August 2018 IN REVIEW

September Update | As of August 31, 2018

ECONOMY:

ECONOMIC REPORTS SOLID IN AUGUST DESPITE TRADE TENSIONS

Economic Data

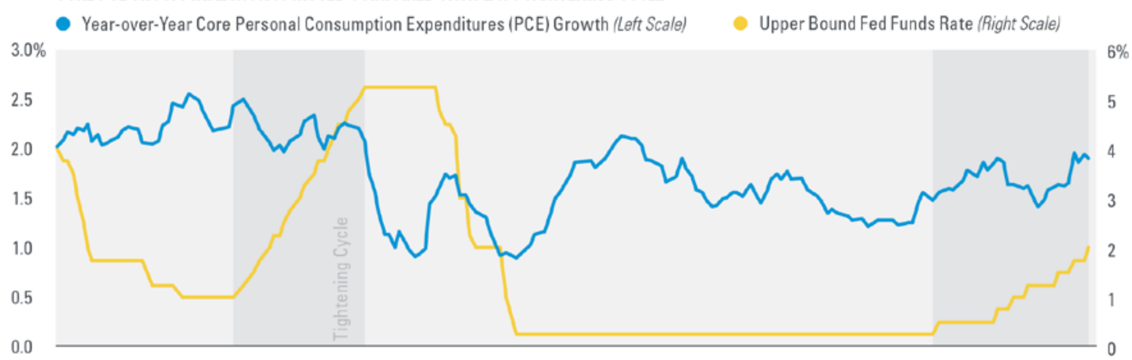
Overall, economic reports released in August—mostly reflecting economic activity in July—indicated solid U.S. economic growth without significant inflationary pressures, even though evidence grew of some cooling from trade concerns. The Conference Board's Leading Economic Index (LEI), an aggregate of 10 leading indicators, increased 0.6% in July and 6.3% year over year, signaling low odds of recession in the coming year.

Jobs data showed a continually tightening labor market. Nonfarm payrolls rose 157,000 in July, below consensus estimates for a 193,000 increase. However, previously reported figures for both May and June were revised upward by a combined 59,000, to 268,000 and 248,000 respectively, making those the strongest two months for payroll growth since July 2016. The unemployment rate dropped to 3.9% after unexpectedly ticking up to 4.0% in June. Initial jobless claims continued to decline through August as the three-week average fell in the last week of the month to its lowest point since 1969.

While some inflation data eclipsed recent peaks, other reports showed pricing pressures remain relatively muted. The Producer Price Index (PPI) rose 3.3% year over year, while core PPI, which excludes volatile food and energy prices, jumped 2.7%, its highest growth of the cycle. Similarly, July's Consumer Price Index (CPI) rose 2.9% year over year, while core CPI climbed 2.4% year over year, slightly above the 2.3% peak achieved three other times this cycle. However, core Personal Consumption Expenditures (PCE), the preferred inflation gauge of the Federal Reserve (Fed), rose 2.0% year over year in July, matching the Fed's target (Figure 1). Average hourly earnings climbed 2.7% year over year in July, significantly below the 4% wage growth preceding each of the last five economic recessions. Based on core PCE and wages, inflationary pressures are unlikely to weigh on output for some time.

Signs of cooling amid trade uncertainty emerged in manufacturing reports. The Institute for Supply Management's (ISM) and Markit's Purchasing

CORE PCE SHOWS INFLATION IS MUTED COMPARED WITH LAST TIGHTENING CYCLE



Source: LPL Research, Bloomberg 08/09/18

A tightening cycle is a period in which the federal funds rate increases.

Managers' Index (PMI) gauges both showed slowdowns in manufacturing in July as concern over recently implemented tariffs weighed on new orders. ISM's nonmanufacturing (services) gauge also fell to an 11-month low as new orders and business activity slowed. However, NFIB's gauge of small-business optimism climbed to its highest level since 1983, and the number of survey respondents expecting to increase capital spending rose. Some anxiety around trade is to be expected, but we have not observed any indications of tariffs weighing significantly on output, and fiscal stimulus is expected to help buoy business spending.

Consumer spending increased 5.2% year over year in July, the strongest pace since October 2014. The Conference Board's Consumer Confidence Index also rose in July to its highest point of the expansion, showing that consumers expect better business and labor-market conditions to boost their spending even higher. Healthy consumer spending was evident in retail sales, which increased for a sixth straight month for the first time since 2014. Control-group sales, which are used to calculate GDP, increased 0.5%, above consensus expectations for a 0.4% gain and signaling another strong quarter of economic growth.

