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Advisory Solutions Monthly Update
October 2017

ASSET ALLOCATION UPDATE

- We recommend a mild underweight to Global Equities and overweight to Fixed Income across models.
- Within the equity allocation, we continue to recommend an overweight to non-U.S. developed equity, concentrated in the growth segment.

EQUITY HIGHLIGHTS

- Global equities continued to rise in September. U.S. equities, led by renewed relative strength in small-caps, outperformed international equities, which were held back by a slight pullback in emerging markets. Equity market volatility remained low during the month, which led to lowest quarterly average level in the history of CBOE Volatility Index (VIX). Through September, the S&P 500 Index had produced a positive return in every month during the year (something that has never happened in a full calendar year), and the largest drawdown in the index year-to-date was just 3%, matching a 30-year low last seen in 1995. Value cyclicals outperformed during the month, largely as a result of the resumption in U.S. tax reform discussions.
- The environment for active managers has improved substantially in 2017, especially in the international developed markets and emerging markets categories. Intra-stock correlation, which began to fall in mid-2016 and has remained relatively low during in 2017, has been 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 have significantly outperformed in 2017 as compelling relative valuations, strong earnings growth, and improving economic data in key international markets have attracted investor interest.

FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely negative during the month of September, although there were areas of the credit market that provided positive absolute returns. Within the opportunity set, high yield and emerging market debt were the two asset classes that were up over the month, returning 0.90% and 0.06%, respectively. Government related securities produced the lowest returns for the month with U.S. Government securities down 0.84% and Global Treasuries ex U.S. down 0.50%. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned -0.48% during the month.
- Over the month, select 10-year government bond yields moved higher, led by the U.K. and the U.S. The 10-year U.S. Treasury yield increased 21 bps, from 2.12% to 2.33%.
- Municipal/Treasury yield ratios moved higher during the month for shorter-dated maturities and lower for longer-dated maturities. Ratios remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields		Rates/Commodities	
Russell Global	17.15%	Barclays US Aggregate	3.14%	60% LgShort-40% MktNeutral	4.88%	6-month	1.20%	Prime Rate	4.25%
Russell 3000	13.91%	Barclays Gbl Treas xUS Hdg	1.01%	DJ Equity All REIT	6.11%	1-year	1.31%	LIBOR (3 Mo)	1.33%
S&P 500	14.24%	Barclays US TIPS	1.72%	Bloomberg Commodity	-2.87%	3-year	1.62%	Oil Price ($/barrel)	$51.67
MSCI EAFE	19.96%	Barclays US High Yield	7.00%			5-year	1.92%	Gold ($/t oz)	$1,284.80
MSCI EM	27.78%	Barclays EM Aggregate	7.50%			10-year	2.33%		
						30-year	2.86%		

Data as of 09.30.2017; Source: Morningstar, FactSet, Russell Investments, Barclays, U.S. Department of Treasury

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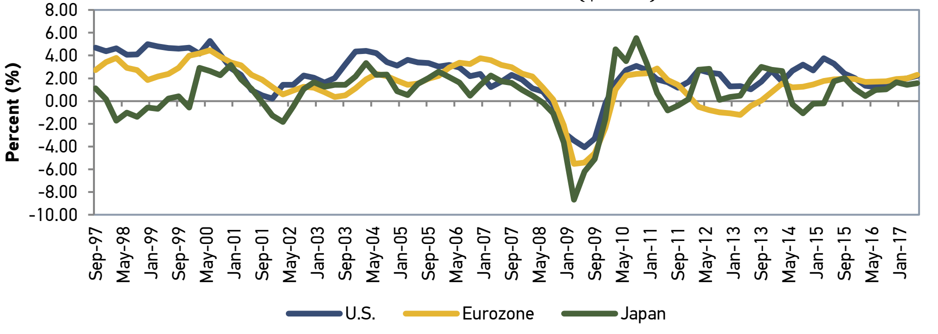
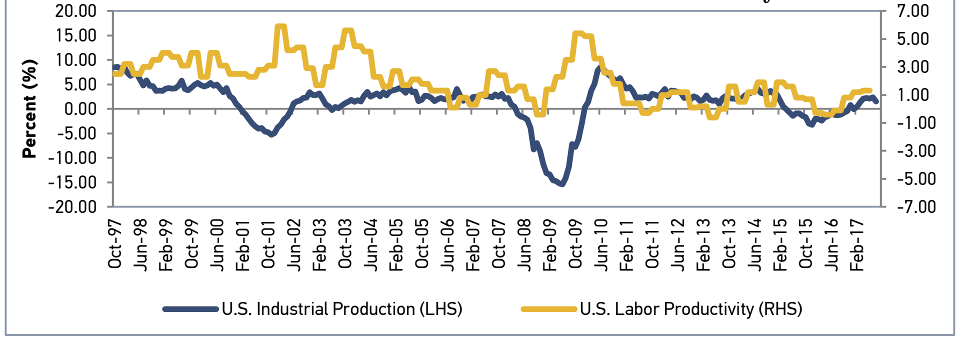
Global Economic Snapshot

YOY Real GDP Growth ($U.S.)



