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MACRO & MARKET COMMENTARY

Investment Outlook

By Craig Burelle, VP, Macro Analyst

KEY TAKEAWAYS

- Annual global growth is expected to accelerate in 2017 but level off at the same growth rate in 2018.
- Global headline inflation looks headed for a slight uptick in 2017 and a modest decline in 2018.
- EM profit and economic growth are running ahead of DM, and we believe this can continue.
- Central bank transparency is contributing to low realized market volatility.
- Risk assets and government bonds should be able to earn positive total returns in the current environment.

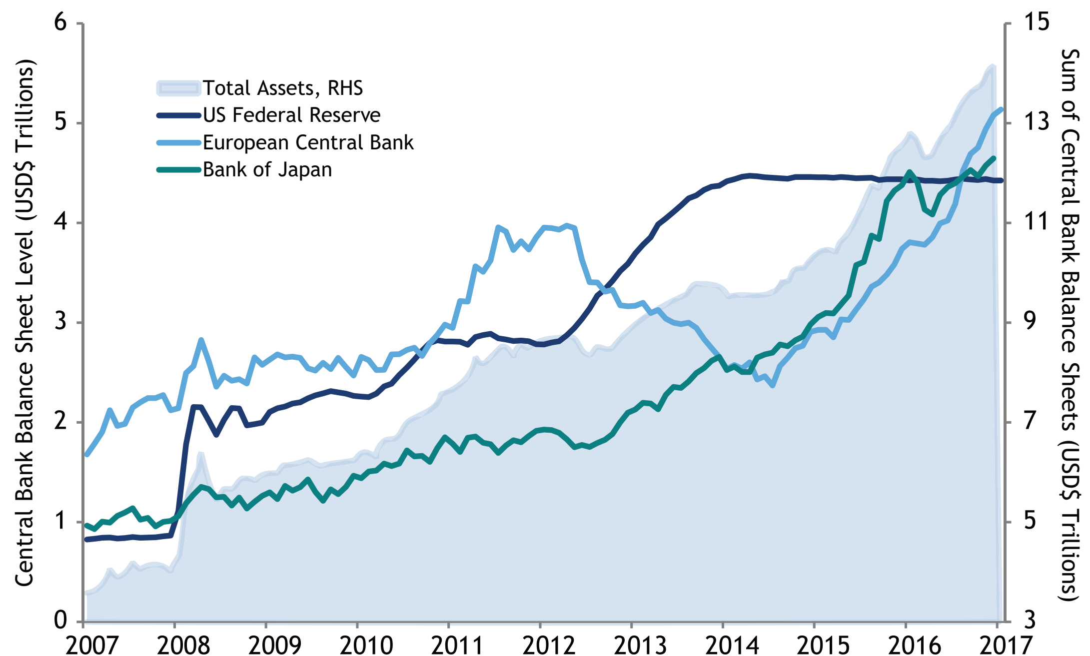
With limited evidence of excess in the global financial system and mostly low interest rates around the world, we remain optimistic about global economic prospects. The expansion is poised to continue, led by growth in emerging economies.

Long Road to Travel Before Reaching "Tighter" G-3 Monetary Policy

The global economy's post-crisis economic recovery is a little over eight years old. And now, after years of monetary stimulus, the US, Europe and Japan are seeing firmer growth and inflation data, but inflation data continues to indicate price growth beneath each central bank's target—including the Federal Reserve's (Fed's). For this reason we believe monetary policymakers will shift gears slowly, removing monetary accommodation over a period of years, and at a pace commensurate with underlying economic fundamentals.

G3 CENTRAL BANK BALANCE SHEETS

Source: US Federal Reserve, European Central Bank, Bank of Japan, data as of 9/13/2017.



The US expansion is more advanced than Japan and Europe, prompting the Fed to move to less accommodative policy sooner than other central banks. The Fed has hiked four times since December 2015, with another hike expected in December 2017. Market watchers are now turning their attention to the Fed's balance sheet taper, an effort to shrink the central bank's $4.5 trillion balance sheet, set to begin in October. The tapering process allows maturing securities to roll off at a monthly pace of $6 billion for Treasurys and $4 billion for agency MBS. We expect the monthly pace to grow by $6 billion and $4 billion for Treasurys and agency MBS, respectively, per quarter until reaching monthly limits of $30 billion for Treasurys and $20 billion for agency MBS. The Fed is taking a conservative approach in our view, and we believe it will most likely become a blueprint for other developed market (DM) central banks when they eventually begin decreasing their balance sheets.

In the euro zone, annual real GDP has been decent since 2014, growing at a rate of between 1.3% and 2.0% annually for the past three years with 2017 expected to show approximately 2.1% growth. However, the inflation data has been disappointing and considerably behind the US, which is prompting the European Central Bank (ECB) to maintain ultra-accommodative policy. While the current ECB quantitative easing program is scheduled to expire in December of this year, a further tapering of purchases is up for debate. In either event, we do not expect an ECB rate hike within the next 12 months. The timeline for balance sheet shrinkage is even further out on the horizon for the ECB. In Japan, economic recovery is progressing more slowly than in the US and Europe, particularly on the inflation front. Annual real GDP growth has trended around 1.0% for the past few years, but inflation has been disappointing, failing to break above 1.0% for any meaningful period of time. Japan's struggle to prop up inflation should keep the Bank of Japan in accommodative mode for the foreseeable future.

