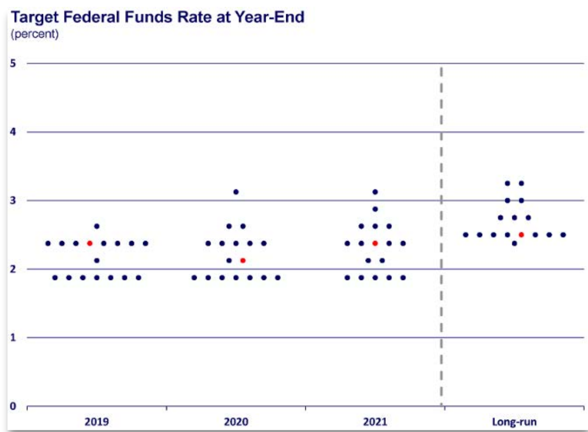
Economic and Capital Market Review

Second Quarter 2019

Right now, the global Central Banks, and in particular the U.S. Federal Reserve, are the market…. So, let's just start there.

Federal Open Market Committee (FOMC)

The FOMC held interest rates steady in their June meeting while indicating a rate cut could come soon, a **notable** shift from just two months ago when they saw no reason for a rate adjustment.



Several explanations have been offered for this change in policy: inflation remains below the Fed's 2% target and shows no real sign of accelerating; commodity prices have started to decline, a downturn in indicators of global growth; a strong dollar; and continued trade tensions.

Fed Chairman Powell summarized the current economic situation in the Fed's June commentary, stating "the baseline outlook is favorable, but risks weigh more heavily on the outlook now."

The U.S. Federal Reserve is poised to make a monumental move at its policy-making meeting this week and cut interest rates for the first time in more than 10 years. Markets expect this move to be the **first step** in a new stimulus policy aimed at protecting the U.S. economy from the risks cited above.

In addition, many think this week's cut in the federal funds rate could be as large as half a percentage point. However, there is no consensus for such an aggressive move on the policy-making Federal Open Market Committee (FOMC), plus the most recent economic data show the economy maintaining its momentum. In recent weeks, the U.S. has seen stronger-than-expected employment gains, retail sales and growth in gross domestic product (GDP). The GDP reading for the second quarter, in particular, was considerably stronger than it appeared on the surface as real final sales to domestic purchasers, which excludes fluctuations in inventories and trade, rose at a 3.5% annualized rate, nearly double the 1.8% rate of the first quarter. Also, core inflation accelerated a bit in June closer the Fed's 2% target.

According to William Dudley, former President of the Federal Reserve Bank of New York, the case for lowering rates is less compelling now than it was when the FOMC last met in June. This doesn't necessarily mean that an interest-rate decrease this week would be a mistake. But it does mean that market participants -- who are expecting a series of cuts over the next year or so -- might be in for an "**unpleasant surprise"**, because the Fed's future moves will be more dependent on incoming economic data than they think. There's a good chance that, after this week's meeting, the central bank will be "**one and done**."

