Investment Outlook

By Craig Burelle, VP, Macro Analyst

KEY TAKEAWAYS

- Global real GDP and inflation are expected to increase at rates in line with 2017, a positive.
- Corporate profit growth and historically low interest rates have supported financial conditions and consumers.
- The risk asset rally, fueled by improving fundamentals, continues to foster optimism.
- Factors that could derail the expansion or risk asset performance stem primarily from policy error and geopolitical tension.

Several years of monetary policy accommodation expressed through low interest rates and quantitative easing have fostered the economic expansion we now see across developed and emerging market countries. With less accommodative policy on tap, we find most asset classes prepared for a slow transition to higher interest rates.

Bond yields are likely headed higher, but at a modest rate that is unlikely to impact risk asset valuations in the near term. Financial conditions should remain favorable, allowing credit to perform well even if spreads do not tighten further. Corporate earnings have reaccelerated globally and the recent US tax reform passage could be a catalyst for additional upside to domestic equities and potentially extending the global credit cycle for a couple more years.

Macro Fundamentals Point to Worldwide Growth

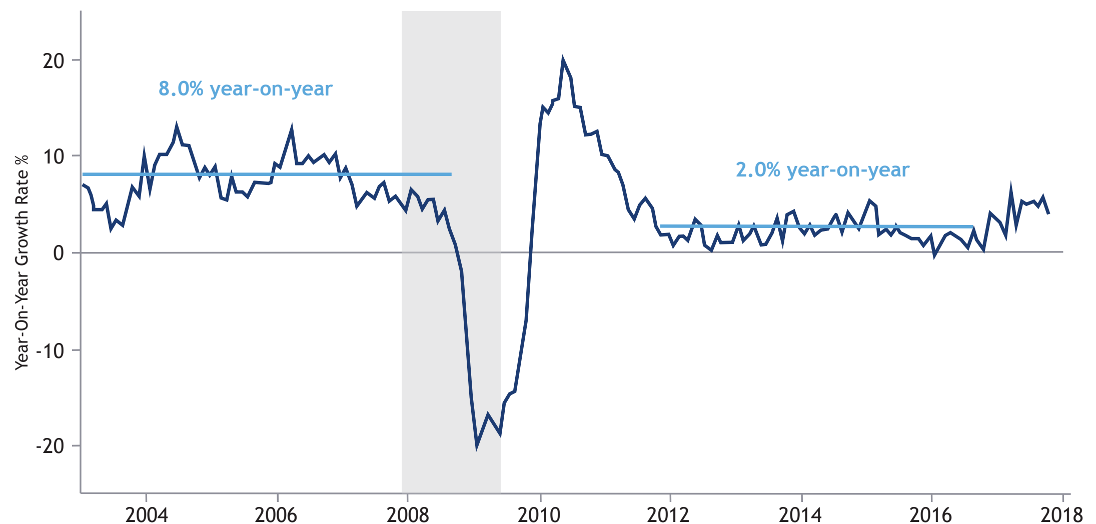
Our base case is for a constructive global growth environment to persist into 2018. Forward looking economic indicators support this view. For example, strength in developed and emerging market economies have contributed to the global Purchasing Managers' Index's (PMI) advance for most of 2017. World export volume has been increasing as well, supported by a solid upturn in Asian exports and a stable-to-slightly-weaker US dollar (see chart below). In addition, a recovery in corporate profits has taken hold globally and lifted consumer and business confidence. Productivity, measured by output per hour worked, is expanding in key developed markets—Germany, Japan and the US—albeit at a modest rate. Of course, it would not be surprising to see the pace of acceleration ease in the quarters ahead after such a stream of positive data. However, even with the potential for a temporary slowdown considered, a material deviation from broadly positive trends across risk asset markets seems unlikely.

WORLD EXPORT VOLUME % CHANGE

Source: *Thompson Reuters Datastream, CPB, data as of January 5, 2018.*

Shaded areas denote periods of recession.

