



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

FEBRUARY 2018
Capital Markets Update

Market commentary

ECONOMIC CLIMATE

- U.S. real GDP was revised downward to an annualized rate of 2.5% QoQ during the fourth quarter. A decrease in net exports was the largest detractor from growth.
- The Conference Board's Consumer Confidence Index rose to 130.8 in February, up from 124.3 in January. This reading was the highest since December 2000.
- The ISM Manufacturing PMI increased from 59.1 to 60.8 during the period, led by strong gains in employment and inventories.
- The U.S. economy added 313,000 jobs during the month of February, above expectations of 205,000. The unemployment rate held steady at 4.1% while the labor force participation rate rose 30 bps to 63.0%.
- Pending home sales fell 4.7% MoM (-1.7% YoY) in February. The National Association of Realtors has forecast a decline in home sales this year, citing low supply and higher mortgage rates.

DOMESTIC EQUITIES

- Domestic equities fell during the month for the first time since October 2016 as the S&P 500 returned -3.7%.
- As of March 2nd, with 97% of companies reporting, the blended Q4 earnings and revenue growth rates of the S&P 500 were 14.8% and 8.2% YoY, respectively. If both metrics hold, they will each be the highest respective growth rates since Q3 2011, according to FactSet.

DOMESTIC FIXED INCOME

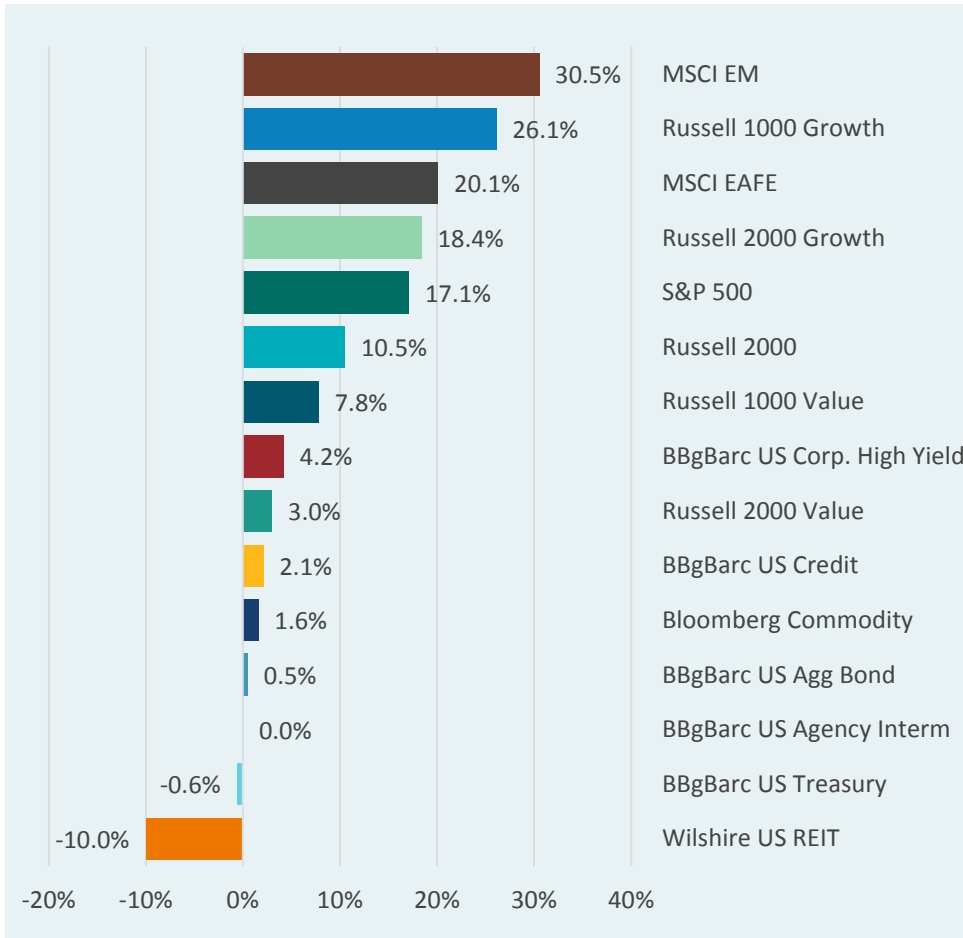
- Domestic fixed income returns were negative in February as the Bloomberg Barclays U.S. Aggregate Index fell -0.9%.
- The U.S. Treasury curve steepened slightly over the month, led by higher long-term yields. The 10-year minus 2-year yield spread increased 6 bps to 0.64%.
- High Yield spreads rose to 3.5% during the month from a cycle low of 3.2% in January. However, spreads remain well below the 20-year average of 5.9%.

INTERNATIONAL MARKETS

- International equities experienced negative returns during the period as the MSCI ACWI ex U.S. Index fell -4.7% on an unhedged basis (-3.3% hedged).
- Real GDP in the U.K. was revised down to 0.4% QoQ from the preliminary estimate of 0.5%. Calendar year 2017 GDP was also revised down 10 bps to 1.7% due to a decrease in the estimated output of the production industries.
- Eurozone Manufacturing PMI decreased to 58.5 in February, down from 59.6 in January, and the multi-year high of 60.6 in December.
- The European Central Bank left monetary policy unchanged at its latest meeting, but removed language that stated it would increase asset purchases in the event of a market downturn.

