



ASSET ALLOCATION UPDATE

- We recommend a neutral weight to Global Equities and Fixed Income across models.
- Within the equity allocation, we continue to recommend an overweight to U.S. Equities and an underweight to International Developed Equities. We are initiating an overweight recommendation to Emerging Markets after significant price declines have brought valuations to more attractive levels in this asset class.
- Within the fixed income allocation, we are initiating a mild overweight position to the Long U.S. Government sector following a significant upward move in U.S. Treasury yields.

EQUITY HIGHLIGHTS

- Global equities, as defined by the MSCI ACWI IMI, returned 0.16% in September. International developed markets represented the top performing geographic segment during the month, followed by the U.S.. Emerging markets continued to underperform and posted negative results. While growth continued to outperform in the U.S., value significantly outperformed growth in international markets.
- The environment for actively-managed equity strategies has been more challenging so far in 2018 when compared to 2017, particularly in the U.S. large-cap, international developed markets large-cap and emerging markets segments. Narrow market leadership trends in U.S. and international markets have created headwinds for active managers year-to-date.
- U.S. growth equities have outperformed value by a wide margin since the global financial crisis, driven partially by a prolonged low economic growth environment and significant outperformance from large-cap technology and consumer discretionary companies. Stretched growth valuations and accelerating economic growth are conditions that could lead to an improvement in value relative performance.

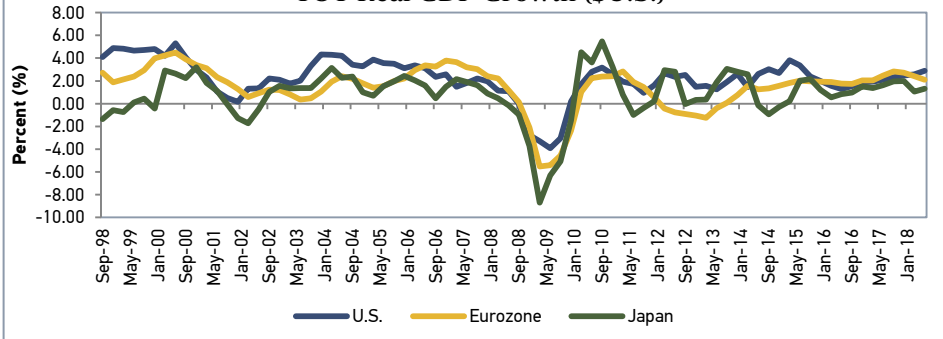
FIXED INCOME HIGHLIGHTS

- In a reversal from the previous month, September saw the U.S. bond market generally underperform its foreign counterparts. Emerging market debt was the top performer, up 1.33% for the month. High yield was the only other asset class to post a positive return for the month, returning 0.56%. Higher quality sectors were led by foreign developed government bonds (returning -0.16%), followed by investment grade credit (-0.34%) and Agency MBS (-0.61%). The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned -0.64% in September.
- Over the month, 10-year government bond yields in Germany, France and the U.K. moved higher by more than 10 bps. Conversely, yield on the 10-year government bond in Italy moved lower. Domestic rates, as represented by the yield of the 10-year Treasury, moved higher by 19 bps from 2.86% to 3.05%.
- Shorted-dated Municipal/Treasury yield ratios moved higher in September, while longer-dated ratios moved lower. Ratios remain below historical averages.

