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Quarterly Economic Review
October 2017

Executive Summary

- Despite its reputation as the worst seasonal period for stocks, global stock markets rallied again. Emerging-market stocks were strongest, surging 8%, followed by European stocks, which gained 6.2%. More broadly, developed international stocks rose 5.5%. For the third consecutive quarter, the U.S. dollar depreciated against foreign currencies, boosting dollar-based investor returns in these markets.
- The U.S. market delivered strong returns in the third quarter, extending its winning streak to eight consecutive quarters and a remarkable 18 out of the last 19 quarters. The S&P 500 Index closed at an all-time high, gaining 4.5%.
- Within the U.S. market, larger-cap growth stocks—technology stocks in particular—continued their year-to-date dominance over smaller-cap and value stocks, a sharp reversal from what we saw last year. Looking at industry sectors, energy stocks had a big rebound as oil prices rose above $50. But for the year, the sector is still down 6.6%, while technology and health care have soared 27% and 20%, respectively.
- One indicator of how calm the stock market has been this year is that its largest decline (drawdown) has been a loss of 2.8% (from March 1 to April 13). Going back to 1929, there has been only one calendar year when the largest drawdown was smaller than that, according to Ned Davis Research.
- Moving to the fixed-income markets, core investment-grade bonds inched up 0.7% for the quarter. The 10-year Treasury yield (which moves inversely to bond prices) ended the quarter flat, but this masked intra-quarter shifts. It bottomed in early September as fears over North Korea, hurricanes, and political events peaked. But the yield shot up into month-end, closing the quarter right about where it stood three months earlier.

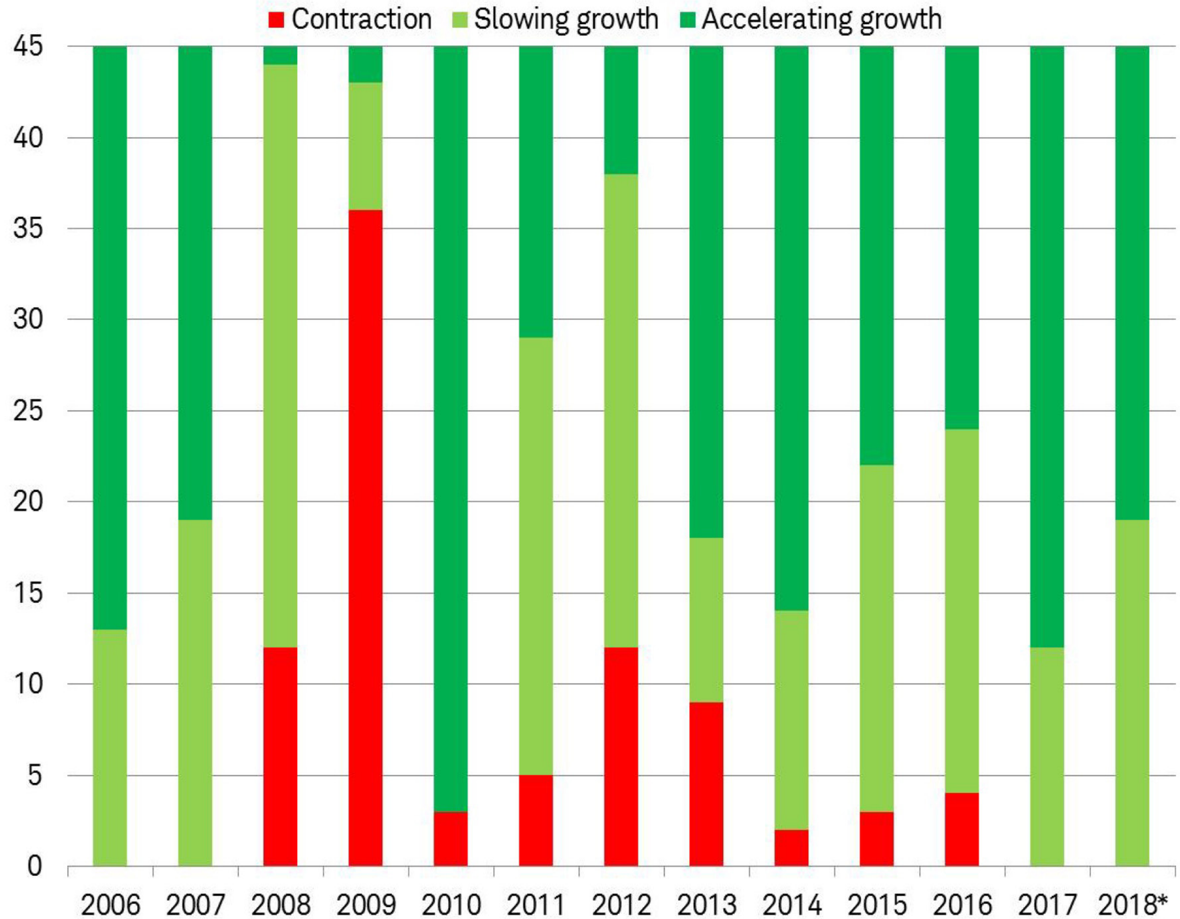
Returns for 3rd Quarter 2017 were strongly positive across all asset classes.

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q3 2017	**STOCKS**				**BONDS**	
	4.57%	**5.62%**	**7.89%**	**1.13%**	**0.85%**	**0.70%**
Since Jan. 2001						
Avg. Quarterly Return	1.9%	1.6%	3.1%	2.7%	1.2%	1.1%
Best Quarter	16.8% **Q2 2009**	25.9% **Q2 2009**	34.7% **Q2 2009**	32.3% **Q3 2009**	4.6% **Q3 2001**	5.5% **Q4 2008**
Worst Quarter	-22.8% **Q4 2008**	-21.2% **Q4 2008**	-27.6% **Q4 2008**	-36.1% **Q4 2008**	-3.0% **Q4 2016**	-3.2% **Q2 2015**

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.
Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citi WGBI ex USA 1−30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. Bloomberg Barclays data provided by Bloomberg.

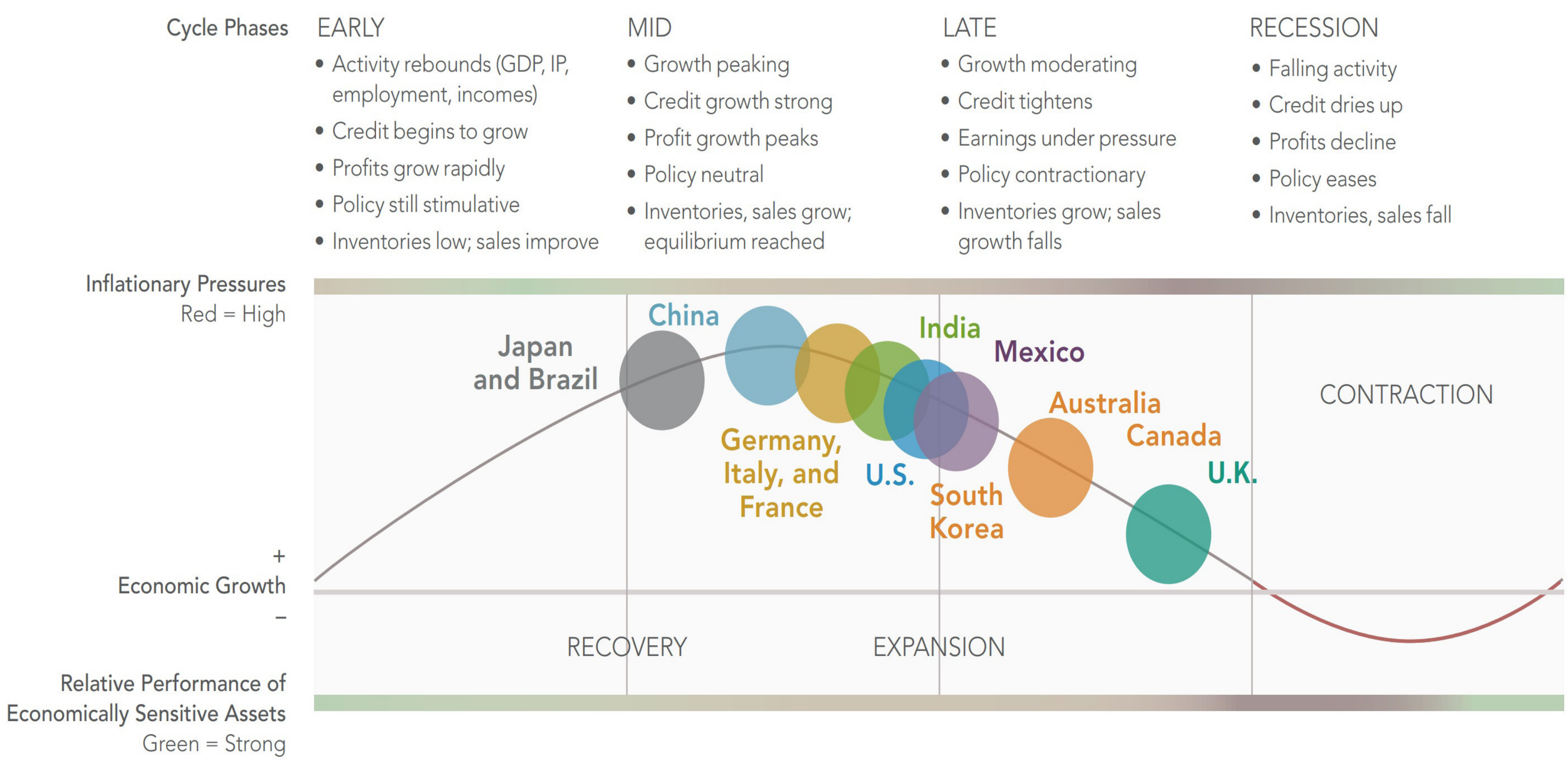
For the first time since 2007, all 45 of the world's largest economies are seeing growth.

Widespread growth among the world's largest 45 economies contrasts with the recessions of 2008-2016



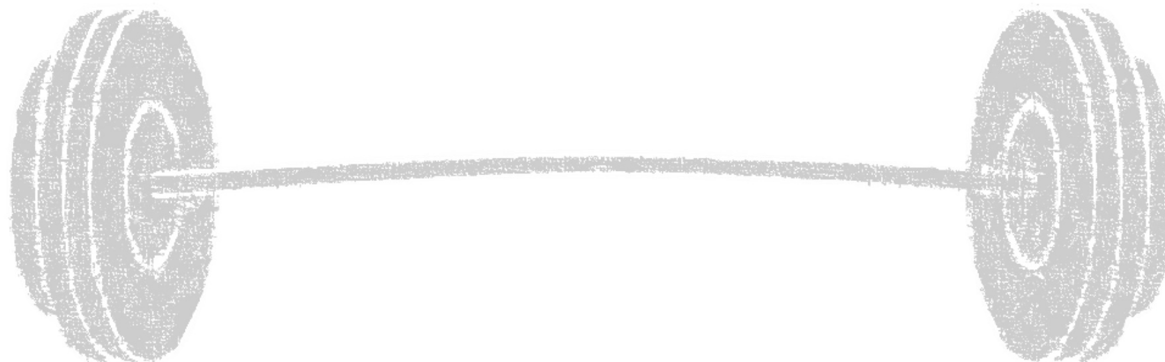
Source: Charles Schwab & Co, OECD. *OECD forecasts for 2018, except 10 major non-OECD countries use Bloomberg consensus. As of 9/5/2017.

This globally synchronized recovery is slowing, but still shows positive growth.



Note: The diagram above is a hypothetical illustration of the business cycle. There is not always a chronological, linear progression among the phases of the business cycle, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Source: Fidelity Investments (AART), as of Sep. 15, 2017.

However, global growth is counterbalanced by a long list of worries.