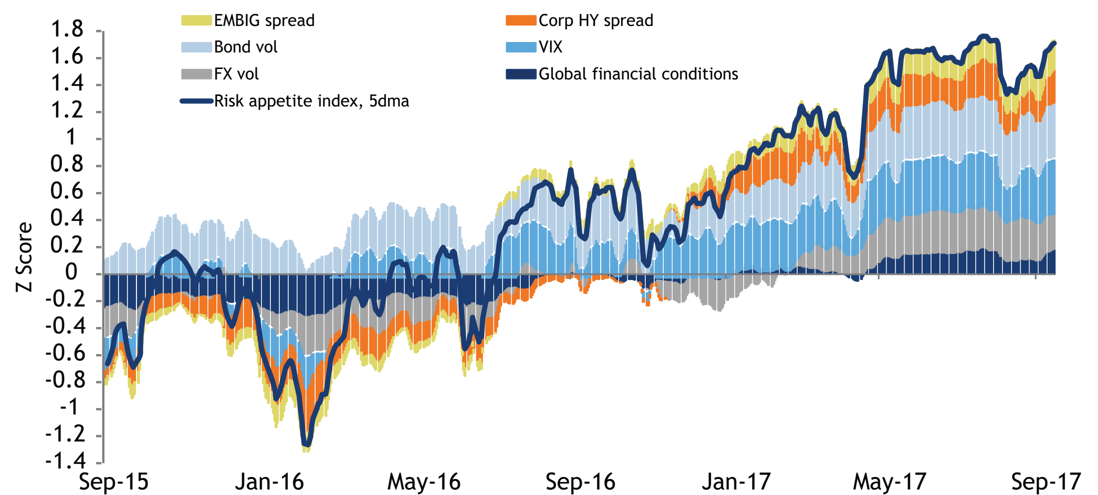
Risk Appetite Remains Strong as Markets Shrug Off Alarming Headlines

The macroeconomic environment is quite sanguine thanks largely to measured positions from major central banks and steady economic activity. Our proprietary risk appetite index, which aggregates six variables across asset classes, indicates a level of investor tolerance for holding securities of higher risk than Treasurys. Risk appetite has remained strong this year, and we expect the trend to continue into 2018, barring any unexpected events that would dramatically raise systemic risk. The markets have shrugged off recent headlines related to US politics, geopolitics, cyber security threats and even weather, and most asset prices have continued to appreciate. Rather than focusing on known risks with unknown outcomes, most markets appear to be focused on underlying fundamentals. The US dollar's decline relative to foreign currencies year to date has been a key driver of emerging market (EM) asset performance and has supported US multinational corporate profits. Globally, corporate profits are in a synchronized upturn for the first time since 2006, and equity and credit indices in the US and abroad have embraced this profits acceleration.

RISK APPETITE REMAINS STRONG

Source: Loomis Sayles, data as of 9/15/2017.

The risk appetite index is a proprietary indicator maintained by the Loomis Sayles Macro Strategies Group.

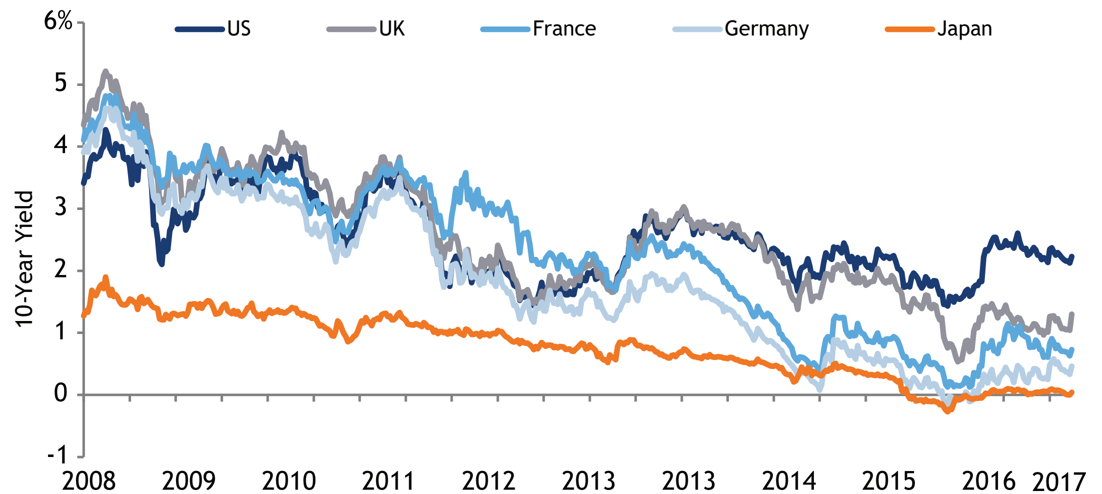


Looking forward, we believe the US dollar should remain stable to slightly weaker relative to global peers, particularly in EM where economic growth in aggregate has been outpacing the US. While short-term US Treasury yields have moved higher this year along with the federal funds rate, longer-term yields from the 5- to 30-year maturity have actually declined year to date, supporting the global fixed income carry trade. An inflation shock could tighten financial conditions and cause yields to rise in the future, but over the next 12 months, we think stable to slightly higher medium- to long-term yields are more likely. Central banks have also telegraphed policy changes quite clearly, which seems to have increased investor confidence that a policy error is less likely.

