

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

MAY 2018
Capital Markets Update

Market commentary

U.S. ECONOMICS

- The U.S. added 223,000 jobs to payrolls in May, well above the consensus estimate of 180,000 and the expansion average of around 200,000. Sector job gains were broad based, led by health care, business services, and retail.
- The U-3 unemployment rate fell further from 3.9% to 3.8% against expectations of no change. The decline was influenced by a drop in the participation rate from 62.8% to 62.7%.
- The broader U-6 unemployment rate, which includes part-time workers for economic reasons and discouraged workers, declined from 7.8% to 7.6%, the lowest level since 2000.
- The ISM Manufacturing PMI rose from 57.3 to 58.7 in May, driven by increases in the employment and new orders sub-components. This index remains elevated, indicating a strong level of economic activity for manufacturers.

U.S. EQUITIES

- Equities moved higher in May (S&P 500 +2.4%), but still traded within a relatively narrow range between 2600 and 2800 on the S&P 500 Index.
- Small cap equities (Russell 2000 Index +6.1%) significantly outperformed large cap equities, possibly influenced by insulation from a stronger U.S. dollar and global trade concerns.
- Analysts are expecting strong earnings growth again in the second quarter. According to FactSet, the year-over-year Q2 earnings growth rate for the S&P 500 is 18.9%.

U.S. FIXED INCOME

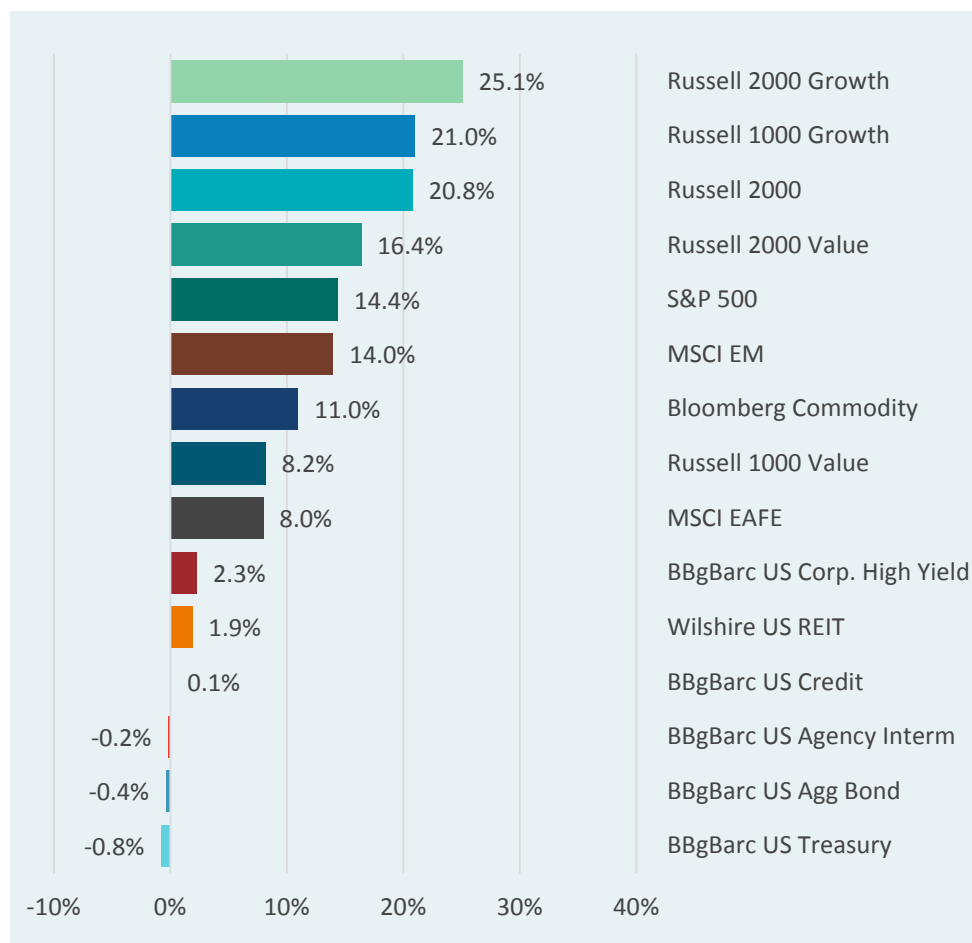
- After peaking at 3.11% on May 17th, the 10-year Treasury yield fell sharply to finish the month down 9 bps to 2.86%. The move lower was influenced by a global risk-off sentiment created by uncertainty surrounding Italian politics.
- The yield curve steepened in the first half of the month before reversing during the latter half as long-term yields fell. The 2-10 Treasury yield spread peaked at 55 bps before finishing the month at 43 bps.
- High yield spreads widened by 23 bps to 3.6%, driven by concerns over the financial sector's exposure to Italian banks.

