SEPTEMBER 2019 IN REVIEW

October Update | As of September 30, 2019

ECONOMY:

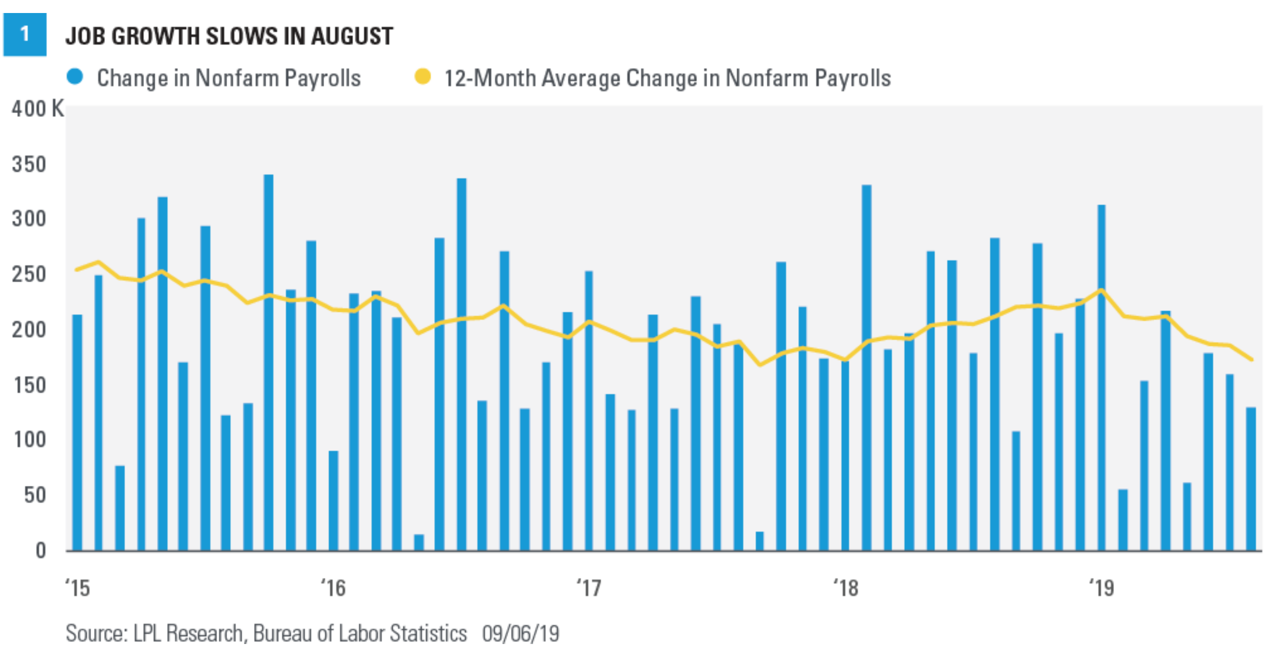
ECONOMIC DATA IMPROVES IN SEPTEMBER

Economic data improved modestly in September as the U.S. economy stayed resilient against trade uncertainty.

The Conference Board's Leading Economic Index (LEI) was unchanged month over month in August after a strong July gain. The LEI rose 1.1% year over year, signaling future economic growth

The August jobs report, released in early September, showed nonfarm payrolls growth was below consensus expectations. Even though jobs growth slowed, the 12-month average pace of payroll gains was slightly above the expansion average, evidence that companies are still hiring at a solid pace **[Figure 1]**.

The pace of consumer inflation picked up. The core Consumer Price Index (CPI), which excludes food and energy prices, rose 2.2% year over year in August, one of its highest readings of the cycle.



Core personal consumption expenditures (PCE), the Federal Reserve's (Fed) preferred inflation gauge, rose 1.8% year over year in August, below policymakers' 2% target.

Wholesale price growth has waned in recent months, which could point to weaker inflationary pressures ahead. The core Producer Price Index (PPI), which excludes food and energy prices, grew 2% year over year, the slowest pace in 16 months.

Average hourly earnings rose 3.2% year over year in August. Wage growth has moderated in recent months, but it has remained at a level that should continue to support consumer spending without concerns of overheating.

U.S. manufacturing deteriorated further, caving to a global trend of weakness in the sector. The Institute for Supply Management's (ISM) manufacturing Purchasing Managers Index (PMI), a gauge of U.S. manufacturing health, fell to 49.1, its first time in contractionary territory (below 50) since August 2016. Preliminary Markit PMI data contradicted the ISM data, showing that the manufacturing sector remained in expansionary territory (above 50).