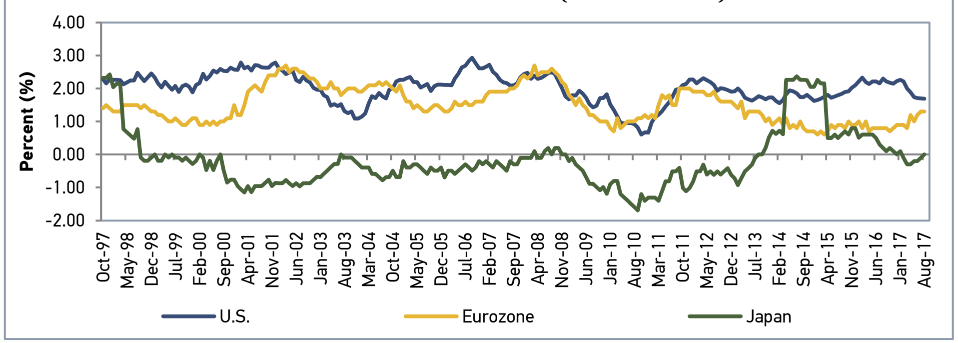
Data as of 06.30.2017; Source: FactSet

YoY U.S. Industrial Production and Productivity



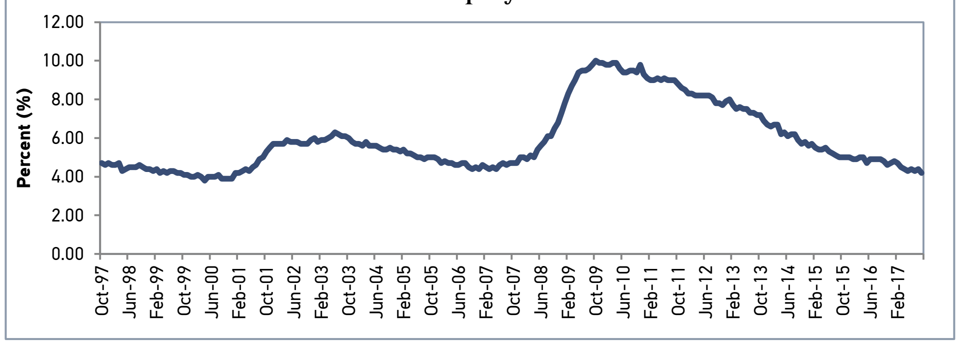
Industrial Production as of 08.31.2017. Labor Productivity as of 06.30.2017; Source: FactSet

Core Consumer Price Index (YoY Growth)



Data as of 08.31.2017; Source: FactSet; The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.

