

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

SEPTEMBER 2018
Capital Markets Update

Market commentary

U.S. ECONOMICS

- Non-farm payrolls added 134,000 jobs in September, missing the consensus estimate of 185,000. However, net revisions to the two months prior totaled +87,000 jobs. Hurricane Florence likely contributed to the miss, as leisure and hospitality employment fell by 17,000, the largest drop in a year.
- The U3 unemployment rate fell from 3.9% to 3.7%, the lowest rate since December, 1969. The U6 unemployment rate, including discouraged workers, marginally-attached workers, and workers who are part-time for purely economic reasons, ticked back up from 7.4% to 7.5%.
- The ISM Services PMI posted a reading of 61.6 in September, beating expectations of 58.1 and exceeding the August print of 58.5. Particularly strong outlooks for business activity and employment helped propel the indicator to its highest level since August, 1997.

U.S. EQUITIES

- The S&P 500 Index gained 0.6% in September, pushed forward by outperformance in cyclical sectors. The new Communication Services GICS sector led the advance, up 4.3% for the month.
- The CBOE VIX index, which reflects the 30-day implied volatility of the S&P 500 Index, fell slightly from 12.9 to 12.1.
- According to FactSet, the estimated year-over-year earnings growth rate for the S&P 500 in Q3 2018 is 19.2%. The equivalent revenue growth rate projection is 7.3%.

U.S. FIXED INCOME

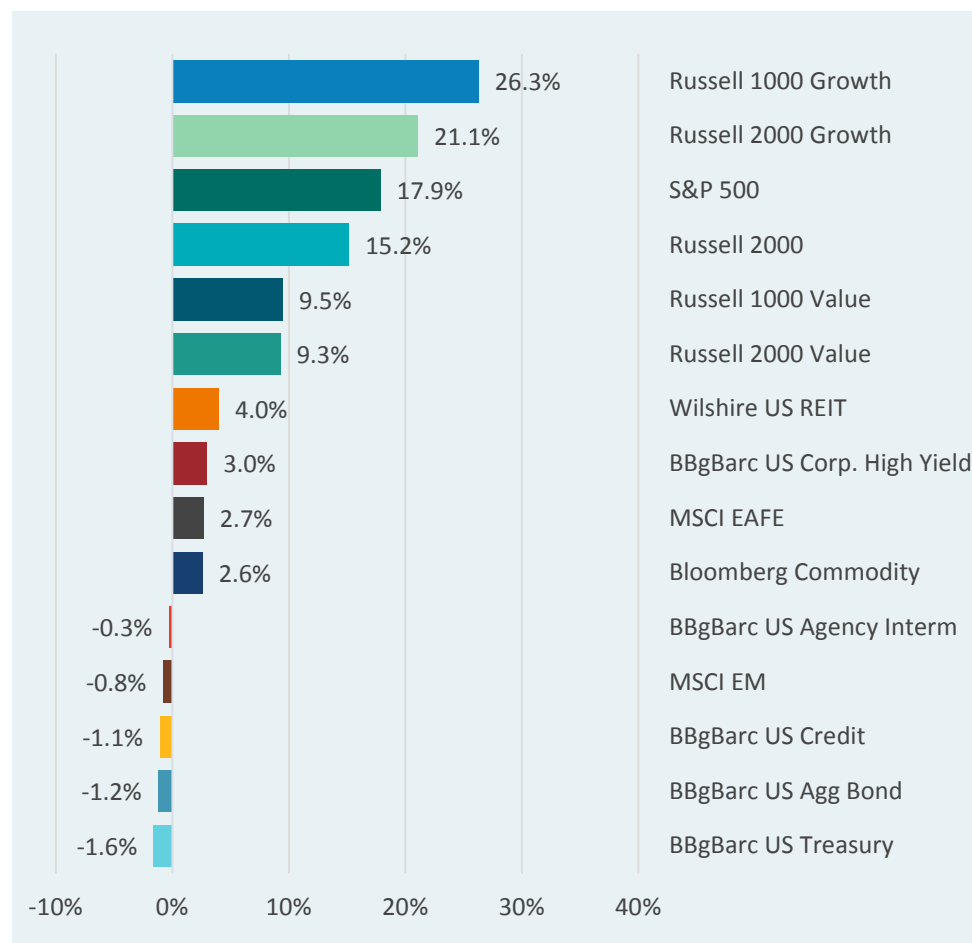
- As expected, the Federal Open Market Committee raised the target range for the fed funds rate by 0.25%, moving the new range to 2.00%-2.25%. The market implied odds for an additional December rate hike are 78% as of October 8th.
- The 10-year U.S. Treasury yield advanced 20 basis points in September, ending the month at 3.06%, just under the year-to-date high of 3.11%.
- The spread between the 10- and 2-year Treasury yields exhibited stability over the month – the 2-year yield also rose 20 basis points in September, leaving the spread unchanged at 24 basis points.

