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Advisory Solutions Monthly Update
March 2018

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 recommend an overweight to International Fixed Income.

EQUITY HIGHLIGHTS

- Global equity market volatility returned in February after an extended hiatus as rising interest rates and inflation concerns played a role in the Russell Global Index's 4.14% decline during the month. As a result, a streak of 15 consecutive months of positive global equity returns was broken. U.S. equities outperformed international developed markets and emerging markets during the month, and growth continued to outperform value. Information technology, which was the best performing sector in 2017, continued to exhibit strong relative results during the month.
- Actively-managed equity strategies generally fared well during the first two months of 2018, continuing the improvement in relative performance that occurred in 2017. Active managers in the U.S. mid-cap value, U.S. small-cap value and U.S. small-cap growth categories have been stand-outs year-to-date. Low intra-stock correlation and widening sector return dispersion continued to be a tailwind for active managers.
- The relative performance of U.S. versus international developed markets equites has tended to move in long cycles over time. While U.S. equities have outperformed international equites by a substantial margin since the financial crisis, international equities outperformed in 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 return gap between U.S. and international equities has narrowed.

FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely negative during the month of February. The only asset class within our opportunity set that produced a positive return was Global Treasuries ex U.S., which was up 0.41%. Agency Mortgage-Backed Securities (MBS) was the next best performer, returning -0.66%. Investment Grade Credit and Emerging Market Debt produced the lowest returns, down 1.51% and 1.36%, respectively. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned -0.95% 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. Conversely, 10-year domestic rates moved higher with the yield on the 10-year Treasury increasing by 15 bps, 2.72% to 2.87%.
- Short-dated Municipal/Treasury yield ratios moved lower during February, while longer-dated ratios were relatively unchanged. Ratios remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields		Rates/Commodities	
Russell Global	1.00%	Barclays US Aggregate	-2.09%	60% LgShort-40% MktNeutral	0.15%	6-month	1.86%	Prime Rate	4.50%
Russell 3000	1.39%	Barclays Gbl Treas xUS Hdg	0.04%	DJ Equity All REIT	-10.00%	1-year	2.07%	LIBOR (3 Mo)	2.02%
S&P 500	1.83%	Barclays US TIPS	-1.82%	Bloomberg Commodity	0.22%	3-year	2.42%	Oil Price ($/barrel)	$61.64
MSCI EAFE	0.28%	Barclays US High Yield	-0.26%			5-year	2.65%	Gold ($/t oz)	$1,317.90
MSCI EM	3.34%	Barclays EM Aggregate	-1.53%			10-year	2.87%		
						30-year	3.13%		

Data as of 02.28.2018; Source: Morningstar, FactSet, Russell Investments, Barclays, U.S. Department of Treasury

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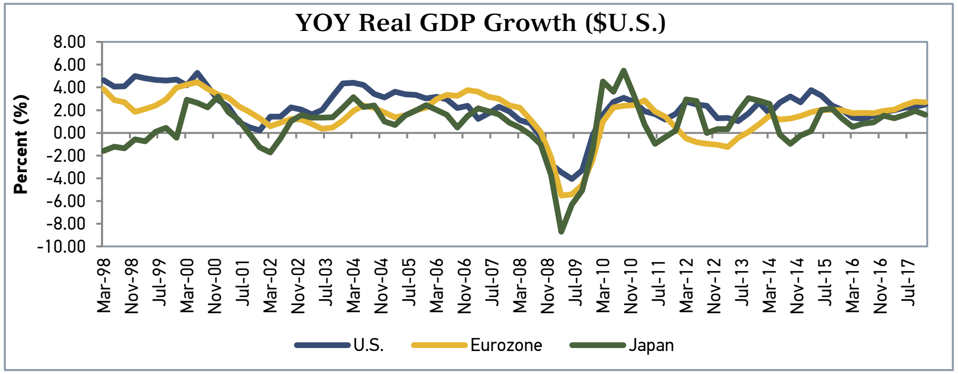
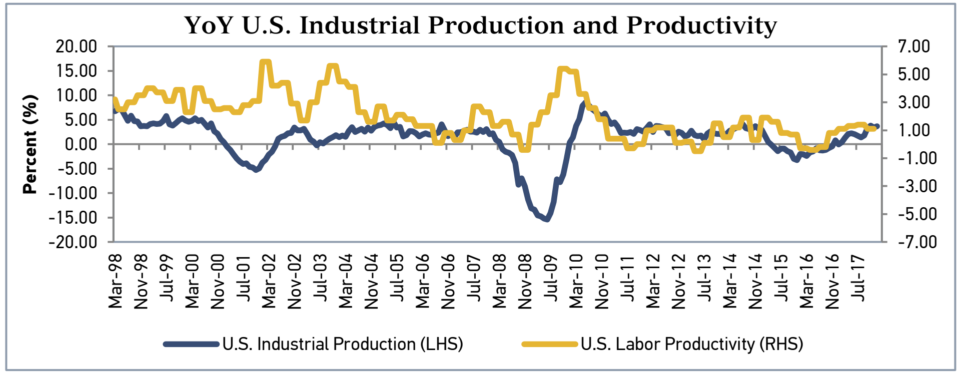
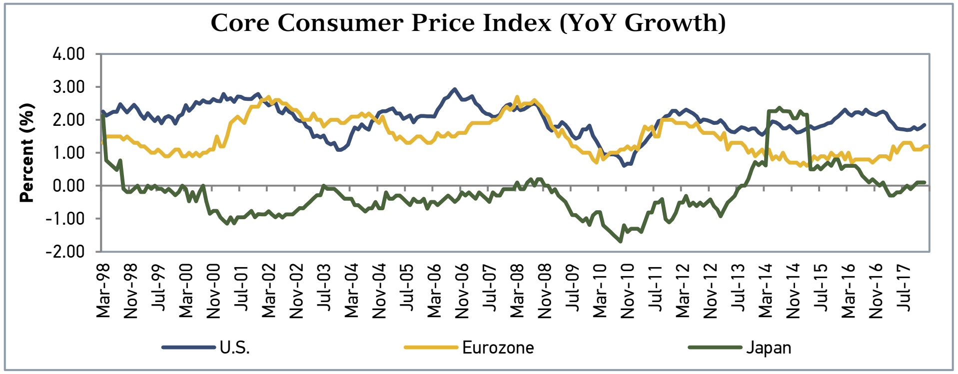
Global Economic Snapshot