U.S. - Unemployment Rate



Data as of 09.30.2017; Source: FactSet

- YOY global growth rates have converged across economies at a moderate but slowly improving level.
- U.S. productivity growth improved in the second quarter, leaving the year-over-year rate at 1.3%. Continued improvement in productivity is essential to drive long-term real growth.
- Despite a recent soft spot, tightening labor conditions in the US should keep inflation firm. Improved growth in the Eurozone has resulted in higher inflation that is approaching US levels. Inflation in Japan is flat year-over-year..
- Current U.S. Unemployment of 4.2% 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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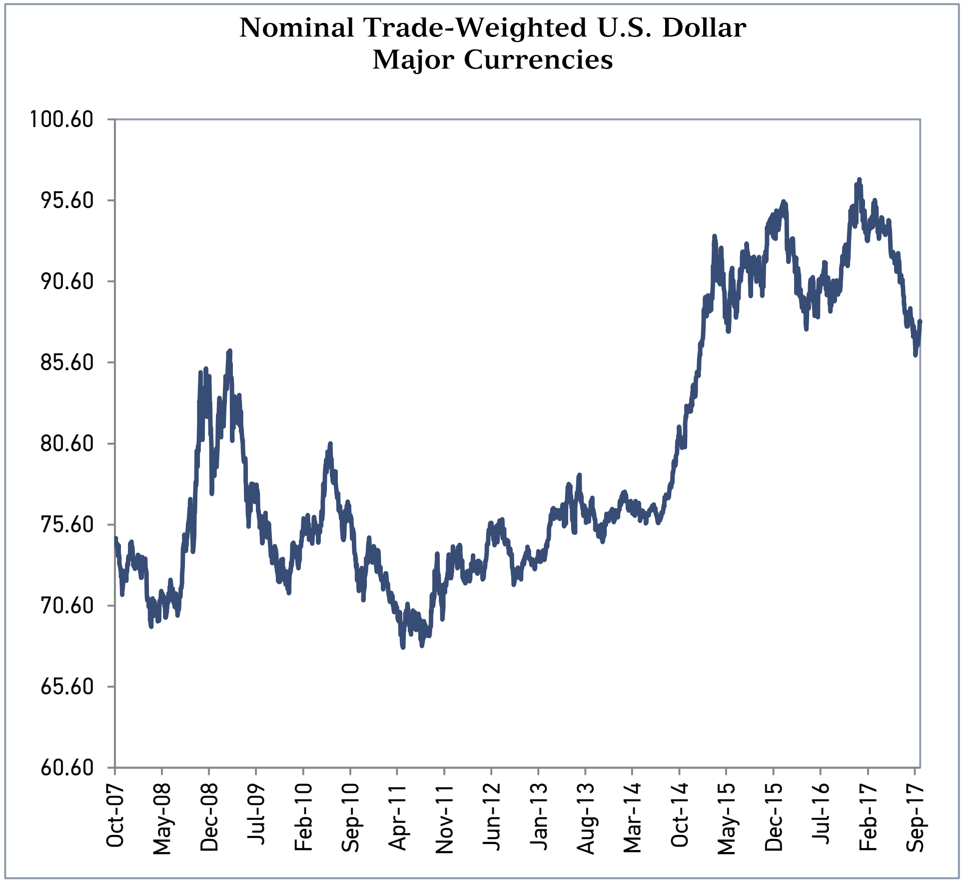
U.S. Economic Indicators

