



## Summary and Outlook

For the eighth consecutive quarter, the United States stock market moved solidly higher, continuing to confound those who have been calling for an imminent price correction. The economic picture has brightened despite valuation and geopolitical concerns, weather-related property destruction, and deep societal and political divisions here and abroad. A combination of favorable business fundamentals, strengthening economic data, and expectations for policy legislation have underpinned the ongoing strength of risk assets. Most importantly, the sharp uptick in corporate earnings over the last nine months and the prospect for further acceleration have made security valuations more reasonable. Globally, economic growth has improved as stimulus policies implemented over the past several years are starting to pay off. For the first time in more than a decade, most economies around the world are on a path of synchronized expansion.

Despite the positive worldwide GDP picture, inflation remains subdued, which in turn has allowed monetary policy makers to be more gradual in their shift away from accommodation. The European Central Bank is expected to announce a deliberately-paced tapering of its asset purchase program, and many believe the Bank of England will soon raise rates. The U.S. Federal Reserve has also indicated it will hike rates over the course of the next year, but at a slower pace than previously forecast given the current low rate of inflation and slow legislative progress on the Republican economic agenda. Further, the Fed is seeking to shrink its bloated \$4.5 trillion balance sheet over the next five years, including simply letting many bonds just mature. However, if legislation passes in the coming quarters that significantly lowers the corporate tax rate, the attendant spike in corporate profits could lead to additional employment hiring and an inflationary increase in wage growth which has been almost dormant. When inflation does pick up, the Fed will likely become more vigilant, and the trajectory of rate hikes and asset sales could be steeper than the currently indicated pace.

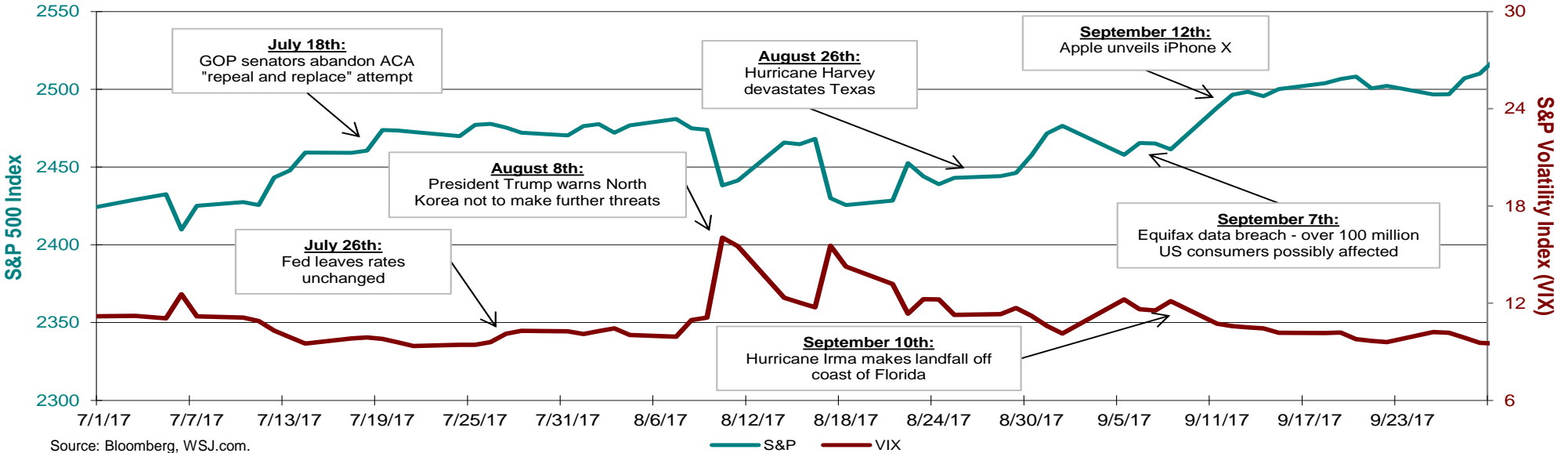
As is almost always the case, a number of concerns cloud the investment picture. Tensions in the Korean Peninsula and in the Middle East remain unsettling. In Europe, German Chancellor Merkel faces the challenge of putting together a coalition after losing the support of the Social Democratic Party. In the United States, fierce political and social polarization threatens legislative progress on a number of important fronts. Today's list of issues appears a bit short, which in itself is a concern.

Will tax reform be passed and, if so, how quickly and in what form? How will the shifting geopolitical landscape come to grips with a more bellicose and even dangerous cast of characters? These questions and many others will preoccupy investors over the coming months. Unfortunately, these and other answers cannot be discerned with a high degree of confidence. What we do know is that the eerie calm of the financial markets, as evidenced by unusually low price volatility, will not last forever. Absent a major unforeseen destabilizing event, however, we believe that the overall backdrop remains favorable for the equity markets, and that asset class price bubbles currently do not appear to exist. There remains a high enough level of investor fear to help produce more investment gains.

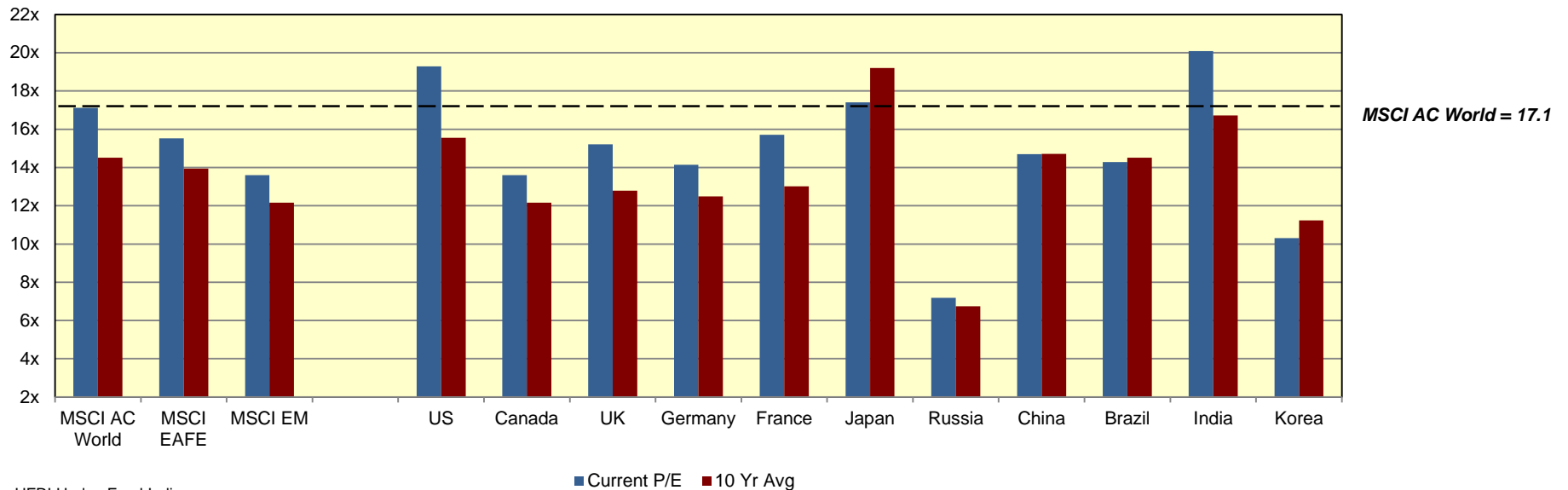


# Financial Markets Update – Third Quarter 2017

**Continuing Corporate Earnings Growth Solidly Greater Than Expectations Helped the U.S. Stock Market (blue line) to Gain +4.5% During the Third Quarter of 2017, and for Price Volatility (red line) to Remain Low**



