



Our investment experts share their perspectives on market events, economic data and developing themes in our monthly review of the global capital markets.

EQUITY HIGHLIGHTS

- Save for mid and small cap growth stocks, equities within the opportunity set delivered positive returns in September as both the Fed and ECB responded to weakening outlooks and slowing economic data with additional monetary easing. Value indices were the top performers in the opportunity set with U.S. Small Cap Value, as represented by the Russell 2000 Value Index, and World Ex U.S. value, as represented by the MSCI World Ex U.S. Value Index, returning 5.13% and 4.82% in September, respectively. The worst performers in the opportunity set were the Russell Mid Cap Growth Index and the Russell 2000 Growth Index with returns of -1.14% and -0.82%, respectively.
- After a challenging 2018, the performance of actively-managed equity strategies has improved in 2019 with all market segments, save for U.S. Large Blend, showing higher year-to-date returns than passive strategies.
- U.S. growth equities have outperformed value by a wide margin since the global financial crisis, driven partially by a prolonged low economic growth environment and significant outperformance from large cap information technology, communication services and consumer discretionary companies. Stretched growth valuations could lead to improvement in value relative performance.

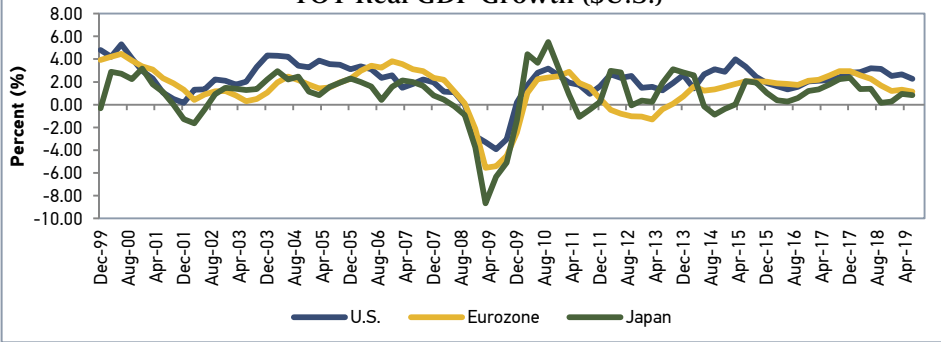
FIXED INCOME HIGHLIGHTS

- Returns across the fixed income opportunity set were primarily negative in September as investors sold off fixed income in favor of equities. The top performers in the opportunity set for the month were the Barclays U.S. Corporate High Yield Index returning 0.36% and the Barclays U.S. MBS Index returning 0.07%. The worst performers were the Barclays U.S. TIPS Index returning -1.36% and the Barclays U.S. Government Index returning -0.83%. The Bloomberg Barclays U.S. Aggregate Index, a proxy for the entire bond market, returned -0.53% during September.
- Over the month, U.S., German, and French ten-year bond yields moved higher while the Italian ten-year yield moved lower and the U.K. ten-year yield was unchanged. The U.S. ten-year yield saw the largest increase in the opportunity set having increased by 18 basis points and the Italian ten-year yield saw the only decrease having fallen by 21 basis points.
- Municipal/Treasury yield ratios moved higher across the curve during September. The two-, seven-, and ten-year ratios remain below their historical average while the three- and five-year ratios have moved slightly above their historical average.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields	Rates/Commodities		
MSCI ACWI IMI	15.87%	Barclays US Aggregate	8.52%	US Fund Multialternative	5.72%	6-month	1.83%	Prime Rate	5.00%
Russell 3000	20.09%	Barclays Gbl Treas xUS Hdq	8.96%	DJ Equity All REIT	28.54%	1-year	1.75%	LIBOR (3 Mo)	2.09%
S&P 500	20.55%	Barclays US TIPS	7.58%	Bloomberg Commodity	3.13%	3-year	1.56%	Oil Price (\$/barrel)	\$54.07
MSCI EAFE	12.80%	Barclays US High Yield	11.41%			5-year	1.55%	Gold (\$/t oz)	\$1,472.90
MSCI EM	5.89%	Barclays EM Aggregate	10.79%			10-year	1.68%		
						30-year	2.12%		



