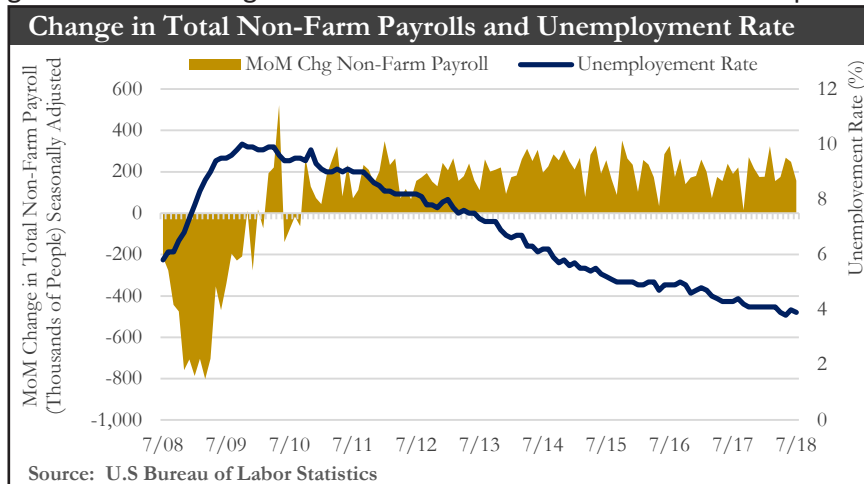


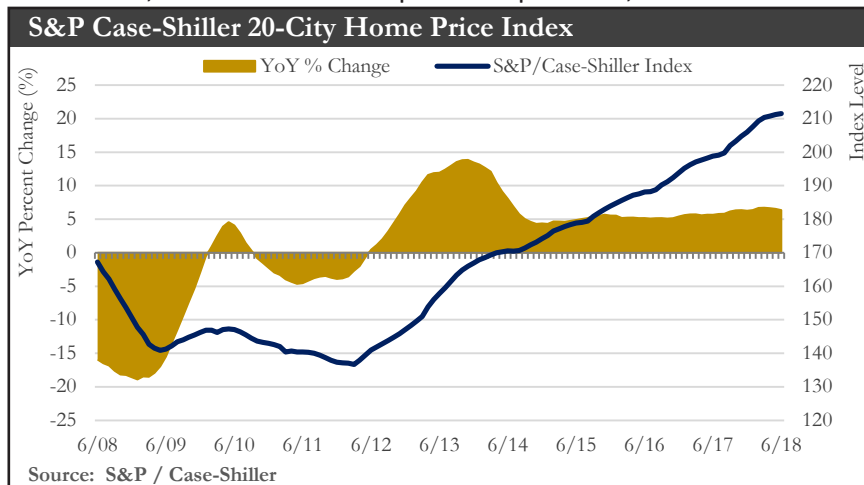
Recap: Evidence continued to mount that U.S. economic growth was poised to remain solid in the second half of 2018. Real GDP appeared set to average a 3% pace during the third quarter, led by continued growth in consumer spending and strong gains in business fixed investment. Trade tensions continued to escalate, and consecutive drops in exports in July and August led to a reversal of trade's second quarter boost to overall GDP growth. However, business activity remained strong, as both the ISM manufacturing and nonmanufacturing indices advanced in August. Most importantly, job and income growth remained exceptionally strong, which kept consumers in good spirits and supported hearty gains in consumer spending.

The labor market continued to improve and employers continued adding jobs across a wide array of industries. The unemployment rate remained below 4% while wage growth continued to trend higher. Consumer confidence hit an 18-year high in September, a positive indicator for spending going into the holiday shopping season. Robust job growth and a strong economic outlook bolstered Americans' expectations for the future.



Not all of the data was positive though, with soft pockets including housing and trade. Pending home sales, a leading indicator of sales activity, fell in August. This marked the fourth decline in five months, suggesting that sales should continue to languish in the near-term. New home sales rebounded in August after trending lower in prior months. However, affordability remained a concern as home prices continued to rise and higher interest rates reinforced upward pressure on mortgage rates, giving little room to see much upside to home sales later this year.

Exports surged in the second quarter as some businesses rushed to get merchandise out the door ahead of retaliatory tariffs that would likely be reversed in the third quarter. The first two months of the third quarter reaffirmed the notion that, unlike the second-quarter experience, net trade would be a drag on growth this time around.

