

A decorative geometric pattern of overlapping triangles in blue and gold is overlaid on the left side of the image. A white triangle is positioned to the left of the main title text.

# PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

APRIL 2018  
Capital Markets Update



# Market commentary

## ECONOMIC CLIMATE

- U.S. real GDP grew by 2.9% YoY in the first quarter (2.3% quarterly annualized rate, consensus estimate 2.0%), marking the best rate of growth since 2015. While there did not appear to be an immediate flow through from fiscal stimulus in Q1, the expectations for Q2 GDP growth has been revised upward from 2.7% to 3.1%.
- The April employment report disappointed slightly for the second straight month – nonfarm payrolls added 168,000 jobs, below expectations of 190,000.
- The unemployment rate fell from 4.1% to 3.9%, the lowest level in 18 years. Part of this move was influenced by a 0.1% net drop in the participation rate to 62.8%.
- U.S. inflation moved higher in March – core CPI rose from 1.8% to 2.1% YoY. Much of the increase was driven by a low base effect caused by a drop in wireless communication prices one year ago.

## DOMESTIC EQUITIES

- U.S. equities were range bound in April and volatility trended down from the elevated levels experienced in the previous two months. The S&P 500 Index returned 0.4% during the month with an annualized volatility of 17.2%.
- A strong Q1 earnings season thus far has yet to provide the boost to equity prices that many expected. According to FactSet, the Q1 YoY blended earnings growth rate for the S&P 500 is 24.2% after more than 75% of the index has reported.

## DOMESTIC FIXED INCOME

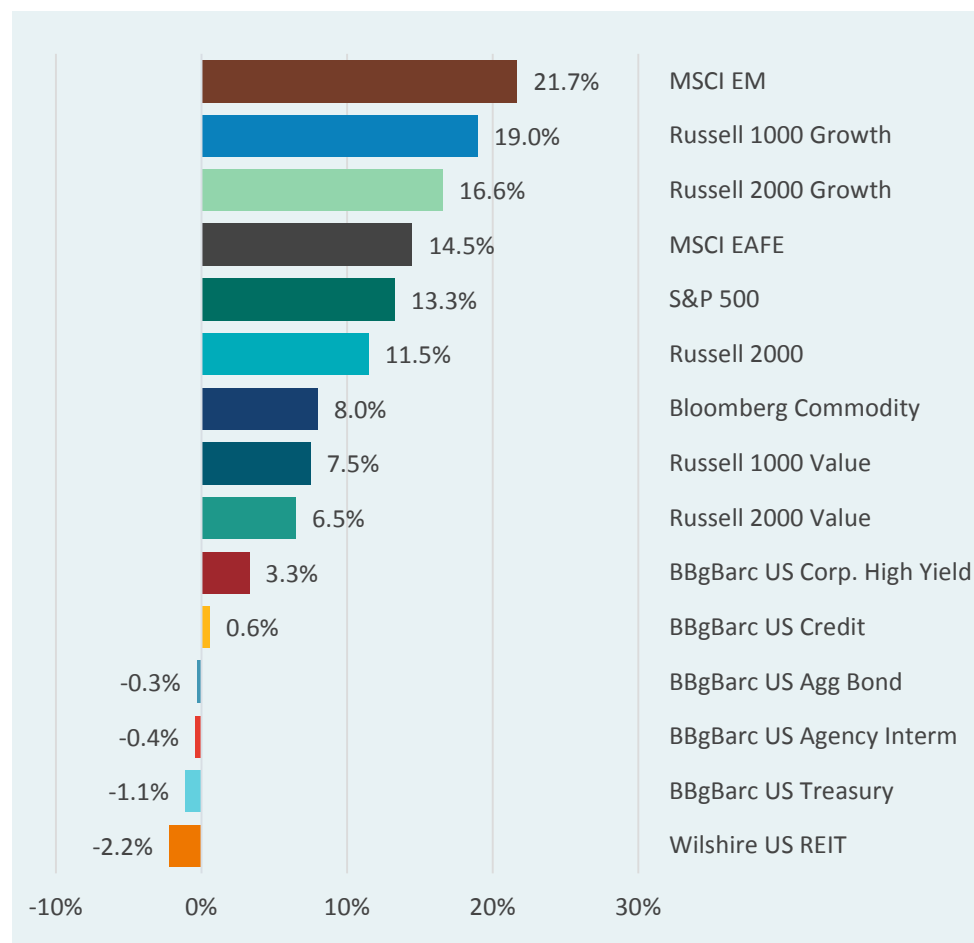
- The Fed kept interest rates unchanged at its April meeting, as expected. Forward guidance from officials was unchanged from previous statements.
- Treasury yields moved higher on the long-end of the curve, driven by real yields. The 10-year yield briefly topped 3.0%, before finishing the month up 22 bps at 2.95%.
- The broad fixed income market posted negative performance as Treasury yields rose and investment grade spreads slightly widened. The U.S. Aggregate Bond Index returned -0.7%.

