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QUARTERLY MARKET INSIGHTS  
4TH QUARTER 2018

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*Trust*

## SPOTLIGHT

### CRUDE OIL PRICES: DOWN THE WELL

The attention of investors was squarely focused on the steep declines in U.S. stocks from late September through year end. Yet, one of the most unexpected stories of the fourth quarter was the nearly 40% plunge suffered by global crude oil prices in the final three months of 2018. The collapse caught many market participants on their back feet in part due to the growing chorus of commentators in the late summer calling for \$100 per barrel oil. Those predictions were largely driven by expectations of steady global demand and sanctions on Iranian oil exports scheduled for early November. During one historic stretch ending in mid-November, U.S. West Texas Intermediate (WTI) crude oil prices declined for a record twelve consecutive days. Lower oil prices have historically been a positive for U.S. consumer spending given their transmission to lower gasoline prices. In the corporate sector, lower crude oil prices often result in reduced input costs for large domestic industries including airlines and chemical producers. On the other side of the ledger, lower oil prices present challenges for companies engaged in the exploration for and production of oil as well as regional economies with significant exposure to energy sector industries.

To what can we reasonably attribute the nasty bear market in oil? Most commentators pointed to one or more of the following factors: concerns about weakening demand for oil caused by what many fear is a global economic slowdown, global oversupply driven by record U.S. oil production and the impact of temporary waivers on Iranian oil sanctions given to eight countries by the Trump administration. In our view, it seems like the latter two items best explain the lion's share of the recent collapse in oil prices.

First let's review the supply side of the global oil market. The Saudi Arabian-led Organization of Petroleum Exporting Countries (OPEC) garners most of the headlines related to crude oil production and prices.

Combined, the 14 nations of OPEC account for over 34 million barrels per day (bpd), or approximately 43% of global oil production, according to the U.S. Energy Information Administration (EIA). Yet, in recent years the United States has eclipsed both Saudi Arabia and Russia to become the world's largest single-nation oil producer at 11.7 million bpd as of the week ending December 28, according to the EIA. In December, the U.S. became a net oil exporter for the first time since 1973. Domestic oil production above 11 million bpd in 2018 compares to a monthly average of 6.7 million bpd during the 1990s, 5.4 million bpd during the first decade of the 2000s and 7.6 million bpd from 2010 through 2017. The "secret sauce" behind the majority of this additional American production has been the advent of hydraulic fracking (or horizontal drilling) in the high profile Permian Basin of western Texas and southeastern New Mexico. In June 2018, Daniel Yergin, Vice Chairman of IHS Markit, noted "In the past 24 months, production from just this one region – the Permian – has grown far more than any other entire country in the world."

Shifting to the geopolitical landscape surrounding oil prices, let's return to OPEC, which had increased production by an estimated 500,000 bpd during September, October and November in anticipation of U.S. sanctions on Iranian oil exports. Many reports suggested the Trump administration was requesting a temporary increase in Saudi oil production to help offset lost Iranian production related to sanctions and, in turn, keep oil and gasoline prices contained. In a somewhat surprise move, the Trump administration indefinitely delayed the impact of Iranian sanctions on global oil supplies by granting temporary waivers for Iranian oil to eight countries including several major oil importers like China and Turkey. On December 6, OPEC and Russia agreed at a Vienna meeting to cut approximately 1.2 million bpd beginning in January likely in reaction to the slump in oil prices and the continuation of waivers on Iranian oil import sanctions. Looking forward to the first half of 2019, investors should probably expect the path of crude oil prices to remain volatile given the moving parts described above as well as potential U.S. antitrust litigation against OPEC members on the grounds of colluding to set prices.

## ECONOMY

### ECONOMIC OUTLOOK GATHERS UNCERTAINTY FOR 2019

The final reading for annualized U.S. GDP growth in the third quarter came in at 3.4%, a deceleration from the second quarter reading of 4.2%. The slower growth primarily reflected a downturn in exports and lower readings in nonresidential fixed investment and in personal consumption expenditures. GDP growth in the third quarter reflected positive contributions from private inventory investment, federal government spending, and state and local government spending that were partly offset by negative contributions from exports and residential fixed investment. In December, the Federal Reserve cut its estimate for U.S. GDP in 2019 to 2.3%, from a September projection of 2.5%. The confidence of American consumers appeared to fade somewhat in the first half of December on a less enthusiastic jobs outlook. The Conference Board Consumer Confidence Index registered at 128.1, which was below consensus expectations of 133.5 and down from an upwardly revised 136.4 in November. The 128.1 reading in December marks the lowest level of consumer optimism since July. Looking forward, in a Bloomberg survey economists expect consumer sentiment to worsen further in the short term, as previous federal government shutdowns typically cause a temporary drop in consumer confidence.