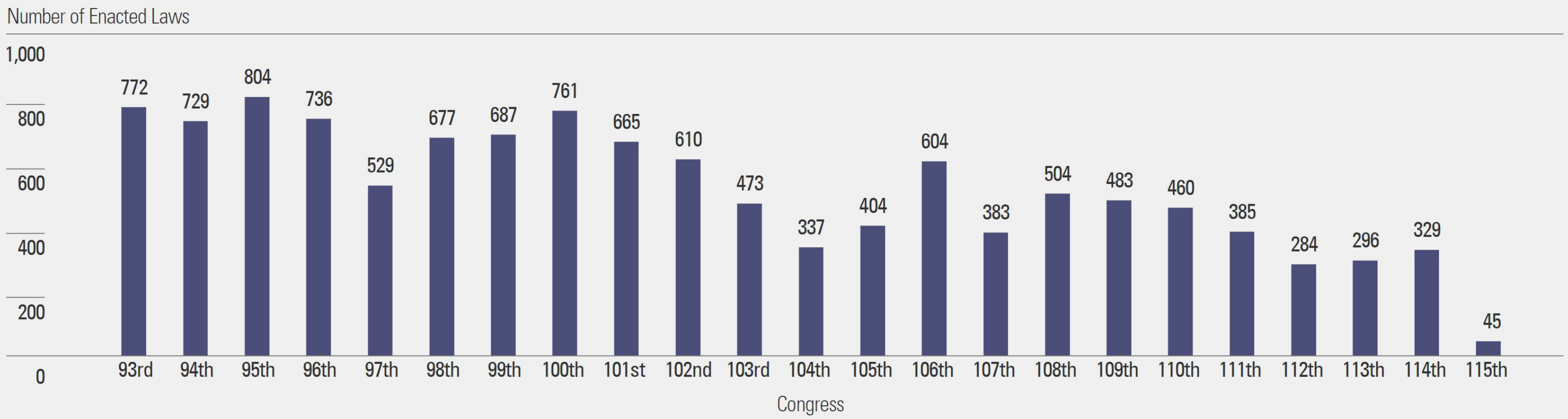
Finally, synchronized global expansion after a prolonged ‘hang-over” period post the financial crisis

But also, a long list of worries:

- Geopolitical (North Korea, Iran, Syria, terrorism, …)
- US Political risks
  - Execution (what can actually get done?)
  - Policy (trade war?)

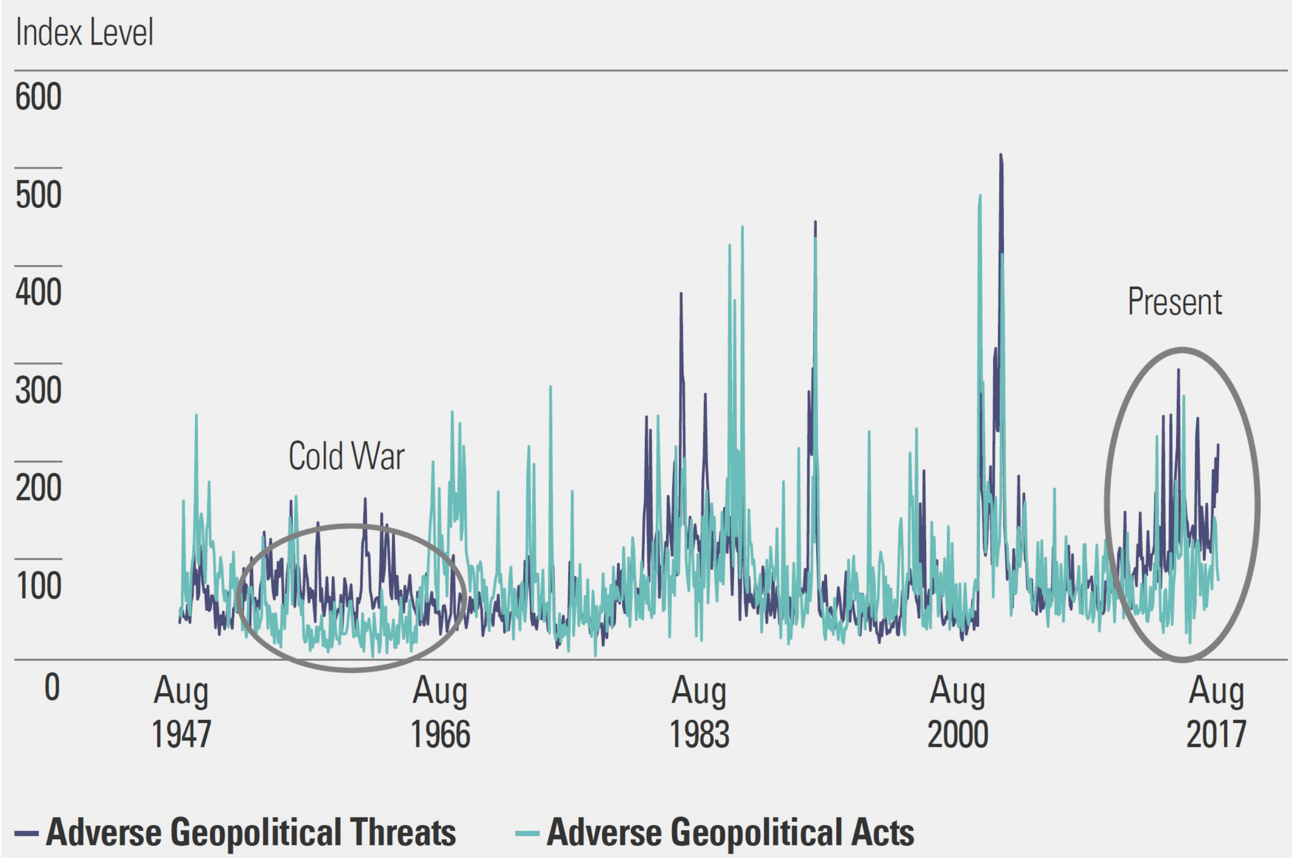
In the US, political execution and policy changes are stalling...

Figure 2: Though Still Early Days, the 115th Congress is On Track to Be Far Less Productive than Predecessors



Source: Govtrack.us, as of 8/11/2017.

Around the globe, geopolitical threats now outpace acts in a manner reminiscent of the Cold War.

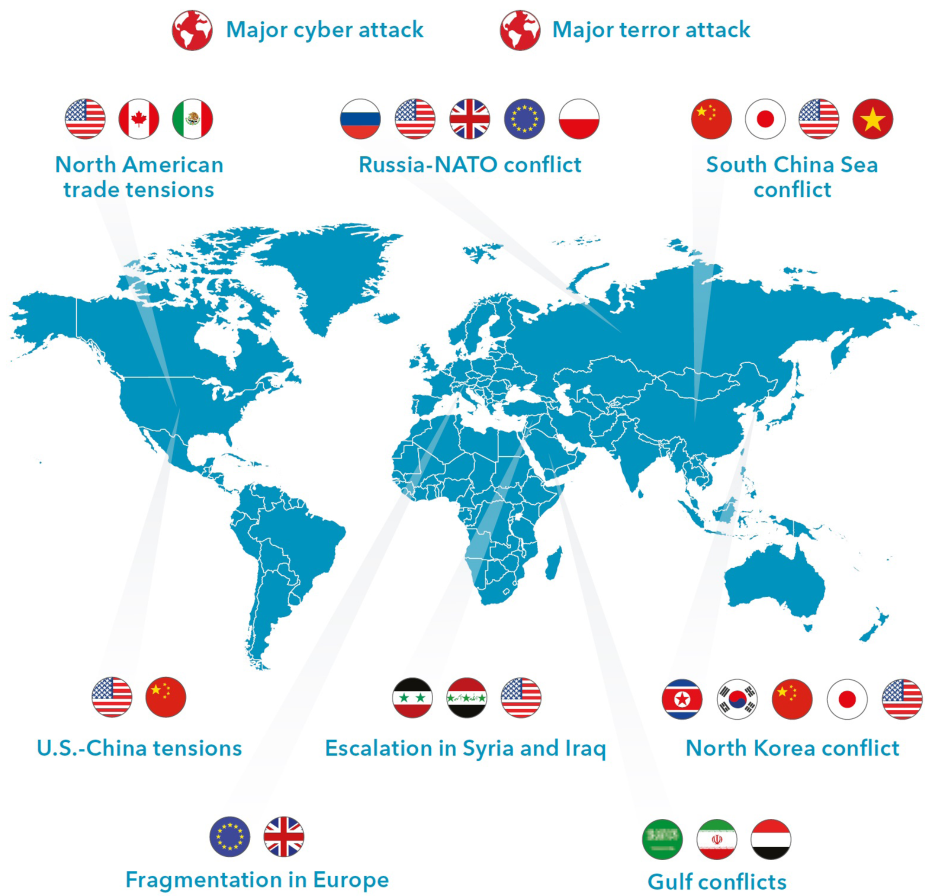


Source: Geopolitical Risk Index, Dario Caldara and Matteo Iacoviello, as of 8/11/2017.

And there are plenty of threats to be worried about…

A world of risk

BlackRock's top-10 geopolitical risks, September 2017

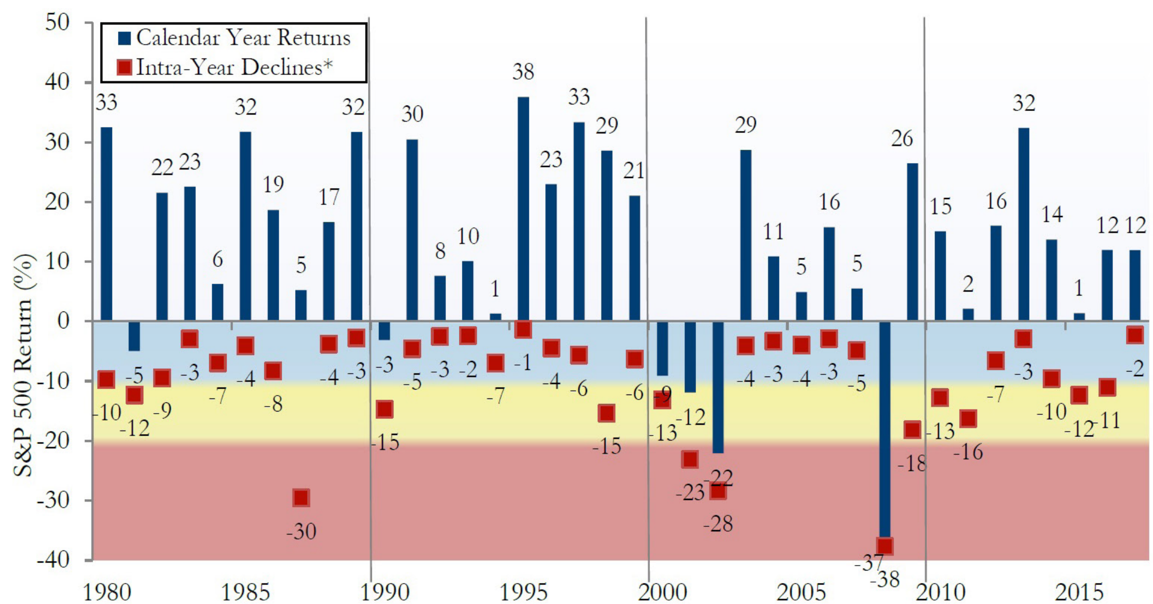


Source: BlackRock Investment Institute, September 2017. Notes: The graphic shows the top 10 geopolitical risks BlackRock tracks. Flags denote key nations exposed to these risks; major cyber attack and major terror attack are global in nature. This is for illustrative purposes only.

…Which may lead to bouts of short term volatility.

Corrections are a normal part of market movements, which should encourage clients to stay the course when markets get choppy.

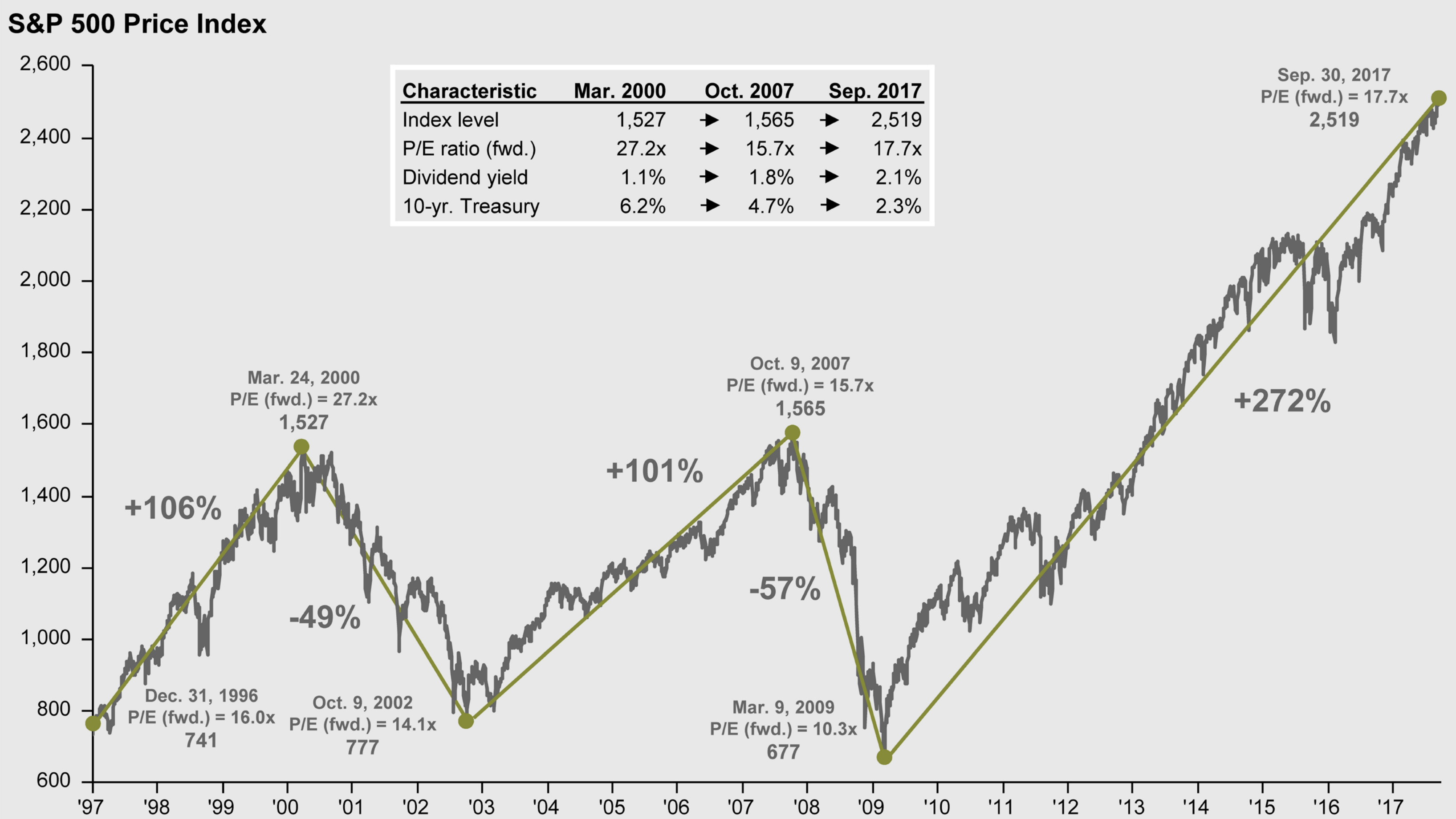
S&P 500 Return (%)



