



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

SEPTEMBER 2019
Capital Markets Update

Market commentary

U.S. ECONOMICS

- Nonfarm payrolls increased by 136,000 in September (exp. +145,000) while additions in July and August were revised higher by 45,000 in total. Nonfarm payroll growth has averaged 157,000 over the past three months. The Healthcare (+39,000) and Professional and Business Services (+34,000) sectors led job gains for the month.
- The ISM Manufacturing PMI remained under the neutral level of 50.0 and fell from 49.1 to 47.8 (exp 50.0), the second consecutive month of contraction and the lowest reading since June 2009. Trade remains the most significant issue with new export orders component falling from 43.3 to 41.1.
- Consumer confidence indicators declined and significantly missed estimates. The Conference Board Consumer Confidence Index fell from 134.2 to 125.1 (exp. 133.2), its largest drop in nine months and its largest miss relative to economists' estimates since 2010.

U.S. EQUITIES

- The S&P 500 Index rebounded +1.9% following two consecutive months of decline. At the end of the period, the S&P 500 Index had generated a year-to-date total return of +20.6%.
- The CBOE VIX index faded its gains from August and fell from 19.0 to 16.2 in September. The trailing 30- and 90-day realized volatility on the S&P 500 Index fell to 12.7% and 14.3%, respectively.
- Per FactSet, the Q3 2019 estimated earnings for the S&P 500 is -4.1%. If earnings contract -4.1% in Q3, it will mark the third straight quarter of year-over-year earnings contraction, which hasn't happened since Q4 2015. All eleven sectors have seen downward revisions to EPS estimates, led by Energy (-31.8%) and Materials (-8.1%).

U.S. FIXED INCOME

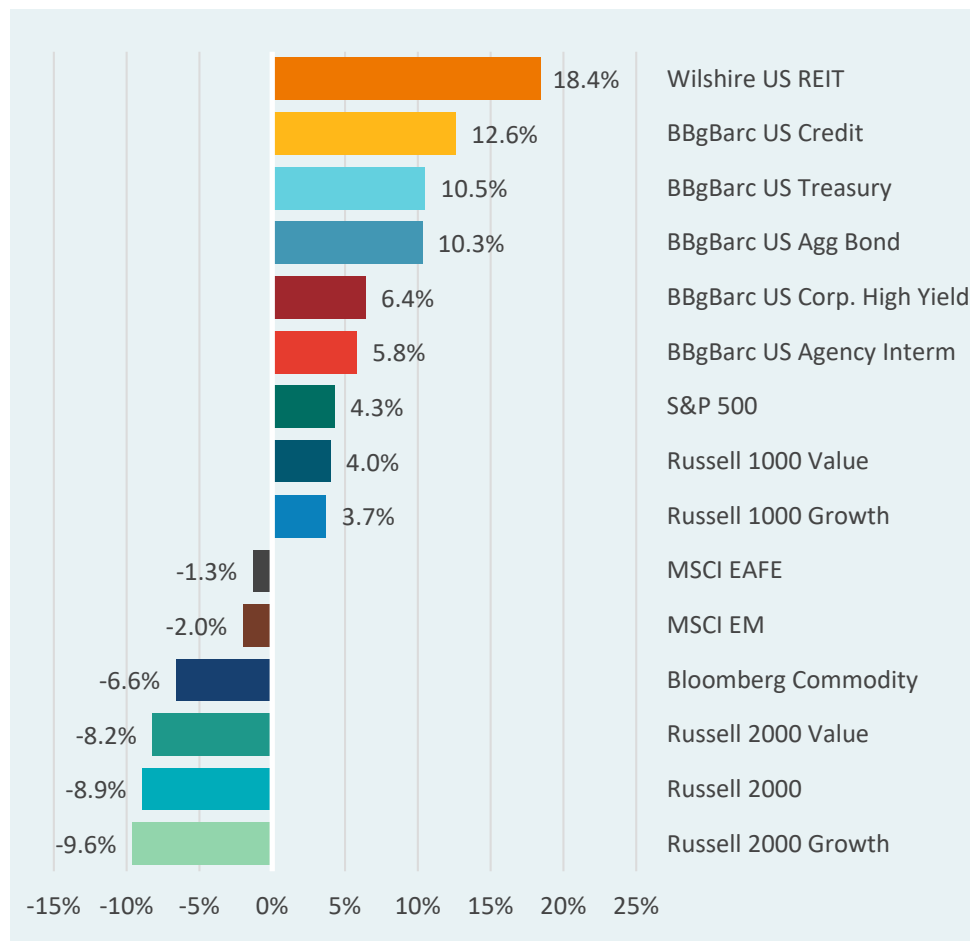
- The Federal Open Market Committee cut its range for the benchmark rate by 0.25% to 1.75% - 2.00%, in line with expectations. Voting committee members' opinions on the decision were dispersed: seven were in favor of the 0.25% cut, two sought no changes, and one preferred a 0.50% cut.
- Ten-year Treasury yields rose from 1.50% to 1.67% and touched intra-month highs of 1.90%. The +0.17% move higher over the month marked the largest monthly advance since last September.
- Riskier credit outperformed safer credit within U.S. markets. The average option-adjusted spread on corporate bonds in the Bloomberg Barclays High Yield Index fell from 3.93% to 3.73%, while the average option-adjust spread on corporate bonds in the Bloomberg Barclays Aggregate Index fell from 1.20% to 1.15%.

