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MONTHLY MARKET COMMENTARY | OCTOBER 2020

# Light Lockdowns Return at a Pivotal Political Moment

## Monthly Snapshot

- A broad-based advance of global equity markets in the first few weeks of October gave way to a steep selloff driven by a new wave of rising COVID-19 cases.
- Early votes in the U.S. general election pointed to a high turnout, with a significant likelihood of reaching the largest participation rate in more than 50 years.
- We sense that the next few months of what has already been an eventful year could prove critical to the future course of the global economy and financial markets.

Global equity markets declined in October for the second month in a row. A broad-based advance for the first few weeks of October gave way to a sharp late-month spike in volatility and a steep selloff driven by a new wave of rising COVID-19 cases. Developed markets were down for the period. European and U.K. equities declined most dramatically, followed by the US; Japan's loss was comparably mild. Emerging markets, on the other hand, rallied following their September slide. China's gains helped propel the rebound, while Brazilian shares were modestly negative.

The West-Texas Intermediate crude-oil price declined by approximately 11% from its October peak through the end of the month as prospects for global economic activity cooled alongside rising cases. U.S. and U.K. government-bond rates generally increased across the yield curve, while rates declined in the eurozone. U.S. dollar weakness returned in October after being temporary interrupted by a large rebound in late September, resuming its slide against a trade-weighted basket of foreign currencies that began in March after the passage of a massive U.S. fiscal stimulus.

Governments re-imposed lockdown measures as COVID-19 cases climbed through October. England announced four weeks of closures affecting pubs, restaurants, gyms and other non-essential retail businesses. The restrictions were coupled with plans for greater government payments for affected self-employed workers as well as an extended deadline (until January) to apply for business loans underwritten by the government. France and Germany announced similar plans in late October centered on closing bars and restaurants for a month.

In the U.S., another major round of fiscal stimulus remained elusive. President Donald Trump expressed willingness to meet the high price tag proposed by Democrats in control of the House of Representatives, while Republicans with power in the Senate did not appear willing to go along. The 2020 U.S. general election featured the highest U.S. voter-participation rate in 120 years. Historic turnout, combined with an unprecedented surge in mail-in ballots, slowed the vote-counting process compared to past elections. Former Vice President Joe Biden appeared set to win the race, although he's expected to face vote re-counts and other election-related lawsuits before the results can be certified.

## Key Measures: October 2020

| | |
|---|---|
| **Equity** | |
| Dow Jones Industrial Average | -4.52% ↓ |
| S&P 500 Index | -2.66% ↓ |
| NASDAQ Composite Index | -2.26% ↓ |
| MSCI ACWI Index (Net) | -2.43% ↓ |
| **Bond** | |
| Bloomberg Barclays Global Aggregate Index | 0.10% ↑ |
| **Volatility** | |
| Chicago Board Options Exchange Volatility Index PRIOR MONTH: **26.37** | 38.02 ↑ |
| **Oil** | |
| WTI Cushing crude oil prices PRIOR MONTH: **$40.22** | $35.79 ↓ |
| **Currencies** | |
| Sterling vs. U.S. dollar | $1.29 = |
| Euro vs. U.S. dollar | $1.16 ↓ |
| U.S. dollar vs. yen | ¥104.67 ↓ |

Sources: Bloomberg, FactSet, Lipper

U.K. and EU negotiations over a potential post-Brexit trade agreement continued through the end of October but remained stuck on fishing rights and state aid to businesses. Specifically, the EU wants a long-term guarantee regarding the allocation of fishery rights and access to British waters, while the U.K. wants to renegotiate these rights every year. With regard to business subsidies, the EU seeks to ensure a level playing field that would unlikely give either side unfair advantages.

These talks accelerated to a daily pace as of late October; negotiators now estimate that final the terms must be settled by mid-November for any deal to be enforced by the end-of-year expiration of the Brexit transition period. An agreement would need to be passed through U.K. and EU Parliaments before becoming law. At the same time, an EU-U.K. joint committee had begun hashing out the real-world implications of the Withdrawal Agreement's Northern Ireland Protocol for customs and border cooperation under a no-deal Brexit scenario.

The World Trade Organization handed down a ruling in mid-October that allows the EU to impose retaliatory tariffs on $4 billion of U.S. exports in response to favorable tax treatment for major U.S. aerospace companies. Elsewhere, China demanded that the U.S. stop a planned sale of surface-to-surface missiles to Taiwan (which China considers part of its territory). China responded in part by announcing in late October that it intends to sanction major U.S. defense companies for arms sales to Taiwan.

