Fourth Quarter 2018

Dark Clouds on the Economic Horizon?

The U.S. stock market has entered into its longest bull market run ever and is hitting all-time highs. Of the nine-year bull market run, the first seven years were born out of the ashes of the great recession, with arguably a lot of help from the Federal Reserve (Fed). The Fed took unprecedented actions such as lowering interest rates to near zero and expanding its balance sheet through a process called Quantitative Easing (QE). The last couple of years have been different and the tailwind from the Fed has become a headwind as the Fed is unwinding its QE program. The Fed hiked interest rates three times so far this year, and is on a path for four hikes in 2018, as unemployment levels are at 18-year lows and core inflation has reached the Fed's target of 2%. As equity markets climb higher, the headwind is picking up. While we do not foresee a recession or financial storm on the horizon, there are some dark clouds forming in the distance. In the fourth quarter outlook, we will discuss the strength of the economy and markets, but balance this with potential risks that continue to build and answer the question on many investors' minds, "are we close to the peak?"

Key Takeaways:

- **Economic Growth May be Peaking.** U.S. GDP is reaching high levels after the recent tax cuts, but will likely follow the rest of the world and moderate the next two years.

- **Equity Markets Hit All-Time Highs.** Equity markets touched all-time highs last quarter. Earnings have been strong, but valuations are high.

- **Fixed Income Markets Poised for Negative Year.** With the Fed raising rates three times so far this year, high quality, interest rate sensitive bonds have fallen. While bonds are not down significantly from an equity investor's perspective, it is noteworthy when fixed income has a negative year. The good news for income investors is that yields are moving higher, which will boost future returns.

- **Risks are Increasing.** With the economy perhaps attaining peak growth and companies realizing peak earnings levels, risks of not meeting expectations increase. Economic growth and earnings may slow from current levels. In addition, looming trade talks, the mid-term elections and, of course, the Fed.

Global Economy

With the U.S. economy continuing to hum along into the ninth year of the recovery, many are starting to fear the end is near. This past quarter was the 10-year anniversary of the financial crisis. In the third quarter of 2008, the U.S. government took over Fannie Mae and Freddie Mac, Bank of America bought Merrill Lynch for $50 billion, Lehman Brothers filed for bankruptcy and AIG took an $85 billion federal bailout, giving the U.S. nearly an 80% stake in the company. It was a painful time that left scars in people's minds and portfolios. Many investors remain fearful and some have not yet returned to the stock market.

The reality is that recoveries do not last forever and another recession is always imminent. The question is not if, but when. The next recession will likely not be comparable to the financial crisis of 2008, which was one of the worst in history. Recessions happen normally over the course of the economic cycle and we must keep that in mind. So, when is the next recession going to happen?

Looking at different economic metrics the economy is doing really well and perhaps is peaking. While growth may slow next year, it is likely to remain positive. We think that the soonest a recession will be on the horizon is 2020. Let's look to the data.

Two consecutive quarters of negative GDP growth defines a recession. Current forecasts for growth in the fourth quarter are great. The Federal Reserve Bank of Atlanta estimates third quarter economic growth to be around 4.4% and Blue Chip Consensus Estimate is a little over 3% for the quarter. We are far from negative growth prospects this year. Looking to next year, the Congressional Budget Office estimates real GDP growth to be 2.8% and then fall to 1.9% in 2020. So, while economic growth may slow, more importantly, the economy is still expected to grow. Recession risks do increase, however, as growth is slowing and risks around trade loom.

While the technical definition of a recession relates to GDP growth, President Harry Truman's definition may be more applicable to the average investor. Truman once said, "It's a recession when your neighbor loses his job; it's a depression when you lose yours." So, let's turn to the labor markets.

The unemployment rate has been under 4% for four of the last five quarters. That has not occurred since 2000. The number of job openings in July climbed to 6.94 million, which is the highest on record, and the total number of job openings has exceeded the total number of individuals looking for work for five straight months. The U.S. labor market is extremely healthy. Annual wage growth also climbed to a nine-year high of 2.9% in August. There has also been positive jobs growth for 95 months, another record. With a healthy job market, consumer confidence levels are at an 18-year high. This bodes well for consumer spending which makes up the largest percentage of U.S. GDP.

Retail sales dipped in August, but spending in July was robust and part of the weak August numbers were attributed to falling prices in clothing and other goods. Another positive is that the personal savings rate, which is 6.7%, is far from its low in 2005 when it was just 2.2%. If this percentage started to drop, this could be a sign that the consumer is not doing well and unable to save.

