Economic and Capital Market Review

Third Quarter 2019

The third quarter was highlighted by market volatility brought about by concern over slowing global growth, rising U.S.-China trade tensions and uncertain central bank policy.

Just last year, the global economy looked to be in good shape with both business and consumer confidence solid, labor markets robust, and inflation modest. However, each of these measures softened during the summer months as the global economy decelerated faster than expected. The global slowdown led to a slump in trade/manufacturing which in turn dampened corporate profits along with job growth and business investment.

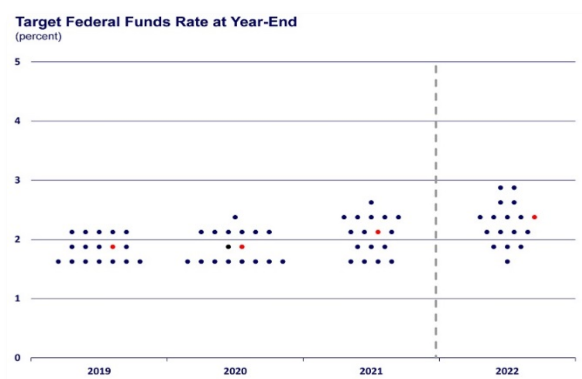
With the longest-ever economic expansion at risk, central banks responded as expected to the deteriorating trends. The U.S. Federal Reserve lowered the discount rate in July, September and October while the European Central Bank drove rates further into negative territory and also hit the restart button on quantitative easing. The case for lower rates is clear as recession fears intensify and inflation remains persistently low, but economists worry that global central bank policy has evolved from data-dependent and evidence-based to increasingly preoccupied with expectations for lower rates.

Given today's dynamic environment the range of possible outcomes for the markets is wide open but is bookended by two main scenarios. Scenario one is that the trade situation stabilizes. Under this scenario the next recession, whenever it occurs, will likely be relatively short and benign. Scenario two is that international relations break down and the battle between the U.S. and China lays waste to the world economy. With central banks already extended, policymakers would have few options. A harsh cycle of falling profits, declining investment and rising unemployment would ensue. Under this admittedly grim scenario, yields would remain depressed and stocks would correct sharply.

Given the mounting challenges, we see the possibility of larger-than-normal market swings in coming months. Downside risk seems to outweigh upside potential.

Federal Open Market Committee (FOMC)

On October 30, the Federal Reserve cut its benchmark federal funds rate for the third time this year in order to sustain the U.S. economic expansion. Eight of ten Fed officials voted in favor of lowering the federal-funds target rate to a range between 1.50% and 1.75%, with two reserve bank presidents preferring to hold rates steady.



Source: September 2019 Summary of Economic Projections. Each shaded circle indicates the value (rounded to the nearest 1/8 percentage point) of an individual participant's judgment of the appropriate level of the target federal funds rate at the end of the specified calendar year or over the longer run. Median dot is colored red.

According to the FOMC statement, "The labor market remains strong and that economic activity has been rising at a moderate rate. Job gains have been solid, on average, in recent months, and the unemployment rate has remained low. Although household spending has been rising at a strong pace, business fixed investment and exports remain weak."

The Fed, however, signaled that the current easing cycle could be over as their statement also said that officials will "continue to monitor the implications of incoming information for the economic outlook as it assesses the appropriate path of the target range for the federal funds rate."

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New research from the Fed estimated uncertainty over trade policy could reduce U.S. economic output by more than 1% through early 2020. If trade uncertainty should persist, a chill over business investment could eventually lead to a hiring pullback that damages consumer confidence and spending. This would threaten the main pillar of the U.S. economy.

Real Gross Domestic Product (GDP)

The U.S. economy is slowing, dragged down by trade tensions and weak growth overseas. But there are few signs that the decade-long expansion is on the verge of stalling out.

Gross domestic product, the broadest measure of goods and services produced in the economy, rose at a 1.9% annual rate in the third quarter, according to preliminary data released by the Commerce Department.