Year-on-Year Actual Growth
Year-on-Year Average Growth

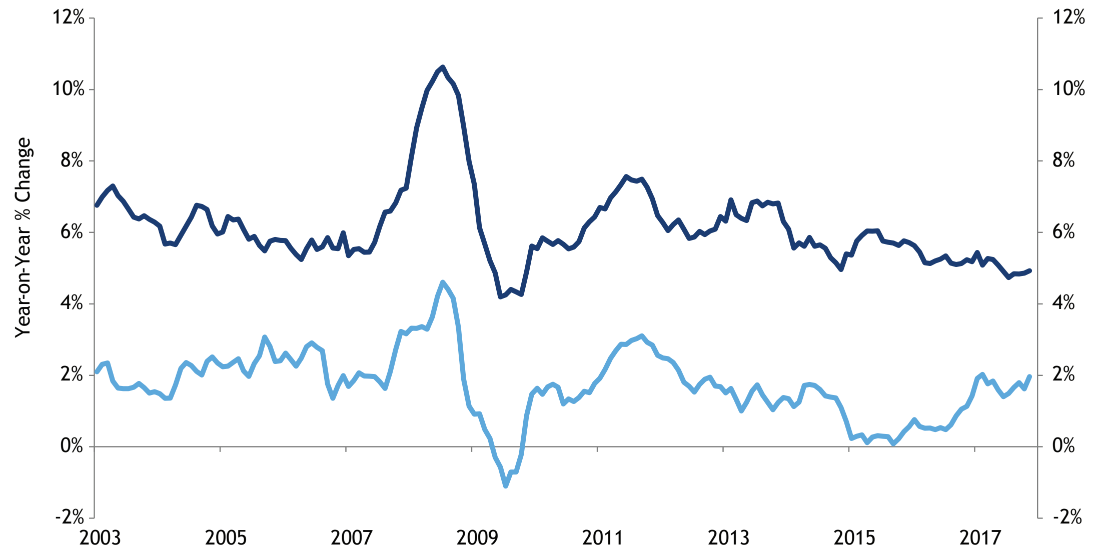


Inflationary Pressure Seems Largely Contained

Signs of inflationary pressure are appearing in developed economies, principally in the US where the Federal Reserve (Fed) has raised rates five times since 2015. While inflation pressure is evident, the Fed's 2.0% core Personal Consumption Expenditures (PCE Index) inflation target has not been met for more than two consecutive quarters since the expansion began. We expect core PCE to reach, and remain, just above the Fed's threshold in the second half of 2019. Given the favorable backdrop of global growth and healthy economic indicators, the central bank is likely to hike at least two or three times in 2018, continuing its established gradual pace. However, with Fed policy decisions remaining data dependent, an additional hike may be justified if the economy accelerates faster than anticipated. These developments would contribute to the front end of the US yield curve moving higher in the months ahead while the long end remains fairly anchored, rising only modestly. The acceleration in economic performance seen in 2017 could lead to more rapid price increases in 2018, but currently we see these developments as confirmation of a strong economy rather than cause for concern.

HEADLINE INFLATION YEAR-OVER-YEAR % CHANGE

Source: *International Monetary Fund, Haver Analytics, data as of November 2017.*



Economic activity in euro zone economies also picked up markedly in 2017, contributing to its headline inflation of more than 1.0% for the first time since 2013—a sign of economic normalization. Although inflation may not accelerate much in the years to come, consensus expectations are for headline inflation to run near 1.5% in 2017 through 2019. Such stabilization at higher levels should allow the European Central Bank (ECB) to continue winding down its government bond purchases while it shifts toward a less accommodative stance in 2018. Similarly in Japan, price increases are starting to stick while growth has also picked up. For the first time in many years, consensus forecasts for higher inflation may be achieved as Japan and Asia continue to grow.

Aggregate emerging market (EM) inflation has been trending lower for well over a decade and is likely to decline marginally in 2018. Activity in Asia has been particularly robust, and as a result, inflation is expected to accelerate throughout 2018. In contrast, despite prices appearing to have bottomed in Brazil, aggregate Latin America inflation is set to decline marginally in 2018. Similarly, inflation in the Russian economy looks to be headed slightly higher while the region of Central and Eastern Europe, the Middle East and Asia (CEEMEA) should experience some disinflation in 2018. In aggregate, EM inflation is set to decline by a tenth of one percentage point next year, another indication that prices are fairly stable across the globe.