GLOBAL YIELDS BENEATH PRE-GFC LEVELS

10-Year Developed Market Government Yields

Source: Thomson Reuters Datastream, data as of 9/18/2017.



Government Bond Yields are Expected to Rise, but Not Substantially

Most government bond yields are below pre-crisis levels, and changes to the inflation outlook and monetary policy should continue to drive yields. Fed policy has helped make the US 10-year one of the highest yielders in the developed world. ECB policy shifts may increase euro zone yields next year and thereafter. Japan's government bond market should follow suit, but in the more distant future.

Although DM should see higher yields in the future, the trajectory looks low based on our benign view of inflation and monetary policy over the near to medium term. Developments like increased competition and technological advancement have contained inflationary pressure in many economies during this cycle. A muted rise in medium- to long-term yields over time should have limited impact on long-duration securities like investment grade corporates; however, an inflation shock would likely spur less positive outcomes.

Strong Profits Growth and Low Rates Continue to Support Equity Valuations

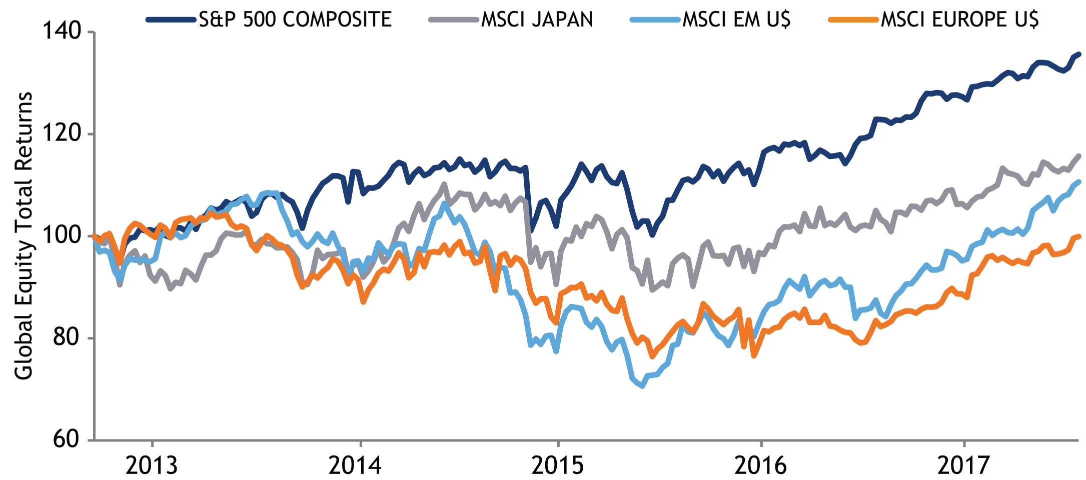
Corporate profits rebounded globally earlier this year and have since broadly exceeded market consensus expectations. This development has propelled global equity markets higher and supports somewhat elevated price-to-earnings multiples (P/Es). At this stage in the US expansion, we do not believe P/E multiples have much further to rise given our economic outlook and interest rate expectations. However, multiples can remain somewhat higher than historical comparisons if long-term interest rates stay low and profits continue to grow globally. In fact, the S&P 500® Index operating earnings yield (the inverse of the P/E ratio) relative to long-term US Treasury bond yields indicates Treasurys have been relatively overvalued since the global financial crisis. Even when measured to US investment grade or high yield credit indices, the S&P 500 Index still looks relatively undervalued, an important factor supporting the index P/E ratio.

GLOBAL EQUITIES WORKING TO CLOSE THE PERFORMANCE GAP

Global Equity Total Return

Source: Bloomberg History and Consensus Forecast, Thomson Reuters Eikon, data before extraordinary items as of 6/22/2017, forecast through Q1 2018.

Forecasts contained herein are the product of Bloomberg, and do not necessarily reflect the views of Loomis, Sayles & Company, L.P. Other industry analysts and investment personnel may have different views and opinions.



In what is still a fairly low economic growth environment, we have seen more growth-oriented sectors like information technology generally show global performance leadership year to date and in the third quarter. Sectors with relatively higher profits growth have outperformed the broader market, which partially explains why growth has outperformed value year to date. Value sectors like financials and industrials tend to outperform when an economy is accelerating, and while growth has improved since 2016, the level of acceleration was not material from a sector allocation perspective. In the US, large cap corporate profit growth has run ahead of US small caps this year, and relative performance reflects that outcome. We expect US multinationals and EM equities to benefit from positive currency translation effects through the fourth quarter of 2017.