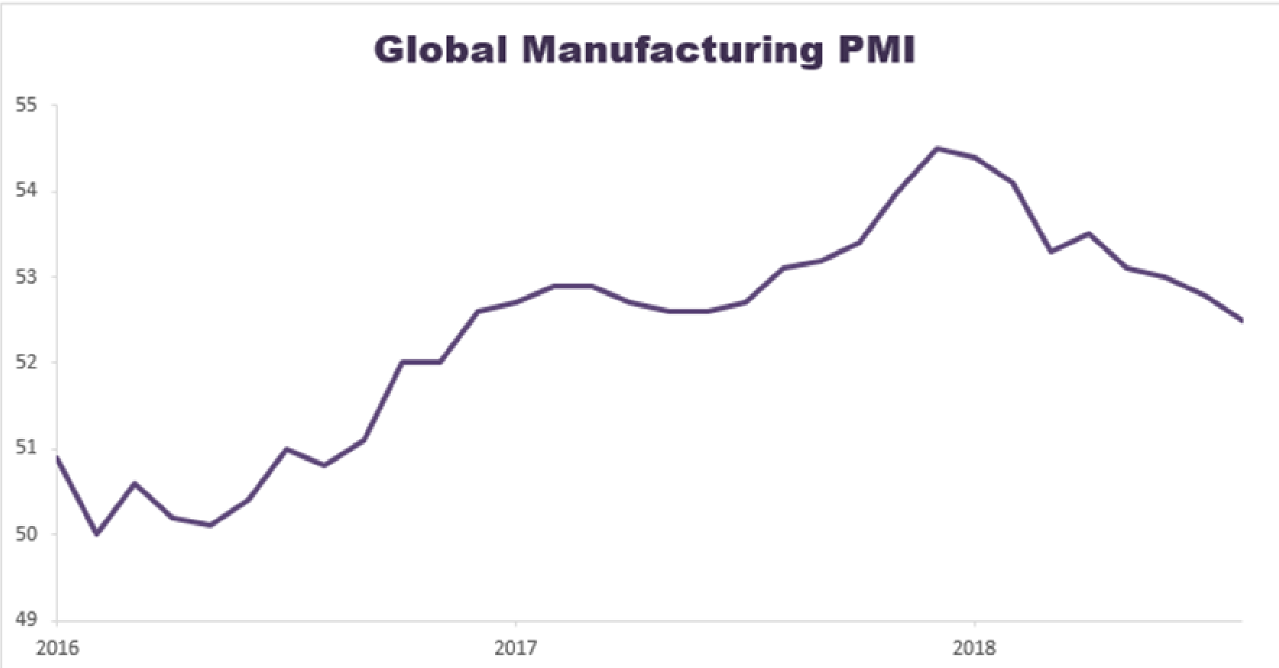
Inflation has ticked up recently, but we believe this will prove to be temporary due to secular trends such as automation, technological innovations, globalization, and aging demographics. As the population gets older, more people will retire and spend less. Also, those workers that replace the retired ones are younger with less experience and generally get paid less.

Looking at the other components of GDP, investment and government spending, investment spending is stable. Kiplinger, a Washington, D.C.-based publisher of business forecasts and personal finance advice, reports that despite trade turbulence, U.S. businesses are ready to expand their operations by another 7% this year, which is a big increase from last year's 5.3% gain. We believe that U.S corporations have not fully felt the complete impact of the corporate tax cuts as corporations have different fiscal year ends and we feel they have not gotten comfortable with the new tax law yet. A big component of investment spending is housing. Housing activity continues a slow grind higher from the recession lows. Housing starts are now at mid-1990's levels as we work through excess inventories from the 2000's housing boom. Home prices have recovered and are at all-time highs, surpassing 2007 levels.

Government spending will probably remain flat. The Congressional Budget Office estimates that total receipts are up 4% in fiscal year 2018, while total outlays are up 5%. With the prospects of gridlock resulting from the mid-term elections, more tax reform and spending proposals could be derailed.

Growth in the rest of the world has also been strong in 2018. However, global manufacturing surveys have been recently falling sharply. In Exhibit 1 below you can see the sharp decline in the Global Purchasing Managers' Index (PMI) this year. The index is a result of surveys covering over 12,000 purchasing executives in over 40 countries. This weakness is likely due to tariffs, but it is somewhat unclear at this point. It is important to note that the survey still indicates expansion (above 50), but it is getting close to that level that separates expansion from contraction. Similar to the United States, economic activity may be coming off high levels and moderating, but still growing.