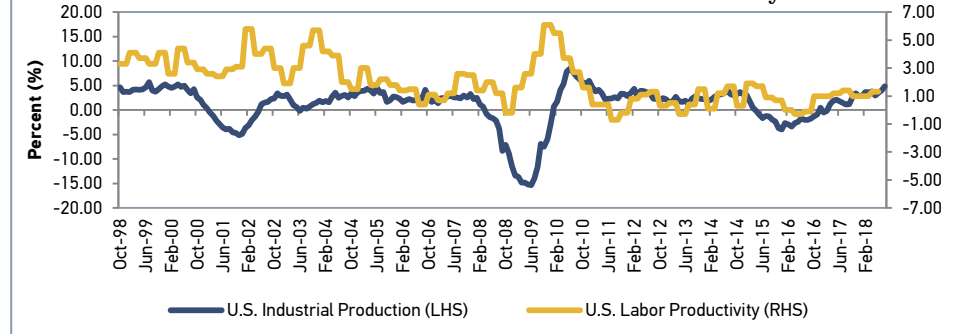
Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
MSCI ACWI IMI	3.69%	Barclays US Aggregate	-1.60%	60% LgShort-40% MktNeutral	2.83%	6-month	2.36%	Prime Rate	5.25%
Russell 3000	10.57%	Barclays Gbl Treas xUS Hdg	1.25%	DJ Equity All REIT	2.07%	1-year	2.59%	LIBOR (3 Mo)	2.40%
S&P 500	10.56%	Barclays US TIPS	-0.84%	Bloomberg Commodity	-2.03%	3-year	2.88%	Oil Price (\$/barrel)	\$73.25
MSCI EAFE	-1.43%	Barclays US High Yield	2.57%			5-year	2.94%	Gold (\$/t oz)	\$1,196.20
MSCI EM	-7.68%	Barclays EM Aggregate	-2.28%			10-year	3.05%		
						30-year	3.19%		



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



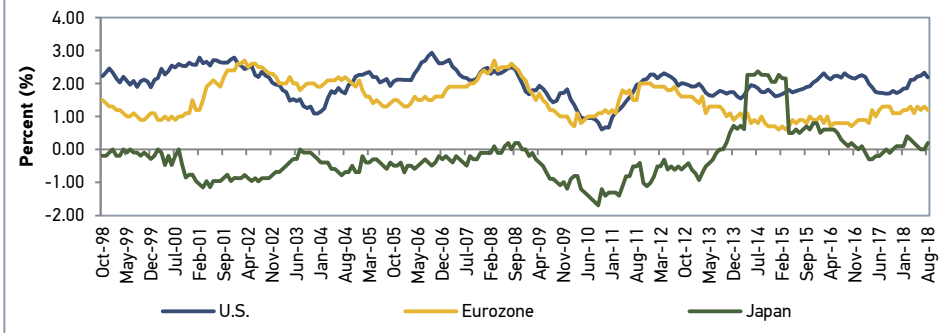
YoY U.S. Industrial Production and Productivity



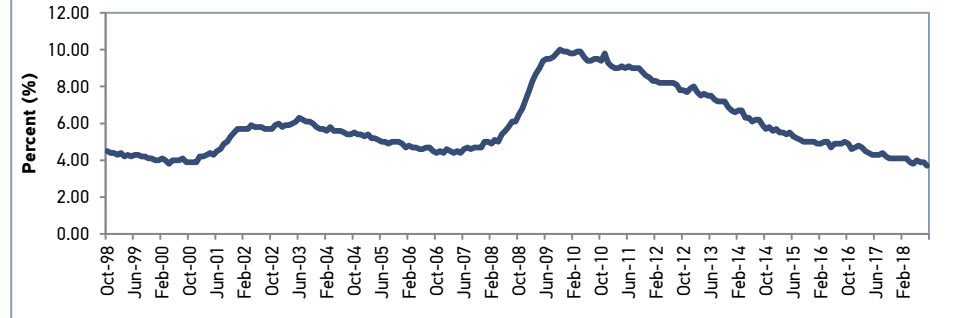
Data as of 06.30.2018; Source: FactSet

Industrial Production data as of 08.31.2018, Labor Productivity data as of 06.30.2018; Source: FactSet

Core Consumer Price Index (YoY Growth)



U.S. - Unemployment Rate



Data as of 08.31.2018; 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 09.30.2018; Source: FactSet

- GDP growth in Europe and Japan has moderated recently while U.S. growth has remained strong.
- Year-over-year U.S. productivity growth of 1.3% as of the end of the second quarter is an improvement over recent years. Sustained productivity growth is essential to drive long-term real growth. Year-over-year industrial production growth continues to surge and is at multi-year highs.
- Consumer prices in the U.S. are rising at roughly a 2% rate while European inflation has stabilized slightly above 1%. Japan inflation has ticked back up to a positive, but very low level.
- U.S. Employment growth remained solid in September, and the unemployment rate has declined to a forty-year low of 3.7%.