A curious observation, personal consumption which measured 1.9% was 100% of Q3 GDP growth. All other GDP components net to 0%. Unfortunately, other parts of the economy look weaker. Business fixed investment declined and exports slumped as manufacturers were hit by tariffs and slowing demand from overseas.

The report also showed that final demand - a measure of underlying growth that strips out some of the most volatile components – rose 2.0% this summer after climbing 3.7% in the fall.

Economic Growth	3Q19	2Q19	1Q19
Real GDP (1)	**1.9%**	**2.0%**	**3.1%**
Personal Consumption (2)	1.9%	3.0%	0.8%
Private Investment (2)	-0.3%	-1.2%	1.1%
Government (2)	0.4%	0.8%	0.5%
Net Exports (2)	-0.1%	-0.6%	0.7%
Real GDP Components			
Domestic Final Sales (1)	2.0%	3.7%	1.8%
Foreign Trade Effect (1)	0.0%	-0.6%	0.7%
Final Sales (1)	2.0%	3.1%	2.5%
Inventory Effect (1)	-0.1%	-0.9%	0.6%
Real GDP (1)	1.9%	2.0%	3.1%
Demand Components			
Personal Consumption (1)	2.9%	4.6%	1.1%
Business Fixed Investment (1)	-3.0%	-1.0%	4.4%
Residential Investment (1)	5.1%	-2.9%	-1.1%
Government Spending (1)	2.0%	4.8%	2.9%

(1) Annualized Q/Q % Change, (2) Contribution to GDP Growth

Overall, this was another goldilocks report, which while hardly confirming the "greatest economy in American history", will give the Fed a green light to cuts rates one more time.

Inflation

The Consumer Price Index (CPI) measures price changes in consumer goods and services from the perspective of the purchaser.

The Personal Consumption Expenditures Index (PCE) includes a broader range of expenditures than CPI and uses a formula that adjusts for changes in consumer behavior. PCE measures price changes from the perspective of the purchaser.

The Producer Price Index (PPI) measures the change in selling prices of goods and service by domestic producers from the perspective of the seller. PPI inflation generally appears before CPI and PCE.

When making decisions on monetary policy, the Fed is most interested in the less volatile Core PCE, which excludes food and energy. Core PCE inflation increased +1.7% on a year-over-year basis and continues to trend below Fed’s target of +2.0%.

Inflation	9/19	5 Year High	5 Year Low
Headline (All Items)			
CPI (3)	1.7%	2.9%	-0.2%
PCE (3)	1.3%	2.5%	0.1%
PPI (3)	1.4%	3.4%	-1.5%
Core (Less Food and Energy)			
CPI (3)	2.4%	2.4%	1.6%
PCE (3)	1.7%	2.1%	1.2%
PPI (3)	2.0%	2.9%	0.2%
Inflation Expectations			
5Yr Breakeven Inflation	1.4%	2.1%	1.1%
10Yr Breakeven Inflation	1.6%	2.1%	1.3%
30Yr Breakeven Inflation	1.7%	2.2%	1.5%

(3) Y/Y % Change

The early signs of inflation we saw a few months ago have dissipated as inflation was tame during the third quarter.

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Business

The Conference Board's Leading Economic Index (LEI) increased 0.1% during the quarter to 111.9. For the twelve-month period ending September, the leading economic index has increased by +0.4%. The LEI reflects diminished business expectations, brought on by the downturn in the industrial sector and trade disputes. Looking ahead, the LEI is consistent with an economy that is still growing, albeit more slowly, through the end of the year and into 2020.

