

DeMarche Dashboard

Data and Commentary for Periods Ended 10/31/18

Global Overview

- **Markets** – Equity markets sharply declined in October as volatility picked up, one of many factors that led to a correction in the stock markets around the world. Economic indicators and corporate earnings results remained relatively strong, despite weak earnings reports from giants like Apple and Facebook. Rising treasury yields and rate raising comments from the Fed appeared to be some of the more prominent factors that sparked a risk-asset selloff. Credit spreads widened in the month but remained narrow by historical standards. U.S. WTI crude prices experienced a monthly decline of nearly 11% as Saudi Arabian production increased while outlook for oil demand declined.
- **Developed markets** – The developed U.S and international equity markets declined sharply in October. The coincident sell-off of both markets didn't provide diversified equity investors with much a shield from losses. U.S. treasury yields continued to rise, particularly in long-term bonds as the 30-year bond yield rose to 3.4% from 3.2% in September, steepening the treasury yield curve. Domestic high yield spreads widened by 18 basis points, leading to losses in major high yield bond indexes. The rise in domestic yields differ from international developed markets, as French, German, U.K, and Japanese 10-year sovereign yields declined or were flat. A similar performance story holds true within international developed market bond indices, however, as the European debt market broadly returned -2.5% in October.
- **Emerging Markets** – Falling in line with the rest of the globe, emerging market debt and equity markets declined in October. China continued to falter as GDP growth slowed despite an increase in government spending and an increase in exports during the month. Poor performance in October added to a disappointing 2018 for emerging market equities, with the year-to-date return falling to -15.7%. Particularly poor performance in China (-11.4%) and Korea (-14.3%) weighted heavily on the Index in the month.

U.S. Economy and Markets

- The S&P 500 Index lost 6.8% in October, the worst monthly loss since 2011, and now sits at a gain of just 3.0% year-to-date after a strong first three quarters. The technology and health care heavy NASDAQ lost over 9.2% during the month. Large Cap Growth underperformed Large Cap Value by nearly 3.8% in the month, though retains a major edge year-to-date.
 - All but two S&P 500 sectors fell in October, as utilities (+2.0%) and consumer staples (+2.3%) provided a cushion for the Index. Losses in energy (-11.3%), consumer discretionary (-11.3%), and industrials (-10.8%) were the biggest detractors to performance.
- The Russell 2000 Index fell 10.9% in October as the broad market sell-off was more strongly felt in small cap stocks. The Russell 2000 Growth Index ended the month down 12.7% and nearly gave back its gain year-to-date, which now sits at just 1.1%. The Russell 2000 Value Index is in negative territory year-to-date at -2.5%.
 - Every small cap sector declined in October with energy (-16.5%) and health care (-15.0%) posting the largest losses. The biotechnology industry, once the strongest performing industry in the Index during 2018, is now sitting at -5.4% for the year.

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- Domestic fixed income markets were largely negative in October as bond yields continued to rise, due at least in part to the Fed's program of raising interest rates. The Bloomberg Barclays Aggregate Index lost 0.8% and the Bloomberg Barclays Government/Credit Index lost 0.9% for the month. Long-dated bonds saw a sharper rise in yields than shorter-term bonds (month-to-month), which more severely impacted returns on the long-end – the Bloomberg Barclays Government/Credit Long (10+ year maturities) Index lost 3.6% in the month. The BofA ML High Yield Index finished down 1.6% for the month, though remains positive year-to-date.
- As alluded to in the opening section, domestic volatility returned in October as the market sell-off took shape towards the latter half of the month. The CBOE Volatility Index (VIX), which is a measure of the 30-day expected volatility of the U.S. stock market reflected in the intraday prices of the S&P 500 Index call and put options, had its highest average monthly reading since February 2018. The VIX is sometimes referred to as the “fear index” because it's believed to be a good indicator of *expected* volatility or uncertainty in equity markets. Of the 23 trading days in the month of October, the VIX was above its 10-year average in 14 of those days, including 10 in a row to close out the month. Investors will be eyeing the VIX into November to gauge if risk will persist in equity markets.
- The market sell-off was not aligned with broad economic data in the United States, as multiple indicators are pointing to continued strength. The October jobs report exceeded expectations as the U.S. added 250,000 jobs versus a projected 190,000 and year-over-year wage growth accelerated to 3.1%. GDP growth beat expectations and is near the highest levels since 2014. Unemployment remains near all-time lows at 3.7% which continues to support consumer confidence, which sits near all-time highs. Consumer spending continues to increase going into the holiday season.

International Markets

- The MSCI EAFE Index (USD) fell 8.0% in October as the Index's tough year continued. Japan (-8.5%) and the United Kingdom (-6.8%), the two largest countries in the Index, both declined and the combined Eurozone fell by 7.6% in October. The largest losses in the index can be attributed to EAFE growth stocks, down 9.2%. Developed market small cap stocks lost more than their large cap counterparts, a trend consistent throughout the year. The MSCI EAFE Small Cap Index was down 9.6% in the month and is down 11.6% year-to-date.
- Emerging markets equities moved in unison with the rest of global equity markets as the MSCI Emerging Markets Index lost 8.7%. The Emerging Markets Index, which gained 37.2% in 2017, has lost 15.7% year-to-date.
 - Unsurprisingly, the decline in emerging market stocks in October can largely be attributed to two things: large technology stocks and Chinese stocks.
- The International Monetary Fund (IMF) cut global GDP growth expectations from 3.9% to 3.7% citing trade tensions coming out of the United States and uncertainty surrounding the EU and Brexit. Emerging market countries saw the largest cut to their growth prospects on the back of rising global interest rates and the continued strength of the U.S. dollar.