August's reports on the housing market were less encouraging. In June, housing prices, represented by the S&P CoreLogic Case-Shiller 20-City Composite, posted the smallest monthly increase since 2016. In July, existing home sales fell for the fourth straight month, while new home sales fell to the lowest point in nine months. Housing starts, or the number of new housing units that have started construction, rose 0.9% in July after a 12.9% plunge in June. The housing recovery has been inconsistent, in part reflecting rising interest rates, while housing construction has been challenged by a combination of factors, including rising material costs and shortages of buildable land and qualified labor.

Powell's Pragmatism on Display as Fed Keeps Rates Steady

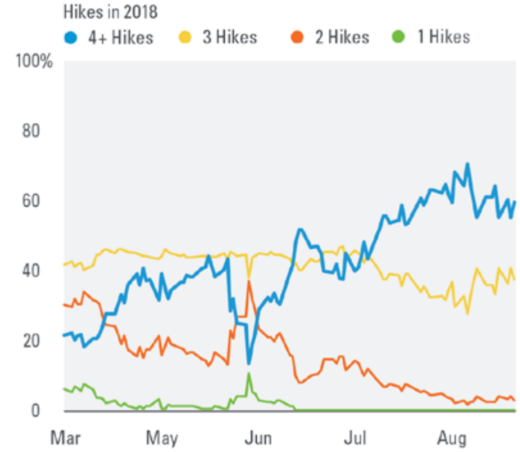
The Fed kept interest rates unchanged at its policy meeting that ended August 1. Minutes from that meeting reiterated policymakers' optimism on U.S. economic growth, but focused more on the negative implications of trade tensions on global and domestic output. The more notable event last month was Fed Chair Jerome Powell's speech at the Fed's Economic Policy Symposium in Jackson Hole, Wyoming. In his speech, Powell emphasized a continued commitment to flexibility in assessing the economy, including looking for signs of excess beyond inflation and placing a greater emphasis on sensitivity to a wide variety of market and economic signals. Markets read his comments as pragmatic and dovish.

Overall, the August meeting minutes and Powell's comments reinforced policymakers' strong case for hiking rates in September, but fed funds futures' implied probabilities show that increases beyond that are less certain (Figure 2).

Elsewhere, some central banks took summer breaks in August, as the European Central Bank and Bank of Japan did not hold policy meetings. On August 2, the Bank of England raised its official bank rate for the first time since November 2017 (to 0.75%). Central banks in emerging markets were heavily scrutinized last month amid the region's ongoing currency crisis. Turkish President Recep Tayyip Erdogan publicly criticized the Turkish central bank's approach to monetary policy, a sign that his government may intervene in the central bank's future policy decisions. Argentina's central bank also hiked short-term interest rates to 60%, the highest in the world, to combat surging inflation.

AT LEAST THREE 2018 RATE HIKES APPEAR TO BE A LOCK; FOURTH HIKE POSSIBLE BUT UNCERTAIN

Fed Funds Futures' Implied Probability for Number of Rate Hikes in 2018



Source: LPL Research, Bloomberg 08/22/18

Implied rate hike expectations are calculated based on the pricing of various fed funds futures contracts. Rate hikes may not develop as predicted.

GLOBAL EQUITIES:

ANOTHER SOLID MONTH FOR U.S. STOCKS AMID TRADE FEARS

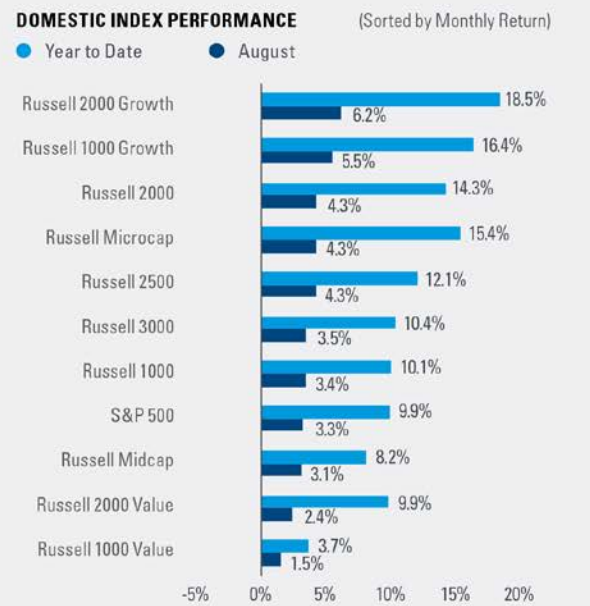
U.S.