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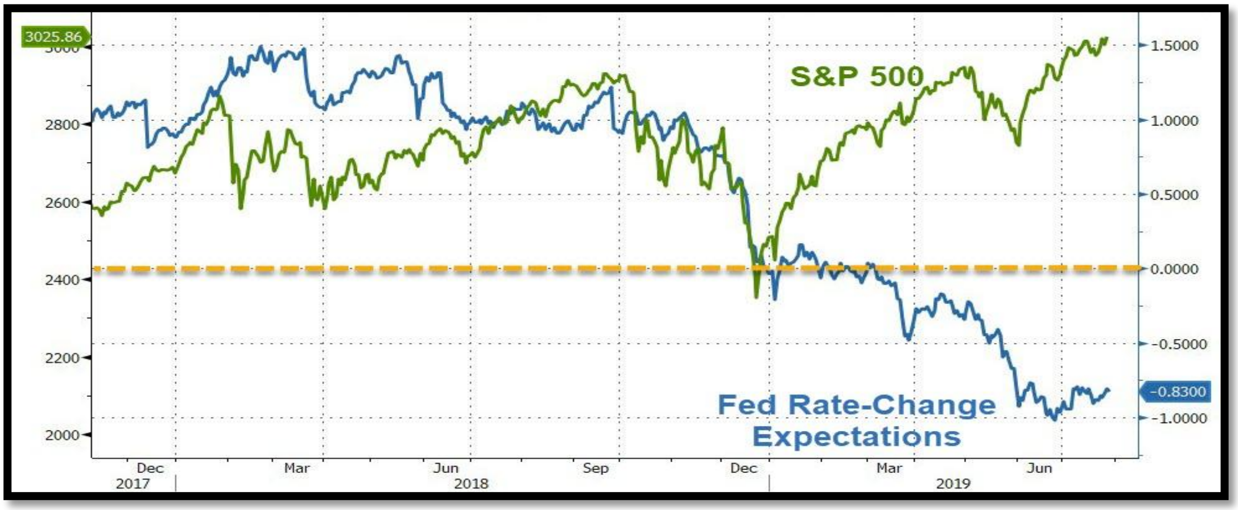
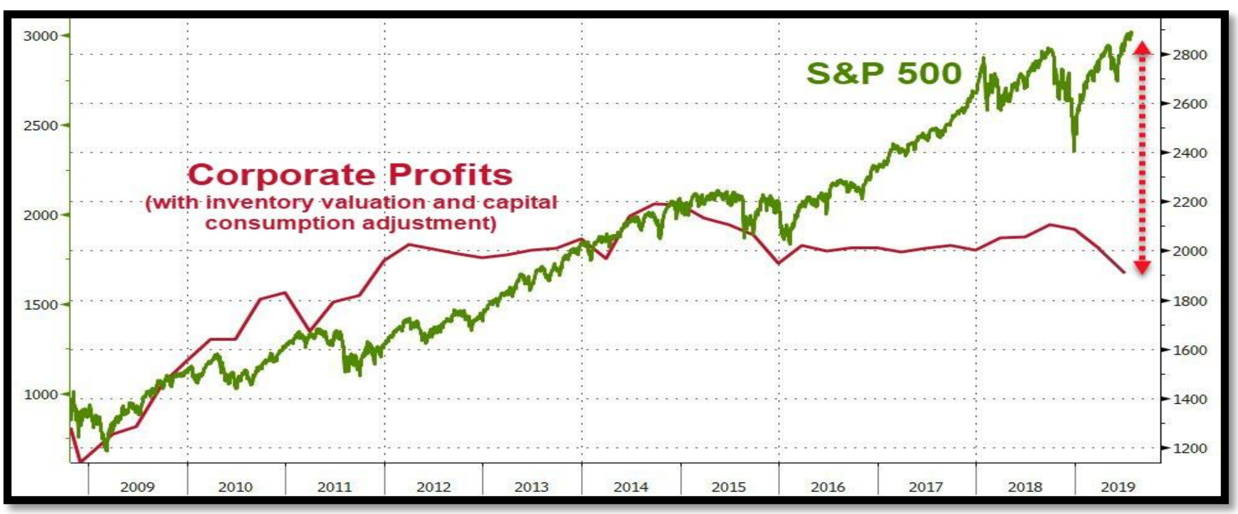
After all, the Fed has more than succeeded in stabilizing the markets. Since they turned dovish in January, prices for risk assets have soared based on the assumption the Fed will deliver sustained and significant stimulus. As the chart below reveals, the markets expect approximately 1% in cumulative rate reductions from the Fed. But if Mr. Dudley is correct, and the Fed delivers a 0.25% reduction and then returns to a data dependent stance, brace for volatility in risk assets as prices adjust to the news.



At the fundamental level, weaker economic growth dampens the long-term outlook for corporate profits, but for now the markets are cheering disappointing growth and inflation news because it prompts more central bank support. At some point the Fed will step to the sideline and risk assets will trade based off their underlying economic fundamentals.



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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 2.1% annual rate in the second quarter, according to preliminary data released by the Commerce Department

The report also showed that final demand - a measure of underlying growth that strips out some of the most volatile components - accelerated to 3.5% this spring.

