

Global Economy

Shaking off continued geopolitical uncertainty, investors provided a renewed bid for risk assets in September. Accordingly, global equities advanced modestly while interest rates reversed a portion of the prior month's sharp decline. Manufacturing data continued to show signs of slowing and there was even some moderation in consumer spending and sentiment. US-China trade talks are scheduled to officially resume in mid-October, while the British Prime Minister faces political and legal challenges in the bid to complete Brexit negotiations by the October 31st deadline. An impeachment inquiry has taken center stage in the US in light of the President's recent call with Ukrainian leadership.

The Federal Open Market Committee (FOMC) met in mid-September and, as widely expected, reduced the Federal Funds rate by 25 bps to a targeted range of 1.75% to 2.00%. The Committee's latest projections suggests the "mid-cycle adjustment" may be complete, even as the futures market is pricing in at least two more cuts over the next 12 months. Chairman Powell continues to emphasize a willingness by the FOMC to act as appropriate when economic conditions warrant it. Amid some dissent, the European Central Bank's (ECB) outgoing President Mario Draghi responded in mid-September, with a rate cut, a renewed asset purchase program, and calls for fiscal stimulus.

The third estimate of 2Q-19 real GDP reported growth at an annualized rate of 2.0%, the same as the second estimate. A slight downward revision for consumer spending to 4.6% growth was offset by upward revisions to government spending and net exports. Consensus GDP expectations for 3Q-19 have risen slightly, recently residing between 1.5% and 2.0%.

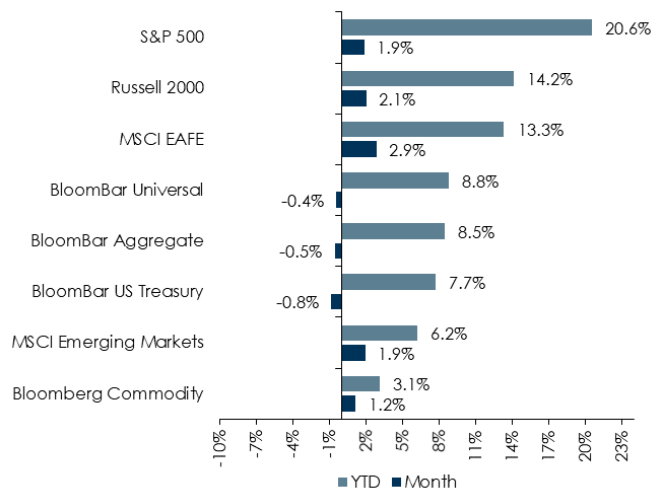
Slightly below expectations, 136,000 new jobs were added in September. The unemployment rate unexpectedly declined to 3.5%, the lowest level since December 1969. Labor participation held steady at 63.2%, while average hourly wages advanced at a year-over-year pace of 2.9%, the lowest year-over-year increase since July 2018. The Core CPI index trended slightly higher to 2.4% year-over-year, while the FOMC's preferred measure, the Core PCE index, increased to 1.8% year-over-year through August and remains below the "symmetrical" 2.0% target.

	Current	Dec-18
US GDP (%)	2.00	3.40
US Unemployment (%)	3.50	3.90
CPI (Core) (%)	2.40	2.20
Fed Funds (%)	1.75 – 2.00	2.25 – 2.50
10 Year UST Yld (%)	1.67	2.69
S&P 500 Div Yld (%)	1.92	2.15
S&P 500 P/E (Trailing)	19.58	17.12
Gold/oz.	\$1,465.70	\$1,281.30
Oil (Crude)	\$54.07	\$45.41
Gasoline (Natl Avg)	\$2.74	\$2.36
USD/Euro	\$1.09	\$1.15
USD/GBP	\$1.23	\$1.28
Yen/USD	¥108.08	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns were up solidly across most risk assets in September, with international stocks slightly outperforming domestic counterparts. The S&P 500, which represents large US-based entities, reversed its August decline by appreciating +1.9% for the month and is back up over 20% for the year. Strength was generally broad based, with Financials (+4.5%), Utilities (+4.0%), and Energy (+3.6%) leading the way. Health Care (-0.3%) showed some weakness and was the only sector to decline. Small cap stocks, as represented by the Russell 2000, outperformed large stocks by 20 bps at +2.1%. Value (+5.1%) outperformed Growth (-0.8%) by nearly 600 bps, but still trails by 250 bps year-to-date,

In the broad international developed markets, the MSCI EAFE index was up strongly at +2.9%, even as ongoing strength in the US dollar weighs on returns for US-based investors. Sector returns roughly followed the pattern witnessed in the S&P 500, and at the country level Japan was a slight upside outlier at +4.2% as their "safe haven" currency continued to appreciate. Pacific ex-Japan was the relative laggard, with Hong Kong tipping negative.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were up moderately at +1.9%, but the category is still significantly underperforming other major equity indexes for the year at +6.2%. Performance was positive across all major regions for the month. Year-to-date, strength has been shown by Taiwan (+16.7%) and Brazil (+10.8%) in particular, with China (+7.8%) doing moderately. India (+2.2%) and South Korea (-0.6%) have struggled.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up solidly at +2.5% during the month, and is up an impressive +20.7% for the year. The Alerian MLP index was up slightly at 0.7%, further securing its double-digit return profile for 2019. The near-month NYMEX oil contract advanced nearly 15% following an attack on Saudi infrastructure before finishing down -1.9% for the month. Gold retreated -3.8% from recent highs as investors embraced risk-seeking assets. The broadly diversified Bloomberg Commodity index was up +1.2% for the month.