Downside Intra-Year Declines	% Occurrence (37 Years)	Average Downside	Average Calendar Year Return
0 to -10	64.9%	-4.9%	19.3%
-11 to -19	24.3%	-14.0%	7.6%
-20 to -40	10.8%	-29.7%	-16.4%

Source: FactSet. As of September 2017.
*Intra-Year declines are the largest declines within the calendar year.

In the US, the S&P continues to hit historic high marks…



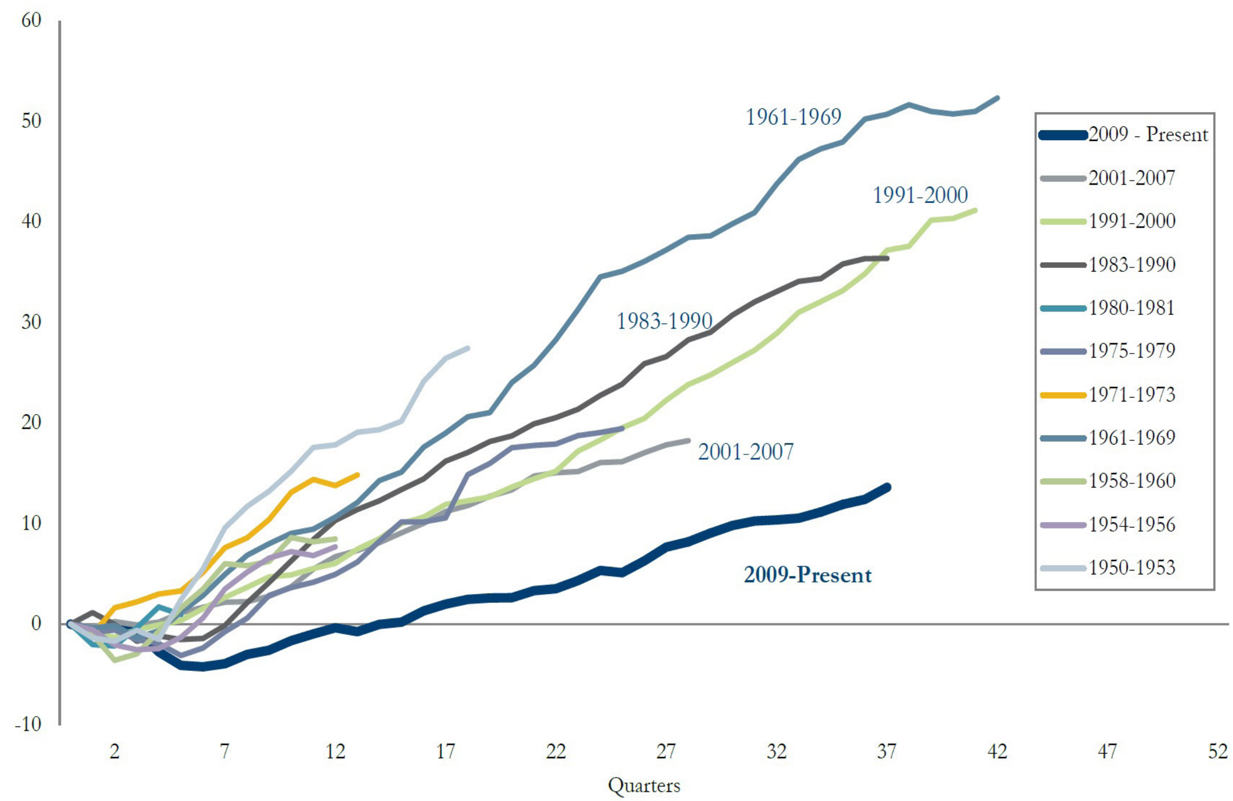
Characteristic	Mar. 2000		Oct. 2007		Sep. 2017
Index level	1,527	➔	1,565	➔	2,519
P/E ratio (fwd.)	27.2x	➔	15.7x	➔	17.7x
Dividend yield	1.1%	➔	1.8%	➔	2.1%
10-yr. Treasury	6.2%	➔	4.7%	➔	2.3%

Source: Compustat, FactSet, Thomson Reuters, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of September 30, 2017.

...And the long recovery continues.

The current expansion is now the third longest in post-WWII history and, despite its advanced age, still appears to have room to run.

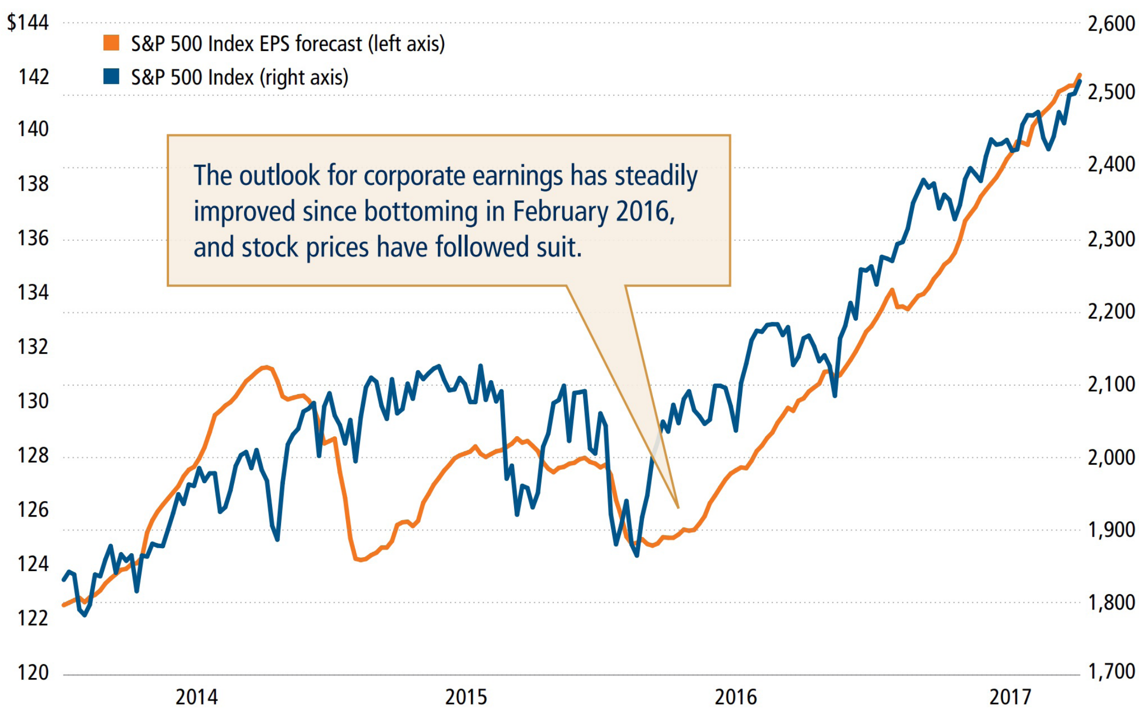
U.S. Postwar Expansions
(Cumulative Real GDP Growth from Prior Peak, %)



Source: Bureau of Economic Analysis. As of June 30, 2017.

Corporate earnings are growing, and support upward market movement.

Earnings forecasts for S&P 500 Index companies have continued their upward trend



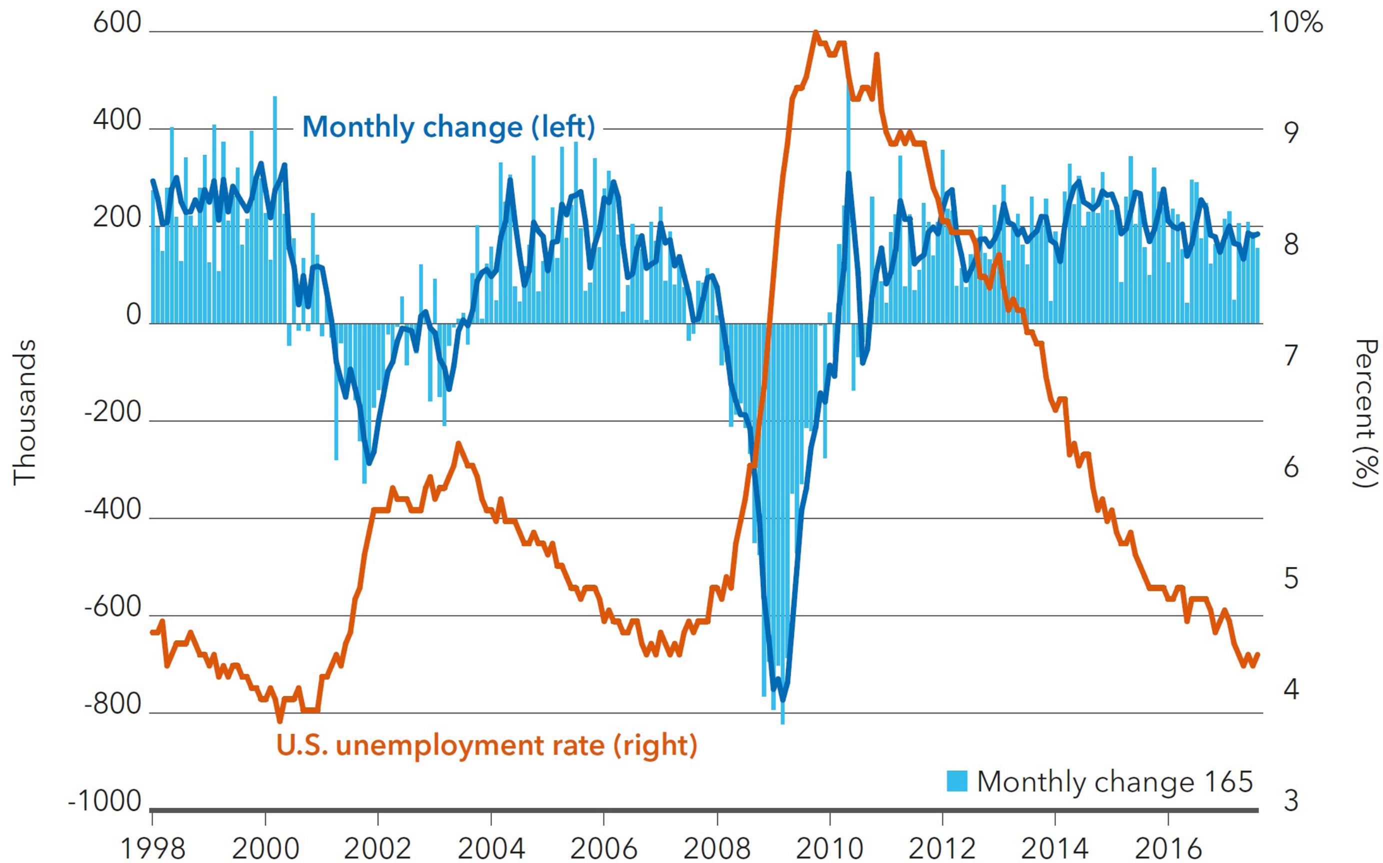
Energy sector estimates may be overly optimistic but other sectors should lift growth

2017 EPS growth estimates year over year (%)	
Energy	225.99
Materials	22.92
Information technology	10.75
Financials	10.62
S&P 500 Index	**9.22**
Healthcare	5.64
Industrials	5.45
Consumer discretionary	4.53
Real estate	3.68
Consumer staples	3.45
Utilities	1.43
Telecommunication services	–0.52

Source: FactSet, as of 9/30/17. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Earnings per share (EPS) is a measure of how much profit a company has generated calculated by dividing the company's net income by its total number of outstanding shares. Past performance does not guarantee future results.

