



Capital Market Review
As of September 30, 2018

3Q18 Market Recap

Domestic and developed international stock markets were positive for the quarter while emerging markets declined further. The U.S. bond market remained unchanged.

Conditions are similar to the previous quarter – domestically, strong corporate earnings and fundamental data outweighed investor concerns regarding the impact of rising interest rates and increased global trade tension. The U.S. dollar continued to appreciate against most major currencies.

The Feds raised rates again. We expect that with more rate increases on the horizon, there will be pressure on corporate loans, potentially increasing default rates. This could in turn create a special opportunity that we will want to take advantage of.

International, particularly emerging markets, and domestic value strategies are attractive from a pricing perspective. We are strong advocates of long/short hedge as a way to manage risk in a portfolio. And, we continue to pursue opportunities that diversify away from the public markets. With market volatility picking up in early 4Q, we are realizing investment losses to help offset gains that have been created to rebalance portfolios.

Now is a good time to touch base with your advisor if you skipped your 2Q performance review. Stephanie will be sending out scheduling requests shortly.

Thank you for the opportunity to serve you!

The Allium Team

Market Dashboard¹ – As of September 30, 2018

Asset Class	Third Quarter					3Q18	YTD
Domestic Equity (S&P 500 Index)	<ul style="list-style-type: none"> All eleven S&P 500 sectors generated positive results, led by strong performance within Health Care (+14.5%) and Industrials (+10.0%). Domestically, strong corporate earnings and economic data outweighed investor concerns regarding continued global trade tensions and rising interest rates. 					7.7%	10.6%
International Equity (EAFE Index)	<ul style="list-style-type: none"> Developed International Markets generated modestly positive results while lagging the U.S. equity market during the quarter. The U.S. dollar appreciated against most major currencies. In local currency terms, results were mixed. Japan (+6.3%) and Switzerland (+5.5%) were the best performers while Italy (-4.0%) and Spain (-1.9%) performed the worst. 					1.4%	-1.4%
Emerging Markets Equity (MSCI Emerging Markets Index)	<ul style="list-style-type: none"> Russia (+10.2%) and Brazil (+10.1%) were the top performers on a local currency basis; China (-7.6%) and South Africa (-4.4%) were the worst performers on a local currency basis during the quarter. Emerging Market currencies faced a strong headwind from a strengthening U.S. Dollar, as fears of a global trade war remained high. 					-1.1%	-7.7%
Fixed Income (Bloomberg Barclays Capital Aggregate Index)	<ul style="list-style-type: none"> Fixed income performance was flat as interest rates increased across the yield curve. Long Term Government (-2.8%) and Global Bonds (-0.8%) were the weakest sectors during the quarter, driven by increased political uncertainty and rising long term interest rates. 					0.0%	-1.6%
Interest Rates	<ul style="list-style-type: none"> The FOMC voted to raise the target federal funds rate by 25 basis points (0.25%) to a range of 2.00% – 2.25%. The 10-year yield rose 19 basis points (0.19%) from 2.86% to 3.05%, and the 30-year yield rose 20 basis points (0.20%) from 2.99% to 3.19%. 						
Currencies	USD/EUR	USD/JPY	USD/GBP	USD/CNY	DXY (U.S. Dollar Index)		
3Q2018	0.7%	2.7%	1.4%	3.7%	0.7%		
YTD	3.4%	0.9%	3.7%	5.6%	3.3%		

