



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

JANUARY 2018
Capital Markets Update

Market commentary

ECONOMIC CLIMATE

- U.S. real GDP grew at an annualized rate of 2.6% (2.5% YoY) during the fourth quarter. Economic growth was supported by consumer spending and a further acceleration in fixed business investment.
- The U.S. job market continued to show strength, as 200,000 jobs were added during January and the unemployment rate was unchanged at 4.1%.
- Average hourly earnings rose 2.9% from the previous month, the highest pace of wage growth in the current expansion. The pickup in wages was mainly attributable to a drop in total hours worked.
- The ISM Manufacturing PMI fell slightly from 59.7 to 59.1 during the month, above the consensus estimate of 58.7.
- Headline CPI decreased from 2.2% YoY in December to 2.1% in January. Core CPI increased during the same period to 1.8% YoY, up from 1.7% during the previous month.

DOMESTIC EQUITIES

- Domestic equities experienced positive returns during the month – the S&P 500 rose 5.7%.
- As of February 9th, with 68% of companies reporting, the blended Q4 earnings and revenue growth rates of the S&P 500 were 14.0% and 8.0% YoY, respectively. Energy (+103.7%) and materials (+41.2%) are leading all other sectors in terms of earnings growth.

DOMESTIC FIXED INCOME

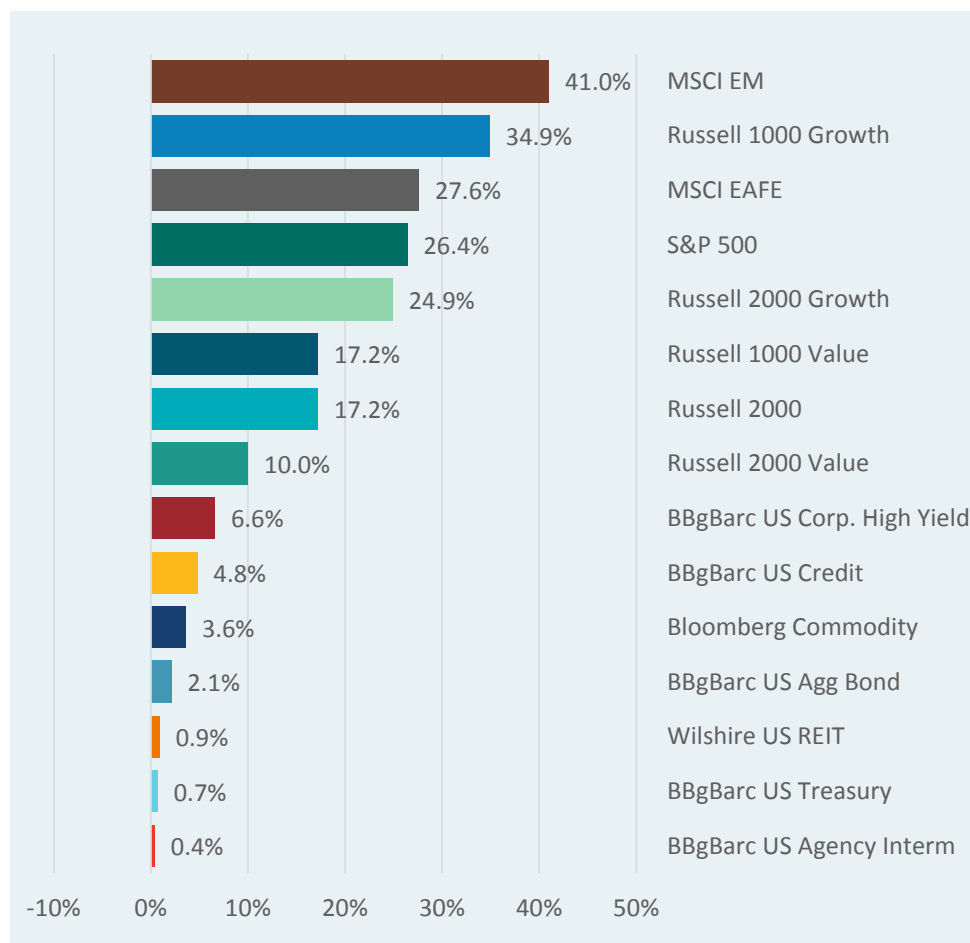
- Domestic fixed income returns were negative in January as the Bloomberg Barclays U.S. Aggregate Index fell -1.2%.
- U.S. high yield spreads fell to 3.3% during the period, down from 3.6% at the end of December, and well below the 20-year average of 5.9%.
- The U.S. Treasury curve steepened slightly over the month, led by higher long-term yields – the 10-year minus 2-year yield spread expanded 7 bps to 0.58%.