# Economic Data

- U.S. manufacturing growth has persisted at a moderate pace since August—yet reports were mixed for October, with some showing acceleration and others indicating a continuation of modest expansion. While new orders drove the sector's growth in prior months, manufacturing employment played a key role in October as it began to expand for the first time since July 2019. Initial U.S. jobless claims oscillated between 800,000 and 900,000 during most of October before dipping to 787,000 later in the month. The overall U.S. economy grew at a 33.1% annualized rate in the third quarter, the largest quarterly gain on record following a record-breaking decline in the prior quarter.

- The rebound in U.K. manufacturing growth slowed through October after peaking in August. Growth in the U.K. services sector followed a similar path, although with a higher August peak and a sharper deceleration in October. U.K. mortgage lending jumped dramatically in September, beating forecasts for the first time since June. Meanwhile, consumer credit contracted by £622 million in September on expectations for an expansion, indicating a potential return to contraction after growing through July and August.

- The eurozone's recovery in manufacturing activity continued to solidify in October after a promising improvement during September. Services sector activity contracted for the second consecutive month in October, retreating further from its peak growth recorded in July. Eurozone unemployment hit 8.1% in September, the fourth straight monthly increase. The overall eurozone economy grew by 12.7% during the third quarter and contracted by 4.3% year over year.

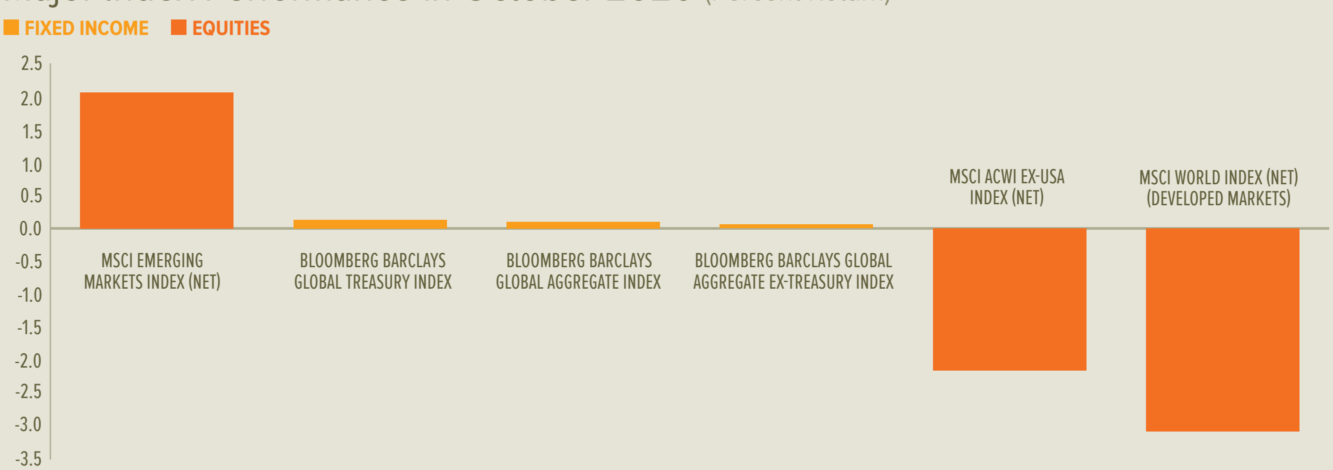
## Central Banks

- The European Central Bank (ECB) made no new changes to monetary policy following its late-October meeting. However, the Governing Council announced plans to use periodic economic projections at its December meeting to conduct a thorough reassessment and take new actions as appropriate. ECB President Christine Lagarde noted that the eurozone economy appeared to be "losing momentum more rapidly than expected" and that the "rise in COVID-19 cases and the associated intensification of containment measures is weighing on activity, constituting a clear deterioration in the near-term outlook."

- The Bank of Japan (BOJ) also took no new actions following its late-October monetary policy meeting. It will continue to implement all tools associated with its Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control policy; separately, its crisis-response programme will proceed until at least March 2021.

- Neither the Federal Open Market Committee (FOMC) nor the Bank of England's Monetary Policy Committee held meetings in October.