INTERNATIONAL MARKETS

- The United States, Mexico, and Canada reached an agreement on a new trade deal to replace NAFTA. The new deal, USMCA, included provisions aimed towards protecting the business interests of North American auto manufacturers as well as the wages of their laborers. In addition, the deal opened the Canadian dairy market to U.S. farmers.
- The U.S. imposed 10% tariffs on \$200 billion of Chinese goods on 9/24. The White House claimed that the tariff rate will advance from 10% to 25% at year-end if no progress is made in the meantime. China responded with retaliatory tariffs of 10% on \$60 billion of U.S. imports.
- The J.P. Morgan Emerging Markets Currency Index gained 1.6%, its largest monthly advance since January.

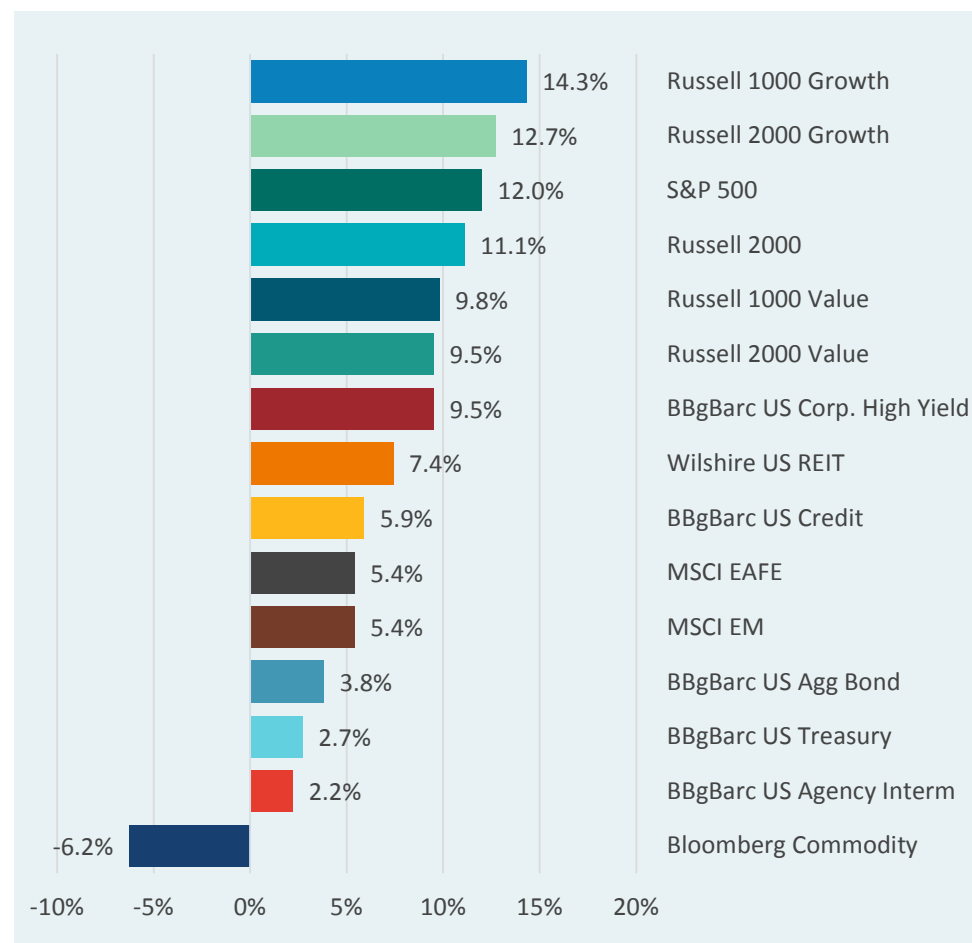
Major asset class returns

ONE YEAR ENDING SEPTEMBER



Source: Morningstar, as of 9/30/18

TEN YEARS ENDING SEPTEMBER



Source: Morningstar, as of 9/30/18

U.S. large cap equities

- The S&P 500 index steadily advanced in September, gaining 0.6% over the month. Communication Services (+4.3%), Health Care (+2.9%), and Energy (+2.6%) pushed the index further. Real Estate (-2.6%), Financials (-2.2%), and Materials (-2.1%) detracted from performance.
- Microsoft (+1.8%) and Exxon Mobil (+6.1%) accounted for 24% of the movement in the S&P 500 Index over the month.
- The S&P 500 closed the month 5.7% above its 200-day moving average and 1.6% above its 50-day moving average following a steady upward trend over the past several months.
- Amazon announced it will raise its minimum wage to \$15 per hour effective on November 1st. The wage raise is expected to impact 250,000 full-time employees, as well as an additional 100,000 seasonal employees.