Data on the U.S. consumer was mixed. The Conference Board's Consumer Confidence Index posted its second biggest drop since 2011 in September. However, retail sales climbed for a sixth straight month in August, evidence that declining consumer sentiment hasn't materially weighed on spending yet.

Business spending continued to flounder amid trade uncertainty. Orders for nondefense capital goods (excluding aircraft) fell 1.8% year over year in August, the biggest decline since October 2016.

Central Banks Reconvene

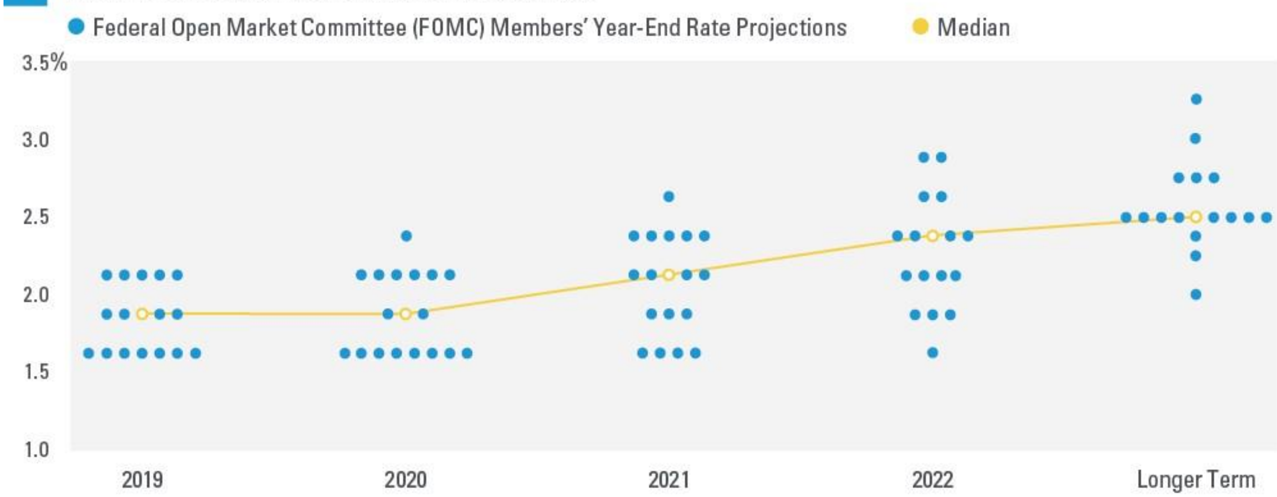
Central banks around the world reconvened in September after a summer break.

The Fed policy committee cut its policy rate by 25 basis points (.25%) to a target range of 1.75–2% in September. Policymakers' updated "dot plot," or summary of rate projections, now shows that rates could stay at these levels through the end of 2020, according to the median forecast **[Figure 2]**.

On September 12, the European Central Bank (ECB) cut its target interest rate by 0.1% and further into negative territory to -0.5% and committed to purchasing 20 billion euros ($22 billion) of Eurozone debt each month until inflation achieves the central bank's target of just under 2% growth.

The Bank of Japan decided against additional policy stimulus at its September meeting, but it did indicate it will review its assessment of its economy and inflation next month, sparking speculation that more easing measures may be forthcoming.

2 FED DOTS SHOW RATES UNCHANGED THROUGH 2020



Source: LPL Research, Bloomberg 09/18/19
The economic forecasts set forth may not develop as predicted.