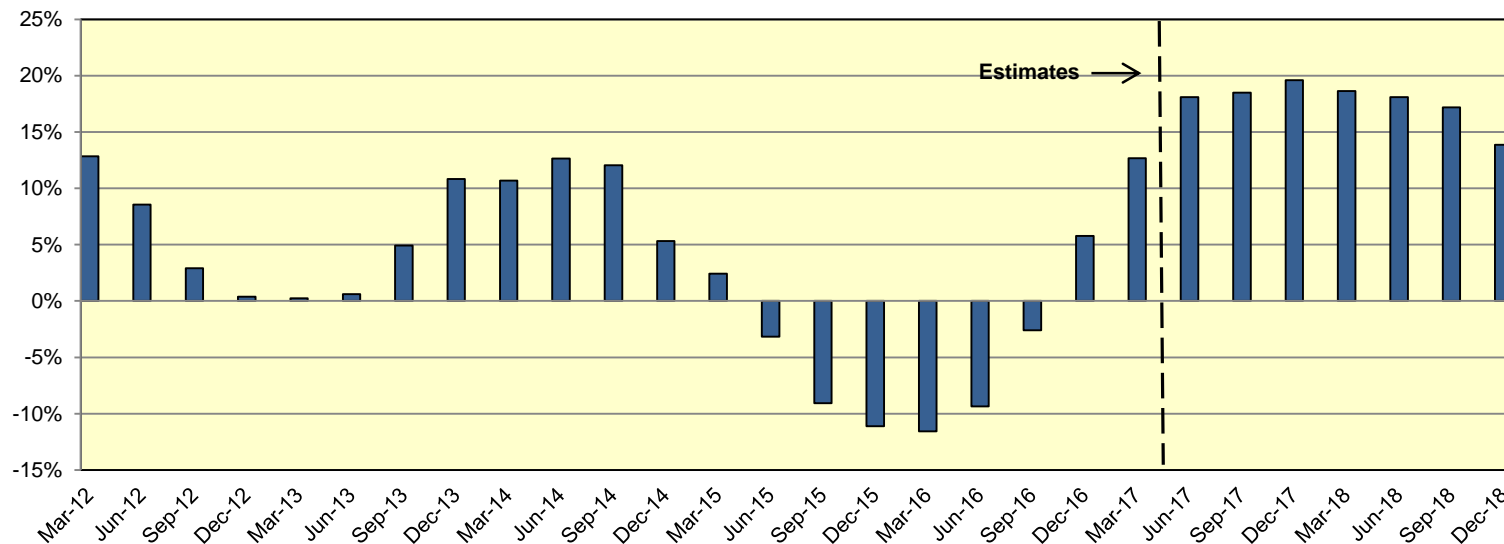
**Global Stock Market Valuations (blue bar) Compared to 10-Year Averages (red bar): Most Developed Markets are Modestly Above Historical Valuations, Anticipating Improving Corporate Earnings, While Most Emerging Markets May Be Value Opportunities**



Source: HFRI Hedge Fund Indices

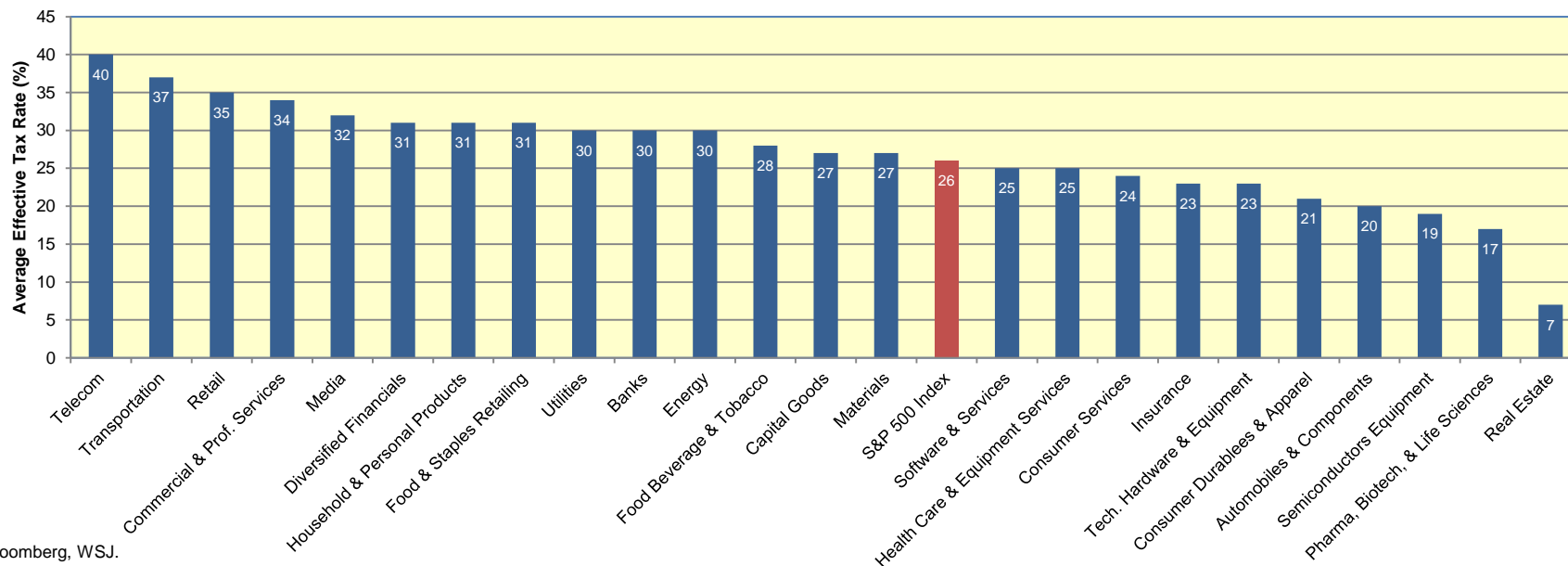


## U.S. Corporate Operating Earnings are Forecast to Dramatically Accelerate, and Recent Results Have Been Above Expectations



Source: S&P Dow Jones Indices

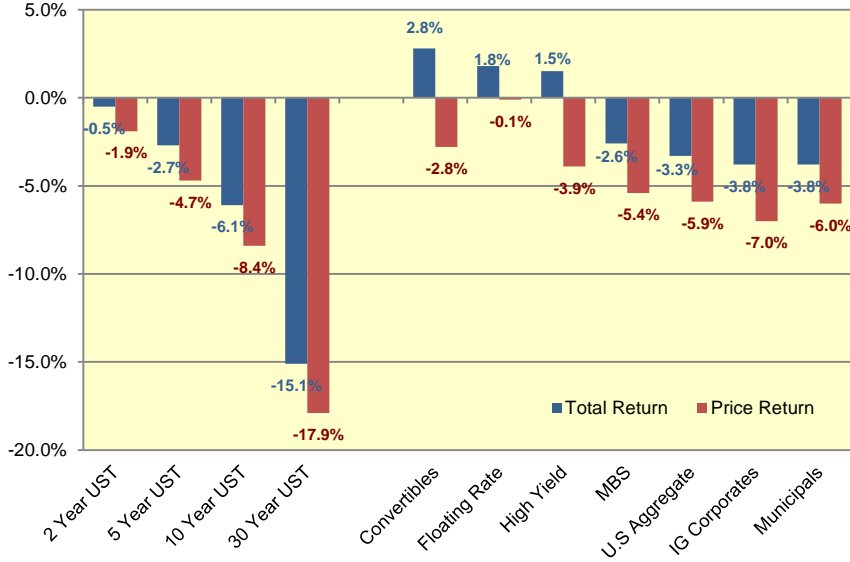
## Average Effective Tax Rates by Large Capitalization Industry Group: Opportunities to Benefit From Corporate Tax Reform



Source: Bloomberg, WSJ.

