

Global Economy

Backward-looking economic signals continue to be positive, with 2Q-17 real gross domestic product (GDP) revised up to 3.1%. While manufacturing and producer surveys remained positive, core PCE, the Federal Reserve's preferred measure of price inflation, moved down to 1.3% on a year-over-year basis.

The unemployment rate dropped to 4.2% in September, even as nonfarm payrolls unexpectedly declined by 33,000, the first monthly subtraction in seven years. The impact of hurricanes Harvey and Irma largely explains the drop, which is subject to revision and final reporting. Average hourly earnings increased by 2.9% year-over-year, matching a post-recession high established in July.

The Federal Open Market Committee (FOMC) met on September 19 & 20, with the consensus expectation that rates would remain unchanged but that quantitative tightening was ready to commence. Effective in October, the Fed's \$4.5 trillion stockpile of assets will begin to dwindle as principal payments from US Treasury (UST) and Agency MBS will be reinvested only to the extent that they exceed gradually rising caps.

The FOMC's revised economic projections and the new "dots plot" were viewed as mildly hawkish. Even as they are "monitoring inflation developments closely", the Committee continued to project another 25 basis point (bps) hike by the end of the year, followed by three more quarter-point hikes in 2018. At this point, the market is showing more than 70% probability of another rate hike in December, but much less upward migration next year than FOMC participants themselves are forecasting.

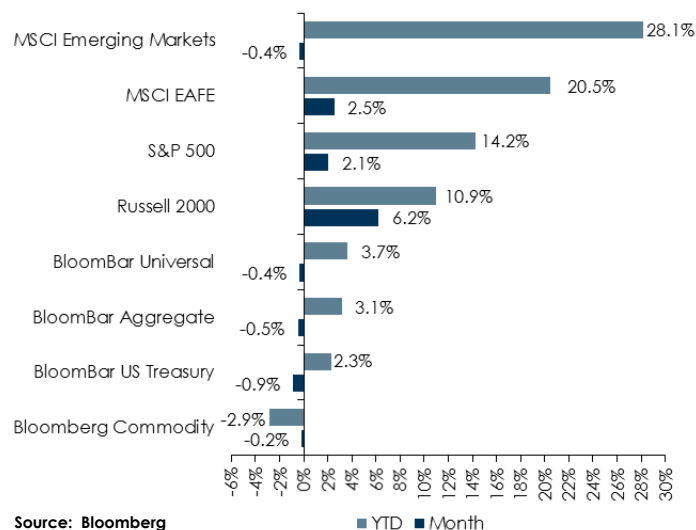
The European Central Bank (ECB) is expected to discuss reducing the pace (taper) of its asset purchases in October, although it is not expected to raise rates anytime soon. China's 19th Party Congress will meet in October and will likely allow President Xi Jinping to solidify power.

	Current	Dec-16
US GDP (%)	3.10	1.90
US Unemployment (%)	4.40	4.70
CPI (Core) (%)	1.70	2.10
Fed Funds (%)	1.00 – 1.25	0.50 – 0.75
10 Year UST Yld (%)	2.33	2.45
S&P 500 Div Yld (%)	1.97	2.09
S&P 500 P/E (Trailing)	21.57	20.61
Gold/oz.	\$1,281.50	\$1,151.70
Oil (Crude)	\$51.67	\$53.72
Gasoline (Natl Avg)	\$2.70	\$2.39
USD/Euro	\$1.18	\$1.05
USD/GBP	\$1.34	\$1.23
Yen/USD	¥112.51	¥116.96

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

With limited exceptions, September was a solid contributor to the ongoing advance in global equities. The S&P 500 index closed at new all-time highs on ten separate occasions during the month, including the final trading day of September. With a total return of +2.1%, the benchmark index has now recorded eight consecutive quarterly gains.

The focus on potential tax reform sent small cap stocks higher in September, with the Russell 2000 outperforming the S&P 500 by more than 4%.

In the international markets, the developed nations significantly outperformed the emerging countries. The MSCI EAFE index was up +2.5%. MSCI Pacific Ex-Japan was the laggard within develop markets, down -0.9% as the Yen suffered relative to the U.S. dollar.

The MSCI Emerging Markets index was down -0.4% for the month, with wide divergence among the sectors and regions. Latin America (+1.6%) and Eastern Europe (+1.5%) led the way, with Europe, Middle East, Africa (-3.8%) solidly in negative territory.

Real estate was down for the month, with both the FTSE NAREIT U.S. Real Estate index (-0.6%) and the FTSE EPRA/NAREIT Developed index (-0.2%) reversing course from last month. The Alerian MLP index (+0.7%) continued its volatility as of late, this month benefitting from the strong upward movement in oil (+9.4%).

With the risk-on attitude in place, and given the direction of interest rates and the U.S. dollar, gold finished down -2.8%. The Bloomberg Commodities index as a whole lost -0.2% for the month.