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Looking Ahead

- Two big meetings that investors are circling on their calendars are the special EU-Brexit Summit scheduled for November 17-18 and the G-20 Summit scheduled for November 30-December 1. If U.K Prime Minister Theresa May does not find resolve on key issues such as the Irish border (among others) by early November the special summit may be called off. Failure to find resolution would only add to the belief that the case of a 'no deal' is being priced into markets as negotiations have now been going on for two and a half years. The annual G-20 Summit, hosted in Argentina, will feature the first meeting between the leaders of the United States and China since widespread tariffs and trade restrictions were enacted earlier this year. Investors will be seeking any indications of progress on trade talks between the two countries.
- Stock markets historically have not reacted strongly to the results of midterm elections, though a political gridlock generally points to a neutral to positive impact on equity markets. A split Congress could spell trouble for a number of Trump's planned initiatives, including the new tri-lateral trade deal - the USMCA. Congress division could also mean a period of government inactivity on new policy, a result that could be warmly received by rebounding markets both domestic and foreign.
- One possible positive outcome of the global equity sell-off in October is the more 'normalized' level of price to earnings (P/E) ratios. For months and even years some investors have felt that stock markets were expensive compared to a historical context, but today we're seeing Asia, Europe, small cap U.S. stocks, and even some large cap U.S. stocks trading at or below 10-year average trailing P/E levels.

Economic Indicators

| | GDP | | Unemployment Rate | Interest Rates | Exchange Rates per US \$ | | Inflation' (Most recently available) | |
|-----------------------|------|------|-------------------|----------------|--------------------------|--------------------------|---|---------|
| | Qtr. | 2018 | | | 2019 | Sovereign Bonds, 10 Year | | Current |
| United States | 3.00 | 2.90 | 2.50 | 3.70 | 3.07 | - | - | 2.17 |
| China | 6.53 | 6.60 | 6.32 | 3.80 | 3.53 | 6.94 | 6.64 | 2.32 |
| Japan | 1.33 | 1.10 | 1.20 | 2.60 | 0.12 | 111.65 | 113.72 | 1.30 |
| United Kingdom | 1.22 | 1.30 | 1.40 | 4.00 | 1.39 | 1.28 | 1.32 | 2.40 |
| Euro Area | 1.66 | 2.10 | 1.80 | 8.20 | 0.39 | 1.14 | 1.17 | 0.96 |
| Germany | 1.95 | 2.00 | 2.00 | 3.40 | 0.39 | 1.14 | 1.17 | 2.01 |
| France | 1.68 | 1.70 | 1.80 | 8.70 | 0.75 | 1.14 | 1.17 | 2.21 |
| Italy | 1.15 | 1.20 | 1.20 | 9.70 | 3.47 | 1.14 | 1.17 | 0.92 |
| Canada | 1.91 | 2.30 | 2.20 | 5.90 | 2.49 | 1.31 | 1.28 | 2.04 |
| India | 8.04 | 7.30 | 7.30 | 6.75 | 7.85 | 73.54 | 65.04 | 5.61 |
| Mexico | 1.56 | 2.10 | 2.10 | 3.31 | 8.85 | 19.44 | 19.05 | 4.90 |
| Brazil | 0.98 | 1.60 | 2.20 | 11.90 | 8.20 | 3.67 | 3.25 | 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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October 2018

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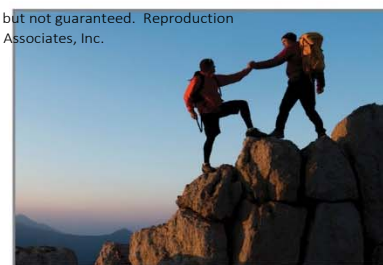
Capital Markets Overview

