

Market Indices ¹	September	3Q 2017	Year-to-Date
S&P 500	2.06%	4.48%	14.24%
Russell 3000	2.44%	4.57%	13.91%
MSCI EAFE	2.49%	5.40%	19.96%
MSCI Emerging Markets	-0.40%	7.89%	27.78%
Barclays U.S. Aggregate Bond	-0.48%	0.85%	3.14%
Barclays U.S. Municipal Bond	-0.51%	1.06%	4.66%
Barclays U.S. Corporate High Yield	0.90%	1.98%	7.00%

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

At-A-Glance

- Including dividends, the S&P 500 posted its 11th straight monthly gain and its 8th consecutive quarterly advance. The U.S. benchmark closed September at a new record, its 39th all-time high this year.
- U.S. oil prices rose 7.7% in September, extending a third quarter rally to 10.5%.
- Foreign equity markets continued to widely outperform the U.S. during the third quarter and year-to-date.

U.S. equity markets ended the month and the quarter on a high note, with the S&P 500, NASDAQ Composite and small cap-focused Russell 2000 each closing at all-time highs. With its eighth consecutive quarterly gain, the S&P 500 capped its longest winning streak since the start of 2014. The NASDAQ Composite, finishing at a record for the 50th time this year, rose 1.11% in September and gained 6.06% and 21.67% respectively during the third quarter and YTD. The Dow Industrials closed the month within 7-points of its September 20 record, gaining 2.16% last month and advancing 5.58% during the third quarter to extend its YTD rally to 15.45%. A key driver behind equity momentum was a continuation of strong corporate earnings, with S&P 500 companies posting their first back-to-back, double-digit quarterly earnings growth in six years. Investors were gratified after Commerce officials upwardly revised the pace of GDP growth during the second quarter from 3% to 3.1%, the fastest annualized growth rate for the economy since Q1 2015. Equity sentiment was also bolstered after officials from the White House and Congress released framework details surrounding President Trump's tax cut proposals. Meanwhile, the Federal Reserve kept interest rates unchanged at 1%-1.25% during their July and September policy meetings and said the central bank will begin reducing its balance sheet in October by selling \$10B worth of stimulus-acquired bonds. Fed Chair Janet Yellen remains guardedly hawkish, still intent on one more rate increase this year and three more in 2018.

Financial markets continue to be resilient even as investors face uncertainty associated with historically high equity valuations, geopolitical tensions with North Korea over its ballistic missile threats against the U.S. and its allies, as well as devastation caused by three successive hurricanes. Despite short-lived spikes associated with these events, the CBOE VIX Volatility Index mostly traded within a narrow range of its long-term average and ended the quarter 15% below where it began. The U.S. Dollar Index capped its third straight quarterly decline, down 2.7% in the third quarter, extending its drop this year to 8.9%. Gold futures retreated 3.12% in September, its worst monthly performance this year. WTI crude oil prices rebounded from a June 21 bear-market low of \$43.22, rising over 10% during the third quarter to end at \$51.67/barrel.

By market capitalization, U.S. small cap companies outperformed large and mid caps in September and during the third quarter; but trailed them on a year-to-date (YTD) basis. The Russell 2000 Index, a broad measure of small cap equity performance, rose 6.24% last month, whereas the Russell Mid Cap Index gained 2.77%. During the third quarter, small cap stocks again outperformed with a 5.67% advance, while mid cap stocks trailed with a 3.47% gain. On a YTD basis, our large cap proxy, the S&P 500 advanced 14.24%, outpacing the Russell Mid Cap Index (+11.74%) and Russell 2000 small cap index (+10.94%). Value-oriented stocks outperformed growth stocks in September, while growth outperformed in the third quarter and YTD. The Russell 1000 Value Index rose 2.96% last month versus a 1.30% gain on the Russell 1000 Growth Index. In contrast, the Russell 1000 Growth Index rose 5.90% in the third quarter and 20.72% YTD, whereas the Russell 1000 Value Index gained 3.11% and 7.92% respectively. Within the S&P 500 Index, 8 of its 11 major sector groups advanced in September, led by Energy (+9.94%), Financials (+5.14%) and Industrials (+4%). Utilities (-2.74%), Real Estate (-1.39%) and Consumer Staples (-0.86%) declined last month. Technology (+8.65%) and Energy (+6.84%) led among third quarter gainers, while Consumer Staples (-1.35%) was the only sector posting a loss last quarter. For the year, Technology

(+27.36%), Healthcare (+20.31%) and Materials (+15.82%) are up the most, while just two sectors, Energy (-6.63%) and Telecom (-4.69%), remain in negative territory this year.

