



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

JANUARY 2019
Capital Markets Update

Market commentary

U.S. ECONOMICS

- Nonfarm payrolls rose by 304,000 in January, nearly doubling expectations of 165,000, although job gains over the last two months were revised 70,000 lower in total. Leisure and hospitality (+74,000), construction (+52,000), and healthcare (+42,000) accounted for more than half of total job creation.
- The unemployment rate edged up from 3.9% to 4.0%, partly due to an increase in the labor force participation rate from 63.1% to 63.2%. Furloughed government workers during the partial government shutdown were counted as employed – federal government payrolls (+1,000) were little changed.
- The University of Michigan consumer sentiment survey sunk from 98.3 to 91.2 in January, missing expectations of 96.8. Survey administrators noted that concerns over the government shutdown, tariffs, and Q4 equity performance contributed to consumer uncertainty.

U.S. EQUITIES

- The S&P 500 Index gained 8.0% in January, its largest monthly advance since October 2015. At month-end, the price index was at 2704, 7.7% below the September high near 2930.
- Per Factset, with 66% of companies reporting, the year-over-year Q4 2018 blended earnings and sales growth rates for the S&P 500 are 13.3% and 7.0% respectively.
- With 14/30 companies reporting, energy sector earnings are standing out. The sector's blended YoY earnings growth rate for Q4 has topped analyst estimates by 20.2%, growing 98.9%.

U.S. FIXED INCOME

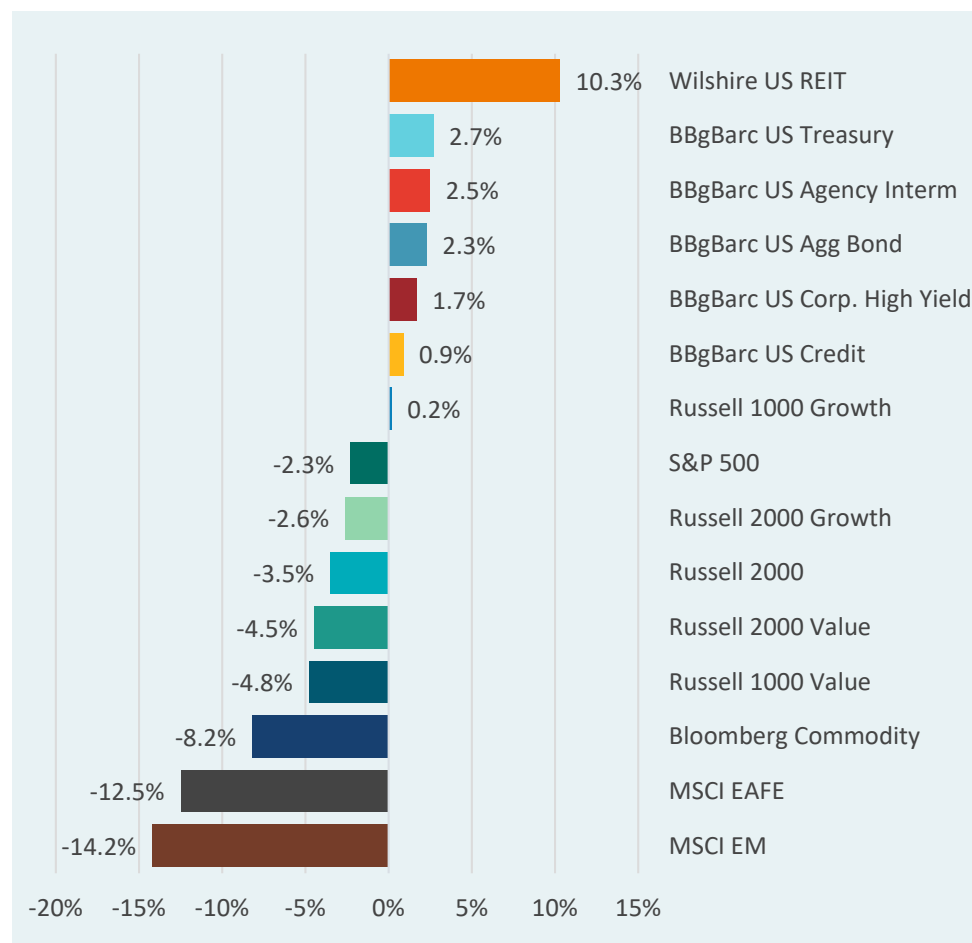
- At the January FOMC meeting, the range for the fed funds rate was left unchanged at 2.25-2.50%. Officials removed the words “further gradual increases” from their statement regarding interest rates, signaling a more patient outlook. A separate statement was released addressing the balance sheet, voicing an expectation to hold “an ample supply” of bank reserves. Analysts viewed both statements as unexpectedly dovish.
- Fed Chair Powell also walked back his December comment that the balance sheet unwind was “on autopilot”, affirming the Fed's intent to be flexible with all of its tools. The release of a separate FOMC statement addressing the balance sheet supported this shift in tone, reassuring markets.
- Credit spreads narrowed – high yield spreads fell from 5.3% to 4.2% and investment grade spreads fell from 1.5% to 1.3%.

