2018 Annual Outlook

Economy and Markets Building Momentum

History will remember 2017 as a great year for equity markets, despite devastating hurricanes, uncertainty in Washington and rising tensions with North Korea. Since January 1, the YTD return on the S&P 500 never closed in negative territory and, thus far, the index has not seen an intraday drawdown greater than 3%, marking its longest stretch ever without such a pullback. While equity indexes continue to hit new records, volatility remains extremely low. The market was not too bad for fixed income investors, either, holding steady as short-term interest rates rose and default rates remained muted. Bond markets exceeded most expectations with the 10-year Treasury yield appearing poised to finish the year close to where it started. Most had anticipated yields would move higher in 2017.

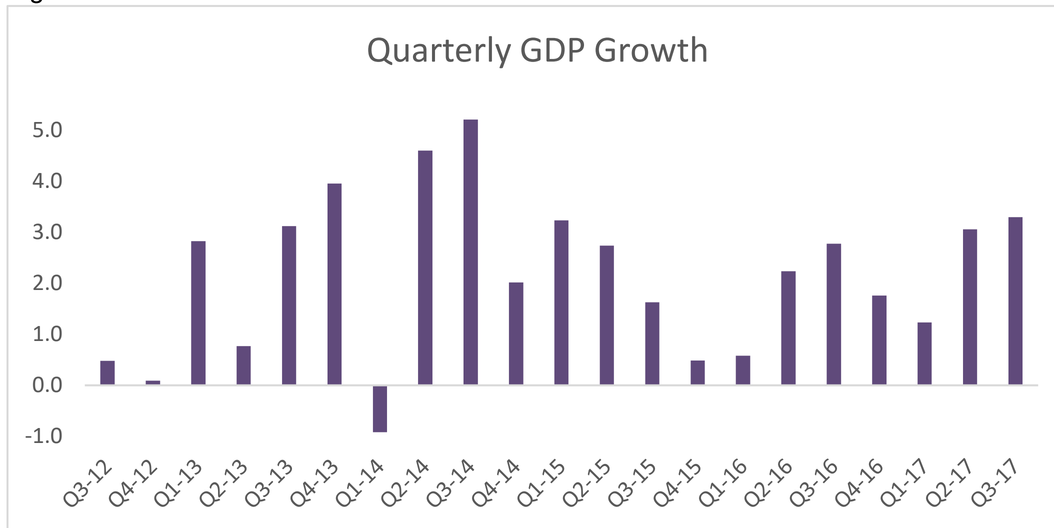
We are entering the new year with a lot of positive momentum. The economy is humming along with low unemployment and the tax reform bill about to take hold, lowering corporate tax rates. However, the Federal Reserve (Fed) and other central banks around the world are not blind to this momentum. The Fed started to reduce its $4.5 trillion dollar balance sheet in October and raised short-term interest rates three times in 2017. Other central banks, like the European Central Bank (ECB), will likely begin tapering in the coming year, buying fewer bonds and decreasing the pace at which they expand their balance sheets. As central banks withdraw their supportive influence, volatility is likely to increase as markets learn to stand on their own again.

Moderating growth, credit tightening, earnings pressure and central banks reversing their accommodative stance are all typical attributes of the late cycle phase of economic growth, but a number of potential catalysts may provide another leg to the current expansion. Based on GDP growth, inflation expectations and dividend yields, our baseline 2018 market expectations are for mid- to upper single-digit returns from large cap U.S. stocks. Although we would typically expect large caps to outperform in the late cycle phase, we anticipate that small caps may benefit disproportionately from tax reform legislation and deregulation. In the fixed income market, based on current yields with some potential yield curve flattening, we expect returns for intermediate-term bonds to be in the very low single digits. In the next few sections, we will discuss how the economic backdrop and state of the equity and bond markets shaped our outlook.

Global Economy

As illustrated in Figure 1, the U.S. economy grew at a strong pace in the second half of 2017, pushing annual growth toward the 2.5% mark for the year. Activity spiked in late fall as recovery efforts from a highly destructive hurricane season got into full gear. As the recovery subsides, we have observed a relative cooling in some indicators, but recent readings remain consistent with the level of economic activity throughout the summer. Overall, the data indicates that the U.S. economy continues on a solid growth path, and 2018 activity is likely to hover around the mid 2% range. In the winter months, we expect activity to slow with the season, but we would not view seasonally weakening data trends as an indication of economic slowdown. In the near term, recession risk is low, but if interest rates increase sharply, growth may slow in the intermediate term.