Normalizing Monetary Policy Should Lead to Slightly Higher Bond Yields

The outlook for risk assets remains positive given the supportive macroeconomic backdrop in our forecast. However, if there were a downward shift in our estimates for global growth, it would likely coincide with a downgrade of total return expectations. Adjustments to monetary policy should continue to be gradual, well telegraphed and commensurate with economic data. US financial conditions remain easy even after Fed rate hikes, which indicates the US economy was able to absorb slightly higher rates as strong fundamentals continued to improve. Policy and financial conditions will eventually tighten, but for now, the long end of

the US yield curve should remain fairly stable, rising marginally.

With the growth acceleration being fairly new in Europe, and the ECB set to marginally wind down easing measures in the second half of 2018, we believe European interest rates could adjust slightly higher from extremely low and, in some cases negative, levels. A similar dynamic is likely to play out in Japan where the Bank of Japan could allow government bond yield targets to rise, albeit very slightly. Generally, we believe developed market (DM) bond yields are set to increase given strong macro fundamentals and policy normalization. However, the extent of the rise will likely be quite modest, making the impact on other risk asset markets limited. Europe, Japan and many emerging markets are in a healthier part of the credit cycle compared to the US and should be willing to let their economies run.

Difficult to Call for Tighter Spreads, but Material Widening Seems Unlikely

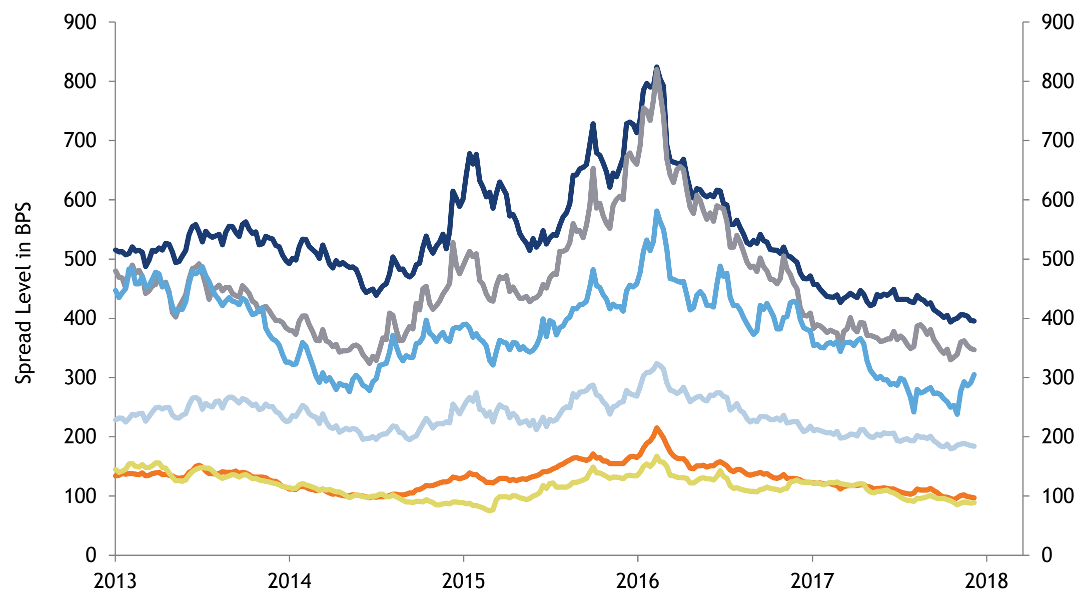
With credit spreads in the US and abroad near multi-year lows, we are hesitant to forecast additional tightening. However, the corporate profit rebound and ample global liquidity make a major change in spread trends unlikely. A more probable outcome is a leveling of global credit spreads, particularly with interest rates remaining low. The potential to earn interest carry over government bonds makes corporates attractive. We see little sign that a particular industry is so levered that it presents systemic risk and therefore find the potential threat of a material spike in defaults to be limited for now. As long as financial conditions remain stable, credit should continue to perform favorably even if spreads do not tighten further.