INTERNATIONAL MARKETS

- Italian politics took center stage during a tumultuous attempt to form a coalition government between the Five Star and the League parties. It appeared the country was headed for new elections this year after a surprise presidential veto of the proposed finance minister over his anti-EU views, but a government was created in the end.
- Weakness in Italian markets spilled over to the rest of the Eurozone, which was one of the reasons international developed equities (MSCI EAFE -2.3%) underperformed U.S. equities.
- Global trade war concerns resurfaced after the White House decided to impose steel and aluminum tariffs on Canada, Mexico, and the European Union after a two month exemption period. The tariffs went into effect on June 1st.

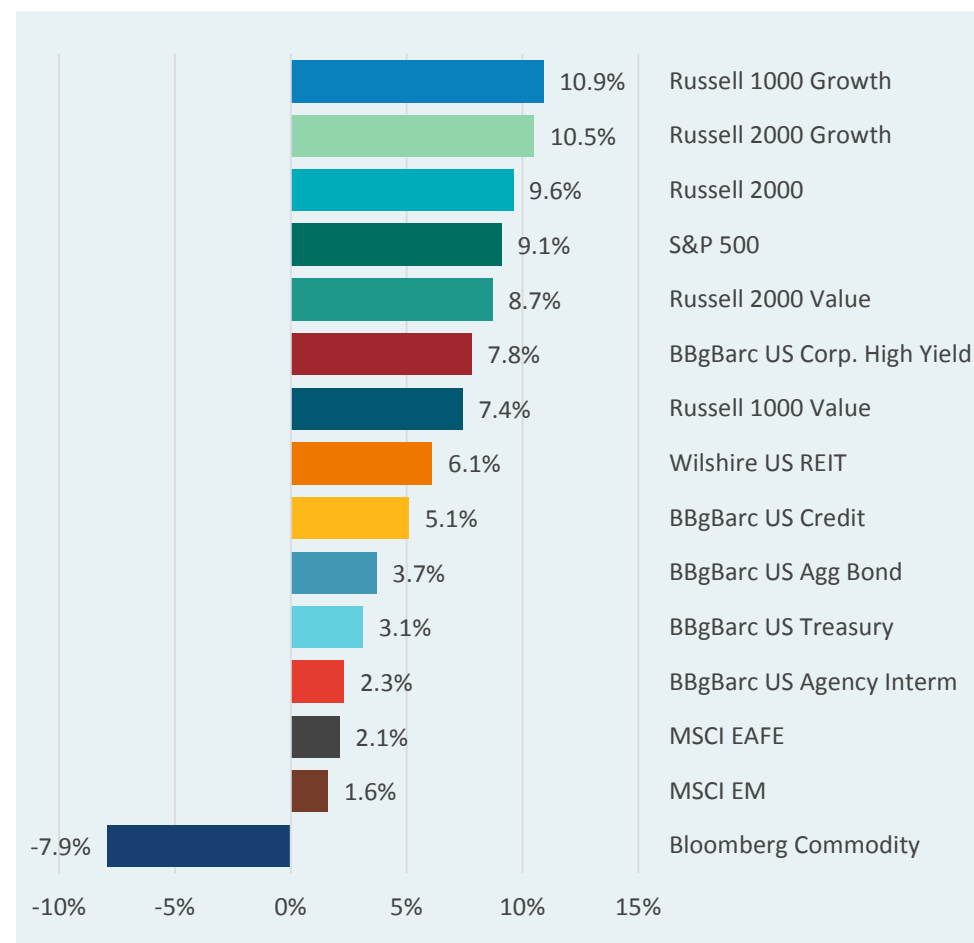
Major asset class returns

ONE YEAR ENDING MAY



Source: Morningstar, as of 5/31/18

TEN YEARS ENDING MAY



Source: Morningstar, as of 5/31/18

U.S. large cap equities

- The S&P 500 Index gained 2.4% in May, driven once again by mega cap tech companies such as Apple, Netflix, and Amazon. The S&P 500 Information Technology Index returned 7.4%.
- U.S. equities have traded in a relatively narrow range since the February sell off and volatility has returned back to below average levels. The S&P 500 Index has been within 2600 and 2800 and closed the month in the middle of this range at 2705.

- Realized volatility was 11.2% (annualized) in May and the VIX Index (implied volatility) closed the month at 15.3, below the year-to-date average of 16.7. A lack of clear direction on trade negotiations and few surprises in economic data or monetary policy expectations likely contributed to the low volatility.
- Analysts are expecting another strong earnings season in the second quarter. According to FactSet, the YoY Q2 earnings growth rate for the S&P 500 Index is 18.9%.