## INTERNATIONAL MARKETS

- Partly in response to findings of intellectual property theft by the U.S. Trade Commission, the White House announced plans enact tariffs on \$50 billion worth of Chinese imports. China responded by targeting tariffs on \$50 billion of U.S. goods, leading to concerns of a trade war between the two biggest economies in the world.
- Eurozone Q1 GDP grew by 2.5% YoY, meeting expectations and calming fears of a slowdown after a series of economic data misses in the first quarter.
- Eurozone inflation remained well below the 2% central bank target after core CPI rose only 0.7% YoY in April.
- The U.S. dollar experienced broad strength during the month, appreciating against both developed and emerging market currencies.

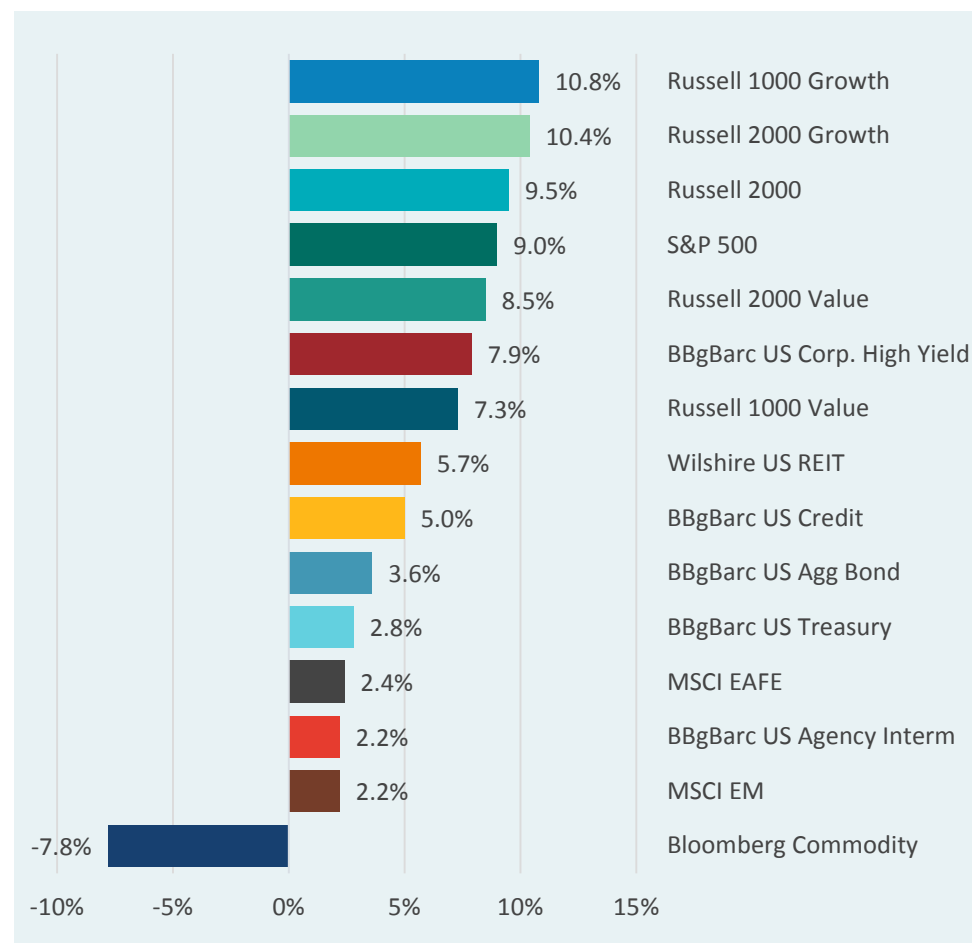
# Major asset class returns

ONE YEAR ENDING APRIL



Source: Morningstar, as of 4/30/18

TEN YEARS ENDING APRIL



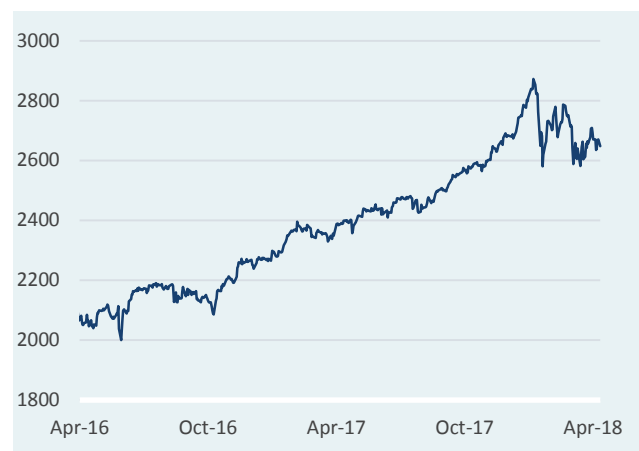
Source: Morningstar, as of 4/30/18

# U.S. large cap equities

- The S&P 500 Index (+0.4%) posted a small gain in April after falling in each of the previous two months. The index was range bound between 2600 and 2700 throughout the month as earnings failed to provide a market catalyst in either direction.
- Over 75% of companies in the S&P 500 have reported Q1 earnings thus far and the results have been generally positive. According to FactSet, the blended YoY earnings growth rate is 24.2%. In aggregate, firms have reported a positive 8.2% earnings surprise.
- Companies have not been rewarded for earnings beats this quarter relative to the past five years. The average one-day price change for firms with a positive earnings surprise has been -0.3%, well below the five-year average of +1.1%
- Equity volatility trended down to more normal levels during the month. The VIX Index fell from 20.0 to 15.4, below the average of 19.3 since 1990.