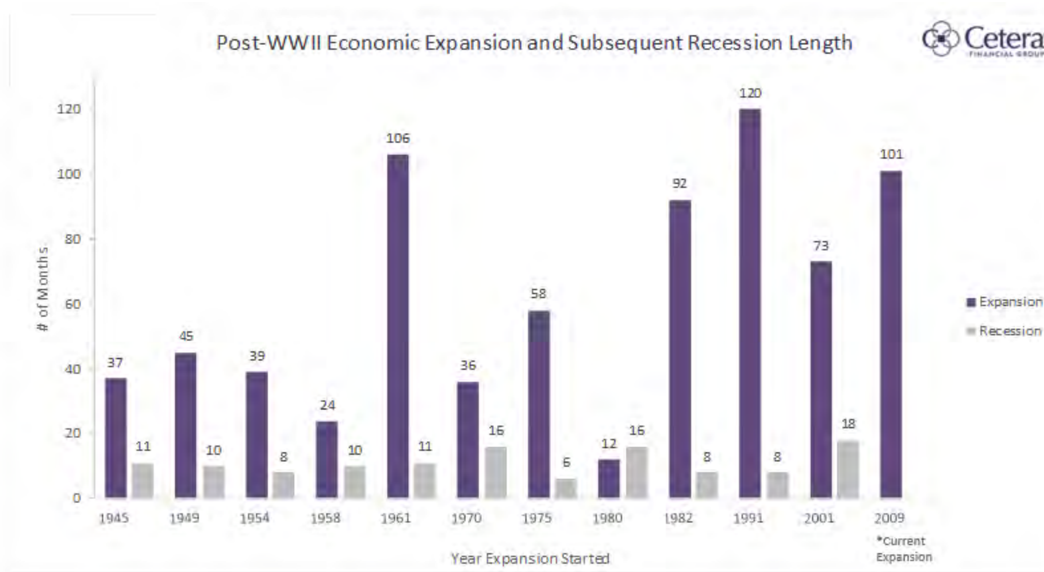
Figure 1. U.S. GDP Growth



Source: Cetera Investment Management, U.S. Bureau of Economic Analysis

As shown in Figure 2 below, we are currently in the second longest expansion since World War II (101 months and counting). Yet, despite the length of this expansion, rather than slowing down, the economy continues to improve. U.S. gross domestic product (GDP) grew at a 3.1% annualized pace in the second quarter, followed by 3.3% growth in the third quarter, its fastest pace in three years. Furthermore, the Atlanta Fed's *GDPNow* forecast, which aims to predict GDP growth on a real-time basis, currently estimates growth for the fourth quarter above 3%.

Figure 2. Post WWII Expansion and Subsequent Recession Length



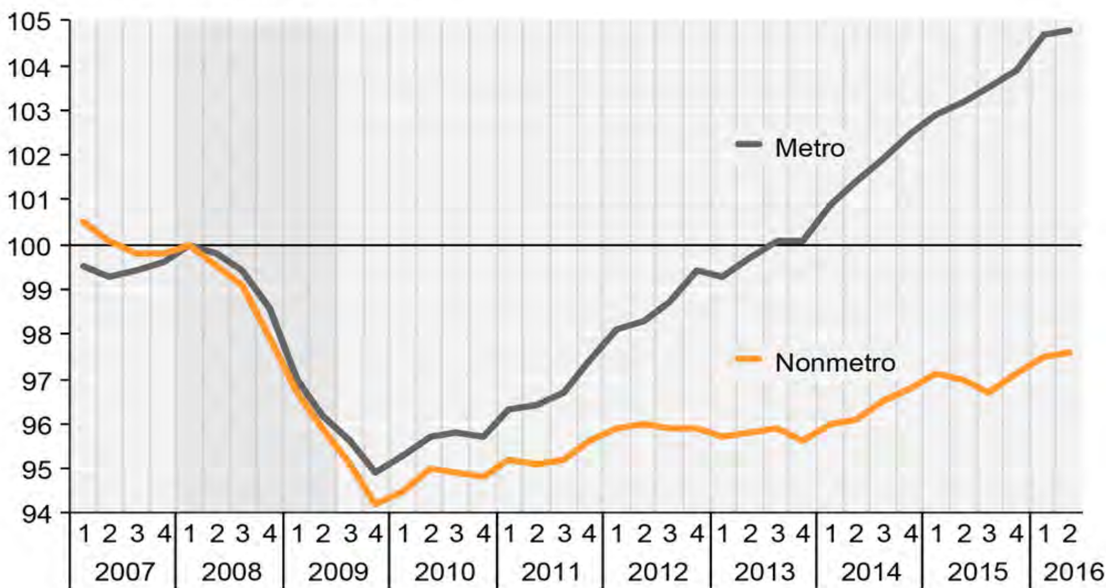
Source: Cetera Investment Management, National Bureau of Economic Research. Data as of 11/30/2017.

Within GDP, we expect government spending to be relatively flat next year due to budget constraints. Business spending, though, could pick up since the just passed tax legislation reduces corporate taxation. However, as the labor market tightens, labor shortages and more competition for qualified workers could cause companies to pay up for labor, increasing wage expenses. In the manufacturing sector, readings on surveys like Purchasing Managers' Indexes (PMI's), which are monthly gauges of the health of the sector, have been very high since the election. Decision makers at manufacturing companies are optimistic about the future business prospects for their respective companies and that should translate into future sales as they look to increase inventories.

The most important component of GDP is consumer spending, which makes up 70% of the calculation. Any increase in wages would be very positive for consumers as they would have more money to spend. Unemployment is at a very low level, close to 4%. Labor participation is increasing as people are rejoining the workforce and finding jobs. With home values increasing and stock markets appreciating, consumers feel more secure about their wealth and typically spend more. This phenomenon is often referred to as "the wealth effect." We have seen a marked increase in retail spending, confirming this trend. Consumer confidence is also evident in the results of surveys such as University of Michigan's *Consumer Sentiment Index*, which coincides with the manufacturing surveys at high levels.

Regionally, the data is less consistent. Texas and Florida may get a short-term bump in GDP as people spend money to rebuild from hurricanes, but this could be a long-term drag on future spending in these regions as many are borrowing to rebuild. Job growth has been largely concentrated in urban regions but, as illustrated in Figure 3, rural regions have still not yet recovered to pre-financial crisis levels. Not everyone has benefited from rising stock values and home prices, which have been elevated by lower interest rates and cheaper financing. The resulting issue of economic inequality is not unique to the United States, and there is a concern that the unevenness of recovery can have big social ramifications. These issues can cause political uncertainty, as seen with the Brexit vote, and possibly fuel an upsurge in populist politics and movements. Uncertainty around future policies, in turn, can have significant market implications.

Figure 3. American Job Growth by Region



Notes: Data are seasonally adjusted. Shaded area indicates a recession period.