Stocks rose for the fifth straight month as the S&P 500 Index returned 3.3% in August, breaking above the January 2018 highs and extending the more than nine-year-old bull market to the longest ever (surpassing the 1990s bull, by LPL Research's count). The Nasdaq fared best among major U.S. equity composites, gaining 5.9%, more than the small cap Russell 2000 Index, at 4.3%, and the Dow Jones Industrials, at 2.6%. The S&P 500 returned 9.9% year to date through the end of August, ahead of the Dow's 6.7% return, but well behind the Nasdaq, which has gained 14.3% year to date.

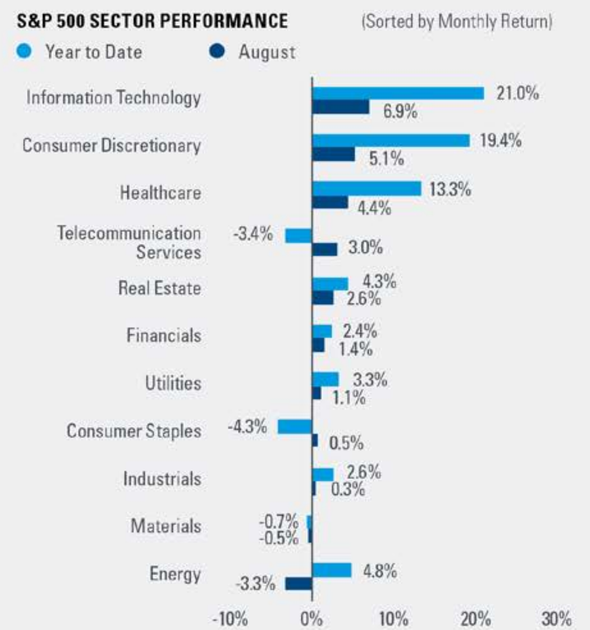
Echoing trends throughout the summer months, solid performance of the U.S. economy and corporate profits during August outweighed concerns about U.S. trade policy, tariffs, and pockets of weakness in emerging markets. Positive developments on the trade front also helped investor sentiment during the month, even as the U.S. implemented tariffs on $50 billion worth of Chinese goods, with another $200 billion likely coming in September. An agreement was reached on a new trade deal with Mexico, moving the U.S. closer to "NAFTA 2.0," while optimism rose at the end of the month that an agreement would soon be reached with Canada. Chinese trade negotiations, which remain the market's primary focus, could be a source of additional market volatility in the short term, given that negotiations are unlikely to bear fruit until after midterm elections.

Small cap stocks outperformed large caps for the fifth month out of the last six, as the small cap Russell 2000 Index returned 4.3% during the month, besting the large cap S&P 500 and Russell 1000 indices. Small caps benefited from their relatively greater focus on the U.S. and less sensitivity to the strong U.S. dollar amid heightened concerns about struggling emerging market economies. Year to date, the Russell 2000 Index has returned 14.3%, more than four percentage points ahead of the larger cap S&P 500 and Russell 1000 indices.

Growth stocks reclaimed their leadership role in August after value outperformed in July. The Russell 1000



Source: LPL Research, FactSet 08/31/18



Source: LPL Research, FactSet 08/31/18

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Stock investing involves risk, including loss of principal.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Growth Index returned 5.5% during the month, well ahead of the 1.5% gain in the Russell 1000 Value Index. Strong gains for the technology sector—this year's top performer—and consumer discretionary drove growth style outperformance, while weakness in the energy sector held the value index back. The Russell 1000 Growth Index still holds a significant lead over its value counterpart this year, returning 16.4% through the end of August while the Russell 1000 Value Index returned 3.7%.