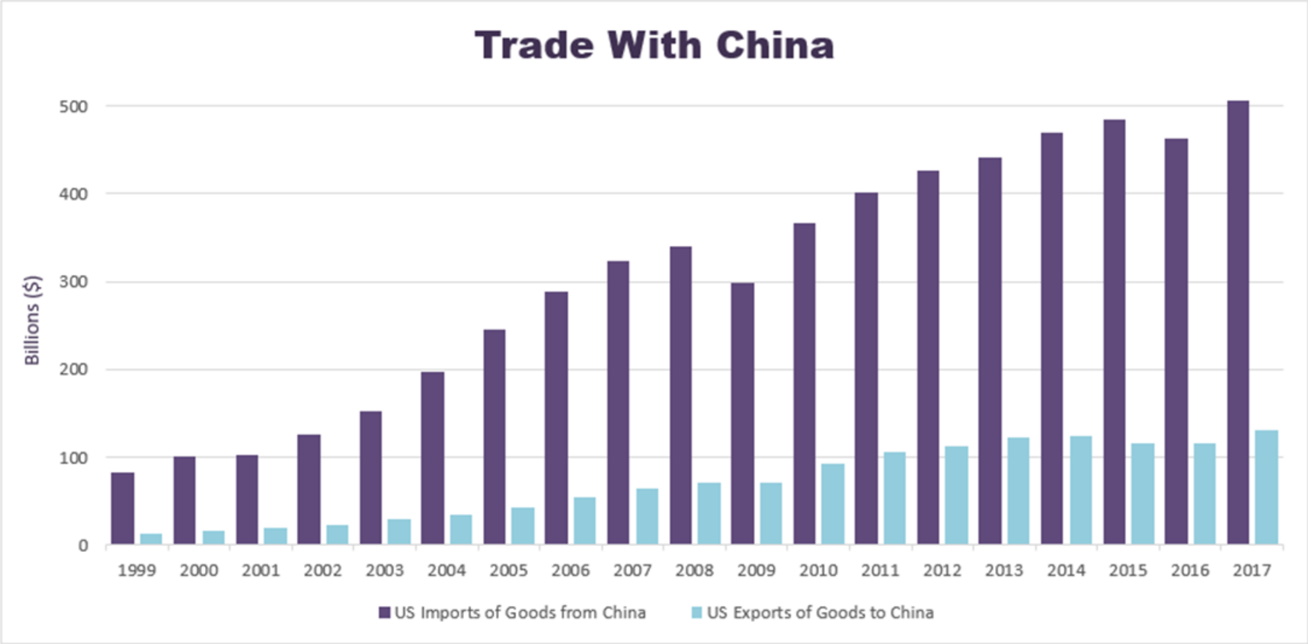
Exhibit 1



Source: Cetera Investment Management, Bloomberg, JPMorgan, IHS Markit. Data as of 8/31/2018

World trade volumes have declined, but are not yet weak and remain at 2017 levels. The United States is negotiating a new NAFTA deal with Mexico and Canada, while working out trade deals with Europe. Progress has been made on this front. The larger challenge is negotiating a deal with China, and based on comments from both sides, these negotiations will take longer. The United States does have an advantage in this fight though. In Exhibit 2, we show U.S. exports and imports to and from China. Since the United States imports nearly four times more from China than China imports from the United States, we expect the United States to get a better outcome in the trade deal. Keep in mind that we discuss the equity impacts of trade in both markets in the next section of this outlook. The trade talks are playing out in the media and have been highly politicalized, most likely becoming a huge discussion topic during the upcoming mid-term elections. There will continue to be a lot of noise around trade and asset classes such as emerging markets which are the most susceptible. This may already be evident looking at U.S. manufacturing PMI, which is currently at a 14-year high and trending upward in contrast with global manufacturing PMI in the chart above.

Exhibit 2



Source: Cetera Investment Management, YCharts, Bureau of Economic Analysis. Data as of 12/31/2017.

Trade rhetoric may also be affecting flows to emerging markets. We have already seen capital flows out of emerging markets this year partly because of stronger growth in the U.S. The good news is that the net outflows have been relatively small to this point.

There are many other negative headlines coming out of emerging market countries as of late. Turkey and Argentina have seen substantial currency devaluations. Brazil is going through contentious elections while Venezuela is going through a full-scale economic crisis that is causing people to flee the country into neighboring countries, raising tensions at the borders. Differentiation within emerging markets continues. Investors may broadly categorize these counties into one group, but they can be extremely different. Despite macro fears, fiscal policies have improved over the years for many countries within emerging markets.

In summary, while the U.S. and world economy continue to grow, we are currently at unsustainable growth levels. Growth is likely to moderate, but still be positive. The U.S. is likely to continue to grow faster than other developed countries. We reiterate that a U.S. recession is unlikely next year, but risks are mounting for a possible recession in 2020. Again, this is part of a normal economic cycle and we do not foresee another deep recession like 2008.

Equity Markets

Despite the fretful backdrop of global trade tensions, U.S. equity investors actually have much to be thankful for during the past quarter. On August 24, the S&P 500 closed at its first all-time high since its prior peak on January 26, 2018. This marked a complete recovery of the 10.2% correction that occurred earlier this year. The new closing high confirmed another key milestone – the longest running bull market in history, surpassing the prior bull market that ended in March 2000 when the technology dot-com bubble burst.

In Exhibit 3, you can see that U.S. equity markets have outperformed international and emerging markets since the official start of the trade dispute. Small cap stocks were not as impacted by currency fluctuations and generally have higher effective tax rates, benefiting more from the corporate tax cuts. The Chinese stock market has significantly underperformed U.S. markets since the trade talks began.

Exhibit 3

Source: YCharts, Standard & Poor's, Russell Investments, and MSCI. The Russell 2000 is an index of U.S. small cap stocks. The S&P 500 is an index of large cap stocks. MSCI EAFE is an index of international developed stocks. MSCI Emerging Markets is an index of emerging market stocks. MSCI China is an index of Chinese stocks. Data is from 3/1/2018 to 9/14/2018.