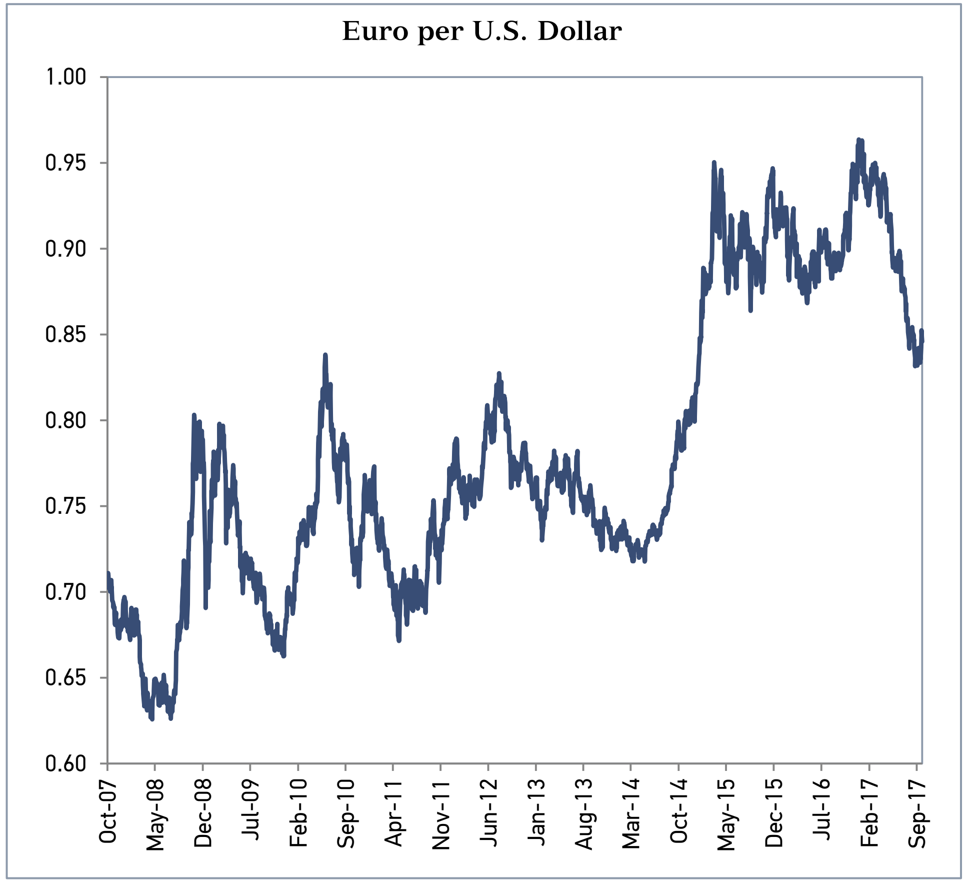
Leading — Coincident — Lagging

Initial Jobless Claims	• In the week ending September 29, the four-week moving average of Initial Jobless Claims was 268,250, a decrease of 9,500 from the previous week's unrevised average.
Manufacturing	• ISM Manufacturing registered 60.8% in September, 2.0 percentage points above the August reading. A reading below 50.0% indicates contraction. • ISM Manufacturing New Orders registered 64.6% in September, 4.3 percentage points above the August reading. • ISM Non-Manufacturing registered 59.8% in September, 4.5 percentage points above the August reading.
Housing/Construction	• Building permits increased 3.4% in August and have increased 6.0% over the past year.
Consumer Confidence	• The Consumer Confidence Index decreased in September to 119.8 compared to 120.4 in August.
Nonfarm Payrolls	• Total nonfarm payroll employment fell -33,000 in September. The unemployment rate, however, fell -0.2% to 4.2%.
Industrial Production	• Industrial Production decreased -0.9% in August and is up 1.5% over the past year.
Personal Income	• Real Disposable Personal Income decreased -0.1% in August, and is up 1.2% over the past year.
Ratio of Consumer Installment Credit to Personal Income	• This ratio rose 0.2% in July, and is up 3.0% 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 0.4% in August and is up 1.9% over the trailing one year period. • CPI (Core) rose 0.2% in August, and is up 1.7% over the trailing one year period.

Source: FactSet

Currency

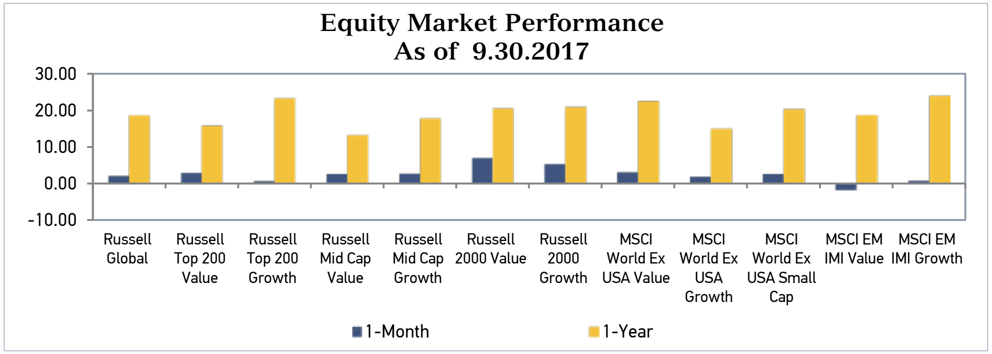




- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 0.4% through September, and the index is down -8.0% year-to-date. The dollar appreciated 0.6% versus the euro in September.

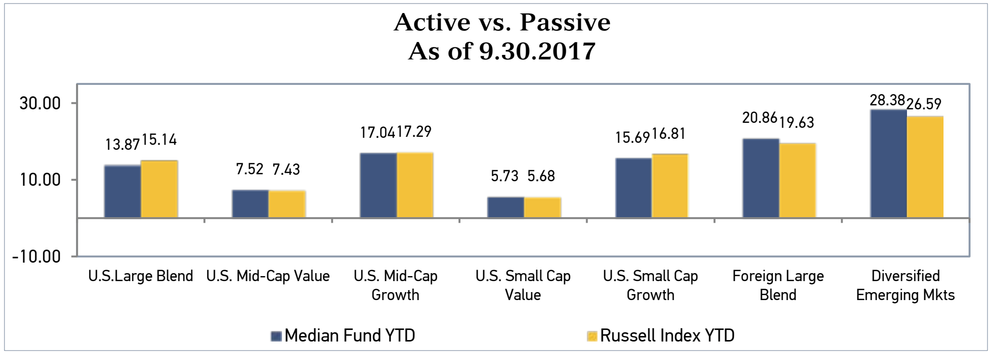
Data as of 09.30.2017; Source: FactSet

Global Equity Markets



Source: Morningstar, Russell Investments

- Global equities continued to rise in September. U.S. equities, led by renewed relative strength in small-caps, outperformed international equities, which were held back by a slight pullback in emerging markets. Equity market volatility remained low during the month, which led to lowest quarterly average level in the history of CBOE Volatility Index (VIX). Through September, the S&P 500 Index had produced a positive return in every month during the year (something that has never happened in a full calendar year), and the largest drawdown in the index year-to-date was just 3%, matching a 30-year low last seen in 1995. Value cyclicals outperformed during the month, largely as a result of the resumption in U.S. tax reform discussions.