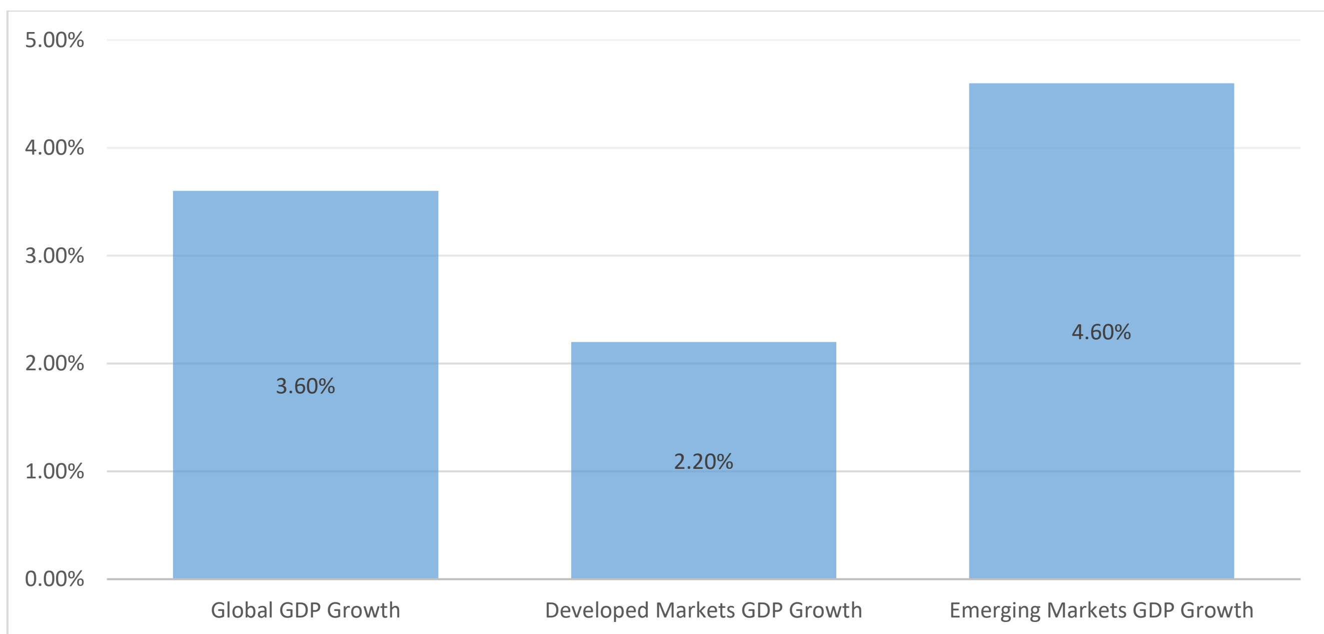
Source: USDA, Economic Research Service using data from Bureau of Labor Statistics, Local Area Unemployment Statistics (LAUS).

Central banks around the world have been very accommodative to global growth and likely contributed to the low volatility we have experienced in markets; however, this is now reversing. The Fed has been raising short-term interest rates and has begun to reduce its balance sheet. This tailwind for economic growth is declining and may become a headwind should rates increase sharply. Although, the Fed and other central banks will be cautious in "normalizing" balance sheets, there is potential for missteps, which could hurt economic growth. Adding to the uncertainty around Fed policies, the Federal Reserve Chair and other positions are turning over next year. The good news for markets is that it appears the incoming Fed Chair, Jerome Powell, has similar views and is likely to maintain a similar path as his predecessor, Janet Yellen.

Outside the United States, we are seeing synchronized growth across developed nations in Europe and Asia. The IHS Markit Eurozone Manufacturing PMI increased to 60.1 in November. This is the second highest reading ever, the previous high was reached in April of 2000. New export business and job creation were the highest on record and third quarter GDP in the Eurozone was 2.6%. Looking to Asia, the Nikkei Japan Final Manufacturing PMI came in at 53.6 in November, logging its fastest growth in the manufacturing sector since March 2014. Japan's GDP grew at an annualized 1.4% in the third quarter, marking seven straight quarters of growth, which has not been seen since the country's expansion between the years 1999 - 2001. Markets also responded positively to Japanese Prime Minister Shinzo Abe's announcement in the late third quarter of a nearly $18 billion economic stimulus package by the end of the year aimed at subsidizing education, child-care costs and increasing corporate productivity. Abe was also reelected in late October, providing stability to the country and its policies.

Developing countries, also known as emerging markets, outpaced their developed counterparts. As shown in Figure 4, the International Monetary Fund (IMF) reported that real GDP growth in emerging markets was 4.6% compared to 2.2% in developed countries as of October 2017. The countries that make up the emerging markets comprise a diverse list, but it is worth noting the largest of this group is China, which had real GDP growth of 6.8%. Overall, real global GDP growth was 3.6%.

Figure 4. IMF GDP Growth



Source: Cetera Investment Management, IMF; data as of October 2017

In sum, the data suggests that the global economy will continue its synchronized growth in 2018. In the U.S., new tax legislation, a strong labor market and subdued inflation all support the recent manufacturing surveys and heightened consumer optimism. The transition of the new Fed Chair should go smoothly and the Fed, although less accommodative, will likely remain fairly dovish and supportive to markets. Abroad, economies should continue to grow and the IMF estimates the world GDP to increase to 3.7% next year.