Note: Please see Appendix for important definitions.



Leading	Initial Jobless Claims	<ul style="list-style-type: none"> In the week ending September 28th, the four-week moving average of Initial Jobless Claims was 207,000 an increase of 500 from the previous week's revised average of 206,500.
	Manufacturing	<ul style="list-style-type: none"> ISM Manufacturing registered 59.8% in September a 1.5 percentage point decrease over the previous reading. A reading below 50.0% indicates contraction. ISM Manufacturing New Orders registered 61.8% in September a 3.3 percentage point decrease over the previous reading. ISM Non-Manufacturing registered 61.6% in September a 5.3 percentage point increase over the previous reading.
	Housing/Construction	<ul style="list-style-type: none"> Building permits decreased -4.1% in August and have fallen -3.9% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none"> The Consumer Confidence Index increased in September to 138.4 compared to 134.7 in August
	Nonfarm Payrolls	<ul style="list-style-type: none"> Total nonfarm payroll employment gained 134,000 in September while the unemployment rate fell to 3.7%.
	Industrial Production	<ul style="list-style-type: none"> Industrial Production rose 0.41% in August and is up 4.88% over the past year.
	Personal Income	<ul style="list-style-type: none"> Real Disposable Personal Income increased 0.2% in August and is up 2.9% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none"> This ratio rose 0.045% in August and is down -0.045% 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	<ul style="list-style-type: none"> CPI (All Items) rose 0.2% in August and is up 2.7% over the trailing one year period. CPI (Core) rose 0.1% in August and is up 2.2% over the trailing one year period.



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



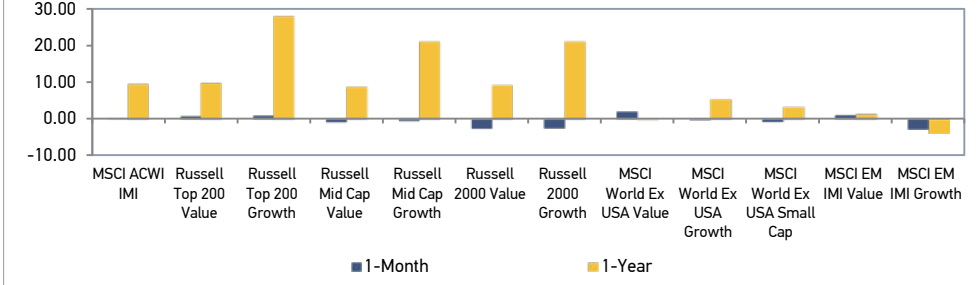
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell - 0.2% through September and the index is up 3.0% year-to-date. The dollar rose 0.2% versus the euro in September.



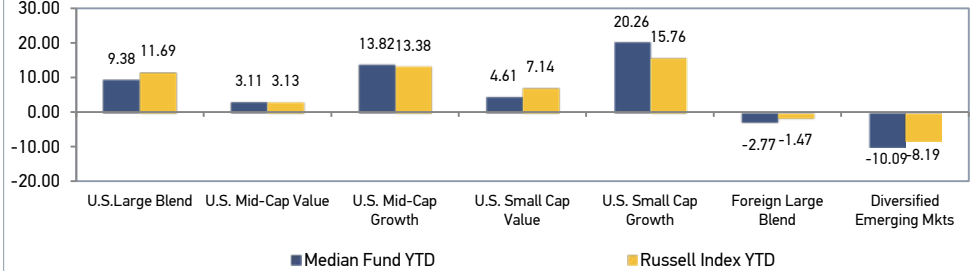
Equity Market Performance
As of 09.30.2018



- Global equities, as defined by the MSCI ACWI IMI, returned 0.16% in September. International developed markets represented the top performing geographic segment during the month, followed by the U.S. Emerging markets continued to underperform and posted negative results. While growth continued to outperform in the U.S., value significantly outperformed growth in international markets.