Consumer spending has been resilient throughout the recovery. Thus, it was a worrying sign when spending slumped in late 2018 and early 2019. But consumer spending roared back in the spring, rising at a 4.3% rate. Government spending, which picked up in the second quarter after being depressed by the shutdown, also helped lift growth.

Economic Growth	2Q19	1Q19	4Q18
Real GDP (1)	**2.1%**	**3.1%**	**1.1%**
Personal Consumption (2)	2.9%	0.8%	1.0%
Private Investment (2)	-1.0%	1.1%	0.5%
Government (2)	0.9%	0.5%	-0.1%
Net Exports (2)	-0.7%	0.7%	-0.3%
Real GDP Components			
Domestic Final Sales (1)	3.5%	1.8%	1.3%
Foreign Trade Effect (1)	-0.5%	0.7%	-0.3%
Final Sales (1)	3.0%	2.5%	1.0%
Inventory Effect (1)	-0.9%	0.6%	0.1%
Real GDP (1)	2.1%	3.1%	1.1%
Demand Components			
Personal Consumption (1)	4.3%	1.1%	1.4%
Business Fixed Investment (1)	-0.6%	4.4%	4.8%
Residential Investment (1)	-1.5%	-1.1%	-4.6%
Government Spending (1)	5.0%	2.9%	-0.4%

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

Unfortunately, other parts of the economy look weaker. Residential investment declined for the sixth consecutive quarter. Business investment also declined and exports slumped as manufacturers were hit by tariffs and slowing demand from overseas.

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 +1.6% on a year-over-year basis and continues to trend below Fed's target of +2.0%.

Inflation	6/19	5 Year High	5 Year Low
Headline (All Items)			
CPI (3)	1.6%	2.9%	-0.2%
PCE (3)	1.4%	2.5%	0.1%
PPI (3)	1.6%	3.4%	-1.5%
Core (Less Food and Energy)			
CPI (3)	2.1%	2.4%	1.6%
PCE (3)	1.6%	2.1%	1.2%
PPI (3)	2.3%	2.9%	0.2%
Inflation Expectations			
5Yr Breakeven Inflation	1.6%	2.1%	1.1%
10Yr Breakeven Inflation	1.7%	2.3%	1.3%
30Yr Breakeven Inflation	1.8%	2.4%	1.5%

(3) Y/Y % Change

However, the Core PCE has increased at an annual pace of 2.5% over the past three months, the fastest pace in more than a year. If the past three months are any indication, it looks like core inflation could be a bit stronger than anticipated during the second half of the year.

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Business

The Conference Board's Leading Economic Index (LEI) declined 0.2% during the quarter to 111.5. For the twelve-month period ending June, the leading economic index has increased by +1.6%. The trend in the U.S. LEI continues to moderate, suggesting that growth in the U.S. economy is likely to decelerate toward its long-term potential of about 2% by year-end.

Business	6/19	5 Year High	5 Year Low
Leading Economic Index	111.5	111.8	95.8
Leading Economic Index (3)	1.6%	6.6%	0.3%
Small Business Optimism	103.3	108.8	92.6
ISM PMI	51.7	60.8	47.8
ISM NMI	55.1	60.8	51.6

(3) Y/Y % Change

According to the latest Manufacturing ISM Report on Business, the overall economy grew for the 122nd consecutive month. The past relationship between the ISM PMI and the overall economy indicates that the June reading of 51.7% corresponds to a 2.6% increase in real gross domestic product on an annualized basis. *(A reading above 50% indicates that the manufacturing economy is generally expanding and a reading below 50% indicates that it is generally contracting.)*

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 113th consecutive month. The past relationship between the ISM NMI and the overall economy indicates that the June reading of 55.1% corresponds to a 2.3% increase in real gross domestic product on an annualized basis. *(A reading above 50% indicates that the non-manufacturing economy is generally expanding and a reading below 50% indicates that it is generally contracting.)*

Employment

The labor market has now posted 105 consecutive months of employment growth, extending the longest streak on record. Employers added an average of 171,000 jobs per month in the second quarter of 2019. The June jobs report shows the US economy is not stalling out, something investors have been worried about following May's disappointing numbers. In addition, other data in the report showed wages are rising but not at a rate which would spur inflation.