Profits are critical in driving the cycle, so we are encouraged that the credit cycle could be extended on the back of the global profits rebound. We do believe, however, that the US non-financial corporate sector will lead the next global default wave even if it is a couple years from now. The US is much further ahead in the credit cycle in terms of borrowing and

CREDIT SPREADS

Source: *Bloomberg Barclays, JP Morgan, data as of December 29, 2017.*

- CEMBI High Yield
- US High Yield
- Pan-Euro High Yield
- CEMBI Investment Grade
- US Aggregate Corporate
- Euro Aggregate Corporate



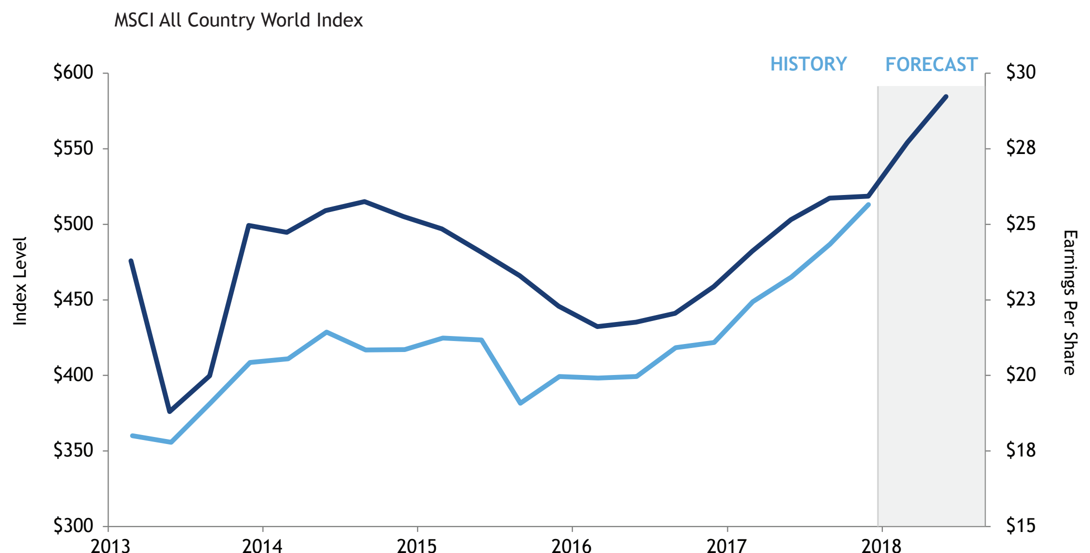
spending. Leverage has increased in the US compared to some corporate deleveraging we see in Europe, Japan and several EM countries. We will be watching the profit cycle diligently to look for warning signs of the next default wave.

At this Point in the Cycle, Equities May Offer the Highest Return Potential Across Market Sectors

The synchronized upturn in corporate profit growth worldwide and the upward trajectory of global leading indicators underpin our constructive stance on equities. While the possibility of an equity market correction exists, we see healthy economic indicators and strong fundamentals supporting valuations. In EM and Japan, upward earnings revision trends have been strong and have outpaced those of US companies. Even with the exceptional gains of 2017 considered, EM equities still offer attractive valuations relative to DM equities. During recent years, the MSCI EM and Asia Pacific ex Japan indices have become dominated by technology and financials rather than energy and materials, which has boosted their earnings potential. A further recovery in Japan equities looks likely as earnings growth continues and economic improvement takes hold in that economy. The passage of tax reform presents material upside risk to US equities, where 9.0% year-over-year profit growth is already expected. When corporate tax rates become fully phased in, the additional upside to earnings per share dramatically lowers the forward price-to-earnings multiple of the S&P 500® Index to a level more in line with the long-term historical average. The amount of liquid assets corporations hold overseas is estimated to be well over $1 trillion (US). After deemed repatriation and the payment of a 15.5% tax, an amount greater than $1 trillion would be brought to US shores—representing more than 6.0% of 2017 estimated nominal GDP. Dividend payouts without any tax reform benefits are on track to grow at the historical norm of 7% next year, but double-digit growth may be more probable post repatriation. The building blocks for solid US equity market performance appear to be in place.