### Major Index Performance in October 2020 (Percent Return)




Sources: FactSet, Lipper

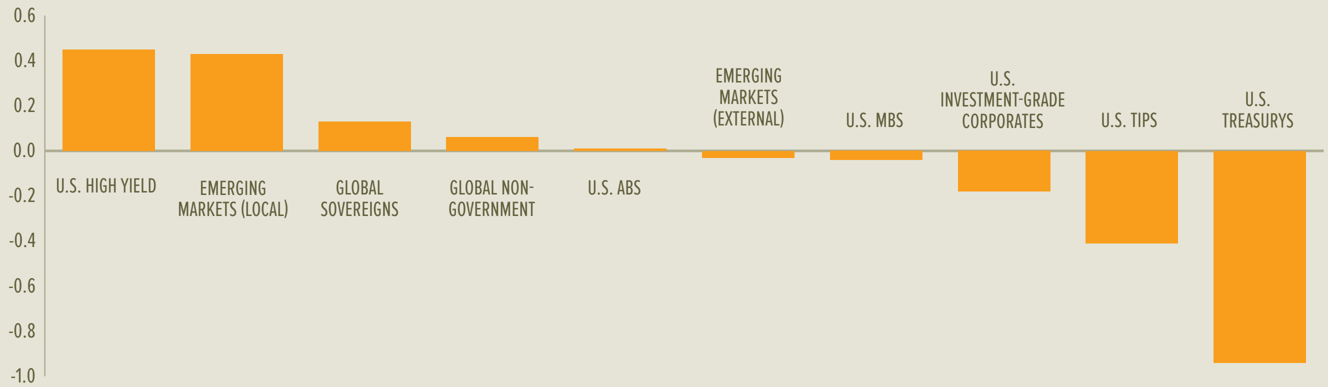
# Portfolio Review

U.S. equity performance diverged along market-capitalization lines in October, with large-cap stocks declining and small caps advancing. Value-oriented stocks outpaced growth-oriented stocks across large and small caps. Our U.S. large-cap strategies [1] performed in line with their benchmarks during the month. Favorable overall positioning within information technology overcame poor positioning in the healthcare sector. Our U.S. small-cap strategies also performed in line with their benchmarks. Positioning in financials and an underweight to real estate contributed, while momentum and stability exposures lagged. Overseas, our international developed-market equity strategy outperformed its benchmark amid the selloff, driven by stability and momentum exposures, while value-oriented exposure to financials detracted. Our emerging-market equity strategy had positive absolute returns, but trailed its benchmark during the month. Exposure to value- and dividend-oriented stocks detracted, while selection in China contributed.

Our core fixed-income strategy modestly outperformed its benchmark during October as non-government fixed-income sectors led comparable U.S. Treasurys. The Treasury yield curve steepened as long-term rates increased. The strategy's slightly longer duration posture and an overweight to the long-term end of the yield curve both detracted. An overweight to corporate bonds contributed, as did an overweight to asset-backed securities (ABS). An overweight to agency mortgage-backed securities (MBS) helped—further enhanced by solid selection in specified mortgage pools—while a higher-quality bias within commercial MBS (CMBS) detracted. Our U.S. high-yield bond strategy outperformed the benchmark, primarily on the strength of its allocation to collateralized loan obligations (CLOs), as well as strong selection within media and retail. Selection in

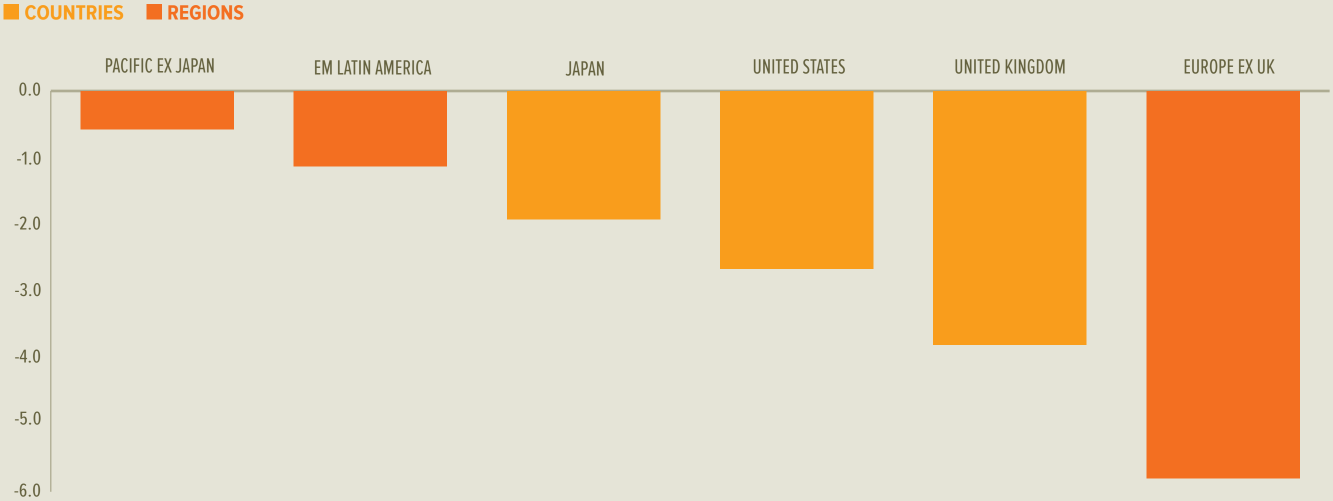
1 Individual holdings will differ between strategies. Not representative of our passive strategies.