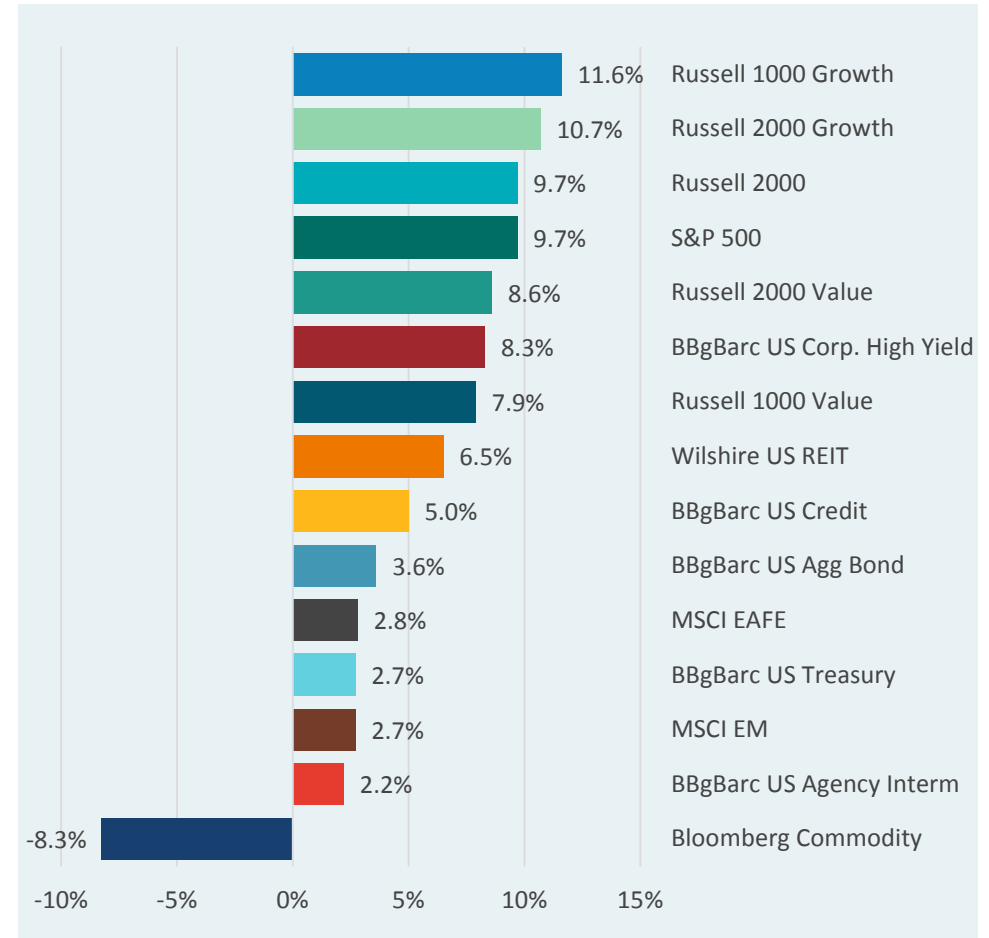
Major asset class returns

ONE YEAR ENDING FEBRUARY



Source: Morningstar, as of 2/28/18

TEN YEARS ENDING FEBRUARY



Source: Morningstar, as of 2/28/18

U.S. large cap equities

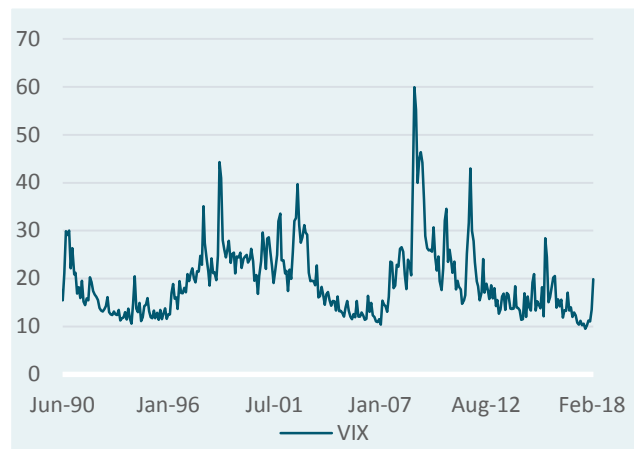
- The S&P 500 experienced a 10% drawdown at the beginning of the month that corresponded with a spike in implied volatility. Equities partially recovered, but had a negative monthly return for the first time since October 2016 (S&P 500 -3.7%). Realized volatility (30-day) jumped to 22.4% during the period, higher than the 5-year average of 12.2%.
- Implied volatility (VIX Index) rose above 50 at one point, jolting markets from a period of extraordinary low levels. The move may have been exacerbated by a build up in short volatility trades.
- Energy and Consumer Staples shares led the way down during the month. The S&P 500 Energy sector fell 10.8%, marking the worst month for the sector since September 2011. Out of the 11 sectors, Technology was the only positive performer, returning 0.1%.
- With equity prices falling in February, most valuation metrics moved back towards historical levels. The trailing and forward P/E ratios decreased from 22.8 and 17.9 to 21.9 and 17.0, respectively. However, they still remain above their respective 10-year averages of 17.5 and 15.6.