Source: Morningstar, Russell Investments

Active vs. Passive
As of 09.30.2018

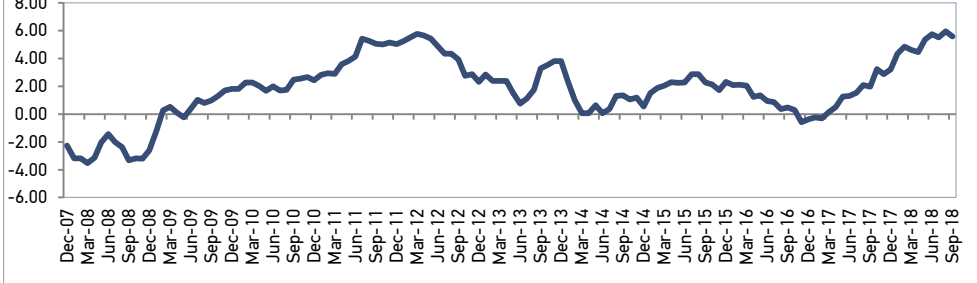


- The environment for actively-managed equity strategies has been more challenging so far in 2018 when compared to 2017, particularly in the U.S. large-cap, international developed markets large-cap and emerging markets segments. Narrow market leadership trends in U.S. and international markets have created headwinds for active managers year-to-date.

Source: Morningstar, Russell Investments

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

Rolling 5-Year Return Differential
Russell 3000 Growth minus Russell 3000 Value

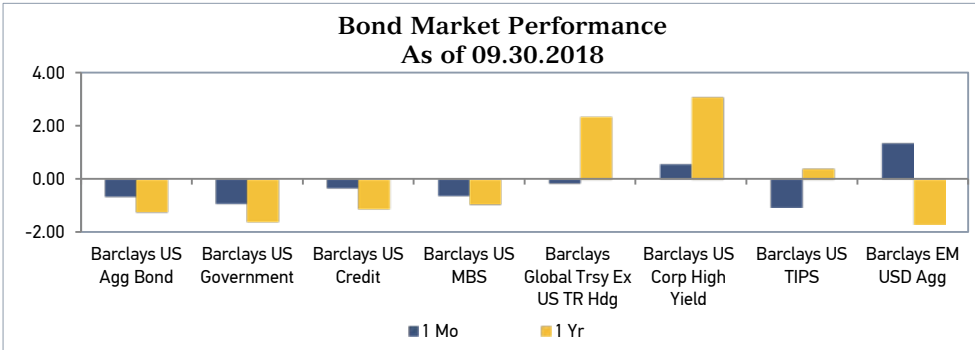


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Data as of 09.30.2018; Source: Morningstar



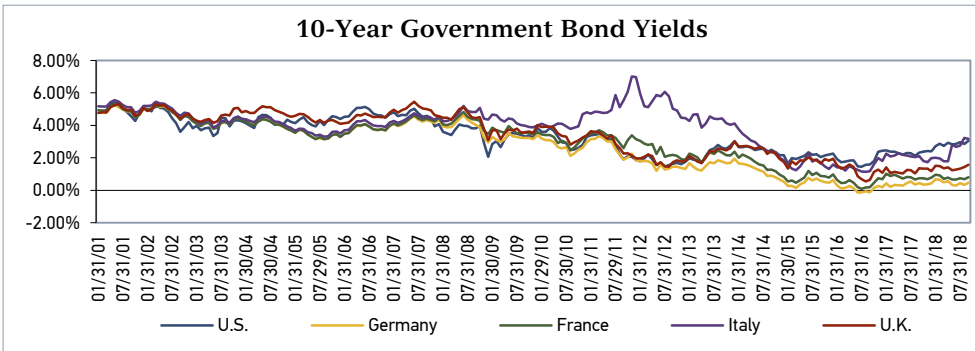
Bond Market Performance
As of 09.30.2018