Second-quarter profit growth in global equity markets like Europe and Japan exceeded the US on a year-over-year basis, but relative performance did not reflect those results. On a year to date basis, a relative performance gap remains between the US and global indices when measured in local currency terms. However, in US dollar terms Europe and Japan have shown strong outperformance relative to the S&P 500 for the period due to euro and yen rallies, respectively. The S&P 500's nearly 14% return on equity (ROE) is a leader compared to EM at nearly 12% and Europe and Japan at about 10%. Global equity index ROE has been higher in the past, and we are not ruling out fundamental improvement in the future. We believe strong profits growth can continue, albeit at a slower rate than during the first half of 2017, giving global equity performance a chance to catch up to the US.

Macro Backdrop Should Remain Positive for Risk Assets Moving into 2018

A steady global economic backdrop has fostered an environment where risk assets like high yield credit and equities, as well as less risky government bonds, can potentially deliver positive total returns to investors. We remain optimistic about global economic prospects and will look to riskier assets to generate excess returns over US Treasurys in the quarters ahead. The macroeconomic backdrop of stable growth and inflation is expected to persist moving forward as long as systemic risks do not emerge and cause major disruptions. Valuations, whether option-adjusted spreads on credit indices or equity P/E multiples, remain on the high side; however, continued profit growth should remain a key pillar supporting valuations. If financial conditions remain commensurate with economic activity, meaning monetary accommodation is not removed too aggressively, we believe that many asset classes could generate positive absolute annual returns moving forward over the next 12 months, although perhaps less than historical averages.

Third Quarter Review

By Craig Burelle, VP, Macro Analyst

INDEX RETURNS BY SECTOR
as of September 30, 2017

INDEX				
US BROAD MARKET	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US AGGREGATE BOND	-0.48	0.85	2.31	0.07
BBG BARC US GOVERNMENT/CREDIT	-0.57	0.81	2.51	-0.01

Steady economic growth and a further advance in corporate profits supported most US risk assets throughout the third quarter. Option-adjusted spreads (OAS) on high-quality fixed income benchmarks like the US Aggregate and US Government/Credit indices tightened a bit further during the quarter while the US yield curve flattened, modestly led by a rise in short-end yields.

US GOVERNMENTS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US TREASURYS	-0.86	0.38	1.58	-1.67
3-MONTH T-BILLS	0.08	0.27	0.48	0.67
2-YEAR TREASURY	-0.15	0.20	0.32	0.02
5-YEAR TREASURY	-0.84	0.26	0.93	-2.00
10-YEAR TREASURY	-1.61	0.28	1.59	-4.58
30-YEAR TREASURY	-2.41	0.33	4.60	-8.61
BBG BARC US TIPS	-0.64	0.86	0.46	-0.73
BBG BARC US AGENCY	-0.48	0.41	1.31	0.07

During the first two months of the quarter, US Treasury yields trended lower with some questioning whether a third Fed rate hike would be delivered in 2017. However, in September that dynamic began to change as oil prices started to rise along with rising inflation expectations. Later in September, Federal Open Market Committee Chair Janet Yellen announced a framework for balance sheet normalization and provided a new summary of economic projections (SEP), which suggested a December 2017 rate hike was still a strong possibility. By quarter-end, the 5-year maturity through the long end of the US Treasury yield curve was nearly unchanged, while shorter-term yields moved modestly higher.

US MUNICIPALS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US MUNICIPALS	-0.51	1.06	3.04	0.87

Municipal bond total returns were broadly positive across all US states during the third quarter. Given the Municipal Bond index's composition, aggregate total return tends to be driven by the same three states (California, New York and Texas), which represent a collective weight of 42.4%. Those three states each returned about 1.0% for the third quarter while other states performed much better. The best-performing state, Illinois, earned a 3.2% total return for the quarter while the worst performing state, New Mexico, still earned a 0.4% total return.

US SECURITIZED	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC MBS	-0.22	0.96	1.84	0.30
BBG BARC ABS	-0.23	0.42	1.02	0.86
BBG BARC CMBS	-0.95	0.79	2.11	-0.13

US MBS was the top-performing securitized benchmark during the third quarter, earning a positive total return of 0.96% and excess return of 0.47% for the period, as OAS tightened by 10 basis points. The CMBS Erisa Eligible index, which has the longest duration among securitized benchmarks at 5.4 years, posted a strong quarterly total return of 0.79% and an excess return of 0.34%. Asset-backed securities, which have relatively short duration at just 2.2 years, earned positive total and excess returns for the quarter as well.