The Federal Reserve raised its benchmark interest rate by a quarter percentage point in December to a range of 2.25% to 2.50%, but lowered its projections for future rate hikes. Fed Chairman Jerome Powell signaled greater flexibility in the central bank's pace of future interest rate hikes. Fed minutes cited strong economic activity, robust labor market conditions, and inflation near the target range. In a news conference after the release of the policy statement, Powell said the central bank would continue

ECONOMIC INDICATORS	LATEST	3MO PRIOR	CHANGE*
REAL GDP (QoQ ANNUALIZED)	3.4%	4.2%	▼
TRADE BALANCE	-55.5	-50.4	▼
UNEMPLOYMENT RATE	3.9%	3.7%	▼
NON-FARM PAYROLLS	312K	119K	▲
ISM MANUFACTURING	54.1	59.8	▼
ISM NON-MANUFACTURING	57.6	61.6	▼
RETAIL SALES (LESS AUTOS)	0.5%	-0.1%	▲
INDUSTRIAL PRODUCTION	0.6%	0.8%	▼
HOUSING STARTS	1256M	1280M	▼
CONSUMER PRICE INDEX (YoY)	1.9%	2.3%	▲
CONSUMER CONFIDENCE	128.1	135.3	▼
EXISTING HOME SALES	5.32M	5.33M	▼
CONSUMER CREDIT	22.14B	21B	▲
CRUDE OIL PRICE	45.41	73.25	▲

Source: Bloomberg. Past performance does not guarantee future results. \*The change arrow is indicative of a positive or negative change in the economic nature of the data series. For example, a downward-pointing change arrow assigned to the crude oil price field will correspond with an increase in the actual price of crude oil over the last three months. This is because a short-term increase in the price of crude oil has historically been detrimental to U.S. economic growth.

trimming its balance sheet by \$50 billion each month, and left open the possibility that continued strong data could force it to raise rates to the point where they start to erode the economy's momentum.

#### EMPLOYMENT & MANUFACTURING

Employment remained strong in the fourth quarter as total nonfarm payroll employment increased by 312,000 in December according to the Bureau of Labor Statistics.

## ECONOMY CONTINUED

Employers added an average of 220,000 jobs per month in 2018, ahead of last year's pace of 182,000 per month and the best job growth since 2015. U.S. employment payrolls have grown for 99 straight months, by far the longest stretch of steady hiring on record. The unemployment rate rose to 3.9% from 3.7% in November as the labor force participation rate increased to 63.1%, matching its highest level since 2014. Participation has been low by historical standards in recent years as the U.S. population ages, but rising wages and better job prospects may be pulling workers back into the labor force. Average hourly earnings for all private nonfarm workers increased 11 cents last month to \$27.48. December was the third straight month in which wages rose more than 3% from a year earlier.