## Fixed-Income Performance in October 2020 (Percent Return)




Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index Descriptions section for more information.

## Regional Equity Performance in October 2020 (Percent Return)




Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index Descriptions section for more information.

healthcare and services, as well as overall positioning in financial services, detracted. Our emerging-market debt strategy generated positive absolute returns but slightly underperformed its blended benchmark. Foreign-currency-denominated debt had essentially flat performance, while local-currency debt was slightly positive. Overweights to Mexico and Egypt, as well as an underweight to Turkey, contributed. Overweights to Argentina and Sri Lanka and an underweight to Indonesia detracted.

## Manager Positioning and Opportunities

Investors kept their eyes fixed on Washington and the campaign trail in October, but the pace and magnitude of the economic rebound remains dependent on COVID-19 cases. Our U.S. large-cap strategies continued to underweight some of the largest-capitalization stocks in favor of opportunities with less-expensive valuations further down the capitalization spectrum. The strategies remained overweight healthcare, materials and financials on the combination of expected profitability and reasonable valuations. Our small-cap strategies favored value-oriented stocks, followed by stability, and we remained neutral to slightly negative on momentum given rich valuations. Both our international developed- and emerging-market equity strategies remained overweight information technology and industrials on growth opportunities. In developed markets, we continued to underweight defensive sectors (such as utilities, consumer staples, and real estate) that we view as having limited growth opportunities and elevated valuations. In emerging markets, we continued to underweight financials (via reduced exposure to Chinese banks), real estate (due to low expected growth) and communication services (on elevated valuations).

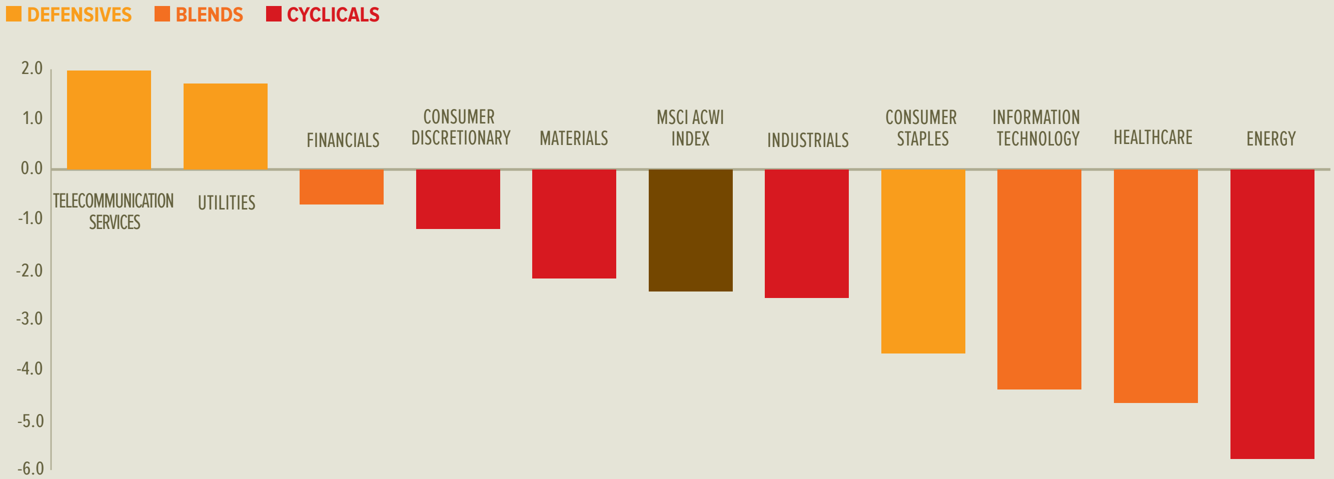
With long-term yields remaining near historically low levels, our core fixed-income strategy has been gradually reducing its overweight to the 25-to-30 year segment of the yield curve, while positioning within the 7-to-10 year segment has been increased. We modestly decreased an overweight to corporates in both industrials and financials, while retaining a small pipeline-focused energy overweight. Overweights to ABS and CMBS remained due to their attractive risk-adjusted yields; although we have selectively reduced risk within the student-loan segment of ABS and our CMBS positions are concentrated in higher-quality holdings. We maintained an allocation to non-agency MBS and an overweight to agency MBS. Our high-yield strategy's top active position remained an allocation to CLOs. Basic industry was the largest overweight, while energy, telecommunications, capital goods, and commercial goods were the top underweights. Our emerging-market debt strategy retained an overweight to local-currency debt. Top country overweights were Mexico, Egypt and Malaysia, while top underweights were Philippines, China, and Indonesia.

