Global Economy

Global growth continued to decelerate in September, with the divergence between the buoyant US economy and the rest of the world becoming more apparent. Trade relations with China remain a key source of anxiety for global markets, even as things eased after a tentative agreement with Canada and Mexico in a new, revised NAFTA.

The Federal Open Market Committee (FOMC) met at the end of September, voting unanimously to increase short-term interest rates to a targeted range of 2.00% to 2.25%. The official statement dropped the word "accommodative" in describing monetary policy, with Chairman Powell noting that it's no longer necessary to signal a cautious approach. Projections for future increases were essentially unchanged, and still suggest four more rate hikes by the end of 2019. The Fed's preferred measure of inflation, Core PCE, came in at 2.0% and consumer confidence remains elevated.

The third estimate of 2Q-18 GDP remained at an annualized rate of 4.2%. Business investment and imports were revised downward, but this was offset by an increase in state and government spending, fixed investments and exports. The consensus forecast for 3Q-18 moved higher to around 3.2%, with the Atlanta Fed's GDPNow model projecting 4.1%.

The unemployment rate was down 0.2% in September to 3.7% despite employers adding only 134,000 new jobs. The labor force participation rate remained anchored at 62.7%. Average hourly wages continued to rise, with a year-over-year increase of 2.8%, but real wage gains remain subdued after accounting for inflation expectations.

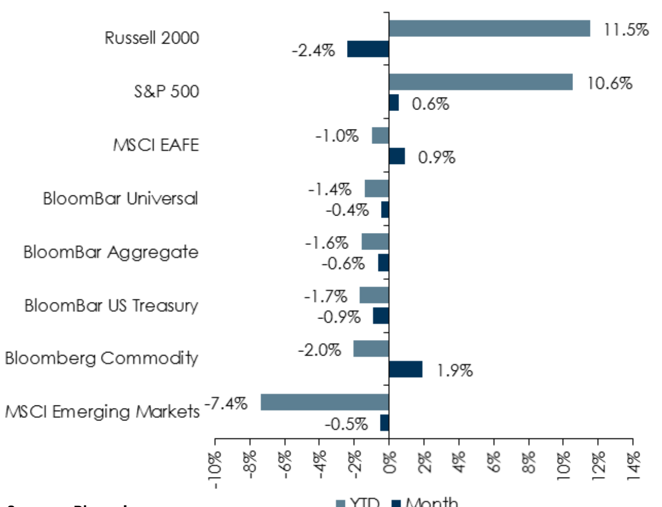
Country-specific shocks and tightening global financial conditions have pressured emerging market economies beyond what internal fundamentals might suggest. Despite some settling in September, this has caused the implied volatility for the JP Morgan EM Currency Index to recently spike above levels witnessed during the "Taper Tantrum" of 2013. As the linchpin for transmitting growth more broadly, it's notable how China is attempting to offset trade tensions with policy.

	Current	Dec-17
US GDP (%)	4.20	3.20
US Unemployment (%)	3.70	4.10
CPI (Core) (%)	2.20	1.70
Fed Funds (%)	2.00 – 2.25	1.25 – 1.50
10 Year UST Yld (%)	3.06	2.41
S&P 500 Div Yld (%)	1.80	1.89
S&P 500 P/E (Trailing)	21.01	22.45
Gold/oz.	$1,191.50	$1,309.30
Oil (Crude)	$73.25	$60.42
Gasoline (Natl Avg)	$2.92	$2.59
USD/Euro	$1.16	$1.20
USD/GBP	$1.30	$1.35
Yen/USD	¥113.70	¥112.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Global equities were a mixed bag in September, with the large cap domestic and international developed benchmarks leading the way. The S&P 500, which represents large US-based entities, finished +0.6% higher in September, with year-to-date returns now exceeding +10%. Telecommunications (+4.3%), Healthcare (+2.8%) and Energy (+2.4%) set the pace, as Real Estate (-3.2%), Financials (-2.4%) and Materials (-2.3%) fell in negative territory. Small cap stocks retreated in September, with the Russell 2000 declining -2.4% for the month.

In the broad international developed markets, the MSCI EAFE index was up +0.9% in September. Overall, the US dollar was essentially unchanged versus developed currencies.

The prolonged selloff in the MSCI Emerging Markets index continues, with the monthly loss of -0.5% pushing year-to-date returns further into the red. The benchmark has now posted negative returns in 7 of the last 8 months, as investors have struggled with escalating trade frictions and local currency weakness versus the US dollar.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was down -2.0% during the month as higher US interest rates created competition for income-focused capital. The Alerian MLP index had its first negative month in the quarter, declining -1.6% in September to offset the prior month's gain. Oil continued to experience upward momentum, with the NYMEX contract up +4.9%. The more broadly diversified Bloomberg Commodity index had a solid month, increasing +1.9%, even as year-to-date returns remain negative.

Global Markets (continued)

US Treasury (UST) yields moved meaningfully higher in September, extending the challenging environment for high-quality fixed income. Given signs of strength in the domestic economy, the rates market essentially passed through tighter financial conditions while discounting the ongoing uncertainty associated with global trade. The yield curve remains relatively flat as the excess compensation for extending maturities is quite low. The overall UST complex was down -0.9% for the month, with the longer-dated maturities declining by more than -3.0%. The commonly referenced 10-year UST yield ended the month 20 bps higher at 3.06%. Market-implied probabilities indicate a 70% chance that the Federal Open Market Committee (FOMC) will hike rates by another 25 bps at its December meeting.

