

Global Overview

- **Markets** – Equity markets were relatively weak across the globe in September, though the third quarter was strong thanks to positive economic data in the U.S. and continued global growth. Growth has become more narrowly led by the United States in recent months. High yield credit and emerging market debt led the way in fixed income markets, as rising treasury yields negatively impacted most bond markets. Global REITs performed poorly, while climbing oil prices sent the commodity indexes higher during September.
- **Developed markets** – Both broad domestic and international developed equity markets posted moderately positive gains in September. Small cap stocks fared worse than large cap stocks in developed markets, posting negative results for the month. Rising rates and moderate inflation in the U.S. pushed the 10-year treasury above 3% and widened the 2-to-10-year treasury spread to 23 basis points from 18 basis points the month prior. Brexit continues to be a concern as Theresa May must go into November’s special summit without a clear path to a deal with the EU, and the possibility of a “no deal” outcome remaining high. Italian bonds whipsawed on continued uncertainty surrounding the country’s budget plans.
- **Emerging Markets** – Emerging market debt (USD denominated) outperformed equity during the month amid a strong U.S. dollar and reduced currency contagion concerns. Yields in Turkey and Brazil dropped from August levels, and broad emerging market debt spreads tightened across the board. Emerging market equities posted a disappointing result again in September, as China (-1.4%) and India (-7.1%) weighted heavily on the Index.

U.S. Economy and Markets

- The S&P 500 Index gained a modest 0.6% in the month and finished the third quarter up 7.7%. The Russell 1000 Growth Index continued to outperform the Russell 1000 Value Index, as the gap between the two styles widened to 13% on the year.
 - Sector performance was mixed in September, as six out of eleven S&P sectors posted positive returns. REITs and Financials felt the effects of rising interest rates and were the largest detractors of the month. The newly minted Communication Services sector, which includes reclassified mega-caps stocks Facebook, Alphabet (Google), and Disney, posted the strongest results.
- The Russell 2000 Index lost 2.4% in September but generated positive returns for the quarter of 3.6% and 11.5% year to date.
 - Six of the eleven sectors lost over 3% for the month with only utilities managing a positive return. Despite posting negative results in September, the Health Care and Technology sectors have lead the Russell 2000 Index for the year, returning 26.2% and 20.3% on the year, respectively.

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- The September jobs report came in weaker than anticipated, as the U.S. added 134,000 to payrolls versus 185,000 expected. Hurricane Florence had an impact on the jobs figure, as nearly 300,000 people were turned away from work due to weather issues. July and August numbers were revised notably higher, and a combined 87,000 jobs were added to the previous two reports. The unemployment rate declined to 3.7%, the lowest since 1969. Wage growth continued to remain slow but steady growth year-over-year at just under 3%.
- The Federal Open Market Committee (FOMC) raised rates in September, pushing the federal funds rate to a range of 2.0% to 2.25%, the eighth increase since December 2015. Fed Chair Jay Powell stated that he expects the central bank to continue their gradual rate raising policy in the coming months while monitoring inflation, wage growth, and unemployment. Outside of the rate increase and removing the phrase “accommodative monetary policy,” the meeting statement was unchanged from the August meeting. The FOMC revised their 2018 GDP projections up to 3.1% from 2.8% in June. Furthermore, the committee indicated that rates may remain above what they believe to be the long-term neutral rate for as long as two years.
- Domestic bond markets were negatively impacted by rising yields, as the Bloomberg Barclays Aggregate Index lost 0.6% in the month. The Long Government/Credit and TIPS Indexes were hit the hardest, each down over 1%. The Bloomberg Barclays U.S. High Yield Index advanced in September and provided a 2.6% return in the third quarter.

International Markets

- The MSCI EAFE Index gained 0.9% in September, sparked by a strong Japanese equity market as the Bank of Japan kept rates at unchanged at -0.1%. While the Eurozone was relatively flat for the month, investors in the U.K. appeared to shake off Brexit worries as the MSCI United Kingdom Index posted a gain of 1.8%.
- Emerging markets equities continued their decline in September as the MSCI Emerging Markets Index dropped 0.5%.
 - Growth stocks continued to underperform value stocks as the large technology companies within the Index were hit once again in September. The MSCI Emerging Markets Technology Sector Index, which returned 61.0% in 2017, has lost 7.3% year-to-date.
- The MSCI China Index retreated 1.4% on the month and is down over 9% year to date. The Chinese economy experienced one of the slowest months of growth on record, as private investment and exports have slowed substantially. The slowdown may get worse as the impact from U.S. tariffs begins to have a widespread effect in the coming months. The People’s Bank of China announced that they will be cutting reserve requirements for banks, a move which will inject \$109 billion into the banking system.