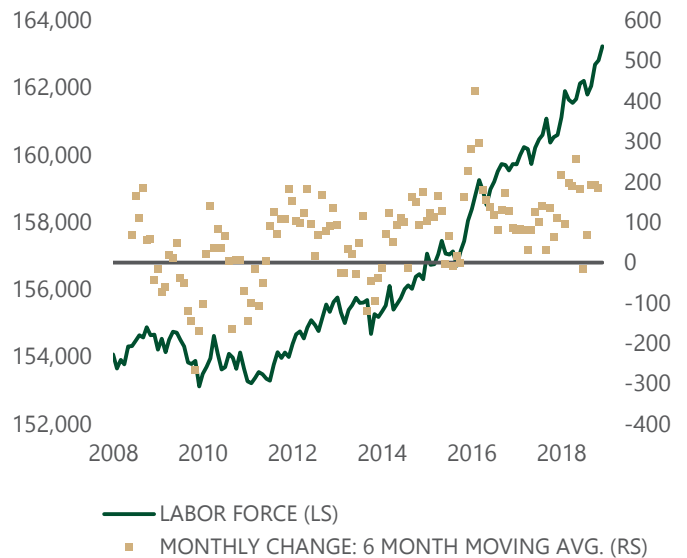
Economic activity in the manufacturing sector slowed in December, according to the latest PMI report from the Institute for Supply Management. The ISM manufacturing index fell to 54.1 in December, its lowest level since November 2016 and down from 59.3 in November. All five main components declined, led by new orders falling the most in almost five years and the steepest slide for production since early 2012. Employment, delivery and inventory gauges fell. A level above 50 implies that manufacturing is expanding. The New Orders Index registered 51.1, a decrease of 11 points from the November reading of 62.1. The Production Index registered 54.3, a 6.3 point decrease compared to the November reading of 60.6. Of the 18 manufacturing industries, 11 reported growth in December, including textile mills, apparel, leather & allied products, machinery, and computer & electronic products.

### HOUSING

Housing has been one soft area for the economy, likely influenced by rising interest rates for mortgage loans

and higher home prices. Pending home sales fell 0.7% in November, below consensus expectations for a 1.0% gain. Contract signings fell 7.7% from the same period a year ago. In terms of geography, the South and Midwest experienced a low single-digit contraction while the Northeast and West experienced low single-digit gains in November. The National Association of Realtors estimates up to 40,000 home closings might be delayed due to a halt in the issuance of new flood insurance during the partial government shutdown. Housing starts showed modest improvement increasing to an annualized rate of 1,256,000 units in November from 1,228,000 units in the prior month. Existing home sales increased 1.9% to an annualized rate of 5,320,000 units in November, though the data is 7% below the previous year.

U.S. LABOR FORCE TRENDS, IN THOUSANDS  
2008 THROUGH 2018



Source: Bloomberg. Past performance does not guarantee future results.

## EQUITY

### AUTUMN ANXIETY FOR STOCKS

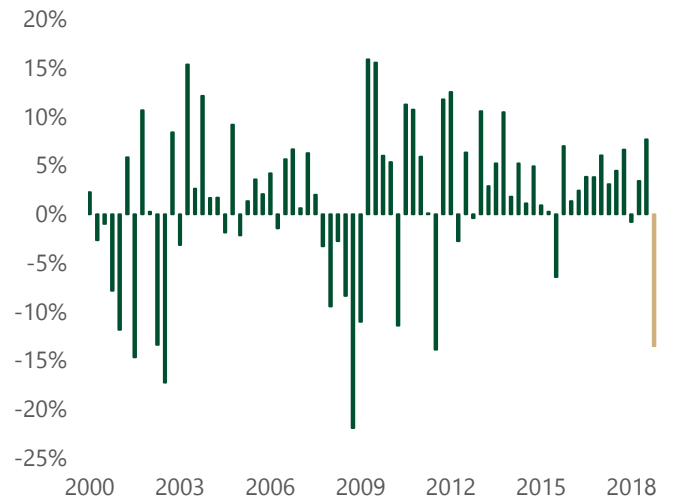
The final three months of 2018 brought investors one of the sharpest corrections of the nearly ten-year bull market. The S&P 500 Index and Dow Jones Industrial Average suffered quarterly declines of 14.0% and 11.8%, respectively, causing both indexes to flirt with bear market territory in the final weeks of December. Bear markets are typically defined by peak-to-trough declines of more than 20%. The S&P 500 experienced its worst quarter since the third quarter of 2011, when the European debt crisis was raging. The small capitalization Russell 2000 Index and technology-focused Nasdaq both entered bear market territory in the third week of December. Under pressure from plummeting crude oil and copper prices, the S&P 500 energy and materials sectors entered a bear market on December 14, followed a week later by the S&P 500 financial, industrial and technology sector indexes.

One of the largest facilitators of the fourth quarter sell-off in equity markets was language from U.S. Federal Reserve officials that was more aggressive than expected with regard to the path of future interest rate hikes. Additionally, disappointingly meager progress in tariff and trade policy negotiations between the Trump administration and Chinese leadership kept negative sentiment alive and well throughout the fall. The twin pillars of healthy growth in U.S. GDP and corporate earnings, which propelled markets higher in the second and third quarters, gave way to growing concerns that a combination of problematic monetary and trade policy could derail the U.S. economic expansion.