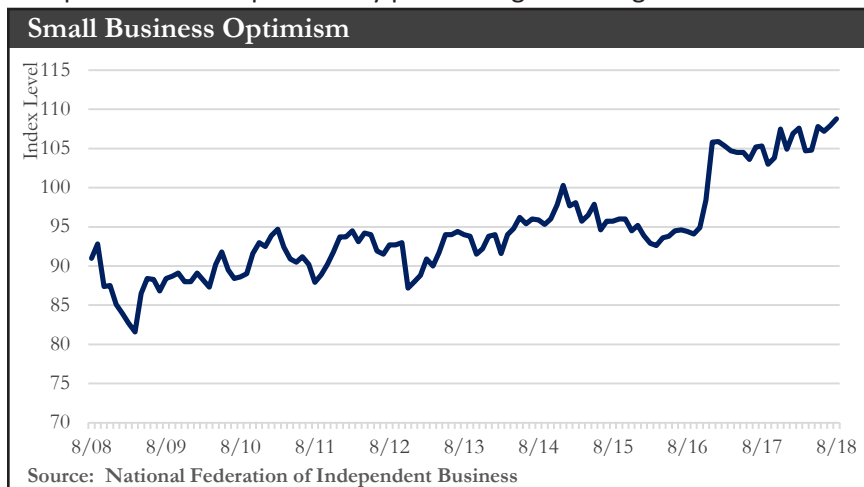


The estimated impact of tariffs has so far been quite small. However, the tariffs in place have only been the tip of the iceberg relative to those under review or threatened. If implemented, they could place about 1.2% of U.S. and 0.4% of global growth at risk. All told, an escalation in the trade spat with China and waning global demand could yet test the durability of the current expansion. However, for now the U.S. economy has continued to boom with little reason for the Fed to alter its interest rate normalization plans that included a quarter percentage point raise in late September.

Inflation: Consumer-price pressures began to moderate in August after a buildup in inflation through much of the year.

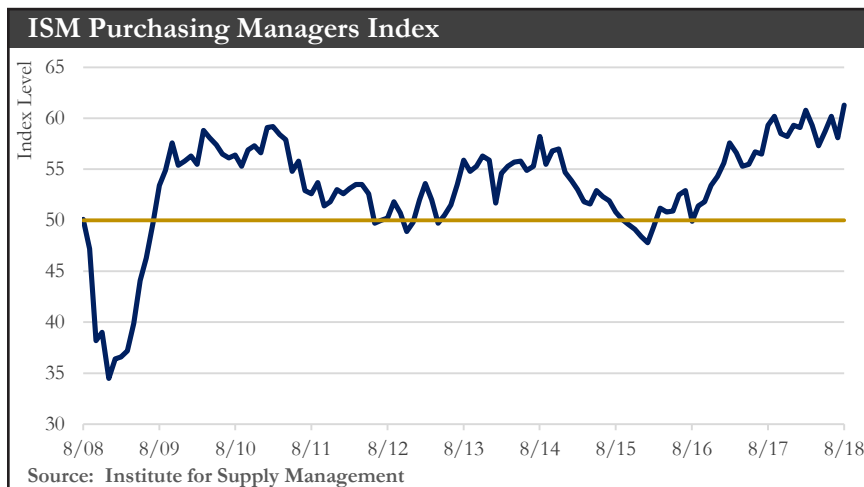
August consumer price inflation came a bit soft, with headline CPI increasing 0.2% and the core advancing 0.1%. The August softness saw headline inflation drop to 2.7% year-on-year. Similarly, the core rate fell back to 2.2%. While inflation picked up over the course of 2018, there were few signs of a breakout in price pressures. A strong U.S. dollar and a competitive retail sector clearly helped to keep a lid on core goods prices. Inflationary pressures should pick up slightly over the coming quarters.

Small Business Optimism Index: The NFIB's small business optimism index made a modest gain in August, rising by 0.9 points to 108.8. This set a new record, shattering the reading of 108 that was set 35 years ago. Sky-high small business optimism in the face of elevated trade tensions was indicative of strong domestic fundamentals. The willingness to expand among small businesses has been encouraging, a theme underscored by hiring plans surging to the highest level on record in September and capital outlay plans rising to the highest level since 2005.