INTERNATIONAL MARKETS

- In a strong month for global equities, emerging markets continued to outperform. The MSCI EM Index (+8.8%) outpaced the S&P 500 (+8.0%) and the MSCI EAFE Index (+6.6%).
- Industrial production prints missed across Europe. December output came in at -0.4% MoM (exp. 0.8%) in Germany, -0.8% (exp. 0.4%) in Italy, and -0.5% (exp. 0.1%) in the United Kingdom.
- Despite gloomy economic data, implied volatility in European stocks remained muted. The V2X, which normally trades at a premium to the VIX Index, spent most of January below the VIX, and ended the month at 15.1.

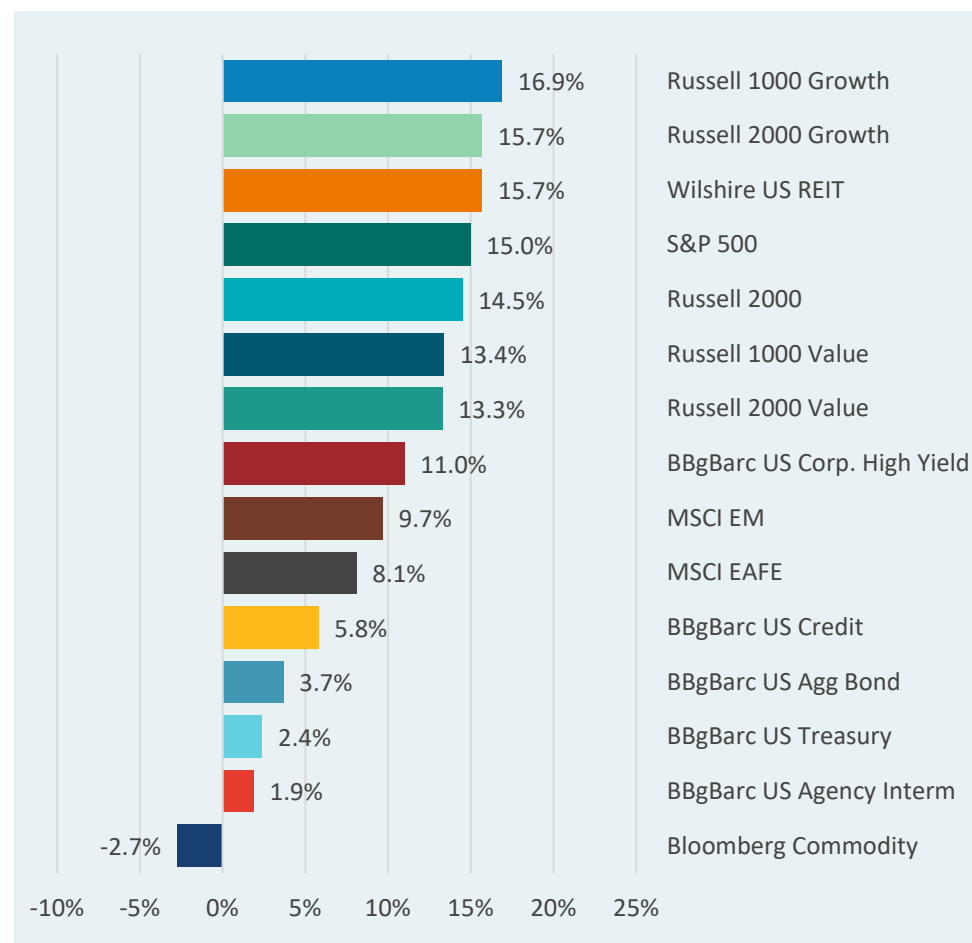
Major asset class returns

ONE YEAR ENDING JANUARY



Source: Morningstar, as of 1/31/19

TEN YEARS ENDING JANUARY



Source: Morningstar, as of 1/31/19

U.S. large cap equities

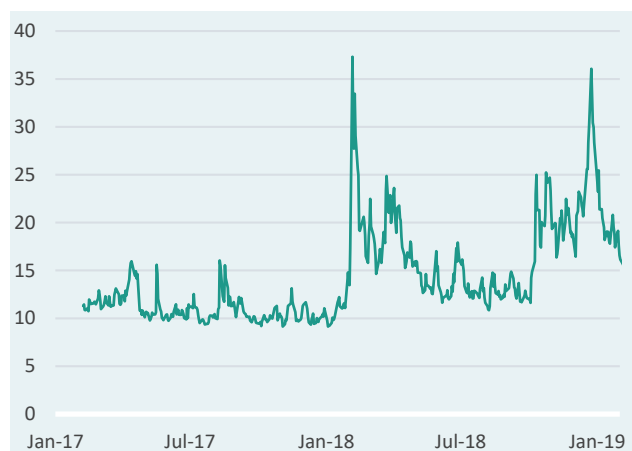
- The S&P 500 Index returned 8.0% in January. The advance was broad-based with all sectors posting positive returns. The consumer discretionary (+10.3%) and communication services (+10.4%) sectors led the overall index higher, while utilities (+3.4%) underperformed.
- The VIX Index retreated from 25.4 to 16.6, in line with its 200-day moving average. Investors' perceptions of a more flexible monetary policy from the Fed likely contributed to the more muted volatility.
- According to FactSet, estimates for S&P 500 earnings and revenue growth for the calendar year 2019 are 5.0% and 5.1%, respectively. For companies generating more than 50% of their sales domestically, same-period earnings and revenue growth estimates are 6.7% and 5.9% – for companies generating less than 50% of sales domestically, estimates are 1.9% and 3.1%.
- Over the month, the 1-year blended forward P/E ratio of the S&P 500 expanded from 14.5 to 15.8, indicating that large cap stocks are relatively more expensive.