FUNDAMENTALS SUPPORT EQUITY ADVANCEMENT

Source: *Bloomberg History through Q4 2017 and Consensus Forecast through Q1 2018.*



Remain Cautiously Optimistic

Tangible risks to financial assets include China, where a tightening of off-balance-sheet lending standards paired with a short-term peak in home prices could create a deflationary impulse. Aggressive tightening of short-term rates by the Fed remains a risk, particularly if fiscal stimulus stokes inflation beyond the target rate. There is no shortage of geopolitical tensions, including trade negotiations, and potential outcomes or an event could lead to risk-off sentiment. However, the benign macro environment of late 2017, with global growth widespread and inflation stable, for the most part, should continue to govern risk asset valuations. Over the next few quarters, the appetite for risk will continue to ebb and flow, contributing to fluctuating markets. However, longer-term expectations for global economic improvement and corporate earnings growth suggest staying the course.

	ASSET CLASS	VIEW
FIXED INCOME	Government Bonds	Albeit slow, steadily rising rates could limit total return potential
	IG Corporates	Positive global growth and a corporate profit resurgence is credit positive
	HY Corporates	Spreads may not tighten much further but interest income should support total returns
	EM Debt	Local currency, sovereign and corporate emerging market bonds remain attractive
EQUITIES	US	Earnings growth remains supportive while tax reform represents an upside risk
	Global	Japan preferred while the outlook for Europe is still positive
	EM	Earnings potential remains high, powered by large cap technology

Fourth Quarter Review

By Craig Burelle, VP, Macro Analyst

INDEX RETURNS BY SECTOR
as of December 31, 2017

INDEX				
US BROAD MARKET	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US AGGREGATE BOND	0.46	0.39	1.24	3.54
BBG BARC US GOVERNMENT/CREDIT	0.52	0.49	1.30	4.00

A steady economic backdrop and further advances in corporate profit growth supported most US risk assets throughout the fourth quarter. Option-adjusted spreads on high-quality fixed income benchmarks like the US Aggregate and US Government/ Credit 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	0.31	0.05	0.43	2.31
3-MONTH T-BILLS	0.10	0.28	0.56	0.87
2-YEAR TREASURY	-0.03	-0.33	-0.13	0.25
5-YEAR TREASURY	-0.06	-0.71	-0.45	0.67
10-YEAR TREASURY	0.26	-0.25	0.02	2.14
30-YEAR TREASURY	2.04	3.00	3.34	9.14
BBG BARC US TIPS	0.92	1.26	2.14	3.01
BBG BARC US AGENCY	0.12	-0.02	0.39	2.06

The US yield curve continued to flatten in the fourth quarter as the Fed hiked the fed funds target rate for the third time in 2017. Yields at the front end of the curve moved steadily higher while longer maturities like the 10 year and 30 year showed more stability. Market-based measures of expected inflation began to rise toward 2.0% in late November, which supported US Treasury inflation-protected security (TIPS) total returns through quarter-end.

US MUNICIPALS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US MUNICIPALS	1.05	0.75	1.82	5.45

Municipal bond total returns were broadly positive across all US states and territories during the quarter with the exception of Puerto Rico. Top-performing states include South Dakota and Vermont, which delivered nearly 2.0% total return; however, given index composition, the aggregate total return tends to be driven by three states, California, New York and Texas, which collectively represent more than 40.0% of the index.

US SECURITIZED	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC MBS	0.33	0.15	1.11	2.47
BBG BARC ABS	0.02	-0.01	0.41	1.55
BBG BARC CMBS	0.29	0.35	1.14	3.35

The CMBS ERISA Eligible index was a top-performing securitized benchmark during the fourth quarter, earning a positive total return of 0.35% and excess return of 0.78% for the period, as option-adjusted spreads tightened by 9 basis points. The CMBS ERISA Eligible index, which has the longest duration among securitized benchmarks at 5.4 years, also posted the strongest 12-month return at 3.4%. Although asset-backed securities show a negative total return, the index still managed to earn positive excess return over like-duration US Treasurys.