INTERNATIONAL MARKETS

- European PMI data continued to paint a gloomy picture for the global manufacturing outlook. Markit's Manufacturing PMI readings plunged to 41.7 in Germany, fell to 47.8 in Italy, faded to 47.7 in Spain, and remained in contraction in the United Kingdom.
- The MSCI Emerging Markets Currency Index gained 0.8% in September, notching its third best monthly performance of the year, and its third month of positive performance in the last four.
- The Supreme Court of the United Kingdom ruled the British Prime Minister Boris Johnson's 5-week suspension of government as illegal. Following the ruling, British lawmakers returned to Parliament, and continued to work toward reaching a deal ahead of the looming October 31st deadline for the U.K. to leave the E.U.

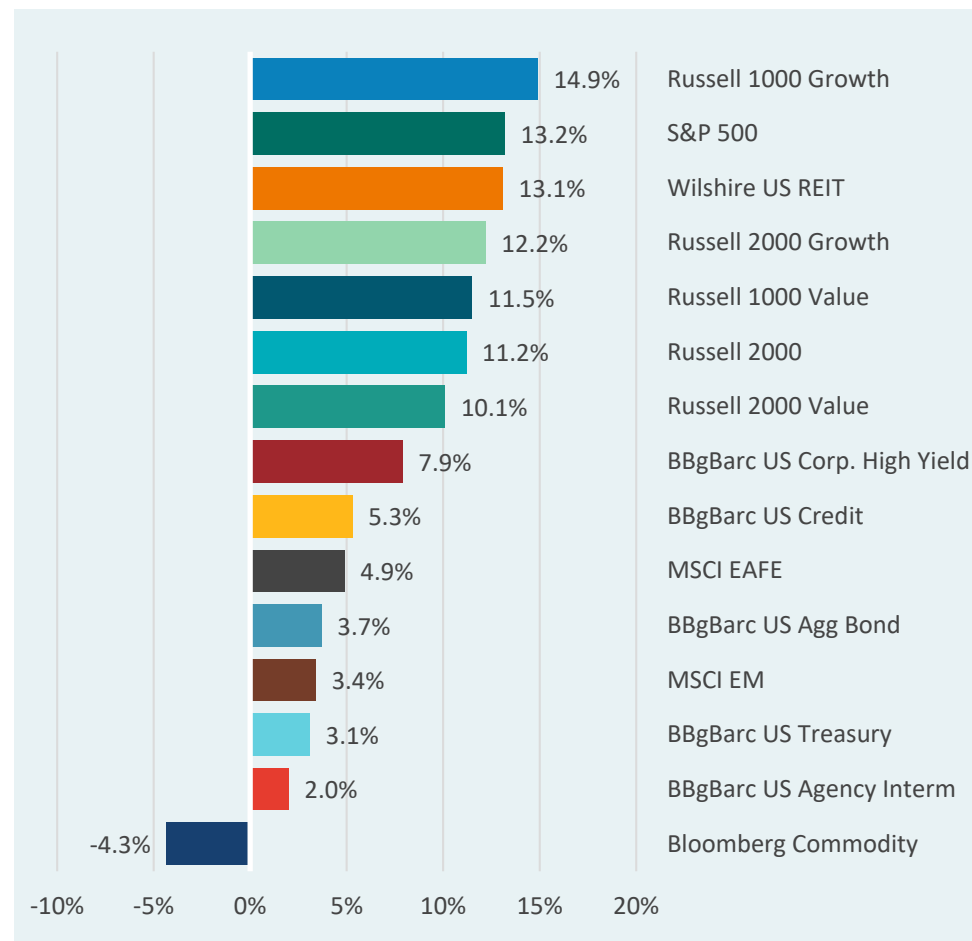
Major asset class returns

ONE YEAR ENDING SEPTEMBER



Source: Morningstar, as of 9/30/19

TEN YEARS ENDING SEPTEMBER



Source: Morningstar, as of 9/30/19

U.S. large cap equities

- The S&P 500 Index gained 1.9% in September, rebounding from its -1.6% decline last month. Ten of eleven sectors posted positive performance for the month and the Financials (+4.6%) and Utilities (+4.3%) sectors outperformed.
- According to FactSet, the bottom-up September 30th 2020 target price for the S&P 500 Price Index is 3322, which would imply a year-over-year price appreciation of 14.2%. The Energy sector (+25.5%) is expected to see the largest price increase while the Utilities sector (+1.6%) is expected to see the smallest appreciation.
- The Healthcare sector (-0.2%) underperformed over the month, extending its year-to-date underperformance of the S&P 500 Index to 15.0%. The sector has faced headwinds from increased political pressure over drug pricing, opiates and insurance costs.
- At month-end, the forward one-year P/E ratio of the S&P 500 Index was 16.9, which exceeded both its 5- and 10-year averages of 16.6 and 14.8, respectively. The Consumer Discretionary (20.7) and Financials (11.7) sectors have the highest and lowest forward one-year P/E ratios.