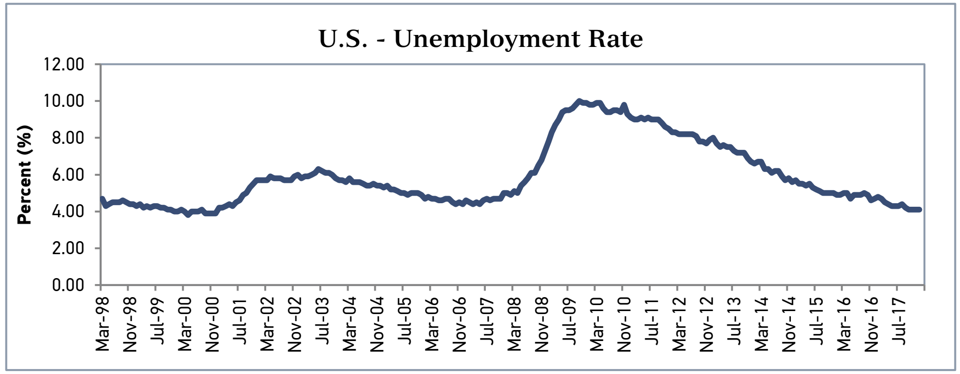
Data as of 12.29.2017; Source: FactSet



Industrial production data as of 01.31.2018; U.S. Labor Productivity data as of 12.29.2017; Source: FactSet



Data as of 01.31.2018 for the U.S. and Japan and 02.28.2018 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 01.31.2018; 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.
- 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.
- 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.

