



MARKET COMMENTARY

February 7, 2018

Despite a month-end pullback, the S&P 500 and Dow Industrials ended January with their strongest monthly performances in 21 months, gaining 5.73% and 5.88% respectively. Among the major domestic equity indices, the Nasdaq Composite advanced the most, rising 7.40%. Bullish catalysts include a synchronized global growth recovery, with most world economies expanding together for the first time in a decade, strong corporate earnings in a thriving labor market and signs of tax cut benefits for both companies and individuals. Yet after the S&P 500 posted 14 record highs in 18 trading days, marking the best start to a year since 1997, near-term uncertainties and rising borrowing costs caused investors to question the sustainability of elevated equity valuations.

On the last day of January, the S&P 500 snapped the two-day 1.75% retreat after two concerns were resolved, with President Trump's State of the Union address garnering more-than-expected relief. Further, as expected, the Federal Reserve left interest rates unchanged at their month-end policy meeting, while expressing a minimally hawkish tone that measures of inflation have increased recently. While just one-third of S&P 500 companies have reported fourth quarter earnings data, results have been favorable, prompting analysts to expect earnings per share to grow by 13.2% year-over-year.

Mid and small cap stocks underperformed relative to large caps last month. Mid cap companies, as measured by the Russell Mid Cap Index, rose 3.76%, while the small cap focused Russell 2000 Index gained 2.61%. Growth stocks outperformed value stocks in January, with the Russell 1000 Growth Index up 7.08%, while the Russell 1000 Value Index rose 3.87%.

In international equities, the MSCI EAFE Index, a broad performance measure of global developed markets outside the U.S. and Canada, slightly underperformed relative to domestic equities in January, rising 5.02%. Looking to less developed countries, the MSCI Emerging Markets Index outperformed the U.S., climbing 8.33% in January, extending its impressive 32.5% rally in 2017. The MSCI All Country World Index, excluding the U.S., gained 5.57% in January.

In fixed income markets, yields on the 10-year U.S. Treasury notes increased by 0.30% in January, ending the month at 2.71%. The Bloomberg Barclays U.S. Municipal Bond Index lost 1.18% for the month, slightly underperforming the Bloomberg Barclays U.S. Aggregate Bond Index. The

Aggregate Bond Index, a broader measure of U.S. investment grade bonds, fell 1.15%. Riskier bonds, as measured by the Bloomberg Barclays U.S. Corporate High Yield Index, a proxy for below-investment grade corporate bonds, gained 0.60% in January.

Source: *Cetera Investment Management* ®



SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q4 2017	2.6%	↑	The advance estimate for Q4 GDP showed positive contributions from almost all sub-sectors, but showed a downturn in private inventory investment.
Global Real GDP Growth (ann. rate; Source: IMF)	Q4 2017	3.7%	n/a	The IMF increased its global growth forecast for 2018 to 3.9%, mainly to due to potentially faster U.S. growth as a result of the tax legislation passed in December 2017.
Non-Farm Employment Growth	Jan 2018	200,000	↓	US payrolls rose by more than expected, with gains occurring in construction, food services, healthcare and manufacturing. Wage growth also increased by the most in eight years.
Unemployment Rate	Jan 2018	4.1%	↓	The unemployment rate remained steady for the fourth consecutive month. The participation rate was also unchanged and has shown no real movement over the last 12 months.
ISM Manufacturing Index	Jan 2018	59.1	↑	The manufacturing index cooled off from its ultra-high levels, but still reflected a healthy expansion. 14 of the 18 industry groups reported growth for the month.
ISM Non-Manufacturing Index	Jan 2018	59.9	↑	Activity in service-related industries grew faster than expected in January, after slipping for the prior two months. The service sector overall has seen continued expansion for eight consecutive years.
Capacity Utilization	Dec 2018	77.9	↔	Capacity utilization for the industrial sector increased in December, due to a large jump in the index for utilities, and a smaller rise in the index for mining.
Consumer Price Index (CPI, SA)	Dec 2018	0.1%	↑	A sharp rise in the shelter index accounted for most of the increase. The food index rose in December, while energy declined as the gasoline index decreased.
Producer Price Index (Finished Goods, SA)	Dec 2017	-0.1%	↑	Producer prices declined slightly in December after rising the prior two months. Final demand services accounted for most of the decline, while final demand goods were unchanged.
Leading Economic Indicators Index (LEI)	Dec 2018	0.6%	↑	LEI continued rising rapidly in December. Gains among leading indicators were widespread, with strength in manufacturing orders, consumers' outlook and an improving stock market.
10-year Treasury Yield	Jan 2018	2.79%	↑	The 10-year Treasury yield increased by 30 basis points in January, as investors were anticipating in 3 to 4 interest rate increases by the Fed in 2018.

*NOTE: The "Value" column shows the most current level or change over the prior month or quarter.

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	January Close	January	Year-to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	26,149	5.88%	5.88%	34.80%	17.98%	16.36%
S&P 500	2,824	5.73%	5.73%	26.41%	14.66%	15.91%
Nasdaq	7,411	7.40%	7.40%	33.43%	18.31%	20.16%
Russell 2000	1,575	2.61%	2.61%	17.18%	12.12%	13.33%
International Indices						
MSCI EAFE (Developed)	8,543	5.02%	5.02%	28.20%	9.90%	8.33%
MSCI EM (Emerging)	2,732	8.34%	8.34%	41.49%	12.24%	6.13%
US Fixed Income						
Bloomberg Barclays US Aggregate	--	-1.15%	-1.15%	2.15%	1.14%	2.01%
Bloomberg Barclays US TIPS	--	-0.86%	-0.86%	1.27%	0.71%	0.10%
Commodities and Real Estate						
Bloomberg Commodity Index	184	1.99%	1.99%	3.58%	-3.32%	-8.52%
Crude Oil (\$/bbl)	--	\$64.73	\$60.42	\$52.81	\$48.24	\$97.49
DJ US Select REIT	9,358	-3.96%	-3.96%	0.51%	1.35%	7.49%



Sources: Bloomberg, MSCI. Non-US index returns are shown in US Dollar terms and are considered to be currency unhedged. Total returns include dividend and income accruals and price changes. Returns for three and five years are annualized and assume the reinvestment of interest and dividend payments. Investors cannot invest directly in any of the above indices. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

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GLOSSARY

The **Bloomberg Barclays Capital U.S. Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US 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 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 pre-refunded bonds. Many of the sub-indicies of the Municipal Index have historical data to January 1980. In addition, several sub-indicies 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.

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 **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

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

The **MSCI ACWI Excluding the U.S.** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets without the inclusion of the United States. The MSCI full 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 **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.



The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Mid Cap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.

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.

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