Business	9/19	5 Year High	5 Year Low
Leading Economic Index	111.9	112.2	96.9
Leading Economic Index (3)	0.4%	6.6%	0.3%
Small Business Optimism	101.8	108.8	92.6
ISM PMI	47.8	60.8	47.8
ISM NMI	52.6	60.8	51.6

(3) Y/Y % Change

According to the latest Manufacturing ISM Report on Business, the overall economy grew for the 125th consecutive month. The past relationship between the ISM PMI and the overall economy indicates that the September reading of 47.8% corresponds to a 1.5% increase in real gross domestic product on an annualized basis. *(A PMI reading above 42.9%, over a period of time, generally indicates an expansion of the overall economy.)*

As supply chains become disrupted, businesses become increasingly unlikely to undertake significant investment. This can be seen clearly in the recent reports as U.S. GDP and manufacturing surveys show capital goods orders have decelerated. This is the predicable outcome of tariffs and trade wars. Uncertainty breeds caution.

The latest Non-Manufacturing ISM Report on Business indicates economic activity in the non-manufacturing sector grew for the 116th consecutive month. The past relationship between the ISM NMI and the overall economy indicates that the September reading of 52.6% corresponds to a 1.4% increase in real gross domestic product on an annualized basis. *(An NMI reading above 48.6%, over a period of time, generally indicates an expansion of the overall economy.)*

Employment

Amid signs that the global economy is slowing, America's labor market nonetheless remains strong. The labor market has now posted 108 consecutive months of employment growth, extending the longest streak on record. In September, the unemployment rate fell to 3.5%, the lowest rate since December 1969, as employers added an average of 157,000 jobs per month to the US economy during the quarter.

Labor	9/19	5 Year High	5 Year Low
Wage Growth (3)	3.0%	3.1%	2.0%
Unemployment Claims (5)	212	294	207
Nonfarm Payrolls (6)	157	285	135
Unemployment Rate	3.5%	5.8%	3.5%
Under-employment Rate	6.9%	11.4%	6.9%
Labor Force Participation	63.2%	63.2%	62.4%

(3) Y/Y % Change, (5) Four Week Moving Average in Thousands,
(6) Three Month Moving Average in Thousands

There were many signs of strength, including robust hiring in health care, transportation, professional services and state and local government. But overall, the pace of hiring has slowed considerably since 2018, when the economy added an average of 223,000 jobs per month.

The September jobs report comes in the same week as several other reports that showed the US economy is slowing. Activity in American's factories has declined for two straight months, and the biggest piece of the economy, the services sector, is growing at its weakest pace in three years. Businesses expressed concern about tariffs, a shortage of workers and the direction of the economy.

Against that backdrop, economists and investors took the jobs report as a neutral sign. It was neither strong enough to disprove fears of a weakening economy, nor weak enough to confirm a robust economy.

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Consumer

Historically, strength in consumer confidence surveys bodes well for increased economic activity in the following months. The September survey reading of 126.3 indicates consumer expectations weakened slightly as they expressed some concerns about business conditions and job prospects. However, confidence levels remain high and there are no indications that consumers will curtail their holiday spending.

Consumer	9/19	5 Year High	5 Year Low
Consumer Confidence	126.3	137.9	91.0
Consumer Sentiment	93.2	101.4	86.9
Auto Sales [3]	-0.7%	8.7%	-5.4%
Retail Sales [3]	4.1%	6.5%	1.4%

[3] Y/Y % Change

The all-important U.S. consumer is still strong and there are few signs of this changing. For the U.S. economy to continue to thrive, the consumer will need to carry the U.S. through the remainder of the year. Lower interest rates should help alongside reasonable wage growth. The consumer is reasonably well positioned to continue supporting the expansion.

Housing

Housing inventory hit a record low two years ago, but a lull in home sales over the past year helped build back much-needed supply, especially in the mid-priced range. Then a sharp drop in mortgage rates this summer brought demand back and depleted that supply dramatically.

Housing	9/19	5 Year High	5 Year Low
Housing Affordability	160	184	138
Housing Starts [4]	1,256	1,386	888
Building Permits [4]	1,391	1,425	1,057
New Home Sales [4]	701	729	442
Existing Home Sales [4]	5,380	5,720	4,860

[4] Monthly Seasonally Adjusted Annual Rate in Thousands

Supply has always been leanest on the low end, as investors have been very active in that price range since the foreclosure crisis. Roughly 5 million mostly entry-level homes have been turned into single-family rentals, and strong demand for those rentals means investors are unlikely to put the homes up for sale anytime soon.