Also, jobs continue to be added, and unemployment is at historic lows.

U.S. private payrolls and unemployment

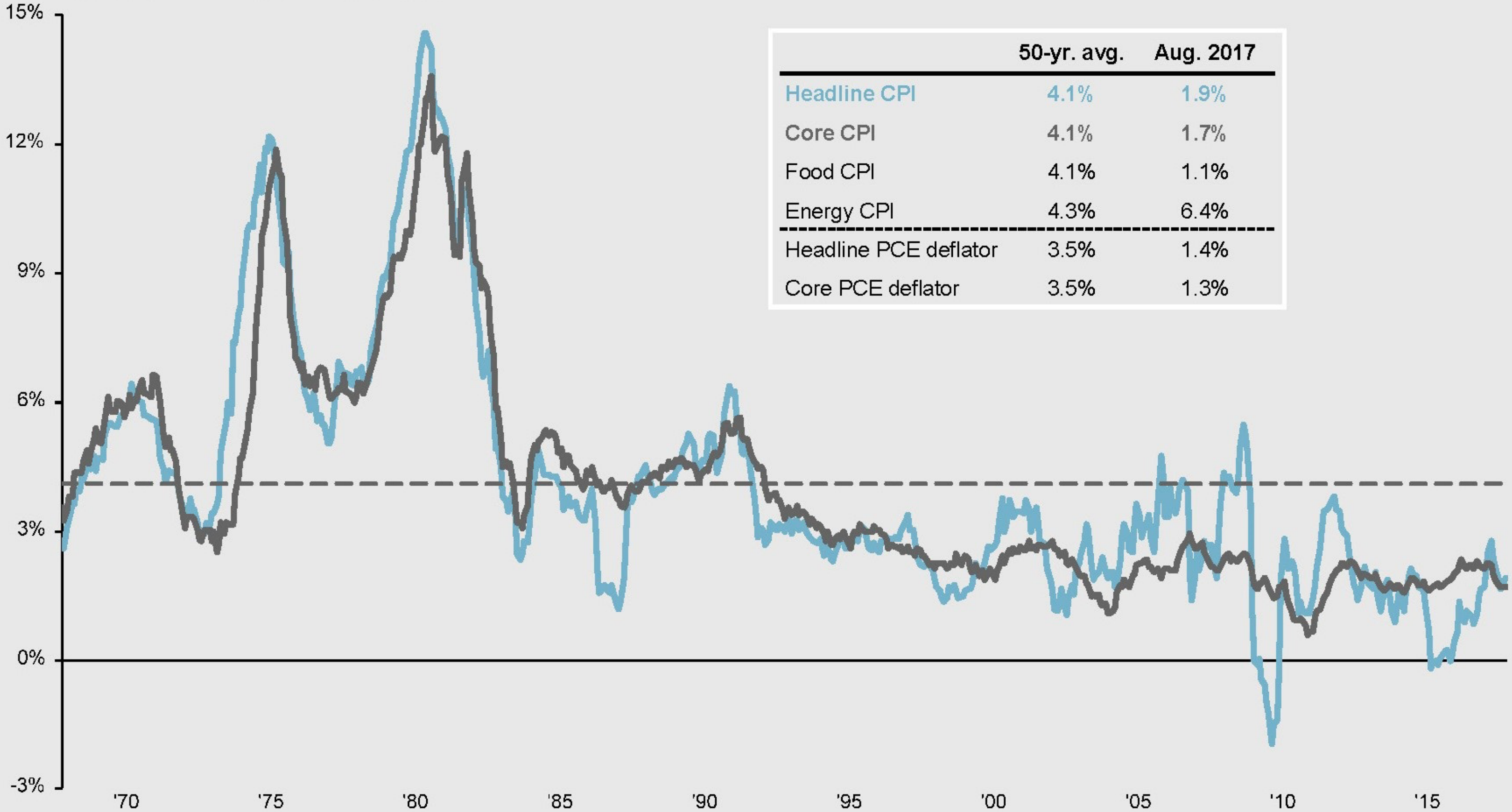


Sources: Thomson Reuters Datastream, BLS, BlackRock Investment Institute, September 5, 2017.

Inflation is contained and far under the long-term average.

CPI and core CPI

% change vs. prior year, seasonally adjusted



	50-yr. avg.	Aug. 2017
Headline CPI	4.1%	1.9%
Core CPI	4.1%	1.7%
Food CPI	4.1%	1.1%
Energy CPI	4.3%	6.4%
Headline PCE deflator	3.5%	1.4%
Core PCE deflator	3.5%	1.3%

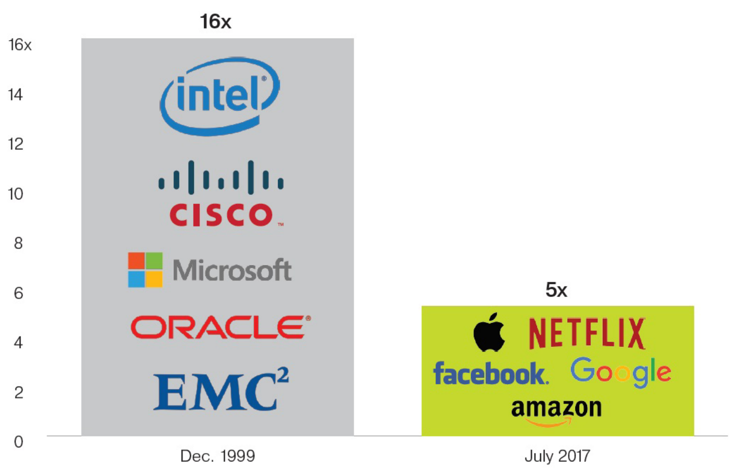
Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
Guide to the Markets – U.S. Data are as of September 30, 2017.

Even all of the excitement over the “FAANG” Stocks is not unreasonable.

Equity Valuations

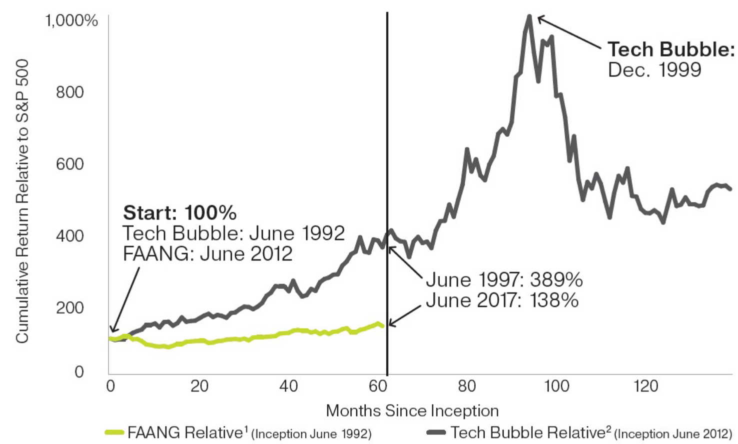
FAANG Stocks Would Have Had to Be at Extreme Valuations. They Are Not.

Price-to-Sales



FAANG and Tech Bubble Portfolios

Returns Relative to S&P 500



Investors have a tendency to overestimate the likelihood of events that seem to echo those in recent memory. Lately, they have been comparing the robust returns of a handful of U.S. growth stocks—primarily in the Internet retail, Internet software, and services industries—with the high-flying, overvalued technology stocks of the 1990s' technology bubble. That comparison borders on hyperbole. In our view, for one, the failing companies of the early 2000s—such as Pets.com, Webvan.com, eToys.com, GeoCities.com, and Kozmo.com—do not bear any resemblance to companies such as Facebook, Apple, Amazon, Netflix and Google (collectively known as FAANG), which, in our opinion, have strong fundamentals and are disrupting multiple industries.

Even when compared to companies with sustainable business models such as Intel, Cisco, Microsoft and Oracle, the so-called FAANG stocks are currently trading at significantly lower valuations on a price-to-sales basis than did those technology and telecom companies in 1999. Further, their relative performance isn't even in the same ballpark. Starting with the inception of the FAANG group of stocks in June of 2012 (Facebook was the last to go public in May of 2012), and comparing them to the start of the cycle for their tech bubble counter-parts (June 1992), the FAANG's have underperformed by about 250% relative to the S&P 500 over the first five years (6/92–7/97 compared to 6/12–7/17).

Source: FactSet, 7/31/17. Company logos are for illustrative purposes only and are not intended as investment advice. The mention of specific companies does not constitute a recommendation on behalf of any fund or OppenheimerFunds, Inc. (1) FAANG Relative is a hypothetical portfolio including Facebook, Amazon, Apple, Netflix and Google. (2) Tech Bubble Relative is a hypothetical portfolio including Intel, Cisco, Microsoft, Oracle and EMC. Returns are total returns relative to the S&P 500 Index total returns. See index definitions on page 22. **Past performance does not guarantee future results.**

The classic signs of excess that indicate a bubble are absent.

Business Cycles

The Classic Signs of Excess Would Have Had to Be Evident. They Are Not.



	The Great Depression	Deep Early 80's Recession	Tech Bubble	Housing Bubble	Today
	1929	1980	2000	2008	June 2017
Bank Credit Growth	**20.9%**	11.03%	10.97%	10.05%	3.94%
Inflation	1.2%	**14.8%**	3.7%	5.6%	1.6%
Equity Valuation	20.2x	9.9x	**33.8x**	17.7x	20.6x
Household Debt-to-Income Ratio	51.0%	68.7%	97.8%	**132.3%**	103.8%

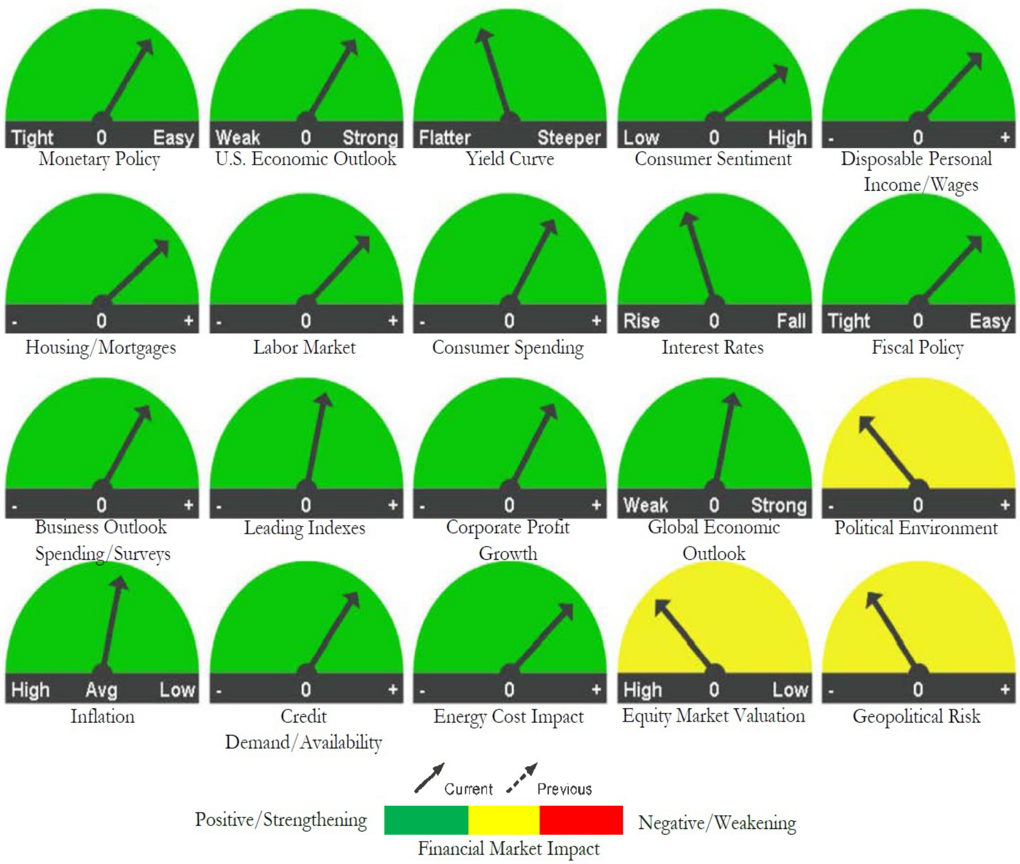
When comparing the current economic environment with notable past recessions, we find that the classic telltale signs of excess are not evident.