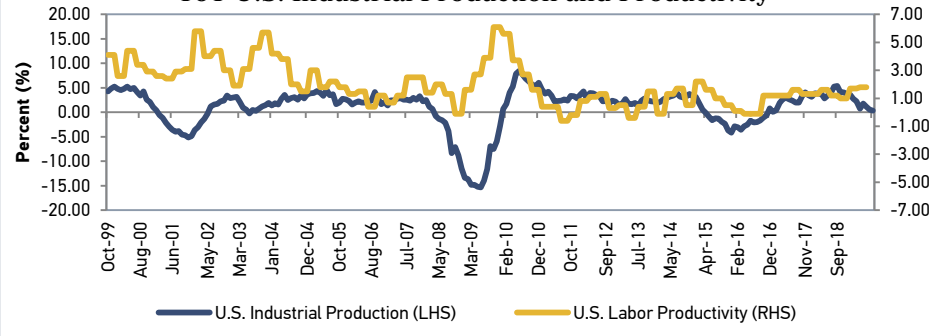
YOY Real GDP Growth (\$U.S.)



— U.S. — Eurozone — Japan

Data as of 06.30.2019; Source: FactSet

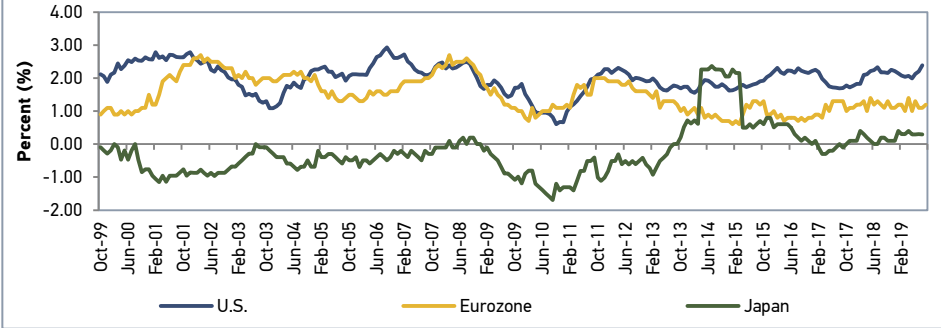
YoY U.S. Industrial Production and Productivity



— U.S. Industrial Production (LHS) — U.S. Labor Productivity (RHS)

Industrial Production as of 08.30.2019, Labor Productivity as of 06.30.2019; Source: FactSet

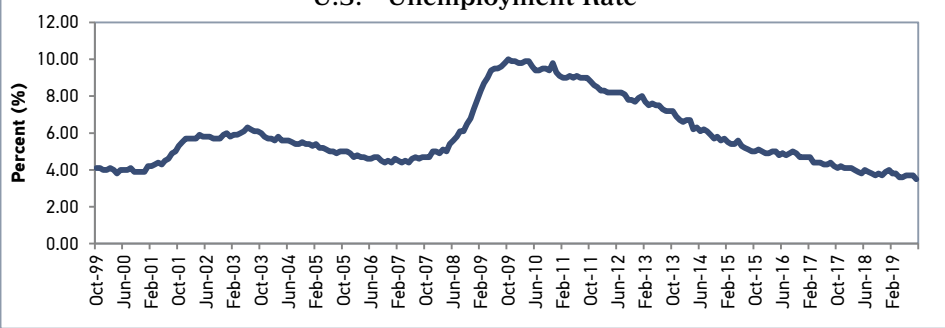
Core Consumer Price Index (YoY Growth)



— U.S. — Eurozone — Japan

U.S. and Japan data as of 08.30.2019, Eurozone data as of 09.30.2019; Source: FactSet; The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.