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

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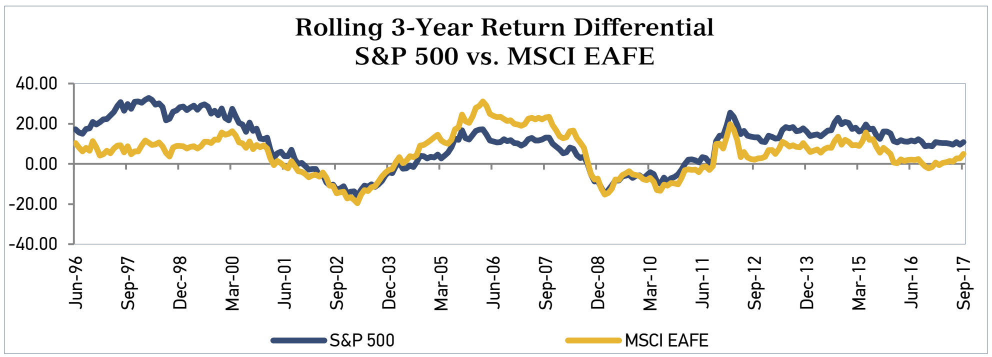

Data as of 09.30.2017; Source: Morningstar

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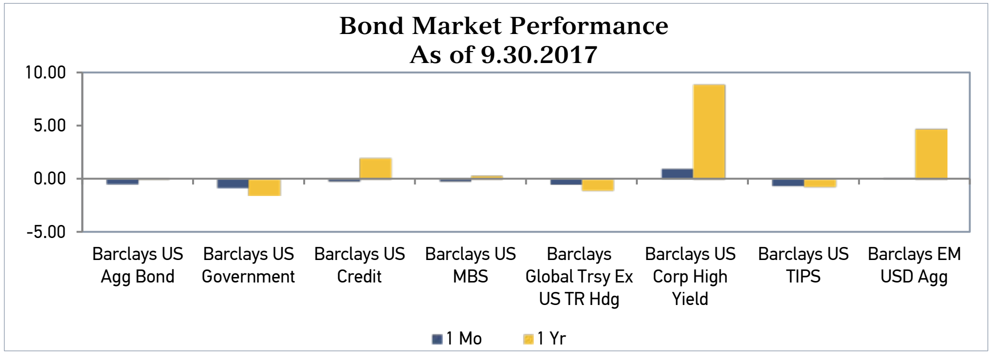
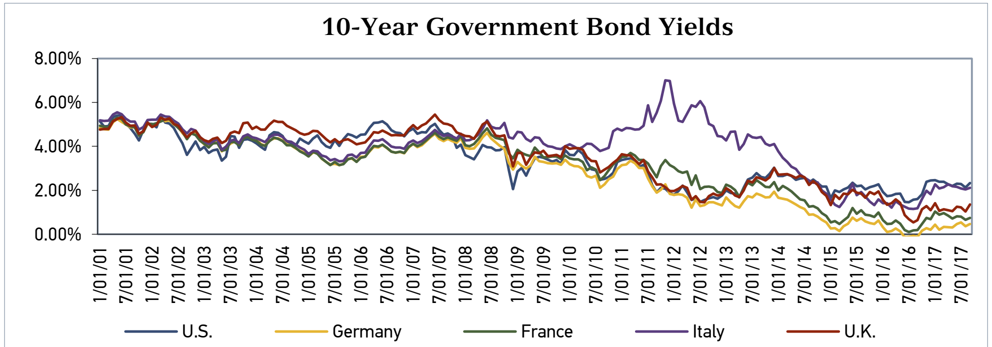
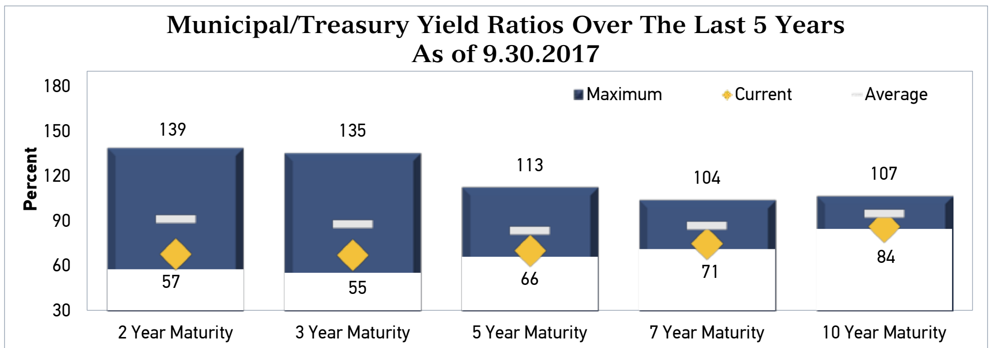
Fixed Income Markets



Source: Morningstar, Barclays



Data as of 08.31.2017; Source: FactSet, U.S. Department of Treasury



Source: Thompson Reuters; Sterling Capital Management Analytics.