| | TRAILING | | | ANNUALIZED | | | | |
|---------------------------|--------------------------------------|---------|---------|------------|---------|--------|--------|--------|
| | 1-Mo | 3-Mo | YTD | 1-Yr | 3-Yr | 5-Yr | 10-Yr | |
| Broad Market | MSCI World NR USD | (7.34) | (5.67) | (2.31) | 1.16 | 7.91 | 6.81 | 10.02 |
| | BBgBarc US Agg Bond TR USD | (0.79) | (0.79) | (2.38) | (2.05) | 1.04 | 1.83 | 3.94 |
| | Russell 3000 TR USD | (7.36) | (3.95) | 2.43 | 6.60 | 11.27 | 10.81 | 13.35 |
| | DJ Industrial Average TR USD | (4.98) | (0.64) | 3.41 | 9.87 | 15.25 | 12.76 | 13.33 |
| | NASDAQ Composite PR USD | (9.20) | (4.77) | 5.83 | 8.59 | 13.07 | 13.26 | 15.56 |
| | MSCI EAFE NR USD | (7.96) | (8.95) | (9.28) | (6.85) | 3.62 | 2.02 | 6.89 |
| | FTSE Treasury Bill 3 Mon USD | 0.18 | 0.52 | 1.47 | 1.67 | 0.86 | 0.53 | 0.33 |
| | Bloomberg Commodity TR USD | (2.16) | (2.05) | (4.14) | (1.73) | (0.69) | (7.31) | (4.18) |
| Domestic Equities | S&P 500 TR USD | (6.84) | (3.25) | 3.01 | 7.35 | 11.52 | 11.34 | 13.24 |
| | S&P MidCap 400 TR | (9.55) | (7.68) | (2.77) | 1.02 | 9.85 | 8.89 | 14.13 |
| | S&P SmallCap 600 TR USD | (10.48) | (9.13) | 2.54 | 5.60 | 12.84 | 10.06 | 14.16 |
| | Russell 1000 TR USD | (7.08) | (3.51) | 2.67 | 6.98 | 11.31 | 11.05 | 13.42 |
| | Russell 1000 Growth TR USD | (8.94) | (3.43) | 6.62 | 10.71 | 13.67 | 13.43 | 15.45 |
| | Russell 1000 Value TR USD | (5.18) | (3.59) | (1.46) | 3.03 | 8.88 | 8.61 | 11.30 |
| | Russell Mid Cap TR USD | (8.31) | (6.07) | (1.47) | 2.79 | 9.04 | 8.97 | 14.19 |
| | Russell Mid Cap Growth TR USD | (9.90) | (5.11) | 2.16 | 6.14 | 10.39 | 10.10 | 15.10 |
| | Russell Mid Cap Value TR USD | (7.20) | (6.68) | (4.30) | 0.16 | 8.15 | 8.11 | 13.35 |
| | Russell 2000 TR USD | (10.86) | (9.26) | (0.60) | 1.85 | 10.68 | 8.01 | 12.44 |
| | Russell 2000 Growth TR USD | (12.65) | (9.39) | 1.11 | 4.13 | 10.72 | 8.75 | 13.89 |
| Russell 2000 Value TR USD | (8.95) | (9.10) | (2.46) | (0.59) | 10.52 | 7.18 | 10.95 | |
| International Equities | MSCI ACWI Ex USA NR USD | (8.13) | (9.65) | (10.97) | (8.24) | 4.37 | 1.63 | 6.92 |
| | MSCI EAFE NR USD | (7.96) | (8.95) | (9.28) | (6.85) | 3.62 | 2.02 | 6.89 |
| | MSCI EAFE Growth NR USD | (9.21) | (9.69) | (8.68) | (6.04) | 3.98 | 3.07 | 7.53 |
| | MSCI EAFE Value NR USD | (6.64) | (8.18) | (9.90) | (7.69) | 3.20 | 0.91 | 6.19 |
| | MSCI Japan NR USD | (8.46) | (5.47) | (7.01) | (3.56) | 5.44 | 4.89 | 6.72 |
| | MSCI AC Asia Ex Japan NR USD | (10.85) | (12.98) | (16.43) | (13.63) | 6.29 | 3.33 | 10.19 |
| | MSCI Europe NR USD | (7.63) | (9.89) | (9.90) | (8.34) | 2.51 | 1.21 | 6.54 |
| | MSCI United Kingdom NR USD | (6.75) | (9.10) | (9.26) | (4.65) | 1.34 | 0.12 | 6.41 |
| | MSCI EAFE Small Cap NR USD | (9.63) | (11.00) | (11.61) | (7.81) | 6.58 | 5.16 | 11.56 |
| MSCI EM NR USD | (8.71) | (11.65) | (15.72) | (12.52) | 6.52 | 0.78 | 7.84 | |
| Fixed Income | BBgBarc US Govt/Credit TR USD | (0.87) | (0.89) | (2.70) | (2.31) | 1.15 | 1.87 | 4.13 |
| | BBgBarc US Govt/Credit Interm TR USD | (0.14) | 0.05 | (0.90) | (1.09) | 0.90 | 1.36 | 3.35 |
| | BBgBarc US Govt/Credit Long TR USD | (3.35) | (4.04) | (8.59) | (6.37) | 2.12 | 4.04 | 7.54 |
| | ICE BofAML US High Yield TR USD | (1.64) | (0.35) | 0.84 | 0.86 | 6.64 | 4.69 | 11.16 |
| | Credit Suisse HY USD | (1.66) | (0.48) | 0.81 | 0.93 | 6.62 | 4.53 | 10.59 |
| | S&P/LSTA Leveraged Loan TR | (0.03) | 1.06 | 4.00 | 4.54 | 5.37 | 3.97 | 7.66 |
| | FTSE WGBI NonUSD USD | (1.45) | (3.22) | (4.50) | (2.26) | 1.86 | (0.76) | 2.11 |
| | BBgBarc Gbl Agg Ex USD TR USD | (1.39) | (2.75) | (4.38) | (2.09) | 1.82 | (0.82) | 2.52 |
| REITs | FTSE Nareit All REITs TR | (2.62) | (2.70) | (0.87) | 1.63 | 6.11 | 8.22 | 11.72 |
| | Wilshire US REIT TR USD | (2.98) | (2.86) | (0.80) | 1.80 | 4.03 | 7.73 | 11.33 |

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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GUIDE

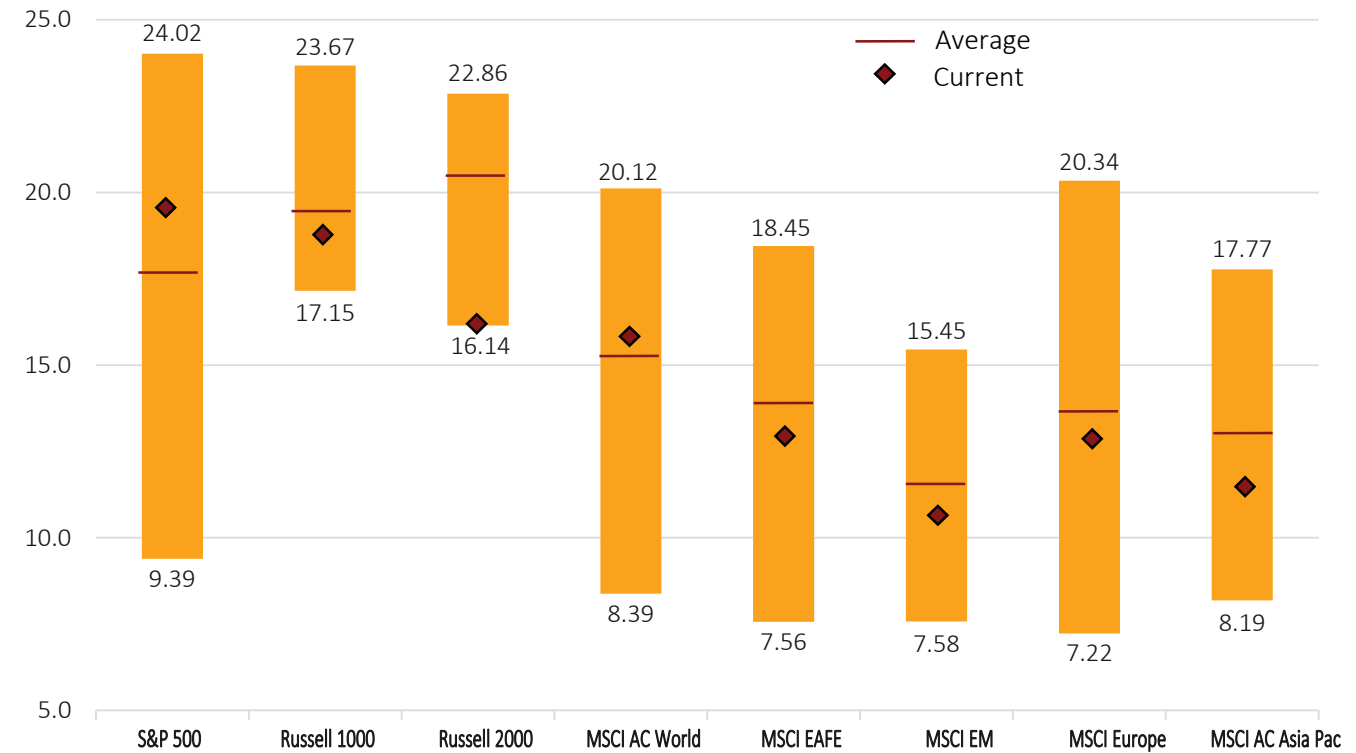
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S&P 500 Price Level