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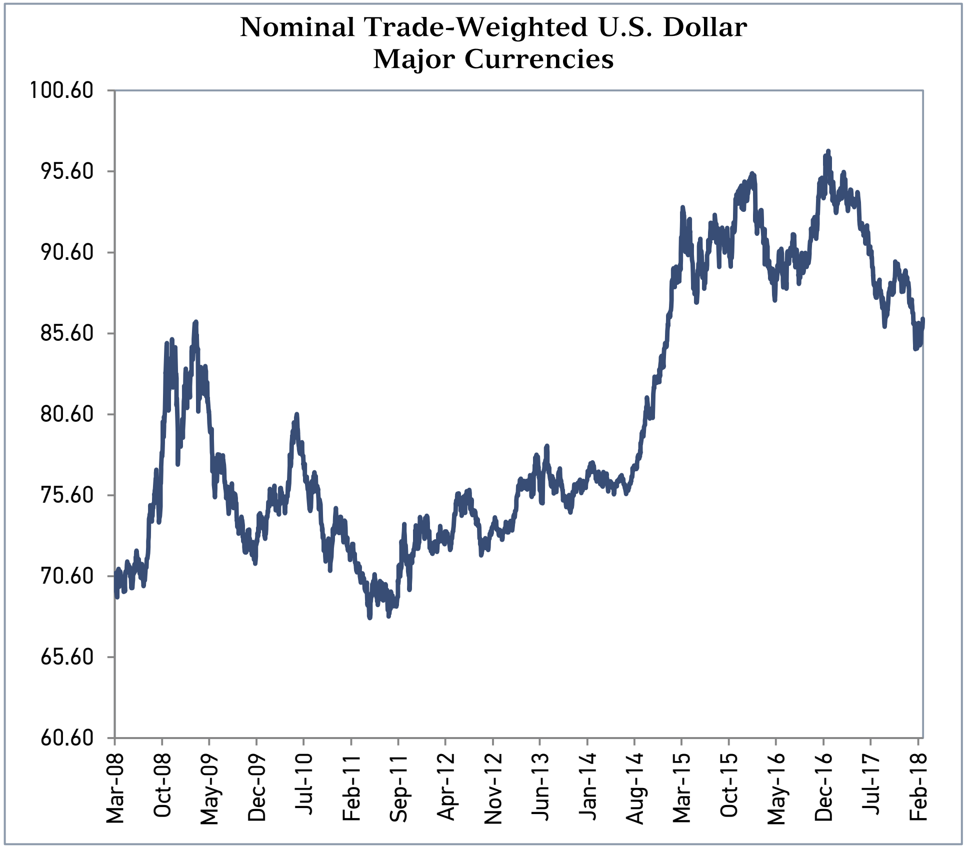
U.S. Economic Indicators