Housing: Housing remained in a soft patch, with sales, new home construction and, more recently, home prices all moderating from their already meek trajectory. The loss of momentum since spring was notable because it came at a time when overall growth strengthened. The housing market appeared to be struggling with a number of cyclical and secular challenges. Stronger growth has bolstered demand for new and existing homes, particularly those priced around the median home price or less. Inventories of homes at these price points remained exceptionally lean. This pushed prices up faster than incomes and influenced their historic norms in many markets.

The new tax law, which has limited the amount of mortgage interest that could be deducted and put limits on deductions for state and local taxes, also appeared to be sapping demand in higher-end markets, particularly in the Northeast and along the West Coast. In addition, a stronger dollar and slower growth abroad have reduced foreign demand for U.S. homes. At this point in the business cycle, housing is unlikely to make a major breakout to the upside.



ISM Manufacturing Index: The U.S. manufacturing sector picked up steam in August, with few signs of slowing down. The Institute for Supply Management (ISM) manufacturing index rose 3.2 percentage points to 61.3 in August; all of the main subcomponents of the headline index rose in August. As an indicator of things to come, the spread between new orders and inventories widened to 9.7 from 6.9 previously, a sign that the current expansion is likely to continue in the weeks ahead.

Tariffs continued to play havoc with supply chains as price pressures and component shortages seem unlikely to ease anytime soon. The escalating trade dispute with China and declining global demand may yet test the durability of the current expansion.

ISM Non-Manufacturing Index: After dipping in July, the ISM non-manufacturing index again picked up speed and continued on its upward trajectory, similar to the path of its manufacturing equivalent. The ISM non-manufacturing index came in at 58.5 for August, rising by 2.8 points. With 16 out of the 17 industries surveyed reporting stronger business, the US services sector has shown broad-based healthy growth.

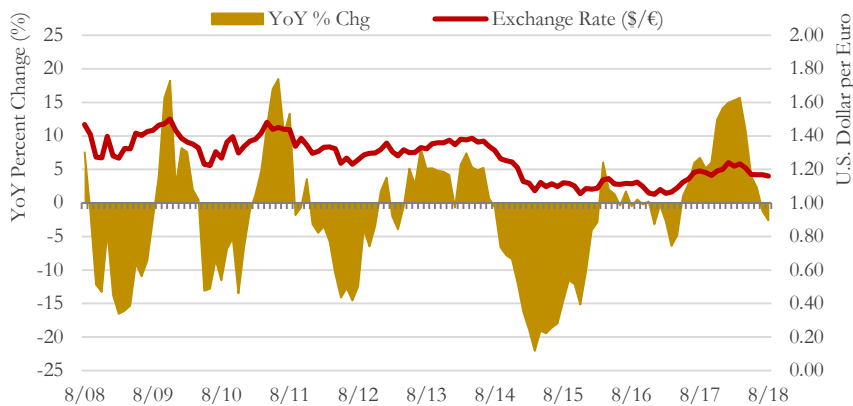
However, these firms have faced some headwinds ranging from labor shortages, rising interest rates, and uncertainty arising from tariffs. Firms were well-positioned to weather the storm and continue to prosper.

Trade Deficit: U.S. trade deficit jumped 9.5% in July. Exports fell for the second straight month while imports picked up. After having boosted trade in the second quarter, trade is expected to reverse in the third quarter, with net exports affecting GDP with at least a percentage point drag.

Trade dynamics have been inherently volatile with global growth, commodity cycles and currency valuations all adding to the variability. The introduction of tariffs and talk of potential trade wars have made the volatility even worse. That said, even if the tariff fights were to be settled amicably tomorrow, the fundamentals would not be supportive to trade being a significant driver of growth over the next couple of years. The expected steady growth in business capital expenditures and consumer outlays have implied similarly consistent growth in imports. Additionally, a strong dollar has made U.S.-made goods more expensive to trading partners.

U.S. Dollar: The US dollar has been significantly stronger this year because the U.S. economy has been on a tax-cut-fueled bender; the gap between U.S. interest rates and those of other major economies has been the biggest in at least a decade, and the rest of the world has failed to live up to hopes for growth. Add in fears about emerging markets, Italian anti-European populism and Brexit, and the dollar has been strong.

Exchange Rate: USD per EUR



Source: Board of Governors of the Federal Reserve System

However, it has been weakening for the past month, as market sentiment overpowered the fundamentals of economics and interest rates. At the start of the year, the dollar weakened against almost every currency of note as investors became wildly overoptimistic about global growth. In April the dollar turned around as that optimism went into reverse and investors started to bet that the U.S. economy would power ahead of the rest of the world.