S&P 500 PRICE INDEX



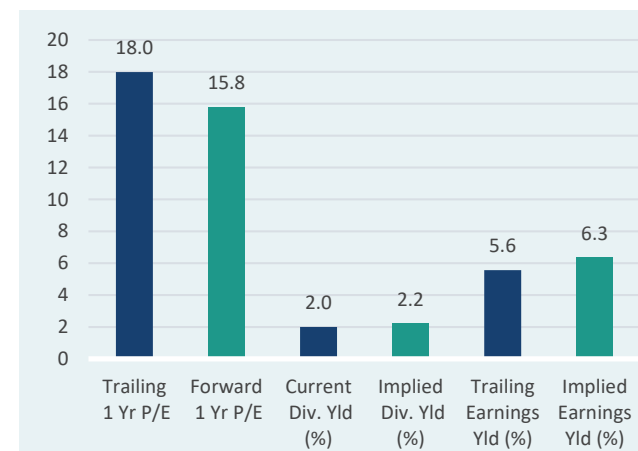
Source: Bloomberg, as of 1/31/19

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 1/31/19

S&P 500 VALUATION SNAPSHOT

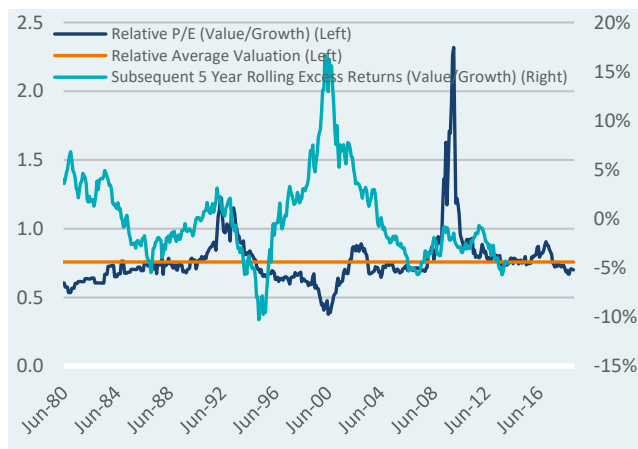


Source: Bloomberg, as of 1/31/19

Domestic equity size and style

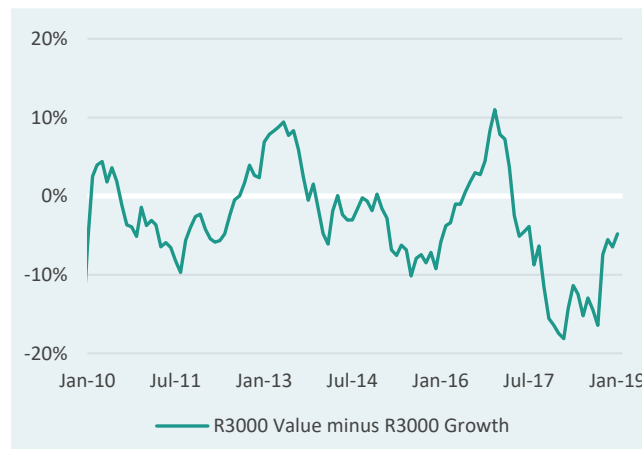
- Small cap equities outperformed large cap equities for the first month since August of last year. The Russell 2000 Index returned 11.2% while the Russell 1000 Index achieved an 8.4% return.
- Value stocks became cheaper relative to growth stocks for the second straight month. The trailing 1-year P/E ratio of the Russell 1000 Value Index moved from 14.6 to 15.7, while the Russell 1000 Growth Index saw P/E expansion from 20.6 to 22.4. The relative P/E ratio of value to growth stocks moved from 0.71 to 0.70.
- Growth outperformed value in both small cap and large cap stocks. The Russell 2000 Growth Index (+11.5%) outperformed the Russell 2000 Value Index (+10.9%), and the Russell 1000 Growth Index (+9.0%) outperformed the Russell 1000 Value Index (+7.8%).
- Utilities underperformance provided headwinds for value indexes. The Russell 3000 Value Index (+8.0%), underperformed the Russell 3000 Growth Index (+9.2%), and held a net 6.3% higher allocation to utilities.