So how are tariffs affecting corporate earnings, which tend to be a key driver of long-term stock market returns? Corporate earnings and revenue growth were very good last quarter and should continue to be good for the remainder of 2018. The second quarter's 25.2% earnings growth was the 26th consecutive quarter in which earnings-per-share exceeded Wall Street analysts' end-of-quarter estimates. Following two consecutive quarters of annualized earnings growth above 24%, third quarter earnings growth should top 21%, with all 11 sectors poised to record increases. Third quarter S&P 500 revenues are forecast to rise 8.1% and 8.4% for all of this year. Tariffs do eventually impact corporate earnings, so we continue to monitor this development. Exhibit 4 shows the various third quarter earnings outlook for the 11 major sector groups.

Exhibit 4

	EPS Growth %			
S&P 500 Sector	Q2 2018e	Q3 2018e	2018e	2019e
Cons Disc	20.1	13.0	15.4	13.0
Cons Staples	11.6	4.8	8.2	6.2
Energy	122.5	94.3	92.3	25.4
Financials	27.2	40.7	32.0	9.8
Health Care	16.9	11.0	13.7	8.1
Industrials	18.7	16.6	20.9	11.6
Info Tech	29.1	16.3	20.0	9.2
Materials	36.8	46.0	31.1	6.1
Real Estate	7.1	3.4	8.5	4.1
Telecom Svcs	20.3	26.0	20.7	3.4
Utilities	10.3	4.4	7.1	2.8
S&P 500	25.2	21.7	22.2	10.0

Source: S&P Global Market Intelligence

The energy, financials and materials sectors are projected to post the strongest year-over-year earnings advances, while single-digit gains are expected in consumer staples, real estate and utilities. Full-year growth is now projected at 22.2% for 2018.

While earnings in 2018 look healthy, we are keeping a keen eye on 2019 estimates. Earnings are expected to grow just 10% in 2019. Also, within individual sectors, we are monitoring a possible defensive rotation. In the past three months, we have seen defensive sectors such as utilities, health care and consumer staples lead the way, while economically sensitive sectors like financials, materials and energy lagged. Despite the continued strength in U.S. equity markets, this could be a sign that investors are becoming more concerned about future prospects.

From a valuations perspective, U.S. stock valuations are high in the 89th percentile looking at price to earnings ratios over the last 15 years. In other words, over the last 15 years, valuations have only been higher 11% of the time. The high multiple is driven by growth stocks, which are in the 97 th percentile. Value stocks look relatively attractive on this basis as they are only in the 59th percentile. In the past, growth and value stocks have gone long periods of time outperforming or underperforming each other. For example, in Exhibit 5, we illustrate this point. Growth currently has outperformed since 2014. The relationship between growth and value is cyclical, with strong outperformance often leading to strong underperformance for an extended period. With growth valuations at relatively high levels and record highs, it may be a good time to consider reducing risk and rebalancing or allocating more to value stocks.

Exhibit 5

Source: Cetera Investment Management, Morningstar, and Russell Investments. Rolling 10-Yr. returns are annualized. Growth stocks are represented by the Russell 1000 Growth Index and Value stocks are represented by the Russell 1000 Value Index. Data as of 8/31/2018.

Developed international equity markets look better than U.S. markets from a valuation perspective, but economic growth in these markets is not as strong (see valuation data is in the appendix). In addition to slower economic growth prospects, the strengthening dollar has hurt U.S. investors who invest abroad. There may be more anxieties coming out of Europe next quarter too. In Europe, the U.K. is still negotiating BREXIT and Italy will soon cause concerns with a budget that will not meet the approval of the European Union. These issues may cause more volatility in the region.

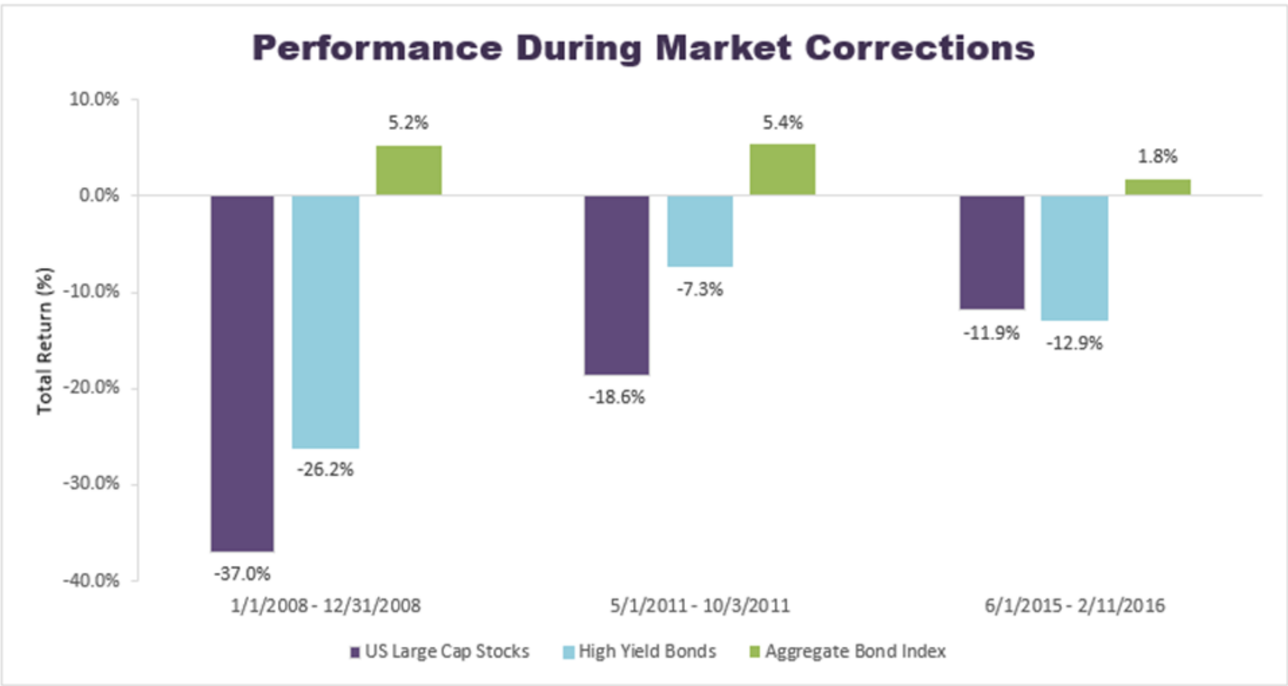
Emerging market equities have suffered this year as investors took profits from last year's strong returns, the dollar strengthened and trade negotiations scared investors. Despite macro fears, there are still stable regions that maintain strong equity fundamentals, particularly ones that have strengthened their fiscal policies. Emerging markets growth expectations remain steady and some of the macro drivers facing the region should not affect its long-term potential.