Equity Markets

Equity valuations in the U.S and across most developed markets have increased to near-historic highs, and equity volatility has remained low for most of 2017. While economic growth remains supportive, at these levels the downside risks are higher, and markets are more susceptible to a near-term correction. Our expectations for the year ahead are for continued growth in equity earnings. Small cap stocks will likely be the main beneficiaries of the lowered domestic tax rate as they tend to bear higher tax burdens than multinational corporations. In addition, small cap stocks have underperformed large cap stocks this year by a wide margin. As some of the growth and tax benefits are already priced in, we would expect modest equity appreciation, possibly in the 5-8% range, with an increase in volatility. The momentum of growth-oriented stocks may continue some more, but as the performance gap widens, equities with lower valuation multiples, such as value-oriented or international stocks may begin to perform better. Currently, large capitalization growth stocks are up nearly 30%, while large capitalization value stocks advanced by less than half of that. Some of this disparity may reverse in later in the coming year.

Abroad, developed international markets performed roughly in line with U.S. markets after having lagged in recent years, which helped the performance of diversified portfolios. Another welcomed development was the resurgence of emerging markets, which outperformed developed markets, with many diversified emerging markets indexes up over 30%.

As we enter the final days of the year, the S&P 500 is up over 20% and at all-time highs. Figure 5 shows a table comparing P/E ratios for different indexes relative to their 15-year averages. The current P/E ratio of the S&P 500 is in the 100th percentile over a 15-year period; in other words, at a 15-year high. The current P/E ratio of the MSCI EAFE index is in the 93rd percentile, meaning it has been this high only 7% of the time over this period. While valuations are stretched from a historical perspective, some of this can be justified by exceedingly low interest rates, which can cause asset prices to be valued higher. In addition, earnings are improving and are likely to increase due to recent tax legislation.

Figure 5. Current vs 15 Year Average Price to Earnings Ratios

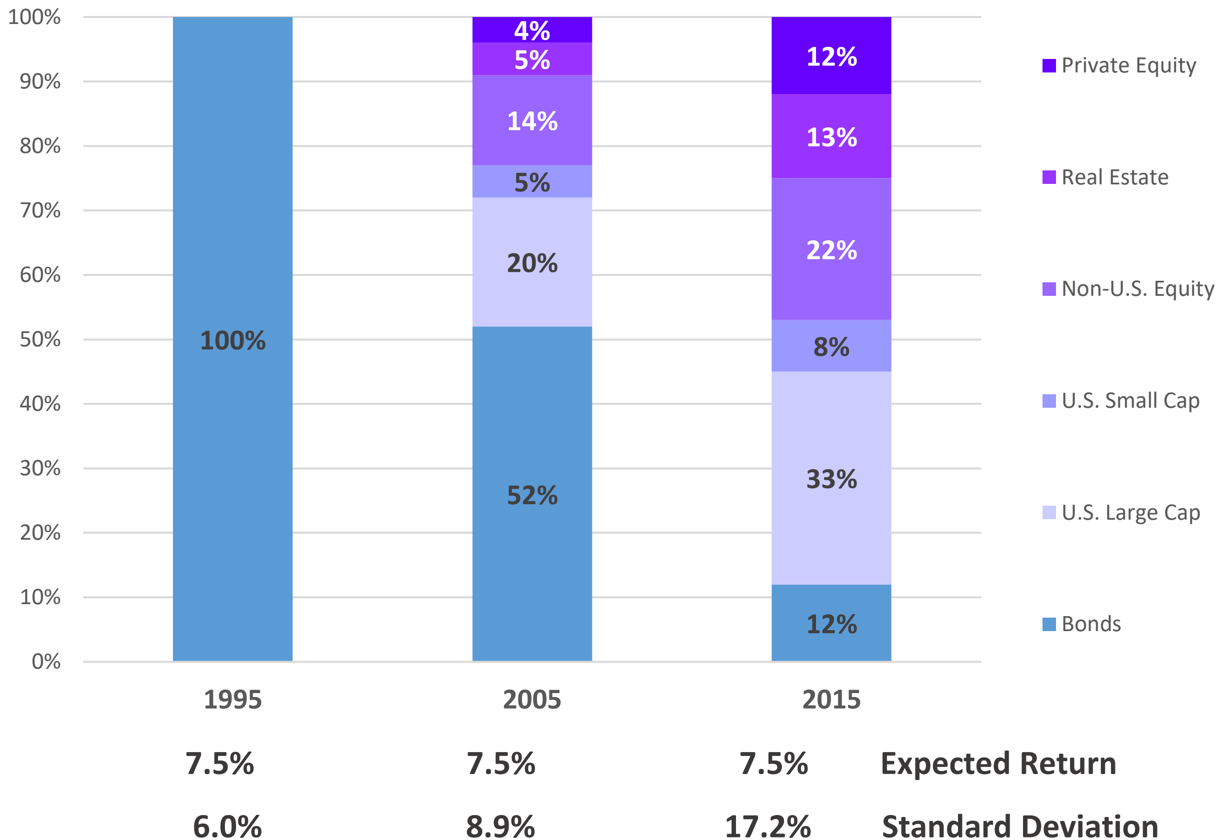
Price/Earnings (P/E)				
Index	Current	15 Yr. Avg.	St. Dev. From 15 Yr. Mean	Percentile (15 Yrs.)
S&P 500	22.7	17.3	2.2	100%
S&P 500 Growth	25.6	19.7	1.7	97%
S&P 500 Value	19.8	15.4	2.4	100%
S&P MidCap 400	24.0	19.1	2.1	100%
S&P MidCap 400 Growth	27.3	21.1	1.9	100%
S&P MidCap 400 Value	21.0	17.3	2.0	100%
S&P SmallCap 600	23.7	19.2	1.8	99%
S&P SmallCap 600 Growth	26.7	20.6	1.9	97%
S&P SmallCap 600 Value	21.2	18.0	1.5	99%
MSCI EAFE	17.4	13.4	0.9	93%
MSCI EAFE Growth	21.5	16.2	0.9	92%
MSCI EAFE Value	14.5	11.2	0.9	89%
MSCI Emerging Markets	14.4	12.6	0.8	78%
MSCI Europe	18.7	14.1	1.5	93%
MSCI Pacific	15.6	14.1	0.3	62%
MSCI ACWI	19.3	14.5	1.2	99%

Source: Cetera Investment Management, Morningstar, MSCI, and Standard & Poor's. Data as of 11/30/2017.