- In a reversal from the previous month, September saw the U.S. bond market generally underperform its foreign counterparts. Emerging market debt was the top performer, up 1.33% for the month. High yield was the only other asset class to post a positive return for the month, returning 0.56%. Higher quality sectors were led by foreign developed government bonds (returning -0.16%), followed by investment grade credit (-0.34%) and Agency MBS (-0.61%). The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned -0.64% in September.

Source: Morningstar, Barclays

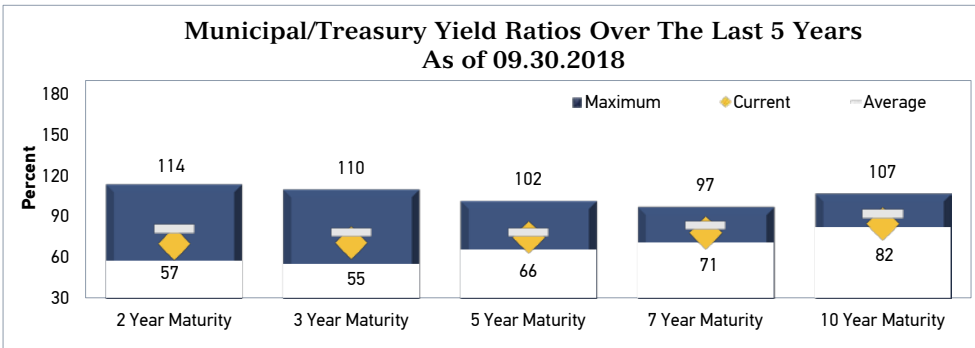
10-Year Government Bond Yields



- Over the month, 10-year government bond yields in Germany, France and the U.K. moved higher by more than 10 bps. Conversely, yield on the 10-year government bond in Italy moved lower. Domestic rates, as represented by the yield of the 10-year Treasury, moved higher by 19 bps from 2.86% to 3.05%.

Data as of 09.30.2018; Source: FactSet, U.S. Department of Treasury

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 09.30.2018

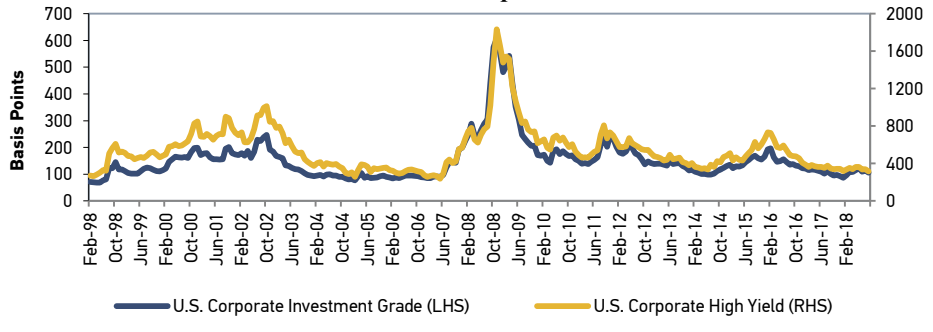


- Shorted-dated Municipal/Treasury yield ratios moved higher in September, while longer-dated ratios moved lower. Ratios remain below historical averages.

Source: Thompson Reuters; Sterling Capital Management Analytics.