¹LCG Associates

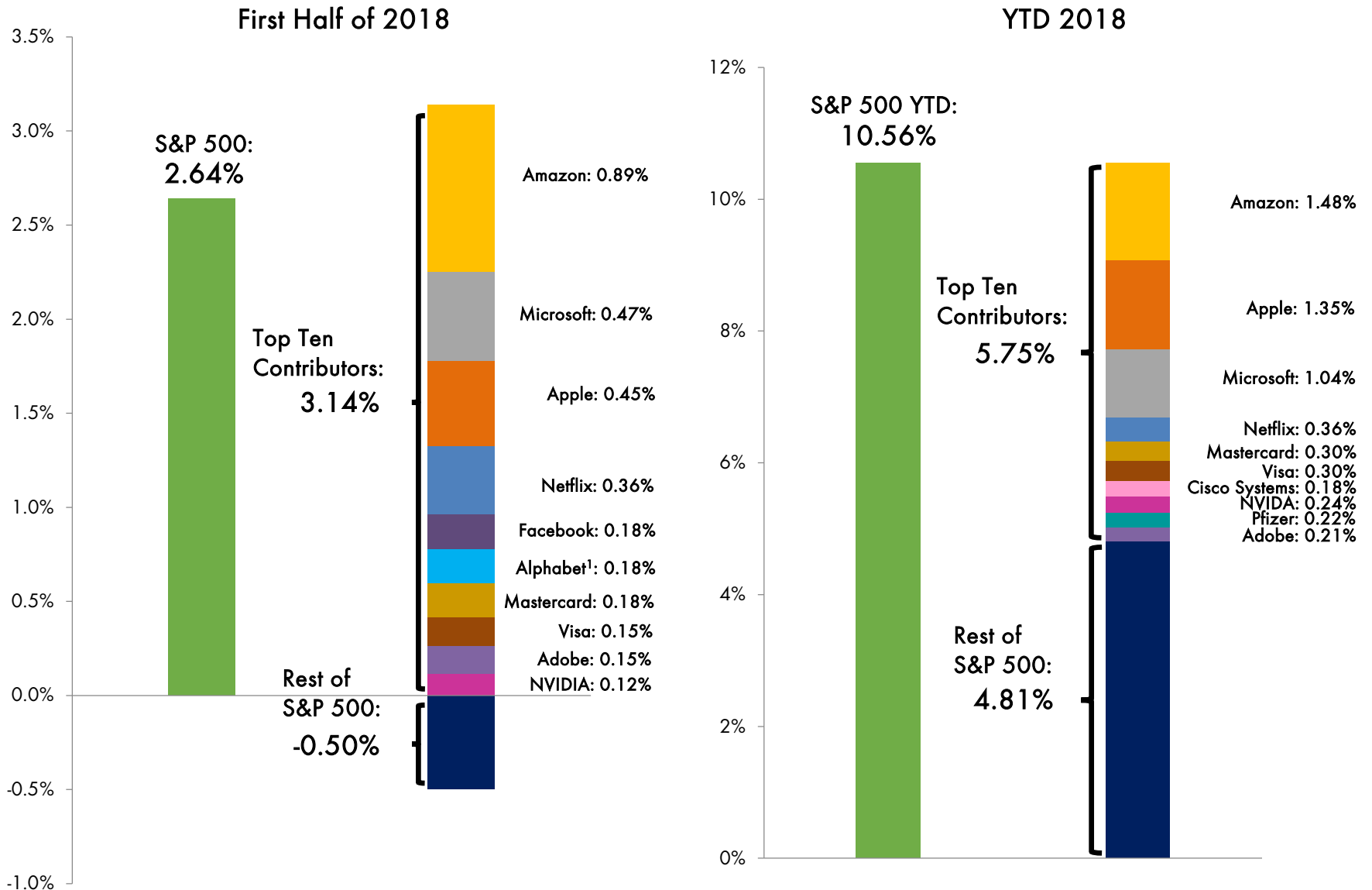
Economic Dashboard – As of September 30, 2018

	Sept – 18	June – 18	Sept – 17	10-Year Average
Economic Growth (GDP)	–	4.2%	2.8%	1.8%
Unemployment Rate	3.7%	4.0%	4.2%	6.9%
Labor Participation Rate	62.7%	62.9%	63.0%	63.6%
Core Inflation	–	2.3%	1.7%	1.8%
Inflation (Headline)	–	2.9%	2.2%	1.5%
Consumer Confidence	138.4	127.1	120.6	81.0
WTI Crude Oil (per barrel)	\$73.25	\$74.15	\$51.67	\$73.44
Natural Gas	\$3.01	\$2.92	\$3.01	\$3.55
Volatility	12.1	16.1	9.5	19.5
Gold	\$1,192	\$1,255	\$1,282	\$1,295
LIBOR	2.17%	1.94%	1.18%	0.41%
Federal Funds Target Rate ¹	2.25%	2.00%	1.25%	0.50%
ECB Refinancing Rate	0.00%	0.00%	0.00%	0.59%
10-Year U.S. Treasury Yield	3.06%	2.86%	2.33%	2.48%
10-Year German Bund Yield	0.47%	0.30%	0.46%	1.51%
S&P 500 Index	2,914.0	2,718.4	2,519.4	1,727.0
EUR/USD Exchange Rate	1.160	1.168	1.181	1.262
USD/JPY Exchange Rate	113.7	110.8	112.5	99.3