S&P 500 PRICE INDEX



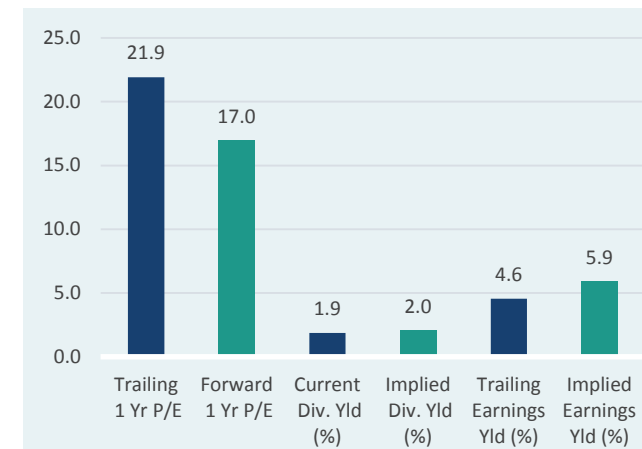
Source: Bloomberg, as of 2/28/18

IMPLIED VOLATILITY



Source: CBOE, as of 2/28/18

S&P 500 VALUATION SNAPSHOT

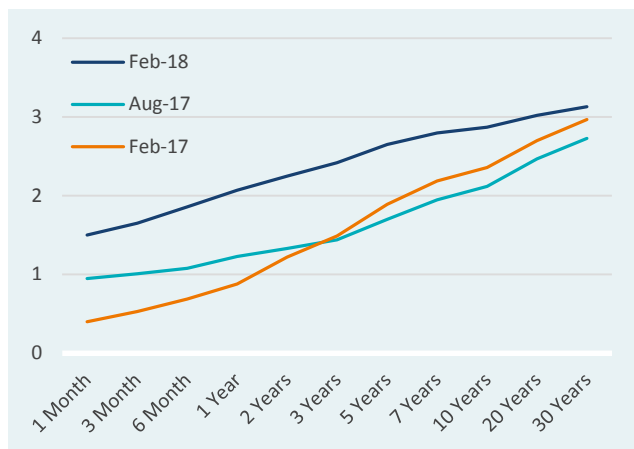


Source: Bloomberg, as of 2/28/18

Fixed income

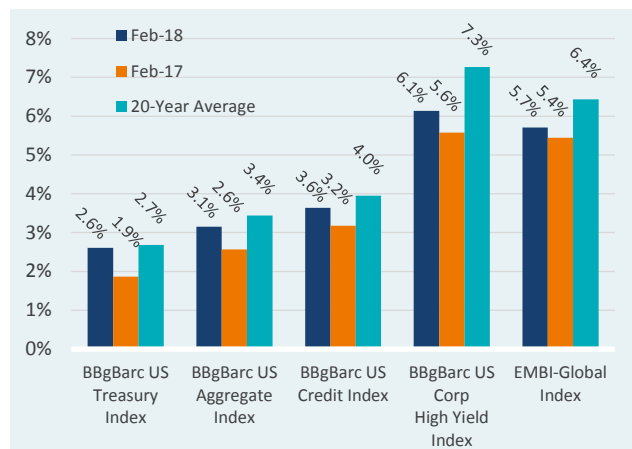
- Markets are expecting three interest rate hikes during 2018, according to fed funds futures pricing, in line with what the Fed has been communicating in recent meeting. In his first comments since becoming Fed Chairman, Jerome Powell noted that Fed guidance may need to be revised towards quicker tightening based on the current strength of the economy.
- Yields rose broadly across fixed income asset classes in February. The EMBI-Global Index (hard currency EM debt) and BBgBarc U.S. Corporate High Yield Index saw the largest moves, rising 40 bps and 30 bps, respectively.
- After marking a recent low of 85 bps on February 2nd, Investment Grade spreads rose throughout the month and ended 11 bps higher at 96 bps.
- The U.S. Treasury curve (2-10 year spread) steepened slightly, rising 4 bps to 0.62% during the month – the BBgBarc U.S. Treasury Long Index underperformed the BBgBarc 1-3 Year U.S. Treasury Index by 3.0% in February, and 5.7% YTD.