Looking to the rest of the year, we are cautiously optimistic in equities. In the U.S., the economic impact of the tax cuts has not been fully felt. Growth stocks have outperformed value stocks for years, so rebalancing into value may be prudent as markets rise. If trade deals come to fruition, there could be surprises to the upside in international markets, which have been struggling with this uncertainty around this issue.

Fixed Income

Fixed income has had a challenging year with the Fed raising rates three times already and posed for a fourth hike before year end. To put things in perspective, the investment grade bond market, as measured by Bloomberg Barclays U.S. Aggregate Bond Index, is currently down around 1.5% year-to-date and has a current yield over 3%. The higher yield can help offset price loses if yields rise more in the future. More credit sensitive bonds like high yield bonds are up around 2% so far this year, helped mostly by a strong third quarter. High yield bond credit spreads are narrow, meaning the amount of compensation bond holders receive for taking extra risk is low. From that perspective, high yield bonds and other credit sensitive notes, like bank loan notes, are less attractive than before. In an equity market sell off, given their sensitivity to equities, these bonds would likely decline in price and credit spreads would widen. That is why holding high quality bonds in a portfolio still makes sense even with the potential for rising yields. High quality bonds can be one of the best hedges against equity downturns and equities are at all-time highs with high valuations. In Exhibit 6, we highlight the performance of different fixed income indices during recent market corrections. High yield bonds fell with equities, while high quality bonds moved in the opposite direction.

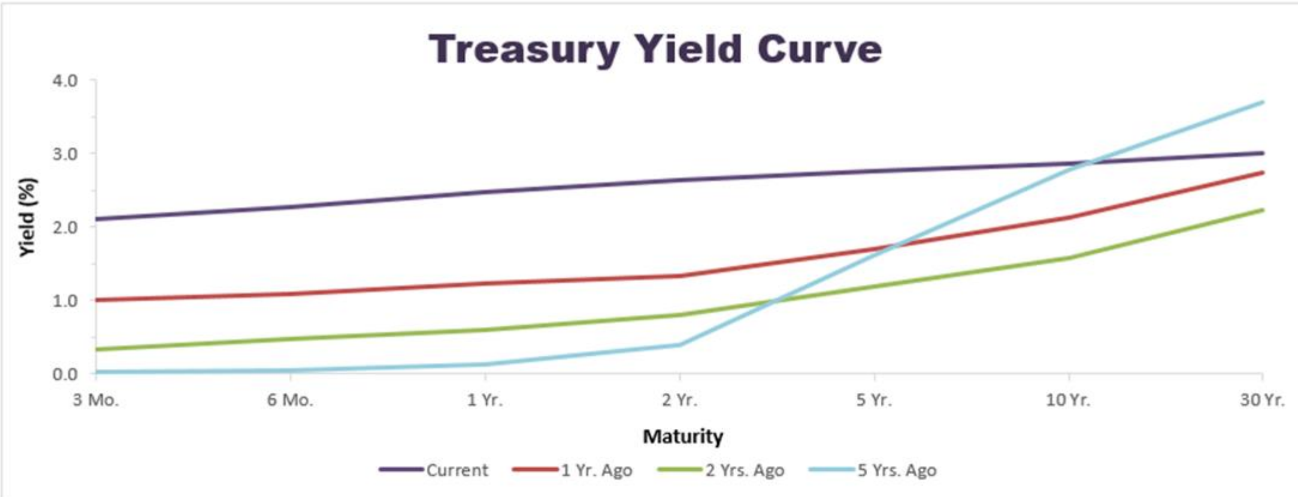
Exhibit 6



Source: Cetera Investment Management, Morningstar, BloombergBarclays, Standard & Poor's. The following indexes were used: S&P 500 (US Large Cap Stocks), BBgBarc US Corporate High Yield (High Yield Bonds), and BBgBarc US Agg Bond (Aggregate Bond Index). All returns shown are total returns, which include dividends and interest.

