Fourth Quarter 2017
Market Outlook

Outlook Summary

Similar to the first half of 2017, U.S. equity markets delivered strong performance during the third quarter, with both the Dow and S&P 500 closing the period at all-time highs. The S&P 500 returned 4.5% for the quarter, bringing the full year return to 14.2%. While growth stocks continued to outperform value competitors and international equities outpaced U.S. counterparts, the third quarter did see a few trend reversals, including the return of small cap outperformance versus large and mid-caps stocks. Volatility remains low relative to historic levels, and the backdrop for risk assets remains supportive with strong developed market economic growth, healthy credit conditions, and improving corporate earnings. Within U.S. equity sectors, Technology continued its 2017 leadership as the top performing sector during the third quarter, followed by the Energy and Telecom sectors. Market leadership remained narrow. Through the end of the third quarter, ten stocks have accounted for 31% of the S&P 500's year-to-date return. These ten stocks include the well-followed FANG (FB, AMZN, NFLX, GOOG/GOOGL) group, as well as technology giants AAPL and MSFT. In summary, it has been extremely difficult for investors to keep up with the S&P 500 benchmark without an allocation to these ten names, or the technology sector overall.

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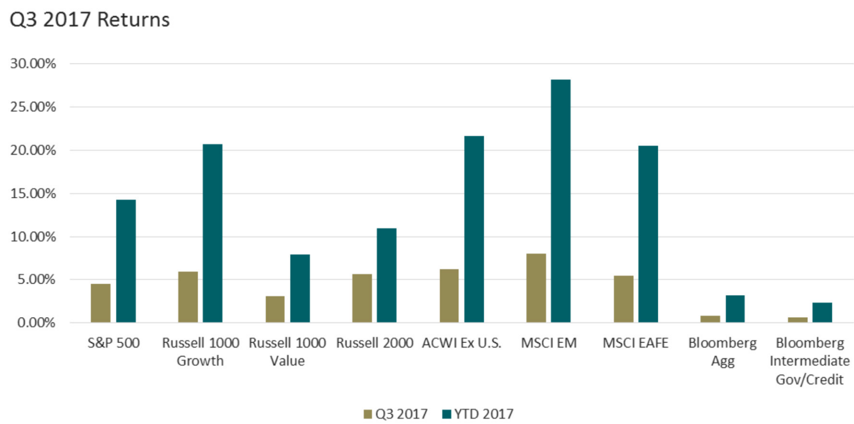
Global economic conditions continued to improve, as every developed economy reported growth, and most emerging markets data showed positive momentum from earlier in the year. U.S. growth continued in the second quarter but may be temporarily impaired from the impacts of multiple hurricanes in the third quarter. Consumer spending remains robust, while business investment and capital expenditure acceleration suggest the current expansion continues to have an attractive runway. The Bloomberg Barclays U.S. Aggregate Index gained .85% during the third quarter, led by corporate investment grade, high yield, and bank preferred securities.

What is in store for investors for the remainder of 2017?
Entering the fourth quarter, the fundamental backdrop remains fairly sound, as most global economies improved from the beginning of the year, inflation remained muted, and the interest rate environment continued to be largely benign, despite the pullback of some accommodative policy. Equity valuations remain at above-average levels, but below historic highs and are supported by strong corporate earnings growth, lower inflation, and relatively low interest rates. In the U.S., investors will continue to focus on Washington, D.C. and the progress of pro-growth fiscal policies, while globally, attention will remain on continued improvement from most developed and emerging economies. Overall, the environment remains supportive for risk assets, as investors should expect to own equities in their portfolios for capital appreciation and income, and bonds for income.

ECONOMICS

The U.S. economy continues to grow at a stable, modest rate. Similar to recent years, weakness in first quarter GDP was followed by robust growth in the second quarter. However, third quarter economic growth will likely be inhibited by disruptions from Hurricanes Harvey and Irma. As activity resumes and rebuilding begins, growth should reaccelerate in the fourth quarter. Growth remains driven by consumer and business spending, the latter helped by stabilizing industrial output on the back of the recovery in energy prices, and accelerating growth. At the same time, the weaker U.S. dollar is helping net exports, and labor market conditions remain supportive.