S&P 500 PRICE INDEX



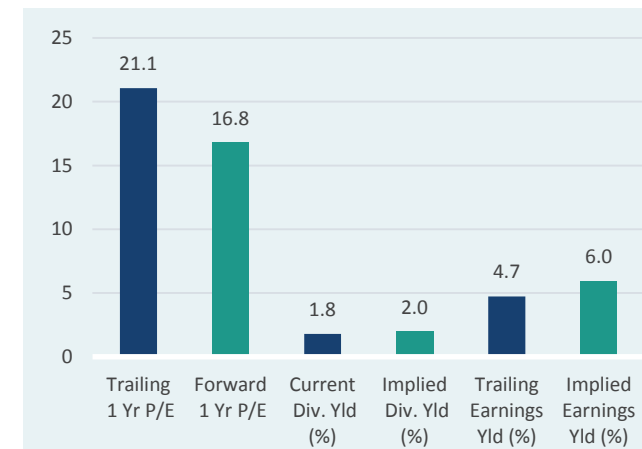
Source: Bloomberg, as of 9/30/18

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 9/30/18

S&P 500 VALUATION SNAPSHOT



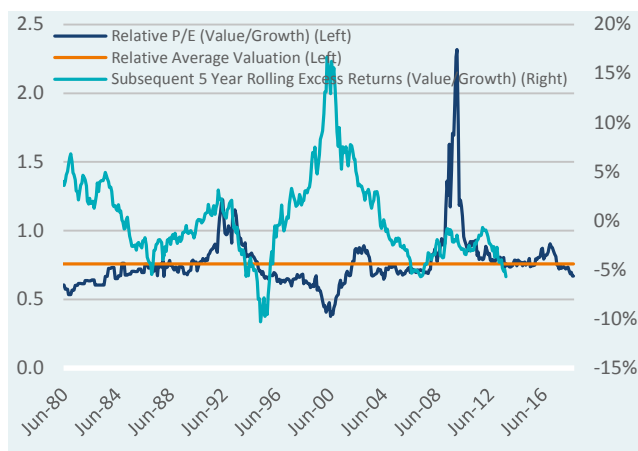
Source: Bloomberg, as of 9/30/18

Domestic equity size and style

- Large cap stocks outperformed small cap stocks over the period. The Russell 1000 returned 0.4% in September, while the Russell 2000 lost 2.4%.
- Though growth outperformed value in both large cap and small cap, the impact of style on performance was small. The Russell 1000 Growth (+0.6%) outperformed the Russell 1000 Value (+0.2%) by 35 basis points. The Russell 2000 Growth (-2.3%) outperformed the Russell 2000 Value (-2.5%) by 14 basis points.
- The telecommunications sector produced the largest return differential between large and small cap stocks. The Russell 1000 Telecommunication Index (+2.9%) outperformed the Russell 2000 Telecommunication Index (-4.0%) by 6.9%.
- The trailing one-year annualized volatility of the Russell 3000 Growth Index ended the month at 12.7%, compared to the Russell 3000 Value Index, which finished at 10.7%. The month-end spread of 2.0% between the two readings is the largest in 15 years.

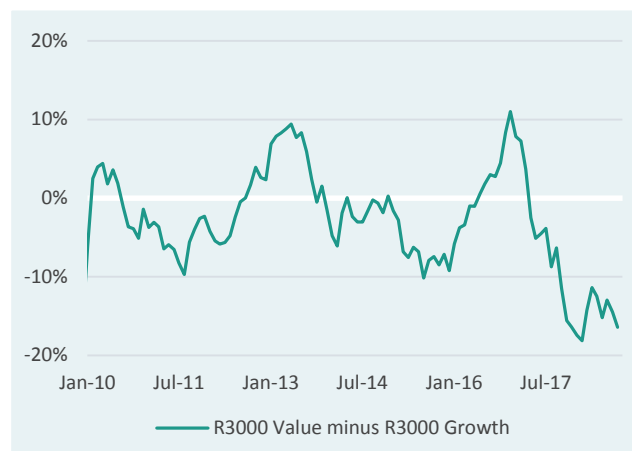
Large cap equities outperformed

VALUE VS. GROWTH RELATIVE VALUATIONS



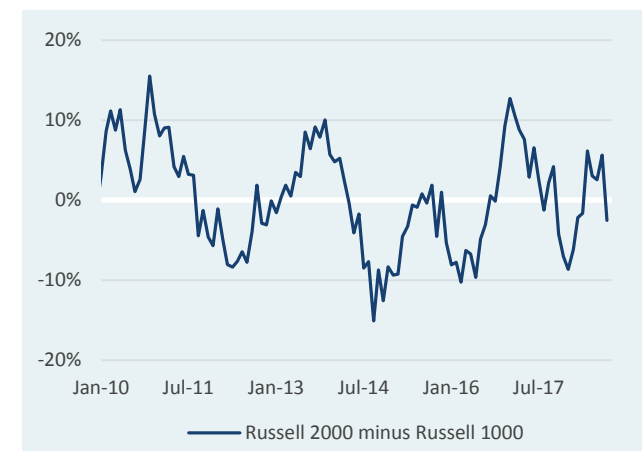
Source: Russell, Bloomberg, as of 9/30/18