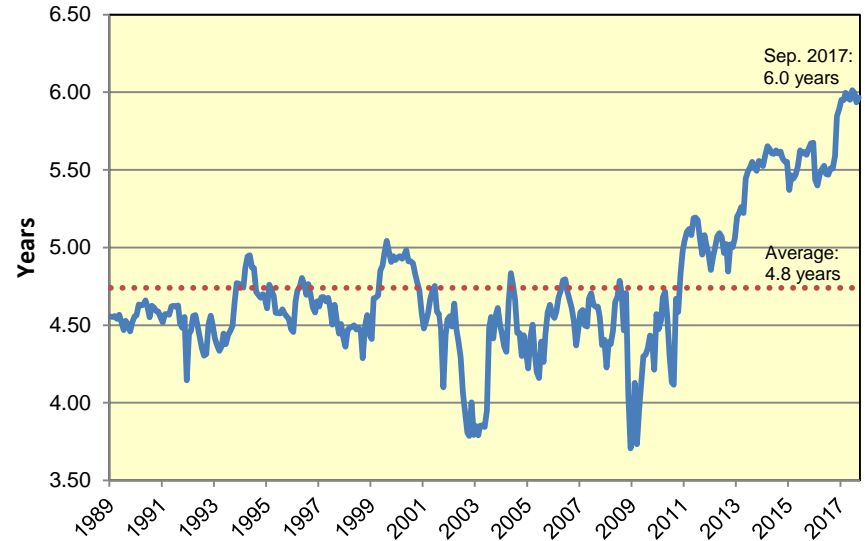


## Impact of 1% Rise in Interest Rates on Fixed Income Asset Classes: Risk in Most Securities



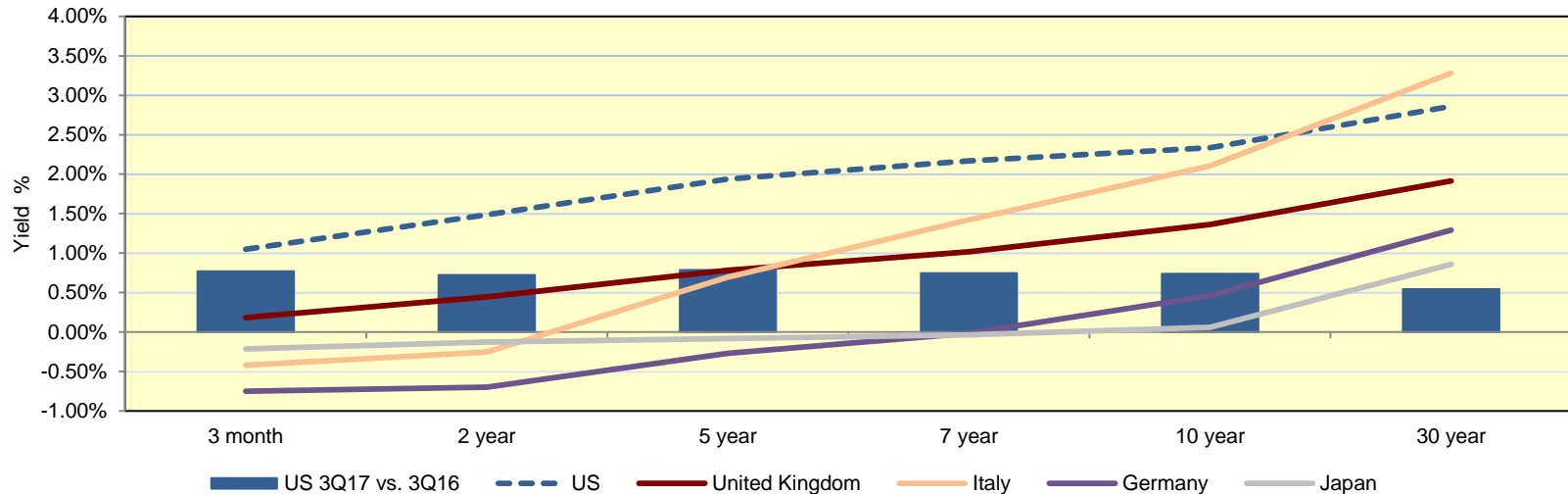
Source: JP Morgan.

## Duration of Barclays U.S. Aggregate Bond Index: A Popular Manager Benchmark Leaves Investors Exposed



Source: JP Morgan.

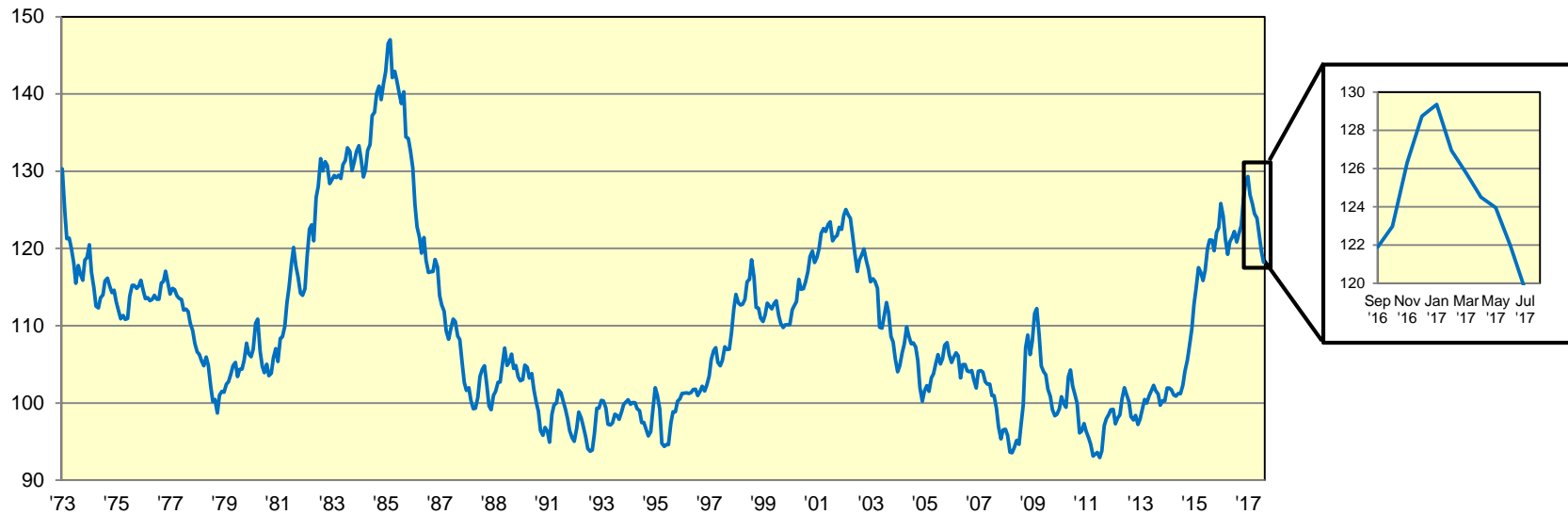
## Global Sovereign Bond Yields at Various Maturities: U.S. Bond Yields Remain Relatively Attractive



Source: Bloomberg



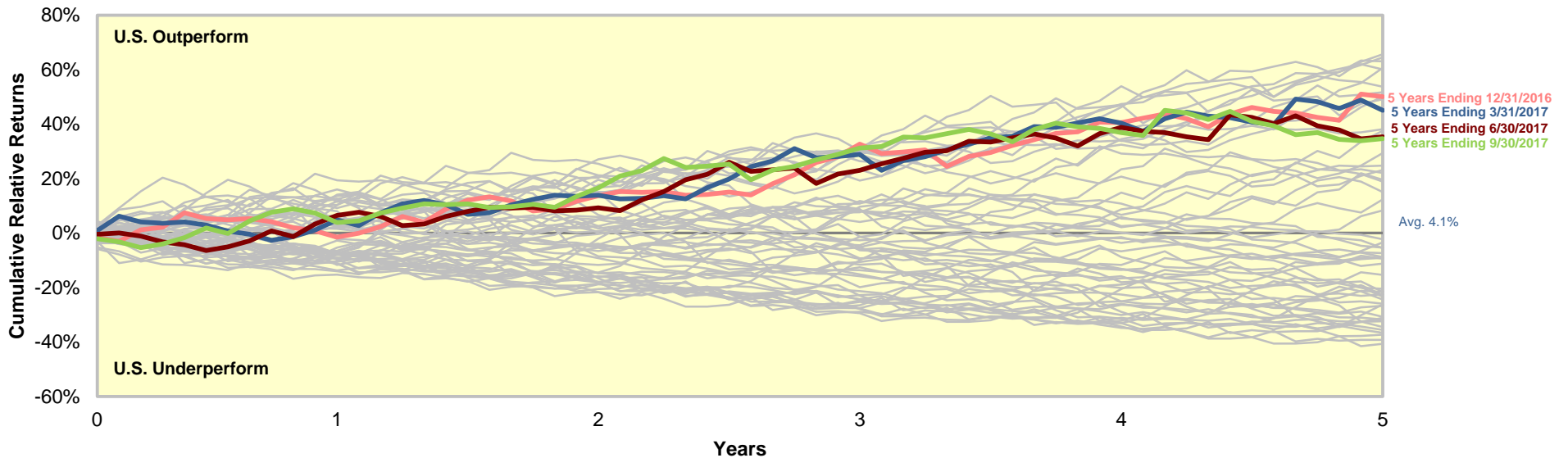
## The Value of the U.S. Dollar is Relatively High Historically, Making U.S. Exports More Expensive