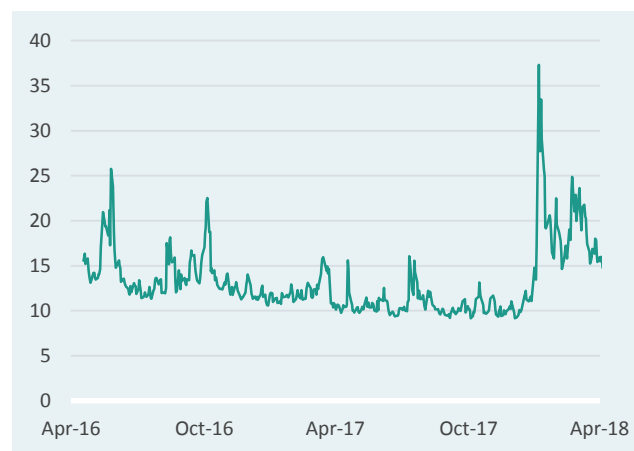
U.S. equities were range bound

**S&P 500 PRICE INDEX**



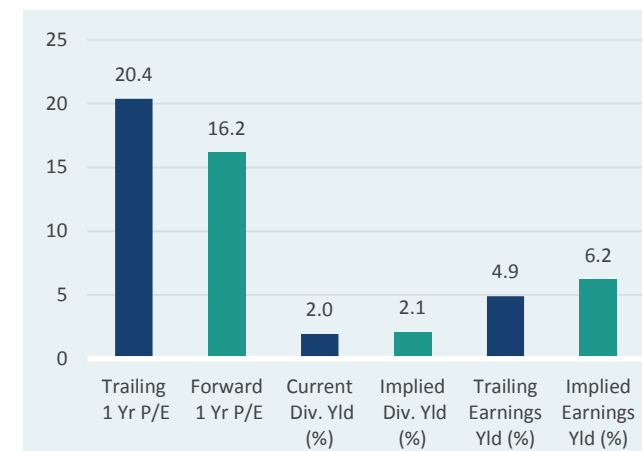
Source: Bloomberg, as of 4/30/18

**IMPLIED VOLATILITY (VIX INDEX)**



Source: CBOE, as of 4/30/18

**S&P 500 VALUATION SNAPSHOT**



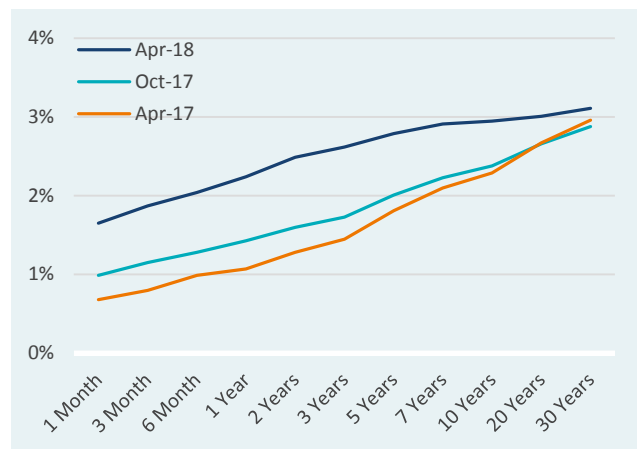
Source: Bloomberg, as of 4/30/18

# Fixed income

- The 10-year Treasury yield closed above 3% for the first time since the end of 2013 on April 25<sup>th</sup> before closing the month at 2.95%. An increase in expected Treasury issuance, Fed balance sheet reduction, and slowing international central bank Treasury purchases may provide support for higher long-term yields.
- Short-term yields kept pace with increases on the longer end of the curve – the term premium for a 10-year note relative to a 2-year note was only 46 bps at the end of April.
- U.S. credit spreads tightened to near expansion lows in the middle of the month before rising to end the month only slightly lower. The option-adjusted spread for the BBgBarc Corporate High Yield Index fell 16 bps to 3.4%.
- An increase in breakeven inflation rates was an important component of the move in Treasury yields during the month. The 10-year breakeven inflation rate was up 12 bps to 2.18%.