U.S. TREASURY YIELD CURVE



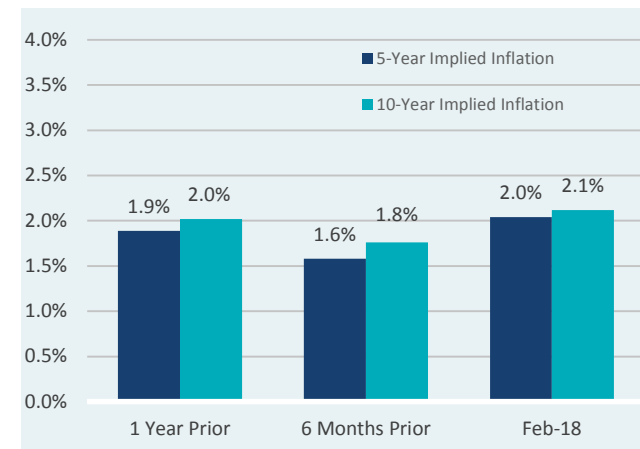
Source: Bloomberg, as of 2/28/18

NOMINAL FIXED INCOME YIELDS



Source: Morningstar, as of 2/28/18

IMPLIED INFLATION (TIPS BREAK EVEN)

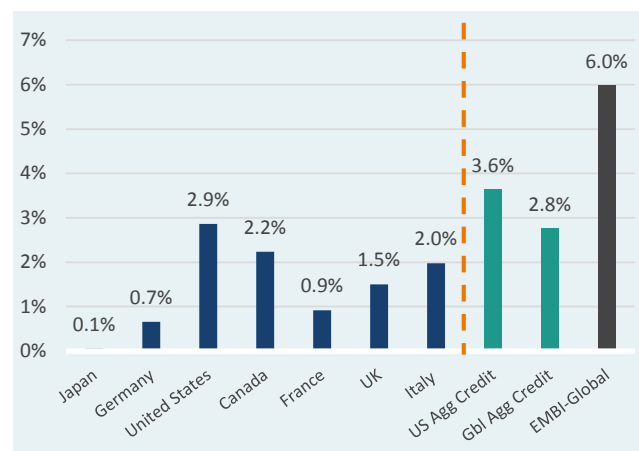


Source: Federal Reserve, as of 2/28/18

Global markets

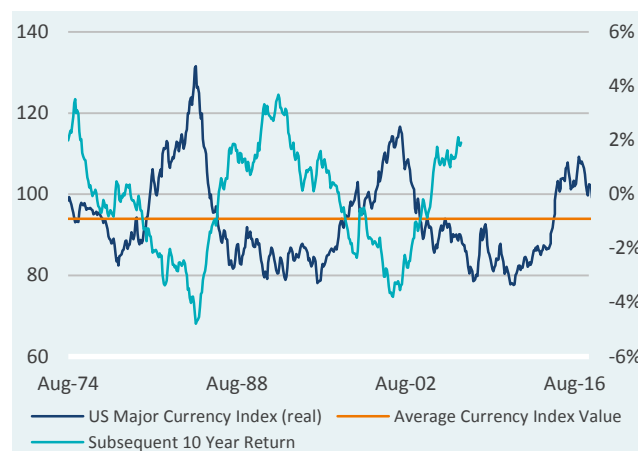
- The drawdown in global equities was consistent across markets with most regional benchmarks down around 10%. The pullback did not appear to be driven by any change in economic or corporate fundamentals and most markets started to recover towards the end of the month. However, international developed and emerging market equities did not recover as much as U.S. equities.
- International equities underperformed U.S. equities in the month as the MSCI ACWI ex U.S. Index fell 4.7% (S&P 500 -3.7%). Equities in the U.K. experienced the largest decline – the MSCI U.K. Index dropped 6.4%.
- The Japanese yen (+2.3%) outperformed the euro and the British pound (-2.1% and -3.1%) against the U.S. dollar in February, possibly benefitting from safe haven flows during the period of elevated volatility in other asset classes.
- Global equity valuations decreased during the month across most regions, led by EAFE markets, where the trailing 12-month P/E ratio dropped to 17.9 from 19.7. The contraction in developed market valuations was driven by both falling prices and rising earnings.

GLOBAL SOVEREIGN 10-YEAR YIELDS



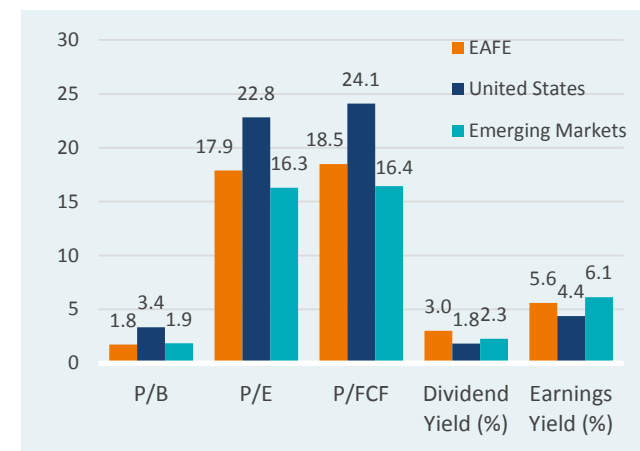
Source: Bloomberg, as of 2/28/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 2/28/18

MSCI VALUATION METRICS (3-MONTH AVERAGE)