Scanning the U.S. equity landscape, defensive, interest rate-sensitive groups or so called “bond proxies” including the utilities, real estate and consumer staples

sectors were the best places to hide in the quarter. The S&P 500 utilities sector index even managed to post a positive total quarterly return of 1.4% despite the 48.4% drop in shares of embattled California utility PG&E Corp. From a style perspective, value-oriented names moderately outperformed their higher growth peers in the fourth quarter, as the Russell 3000 Value Index’s 12.3% decline was less steep than the 16.3% quarterly loss for the Russell 3000 Growth Index. The momentum factor came under pressure, as some of the highest flying stocks of 2017 and the first three quarters of 2018 endured the steepest declines during the period.

S&P 500 INDEX QUARTERLY RETURNS  
2000 THROUGH 2018



Source: Bloomberg. Past performance does not guarantee future results.

## EQUITY CONTINUED

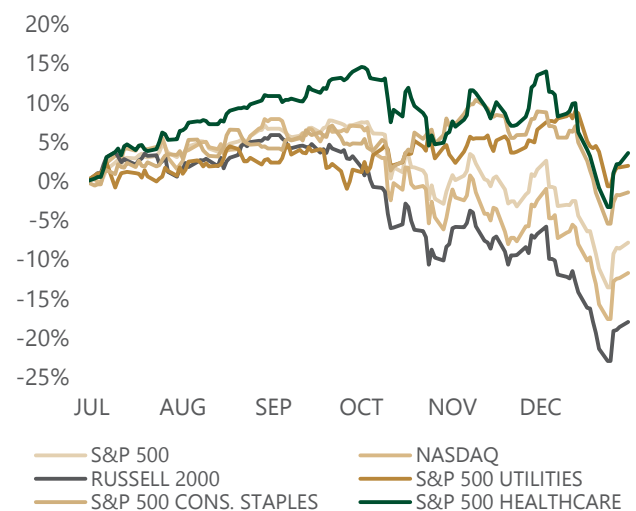
The 50 best performing S&P 500 stocks from January 1 to September 30 (top decile) had an average return of -19.2% in the fourth quarter, underperforming the broad index by more than 500 basis points. Looking inside the blue chip Dow, household product giant Proctor & Gamble was the top performing name in the thirty-stock index during the fourth quarter. Shares of the Cincinnati, OH-based maker of Tide, Downy and Pampers were boosted by a strong third quarter earnings report highlighted by 4% annualized organic sales growth. On the other side of the ledger, iPhone-maker Apple, Inc. was the Dow's worst performer in the fourth quarter. Slowing orders from key Apple suppliers and management's decision to cease reporting iPhone unit volumes helped drive its shares down 30.1% in the fourth quarter after climbing 33.4% in the first nine months of 2018.

Quietly, emerging market equity indexes held up markedly better than their U.S. peers in the fourth quarter helped in part by expectations for less aggressive interest rate hikes in the U.S. This breaks a trend of significant underperformance relative to domestic equities in the first three quarters of 2018, a period when the MSCI Emerging Market Index's 9.5% decline fell far short of the Russell 3000 Index's 9.1% gain. The Brazilian stock market was particularly strong in the last three months of the year, as the MSCI Brazil Index's 13.7% gain was fueled by hopes that new President Jair Bolsonaro will pursue market-friendly policies.

Looking ahead, in addition to developments in Fed policy guidance and U.S.-China trade relations, investors will be focused on corporate earnings trends.

According to FactSet, as of December 21, Wall Street analysts' estimated year-over-year earnings growth for the S&P 500 in the fourth quarter is 12.4%, which would mark the fifth straight quarter of double-digit earnings growth. Moving to calendar year 2019, analysts expect a deceleration in earnings growth to 7.9% for the full year led by the energy and industrial sectors. Market commentators have pointed to a combination of a strengthening dollar, rising wage costs, heightened tariff uncertainty and the waning effects of the corporate tax cut as reasons for S&P 500 earnings growth to return to more pedestrian levels in 2019.