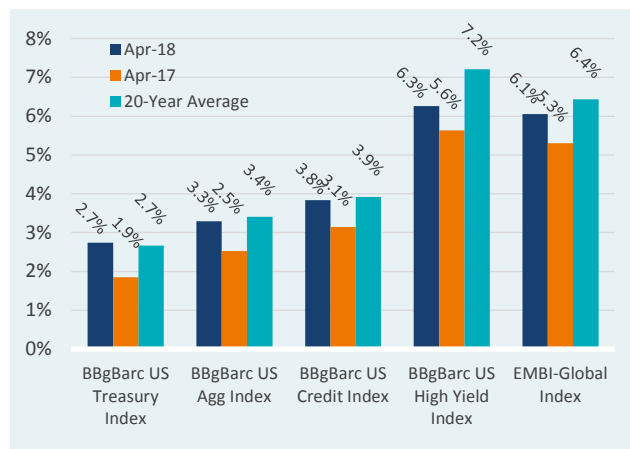
Long-term Treasury yields rose in April

U.S. TREASURY YIELD CURVE



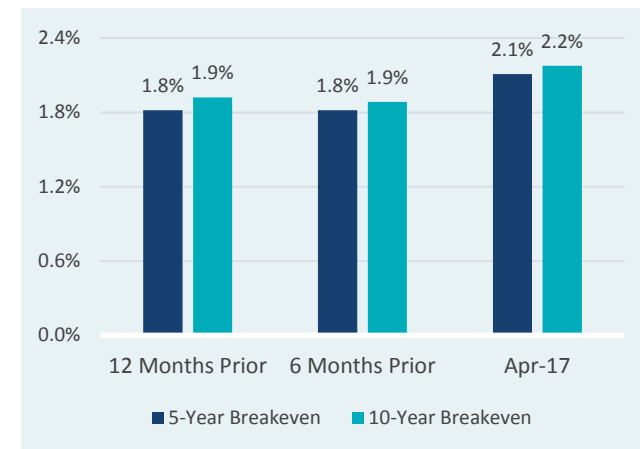
Source: Bloomberg, as of 4/30/18

NOMINAL YIELDS



Source: Morningstar, as of 4/30/18

BREAKEVEN INFLATION RATES



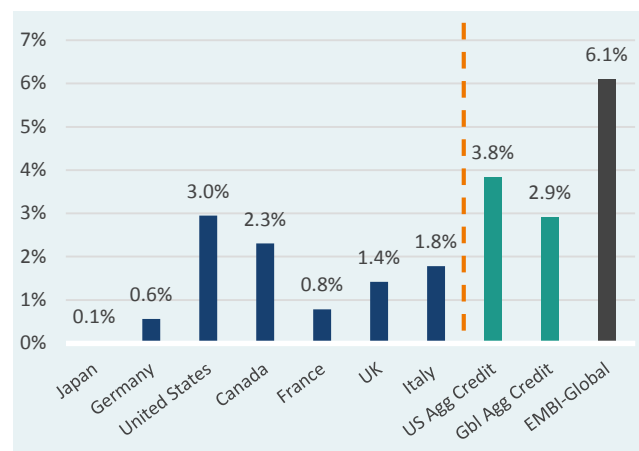
Source: Bloomberg, as of 4/30/18

# Global markets

- Concerns over trade remained in the headlines after the White House announced \$50 billion in potential tariffs on Chinese imports. China responded by announcing its own tariffs on U.S. goods also worth \$50 billion. Negotiations between the two countries are ongoing and there is much uncertainty as to what policies, if any, will actually be implemented.
- Global sovereign yields traded higher along with the upward move in Treasury yields. The 10-year German bund yield rose 6 bps to 0.56%.
- European Central Bank officials stated they would wait until July before announcing how and when the bank will end its bond-buying program in order to further judge a possible slowdown in economic activity. A slower pace of economic recovery combined with below target inflation may be used as reasons to delay ending asset purchases.
- The U.S. dollar experienced broad based strength towards the end of the month, nearly erasing year-to-date losses on the Dollar Spot Index.

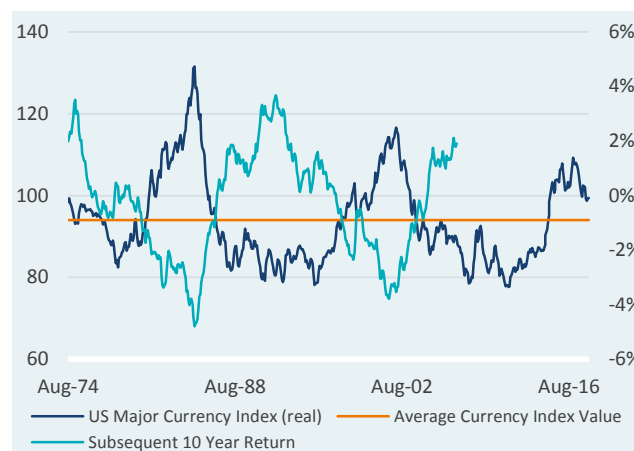
Trade continued to be at the forefront of market news

GLOBAL SOVEREIGN 10-YEAR YIELDS



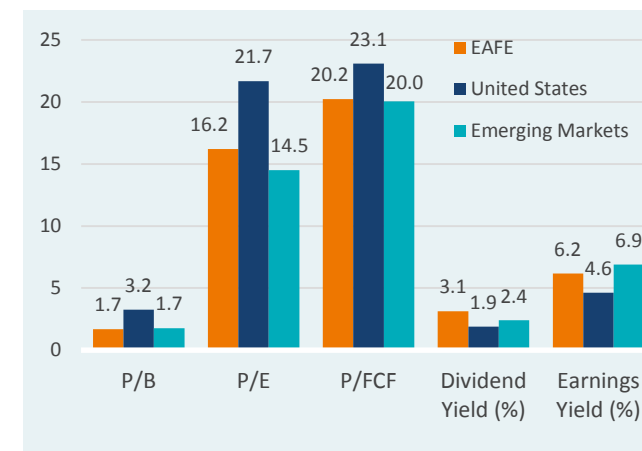
Source: Bloomberg, as of 4/30/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 4/30/18