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Looking Ahead

- The United States and Mexico struck a deal with Canada to replace NAFTA with a new trade agreement dubbed as the United States-Mexico-Canada Agreement (USMCA). The differences in the two trade agreements primarily involve automobile manufacturing, dairy farming, and aluminum/steel tariffs. The USMCA also includes a new provision on e-commerce, which did not exist when NAFTA was originally written in 1994. Now that the deal has been negotiated, the USMCA has to be signed by Donald Trump, Justin Trudeau, and Enrique Pena Nieto and ratified by the three respective governments before becoming official.
- The midterm elections in November could be a turning point for the United States government and the current administration's ability to advance meaningful legislation, including the aforementioned USMCA. Democrats need a net gain of 23 seats to take control of the House, and will need to protect their incumbent Senate seats and gain two more to take control of the upper chamber. For the most part, domestic markets have shaken off continued political uncertainty this year, but a disruptive change to current policy may create amplified volatility in U.S. markets.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates <i>Sovereign Bonds, 10 Year</i>	Exchange Rates <i>per US \$</i>		Inflation ¹ <i>(Most recently available)</i>
	Qtr.	2018	2019			Current	1 Year Ago	
United States	4.20	2.90	2.50	3.90	3.05	-	-	2.17
China	7.40	6.60	6.30	3.80	3.65	6.83	6.59	2.14
Japan	3.00	1.10	1.20	2.50	0.13	110.98	110.06	0.90
United Kingdom	1.50	1.30	1.40	4.00	1.58	1.30	1.29	2.32
Euro Area	1.50	2.10	1.80	8.20	1.32	1.16	1.19	1.07
Germany	1.80	2.00	2.00	3.40	0.47	1.16	1.19	2.01
France	0.60	1.70	1.80	9.20	0.79	1.16	1.19	2.27
Italy	0.70	1.20	1.20	10.40	3.15	1.16	1.19	0.92
Canada	2.90	2.30	2.20	6.00	2.43	1.31	1.25	2.20
India	7.80	7.30	7.30	6.40	8.03	71.58	64.48	5.61
Mexico	(0.60)	2.10	2.10	3.30	7.94	19.21	17.79	4.81
Brazil	0.70	1.60	2.20	12.30	11.76	4.13	3.15	4.19

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, and *The Economist*

1. In terms of CPI All Items

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Data and Commentary for Periods Ended 9/30/18

September 2018

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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	0.56	4.98	5.43	11.24	13.54	9.28	8.56
	BBgBarc US Agg Bond TR USD	(0.64)	0.02	(1.60)	(1.22)	1.31	2.16	3.77
	Russell 3000 TR USD	0.17	7.12	10.57	17.58	17.07	13.46	12.01
	DJ Industrial Average TR USD	1.97	9.63	8.83	20.76	20.49	14.57	12.22
	NASDAQ Composite PR USD	(0.78)	7.14	16.56	23.87	20.31	16.36	14.42
	MSCI EAFE NR USD	0.87	1.35	(1.43)	2.74	9.23	4.42	5.38
	FTSE Treasury Bill 3 Mon USD	0.17	0.50	1.29	1.57	0.80	0.49	0.32
	Bloomberg Commodity TR USD	1.92	(2.02)	(2.03)	2.59	(0.11)	(7.18)	(6.24)
Domestic Equities	S&P 500 TR USD	0.57	7.71	10.56	17.91	17.31	13.95	11.97
	S&P MidCap 400 TR	(1.10)	3.86	7.49	14.21	15.68	11.91	12.49
	S&P SmallCap 600 TR USD	(3.17)	4.71	14.54	19.08	19.41	13.32	12.86
	Russell 1000 TR USD	0.38	7.42	10.49	17.76	17.07	13.67	12.09
	Russell 1000 Growth TR USD	0.56	9.17	17.09	26.30	20.55	16.58	14.31
	Russell 1000 Value TR USD	0.20	5.70	3.92	9.45	13.55	10.72	9.79
	Russell Mid Cap TR USD	(0.64)	5.00	7.46	13.98	14.52	11.65	12.31
	Russell Mid Cap Growth TR USD	(0.43)	7.57	13.38	21.10	16.65	13.00	13.46
	Russell Mid Cap Value TR USD	(0.79)	3.30	3.13	8.81	13.09	10.72	11.29
	Russell 2000 TR USD	(2.41)	3.58	11.51	15.24	17.12	11.07	11.11
	Russell 2000 Growth TR USD	(2.34)	5.52	15.76	21.06	17.98	12.14	12.65
	Russell 2000 Value TR USD	(2.48)	1.60	7.14	9.33	16.12	9.91	9.52
International Equities	MSCI ACWI Ex USA NR USD	0.46	0.71	(3.09)	1.76	9.97	4.12	5.18
	MSCI EAFE NR USD	0.87	1.35	(1.43)	2.74	9.23	4.42	5.38
	MSCI EAFE Growth NR USD	(0.25)	1.53	0.58	5.85	10.26	5.62	6.20
	MSCI EAFE Value NR USD	2.07	1.18	(3.49)	(0.36)	8.12	3.14	4.49
	MSCI Japan NR USD	3.04	3.68	1.58	10.20	12.13	6.76	5.96
	MSCI AC Asia Ex Japan NR USD	(1.38)	(1.57)	(6.26)	1.45	13.30	6.64	8.43
	MSCI Europe NR USD	0.36	0.80	(2.46)	(0.30)	7.71	3.70	4.85
	MSCI United Kingdom NR USD	1.75	(1.66)	(2.69)	2.87	6.19	2.23	4.92
	MSCI EAFE Small Cap NR USD	(0.72)	(0.88)	(2.19)	3.73	12.39	7.96	9.68
	MSCI EM NR USD	(0.53)	(1.09)	(7.68)	(0.81)	12.36	3.61	5.40
Fixed Income	BBgBarc US Govt/Credit TR USD	(0.67)	0.06	(1.85)	(1.37)	1.45	2.23	3.95
	BBgBarc US Govt/Credit Interm TR USD	(0.40)	0.21	(0.76)	(0.96)	0.91	1.52	3.22
	BBgBarc US Govt/Credit Long TR USD	(1.55)	(0.47)	(5.42)	(2.73)	3.43	5.18	7.11
	ICE BofAML US High Yield TR USD	0.58	2.44	2.52	2.94	8.19	5.54	9.38
	Credit Suisse HY USD	0.53	2.31	2.52	3.07	8.12	5.38	8.88
	S&P/LSTA Leveraged Loan TR	0.69	1.84	4.03	5.19	5.32	4.13	6.15
	FTSE WGBI NonUSD USD	(1.07)	(2.19)	(3.09)	(1.57)	2.39	(0.23)	1.99
	BBgBarc Gbl Agg Ex USD TR USD	(1.07)	(1.74)	(3.03)	(1.45)	2.41	(0.33)	2.20
REITs	FTSE NAREIT All REITs TR	(2.36)	0.69	1.80	4.22	9.21	9.66	8.06
	Wilshire US REIT TR USD	(2.75)	0.72	2.25	3.99	7.08	9.25	7.38

