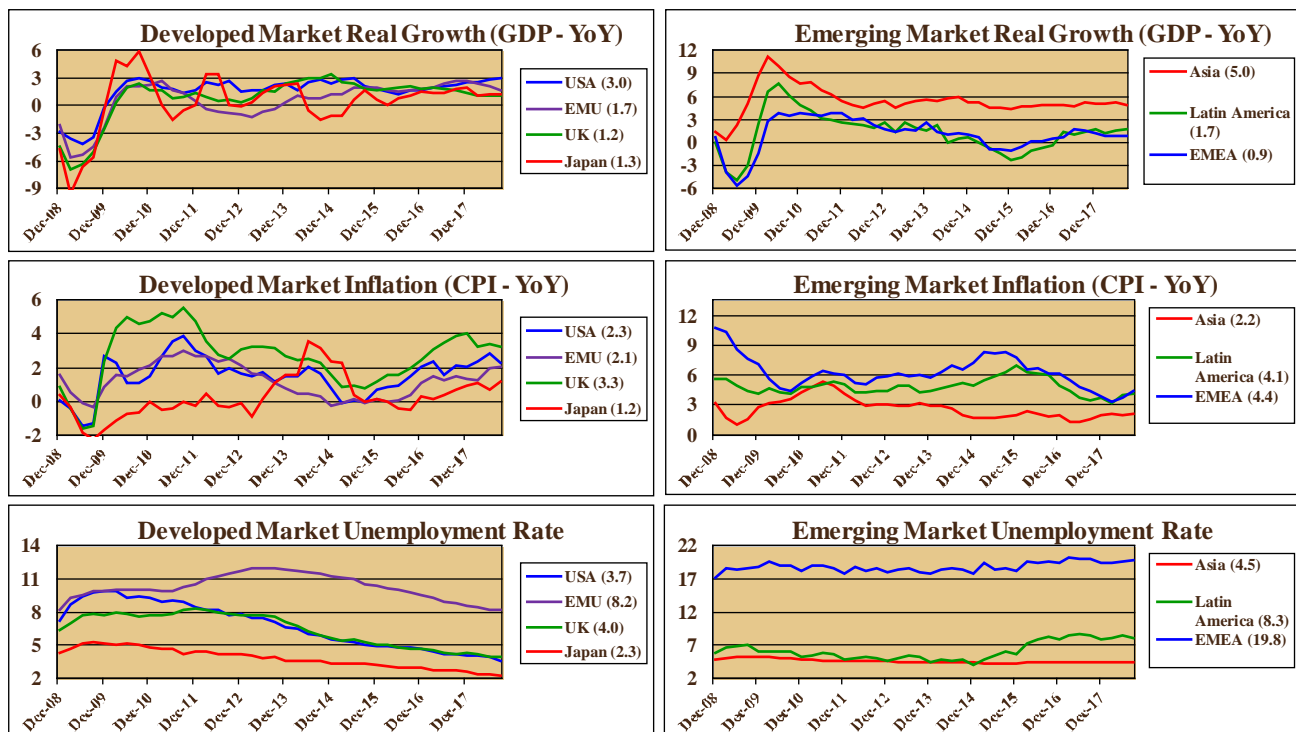


**Third Quarter 2018**

# Global Market and Economic Perspective

**Global Economic Commentary**

- ❖ **Third-quarter GDP growth in the US continued its strong pace seen earlier in the year. However, the good headline number masked some potentially troubling underlying data points. While increased government spending was a big contributor and consumption was relatively good, there was weakness in home building (new home sales have been falling during most of 2018), exports, and investment spending. In addition, one of the larger contributors was the build-up by businesses of unsold inventories. Other indicators though pointed to further economic strength: small business optimism remained high, unfilled positions were at a record level, and initial claims for unemployment insurance hit a record low.**
- ❖ **Economic growth outside the US softened a bit in a number of markets, including the Eurozone. China saw its growth rate slow from the rapid pace of previous years, seemingly as the result of the US trade and tariff actions. Now that nearly a decade has elapsed since the end of the financial crisis, economic growth and low unemployment rates appear finally to be producing wage gains.**
- ❖ **Low unemployment and good growth are feeding into some mild increases in prices. Headline inflation rates rose during the quarter in a number of the emerging markets, the Eurozone, and Japan. In the US, core inflation (excluding energy and food) hit a post-crisis high.**



Notes: Emerging market economic statistics are estimated by region using eight countries, which represent roughly 80% of the MSCI Emerging Market Equity Index. Recent observations may be estimated where reporting lags make official data unavailable at the time of this report.