Source: Standard & Poors

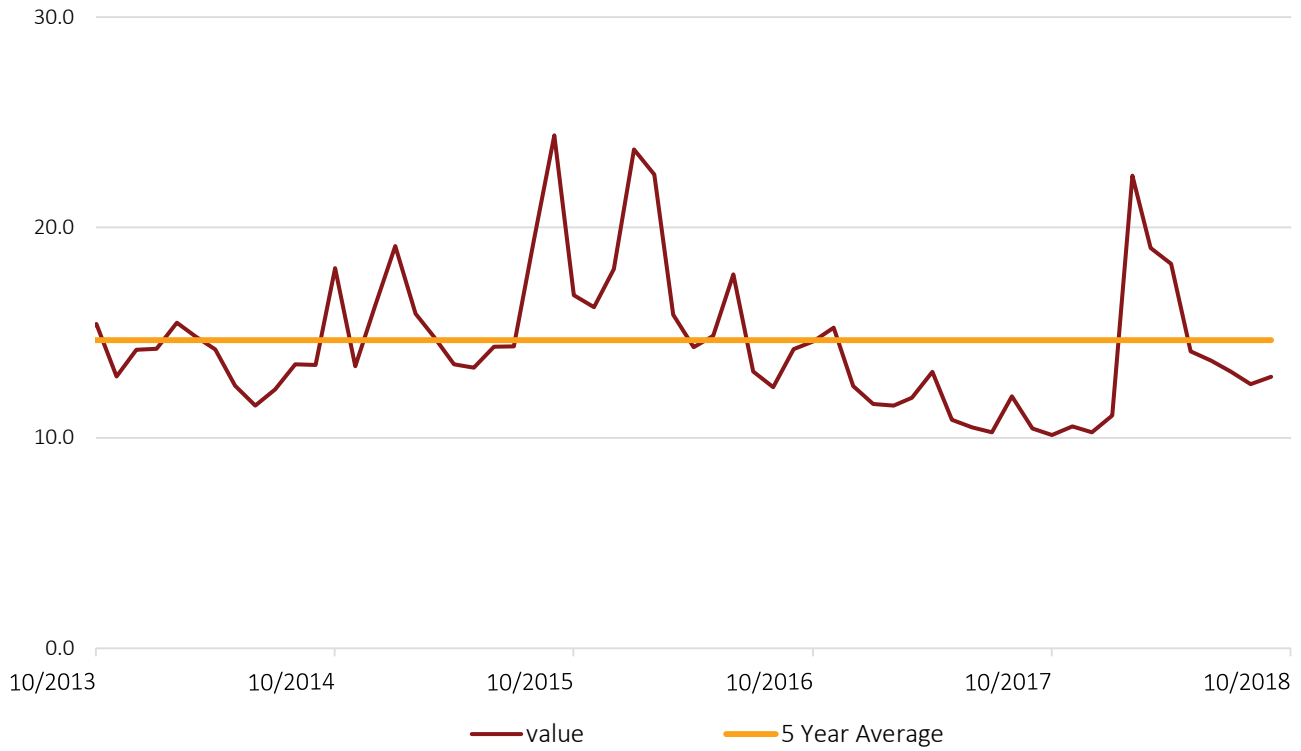
Current P/E vs. Trailing 10-Year High, Low, Average



| | S&P 500 | Russell 1000 | Russell 2000 | MSCI AC World | MSCI EAFE | MSCI EM | MSCI Europe | MSCI AC Asia Pac |
|-----------|---------|--------------|--------------|---------------|-----------|---------|-------------|------------------|
| High Date | Jan-18 | Jan-18 | Nov-17 | Jan-18 | May-17 | Jan-18 | Mar-17 | Mar-10 |
| Low Date | Feb-09 | Sep-13 | Oct-18 | Feb-09 | Feb-09 | Nov-08 | Feb-09 | Feb-09 |

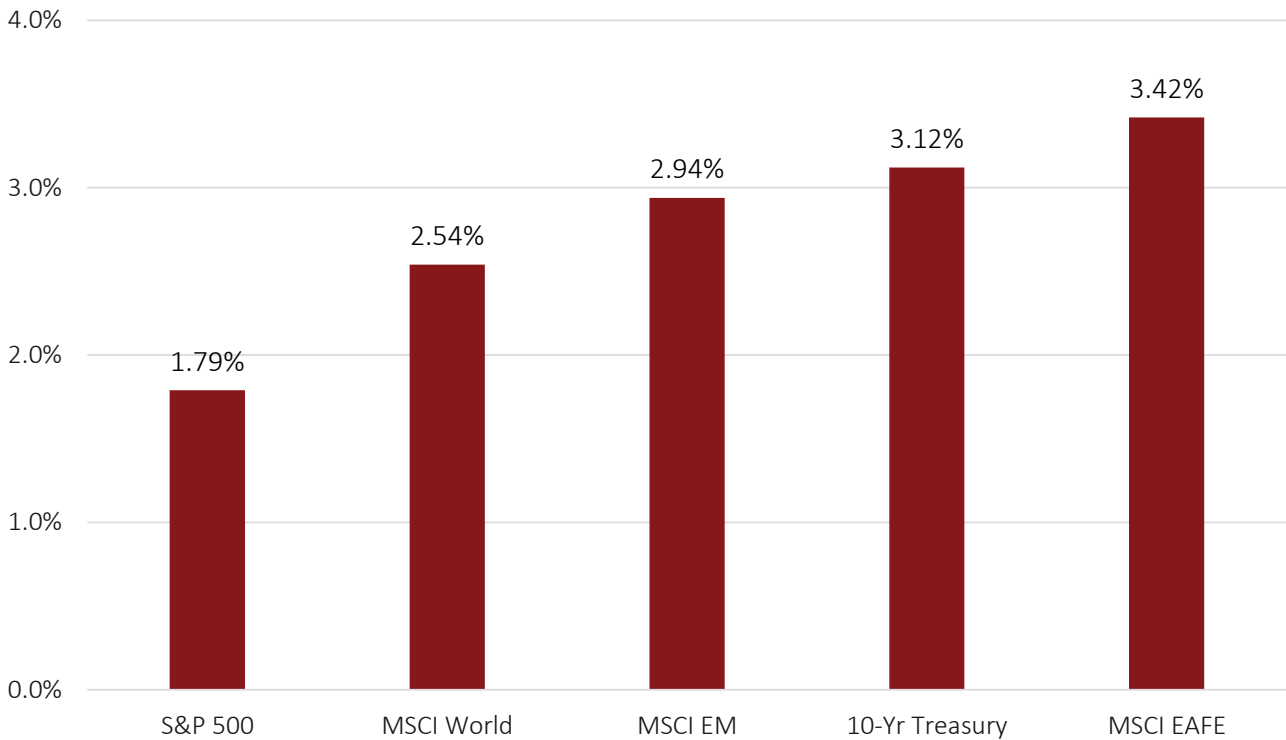
Source: Standard & Poors, FTSE/Russell, MSCI