Drilling down further into high quality bonds, shorter maturity bonds have yields that are attractive relative to longer maturity bonds, which carry more interest rate risk. To give a simple example, Treasury bonds with a two-year maturity have a yield around 2.75%, while Treasury bonds with a 10-year maturity have a yield around 3.00%. The difference in compensation for taking roughly eight more years of interest rate risk is around 0.25% annually. To understand what that interest rate risk looks like, let us assume a 1% parallel shift in the yield curve. If yields rose by 1% on all maturities, the two-year maturity bond would fall around 2% while the 10-year maturity bond would lose around 10%. We do not expect a one percent jump in long-term Treasury bonds, but this example illustrates the risks of investing in longer duration bonds and the compensation one receives for this additional risk seems relatively low. Exhibit 7 shows how the U.S. Treasury yield curve has flattened over time and how the yield on shorter duration bonds is relatively close to that of longer duration bonds currently.

Exhibit 7



Source: Cetera Investment Management, Federal Reserve Bank of St. Louis, U.S. Department of the Treasury. Data as of 8/31/2018.

In summary, similar to equities, high yield bonds are expensive. In addition, longer maturity bonds do not provide much more compensation than shorter maturity bonds and could pose significant risks if yields rise. While we are aware of these risks, we note that high yield bonds can offer protection against rising rates, assuming credit spreads and the economy remain positive. This is evident in high yield bonds being positive year-to-date while high credit quality bonds are negative. Longer maturity bonds can also offer protection against a market pull back. Balancing all these risks in fixed income is more important now than ever.

Risks to Our Outlook

As equity markets climb higher, trade tensions escalate, the Fed becomes less accommodative, and political uncertainty around the globe elevates, risks to portfolios increase. The media tends to focus on these risks rather than the positive fundamentals, so it is no wonder why investors are often fearful of investing. The good news is that the risks we were worried about at the beginning of the year such as North Korea and inflation have somewhat moderated. The risks are real and they are growing as we enter the 10th year of the bull market.

Recession risks are increasing, but we likely will not see a recession until 2020 at the earliest. One metric that we look at that is starting to indicate moderate recession risk is the treasury yield curve and, in particular, the spread between 2-year treasury notes and 10-year treasury notes. The difference in yield between these maturities is under 0.25% and the yield curve in general is flattening. This can be a sign that a slowdown is coming, as bondholders are willing to hold long dated bonds with not much additional compensation. This would imply they expect economic growth to decline and yields to fall. An argument could be made for this time being different as the Fed is raising rates and pushing up the short end of the curve, but the long end remains steady. Despite rising yields, the long end remains steady because U.S. Treasurys remain attractive to foreign buyers as global bond yields are much lower. We believe the Fed is also paying attention to this and will not want to invert the yield curve. The Fed will also not want to be blamed for the next recession by normalizing interest rates and balance sheets.

We continue to watch populism and its implications around the world grow. In Europe, the U.K. is working out a BREXIT agreement and Italy may raise concerns as anti-establishment parties gained more power in parliament after promising more spending. Italy will propose a draft budget to the European Union on October 15 that is unlikely to meet fiscal guidelines. Italy has the second highest debt to GDP ratio in Europe, second to only Greece. Coupled with immigration concerns, talk around the sustainability of the European Union may heat up. Another implication of populism is the risk of trade wars as countries move to more protectionist policies. We have spoken about this in other sections, but this is a real risk. Particularly, trade between China and the United States.

Looking closer to home, the United States will have mid-term elections in November. Leading up to the elections, there will likely be more political rhetoric, if that is possible, which may make markets more volatile. If the Democrats take control of the House of Representatives, which could put a halt to President Trump's future agenda items, which may slow more pro-growth items like permanent tax cuts for individuals, deregulation and infrastructure spending. Gridlock would likely ensue, but the good news is that markets tend to do just fine when Washington is in gridlock. It is possible that Democrats could also pursue impeachment proceedings, but markets also did just fine when this took place under President Clinton. Nate Silver's FiveThirtyEight website currently forecasts that Democrats have an 82.9% chance of controlling the House, but only a 32.1% chance of taking control of the Senate.

Finally, as mentioned earlier, earnings expectations are high. Assuming high expectations are not met, valuations in equities and bonds could fall. The wild card next quarter could be Hurricane Florence and its possible effects to the U.S. economy, but the extent of the damage takes time to access and this may end up being limited to just a regional impact to the economy.

These are the risks to our outlook, but we reiterate that the economy remains strong and corporate earnings are expected to continue to grow. We do not anticipate a recession in the next year and that we will likely hit the 10-year anniversary of the bull market next March. It is a good reminder that sticking to long term objectives can pay off. In addition, there does not appear to be any major asset bubbles like 2007 and the real estate market.