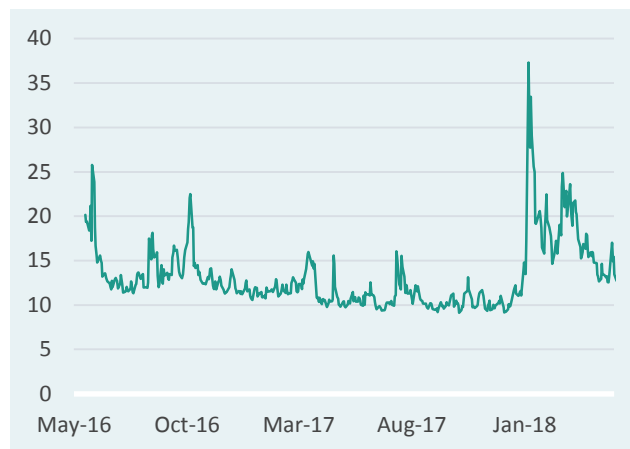
Mega cap tech companies drove market gains

S&P 500 PRICE INDEX



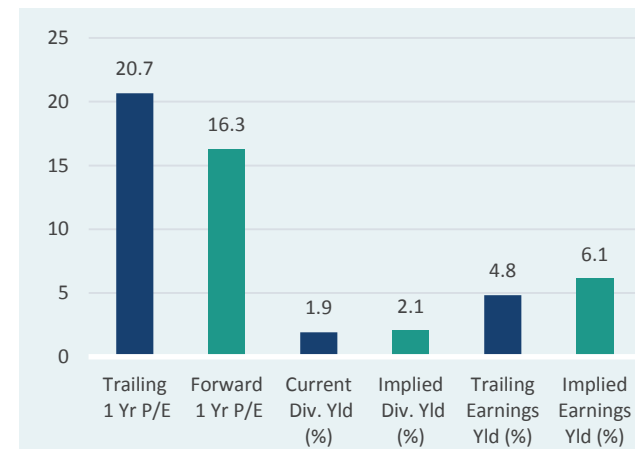
Source: Bloomberg, as of 5/31/18

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 5/31/18

S&P 500 VALUATION SNAPSHOT



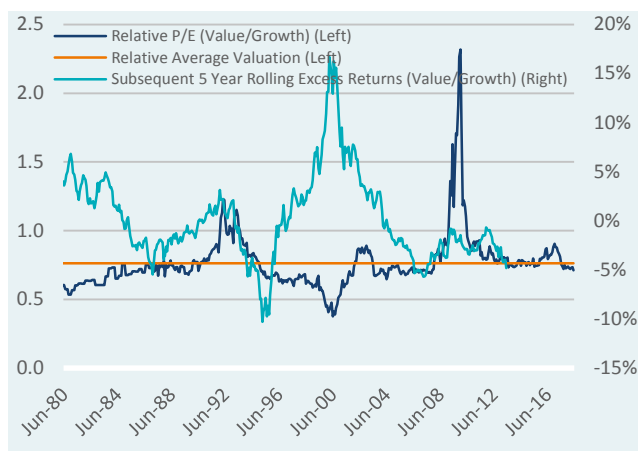
Source: Bloomberg, as of 5/31/18

Domestic equity size and style

- Small cap equities outperformed large cap equities for the third consecutive month. The Russell 2000 Index and Russell 1000 Index returned 6.1% and 2.6%, respectively. Small cap outperformance has been influenced by insulation from a stronger U.S. dollar and global trade concerns.
- The strong month for small caps (Russell 2000) pushed the trailing 1-year return differential between large cap equities (Russell 1000) into positive territory for the first time since shortly after the 2016 U.S. presidential election.
- Mainly due to a large exposure to the tech sector, growth equities materially outperformed value equities in May. The Russell 1000 Growth Index and Russell 1000 Value Index returned 4.4% and 0.6%, respectively.
- Value equities have been out of favor for much of the current bull market, but there does not yet appear to be a catalyst for this trend to reverse based on valuations. The current ratio between value and growth P/E multiples are in line with the long-term historical average.

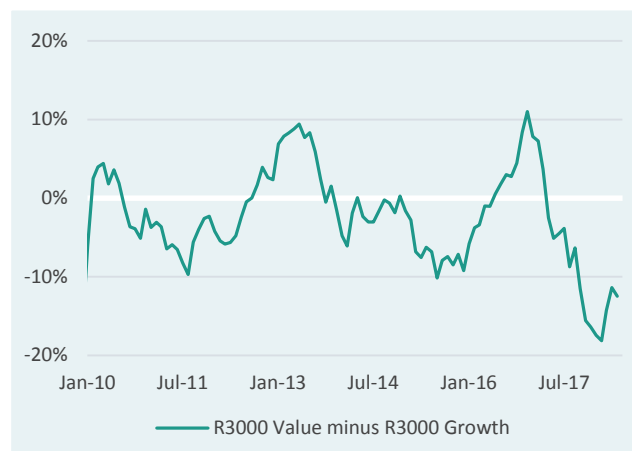
Small cap and growth equities outperformed