S&P 500 PRICE INDEX



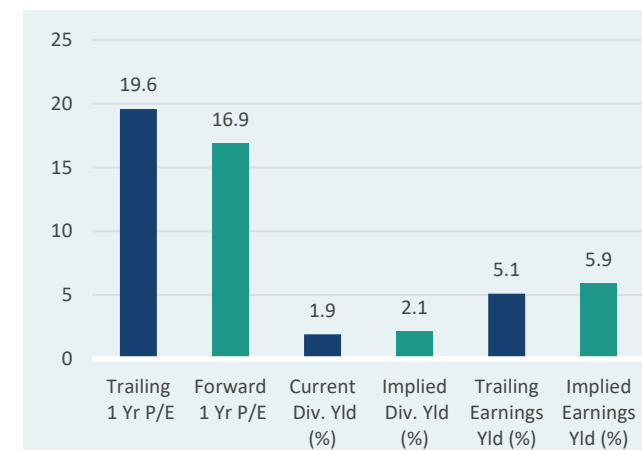
Source: Bloomberg, as of 9/30/19

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 9/30/19

S&P 500 VALUATION SNAPSHOT

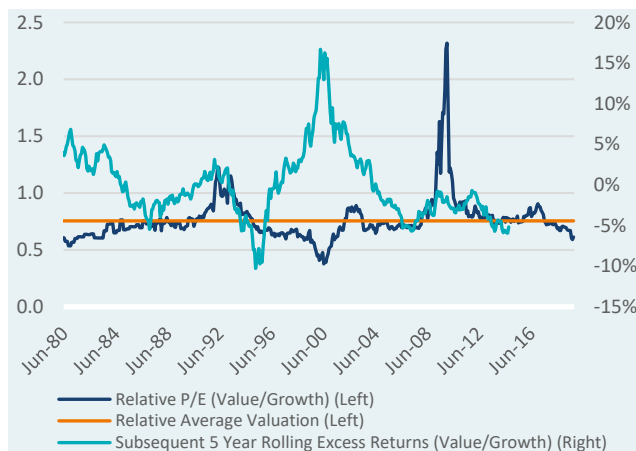


Source: Bloomberg, as of 9/30/19

Domestic equity size and style

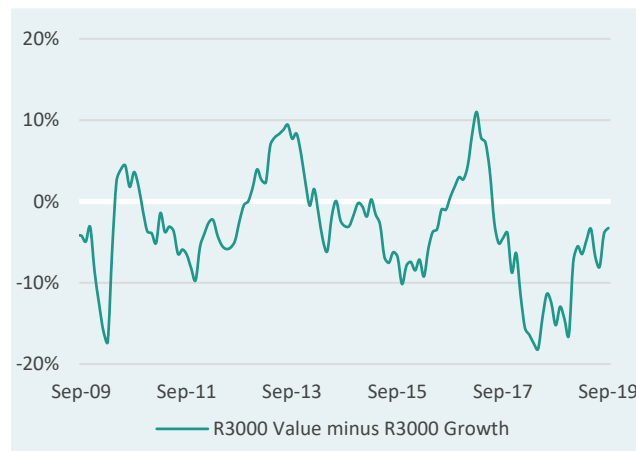
- Value significantly outperformed growth over the period, across both large- and small-cap universes. The Russell 3000 Value Index advanced 3.7% and fared better than the Russell 3000 Growth Index (unchanged) for just the second time this year.
- The outperformance of the value factor over the growth factor was most pronounced within the Financials sector. The Financials Sub-Index within the Russell 3000 Value advanced 5.4%, significantly outpacing its growth counterpart, which registered a 1.0% decline.
- Small-cap equities outperformed large-cap equities for the fourth month this year. The Russell 2000 Index returned 2.1% while the Russell 1000 Index gained 1.7%. Year-to-date, small-cap equities (+14.2%) have underperformed large-cap equities (+20.5%) by 6.3%.
- The S&P 500 Price Index closed the month at 2976, above its 50-, 100-, and 200-day moving-averages, indicating that there has been an upward price trend over the past six months.