U.S. - Unemployment Rate



Data as of 09.30.2019; Source: FactSet

- As expected, year-over-year GDP growth in the U.S. and Europe slowed in the second quarter. U.S. growth continues to exceed growth in Europe and Japan.
- Year-over-year, U.S. productivity growth continued to improve in the second quarter and is at a multi-year high. Industrial production growth has slowed this year.
- Core U.S. inflation has been firm for the past three months following a slow down early in the year. European inflation has stabilized near 1% while Japan's inflation rate remains very low, but positive.
- Employment growth in September was solid and the unemployment rate dropped to 3.5%, matching a 50-year low.

Note: Please see Appendix for important definitions.



Leading	Initial Jobless Claims	<ul style="list-style-type: none"> In the week ending September 27th the four-week moving average of Initial Jobless Claims was 212,500 unchanged from the previous week's revised average.
	Manufacturing	<ul style="list-style-type: none"> ISM Manufacturing registered 47.8% in September a 1.3 percentage point decrease over the previous reading. A reading below 50.0% indicates contraction. ISM Manufacturing New Orders registered 47.3% in September a 0.10 percentage point increase over the previous reading. ISM Non-Manufacturing registered 52.6% in September a 3.8 percentage point decrease over the previous reading.
	Housing/Construction	<ul style="list-style-type: none"> Building permits rose 8.2% in August and have risen 12.5% over the past year.
Coincident	Consumer Confidence	<ul style="list-style-type: none"> The Consumer Confidence Index fell in September to 125.10 compared to 134.20 in August.
	Nonfarm Payrolls	<ul style="list-style-type: none"> Total nonfarm payroll employment gained 136,000 in September while the unemployment rate fell to 3.5%.
	Industrial Production	<ul style="list-style-type: none"> Industrial Production rose 0.65% in August and is up 0.36% over the past year.
	Personal Income	<ul style="list-style-type: none"> Real Disposable Personal Income rose 0.44% in August and is up 3% over the past year.
Lagging	Ratio of Consumer Installment Credit to Personal Income	<ul style="list-style-type: none"> This ratio was 0.045% in August and 0.455% year-over-year. Consumer borrowing tends to lag improvements in personal income by many months because people remain hesitant to take on new debt until they are sure that their improved income level is sustainable.
	Inflation	<ul style="list-style-type: none"> CPI (All Items) rose 0.1% in August and is up 1.8% over the trailing one year period. CPI (Core) rose 0.3% in August and is up 2.4% over the trailing one year period.



**Nominal Trade-Weighted U.S. Dollar
Major Currencies**



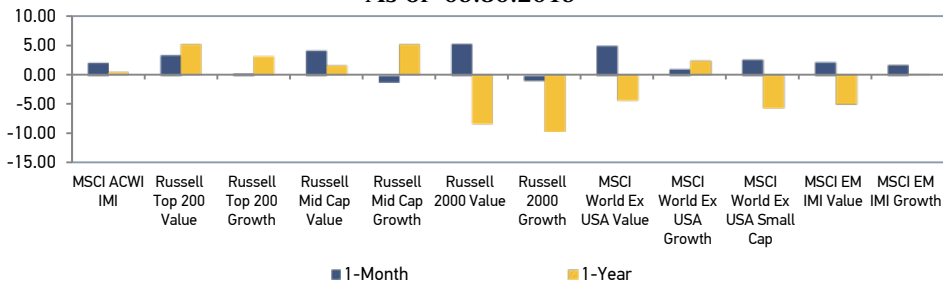
Euro per U.S. Dollar



- The Trade-Weighted U.S. Dollar Index (Major Currencies) rose 0.7% through September and the index is up 0.9% year-to-date. The dollar rose 1.0% versus the Euro in September.