## SEI's View

It has already been an eventful and exhausting year, but we have a sense that the next few months could prove critical to the future course of the global economy and financial markets. Most countries were in V-shaped recovery mode during the third quarter, moving sharply off their low points in May and June. The latest round of lockdowns to contain COVID-19 outbreaks appear more limited in scope than those instituted earlier this year. For developed countries, virus treatments have improved, vulnerable populations appear to be better-protected, and younger, generally healthier people have started to account for a much larger share of confirmed new cases.

Despite these positive developments, we doubt there will be a full return to normal economic behavior until safe and effective vaccines are approved and distributed globally. The news on this score has also been favorable, and probably is a key reason for the continued buoyancy of equities and other risk assets. According to the World Health Organization, 45 vaccines were in clinical trials at the end of October, while 156 more were in pre-clinical testing. We think it is realistic to assume that a few different vaccines will

Global Equity Sector Performance in October 2020 (Percent Return)




Sources: FactSet, Lipper. MSCI ACWI Index Components (as defined by SEI).

be generally available by this time next year, which means that social-distancing measures must still be followed well into 2021 and, most likely, into 2022.

There's no disputing that U.S. economic activity remains far below normal. Although incomes have been recovering as more people get back to work, the lack of additional income support may be a drag on consumer spending in the final months of the year. Business sentiment appears to have bottomed, but the outlook remains sufficiently uncertain to keep us in a watch-and-wait mode. We would not be surprised to see the official U.S. unemployment rate move up during the third quarter as hard-hit industries are expected to eliminate jobs now that government support has run out.

In August, Federal Reserve (Fed) Chairman Jerome Powell officially unveiled a new framework for conducting the central bank's monetary policy. The Fed has decided to see how low the U.S. unemployment rate can get before it causes the inflation rate to exceed the 2% mark by a meaningful extent. It may be a long time before the federal-funds rate rises as the FOMC's own projection does not envision a return to 2% inflation until the end of its forecast window in 2023.

In our view, all that's really left in the Fed's monetary toolbox is quantitative easing, along with the provision of lifeline support to corporations as well as state and local governments through its various credit facilities. Monetization of debt will likely continue until the pandemic crisis is in the distant past and the U.S. unemployment rate approaches its previous lows.

The U.S. presidential election is expected to have a major impact on the economy and financial markets in the months and years ahead. Still, we firmly believe that it would be a mistake to pursue even a short-term investment strategy that necessitates accurately predicting: (1) policies proposed by the newly inaugurated president; (2) the ways in which Congress will modify those proposals throughout the legislative process; or (3) the impact those new laws would have on the economy and financial markets.

Regardless of the election's outcome, we assume the winning candidate will see his platform tempered before it's put into practice. This is partly deliberate (constitutional checks and balances) and partly happenstance (increasing polarization of opinion in the country tends to favor a draw). While there could be some market volatility plausibly attributed to the election, it is usually best to pay strict attention to the fundamentals and to ignore the politics.

The ongoing UK-EU trade negotiations have created their own unique political melodrama—and a hard Brexit would certainly not help matters. But the worst possible impact of a no-deal divorce—and subsequent reversion to the World Trade Organization's (WTO) most-favored-nation trading rules—would likely be sustained by financial companies and other service-producing entities as WTO rules deal mostly with tradable goods. The increase in tariffs, for the most part, will be bearable once border-related issues are worked out. In the meantime, the U.K. and the rest of

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Europe are facing a second wave of COVID-19 that could turn what's been a V-shaped recovery into something looking more like a W.