Data Sources: Bloomberg Barclays indices from Barclays Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

All returns in US dollars, unless noted. ***Past performance is no guarantee of future results.***

INDEX RETURNS BY SECTOR

as of September 30, 2017

INDEX				
CORPORATES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US INVESTMENT GRADE	-0.17	1.34	3.91	2.21
AAA	-0.16	1.55	5.18	0.86
AA	-0.33	1.08	2.95	0.79
A	-0.33	1.24	3.71	1.48
BBB	-0.02	1.46	4.23	3.15
BBG BARC EUROPEAN INVESTMENT GRADE *-LOCAL CURRENCY RETURNS*	-0.20	1.13	1.49	0.54
AAA	-0.58	1.44	0.68	-2.96
AA	-0.41	0.98	0.55	-0.94
A	-0.29	1.01	1.16	-0.06
BBB	-0.10	1.24	1.94	1.38
BBG BARC STERLING INVESTMENT GRADE *-LOCAL CURRENCY RETURNS*	-1.95	0.13	0.68	0.20
AAA	-2.98	-0.31	-1.75	-4.91
AA	-2.16	-0.22	-0.61	-1.33
A	-2.26	-0.03	0.22	-0.61
BBB	-1.66	0.32	1.36	1.30

A continuation of the global profits recovery was supportive of corporate credit across developed markets in the United States and Europe. For the period, US investment grade corporates delivered positive total returns as well as strong excess returns over US Treasurys of similar duration. European corporates also managed to generate positive total and excess returns for the third quarter despite having a yield-to-maturity of less than 1.0% across credit qualities. Sterling aggregate corporates carry the longest duration among the high-quality credit indices and are therefore most susceptible to yield curve fluctuations. A modest rise in yield across the UK curve pressured the Sterling Aggregate in the third quarter, but lower-quality BBB corporates still earned a modest total return for the period. Despite broad weakness from a total return perspective, Sterling Aggregate corporates did earn positive excess returns across each credit quality.

CORPORATES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US HIGH YIELD	0.90	1.98	4.19	8.88
BB	0.72	2.01	4.74	7.36
B	0.83	1.75	3.49	8.24
CCC	1.61	2.50	4.40	14.40
BBG BARC PAN-EURO HIGH YIELD *-LOCAL CURRENCY RETURNS*	1.17	1.64	3.55	7.91
BB	1.01	1.58	3.46	7.12
B	1.46	1.39	3.04	8.27
CCC	1.92	3.39	6.84	17.35

High yield corporates were key beneficiaries of continued profit growth in the US and Europe. A stable to slightly improving economic backdrop and generally muted risk asset volatility globally have provided additional support to high yield credit. US corporates continued to show performance leadership relative to Europe and built on strong year-to-date gains. Although a touch behind US high yield, the Pan-European index still posted strong total returns for the quarter, led by CCC-rated credits. Excess returns in these high yield indices were among the highest of any developed market fixed income benchmark.

Data Sources: Bloomberg Barclays indices from Barclays Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

All returns in US dollars, unless noted. ***Past performance is no guarantee of future results.***

INDEX RETURNS BY SECTOR

as of September 30, 2017

INDEX				
BANK LOANS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
S&P/LSTA LEVERAGED LOAN	0.39	1.04	1.81	5.30
BB	0.34	0.98	1.66	3.71
B	0.41	1.03	1.98	5.40
CCC	0.83	1.80	2.52	4.65

High yield loan market performance is highly correlated with that of the high yield corporate bond market despite fundamental differences between the two asset classes, most notably the floating rate characteristic of bank loans. That relationship remained intact throughout the third quarter as the high yield loan index earned positive total returns. The bank loan index should continue to benefit from the recovery in US corporate profits as well as a stable economic environment.

DEVELOPED COUNTRIES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
CITIGROUP WGBI *-LOCAL CURRENCY RETURNS*	-0.71	0.35	0.93	-2.32
CITIGROUP NON-USD WGBI	-0.64	0.33	0.59	-2.70
UNITED STATES	-0.85	0.38	1.57	-1.63
CANADA	-1.46	-2.06	-1.52	-4.86
JAPAN	-0.39	0.22	0.30	-1.98
AUSTRALIA	-0.49	-0.44	0.68	-2.21
UNITED KINGDOM	-2.82	-0.41	-1.83	-3.93
EUROPEAN GBI	-0.48	0.58	1.12	-3.41
FRANCE	-0.62	0.56	2.14	-3.61
GERMANY	-0.77	0.49	-0.65	-3.84
IRELAND	-0.31	0.72	1.50	-1.63
ITALY	-0.17	0.79	1.86	-3.45
SPAIN	-0.30	0.37	1.40	-2.24

Most government bond markets earned positive total returns for the quarter, as growth remained stable and inflationary pressure was fairly muted across developed economies. An eventual shift toward less accommodative monetary policy has come into focus recently, particularly in North America. The Bank of Canada delivered two 25 basis point rate hikes over the third quarter, and the Federal Reserve is expected to deliver the third rate hike of 2017 in December. A rise across most developed market government yields during September limited quarterly total returns, but the majority of markets still showed positive performance, albeit alongside a modest rise in rates.