INTERNATIONAL MARKETS

- International equities provided strong returns in January as the MSCI ACWI ex U.S. Index appreciated by 5.6%. The hedged index returned +2.5% in the month, impacted by U.S. dollar weakness.
- Manufacturing PMI in the Eurozone fell slightly from 60.6 to 59.6, below expectations of 60.4. However, the index remains elevated relative to recent history.
- Eurozone real GDP advanced at a 2.4% quarterly annualized rate (2.7% YoY) during the fourth quarter, in line with expectations.
- The European Central Bank left monetary policy unchanged, and will continue to purchase €30 billion in assets per month until September. The market is not pricing in any interest rate hikes this year, but three hikes are price in 2019.

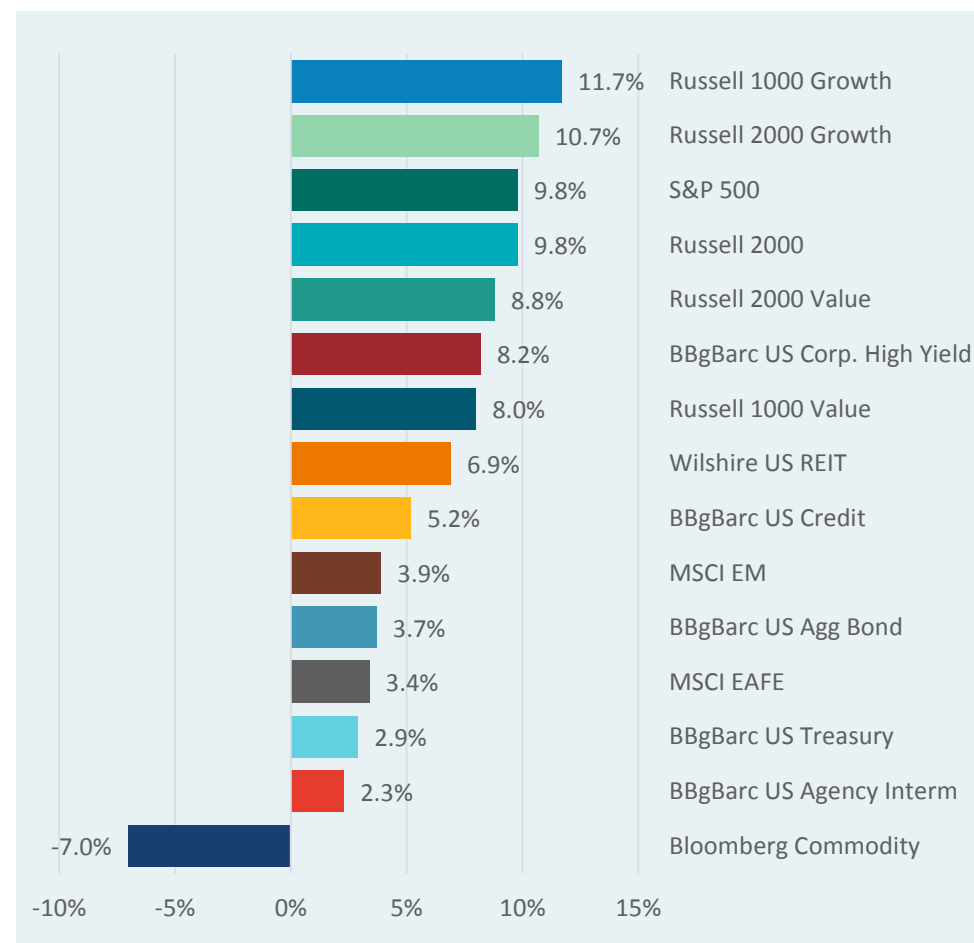
Major asset class returns

ONE YEAR ENDING JANUARY



Source: Morningstar, as of 1/31/18

TEN YEARS ENDING JANUARY



Source: Morningstar, as of 1/31/18

U.S. large cap equities

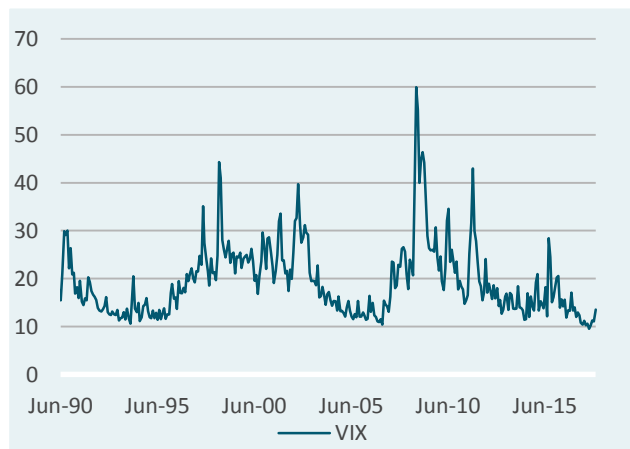
- Domestic large cap equities appreciated in January (S&P 500 +5.7%). 30-day realized volatility increased during the month to 8.1% (annualized), above recently experienced levels, but still below the 5-year annualized average of 11.8%.
- According to FactSet, as of February 9th, the estimated earnings growth rate of the S&P 500 is 18.5% YoY for the 2018 calendar year. This figure was revised upward from the January 5th estimate of 13.1%, which resulted in a lower forward P/E ratio, despite strong equity performance during the month.
- Consumer discretionary and technology shares led gains in the S&P 500 during the month, returning 9.3% and 7.6%, respectively. Utilities were the worst performing sector, falling 3.1% in January.