Note: Adjusted for inflation

Source: BIS

## U.S. Stocks Have Significantly Outperformed Foreign Stocks Over the Past Five Years: Recent Reversal May Be Evolving Opportunity



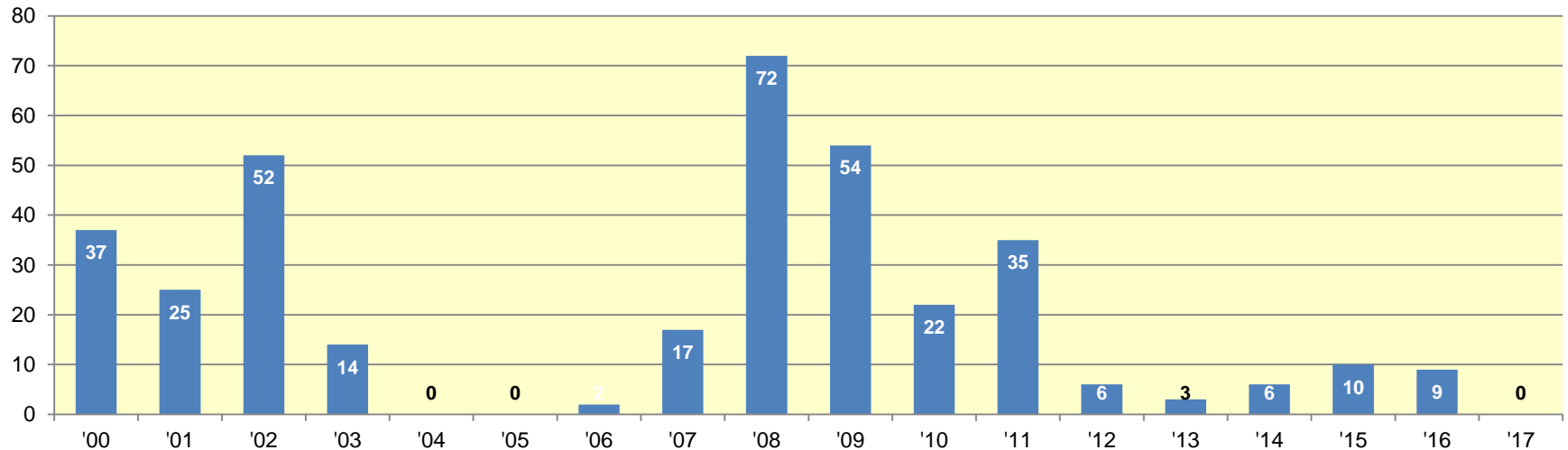
Note: Starting date is 12/31/1998, consistent with inception of MSCI ACWI ex-US Index. Each line represents cumulative excess returns of Russell 3000 over MSCI ACWI ex-US using monthly returns.

Sources: Bloomberg, Russell, MSCI



# Financial Markets Update – Third Quarter 2017

## Number of Days When the S&P 500 Stock Index Changed by More Than 2%: Price Volatility is Low But Not Unprecedented



Source: Bloomberg.

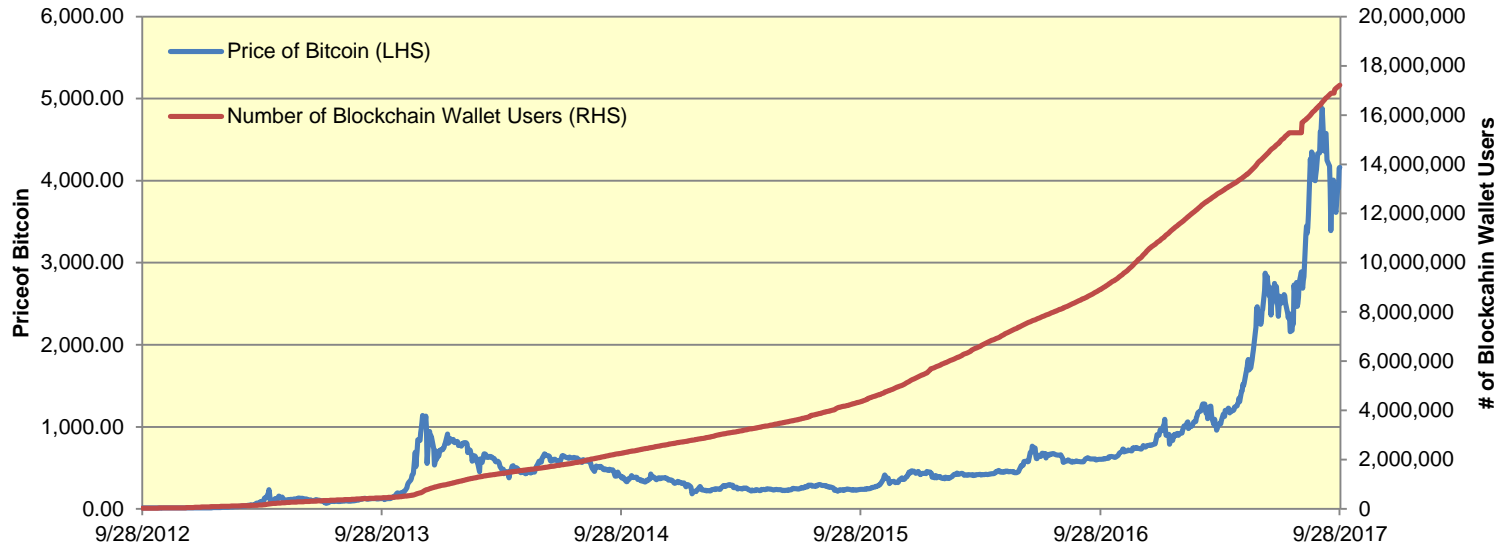
## Global Manufacturing Purchasing Managers' Index Heatmap: Developed Markets Are Leading Improvement in Growth (green boxes)