VALUE VS. GROWTH RELATIVE VALUATIONS



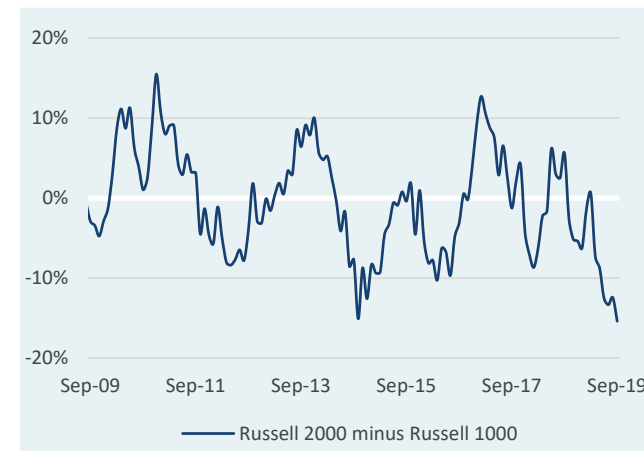
Source: Russell, Bloomberg, as of 9/30/19

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, Bloomberg, as of 9/30/19

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE

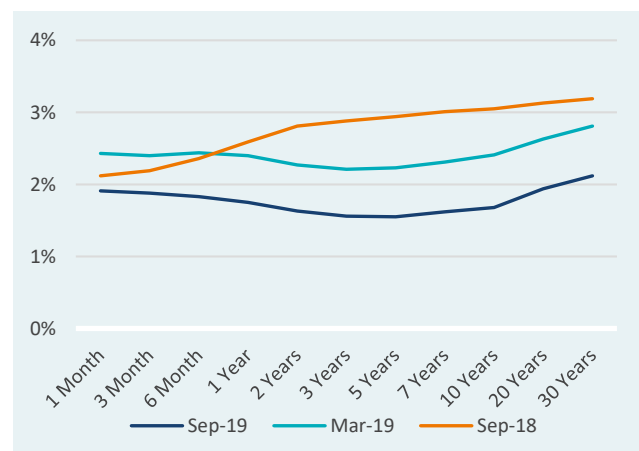


Source: FTSE, Bloomberg, as of 9/30/19

Fixed income

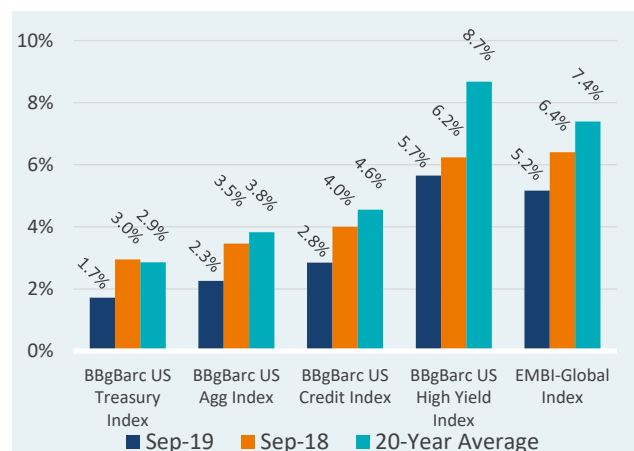
- The European Central Bank delivered a fresh stimulus package in its September meeting, in line with expectations. The ECB cut its main deposit rate from -0.40% to -0.50% and announced it would restart asset purchases to the tune of €20 billion per month beginning November 1st, and with no stated end date.
- At the end of the period, the futures implied probability of the fed funds range being cut by at least 0.25% by the end of the year sat at 72%. There was a 21% probability of at least 0.50% in cuts by year-end.
- Repo rates, which represent the overnight rate paid by short-term borrowers of cash, reached as high as 8.8% as liquidity was strained in the short-term funds market. Officials at the Federal Reserve Bank of New York responded, providing liquidity and stating that the dislocation was merely a financial “plumbing” issue.
- Local-currency denominated emerging market debt outperformed spread-sector U.S. fixed income. The J.P. Morgan GBI-EM Global Diversified Index (+1.0%) outpaced the S&P/LSTA Leveraged Loan (+0.5%), and Bloomberg Barclays U.S. High Yield (+0.4%) indices.