S&P 500 PRICE INDEX



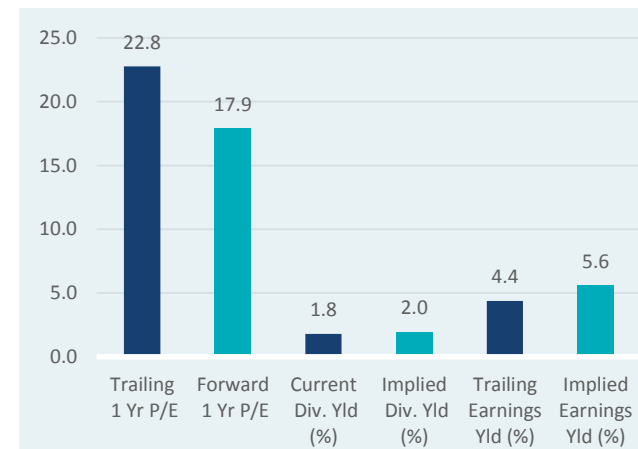
Source: Bloomberg, as of 1/31/18

IMPLIED VOLATILITY



Source: CBOE, as of 1/31/18

S&P 500 VALUATION SNAPSHOT

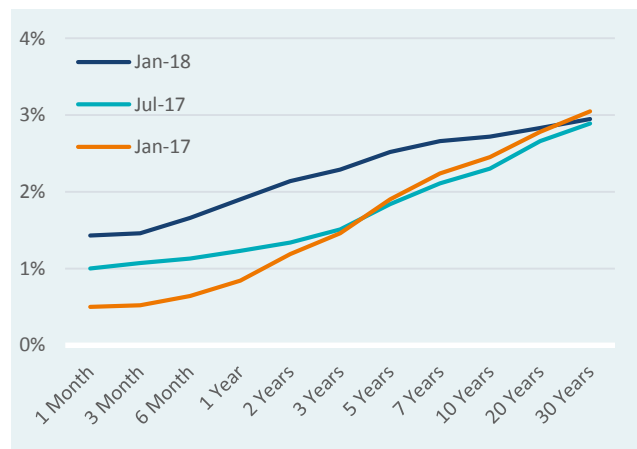


Source: Bloomberg, as of 1/31/18

Fixed income

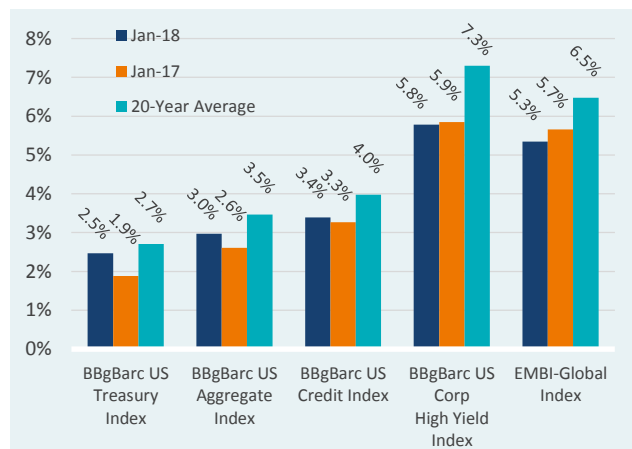
- The U.S. Treasury curve steepened slightly during the period as the 10 minus 2-year yield spread rose 7 bps to 0.58%. The BBgBarc U.S. Treasury Long Index underperformed the BBgBarc 1-3 Year U.S. Treasury Index by 2.9% in January.
- As expected, the Fed increased the rate at which it allowed securities to roll off of its balance sheet at maturity in January. The new expected rate is \$12 billion in treasuries, and \$8 billion in mortgage backed securities per month, for the rest of Q1.
- Market inflation expectations increased during the month based on TIPS breakeven rates. The 5 and 10- year implied inflation rates increased to 2.0% and 2.1%, up from 1.9% and 2.0%, respectively, in December.
- According to fed funds futures pricing, the market is expecting three interest rate hikes in 2018, in line with what the fed has communicated during their last two meetings.