Global Markets (continued)

Despite an initial flight to safety that benefited high-quality issues, fixed income assets ultimately suffered losses in September. The Bloomberg Global Aggregate index gave back -0.9% during the month, erasing a portion of the summer's gains.

Even as intra-month movements lacked convention, the UST yield curve steepened modestly in September. Policy sensitive 2-year UST yields pushed higher as the market became increasingly convinced of the FOMC's resolve to follow through with its projected path of policy normalization. The 1.49% closing level was last touched in October 2008, which coincides with the height of the global financial crisis.

The Bloomberg US Aggregate index returned -0.5% in September, with government-related issues lagging the primary market's other key sectors. IG corporate credit spreads finished 9 bps tighter. Although this results in a new YTD low, and nearly matches 10-year lows, underlying rate sensitivity still resulted in a -0.2% loss for the Bloomberg US Corporate Investment Grade index during the month.

The Bloomberg US Corporate High Yield index was able to more effectively ride the credit wave to a +0.9% gain in September. Overall spreads for the category moved tighter by 31 bps, and it was the lowest-rated CCC layer that captured the most benefit.

Emerging market bonds were essentially flat overall, but remain strong performers YTD given the attractiveness of higher local interest rates and steady/improving economic fundamentals. With sub-6% yields now common across these more equity-sensitive categories, careful security selection is certainly warranted.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-16
Japan	0.06	0.04
Germany	0.46	0.20
France	0.74	0.68
United Kingdom	1.36	1.24
Spain	1.60	1.38
Italy	2.11	1.81
United States	2.33	2.45
Mexico	6.86	7.42
Brazil	9.73	11.40

Source: Bloomberg

Indices Report (Periods Ending September 30, 2017)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	2.06	14.24	18.61	10.81	14.22	7.44	10.05
Russell 1000	2.13	14.17	18.54	10.63	14.27	7.55	10.29
Russell 1000 Growth	1.30	20.72	21.94	12.69	15.26	9.08	10.65
Russell 1000 Value	2.96	7.92	15.12	8.53	13.20	5.92	9.82
Russell 2500	4.54	11.00	17.79	10.60	13.86	8.19	11.85
Russell 2000	6.24	10.94	20.74	12.18	13.79	7.85	11.37
Russell 2000 Growth	5.45	16.81	20.98	12.17	14.28	8.47	11.78
Russell 2000 Value	7.08	5.68	20.55	12.12	13.27	7.14	10.86
Wilshire 5000 Cap Wtd	2.41	13.72	18.89	10.96	14.27	7.61	10.50
MSCI ACWI	1.97	17.75	19.29	8.02	10.79	4.45	9.70
MSCI ACWI ex US	1.89	21.61	20.15	5.19	7.45	1.74	9.36
MSCI EAFE	2.53	20.47	19.65	5.53	8.87	1.82	8.75
MSCI EAFE Local Currency	2.75	11.63	19.57	8.37	12.77	3.10	7.78
MSCI EAFE Growth	1.92	22.86	16.11	6.89	9.29	2.49	8.56
MSCI EAFE Value	3.14	18.23	23.22	4.07	8.38	1.07	8.85
MSCI Emerging Markets	-0.37	28.14	22.91	5.28	4.36	1.65	12.86
Fixed Income							
BofA ML 1-3 Yr Treasury	-0.17	0.67	0.23	0.76	0.63	1.70	2.07
BloomBar US Aggregate	-0.48	3.14	0.07	2.71	2.06	4.27	4.23
BloomBar Gov't Bond	-0.84	2.25	-1.56	2.01	1.25	3.61	3.57
BloomBar US Credit	-0.22	5.08	1.96	3.87	3.23	5.54	5.37
BloomBar 10 Yr Municipal	-0.58	5.28	0.77	3.42	3.18	4.98	4.61
BloomBar US Corp High Yield	0.90	7.00	8.88	5.83	6.36	7.84	9.42
Citigroup World Gov't Bond	-1.20	6.38	-2.69	0.88	-0.43	2.95	4.28
BloomBar Global Aggregate	-0.90	6.25	-1.26	1.30	0.48	3.31	4.42
BloomBar Multiverse	-0.80	6.55	-0.56	1.56	0.76	3.50	4.65
Real Assets							
NCREIF Property	0.00	3.33	5.11	9.22	9.98	6.05	8.89
NFI ODCE Net	0.00	3.05	4.99	9.25	10.21	3.91	7.17
FTSE NAREIT US Real Estate	-0.03	3.67	0.67	9.86	9.69	5.83	10.82
Bloomberg Commodity	-0.15	-2.87	-0.29	-10.41	-10.47	-6.83	-0.31
Cash and Equivalents							
US T-Bills 90 Day	0.09	0.57	0.66	0.32	0.22	0.47	1.30

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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