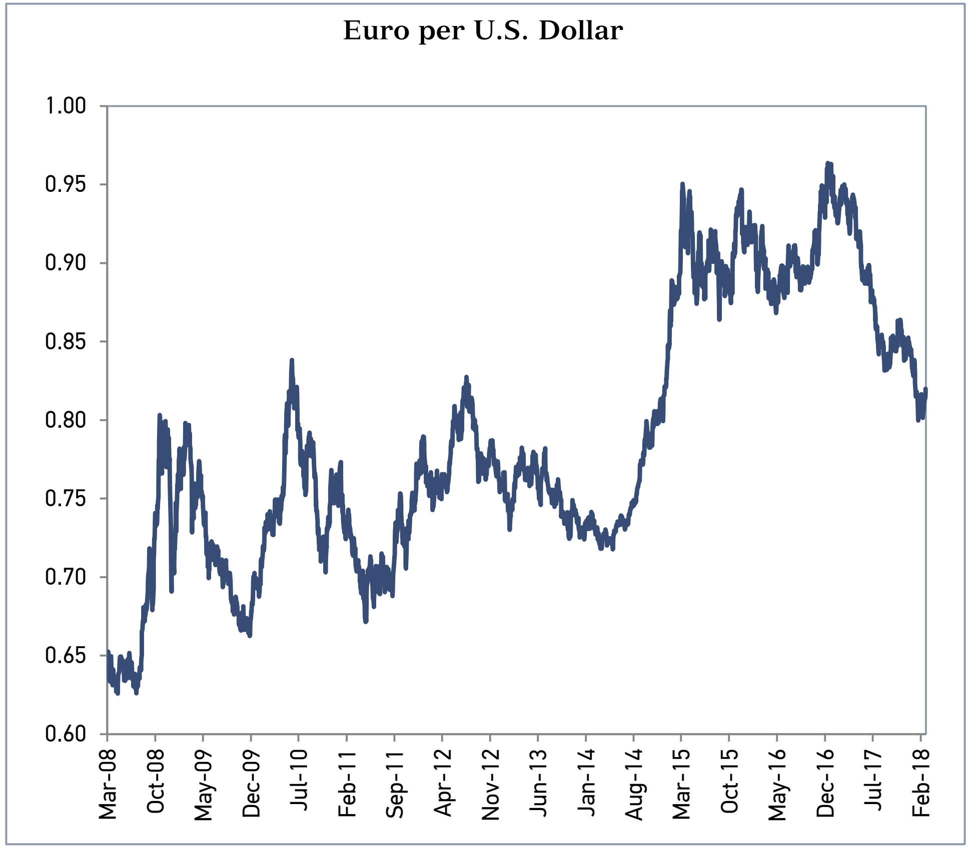
Leading — Coincident — Lagging

Initial Jobless Claims	• In the week ending February 24, the four-week moving average of Initial Jobless Claims was 210,000, a decrease of 10,000 from the previous week's revised average of 220,000.
Manufacturing	• ISM Manufacturing registered 60.8% in February, 1.7 percentage points above the January reading. A reading below 50.0% indicates contraction. • ISM Manufacturing New Orders registered 64.2% in February, 1.2 percentage points below the January reading. • ISM Non-Manufacturing registered 59.5% in February, 0.4 percentage points below the January reading.
Housing/Construction	• Building permits increased 7.4% in January and have increased 7.4% over the past year.
Consumer Confidence	• The Consumer Confidence Index increased in February to 130.8 compared to 124.3 in January.
Nonfarm Payrolls	• Total nonfarm payroll employment gained 200,000 in January, while the unemployment rate remained unchanged at 4.1%.
Industrial Production	• Industrial Production fell -0.1% in January and is up 3.7% over the past year.
Personal Income	• Real Disposable Personal Income increased 0.6% in January, and is up 2.3% over the past year.
Ratio of Consumer Installment Credit to Personal Income	• This ratio rose 0.2% in January, and is up 1.9% 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.
Inflation	• CPI (All Items) rose 0.5% in January and is up 2.1% over the trailing one year period. • CPI (Core) rose 0.3% in January, and is up 1.8% over the trailing one year period.

Source: FactSet

Currency





- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 1.9% through February, and the index is down -1.1% year-to-date. The dollar appreciated 2.1% versus the euro in February.

Data as of 02.28.2018; Source: FactSet

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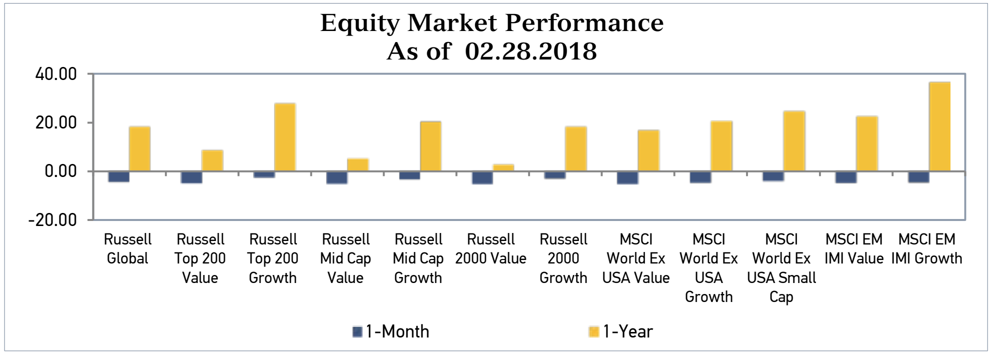
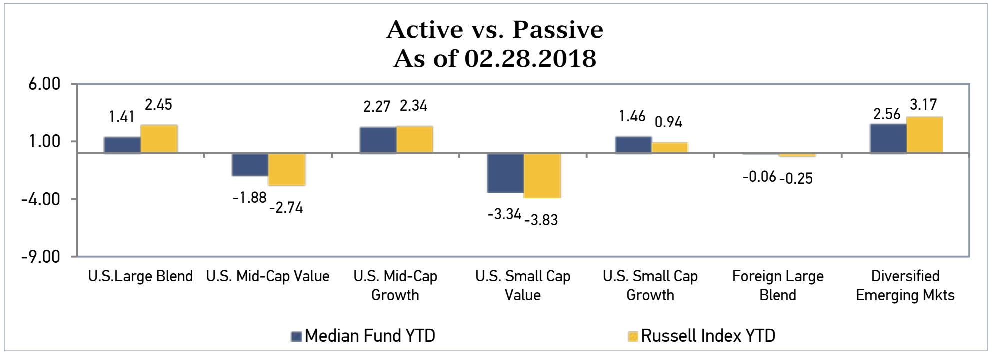
Global Equity Markets



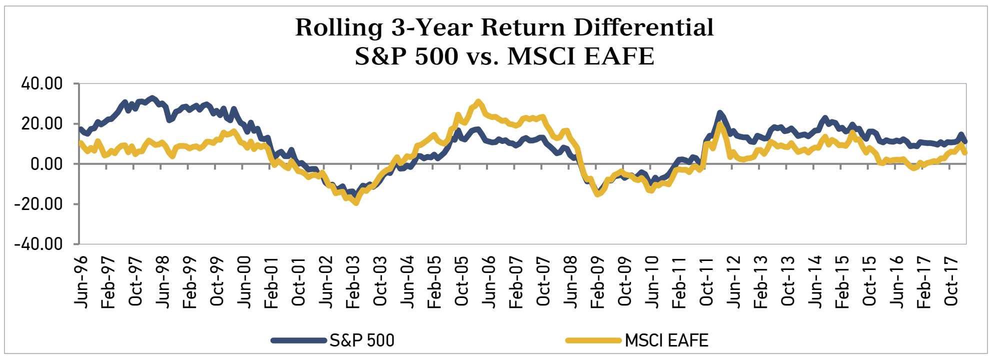
Source: Morningstar, Russell Investments