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 9/30/18

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



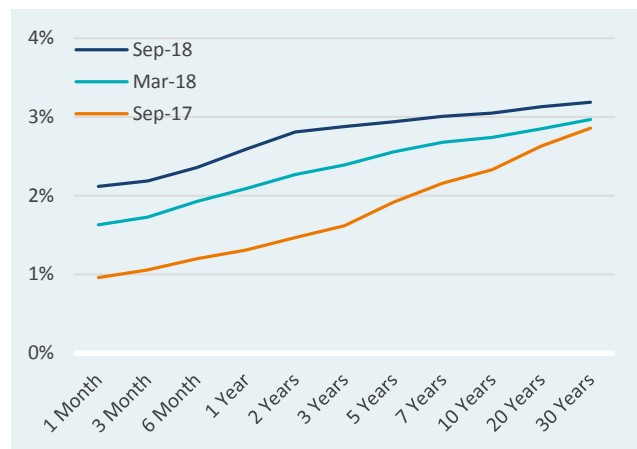
Source: FTSE, as of 9/30/18

Fixed income

- As expected, the European Central Bank left its main benchmark interest rate unchanged following its September meeting. The bank also announced plans to halve bond purchases starting in October, from €30 billion per month to €15 billion per month, and to conclude bond purchases at year-end.
- The yield spread between Italian and German 10-year bonds exhibited significant volatility over the month. Starting at 3.1%, the spread narrowed to 2.3% mid-month, before widening back to 3.0% in the beginning of October.
- Sovereign yields in major developed economies trended higher over the month. Ten-year sovereign yields rose 20 bps in the U.S., 15 bps in the U.K. and Germany, and 12 bps in France.
- The JPM GBI-EM Global Diversified index advanced 2.6% in September, its largest gain in eight months, aided by currency tailwinds. The JPM EM Currency Index posted its largest advance since January, up 1.6%.

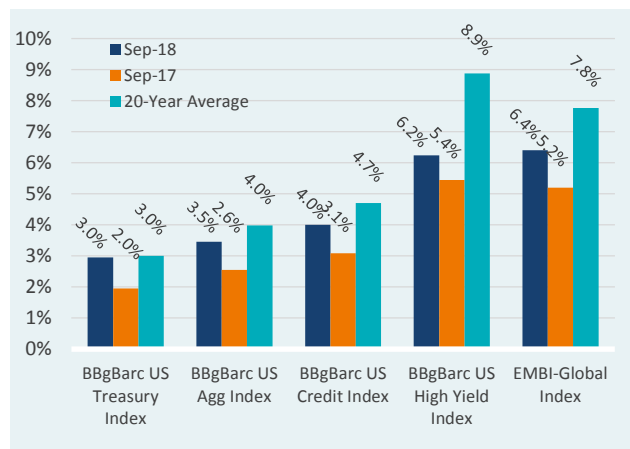
Sovereign yields rose across developed markets