- The Great Depression cannot be adequately accounted for by any single explanation, but in many ways it was a bank credit boom gone bust. Today, credit growth remains generally modest and the U.S. banking system is better capitalized now than it has been in a very long time.
- The late 1970s and early 1980s were characterized by a prolonged period of weak growth and high inflation. Today, inflationary pressures remain muted.
- The technology-driven bull market of the late 1990s resulted in excessive and unwarranted equity valuations. Today, valuations are modestly stretched but not to the extent they were in 1999. Equities are still cheap relative to bonds.
- The 2008 financial crisis was highlighted by a sharp rise in household debt as a percentage of personal income. Today, household balance sheets appear much more robust and less leveraged.

Sources: Robert Shiller, the Federal Reserve and Haver Analytics, 6/30/17. **Past performance does not guarantee future results.**

And, leading economic and financial indicators are still mostly positive, although the three yellow indicators are large in scope!

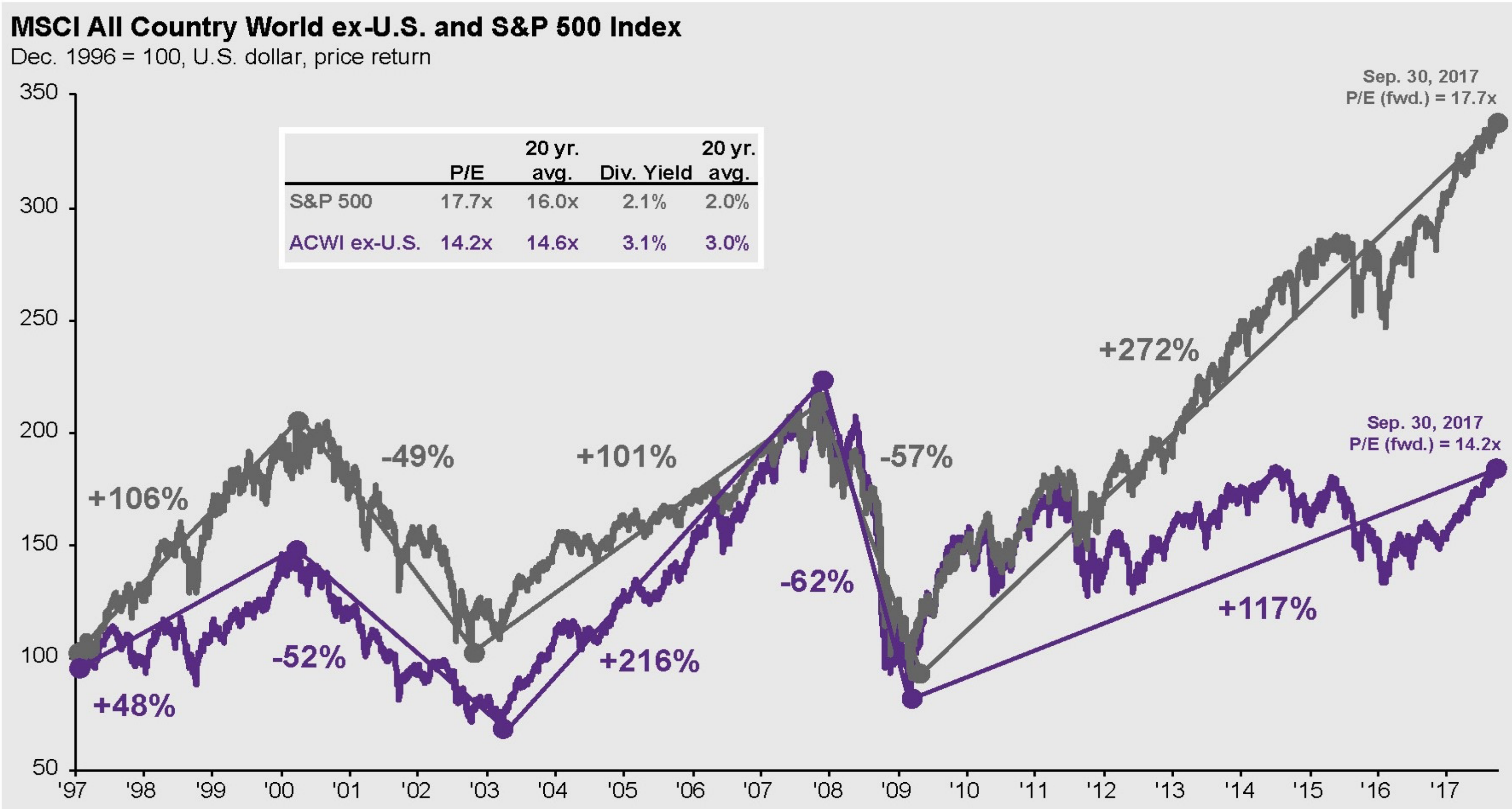
Indicators show widespread strength and continue to signal modest U.S. economic growth ahead.



Speedometer color indicates the magnitude of the impact on economic financial markets. The arrow signifies the directional change in the indicator. Two arrows indicate a change from the previous month. One arrow indicates that no change occurred.

Source: City National Rochdale. As of September 2017.

Global equities have started significant recovery since the start of 2017, yet still lag behind US market recovery.



Source: MSCI, Standard & Poor's, FactSet, J.P. Morgan Asset Management.
Forward price to earnings ratio is a bottom-up calculation based on the most recent index price, divided by consensus estimates for earnings in the next twelve months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns. Dividend yield is calculated as consensus estimates of dividends for the next twelve months, divided by most recent price, as provided by FactSet Market Aggregates.
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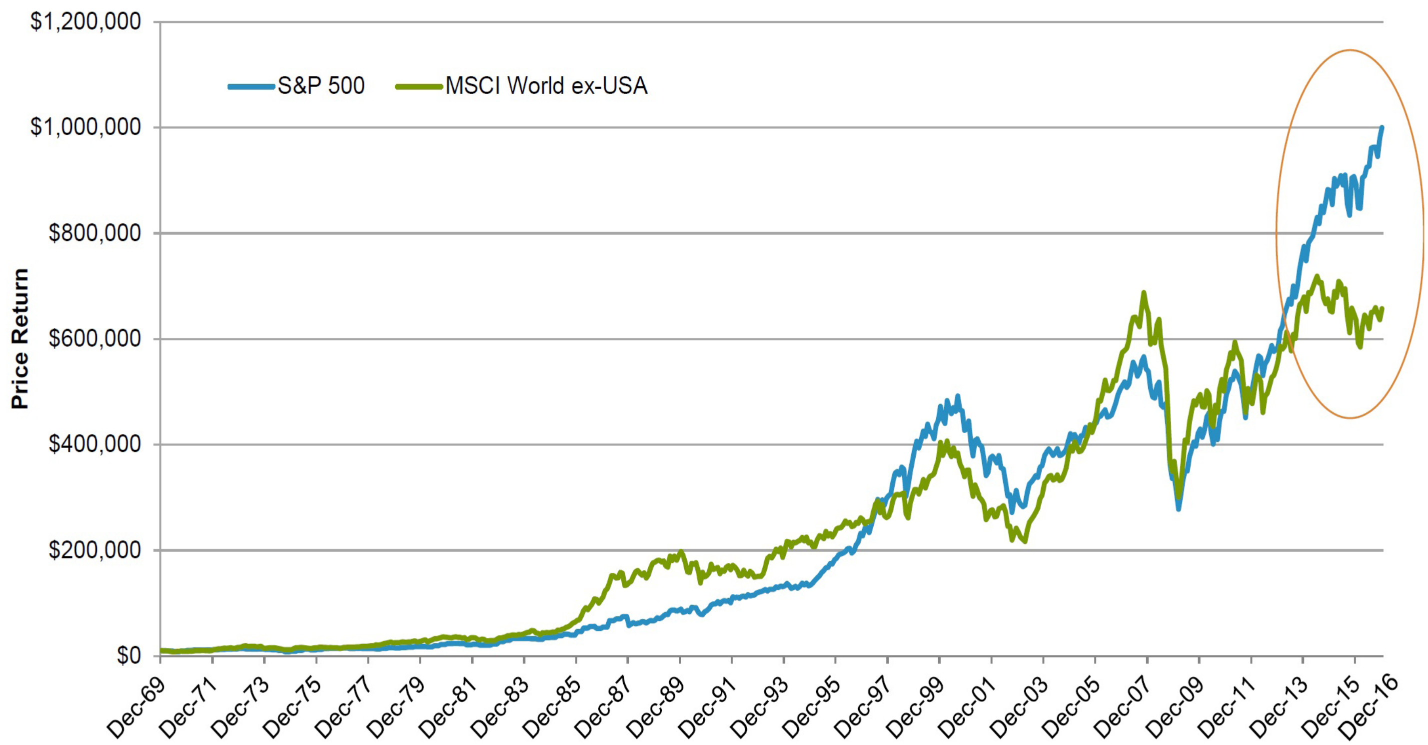
US and global markets have traditionally paced each other–global markets still have significant room to grow to revert to the long-term trend.

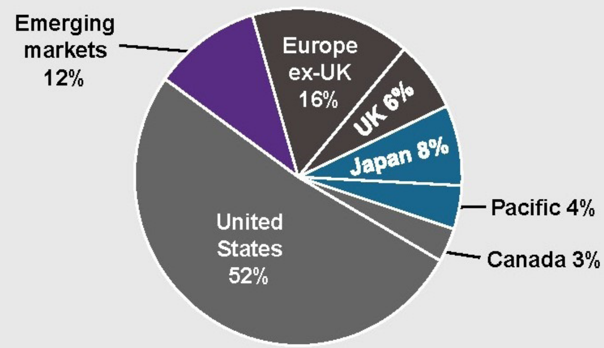


Source: Morningstar as of 12/31/16. US equities are represented by the S&P500. Global equities ex-US is a custom Global Financial Data World Index. See page 24 for methodology

Year to date, global market returns have been boosted by the weakening US dollar...

	2017 YTD		2016	
Country / Region	**Local**	**USD**	**Local**	**USD**
Regions / Broad Indexes				
All Country World	14.2	17.8	9.7	8.5
U.S. (S&P 500)	-	14.2	-	12.0
EAFE	11.6	20.5	5.9	1.5
Europe ex-UK	14.5	26.6	3.2	0.3
Pacific ex-Japan	11.6	17.7	8.5	8.0
Emerging markets	23.9	28.1	10.1	11.6
MSCI: Selected Countries				
United Kingdom	6.6	15.7	19.2	0.0
France	14.1	27.9	9.2	6.0
Germany	11.5	25.0	6.6	3.5
Japan	10.6	14.6	-0.4	2.7
China	44.2	43.4	1.2	1.1
India	19.4	24.1	1.1	-1.4
Brazil	23.3	26.9	37.2	66.7
Russia	-3.2	1.6	35.1	55.9

Weights in MSCI All Country World Index
% global market capitalization, float adjusted