EMERGING MARKET BONDS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
JP MORGAN EMBIG *-SOVEREIGN/QUASI-SOVEREIGN, USD*	-0.01	2.38	4.65	4.15
JP MORGAN CEMBI BROAD DIVERSIFIED *-CORPORATES, USD*	0.35	2.11	4.13	5.82
JP MORGAN GBI-EM GLOBAL DIVERSIFIED *-GOVERNMENTS, LOCAL CURRENCY*	0.76	2.21	4.64	6.51

Investors who reached out for yield in emerging market credit and government markets were rewarded in the third quarter, as emerging market fixed income indices added to already impressive year-to-date returns. Sovereigns denominated in US dollars provided a higher yield than US Treasurys of similar duration without local currency risk. Relatively higher yielding local currency government bonds within the GBI-EM index also offered attractive returns, while the US dollar weakened slightly throughout most of the third quarter. Corporate profits in emerging markets are participating in the global recovery, which improved the fundamental backdrop of the CEMBI corporate bond index.

Data Sources: Bloomberg Barclays indices from Barclays Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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INDEX RETURNS BY SECTOR
as of September 30, 2017

INDEX				
CURRENCY MARKETS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
DOLLAR BLOC				
CANADIAN DOLLAR	0.08	3.94	6.78	5.25
AUSTRALIAN DOLLAR	-1.42	1.89	2.69	2.22
NEW ZEALAND DOLLAR	0.43	-1.69	2.90	-1.06
WESTERN EUROPE				
EURO	-0.81	3.40	10.91	5.15
NORWEGIAN KRONE	-2.53	4.82	7.99	0.28
SWEDISH KRONA	-2.57	3.49	10.10	5.23
SWISS FRANC	-0.99	-1.07	3.54	0.32
BRITISH POUND	3.62	2.86	6.76	3.28
EMERGING EUROPE & AFRICA				
CZECH KORUNA	-0.35	3.92	15.38	9.28
HUNGARIAN FORINT	-2.67	2.48	9.89	4.02
POLISH ZLOTY	-2.31	1.43	8.83	4.72
RUSSIAN RUBLE	0.90	2.52	-2.14	9.32
SOUTH AFRICAN RAND	-4.10	-3.57	-1.07	1.21
TURKISH NEW LIRA	-3.10	-1.20	2.05	-15.81
ASIA				
JAPANESE YEN	-2.25	-0.11	-1.00	-9.92
CHINESE RENMINBI	-0.94	1.93	3.52	0.29
INDONESIAN RUPIAH	-0.96	-1.07	-1.08	-3.13
MALAYSIAN RINGGIT	1.20	1.72	4.86	-2.01
PHILIPPINE PESO	0.71	-0.67	-1.19	-4.54
SINGAPORE DOLLAR	-0.13	1.37	2.91	0.41
SOUTH KOREAN WON	-1.57	-0.12	-2.36	-3.85
LATIN AMERICA				
ARGENTINE PESO	0.15	-3.98	-11.14	-11.61
BRAZILIAN REAL	-0.42	4.58	-1.26	3.13
CHILEAN PESO	-1.92	3.88	3.32	2.86
COLOMBIAN PESO	0.32	3.55	-2.21	-1.96
MEXICAN PESO	-2.02	-0.74	2.58	6.19
PERUVIAN NEW SOL	-0.80	-0.63	-0.52	3.61

Modest US dollar weakness characterized the third quarter as several developed and emerging market currencies staged small rallies. This year, the shift toward less accommodative monetary policy globally has set the US dollar on its heels to a certain degree, even though expectations for the ECB and the BOJ suggest tightening measures of any sort are at least 12 months out on the horizon. The slightly weaker US dollar has broadly supported global financial conditions, as well as being a positive catalyst for risk assets, including foreign currencies. Interest rate differentials still favor a firmer US dollar, which may explain why foreign currencies began to trade a bit softer during the final month of the third quarter.

Data Sources: Bloomberg Barclays indices from Barclays Live; currency returns, JPMorgan and Citigroup indices from Bloomberg; bank loans from S&P Global Market Intelligence.

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GLOBAL EQUITY MARKETS
as of September 30, 2017

INDEX TOTAL RETURNS (%)

INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
S&P 500®	4.48	18.61	10.81	14.22
MSCI ALL COUNTRY WORLD	5.31	19.29	8.02	10.79
MSCI EUROPE	6.49	23.01	4.96	8.97
MSCI JAPAN	4.10	14.46	8.10	10.91
MSCI EMERGING MARKETS	8.04	22.91	5.28	4.36

In a strong quarter led by global equities including emerging markets and Europe, most indices earned very respectable total returns. Broadening global participation is generally a sign of equity market health, and at the present time, much of the world appears to be in a bull market. Better economic fundamentals are supporting Europe and Japan, although the performance of Japan has lagged global peers a bit over the past year. Corporate profit growth appears to be resuming in many countries, which is perhaps the most important catalyst for global equities moving forward.