	2015			2016									2017											
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
<b>Global</b>	51	51	50.7	50.9	50	50.6	50.2	50.1	50.4	51	50.8	51.1	52	52.1	52.7	52.8	53	53	52.7	52.6	52.6	52.7	53.1	53.2
<b>Developed Markets</b>	52.5	52.3	52	52.1	50.8	50.9	50.5	50.4	51.2	51.5	51.2	51.5	52.6	53	53.8	54.2	54.1	53.9	54.1	54.1	53.9	54	54.2	N/A
<b>Emerging Markets</b>	49	49.2	49	49.4	48.9	50.2	49.6	49.5	49.3	50.3	50.1	50.3	51	50.8	51.1	50.8	51.3	51.6	50.9	50.6	50.8	50.9	51.7	N/A
<b>Developed</b>																								
U.S	54.1	52.8	51.2	52.4	51.3	51.5	50.8	50.7	51.3	52.9	52	51.5	53.4	54.1	54.3	55	54.2	53.3	52.8	52.7	52	53.3	52.8	53.1
Canada	48	48.6	47.5	49.3	49.4	51.5	52.2	52.1	51.8	51.9	51.1	50.3	51.1	51.5	51.8	53.5	54.7	55.5	55.9	55.1	54.7	55.5	54.6	55
Japan	52.4	52.6	52.6	52.3	50.1	49.1	48.2	47.7	48.1	49.3	49.5	50.4	51.4	51.3	52.4	52.7	53.3	52.4	52.7	53.1	52.4	52.1	52.2	52.6
UK	54.5	52.4	51.2	52.2	50.9	51.3	49.6	50.5	53.1	48.4	53	55.6	54.2	53.4	55.8	55.4	54.6	54.3	57.2	56.4	54.2	55.2	56.7	55.9
Euro Area	52.3	52.8	53.2	52.3	51.2	51.6	51.7	51.5	52.8	52	51.7	52.6	53.5	53.7	54.9	55.2	55.4	56.2	56.7	57	57.4	56.6	57.4	58.1
Germany	52.1	52.9	53.2	52.3	50.5	50.7	51.8	52.1	54.5	53.8	53.6	54.3	55	54.3	55.6	56.4	56.8	58.3	58.2	59.5	59.6	58.1	59.3	60.6
France	50.6	50.6	51.4	50	50.2	49.6	48	48.4	48.3	48.6	48.3	49.7	51.8	51.7	53.5	53.6	52.2	53.3	55.1	53.8	54.8	54.9	55.8	56
Italy	54.1	54.9	55.6	53.2	52.2	53.5	53.9	52.4	53.5	51.2	49.8	51	50.9	52.2	53.2	53	55	55.7	56.2	55.1	55.2	55.1	56.3	56.3
Spain	51.3	53.1	53	55.4	54.1	53.4	53.5	51.8	52.2	51	51	52.3	53.3	54.5	55.3	55.6	54.8	53.9	54.5	55.4	54.7	54	52.4	54.3
Greece	47.3	48.1	50.2	50	48.4	49	49.7	48.4	50.4	48.7	50.4	49.2	48.6	48.3	49.3	46.6	47.7	46.7	48.2	49.6	50.5	50.5	52.2	52.8
<b>Emerging</b>																								
China	48.3	48.6	48.2	48.4	48	49.7	49.4	49.2	48.6	50.6	50	50.1	51.2	50.9	51.9	51	51.7	51.2	50.3	49.6	50.4	51.1	51.6	51
Indonesia	47.8	46.9	47.8	48.9	48.7	50.6	50.9	50.6	51.9	48.4	50.4	50.9	48.7	49.7	49	50.4	49.3	50.5	51.2	50.6	49.5	48.6	50.7	50.4
Korea	49.1	49.1	50.7	49.5	48.7	49.5	50	50.1	50.5	50.1	48.6	47.6	48	48	49.4	49	49.2	48.4	49.4	49.2	50.1	49.1	49.9	50.6
Taiwan	47.8	49.5	51.7	50.6	49.4	51.1	49.7	48.5	50.5	51	51.8	52.2	52.7	54.7	56.2	55.6	54.5	56.2	54.4	53.1	53.3	53.6	54.3	54.2
India	50.7	50.3	49.1	51.1	51.1	52.4	50.5	50.7	51.7	51.8	52.6	52.1	54.4	52.3	49.6	50.4	50.7	52.5	52.5	51.6	50.9	47.9	51.2	N/A
Brazil	44.1	43.8	45.6	47.4	44.5	46	42.6	41.6	43.2	46	45.7	46	46.3	46.2	45.2	44	46.9	49.6	50.1	52	50.5	50	50.9	50.9
Mexico	53	53	52.4	52.2	53.1	53.2	52.4	53.6	51.1	50.6	50.9	51.9	51.8	51.1	50.2	50.8	50.6	51.5	50.7	51.2	52.3	51.2	52.2	52.8
Russia	50.2	50.1	48.7	49.8	49.3	48.3	48	49.6	51.5	49.5	50.8	51.1	52.4	53.6	53.7	54.7	52.5	52.4	50.8	52.4	50.3	52.7	51.6	51.9

Source: Bloomberg, JP Morgan.

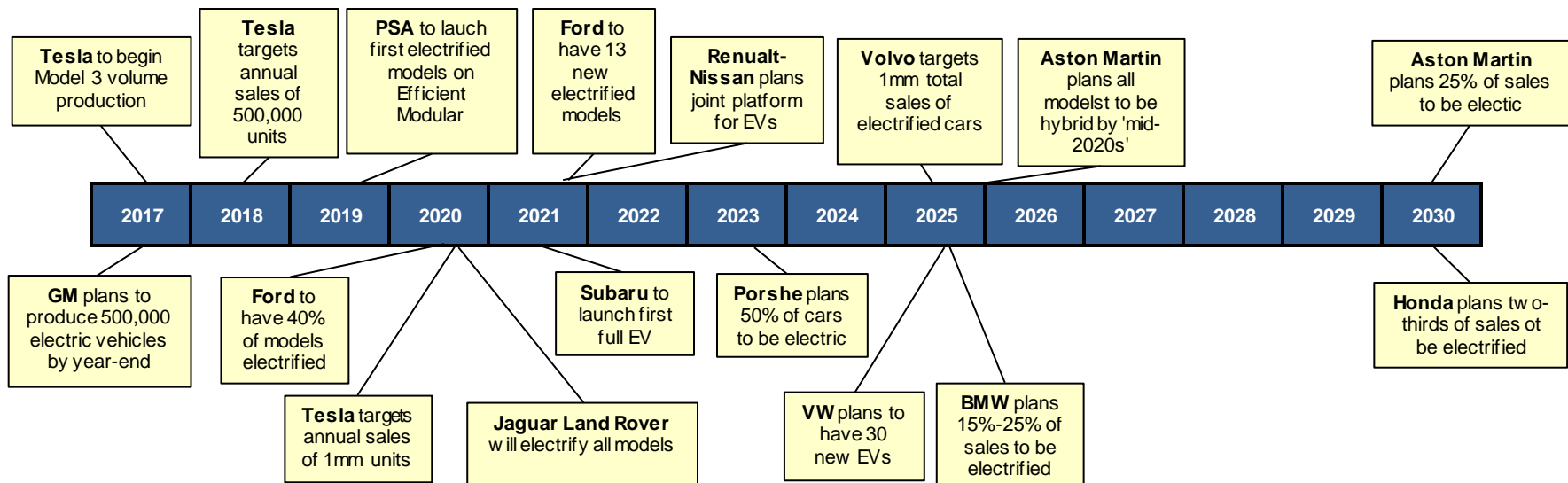


## Popularity of Cryptocurrencies Over the Last Five Years: Blockchain Growth From Early Adopters and Bitcoin Price Volatility