MSCI VALUATION METRICS (3-MONTH AVG)



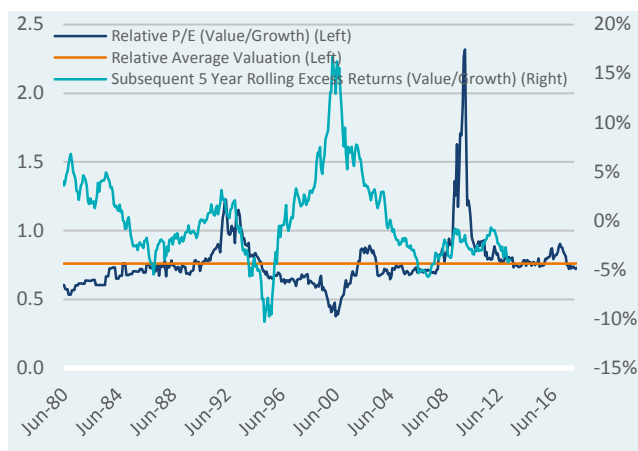
Source: Bloomberg, as of 4/30/18

# Domestic equity size and style

- Small cap equities outperformed large cap equities in April – the Russell 2000 Index and Russell 1000 Index returned 0.9% and 0.3%, respectively. Small caps have posted better relative performance for two straight months.
- The trailing annualized volatility of the Russell 2000 (19.8%) was slightly lower than the Russell 1000 (20.6%) during the month – historically, small cap equities have exhibited higher volatility than large cap equities.
- The Russell 1000 Value Index and the Russell 1000 Growth Index both returned 0.3% in April. Growth equities have significantly outperformed over the past year, but relative valuations are in line with the historical average.
- One of the reasons the outperformance of growth stocks has not led to stretched relative valuations is due to differences in earnings growth. Much of the equity earnings growth over the past year has been driven by growth companies, most notably in tech.

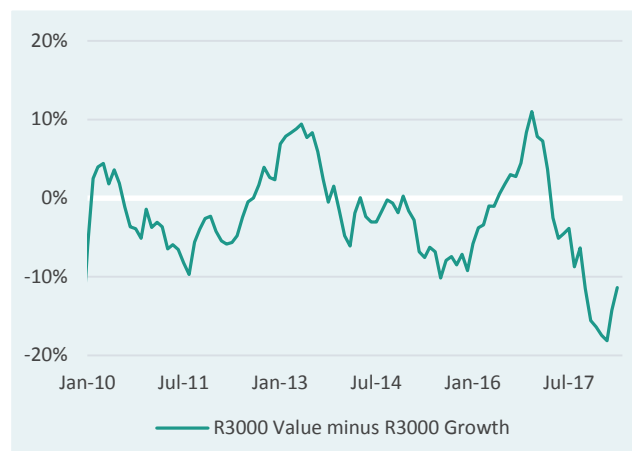
Small cap equities outperformed

VALUE VS. GROWTH RELATIVE VALUATIONS



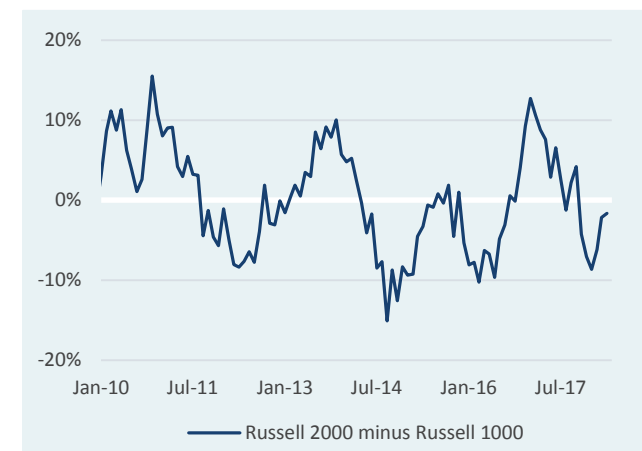
Source: Russell, Bloomberg, as of 4/30/18

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 4/30/18

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 4/30/18

# Commodities

- The Bloomberg Commodity Index returned 2.6% in April, its best monthly return of the year. Gains were driven by energy and industrial metals.
- Positive momentum in oil prices continued with WTI reaching \$68.57 per barrel at month-end, the highest price since 2014. Geopolitical tensions in the Middle East and President Trump's looming decision on the Iran nuclear deal likely influenced oil prices.

- The increase in oil spot prices and a continued supply-demand rebalancing have led to a fully backwardated futures curve. A backwardated curve results in a positive roll yield for investors in futures-based commodity strategies.
- Aluminum prices jumped 13.6% during the month following U.S. sanctions on Rusal, the world's second biggest aluminum producer. The sanctions prohibit transactions with the company within the U.S.

