



### ASSET ALLOCATION UPDATE

- We recommend a mild overweight to Global Equities and underweight to Fixed Income across models.
- Within the equity allocation, we recommend an overweight to Developed Markets vs. Emerging Markets.
- Within the fixed income allocation, we have removed the overweight to International Fixed Income and recommend a neutral weight to U.S. Aggregate Fixed Income.

### EQUITY HIGHLIGHTS

- Global equity markets fell for the second consecutive month as trade war fears and elevated volatility in the information technology sector caused the Russell Global Index to decline 1.87% in March. International equities outperformed the U.S. during the month, led by relative strength in international developed markets. However, U.S. mid-caps and small-caps posted positive returns in March. Growth and value produced similar returns during the month, although value outperformed in the U.S. as a Facebook user data scandal drove broader weakness in the growth-focused information technology sector.
- Actively-managed equity strategies fared well during the first quarter of 2018, continuing the improvement in relative performance that occurred in 2017. Active managers in the U.S. mid-cap, U.S. small-cap and international categories have been stand-outs year-to-date. Higher levels of year-to-date market volatility has generally been a tailwind for active managers.
- The relative performance of U.S. versus international equities has historically moved in long cycles. While U.S. equities have outperformed international equities by a substantial margin since the financial crisis, international equities have outperformed since January 2017 as compelling relative valuations, strong earnings growth, and improving economic data in key international markets have attracted investor interest. As a result, the rolling three-year relative return gap has narrowed.

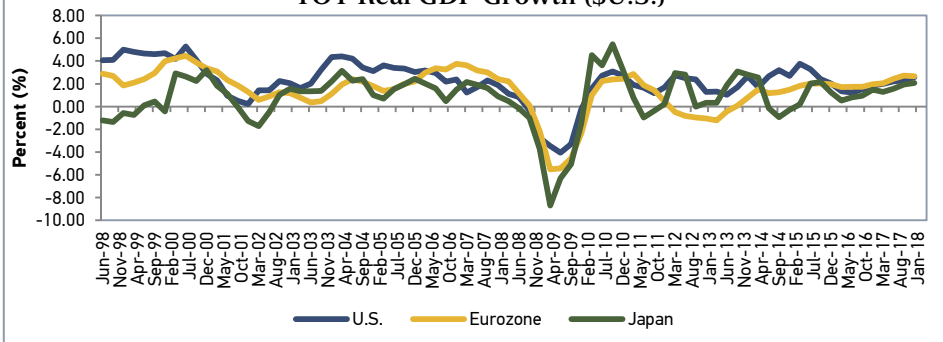
### FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely positive during the month of March. The only asset class within our opportunity set that produced a negative return was high yield, returning -0.60%. Global Treasuries ex U.S. was up 1.19% for the month and was the top performer among fixed income options in our opportunity set for the second consecutive month. Government related securities, both TIPS and nominals also produced strong returns, up 1.05% and 0.93%, respectively. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.64% during the month.
- Over the month, select foreign developed 10-year government bond yields moved lower, with rates in Germany, Italy, France and U.K. declining. Domestic rates, as represented by the yield of the 10-year Treasury, also moved lower by 13 bps from 2.87% to 2.74%.
- Municipal/Treasury yield ratios moved higher during March but remain below historical averages.