Source: Bloomberg, Blockchain.info

## Electric Vehicle Timeline: Change Will Happen Fast and Will Be Disruptive to Existing Technology

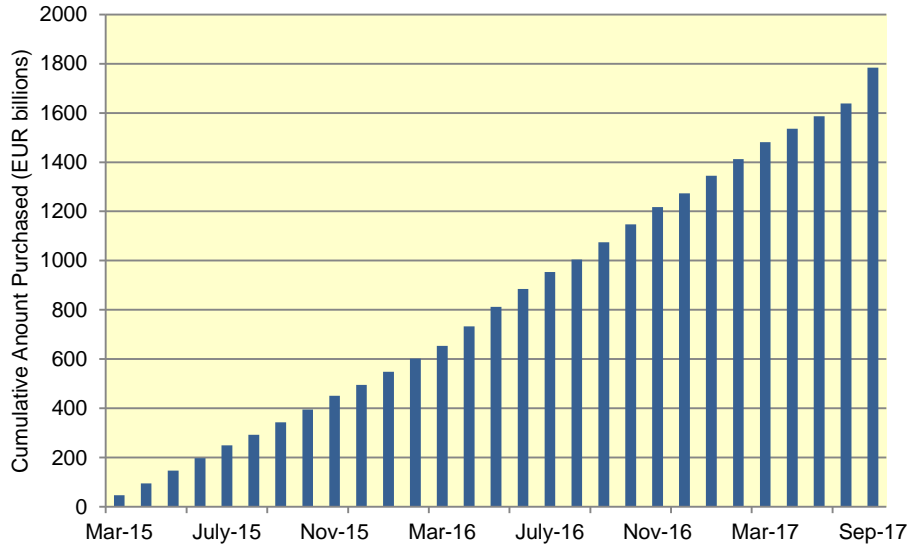


Source: WSJ, BMI Research



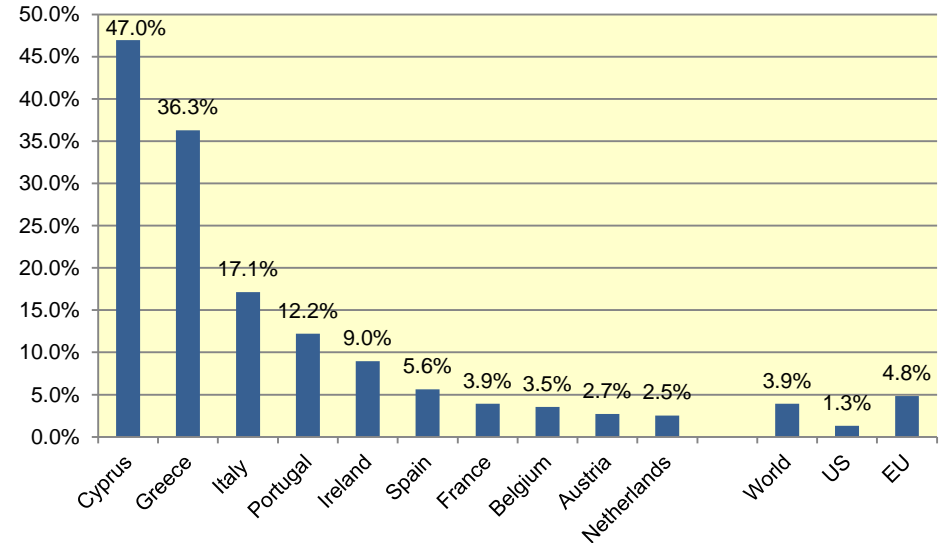
# Financial Markets Update – Third Quarter 2017

## European Central Bank Bond Buying: Stimulus Continues



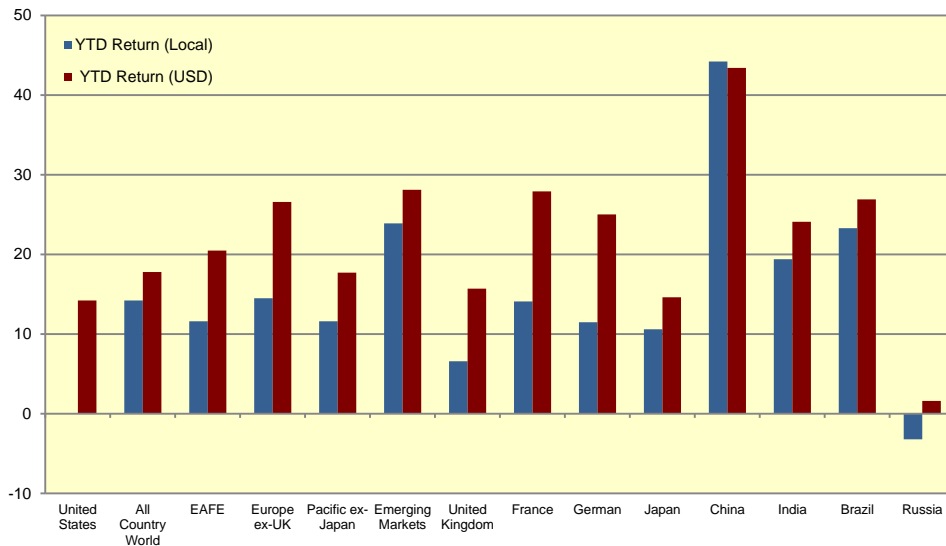
Source: Bloomberg.

## Nonperforming Bank Loans as a Percentage of Total Gross Loans: Risks in the European Union



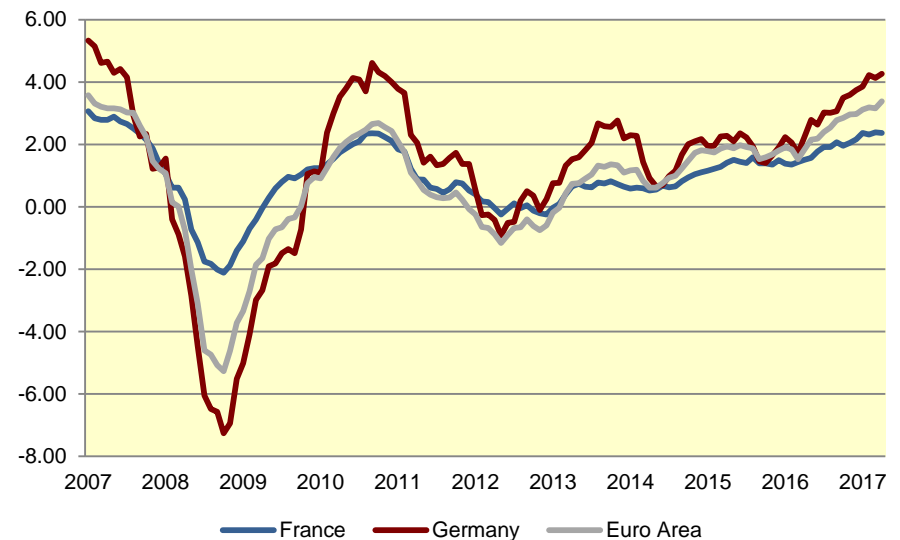
Source: The World Bank. Data as of 12/31/2016.

## YTD Global Equity Returns: Weak U.S. Dollar has Helped



Source: JP Morgan.

## European GDP Growth: Recent Gains Lead by Germany (red line)

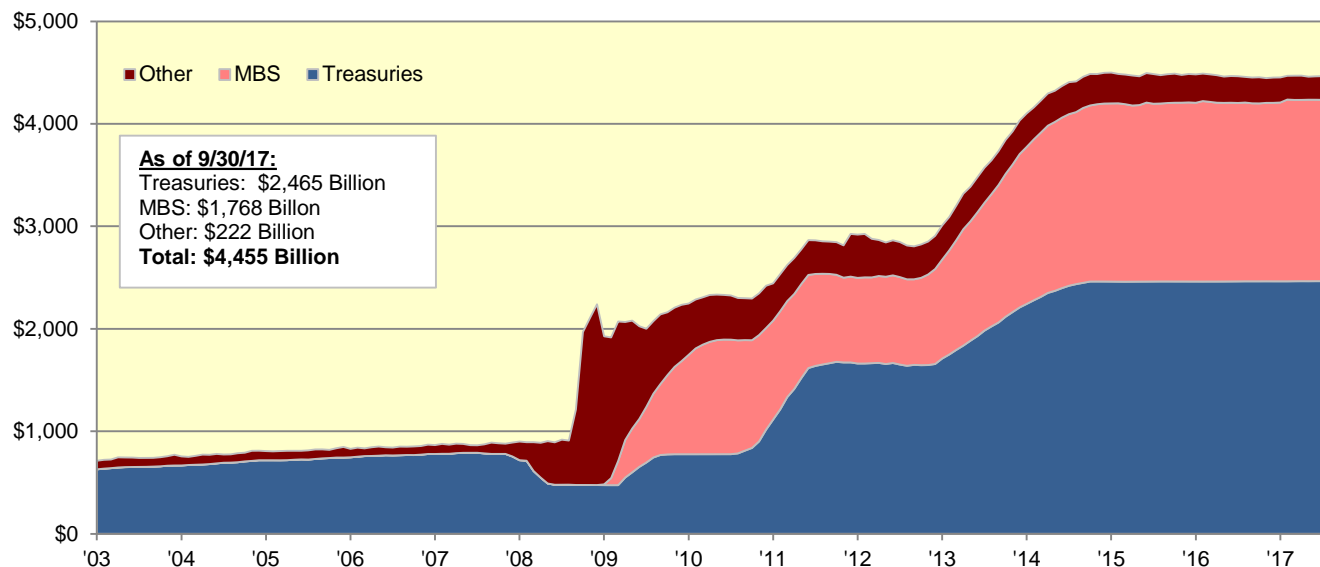


Source: Bloomberg.