U.S. TREASURY YIELD CURVE



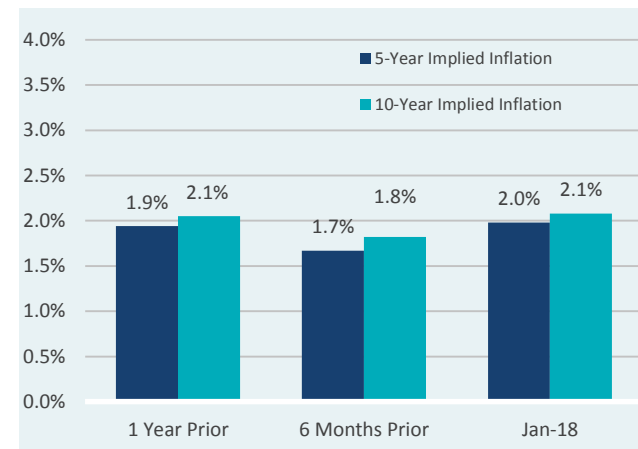
Source: Bloomberg, as of 1/31/18

NOMINAL FIXED INCOME YIELDS



Source: Morningstar, as of 1/31/18

IMPLIED INFLATION (TIPS BREAK-EVEN)

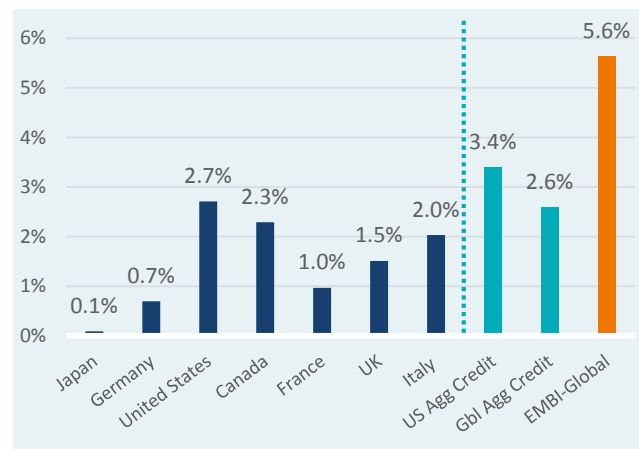


Source: Federal Reserve, as of 1/31/18

Global markets

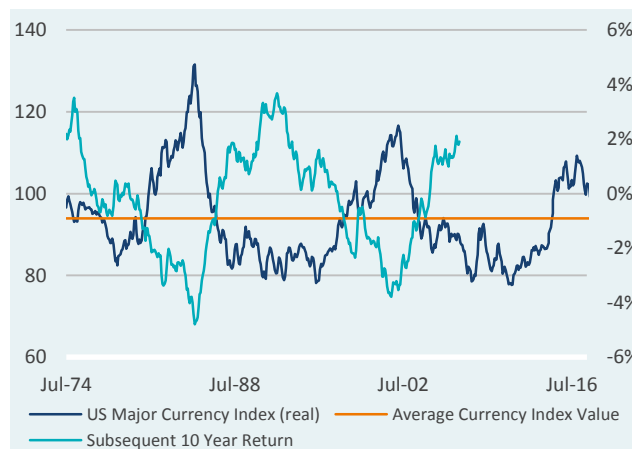
- Emerging market equities continued to rally during the month (MSCI EM Index +8.3%), outperforming international equities by 3.3% (MSCI EAFE Index +5.0%) on an unhedged basis.
- European equities experienced the strongest gains of international developed markets, as the MSCI Euro Index returned 7.2% on an unhedged basis (1.3% hedged). Currency appreciation provided a boost to unhedged returns (Euro +3.7%) during the month.
- Global sovereign yields rose across most of the developed world in January, with the U.K. 10-year yield experiencing the largest gain, rising by 32 bps during the period. The BOE was also more hawkish after its latest meeting, communicating the possibility of more rate hikes over the next year if inflation pressures continue.

GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS



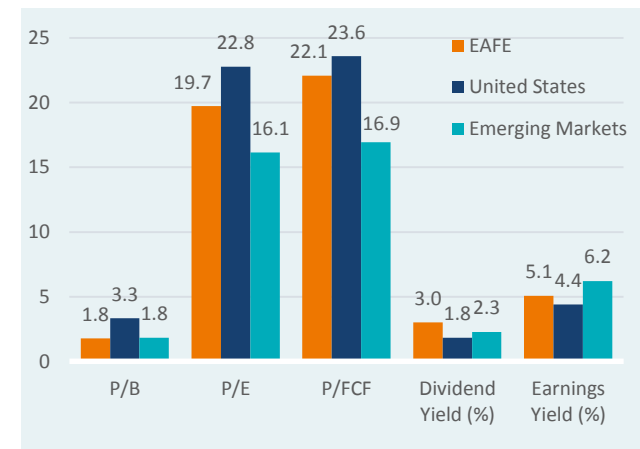
Source: Bloomberg, as of 1/31/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 1/31/18

MSCI VALUATION METRICS (3 MONTH AVERAGE)