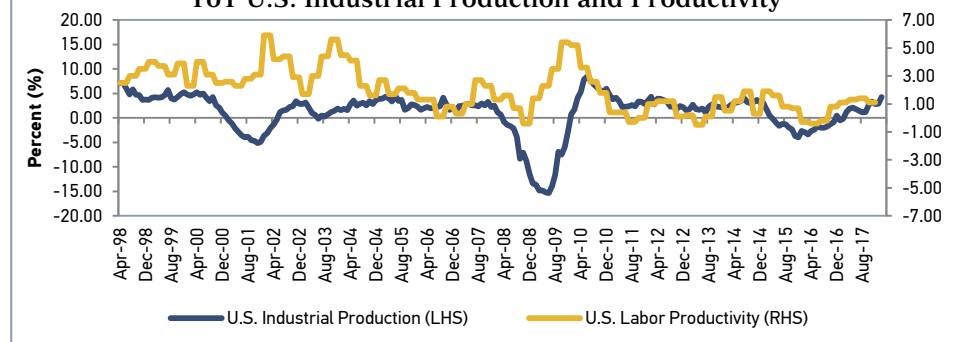
Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
Russell Global	-0.89%	Barclays US Aggregate	-1.46%	60% LgShort-40% MktNeutral	-0.21%	6-month	1.93%	Prime Rate	4.75%
Russell 3000	-0.64%	Barclays Gbl Treas xUS Hdg	1.23%	DJ Equity All REIT	-6.66%	1-year	2.09%	LIBOR (3 Mo)	2.31%
S&P 500	-0.76%	Barclays US TIPS	-0.79%	Bloomberg Commodity	-0.40%	3-year	2.39%	Oil Price (\$/barrel)	\$64.94
MSCI EAFE	-1.53%	Barclays US High Yield	-0.86%			5-year	2.56%	Gold (\$/t oz)	\$1,327.30
MSCI EM	1.42%	Barclays EM Aggregate	-1.48%			10-year	2.74%		
						30-year	2.97%		



**YOY Real GDP Growth (\$U.S.)**



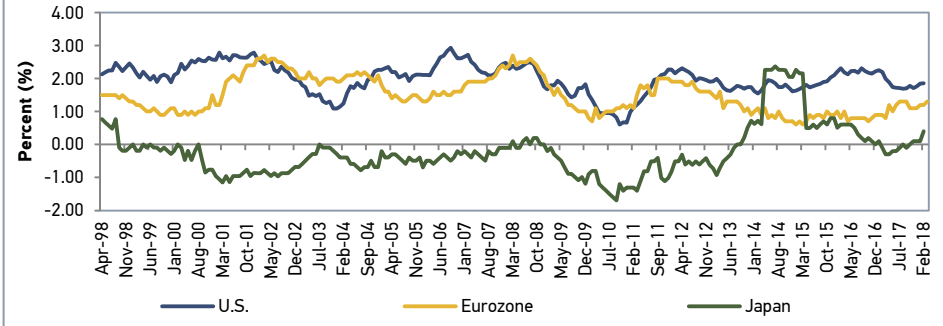
**YoY U.S. Industrial Production and Productivity**



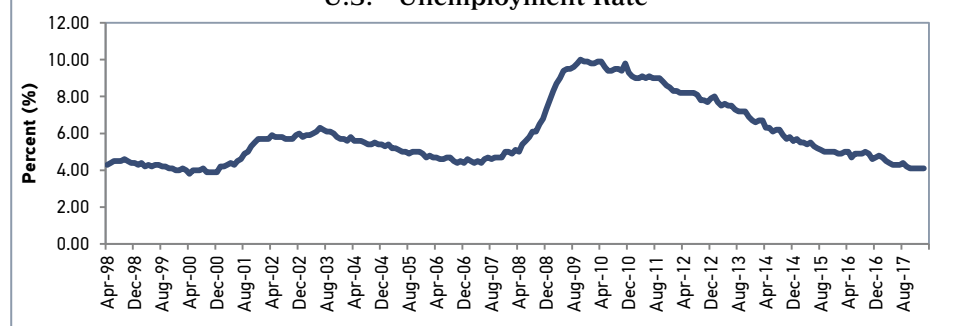
Data as of 12.29.2017; Source: FactSet

Industrial production data as of 02.28.2018; U.S. Labor Productivity data as of 12.29.2017; Source: FactSet

**Core Consumer Price Index (YoY Growth)**



**U.S. - Unemployment Rate**



Data as of 02.28.2018 for the U.S. and Japan and 03.31.2018 for the Eurozone; Source: FactSet; The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.

Data as of 02.28.2018; Source: FactSet

- YOY Global GDP has reached solid growth levels across economies. Eurozone GDP growth has surpassed the U.S.
- Year-over-year productivity growth moved down to 1.1% after a surprisingly weak fourth quarter reading. A resumption of recent productivity improvements is essential to drive long-term real growth. Year-over-year industrial production growth has reached multi-year highs.
- Inflation, which has continued to slowly move higher in the U.S. and Europe, is garnering increased attention as a risk factor in equity and bond markets. Japan inflation has moved further above zero, a positive development.
- Current U.S. Unemployment of 4.1% is below the pre-crisis low in 2007 and is likely to keep the Fed on a gradual tightening path.