Labor	6/19	5 Year High	5 Year Low
Wage Growth (3)	2.9%	3.1%	2.0%
Unemployment Claims (5)	222	320	212
Nonfarm Payrolls (6)	171	285	136
Unemployment Rate	3.7%	6.2%	3.6%
Under-employment Rate	7.2%	12.1%	7.1%
Labor Force Participation	62.9%	63.2%	62.4%

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

The unemployment rate declined to 3.7% in June as people continue to re-enter the labor force. A more encompassing measure of unemployment that includes discouraged workers and those at part-time jobs for economic reasons also decreased slightly to 7.2%. As we mentioned last quarter, the labor force participation rate and the employment to population ratio remain low, suggesting higher wages might continue to draw workers off the sidelines and into the labor market.

Consumer

Historically, strength in consumer confidence surveys bodes well for increased economic activity in the following months. The June survey reading of 121.5 indicates consumers remain optimistic about current and prospective business and labor market conditions. In addition, their expectations regarding their financial outlook also improved. These high levels of confidence should continue to support robust spending in the near-term despite slower growth in GDP.

Consumer	6/19	5 Year High	5 Year Low
Consumer Confidence	121.5	137.9	89.0
Consumer Sentiment	98.2	101.4	81.8
Auto Sales (3)	0.4%	8.9%	-5.6%
Retail Sales (3)	3.4%	6.6%	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 second half of the year. Lower interest rates should help alongside reasonable wage growth. The consumer is reasonably well positioned to continue supporting the expansion.

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Housing

The sharp drop in mortgage rates this quarter would normally be a cure for a housing market that has stumbled recently under the weight of diminished affordability. Unfortunately, the latest drop in mortgage rates has not been enough to overcome rising anxiety among potential homebuyers.

Housing	6/19	5 Year High	5 Year Low
Housing Affordability	152	184	138
Housing Starts (4)	1,253	1,335	888
Building Permits (4)	1,232	1,406	1,047
New Home Sales (4)	646	715	402
Existing Home Sales (4)	5,270	5,720	4,860

(4) Monthly Seasonally Adjusted Annual Rate in Thousands

Demand for refinancing existing mortgages has been perking up, however, which would redirect household cash flow toward home improvements and consumer spending in general.

Lower mortgage rates have bolstered homebuilder confidence, and sentiment among potential home buyers has also improved. Unfortunately, the affordability paradox facing potential buyers has not eased enough to provide a significant boost to home sales. Modest gains in home sales and housing starts are still expected this year, but rather than igniting a resurgence in home buying, lower mortgage rates should merely cushion the blow from slower economic growth.

Looking forward

Overall, domestic economic indicators continued to moderate during the second 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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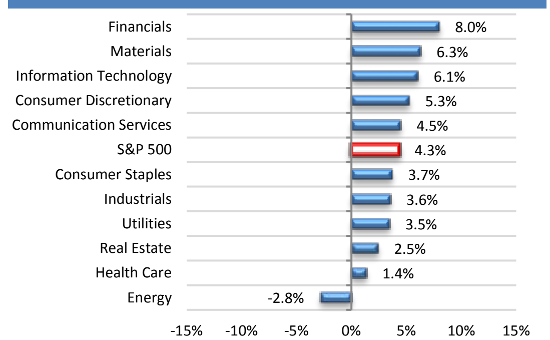
Equity Market Summary

Following the first quarter rebound, the stock market continued its upward move in the second quarter. The benchmark S&P 500 index rose 4.3% during Q2, the Dow Jones Industrial Average was up 3.2%, and the Nasdaq was up 3.8%. Results overseas were also positive as the MSCI EAFE index rose 3.7%. The MSCI Emerging Markets index produced a more modest 0.6% return.