U.S. TREASURY YIELD CURVE



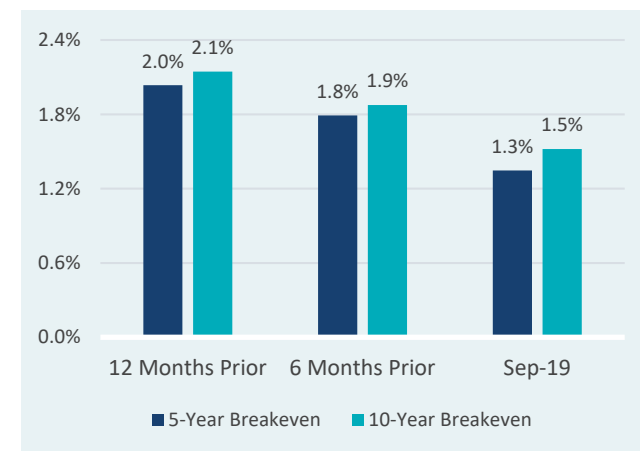
Source: Bloomberg, as of 9/30/19

NOMINAL YIELDS



Source: Morningstar, as of 9/30/19

BREAKEVEN INFLATION RATES

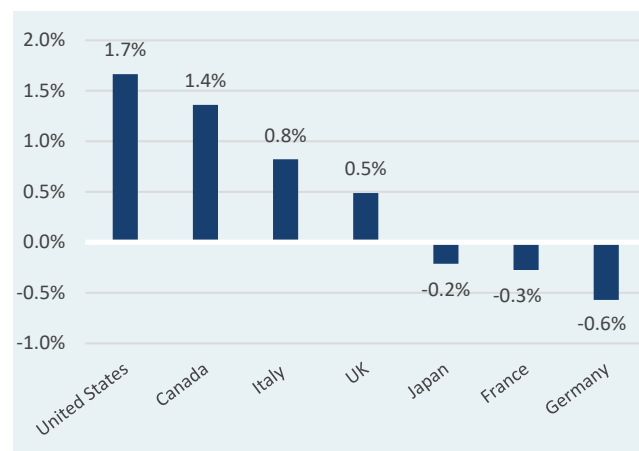


Source: Bloomberg, as of 9/30/19

Global markets

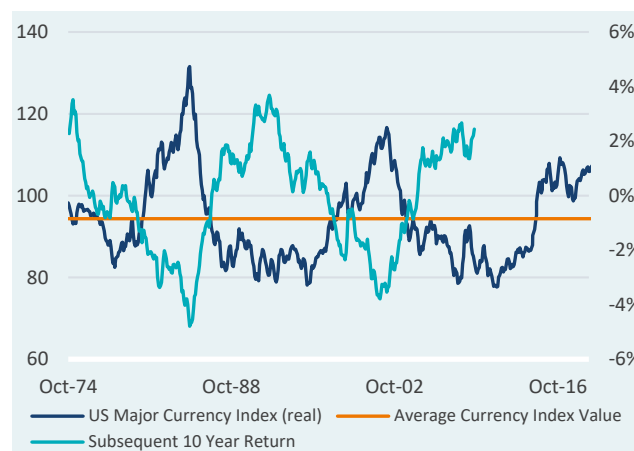
- Emerging market currency exposure dampened EM equity performance. The MSCI EM Index gained 1.9% in U.S. dollar terms and only 1.5% in local currency terms.
- In a gesture of good will, President Trump announced that the effective date of the tariff rate hike from 25% to 30% on \$250 billion of Chinese imports would be delayed from October 1st to October 15th. China also made several good will gestures as the two sides laid the groundwork for the resumption of high-level trade talks in Washington at the beginning of October.
- Following approval by the World Trade Organization, the U.S. announced duties on \$7.5 billion of European exports. The new tariffs will take effect October 18th and will start at 25% for several European food products including wines and cheese, and at 10% for commercial aircraft.
- The global bond rally showed signs of slowing in September. Ten-year German bund yield, which started the month only two basis points above all-time-lows at -0.70%, rose to -0.58% by the end of the month.