Note: Please see Appendix for important definitions.



Leading	Initial Jobless Claims	<ul style="list-style-type: none"><li>In the week ending March 23, the four-week moving average of Initial Jobless Claims was 224,500, a decrease of 500 from the previous week's revised average of 225,000.</li></ul>
	Manufacturing	<ul style="list-style-type: none"><li>ISM Manufacturing registered 59.3% in March, 1.5 percentage points below the February reading. A reading below 50.0% indicates contraction</li><li>ISM Manufacturing New Orders registered 61.9% in March, 2.3 percentage points below the February reading.</li><li>ISM Non-Manufacturing registered 58.8% in March, 0.7 percentage points below the February reading.</li></ul>
	Housing/Construction	<ul style="list-style-type: none"><li>Building permits decreased 4.1% in February but have increased 8.4% over the past year.</li></ul>
Coincident	Consumer Confidence	<ul style="list-style-type: none"><li>The Consumer Confidence Index decreased in March to 127.7 compared to 130 in February.</li></ul>
	Nonfarm Payrolls	<ul style="list-style-type: none"><li>Total nonfarm payroll employment gained 313,000 in February while the unemployment rate remained unchanged at 4.1%.</li></ul>
	Industrial Production	<ul style="list-style-type: none"><li>Industrial Production rose 1% in February and is up 4.3% over the past year.</li></ul>
	Personal Income	<ul style="list-style-type: none"><li>Real Disposable Personal Income increased 0.2% in February and is up 2.1% over the past year.</li></ul>
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none"><li>This ratio rose 0.2% in February, and is up 1.6% year-over-year. Consumer borrowing tends to lag improvements in personal income by many months because people remain hesitant to take on new debt until they are sure that their improved income level is sustainable.</li></ul>
	Inflation	<ul style="list-style-type: none"><li>CPI (All Items) rose 0.2% in February and is up 2.3% over the trailing one year period.</li><li>CPI (Core) rose 0.2% in February and is up 1.9% over the trailing one year period.</li></ul>



### Nominal Trade-Weighted U.S. Dollar Major Currencies



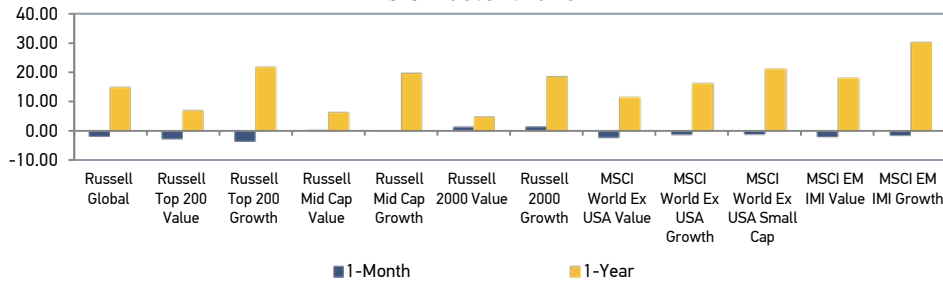
### Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell -0.3% through March, and the index is down -1.4% year-to-date. The dollar depreciated -0.8% versus the euro in March.



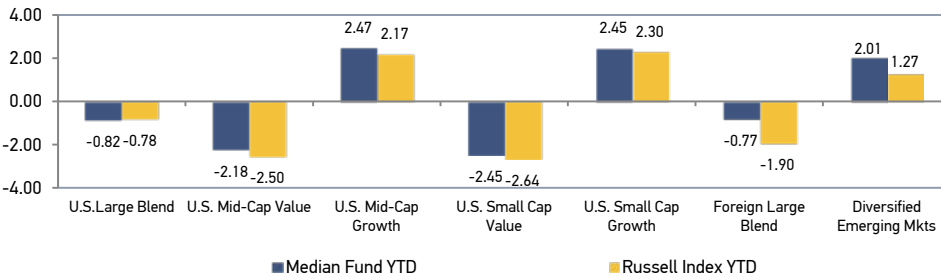
**Equity Market Performance**  
As of 03.31.2018



- Global equity markets fell for the second consecutive month as trade war fears and elevated volatility in the information technology sector caused the Russell Global Index to decline 1.87% in March. International equities outperformed the U.S. during the month, led by relative strength in international developed markets. However, U.S. mid-caps and small-caps posted positive returns in March. Growth and value produced similar returns during the month, although value outperformed in the U.S. as a Facebook user data scandal drove broader weakness in the growth-focused information technology sector.