This year's pandemic and postponement of the summer Olympics proved to be a bitter ending to Japanese Prime Minister Shinzo Abe's record-breaking term in office. His push to lift Japan out of its deflationary spiral was somewhat successful. Prices mostly stopped declining in the aggregate, but there were few occasions when overall consumer-price inflation rose above 1%. Pandemic pressures have caused a return to outright deflation in recent months.

In our view, it is unlikely that radical changes will be made to the direction of policy under Japan's new Prime Minister Yoshihide Suga. In the near-term, the priority will be on the response to the coronavirus; fiscal policy will remain quite expansionary. The Bank of Japan will continue to buy most of the government-issued bonds along with other types of corporate debt and equity as part of its QQE program over the past four years.

The contrast of the big Asian stock markets versus other large emerging-market equities is dramatic. China's strong gains can be chalked up to its rebound in economic activity. Although travel and other services are still constrained due to lingering concerns about the virus, infrastructure-related spending and manufacturing have experienced an almost-complete recovery to pre-pandemic levels. Investors seem unfazed by the deterioration of China's economic relationship with the U.S. or the increasingly fraught diplomatic relations between China and other countries.

Emerging markets are already showing some good news. The price of raw industrials has moved sharply higher since bottoming in early May. It's a good bet that emerging-market corporate profits will also rise sharply if industrial commodity prices advance in a sustained, multi-year fashion as they have in previous cycles.

Our optimism is somewhat tempered by the rising debt burden facing many emerging countries. Much of the increase in emerging-market debt has been tied to the corporate sector—especially in China, where private domestic, non-financial debt has reached an eye-watering 216% of GDP. Of more concern are the mostly small-to-medium-sized countries that are running current-account deficits and are too dependent on external hard-currency debt, or do not have the reserves to easily cover their debt service.

The actions of the world's major central banks back in March, especially the Fed's provision of US dollar liquidity, have helped to ease the strain on the market for emerging-country debt. Governments and other official lenders, meanwhile, have granted loan forbearance to nearly 80 countries; it's a tougher job to get private creditors to agree to do the same. Nonetheless, emerging-market sovereign yields on US dollar-denominated debt have fallen back toward their previous record lows, more than reversing the spike endured prior to the Fed's rescue operations in March.

## Glossary of Financial Terms

**Alpha source:** Alpha source is a term used by SEI as part of our internal classification system to categorize and evaluate investment managers in order to build diversified fund portfolios. An alpha source is the investment approach taken by an active investment manager in an effort to generate excess returns. Another way to define an alpha source is that it is the inefficiency that an active investment manager seeks to exploit in an effort to generate excess returns.

**Stability Alpha Source:** The investment manager seeks to benefit from investor tendency to undervalue lower-risk, higher-stability businesses—resulting from a focus on short time horizons and overconfidence in forecasts for momentum-driven stocks. Stability-oriented stocks have the power to exceed market expectations by consistently outperforming (rather than reverting to average market returns) and through the power of stable, long-term compounding.

**Bear market:** A bear market refers to a market environment in which prices are generally falling (or are expected to fall) and investor confidence is low.

**Bull market:** A bull market refers to a market environment in which prices are generally rising (or are expected to rise) and investor confidence is high.

**Debt issuance:** Debt issuance is when companies or governments raise funds by borrowing money from lenders. The borrower, or issuer, agrees to pay the lender (or bondholder) interest along with full repayment in the future.

**Fiscal policy:** Fiscal policy relates to decisions about government revenues and outlays, like taxation and economic stimulus.

**Fiscal stimulus:** Fiscal stimulus refers to government spending intended to provide economic support.

**Monetary policy:** Monetary policy relates to decisions by central banks to influence the amount of money and credit in the economy by managing the level of benchmark interest rates and the purchase or sale of securities. Central banks typically make policy decisions based on their mandates to target specific levels or ranges for inflation and employment.

**Pandemic Emergency Longer-Term Refinancing Operations (PELTROs):** PELTROs are a series of longer-term refinancing operations intended by the ECB to ensure sufficient liquidity and smooth money-market conditions during the COVID-19 pandemic period. PELTRO operations are planned to be allotted on a near-monthly basis maturing in the third quarter of 2021.