GLOBAL SOVEREIGN 10-YEAR YIELDS



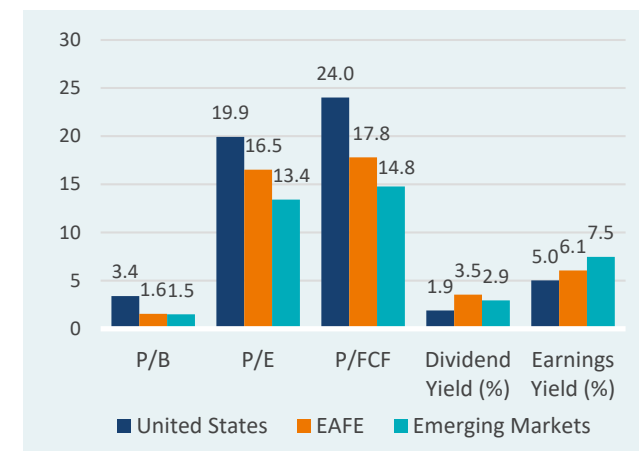
Source: Bloomberg, as of 9/30/19

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 9/30/19

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 9/30/19

Commodities

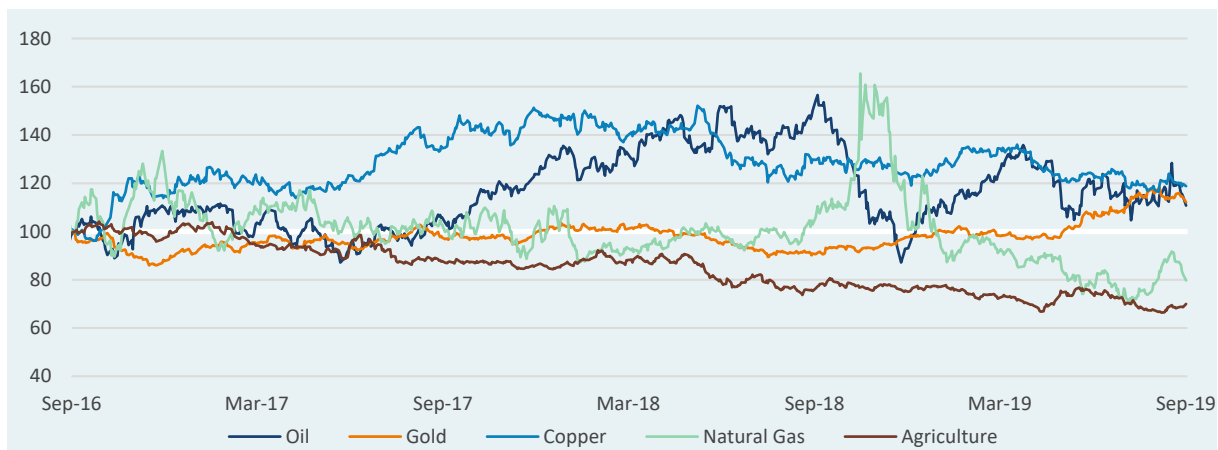
- The Bloomberg Commodity Index advanced 1.2% over the period, bringing its year-to-date performance to 3.1%. Grains (+5.2%), as well as Livestock (+7.5%) propelled the index higher, while Precious Metals (-4.4%) presented headwinds for performance.
- The Livestock Sub-Index rebounded from its poor performance in August with a 7.5% return in September. Lean hog futures prices boosted the sub-index higher on reports that African swine fever had spread into Southeast Asia and South Korea, and that local governments had begun to cull pig populations.
- Brent crude oil futures contracts spiked nearly 10% and reached as high as \$71.95 per barrel following drone attacks on several Saudi Arabian oil processing plants which resulted in the temporary reduction of daily global oil output by 5%. As production was brought back online, oil prices settled and ended the month up only 1.7%.
- Precious Metals (-4.4%) was the worst performing group within the commodities basket. Dollar strength in September made holding gold and silver more expensive in U.S.-dollar terms and rising yields increased the opportunity cost of holding assets not providing income.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	1.2	(1.8)	3.1	(6.6)	(1.5)	(7.2)	(4.3)
Bloomberg Agriculture	4.2	(6.1)	(5.0)	(4.9)	(9.6)	(7.3)	(3.6)
Bloomberg Energy	1.1	(4.5)	5.6	(21.6)	(0.8)	(16.8)	(11.9)
Bloomberg Grains	5.2	(6.5)	(4.5)	(3.8)	(6.7)	(6.7)	(3.7)
Bloomberg Industrial Metals	0.5	2.4	7.2	(2.1)	5.8	(1.7)	(2.0)
Bloomberg Livestock	7.5	0.8	(6.1)	(5.5)	5.8	(6.6)	(1.4)
Bloomberg Petroleum	1.3	(5.3)	18.0	(23.2)	4.2	(14.5)	(6.4)
Bloomberg Precious Metals	(4.4)	5.3	12.8	20.5	0.9	2.2	2.3
Bloomberg Softs	4.2	(8.6)	(8.5)	(7.8)	(18.7)	(11.5)	(6.2)