U.S. TREASURY YIELD CURVE



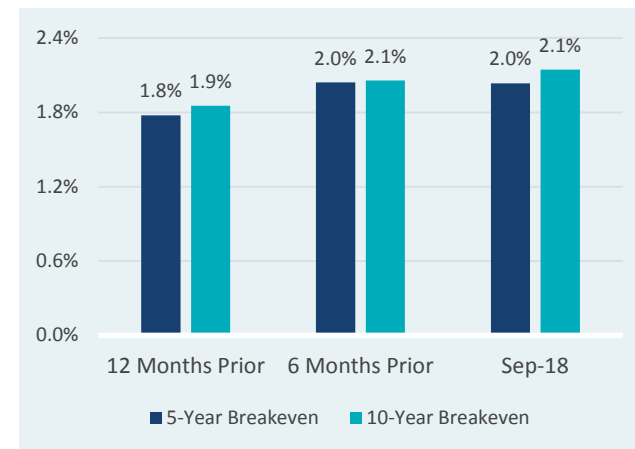
Source: Bloomberg, as of 9/30/18

NOMINAL YIELDS



Source: Morningstar, as of 9/30/18

BREAKEVEN INFLATION RATES



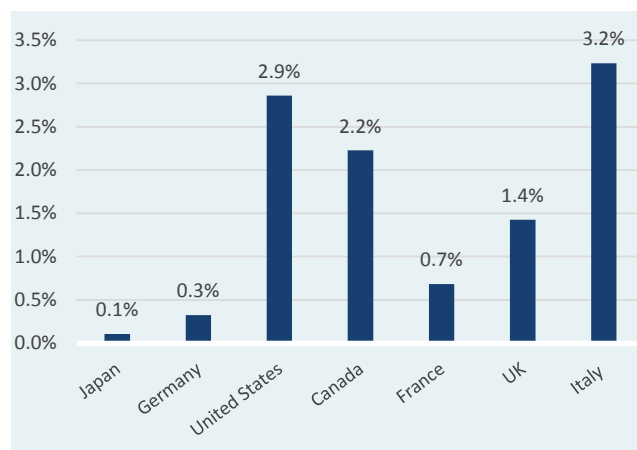
Source: Bloomberg, as of 9/30/18

Global markets

- Disagreements between the Italian coalition government and the European Commission regarding Italy's fiscal deficit dominated headlines in September. Rome proposed deficits (% of GDP) of 2.4%, 2.1% and 1.8% over the next three years, while the European Commission pushed for an Italian deficit below 2.0%.
- Uncertainty surrounding the Italian budget process impacted yields on the country's sovereign debt. Over the course of the month, 10-year yields dropped 44 basis points, and then rose 35 bps to end the month 9 bps lower at 3.14%.
- Brexit negotiations stalled as the European Union rejected Theresa May's exit proposal. UK Brexit minister Dominic Raab has expressed optimism that a deal can still be reached, but uncertainty continues to surround the potential "Brexit" timeline and its implications.
- The MSCI Japan Index gained 3.3% over the month, despite currency headwinds. In local currency, the MSCI Japan Index advanced 4.8%, its largest gain since last October.

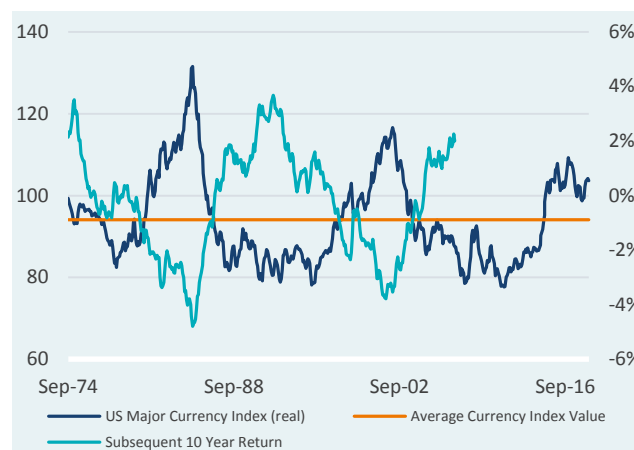
Political uncertainty complicated the outlook for European assets

GLOBAL SOVEREIGN 10-YEAR YIELDS



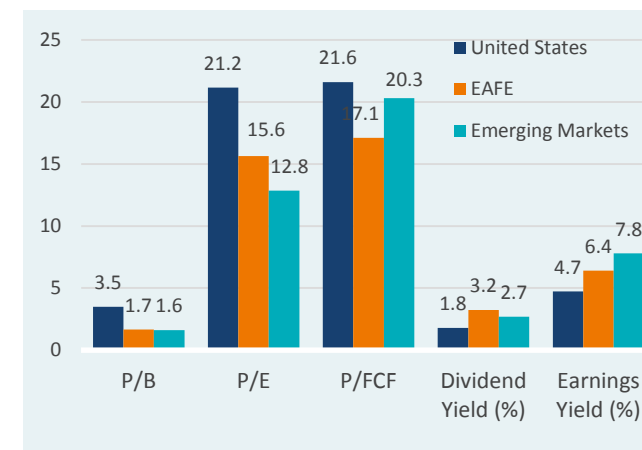
Source: Bloomberg, as of 9/30/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 9/30/18

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 9/30/18

Commodities

- The Bloomberg Commodity Index advanced 1.9% in September, led by livestock (+7.9%), energy (+5.2%), and petroleum (+6.1%).
- The Bloomberg Livestock sub-index jumped 7.9%, likely impacted by the peak of hurricane season on farms near the Eastern seaboard. Farmers in North Carolina have reported the deaths of about 3.4 million chickens and turkeys and 5,500 hogs due to flooding caused by Hurricane Florence.