Source: Morningstar, Russell Investments

**Active vs. Passive**  
As of 03.31.2018

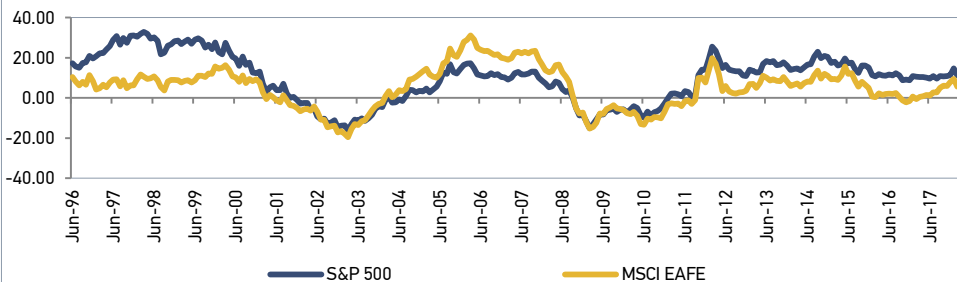


- Actively-managed equity strategies fared well during the first quarter of 2018, continuing the improvement in relative performance that occurred in 2017. Active managers in the U.S. mid-cap, U.S. small-cap and international categories have been stand-outs year-to-date. Higher levels of year-to-date market volatility has generally been a tailwind for active managers.

Source: Morningstar, Russell Investments

Median return of Morningstar open-end fund category (institutional share class). Russell return of U.S. categories.

**Rolling 3-Year Return Differential**  
S&P 500 vs. MSCI EAFE

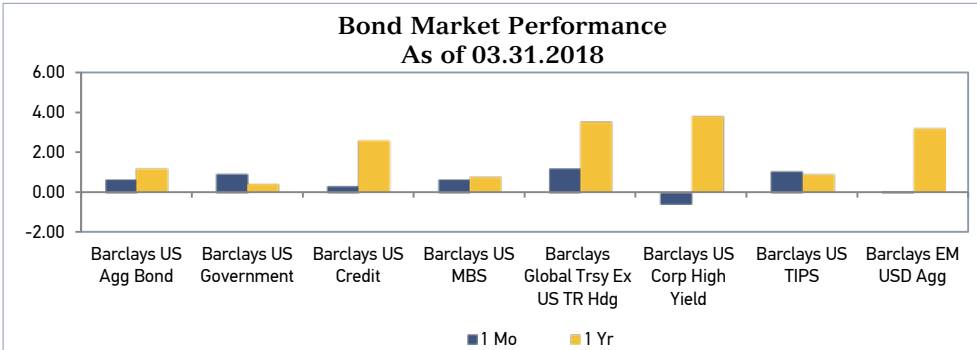


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Data as of 02.28.2018; Source: Morningstar



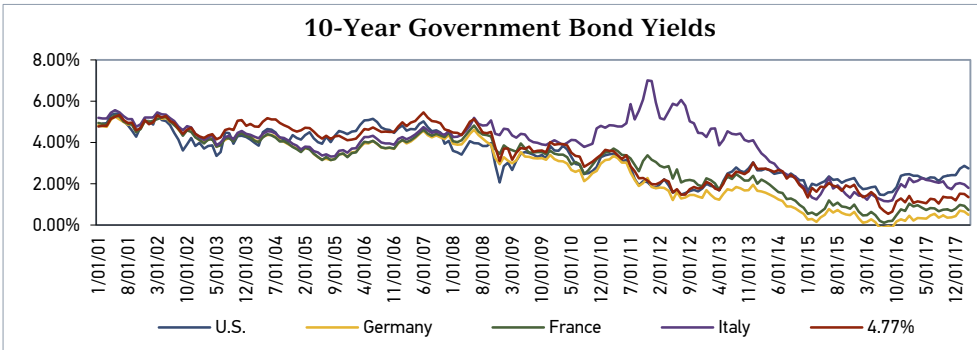
**Bond Market Performance**  
As of 03.31.2018



- Fixed income markets were largely positive during the month of March. The only asset class within our opportunity set that produced a negative return was high yield, returning -0.60%. Global Treasuries ex U.S. was up 1.19% for the month and was the top performer among fixed income options in our opportunity set for the second consecutive month. Government related securities, both TIPS and nominals also produced strong returns, up 1.05% and 0.93%, respectively. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.64% during the month.