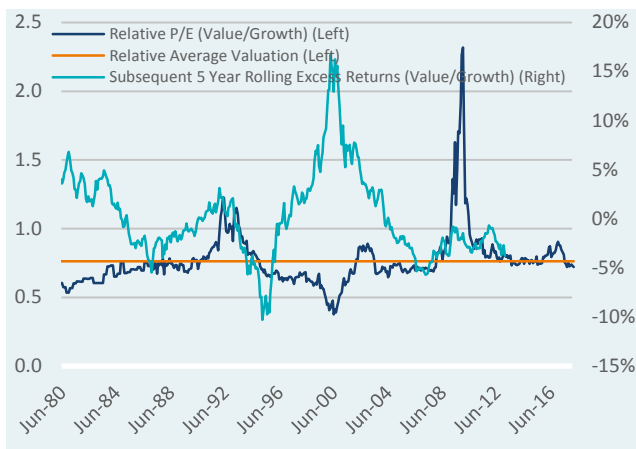


Source: Bloomberg, as of 2/28/18

Domestic equity size and style

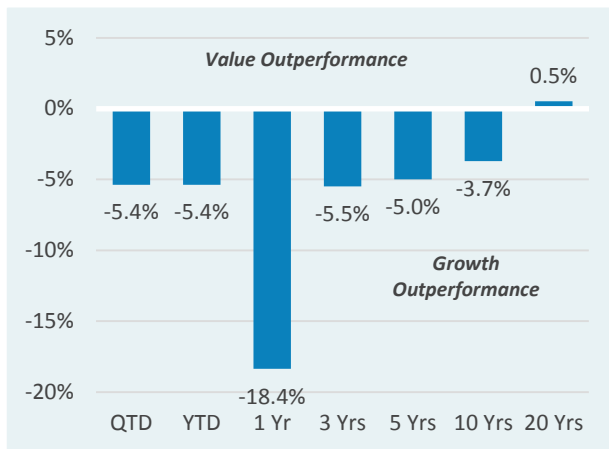
- Large cap equities narrowly outperformed small cap equities (Russell 1000 -3.7%, Russell 2000 -3.9%) during the period. Telecommunications companies contributed the most to this outperformance, with large caps returning 2.5% more than their small cap peers in February, and 25.1% more over the last year.
- The period of small cap outperformance following the U.S. election has faded. Over the past year, large cap equities have outperformed small cap equities by 6.2%.
- Growth-oriented equities (Russell 1000 Growth -2.6%) outperformed value-oriented equities (Russell 1000 Value -4.8%) during the month. The Russell 1000 Value Index was negatively affected by larger allocations to Energy and Utilities companies, whose sectors returned -10.6% and -5.1%, respectively.
- Value stocks have continued to underperform in this equity cycle, down 3.7% per year relative to growth stocks over the past 10 years.

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



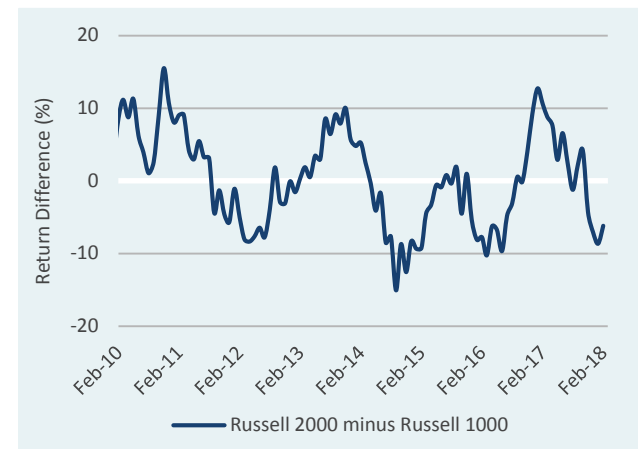
Source: Russell, Bloomberg, as of 2/28/18

U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE



Source: Morningstar, as of 2/28/18

U.S. SMALL VS. LARGE 1-YEAR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 2/28/18

