

**Global Economy**

Economic data for August helped to confirm that global synchronized growth has faded, with the divergence favoring the US over international economies. Trade relations with China remain tense, even as apparent progress was made with Mexico (thus far not Canada) to negotiate a more modernized NAFTA agreement.

Comments made by Federal Reserve Chair Powell at the annual Jackson Hole symposium highlighted the constructive outlook for the US economy but noted the difficulty in determining the neutral level for rates. This was perceived as a “dovish” tone and a signal for a continued gradual increase in rates. Core PCE reached the Fed’s target of 2.0% for the first time in six years and consumer confidence hit cycle highs as leading indicators continued to trend higher.

The second estimate of 2Q-18 GDP resulted in a modest revision higher, to an annualized rate of 4.2%. Business investment and net exports contributed more positively, even as consumer spending (roughly 2/3 of the total economy) was adjusted downward. The consensus forecast for 3Q-18 remains anchored around 3%.

The unemployment rate was unchanged at 3.9% in August despite employers adding 201,000 new jobs. The labor force participation rate declined modestly to 62.7%. Although average hourly wages continued to rise, with a year-over-year increase of 2.9%, real wage gains remain subdued as inflation has increased.

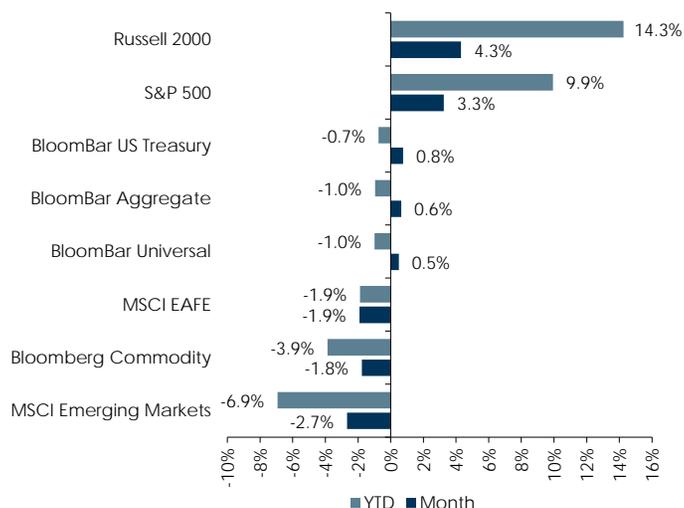
The emerging market economies continue to be under various levels of stress. The JP Morgan EM Currency Index has been in decline since mid-February. These currency pressures have resulted in significant headwinds to countries (notably Turkey and Argentina) and companies with US dollar denominated debt. Broadly, manufacturing PMI indicators are now foreshadowing slower growth. The People’s Bank of China is attempting to offset trade tensions with policy to support the local currency.

|                        | Current     | Dec-17      |
|------------------------|-------------|-------------|
| US GDP (%)             | 4.20        | 3.20        |
| US Unemployment (%)    | 3.90        | 4.10        |
| CPI (Core) (%)         | 2.40        | 1.70        |
| Fed Funds (%)          | 1.75 – 2.00 | 1.25 – 1.50 |
| 10 Year UST Yld (%)    | 2.86        | 2.41        |
| S&P 500 Div Yld (%)    | 1.80        | 1.89        |
| S&P 500 P/E (Trailing) | 21.01       | 22.45       |
| Gold/oz.               | \$1,201.60  | \$1,309.30  |
| Oil (Crude)            | \$69.80     | \$60.42     |
| Gasoline (Natl Avg)    | \$2.91      | \$2.59      |
| USD/Euro               | \$1.16      | \$1.20      |
| USD/GBP                | \$1.30      | \$1.35      |
| Yen/USD                | ¥111.03     | ¥112.69     |

Source: Bloomberg

**Global Markets**

**Key Market Indices**



Source: Bloomberg

Global equities were positive in August but performance varied by geography, style, and sector. The major domestic benchmarks were all up for the month, with the S&P 500 establishing all-time highs amid corporate earnings strength. Large cap US stocks finished +3.3% in August, with year-to-date returns approaching double-digits. IT (+6.7%) and Consumer Discretionary (+5.0%) were particularly strong with Energy (-3.8%) lagging other key sectors.