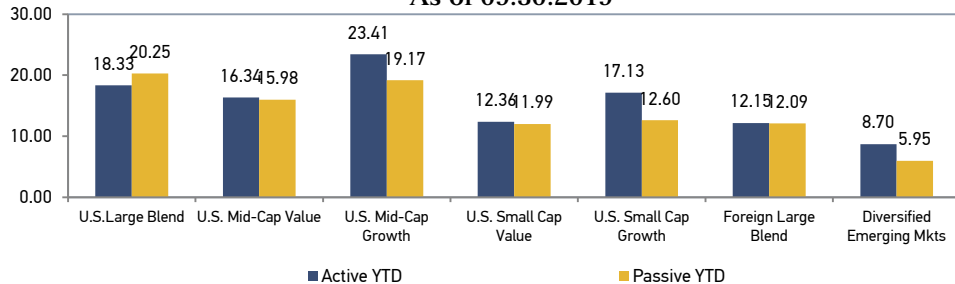
Equity Market Performance
As of 09.30.2019



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Source: Morningstar, Russell Investments

Active vs. Passive
As of 09.30.2019

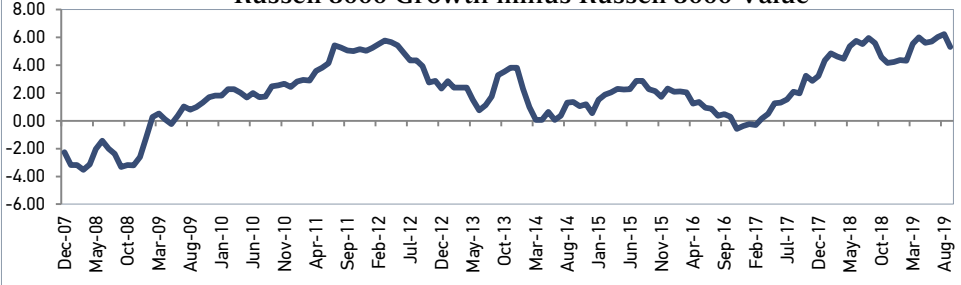


- After a challenging 2018, the performance of actively-managed equity strategies has improved in 2019 with all market segments, save for U.S. Large Blend, showing higher year-to-date returns than passive strategies.

Source: Morningstar, Russell Investments

Median return of Morningstar open-end fund category (institutional share class). Russell return of U.S. categories.

Rolling 5-Year Return Differential
Russell 3000 Growth minus Russell 3000 Value

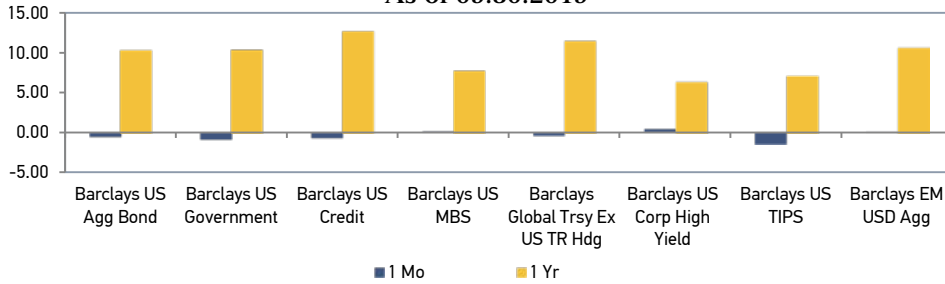


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Data as of 09.30.2019; Source: Morningstar