¹Fed Funds rate is a target range of 2.00% – 2.25%

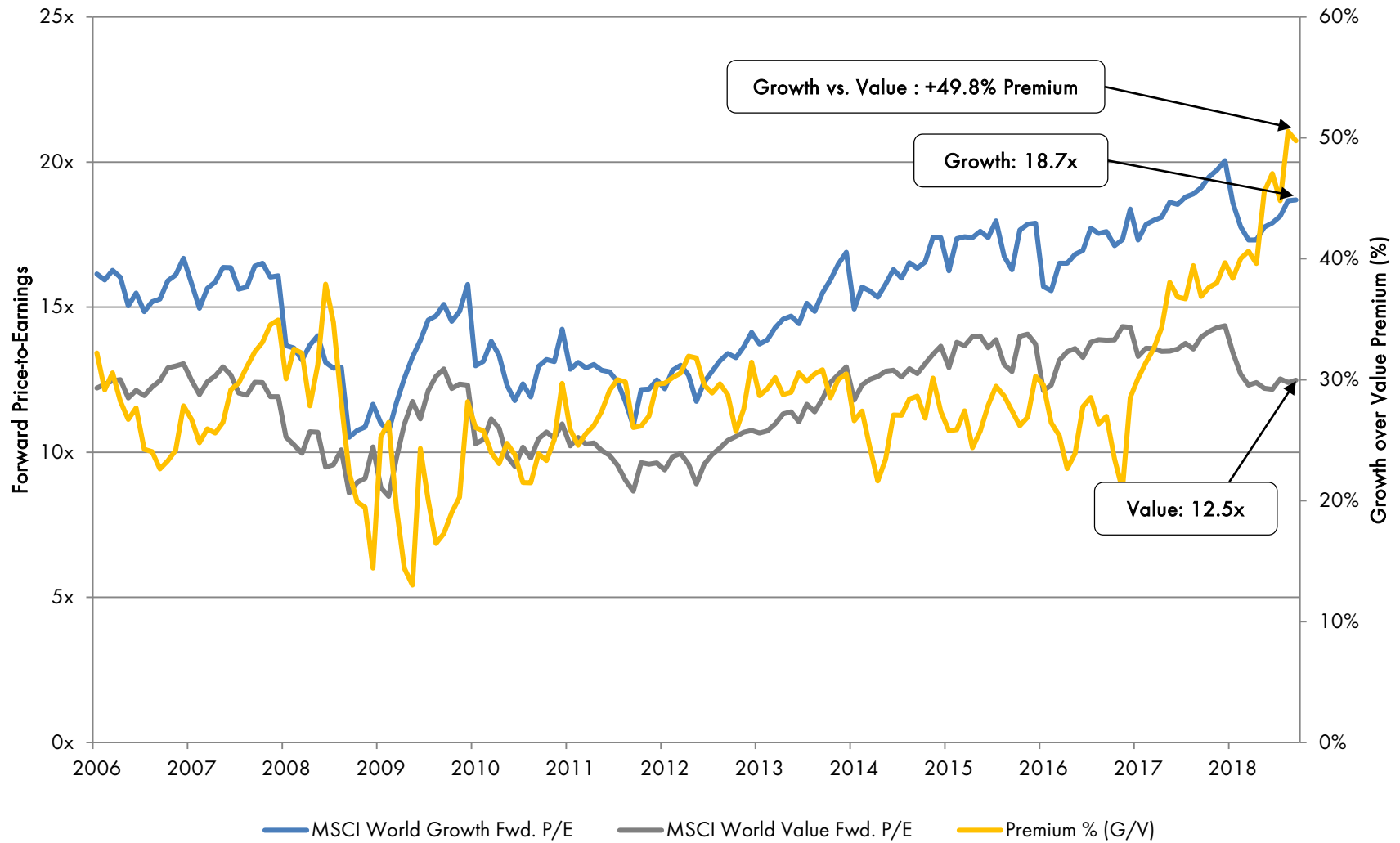
Source: Bloomberg

U.S. Equity Market Leadership Expands in the Third Quarter 2018



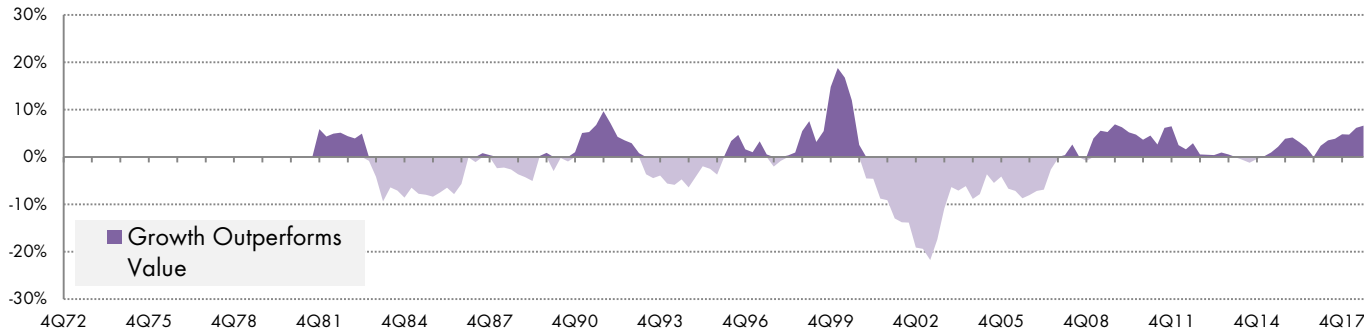
¹Alphabet Classes A & C combined attribution
Source: Factset