A welcome development in 2017 has been coordinated global growth, with every major developed economy expanding, something which has occurred infrequently since the financial crisis. Growth is not only well-synchronized across regions, but is also slowly broadening from consumption to investment. This helps international trade and commodity prices



Source: Bloomberg, as of 9.30.2017

and makes the global expansion gradually more self-sustaining.

In Europe, developments have been positive on both economic and political fronts. The manufacturing Purchasing Managers Index (PMI) has risen to its highest level since 2011, economic confidence surveys have reached pre-crisis levels, and all the countries in the Euro-area recorded positive economic growth in the second quarter. Election victories for pro-European candidates in the Dutch and French Presidential elections open the potential for more collaboration across the Euro-zone. Elsewhere, momentum in the Japanese economy has been building over the past two years, and importantly, the sources of growth have also broadened over this period. An increasingly robust labor market has underpinned household spending; business investment has picked up, and an improved global economy has supported net exports. Prime Minister Abe is taking advantage of the positive economic performance and turnaround in his approval ratings by calling a snap election for October 22.

Although the macro outlook has not been as optimistic for emerging markets (EM), PMIs for most EM economies indicate expansion, recent data has been positive, and broad-based equity index performance has been stronger year-to-date than developed markets. As commodity prices recover and the drag from painful policy adjustments fades, EM commodity exporters have experienced decent pick-up recently, closing the growth differential with commodity importers. This trend could be favorable for some Latin and South American countries, such as Brazil. Emerging market performance has also benefitted from stronger than expected 2017 Chinese economic growth, as well as stabilization of its currency and a moderation of capital outflows compared with 2016. On October 18, China will begin its 19th National Congress of the Communist Party. Held every five years, the Congress serves as the selection ground for the party's new leaders. President Xi is widely expected, not only to retain his role as head of the party, but also to strengthen his position.

However, despite better global economic growth and strong job creation, inflation has remained low and below the target levels set by central banks. If inflation pressures continue to remain low, they would allow the monetary stimulus from central banks to be removed gradually. Such a 'slow-motion' transition towards eventual tighter monetary policy in a growing global economy presents a 'Goldilocks' scenario for asset markets, resulting in favorable financial conditions, which in turn could further help the real economic recovery.

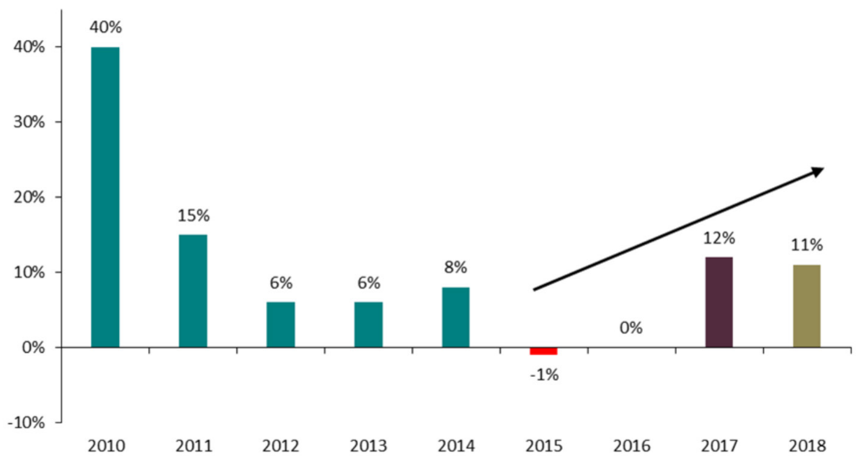
We remain vigilant that the current economic backdrop is not without risks. Elevated valuations in certain financial markets, narrow credit spreads, and low volatility levels also raise questions about the adequate pricing of risk. We are also closely monitoring a range of political and geopolitical risks. On the political side, key risks include the upcoming Italian election and potential Brexit difficulties. As a related matter, the U.S. administration is still defining its strategies on international trade, and a disruption in key trading relationships is still possible. Finally, security issues—particularly in North Korea—could result in headwinds for the global economy and markets.