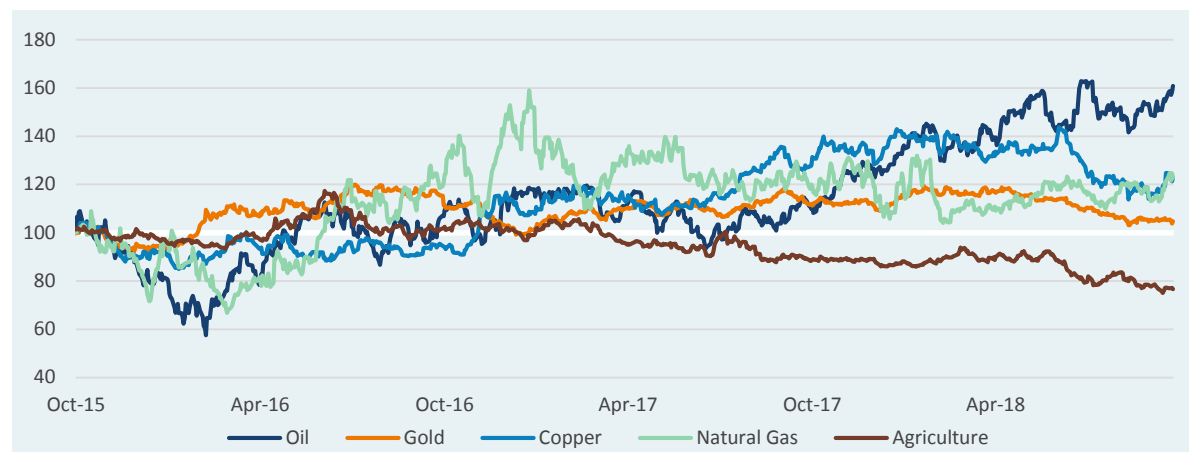
- WTI oil prices rose 5.8% from \$69.55 to \$73.60 per barrel. Hurricane season, as well as uncertainty regarding international adoption of the U.S. sanctions on Iranian crude likely contributed to recent price movement. The U.S. imposed deadline for halting Iranian crude imports is November 4th.
- Backwardation (spot prices above forward prices) in the futures markets for WTI crude remained a story in September. Rising spot prices further backwardated the curve, providing additional roll yield for futures-based commodity investors.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	1.9	0.1	(2.0)	2.6	(0.1)	(7.2)	(6.2)
Bloomberg Agriculture	(2.1)	(7.9)	(10.9)	(12.7)	(7.5)	(10.0)	(4.5)
Bloomberg Energy	5.2	9.2	17.6	28.1	0.4	(12.7)	(16.1)
Bloomberg Grains	(3.0)	(8.9)	(6.2)	(10.7)	(10.3)	(11.6)	(6.1)
Bloomberg Industrial Metals	2.2	(2.3)	(11.8)	(2.4)	7.9	(1.4)	(2.8)
Bloomberg Livestock	7.9	7.5	(2.4)	0.8	(1.8)	(2.7)	(4.5)
Bloomberg Petroleum	6.1	9.9	24.2	44.5	7.0	(11.2)	(10.6)
Bloomberg Precious Metals	(0.3)	(3.4)	(10.7)	(8.8)	1.0	(4.2)	2.3
Bloomberg Softs	(2.0)	(7.2)	(22.8)	(18.8)	(6.1)	(10.9)	(4.3)

Source: Morningstar, as of 9/30/18

COMMODITY PERFORMANCE



Source: Bloomberg, as of 9/30/18

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
Large 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	17.1	16.6	14.3
Small Cap Growth	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	15.8	13.7	12.7
Small Cap Equity	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	11.5	12.1	12.1
Large Cap Equity	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	10.5	11.1	11.1
Small Cap Value	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	7.1	10.7	9.8
Large Cap Value	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	9.9	9.5
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	3.5	9.2	6.3
60/40 Global Portfolio	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	1.4	5.6	6.2
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	1.3	4.4	5.4
Hedge Funds of Funds	-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	1.2	3.6	5.4
International 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	-1.4	3.2	3.8
US Bonds	-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	-1.6	2.2	2.6
Commodities	-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	-2.0	0.5	0.3
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	-7.7	-7.2	-6.2