Equity Total Returns			
	2Q 19	YTD	12 MO
DJIA	3.2%	15.4%	12.2%
S&P 500	4.3%	18.5%	10.4%
Nasdaq	3.8%	21.3%	7.8%
International (1)	3.7%	14.3%	0.5%
Emerging Markets (2)	0.6%	10.3%	0.9%
Domestic Market Cap			
Mega (3)	4.2%	18.3%	12.2%
Large (4)	4.3%	17.9%	10.9%
Mid (5)	4.1%	21.4%	7.8%
Small (6)	2.1%	17.0%	-3.3%
Domestic Style			
Growth (7)	4.5%	21.4%	10.6%
Core (7)	4.1%	18.7%	9.0%
Value (7)	3.7%	16.0%	7.3%

(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

2Q 2019 S&P 500 Total Returns by Sector



While concerns around slowing global growth, reduced corporate earnings expectations and political uncertainty persisted, markets pushed higher. The dovish shift by the Fed was the most important factor driving the market rebound, but easing trade tension between the U.S. and China; decent corporate earnings; and benign inflation also played key roles.

From a fundamental perspective, valuations increased faster than fundamentals strengthened. Earnings for U.S. companies are already feeling the pressure of the slower economy and, with the effects of last year's tax reform fading, that pressure may increase in coming quarters. Going into the reporting season for the second quarter the pressure on estimates is increasing with almost twice as many downward revisions as upward revisions through June. 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 between 2%-8% 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. 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 were posting their lowest reading since 2012.

Looking overseas, non-U.S. stocks also performed well. The rebound in international equities this year is encouraging after a disappointing 2018, and while they were still unable to keep pace with the momentum in U.S. equities the sentiment around foreign stocks has stabilized. As the global economic expansion slows the relatively stronger growth outside of the U.S. should continue to support overseas equities. Several of the short-term challenges they faced last year have improved: The Fed's rate-hike pause should relieve some of the upward pressure on the dollar and foreign equities should take encouragement also from the improvements on the trade front and the more stable situation in China.

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 picture stabilizes.

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Taxable Bond Market Summary

The unambiguously dovish tone from the Federal Reserve in the second quarter 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 +3.1% in the quarter, pushing its 12 Month return to +7.9%.

U.S. Treasury yields moved sharply lower over the last three months, as expectations for patience from the Fed at the beginning of the quarter evolved to reflect an imminent reduction in the policy rate. As a result, the yield on the two-year treasury was down 52 basis points (bps) and the thirty-year was down 29 bps.

The Treasury yield curve inverted near the close of the first quarter and stayed inverted thru the end of June as the 10-year yield remained below the 3-month yield. An inverted yield curve tends to signal slowing growth expectations and often precedes a recession. This is the first time the yield curve has inverted for any length of time since 2007.

The robust returns in fixed income markets reflected investor confidence that global central banks will follow through on the well-telegraphed pivot to more accommodative policy. Despite concerns over slowing global growth and volatile trade negotiations, the dovish rhetoric provided a tailwind to risk assets. This leaves markets at somewhat of an inflection point to start the third quarter, as Treasury markets now imply three rate cuts over the remainder of this calendar year.

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 second half of 2019. 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 391 bps at the end of March to 377 bps at the end of the June, more so than any other rating category.

U.S. Treasury Yield Curve				
	Jun 19	QTR BPS Δ	YTD BPS Δ	12 MO BPS Δ
2 Year	1.75%	-52	-73	-77
5 Year	1.76%	-47	-75	-97
10 Year	2.00%	-41	-69	-85
30 Year	2.52%	-29	-50	-46
Credit Spreads				
	Jun 19	QTR BPS Δ	YTD BPS Δ	12 MO BPS Δ
Aaa	20 bps	4	2	6
Aa	58 bps	1	-16	-4
A	87 bps	-3	-31	-14
Baa	151 bps	-6	-46	-6
< Baa	377 bps	-14	-149	14