Small cap stocks rallied once again in August, with the Russell 2000 advancing +4.3% for the month. This category is considered to be sheltered from global trade tensions and is now up an impressive +14.3% for the year. Continuing a trend observed across the equity categories, small cap growth outpaced value by nearly 400 bps.

In the broad international developed markets, the MSCI EAFE index was down -1.9% in August, and moved back into negative territory for 2018. Overall, the US dollar strengthened modestly versus developed currencies.

The MSCI Emerging Markets index gave back the prior month’s gain, with the loss of -2.7% resuming the pattern that has defined most of 2018. The category is now down -6.9% year-to-date, mostly attributable to local currency weakness versus the US dollar, which dampens returns for US-based investors.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up +1.0% during the month. Oil came back somewhat in August given supportive supply data, with the NYMEX contract up +1.5%. The Alerian MLP index continued its impressive 3Q-18 run, advancing another +1.6%. The broadly diversified Bloomberg Commodity index had another poor month, dropping -1.8% and retreating further into negative territory for the year.

**Global Markets (continued)**

US Treasury (UST) yields fell modestly in August, reflecting the impact of global risk aversion despite robust domestic economic signals. The curve flattened for the eleventh time in the past 12-months, perhaps implying skepticism over the prospects for future growth. The overall UST complex was up +0.8% for the month. Despite briefly exceeding the psychologically relevant 3% level, the benchmark 10-year UST yield ended the month 10 bps lower at 2.86%. The Federal Open Market Committee (FOMC) is expected to raise interest rates by 25 bps at its late-September meeting. Although the futures market is discounting overly aggressive policy normalization, the probability of a second hike in December is still priced at approximately 65%.

Total returns for the Bloomberg US Aggregate Bond index were up 0.6% during August, but year-to-date results remain down -1.0%. Contrary to the rosy response in US equities, IG corporates were an underperforming sub-sector, as credit spreads widened by 5 bps and offset much of the decline in underlying base-rates. An above average share of this weakness came at the long end of the curve. The traditional benchmark ended the month with an all-in yield of 3.3%.

The Bloomberg 1-15-Year Municipal index returned +0.2%, as tax-exempt issues underperformed their taxable counterparts. The municipal curve remains relatively steep, and a little give-back from shorter-dated maturities was in order. Credit risk in BBB-rated issues (e.g. IL & NJ) continues to be rewarded as investors stretch for incremental income.

The Bloomberg US Corporate High Yield index advanced +0.7% in August and is now solidly positive for 2018. The benchmark's overall spread was essentially flat, despite CCC-rated issues experiencing notable weakness. Unhedged international government bonds were negative, with developed market issues impacted by Italian debt concerns. Local currency emerging market debt was hit especially hard (-6.1%), with the entire category resuming year-to-date losses.

**Selected Bond Yields**

| 10 Year Sovereign Bond Yields (%) |         |        |
|-----------------------------------|---------|--------|
|                                   | Current | Dec-17 |
| Japan                             | 0.10    | 0.04   |
| Germany                           | 0.33    | 0.42   |
| France                            | 0.68    | 0.78   |
| United Kingdom                    | 1.43    | 1.19   |
| Spain                             | 1.47    | 1.56   |
| United States                     | 2.86    | 2.41   |
| Italy                             | 3.23    | 2.01   |
| Mexico                            | 7.91    | 7.65   |
| Brazil                            | 12.20   | 10.26  |