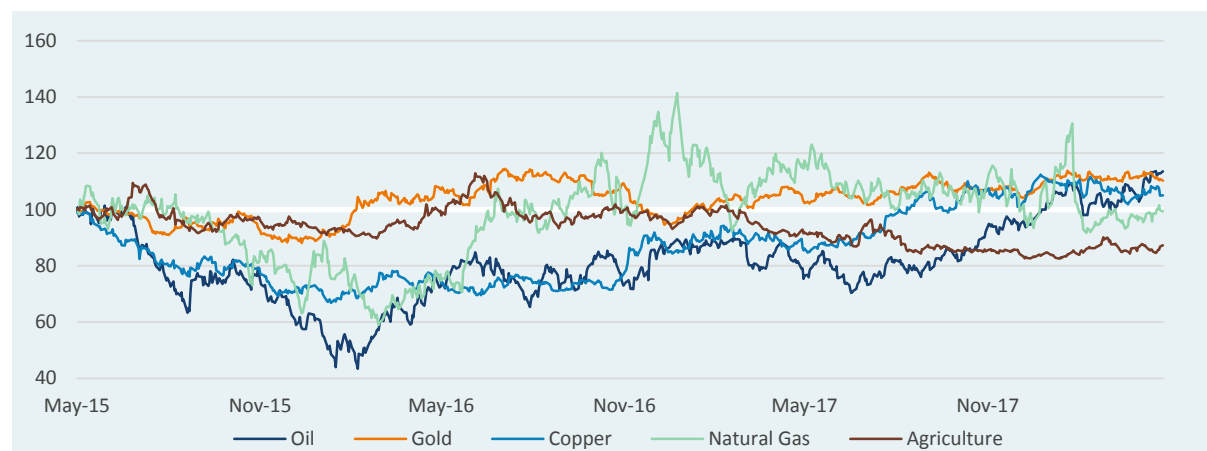
Oil prices climbed to the highest level since 2014

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	2.6	2.6	2.2	8.0	(4.2)	(7.3)	(7.8)
Bloomberg Agriculture	1.4	1.4	4.6	(2.9)	(4.0)	(8.3)	(5.0)
Bloomberg Energy	5.0	5.0	6.9	19.0	(11.4)	(15.2)	(18.8)
Bloomberg Grains	3.0	3.0	10.3	0.1	(5.6)	(10.3)	(6.8)
Bloomberg Industrial Metals	3.5	3.5	(2.9)	20.8	2.6	0.2	(4.6)
Bloomberg Livestock	0.4	0.4	(9.7)	(10.7)	(7.1)	(3.2)	(5.9)
Bloomberg Petroleum	7.0	7.0	12.0	41.5	(6.9)	(11.7)	(12.6)
Bloomberg Precious Metals	(0.2)	(0.2)	(0.8)	0.9	2.1	(4.2)	2.6
Bloomberg Softs	(0.6)	(0.6)	(10.6)	(17.0)	(5.8)	(9.4)	(4.2)

Source: Morningstar, as of 4/30/18

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 4/30/18



# Appendix

# Periodic table of returns

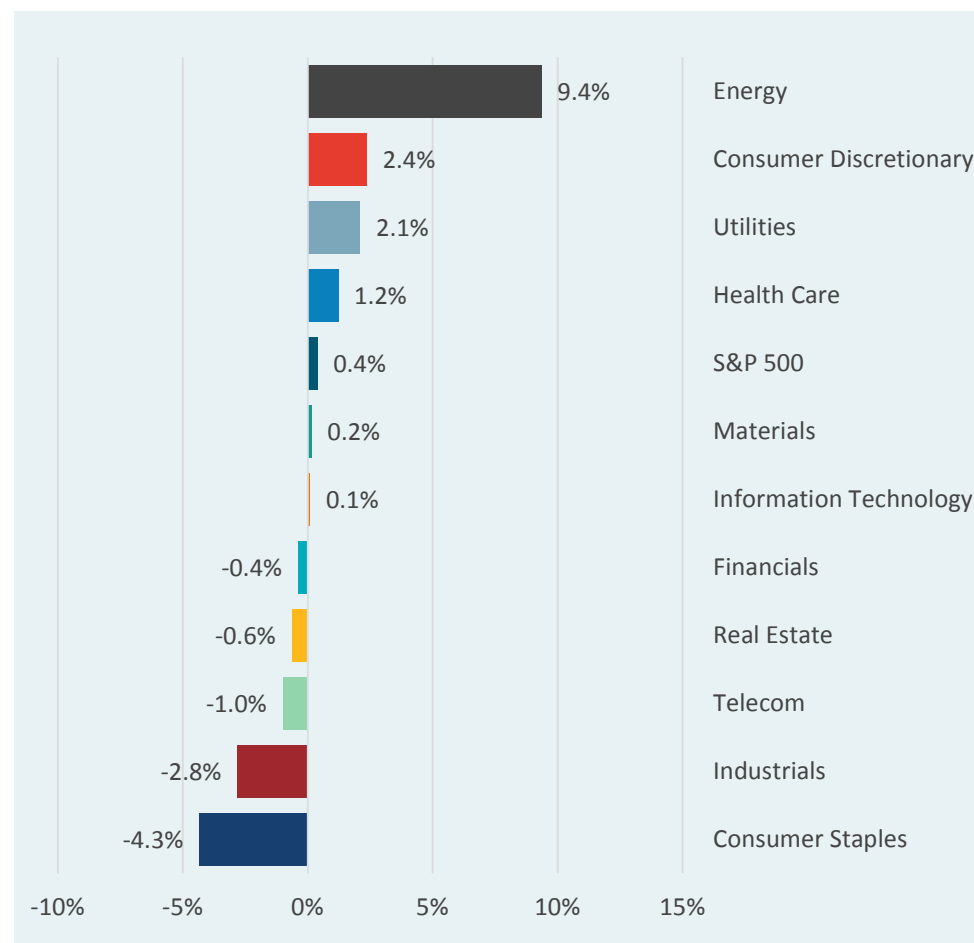
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD	5-Year	10-Year
Small Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	2.4	15.1	10.8
Commodities	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	2.2	13.1	10.4
Large Cap Growth	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	1.8	12.8	9.5
Real Estate	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	1.7	11.7	9.1
Emerging Markets Equity	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	1.0	10.5	8.5
Small Cap Equity	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	0.8	10.4	7.3
International Equity	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	0.7	10.0	6.1
Hedge Funds of Funds	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	0.6	5.9	4.4
Cash	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	0.5	5.7	3.6
60/40 Global Portfolio	-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	-0.1	4.7	2.4
Large Cap Equity	-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	-0.4	3.3	2.2
Small Cap Value	-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	-1.0	1.5	1.5
US Bonds	-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	-2.2	0.3	0.3
Large Cap Value	-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	-2.5	-7.3	-7.8