VALUE VS. GROWTH RELATIVE VALUATIONS



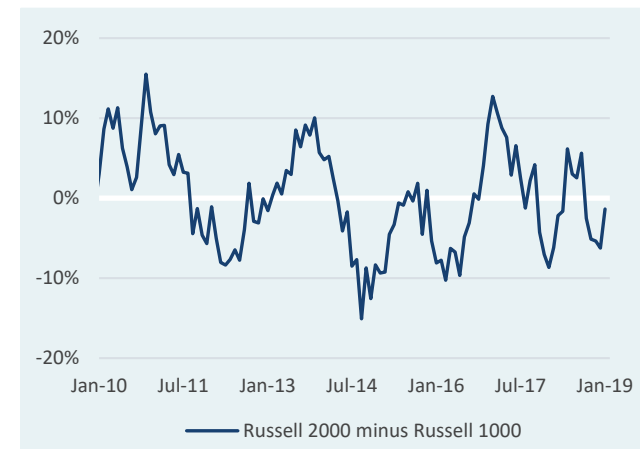
Source: Russell, Bloomberg, as of 1/31/19

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 1/31/19

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 1/31/19

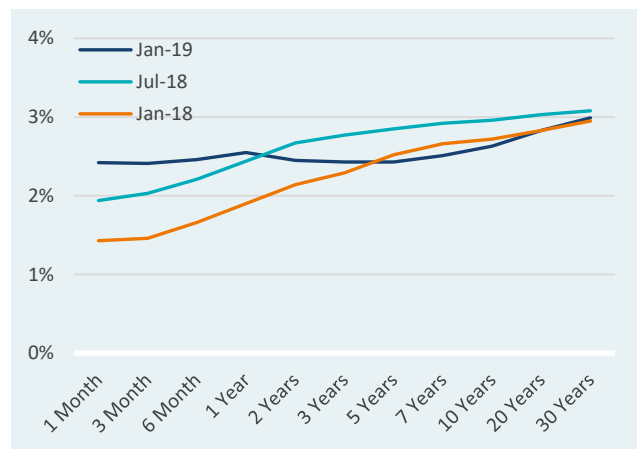
Fixed income

- Sovereign yields fell across Europe. French 10-year bond yields fell from 0.70% to 0.55%, and equivalent-maturity German yields fell from 0.24% to 0.15%.
- The European Central Bank left its deposit and refinancing rates unchanged at -0.4% and 0.0%, meeting expectations. ECB President Draghi noted a shift in economic risks towards the downside due to the “persistence of uncertainties related to geopolitical factors”.

- Emerging market debt continued to bounce back following a difficult second half of last year. Hard and local currency debt experienced gains of 4.4% and 5.5% in January, respectively.
- Treasury yields moved lower across the curve, likely impacted by a mild inflation outlook and dovish language from the Federal Reserve. The 10-year yield fell from 2.68% to 2.63% and the 2-year yield declined from 2.49% to 2.46%.

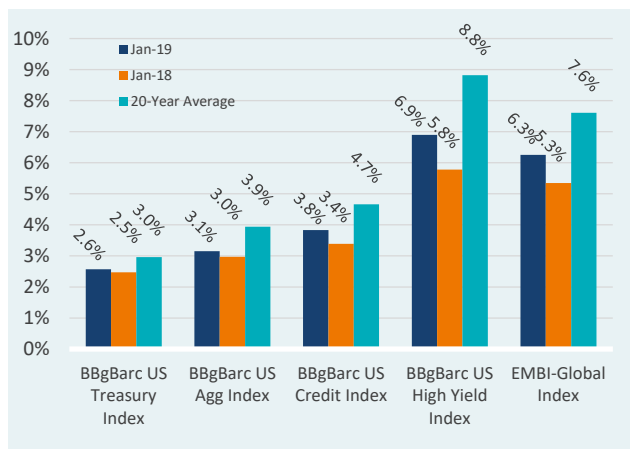
European sovereign yields fell to multi-year lows