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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DeMarche Dashboard

Data and Commentary for Periods Ended 9/30/18

September 2018

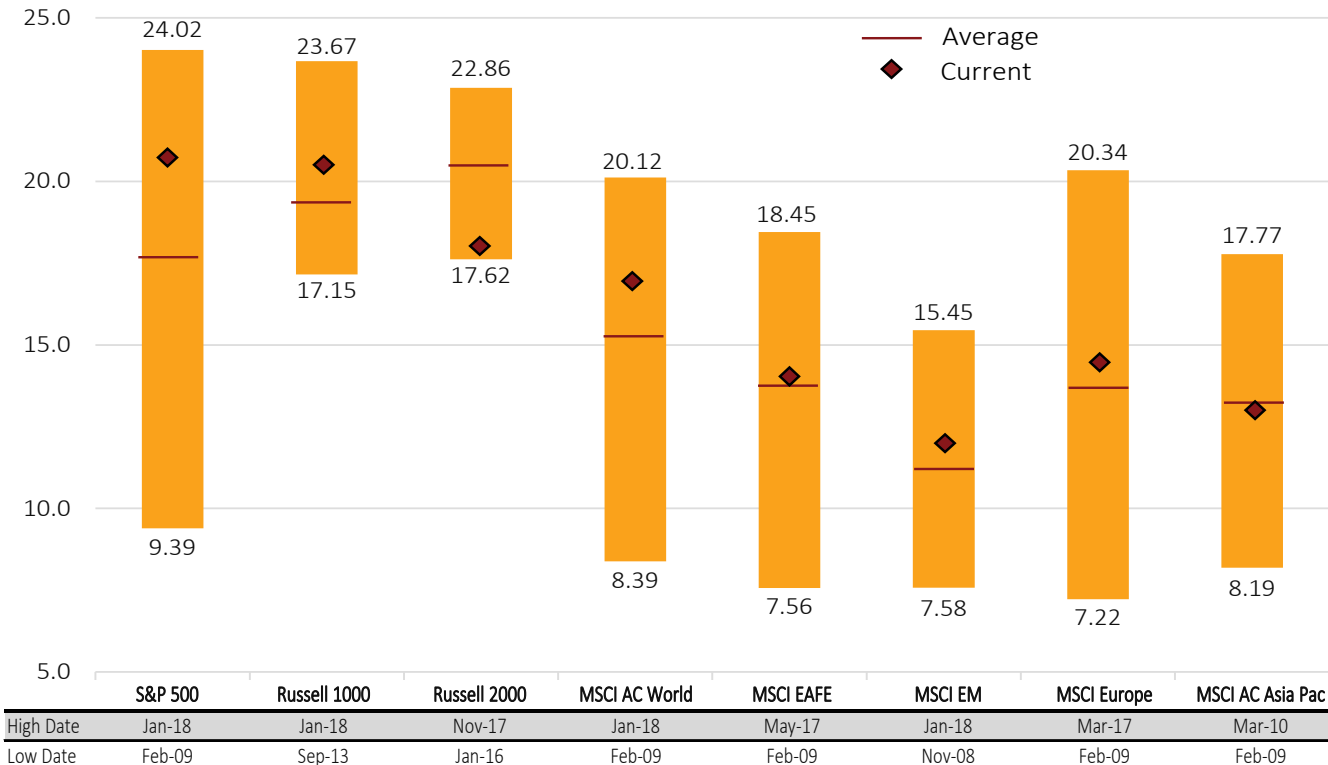
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S&P 500 Price Level