US EQUITY MARKETS
as of September 30, 2017

INDEX TOTAL RETURNS (%)

INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
RUSSELL 1000®	4.48	18.54	10.63	14.27
GROWTH	5.90	21.94	12.69	15.26
VALUE	3.11	15.12	8.53	13.20
RUSSELL MIDCAP®	3.47	15.32	9.54	14.26
GROWTH	5.28	17.82	9.96	14.18
VALUE	2.14	13.37	9.19	14.33
RUSSELL 2000®	5.67	20.74	12.18	13.79
GROWTH	6.22	20.98	12.17	14.28
VALUE	5.11	20.55	12.12	13.27

During the third quarter, US equities added to strong year-to-date gains across size and style. Substantial small cap outperformance defined the month of September and led to small cap outperformance for the entire quarter as well. Growth has continued to outperform value, although the spread between total returns has narrowed somewhat recently. As the US economy continues to move along with slow but steady growth, companies that can generate relatively higher return on equity and earnings growth remain attractive. Albeit modest, the rise in US Treasury yields over the past year has supported certain value-oriented sectors such as financials, which represents a large weight in the value-style indices.

S&P 500 SECTORS
as of September 30, 2017

SECTOR PERFORMANCE ATTRIBUTION (%)

INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
INFORMATION TECHNOLOGY	8.65	28.91	17.36	17.28
ENERGY	6.86	0.17	-5.73	0.45
TELECOMMUNICATIONS	6.78	-0.14	5.26	5.59
MATERIALS	6.05	21.21	5.93	11.11
FINANCIALS	5.24	36.21	13.46	17.68
INDUSTRIALS	4.22	22.24	12.11	16.16
HEALTHCARE	3.65	15.49	10.41	17.33
UTILITIES	2.87	12.03	11.90	11.90
REAL ESTATE	0.93	2.66	0.43	0.26
CONSUMER DISCRETIONARY	0.81	14.51	12.38	15.96
CONSUMER STAPLES	-1.36	4.40	8.98	11.48

Information technology and healthcare continued to outperform year to date, but financials have also shown impressive performance leadership over the past 12 months. The sectors lagging year to date and over the past year tend to be defensive like consumer staples or dividend oriented such as utilities and telecom. Several sectors earned double-digit annualized returns over the past three and five years while others have floundered. Despite the laggards, a mix of strong performance from both growth and value sectors has led an impressive advance for the overall market. Strong internal breadth indicators and the number of advancing issues relative to those declining suggest broad participation in the S&P 500 rally.

Data Source: FactSet. All returns quoted in US dollars. Performance for one and multi-year periods is annualized. Sorted by index quarterly returns. Due to rounding, sector totals may not equal 100%. ***Past performance is no guarantee of future results.***

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Disclosure

All data as of September 30, 2017, unless otherwise noted.

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Past performance is no guarantee of future results.

Indices are unmanaged and do not incur fees. It is not possible to invest directly in an index.

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Index Definitions

Bloomberg Barclays US Aggregate Bond Index *represents securities that are SEC-registered, taxable, and dollar denominated. The index covers the US investment grade fixed rate bond market, with index components for government and corporate securities, mortgage pass-through securities, and asset-backed securities. These major sectors are subdivided into more specific indices that are calculated and reported on a regular basis.*

Bloomberg Barclays US Government/Credit Index *includes securities in the government and credit indices. The government index includes treasuries -i.e., public obligations of the US Treasury that have remaining maturities of more than one year and agencies -i.e., publicly issued debt of US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government. The credit index includes publicly issued US corporate and foreign debentures and secured notes that meet specified maturity, liquidity, and quality requirements.*

Bloomberg Barclays US Treasury Index *includes public obligations of the US Treasury with at least one year until final maturity, excluding certain special issues such as state and local government series bonds -SLGs, US Treasury TIPS and STRIPS.*

Bloomberg Barclays US Treasury Inflation Protected Securities Index *consists of inflation-protection securities issued by the US Treasury that have at least one year to maturity and at least $250 million par amount outstanding.*

Bloomberg Barclays US Agency Index *includes agency securities that are publicly issued by US Government agencies, quasi-federal corporations, and corporate or foreign debt guaranteed by the US Government -such as USAID securities.*

Bloomberg Barclays US Municipal Index *is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. The index has four main sectors: general obligation bonds, revenue bonds, insured bonds -including all insured bonds with a Aaa/AAA rating, and prerefunded bonds.*

***Bloomberg Barclays Mortgage-Backed Securities -MBS Index** is a component of the Bloomberg Barclays Aggregate Index covering mortgage-backed pass-through securities of Ginnie Mae -GNMA, Fannie Mae -FNMA and Freddie Mac -FHLMC. The MBS Index is formed by grouping the universe of over 600,000 individual fixed rate MBS pools into approximately 3,500 generic aggregates.*

***Bloomberg Barclays Asset-Backed Securities -ABS Index** is a component of the Bloomberg Barclays US Aggregate Index including pass-through, bullet and controlled amortization structures. The ABS Index includes only the senior class of each ABS issue and the ERISA-eligible B and C tranche. Constituents must have an average life of at least one year and a deal size of at least 500 million.*

***Bloomberg Barclays Commercial Mortgage-Backed Securities -CMBS ERISA-Eligible Index** is a component of the Bloomberg Barclays US Aggregate Index and the ERISA-eligible component of the Bloomberg Barclays CMBS Index. This index, which includes investment grade securities that are ERISA eligible under the underwriter's exemption, is the only CMBS sector that is included in the US Aggregate Index.*