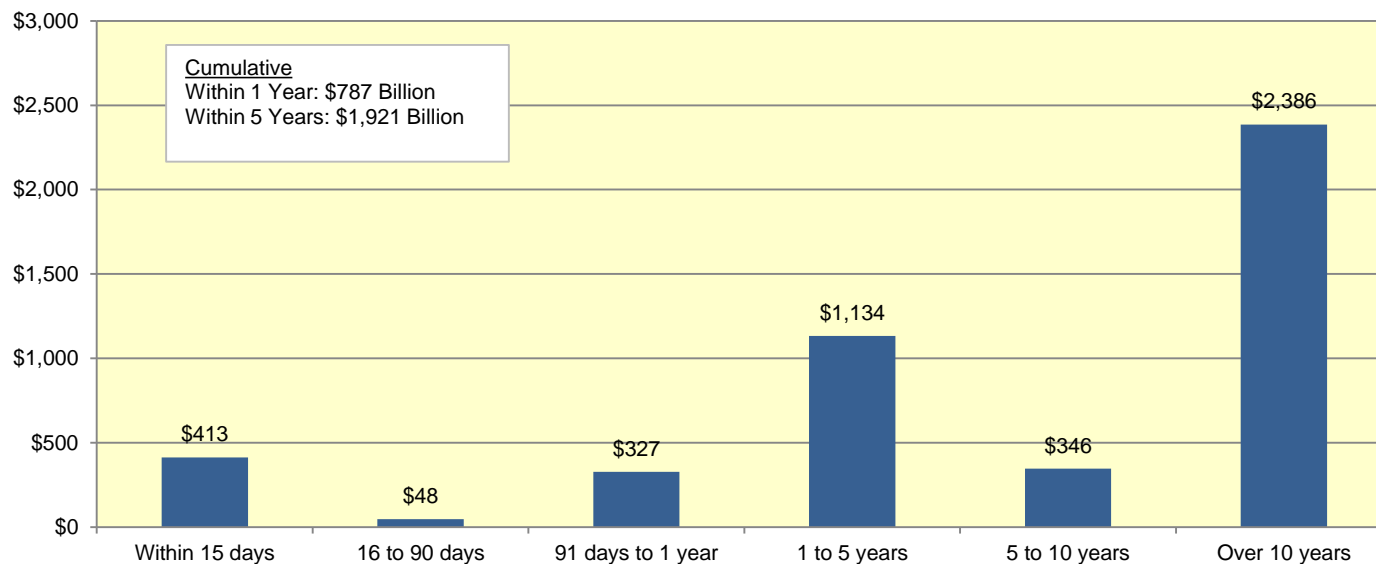


## U.S. Federal Reserve Total Assets (\$ Billions): Government Ownership Has Provided Stability and Unwinding Should Pressure Prices



Source: Federal Reserve Bank of St. Louis, JP Morgan.

## Federal Reserve Balance Sheet Maturity Breakdown (\$ Billions): Fed Purchases Have Pushed Bond Yields Lower (Prices Higher)

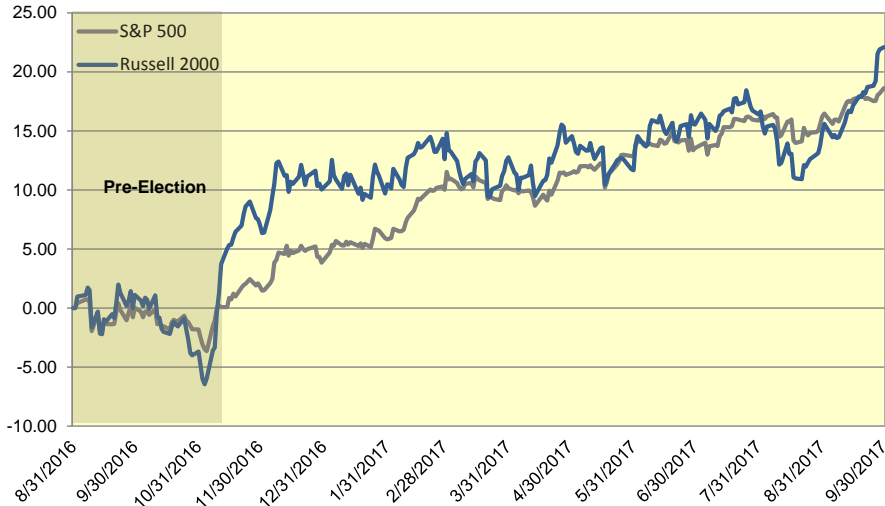


Source: Federal Reserve Statistical Release (H.4.1): Thursday, October 5, 2017



## The Republican Reflation Trade Reappears as Legislation May Be Closer to Reality

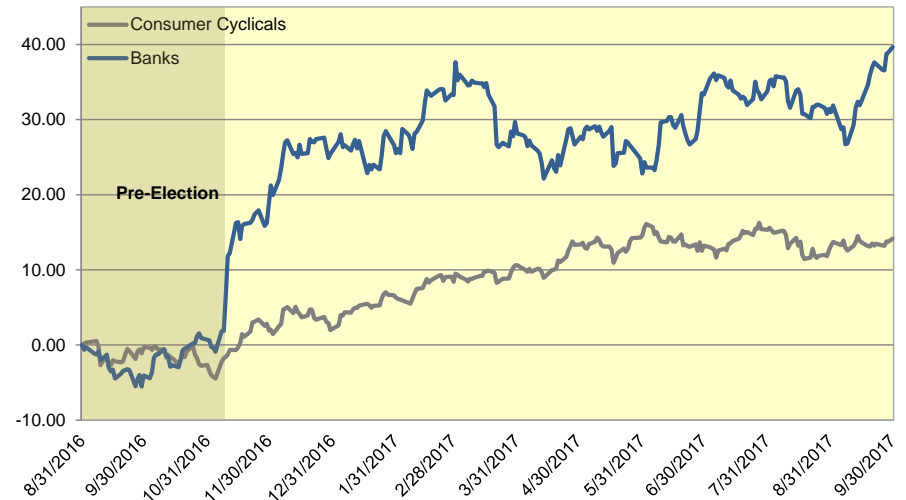
### S&P 500 vs. Russell 2000



Note: Total Return (%)

Source: Bloomberg

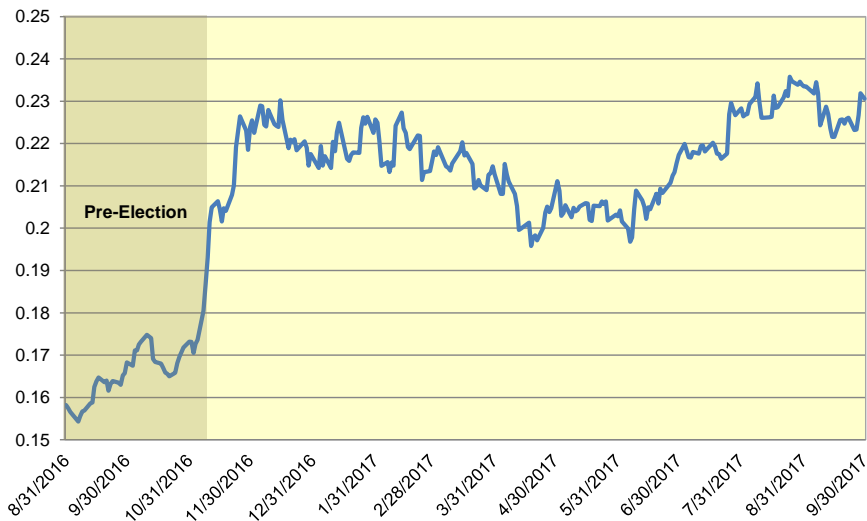
### Consumer Cyclical vs. Banks



Note: Total Return (%)