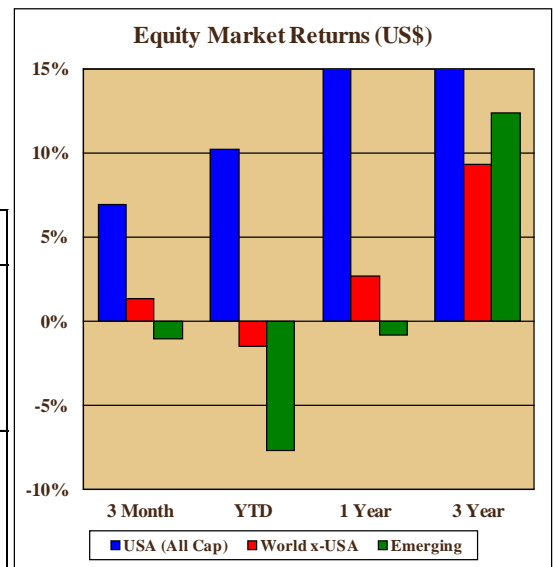
## Global Market and Economic Perspective – Q3 2018

### Global Equity and Currency Commentary

- ❖ The US dollar continued on its strengthening trend, which detracted from returns in non-US equity and fixed income investments. While the Federal Reserve has been increasing interest rates and signaling further rate increases over the coming quarters, other central banks have largely been on hold. The more-attractive dollar yields have caused weakness in other currencies.
- ❖ US equities again outpaced other markets – both developed and emerging- during the third quarter, although the small-cap and value sectors began to weaken during September. The S&P 500 index hit a record high during the quarter as optimism over earnings continued.
- ❖ Outside the US, the picture was mixed. Overall, returns in developed markets were positive, despite dollar strength subtracting around a percentage point of gain. In the UK, the stock market suffered yet another poor quarter, as fears of a “no deal” Brexit appeared to gain ground. A small positive return in emerging market equities was turned into a loss by dollar strength. Brazilian equities performed well, due in part to the increasing likelihood of the potentially business-friendly Bolsonaro winning the presidential election.

Global Equity Market Returns (MSCI)

9/30/2018	Returns (US\$)				Returns (Local)			
	3 Month	YTD	1 Year	3 Year	3 Month	YTD	1 Year	3 Year
<b>United States</b>								
USA (All Cap)	6.9%	10.2%	17.0%	16.5%				
USA Growth	8.7%	17.2%	25.8%	19.4%				
USA Value	5.9%	3.1%	8.7%	13.3%				
USA SC Growth	6.6%	16.0%	23.1%	18.7%				
USA SC Value	1.6%	5.0%	8.4%	14.3%				
<b>Foreign Developed</b>								
World x-USA	1.3%	-1.5%	2.7%	9.3%	2.1%	1.3%	5.1%	9.3%
Europe	0.8%	-2.5%	-0.3%	7.7%	1.2%	0.7%	2.0%	8.7%
Far East	3.0%	0.7%	9.1%	12.2%	5.2%	1.6%	10.0%	10.5%
Australia	-0.9%	-2.2%	4.4%	12.9%	1.2%	5.7%	13.3%	11.7%
Canada	0.8%	-2.2%	1.9%	10.3%	-0.9%	0.8%	5.3%	8.9%
<b>Emerging Markets</b>								
Emerging	-1.1%	-7.7%	-0.8%	12.4%	0.0%	-2.9%	2.7%	12.2%
Asia	-1.8%	-6.8%	1.0%	13.5%	-1.2%	-3.9%	1.9%	12.8%
Latin America	4.8%	-6.9%	-9.1%	13.7%	5.6%	2.8%	4.8%	15.2%
EMEA	-1.6%	-12.5%	-2.2%	6.3%	1.8%	-1.5%	5.6%	7.8%

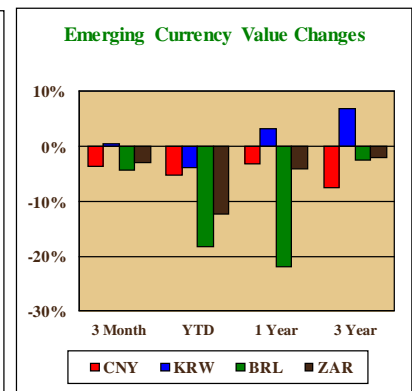
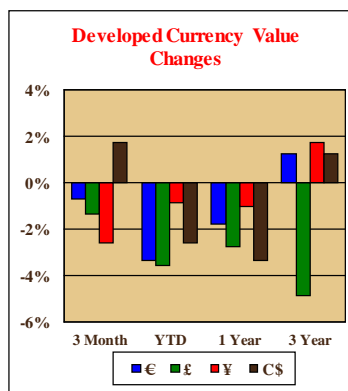