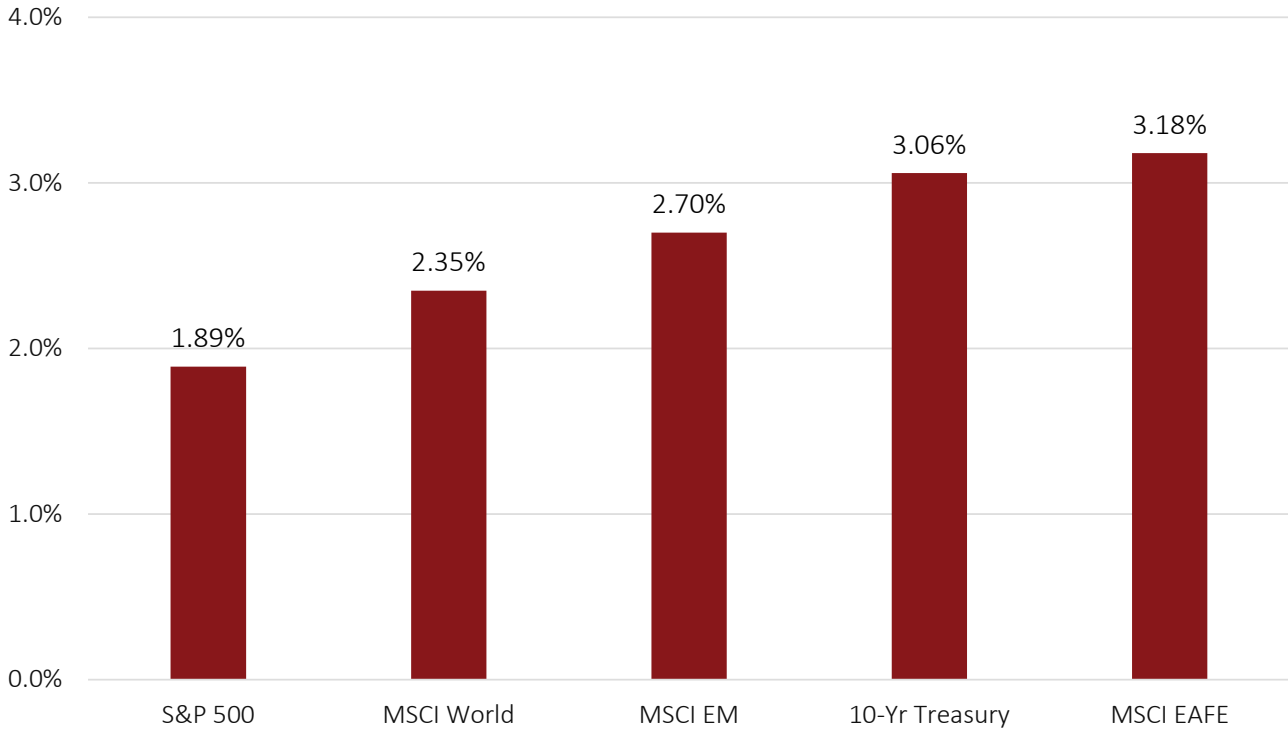
Source: Standard & Pooors

Current P/E vs. Trailing 10-Year High, Low, Average



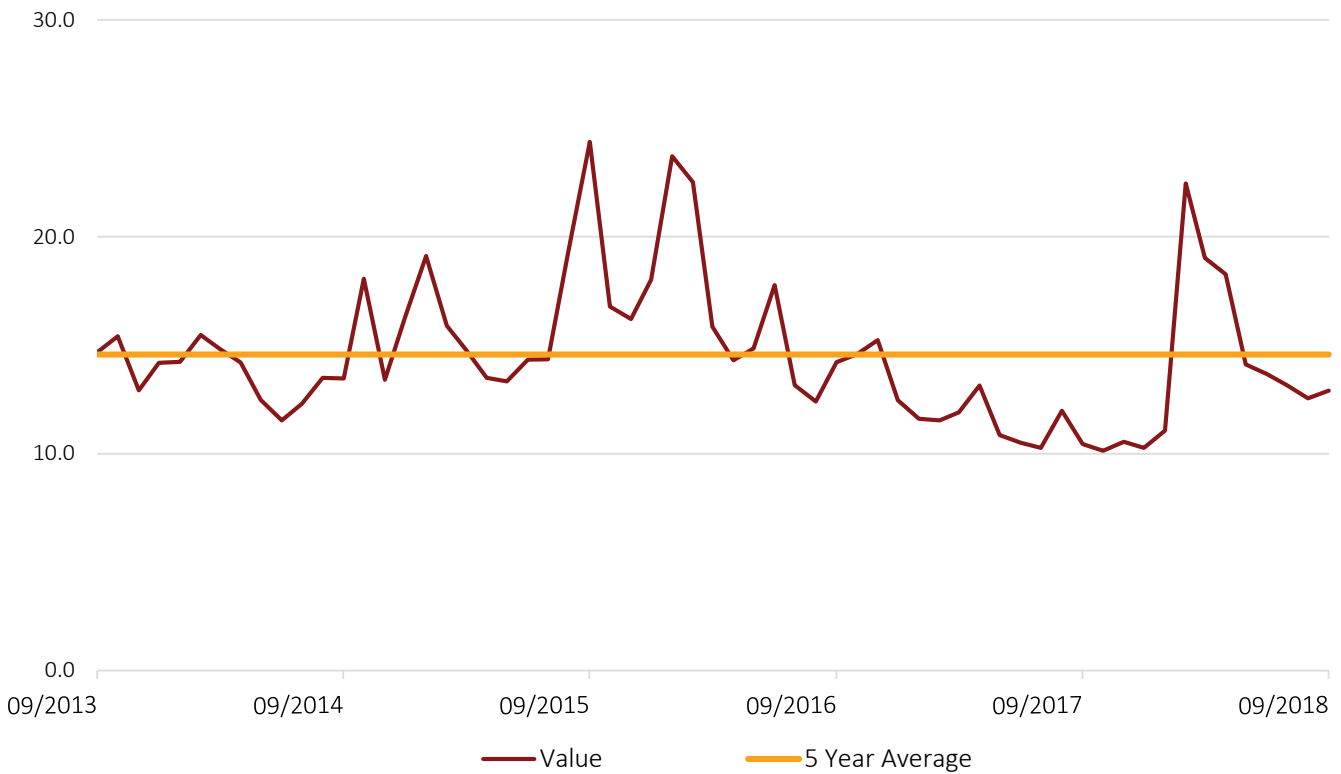
Source: Standard & Pooors, FTSE/Russell, MSCI