VALUE VS. GROWTH RELATIVE VALUATIONS



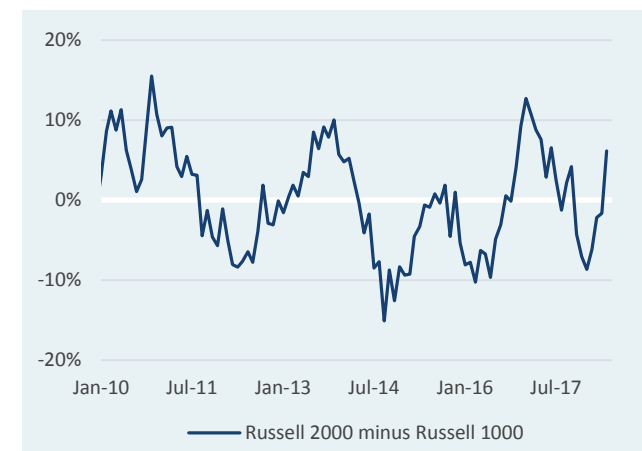
Source: Russell, Bloomberg, as of 5/31/18

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 5/31/18

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



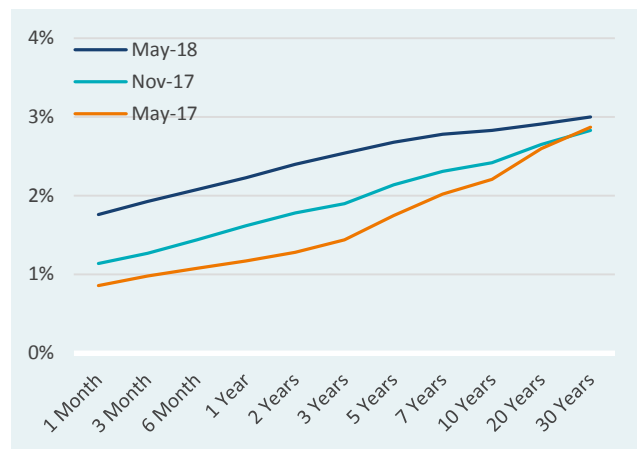
Source: FTSE, as of 5/31/18

Fixed income

- The Bloomberg Barclays Aggregate Index returned 0.7% in May, reversing losses from the previous month. The yield on the index fell from 3.3% to 3.2%, below the 20-year average of 4.0%.
- Long duration strategies outperformed (Bloomberg Barclays Long Treasury Index +2.1%) as long-term Treasury yields fell and the yield curve flattened. Although yields are expected to continue to move gradually higher, investors should be aware that short-term pullbacks such as this are likely.
- The market is pricing in a 100% chance of a rate hike at the June Fed meeting and two more hikes by the end of the year based on fed fund futures.
- Local currency emerging market debt came under pressure in May as yields rose and currencies depreciated – the JPMorgan GBI-EM Diversified Index returned -5.0%. While the economic fundamentals remain positive in most emerging countries, continued U.S. dollar strength and Fed tightening are a concern.