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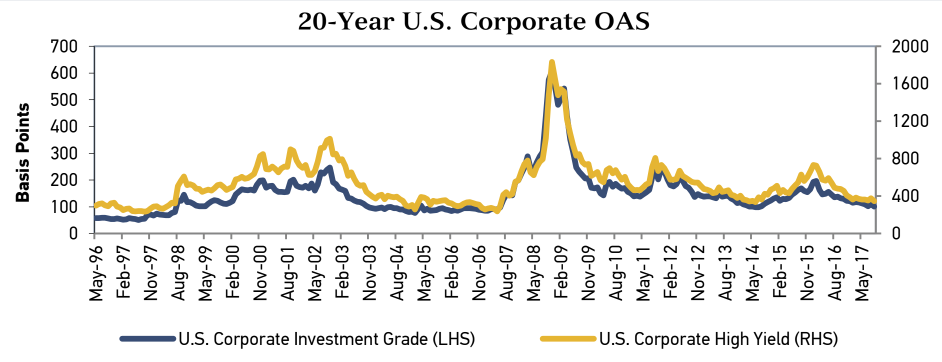
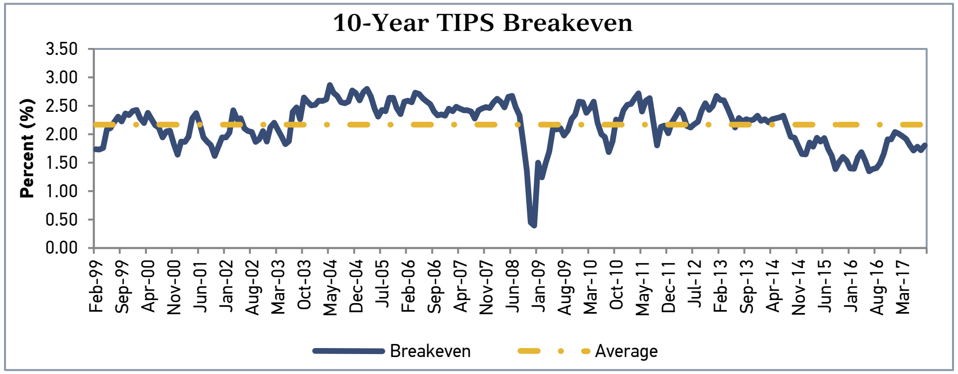
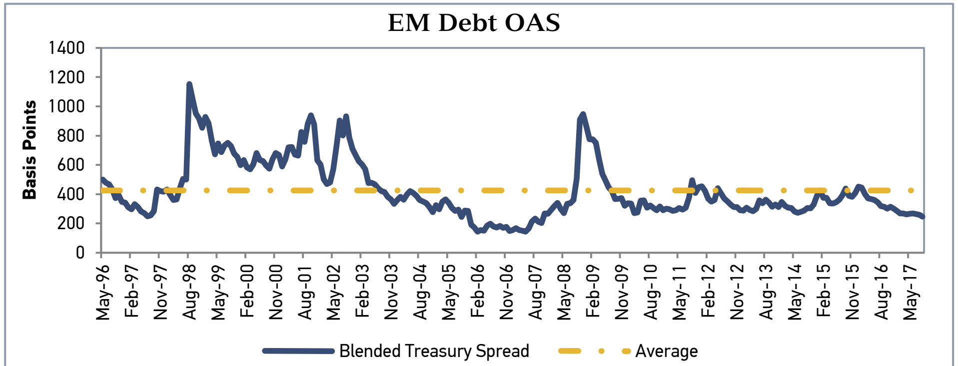
Fixed Income Spreads and TIPS Breakeven