Annualized if greater than one year

Foreign Exchange Rate History (Bloomberg)

9/30/2018	Current Level	Change (Foreign Currency versus \$)			
		3 Month	YTD	1 Year	3 Year
<b>Developed</b>					
Euro (€)	1.16	-0.7%	-3.3%	-1.8%	1.2%
British Pound (£)	1.30	-1.3%	-3.6%	-2.7%	-4.9%
Japanese Yen (¥)	114	-2.6%	-0.9%	-1.0%	1.7%
Canadian Dollar (C\$)	1.29	1.7%	-2.6%	-3.4%	1.2%
<b>Emerging</b>					
Chinese Renminbi (CNY)	6.87	-3.6%	-5.3%	-3.1%	-7.5%
Korean Won (KRW)	1109	0.5%	-3.8%	3.3%	6.9%
Brazilian Real (BRL)	4.05	-4.3%	-18.2%	-21.9%	-2.5%
South African Rand (ZAR)	14.14	-2.9%	-12.4%	-4.1%	-2.0%

Annualized if greater than one year



## Global Market and Economic Perspective – Q3 2018

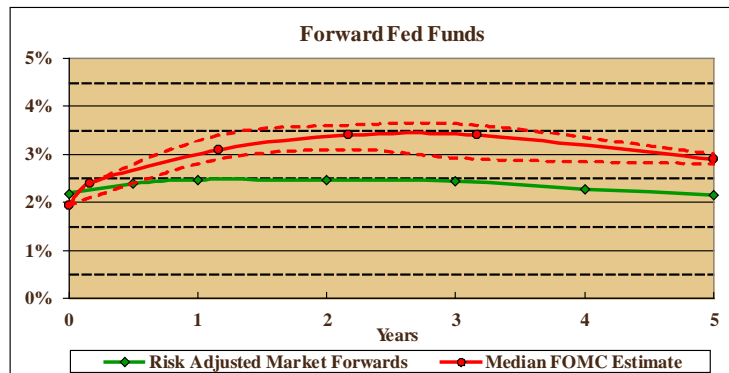
### US Fixed Income and Fed Commentary

- ❖ Poor performance in the US bond market in September wiped out almost all of the decent returns in the first two months of the quarter. During the month, apart from high yield which benefitted from equity market strength, yields rose and returns were negative in essentially every sector and all along the maturity spectrum.
- ❖ At their meeting in late September, the Fed raised the policy interest rate another quarter point. This was expected; the surprises were the increase in their “forecast” (from the dot plot) of the policy rate to 3.45% in 2020 and the removal of the “policy remains accommodative” language from their post-meeting statement.
- ❖ Emerging markets debt produced good performance during the quarter, although the gains were insufficient to offset the damage experienced earlier in 2018. Investors have seemingly turned less negative on Latin American bonds, as new regimes in Brazil and Mexico could provide a better financial environment than has been in place the last few years.

FOMC Fed Funds Rate Projections as of September 2018 Meeting						
	Current	Dec-18	Dec-19	Dec-20	Dec-21	Long Run
Upper	1.92%	2.10%	2.90%	3.10%	2.90%	2.80%
Median	1.92%	2.40%	3.10%	3.40%	3.40%	2.90%
Lower	1.92%	2.40%	3.40%	3.60%	3.60%	3.00%

Market Implied Fed Funds Rate as of Oct 01, 2018						
Current	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
2.18%	2.38%	2.46%	2.45%	2.43%	2.27%	2.14%

Notes  
 Upper and lower bands show central tendency for FOMC projections.  
 Market implied Fed Funds rates are risk adjusted.



### US Bond Yield and Spread History (Barclays)

	Current Level	Change Through September 2018			
		3 Month	YTD	1 Year	3 Year
<b>US Treasury</b>					
Short	2.85%	0.26%	0.87%	1.23%	1.99%
Intermediate	3.01%	0.20%	0.69%	0.87%	1.26%
Long	3.18%	0.22%	0.49%	0.41%	0.43%
<b>US High Yield</b>					
Yield	6.24%	-0.25%	0.53%	0.80%	-1.80%
Spread	3.16%	-0.47%	-0.27%	-0.31%	-3.14%
<b>Tax-Exempt Muni.</b>					
Short	2.10%	0.30%	0.41%	0.88%	1.16%
Intermediate	2.58%	0.20%	0.52%	0.66%	0.70%
Long	3.16%	0.20%	0.61%	0.49%	0.31%