U.S. TREASURY YIELD CURVE



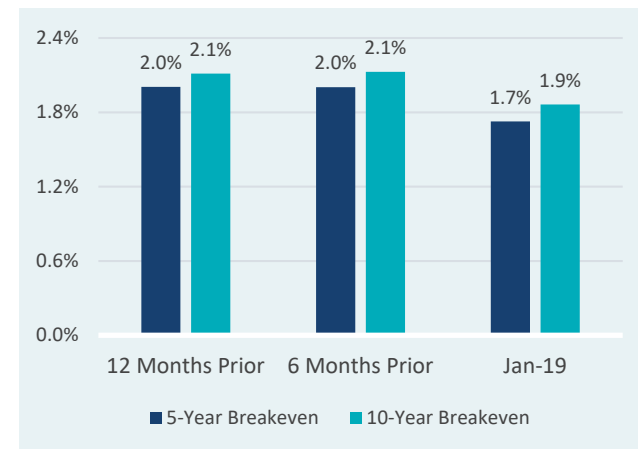
Source: Bloomberg, as of 1/31/19

NOMINAL YIELDS



Source: Morningstar, as of 1/31/19

BREAKEVEN INFLATION RATES

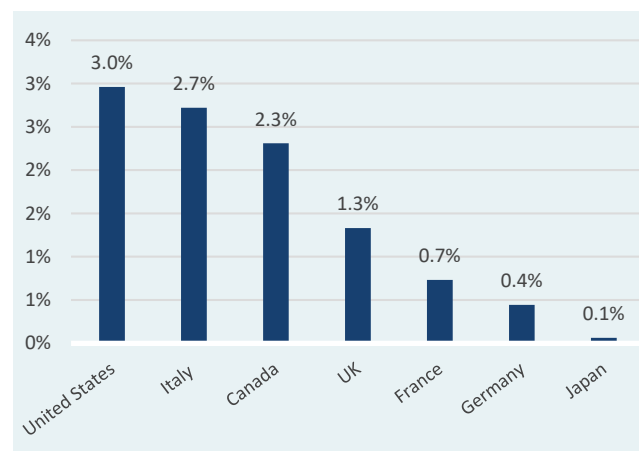


Source: Bloomberg, as of 1/31/19

Global markets

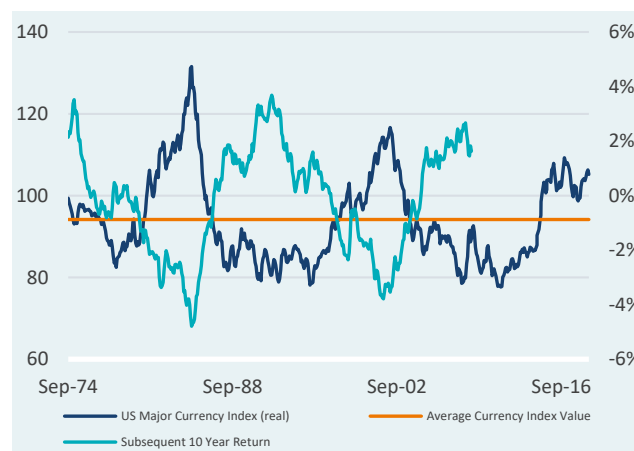
- U.S. and Chinese officials met to discuss trade relations, and both sides expressed optimism about the progress that was made. Issues such as the trade balance and technology transfers dominated the negotiations.
- The Markit Eurozone Composite PMI rose from 50.7 to 51.0. Major economies underperformed; France (48.2) and Italy (48.8) exhibited contraction, while Germany (52.1) demonstrated slight expansion.
- The British Parliament rejected Theresa May's Withdrawal Agreement by a vote of 432-202, triggering another confidence vote, which the embattled prime minister survived. The handling of the U.K.-Irish border remained the most contentious issue.
- The blended forward P/E ratio of the MSCI Emerging Markets Index increased from 10.6 to 11.7, it's highest level since last June. Earnings per share estimates for the index fell from \$91.2 to \$90.0 over the month, contributing to the forward multiple expansion.