Growth vs. Value – a valuation divergence

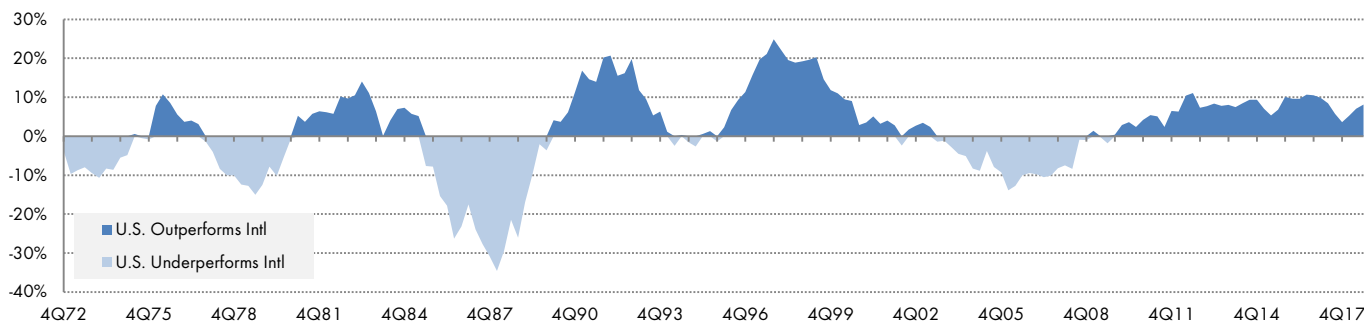


Rolling 3 Year Excess Return Comparison – as of 9/30/2018

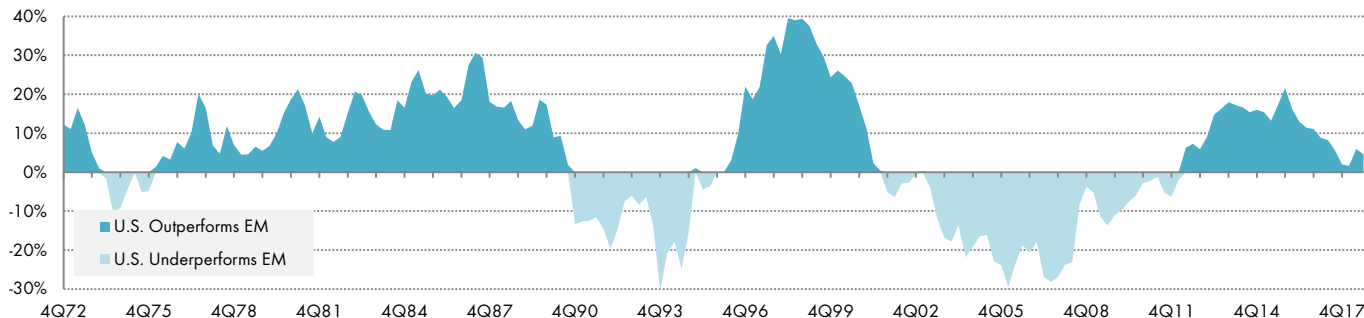
Growth vs. Value



U.S. vs. International



U.S. vs. Emerging Markets



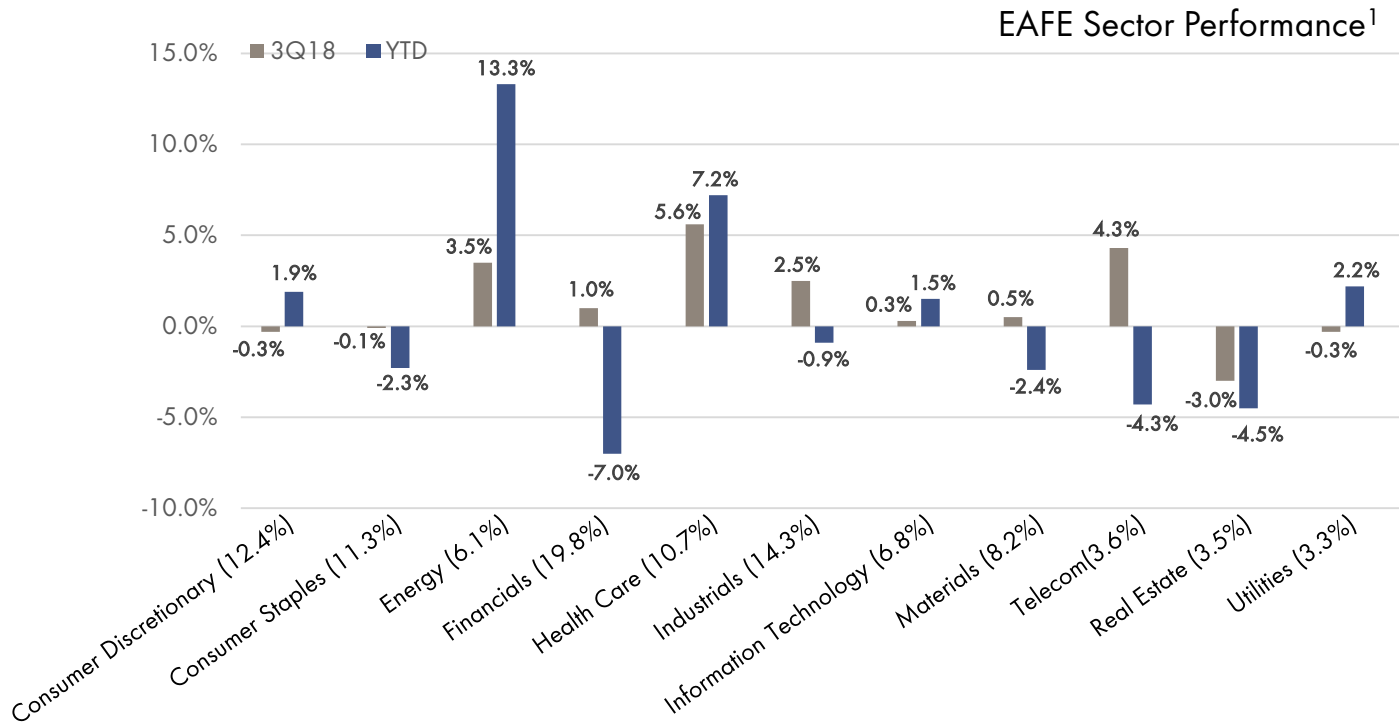
Trailing Period Returns

	R3000 Growth	R3000 Value
1 Year	25.9%	9.5%
3 Year	20.4%	13.7%
5 Year	16.2%	10.6%
10 Year	14.2%	9.8%
20 Year	7.3%	7.8%

	S&P 500	MSCI EAFE
1 Year	17.9%	2.7%
3 Year	17.3%	9.2%
5 Year	13.9%	4.4%
10 Year	12.0%	5.4%
20 Year	7.4%	5.2%

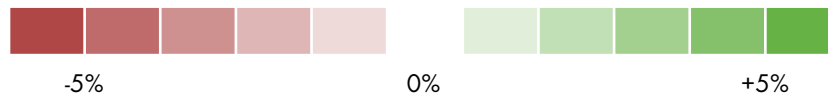
	S&P 500	MSCI EM
1 Year	17.9%	-0.8%
3 Year	17.3%	12.4%
5 Year	13.9%	3.6%
10 Year	12.0%	5.4%
20 Year	7.4%	10.2%

International Equity Market – Sector and Style



	3Q18		
	Value	Core	Growth
EAFE	1.2%	1.4%	1.5%
ACWI ex U.S.	1.7%	0.7%	-0.3%
Emerging Markets	3.4%	-1.1%	-5.4%

	YTD		
	Value	Core	Growth
EAFE	-3.5%	-1.4%	0.6%
ACWI ex U.S.	-3.7%	-3.1%	-2.5%
Emerging Markets	-4.3%	-7.7%	-10.9%