Commodities

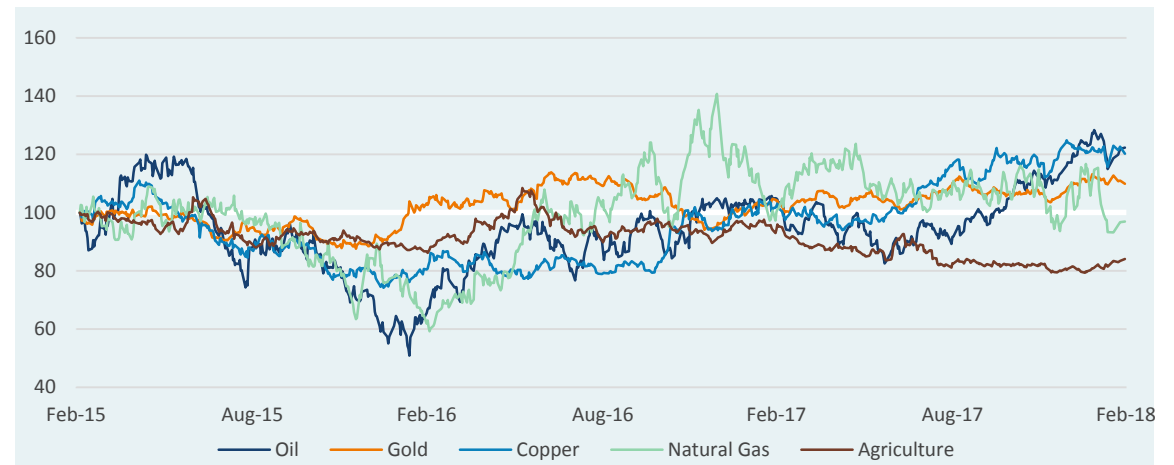
- The broad Bloomberg Commodity Index declined 1.7% in February. The energy and petroleum sub-sectors led the declines, returning -7.2% and -5.7%, respectively.
- WTI oil prices fell 4.8% to \$61.64 per barrel, influenced by concerns over building U.S. shale production that has offset the decrease in supply from the OPEC cuts.
- The Bloomberg Energy sub-index was negatively affected by Natural Gas prices during the month (-11.0%). Unleaded Gasoline and Heating Oil also contributed to the decline, falling -7.8% and -7.5%, respectively.
- The Bloomberg Grains sub-index had the best month of all the sub-indices, rising 5.1% in February. Wheat was the best performing asset within the sub-index, returning 9.6% during the month and 15.9% YTD.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(1.7)	0.2	0.2	1.6	(4.7)	(8.1)	(8.3)
Bloomberg Agriculture	4.7	6.1	6.1	(8.4)	(5.5)	(8.6)	(6.3)
Bloomberg Energy	(7.2)	(3.0)	(3.0)	3.3	(13.3)	(16.0)	(18.6)
Bloomberg Grains	5.1	9.7	9.7	(6.4)	(8.1)	(10.9)	(8.0)
Bloomberg Industrial Metals	(2.2)	(2.0)	(2.0)	15.4	5.1	(1.5)	(5.1)
Bloomberg Livestock	(1.9)	(3.2)	(3.2)	3.0	(4.0)	(2.0)	(5.6)
Bloomberg Petroleum	(5.7)	(1.3)	(1.3)	12.8	(9.2)	(14.6)	(12.6)
Bloomberg Precious Metals	(2.6)	(0.7)	(0.7)	(0.2)	1.2	(6.0)	1.2
Bloomberg Softs	1.5	(5.7)	(5.7)	(20.8)	(4.7)	(9.1)	(5.8)

Source: Morningstar, as of 2/28/18

COMMODITY PERFORMANCE



Source: Bloomberg, as of 2/28/18

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
Large Cap Growth	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	4.3	17.0	11.6
Emerging Markets Equity	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	3.3	14.6	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	1.6	13.7	9.8
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	22.2	0.9	12.2	9.7
60/40 Global Portfolio	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	0.9	12.0	8.6
Hedge Funds of Funds	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	0.7	10.6	7.9
International 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	0.3	10.2	6.1
Commodities	-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	0.2	7.1	4.7
Cash	-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	0.2	6.6	3.6
Real Estate	-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	0.0	5.0	2.8
Large 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	5.1	-1.1	3.7	2.7
Small Cap Equity	-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	-1.4	1.7	1.3
US Bonds	-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	-2.1	0.3	0.3
Small Cap Value	-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	-3.8	-8.1	-8.3