**DEFENSIVE AREAS HELD UP BETTER IN 2H18**  
JULY 2018 THROUGH DECEMBER 2018



Source: Bloomberg. Past performance does not guarantee future results.



## RECESSION FEARS SPREAD ACROSS THE BOND MARKET

After spending most of 2018 in a regime of rising interest rates, the U.S. bond market saw longer rates start to trend lower in the fourth quarter, back toward where they began the year. Rates largely fell as investors grew concerned that the Federal Reserve was heading toward a policy error and by extension a recession. The Federal Open Market Committee’s meeting in December and the following press conference only served to exacerbate that concern. High yield bonds and bank loans suffered losses as credit spreads widened, financial conditions quickly tightened and investors began to view Fed policy as restrictive rather than neutral. Spreads even widened in investment grade credit. Meanwhile, one of the best places to hide in 2018 as a bond investor was tax-exempt municipals. Government bonds and mortgage backed securities (MBS) also performed well in the fourth quarter.

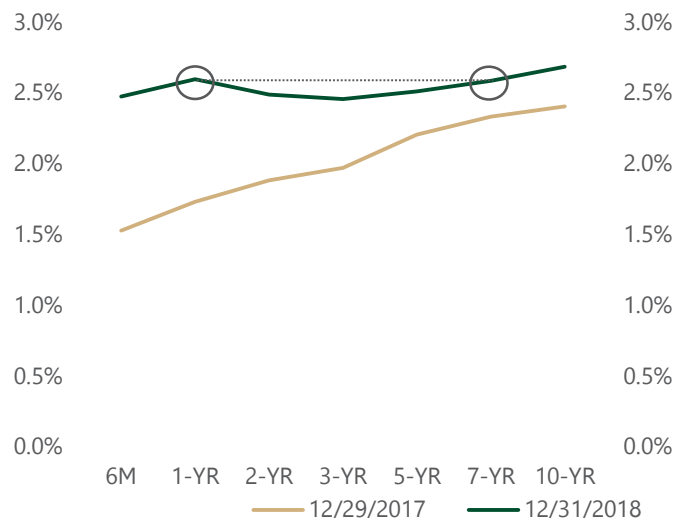
The Fed is likely to take a more cautious approach in the first half of 2019, which should help ease financial conditions from their currently tight levels. This could support the housing market, an area of the U.S. economy many investors view as a leading indicator. In fact, mortgage rates have already fallen since mid-November. A less aggressive Fed could also have a weakening effect on the dollar, which could be positive for emerging market bonds. Yet this outcome is far from certain as it remains to be seen how other global central banks will behave in 2019. For now, the market is getting increasingly close to pricing in a recession, as parts of the U.S. Treasury yield curve have already inverted. Although rising wages and input costs could potentially cause profit margin pressure and a corporate earnings contraction in 2019, it would not necessarily mean an

economic recession is in the cards. Since 1976, there has never been a recession in the twenty-four months following the Leading Economic Indicators (LEI) posting a year-over-year advance of 5% or more in a given month. The LEI advanced 5.2% on a year-over-year basis in November 2018, the latest reading available.

Investors who believe a recession is looming in the near future might want to take some duration risk as the potential price appreciation of longer term bonds would likely outperform short-end rates in a recessionary scenario. That said the risk-reward as viewed on the basis

### YIELD CURVE INVERSION

YIELD CURVES OF 12/31/2017 AND 12/31/2018



Source: Bloomberg. Past performance does not guarantee future results.

## FIXED INCOME CONTINUED

of yield per year of duration still favors the short end of the yield curve, with a twelve-month Treasury bill yielding nearly as much as a seven-year Treasury note. Historically, predicting the direction and the magnitude at the longer end of the curve has been a fool's errand. If the Fed were to be more hawkish than the market currently expects that could continue to drive shorter rates higher. It is less clear how that would affect longer term rates as inflation and growth expectations could drive longer rates higher regardless of the Fed's policy. Given the current level of uncertainty and the sharp decline in yields during recent months, the juice doesn't seem worth the squeeze.