Source: Morningstar, Barclays

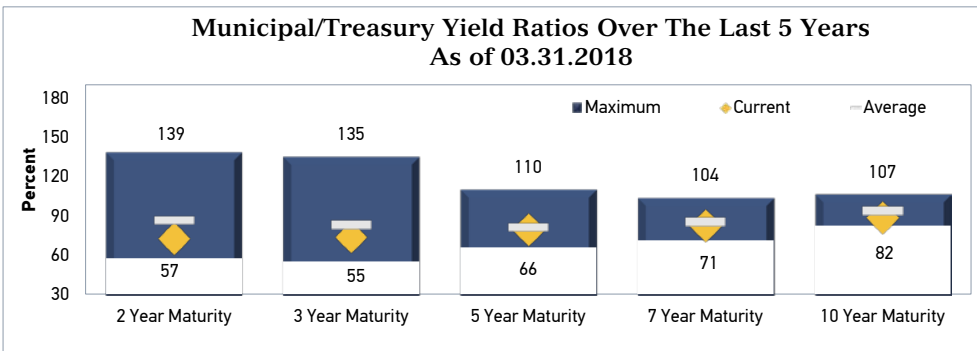
**10-Year Government Bond Yields**



- Over the month, select foreign developed 10-year government bond yields moved lower, with rates in Germany, Italy, France and U.K. declining. Domestic rates, as represented by the yield of the 10-year Treasury, also moved lower by 13 bps from 2.87% to 2.74%.

Data as of 03.31.2018; Source: FactSet, U.S. Department of Treasury

**Municipal/Treasury Yield Ratios Over The Last 5 Years**  
As of 03.31.2018

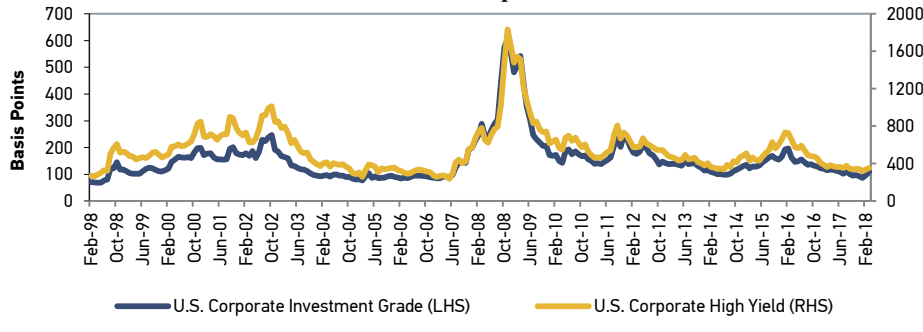


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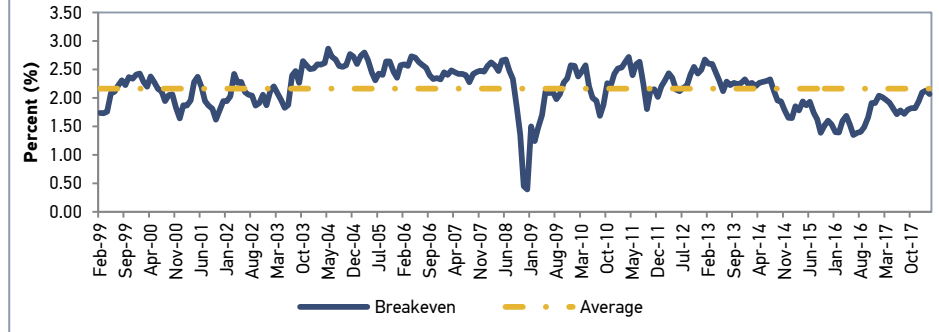
Source: Thompson Reuters; Sterling Capital Management Analytics.