- Global equity market volatility returned in February after an extended hiatus as rising interest rates and inflation concerns played a role in the Russell Global Index's 4.14% decline during the month. As a result, a streak of 15 consecutive months of positive global equity returns was broken. U.S. equities outperformed international developed markets and emerging markets during the month, and growth continued to outperform value. Information technology, which was the best performing sector in 2017, continued to exhibit strong relative results during the month



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

- Actively-managed equity strategies generally fared well during the first two months of 2018, continuing the improvement in relative performance that occurred in 2017. Active managers in the U.S. mid-cap value, U.S. small-cap value and U.S. small-cap growth categories have been stand-outs year-to-date. Low intra-stock correlation and widening sector return dispersion continued to be a tailwind for active managers.



Data as of 02.28.2018; Source: Morningstar

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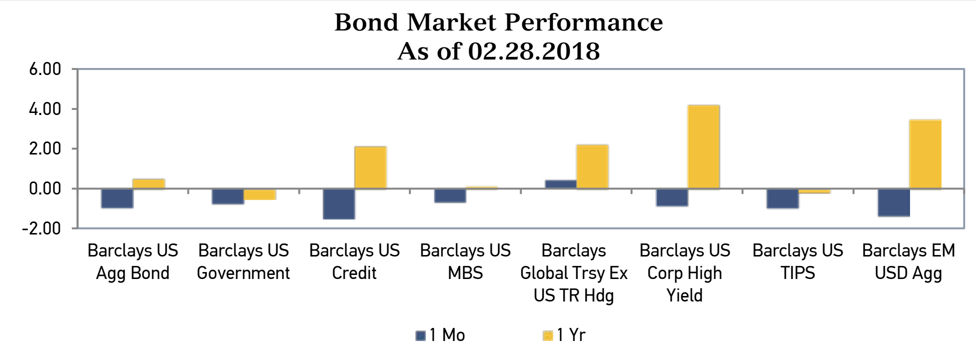
Fixed Income Markets



Source: Morningstar, Barclays

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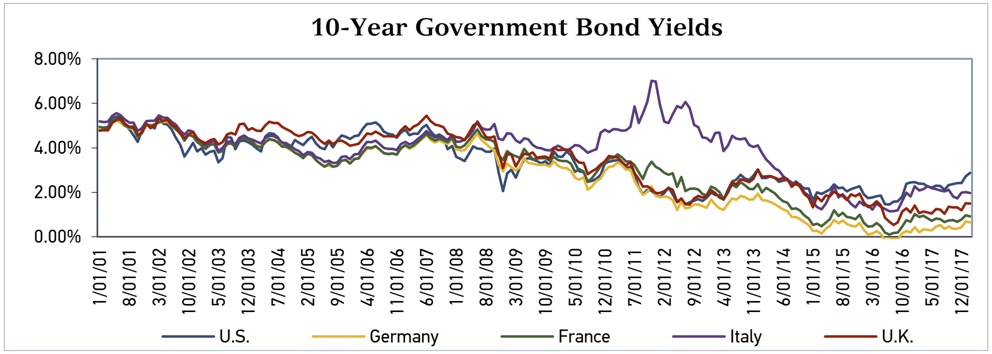
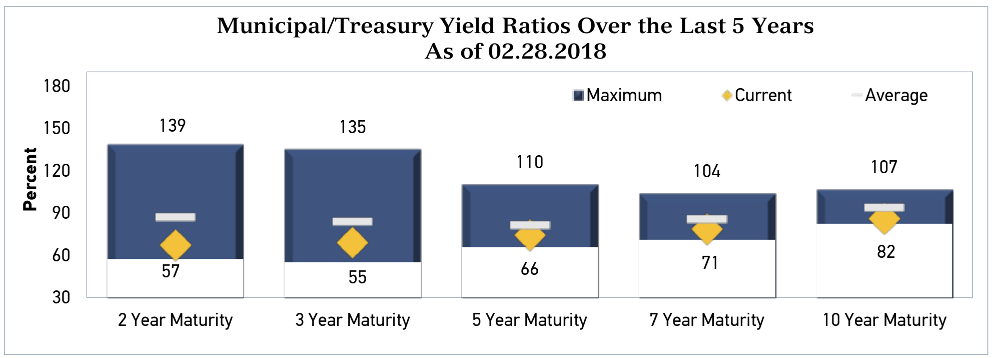


Data as of 02.28.2018; Source: FactSet, U.S. Department of Treasury

- Over the month, select foreign developed 10-year government bond yields moved lower, with rates in Germany, Italy, France and U.K. declining. Conversely, 10-year domestic rates moved higher with the yield on the 10-year Treasury increasing by 15 bps, 2.72% to 2.87%.



