

Equities

U.S. equity markets continued their upward march during 3Q 2018. The S&P 500 Index returned 7.7% during the quarter and 10.5% year-to-date. Healthcare and industrial stocks led the charge, as these sectors rose 14.5% and 10% respectively. Technology stocks also performed well during the quarter, returning 8.9%. Energy, materials and utilities were laggards during the quarter but even these sectors saw modest gains.

Growth stocks continued to outperform value stocks, as has been the trend for the past several years. As discussed in previous quarters, the Russell 1000 Growth Index maintains significant exposure to technology and consumer discretionary sectors, while the Russell 1000 Value Index is primarily exposed to financial and energy stocks. These differences in sector composition largely explain the divergence in performance between growth and value, as technology-led firms have experienced impressive fundamental growth compared to financial and energy companies.

Small-cap stocks led large-cap equities for most of 2018 but underperformed during the quarter. The Russell 2000 Index, which tracks small-cap stocks, returned 3.6% during the quarter, but declined 2.4% during the month of September 2018.

Non-U.S. stocks showed some signs of stabilization during the past quarter but continue to lag U.S. equity markets. The MSCI EAFE Index, which tracks foreign developed markets, returned a positive 1.4% during the quarter, but this index declined 1.4% since the start of 2018. Volatile currency markets have impacted the returns of non-U.S. stocks. For example, the currency-hedged version of the MSCI EAFE Index posted a positive return of 1.4% year-to-date.

Emerging markets continued their decline during the quarter. The MSCI Emerging Markets Index declined 1.1% during the quarter and dropped 7.7% year-to-date. Currency declines and concerns over trade wars and tariffs negatively impacted emerging markets like China, which makes up just over 30% of the MSCI Emerging Markets Index.

Fixed Income

Changes in the interest rate environment continue to drive fixed income markets, as most bond prices typically decline when rates rise. The Federal Reserve raised their key Fed Funds rate for the eighth time since 2015, now targeting a range between 2.00% - 2.25%. This move pushed rates higher across the yield curve; however, short-term rates continue to rise more than longer-term rates, resulting in a flattening yield curve. One-year Treasury rates rose 0.25% to end the quarter at 2.56%, while 10-year Treasury rates rose 0.21% to close the quarter at 3.06% and 30-year rates rose 0.22% to 3.20%.

Under this backdrop, the Bloomberg Barclays U.S. Aggregate Bond Index was essentially flat for the quarter but declined 1.6% year-to-date. Conversely, corporate bonds rated below-investment grade remain one of the few bright spots in the bond market. The Bloomberg Barclays U.S. Corporate High Yield Index rose 2.4% during the quarter and 2.5% year-to-date. Similarly, the S&P/LSTA Leveraged Loan Index, which tracks bank loans, rose 1.8% during the quarter and 4% year-to-date. Both high-yield bonds and bank loans are typically issued by companies with highly-leveraged balance sheets. Thus, many believe these markets are impacted more by underlying economic conditions rather than changes in interest rates.

Commodities

The Bloomberg Commodity Index declined 2% during the quarter and down 2% since the beginning of the year. Oil prices dipped during the quarter but eventually bounced back to end the quarter at \$73 per barrel, essentially unchanged from the start of the quarter. At the same time, the LBMA Gold Price Index declined slightly over 5% during the quarter and down over 10% since the beginning of the year.

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Important Information:

The **Standard & Poor's 500 Index**, often abbreviated as S&P 500, is an American stock exchange market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.

The **Standard & Poor's Leveraged Loan Index** is a daily tradable index for the U.S. market that seeks to mirror the market-weighted performance of the largest institutional leveraged loans based upon market weightings, spreads and interest payments.

The **Russell 1000 Growth Index** is a broadly diversified index predominantly made up of growth stocks of large U.S. companies.

The **Russell 1000 Value Index** is a broadly diversified index predominantly made up of value stocks of large U.S. companies.

The **Russell 2000 Index** is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.

The **Russell Microcap Index** measures the performance of the microcap segment of the U.S. equity market. It includes 1,000 of the smallest securities in the Russell 2000 Index based on a combination of their market cap and current index membership and it also includes up to the next 1,000 stocks.

The **MSCI EAFE Index** is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.

The **MSCI Emerging Markets Index** is an index designed to measure equity market performance in global emerging markets.

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

The **Bloomberg Barclays US Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The **Bank of America Merrill Lynch High Yield Bond Index** tracks the performance of below-investment-grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

The **Bloomberg Barclays U.S. Municipal 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.

The **LBMA Gold Price Index** is the global benchmark for unallocated gold and silver delivered in London.

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