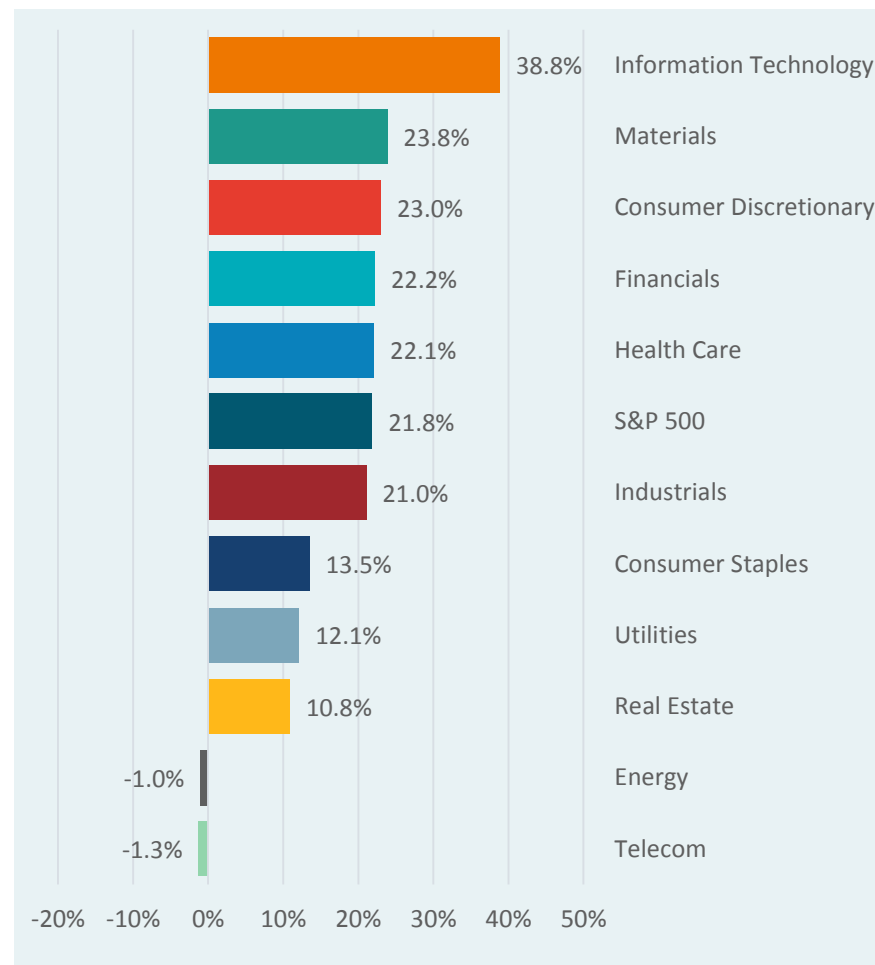
S&P 500 sector returns

QTD



Source: Morningstar, as of 12/31/17

ONE YEAR ENDING DECEMBER



Source: Morningstar, as of 12/31/17

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	1.1	6.6	21.8	21.8	11.4	15.8	8.5
S&P 500 Equal Weighted	1.2	6.2	18.9	18.9	10.1	15.8	10.2
DJ Industrial Average	1.9	11.0	28.1	28.1	14.4	16.4	9.3
Russell Top 200	1.2	6.8	23.0	23.0	11.9	16.0	8.4
Russell 1000	1.1	6.6	21.7	21.7	11.2	15.7	8.6
Russell 2000	(0.4)	3.3	14.6	14.6	10.0	14.1	8.7
Russell 3000	1.0	6.3	21.1	21.1	11.1	15.6	8.6
Russell Mid Cap	0.9	6.1	18.5	18.5	9.6	15.0	9.1
Style Index							
Russell 1000 Growth	0.8	7.9	30.2	30.2	13.8	17.3	10.0
Russell 1000 Value	1.5	5.3	13.7	13.7	8.7	14.0	7.1
Russell 2000 Growth	0.1	4.6	22.2	22.2	10.3	15.2	9.2
Russell 2000 Value	(1.0)	2.0	7.8	7.8	9.5	13.0	8.2