CBOE Volatility Index: VIX



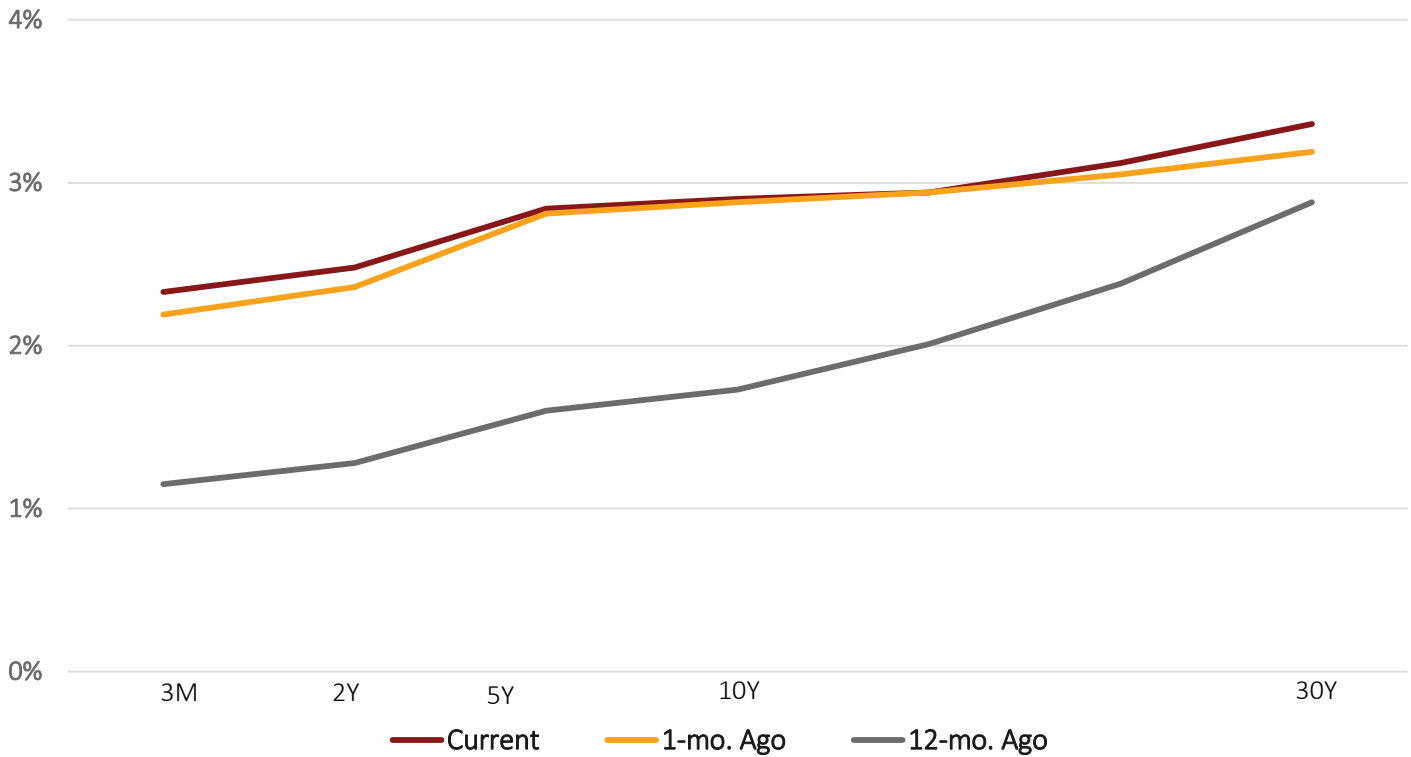
Source: CBOE Global Markets, Inc.