Current Yields



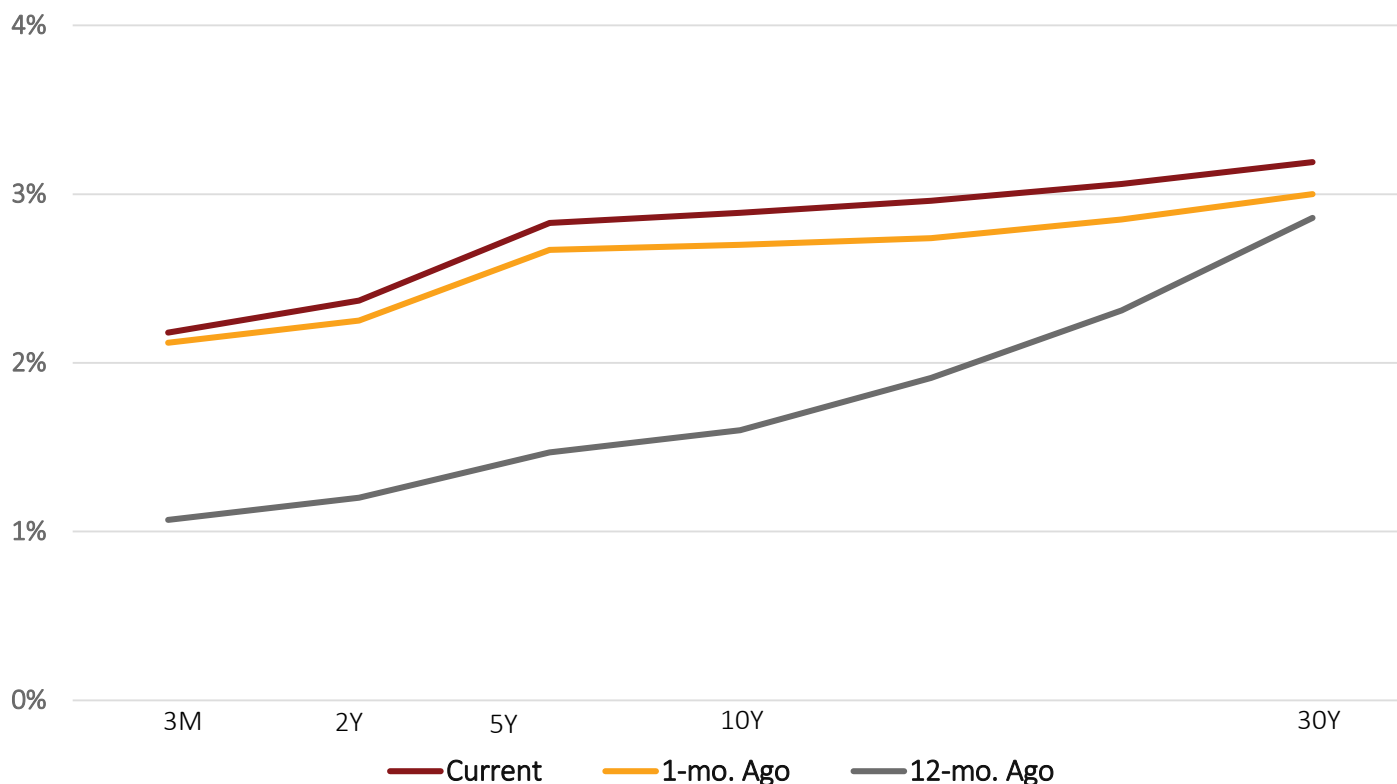
Source: Federal Reserve Bank of St. Louis, Standard & Poors, MSCI

CBOE Volatility Index: VIX



Source: CBOE Global Markets, Inc.

U.S Treasury Yield Curves



Source: Federal Reserve Bank of St. Louis

U.S. Treasury Yields & Performance

Security	Yield (%)		
	Current	1-Mo. Ago	12-Mo. Ago
3-mo. Treasury	2.18	2.12	1.07
6-mo. Treasury	2.37	2.25	1.20
2-yr. Treasury	2.83	2.67	1.47
3-yr. Treasury	2.89	2.70	1.60
5-yr. Treasury	2.96	2.74	1.91
10-yr. Treasury	3.06	2.85	2.31
30-yr. Treasury	3.19	3.00	2.86

