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MONTHLY MARKET COMMENTARY | APRIL 2018

April Adversity Among Allies

Monthly Snapshot

- US President Donald Trump pressed a heavy-handed trade agenda with threats of global tariffs, only relenting in the last hours of April as he granted temporary exemptions for the EU, NAFTA partners, and other allies.
- European equities advanced, but were outdone by a sharper rebound in UK shares; US equities were modestly positive after peaking mid-month (in US dollar terms). Government-bond yields rose across most maturities in the UK, EU and US (yields move inversely to prices).
- Although the ride has turned bumpier in recent months, we believe that economic fundamentals justify further gains in US and global equity prices.

Economic Backdrop

Geopolitical story lines came into full bloom during April, creating instances of simultaneous cooperation and tension among allies. The US, British and French militaries launched synchronised airstrikes on Syrian military installations in retaliation for President Bashar al-Assad's government using chemical weapons on civilians in rebel-held areas of the country. The EU and US also coordinated sanctions against Russian institutions and related parties in response to the poisoning of a former Russian spy in the UK.

At the same time, US President Donald Trump pressed a heavy-handed trade agenda with threats of global tariffs, only relenting in the last hours of April—granting temporary exemptions for the EU, NAFTA partners, and other allies (although quotas remained). Trump's softened stance was likely influenced by separate trips made by French President Emanuel Macron and German Premier Angela Merkel to visit him in the US capitol. As for China (the US president's primary target of trade score-settling), stakes were elevated in early April after Trump countered the country's announcement of retaliatory trade measures with threats of a new, larger round of tariffs. The US administration said in late April that a cabinet-level trade delegation would meet with top Chinese government officials in Beijing at the beginning of May to seek concessions.

Rogue-state nuclear programmes earned a significant share of the spotlight in April: North Korean Supreme Leader Kim Jong-Un announced a willingness to mothball his country's efforts and, in an unprecedented display of unity, crossed the border as he clasped hands with South Korean President Moon Jae-in. Elsewhere, Israeli Prime Minister Benjamin Netanyahu televised evidence of the Iranian Republic's plans to reignite its nuclear ambitions—raising questions about Iran's adherence to the terms of its multi-party disarmament agreement. Although the International Atomic Energy Agency refuted the claims, President Trump signalled he would back out of the accord in May.

Closer to home, Brexit negotiators continued struggling to find a way around the Irish border. UK representatives appeared willing to consider two options: 1) achieve UK-EU regulatory alignment—which would eliminate the need for a dedicated solution, but disenchant Brexiteers seeking UK institutional independence; or 2) combine "smart technology" customs and "trusted traders" programmes designed to expedite passage through a land border. EU emissaries seemed keen on a backstop plan that would bring

Key Measures: April 2018

EQUITY		
Dow Jones Industrial Average	0.34%	↑
S&P 500 Index	0.38%	↑
NASDAQ Composite Index	0.08%	↑
MSCI ACWI Index (Net)	0.95%	↑
BOND		
Bloomberg Barclays Global Aggregate Index	-1.60%	↓
VOLATILITY		
Chicago Board Options Exchange Volatility Index PRIOR MONTH: **19.97**	15.39	↓
OIL		
WTI Cushing crude oil prices PRIOR MONTH: **$64.94**	$68.57	↑
CURRENCIES		
Sterling vs. US dollar	$1.38	↓
Euro vs. US dollar	$1.21	↓
US dollar vs. yen	¥109.43	↑

Sources: Bloomberg, FactSet, Lipper

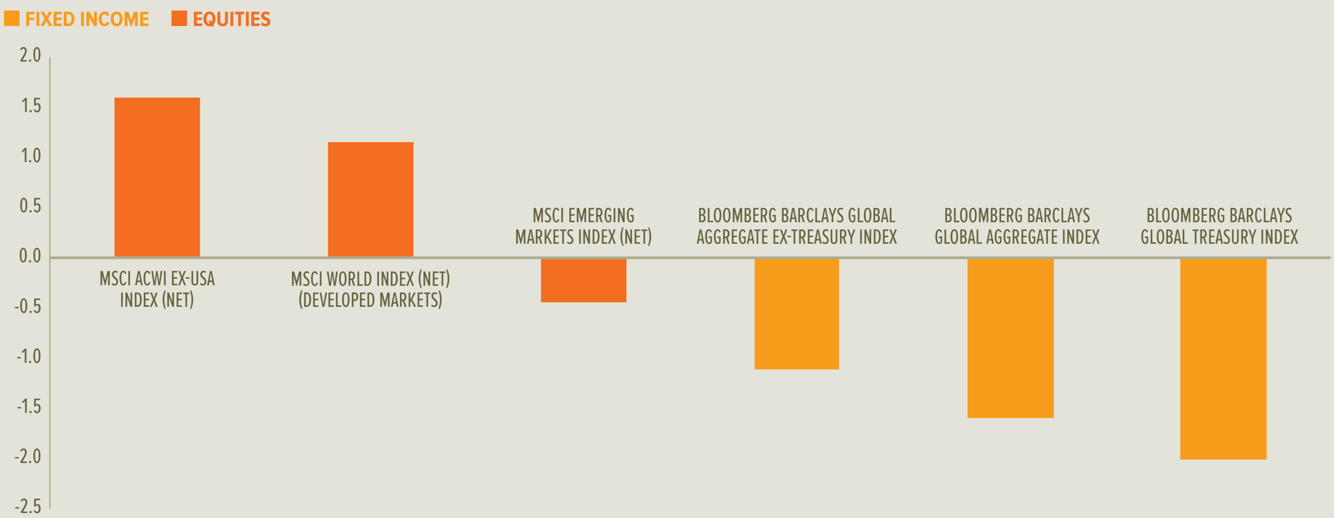
Northern Ireland into alignment with the Republic and, by extension, the EU, but would erect a barrier between Northern Ireland and the rest of the UK. The Democratic Unionist Party (the Northern Irish party that serves as partner to Prime Minister Theresa May's Conservative minority government in parliament) was so put off by the EU backstop proposal that it professed a willingness to dissolve the parliamentary agreement over the matter.