Current Yields



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

U.S Treasury Yield Curves



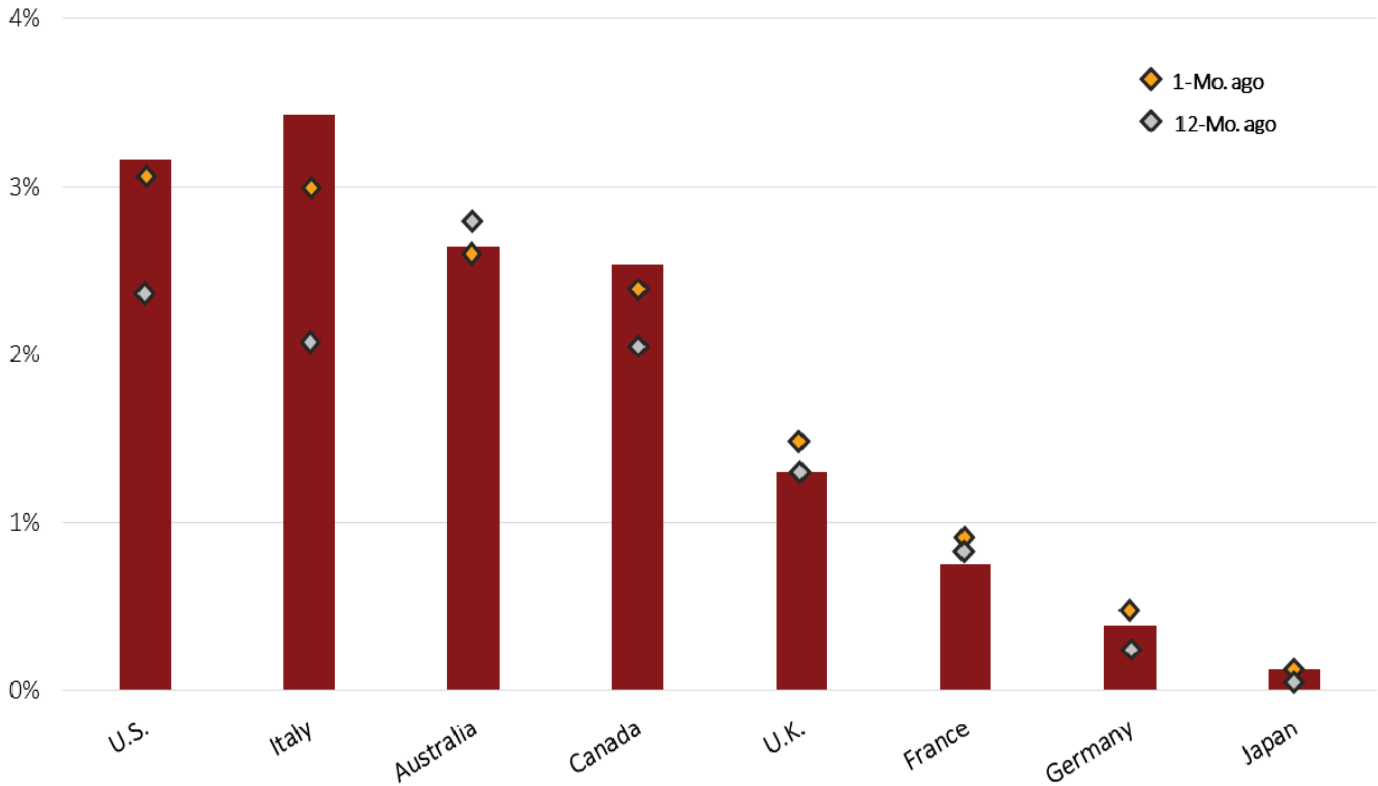
Source: Federal Reserve Bank of St. Louis

U.S. Treasury Yields & Performance

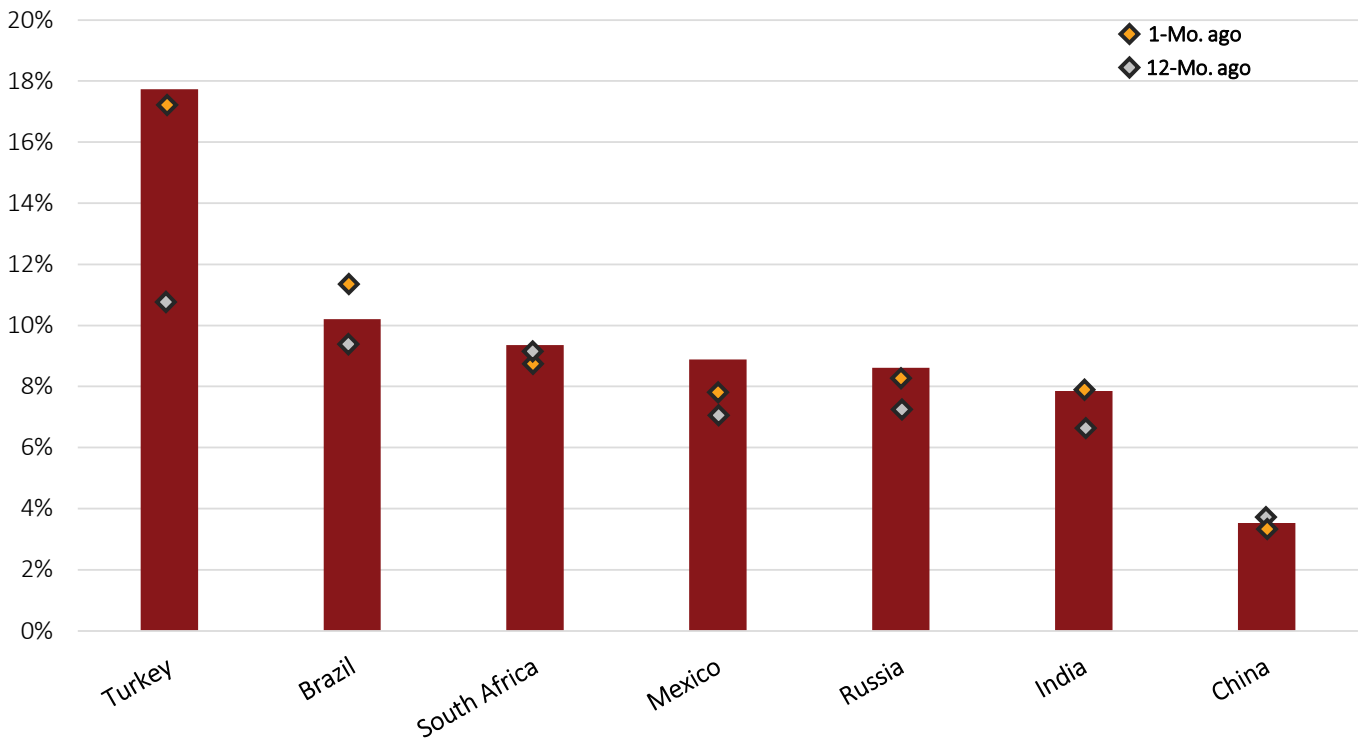
| Security | Yield (%) | | |
|-----------------|-----------|-----------|------------|
| | Current | 1-Mo. Ago | 12-Mo. Ago |
| 3-mo. Treasury | 2.33 | 2.19 | 1.15 |
| 6-mo. Treasury | 2.48 | 2.36 | 1.28 |
| 2-yr. Treasury | 2.84 | 2.81 | 1.60 |
| 3-yr. Treasury | 2.90 | 2.88 | 1.73 |
| 5-yr. Treasury | 2.94 | 2.94 | 2.01 |
| 10-yr. Treasury | 3.12 | 3.05 | 2.38 |
| 30-yr. Treasury | 3.36 | 3.19 | 2.88 |