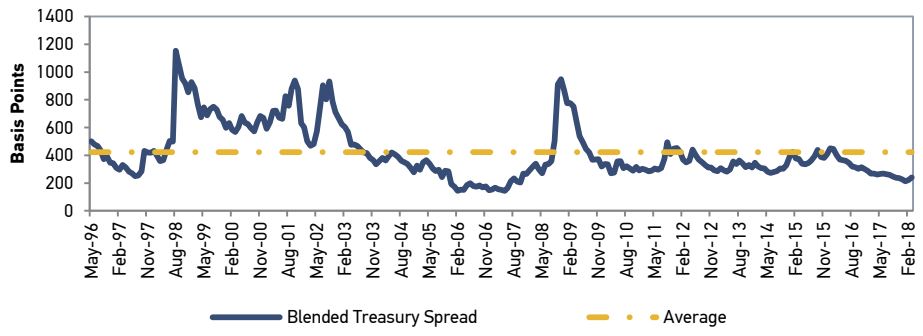
**20-Year U.S. Corporate OAS**



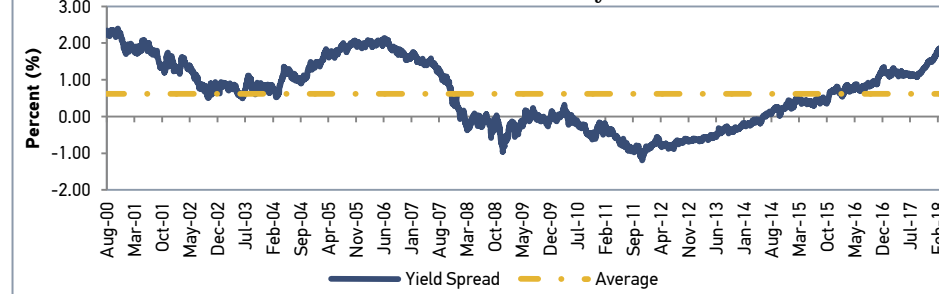
**10-Year TIPS Breakeven**



**EM Debt OAS**



**Yield Spread of Barclays U.S. Treasury Index to Global Ex-U.S. Treasury Index**



Data as of 03.31.2018; Source: FactSet

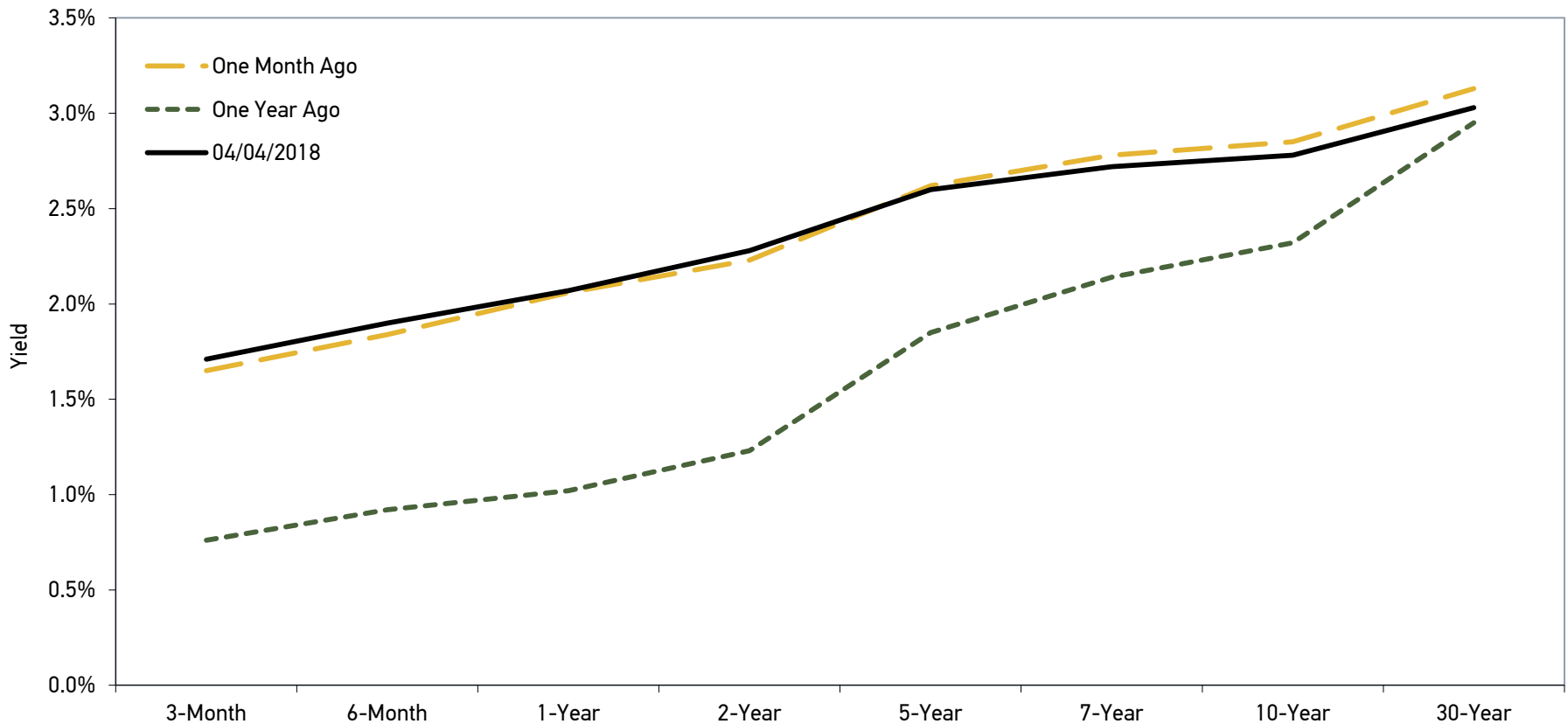
Data as of 03.31.2018; Source: Federal Reserve Board of Governors