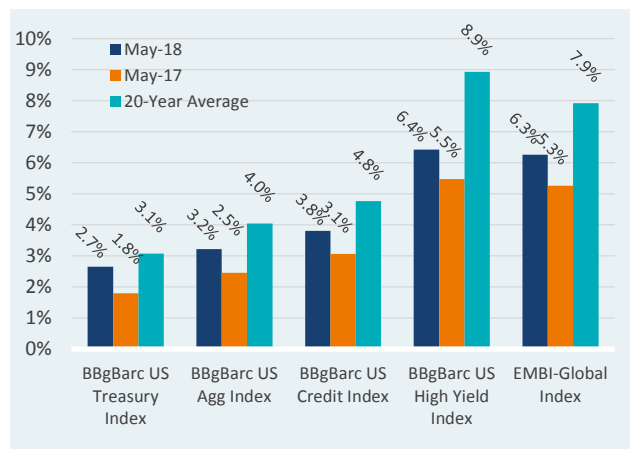
EM local debt underperformed

U.S. TREASURY YIELD CURVE



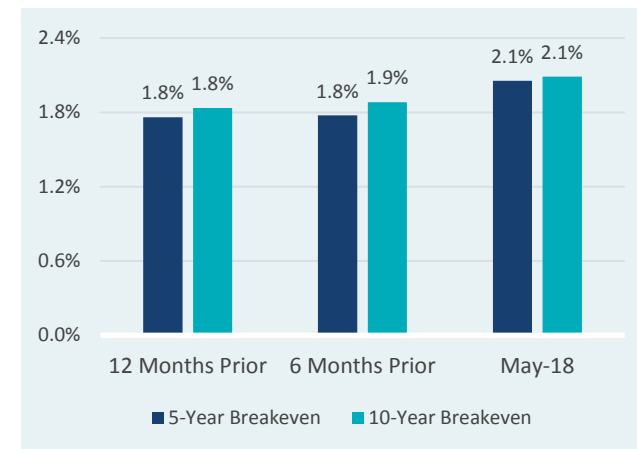
Source: Bloomberg, as of 5/31/18

NOMINAL YIELDS



Source: Morningstar, as of 5/31/18

BREAKEVEN INFLATION RATES



Source: Bloomberg, as of 5/31/18

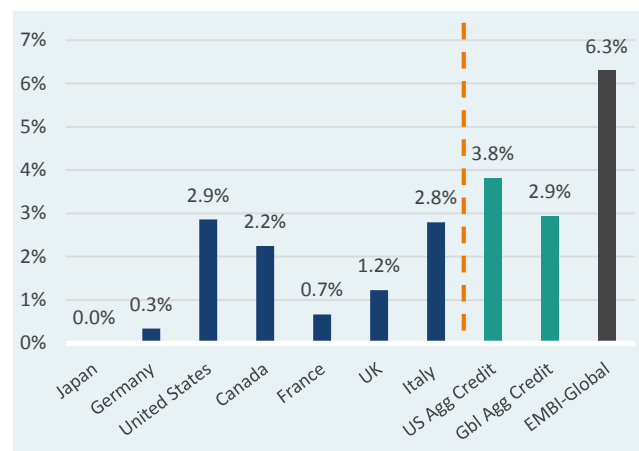
Global markets

- The political environment in Italy led to extreme volatility in Italian sovereign debt, influenced by rising risk premiums and the ECB taking a pause from buying the country's bonds. The 2-year yield spiked 186 bps in one day to 2.77% before falling to finish the month at 1.07%.
- Weakness in Italian markets spilled over to the rest of the Eurozone, which was one of the reasons international equities (MSCI EAFE -2.2%) underperformed domestic equities.

- The U.S. dollar continued to strengthen against both developed and emerging currencies, especially relative to the euro. The Dollar Spot Index (DXY) rose 2.3% during the month.
- Trade negotiations between China and the U.S. remain fluid with little concrete progress. The White House asked the U.S. Trade Commission to look into placing an additional \$50 billion in tariffs on Chinese tech goods. Chinese officials stated negotiations would cease if any tariffs went into effect.

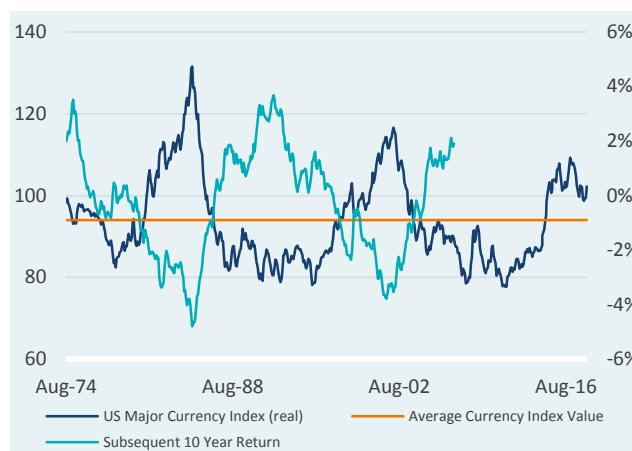
Italian politics placed stress on global markets

GLOBAL SOVEREIGN 10-YEAR YIELDS



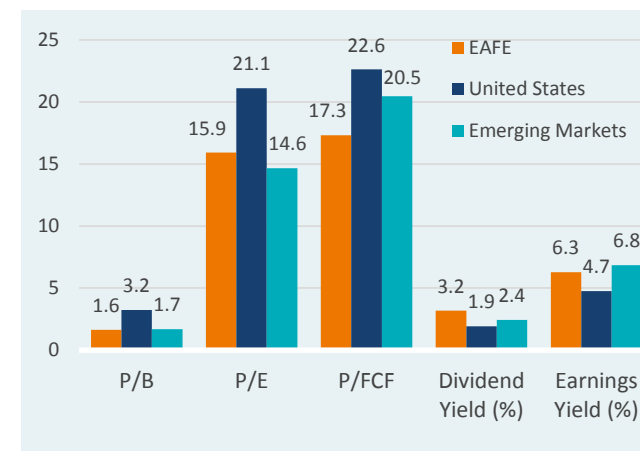
Source: Bloomberg, as of 5/31/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 5/31/18

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 5/31/18

Commodities

- The Bloomberg Commodity Index returned 1.4% in May, led by energy and industrial metals.
- WTI oil peaked at a four year of \$72.35 on May 21st, but fell to end the month at \$67.04. Oil prices were impacted by the possibility that OPEC will end production cuts at its next meeting in June.
- Gold prices fell 1.3% during the month, dropping below \$1300 per ounce for the first time since December of last year. A potential increase in U.S. real yields may

place pressure on gold prices due to the relative carry attractiveness of Treasuries.

- Commodities (+3.6%) have outperformed global equities (MSCI ACWI +0.1%) and U.S. fixed income (Bloomberg Barclays Agg -1.5%) so far this year.