GLOBAL SOVEREIGN 10-YEAR YIELDS



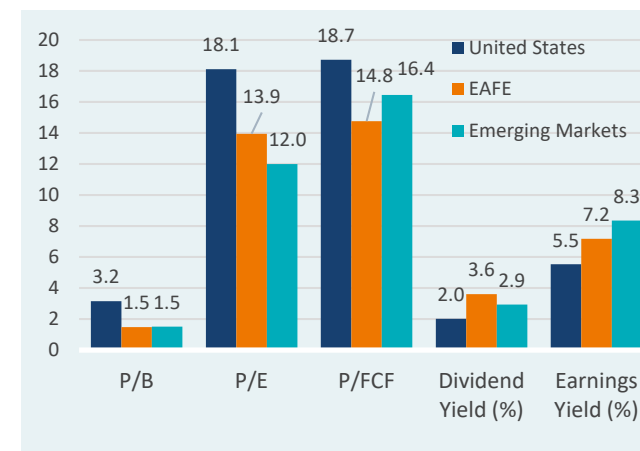
Source: Bloomberg, as of 1/31/19

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 1/31/19

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 1/31/19

Commodities

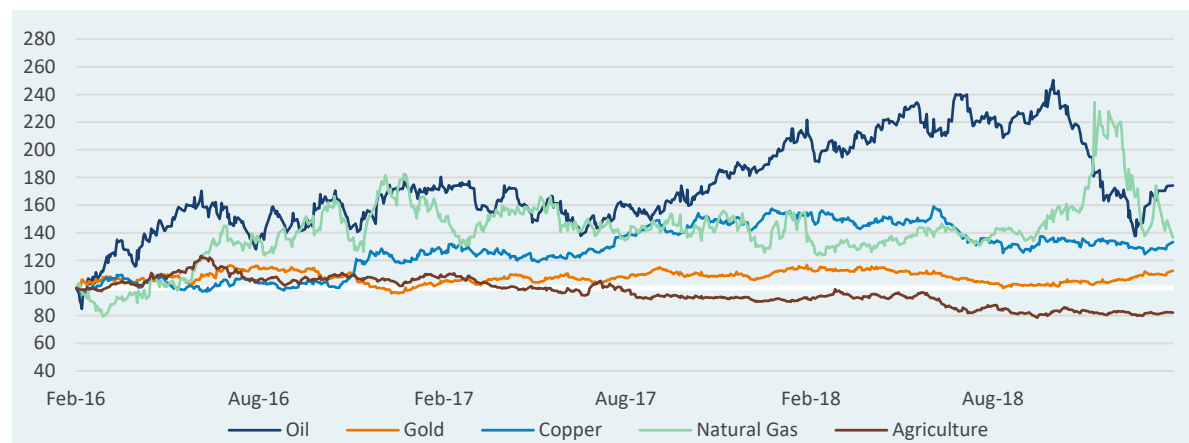
- The Bloomberg Commodity Index rose 5.4%, as all sectors except livestock advanced. Energy, the most heavily weighted sector, gained 9.2% and continued to drive overall index returns.
- The Bloomberg Petroleum sub-index gained 13.8%, its best monthly return since April 2016. Returns were bolstered by OPEC's December report, which cited crude oil supplies from OPEC+ nations fell by 751,000 barrels per day to 31.6 million. At month-end, the Petroleum sector held a 68.6% exposure to crude oil futures contracts.
- Industrial metals outperformed, gaining 8.0%. Within the sub-index, nickel (+16.8%) was the top performer. Analysts cited strong demand from alloy-makers, speculation on U.S.-China trade relations, and a benign outlook for the U.S. dollar as contributing factors.
- Gold gained 3.1% in January, its fourth consecutive monthly advance. Central bank bullion purchases swelled 74% in 2018, reaching 47-year highs. Emerging market central banks led purchases, as purported geopolitical uncertainty likely provided motivation to diversify foreign reserve assets.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	5.4	5.4	5.4	(8.2)	2.7	(7.9)	(2.7)
Bloomberg Agriculture	3.0	3.0	3.0	(9.3)	(5.6)	(8.5)	(2.5)
Bloomberg Energy	9.2	9.2	9.2	(8.8)	4.6	(17.6)	(11.2)
Bloomberg Grains	1.9	1.9	1.9	(7.7)	(7.8)	(9.9)	(4.1)
Bloomberg Industrial Metals	8.0	8.0	8.0	(13.2)	11.0	(0.7)	3.0
Bloomberg Livestock	(1.5)	(1.5)	(1.5)	(1.9)	(1.4)	(3.3)	(2.4)
Bloomberg Petroleum	13.8	13.8	13.8	(12.2)	9.3	(16.0)	(5.1)
Bloomberg Precious Metals	3.2	3.2	3.2	(3.3)	4.5	(0.6)	2.8
Bloomberg Softs	4.9	4.9	4.9	(12.3)	(4.6)	(8.8)	(2.5)