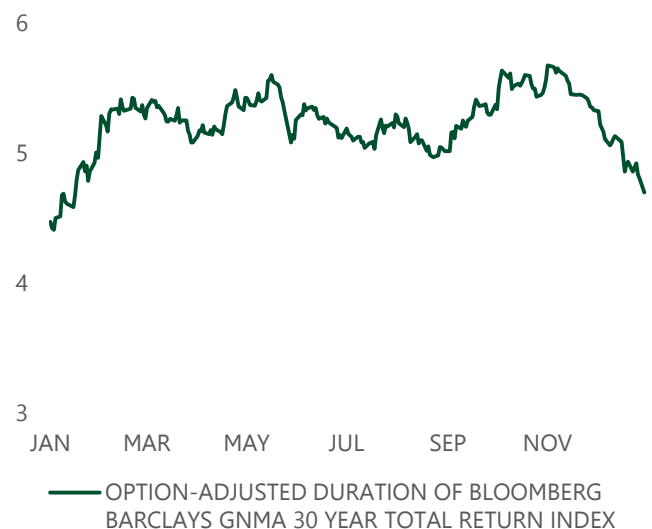
Tactically, an allocation to intermediate term corporate credit or tax-exempt municipals looks attractive at this point as both currently exhibit strong underlying technical and fundamental factors. A-rated corporate spreads are hovering near their widest levels in the last two years, and projected municipal bond issuance continues to pale in comparison to the maturities coming due. Having some exposure to government-guaranteed MBS in a bond portfolio could also make sense, as MBS securities could improve the credit quality of a portfolio without significantly reducing the overall yield. According to analysis by Wellington Management, the difference in yields between current coupon agency MBS and A-rated corporates is near its tightest level since the financial crisis, suggesting MBS may present some relative value.

One risk of agency MBS exposure to a portfolio is related to the Fed's balance sheet runoff, which could continue to cause spreads in the sector to rise as natural buyers fail to fill the void it leaves. While certainly possible, it is also likely that demand for these securities increases as the credit cycle continues to mature.

Extension risk is another possible risk, though that is likely to be somewhat more muted as well given the duration of the Bloomberg Barclays GNMA 30-Year Total Return Index has already extended in 2018.

In addition, prepay speeds are unlikely to slow significantly as they are already slow given the amount of refinancing and the persistence of low mortgage rates that have prevailed since the financial crisis. While history is no indication of future performance, even in the mortgage crisis period, agency MBS performed well as a risk-offset to declining equity prices. All things considered, their return profile likely overcomes the above stated risks at this time and provides an attractive way to de-risk a bond portfolio.

OPTION-ADJUSTED DURATION BBG GNMA 30-YEAR TR  
JANUARY 2018 THROUGH DECEMBER 2018



Source: Bloomberg. Past performance does not guarantee future results.



## OUTLOOK

### FUNDAMENTALS & MARKETS DIVERGE

Our equity outlook considers eight macroeconomic factors and asks whether or not they could indicate stock market returns to be higher or lower than average over the following year. Each factor is reviewed on a monthly basis and tallied up against stock returns over the 12 months following the measurement month. Reviewed monthly, but published quarterly, these factors can help inform whether the current economic and market landscape suggests a bullish or bearish scenario over the next several quarters. While history may not be the best predictor of future performance, an awareness of how these economic factors have related to equity returns can help set reasonable expectations. It can also help contain overenthusiasm when prices have overshot and instill confidence when prices have declined.

The table to the right shows the current indications from our eight factors. Currently five are bullish, two are bearish and one is neutral. Since the fall, three indicators have reversed. The S&P 500 equity momentum factor has reversed from bullish to bearish, oil prices have reversed from bearish to bullish and inflation, as measured by the Producer Price Index (PPI), has improved from bearish to bullish. Last quarter, the signals were four bullish, three bearish, and one neutral. Investors ought to be encouraged that the fundamental forces have slightly improved over the past few months.

At the beginning of the year, it seems useful to review the historical relationship for each factor and consider how their relationships might evolve in response to recent trends. Each of these factors has a historical relationship that has manifested itself more often than not over the past 40 years by stocks performing better or worse than their annual average over the following 12 months based on the month's ending value. Following is rationale specific to each factor:

**Federal Funds Policy** – A Fed rate cut (hike) has been bullish (bearish). Will the reduction of the Fed's balance sheet via the sale or run-off of bonds purchased during the Quantitative Easing period have an impact?