Equity markets have seen many non-natural buyers looking for returns in recent years. As we will discuss in the fixed income section below, returns in bonds have been modest with historically low interest rates. As a result, investors, who would normally have a higher bond allocation, are allocating more and more to equities looking for return potential to meet their objectives. The table in Figure 6 illustrates this point.

In 1995, an investor could have invested 100% in bonds and expected a 7.5% return. Ten years later, the bond allocation falls to 50% and 20 years later, the portfolio only has 12% in bonds to achieve the same 7.5% return. Notably, the expected standard deviation, a measure of portfolio risk, nearly tripled over this 20-year period by shifting away from bonds. This is important for equities, because as bond yields rise, these investors may rotate away from equities and back into safe haven of bonds as potential returns become more attractive.

Figure 6. Estimates of What Investors Needed to Earn 7.5%



Source: Wall Street Journal Article, "Pension Funds Pile on Risk Just to Get a Reasonable Return," 5/31/2016

Since the financial crisis, investors have been cautious, and there have been many investors with cash on the sidelines. Whenever equities dip lower, investors often deploy some of this cash, limiting the drawdowns and providing a level of support to the market. After a sustained bull market, this cash is beginning to run low. Equity mutual fund cash balances are near all-time lows, and firms like Morgan Stanley and Bank of America Merrill Lynch have reported that their clients' cash positions relative to total assets are at all-time lows. If there is a correction now, there may be fewer buyers able to jump in and provide price support, possibly exacerbating future equity market downturns.

In summary, with investor cash balances running low and interest rates on the rise, the attractiveness of bonds may increase, lowering demand for equities. Valuations are at historically high levels from a price-to-earnings perspective, but earnings could grow with help from the just passed tax legislation. Although volatility may increase next year, we still expect mid-single digit returns in equity market indexes. Small caps, which have underperformed large caps this year, may bounce back, and value stocks, which trade at lower valuations and have underperformed growth stocks, may eventually begin to present opportunities. International economies continue to grow, so we are constructive on both emerging markets and developed international markets.

Fixed Income

Central bank actions loomed large in fixed income news last year, and we expect this to continue in 2018. Investment-grade bonds performed well and shrugged off three Federal Reserve rate hikes in 2017, even as the yield curve flattened, but there is very little room for flattening to continue next year. We expect bond prices to be under pressure as the Fed continues to tighten and gradually increase rates. Despite the Fed's guidance for three rate increases in 2018, our base case calls for only two, as we think the Fed will become increasingly concerned about the flattening of the yield curve. Credit-sensitive bonds are likely to offer only limited protection from a rate increase as spreads are narrow by historic norms, and volatility may increase in market stress. International bonds also offer little value given current low yields.

In 2017, the Federal Open Market Committee (FOMC) hiked short-term rates three times, increasing the fed funds rate by 0.75% to a targeted range of 1.25-1.50%. The last of the three hikes was in the most recent December meeting, in which outgoing Fed Chair Janet Yellen highlighted several points as sufficient reason for the Committee to continue increasing rates. The Fed believes that the economy is expanding at moderate pace, and tax policy, although uncertain, should be supportive to growth. In addition, the employment market is solid and changes in the wording of the FOMC notes suggest we may be nearing full employment. Inflation is still below the Fed target. While the rate hikes influenced the shorter maturity bonds, other forces, such as demand from institutional and international buyers, affected longer duration bonds which saw their yields actually fall during the year. Bond prices move inversely to yields, so while shorter duration bonds dropped in price, longer duration bonds increased in price. Fortunately, though, while prices of shorter duration bonds did drop, the yield was generally enough to push shorter duration bonds in positive return territory for the year. This yield curve flattening continued into the fourth quarter. Figure 7 below depicts how the yield curve has flattened this year.

A flattening yield curve is generally a bad omen for the economy, as it indicates waning investor optimism. Anticipating less growth and inflation in the future economy, investors become willing to buy longer maturity bonds that offer little additional yield then shorter-term bonds. An inverted yield curve, in which longer duration bonds yield less than shorter duration bonds, historically has signaled that a recession may follow, on average, 17 months later. This is something to watch, but we do not anticipate an inverted yield curve in 2018. We will also be looking at the pace of the flattening, because that can also be a sign of things to come. We also note that the yield curve is being influenced by central bank actions around the world and not purely by market forces.

Figure 7. Treasury Yield Curve

Source: Cetera Investment Management, U.S. Department of the Treasury,

In October, in addition to raising short-term rates, the Fed stopped reinvesting all of the proceeds from maturing bonds purchased through their quantitative easing (QE) programs, which will reduce its $4.5 trillion balance sheet. The Fed is being cautious and doing this slowly, as it could cause a fall in prices and a rise in yields. However, not reinvesting the maturing bonds will reduce demand for long-dated bonds, which may push up long-term yields and counteract the yield curve flattening.

Shifting away from the yield curve and interest rate risk, credit spreads have continued to narrow in 2017. A credit spread is the difference in yield of a credit-sensitive bond over a Treasury bond with a similar maturity and represents the additional compensation for taking credit risk. When spreads are low, bond buyers receive less in return for assuming the risk that a bond will default or be downgraded in quality. When a credit spread goes up, the credit-sensitive bond will fall in price. Tightening spreads indicate confidence in the economy, as bondholders anticipate fewer defaults and are willing to take on more risk with less return. Currently, these spreads are narrow, leaving little room for further tightening. As such, we are cautious on high yield bonds as they carry more risk – if equity markets sell off, we anticipate high yield spreads to widen and high yield bonds to fall. We currently recommend diversifying weightings to high yield bonds with allocations to bank loans or floating rate notes. These notes tend to be senior secured and carry less default risk than high yield bonds. They also do not have fixed interest rates. Their interest rate is tied to LIBOR, so they carry low interest rate or duration risk.