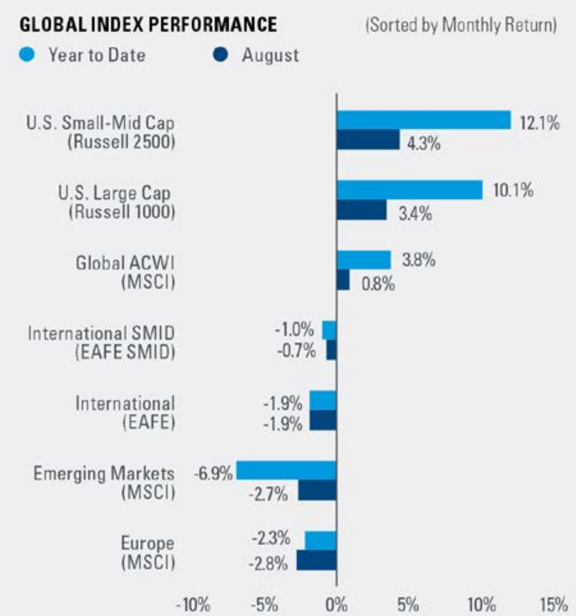
Nine of eleven S&P 500 sectors were higher in August, while just the two natural resource sectors (energy and materials) finished in the red. Outsized gains for the hardware group propelled technology to the top of the monthly sector leaderboard, while internet retailers boosted consumer discretionary. On the flip side, weak metal prices weighed on materials stocks. The energy services group was the weakest within the underperforming energy sector despite slightly higher WTI crude oil prices.

International

U.S. was the clear standard performer during the month as the MSCI benchmarks for developed foreign and emerging market (EM) equities both lagged behind the S&P 500 by a wide margin. The MSCI EAFE Index, made up mostly of Europe and Japan, lost 1.9% during August, better than the 2.7% decline for the EM Index but lagging the positive 3.2% return for the S&P 500. Broadly, the strong dollar weighed on overseas markets. However, EM was hurt more by fears of further escalation of the trade dispute with China and concerns that trouble spots in EM, namely Argentina and Turkey, would spark contagion and spill over into developed economies and markets. Year to date, the MSCI EAFE Index has fallen 1.9%, while the MSCI EM Index slid 6.9%.

Based on the MSCI country indexes, Switzerland and Japan were among the leading developed international equity markets in August, while France, the Netherlands, and Switzerland are the only equity markets of consequence in developed Europe (or Asia) that have risen year to date. Italy, Spain, and the U.K. each lost more than 4% for the month. Italy, Spain, and Germany have suffered the biggest year-to-date declines among developed international equity markets.

Most emerging markets suffered losses in August, although Korea and Thailand managed to eke out positive returns. Taiwan and Mexico have produced solid year-to-date gains. Turkey, Brazil, and South Africa suffered the biggest declines in August, as well as in the first eight months of the year.



Source: LPL Research, FactSet 08/31/18

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International and emerging markets investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors.

FIXED INCOME:

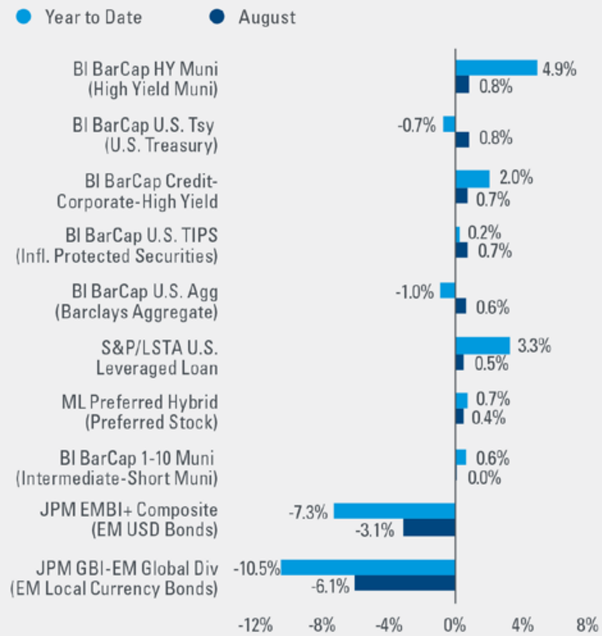
YIELDS CURVE FLATTENS AS EM CONCERNS NOTCH HIGHER

Medium- and long-term yields declined in August, mainly due to mounting concerns about currency turmoil in emerging-market countries like Turkey, South Africa, and Argentina, and the associated headwinds. Continued market conviction in the Federal Reserve's (Fed) path of rate hikes led to a rise in short-term Treasury yields, resulting in a flatter Treasury yield curve overall. The yield curve hit the flattest level of this economic cycle during the month, with the spread between the 2- and 10-year Treasury yields falling below 19 basis points (0.19%) on August 24.