Source: Morningstar, as of 9/30/19

COMMODITY PERFORMANCE



Source: Bloomberg, as of 9/30/19

Appendix

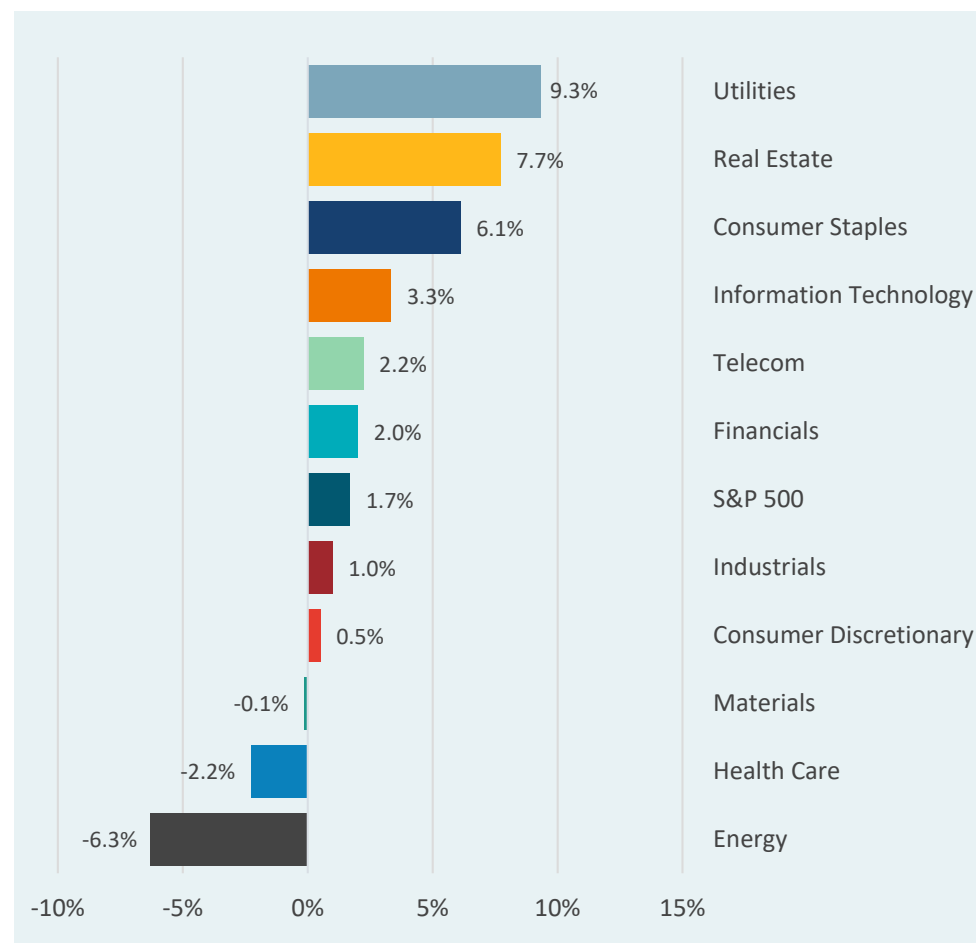
Periodic table of returns

		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
BEST ↑	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	6.7	23.3	13.4	14.9
	Large 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	20.5	10.6	13.2
	Large 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	17.8	9.1	12.2
	Small 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	15.3	8.8	11.5
	Small Cap 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	14.2	8.2	11.2
	Small 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	12.8	7.8	10.1
	International 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	12.8	7.2	9.3
	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	-8.3	12.4	4.9	6.1
	US Bonds	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	8.5	3.4	4.9
	Emerging Markets Equity	-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	5.9	3.3	3.7
	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	5.0	2.3	3.4
	Real Estate	-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	3.3	1.9	2.7
	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	-13.8	3.1	1.0	0.5
	Cash	-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	1.7	-7.2	-4.3
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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 6/30/19.