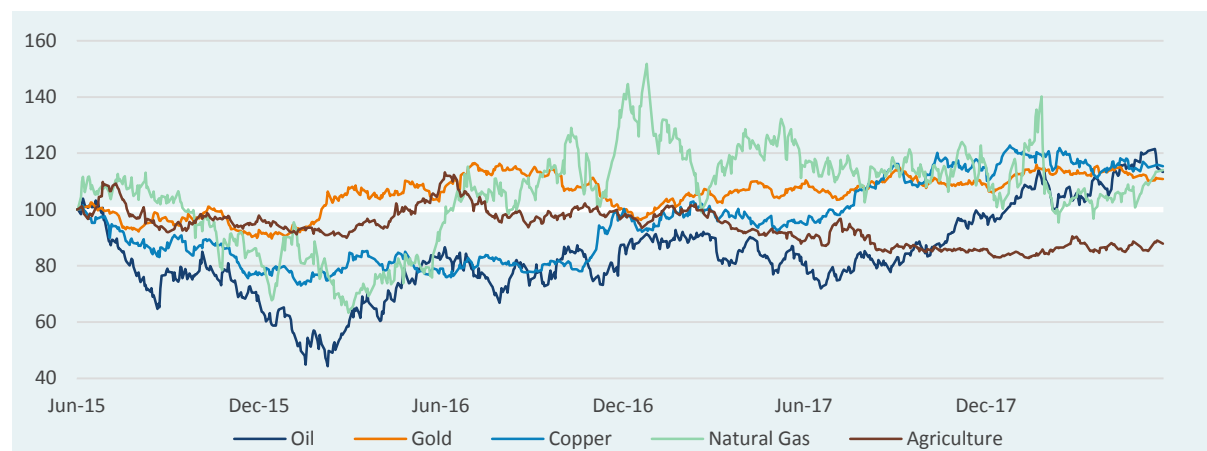
Commodities
have
outperformed
financial assets
this year

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	1.4	4.0	3.6	11.0	(2.8)	(6.6)	(7.9)
Bloomberg Agriculture	0.6	2.0	5.2	(0.2)	(2.7)	(8.2)	(4.8)
Bloomberg Energy	2.7	7.8	9.7	26.3	(10.0)	(13.9)	(19.4)
Bloomberg Grains	(0.7)	2.3	9.5	0.2	(4.8)	(10.9)	(6.9)
Bloomberg Industrial Metals	2.4	6.0	(0.6)	25.0	6.2	0.4	(3.7)
Bloomberg Livestock	2.2	2.6	(7.6)	(13.4)	(7.1)	(2.7)	(6.1)
Bloomberg Petroleum	1.7	8.8	13.9	45.8	(6.0)	(11.1)	(13.6)
Bloomberg Precious Metals	(1.0)	(1.2)	(1.7)	(0.6)	1.3	(3.2)	2.3
Bloomberg Softs	6.6	6.0	(4.7)	(7.1)	(1.1)	(6.9)	(2.8)

Source: Morningstar, as of 5/31/18

COMMODITY PERFORMANCE



Source: Bloomberg, as of 5/31/18

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	8.8	15.7	10.9
Small Cap Equity	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	6.9	13.3	10.5
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	6.2	12.9	9.6
Small Cap Value	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	4.8	12.2	9.2
Commodities	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	3.6	11.0	8.7
Large 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	2.2	10.1	7.4
Real Estate	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	1.7	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	1.2	5.9	4.3
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	0.6	5.9	3.7
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	-0.3	4.5	2.1
US Bonds	-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	-1.5	3.3	1.6
International Equity	-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	-1.5	2.0	1.4
Large Cap Value	-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	-1.9	0.4	0.4
Emerging Markets Equity	-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	-2.6	-6.6	-7.9