Source: Bloomberg

**Indices Report (Periods Ending August 31, 2018)**

| Index Name                  | 1 Month (%) | YTD (%) | 1 Year (%) | 3 Years (%) | 5 Years (%) | 10 Years (%) | 15 Years (%) |
|-----------------------------|-------------|---------|------------|-------------|-------------|--------------|--------------|
| <b>Equity</b>               |             |         |            |             |             |              |              |
| S&P 500                     | 3.26        | 9.94    | 19.66      | 16.11       | 14.52       | 10.86        | 9.53         |
| Russell 1000                | 3.45        | 10.07   | 19.82      | 15.84       | 14.36       | 10.93        | 9.74         |
| Russell 1000 Growth         | 5.47        | 16.44   | 27.23      | 19.33       | 17.47       | 12.84        | 10.55        |
| Russell 1000 Value          | 1.48        | 3.71    | 12.47      | 12.32       | 11.22       | 8.93         | 8.80         |
| Russell 2500                | 4.29        | 12.11   | 23.33      | 14.96       | 12.96       | 11.03        | 10.72        |
| Russell 2000                | 4.31        | 14.26   | 25.45      | 16.11       | 13.00       | 10.46        | 10.16        |
| Russell 2000 Growth         | 6.23        | 18.53   | 30.72      | 16.36       | 14.20       | 11.57        | 10.60        |
| Russell 2000 Value          | 2.38        | 9.86    | 20.05      | 15.73       | 11.72       | 9.27         | 9.60         |
| Wilshire 5000 Cap Wtd       | 3.51        | 10.35   | 20.24      | 16.13       | 14.39       | 10.91        | 9.88         |
| MSCI ACWI                   | 0.83        | 3.77    | 11.99      | 12.46       | 10.26       | 7.29         | 8.70         |
| MSCI ACWI ex US             | -2.07       | -3.16   | 3.67       | 8.59        | 5.92        | 3.91         | 7.84         |
| MSCI EAFE                   | -1.92       | -1.87   | 4.90       | 7.57        | 6.22        | 4.14         | 7.44         |
| MSCI EAFE Local Currency    | -1.67       | 0.36    | 6.93       | 7.62        | 9.03        | 5.67         | 7.04         |
| MSCI EAFE Growth            | -0.27       | 1.17    | 8.55       | 9.29        | 7.51        | 4.89         | 7.84         |
| MSCI EAFE Value             | -3.62       | -4.97   | 1.23       | 5.73        | 4.85        | 3.32         | 6.95         |
| MSCI Emerging Markets       | -2.67       | -6.93   | -0.32      | 11.83       | 5.42        | 3.80         | 10.11        |
| <b>Fixed Income</b>         |             |         |            |             |             |              |              |
| ICE BofA ML 1-3 Yr Treasury | 0.32        | 0.42    | -0.01      | 0.53        | 0.63        | 1.18         | 1.97         |
| BloomBar US Aggregate       | 0.64        | -0.96   | -1.05      | 1.76        | 2.49        | 3.70         | 4.00         |
| BloomBar Gov't Bond         | 0.76        | -0.71   | -1.50      | 0.85        | 1.67        | 2.80         | 3.48         |
| BloomBar US Credit          | 0.51        | -1.79   | -0.99      | 3.27        | 3.64        | 5.26         | 4.85         |
| BloomBar 10 Yr Municipal    | 0.31        | -0.04   | -0.10      | 2.72        | 4.04        | 4.59         | 4.61         |
| BloomBar US Corp High Yield | 0.74        | 2.00    | 3.40       | 7.00        | 5.63        | 8.50         | 7.90         |
| Citigroup World Gov't Bond  | -0.20       | -1.55   | -1.72      | 2.28        | 0.80        | 2.19         | 3.69         |
| BloomBar Global Aggregate   | 0.10        | -1.52   | -1.36      | 2.45        | 1.34        | 2.73         | 3.89         |
| BloomBar Multiverse         | 0.00        | -1.64   | -1.38      | 2.70        | 1.50        | 2.94         | 4.06         |
| <b>Real Assets</b>          |             |         |            |             |             |              |              |
| NCREIF Property             | --          | --      | --         | --          | --          | --           | --           |
| NFI ODCE Net                | 0.00        | 3.82    | 7.47       | 8.37        | 10.03       | 4.33         | 7.29         |
| FTSE NAREIT US Real Estate  | 2.59        | 4.47    | 6.01       | 9.61        | 10.42       | 7.70         | 9.84         |
| Bloomberg Commodity         | -1.77       | -3.87   | 0.51       | -1.89       | -8.01       | -7.56        | -1.19        |
| <b>Cash and Equivalents</b> |             |         |            |             |             |              |              |
| US T-Bills 90 Day           | 0.18        | 1.15    | 1.52       | 0.79        | 0.49        | 0.36         | 1.31         |

## Definitions

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### **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 comprised 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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