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

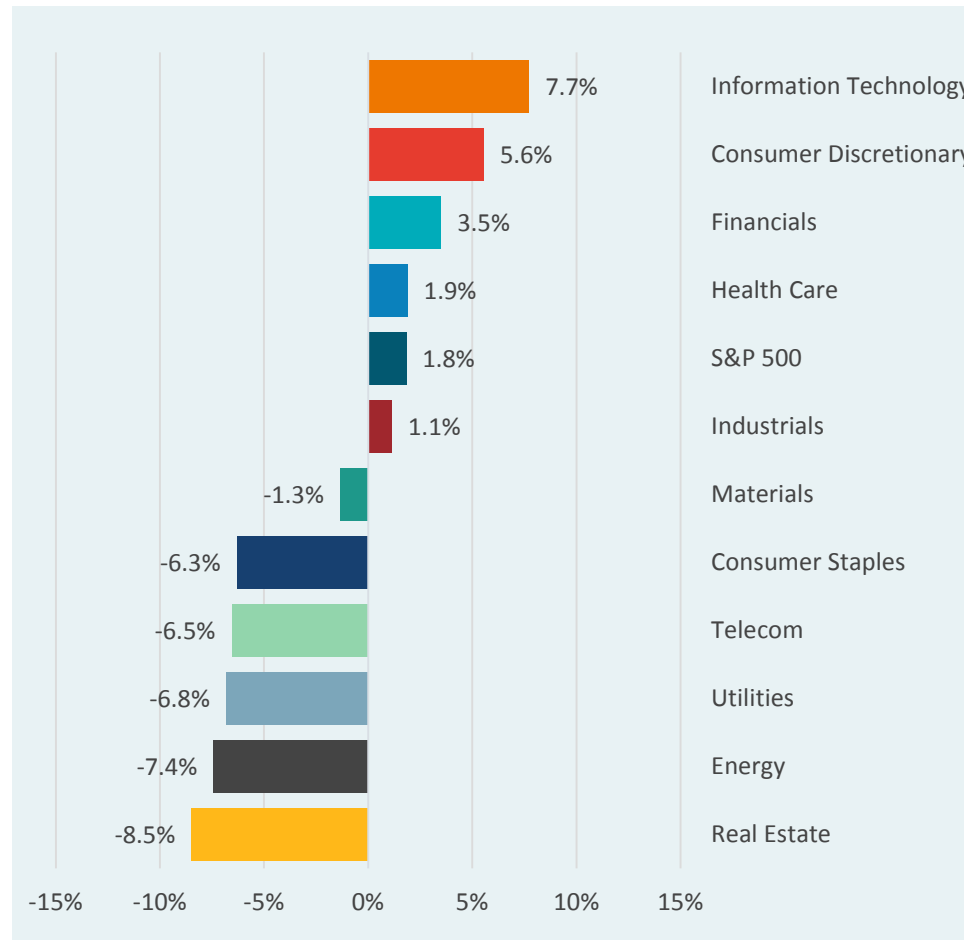
Hedge Funds of Funds

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.

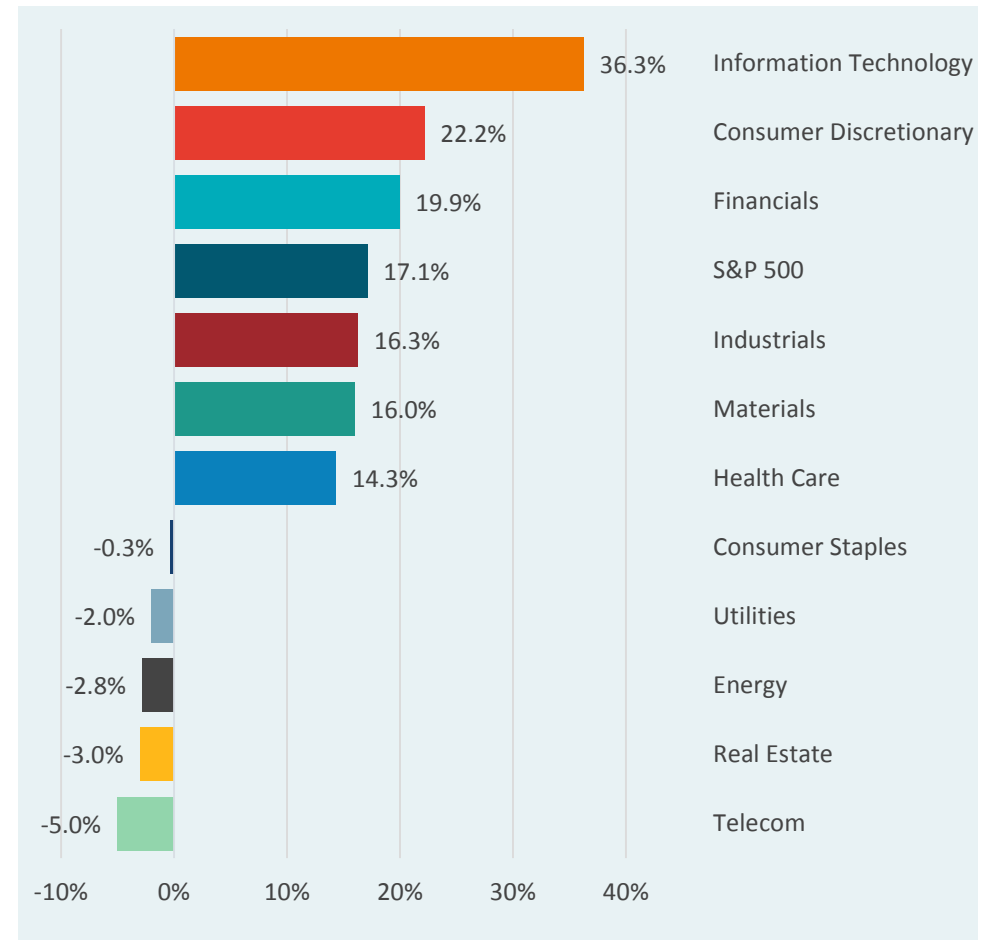
S&P 500 sector returns

QTD



Source: Morningstar, as of 2/28/18

ONE YEAR ENDING FEBRUARY



Source: Morningstar, as of 2/28/18

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	(3.7)	1.8	1.8	17.1	11.1	14.7	9.7
S&P 500 Equal Weighted	(4.3)	(0.1)	(0.1)	12.7	9.1	14.0	11.0
DJ Industrial Average	(4.0)	1.7	1.7	23.1	14.2	15.0	10.3
Russell Top 200	(3.5)	2.4	2.4	18.6	11.9	15.2	9.7
Russell 1000	(3.7)	1.6	1.6	16.7	10.8	14.6	9.8
Russell 2000	(3.9)	(1.4)	(1.4)	10.5	8.5	12.2	9.7
Russell 3000	(3.7)	1.4	1.4	16.2	10.6	14.4	9.8
Russell Mid Cap	(4.1)	(0.5)	(0.5)	12.0	8.0	13.0	10.0
Style Index							
Russell 1000 Growth	(2.6)	4.3	4.3	26.1	13.5	17.0	11.6
Russell 1000 Value	(4.8)	(1.1)	(1.1)	7.8	8.0	12.0	7.9
Russell 2000 Growth	(2.8)	0.9	0.9	18.4	8.9	13.7	10.7
Russell 2000 Value	(5.0)	(3.8)	(3.8)	3.0	8.0	10.6	8.6