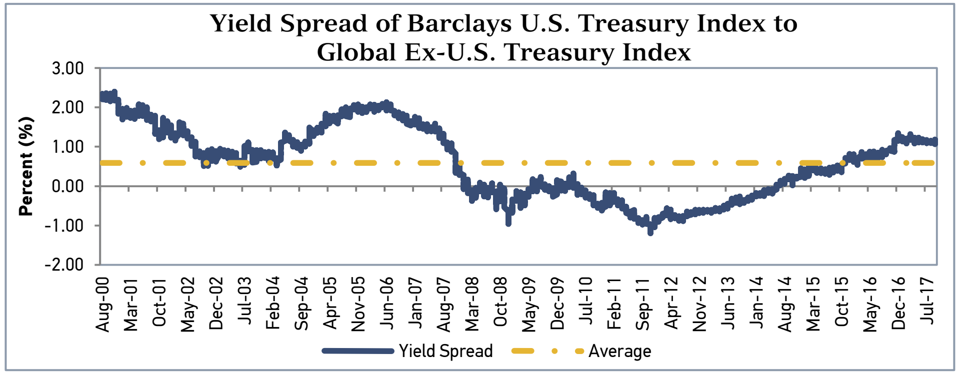
Data as of 09.30.2017; Source: FactSet



Data as of 09.30.2017; Source: Federal Reserve Board of Governors



Data as of 09.30.2017; Source: Barclays

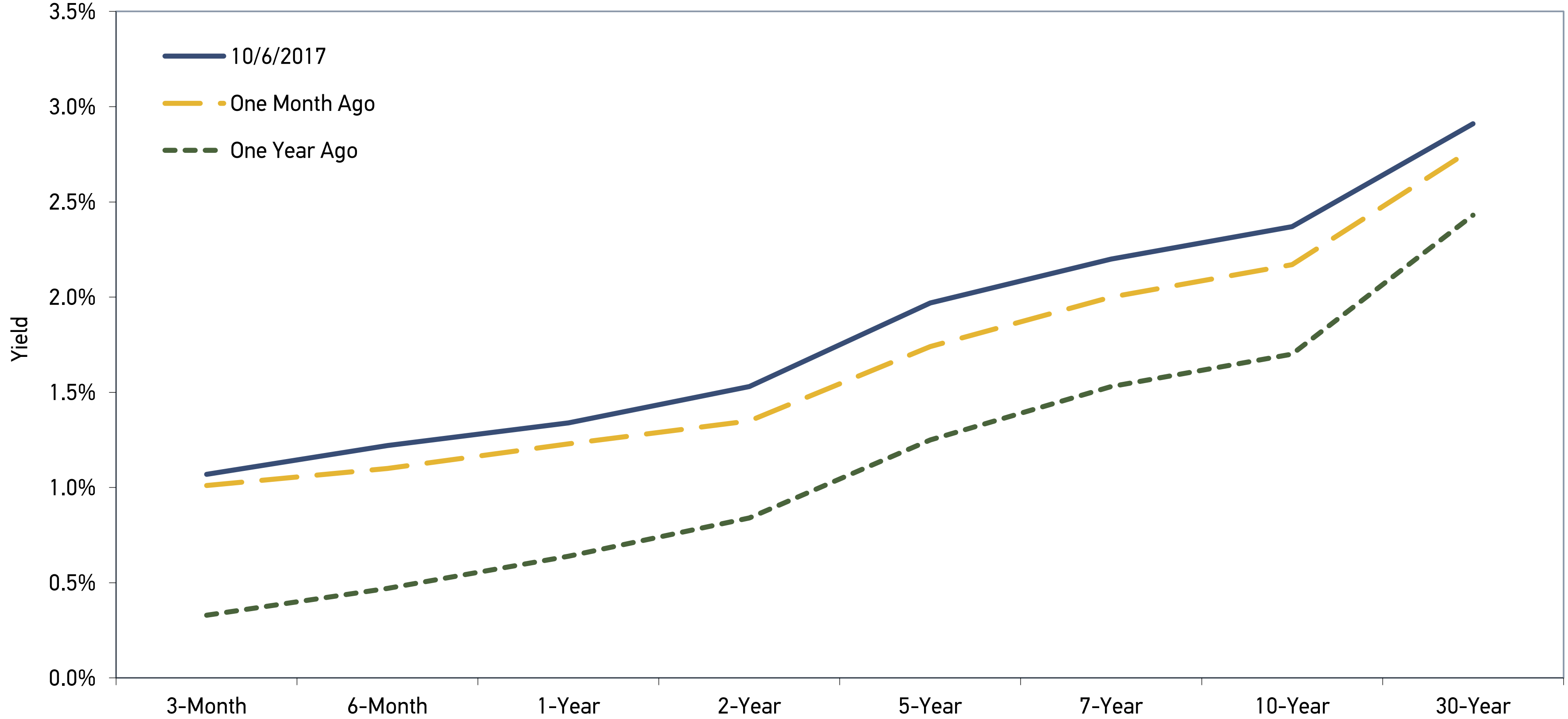


Data as of 09.30.2017; Source: Barclays

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

Note: Please see Appendix for important definitions.