Data as of 03.31.2018; Source: Barclays

Data as of 03.31.2018; Source: Barclays

- For the second consecutive month, investment grade and high yield corporate credit spreads moved significantly higher but remain well below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates moved lower in March and are very close to long run averages.
- Emerging market spreads moved higher in March but remain well below historical averages. The yield spread of U.S. to Global Treasuries continued higher and is above the historical average.

Note: Please see Appendix for important definitions.

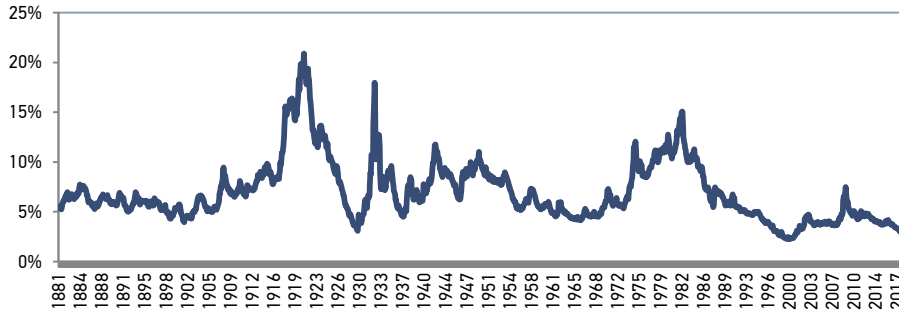


- Month-over-month, the yield curve flattened from both ends with the front-end moving higher and long-end moving lower. As of April 4, 2018, the spread between the 2-year Treasury yield and 10-year Treasury yield was 50 bps. By comparison, one year ago, that spread was 109 bps.