Source: Federal Reserve Bank of St. Louis

Developed Markets 10 Year Sovereign Yields

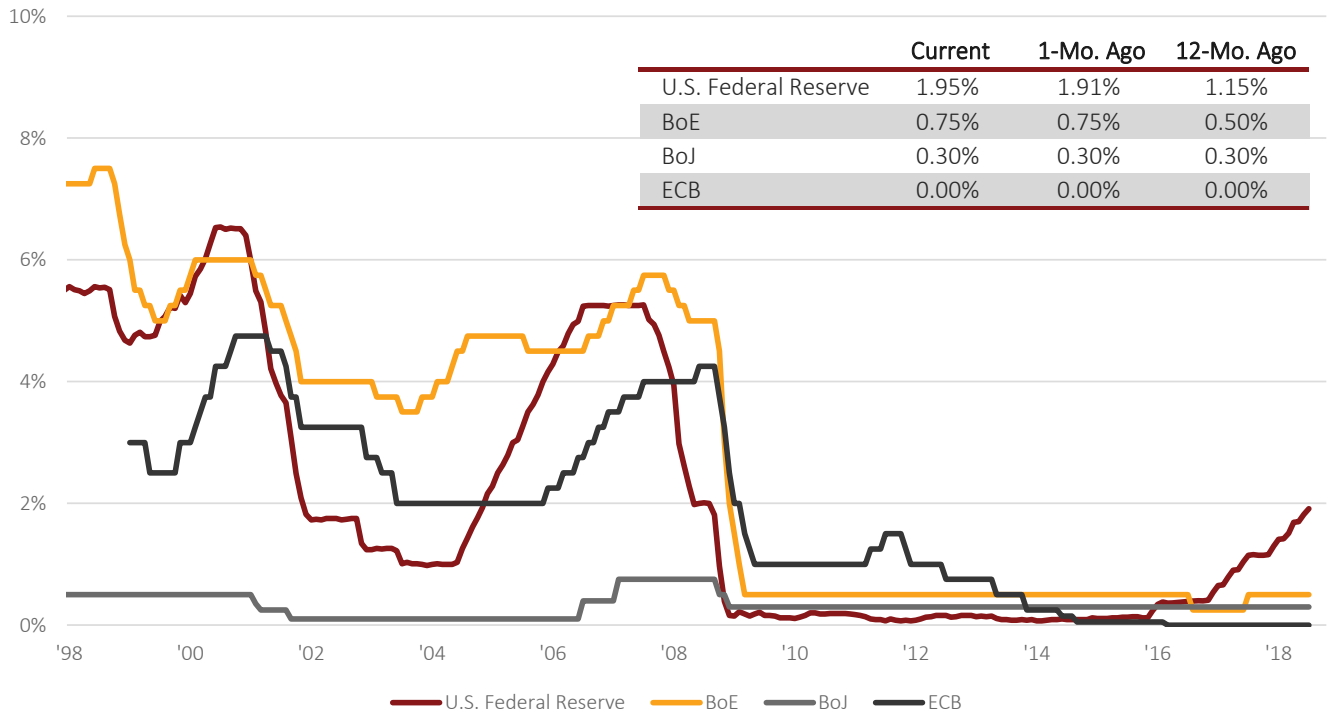


Emerging Markets 10 Year Sovereign Yields



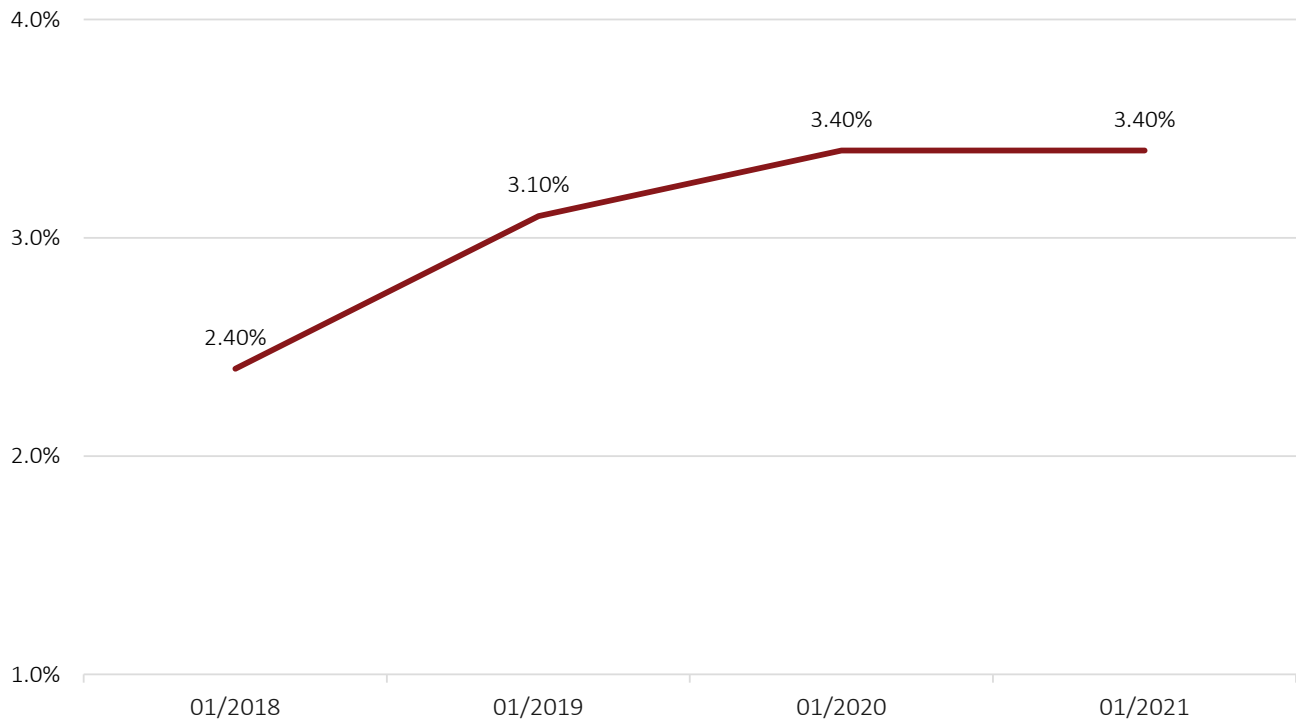
Source: Federal Reserve Bank of St. Louis, Bloomberg