Source: Thompson Reuters; Sterling Capital Management Analytics.

- Short-dated Municipal/Treasury yield ratios moved lower during February, while longer-dated ratios were relatively unchanged. Ratios remain below historical averages.

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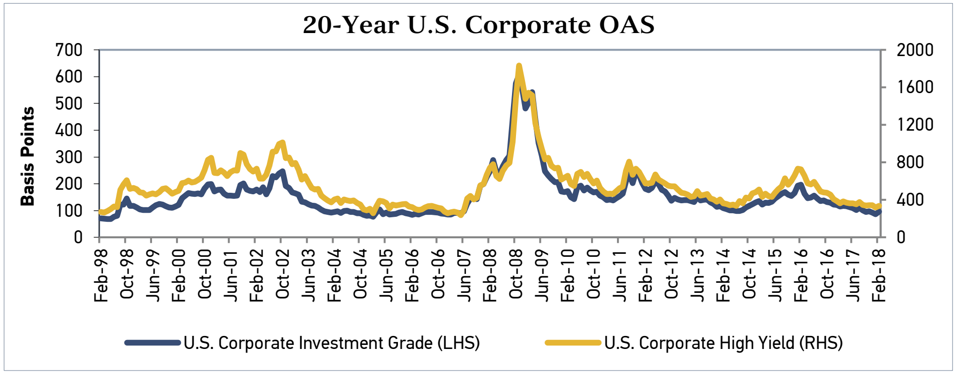
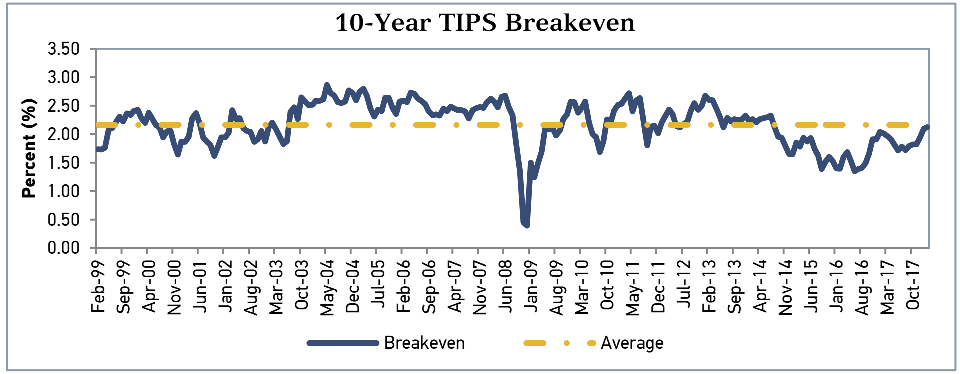
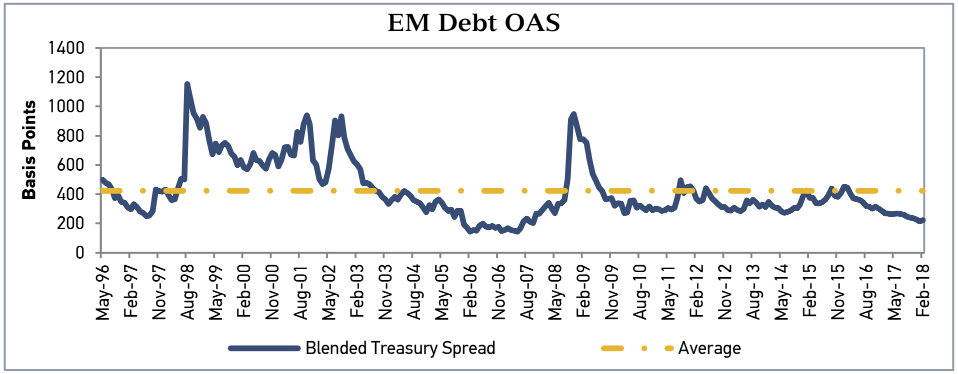
Fixed Income Spreads and TIPS Breakeven