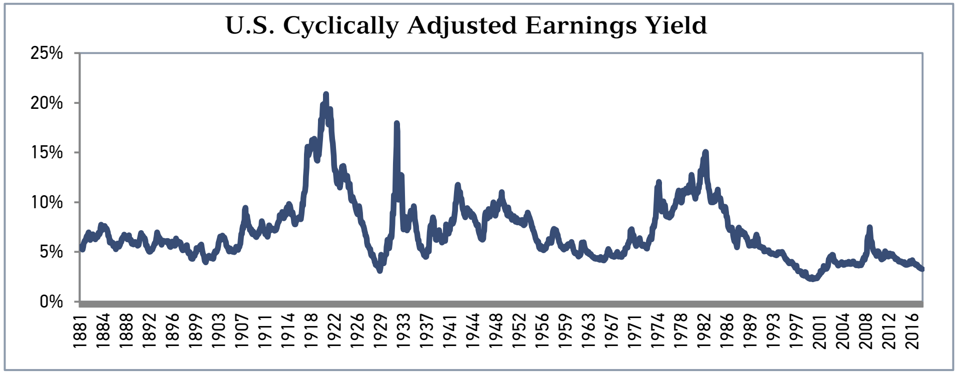
U.S. Treasury Yield Curve



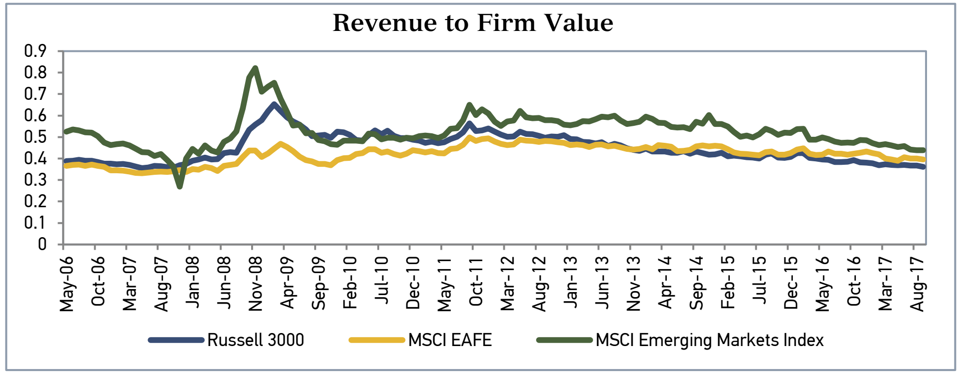
- Month-over-month, yields moved higher with the largest increase occurring in the belly of the curve.

Data as of 10.06.2017; Source: FactSet

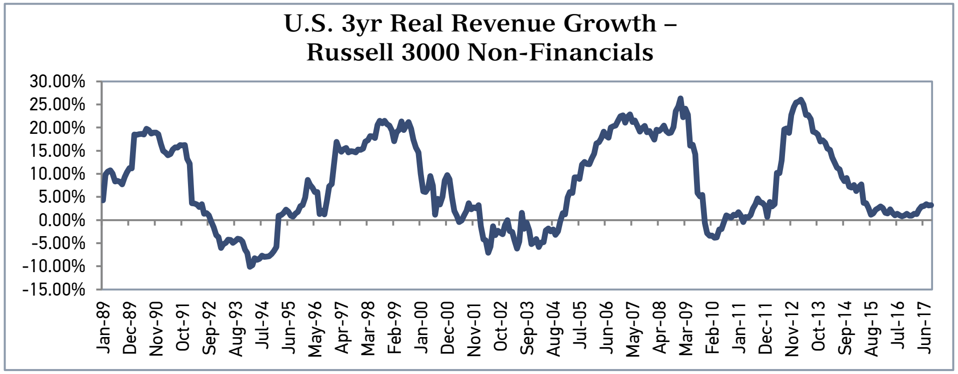
Global Equity Market Fundamentals



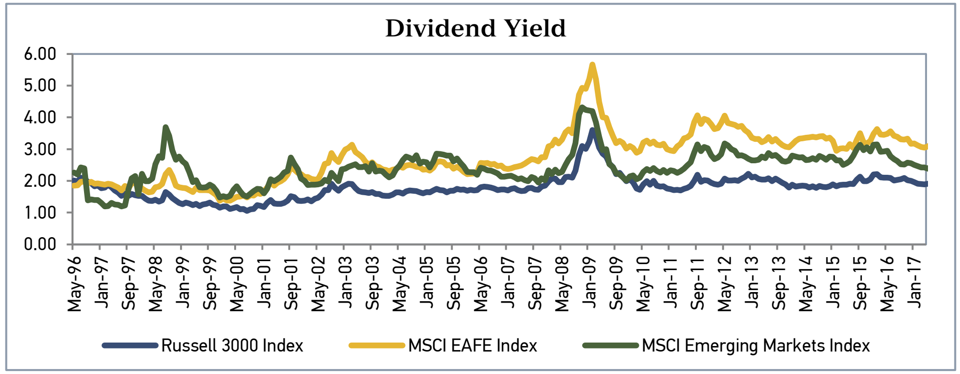
Data as of 09.30.2017; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"



Data as of 09.30.2017; Source: Russell, MSCI



Data as of 09.30.2017; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics



Data as of 09.30.2017; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield continues to slowly decline and is 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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