Almost all segments of high-quality fixed income were boosted by the decline in rates. The broad high-quality market, represented by the Bloomberg Barclays Aggregate, climbed 0.6% during August. International bond markets fared worse than domestic markets. Concerns over several EM economies added to existing broad concerns regarding global trade tensions. As a result, emerging market debt (EMD) was the worst performing fixed income asset class, falling 3.1% in August. International high-quality fixed income fell during August, largely due to a rise in yields in less fiscally sound nations like Italy, Portugal, and Greece.

Very strong equity market performance during August was a tailwind for lower-quality, more economically sensitive segments of fixed income. High yield returned 0.7% (Bloomberg Barclays Cap Credit-Corporate-High Yield index), while bank loans returned 0.5% (S&P/LSTA US Leveraged Loan index).

FIXED INCOME PERFORMANCE (Sorted by Monthly Return)



U.S. TREASURY YIELDS

Security	07/31/18	08/31/18	Change in Yield
3 Month	2.03	2.11	0.08
2 Year	2.67	2.62	-0.05
5 Year	2.85	2.74	-0.11
10 Year	2.96	2.86	-0.10
30 Year	3.08	3.02	-0.06

AAA MUNICIPAL YIELDS

Security	07/31/18	08/31/18	Change in Yield
2 Year	1.63	1.66	0.03
5 Year	1.95	1.99	0.04
10 Year	2.43	2.46	0.03
20 Year	2.89	2.93	0.04
30 Year	3.03	3.07	0.04

Source: LPL Research, Bloomberg, FactSet 08/31/18

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Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

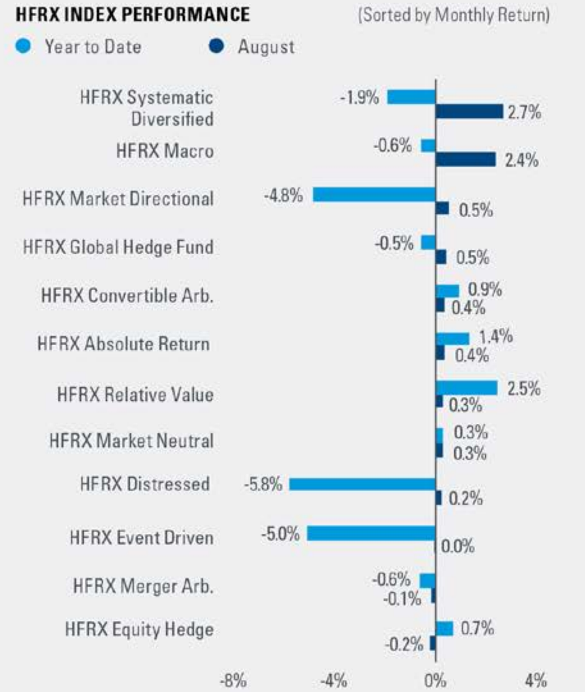
ALTERNATIVES:

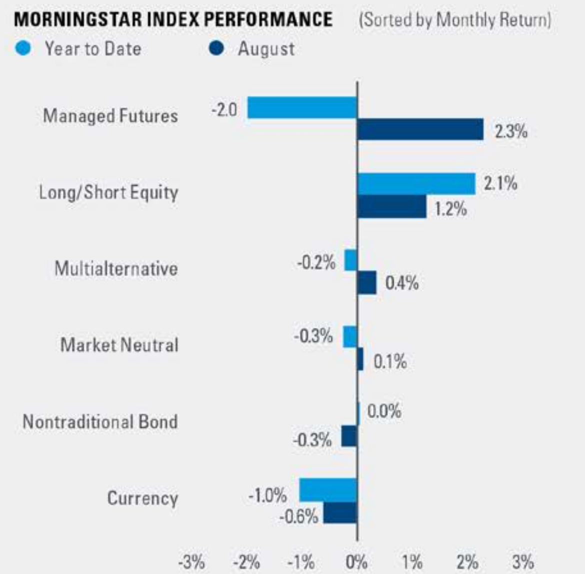
MANAGED FUTURES REBOUND

Managed futures led alternative investment gains during August, as the HFRX Systematic Diversified CTA Index returned 2.7%. Long equity positioning supported returns, as did trading in precious metal and select agriculture commodities. Specifically, short positioning in soybean, corn, and coffee contracts all delivered gains as their prices continue to encounter volatility due to the ongoing trade disputes.