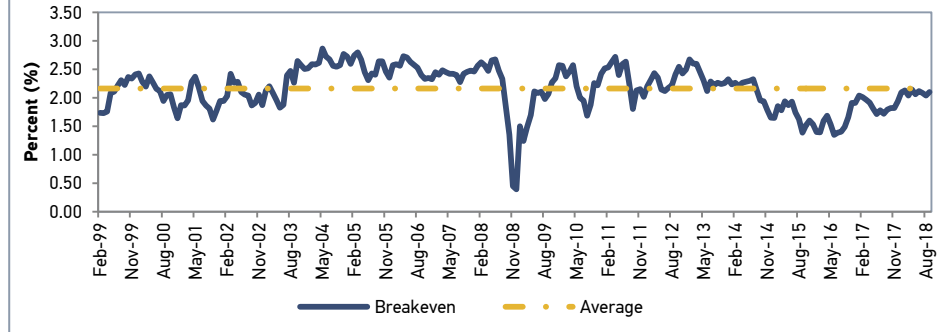


20-Year U.S. Corporate OAS



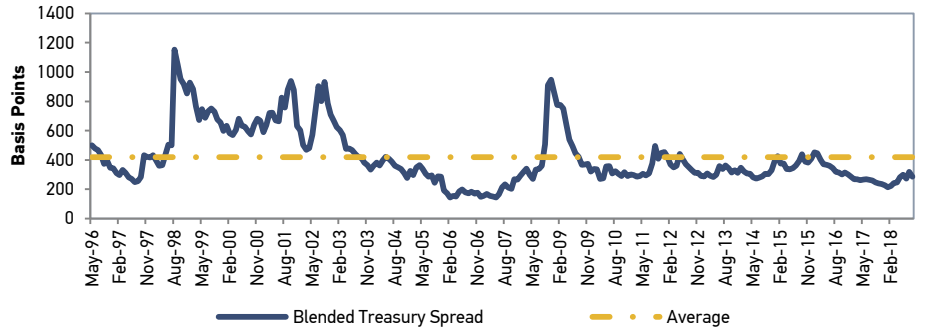
Data as of 09.30.2018; Source: FactSet

10-Year TIPS Breakeven



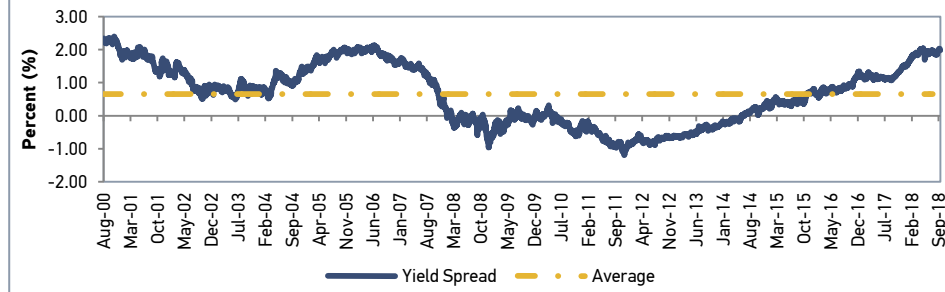
Data as of 09.30.2018; Source: Federal Reserve Board of Governors