In addition, an unseasonably strong surge in demand at the end of summer and into this fall now has the supply of homes priced below $200,000 down 10% compared with a year ago. The demand is being fueled by lower mortgage rates. With mortgage rates around 3.5%, sales of both new and existing homes are picking up. Builders are unlikely to catch up with demand, as experts estimate the market is now undersupplied by about 1 million housing units. Builders may want to build more at the entry level, but they are not able to given the current costs.

Looking forward

Overall, domestic economic indicators continued to moderate during the third quarter of 2019. The prospects for the balance of 2019 appear favorable based on positive trends in consumer spending, job gains and inflation. We expect the U.S. economy to grow at annualized rate of +2.5% in 2019 due in part to low unemployment and low inflation, a combination that produces stronger consumer purchasing power.

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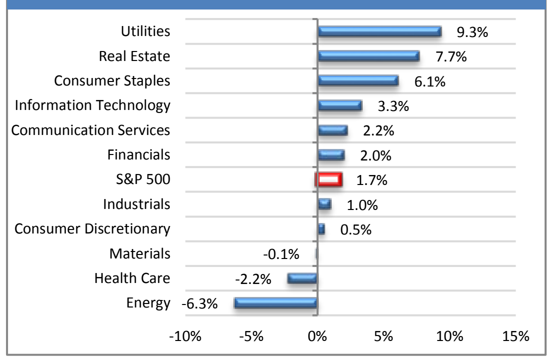
Equity Market Summary

The stock market continued its upward move in the second quarter, albeit with less vigor and more volatility. The benchmark S&P 500 index rose 1.7% during Q3, the Dow Jones Industrial Average was up 1.7%, and the Nasdaq was up 0.1%. Results overseas were not as positive as the MSCI EAFE index lost -0.9% and the MSCI Emerging Markets index lost -4.1%.

Equity Total Returns			
	3Q 19	YTD	12 MO
DJIA	1.7%	17.3%	4.1%
S&P 500	1.7%	20.6%	4.3%
Nasdaq	0.1%	21.5%	0.5%
International (1)	-0.9%	13.2%	-1.5%
Emerging Markets (2)	-4.1%	5.8%	-2.0%
Domestic Market Cap			
Mega (3)	1.7%	20.3%	4.4%
Large (4)	1.8%	20.0%	4.1%
Mid (5)	0.5%	21.9%	3.2%
Small (6)	-2.4%	14.2%	-8.9%
Domestic Style			
Growth (7)	1.1%	22.8%	2.7%
Core (7)	1.2%	20.1%	2.9%
Value (7)	1.2%	17.5%	3.1%

(1) MSCI EAFE IMI, (2) MSCI Emerging Markets IMI, (3) Russell Top 50, (4) Russell Top 200, (5) Russell Midcap, (6) Russell 2000, (7) Russell 3000

3Q 2019 S&P 500 Total Returns by Sector



Ongoing concerns around slowing global growth, reduced corporate earnings and political uncertainty weighed on business sentiment throughout the quarter and led to increased volatility. As expected, the Federal Reserve cut rates at its July and September meetings. However, markets reacted with disappointment to Fed comments implying these rate cuts were only "mid-cycle" adjustments rather than the start of a prolonged easing cycle.

From a fundamental perspective, once again valuations increased faster than fundamentals strengthened. Earnings for U.S. companies are feeling the pressure of the slower economy. Going into the reporting season for the third quarter the pressure on estimates is increasing with almost twice as many downward revisions as upward revisions. The strong job market, while good for the economy as a whole, also creates margin pressure for companies as wages rise. Blended earnings growth for 2019 is projected to be **1%** on revenue growth of **4%**.