Appendix – U.S. Economic Overview

Employment	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
US Nonfarm Monthly Payrolls ('000)	Aug-18	201	147	221	185	194	54	-20
US Total Nonfarm Payrolls - YoY Change	Aug-18	1.6%	1.6%	1.6%	1.6%	1.5%	0.0%	0.0%
U3 Unemployment Rate	Aug-18	3.9%	3.9%	4.4%	3.9%	4.0%	0.0%	-0.5%
U6 Unemployment Rate	Aug-18	7.4%	7.5%	8.6%	7.6%	7.9%	-0.1%	-1.2%
Quit Rate	Jul-18	2.4%	2.3%	2.2%	2.3%	2.3%	0.1%	0.2%
Job Openings: Total Nonfarm ('000)	Jul-18	6,939	6,822	6,202	6,807	6,345	117	737
Initial Jobless Claims ('000) 4 Wk. MA - Month End	Aug-18	212	215	238	217	230	-3	-26
KC Fed LMCI Momentum Indicator	Aug-18	1.5	1.4	1.3	1.4	1.4	0.1	0.1
Labor Force Participation Rate	Aug-18	62.7%	62.9%	62.9%	62.8%	62.8%	-0.2%	-0.2%
Employment to Population Ratio	Aug-18	60.3	60.5	60.1	60.4	60.3	-0.2	0.2

Consumer	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
Retail Sales - YoY Change	Aug-18	6.6%	6.7%	3.8%	6.5%	5.5%	-0.1%	2.9%
Vehicle Sales (Mil. Units, annualized)	Aug-18	16.6	16.7	16.5	16.8	17.3	-0.1	0.1
Personal Savings Rate	Jul-18	6.7%	6.8%	6.7%	6.8%	6.8%	-0.1%	0.0%

Production	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
Industrial Production - YoY Change	Aug-18	4.9%	4.0%	1.1%	4.1%	3.3%	0.9%	3.8%
Capacity Utilization	Aug-18	78.1%	77.9%	75.7%	77.9%	77.3%	0.2%	2.3%
Core Capital Goods Orders - YoY Change	Jul-18	8.8%	8.4%	5.9%	8.0%	8.1%	0.4%	2.9%

Housing & Construction	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
Building Permits ('000)	Aug-18	1,229	1,303	1,300	1,275	1,316	(74)	(71)
Housing Starts ('000)	Aug-18	1,282	1,174	1,172	1,211	1,260	108	110
New Home Sales	Jul-18	627	638	556	640	640	-11	71
S&P/Case-Shiller Home Price Index (20 city) - YoY Change	Jun-18	6.4%	6.5%	5.7%	6.5%	6.3%	-0.2%	0.7%
Total Construction Spending - YoY Change	Jul-18	5.8%	5.9%	4.2%	5.8%	4.1%	0.0%	1.6%

Survey Data	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
ISM Manufacturing PMI Composite	Aug-18	61.3	58.1	59.3	59.9	59.3	3.2	2.0
ISM Manufacturing PMI New Orders	Aug-18	65.1	60.2	60.3	62.9	63.7	4.9	4.8
ISM Non-Manufacturing PMI Composite	Aug-18	58.5	55.7	55.2	57.8	58.3	2.8	3.3
ISM Non-Manufacturing PMI New Orders	Aug-18	60.4	57.0	57.1	60.2	60.6	3.4	3.3
U. of Michigan Consumer Sentiment	Aug-18	96.2	97.9	96.8	97.4	98.0	-1.7	-0.6

Inflation	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
Consumer Price Index (CPI) - YoY Change	Aug-18	2.7%	2.9%	1.9%	2.8%	2.4%	-0.3%	0.8%
Personal Consumption Expenditure (PCE) - YoY Change	Jul-18	2.3%	2.2%	1.5%	2.3%	1.9%	0.1%	0.8%
Producer Price Index (PPI) - YoY Change	Aug-18	2.8%	3.2%	2.5%	3.1%	2.9%	-0.4%	0.3%
Average Hourly Earnings - YoY Change	Aug-18	2.9%	2.7%	2.6%	2.8%	2.7%	0.2%	0.3%

GDP	As of	Latest	Previous	1 Yr. Ago	2 Qtr. Avg.	4 Qtr. Avg.	1 Qtr. Diff.	1 Yr. Diff.
Real GDP - QoQ (SAAR)	Q2-18	4.2%	2.2%	3.0%	3.2%	2.9%	2.0%	1.2%
Real GDP - YoY Change	Q2-18	2.9%	2.6%	2.1%	2.7%	2.6%	0.3%	0.8%

Other	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
Treasury Yield Curve (10 Yr. Minus 2 Yr.) - Month End	Aug-18	0.24%	0.29%	0.79%	0.29%	0.52%	-0.05%	-0.55%
Philly Fed Leading U.S. Index	Jul-18	1.17	1.47	1.24	1.38	1.41	-0.30	-0.07