GLOBAL EQUITIES
TRADE AND CENTRAL BANKS REMAIN IN FOCUS

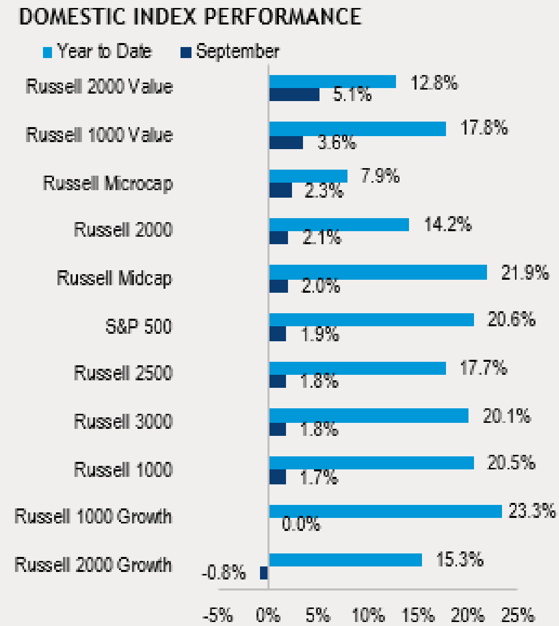
The S&P 500 Index rose 1.7% in a relatively calm September that saw no daily drops of more than 1% for the index. The gains reversed August's losses and left the index up a solid 18.7% year to date, its best start to a year through September since 1997. On a total return basis including dividends, the index returned 1.9% for the month and 20.6% year to date. The Dow Jones Industrials produced returns similar to the S&P 500 for the month, while the growth-focused Nasdaq Composite lagged as value stocks surged. Year to date, the Nasdaq has still produced the best return among the major averages.

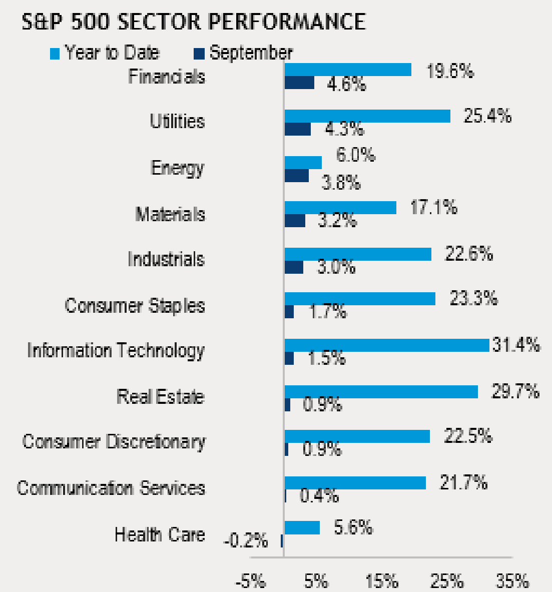
Mostly better than expected U.S. economic data, improving trade headlines, and a rate cut from the Federal Reserve—the second cut this year—all helped buoy investor sentiment in September. The U.S. economy has remained resilient despite trade uncertainty. The most recent data pointed to third quarter economic growth consistent with the trend of the current expansion, despite tariffs and heightened political uncertainty. Meanwhile, cautious economic signals coming from the bond market lessened somewhat.

Trade headlines have generally improved in recent weeks. U.S. and China negotiators are scheduled to meet October 10, and China recently began purchasing U.S. soybeans and pork products again. Reports that the United States would curb U.S. investment in China surfaced and were quickly refuted by the White House. Market watchers seem to expect a narrow agreement between the two nations, but that still may be enough to help shore up business and investor confidence.

While the impeachment process will continue to receive a lot of press attention, we do not expect much impact on the economy or markets. The main risk is that the political discourse may harm investor confidence.

September saw some reversals in asset class and sector performance. For the first time since February, small cap stocks outpaced large caps based on the Russell 1000 and Russell 2000 indexes. Large caps fared better in only three



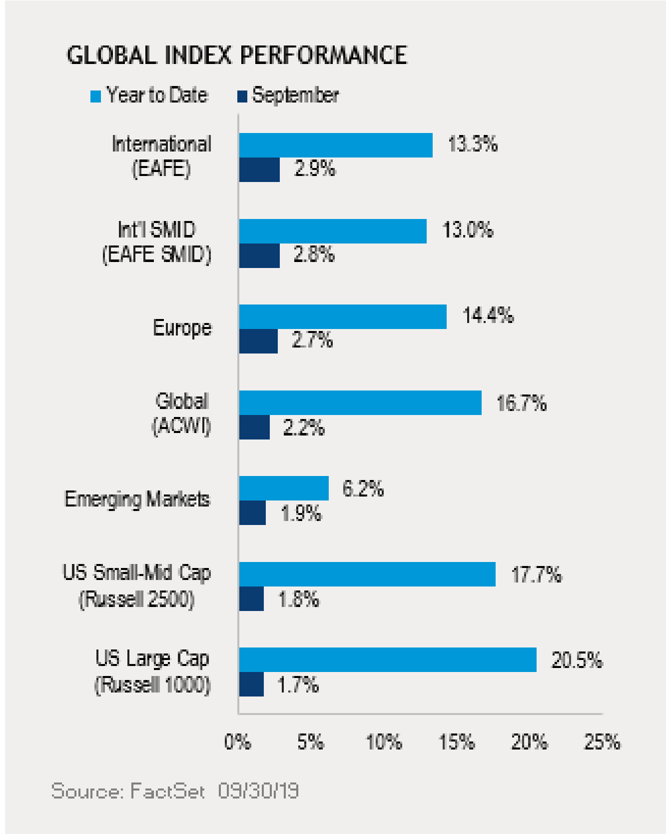


Source: FactSet 09/30/19
Indexes are unmanaged and cannot be invested into directly.
Past performance is no guarantee of future results.
Stock investing involves risk, including loss of principal. Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

