Economic and Capital Market Review

First Quarter 2019

Markets experienced three months of relative calm during the first quarter when compared to the tumult that characterized the 4q 2018 “risk-off” trade. Equity markets experienced a sharp relief rally. Bond markets rallied as interest rates declined and credit spreads narrowed. And domestic economic indicators continued to plod along.

However, buoyant moods moderated towards the end of the quarter, as softening global economic data piled up, and looming concerns about trade, central bank activity, and political unrest returned to the forefront. Now, equities and bonds seem to be on diverging paths, as stocks continue to rise, while the bond market appears to be signaling recession. As a result, the Federal Reserve remains at the center of investors’ attention.

The Economic Picture - As the Fed mentioned at its March meeting, the U.S. economic picture is mixed. Yes, unemployment is currently low and inflation stable. However, the recent inversion of the yield curve is sending a warning sign about the future. Construction and industrial production both appear soft. Furthermore, the picture overseas especially in Europe and China presents risks. On the other hand, the Fed's concerns about a weakening job market and softening retail sales may have been overdone based on data subsequent to the Fed's March meeting.

It is not unusual for the economic outlook to be uncertain. What is interesting is how the stock and bond markets apparently have formed differing assessments of how it plays out.

What Bonds Suggest - Fed fund futures suggest a 40% chance that the Fed will cut rates at least once by the end of 2019. That's a huge shift from the second half of 2018 when the investors were debating how many rate-hikes we would see in 2019. Now the focus has shifted to how many cuts, and how soon. This is important because the Fed typically cuts rates when it sees the economic picture weakening.

History suggests that once the Fed starts contemplating reducing interest rates, there is trouble in store for the broader economy. The bond market appears to assume that the Fed will see increasingly worrying economic data and the next move in rates will be down. Certainly, bond market futures don’t imply enough positive economic news to support a rate hike in 2019.

What Stocks Suggest - The first quarter rally has been a stunning reversal from the weakness in the fourth quarter of 2018. However, if we focus on the sector level, we see that the markets in 2019 have been paced by gains in the information technology, consumer discretionary and industrial sectors. What these three sectors have in common is that they are all cyclical. They respond well to a growing economy.

The bond market may be worried about the prospects of a rate cut, but the stock market seems be looking through any weakness. Also, remember that the stock market is currently richly valued, with the S&P 500 at 22x earnings, when the historical average is around 15x. The stock market appears quite optimistic about the economy.

Which View Is Right? - We will have to wait to see how the economic data plays out to resolve the tension between the stock and bond markets. If the Fed does sees softer industrial production data, it is likely that industrial stocks and other more cyclical sectors will decline on the prospect of sluggish sales, hence falling into line with the bond market's view of events.

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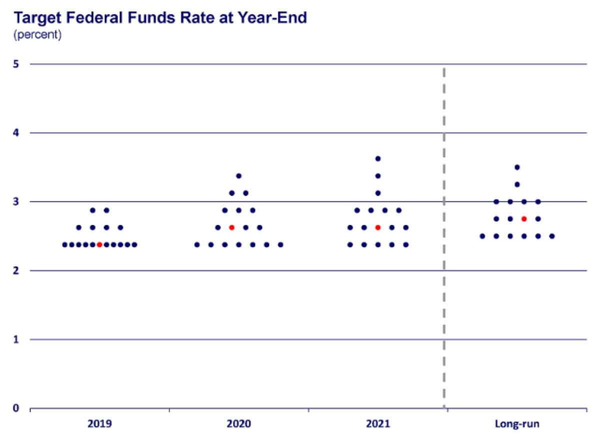
However, if the data that worried the Fed in its March meeting proves to be transitory, then it is more likely that the yield curve lifts and the yield on the 10-year rises back closer to 3% from its current 2.6% level. If this should occur, the Fed may have to move from its patient stance to signal more rate increases are in the cards.