**Unemployment** – More (fewer) Americans being employed compared to six months ago has been bullish (bearish). Will a historically low labor force participation rate blunt this indicator?

**Yield Curve Slope** – A Federal Funds rate (or 30-day T-bill yields) lower (higher) than U.S. 10-year Treasury Notes has been bullish (bearish). Will this indicator be less effective considering the size and planned reduction of the Federal Reserve's balance sheet?

ECONOMIC INDICATOR	LATEST	SIGNAL
FED FUNDS POLICY	2.50%	BEAR
UNEMPLOYMENT RATE	3.70%	BULL
STEEPNESS OF YIELD CURVE	0.33%	BULL
PRODUCER PRICES INDEX	1.60%	BULL
S&P 500 INDEX MOMENTUM	2506	BEAR
WTI OIL PRICES	\$ 45.01	BULL
S&P / CASE-SHILLER HOME PRICE INDEX	214.00	BULL
PHILADELPHIA FED SURVEY	9.4	NEUTRAL

Source: Bloomberg.

## OUTLOOK CONTINUED

Producer Price Index (PPI) – Producer inflation lower (higher) than average has been bullish (bearish). As the U.S. economy becomes increasingly service oriented, will this indicator lose relevance?

S&P 500 – A month-end value of the S&P 500 that is higher (lower) than the average of the previous ten months' closing values has been bullish (bearish). Could the rise of passive investing and algorithmic trading impact this signal?

Oil – Oil prices lower (higher) than 12 months ago have been bullish (bearish). How does the shift by the U.S. economy from a significant oil importer to net exporter of oil impact this relationship?

Housing – Home prices higher (lower) than three months ago have been bullish (bearish). How could changes in population demographics, like baby boomers downsizing and millennials reluctance to own, impact this signal?

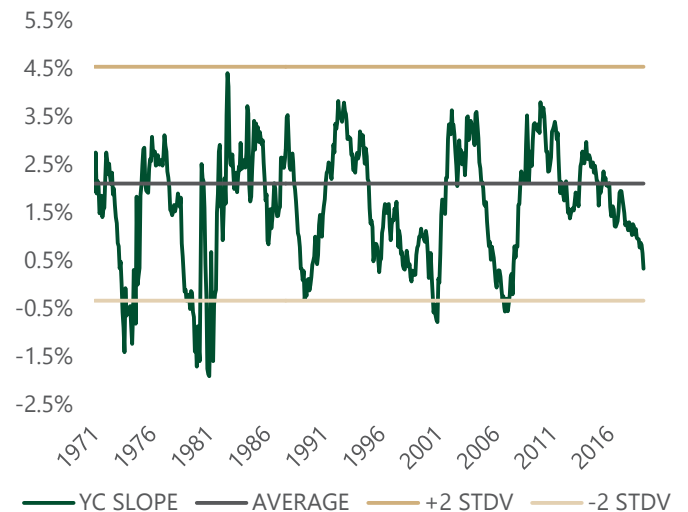
Business Sentiment – A contrarian indicator, abnormally low (high) business sentiment readings have been bullish (bearish). Have sentiment indicators been tainted by the overly charged political climate?

### YIELD CURVE SLOPE

This quarter, we'll take a closer look at the slope of the U.S. Treasury yield curve. Since the early 1970s, the average difference between yields on the 30-day T-Bills and 10-year U.S. Treasury bonds, sometimes known as the term structure of interest rates or the slope of the yield curve, has been 2.1%. Over this period, the yield curve has been between 4.5% and -0.3% for 95% of the time. Only during 67 months has the yield curve inverted, with the T-Bill yielding more than the 10-year. Classical macroeconomic theory argues that a recession shortly

follows periods of inverted yield curves. During the current economic expansion and bull market, the yield curve has declined from a slope of about 3.80% in early 2009 to only 0.33% by the end of 2018. Though still positively sloped, the pace of the decline in the slope in the last few months could be an ominous sign. Other factors like the maturing of the global economy, risks to free trade, and investor preferences shifting away from growth (equities) to safety (bonds) may also impact the validity of this signal. We will continue to monitor these signals for important developments.