Source: Morningstar, as of 1/31/19

COMMODITY PERFORMANCE



Source: Bloomberg, as of 1/31/19

Appendix

Periodic table of returns

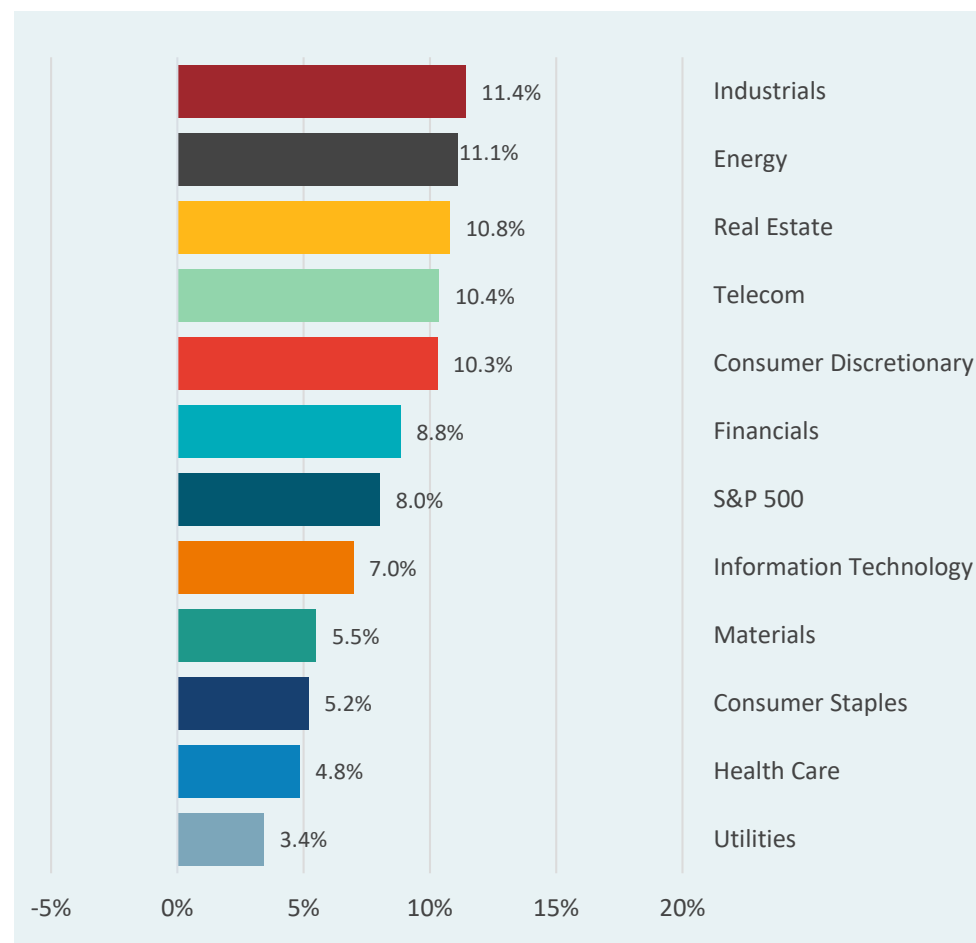
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	YTD	5-Year	10-Year
Small Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	6.7	11.5	13.0	16.9
Small Cap Equity	27.0	43.1	22.8	8.4	10.3	48.5	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	1.9	11.2	10.7	15.7
Small Cap Value	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	0.0	10.9	9.3	15.2
Large Cap Growth	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	-1.5	9.0	8.3	14.5
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	-3.5	8.8	7.8	13.4
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	-4.8	8.4	7.3	13.3
Large Cap Value	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	-6.0	7.8	6.6	9.7
International Equity	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	-8.3	6.6	4.8	8.1
Commodities	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	-9.3	5.4	4.6	8.1
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	-11.0	5.4	2.7	7.5
Hedge Funds of Funds	-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	-11.2	2.6	2.4	3.7
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	-12.9	1.1	2.0	3.3
Cash	-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	-13.8	0.2	0.7	0.4
Real Estate	-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	-14.6	0.0	-7.9	-2.7

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 12/31/18.