Historically, the bond markets have tended to take a more stable and measured view of the economy, while the stock market can be a more volatile indicator. Some of the economic concerns from the Fed's March meeting may have lessened as the job market, retail sales and China all seem on improving trajectories in recent weeks. However, industrial production, consumer confidence and the European economy are still potentially concerning. It remains to be seen how the remainder of 2019 will play out. Yet, it seems likely we'll have to either see either declining stock prices or rising rates for Treasuries in the coming months, or a degree of both, to reconcile the divergent views.

Federal Open Market Committee (FOMC)

The FOMC left rates unchanged, turning dovish in early January by suggesting the central bank would be more patient in raising rates. At the March meeting, policymakers essentially took further rate hikes in 2019 off the table. The Fed Funds rate remains at 2.375%.



The Federal Reserve has rightfully pressed the pause button on future rate hikes until the data confirms greater economic momentum. This has left a higher burden of proof on the data, suggesting specific pre-conditions will need to be met before the central bank steps back in with another upward policy rate adjustment. These have included relatively stable financial conditions, bounce back in global growth, and stronger evidence of intensifying domestic inflationary pressures.

It will take time for these factors to materialize, causing the timing for a rate hike to move into late 2019. Indeed, the FOMC could afford to be patient because PCE inflation (the Fed's preferred measure of consumer price inflation) has run at, or below, its target of 2% for the past several months.

Real Gross Domestic Product (GDP)

Real GDP measures the value of all goods and services produced by the nation's economy.

Economic Growth	1Q19	4Q18	3Q18
Real GDP (1)	**3.2%**	**2.2%**	**3.4%**
Personal Consumption (2)	0.8%	1.7%	2.4%
Private Investment (2)	0.9%	0.7%	2.5%
Government (2)	0.4%	0.1%	0.4%
Net Exports (2)	1.0%	-0.1%	-2.0%
Real GDP Components			
Domestic Final Sales (1)	1.4%	2.2%	3.0%
Foreign Trade Effect (1)	1.1%	-0.1%	-2.0%
Final Sales (1)	2.5%	2.1%	1.0%
Inventory Effect (1)	0.7%	0.1%	2.4%
Real GDP (1)	3.2%	2.2%	3.4%
Demand Components			
Personal Consumption (1)	1.2%	2.5%	3.5%
Business Fixed Investment (1)	2.7%	5.4%	2.5%
Residential Investment (1)	-2.8%	-4.7%	-3.5%
Government Spending (1)	2.4%	-0.4%	2.6%

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

The U.S. economy grew at a faster-than-expected pace in the first quarter as the government boosted spending and businesses exported more than they imported. First quarter GDP grew at a 3.2% annual rate following 4Q18 growth of 2.2% and 3Q18 growth of a 3.4%.

However, if you remove transitory factors from the report, the economy actually slowed in the first three months of the year. For a better sense of underlying domestic demand, economists look at final sales to domestic purchasers, which strips out inventories and trade, the two most volatile components of GDP. Stripping out government, trade, and inventory swings, domestic final sales - the core of the economy - grew at only a 1.4% annual rate, half the pace of the fourth quarter. That was the weakest rate since the second quarter of 2013.

Consumer spending rose only 1.2% in the first quarter, after healthy 2.5% growth the previous quarter. Business investment also slowed, to 2.7% from 5.4%. Investments in structures, such as factories, offices, stores and oil wells, fell for the third straight quarter.

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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 +1.9% on a year-over-year basis and continues to trend at Fed's target of +2.0%.

Inflation	3/19	5 Year High	5 Year Low
Headline (All Items)			
CPI (3)	1.9%	2.9%	-0.2%
PCE (3)	1.5%	2.4%	0.1%
PPI (3)	2.2%	3.4%	-1.5%
Core (Less Food and Energy)			
CPI (3)	2.0%	2.4%	1.6%
PCE (3)	1.6%	2.0%	1.2%
PPI (3)	2.4%	2.8%	0.2%
Inflation Expectations			
5Yr Breakeven Inflation	1.8%	2.1%	1.1%
10Yr Breakeven Inflation	1.9%	2.3%	1.3%
30Yr Breakeven Inflation	2.0%	2.4%	1.5%

(3) Y/Y % Change

Business

The Conference Board's Leading Economic Index (LEI) increased 0.4% during the quarter to 111.9. For the twelve-month period ending March, the leading economic index has increased by +3.1% which suggests the U.S. business cycle remains on a solid trajectory.