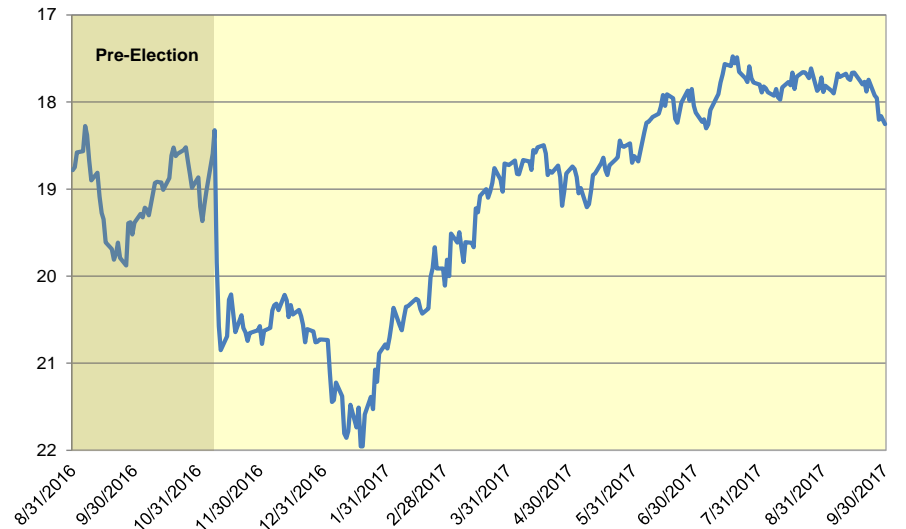
Source: Bloomberg

### Copper to Gold Ratio



Source: Bloomberg

### Mexican Peso vs. US Dollar (Inverted)

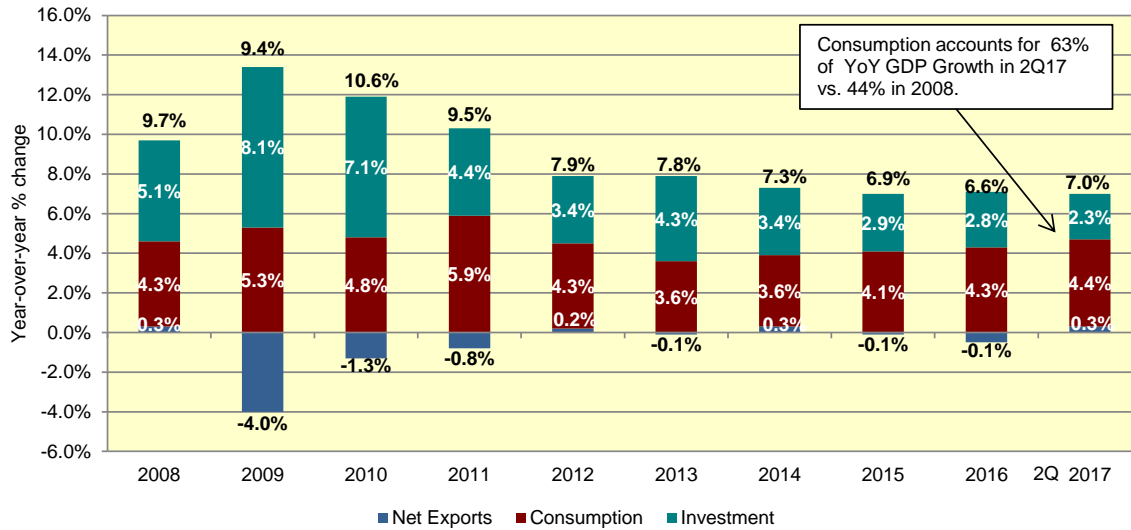


Source: Bloomberg



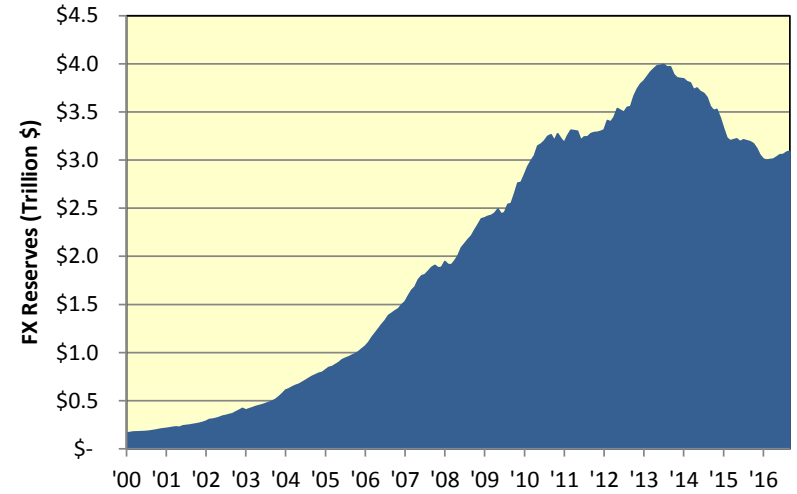
# Financial Markets Update – Third Quarter 2017

## China Real GDP Growth Contribution: Transition to Consumption Bias



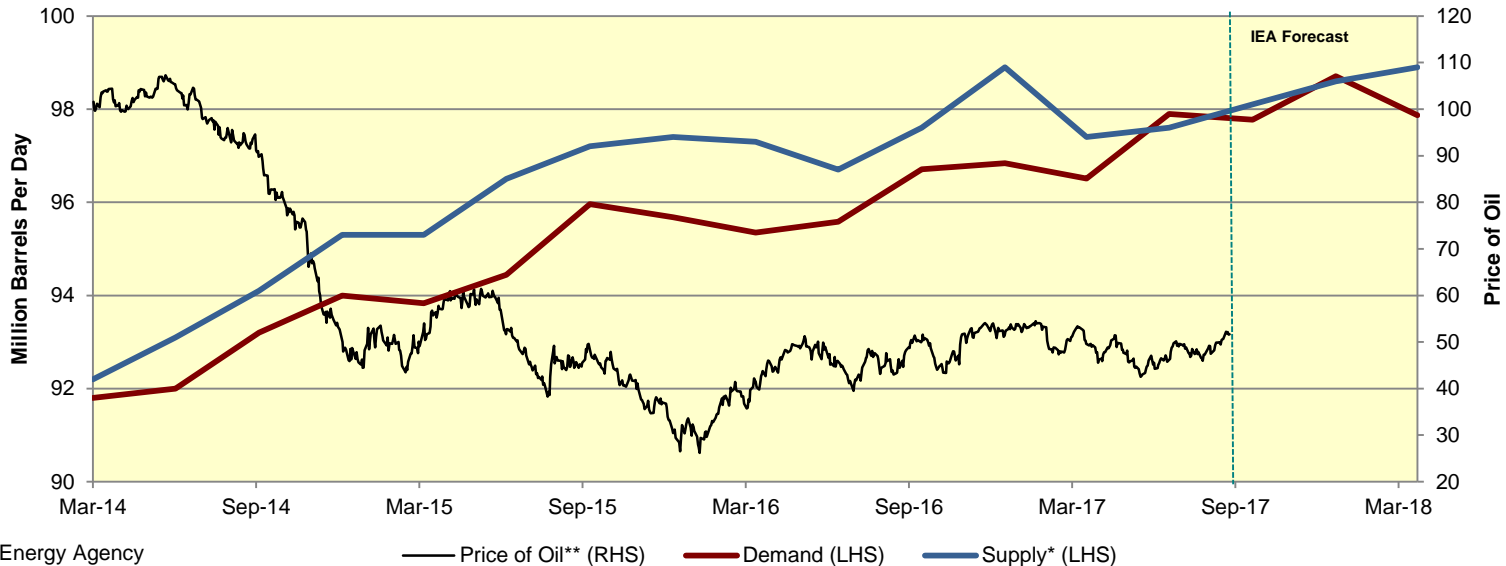
Source: JP Morgan, Factset.

## China Foreign Exchange Reserves



Source: Bloomberg

## World Oil Market: Supply and Demand Now Appear to be in Balance



Source: International Energy Agency

— Price of Oil\*\* (RHS) — Demand (LHS) — Supply\* (LHS)

\*OPEC output assumed steady as 32.3mb/d and Iranian production expected to reach 600/kb/d by end of year 2017

\*\*WTI Crude



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**Past Performance is No Guarantee of Future Results**