Figure 8. High Yield Credit Spreads

Source: Cetera Investment Management, Morningstar, BBgBarc. Data as of 11/30/2017

The municipal bond market generally outperformed the taxable market in 2017. Going forward, it remains unclear how the tax legislation will impact this market. With a lower corporate tax rate, banks and insurance companies which make up around a quarter of the market could reduce their allocations to municipal bonds. Elimination of advance refunded bonds would be supportive to municipal bond prices, as it would reduce supply. Overall, we anticipate changes in this market, perhaps shorter maturities, increased call provisions, and floating to fixed bonds. We will continue to monitor any changes to the tax code that impacts this asset class.

With the potential for rising yields, we recommend being underweight duration and overweight credit. Credit spreads are at low levels, and credit sensitive bonds also carry more risk, so lowering high yield allocations may also be prudent. With equity valuations and indexes at high levels, we consider it sensible to maintain a fixed income allocation, as high quality bonds may continue to serve as an effective diversifier against equity volatility.

Risks to Our Outlook

The global equity markets continue to move higher despite risks that loom. As we noted previously, the current rally has lasted almost nine years despite middling economic growth, rising equity valuations, growing geopolitical risks and escalating populistic fervor. While key indicators point to continued U.S. economic health in 2018, there are significant unknowns that pose risks to our market perspective that investors need to bear in mind: global interest rate policy, unexpected election results, geopolitical concerns, a possible China slowdown, and potential instability in financial markets valuations.

Following the Great Recession, central banks around the world used accommodative monetary policies to help jumpstart their respective economies. Today, the Fed must find a balance between normalizing rates too fast, which could lead to a recession, or remaining too accommodative, which could lead to a jump in inflation. Outside the U.S., normalization of monetary policy by the ECB could hurt markets if initiated too early. As a reminder, the ECB launched its monetary stimulus program in 2015, helping to push European interest rates and borrowing costs lower. Most expect it to end in September of 2018. In Japan, we expect the Bank of Japan to continue keeping interest rates at record low levels for the near future. An unexpected change in this policy could make investors nervous.

Globally, there are many important elections, with potentially market-moving impacts, slated for 2018. In the U.S., Doug Jones' recent surprise victory in Alabama's special election reduced the Republican Party's U.S. Senate majority to just one seat. If next year's mid-term elections also favor the Democratic Party, the shift in numbers could present a roadblock to President Trump's legislative agenda. Outside the U.S., if highly anticipated elections in countries such as Italy, Russia, United Kingdom and Ireland produce unexpected results, or take on a more populist tone, financial markets may react negatively.

As we have noted in the past, rising tensions with North Korea, along with the increasing number of terrorist attacks, remain a worry. Both these elements have an adverse impact on global financial markets, and investors would presumably demand a greater risk premium to own equities.

The well-documented China growth story has been driven primarily by heavy borrowing. Recently, government officials have been reining in some of this borrowing, and are now faced with the challenge of reducing debt-fueled speculation without halting growth or causing investor confidence to wane. Investors will be carefully watching to see how successful China will be at weaning its economy off leverage.

Financial markets are seemingly priced for perfection, meaning there is little to no room for error. As we noted previously, equity market valuations are high, relative to historical readings, and future corporate earnings and revenues continue to trend in record-high territory. If any of the risks come to fruition, investors may express their disappointment by reducing their allocation to equities. Subsequently, bond investors may also follow suit, causing a further widening in corporate bond spreads from current low levels.

Investment Implications

While we are still constructive on corporate earnings and believe economic growth will remain supportive, valuations remain high in both equities and fixed income, and downside risks have grown. In general, we recommend keeping long-term risk and return objectives in mind and positioning portfolios close to benchmark, and we would not suggest drastic deviations from long-term targeted allocations.

Within stocks, we are neutral and close to market cap weights as international developed markets continue to offer good opportunities. Both large cap and small cap stocks possess opportunities. Large cap stocks with more exports tend to benefit more than smaller companies from a weaker U.S. dollar and overall improvement in global growth. On the other hand, we acknowledge small caps will likely benefit from tax reform, as small companies tend

to pay higher rates than larger, multinational firms do. In addition, this year we witnessed strong relative performance of large cap companies to small cap companies, so some mean reversion opportunities exist.

From a style perspective, we suggest a fairly neutral positon between growth and value. Growth has considerably beaten value over the past few years, and two dynamics suggest this may continue. First, momentum investing is a powerful trend that may continue for as long as economic data supports it. Second, high demand from growth-starved investors willing to assume more risk may continue to support high valuations. On the other hand, value may benefit from mean reversion and outperformance from sectors like financials, which seem well-positioned to benefit from regulatory changes.

Outside the U.S., we have a slight overweight to developed countries, as we expect both Europe and Japan to continue their positive momentum. We maintain a neutral to slight underweight position in emerging markets. While we are enthusiastic about the growth story in emerging market countries, we are concerned that a possible flight to quality rally or rise in interest rates could prompt a reversal in the weak U.S. dollar and pressure this asset class. Furthermore, emerging market equity indexes have far outpaced most developed market equity indexes this year, suggesting that investors may be a little too optimistic about prospects for this region.