EQUITIES

U.S. equity markets continued long winning streaks in the third quarter, as both the S&P 500 and Dow ended the period at all-time highs. Market drivers largely continued during the quarter, as another solid corporate earnings season and continued global economic expansion were balanced by geopolitical concerns and the trajectory for pro-growth fiscal policy implementation in Washington, D.C. S&P 500 components posted average year-over-year earnings growth of 10.3% in the second quarter, and the first half of 2017 marked the first time the index reported two consecutive quarters of double-digit growth since the second half of 2011. For the third consecutive quarter, growth equities outperformed value counterparts and international outpaced domestic, but in a reversal, small cap stocks outperformed large and mid-cap equities for the first time this year, driven by the prospect of U.S. corporate tax reform. On a sector basis, Technology (+8.6% total return) stocks continued their 2017 strength and led in the third quarter, as Energy (+6.8%), Telecom (+6.8%), Materials (+6.0%), and Financials (+5.2%) all outperformed the broader S&P 500 (+4.5%). Consumer Staples (-1.3%) was the only negative sector during the quarter, reflecting investor concerns of extended valuation relative to a lower growth outlook.

Among discussions with investors, market valuation has been perhaps the most controversial topic in 2017. The S&P 500 finished the third quarter of 2017 with a forward P/E multiple of 17.7x, above medium- and longer-term averages, and it is a concern to many.

S&P 500 Annual EPS Growth y/y



Source: FactSet, as of 9.30.2017

However, we would continue to note that the forward P/E multiple of the S&P 500 remains well within one standard deviation of the 25-year average of 16.0x, and the equity risk premium (defined by the trailing twelve months earnings yield of the S&P 500 minus the 10-Year U.S. Treasury Yield) remains well above its long-term average. In fact, we believe multiples have room for additional expansion given the recovery in corporate earnings growth, combined with a supportive macroeconomic backdrop, particularly with both the important Technology (18.3x) and Health Care (16.5x) sectors' forward multiples below their 20-year averages (20.9x and 17.6x, respectively).

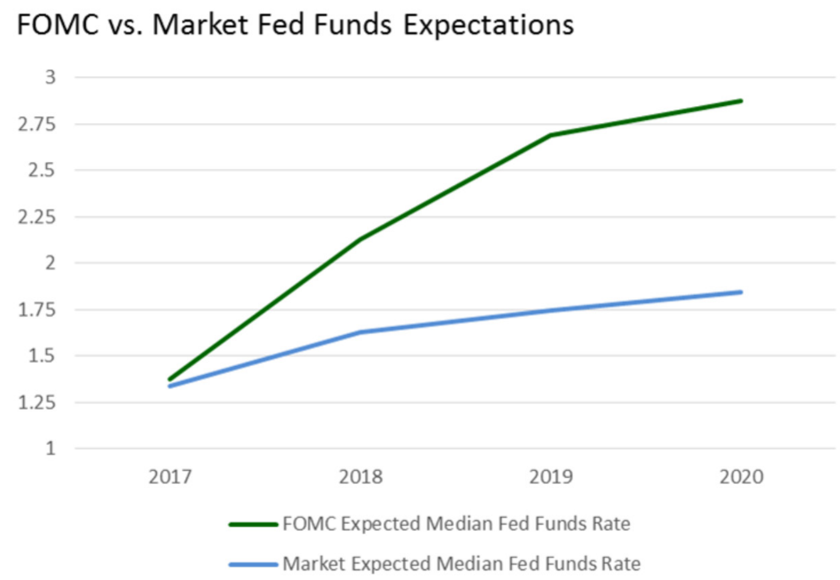
Strong, global economic growth and a weaker U.S. dollar have contributed to a robust corporate earnings environment in 2017. Aggregate sales growth for S&P 500 companies for the back half of the year should exceed the average growth of this business cycle, with broader participation from more industries and geographies. In addition, net income margins for S&P 500 components continue to expand and could approach a record 11% in 2017. This combination of sales and margin improvement, in tandem, continues to drive the earnings growth inflection that began in earnest in the second half of 2016. We are mindful of potential 'shocks' that could disrupt the current atmosphere, but meaningful inflation worries currently seem unlikely, and economic indicators from industrial production to nonfarm payrolls suggest the current economic cycle has room to continue. In addition, U.S. tax reform, particularly on the corporate side, has the potential to accelerate GDP growth, extend its duration, and provide another catalyst for equity appreciation. Barring an external 'black swan' event, we do not believe a U.S. economic recession is likely in the near term, and international developed markets may have greater room for growth, given their delayed recovery and macroeconomic tailwinds.

We maintain a constructive view on portfolio allocation to global equities. Looking ahead, the fundamental underpinning for a continued rally in equites remains intact. Corporate earnings and economic growth continue to be strong, tax reform is the top policy priority, and equity valuations remain attractive.