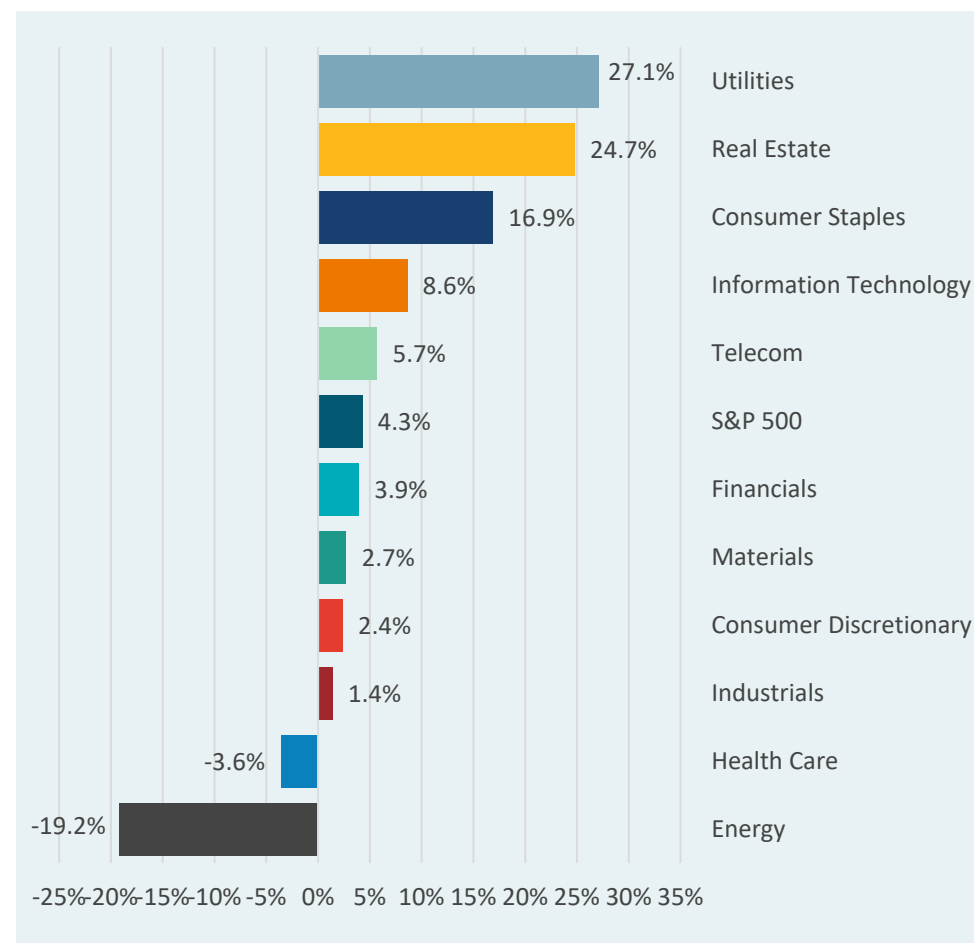
S&P 500 sector returns

Q3



Source: Morningstar, as of 9/30/19

ONE YEAR ENDING SEPTEMBER



Source: Morningstar, as of 9/30/19

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	1.9	1.7	20.6	4.3	13.4	10.8	13.2
S&P 500 Equal Weighted	3.1	0.8	20.1	3.4	11.1	9.5	13.4
DJ Industrial Average	2.1	1.8	17.5	4.2	16.4	12.3	13.6
Russell Top 200	1.6	1.8	20.0	4.1	14.2	11.2	13.3
Russell 1000	1.7	1.4	20.5	3.9	13.2	10.6	13.2
Russell 2000	2.1	(2.4)	14.2	(8.9)	8.2	8.2	11.2
Russell 3000	1.8	1.2	20.1	2.9	12.8	10.4	13.1
Russell Mid Cap	2.0	0.5	21.9	3.2	10.7	9.1	13.1
Style Index							
Russell 1000 Growth	0.0	1.5	23.3	3.7	16.9	13.4	14.9
Russell 1000 Value	3.6	1.4	17.8	4.0	9.4	7.8	11.5
Russell 2000 Growth	(0.8)	(4.2)	15.3	(9.6)	9.8	9.1	12.2
Russell 2000 Value	5.1	(0.6)	12.8	(8.2)	6.5	7.2	10.1

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	2.1	(0.0)	16.2	1.4	9.7	6.7	8.3
MSCI ACWI ex US	2.6	(1.8)	11.6	(1.2)	6.3	2.9	4.5
MSCI EAFE	2.9	(1.1)	12.8	(1.3)	6.5	3.3	4.9
MSCI EM	1.9	(4.2)	5.9	(2.0)	6.0	2.3	3.4
MSCI EAFE Small Cap	2.8	(0.4)	12.1	(5.9)	5.9	6.0	7.5
Style Index							
MSCI EAFE Growth	1.1	(0.4)	17.9	2.2	7.8	5.5	6.5
MSCI EAFE Value	4.8	(1.7)	7.7	(4.9)	5.1	1.0	3.2
Regional Index							
MSCI UK	4.2	(2.5)	10.1	(2.9)	4.6	0.4	4.8
MSCI Japan	4.0	3.1	11.1	(4.7)	6.2	5.6	5.5
MSCI Euro	2.8	(2.0)	13.9	(1.1)	7.1	2.4	3.1
MSCI EM Asia	2.0	(3.4)	6.0	(3.9)	6.3	4.1	5.2
MSCI EM Latin American	2.6	(5.6)	6.3	6.7	6.8	(0.8)	(0.5)

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US TIPS	(1.4)	1.3	7.6	7.1	2.2	2.4	3.5
BBgBarc US Treasury Bills	0.2	0.6	1.9	2.4	1.5	1.0	0.6
BBgBarc US Agg Bond	(0.5)	2.3	8.5	10.3	2.9	3.4	3.7
Duration							
BBgBarc US Treasury 1-3 Yr	(0.1)	0.6	3.1	4.4	1.5	1.3	1.2
BBgBarc US Treasury Long	(2.5)	7.9	19.8	24.8	4.1	6.8	6.9
BBgBarc US Treasury	(0.8)	2.4	7.7	10.5	2.2	2.9	3.1
Issuer							
BBgBarc US MBS	0.1	1.4	5.6	7.8	2.3	2.8	3.1
BBgBarc US Corp. High Yield	0.4	1.3	11.4	6.4	6.1	5.4	7.9
BBgBarc US Agency Interm	(0.2)	1.0	4.1	5.8	1.9	2.0	2.0
BBgBarc US Credit	(0.7)	3.0	12.6	12.6	4.3	4.5	5.3

OTHER

Index							
Bloomberg Commodity	1.2	(1.8)	3.1	(6.6)	(1.5)	(7.2)	(4.3)
Wilshire US REIT	2.8	7.9	27.2	18.4	7.2	10.2	13.1
CS Leveraged Loans	0.4	0.9	6.4	3.1	4.7	4.1	5.4
Alerian MLP	0.8	(5.1)	11.8	(6.4)	(2.7)	(8.2)	7.0
Regional Index							
JPM EMBI Global Div	(0.5)	1.5	13.0	11.6	4.6	5.7	6.9
JPM GBI-EM Global Div	1.0	(0.8)	7.9	10.1	3.1	0.6	2.5
Hedge Funds							
HFRI Composite	(0.3)	(0.5)	6.7	0.3	3.8	2.9	4.0
HFRI FOF Composite	(0.6)	(1.1)	5.0	(0.2)	3.1	1.9	2.7
Currency (Spot)							
Euro	(1.8)	(0.3)	1.5	5.1	(2.1)	0.3	(1.9)
Pound	1.2	(3.2)	(3.2)	(5.5)	(1.7)	(5.3)	(2.6)
Yen	(1.0)	(4.3)	(4.6)	(6.1)	(1.0)	(2.9)	(2.9)

Source: Morningstar, HFR, as of 9/30/19

Notices & disclosures

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