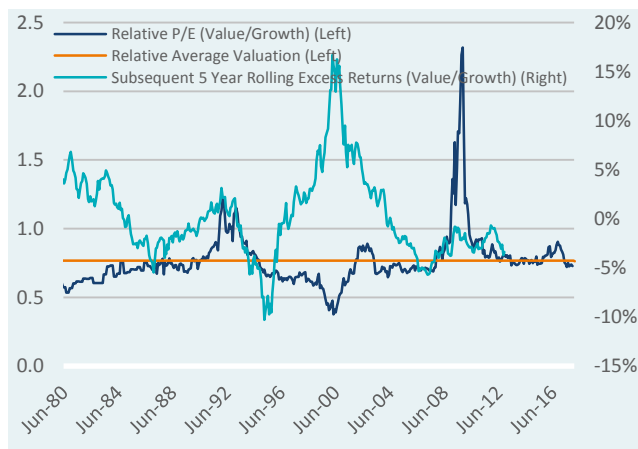


Source: Bloomberg, as of 1/31/18

Domestic equity size and style

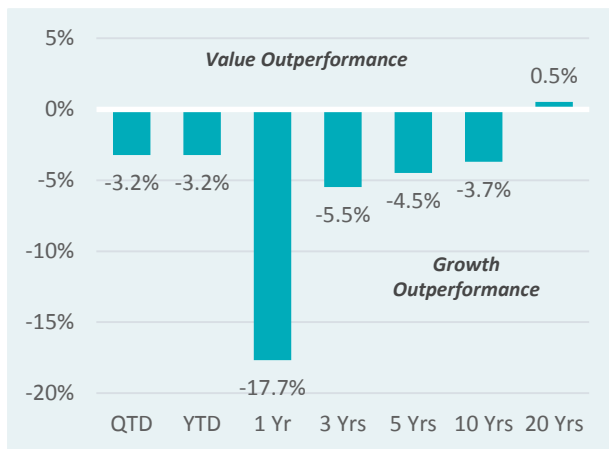
- Large cap equities continued their recent outperformance of small cap equities (Russell 1000 +5.5% and Russell 2000 +2.6%) in January. Consumer discretionary and telecommunications stocks contributed the most to the large cap outperformance, returning 6.5% and 5.3% more than their small cap peers, respectively.
- Growth oriented equities (Russell 1000 Growth +7.1%) outperformed value oriented equities (Russell 1000 Value +3.9%) during the month. The Russell 1000 Growth Index was positively affected by larger allocations to consumer discretionary and technology sectors, which returned 8.6% and 7.3%, respectively.

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



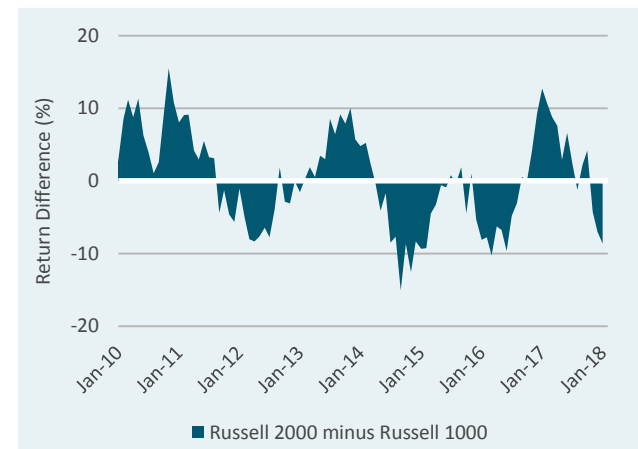
Source: Russell, Bloomberg, as of 1/31/18