Despite the recent gains during the quarter, 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	3/19	5 Year High	5 Year Low
Leading Economic Index	111.9	111.9	94.1
Leading Economic Index (3)	3.1%	6.6%	0.3%
Small Business Optimism	101.8	108.8	92.6
ISM PMI	55.3	60.8	47.8
ISM NMI	56.1	60.8	51.6

(3) Y/Y % Change

According to the latest Manufacturing ISM Report on Business, the overall economy grew for the 119th consecutive month. The past relationship between the ISM PMI and the overall economy indicates that the March reading of 55.3% corresponds to a 3.7% 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.)*

The latest Non-Manufacturing ISM Report on Business indicates economic activity in the non-manufacturing sector grew for the 110th consecutive month. The past relationship between the ISM NIM and the overall economy indicates that the December reading of 57.6% corresponds to a 2.6% 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 102 consecutive months of employment growth, extending the longest streak on record. Employers added an average of 180,000 jobs per month in the first quarter of 2019. The March jobs report shows the US economy is not stalling out, something investors have been worried about following February's disappointing numbers. In addition, other data in the report showed wages are rising but not at a rate which would spur inflation. This was a perfect report for equity investors as it shows the U.S. economy is still marching along while the wage numbers will keep the FOMC on the sidelines.

Labor	3/19	5 Year High	5 Year Low
Wage Growth (3)	3.0%	3.1%	1.9%
Unemployment Claims (5)	219	320	212
Nonfarm Payrolls (6)	180	291	114
Unemployment Rate	3.8%	6.3%	3.7%
Under-employment Rate	7.3%	12.2%	7.3%
Labor Force Participation	63.0%	63.2%	62.4%

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

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The unemployment rate declined to 3.8% in March 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 7.3%. 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 March survey indicates consumers remain optimistic on the prospects for the economy as reflected by the reading of 124.1.

Consumer	3/19	5 Year High	5 Year Low
Consumer Confidence	124.1	137.9	81.7
Consumer Sentiment	98.4	101.4	81.8
Auto Sales [3]	1.4%	8.9%	-5.6%
Retail Sales [3]	3.6%	6.6%	1.6%

[3] Y/Y % Change

Confidence has been somewhat volatile over the past few months, as consumers have had to weather volatility in the financial markets, a partial government shutdown and a very weak February jobs report. Despite these dynamics, consumers remain confident that the economy will continue expanding in the near term. However, the overall trend in confidence has been softening since last summer, pointing to a moderation in economic growth.

Housing

Economists say the U.S. housing market is on track for a stronger 2019 than originally forecast, amid falling mortgage rates. Researchers at realtor.com recently updated their yearly outlook, revising up price growth and overall sales predictions as lower-than-expected interest rates make home ownership more affordable. They now expect U.S. home prices to rise nearly 3%, an increase from the previous forecast of 2.2% while overall sales are predicted to flatline this year compared to 2018.

Housing	3/19	5 Year High	5 Year Low
Housing Affordability	157	184	138
Housing Starts [4]	1,139	1,334	888
Building Permits [4]	1,288	1,377	1,002
New Home Sales [4]	692	712	400
Existing Home Sales [4]	5,210	5,720	4,780

[4] Monthly Seasonally Adjusted Annual Rate in Thousands

Looking forward

Overall, domestic economic indicators moderated during the first quarter of 2019. The prospects for 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

What a difference a quarter makes. After a 9% slide in December that led to a 14% decline for the fourth quarter, U.S. stocks began 2019 with their best January since 1987 and their best quarter since 2009. As measured by the S&P 500, domestic equities gained 13.6% during the quarter.