Central Bank Policy Rates



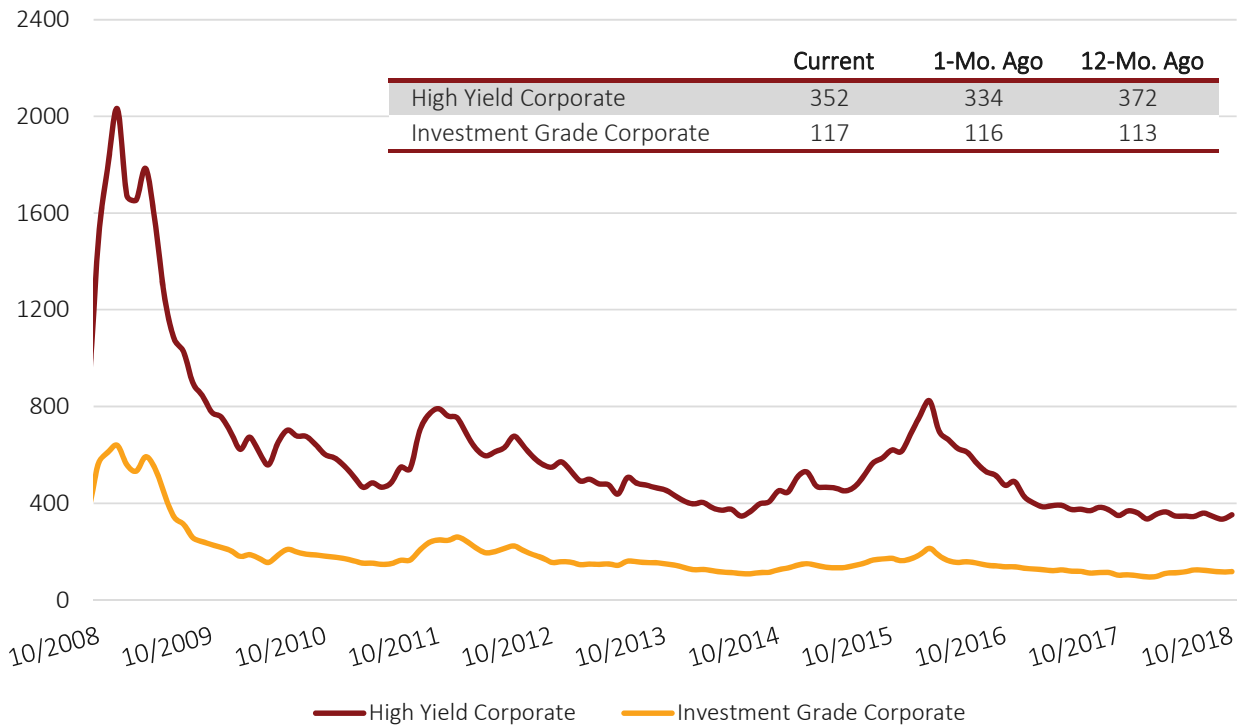
Source: Federal Reserve Bank, Bank of England, European Central Bank

Summary of Economic Projections of Federal Funds Rate



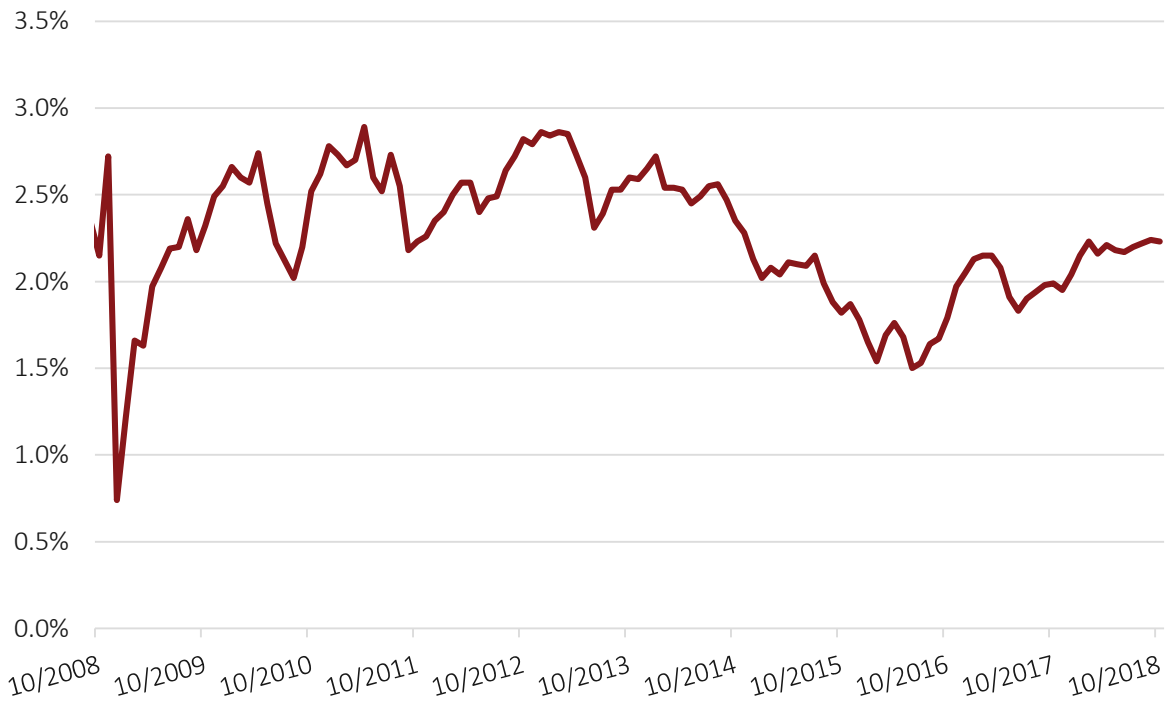
Source: Federal Reserve Bank of St. Louis and U.S. Federal Open Market Committee (FOMC).
Represents the median value of the range forecast of the federal funds rate established by the FOMC.

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.