Large companies continue to garner favor, probably because of their perceived stability as the economic cycle ages, and the top half of the market cap universe has experienced a larger increase in valuation than the bottom half (large vs small market cap). The uptick in valuations seems at odds with the fundamentals we discussed earlier including the global weakness in capital expenditures, a key ingredient for economic growth and the drop in the global PMI manufacturing figures, which are posting their lowest readings since 2012.

So, are S&P 500 companies with higher global revenue exposure underperforming S&P 500 companies with lower global revenue exposure in terms of earnings growth and revenue growth for Q3 2019? According to FactSet, the answer is yes.

The blended earnings decline for the S&P 500 for 3Q19 is -3.7%. For companies that generate more than 50% of sales inside the U.S., the blended earnings decline is -0.8%. For companies that generate less than 50% of sales inside the U.S., the blended earnings decline is -9.1%.

The same holds true for revenue. The blended revenue growth rate for the S&P 500 for Q3 2019 is 2.8%. For companies that generate more than 50% of sales inside the U.S., the blended revenue growth rate is 4.6%. For companies that generate less than 50% of sales inside the U.S., the blended revenue decline is -2.0%.

Looking forward

Looking forward into the remainder of this year and into 2020, we see more volatility in the markets driven by mixed economic signals and the increased reliance on the Fed. In the current environment, we are now neutral to negative on equities and will hold a slightly underweight exposure until the corporate earnings stabilize.

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Taxable Bond Market Summary

The dovish tone from the Federal Reserve set the stage for a continued rally in both risky and risk-free fixed income assets. The Bloomberg Barclays U.S. Aggregate Bond Index generated a return of +2.3% in the quarter, pushing its 12 Month return to +10.3%.

The third quarter was characterized by fears of decelerating growth both domestically and abroad, rising geopolitical threats, and concerns that U.S.-China trade negotiations were again deteriorating. As a result, central banks leapt into action, as both the European Central Bank (ECB) and the FOMC lowered policy rates. Regarding their respective balance sheets, the ECB recommenced open-ended asset purchases, while the Fed ceased the quantitative tightening it began in fourth quarter 2017. Accommodative policy has pressured global interest rates lower and the total market value of negative yielding global debt surged to record levels. While the rally faded in September and yields backed-off recent lows, both forward markets and the slope of yield curves suggest anticipation of additional policy accommodation.

U.S. Treasury yields responded by moving sharply lower during the quarter, particularly in August and early September, as markets increasingly expected the Federal Reserve would have no choice but to respond with additional accommodation in future months.

Despite concerns over slowing global growth and volatile trade negotiations, the dovish rhetoric provided a tailwind to risk assets. Risk assets are richly valued in our view, given the mixed outlook on earnings growth and the potential for a resurfacing of volatility in the coming months. We believe tempered enthusiasm is warranted, as forward return expectations have moderated given the lower level of yields and spreads across the maturity and quality spectrum.

The sharp drop in Treasury yields over the course of the quarter was in sync with the weaker economic outlook. Softening financial conditions normally lead investors to demand higher returns on riskier assets, but the spread between U.S. Treasuries and more speculative high-yield bonds declined from 377 bps at the end of June to 373 bps at the end of the September, more so than any other rating category.

A moderation in domestic growth appears increasingly likely, which may also limit the ability of long-term interest rates to rise further. And, if the Fed decides to reduce interest rates further, the looser financial conditions may result in an extension of what has already been the second longest economic expansion in U.S. history.