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 December 31, 2017

INDEX				
CORPORATES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US INVESTMENT GRADE	0.91	1.17	2.53	6.42
AAA	1.39	1.85	3.43	8.03
AA	0.67	0.69	1.78	4.63
A	0.88	1.15	2.40	5.95
BBB	0.96	1.25	2.72	7.09
BBG BARC EUROPEAN INVESTMENT GRADE *-LOCAL CURRENCY RETURNS*	-0.29	0.64	1.78	2.41
AAA	-0.48	0.54	1.99	0.95
AA	-0.33	0.27	1.26	0.77
A	-0.28	0.56	1.57	1.80
BBB	-0.28	0.78	2.02	3.24
BBG BARC STERLING INVESTMENT GRADE *-LOCAL CURRENCY RETURNS*	1.66	2.20	2.33	4.86
AAA	1.83	2.51	2.20	2.55
AA	1.49	1.71	1.49	2.80
A	1.81	2.26	2.23	4.57
BBB	1.58	2.25	2.58	5.59

Global investment grade corporate bond performance was broadly positive throughout the fourth quarter. Stable long-term interest rates have been a key pillar to investment grade total returns because the asset class tends to have relatively longer duration than other fixed income sectors. From a total return perspective, the Sterling Aggregate Corporate index, which has the longest relative duration at 8.5 years, showed leadership over the quarter. US investment grade corporates also performed well and the Euro-Aggregate, which has the shortest relative duration at 5.2 years, also showed positive total returns. Excess returns were also positive across each index and credit quality for the quarter.

CORPORATES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
BBG BARC US HIGH YIELD	0.30	0.47	2.45	7.50
BB	0.10	0.39	2.41	7.32
B	0.34	0.36	2.11	6.49
CCC	0.79	1.02	3.55	10.38
BBG BARC PAN-EURO HIGH YIELD *-LOCAL CURRENCY RETURNS*	-0.12	0.63	2.27	6.24
BB	-0.19	0.96	2.55	6.54
B	0.09	-0.16	1.23	4.48
CCC	-0.10	0.53	3.94	11.50

After a brief but sharp period of spread widening in mid-November, US high yield was able to rally and recapture most of the widening as spreads moved lower through quarter-end. Communications and healthcare were two of the weaker sectors, while financials and utilities were more insulated from the weakness. Over the same period the Pan-Euro high yield spread also headed higher, finishing about 22 basis points above the prior quarter's closing level. However, even considering the recent widening, Pan-Euro spreads remained near lows not seen since early 2014. Overall, conditions stayed broadly supportive as a solid global growth coincided with a rebound in corporate profitability.

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 December 31, 2017

INDEX				
BANK LOANS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
S&P/LSTA LEVERAGED LOAN	0.40	1.11	2.16	4.12
BB	0.37	1.09	2.08	3.44
B	0.35	1.09	2.14	4.27
CCC	1.08	2.85	4.70	10.73

Typically, 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 fourth quarter; however, bank loans generated higher total returns than US high yield. As the Fed hikes short-term interest rates, net interest received by bank loan holders should continue to rise as well, supporting total returns.

DEVELOPED COUNTRIES	1 MONTH	3 MONTH	6 MONTH	1 YEAR
CITIGROUP WGBI *-LOCAL CURRENCY RETURNS*	-0.08	0.46	0.81	1.22
CITIGROUP NON-USD WGBI	-0.28	0.68	1.01	0.64
UNITED STATES	0.31	0.06	0.44	2.30
CANADA	-0.61	1.14	-0.94	0.10
JAPAN	0.10	0.40	0.62	0.20
AUSTRALIA	-0.77	1.62	1.18	3.58
UNITED KINGDOM	1.54	2.19	1.77	1.95
EUROPEAN GBI	-0.85	0.56	1.14	0.15
FRANCE	-0.76	0.66	1.22	0.46
GERMANY	-0.49	0.04	0.53	-1.35
IRELAND	-0.29	0.52	1.25	0.66
ITALY	-1.68	0.92	1.71	0.76
SPAIN	-0.52	0.47	0.84	1.07