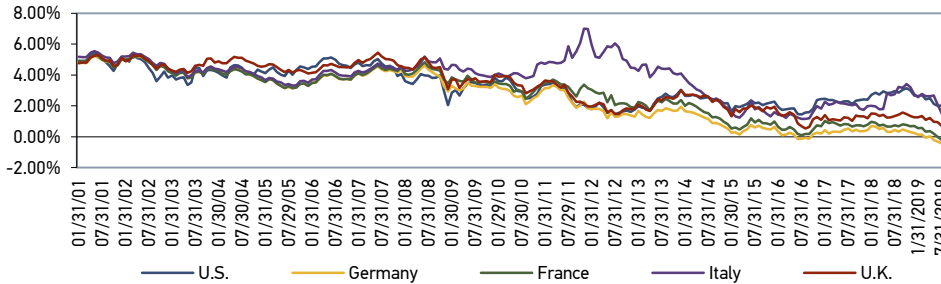


Bond Market Performance
As of 09.30.2019



Source: Morningstar, Barclays

10-Year Government Bond Yields



Data as of 09.30.2019; Source: FactSet, U.S. Department of Treasury

Municipal/Treasury Yield Ratios Over The Last 5 Years
As of 09.30.2019



Source: Thompson Reuters; Sterling Capital Management Analytics.

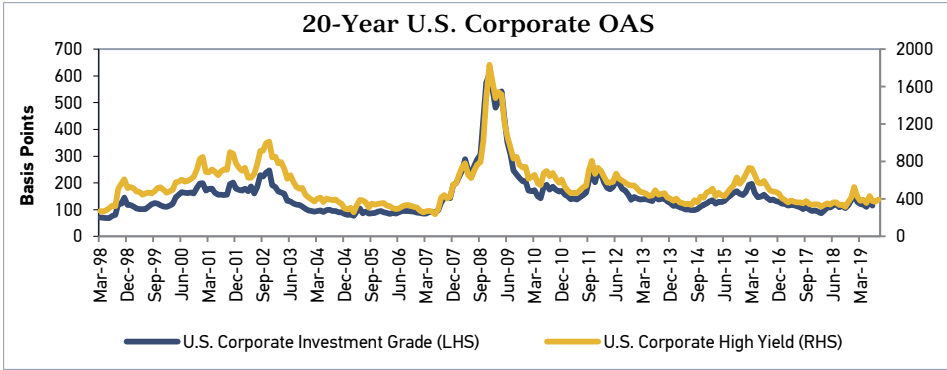
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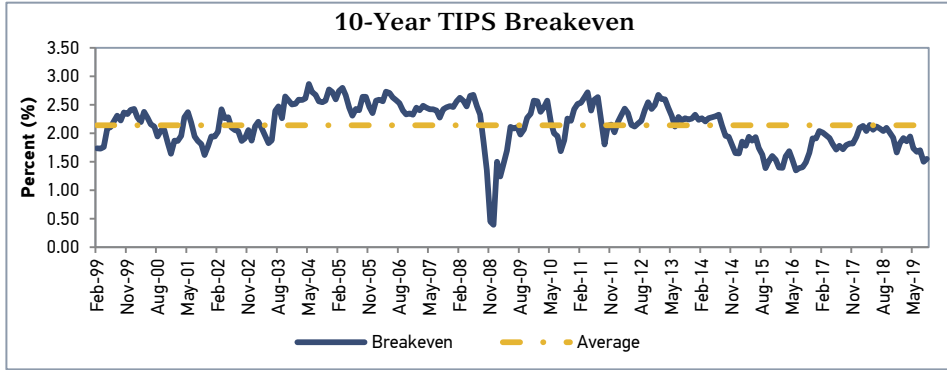