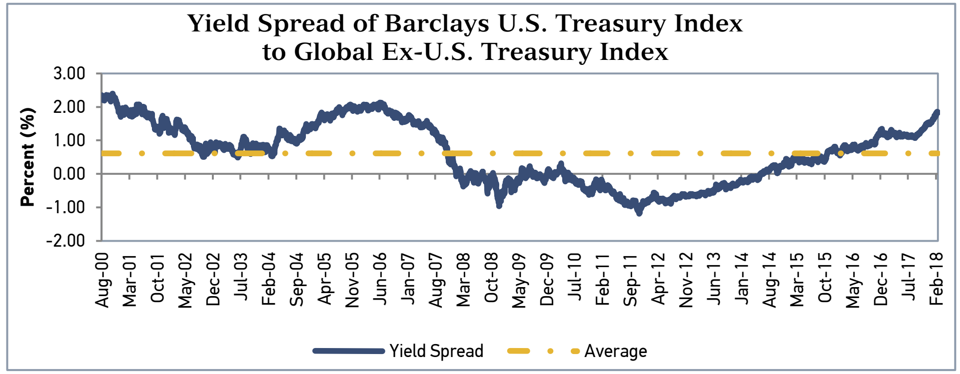
Data as of 02.28.2018; Source: FactSet



Data as of 02.28.2018; Source: Federal Reserve Board of Governors



Data as of 02.28.2018; Source: Barclays

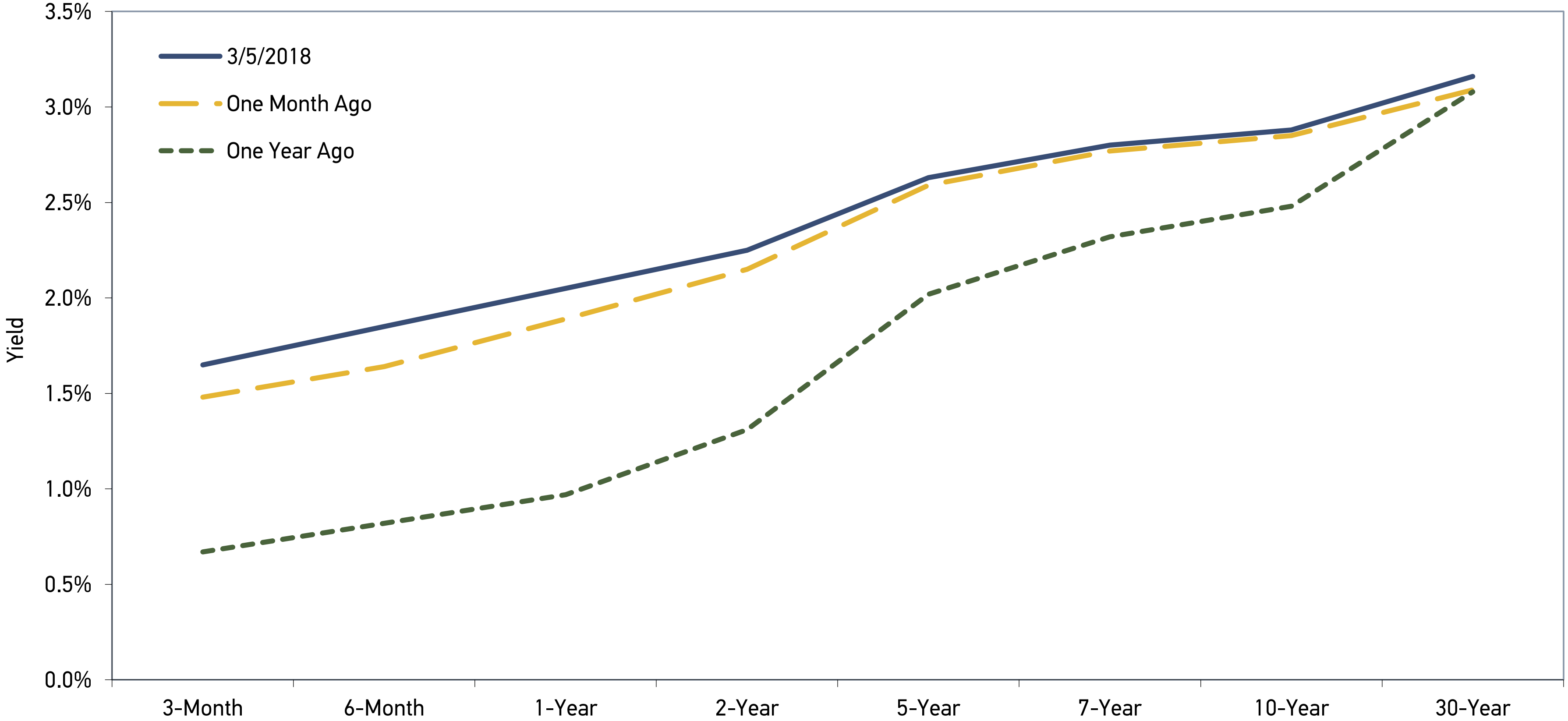


Data as of 02.28.2018; Source: Barclays

- Investment grade and high yield corporate credit spreads moved higher in February but remain well below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates moved slightly higher in February and are very close to long run averages.
- Emerging market spreads moved higher in February but remain well below historical averages. The yield spread of U.S. to Global Treasuries moved higher in February and is above the historical average.