U.S. Treasury Yield Curve				
	Sep 19	QTR BPS Δ	YTD BPS Δ	12 MO BPS Δ
2 Year	1.63%	-12	-85	-118
5 Year	1.55%	-21	-96	-139
10 Year	1.68%	-32	-101	-137
30 Year	2.12%	-40	-90	-107

Credit Spreads				
	Sep 19	QTR BPS Δ	YTD BPS Δ	12 MO BPS Δ
Aaa	19 bps	0	2	6
Aa	55 bps	-3	-19	2
A	88 bps	1	-30	2
Baa	152 bps	1	-45	15
< Baa	373 bps	-4	-153	57

Taxable Bond Total Returns			
	3Q 19	YTD	12 MO
Aggregate Bond Index	2.3%	8.5%	10.3%
International	-0.6%	4.4%	5.3%
Emerging Markets	1.3%	10.8%	10.6%
Domestic Sector			
Treasury	2.4%	7.7%	10.5%
Agency	2.2%	7.0%	8.2%
Corporate	3.0%	13.2%	13.0%
Securitized	1.4%	5.8%	7.9%
Domestic Quality			
Aaa	2.0%	6.9%	9.3%
Aa	2.6%	9.5%	11.0%
A	2.9%	12.2%	12.6%
Baa	3.3%	14.5%	13.5%
< Baa	1.3%	11.4%	6.3%
Domestic Maturity			
Short (1)	0.7%	3.4%	4.7%
Intermediate (2)	1.5%	6.8%	8.9%
Long (3)	6.6%	20.9%	22.0%

(1) Short 1-3 Years, (2) Intermediate 5-7 Years, (3) Long 10+ Years

Looking forward

We continue to maintain a "defensive overweight" to credit by emphasizing shorter duration holdings and avoiding issuers that we feel lack the ability to maintain their credit fundamentals in a decelerating economic environment.

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Municipal Bond Market Summary

The municipal market posted strong positive returns in the quarter, following a similar path from the first six months of the year. Declining rates and spread tightening drove performance as the Bloomberg Barclays Municipal Bond Index was up +1.6% in the quarter, pushing its 12 Month return to +8.6%.

The intensifying trade conflict between the U.S. and China, slowing global economic growth, rising geopolitical risk and continued monetary policy easing in the U.S. and Europe caused U.S. Treasury and high-quality municipal yields to fall during the quarter. The 10-year AAA municipal yield curve finished September at 1.47%, down 15 basis points from June.

Technical factors, or supply and demand dynamics, were a positive for the municipal market. On the supply front, new municipal bond issuance totaled $103 billion in the third quarter, according to the SIFMA. This represents an increase of almost 18% compared to 3Q18 supply.

On the demand front, fund inflows remained robust, with investors pouring $20 billion into municipal bond funds during the quarter, according to Lipper fund flow data. Mutual funds have now experienced 38 straight weeks of net inflows. The unprecedented strength of inflows contributed to the aforementioned relative strength the municipal market has enjoyed in 2019.

The tax-exempt market remains solid from a credit perspective while strong demand provides support to pricing levels. Even lower-rated credit issuance has been well received, demonstrating ample market liquidity. During the third quarter, municipal credit investors showed no signs of relenting in their efforts to push credit spreads to new lows, particularly among the lower rated credit (Baa and <Baa). Spread narrowing in A-rated and BBB-rated categories enhanced positive total returns in the period and for the year thus far. While credit performance was quite strong, it was not out of line with the results of other areas of domestic fixed income.

Looking forward

We continue to maintain a "defensive overweight" to municipals by emphasizing intermediate duration holdings and avoiding issuers that we feel lack the ability to maintain their credit fundamentals in a decelerating economic environment.

AAA Municipal Yield Curve (%)				
	Sep 19	QTR BPS Δ	YTD BPS Δ	12 MO BPS Δ
2 Year	1.27%	-2	-53	-71
5 Year	1.28%	-6	-68	-95
10 Year	1.47%	-15	-85	-115
30 Year	2.11%	-29	-98	-115

Municipal AAA Yield to Treasury Yield Ratio (%)				
	Sep 19	QTR Δ	YTD Δ	12 MO Δ
2 Year	78%	4%	6%	8%
5 Year	83%	7%	5%	7%
10 Year	88%	7%	1%	2%
30 Year	100%	4%	-3%	-3%