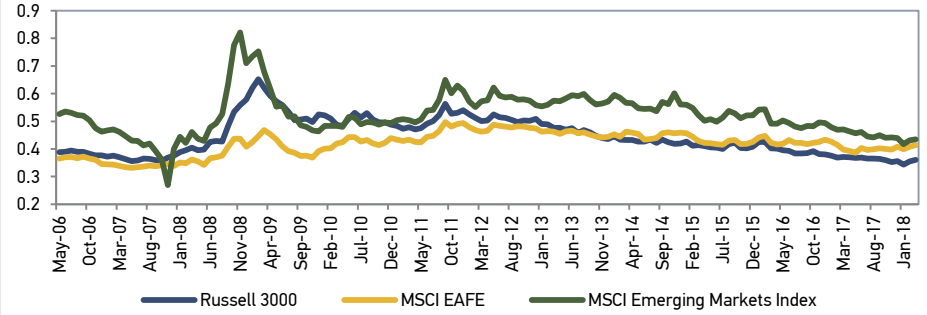


**U.S. Cyclically Adjusted Earnings Yield**



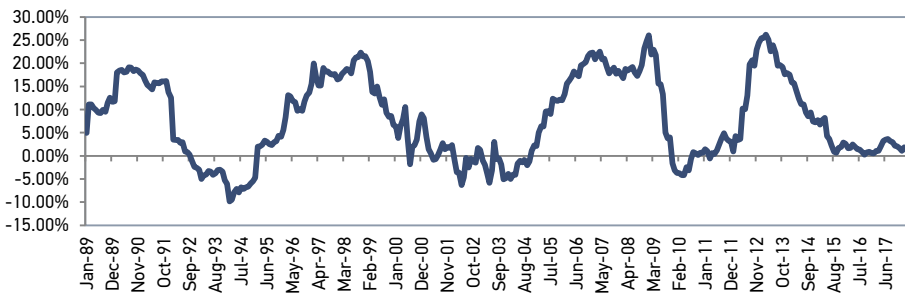
Data as of 03.31.2018; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

**Revenue to Firm Value**



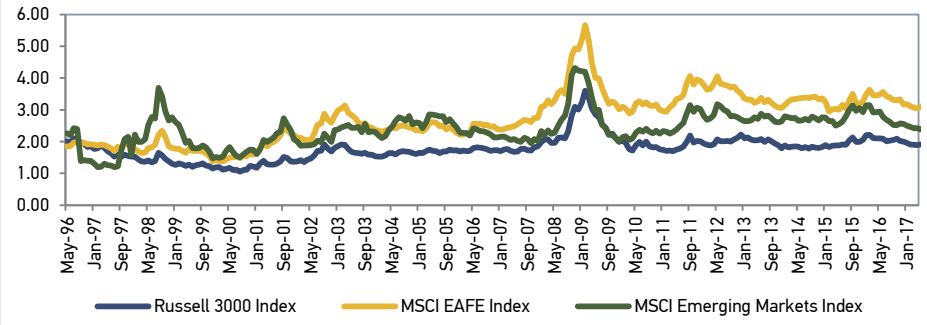
Data as of 03.31.2018; Source: Russell, MSCI

**U.S. 3-Year Real Revenue Growth –  
Russell 3000 Non-Financials**



Data as of 03.31.2018; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

**Dividend Yield**



Data as of 03.31.2018; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield remains well below long-term averages. Sales growth has picked up recently, but long-term real growth remains low.
- Revenue to firm value in the U.S. is lower than International Developed Markets. The Emerging Markets' ratio is only slightly higher than International Developed Markets.
- International Developed equities provide a significant dividend yield advantage over Emerging Market and U.S. equities. Emerging Market dividend yields have declined relative to Developed Markets.

Note: Please see Appendix for important definitions.

# Appendix



**Core Consumer Price Index:** Core inflation is a measure of inflation that excludes certain items, usually food and energy, that face volatile price movements.

**Option Adjusted Spread (OAS):** A bond's yield spread over comparable maturity government bonds, adjusted for any embedded options.

**Real GDP:** Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices.

**Revenue to Firm Value:** Total Index Revenues of the past 12 months divided by the sum of equity market value and the value of total debt. This is a measure of total sales generated on the total value (debt plus equity) of firms in the index.

**TIPS Breakeven:** The inflation rate implied by the spread in yield between U.S. TIPS (Treasury Inflation Protected Securities) and nominal U.S. Government Bonds of equal maturity.

**U.S. 3 yr. Real Revenue Growth, Russell 3000 Non-Financials:** For the Russell 3000 excluding financial firms, the percentage change in trailing 12-month inflation adjusted revenue over 12-month inflation adjusted revenue three years prior.

**U.S. Cyclically Adjusted Earnings Yield:** The 10-year average of annual, inflation adjusted earnings divided by the current inflation adjusted price of the S&P 500 index. This measure is the inverse of the Shiller CAPE Ratio.

**YOY US Productivity Growth:** The year-over-year growth in real U.S. output produced per hour worked for non-farm workers.



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