Economic Indicator	Source
US Nonfarm Monthly Payrolls ('000)	U.S. Bureau of Labor Statistics
US Total Nonfarm Payrolls - YoY Change	U.S. Bureau of Labor Statistics
U3 Unemployment Rate	U.S. Bureau of Labor Statistics
U6 Unemployment Rate	U.S. Bureau of Labor Statistics
Quit Rate	U.S. Bureau of Labor Statistics
Initial Jobless Claims ('000) 4 Wk. MA - Month End	U.S. Employment and Training Administration
KC Fed LMCI Momentum Indicator	Federal Reserve Bank of Kansas City
Employment to Population Ratio	U.S. Bureau of Labor Statistics
US Retail Sales - YoY Change	U.S. Bureau of the Census
Vehicle Sales (Mil. Units, annualized)	U.S. Bureau of Economic Analysis
Personal Savings Rate	U.S. Bureau of Economic Analysis
Industrial Production - YoY Change	Board of Governors of the Federal Reserve System (US)
Capacity Utilization	Board of Governors of the Federal Reserve System (US)
Core Capital Goods Orders - YoY Change	U.S. Bureau of the Census
Building Permits ('000)	U.S. Bureau of the Census
Housing Starts ('000)	U.S. Bureau of the Census
New Home Sales	U.S. Bureau of the Census
S&P/Case-Shiller Home Price Index (20 city) - YoY Change	S&P Dow Jones Indices LLC
Total Construction Spending - YoY Change	U.S. Bureau of the Census
ISM Manufacturing Composite	Institute for Supply Management
ISM Manufacturing New Orders	Institute for Supply Management
ISM Non-Manufacturing Composite	Institute for Supply Management
ISM Non-Manufacturing New Orders	Institute for Supply Management
U. of Michigan Consumer Sentiment	University of Michigan
Consumer Price Index (CPI) - YoY Change	U.S. Bureau of Labor Statistics
Personal Consumption Expenditure (PCE) - YoY Change	U.S. Bureau of Economic Analysis
Producer Price Index (PPI) - YoY Change	U.S. Bureau of Labor Statistics
Average Hourly Earnings - YoY Change	U.S. Bureau of Labor Statistics
Real GDP - QoQ (SAAR)	U.S. Bureau of Economic Analysis
Real GDP - YoY Change	U.S. Bureau of Economic Analysis
Yield Curve - Month End	Federal Reserve Bank of St. Louis
Leading Index for the United States	Federal Reserve Bank of Philadelphia

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Glossary

The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.

The S&P Growth Index is a float adjusted, market capitalization weighted index of 317 stocks drawn from the S&P 500 Index that exhibit strong growth characteristics. S&P Dow Jones Indices uses three factors to measure growth: sales growth, the ratio of earnings change to price, and momentum.

The S&P Value Index is a float adjusted, market capitalization weighted index of 364 stocks drawn from the S&P 500 Index that exhibit strong value characteristics. S&P Dow Jones Indices uses three factors to measure value: the ratios of book value, earnings and the sales to price sales metric.

The S&P MidCap 400 provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, measures the performance of 400 mid-sized companies, representing more than 7% of available market cap.

The S&P MidCap 400 Growth Index represents the growth companies of the S&P MidCap 400 Index which itself is composed of mid-cap stocks from the broad U.S. equity market. Growth companies are identified by three factors: book value to price ratio, earnings to price ratio, and sales to price ratio.

The S&P MidCap 400 Value Index represents the value companies of the S&P MidCap 400 Index which itself is composed of mid-cap stocks from the broad U.S. equity market. Value companies are identified by three factors: book value to price ratio, earnings to price ratio, and sales to price ratio.

The S&P SmallCap 600 measures the small-cap segment of the U.S. equity market. Introduced in 1994, the index is designed to track the performance of 600 small-size companies in the U.S, reflecting this market segment's distinctive risk and return characteristics. The index measures a segment of the market that is typically known for less liquidity and potentially less financial stability than large-caps, the index was constructed to be an efficient benchmark composed of small-cap companies that meet investability and financial viability criteria.

The S&P SmallCap 600 Growth Index represents the growth companies of the S&P S&P SmallCap 600 Index which itself is composed of small cap stocks from the broad U.S. equity market. Growth companies are identified by three factors: book value to price ratio, earnings to price ratio, and sales to price ratio.

The S&P SmallCap 600 Value Index represents the value companies of the S&P SmallCap 600 Index which itself is composed of small-cap stocks from the broad U.S. equity market. Value companies are identified by three factors: book value to price ratio, earnings to price ratio, and sales to price ratio.

The MSCI EAFE is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The MSCI EAFE Growth index represents large and mid cap securities exhibiting overall growth style characteristics across Developed Markets countries around the world, excluding the US and Canada.

The MSCI EAFE Value index represents large and mid cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada.

The MSCI Emerging Markets is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The MSCI Europe Index is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.

The MSCI Pacific Index captures large and mid cap representation across 5 Developed Markets (DM) countries in the Pacific region. With 470 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

The MSCI ACWI is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.*

The CBOE Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices.

The U.S. Dollar Index is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

The Bloomberg Barclays US Aggregate Bond Index, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, U.S. dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly

The Bloomberg Barclays US Corporate High Yield Index measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.

The Bloomberg Barclays US Municipal Bond Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. Many of the subindicies of the Municipal Index have historical data to January 1980. In addition, several subindicies based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.