Large Cap Equity	Small Cap Growth	Commodities
Large Cap Value	International Equity	Real Estate
Large Cap Growth	Emerging Markets Equity	Hedge Funds of Funds
Small Cap Equity	US Bonds	60% MSCI ACWI/40% BBgBarc Global Bond
Small Cap Value	Cash	

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 3/31/18.

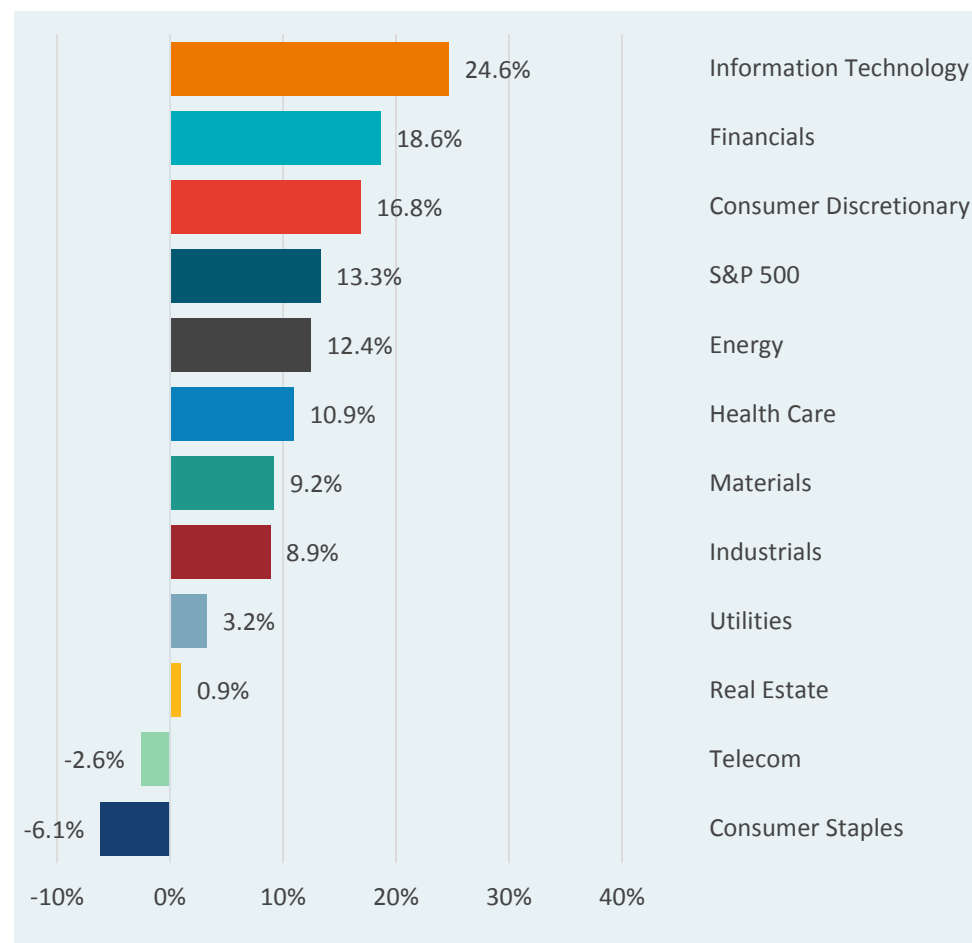
# S&P 500 sector returns

QTD



Source: Morningstar, as of 4/30/18

ONE YEAR ENDING APRIL



Source: Morningstar, as of 4/30/18



# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	0.4	0.4	(0.4)	13.3	10.6	13.0	9.0
S&P 500 Equal Weighted	0.4	0.4	(0.6)	11.4	9.1	12.6	10.5
DJ Industrial Average	0.3	0.3	(1.6)	18.1	13.4	13.0	9.4
Russell Top 200	0.5	0.5	(0.3)	14.0	11.1	13.3	9.0
Russell 1000	0.3	0.3	(0.4)	13.2	10.3	12.8	9.1
Russell 2000	0.9	0.9	0.8	11.5	9.6	11.7	9.5
Russell 3000	0.4	0.4	(0.3)	13.0	10.2	12.8	9.1
Russell Mid Cap	(0.2)	(0.2)	(0.6)	11.2	8.3	11.8	9.5
<b>Style Index</b>							
Russell 1000 Growth	0.3	0.3	1.8	19.0	12.8	15.1	10.8
Russell 1000 Value	0.3	0.3	(2.5)	7.5	7.7	10.5	7.3
Russell 2000 Growth	0.1	0.1	2.4	16.6	9.9	13.1	10.4
Russell 2000 Value	1.7	1.7	(1.0)	6.5	9.3	10.4	8.5

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	1.0	1.0	(0.0)	14.2	7.4	8.8	5.1
MSCI ACWI ex US	1.6	1.6	0.4	15.9	5.0	5.5	2.3
MSCI EAFE	2.3	2.3	0.7	14.5	4.9	5.9	2.4
MSCI EM	(0.4)	(0.4)	1.0	21.7	6.0	4.7	2.2
MSCI EAFE Small Cap	1.4	1.4	1.6	20.0	11.1	10.6	6.4
<b>Style Index</b>							
MSCI EAFE Growth	1.5	1.5	0.4	15.8	6.0	6.6	3.1
MSCI EAFE Value	3.1	3.1	1.0	13.3	3.8	5.1	1.7
<b>Regional Index</b>							
MSCI UK	4.8	4.8	0.8	14.9	2.4	4.2	2.1