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

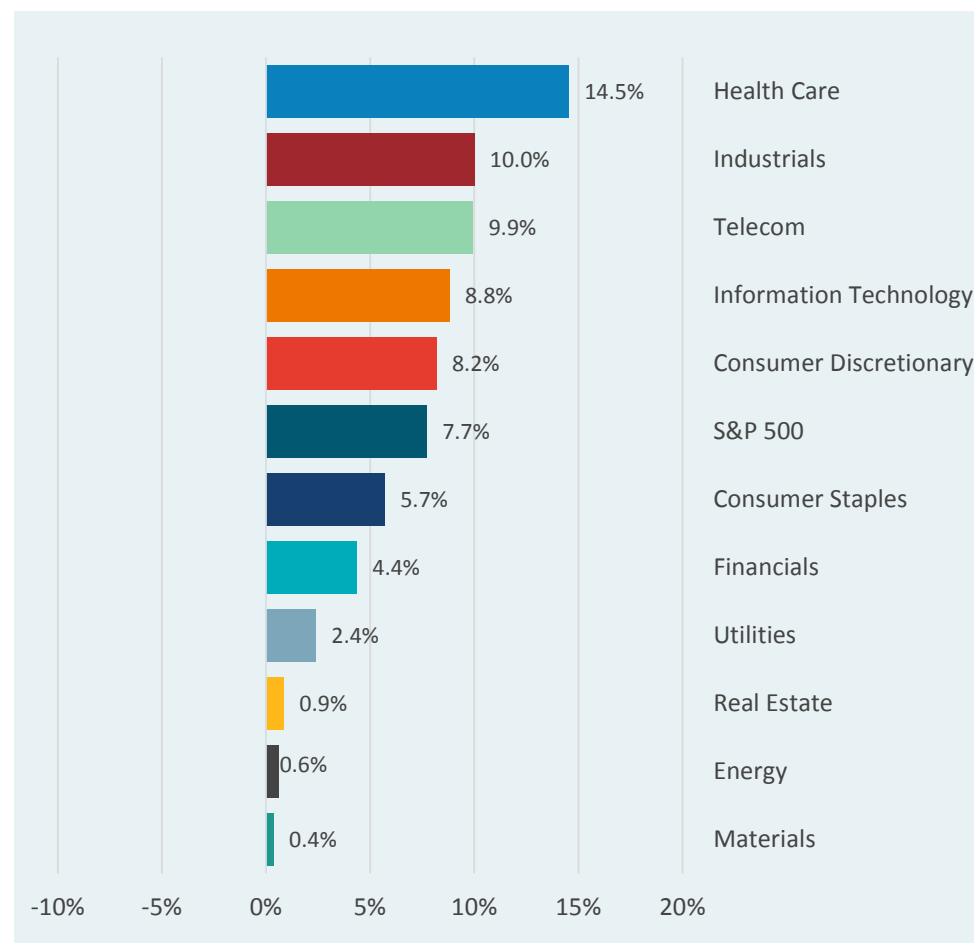
Hedge Funds of Funds

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 6/30/18.