Total returns for the Bloombar US Aggregate Bond index were down -0.6% during September, with year-to-date results now down -1.6%. Consistent with the positive response in US equities, IG corporates were an outperforming sub-sector, as credit spreads tightened by 8 bps and partially offset the rise in underlying base-rates. This was an impressive outcome in the face of substantial new issue supply. The traditional benchmark ended the month with an all-in yield of nearly 3.5%.

The Bloombar 1-15-Year Municipal index returned -0.6%, as tax-exempt issues sold off mostly in line with their taxable counterparts. Richly priced short-term issues continued to lag in September resulting in a flatter tax-exempt yield curve. High quality bonds continued to underperform riskier credits.

The Bloombar US Corporate High Yield index advanced +0.6% in September, as supply/demand technicals have been favorable. The benchmark's overall spread tightened by 22 bps, establishing new post-crisis lows. Despite a relatively flat US dollar, unhedged international government bonds were negative as global yields trended higher. Local currency emerging market debt provided favorable outcomes for the month (+2.6%), as the entire category recovered.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-17
Japan	0.12	0.04
Germany	0.47	0.42
France	0.80	0.78
United Kingdom	1.57	1.19
Spain	1.50	1.56
United States	3.06	2.41
Italy	3.14	2.01
Mexico	7.93	7.65
Brazil	11.76	10.26

Source: Bloomberg

Indices Report (Periods Ending September 30, 2018)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	0.57	10.56	17.91	17.31	13.95	11.97	9.65
Russell 1000	0.38	10.49	17.76	17.07	13.67	12.09	9.85
Russell 1000 Growth	0.56	17.09	26.30	20.55	16.58	14.31	10.67
Russell 1000 Value	0.20	3.92	9.45	13.55	10.72	9.79	8.89
Russell 2500	-1.52	10.41	16.19	16.13	11.37	12.02	10.71
Russell 2000	-2.41	11.51	15.24	17.12	11.07	11.11	10.12
Russell 2000 Growth	-2.34	15.76	21.06	17.98	12.14	12.65	10.61
Russell 2000 Value	-2.48	7.14	9.33	16.12	9.91	9.52	9.50
Wilshire 5000 Cap Wtd	0.16	10.53	17.60	17.27	13.63	12.02	9.98
MSCI ACWI	0.48	4.26	10.35	14.02	9.25	8.77	8.69
MSCI ACWI ex US	0.50	-2.67	2.25	10.49	4.60	5.67	7.67
MSCI EAFE	0.91	-0.98	3.25	9.77	4.90	5.87	7.28
MSCI EAFE Local Currency	1.48	1.84	5.61	9.91	8.37	7.20	7.29
MSCI EAFE Growth	-0.22	0.95	6.27	10.68	6.02	6.59	7.58
MSCI EAFE Value	2.13	-2.95	0.24	8.76	3.71	5.09	6.91
MSCI Emerging Markets	-0.50	-7.39	-0.44	12.77	3.99	5.76	10.02
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	-0.13	0.29	0.03	0.38	0.56	1.09	1.90
BloomBar US Aggregate	-0.64	-1.60	-1.22	1.31	2.16	3.77	3.78
BloomBar Gov't Bond	-0.91	-1.62	-1.57	0.26	1.34	2.66	3.22
BloomBar US Credit	-0.34	-2.12	-1.10	2.98	3.40	5.94	4.59
BloomBar 10 Yr Municipal	-0.62	-0.66	-0.14	2.18	3.42	4.91	4.34
BloomBar US Corp High Yield	0.56	2.57	3.05	8.15	5.54	9.46	7.74
Citigroup World Govt Bond	-1.02	-2.55	-1.54	1.68	0.20	2.21	3.24
BloomBar Global Aggregate	-0.86	-2.37	-1.32	1.98	0.75	2.89	3.51
BloomBar Multiverse	-0.73	-2.36	-1.32	2.34	0.94	3.12	3.69
Real Assets							
NCREIF Property	0.00	3.54	5.40	7.16	9.21	6.24	8.84
NFI ODCE Net	0.00	3.82	5.74	7.16	9.31	4.42	7.15
FTSE NAREIT US Real Estate	-2.54	1.81	3.35	7.64	9.16	7.44	9.41
Bloomberg Commodity	1.92	-2.03	2.59	-0.11	-7.18	-6.24	-1.07
Cash and Equivalents							
US T-Bills 90 Day	0.15	1.30	1.58	0.84	0.52	0.34	1.32

Definitions

Bloomberg Barclays Capital Aggregate
The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

Bloomberg Barclays Capital Global Aggregate Index
The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

Bloomberg Barclays Capital Muni 5 Yr
The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least $7 million and be issued as part of a transaction of at least $75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

Bloomberg Barclays Capital U.S. Credit Index
This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

The Bloomberg Barclays U.S. Treasury Index
The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

The Bloomberg Barclays Capital U.S. Universal Index
The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

BofA ML High-Yield Index Master II
The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Bloomberg Commodity Index
The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is compromised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

CITI World Government Bond Index
The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

FTSE EPRA/NAREIT Developed Index
The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITS worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

HFRI Fund of Funds (FOF) Conservative Index
The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

HFRI Fund of Funds (FOF) Strategic Index
The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

MSCI ACWI Index (exU.S.)
The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI EAFE® Index
The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI EAFE Growth Index
The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI EAFE Value Index
The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI Emerging Markets Index
The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Ncreif® Property Index
Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

Russell 1000® Growth Index
The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 1000® Value Index
The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

Russell 2000® Index
The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

Russell 2000® Growth Index
The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

Russell 2000® Value Index
The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Midcap® Index
The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

S&P 500
Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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