EM Debt OAS



Data as of 09.30.2018; Source: Barclays

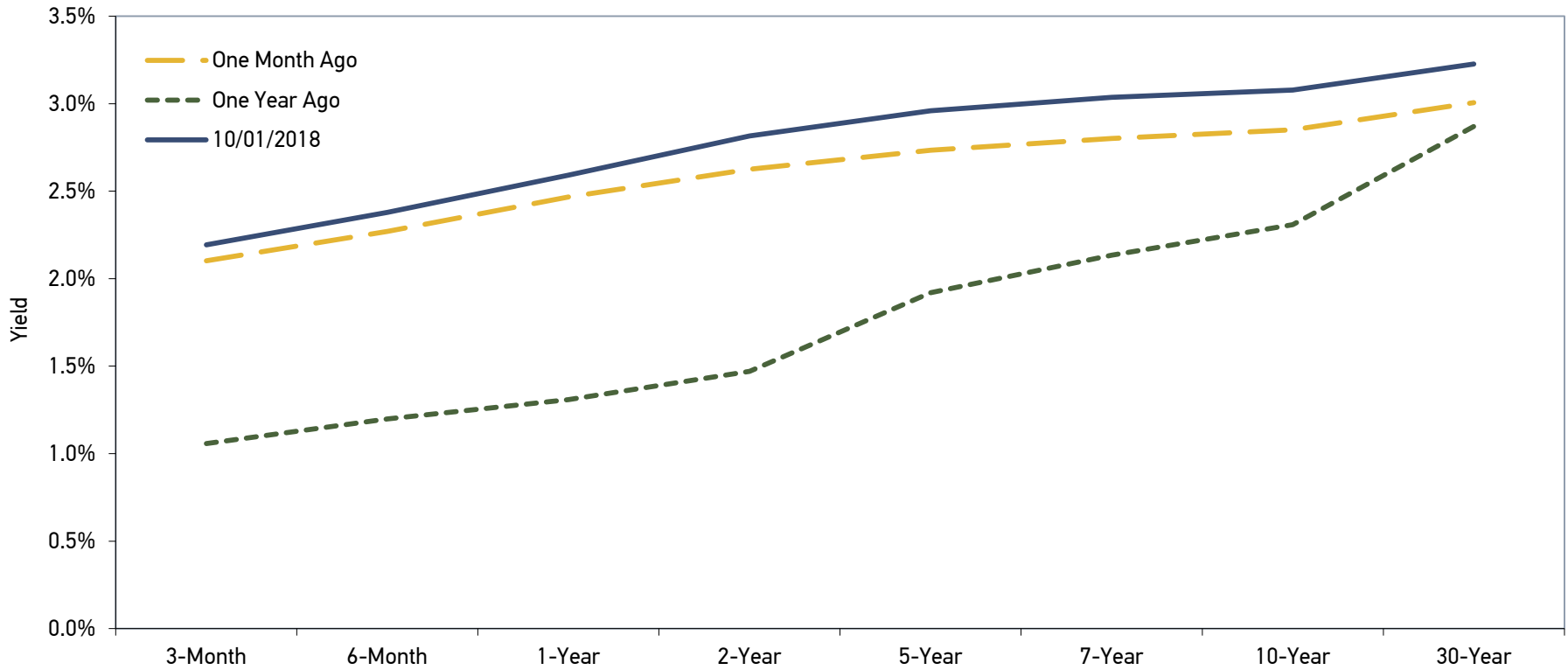
Yield Spread of Barclays U.S. Treasury Index to Global Ex-U.S. Treasury Index



Data as of 09.30.2018; Source: Barclays

- Investment grade and high yield credit spreads moved significantly lower in September and are below long-run averages.
- Market inflation expectations as measured by TIPS breakeven rates moved higher in September and are close to long run averages.
- Emerging Market credit spreads moved lower in September and are below the historical average. The yield spread of U.S. to Global Treasuries increased in September and is above the historical average.

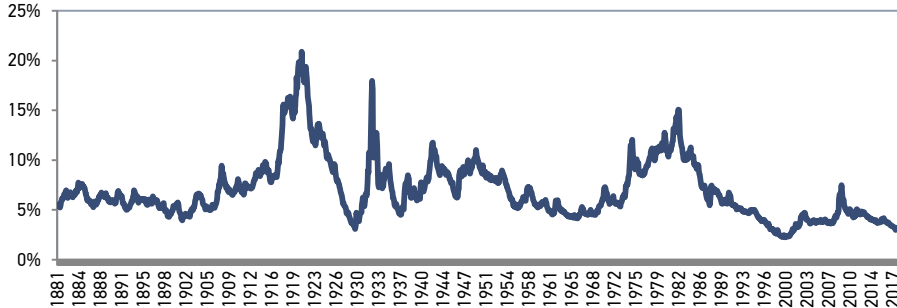
Note: Please see Appendix for important definitions.