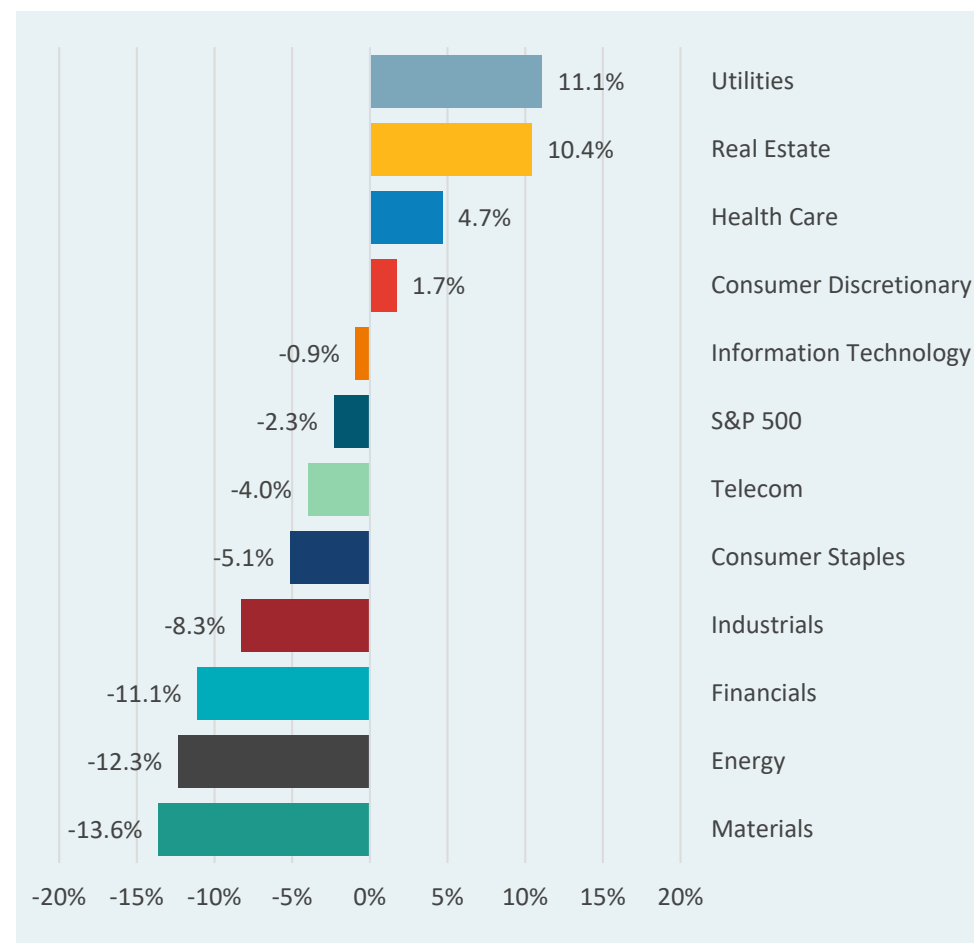
S&P 500 sector returns

QTD



Source: Morningstar, as of 1/31/19

ONE YEAR ENDING JANUARY



Source: Morningstar, as of 1/31/19

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	8.0	8.0	8.0	(2.3)	14.0	11.0	15.0
S&P 500 Equal Weighted	9.9	9.9	9.9	(2.9)	13.6	9.8	17.0
DJ Industrial Average	7.3	7.3	7.3	(2.2)	17.8	12.4	15.0
Russell Top 200	7.5	7.5	7.5	(1.9)	14.5	11.4	14.8
Russell 1000	8.4	8.4	8.4	(2.2)	14.1	10.7	15.2
Russell 2000	11.2	11.2	11.2	(3.5)	14.7	7.3	14.5
Russell 3000	8.6	8.6	8.6	(2.3)	14.2	10.4	15.1
Russell Mid Cap	10.8	10.8	10.8	(2.9)	13.3	8.9	16.1
Style Index							
Russell 1000 Growth	9.0	9.0	9.0	0.2	16.6	13.0	16.9
Russell 1000 Value	7.8	7.8	7.8	(4.8)	11.6	8.3	13.4
Russell 2000 Growth	11.5	11.5	11.5	(2.6)	15.6	7.8	15.7
Russell 2000 Value	10.9	10.9	10.9	(4.5)	13.8	6.6	13.3

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	7.9	7.9	7.9	(7.5)	11.6	6.7	11.3
MSCI ACWI ex US	7.6	7.6	7.6	(12.6)	9.6	3.1	8.3
MSCI EAFE	6.6	6.6	6.6	(12.5)	7.7	2.7	8.1
MSCI EM	8.8	8.8	8.8	(14.2)	14.9	4.8	9.7
MSCI EAFE Small Cap	8.1	8.1	8.1	(15.6)	9.4	5.0	12.1
Style Index							
MSCI EAFE Growth	6.4	6.4	6.4	(11.3)	7.4	3.8	8.7
MSCI EAFE Value	6.7	6.7	6.7	(13.7)	8.1	1.4	7.4
Regional Index							
MSCI UK	7.1	7.1	7.1	(10.8)	6.1	0.5	8.3
MSCI Japan	6.1	6.1	6.1	(11.6)	8.5	5.1	6.7
MSCI Euro	6.4	6.4	6.4	(17.0)	6.9	1.3	6.7
MSCI EM Asia	7.3	7.3	7.3	(16.0)	14.1	6.5	11.3
MSCI EM Latin American	14.9	14.9	14.9	(5.1)	22.2	3.1	6.5

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US TIPS	1.3	1.3	1.3	0.9	2.1	1.6	3.6
BBgBarc US Treasury Bills	0.2	0.2	0.2	2.0	1.1	0.7	0.4
BBgBarc US Agg Bond	1.1	1.1	1.1	2.3	2.0	2.4	3.7
Duration							
BBgBarc US Treasury 1-3 Yr	0.3	0.3	0.3	2.1	0.8	0.8	1.0
BBgBarc US Treasury Long	0.7	0.7	0.7	2.1	1.1	4.9	5.1
BBgBarc US Treasury	0.5	0.5	0.5	2.7	0.8	1.8	2.4
Issuer							
BBgBarc US MBS	0.8	0.8	0.8	3.0	1.5	2.4	3.2
BBgBarc US Corp. High Yield	4.5	4.5	4.5	1.7	9.4	4.6	11.0
BBgBarc US Agency Interm	0.4	0.4	0.4	2.5	1.1	1.4	1.9
BBgBarc US Credit	2.2	2.2	2.2	0.9	3.7	3.3	5.8

OTHER

Index							
Bloomberg Commodity	5.4	5.4	5.4	(8.2)	2.7	(7.9)	(2.7)
Wilshire US REIT	11.5	11.5	11.5	10.3	7.3	9.4	15.7
CS Leveraged Loans	2.3	2.3	2.3	2.4	6.1	3.7	7.9
Alerian MLP	13.0	13.0	13.0	(6.1)	7.4	(4.6)	10.2
Regional Index							
JPM EMBI Global Div	4.4	4.4	4.4	0.0	6.7	5.8	8.5
JPM GBI-EM Global Div	5.5	5.5	5.5	(5.3)	7.7	1.1	4.6
Hedge Funds							
HFRI Composite	3.5	3.5	3.5	(3.5)	5.1	3.0	5.3
HFRI FOF Composite	2.6	2.6	2.6	(3.9)	3.1	2.0	3.3
Currency (Spot)							
Euro	0.4	0.4	0.4	(7.9)	2.0	(3.2)	(1.1)
Pound	3.3	3.3	3.3	(7.5)	(2.5)	(4.4)	(0.9)
Yen	0.8	0.8	0.8	0.3	3.6	(1.3)	(1.9)

Source: Morningstar, HFR, as of 1/31/19

Notices & disclosures

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