The MSCI EAFE Index, which measures returns on developed markets outside the U.S. and Canada, outperformed U.S. equities in all three time periods. The performance of the MSCI EAFE Index surpassed that of the S&P 500 by 0.43% in September (2.49% vs. 2.06%), by 0.92% in the third quarter (5.40% vs. 4.48%) and by over 5.7% on a YTD basis (19.96% vs. 14.24%). In U.S. dollar denominated terms, the Stoxx Europe 600 gained 3.23% in September, and advanced 6.26% and 23.68% respectively in the third quarter and YTD. The U.K.-based FTSE 100 Index rose 3.17% last month, extending a third quarter gain to 4.85% and 15.65% YTD. Meanwhile, Japan's Nikkei 225 posted gains of 1.90% in September and 2.00% and 12.04% respectively for the third quarter and YTD.

Emerging markets equities, as measured by the MSCI Emerging Markets Index, underperformed relative to the U.S. in September, but still widely outperformed all developed markets in third quarter and YTD. Emerging market stocks declined 0.40% in September, slightly trimming its third quarter gain to 7.89%, and YTD advance to 27.78%. In U.S. dollar denominated returns, China's Shanghai Composite fell 0.85% last month, while gaining 8.36% and 15.18% respectively in the third quarter and YTD. South Korea's KOSPI Index also lagged in September (-0.41%), trimming its third quarter gain to 0.06% and its YTD advance to 24.90%.

Turning to bonds, U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, fell 0.84% in September, paring a third quarter gain to 0.38% and YTD return to 2.25%. The yield on benchmark 10-year Treasury notes ended the third quarter at 2.33%, up just two basis points during the quarter, while recovering from a September 7 low of 2.04%. Investment grade bonds, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, performed incrementally better than safe-haven U.S. government bonds, down 0.48% last month, which trimmed its third quarter and YTD gain to 0.85% and 3.14% respectively.

Municipal bonds underperformed government and other investment grade bonds, as the Bloomberg Barclays Municipal Bond Index fell 0.51% last month, trimming its third quarter gain to 1.06% and YTD return to 4.66%. At the other end of the credit spectrum, the Barclays U.S. Corporate High Yield Index, which measures returns of below-investment grade corporate bonds, outperformed all of its investment grade counterparts in all three time periods. High yield corporate bonds gained 0.90% in September and 1.98% and 7.00%, respectively, in the third quarter and YTD.

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Glossary

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 **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. Many of the subindices of the Municipal Index have historical data to January 1980. In addition, several subindices 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 **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 multi-currency Global Aggregate Index. The U.S. Government Index has an inception date of January 1, 1973.

The **FTSE 100 Index** is a capitalization-weighted index of the 100 most highly capitalized companies traded on the London Stock Exchange. The equities use an investibility weighing in the index calculation and was developed with a base level of 1000 as of December 30, 1983.

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 **Nikkei 225 Stock Average** is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The constituents are changed at the beginning of October every year based on an annual review by Nikkei, Inc. The Nikkei average was first published on May 16, 1949, where the average price was ¥176.21 with a divisor of 225

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 **Shanghai Composite Index** is a capitalization-weighted index that tracks the daily price performance of all A-shares and B-shares listed on the Shanghai Stock Exchange. The index was developed on December 19, 1990 with a base value of 100

The **South Korea KOSPI Index** is a capitalization-weighted index of all common shares on the Korean Stock Exchanges. The Index was developed with a base value of 100 as of January 4, 1980. Preferred shares are excluded in calculating the KOSPI effective from June 14, 2002.

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 **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region: Austria, Belgium, Czech Republic, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom

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.