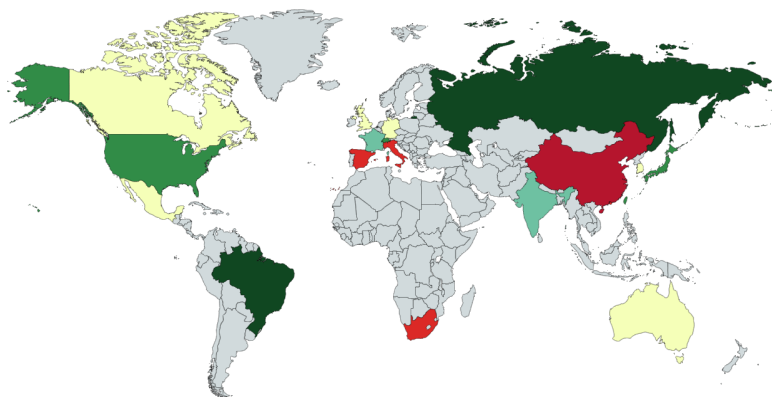


Source: Bloomberg, S&P, Russell

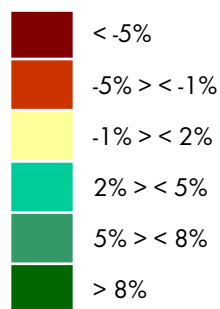
¹As of the running of this report, Bloomberg has not updated the MSCI EAFE sectors to reflect the new GICS standard.