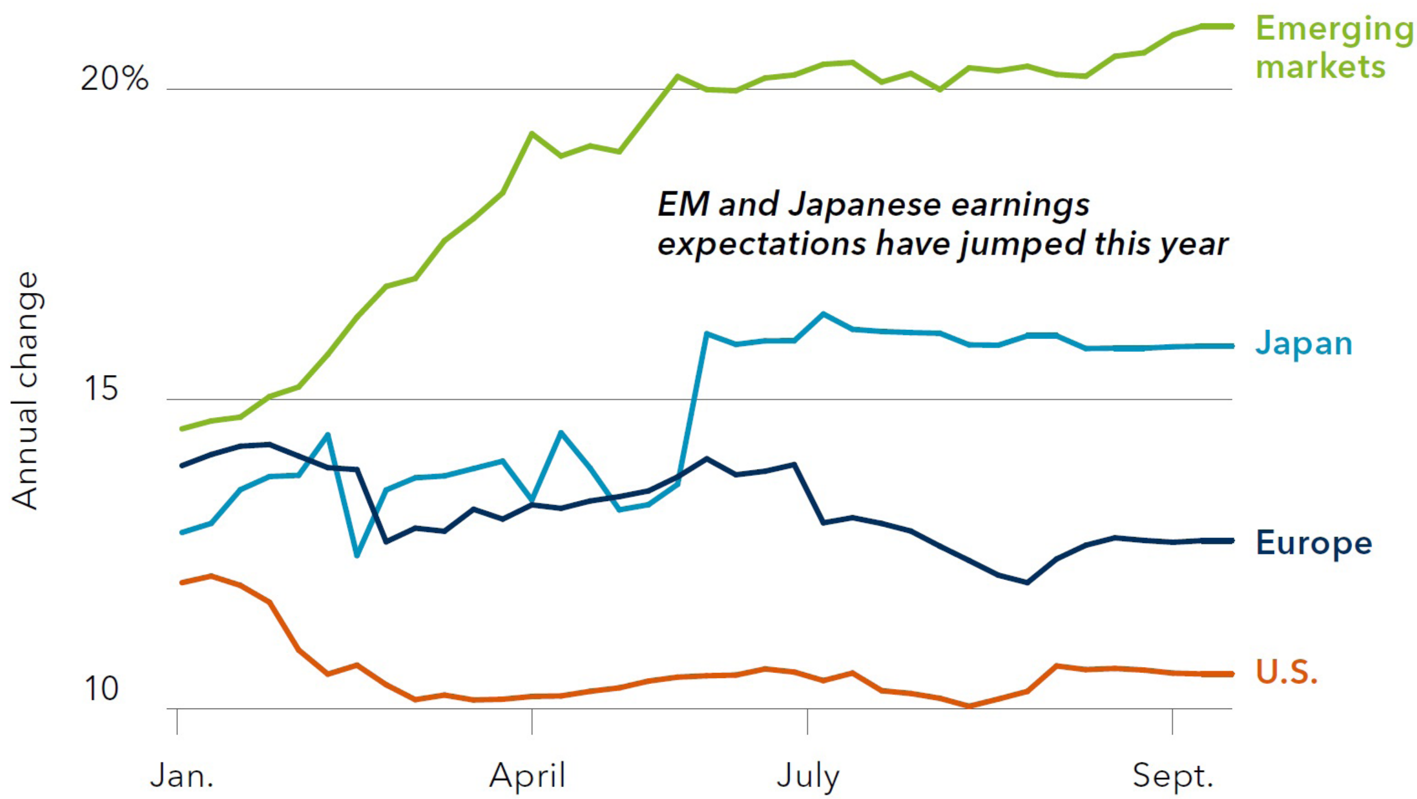
Global equity market correlations
Rolling 1-year correlations, 30 countries

Source: FactSet, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
All return values are MSCI Gross Index (official) data. Chart is for illustrative purposes only. Past performance is not indicative of future results. Please see disclosure page for index definitions. Countries included in global correlations include Argentina, South Africa, Japan, UK, Canada, France, Germany, Italy, Australia, Austria, Brazil, China, Colombia, Denmark, Finland, Hong Kong, India, Malaysia, Mexico, Netherlands, New Zealand, Peru, Philippines, Portugal, Korea, Spain, Taiwan, Thailand, Turkey, United States.
Guide to the Markets – U.S. Data are as of September 30, 2017.

...And international earnings are growing strongly as well.

Earning their keep

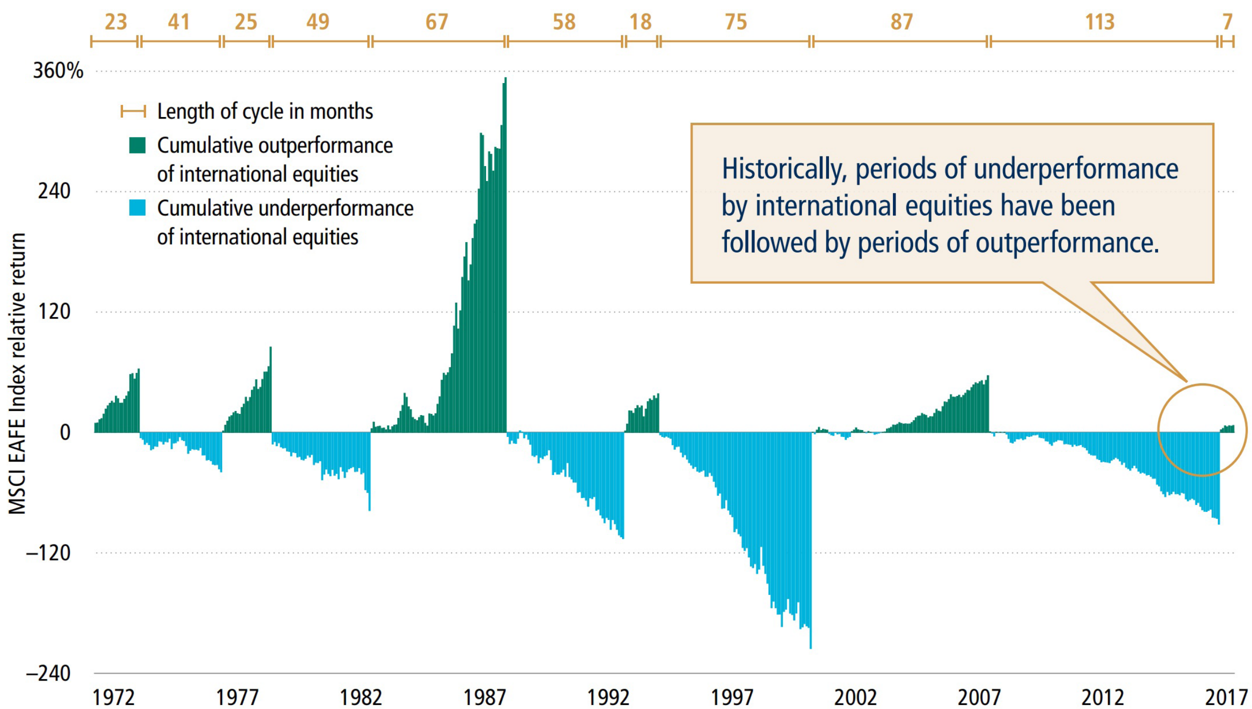
Analyst forecasts of 2017 corporate earnings growth



Sources: BlackRock Investment Institute, with data from Thomson Reuters, September 2017.
Note: The lines show the path of aggregate analyst expectations of 2017 earnings growth for companies in various regions.

International markets could lead global returns, with lower valuations and higher dividend yields.

Cumulative relative performance of the MSCI EAFE Index against the S&P 500 Index



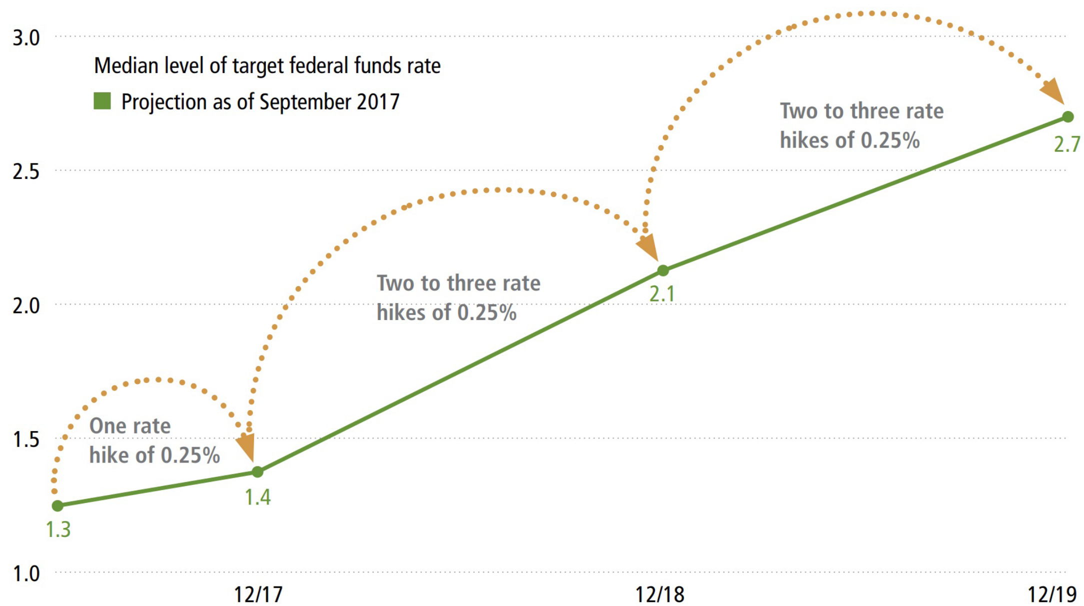
Valuations and dividend yields are more attractive overseas

Top 5 countries in the MSCI EAFE Index by market capitalization	Forward P/E (x)	Dividend yield (%)
Japan	14.36	2.02
United Kingdom	15.22	4.34
France	16.24	3.09
Switzerland	18.92	3.14
Germany	14.38	2.61
United States	19.28	1.98

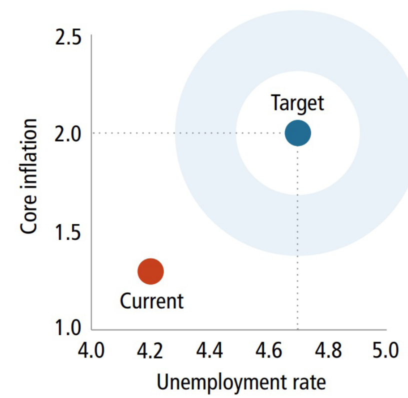
Source: Bloomberg, FactSet, as of 9/30/17. International equities are represented by the MSCI Europe, Australasia, and Far East (EAFE) Index, which tracks the performance of publicly traded large- and mid-cap stocks of companies in those regions. Total returns are calculated gross of foreign withholding tax on dividends. U.S. equities are represented by the S&P 500 Index, which tracks the performance of 500 of the largest publicly traded companies in the United States. Japan, the United Kingdom, France, Switzerland, and Germany are represented by the MSCI Japan Index, the MSCI United Kingdom Index, the MSCI France Index, the MSCI Switzerland Index, and the MSCI Germany Index, respectively, which track the performance of publicly traded large- and mid-cap stocks of companies in those countries. It is not possible to invest directly in an index. Forward price-to-earnings (P/E) ratio is a stock valuation measure comparing the current share price of a stock with the underlying company's estimated earnings per share over the next 12 months. Past performance does not guarantee future results.

In the US fixed income market, the Federal Reserve is set to raise rates once more in 2017, and three times in 2018.

FOMC forecasts imply steady rate hikes and a federal funds rate of nearly 3% by year-end 2019



While inflation remains below the Fed's target, job growth has been strong (%)



2017 FOMC meeting schedule			
Oct/Nov	31–1	Dec	12–13*
2018 FOMC meeting schedule			
January	30–31	March	20–21*
May	1–2	June	12–13*

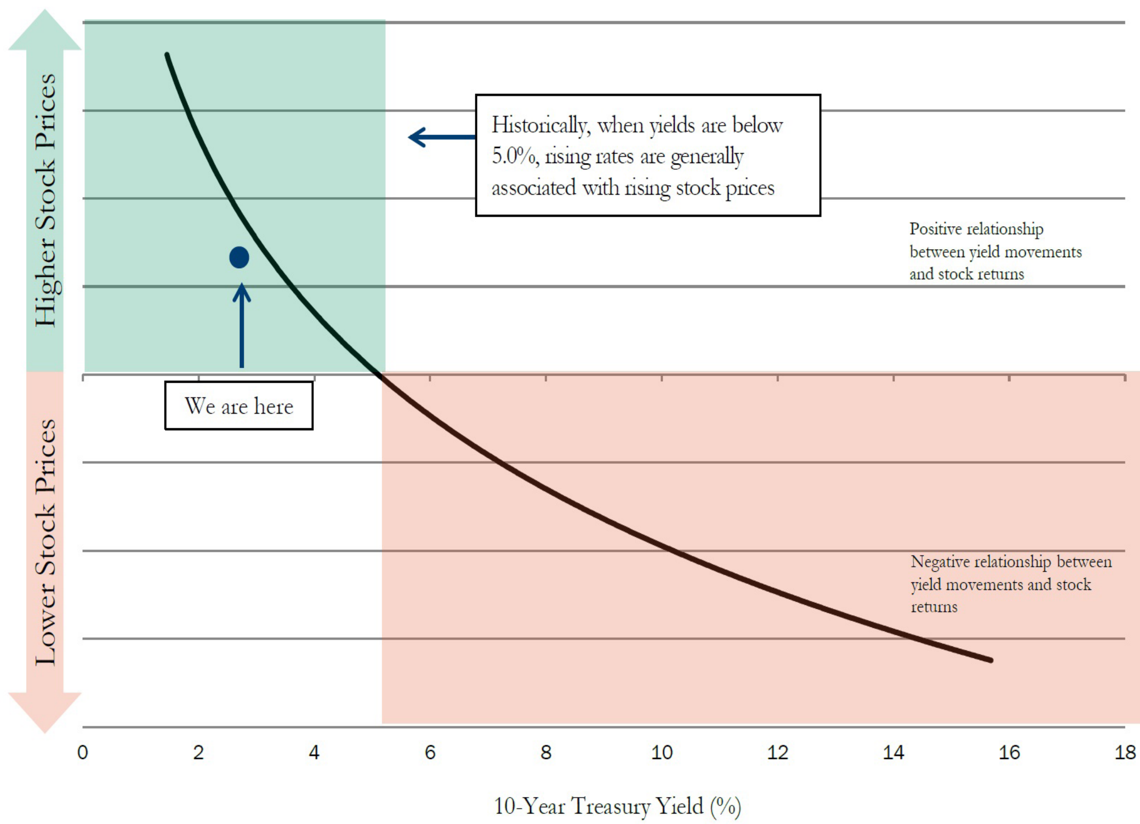
* Meeting concludes with a press conference.