Source: Federal Reserve Bank of St. Louis

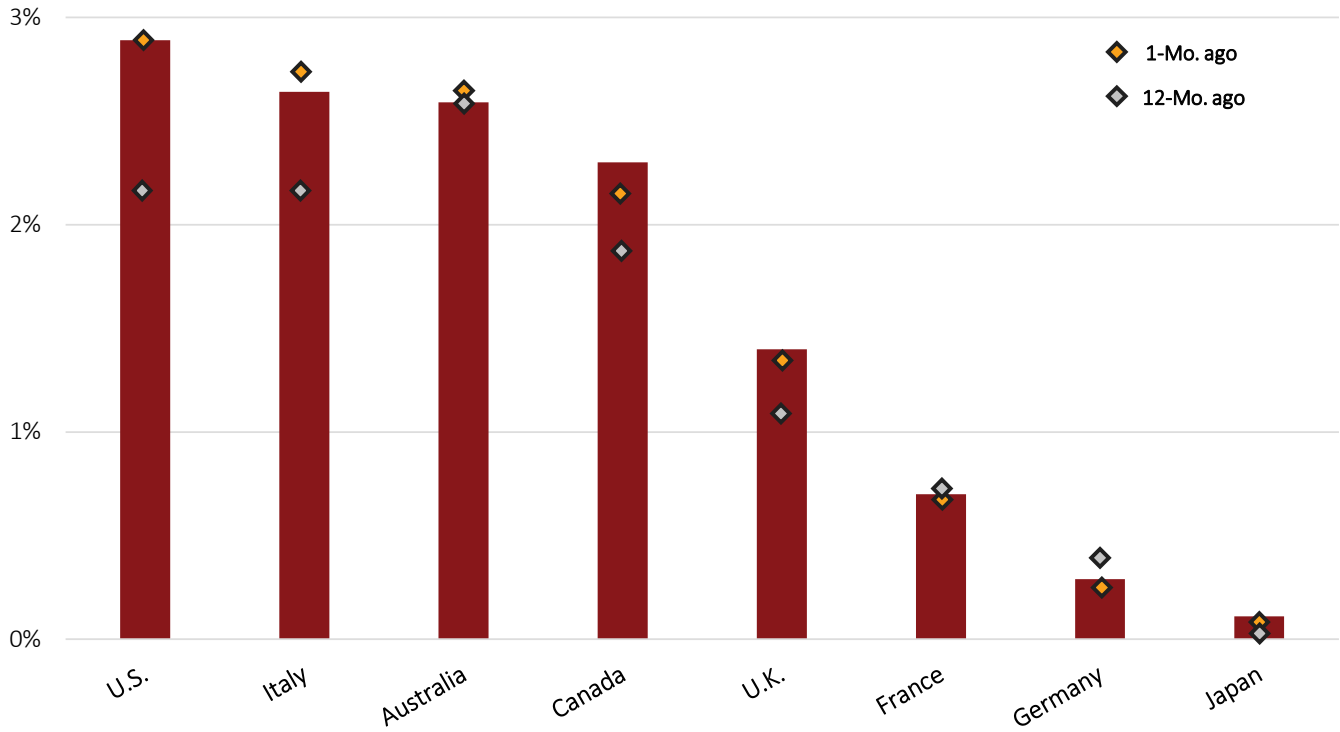
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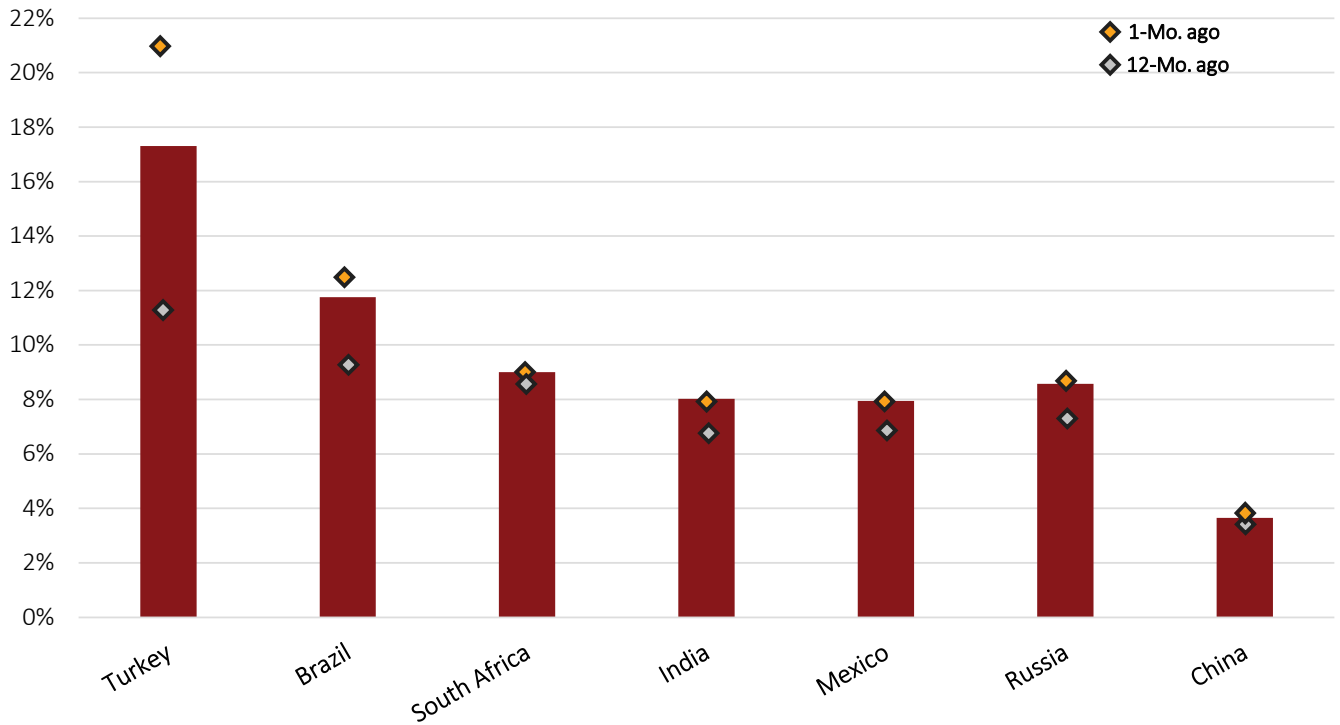
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Developed Markets 10 Year Sovereign Yields