MSCI Japan	0.7	0.7	1.5	19.2	7.4	7.2	3.4
MSCI Euro	3.3	3.3	2.9	15.3	5.9	7.5	0.6
MSCI EM Asia	0.1	0.1	0.9	24.5	7.0	8.1	4.4
MSCI EM Latin American	(1.3)	(1.3)	6.7	17.8	6.1	(2.1)	(1.8)

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US TIPS	(0.1)	(0.1)	(0.8)	0.3	1.0	(0.1)	3.1
BBgBarc US Treasury Bills	0.1	0.1	0.5	1.1	0.6	0.4	0.4
BBgBarc US Agg Bond	(0.7)	(0.7)	(2.2)	(0.3)	1.1	1.5	3.6
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	(0.2)	(0.2)	(0.3)	(0.3)	0.3	0.5	1.2
BBgBarc US Treasury Long	(1.9)	(1.9)	(5.2)	(0.0)	0.8	2.1	5.8
BBgBarc US Treasury	(0.8)	(0.8)	(2.0)	(1.1)	0.4	0.7	2.8
<b>Issuer</b>							
BBgBarc US MBS	(0.5)	(0.5)	(1.7)	(0.4)	0.9	1.6	3.4
BBgBarc US Corp. High Yield	0.7	0.7	(0.2)	3.3	5.0	4.8	7.9
BBgBarc US Agency Interm	(0.3)	(0.3)	(0.7)	(0.4)	0.6	0.8	2.2
BBgBarc US Credit	(0.9)	(0.9)	(3.0)	0.6	2.0	2.3	5.0

## OTHER

<b>Index</b>							
Bloomberg Commodity	2.6	2.6	2.2	8.0	(4.2)	(7.3)	(7.8)
Wilshire US REIT	1.4	1.4	(6.2)	(2.2)	3.5	5.1	5.7
CS Leveraged Loans	0.5	0.5	2.1	4.7	4.2	4.1	5.1
<b>Regional Index</b>							
JPM EMBI Global Div	(1.5)	(1.5)	(3.2)	1.3	4.7	3.8	6.8
JPM GBI-EM Global Div	(3.0)	(3.0)	1.4	8.4	3.4	(1.9)	3.3
<b>Hedge Funds</b>							
HFRI Composite	(0.1)	(0.1)	0.4	4.5	2.1	3.7	3.6
HFRI FOF Composite	0.3	0.3	0.6	5.3	1.9	3.3	1.5
<b>Currency (Spot)</b>							
Euro	(1.8)	(1.8)	0.6	11.0	2.5	(1.7)	(2.5)
Pound	(1.8)	(1.8)	1.8	6.5	(3.6)	(2.4)	(3.6)
Yen	(2.8)	(2.8)	2.9	1.9	3.0	(2.3)	(0.5)

Source: Morningstar, HFR, as of 4/30/18

# Notices & disclosures

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