HISTORICAL YIELD CURVE SLOPE  
JANUARY 1971 THROUGH DECEMBER 2018



Source: Bloomberg. Past performance does not guarantee future results.

## ECONOMIC OUTLOOK

### ECONOMIC FACTORS CURRENT OUTLOOK

U.S. GDP Growth	In the minutes from their December meeting, FOMC officials projected U.S. GDP growth would decline from 3.0% in 2018 to 2.3% in 2019.
Federal Funds Rate	The FOMC hiked its benchmark federal funds rate to a range of 2.25% - 2.50% in December, and now projects two additional hikes in 2019.
Inflation	Market participants expect inflation to average a subdued 1.81% annually over the next five years, down from 2.13% on September 30.
Employment	An increase in the labor force participation rate in recent months could foretell higher-than-expected payroll gains in coming months.
Consumer Confidence	Consumer optimism has waned in recent months, but remains above historical averages and appears to be supported by a healthy job market.
Oil	After oil plunged 38% in the fourth quarter, a December agreement between OPEC and Russia to cut production could stabilize the market.
Housing	A shortage of inventory and elevated prices in the previously owned U.S. home market may continue to weigh on sales heading into 2019.
International Economies	The IMF reduced its global growth forecast for 2019 to 3.7% from 3.9% citing escalating trade tensions and tighter liquidity for emerging markets.

### FIXED INCOME CURRENT OUTLOOK

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
Core Bonds	●			<p>Although we expect the U.S. Federal Reserve to reduce its pace of interest rate hikes in 2019 based on recent communication, we believe the path of least resistance for U.S. bond yields in 2019 is likely higher. This is especially so given the sharp dip in the benchmark 10-year U.S. Treasury bond yield from 3.24% on November 8 to 2.68% on December 31. As such, we believe an underweight to the broad fixed income asset class relative to our strategic target allocations remains justified. Outside of the core investment grade allocation, our exposure to investment-grade floating rate securities could serve as a hedge against both rate hikes and inflation without undertaking more credit risk.</p> <p><i>Benchmark: BB BC Intermediate Government/Credit Index</i></p>
TIPS			●	
Non-Investment Grade		●		
International	●			

### EQUITIES CURRENT OUTLOOK

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
Large Cap		●		<p>We believe an overweight to equities relative to our strategic allocation and versus fixed income remains appropriate. Current valuations of most global equity indexes are modestly below long-term averages following the fourth quarter correction and appear well supported given a backdrop of strong U.S. corporate profits and still-accommodative monetary policy in Europe and Japan. While we acknowledge the risk that escalating trade disputes between the U.S. and China pose to global equities, we have observed some trade-related pro-market developments in recent months including a productive NAFTA renegotiation and a 90-day delay of a planned U.S. tariff increase to 25% on \$200 billion of Chinese imports.</p> <p><i>Benchmark: MSCI All Country World Index (ACWI)</i></p>
Mid Cap		●		
Small Cap		●		
Developed International			●	
Emerging Markets		●		

### ALTERNATIVES\* CURRENT OUTLOOK

	CAP PRES	IWSG	BAL	GWSI	GROWTH	
Global Real Estate				●	●	<p>Our expectation for a continuation of volatility in both equity and fixed income markets in the final months of 2018 came to fruition. We anticipate elevated volatility in the first half of 2019. As such, we believe an overweight to alternative investments remains sensible. It is our view that U.S. government bonds are most likely overvalued, while the broad equity asset class is increasingly exposed to trade policy uncertainty, Fed interest rate hikes and a deceleration of economic growth outside of the U.S. As such, we have constructed diversified alternatives portfolios meant to decrease the risk profile of their respective recommended total Alternative Investment portfolios, which are listed to the left (CAP PRES, IWSG, BAL, GWSI, GROWTH).</p> <p><i>Benchmark: HFRX Global Hedge Fund Index</i></p>
Global Infrastructure	●	●	●	●	●	
Hedged Equity	●	●	●	●	●	
Arbitrage	●	●	●	●	●	
Strategic Income		●	●	●		

The above underweight/neutral/overweight calls represent the current positions relative to our Strategic Asset Allocation weights.

\*Cap Pres: Capital Preservation, IWSG: Income with some growth, Bal: Balanced, GWSI: Growth with some income.

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