Most government bond markets earned modestly positive total returns for the quarter as growth remained stable and inflationary pressure fairly muted across developed economies. A shift toward less accommodative monetary policy has been taking place, particularly in the US and Canada. Central banks in and outside of North America have been telegraphing potential monetary policy changes clearly, which has led to fairly muted interest rate volatility. Such caution has allowed many historically low-yielding government securities to produce positive total returns for the fourth quarter and full year in 2017.

EMERGING MARKET BONDS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
JP MORGAN EMBIG *-SOVEREIGN/QUASI-SOVEREIGN, USD*	0.63	0.54	2.94	9.32
JP MORGAN CEMBI BROAD DIVERSIFIED *-CORPORATES, USD*	0.32	0.68	2.81	7.96
JP MORGAN GBI-EM GLOBAL DIVERSIFIED *-GOVERNMENTS, LOCAL CURRENCY*	1.13	0.82	3.05	8.91

EM government and corporate bonds have performed well throughout the past 12 months as global growth accelerated and corporate profits rebounded strongly. Within the EMBIG, several Latin American countries like Colombia, Chile and Brazil showed strong outperformance relative to the aggregate index as economic growth took hold in the region after a period of weakness. Within the CEMBI, Brazil and Mexico showed strong relative outperformance over the past quarter and for the full year. Many countries within the GBI EM index also show strong fourth-quarter performance, led by Indonesia and Russia.

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 December 31, 2017

INDEX				
CURRENCY MARKETS	1 MONTH	3 MONTH	6 MONTH	1 YEAR
DOLLAR BLOC				
CANADIAN DOLLAR	2.59	-0.79	3.13	6.92
AUSTRALIAN DOLLAR	3.21	-0.32	1.56	8.34
NEW ZEALAND DOLLAR	3.89	-1.54	-3.20	2.37
WESTERN EUROPE				
EURO	0.85	1.62	5.07	14.15
NORWEGIAN KRONE	1.40	-2.94	1.73	5.32
SWEDISH KRONA	2.36	-0.43	3.04	11.28
SWISS FRANC	0.95	-0.62	-1.68	4.59
BRITISH POUND	-0.09	0.86	3.75	9.51
EMERGING EUROPE & AFRICA				
CZECH KORUNA	0.66	3.33	7.38	20.69
HUNGARIAN FORINT	1.60	1.87	4.40	13.69
POLISH ZLOTY	1.34	4.78	6.27	20.18
RUSSIAN RUBLE	1.43	-0.23	2.29	6.32
SOUTH AFRICAN RAND	10.62	9.50	5.59	10.96
TURKISH NEW LIRA	3.21	-6.18	-7.31	-7.23
ASIA				
JAPANESE YEN	-0.13	-0.16	-0.27	3.79
CHINESE RENMINBI	1.57	2.25	4.21	6.74
INDONESIAN RUPIAH	-0.31	-0.71	-1.77	-0.70
MALAYSIAN RINGGIT	1.10	4.30	6.10	10.87
PHILIPPINE PESO	0.70	1.77	1.09	-0.38
SINGAPORE DOLLAR	0.88	1.62	3.01	8.29
SOUTH KOREAN WON	1.63	6.98	6.85	12.81
LATIN AMERICA				
ARGENTINE PESO	-7.08	-7.01	-10.71	-14.73
BRAZILIAN REAL	-1.22	-4.42	-0.04	-1.77
CHILEAN PESO	5.41	3.83	7.86	8.98
COLOMBIAN PESO	0.99	-1.61	1.88	0.46
MEXICAN PESO	-5.24	-7.14	-7.83	5.43
PERUVIAN NEW SOL	-0.12	0.87	0.23	3.66

The slightly weaker US dollar broadly supported global financial conditions, which was a positive catalyst for risk assets including selected foreign currencies over the fourth quarter. The majority of Asian currencies were well bid throughout the quarter, helped by strong export growth. Certain Eastern European currencies performed well relative to the US dollar during the quarter as economic growth in the region continued to outpace Western Europe and the US. Total returns showed pockets of weakness within Latin America over the past month and quarter, but 12-month returns were mostly positive, with Argentina being an outlier.