Global Markets (continued)

US Treasury (UST) yields increased rapidly during the first half of September, before softening somewhat by month-end as geopolitical uncertainty and global growth concerns captured the spotlight. With policy easing by the FOMC, the yield curve steepened modestly as longer-term rates sold off slightly more than short-end rates. In this environment, the high-quality government bond complex returned -0.9% overall. The commonly referenced 10-year UST yield traded as much as 45 bps higher intra-month before settling at 1.67%. While the global stock of negative yielding debt contracted by more than \$2 trillion as rates moved higher, demand for US assets remains robust given the relative yield advantage.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis. Despite suffering a loss of -0.5% in September, year-to-date performance of +8.5% remains quite remarkable given prevailing yield levels. Spreads for IG corporates were 5 bps tighter for the month, with BBB-rated issues leading in a more risk-on environment. The benchmark's yield-to-worst moved 13 bps higher, and now resides just above 2.25%.

The BloomBar 1-15-Year Municipal index returned -0.8% in September, taking year-to-date performance to +5.6%. Even as sustained inflows continue to benefit the category, an uptick in new issue municipal supply weighed on the category. As such, the 10-year municipal/UST ratio of ~88% has edged closer to fair value following historic richness this past May.

Despite continued weakness in the less-liquid CCC-rated sleeve, the BloomBar US Corporate High Yield index advanced +0.4% for the month and has now delivered +11.4% year-to-date. Benchmark spreads tightened back 20 bps, and all-in yields have fallen to just under 5.7%. Global yield movements were directionally consistent with US government bonds, but ongoing US dollar strength caused unhedged international bonds to lag. Emerging market bonds provided mixed results, as local currency issues outperformed despite tighter spreads for US dollar-based sovereign and corporate credits.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-18
Japan	-0.22	-0.01
Germany	-0.57	0.24
France	-0.28	0.71
United Kingdom	0.48	1.28
Spain	0.14	1.41
United States	1.67	2.69
Italy	0.82	2.74
Mexico	6.88	8.64
Brazil	7.05	9.24

Source: Bloomberg

Indices Report (Periods Ending September 30, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	1.87	20.55	4.25	13.39	10.84	13.24	9.01
Russell 1000	1.73	20.53	3.87	13.19	10.62	13.23	9.17
Russell 1000 Growth	0.01	23.30	3.71	16.89	13.39	14.94	10.40
Russell 1000 Value	3.57	17.81	4.00	9.43	7.79	11.46	7.82
Russell 2500	1.77	17.72	-4.04	9.51	8.57	12.22	9.16
Russell 2000	2.08	14.18	-8.89	8.23	8.19	11.19	8.19
Russell 2000 Growth	-0.82	15.34	-9.63	9.79	9.08	12.25	9.04
Russell 2000 Value	5.13	12.82	-8.24	6.54	7.17	10.06	7.23
Wilshire 5000 Cap Wtd	1.82	20.11	2.95	12.91	10.58	13.09	9.18
MSCI ACWI	2.15	16.71	1.95	10.30	7.23	8.93	7.64
MSCI ACWI ex US	2.62	12.06	-0.72	6.85	3.39	4.93	6.14
MSCI EAFE	2.92	13.35	-0.82	7.01	3.77	5.39	5.78
MSCI EAFE Local Currency	3.59	16.23	2.10	8.84	6.54	7.55	6.41
MSCI EAFE Growth	1.17	18.39	2.64	8.19	5.90	6.91	6.65
MSCI EAFE Value	4.90	8.31	-4.31	5.73	1.57	3.82	4.85
MSCI Emerging Markets	1.94	6.22	-1.63	6.37	2.71	3.73	8.18
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	-0.11	3.03	4.37	1.52	1.32	1.18	2.12
BloomBar US Aggregate	-0.53	8.52	10.30	2.92	3.38	3.75	4.21
BloomBar Gov't Bond	-0.83	7.66	10.40	2.27	2.90	3.00	3.73
BloomBar US Credit	-0.65	12.61	12.63	4.33	4.54	5.32	5.12
BloomBar 10 Yr Municipal	-0.98	6.86	9.09	3.16	3.80	4.42	4.62
BloomBar US Corp High Yield	0.36	11.41	6.36	6.07	5.37	7.94	7.34
FTSE World Gov't Bond	-1.30	6.27	8.13	1.19	1.80	1.69	3.31
BloomBar Global Aggregate	-1.02	6.32	7.60	1.59	1.99	2.34	3.58
BloomBar Multiverse	-0.95	6.45	7.54	1.81	2.14	2.55	3.73
Real Assets							
FTSE NAREIT US Real Estate	2.93	26.96	18.42	7.36	10.26	13.04	9.02
FTSE EPRA/NAREIT Dev RE	2.46	20.69	14.11	6.62	7.78	9.50	7.81
Bloomberg Commodity	1.17	3.13	-6.57	-1.50	-7.18	-4.32	-3.13
Cash and Equivalents							
US T-Bills 90 Day	0.18	1.81	2.39	1.54	0.98	0.54	1.40

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 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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