By July the dollar had made back all its losses and more, and had contributed to trouble in emerging markets reliant on foreign financing,

particularly Argentina and Turkey. At this point fear began to set in: emerging-markets contagion, Italian populism and the trade dispute have all justified a flight to safety. The dollar accelerated upward, except against even safer havens such as the yen, which began to fall again.

The final phase has been the most puzzling: from mid-August the dollar ignored all those supportive fundamental factors and instead of rising, the dollar fell against the euro, pound and yuan, while emerging-market currencies, except Argentinian peso, have been much more stable than they were.

A clue to what is going on could be found in the yen, the one major currency weaker against the dollar since mid-August. Investor demand for the safety of Japan has waned because global risk appetite has risen. It shows up in the lower—though still high—volatility of emerging markets, in the lower— though still high—extra yield offered from Italian bonds over German bonds, and in the subdued investor response to the latest trade skirmishes.

A shift from bracing for disaster to being merely concerned explains a lot of the dollar's recent decline. The rest of the dollar weakness can be explained by China. Many investors thought China would find it hard to stimulate its weakening economy without a repeat of the 2015-16 capital flight that roiled global markets. But China has managed to end the drop in its currency value with little more than words, calming fears that a yuan devaluation might hit the global economy.

On the other hand, U.S. short-term fundamentals have looked great for the dollar, with domestic economic data less disappointing than it had been, and more disappointing in Europe. The ever-widening gap in yields in favor of the dollar should make it attractive, too. Fundamentals are likely to reassert themselves eventually, but sentiment has the momentum for now.

Eurozone: The eurozone's economy continued its slow-motion slowdown in September, as exports suffered from a drop off in global demand and uncertainty about future trade relations between the U.S. and other countries. The slowdown was concentrated in the manufacturing sector, with export orders failing to grow for the first time since June 2013.

Trade wars, Brexit, waning global demand, growing risk aversion, destocking and rising political uncertainty both within the eurozone and further afield all fueled the slowdown in business activity.

The eurozone economy enjoyed its strongest performance for a decade in 2017 but cooled in the first three months of the year, and to a lesser degree in the second quarter. That has not deterred the European Central Bank from pressing ahead with its plans to withdraw some of the exceptional stimulus it had been providing to the economy since 2014, and growth continued to exceed the economy's pace at which it could expand without pushing inflation higher, at around 1.25%.

With exports fading, Eurozone growth has been set to become increasingly reliant on the spending plans of households. But consumers have become much less positive about the general economic situation over recent months. As the deadline for a deal about Brexit has moved closer, Italian budget concerns were still apparent and the trade dispute between the U.S. and China has escalated, the overall economic picture has been clouded by downside risks.

Emerging Markets and Oil Price: Global oil prices in late September surged above \$80 a barrel, their highest level in nearly four years after OPEC left production steady, fueling fresh bets that U.S. sanctions against Iran and outages in Venezuela could lead to supply shortages.

Currencies in the developing world have been hit by a toxic mix of global trade tensions, a strong dollar and rising U.S. interest rates. That has made dollar-denominated crude all the more expensive. Large developing nations like Turkey, India, the Philippines and South Africa imported all or most of their oil. So rising prices have spurred higher inflation and expanded already large current-account deficits, putting pressure on their currencies. The price of Brent crude has risen by 22% this year, but the cost has doubled if buying in Turkish lira. It has been up 39% in Indian rupees and 34% in Indonesian rupiah.

Emerging-market countries and central banks have been forced to act by limiting oil imports (India) or providing oil subsidies (Brazil and Malaysia) or raising interest rates (the Philippines). Emerging markets already have a lot of problems as it is, and when an oil price spike was thrown into the mix, that created another big risk factor.

Outlook: The U.S. economy continues to maintain strong momentum heading into Q4. From a bottom up perspective, the economy looks incredibly sound. Strong job growth, higher asset prices and a relatively high saving rate should continue to support consumer spending. Business fixed investment also looks set to grow solidly, with an emphasis on productivity enhancing investment. Inventories are relatively low and government spending looks set to improve modestly in coming quarters.

For the rest of the world, a leveling off is expected rather than a continued slide in economic growth. Central bankers in regions such as Europe and Japan have so far maintained very accommodative monetary policy, while policymakers in China have also taken measures to support growth.