sectors, suggesting widespread bargain hunting in underperforming small cap stocks. Midcaps still lead year to date with a 21.9% return, ahead of the 20.5% and 14.2% advances for large and small caps, respectively, based on the Russell indexes.

Value stocks also staged a reversal, outpacing their growth counterparts for just the second time in the past 10 months based on the Russell 1000 style indexes. Growth was hurt most by weakness in the communication services, consumer discretionary, and technology sectors, while value was helped by strength in financials. Growth still leads value by more than 5 percentage points year to date.

September's sector rankings lined up with the market's preferences on style, with energy, financials, materials, and utilities—all value-oriented sectors—atop the sector leaderboard. Financials and utilities are an odd pairing given interest rates rose during the month—normally good for financials but not for utilities. Energy was clearly helped by the spike in oil prices after the mid-September attack on Saudi Arabian oil facilities, even though those gains proved fleeting after production was quickly restored.



International

In yet another September reversal, equities in developed international markets outpaced those in the United States for just the second month this year. The MSCI EAFE Index returned 2.9% for the month, one percentage point ahead of the S&P 500, and has returned 13.3% year to date, despite continued strength in the U.S. dollar.

We would attribute better performance in Europe and Japan to the market's rotation into value stocks. International developed markets are more value oriented and therefore tend to perform better when investors hunt for bargains and shun higher-priced growth stocks. Based on the MSCI country indexes, gains were strongest in Japan where more monetary policy stimulus to help offset the impact of a tax increase is anticipated, and in the United Kingdom, which shrugged off rising risk of a disorderly exit from the European Union at the end of October.

Emerging markets equities matched the S&P 500 return, despite being weighed down by trade uncertainty reflected in lackluster performance from Chinese stocks. Taiwan, South Korea, and India were among the biggest positive contributors to emerging markets equity gains, with India benefiting from an unexpected corporate tax-cut announcement. Year to date, the MSCI EM Index has returned 6.2%.

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

Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

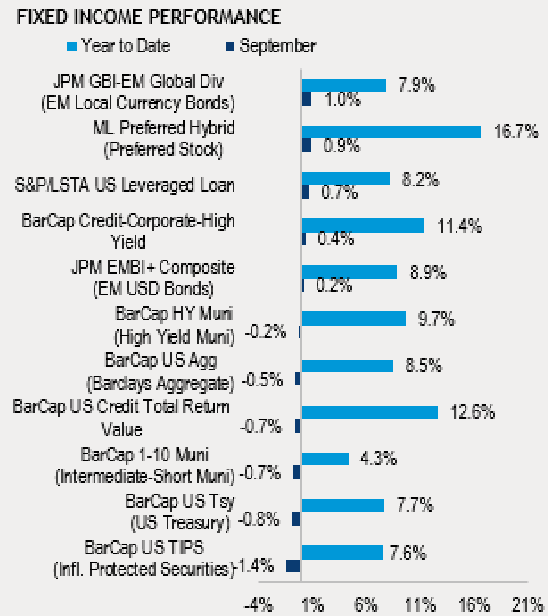
FIXED INCOME

10-YEAR YIELD REBOUNDS IN SEPTEMBER

U.S. Treasury yields rebounded in September as trade optimism and improving economic data buoyed the appetite for risk.

The 10-year yield increased 17 basis points (0.17%), its biggest monthly gain since September 2018, to close at 1.66%. The yield curve steepened in September, as long-term yields' rally outpaced short-term yields. The spread between the 2-year and 10-year yields climbed out of inversion territory (when long-term yields fall below short-term yields) after falling briefly negative in August. The spread between the 3-month and 10-year yields closed at -16 basis points (-0.16%) and has largely stayed inverted since the end of May.