**Pandemic Emergency Purchase Programme (PEPP)**: PEPP is a temporary asset-purchase programme of private and public sector securities established by the ECB to counter the risks to monetary-policy transmission and the outlook for the euro area posed by the COVID-19 outbreak.

**Paycheck Protection Program:** The Paycheck Protection Program is a loan offer by the US government's Small Business Administration (SBA) designed to provide a direct incentive for small businesses to keep their workers on the payroll. SBA will forgive loans if all employees are kept on the payroll for eight weeks and the money is used for payroll, rent, mortgage interest or utilities.

**Quantitative and Qualitative Monetary Easing with Yield Curve Control:** The BOJ's policy framework consists of two major components. The first is "yield curve control" in which the BOJ controls short-term and long-term interest rates through market operations. The second is an "inflation-overshooting commitment" in which the BOJ commits itself to expanding the monetary base until the year-on-year rate of increase in the observed consumer price index exceeds the price stability target of 2 percent and stays above the target in a stable manner.

**Quantitative easing:** Quantitative easing refers to expansionary efforts by central banks to help increase the supply of money in the economy.

**The United States–Mexico–Canada Agreement (USMCA):** USMCA is a trade deal struck by the three named counties, which took effect on 1 July, thereby replacing the North American Free Trade Agreement (NAFTA).

## Index Definitions

**S&P 500 Index:** The S&P 500 Index is a market-capitalization-weighted index that consists of 500 publicly-traded large U.S. companies that are considered representative of the broad U.S. stock market.

## Index and Benchmark Descriptions

**All indexes are quoted in gross performance unless otherwise indicated.**

**The Bloomberg Barclays 1-10 Year US TIPS Index** measures the performance of inflation-protected public obligations of the U.S. Treasury that have a remaining maturity of 1 to 10 years.

**The Bloomberg Barclays US Asset Backed Securities (ABS) Index** measures the performance of ABS with the following collateral types: credit and charge card, auto and utility loans. All securities have an average life of at least one year.

**The Bloomberg Barclays Global Aggregate Index** is an unmanaged market-capitalization-weighted benchmark, tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.

**The Bloomberg Barclays Global Aggregate ex-Treasury Index** is an unmanaged market index representative of the total-return performance of ex-Treasury major world bond markets.

**The Bloomberg Barclays Global Treasury Index** is composed of those securities included in the Bloomberg Barclays Global Aggregate Bond Index that are Treasury securities.

**The Bloomberg Barclays US Corporate Bond Index** is a broad-based benchmark that measures the investment-grade, fixed-rate, taxable corporate bond market.

**The Bloomberg Barclays US Mortgage Backed Securities (MBS) Index** measures the performance of investment-grade, fixed-rate, mortgage-backed, pass-through securities of Government National Mortgage Association (GNMA), Federal National Mortgage Association (FNMA) and Freddie Mac (FHLMC).

**The Bloomberg Barclays US Treasury Index** is an unmanaged index composed of U.S. Treasurys.

**The ICE BofA U.S. High Yield Constrained Index** contains all securities in The ICE BofA U.S. High Yield Index but caps exposure to individual issuers at 2%.

**The ICE BofA U.S. High Yield Index** tracks the performance of below-investment-grade, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

**The Chicago Board Options Exchange Volatility Index (VIX)** tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

**CBOE Volatility Index (VIX Index):** The VIX Index tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

**The Dow Jones Industrial Average** is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of *The Wall Street Journal*.

**The FTSE All-Share Index** represents 98% to 99% of U.K. equity market capitalization. The Index aggregates the FTSE 100, FTSE 250 and FTSE Small Cap Indexes.

**The JPMorgan EMBI Global Diversified Index** tracks the performance of external debt instruments (including U.S. dollar-denominated and other external-currency-denominated Brady bonds, loans, eurobonds and local-market instruments) in the emerging markets.

**JPMorgan GBI-EM Global Diversified Index** tracks the performance of debt instruments issued in domestic currencies by emerging-market governments.

**The MSCI ACWI Index** is a market-capitalization-weighted index composed of over 2,000 companies, representing the market structure of 48 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in U.S. dollars.

**The MSCI ACWI ex-USA Index** includes both developed- and emerging-market countries, excluding the U.S.

**The MSCI Emerging Markets Index** is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging-market equities.

**The MSCI Emerging Markets Latin America Index** captures large- and mid-cap representation across five emerging-market countries in Latin America.