- Month-over-month, rates moved higher across the yield curve, although longer rates saw the largest move higher. As a result, the yield curve (bear) steepened.

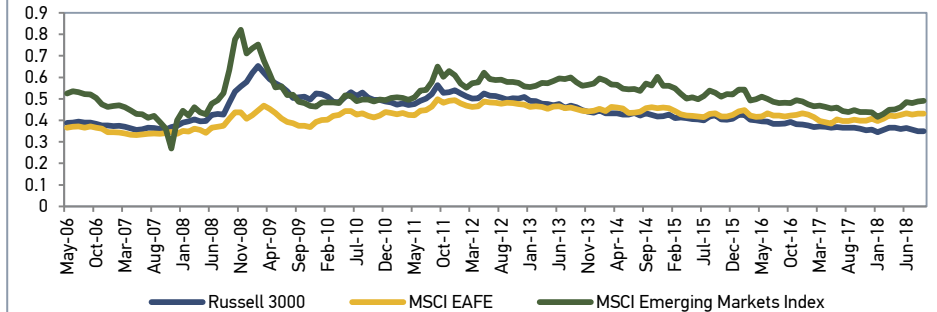


U.S. Cyclically Adjusted Earnings Yield



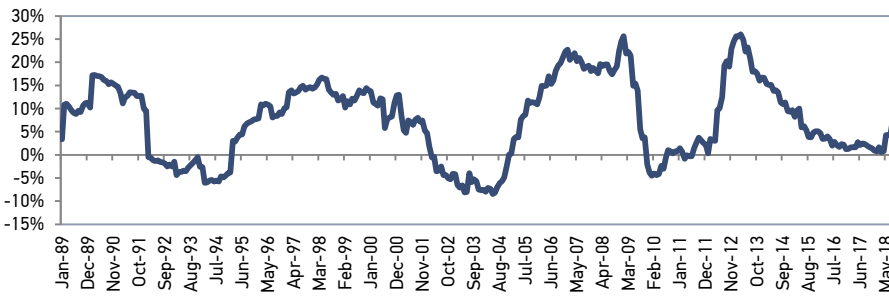
Data as of 09.30.2018; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



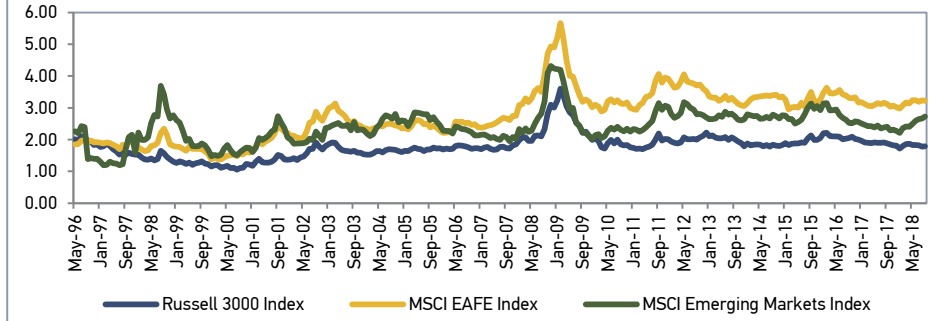
Data as of 09.30.2018; Source: Russell, MSCI

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



Data as of 09.30.2018; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 09.30.2018; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield continues to trend lower and remains well below long-term averages. Long-term sales growth is turning significantly higher.
- Revenue to firm value in the U.S. is lower than International Developed Markets. The Emerging Markets' ratio has increased recently on market weakness.
- International Equity Markets provide a significant dividend yield advantage over the U.S.

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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