Source: Federal Reserve Bank of St. Louis

Emerging Markets 10 Year Sovereign Yields



Source: Federal Reserve Bank of St. Louis, Bloomberg

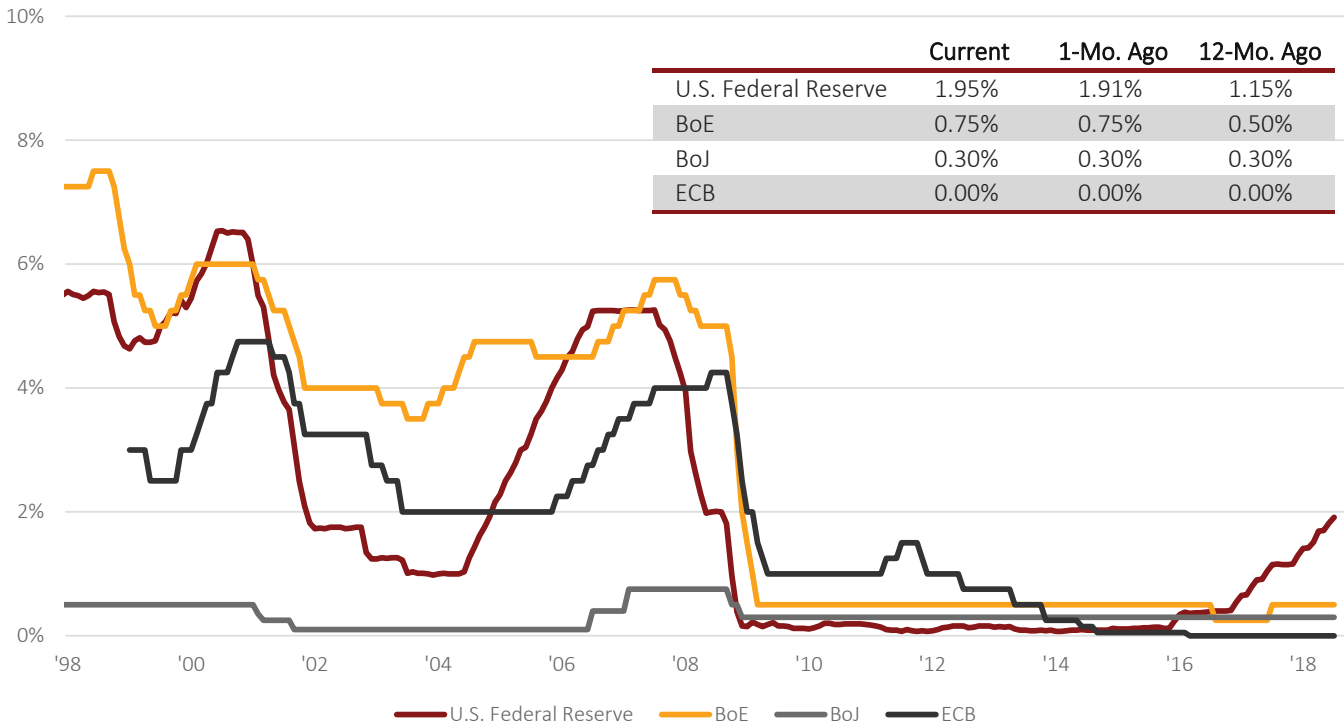
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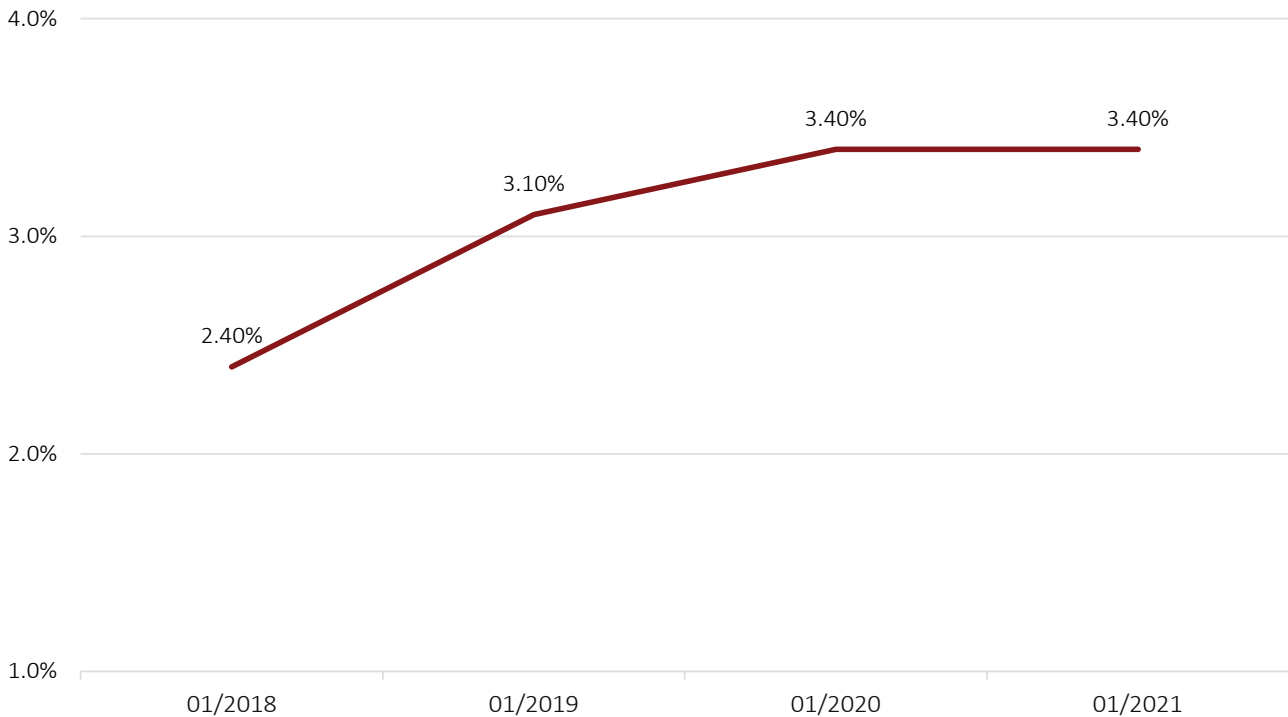
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Central Bank Policy Rates