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	1.6	5.7	24.0	24.0	9.3	10.8	4.7
MSCI ACWI ex US	2.2	5.0	27.2	27.2	7.8	6.8	1.8
MSCI EAFE	1.6	4.2	25.0	25.0	7.8	7.9	1.9
MSCI EM	3.6	7.4	37.3	37.3	9.1	4.3	1.7
MSCI EAFE Small Cap	2.7	6.1	33.0	33.0	14.2	12.9	5.8
Style Index							
MSCI EAFE Growth	1.7	5.2	28.9	28.9	9.2	8.8	2.7
MSCI EAFE Value	1.5	3.2	21.4	21.4	6.4	6.9	1.1
Regional Index							
MSCI UK	5.0	5.7	22.3	22.3	4.1	5.2	1.5
MSCI Japan	0.7	8.5	24.0	24.0	11.6	11.2	3.2
MSCI Euro	(0.5)	0.4	26.5	26.5	7.6	7.9	(0.3)
MSCI EM Asia	2.8	8.4	42.8	42.8	11.0	7.9	3.6
MSCI EM Latin American	4.4	(2.3)	23.7	23.7	3.8	(3.2)	(1.7)

Source: Morningstar, as of 12/31/17

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US Treasury US TIPS	0.9	1.3	3.0	3.0	2.1	0.1	3.5
BBgBarc US Treasury Bills	0.1	0.2	0.8	0.8	0.4	0.3	0.5
BBgBarc US Agg Bond	0.5	0.4	3.5	3.5	2.2	2.1	4.0
Duration							
BBgBarc US Treasury 1-3 Yr	0.0	(0.3)	0.4	0.4	0.6	0.6	1.5
BBgBarc US Treasury Long	1.7	2.4	8.5	8.5	2.8	3.5	6.6
BBgBarc US Treasury	0.3	0.1	2.3	2.3	1.4	1.3	3.3
Issuer							
BBgBarc US MBS	0.3	0.2	2.5	2.5	1.9	2.0	3.8
BBgBarc US Corp. High Yield	0.3	0.5	7.5	7.5	6.4	5.8	8.0
BBgBarc US Agency Interm	0.0	(0.3)	1.1	1.1	1.1	1.0	2.5
BBgBarc US Credit	0.8	1.0	6.2	6.2	3.6	3.2	5.4

OTHER

Index							
Bloomberg Commodity	3.0	4.7	1.7	1.7	(5.0)	(8.5)	(6.8)
Wilshire US REIT	(0.1)	1.7	4.2	4.2	5.2	9.3	7.3
CS Leveraged Loans	0.4	1.2	4.2	4.2	4.5	4.3	4.6
Regional Index							
JPM EMBI Global Div	0.7	1.2	10.3	10.3	7.1	4.6	7.3
JPM GBI-EM Global Div	2.0	0.8	15.2	15.2	2.5	(1.5)	3.6
Hedge Funds							
HFRI Composite	0.9	2.5	8.5	8.5	4.2	4.9	3.2
HFRI FOF Composite	0.9	2.0	7.7	7.7	2.6	4.0	1.1
Currency (Spot)							
Euro	0.7	1.6	13.8	13.8	(0.3)	(1.9)	(1.9)
Pound	(0.1)	0.8	9.5	9.5	(4.6)	(3.6)	(3.8)
Yen	(0.7)	(0.1)	3.5	3.5	2.1	(5.2)	(0.1)

Definitions

Conference Board Consumer Confidence - The Consumer Confidence Survey® reflects prevailing business conditions and likely developments for the months ahead. This monthly report details consumer attitudes and buying intentions, with data available by age, income, and region.

<https://www.conference-board.org/data/consumerconfidence.cfm>

NFIB Small Business Index - NFIB Research Center has collected Small Business Economic Trends Data with Quarterly surveys since 1973 and monthly surveys since 1986. The sample is drawn from the membership files of the National Federation of Independent Business (NFIB).

<https://www.nfib.com/assets/SBET-Dec-2017.pdf>

ISM Manufacturing Index – based on data compiled from purchasing and supply executives nationwide. Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (New Orders, Backlog of Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Customers' Inventories, Employment and Prices), this report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction and the negative economic direction, and the diffusion index. (www.instituteforsupplymanagement.org)

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