Putting all the pieces together, the U.S. economy is still on solid footing, with over 3% growth expected in the third quarter, and should remain close to that pace through 2019. With price pressures holding near target, the Fed is expected to continue nudging interest rates up a quarter point higher each quarter until the second half of 2019, when the funds rate will be above its neutral rate.

Beyond this point, however, there is more uncertainty, as trade disputes pose significant downside risk to the economic outlook. The U.S.-China trade conflict saga continues to play out in the background, given other more salacious domestic political developments. With the two economic heavyweights on a hard-to-avoid collision course, this dispute is a key risk to growth. Tariffs in effect and those threatened could knock off up to 1% from U.S. and 0.3% from global economic growth.

Index Performance as of: 9/30/2018

	<u>1 Week</u>	<u>1 Month</u>	<u>QTD</u>	<u>3 Month</u>	<u>YTD</u>	<u>1 Year</u>	<u>3 Year</u>	<u>5 Year</u>
3000 Value	-1.65	-0.00	5.39	5.39	4.17	9.46	13.74	10.65
3000	-0.53	0.17	7.12	7.12	10.57	17.58	17.07	13.46
3000 Growth	0.58	0.33	8.88	8.88	16.99	25.89	20.35	16.23
1000 Value	-1.66	0.20	5.70	5.70	3.92	9.45	13.55	10.72
1000	-0.51	0.38	7.42	7.42	10.49	17.76	17.06	13.67
1000 Growth	0.65	0.56	9.17	9.17	17.09	26.30	20.55	16.59
Mid Cap Value	-1.62	-0.79	3.30	3.30	3.13	8.81	13.09	10.72
Mid Cap	-1.01	-0.64	5.00	5.00	7.46	13.98	14.51	11.65
Mid Cap Growth	-0.10	-0.43	7.57	7.57	13.38	21.10	16.64	13.00
2000 Value	-1.51	-2.48	1.60	1.60	7.14	9.33	16.12	9.92
2000	-0.86	-2.41	3.58	3.58	11.51	15.24	17.12	11.07
2000 Growth	-0.23	-2.34	5.52	5.52	15.76	21.06	17.98	12.14
S&P 500	-0.51	0.57	7.71	7.71	10.56	17.91	17.30	13.95
Consumer Disc	0.63	1.04	8.18	8.18	20.64	32.54	18.50	16.05
Consumer Staples	-2.01	1.04	5.70	5.70	-3.34	2.93	7.56	9.20
Energy	0.82	2.59	0.61	0.61	7.46	13.94	10.72	1.32
Financials	-4.02	-2.22	4.36	4.36	0.09	8.73	16.74	13.46
Health Care	0.90	2.93	14.53	14.53	16.63	18.35	14.80	15.37
Industrials	-1.68	2.19	10.00	10.00	4.84	11.18	17.65	12.88
Information Technology	0.84	-0.33	8.80	8.80	20.62	31.49	27.67	22.41
Materials	-4.42	-2.09	0.36	0.36	-2.73	4.01	15.52	8.79
Real Estate	-1.51	-2.65	0.86	0.86	1.67	4.95	8.16	9.72
Telecom Services	1.06	4.26	9.94	9.94	0.75	4.39	9.75	6.65
Utilities	-0.69	-0.60	2.39	2.39	2.72	2.93	10.61	11.06
Dow Jones Industrial Avg.	-1.07	1.97	9.63	9.63	8.83	20.76	20.49	14.57
Wilshire 5000 (Full Cap)	-0.51	0.08	7.06	7.06	10.68	17.73	17.03	13.26
MSCI EAFE	-0.88	0.87	1.35	1.35	-1.43	2.74	9.23	4.42
MSCI EM	-0.26	-0.53	-1.09	-1.09	-7.68	-0.81	12.36	3.61
MSCI Frontier Markets	-1.57	-0.05	-1.98	-1.98	-12.63	-7.73	5.32	2.87
MSCI ACWI	-0.60	0.44	4.28	4.28	3.83	9.77	13.39	8.67
MSCI ACWI Ex USA	-0.74	0.46	0.71	0.71	-3.09	1.76	9.97	4.12
MSCI AC Asia Ex Japan	-0.65	-1.38	-1.57	-1.57	-6.26	1.45	13.29	6.64