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

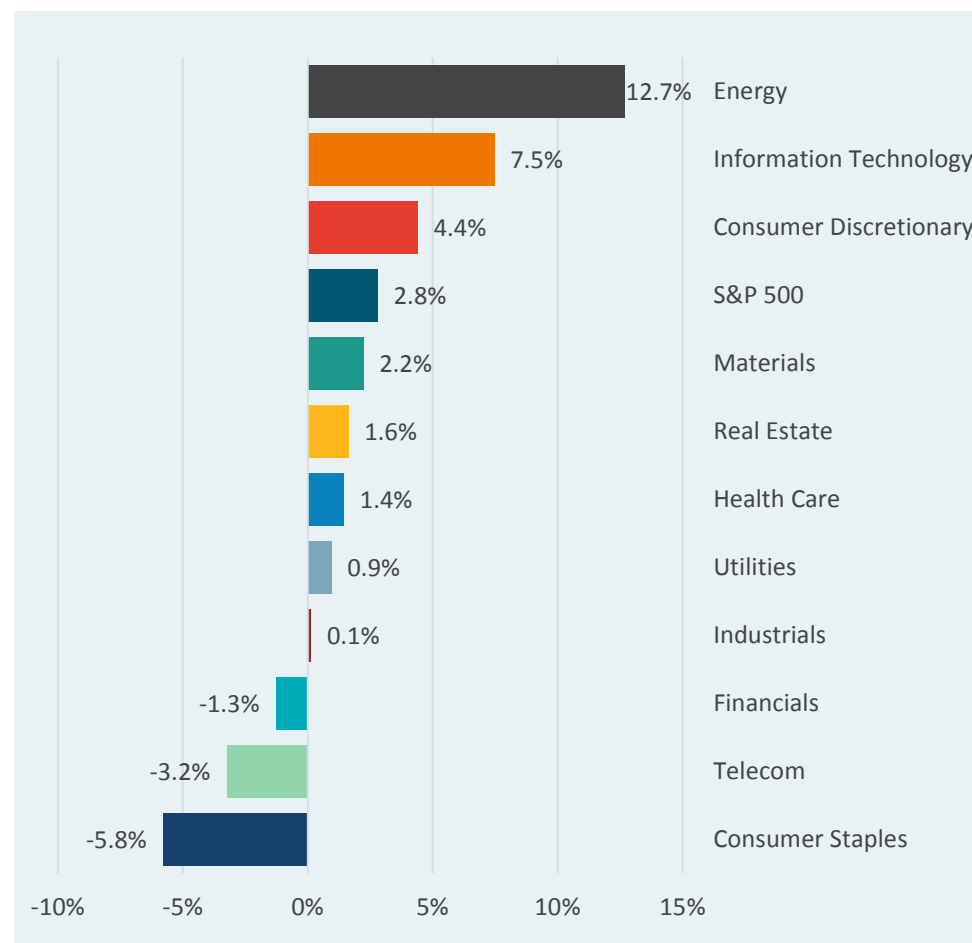
Hedge Funds of Funds

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 3/31/18.