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GLOBAL EQUITY MARKETS
as of December 31, 2017

INDEX TOTAL RETURNS (%)				
INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
S&P 500®	6.64	21.83	11.41	15.79
MSCI ALL COUNTRY WORLD	5.84	24.62	9.89	11.40
MSCI EUROPE	2.26	26.24	7.31	7.98
MSCI JAPAN	8.52	24.39	11.98	11.48
MSCI EMERGING MARKETS	7.50	37.75	9.50	4.73

As the global profits recovery advanced in the fourth quarter, so did equity market returns. The S&P 500 posted its largest quarterly gain of 2017 and the highest annual return since 2013. Over the course of 2017, the rally that began in the US broadened to include several global equity indices across developed and emerging markets. Throughout the fourth quarter, earnings revisions for many indices remained stable or were marked higher, further supporting the advance in global equities.

US EQUITY MARKETS
as of December 31, 2017

INDEX TOTAL RETURNS (%)				
INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
RUSSELL 1000®	6.59	21.69	11.23	15.71
GROWTH	7.86	30.21	13.79	17.33
VALUE	5.33	13.66	8.65	14.04
RUSSELL MIDCAP®	6.07	18.52	9.58	14.96
GROWTH	6.81	25.27	10.30	15.30
VALUE	5.50	13.34	9.00	14.68
RUSSELL 2000®	3.34	14.65	9.96	14.12
GROWTH	4.59	22.17	10.28	15.21
VALUE	2.05	7.84	9.55	13.01

Last year, US equities delivered some of the highest returns of the current economic expansion, which began in 2009. A combination of accelerating earnings growth and favorable operating conditions for corporates led to solid performance. From a style perspective, more growth-oriented sectors of the market have consistently outperformed value-oriented sectors over time. Some evidence of a rotation into value was apparent in the fourth quarter, but a cyclical thrust from fiscal policy could be a necessary catalyst to keep the trend moving in 2018. Large caps remained in favor last quarter and for 2017 given their superior earnings power and ability to fund shareholder-friendly activities on a sustained basis.

S&P 500 SECTORS
as of December 31, 2017

SECTOR PERFORMANCE ATTRIBUTION (%)				
INDEX	3 MONTH	1 YEAR	3 YEAR	5 YEAR
INFORMATION TECHNOLOGY	9.00	38.84	18.77	20.73
ENERGY	6.02	-1.00	-0.18	1.94
TELECOMMUNICATIONS	3.61	-1.25	8.04	7.69
MATERIALS	6.93	23.84	8.99	12.04
FINANCIALS	8.63	22.18	13.96	18.26
INDUSTRIALS	6.07	21.06	11.86	16.68
HEALTHCARE	1.47	22.08	8.32	17.64
UTILITIES	0.21	12.11	7.46	12.58
REAL ESTATE	3.22	10.85	1.49	0.89
CONSUMER DISCRETIONARY	9.87	22.94	12.82	17.65
CONSUMER STAPLES	6.49	13.46	8.44	13.28

Sectors that contain high-earnings-growth companies, like information technology and consumer discretionary, tended to perform best in 2017. Regulation rollbacks as well as higher interest rates were key catalysts for financials, and it appears likely that some regulatory burden could also be lifted from industrials and related sectors. Dispersion between the highest- and lowest-returning sectors was particularly high in 2017, with information technology outpacing telecom by roughly 40 percentage points. Outside of energy and telcom, which finished nearly flat for the year, every sector contributed double-digit performance, leading to the S&P 500's above-average annual return for 2017.

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 December 31, 2017, unless otherwise noted.

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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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