On the fixed income side, we maintain our recommendation to diversify broadly and limit exposure to any one risk factor. We continue to recommend being underweight duration-sensitive bonds, such as mortgages and Treasurys, since the reward (yield) is low relative to the risk (duration) of these bonds. However, having an allocation to these higher-grade bonds can serve to buffer against equity volatility. We have long recommended being overweight credit-sensitive bonds, but as credit spreads have tightened dramatically, we have become less optimistic. Diversifying fixed income risk factors, such as duration, credit quality, sector and structure, becomes increasingly important as interest rates rise, credit spreads tighten, and the bull market for equities continues.

In sum, as markets continue to build momentum into the new year and risks build, we recommend a diversified portfolio, keeping long-term risk and return objectives in mind. As central banks ease out of markets, volatility which has been nearly absent this year, may return in the coming year. Investors have less cash on the sidelines to buy on dips and perhaps stabilize markets. With high valuations in equities, tight credit spreads in high yield bonds and low yields in high quality bonds, there are not many places to hide. Being diversified against any one risk may be the most prudent path. In addition, we believe adding an allocation to alternative investments, which have lower correlations to traditional investments, may protect a portfolio on the downside.

This report is created by Cetera Investment Management LLC.

Appendix

U.S. Economic Overview

Employment	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
US Nonfarm Monthly Payrolls ('000)	Nov-17	228	244	164	170	173	-16	64
US Total Nonfarm Payrolls - YoY Change	Nov-17	1.4%	1.4%	1.6%	1.4%	1.5%	0.0%	-0.2%
U3 Unemployment Rate	Nov-17	4.1%	4.1%	4.6%	4.1%	4.4%	0.0%	-0.5%
U6 Unemployment Rate	Nov-17	8.0%	7.9%	9.3%	8.1%	8.6%	0.1%	-1.3%
Quit Rate	Oct-17	2.2%	2.2%	2.1%	2.2%	2.2%	0.0%	0.1%
Job Openings: Total Nonfarm ('000)	Oct-17	5996	6177	5587	6088	5871	-181	409
Initial Jobless Claims ('000) 4 Wk. MA - Month End	Nov-17	238	245	252	249	246	-7	-14
KC Fed LMCI Momentum Indicator	Nov-17	1.7	1.5	1.2	1.4	1.3	0.1	0.5
Labor Force Participation Rate	Nov-17	62.7%	62.7%	62.6%	62.8%	62.9%	0.0%	0.1%
Employment to Population Ratio	Nov-17	60.1	60.2	59.7	60.2	60.1	-0.1	0.4

Consumer	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
Retail Sales - YoY Change	Nov-17	5.8%	4.9%	3.4%	5.2%	4.5%	0.9%	2.4%
Vehicle Sales (Mil. Units, annualized)	Nov-17	17.3	18.0	17.6	17.9	17.2	-0.7	-0.2
Personal Savings Rate	Oct-17	3.2%	3.0%	4.1%	3.2%	3.6%	0.2%	-0.9%

Production	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
Industrial Production - YoY Change	Nov-17	3.4%	2.9%	-0.4%	2.7%	1.7%	0.5%	3.8%
Capacity Utilization	Nov-17	77.1%	77.0%	75.5%	76.8%	76.3%	0.1%	1.6%
Core Capital Goods Orders - YoY Change	Oct-17	10.8%	7.8%	-6.0%	7.5%	3.6%	3.1%	16.8%

Housing & Construction	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
Building Permits ('000)	Nov-17	1298	1316	1255	1280	1255	-18	43
Housing Starts ('000)	Nov-17	1297	1256	1149	1237	1213	41	148
New Home Sales	Oct-17	685	645	577	632	604	40	108
S&P/Case-Shiller Home Price Index (20 city) - YoY Change	Sep-17	6.2%	5.9%	5.1%	6.0%	5.7%	0.3%	1.1%
Total Construction Spending - YoY Change	Oct-17	2.9%	2.4%	7.6%	2.7%	5.1%	0.5%	-4.7%

Survey Data	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
ISM Manufacturing PMI Composite	Nov-17	58.2	58.7	53.5	59.2	57.1	-0.5	4.7
ISM Manufacturing PMI New Orders	Nov-17	64.0	63.4	53.0	64.0	62.0	0.6	11.0
ISM Non-Manufacturing PMI Composite	Nov-17	57.4	60.1	57.2	59.1	57.0	-2.7	0.2
ISM Non-Manufacturing PMI New Orders	Nov-17	58.7	62.8	57.0	61.5	59.8	-4.1	1.7
U. of Michigan Consumer Sentiment	Nov-17	98.5	100.1	93.8	97.9	96.9	-1.6	4.7

Inflation	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
Consumer Price Index (CPI) - YoY Change	Nov-17	2.2%	2.0%	1.7%	2.2%	2.1%	0.2%	0.5%
Personal Consumption Expenditure (PCE) - YoY Change	Oct-17	1.6%	1.7%	1.6%	1.6%	1.7%	-0.1%	0.0%
Producer Price Index (PPI) - YoY Change	Nov-17	4.3%	2.9%	0.4%	3.5%	3.1%	1.4%	3.9%
Average Hourly Earnings - YoY Change	Nov-17	2.5%	2.3%	2.7%	2.5%	2.6%	0.2%	-0.2%

GDP	As of	Latest	Previous	1 Yr. Ago	2 Qtr. Avg.	4 Qtr. Avg.	1 Qtr. Diff.	1 Yr. Diff.
Real GDP - QoQ (SAAR)	Q3-17	3.3%	3.1%	2.8%	3.2%	2.3%	0.2%	0.5%
Real GDP - YoY Change	Q3-17	2.3%	2.2%	1.5%	2.3%	2.1%	0.1%	0.8%