Municipal Credit Spreads				
	Sep 19	QTR BPS Δ	YTD BPS Δ	12 MO BPS Δ
Aa	6 bps	-3	-6	-4
A	33 bps	-6	-16	-9
Baa	90 bps	-9	-28	-9
<Baa	239 bps	-22	-22	13

Municipal Bond Total Returns			
	3Q 19	YTD	12 MO
Municipal Bond Index	1.6%	6.8%	8.6%
Type			
General Obligation	1.5%	6.4%	8.4%
Revenue	1.7%	7.2%	9.0%
Quality			
Aaa	1.4%	6.0%	7.9%
Aa	1.5%	6.4%	8.2%
A	1.7%	7.3%	9.1%
Baa	2.1%	8.8%	10.3%
<Baa	2.8%	9.7%	10.0%
Maturity			
Short (1)	0.3%	2.8%	3.9%
Intermediate (2)	1.0%	5.7%	7.8%
Long (3)	1.4%	6.9%	9.1%

(1) Short 3 Years, (2) Intermediate 6-8 Years, (3) Long 8-12 Years

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Economic Index Descriptions

Real Gross Domestic Product (GDP): Real GDP is a basic measure of U.S. economic output adjusted for inflation. Alternatively, it can be thought of as the final value of all goods and services produced within the U.S. Positive Real GDP growth signals an expanding economy.

Consumer Price Index (CPI): Measuring the change in the CPI provides an estimate for inflation. The CPI tracks the price of a basket of consumer goods and services. High inflation or deflation (negative inflation) can be signs of economic worry. CPI is typically reported in two ways: headline and core CPI. Headline CPI includes all categories that comprise the CPI basket of goods and services. Core CPI, which is closely monitored by the Fed, strips out the more volatile Food and Energy categories.

Personal Consumption Expenditure Chain-type Price Index (PCE): Measuring the change in the PCE provides an estimate for inflation. In comparison to CPI, which uses one set of expenditure weights for several years, this index uses expenditure data from the current period and the preceding period. This price index method assumes that the consumer has substituted from goods whose prices are rising to goods whose prices are stable or falling. Core PCEPI, which is closely monitored by the Fed, strips out the more volatile Food and Energy categories.

Producer Price Index (PPI): Measuring the change in the PPI provides an estimate for inflation. The PPI is a weighted index of prices measured at the wholesale, or producer level. A monthly release from the Bureau of Labor Statistics (BLS), the PPI shows trends within the wholesale markets (the PPI was once called the Wholesale Price Index), manufacturing industries and commodities markets. All of the physical goods-producing industries that make up the U.S. economy are included, but imports are not. The PPI measures the average changes over time in the selling prices received by domestic producers.

Conference Board Index of Leading Economic Indicators (LEI): The LEI is designed to signal peaks and troughs in the business cycle. The ten components of for the U.S. include: average weekly manufacturing hours; average weekly initial claims for unemployment insurance; manufacturers' new orders for consumer goods and materials; ISM® Index of New Orders; manufacturers' new orders for nondefense capital goods excluding aircraft orders; building permits for new private housing units; stock prices of 500 common stocks; Leading Credit Index™; interest rate spread on 10-year Treasury bonds less federal funds and average consumer expectations for business conditions.

NFIB Small Business Optimism Index: The small business optimism index is compiled from a survey that is conducted each month by the National Federation of Independent Business (NFIB) of its members. The index is a composite of 10 seasonally adjusted components based on the following questions: plans to increase employment, plans to make capital outlays, plans to increase inventories, expect economy to improve, expect real sales higher, current inventory, current job openings, expected credit conditions, now a good time to expand, and earnings trend.

The Institute for Supply Management (ISM) PMI Index: The PMI is a composite index of five "sub-indicators", which are extracted through surveys to purchasing managers from around the country, chosen for their geographic and industry diversification benefits. The five sub-indexes are: Production, New orders, Supplier deliveries, Inventories and Employment level. An Index value over 50 indicates expansion; below 50 indicates contraction.