Note: Please see Appendix for important definitions.

U.S. Treasury Yield Curve

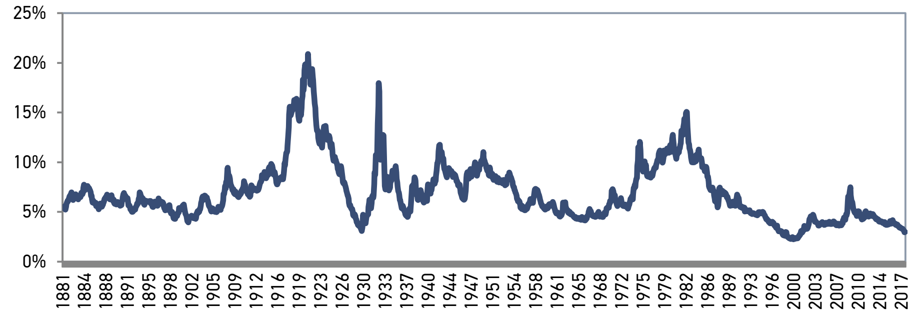


- Month-over-month, yields moved higher across the curve with larger increases occurring in shorter-dated maturities.

Data as of 03.05.2018; Source: FactSet

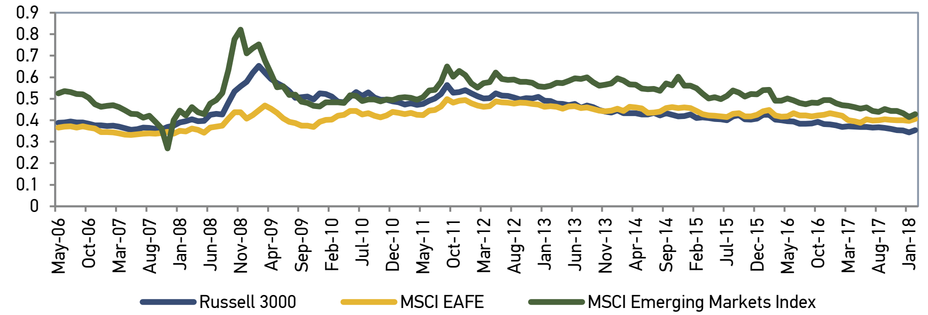
Global Equity Market Fundamentals

U.S. Cyclically Adjusted Earnings Yield



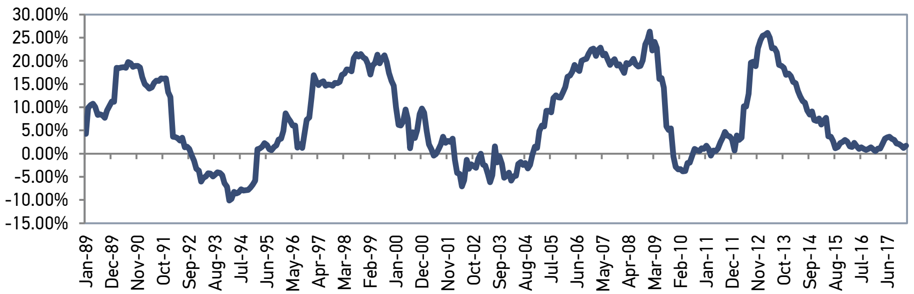
Data as of 02.28.2018; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



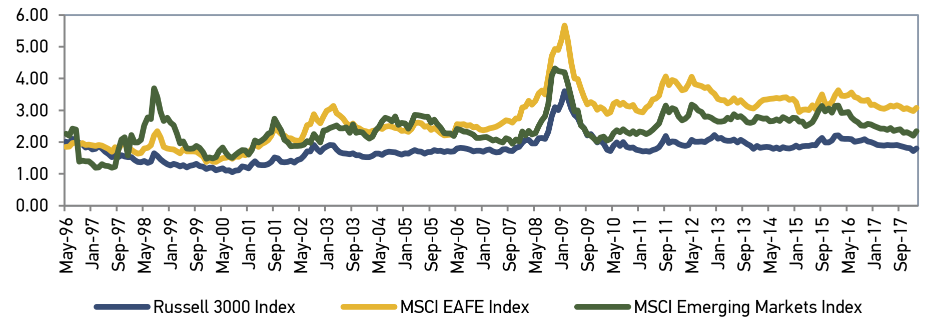
Data as of 02.28.2018; Source: Russell, MSCI

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



Data as of 02.28.2018; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 02.28.2018; Source: Russell, MSCI

- Despite the drop in equity prices in February, 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.

Note: Please see Appendix for important definitions.

Appendix

Definitions

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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