Other	As of	Latest	Previous	1 Yr. Ago	3 Mo. Avg.	12 Mo. Avg.	1 Mo. Diff.	1 Yr. Diff.
Treasury Yield Curve (10 Yr. Minus 2 Yr.) - Month End	Nov-17	0.65%	0.81%	1.16%	0.76%	0.99%	-0.16%	-0.51%
Philly Fed Leading U.S. Index	Oct-17	1.7	1.2	1.3	1.4	1.4	0.5	0.4

Economic Indicator	Source
US Nonfarm Monthly Payrolls ('000)	U.S. Bureau of Labor Statistics
US Total Nonfarm Payrolls - YoY Change	U.S. Bureau of Labor Statistics
U3 Unemployment Rate	U.S. Bureau of Labor Statistics
U6 Unemployment Rate	U.S. Bureau of Labor Statistics
Quit Rate	U.S. Bureau of Labor Statistics
Initial Jobless Claims ('000) 4 Wk. MA - Month End	U.S. Employment and Training Administration
KC Fed LMCI Momentum Indicator	Federal Reserve Bank of Kansas City
Employment to Population Ratio	U.S. Bureau of Labor Statistics
US Retail Sales - YoY Change	U.S. Bureau of the Census
Vehicle Sales (Mil. Units, annualized)	U.S. Bureau of Economic Analysis
Personal Savings Rate	U.S. Bureau of Economic Analysis
Industrial Production - YoY Change	Board of Governors of the Federal Reserve System (US)
Capacity Utilization	Board of Governors of the Federal Reserve System (US)
Core Capital Goods Orders - YoY Change	U.S. Bureau of the Census
Building Permits ('000)	U.S. Bureau of the Census
Housing Starts ('000)	U.S. Bureau of the Census
New Home Sales	U.S. Bureau of the Census
S&P/Case-Shiller Home Price Index (20 city) - YoY Change	S&P Dow Jones Indices LLC
Total Construction Spending - YoY Change	U.S. Bureau of the Census
ISM Manufacturing Composite	Institute for Supply Management
ISM Manufacturing New Orders	Institute for Supply Management
ISM Non-Manufacturing Composite	Institute for Supply Management
ISM Non-Manufacturing New Orders	Institute for Supply Management
U. of Michigan Consumer Sentiment	University of Michigan
Consumer Price Index (CPI) - YoY Change	U.S. Bureau of Labor Statistics
Personal Consumption Expenditure (PCE) - YoY Change	U.S. Bureau of Economic Analysis
Producer Price Index (PPI) - YoY Change	U.S. Bureau of Labor Statistics
Average Hourly Earnings - YoY Change	U.S. Bureau of Labor Statistics
Real GDP - QoQ (SAAR)	U.S. Bureau of Economic Analysis
Real GDP - YoY Change	U.S. Bureau of Economic Analysis
Yield Curve - Month End	Federal Reserve Bank of St. Louis
Leading Index for the United States	Federal Reserve Bank of Philadelphia

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Glossary

*The **S&P 500** is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe.*

*The **S&P Growth Index** is a float adjusted, market capitalization weighted index of 317 stocks drawn from the S&P 500 Index that exhibit strong growth characteristics. S&P Dow Jones Indexes uses three factors to measure growth: sales growth, the ratio of earnings change to price, and momentum.*

*The **S&P Value Index** is a float adjusted, market capitalization weighted index of 364 stocks drawn from the S&P 500 Index that exhibit strong value characteristics. S&P Dow Jones Indexes uses three factors to measure value: the ratios of book value, earnings and the sales to price sales metric.*

*The **S&P MidCap 400** provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500®, measures the performance of 400 mid-sized companies, representing more than 7% of available market cap.*

*The **S&P MidCap 400** Growth Index represents the growth companies of the S&P MidCap 400 Index which itself is composed of mid-cap stocks from the broad U.S. equity market. Growth companies are identified by three factors: book value to price ratio, earnings to price ratio, and sales to price ratio.*

*The **S&P MidCap 400** Value Index represents the value companies of the S&P MidCap 400 Index which itself is composed of mid-cap stocks from the broad U.S. equity market. Value companies are identified by three factors: book value to price ratio, earnings to price ratio, and sales to price ratio.*

*The **S&P SmallCap 600** measures the small-cap segment of the U.S. equity market. Introduced in 1994, the index is designed to track the performance of 600 small-size companies in the U.S, reflecting this market segment's distinctive risk and return characteristics. The index measures a segment of the market that is typically known for less liquidity and potentially less financial stability than large-caps, the index was constructed to be an efficient benchmark composed of small-cap companies that meet investability and financial viability criteria.*

*The **S&P SmallCap 600 Growth Index** represents the growth companies of the S&P S&P SmallCap 600 Index which itself is composed of small cap stocks from the broad U.S. equity market. Growth companies are identified by three factors: book value to price ratio, earnings to price ratio, and sales to price ratio.*

*The **S&P SmallCap 600 Value Index** represents the value companies of the S&P SmallCap 600 Index which itself is composed of small-cap stocks from the broad U.S. equity market. Value companies are identified by three factors: book value to price ratio, earnings to price ratio, and sales to price ratio.*

*The **MSCI ACWI** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey and United Arab Emirates.*

*The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.*

*The **MSCI EAFE Growth Index** represents large and mid cap securities exhibiting overall growth style characteristics across Developed Markets countries around the world, excluding the US and Canada.*

*The **MSCI EAFE Value Index** represents large and mid cap securities exhibiting overall value style characteristics across Developed Markets countries around the world, excluding the US and Canada.*

*The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.*

*The **MSCI Europe Index** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance in Europe.*

*The **MSCI Pacific Index** captures large and mid cap representation across 5 Developed Markets (DM) countries in the Pacific region. With 470 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.*