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 relations between the U.S. and China and solid corporate earnings also played central roles. Benign inflation, steady to moderate global economic growth and supportive monetary policy allowed investors to forget, for the moment, the fear that gripped them in late 2018. However, the rally in risk assets in the first quarter was driven not by the fundamental outlook but by relief that the worst-case scenarios envisioned last year did not play out.

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. The strong job market, while good for the economy as a whole, creates margin pressure for companies as wages rise. Revisions to earnings estimates for companies in most sectors have turned negative. Blended earnings growth for 2019 is projected to be between 4%-8% on revenue growth of 4%.

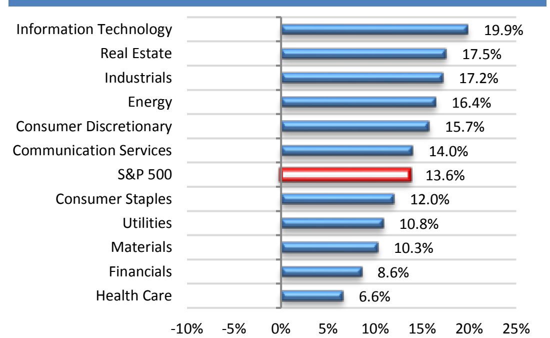
On a market capitalization basis, small-cap equities outperformed large-cap equities during the first quarter after falling more than large caps at the end of last year. While growth stocks outperformed value stocks across both large and small market caps during first quarter, consistent with other hallmarks of a "risk-on" environment.

Equity Total Returns

	1Q 19	YTD	12 MO
DJIA	11.8%	11.8%	10.1%
S&P 500	13.6%	13.6%	9.5%
Nasdaq	16.8%	16.8%	10.7%
International [1]	10.2%	10.2%	-4.1%
Emerging Markets [2]	9.7%	9.7%	-7.6%
Domestic Market Cap			
Mega [3]	13.5%	13.5%	12.2%
Large [4]	13.1%	13.1%	10.4%
Mid [5]	16.5%	16.5%	6.5%
Small [6]	14.6%	14.6%	2.0%
Domestic Style			
Growth [7]	16.2%	16.2%	12.1%
Core [7]	14.0%	14.0%	8.8%
Value [7]	11.9%	11.9%	5.3%

[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

1Q 2019 S&P 500 Total Returns by Sector



Looking overseas, non-U.S. stocks also performed well with both developed and emerging markets equities climbing 10% for the quarter. 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 improved. 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

In the current environment, we are now neutral to negative on equities and will hold a slightly underweight exposure until the 2019 earnings picture solidifies.

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Taxable Bond Market Summary

Fixed income markets started the year on a strong note, helped by the unusual combination of a sharp rally in rates and a significant tightening in spreads. The Bloomberg Barclays U.S. Aggregate Bond Index generated a return of +2.9% in the quarter.

U.S. Treasury yields have moved sharply lower over the last three months, as markets adjusted to a rapidly changing narrative from the Federal Reserve that suggested a likely end to the tightening cycle. As a result, the yield on the two-year treasury was down 21 basis points (bps) and the thirty-year was down 21 bps. The yield curve extended its flattening, as the premium investors require to hold longer debt fell to its lowest level in more than a decade at 14 bps (10-year yield minus 2-year yield).

The sharp drop in Treasury yields over the course of the quarter was in sync with the weaker economic outlook, but the rally in more speculative fixed income segments appears at odds with slower growth. Softening financial conditions would 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 526 bps at the end of 2018 to 391 bps at the end of the quarter. As a result, high yield bond generated a total return of 7.3%, outpacing all other segments of the fixed income market.

However, towards the end of the first quarter, bond investors appear to have grown more cautious. While Fed-induced interest rate pressure is off the table for now, there seems to be heartburn surrounding the underlying factors that drove the Fed to pause its policy normalization plans in the first place.

The Treasury yield curve has been flattening for some time, finally inverting near the close of the first quarter. The 10-year yield dropped below the 3-month yield for a few trading sessions following disappointing manufacturing data in Europe. 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.

