

Quarter Update

- The S&P 500 and Dow Industrials have risen in 11 of the past 12 quarters, while the Nasdaq Composite posted its ninth straight quarterly gain.
- The Cboe Volatility Index declined by over 43% in the third quarter, reducing its year-to-date (YTD) increase to 9.8%.
- Foreign developed markets posted their first quarterly gain of the year, while emerging markets fell for a second consecutive quarter.
- U.S. crude oil (+4.4%) posted a fifth quarterly advance, the longest oil rally since June 2008.

U.S. stocks rose for a sixth straight month, capping a strong quarter with the S&P 500 having its best quarterly advance since the fourth quarter of 2013. All three major domestic equity indices reached new all-time highs amid increased confidence in a surging economy and robust corporate earnings. Despite accelerating trade tensions with China, the Dow Industrials (+9.63) led the U.S. last quarter, while the Nasdaq Composite rose 7.41%.

According to FactSet, corporate profits among S&P 500 companies rose 25% year-over-year during the second quarter, with 77.6% of companies topping analyst expectations. As was highly anticipated, the Federal Reserve raised interest rates a third time this year and the final reading of second quarter economic growth held steady at 4.2%, the fastest pace of growth since 2014. Also positive, late on September 30, Canada signed onto a new trade accord with the U.S. and Mexico, with American farmers winning new market access, including dairy. Mid cap (+5.00%) and small cap stocks (+3.58%) trailed large caps in the third quarter, while small caps continue to outperform on a YTD basis. Mid caps gained the least this year, up 7.46%. The Russell 1000 Growth Index continues to outpace its value-oriented counterpart in the third quarter (+9.17% vs. +5.70%) and YTD (+17.09% vs. +3.92%).

Top Performers – Third Quarter ¹	Bottom Performers – Third Quarter
Healthcare (+14.53%)	Materials (+0.36%)
Industrials (+10.00%)	Energy (+0.61%)
Telecom Services (+9.94%)	Real Estate (+0.86%)
Top Performers – YTD 2018	Bottom Performers – YTD 2018
Consumer Discretionary (+20.64%)	Consumer Staples (-3.34%)
Technology (+20.62%)	Materials (-2.73%)
Healthcare (+16.63%)	Financials (+0.09%)

¹ Morningstar Direct (all performance percentages are total return based, which include reinvested dividend, interest)

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As the preceding table shows, sector performance was again widely divergent in the third quarter and for the year. Healthcare companies performed best in the third quarter, returning over 14.5%, or nearly twice the gain of the broad market. Following seven months of outflows, more than \$4.6 billion has flowed into U.S.-based healthcare mutual funds and ETFs since May, according to Lipper. Also notable, gains in Consumer Discretionary companies have now outpaced Technology as this year's best performing sector.

Internationally, the MSCI EAFE Index, which measures returns on developed markets outside the U.S. and Canada, surpassed American equities in September, but trailed during the third quarter and year-to-date. Japan's leading equity index, the Nikkei 225, finished the month just shy of a 27-year high, gaining 6.07% in September and 8.80% during the third quarter. Emerging markets stocks, as measured by the MSCI Emerging Markets Index, extended losses in all three time periods.

Domestic fixed income markets traded mostly lower throughout the third quarter, largely driven by expectations surrounding the Federal Reserve's more hawkish tone. As mentioned, the central bank raised interest rates at its September meeting, hiking the Fed Funds lending rate by 0.25% for a third time this year, reaching the 2%-2.25% range. The Fed is expected to hike rates at its December policy meeting and three more in 2019.

U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, fell 0.91% in September and 0.57% in the second quarter, extending a YTD loss to 1.62%. Reflecting increased borrowing rates, the yield on benchmark 10-year Treasury notes ended the third quarter at 3.06%, up 0.21% quarter-over-quarter. Investment-grade bonds of all types, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, outperformed safer-haven government debt last quarter.

Municipal bonds lagged relative to other investment-grade bonds in the third quarter, but fell less on a YTD basis. At the other end of the credit spectrum, the Bloomberg Barclays U.S. Corporate High Yield Index, the leading measurement of non-investment grade corporate bonds, outperformed its investment-grade counterparts in September, the third quarter and year-to-date.

Commodities, as measured by the Bloomberg Commodity Index, gained 1.92% in September and lost 2.02% during the third quarter, its third straight quarterly loss. Despite robust gains in crude oil, copper prices fell into a bear market, while gold posted its sixth monthly loss in September, its longest monthly losing streak in two decades.

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Glossary

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 prerefunded bonds. 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 holding have 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, fixedrate, 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 Barclays U.S. Government Bond Index is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes U.S. dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government). The US Government Index is a component of the U.S. Government/Credit and U.S. Aggregate Indices, and eligible securities also contribute to the multicurrency Global Aggregate Index. The U.S. Government Index has an inception date of January 1, 1973.

The Bloomberg Commodity Index is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components). 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 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 floatadjusted market capitalization index. 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 Midcap 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 BSE SENSEX Index is a free-float market-weighted index of 30 well-established and financially sound stocks on the Bombay Stock Exchange, representative of various industrial sectors of India's economy. 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 Shanghai Composite Index is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. 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. West Texas Intermediate (WTI) is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.