Global Equity Returns

Third Quarter Relative Strength

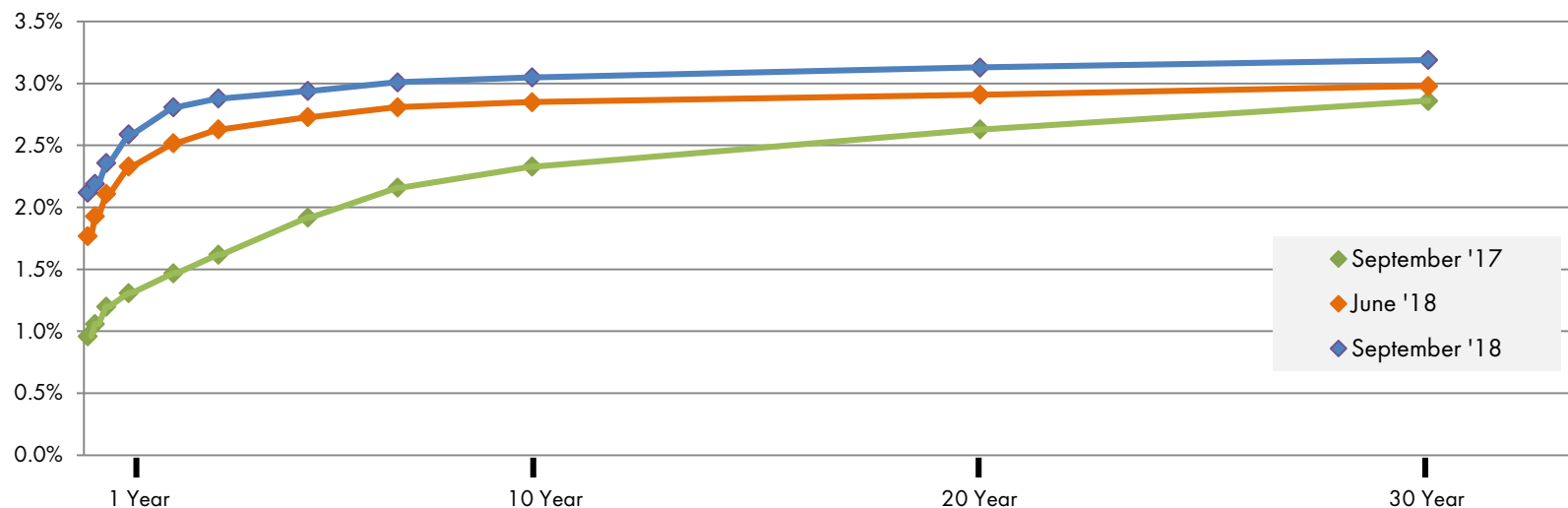


Relative Strength

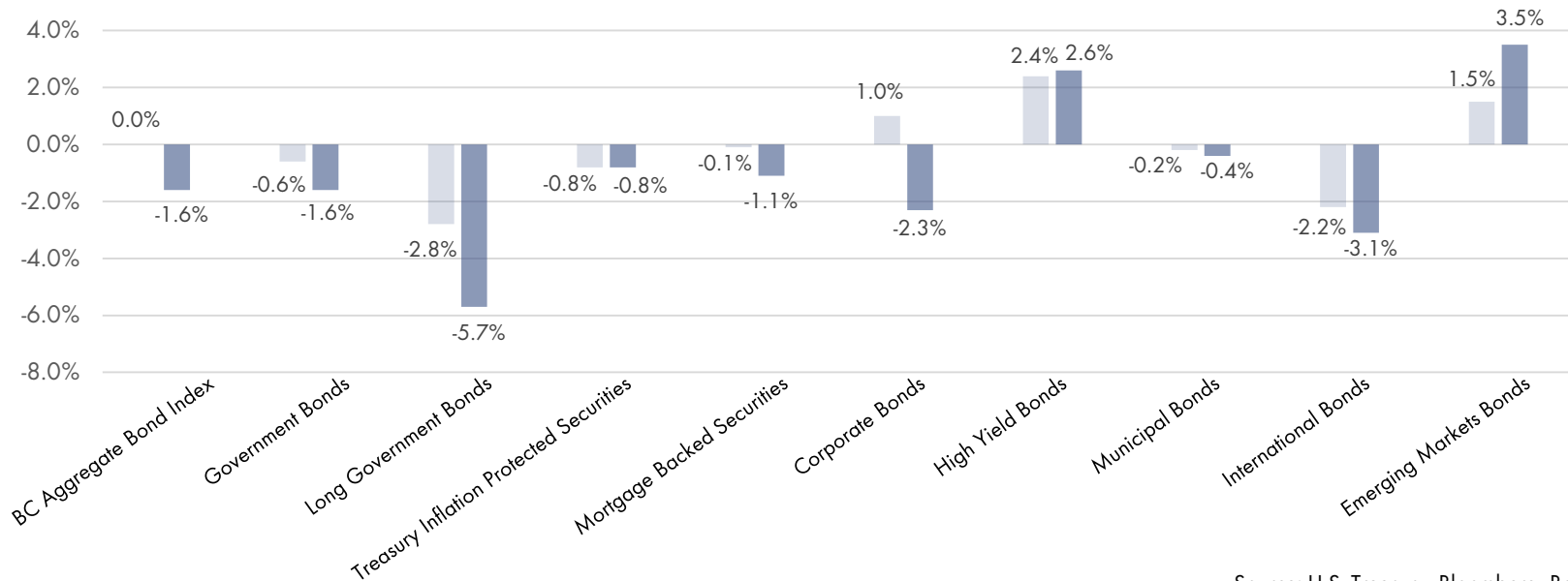


	3Q2018		Year to Date	
	Local Return	USD Return	Local Return	USD Return
North America				
Canada	-0.9%	0.8%	0.8%	-2.2%
United States	7.7%	7.7%	10.6%	10.6%
Europe				
France	3.4%	2.8%	6.2%	2.7%
Germany	-0.1%	-0.6%	-4.8%	-7.9%
Italy	-4.0%	-4.5%	-3.6%	-6.7%
Spain	-1.9%	-2.4%	-5.1%	-8.2%
Switzerland	5.5%	7.3%	0.1%	-0.2%
United Kingdom	-0.4%	-1.7%	0.9%	-2.7%
Asia Pacific				
Australia	1.2%	-0.9%	5.7%	-2.2%
Hong Kong	-1.2%	-0.9%	-3.4%	-3.5%
Japan	6.3%	3.7%	2.4%	1.6%
International Developed Markets Index				
MSCI EAFE Index	2.4%	1.4%	1.4%	-1.4%
Emerging Markets				
Brazil	10.1%	6.1%	5.6%	-12.3%
China	-7.6%	-7.5%	-9.0%	-9.1%
India	3.4%	-2.2%	2.7%	-9.6%
Korea	0.2%	0.7%	-5.7%	-9.0%
Mexico	1.7%	6.9%	-0.6%	4.0%
Russia	10.2%	6.2%	22.0%	9.1%
South Africa	-4.4%	-7.4%	-10.6%	-21.8%
Taiwan	6.7%	6.5%	8.2%	5.5%
Emerging Markets Index				
MSCI EM Index	0.0%	-1.1%	-2.9%	-7.7%