MSCI Brazil	2.18	7.00	6.07	6.07	-12.26	-14.01	20.52	-2.94
MSCI BRIC	-0.78	-1.12	-4.12	-4.12	-8.56	-2.51	13.75	4.43
MSCI China	-1.39	-1.40	-7.51	-7.51	-9.12	-2.20	13.69	7.85
MSCI Europe	-1.44	0.36	0.80	0.80	-2.46	-0.30	7.71	3.70
MSCI India	-2.91	-9.10	-2.25	-2.25	-9.60	1.09	7.00	9.67
MSCI Japan	0.44	3.04	3.68	3.68	1.58	10.20	12.13	6.76
MSCI EM Latin America	1.20	4.69	4.77	4.77	-6.91	-9.09	13.67	-2.27
MSCI Russia	4.92	9.79	6.15	6.15	9.08	13.73	19.42	-0.04
Barclays U.S. Aggregate	0.17	-0.64	0.02	0.02	-1.60	-1.22	1.31	2.16
ICE BofAML US 3M Trsy Bill	0.05	0.15	0.49	0.49	1.30	1.59	0.84	0.52
Barclays U.S. Gov't	0.13	-0.91	-0.57	-0.57	-1.62	-1.57	0.26	1.34
Barclays U.S. Credit	0.21	-0.34	0.89	0.89	-2.12	-1.10	2.98	3.40
Barclays High Yield Corp.	0.17	0.56	2.40	2.40	2.57	3.05	8.15	5.54
Barclays Municipal	0.17	-0.65	-0.15	-0.15	-0.40	0.35	2.24	3.54
Barclays TIPS	0.01	-1.05	-0.82	-0.82	-0.84	0.41	2.04	1.37
Barclays Gbl Agg Ex USD	-1.07	-1.07	-1.74	-1.74	-3.03	-1.45	2.40	-0.33
Barclays Global Aggregate	-0.52	-0.86	-0.92	-0.92	-2.37	-1.32	1.98	0.75
JPM EMBI Global Div	0.73	1.51	2.30	2.30	-3.04	-1.92	6.04	5.38
Alerian MLP	-1.34	-1.57	6.57	6.57	5.90	4.89	4.43	-2.72
Bloomberg Commodity	0.99	1.92	-2.02	-2.02	-2.03	2.59	-0.11	-7.18
FTSE NAREIT Equity REIT	-1.10	-2.54	0.79	0.79	1.81	3.35	7.63	9.17
S&P Global Natural Res.	0.00	3.61	1.32	1.32	5.07	14.09	19.69	4.12
S&P N. Amer Natural Res.	0.14	0.84	-2.05	-2.05	3.13	9.25	10.29	-0.35

Market Commentary:

Recap: U.S. equities produced strong results during the third quarter. The S&P 500 soared 7.7%, its best quarterly gain since the end of 2013. The Dow Jones Industrial Average spiked more than 2,100 points, or 9.6%. Domestic equities were led by large cap growth stocks. The Russell 1000 Growth index was up 9.2%. In terms of sector performance, health care and industrials led the way. Amazon and Apple became the first two U.S. public companies to cross the \$1 trillion valuation threshold, and the new S&P 500 communications services sector made its debut in late September. Overseas, results were a bit more muted. The MSCI EAFE index generated a 1.4% gain while emerging markets were negative for the quarter. Fixed income markets were uninspiring as the Barclays U.S. Aggregate Bond index was flat, and the Barclays Global Aggregate Ex-USD index slid 1.7%.

A strong U.S. economy drove domestic stocks higher in Q3, putting U.S. equities way ahead of the pack for the year as a whole. Consumer confidence reached an 18-year high, while the monthly average of initial jobless claims fell to the lowest level since 1969. Wage growth rose to its highest level since 2009, supporting retail sales growth of more than 7%, year-over-year. Overall, global growth remains positive but less synchronized than a year ago. Given this backdrop, it's not surprising U.S. equities have led the way in 2018.

Domestic Equities: On August 22nd, the current S&P 500 bull market, which started March 9, 2009, became the longest one on record, officially surpassing the rally from 1990 to early 2000. The market has risen more than 300% since its low nine years ago.