Taxable Bond Total Returns			
	2Q 19	YTD	12 MO
Aggregate Bond Index	3.1%	6.1%	7.9%
International	3.4%	5.0%	4.1%
Emerging Markets	3.8%	9.4%	11.0%
Domestic Sector			
Treasury	3.0%	5.2%	7.2%
Agency	2.2%	4.8%	6.2%
Corporate	4.5%	9.9%	10.7%
Securitized	2.0%	4.3%	6.4%
Domestic Quality			
Aaa	2.6%	4.8%	6.9%
Aa	3.3%	6.7%	8.5%
A	4.2%	9.0%	10.1%
Baa	4.8%	10.9%	11.4%
< Baa	2.5%	9.9%	7.5%
Domestic Maturity			
Short (1)	1.5%	2.7%	4.3%
Intermediate (2)	2.6%	5.2%	7.5%
Long (3)	6.6%	13.5%	13.9%

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

A moderation in domestic growth appears increasingly likely in 2019, which may also limit the ability of long-term interest rates to rise further. And, if the Fed decides to reduce interest rates, the looser financial conditions may result in an extension of what has already been the second longest economic expansion in U.S. history.

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 second quarter, following a similar path from the first three months of the year. Declining rates and spread tightening drove performance as the Bloomberg Barclays Municipal Bond Index was up +2.9% in the quarter, pushing its 12 Month return to +6.7%.

Municipal bond yields moved lower in tandem with Treasury rates. The 10-year AAA municipal yield curve finished June at 1.62%, down 26 basis points from December.

Technical factors, or supply and demand dynamics, were a positive for the municipal market. On the supply front, new municipal bond issuance totaled $90 billion in the second quarter, according to the SIFMA. This represents a decrease of almost 10% compared to 2018 supply. A large part of the decreased supply can be traced to the 2017 tax reform act, which prohibited advance refunding of older, higher-coupon municipal bonds.

On the demand front, fund inflows were noteworthy, with investors pouring $18 billion into municipal bond funds during the quarter, according to Lipper fund flow data. With the new tax law capping the deductibility of state and local taxes at $10,000 a year, many Americans are facing higher taxes. As a result, tax-exempt bond funds are seeing renewed demand, which has contributed to rising prices. The surge helped to offset weaker interest from banks following the decline in the corporate income tax rate from 35% to 21%.

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. Exogenous factors seem the most likely to surprise in the near term while longer term, a recession could serve as a disruptor to credit quality. Whether spread tightening has run its course is a more immediate question.

Structural risks still pose a challenge to many issuers, including a weaker federal government partner, growing pension and retiree healthcare costs. As happened with pension accounting a few years ago, new government regulations are about to shine a light on how states record healthcare liabilities, which the vast majority address on a pay-as-you-go basis. When the economy is humming along, these issues are often ignored. But the good times won't last forever. At this stage in the cycle, a more cautious outlook on credit is warranted.

AAA Municipal Yield Curve (%)				
	Jun 19	QTR BPS Δ	YTD BPS Δ	12 MO BPS Δ
2 Year	1.29%	-23	-51	-36
5 Year	1.34%	-25	-62	-66
10 Year	1.62%	-26	-70	-85
30 Year	2.40%	-32	-69	-60

Municipal AAA Yield to Treasury Yield Ratio (%)				
	Jun 19	QTR Δ	YTD Δ	12 MO Δ
2 Year	74%	7%	1%	8%
5 Year	76%	5%	-2%	3%
10 Year	81%	3%	-5%	-6%
30 Year	95%	-1%	-7%	-6%

Municipal Credit Spreads				
	Jun 19	QTR BPS Δ	YTD BPS Δ	12 MO BPS Δ
Aa	8 bps	-5	-3	-5
A	40 bps	-7	-10	-9
Baa	99 bps	-13	-19	-13
<Baa	261 bps	-3	0	18

Municipal Bond Total Returns			
	2Q 19	YTD	12 MO
Municipal Bond Index	2.1%	5.1%	6.7%
Type			
General Obligation	2.1%	4.9%	6.6%
Revenue	2.3%	5.4%	7.0%
Quality			
Aaa	1.8%	4.5%	6.2%
Aa	2.0%	4.8%	6.4%
A	2.3%	5.5%	7.1%
Baa	2.9%	6.6%	8.3%
<Baa	2.7%	6.6%	7.8%
Maturity			
Short [1]	1.1%	2.5%	3.5%
Intermediate [2]	1.9%	4.7%	6.7%
Long [3]	2.1%	5.4%	7.6%

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

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.

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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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