Fixed Income – Treasury Yield Curve and Returns by Sector



3Q18 YTD



Source: U.S. Treasury, Bloomberg, Barclays

Tactical Positioning 3Q18

Asset Class	Underweight Overweight Neutral to Target	Comments
Cash	Overweight for clients with regular spending	Use the money market funds when possible in lieu of cash reserves
Low Duration	Overweight	To be used for rebalancing and interest rate risk management
Fixed Income	Underweight	Active management preferred, diversified including global bonds International bonds – 20% or less of overall fixed income exposure
Credit Alternatives	Overweight	Important to recognize added risk for increased return potential
Large Cap	Underweight	Growth/value tilt neutral
Mid Cap	Neutral	Growth/value tilt neutral
Small Cap	Overweight	Growth/value tilt neutral
International	Neutral to overweight	Prefer active management
Emerging Markets	Overweight	Prefer active management
Liquid Alternatives	Neutral	Include inflation sensitive strategies
Long/Short Equity	Neutral to overweight	Actively adding to or initiating positions to hedge market volatility
Private Equity	Neutral	
Private Real Estate	Neutral	Geographical diversification, selective opportunities

Annual Total Returns of Key Asset Classes 2005 – 3Q 2018

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	3Q18
Best ↑ ↓ Worst	Emg Mkts 34.0	Emg Mkts 32.1	Emg Mkts 39.4	US Bonds 5.2	Emg Mkts 78.5	US Small Cap 26.9	Real Estate 16.0	Emg Mkts 18.2	US Small Cap 38.8	US Large Cap 13.7	Real Estate 15.0	US Small Cap 21.3	Emg Mkts 37.3	US Small Cap 11.5
	Real Estate 21.4	Intl Equity 26.7	Intl Equity 16.7	Inflation 0.1	Intl Equity 41.4	US Mid Cap 25.5	US Bonds 7.8	US Mid Cap 17.3	US Mid Cap 34.8	US Mid Cap 13.2	Long/Short Eq 3.6	US Mid Cap 13.8	Intl Equity 27.2	US Large Cap 10.6
	Intl Equity 16.6	US Small Cap 18.4	Real Estate 16.0	Real Estate -10.0	US Mid Cap 40.5	Emg Mkts 18.9	Inflation 3.0	Intl Equity 16.8	US Large Cap 32.4	Real Estate 12.5	US Large Cap 1.4	US Large Cap 12.0	US Large Cap 21.8	US Mid Cap 7.5
	US Mid Cap 12.7	Real Estate 16.3	Long/Short Eq 13.7	Long/Short Eq -19.8	US Small Cap 27.2	Real Estate 16.4	US Large Cap 2.1	US Small Cap 16.3	Long/Short Eq 17.7	US Bonds 6.0	Inflation 0.7	Emg Mkts 11.2	US Mid Cap 18.5	Inflation 2.4
	Long/Short Eq 9.7	US Large Cap 15.8	US Bonds 7.0	US Small Cap -33.8	US Large Cap 26.5	US Large Cap 15.1	US Mid Cap -1.5	US Large Cap 16.0	Intl Equity 15.3	Long/Short Eq 5.5	US Bonds 0.5	Real Estate 8.8	US Small Cap 14.6	Long/Short Eq 2.2
	US Large Cap 4.9	US Mid Cap 15.3	US Mid Cap 5.6	US Large Cap -37.0	Long/Short Eq 19.5	Intl Equity 11.2	US Small Cap -4.2	Real Estate 10.9	Real Estate 13.9	US Small Cap 4.9	US Mid Cap -2.4	Intl Equity 4.5	Long/Short Eq 13.4	US Bonds -1.6
	US Small Cap 4.6	Long/Short Eq 14.4	US Large Cap 5.5	US Mid Cap -41.5	US Bonds 5.9	Long/Short Eq 9.3	Long/Short Eq -7.3	Long/Short Eq 8.2	Inflation 1.5	Inflation 0.8	US Small Cap -4.4	US Bonds 2.6	Real Estate 7.6	Intl Equity -3.1
	Inflation 3.4	US Bonds 4.3	Inflation 4.1	Intl Equity -45.5	Inflation 2.7	US Bonds 6.5	Intl Equity -13.7	US Bonds -2.0	US Bonds -2.0	Emg Mkts -2.2	Intl Equity -5.7	Inflation 2.1	US Bonds 3.5	Emg Mkts -7.7
	US Bonds 2.4	Inflation 2.5	US Small Cap -1.6	Emg Mkts -53.3	Real Estate -29.8	Inflation 1.5	Emg Mkts -18.4	Inflation 1.7	Emg Mkts -2.6	Intl Equity -3.9	Emg Mkts -14.9	Long/Short Eq -3.4	Inflation 2.1	

Note: Real Estate return data lags the timing of our quarterly updates. It will be included on an annual basis.

Source: Morningstar

Important Disclosures

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