Source: U.S. Federal Reserve (Fed), Chicago Fed, as of 9/30/17. Interest-rate projections are based on the median for the federal funds rate projections of the The Federal Open Market Committee (FOMC), the body responsible for setting the federal funds rate, which meets eight times a year. (One hundred basis points equals one percentage point.) FOMC members anonymously report interest-rate projections four times a year, in March, June, September, and December. Past performance does not guarantee future results.

Equity investors should not fear initial Fed rate hikes.

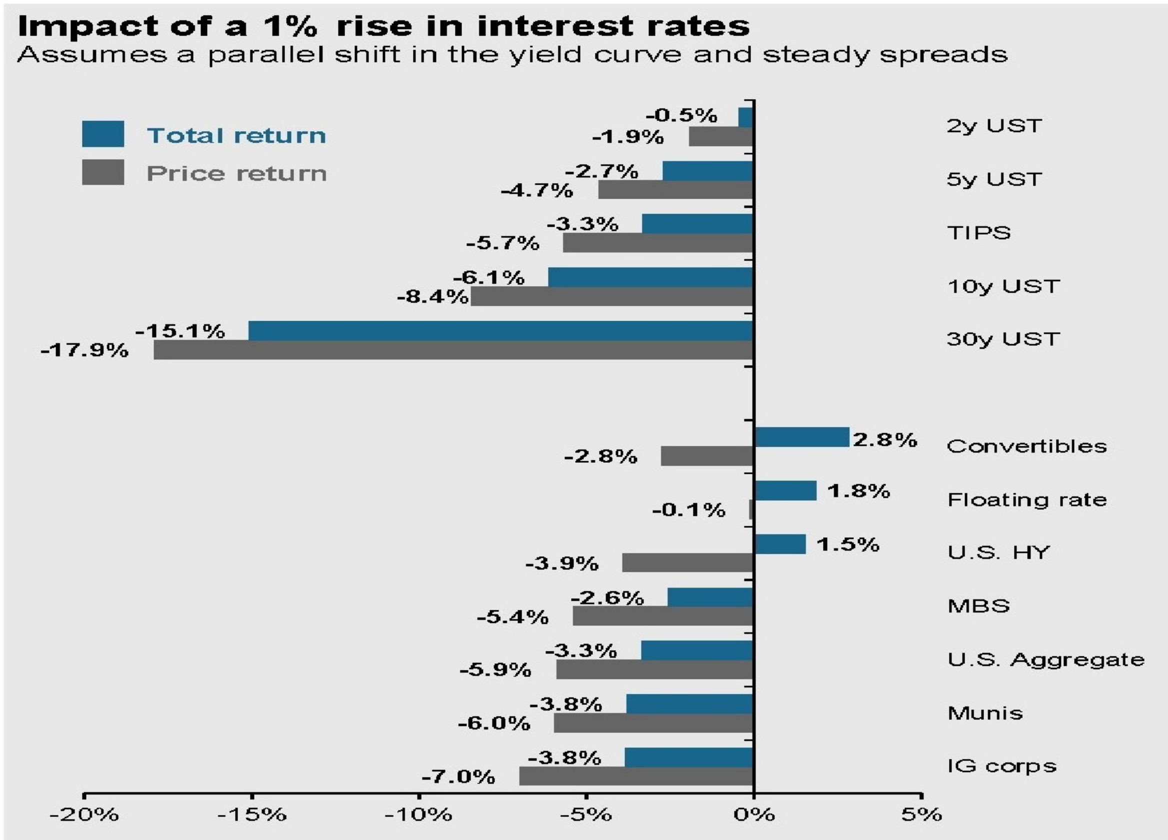
Interest rate increases have historically been positively correlated with stock prices when interest rates are starting at low levels.

Correlations between Weekly Stock Returns and Interest Rate Movements



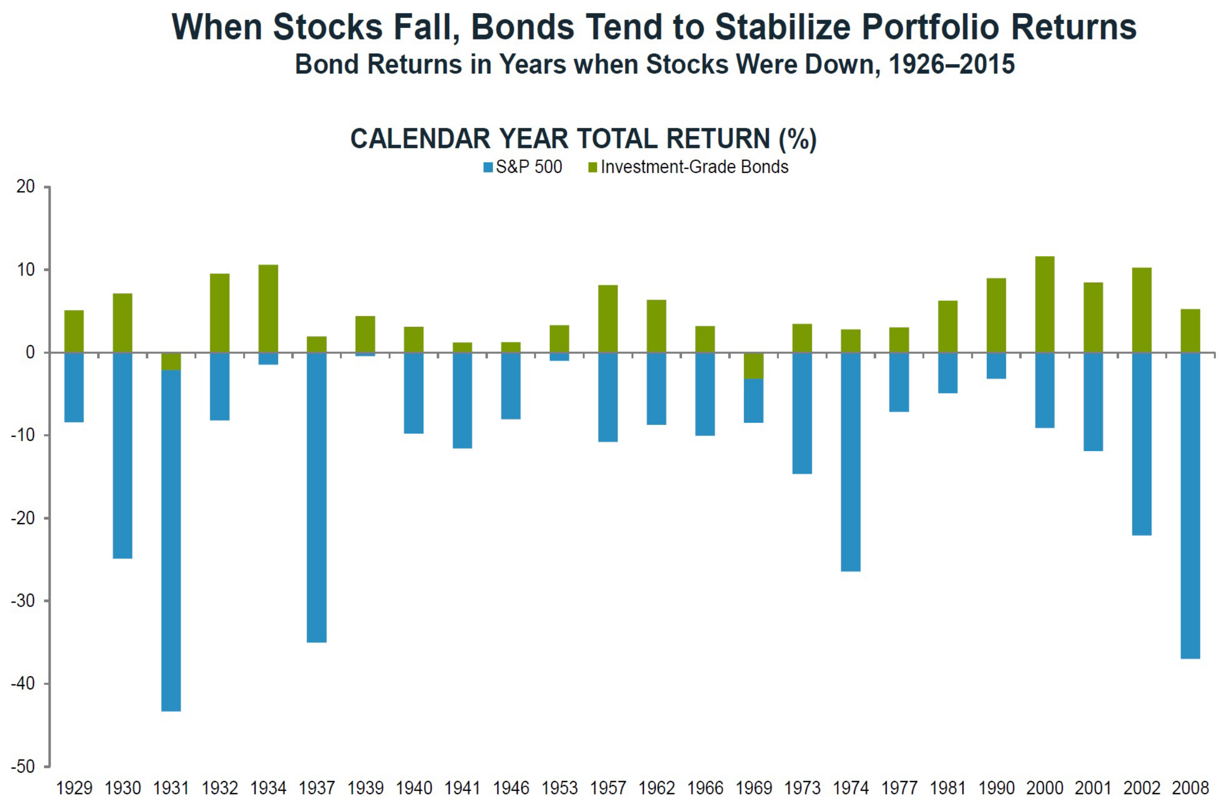
Sources: S&P, U.S. Treasury, FactSet, JP Morgan Asset Management. As of January 6, 2016. Returns based on price index only; do not include dividends.
Correlation coefficient: The correlation coefficient will vary from -1 to +1. A -1 indicates perfect negative correlation, and +1 indicates perfect positive correlation.

However, bond holders should be cautious.



Source: Barclays, Bloomberg, U.S. Treasury, Standard and Poor's, FactSet, J.P. Morgan Asset Management. Sectors shown above are provided by Barclays and are represented by – Broad Market: U.S. Aggregate; MBS: U.S. Aggregate Securitized - MBS; Corporate: U.S. Corporates; Municipals: Muni Bond 10-year; High Yield: Corporate High Yield; TIPS: Treasury Inflation Protection Securities (TIPS). Floating Rate: FRN (BBB); Convertibles: U.S. Convertibles Composite. Yield and return information based on bellwethers for Treasury securities. Sector yields reflect yield to worst. Correlations are based on 10-years of monthly returns for all sectors. Change in bond price is calculated using both duration and convexity according to the following formula: New Price = (Price + (Price * -Duration * Change in Interest Rates))+(0.5 * Price * Convexity * (Change in Interest Rates)^2). Chart is for illustrative purposes only. Past performance is not indicative of future results.
Guide to the Markets – U.S. Data are as of September 30, 2017.

Despite the impact of rising rates on bonds, historically bonds have provided insurance against a weak stock market.

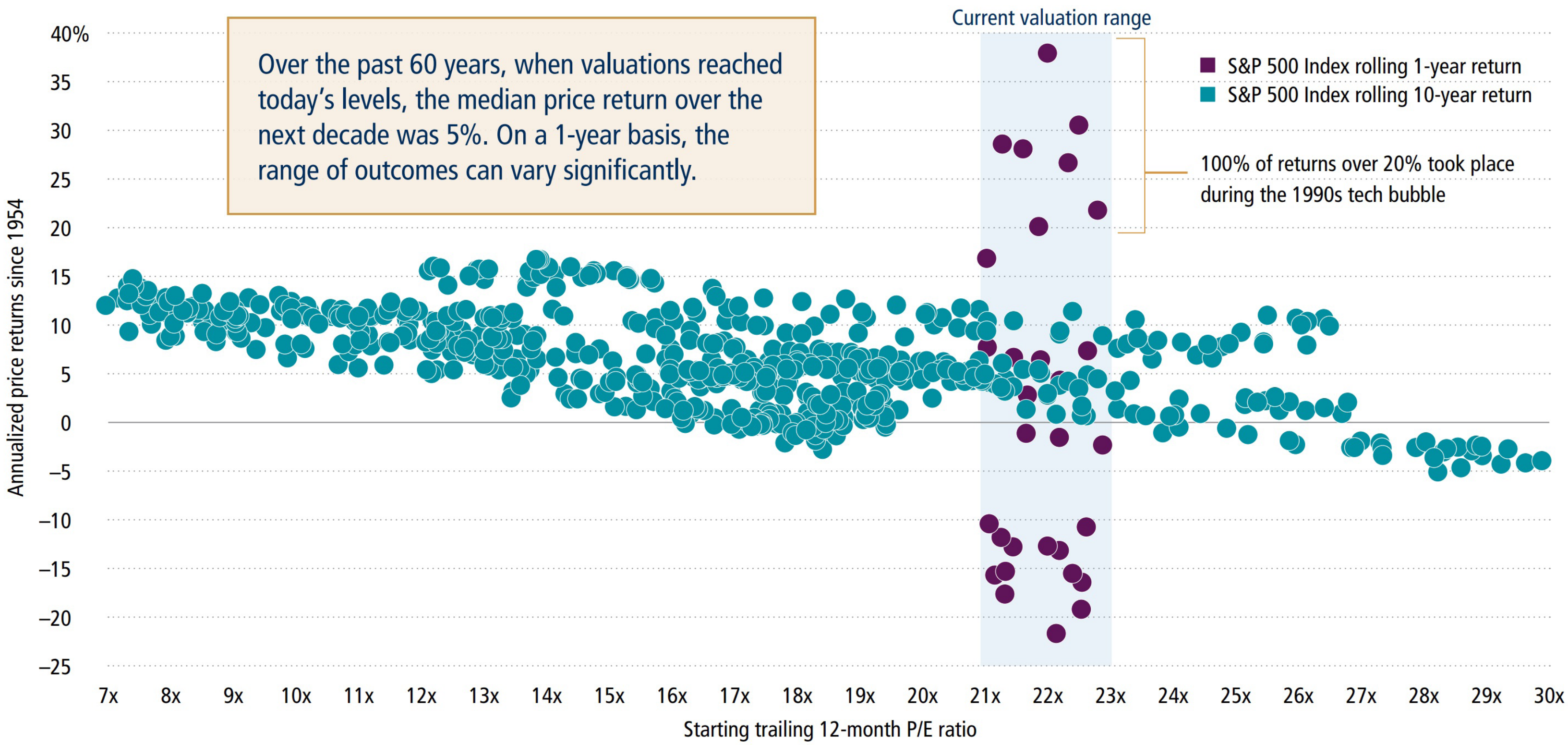


Source: Morningstar EnCorr, Fidelity Investments (AART).