The positive macro environment has led to strong corporate profits, which, in turn, have driven the current S&P 500 bull market rally to all-time highs despite the ongoing risks posed by trade disputes, rising interest rates, higher oil prices, narrow market breadth, stretched valuations, and a potential Fed policy error. Year-over-year, the S&P 500 earnings growth rate was 25% in the second quarter. This matches the first quarter's pace and represents the highest earnings growth rate since the third quarter of 2010. Coming into the Q2 earnings season, analysts were expecting a 20% growth rate. Sales growth came in at 10.1%, the fastest growth reported by the index constituents since the third quarter of 2011. Revenue growth and margin expansion have been key contributors to strong corporate earnings growth. Margins have reached their highest levels since 2000. Finally, 80% of S&P 500 companies reported a positive earnings surprise, the highest percentage since FactSet began tracking this metric in 2008.

International Equities: Following a strong 2017 and a good start to 2018, international equities have generally disappointed. Multiples have contracted as investors attempt to account for a multitude of risks. Weaker currencies, relative to the dollar, have also been a driver of poor returns. Concerns about a trade war between the U.S. and its major trading partners have led investors to question their macro assumptions and earnings forecasts. A strengthening U.S. dollar has been especially challenging for emerging markets. Troubles in Turkey and Argentina have stoked a sense of doom as fears of contagion have rattled emerging market investor confidence. Generally speaking, as the U.S. economy has boomed and risks overseas rise, investors and their capital have been lured back to the U.S. and away from the rest of the world.

There are positives to consider, however. Fundamentals are generally encouraging. Economic data in the Eurozone, Japan, and Emerging Markets have improved after disappointing early in the year. And earnings growth has been positive in 2018. Finally, the U.S.-Mexico-Canada Agreement (USMCA) has replaced the North American Free Trade Agreement (NAFTA) and provided evidence that compromise is possible without the pain of a full-fledged trade war.

Fixed Income: The third quarter was a positive one for investment grade and high yield corporates. Q3 was the first quarter this year with a positive return for the investment grade corporate sector. Preferred securities lagged during the quarter, although year-to-date returns remain positive. Emerging Market debt posted a strong quarter, reversing some of its recent losses.

Year-to-date, U.S. fixed income returns have been lackluster, with the Barclays U.S. Aggregate Bond index dropping

1.6%. Amongst major fixed income sectors, U.S. high yield has been the clear winner while emerging market debt has struggled in the face of a strengthening U.S. dollar. Despite the weak results, it is probably fair to note that returns have been better than many market prognosticators had expected, given strong economic growth, rising inflation, and rising interest rates in the U.S.

Outlook: In the U.S., corporate earnings have been the star of the show, superseding a fairly consistent stream of negative headlines focused on trade policy, Washington dysfunction, North Korea, Iran, and other market risks. In the near term, we expect more positive news on the earnings front. FactSet is projecting a third quarter earnings growth rate of 19.3%. Double-digit earnings growth is also expected for the fourth quarter. Earnings growth should begin to normalize in 2019, however, as the benefits from tax reform begin to fade. Margins, currently at record levels, may begin to come under pressure as wages, interest rates, and raw material costs all continue to increase. Highlighting the macro environment is the end of ultra-loose monetary policy as central banks raise interest rates and trim balance sheets. All things considered, investors are cautiously optimistic and do not believe a shift to a defensive posture is currently warranted. Given the late-cycle dynamics, however, investors who are heavily weighted in favor of growth names may want to consider pursuing a total return that is more balanced between capital appreciation and income.

International equities remain attractive. Fundamentals are favorable. Recent weakness has been driven more by negative sentiment than macro factors or corporate performance. The good news is that valuations and currencies already reflect much of the risk that had been driving negative investor sentiment. When risks abate, investors may again focus on the positive economic and earnings stories abroad and drive markets higher.

Fixed income investors face a challenging environment. The Fed is expected to continue to normalize policy by both raising short-term interest rates and reducing its balance sheet. Interest rates have risen considerably since the start of the year, and this trend is expected to continue. Adding to the challenge, the extended period of low interest rates has encouraged longer term borrowing, thus pushing the duration of the U.S. bond market to near record highs. Given this environment, flexibility is important.

Sources: Department of Labor, Department of Commerce, Institute for Supply Management, Bloomberg, Yahoo Finance, Morningstar, European Union statistics agency, Factset

Securities are not insured by FDIC or any other government agency, are not bank guaranteed, are not deposits or a condition to any banking service or activity, are subject to risk and may lose value, including the possible loss of principal