U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE



Source: Morningstar, as of 1/31/18

U.S. SMALL VS. LARGE RELATIVE PERFORMANCE



Source: FTSE, as of 1/31/18

Commodities

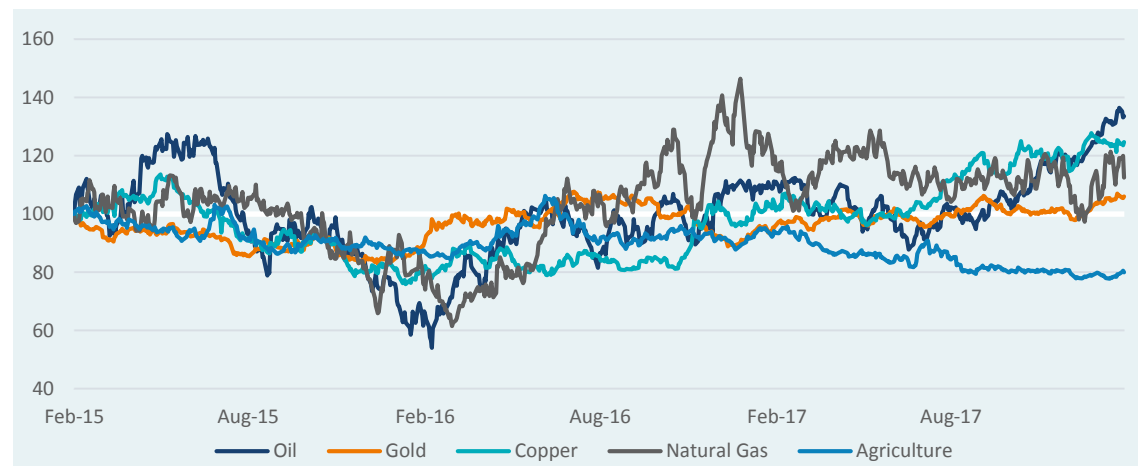
- The broad Bloomberg Commodity Index rose 2.0% in January. Petroleum and energy were the leading sub-sectors, returning 4.6% and 4.5%, respectively.
- The Bloomberg Softs sub-index was the largest detractor from the commodity basket during the period. Sugar was the worst performing asset in the softs sub-index, returning -12.7% in January, and -37.3% over the last year.
- The Bloomberg Petroleum sub-index was positively affected by WTI crude oil prices, which rose 7.1% during the month, closing at a price of \$64.73 per barrel. Oil prices have risen 51.5% since their recent low in June 2017, while crude oil rotary rigs in operation increased to 750 in January, the highest level since September 2017.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	2.0	2.0	2.0	3.6	(3.3)	(8.5)	(7.0)
Bloomberg Agriculture	1.4	1.4	1.4	(12.7)	(6.2)	(10.1)	(5.4)
Bloomberg Energy	4.5	4.5	4.5	8.2	(8.7)	(15.2)	(17.0)
Bloomberg Grains	4.3	4.3	4.3	(9.6)	(8.4)	(12.6)	(7.2)
Bloomberg Industrial Metals	0.2	0.2	0.2	20.6	6.3	(2.2)	(3.6)
Bloomberg Livestock	(1.3)	(1.3)	(1.3)	6.4	(4.2)	(2.6)	(5.7)
Bloomberg Petroleum	4.6	4.6	4.6	20.2	(4.0)	(14.4)	(11.3)
Bloomberg Precious Metals	1.9	1.9	1.9	6.4	0.4	(6.7)	2.3
Bloomberg Softs	(7.0)	(7.0)	(7.0)	(25.6)	(7.1)	(9.8)	(4.5)

Source: Morningstar, as of 1/31/18

COMMODITY PERFORMANCE



Source: Bloomberg, as of 1/31/18

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	YTD	5-Year	10-Year
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	8.3	17.9	11.7
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	7.1	15.7	10.7
Large Cap 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	5.5	14.6	9.9
International Equity	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	5.0	13.5	9.8
Small Cap Growth	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	3.9	13.3	8.8
Large Cap Value	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	3.9	12.0	8.0
60/40 Global Portfolio	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	3.9	10.2	6.1
Small Cap Equity	-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	2.6	7.8	5.1
Hedge Funds of Funds	-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	2.4	7.1	3.9
Commodities	-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	2.0	5.7	3.7
Small Cap Value	-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	7.0	1.2	4.0	3.4
Cash	-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	0.1	2.0	1.6
Real Estate	-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	0.0	0.3	0.3
US Bonds	-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	-1.2	-8.5	-7.0