**The MSCI EMU (European Economic and Monetary Union) Index** is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of countries within EMU. The Index consists of the following 10 developed-market country indexes: Austria, Belgium, Finland, France, Germany, Ireland, Italy, Netherlands, Portugal and Spain.

**The MSCI Europe ex-UK Index** is a free float-adjusted market-capitalization-weighted index that captures large- and mid-cap representation across 14 developed-market countries in Europe (Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden and Switzerland). The Index covers approximately 85% of the free float-adjusted market capitalization across European developed markets excluding the U.K.

**The MSCI Pacific ex Japan Index** captures large- and mid-cap representation across four of five developed-market countries in the Pacific region (excluding Japan).

**The MSCI Japan Index** is designed to measure the performance of the large- and mid-capitalization stocks in Japan.

**MSCI United Kingdom Index** is designed to measure the performance of the large- and mid-cap segments of the U.K. market.

**MSCI USA Index** is designed to measure the performance of the large- and mid-cap segments of the U.S. market.

**The MSCI World Index** is a free float-adjusted market-capitalization-weighted index designed to measure the equity market performance of developed markets. The Index consists of the following 23 developed-market country indexes: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the U.K. and the U.S.

**The MSCI World ex-USA Index** is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets, excluding the U.S.

**The NASDAQ Composite Index** is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system.

**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 expected growth values.

**The Shenzhen Stock Exchange Composite Index** tracks performance of A share stocks (which are denominated in renminbi, the local currency) and B share stocks (which are denominated in Hong Kong dollars, an offshore currency) on China’s Shenzhen Stock Exchange.

**The S&P 500 Index** is a market-capitalization-weighted index that consists of 500 publicly-traded large U.S. companies that are considered representative of the broad U.S. stock market.

**The TOPIX, also known as the Tokyo Stock Price Index,** is a capitalization-weighted index of all companies listed on the First Section of the Tokyo Stock Exchange. The Index is supplemented by the subindexes of the 33 industry sectors. The Index calculation excludes temporary issues and preferred stocks, and has a base value of 100 as of January 4, 1968.

## Corresponding Indexes for Fixed-Income Performance Exhibit

| | |
|---|---|
| U.S. High Yield | ICE BofA U.S. High Yield Constrained Index |
| Global Sovereigns | Bloomberg Barclays Global Treasury Index |
| Global Non-Government | Bloomberg Barclays Global Aggregate ex-Treasury Index |
| Emerging Markets (Local) | JPMorgan GBI-EM Global Diversified Index |
| Emerging Markets (External) | JPMorgan EMBI Global Diversified Index |
| U.S. Mortgage-Backed Securities (MBS) | Bloomberg Barclays US Mortgage Backed Securities Index |
| U.S. Asset-Backed Securities (ABS) | Bloomberg Barclays US Asset Backed Securities Index |
| U.S. Treasurys | Bloomberg Barclays US Treasury Index |
| U.S. Treasury Inflation-Protected Securities (TIPS) | Bloomberg Barclays 1-10 Year US TIPS Index |
| U.S. Investment-Grade Corporates | Bloomberg Barclays US Corporate Bond Index |

## Corresponding Indexes for Regional Equity Performance Exhibit

| | |
|---|---|
| United States | S&P 500 Index |
| United Kingdom | FTSE All-Share Index |
| Pacific ex Japan | MSCI Pacific ex Japan Index (Net) |
| Japan | TOPIX, also known as the Tokyo Stock Price Index |
| Europe ex U.K. | MSCI Europe ex UK Index (Net) |
| EM Latin America | MSCI Emerging Markets Latin America Index (Net) |

## Disclosures

*This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. This information should not be relied upon by the reader as research or investment advice regarding SEI's portfolios or any stock in particular, nor should it be construed as a recommendation to purchase or sell a security, including futures contracts.*

*There are risks involved with investing, including loss of principal. International investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume. Narrowly focused investments and smaller companies typically exhibit higher volatility. Bonds and bond funds will decrease in value as interest rates rise. High-yield bonds involve greater risks of default or downgrade and are more volatile than investment-grade securities, due to the speculative nature of their investments.*

*Diversification may not protect against market risk. Past performance does not guarantee future results. Index returns are for illustrative purposes only and do not represent actual portfolio performance. Index returns do not reflect any management fees, transaction costs or expenses. One cannot invest directly in an index.*

*Information provided by SEI Investments Management Corporation, a wholly owned subsidiary of SEI Investments Company (SEI).*



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