A moderation in domestic growth appears increasingly likely in 2019, which may also limit the ability of long-term interest rates to rise further. Should the trajectory of interest rate hikes moderate, 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				
	Mar 19	QTR BPS Δ	YTD BPS Δ	12 MO BPS Δ
2 Year	2.27%	-21	-21	0
5 Year	2.23%	-28	-28	-33
10 Year	2.41%	-28	-28	-33
30 Year	2.81%	-21	-21	-16
Credit Spreads				
	Mar 19	QTR BPS Δ	YTD BPS Δ	12 MO BPS Δ
Aaa	16 bps	-1	-1	2
Aa	57 bps	-16	-16	1
A	91 bps	-28	-28	0
Baa	157 bps	-39	-39	20
< Baa	391 bps	-135	-135	37
Taxable Bond Total Returns				
		1Q 19	YTD	12 MO
Aggregate Bond Index		2.9%	2.9%	4.5%
International		1.5%	1.5%	-4.1%
Emerging Markets		5.4%	5.4%	4.4%
Domestic Sector				
Treasury		2.1%	2.1%	4.2%
Agency		2.5%	2.5%	3.8%
Corporate		5.1%	5.1%	4.9%
Securitized		2.2%	2.2%	4.5%
Domestic Quality				
Aaa		2.2%	2.2%	4.3%
Aa		3.4%	3.4%	4.9%
A		4.6%	4.6%	4.8%
Baa		5.8%	5.8%	5.0%
< Baa		7.3%	7.3%	5.9%
Domestic Maturity				
Short (1)		1.2%	1.2%	3.1%
Intermediate (2)		2.6%	2.6%	4.8%
Long (3)		6.4%	6.4%	5.4%

(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

Strong technical factors fueled the first quarter municipal bond market performance as robust demand and moderate supply led to positive returns. The Bloomberg Barclays Municipal Bond Index was up +2.9% in the quarter, pushing its 12 Month return to +5.4%.

Municipal bond yields moved lower in tandem with Treasury rates. These conditions supported municipal bond prices and contributed to their relative outperformance. The 10-year AAA municipal yield curve finished March at 1.89%, down 43 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 $75 billion in the first quarter, according to the Bond Buyer. This represents a decrease of almost 25% compared to 2017 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. Advance refunding was an important source of supply in past years, particularly in 2014 and 2016.

On the demand front, fund inflows were noteworthy, with investors pouring a record $25 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 for 2018. 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 (%)				
	Mar 19	QTR BPS Δ	YTD BPS Δ	12 MO BPS Δ
2 Year	1.52%	-28	-28	-16
5 Year	1.59%	-36	-36	-47
10 Year	1.89%	-43	-43	-60
30 Year	2.72%	-37	-37	-29

Municipal AAA Yield to Treasury Yield Ratio (%)				
	Mar 19	QTR Δ	YTD Δ	12 MO Δ
2 Year	67%	-6%	-6%	-7%
5 Year	71%	-6%	-6%	-9%
10 Year	78%	-8%	-8%	-12%
30 Year	97%	-6%	-6%	-5%

Municipal Credit Spreads				
	Mar 19	QTR BPS Δ	YTD BPS Δ	12 MO BPS Δ
Aa	13 bps	2	2	4
A	47 bps	-3	-3	2
Baa	112 bps	-6	-6	-3
<Baa	264 bps	2	2	-20

Municipal Bond Total Returns			
	1Q 19	YTD	12 MO
Municipal Bond Index	2.9%	2.9%	5.4%
Type			
General Obligation	2.8%	2.8%	5.4%
Revenue	3.1%	3.1%	5.6%
Quality			
Aaa	2.7%	2.7%	5.0%
Aa	2.7%	2.7%	5.2%
A	3.1%	3.1%	5.6%
Baa	3.6%	3.6%	6.7%
<Baa	3.8%	3.8%	8.1%
Maturity			
Short (1)	1.3%	1.3%	3.0%
Intermediate (2)	2.7%	2.7%	5.6%
Long (3)	3.2%	3.2%	6.3%

(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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