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

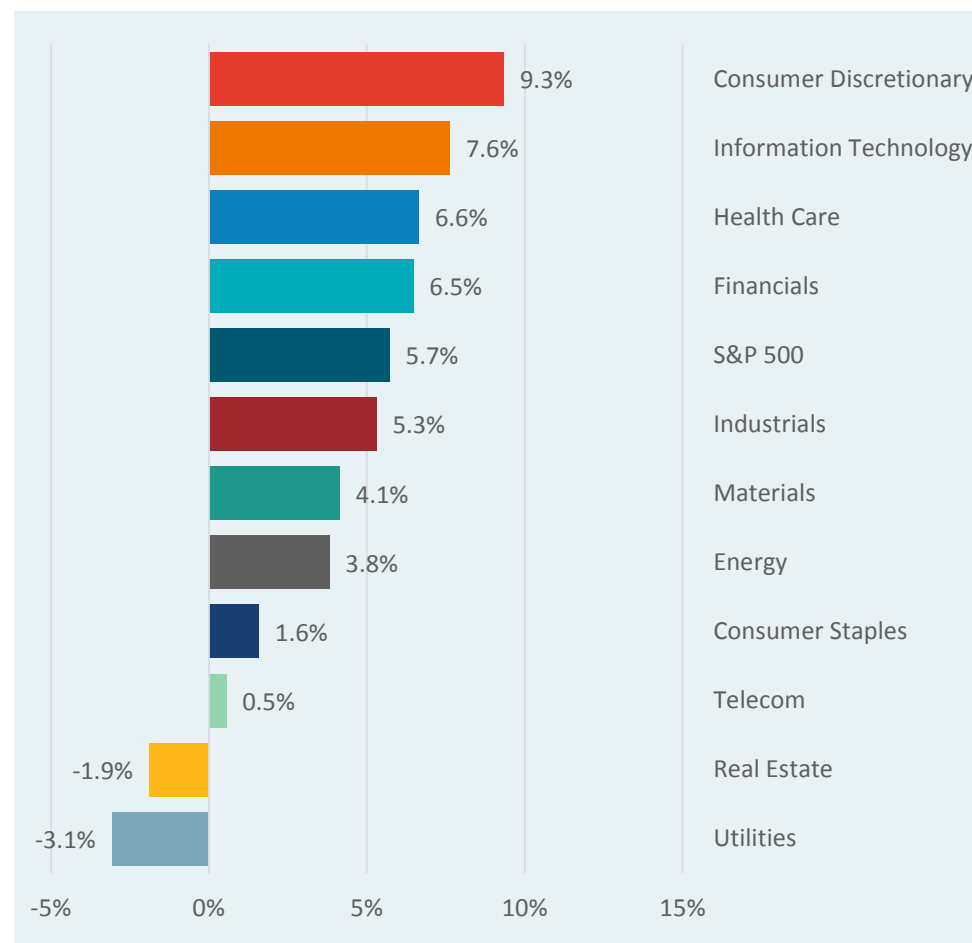
Hedge Funds of Funds

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 12/31/17.

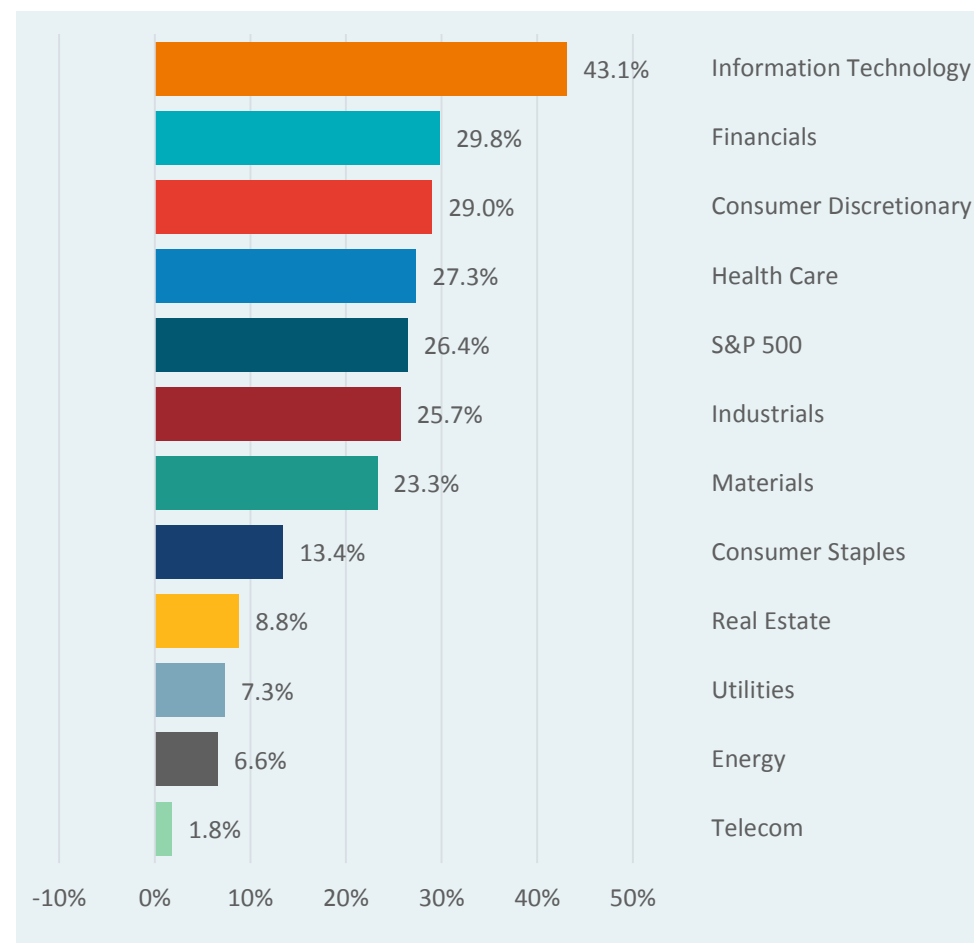
S&P 500 sector returns

QTD



Source: Morningstar, as of 1/31/18

ONE YEAR ENDING JANUARY



Source: Morningstar, as of 1/31/18

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	5.7	5.7	5.7	26.4	14.7	15.9	9.8
S&P 500 Equal Weighted	4.5	4.5	4.5	21.7	12.8	15.3	11.1
DJ Industrial Average	5.9	5.9	5.9	34.8	18.0	16.4	10.4
Russell Top 200	6.2	6.2	6.2	28.2	15.4	16.3	9.7
Russell 1000	5.5	5.5	5.5	25.8	14.3	15.7	9.9
Russell 2000	2.6	2.6	2.6	17.2	12.1	13.3	9.8
Russell 3000	5.3	5.3	5.3	25.2	14.1	15.5	9.8
Russell Mid Cap	3.8	3.8	3.8	20.1	11.5	14.3	10.3
Style Index							
Russell 1000 Growth	7.1	7.1	7.1	34.9	17.0	17.9	11.7
Russell 1000 Value	3.9	3.9	3.9	17.2	11.5	13.5	8.0
Russell 2000 Growth	3.9	3.9	3.9	24.9	12.6	14.6	10.7
Russell 2000 Value	1.2	1.2	1.2	10.0	11.6	12.0	8.8