FIXED INCOME

Interest Rates:

The U.S. Treasury yield curve moved higher in the third quarter with short-term rates increasing more than longer-term rates (i.e., the yield curve flattened). At its September meeting, the Federal Reserve confirmed it would start to slowly 'normalize' its $4.5 trillion balance sheet. The decision and process by which the Fed would unwind the balance sheet was well-telegraphed in advance of the meeting and caused little disruption in the market. Somewhat more surprising was the Federal Open Markets Committee's (FOMC) announced intention to continue increasing the Federal Funds rate later this year and into next year.



Source: Bloomberg, As of 9.30.2017

One of the large unknowns entering next year is who will serve as the next Fed Chairperson, with Chairperson Yellen's term ending in February. In addition, three of the other six seats on the seven person Board of Governors will be vacated, presenting President Trump with the opportunity to completely reshape the Board and introduce a level of uncertainty around the future path of interest rate policy, as well as banking regulation.

We remain slightly underweight duration (interest rate risk). While we anticipate a range bound interest rate environment and believe that U.S. Treasuries continue to look attractive versus other global sovereign bonds, there is the potential for a shift higher in yields.

Investors are looking for a much shallower path of rate hikes than the FOMC projected trajectory. Currently, the market is priced for the Fed Funds rate to be in a target range of 1.5% - 1.75% by year-end 2018, compared to the FOMC's forecast of a range between 2% – 2.25%. Should the FOMC continue on its projected path, short-term interest rates will shift higher. Furthermore, any increase in inflation expectations could lead to a repricing higher in interest rates.

Investment Grade:

2017 has been kind to U.S. Investment Grade (IG) corporate credit investors, with credit spreads tightening and all-in yields moving lower. Today, the extra yield (known as spread) that investors are receiving to own corporate credit over Treasuries has diminished, and investors should understand the limited spread-tightening potential at current spread levels. Furthermore, tight valuations leave investors exposed to potentially negative catalysts from more aggressive-than-expected central bank policy changes or global geopolitical risks – making sector and security selection more important. Portfolios are tilted to traditionally defensive sectors such as cable, food and beverage, pharma, and utilities. At the individual issuer level, we favor non-cyclical companies with the ability to generate sustainable free cash flow and management teams focused on maintaining a stable or improving credit profile. The concern over valuations is balanced by the synchronized global recovery, improvement in U.S. corporate earnings, and the ongoing investor demand for yield.

Municipal Bonds:

Steady investor demand and a decline in supply have helped push municipal bond prices higher in 2017. At current benchmark yields, municipal (muni) bonds in general are expensive relative to corporate bonds inside 7 years to maturity, but attractive relative to corporate bonds in the longer-dated part of the curve. Tax reform will be an important factor going forward with many details to be settled. On balance, nothing published so far would be a serious negative for the muni market, and the elimination of the Alternative Minimum Tax (AMT) would be positive. The elimination of the state and local tax deduction would alter the supply and demand balance in high tax states and municipalities (such as California and New York City) and could result in yields in those municipalities moving lower relative to general market yields. Given the lack of clarity, buying or selling at this point based on potential tax reform would be premature.

Other Sectors:

We continue to favor Non-Agency Mortgages, Asset Backed Securities (ABS), and Preferreds over High

Yield (HY). Non-Agency Mortgages stand to benefit from an ongoing recovery in the U.S. housing market and are fairly well-insulated from many potential global risks. ABS also appear attractive as consumer fundamentals remain healthy, despite the expectation for credit trends to soften marginally toward long-term historical levels. Both Non-Agency Mortgages and ABS are typically floating rate in nature; therefore, these securities will benefit if short-term interest rates move higher. Preferred securities have performed very well from price lows in February 2016 and also year-to-date in 2017. Despite the strong performance, the asset class still offers an attractive pick-up in yield over corporate bonds, and underlying bank fundamentals remain very sound. A dwindling supply of new preferreds is creating a powerful supply/demand dynamic which should be positive for valuations. Within HY, we are more defensively positioned, focusing on the short duration, 'higher-quality' area of the market. Currently, spreads and all-in yields within the HY market are close to their cyclical lows, implying most of the good news is already priced-in. Given the current low levels of all-in yields, there is little margin of error within HY against a backdrop of increasing risk factors.