The Institute for Supply Management (ISM) Non-manufacturing Index (NMI): The NMI is a composite index of four "sub-indicators", which are extracted through surveys to purchasing managers from around the country, chosen for their geographic and industry diversification benefits. The four sub-indexes: Business activity, New orders, Employment, Supplier deliveries. An Index value over 50 indicates expansion; below 50 indicates contraction.

Consumer Confidence Index (CCI): The Consumer Confidence Index is a well-known proxy for the attitudes of U.S. consumer towards topics such as the business climate, personal finances and spending. In essence, this index attempts to measure the confidence that consumers have in the overall economy. This is important because consumer spending accounts for a large portion of U.S. GDP.

Unemployment Rate: Calculated monthly by the Bureau of Labor Statistics, the unemployment rate is a gauge of the health of the U.S. labor market. High unemployment can stifle the growth of the economy.

Domestic Equity Benchmark Descriptions

Investment Style: Performance of different types of stocks will vary over time. A common way to characterize a stock is by market capitalization (e.g., large cap or small cap) or style (e.g., value or growth).

Large Cap vs. Small Cap: Large companies tend to be more established companies and therefore exhibit lower volatility. Over an extended period of time, expected returns of small cap companies are often higher due to the risks associated with smaller, less established companies.

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Mega Cap: The Russell Top 50 Index measures the performance of the 50 largest companies in the Russell 1000 Index, which represents approximately 40% of the total market capitalization of the of the Russell 1000 Index.

Large Cap: The Russell Top 200 Index measures the performance of the 200 largest companies in the Russell 1000 Index, which represents approximately 68% of the total market capitalization of the of the Russell 1000 Index.

Mid Cap: The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 36% of the total market capitalization of the Russell 1000 Index.

Small Cap: The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

Value vs. Growth: Value companies typically trade at discount valuations and may pay a dividend. Growth companies are those that are experiencing greater earnings growth prospects.

Growth: The Russell 3000 Growth Index measures the performance of those Russell 3000 index companies with higher price-to-book ratios and higher forecasted growth values.

Value: The Russell 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

Domestic Fixed Income Benchmark Descriptions

U.S. Aggregate Bond: The Barclays U.S. Aggregate Bond Index measures the performance of USD-denominated, SEC-registered, investment-grade, fixed-rate or step up, taxable bonds. The index includes bonds from the Treasury, Government-Related, Corporate and MBS (agency fixed-rate and hybrid ARM pass-through), ABS, and CMBS sectors. Securities included in the index must have at least 1 year until final maturity.

U.S. Treasury: The Barclays Capital U.S. Treasury Index measures the performance of public obligations of the U.S. Treasury with a remaining maturity of one year or more.

U.S. Agency: The Barclays Capital U.S. Agency Bond Index measures the performance of the agency sector of the U.S. government bond market and is comprised of investment-grade U.S. dollar-denominated debentures issued by government and government-related agencies, including FNMA. The index includes both callable and non-callable securities that are publicly issued by U.S. government agencies, quasi-federal corporations, and corporate and foreign debt guaranteed by the U.S. government.

U.S. Corporate: The Barclays Capital U.S. Corporate Bond Index measures the performance of publicly issued USD-denominated corporate and Yankee debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

U.S. MBS: The Barclays Capital U.S. Mortgage Backed Securities Index measures the performance of mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

U.S. Municipal Bond: The Barclays Capital Municipal Bond Index measures the performance of the USD-denominated, investment grade, fixed-rate tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. Securities included in the index must have at least 1 year until final maturity.

General Obligation Bond Index: The Barclays General Obligation Bond Index measures the average market-weighted performance of general obligations securities that have been issued in the last five years with maturities greater than one year.

Revenue Bond Index: The Barclays Revenue Bond Index measures the average market-weighted performance of revenue backed securities that have been issued in the last five years with maturities greater than one year.

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