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	(4.2)	1.2	1.2	18.8	8.3	10.1	5.6
MSCI ACWI ex US	(4.7)	0.6	0.6	21.6	6.2	6.3	2.7
MSCI EAFE	(4.5)	0.3	0.3	20.1	5.7	7.1	2.8
MSCI EM	(4.6)	3.3	3.3	30.5	9.0	5.0	2.7
MSCI EAFE Small Cap	(3.5)	1.4	1.4	27.4	12.3	11.8	6.6
Style Index							
MSCI EAFE Growth	(4.3)	0.2	0.2	22.2	6.8	7.7	3.4
MSCI EAFE Value	(4.8)	0.4	0.4	18.2	4.5	6.3	2.2
Regional Index							
MSCI UK	(6.4)	(3.5)	(3.5)	14.2	1.2	4.2	2.1
MSCI Japan	(1.5)	3.0	3.0	21.8	9.7	10.4	3.9
MSCI Euro	(6.0)	0.8	0.8	24.8	5.6	8.0	1.0
MSCI EM Asia	(5.4)	2.2	2.2	33.1	10.1	8.2	4.7
MSCI EM Latin American	(3.6)	9.1	9.1	21.1	7.7	(1.7)	(1.0)

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US Treasury USTIPS	(1.0)	(1.8)	(1.8)	(0.2)	0.8	(0.1)	2.8
BBgBarc US Treasury Bills	0.1	0.2	0.2	0.9	0.5	0.3	0.4
BBgBarc US Agg Bond	(0.9)	(2.1)	(2.1)	0.5	1.1	1.7	3.6
Duration							
BBgBarc US Treasury 1-3 Yr	(0.0)	(0.4)	(0.4)	(0.2)	0.4	0.5	1.1
BBgBarc US Treasury Long	(3.0)	(6.1)	(6.1)	(0.1)	(0.3)	2.7	5.6
BBgBarc US Treasury	(0.8)	(2.1)	(2.1)	(0.6)	0.3	0.9	2.7
Issuer							
BBgBarc US MBS	(0.7)	(1.8)	(1.8)	0.2	1.0	1.7	3.5
BBgBarc US Corp. High Yield	(0.8)	(0.3)	(0.3)	4.2	5.2	5.3	8.3
BBgBarc US Agency Interm	(0.2)	(0.6)	(0.6)	0.0	0.7	0.8	2.2
BBgBarc US Credit	(1.5)	(2.4)	(2.4)	2.1	2.2	2.8	5.0

OTHER

Index							
Bloomberg Commodity	(1.7)	0.2	0.2	1.6	(4.7)	(8.1)	(8.3)
Wilshire US REIT	(7.6)	(11.1)	(11.1)	(10.0)	0.2	5.9	6.5
CS Leveraged Loans	0.2	1.3	1.3	4.4	4.4	4.3	5.3
Regional Index							
JPM EMBI Global Div	(2.0)	(2.0)	(2.0)	4.4	5.8	4.5	7.0
JPM GBI-EM Global Div	(1.0)	3.4	3.4	14.4	4.0	(1.0)	3.6
Hedge Funds							
HFRI Composite	(1.8)	0.5	0.5	6.9	3.8	4.5	3.4
HFRI FOF Composite	(1.6)	0.7	0.7	6.5	2.2	3.7	1.3
Currency (Spot)							
Euro	(2.1)	1.6	1.6	14.8	2.8	(1.4)	(2.2)
Pound	(3.1)	1.9	1.9	10.7	(3.8)	(1.9)	(3.6)
Yen	2.3	5.6	5.6	4.9	3.9	(2.9)	(0.2)

Source: Morningstar, as of 2/28/18

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.

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>

National Association of Realtors' Pending Homes Sales Index- The Pending Home Sales Index (PHS), a leading indicator of housing activity, measures housing contract activity, and is based on signed real estate contracts for existing single-family homes, condos, and co-ops. Because a home goes under contract a month or two before it is sold, the Pending Home Sales Index generally leads Existing-Home Sales by a month or two. NAR now collects pending home sales data from MLSs and large brokers. Altogether, we receive data from over 100 MLSs & 60 large brokers, giving us a large sample size covering 50% of the EHS sample. This is equal to 20 percent of all transactions.

<https://www.nar.realtor/research-and-statistics/housing-statistics/pending-home-sales/methodology>

Notices & disclosures

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