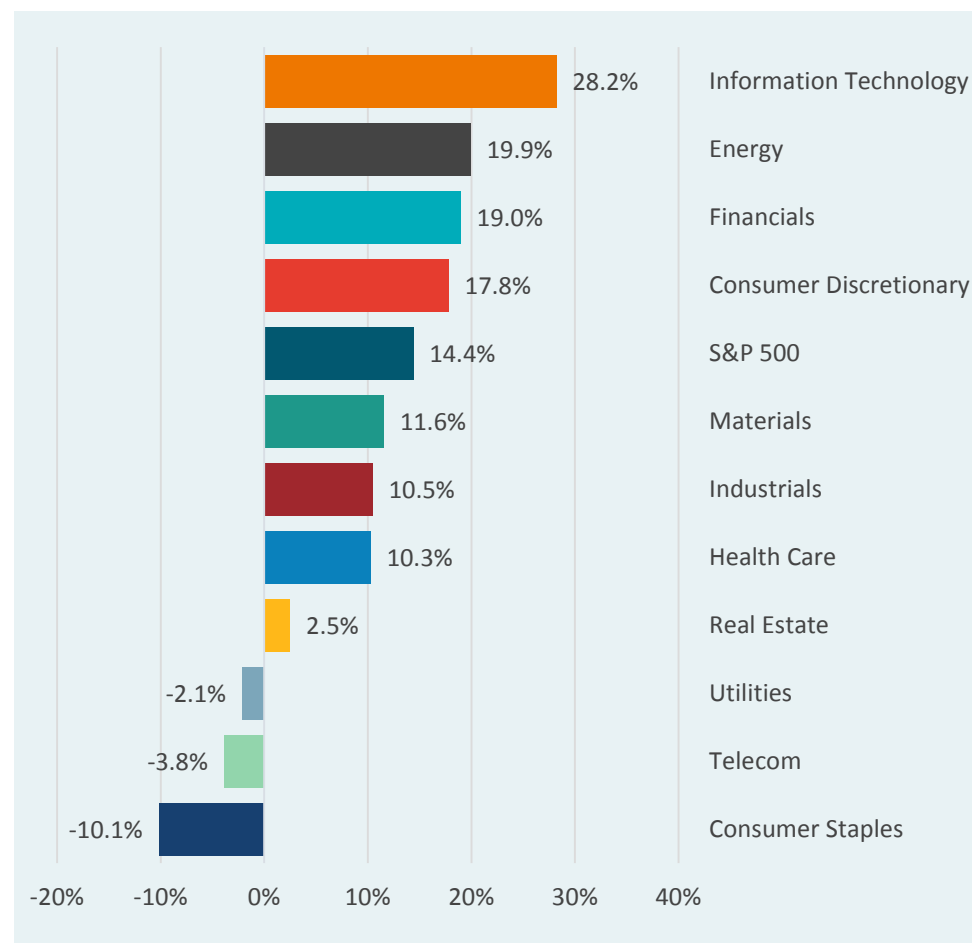
S&P 500 sector returns

QTD



Source: Morningstar, as of 5/31/18

ONE YEAR ENDING MAY



Source: Morningstar, as of 5/31/18

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	2.4	2.8	2.0	14.4	11.0	13.0	9.1
S&P 500 Equal Weighted	1.4	1.8	0.8	12.3	9.3	12.3	10.4
DJ Industrial Average	1.4	1.8	(0.2)	18.9	13.5	12.8	9.7
Russell Top 200	2.7	3.2	2.4	15.4	11.6	13.4	9.2
Russell 1000	2.6	2.9	2.2	14.6	10.7	12.9	9.2
Russell 2000	6.1	7.0	6.9	20.8	11.0	12.2	9.6
Russell 3000	2.8	3.2	2.5	15.1	10.7	12.9	9.2
Russell Mid Cap	2.3	2.1	1.6	12.7	8.6	11.8	9.2
Style Index							
Russell 1000 Growth	4.4	4.7	6.2	21.0	13.9	15.7	10.9
Russell 1000 Value	0.6	0.9	(1.9)	8.2	7.4	10.1	7.4
Russell 2000 Growth	6.3	6.4	8.8	25.1	10.8	13.3	10.5
Russell 2000 Value	5.8	7.7	4.8	16.4	11.0	11.0	8.7

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	0.1	1.1	0.1	11.8	7.5	8.9	5.0
MSCI ACWI ex US	(2.3)	(0.7)	(1.9)	9.7	4.7	5.5	1.9
MSCI EAFE	(2.2)	(0.0)	(1.5)	8.0	4.3	5.9	2.1
MSCI EM	(3.5)	(4.0)	(2.6)	14.0	6.2	4.5	1.6
MSCI EAFE Small Cap	(1.0)	0.4	0.6	14.7	10.3	10.9	6.1
Style Index							
MSCI EAFE Growth	(0.2)	1.3	0.2	10.0	5.9	7.0	2.8
MSCI EAFE Value	(4.3)	(1.4)	(3.4)	5.9	2.7	4.8	1.3
Regional Index							
MSCI UK	(0.8)	3.9	(0.1)	8.9	2.2	4.0	2.1
MSCI Japan	(1.0)	(0.3)	0.5	14.6	6.5	8.3	3.1
MSCI Euro	(5.3)	(2.1)	(2.5)	4.4	4.7	6.0	0.0
MSCI EM Asia	(1.3)	(1.3)	(0.4)	17.5	7.6	8.0	4.7
MSCI EM Latin American	(14.1)	(15.2)	(8.3)	3.7	3.4	(3.6)	(4.2)

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US TIPS	0.4	0.4	(0.4)	0.7	1.5	0.9	3.1
BBgBarc US Treasury Bills	0.2	0.3	0.6	1.2	0.6	0.4	0.4
BBgBarc US Agg Bond	0.7	(0.0)	(1.5)	(0.4)	1.4	2.0	3.7
Duration							
BBgBarc US Treasury 1-3 Yr	0.4	0.2	0.0	(0.1)	0.4	0.6	1.3
BBgBarc US Treasury Long	2.1	0.1	(3.2)	0.1	2.0	3.8	6.2
BBgBarc US Treasury	0.9	0.1	(1.1)	(0.8)	0.7	1.3	3.1
Issuer							
BBgBarc US MBS	0.7	0.2	(1.0)	(0.3)	1.2	2.0	3.5
BBgBarc US Corp. High Yield	(0.0)	0.6	(0.2)	2.3	4.9	4.9	7.8
BBgBarc US Agency Interm	0.5	0.2	(0.2)	(0.2)	0.7	1.0	2.3
BBgBarc US Credit	0.5	(0.4)	(2.5)	0.1	2.4	2.9	5.1

OTHER

Index							
Bloomberg Commodity	1.4	4.0	3.6	11.0	(2.8)	(6.6)	(7.9)
Wilshire US REIT	3.6	5.0	(2.8)	1.9	4.7	7.1	6.1
CS Leveraged Loans	0.2	0.7	2.3	4.5	4.2	4.1	5.0
Alerian MLP	5.1	13.6	0.9	(3.7)	(8.1)	(3.2)	6.1
Regional Index							
JPM EMBI Global Div	(0.9)	(2.4)	(4.1)	(0.6)	4.5	4.3	6.7
JPM GBI-EM Global Div	(5.0)	(7.8)	(3.7)	1.0	2.5	(1.7)	2.7
Hedge Funds							
HFRI Composite	0.8	1.1	1.6	5.4	2.2	3.9	3.5
HFRI FOF Composite	0.7	0.9	1.2	5.6	1.8	3.3	1.4
Currency (Spot)							
Euro	(3.4)	(5.1)	(2.8)	3.8	2.1	(2.1)	(2.8)
Pound	(3.4)	(5.1)	(1.6)	3.1	(4.5)	(2.6)	(3.9)
Yen	0.7	(2.1)	3.7	1.8	4.5	(1.5)	(0.3)

Source: Morningstar, HFR, as of 5/31/18

Notices & disclosures

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