20-Year U.S. Corporate OAS



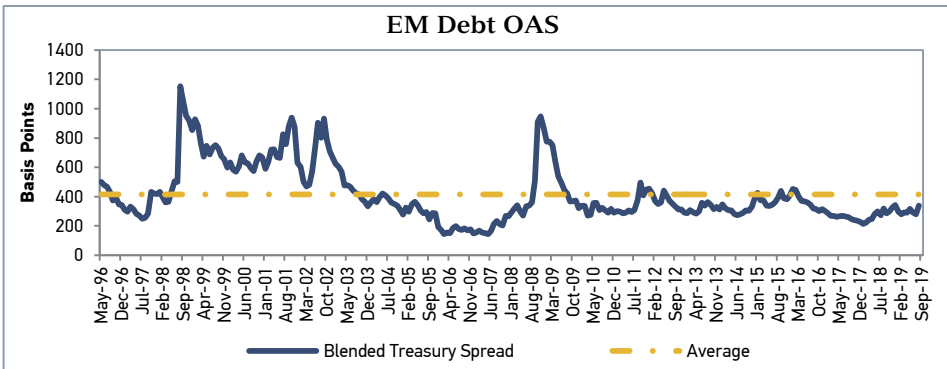
Data as of 09.30.2019; Source: FactSet

10-Year TIPS Breakeven



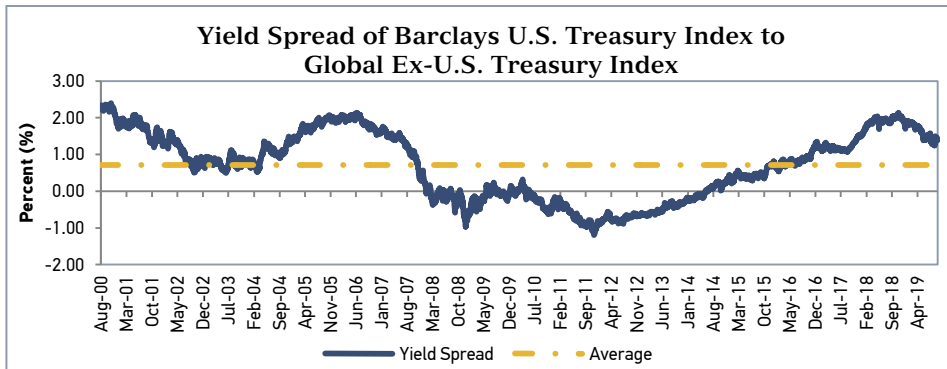
Data as of 09.30.2019; Source: Federal Reserve Board of Governors

EM Debt OAS



Data as of 09.30.2019; Source: Barclays

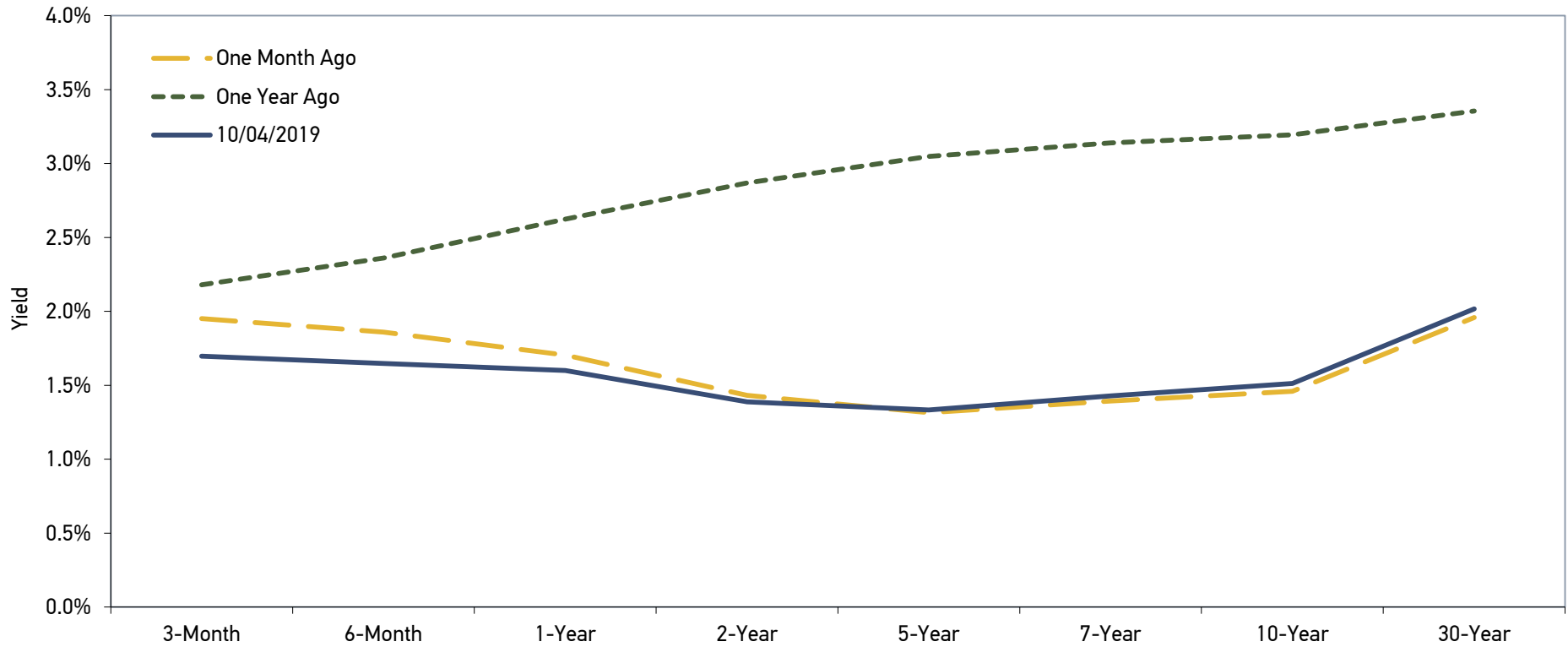
Yield Spread of Barclays U.S. Treasury Index to Global Ex-U.S. Treasury Index