The HFRX Relative Value Arbitrage Index continues to perform well, gaining 0.31% during the month and 2.5% on the year. This represents the highest return across all underlying alternative investment subcategories. Returns have been consistent in the convertible arbitrage industry, as well as in less liquid residential mortgage-backed and commercial-backed securities, which continue to benefit from consistent cash flows and a strong fundamental environment.

Even with a positive equity backdrop and significant sector-level dispersion, long/short equity strategies (based on the HFRX Equity Hedge index) failed to add value on a risk-adjusted basis and underperformed the S&P 500 by 3.5%, the worse period of relative performance since March 2016. For the month, the index declined 0.23%, bringing year-to-date returns to 0.74%. After a respectable first half of the year, where long/short equity kept pace with long-only benchmarks after adjusting for their beta profile, the past two months have been disappointing for several reasons. As a slowdown in the relative strength of the technology sector and broad weakness in emerging and nondeveloped U.S. markets have weighed on returns. The HFRX Event Driven Index had mixed performance and overall was down 0.03%. Two of the more high-profile deals in the market include an insurance company/prescription benefit plan provider and a retail pharmacy/managed care firm merger, both of which are pending approval by the Department of Justice.





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Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

REAL ASSETS:

U.S. REITS STOOD OUT IN A MIXED AUGUST

Liquid real asset performance was mixed during July, with U.S. REITs the clear standout with a 3.1% return. Master limited partnerships (MLP) also rose, while international real estate, global infrastructure, and commodities all fell.

Master Limited Partnerships

MLPs followed up a very strong July with another positive month in August, bringing the Alerian MLP Index's year-to-date return to 7.6%. Higher oil and natural gas prices certainly helped and the group offers attractive income relative to still-low interest rates. Additional tailwinds for the group came from strong U.S. oil production and related pipeline expansion opportunities. Meanwhile, the potential for additional industry consolidation likely buoyed sentiment.

Global Infrastructure and REITs

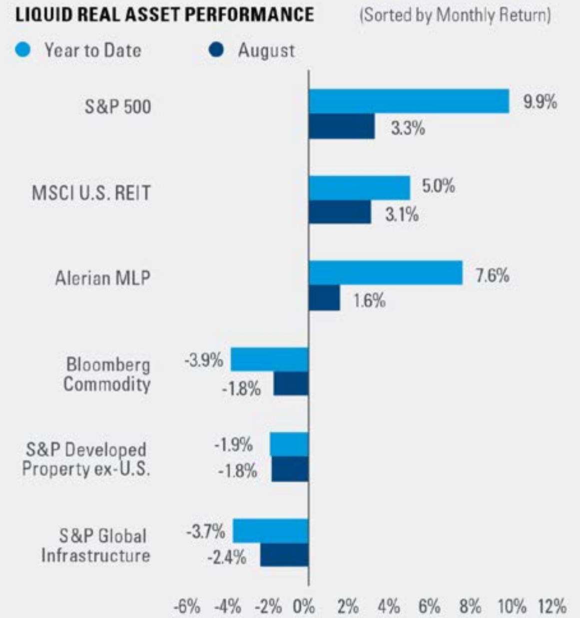
Domestic REITs outpaced the major real asset categories in August as the MSCI U.S. REIT Index returned 3.1% for the month. However, the asset class overall did underperform the broad U.S. equity markets for the second straight month, widening the year-to-date underperformance gap to five percentage points. The healthcare real estate sector built on its strong second quarter performance with solid gains in August, while data centers outperformed the broad REIT index after underperforming through most of the first half of 2018.

The S&P Global Infrastructure Index slipped 2.4% for the month, bringing its year-to-date decline to 3.7%, including dividends. The group has struggled amid international equity market weakness and the market's preference for more economically sensitive investments. Year to date, the S&P Global Infrastructure Index has trailed the MSCI ACWI Index, a global equity benchmark, by more than seven percentage points.

Commodities

Commodities fell for the third straight month, as the Bloomberg Commodity Index slipped 1.8% despite solid gains for crude oil and natural gas. Tariff fears, the strong U.S. dollar, and concerns about emerging market demand weighed on metal and agriculture prices, which more than offset solid gains in the energy components of the index. Crude oil prices rebounded solidly from a weak July, benefiting from inventory drawdowns and tightening global supply as Iran sanctions impacted the country's oil exports. Copper led industrial metal declines, while precious metals also fell. Within agriculture, corn, wheat, and soybeans each fell more than 5%. Year to date, the Bloomberg Commodity Index is down 3.9%.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.



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