Six of 11 fixed income asset classes we track rose in September, as shown in the Fixed Income Performance Table. Riskier debt outperformed, as dollar-denominated emerging markets debt led with a 1% gain. The Bloomberg Barclays U.S. Aggregate Index fell 0.5% after six straight months of gains.



US Treasury Yields

Security	8/31/2019	9/30/2019	Change in Yield
3 Month	1.99	1.88	-0.11
2 Year	1.50	1.63	0.13
5 Year	1.39	1.55	0.16
10 Year	1.50	1.68	0.18
30 Year	1.96	2.12	0.16

AAA Municipal Yields

Security	8/31/2019	9/30/2019	Change in Yield
2 Year	1.07	1.19	0.12
5 Year	1.12	1.27	0.15
10 Year	1.46	1.56	0.10
20 Year	1.95	2.07	0.12
30 Year	2.08	2.19	0.11

Source: FactSet 09/30/19
Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results. 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 subjec t to availability and change in price.

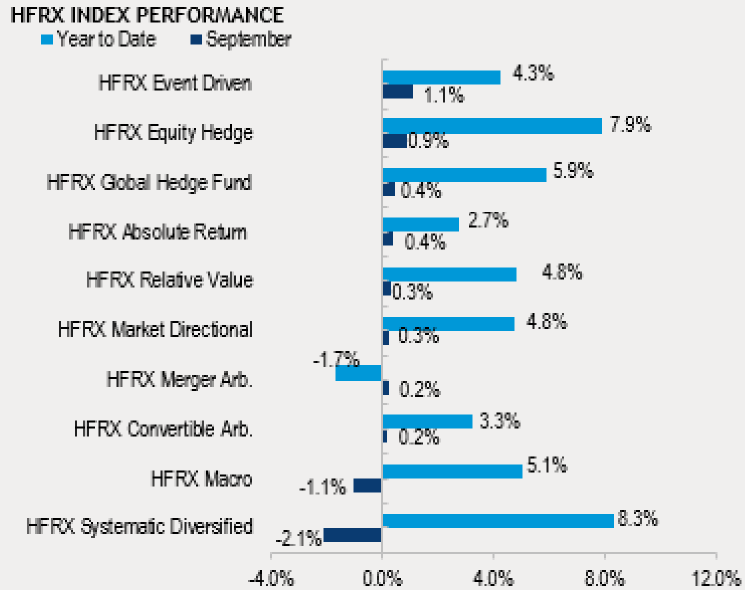
ALTERNATIVE INVESTMENTS

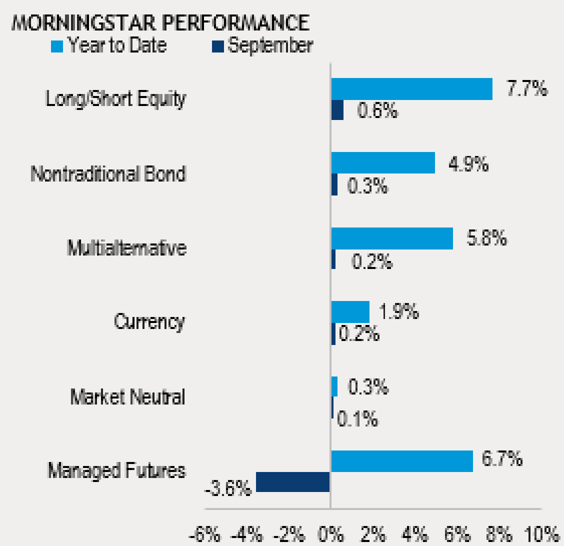
VALUE RALLY SUPPORTS MARKET NEUTRAL

The HFRX Equity Market Neutral Index led monthly sub-strategy returns with a gain of 1.6%, as managers in the industry benefited from a significant factor rotation between value and momentum stocks. Specifically, momentum stocks endured a sharp drawdown, while value experienced a strong rally on both an absolute and relative basis. While market neutral strategies often have exposure to both factor sets, there is typically a value overweight, which has acted as a significant headwind throughout 2019. This is evident in the 1.3% year-to-date decline in the index.

With a gain of 0.9%, the HFRX Equity Hedge Index saw less of an impact from the sudden factor rotation. This represented an up-capture of approximately 47% of the 1.9% gain in the S&P 500, which is in-line with the industry's beta-adjusted exposure. The HFRX Event Driven Index also performed well, returning 1.1%. Common positions related to Government Sponsored Enterprises supported performance as the Federal Housing Finance Agency (FHFA) released a potential long-term road map and recapitalization of the entities.