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	5.6	5.6	5.6	27.5	11.9	11.0	6.1
MSCI ACWI ex US	5.6	5.6	5.6	29.7	9.9	7.1	3.4
MSCI EAFE	5.0	5.0	5.0	27.6	9.4	7.8	3.4
MSCI EM	8.3	8.3	8.3	41.0	11.8	5.7	3.9
MSCI EAFE Small Cap	5.1	5.1	5.1	35.0	16.1	12.8	7.4
Style Index							
MSCI EAFE Growth	4.6	4.6	4.6	30.4	10.4	8.8	4.1
MSCI EAFE Value	5.4	5.4	5.4	24.9	8.3	6.9	2.7
Regional Index							
MSCI UK	3.0	3.0	3.0	24.4	5.5	5.0	2.8
MSCI Japan	4.6	4.6	4.6	25.0	12.4	11.4	4.1
MSCI Euro	7.2	7.2	7.2	34.0	10.1	8.2	1.7
MSCI EM Asia	8.0	8.0	8.0	45.7	13.0	9.4	6.0
MSCI EM Latin American	13.2	13.2	13.2	30.1	10.5	(1.5)	0.2

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US Treasury US TIPS	(0.9)	(0.9)	(0.9)	1.3	0.7	0.1	3.0
BBgBarc US Treasury Bills	0.1	0.1	0.1	0.9	0.5	0.3	0.4
BBgBarc US Agg Bond	(1.2)	(1.2)	(1.2)	2.1	1.1	2.0	3.7
Duration							
BBgBarc US Treasury 1-3 Yr	(0.3)	(0.3)	(0.3)	(0.0)	0.3	0.5	1.2
BBgBarc US Treasury Long	(3.2)	(3.2)	(3.2)	4.6	(1.1)	3.5	5.9
BBgBarc US Treasury	(1.4)	(1.4)	(1.4)	0.7	0.1	1.2	2.9
Issuer							
BBgBarc US MBS	(1.2)	(1.2)	(1.2)	1.3	1.2	1.9	3.5
BBgBarc US Corp. High Yield	0.6	0.6	0.6	6.6	6.3	5.6	8.2
BBgBarc US Agency Interm	(0.5)	(0.5)	(0.5)	0.4	0.6	0.9	2.3
BBgBarc US Credit	(0.9)	(0.9)	(0.9)	4.8	2.4	3.2	5.2

OTHER

Index							
Bloomberg Commodity	2.0	2.0	2.0	3.6	(3.3)	(8.5)	(7.0)
Wilshire US REIT	(3.8)	(3.8)	(3.8)	0.9	1.7	7.7	6.9
CS Leveraged Loans	1.1	1.1	1.1	4.8	4.8	4.3	5.0
Regional Index							
JPM EMBI Global Div	(0.0)	(0.0)	(0.0)	8.6	6.8	4.9	7.2
JPM GBI-EM Global Div	4.5	4.5	4.5	17.7	3.9	(0.8)	3.9
Hedge Funds							
HFRI Composite	2.8	2.8	2.8	10.4	5.2	5.0	3.8
HFRI FOF Composite	2.4	2.4	2.4	9.1	3.3	4.0	1.6
Currency (Spot)							
Euro	3.7	3.7	3.7	15.3	3.4	(1.7)	(1.7)
Pound	5.1	5.1	5.1	13.0	(1.8)	(2.2)	(3.3)
Yen	3.2	3.2	3.2	3.1	2.5	(3.5)	(0.3)

Source: Morningstar, as of 1/31/18

Definitions

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. Beginning in January 2018, computation of the indexes is accomplished utilizing unrounded numbers.
(www.instituteforsupplymanagement.org)

Markit Euro Manufacturing Index – The Eurozone PMI (Purchasing Managers' Index) is produced by IHS Markit and is based on original survey data collected from a representative panel of around 5,000 companies based in the euro area manufacturing and service sectors. National manufacturing data are included for Germany, France, Italy, Spain, the Netherlands, Austria, the Republic of Ireland and Greece. National services data are included for Germany, France, Italy, Spain and the Republic of Ireland. The flash estimate is typically based on approximately 85%–90% of total PMI survey responses each month and is designed to provide an accurate advance indication of the final PMI data.

Notices & disclosures

Past performance is no guarantee of future results. This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security or pursue a particular investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Verus Advisory Inc. and Verus Investors, LLC (“Verus”) file a single form ADV under the United States Investment Advisors Act of 1940, as amended. Additional information about Verus Advisory, Inc. and Verus Investors, LLC is available on the SEC’s website at www.adviserinfo.sec.gov.

Verus – also known as Verus Advisory™ or Verus Investors™.