Data as of 09.30.2019; Source: Barclays

- Investment grade and high yield credit spreads tightened in September, moving further below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates moved mildly higher in September, but are well below the historical average.
- Emerging Market credit spreads moved lower in September and are below the long run average. The yield spread of U.S. to Global Treasuries moved higher in September and remains above the historical average.

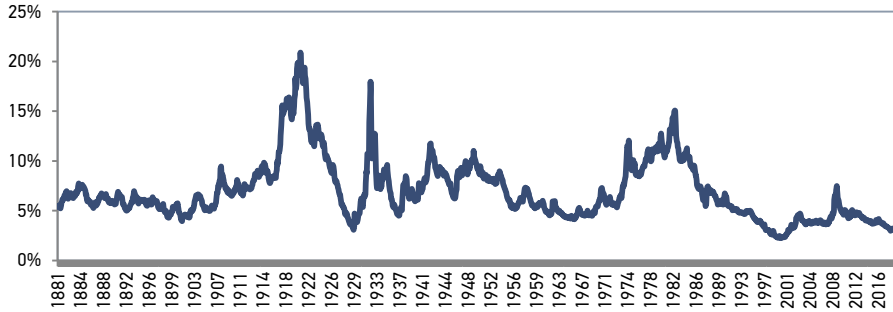
Note: Please see Appendix for important definitions.



- As of 10.04.2019, Treasury yields moved lower across the front end of the curve and higher across the long end of the curve compared to the previous month. Portions of the yield curve remain inverted as of 10.04.2019, with the 3-month bill yielding 18 basis points more than the 10-year bond.