***Bloomberg Barclays US Corporate Index** contains publicly issued US corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity and quality requirements. To qualify, bonds must be SEC-registered. The index includes both corporate and non-corporate sectors. The corporate sectors are Industrial, Utility, and Finance, which include both US and non-US corporations. The non-corporate sectors are Sovereign, Supranational, Foreign Agency, and Foreign Local Government.*

***Bloomberg Barclays Euro-Aggregate Corporate Index** consists of bonds issued in the euro or the legacy currencies of the 16 sovereign countries participating in the European Monetary Union -EMU. All issues must be investment grade-rated, fixed-rate securities with at least one year remaining to maturity. The Euro-Aggregate Index excludes convertible securities, floating rate notes, perpetual notes, warrants, linked bonds, and structured products.*

***Bloomberg Barclays Sterling Aggregate Corporate Index** is a broad-based benchmark that measures the investment grade, fixed-rate, taxable, corporate sterling-denominated bond market. Inclusion is based on the currency of the issue, not the domicile of the issuer. The index includes publically issued securities from industrial, utility, and financial companies that meet specified maturity, liquidity and quality requirements.*

***Bloomberg Barclays US Corporate High-Yield Index** covers the universe of fixed rate, non-investment grade debt. Eurobonds and debt issues from countries designated as emerging markets -sovereign rating of Baa1/BBB+/BBB+ and below using the middle of Moody's, S&P, and Fitch are excluded, but Canadian and global bonds -SEC registered of issuers in non-EMG countries are included. Original issue zeroes, step-up coupon structures, 144-As and pay-in-kind bonds -PIKs, as of October 1, 2009 are also included.*

***Bloomberg Barclays Pan-European High-Yield Index** covers the universe of fixed-rate, sub-investment grade debt denominated in euros or other European currencies -except Swiss francs. Securities must be rated high-yield -Ba1/BB+ or lower by at least two of the following rating agencies: Moody's, S&P, Fitch. Excludes emerging markets.*

***S&P/LSTA Leveraged Loan Index**, is a market value-weighted index designed to measure the performance of the US leveraged loan market based upon market weightings, spreads and interest payments.*

***Citigroup World Government Bond Index -WGBI** measures the performance of fixed-rate, local currency, investment grade sovereign bonds. The WGBI is a widely used benchmark that currently comprises sovereign debt from over 20 countries, denominated in a variety of currencies. The WGBI provides a broad benchmark for the global sovereign fixed income market.*

JPMorgan Emerging Markets Bond Index Global -EMBIG *tracks total returns for US dollar-denominated debt instruments issued by emerging market sovereign and quasi-sovereign entities: Brady bonds, loans, Eurobonds.*

JPMorgan Corporate Emerging Markets Bond Index -CEMBI Broad Diversified *tracks total returns of US dollar-denominated debt instruments issued by corporate entities in emerging markets countries. The CEMBI Broad is the most comprehensive corporate benchmark followed by the CEMBI, which consists of an investable universe of corporate bonds.*

JPMorgan Government Bond Index—Emerging Markets -GBI-EM Global Diversified *provides a comprehensive measure of local currency denominated, fixed rate, government debt issued in emerging markets.*

Standard & Poor's 500 -S&P 500® Index *is a market capitalization-weighted Index of approximately 500 common stocks chosen for market size, liquidity, and industry group representation to measure broad US equity performance. S&P 500® is a registered service mark of McGraw-Hill Companies, Inc.*

MSCI All Country World *is a market cap weighted index of stocks from developed and emerging markets providing a broad measure of global equity-market performance.*

MSCI Europe *is a free float-adjusted market cap index measuring equity market performance of the large and mid cap segments across European developed markets.*

MSCI Japan *is a free float-adjusted market cap index measuring equity market performance of the large and mid cap segments of the Japanese market.*

MSCI Emerging Markets Index *is a free float-adjusted market cap index measuring equity market performance of emerging markets.*

Russell 1000® Index *measures the performance of the large cap segment of the US equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.*

Russell 1000® Growth Index *measures the performance of the large cap growth segment of the US equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.*

Russell 1000® Value Index *measures the performance of the large cap value segment of the US equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower expected growth values.*

Russell Midcap® Index *measures the performance of the mid cap segment of the US equity universe. The Russell Midcap is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership.*

Russell Midcap® Growth Index *measures the performance of the mid cap growth segment of the US equity universe. It includes those Russell Midcap Index companies with higher price-to-book ratios and higher forecasted growth values.*

Russell Midcap® Value Index *measures the performance of the mid cap value segment of the US equity universe. It includes those Russell Midcap Index companies with lower price-to-book ratios and lower forecasted growth values.*

Russell 2000® Index *measures the performance of the small cap segment of the US equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.*

Russell 2000® Growth Index *measures the performance of the small cap growth segment of the US equity universe. It includes those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values.*

Russell 2000® Value Index *measures the performance of small cap value segment of the US equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.*

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