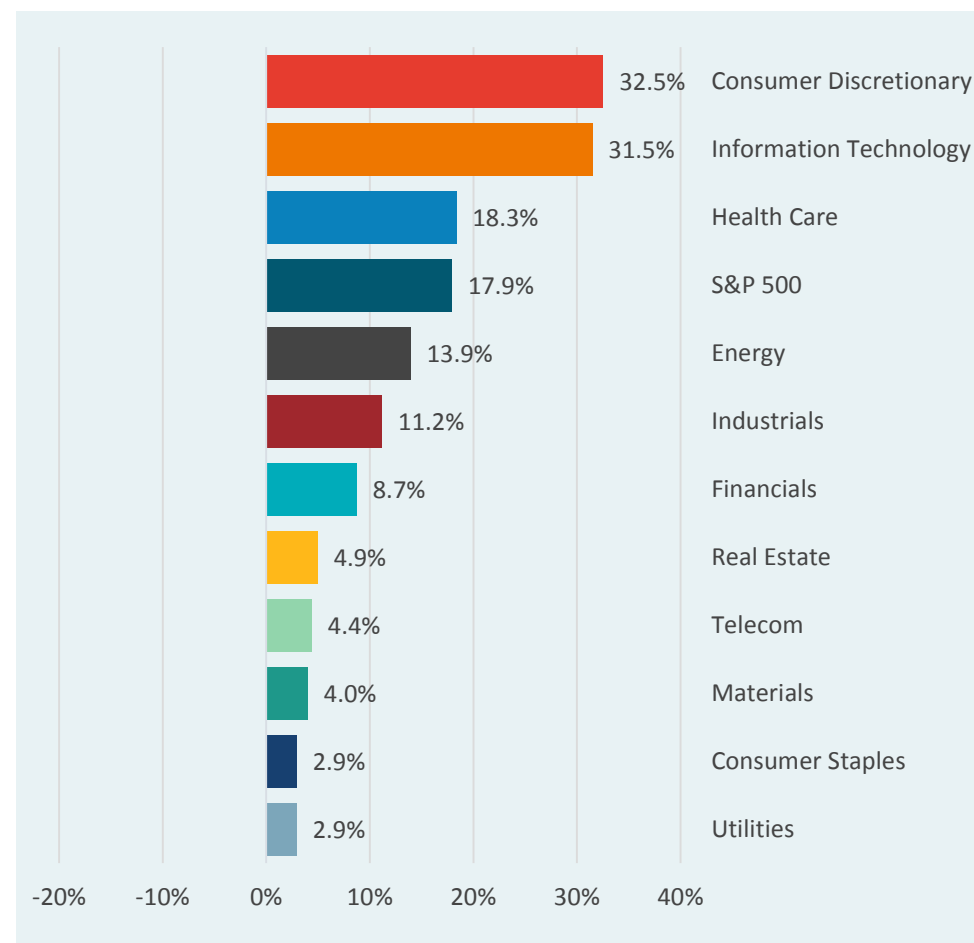
S&P 500 sector returns

THIRD QUARTER



Source: Morningstar, as of 9/30/18

ONE YEAR ENDING SEPTEMBER



Source: Morningstar, as of 9/30/18

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	0.6	7.7	10.6	17.9	17.3	13.9	12.0
S&P 500 Equal Weighted	0.1	5.4	7.3	13.9	15.4	12.5	13.1
DJ Industrial Average	2.0	9.6	8.8	20.8	20.5	14.6	12.2
Russell Top 200	0.8	8.4	11.7	19.3	18.1	14.5	12.0
Russell 1000	0.4	7.4	10.5	17.8	17.1	13.7	12.1
Russell 2000	(2.4)	3.6	11.5	15.2	17.1	11.1	11.1
Russell 3000	0.2	7.1	10.6	17.6	17.1	13.5	12.0
Russell Mid Cap	(0.6)	5.0	7.5	14.0	14.5	11.7	12.3
Style Index							
Russell 1000 Growth	0.6	9.2	17.1	26.3	20.6	16.6	14.3
Russell 1000 Value	0.2	5.7	3.9	9.5	13.6	10.7	9.8
Russell 2000 Growth	(2.3)	5.5	15.8	21.1	18.0	12.1	12.7
Russell 2000 Value	(2.5)	1.6	7.1	9.3	16.1	9.9	9.5

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	0.4	4.3	3.8	9.8	13.4	8.7	8.2
MSCI ACWI ex US	0.5	0.7	(3.1)	1.8	10.0	4.1	5.2
MSCI EAFE	0.9	1.4	(1.4)	2.7	9.2	4.4	5.4
MSCI EM	(0.5)	(1.1)	(7.7)	(0.8)	12.4	3.6	5.4
MSCI EAFE Small Cap	(0.7)	(0.9)	(2.2)	3.7	12.4	8.0	9.7
Style Index							
MSCI EAFE Growth	(0.2)	1.5	0.6	5.8	10.3	5.6	6.2
MSCI EAFE Value	2.1	1.2	(3.5)	(0.4)	8.1	3.1	4.5
Regional Index							
MSCI UK	1.8	(1.7)	(2.7)	2.9	6.2	2.2	4.9
MSCI Japan	3.0	3.7	1.6	10.2	12.1	6.8	6.0
MSCI Euro	(0.1)	(0.4)	(3.6)	(3.2)	8.5	3.9	3.4
MSCI EM Asia	(1.7)	(1.8)	(6.8)	1.0	13.5	6.7	8.2
MSCI EM Latin American	4.7	4.8	(6.9)	(9.1)	13.7	(2.3)	0.7

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US TIPS	(1.1)	(0.8)	(0.8)	0.4	2.0	1.4	3.3
BBgBarc US Treasury Bills	0.2	0.5	1.3	1.5	0.8	0.5	0.4
BBgBarc US Agg Bond	(0.6)	0.0	(1.6)	(1.2)	1.3	2.2	3.8
Duration							
BBgBarc US Treasury 1-3 Yr	(0.1)	0.2	0.2	(0.0)	0.4	0.6	1.1
BBgBarc US Treasury Long	(3.0)	(2.9)	(5.8)	(3.6)	0.7	4.4	5.5
BBgBarc US Treasury	(0.9)	(0.6)	(1.7)	(1.6)	0.2	1.3	2.7
Issuer							
BBgBarc US MBS	(0.6)	(0.1)	(1.1)	(0.9)	1.0	2.0	3.3
BBgBarc US Corp. High Yield	0.6	2.4	2.6	3.0	8.1	5.5	9.5
BBgBarc US Agency Interm	(0.2)	0.2	0.0	(0.3)	0.6	1.1	2.2
BBgBarc US Credit	(0.3)	0.9	(2.1)	(1.1)	3.0	3.4	5.9

OTHER

Index							
Bloomberg Commodity	1.9	(2.0)	(2.0)	2.6	(0.1)	(7.2)	(6.2)
Wilshire US REIT	(2.8)	(5.4)	2.2	4.0	7.1	9.2	7.4
CS Leveraged Loans	0.7	4.4	4.4	5.6	5.4	4.4	5.8
Alerian MLP	(2.0)	7.0	5.2	3.3	3.9	(2.8)	10.0
Regional Index							
JPM EMBI Global Div	1.5	2.3	(3.0)	(1.9)	6.0	5.4	7.5
JPM GBI-EM Global Div	2.6	(1.8)	(8.1)	(7.4)	5.2	(1.7)	2.7
Hedge Funds							
HFRI Composite	(0.2)	0.6	1.5	4.1	5.4	4.1	4.6
HFRI FOF Composite	(0.0)	0.4	1.2	3.3	3.4	3.2	2.6
Currency (Spot)							
Euro	(0.2)	(0.5)	(3.3)	(1.8)	1.3	(3.0)	(1.9)
Pound	0.3	(1.2)	(3.6)	(2.8)	(4.9)	(4.2)	(3.1)
Yen	(2.4)	(2.5)	(0.8)	(0.9)	1.8	(2.9)	(0.7)

Source: Morningstar, HFR, as of 9/30/18

Notices & disclosures

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