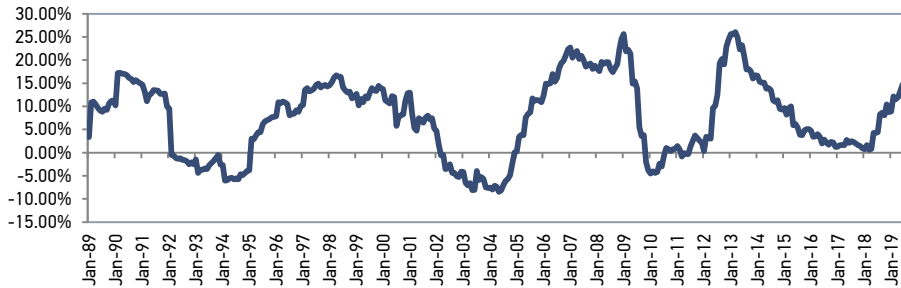


U.S. Cyclically Adjusted Earnings Yield



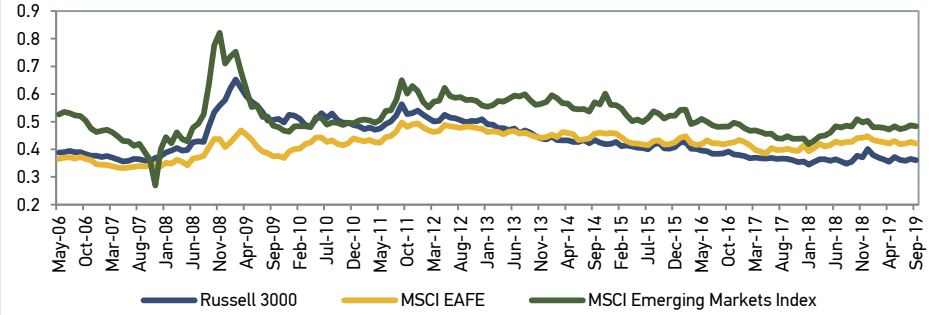
Data as of 08.30.2019; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

**U.S. 3 Year Real Revenue Growth
Russell 3000 Non-Financials**



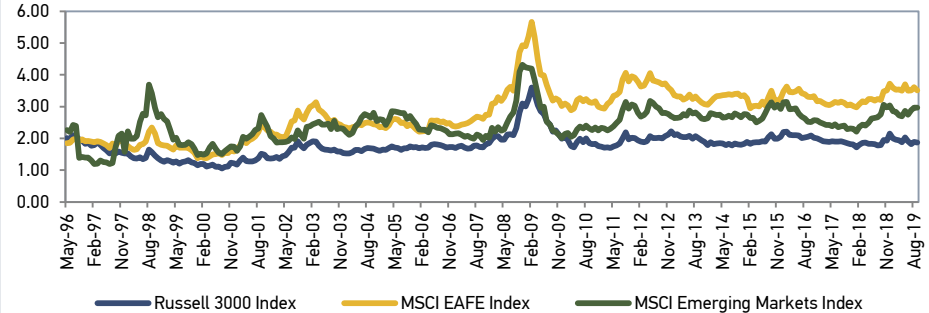
Data as of 09.30.2019; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Revenue to Firm Value



Data as of 09.30.2019; Source: Russell, MSCI

Dividend Yield



Data as of 09.30.2019; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield remains at a low level relative to history. Long-term real U.S. sales growth has strengthened this year.
- In September, the revenue to firm value ratio decreased mildly across U.S. and international markets.
- Dividend yields moved slightly lower last month. International Developed yields continue to provide a significant income advantage over the U.S.

Appendix



Core Consumer Price Index: Core inflation is a measure of inflation that excludes certain items, usually food and energy, that face volatile price movements.

Option Adjusted Spread (OAS): A bond's yield spread over comparable maturity government bonds, adjusted for any embedded options.

Real GDP: Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices.

Revenue to Firm Value: Total Index Revenues of the past 12 months divided by the sum of equity market value and the value of total debt. This is a measure of total sales generated on the total value (debt plus equity) of firms in the index.

TIPS Breakeven: The inflation rate implied by the spread in yield between U.S. TIPS (Treasury Inflation Protected Securities) and nominal U.S. Government Bonds of equal maturity.

U.S. 3 yr. Real Revenue Growth, Russell 3000 Non-Financials: For the Russell 3000 excluding financial firms, the percentage change in trailing 12-month inflation adjusted revenue over 12-month inflation adjusted revenue three years prior.

U.S. Cyclically Adjusted Earnings Yield: The 10-year average of annual, inflation adjusted earnings divided by the current inflation adjusted price of the S&P 500 index. This measure is the inverse of the Shiller CAPE Ratio.

YOY US Productivity Growth: The year-over-year growth in real U.S. output produced per hour worked for non-farm workers.



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