The HFRX Systematic Diversified Index declined 2.1%, as losses in fixed income exposure weighed on portfolios. Heading into September, trend-following strategies held significant long exposure to global bonds across all maturity levels; however, this trend quickly reversed during the first half of the month. Additionally, the previous upward price trend in gold and silver contracts retreated, leading to losses within commodity trading. Year to date, the index has now gained 8.3%, the majority of which was provided by long fixed income exposure.





Source: FactSet 09/30/19

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results.

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 acelerate the velocity of potential losses.

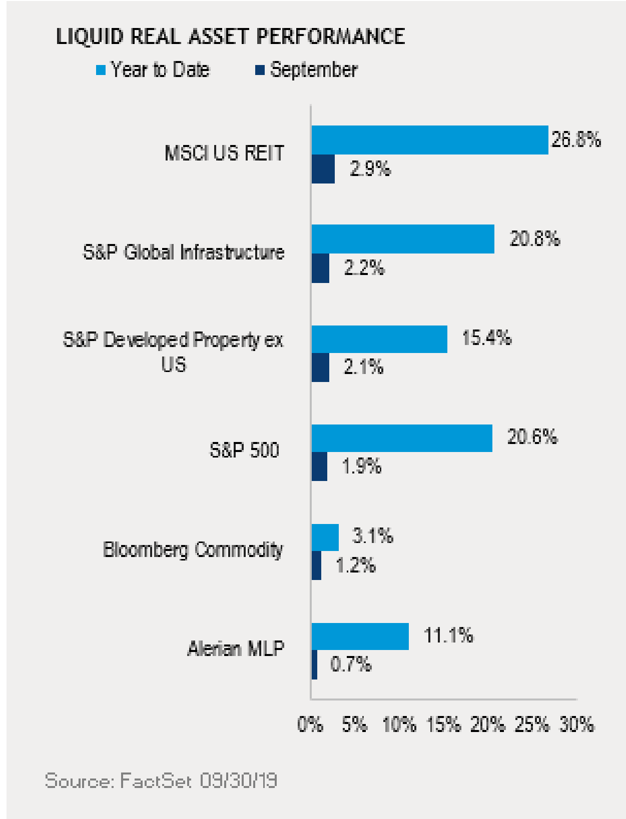
REAL ASSETS

REAL ESTATE AND INFRASTRUCTURE POST SOLID GAINS

Real estate and infrastructure posted solid gains in September, a broadly positive month for liquid real assets.

Master Limited Partnerships (MLP)

The Alerian MLP Index gained 0.7% in September, lagging behind the broad equities indexes and other liquid real asset categories we track despite solid gains for the energy sector and high-dividend paying sectors. Losses in crude oil and rising Treasury yields reduced demand for income-oriented energy infrastructure investments, while partnership-specific challenges continued to weigh on the group. Year to date the 11.1% return for the Alerian MLP Index has lagged behind broad equities and the other major real asset categories.



REITs and Global Infrastructure

The MSCI U.S. REIT Index posted another strong month in September, outperforming the S&P 500 with its 2.9% return and leaving the domestic real estate investment trust (REIT) index's year-to-date return at a stellar 26.8%. The industrial sector was the month's top performer, solidly outperforming the broad real estate index amid the ongoing e-commerce boom that is driving warehouse and distribution facility demand. The office sector lagged during the month with a 1.7% loss. Subsector performance is based on the FTSE NAREIT ALL REITs subsector indexes. International real estate also outpaced U.S. equities with a 2.1% return for the month, despite underperformance of international equities.

The S&P Global Infrastructure Index slightly outperformed domestic equities in September with a 2.2% return. Global infrastructure has trailed domestic REITs year to date while matching the S&P 500.

Commodities

The Bloomberg Commodity Index rose 1.2% in September, as cautious optimism took hold in the commodities market. Year to date, commodities' 3.1% gain continues to significantly trail that of equities. Precious metals saw reversals in their recent strong price momentum, as technically overbought conditions and a modest risk-on market tone weighed on prices. Conversely, economically sensitive copper bounced off recent lows to post a modest gain for the month. Oil prices whipsawed during the month and ended the month down slightly, as investor focus shifted between demand concerns and supply constraints following the attack on Saudi Arabia's oil production facilities. Major agricultural prices were higher on the month, likely due in part to news that China restarted U.S. agricultural purchases in advance of October trade talks. Commodity performance is based on the Bloomberg Commodity Index and its components.