Source: Federal Reserve Bank, Bank of England, European Central Bank

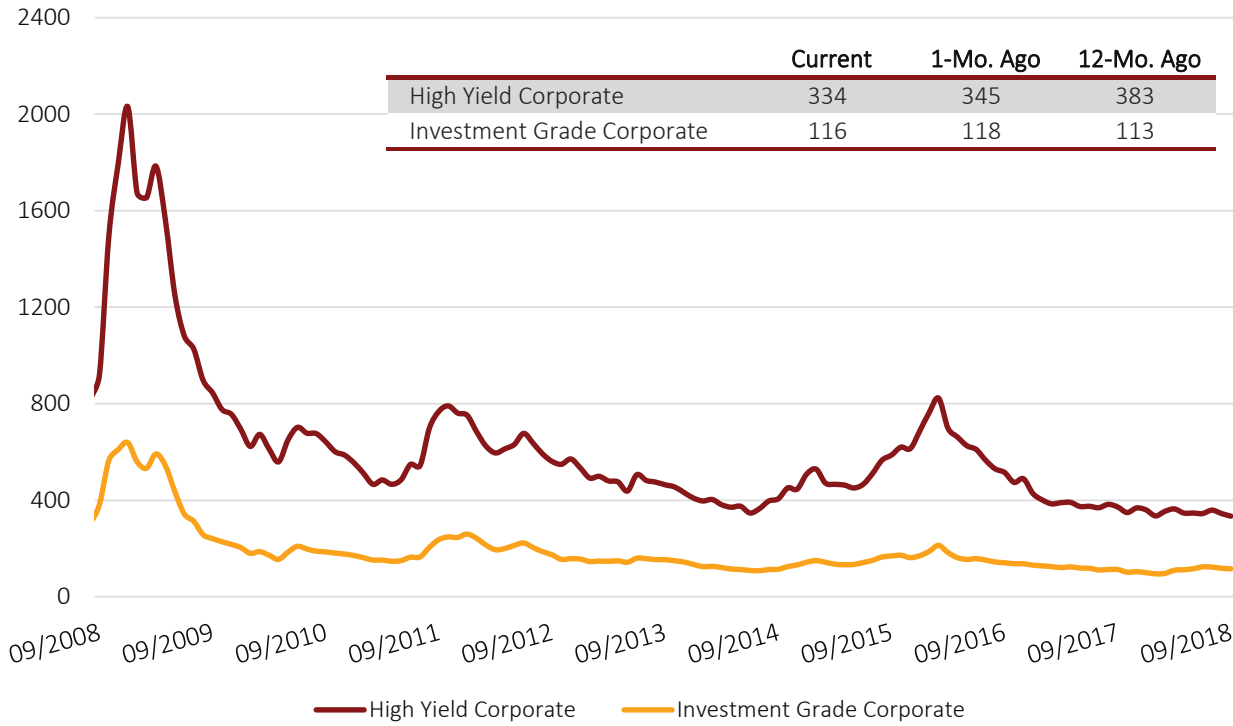
Summary of Economic Projections of Federal Funds Rate



Source: Federal Reserve Bank of St. Louis and U.S. Federal Open Market Committee (FOMC).

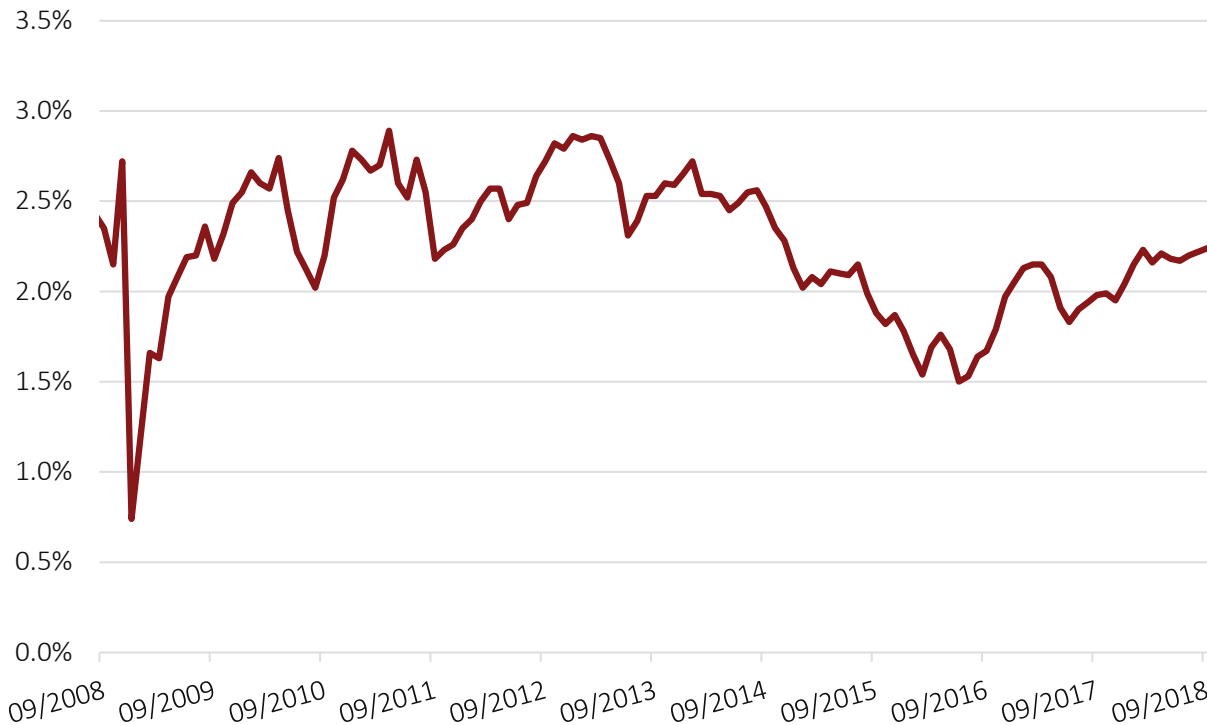
Represents the median value of the range forecast of the federal funds rate established by the FOMC.

Corporate Bond Average Spread (bps)



Source: Federal Reserve Bank of St. Louis

5-Year Forward Inflation Expectation Rate



Source: Federal Reserve Bank of St. Louis. Measure of expected inflation, on average, over the next five year period.