Past performance is no guarantee of future results. Diversification does not ensure a profit or guarantee against loss. Bond returns represented by the performance of the Bloomberg Barclays Aggregate Bond Index from January 1976 and by a composite of the IA SBBI U.S. Intermediate-Term Government Bond Index (67%) and the IA SBBI U.S. Long-Term Corporate Bond Index (33%) from January 1926 through December 1975. Stock returns represented by the performance of the S&P 500 Index.

Going forward, current valuations in the stock market imply a 5-6% return on equities over the next decade.

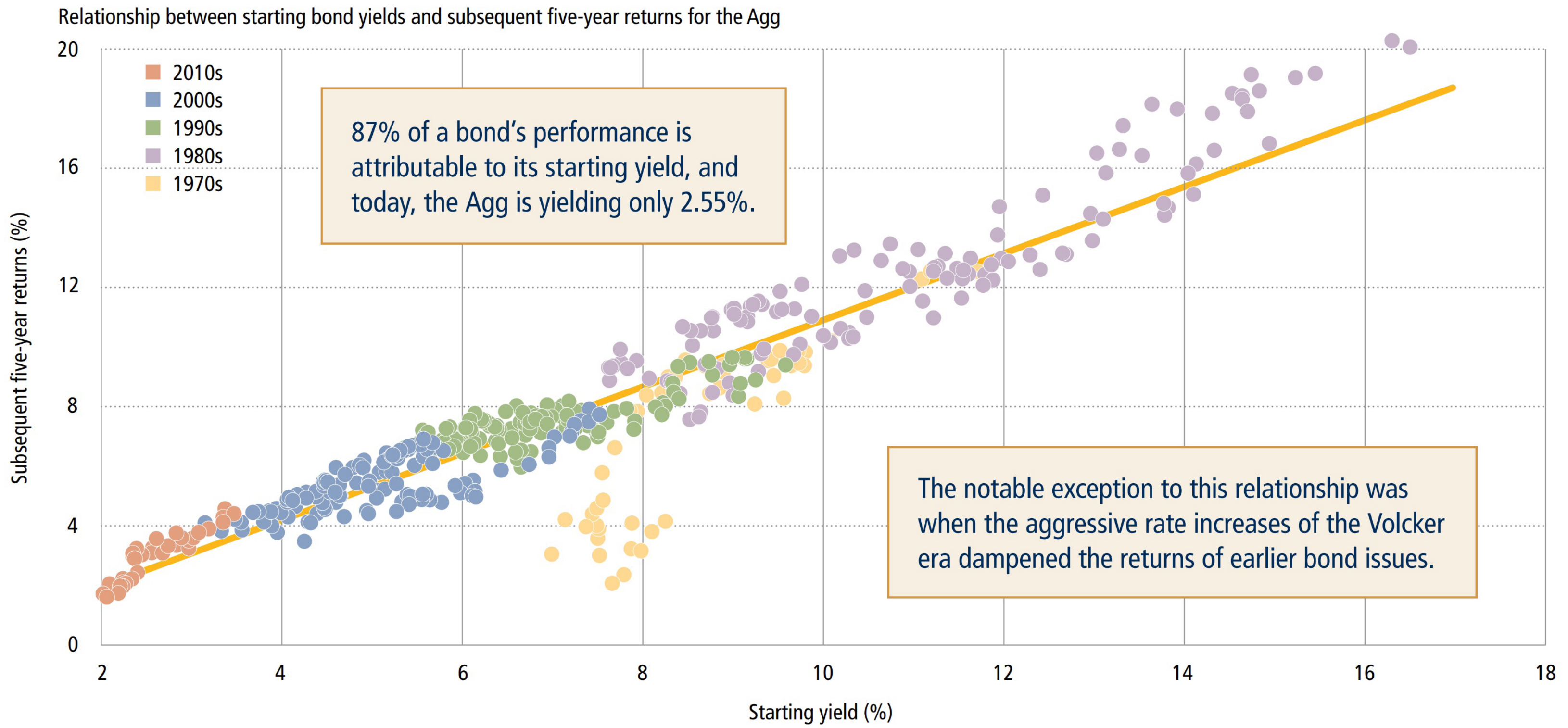
While short-term results are driven by a variety of factors, long-term returns have clearly declined as valuations rise



Source: Standard & Poor's, Bloomberg, as of 9/30/17. The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies in the United States. It is not possible to invest directly in an index. Trailing price-to-earnings (P/E) ratios measure a company's current stock price as a multiple of its trailing 12-month earnings. Past performance does not guarantee future results.

For bonds, current yields imply a return of 0-2% over the next decade.

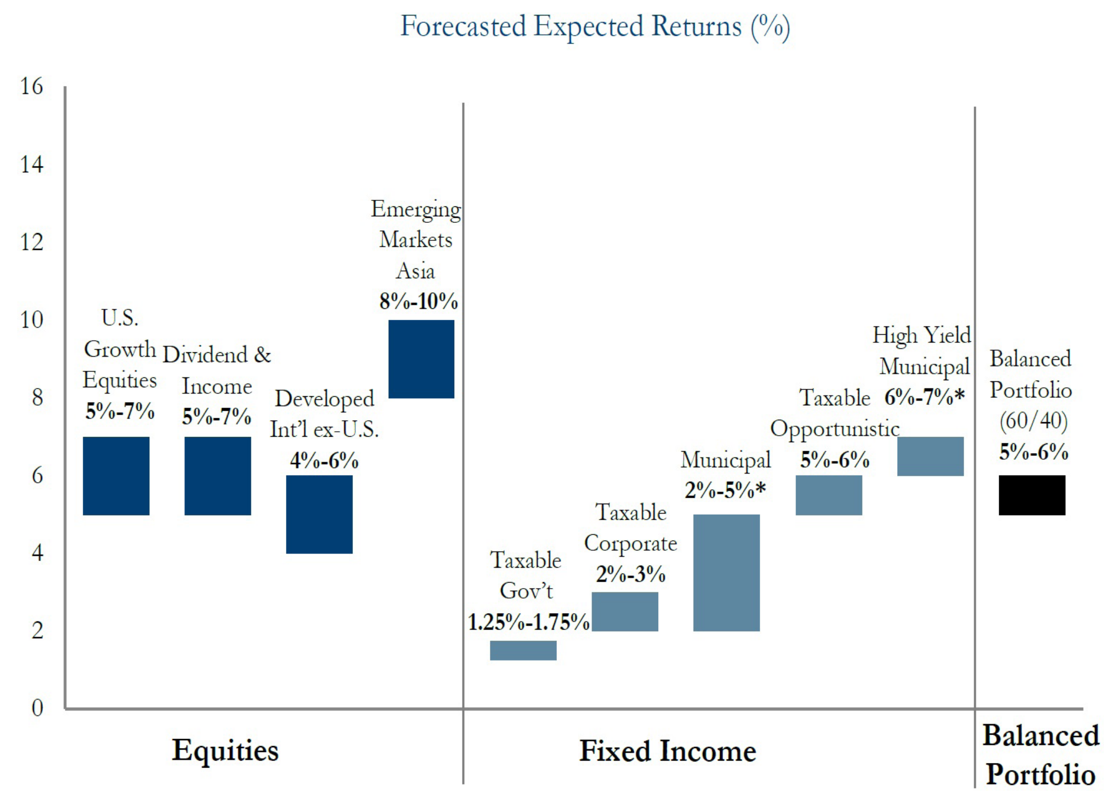
Low yields and upward pressure on interest rates make duration-sensitive allocations a particularly risky proposition



Source: Bloomberg Barclays U.S. Aggregate Bond Index (Agg), as of 9/30/17. This index tracks the performance of U.S. investment-grade bonds in government, asset-backed, and corporate debt markets. It is not possible to invest directly in an index. Past performance does not guarantee future results.

These late-cycle portfolio returns challenge long-term investors, where prudently balanced portfolio may "only" return 5% over the next decade.

Real returns expected to be moderate late in the cycle.



Source: City National Rochdale. As of September 2017. Forecast expected returns represent City National Rochdale's opinion for these asset classes, are for illustrative purposes only, and do not represent client returns. The expected returns presented for these asset classes do not reflect any deductions for City National Rochdale fees or expenses. Actual client portfolio and investment returns will vary.

***Forecasted expected returns for HY Municipal and Municipal FI represent the taxable equivalent return at a 43.40% tax rate.**

Patience and diversification will continue to be critical to mitigate volatility.

																2002 - 2016	
2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	Ann.	Vol.
Comdty. 25.9%	EM Equity 56.3%	REITs 31.6%	EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 28.1%	REITs 10.8%	EM Equity 23.8%
Fixed Income 10.3%	Small Cap 47.3%	EM Equity 26.0%	Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 20.5%	EM Equity 9.8%	REITs 22.6%
High Yield 4.1%	DM Equity 39.2%	DM Equity 20.7%	DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 14.2%	High Yield 9.2%	Small Cap 20.1%
REITs 3.8%	REITs 37.1%	Small Cap 18.3%	REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 10.9%	Small Cap 8.5%	DM Equity 19.2%
Cash 1.7%	High Yield 32.4%	High Yield 13.2%	Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 10.6%	Asset Alloc. 6.9%	Comdty. 19.0%
Asset Alloc. -5.9%	Large Cap 28.7%	Asset Alloc. 12.8%	Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 9.5%	Large Cap 6.7%	Large Cap 15.9%
EM Equity -6.0%	Asset Alloc. 26.3%	Large Cap 10.9%	Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 6.0%	DM Equity 5.7%	High Yield 11.7%
DM Equity -15.7%	Comdty. 23.9%	Comdty. 9.1%	High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.1%	Fixed Income 4.6%	Asset Alloc. 11.0%
Small Cap -20.5%	Fixed Income 4.1%	Fixed Income 4.3%	Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Cash 0.6%	Cash 1.3%	Fixed Income 3.5%
Large Cap -22.1%	Cash 1.0%	Cash 1.2%	Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Comdty. -2.9%	Comdty. 1.2%	Cash 0.8%

Source: Barclays, Bloomberg, FactSet, MSCI, NAREIT, Russell, Standard & Poor's, J.P. Morgan Asset Management.
Large cap: S&P 500, Small cap: Russell 2000, EM Equity: MSCI EME, DM Equity: MSCI EAFE, Comdty: Bloomberg Commodity Index, High Yield: Barclays Global HY Index, Fixed Income: Barclays US Aggregate, REITs: NAREIT Equity REIT Index. The "Asset Allocation" portfolio assumes the following weights: 25% in the S&P 500, 10% in the Russell 2000, 15% in the MSCI EAFE, 5% in the MSCI EME, 25% in the Barclays US Aggregate, 5% in the Barclays 1-3m Treasury, 5% in the Barclays Global High Yield Index, 5% in the Bloomberg Commodity Index and 5% in the NAREIT Equity REIT Index. Balanced portfolio assumes annual rebalancing. Annualized (Ann.) return and volatility (Vol.) represents period of 12/31/01 – 12/31/16. Please see disclosure page at end for index definitions. All data represents total return for stated period. Past performance is not indicative of future returns.
Guide to the Markets – U.S. Data are as of September 30, 2017.

Portfolio Implications

- Many positive economic indicators in support of a synchronized global growth recovery. But, as always, there are significant uncertainties and "unknowables" when it comes to economic forecasting. Humility and intellectual honesty—knowing what you don't know and what you can't know and can't accurately predict—are crucial. Stock market corrections can happen any time despite the global economy's current health, and investors should prepare themselves for market dips and drops along the way.
- However, based on current valuations and longer-term earnings fundamentals—and even putting aside any near-term political or geopolitical risks—U.S. stocks present unattractive expected returns over the immediate investment horizon. Valuation risk is high and offers no margin of safety in the event the optimistic scenario currently baked into valuations doesn't play out.
- Outside of the United States, there is strong potential for both improving earnings growth and higher valuations—leading to relatively attractive longer-term expected returns. It seems the outperformance of foreign stocks still has room to run given their superior valuations and earnings growth potential versus the U.S market.
- In fixed income, the current paltry yields and unattractive longer-term (five-year) return prospects are challenging, yet bonds still play a role in volatility dampening. Thoughtful exposure to more flexible and opportunistic fixed-income funds as well as careful exposure to the attractive portion of the current yield curve should provide some protection against rising interest rates and inflation.
- We don't expect a recession in the near term, but we remain alert to and positioned to meet the high level of uncertainty that characterizes both global financial markets and the current geopolitical environment. We maintain exposure to assets—core bonds in particular—that should generate positive returns in the event of a recession and a bear market in stocks.
- Careful examination of asset allocation, risk tolerance, and long term returns needs is required of most investors.

Disclosures

- Please remember that past performance may not be indicative of future results. Therefore, no current or prospective client should assume that the future performance of any specific investment, investment strategy (including the investments and/or investment strategies recommended by the adviser), will be profitable or equal to past performance levels.
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