European equities advanced in April, but were outdone by a sharper rebound in UK shares. US equities were modestly positive after peaking mid-month, although small companies fared better than their larger counterparts. In Asia, Japanese equities climbed throughout the month, while Hong Kong equities advanced and mainland Chinese shares retreated. Latin American shares were lower as emerging markets trailed developed markets for the month. Government-bond yields rose across all maturities in the UK, EU and US, with the exception of a decline in short-term UK rates.

UK manufacturing growth fell by more than expected in April, delivering its weakest showing since 2016. Labour-market numbers were mixed: the claimant-count unemployment rate held firm at 2.4% in March despite an uptick in claimants; the December-to-February unemployment rate declined to 4.2%; and average year-over-year earnings growth in February remained 2.8%. Preliminary economic growth data showed an anaemic 0.1% expansion in the first quarter and 1.2% in the 12-month period ending March.

The eurozone's manufacturing expansion continued to soften from its December high-water mark, settling in April at still-strong levels. Economic sentiment recovered slightly in April after sliding during the first three months of the year, with industrial and consumer surveys recording improvements. The unemployment rate held at 8.5% in March despite a decline of more than 80,000 in the number of Europeans out of work, including a 0.2% drop in youth joblessness. An early estimate of overall economic growth measured 0.4% in the first quarter and 2.5% year over year, both slower relative to the prior quarter.

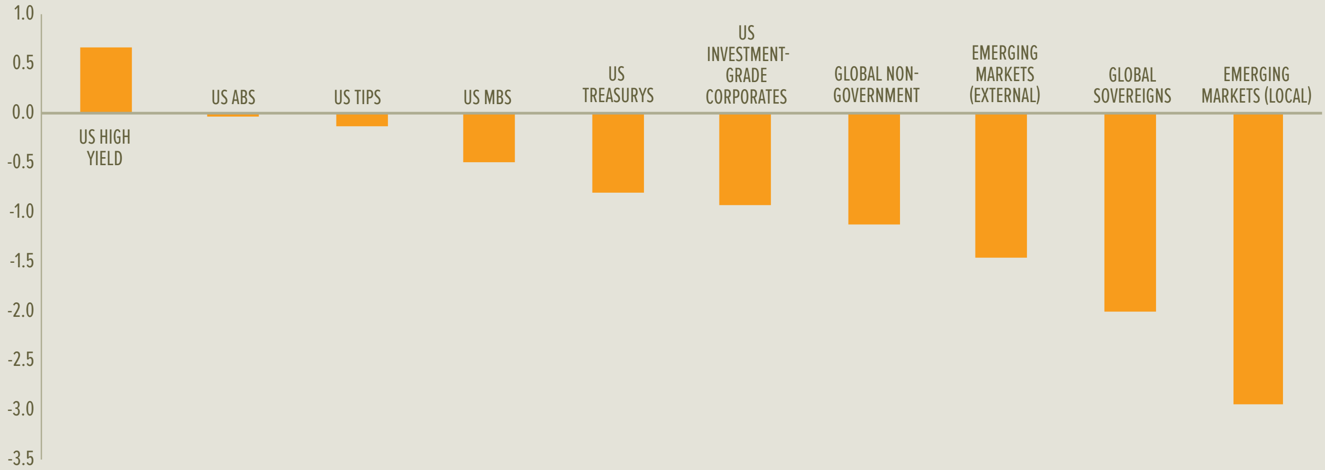
Major Index Performance in April 2018 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Major Index Performance Exhibit" in the Index Descriptions section for more information.

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

Fixed-Income Performance in April 2018 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index Descriptions section for more information.

US manufacturing was strained in April, as robust demand was challenged by longer delivery timelines and higher production costs. Consumer confidence remained near historically high levels in April—following rising price pressures and employment costs during the first quarter and expanding core consumer prices during March. Preliminary first-quarter economic growth was reported at a 2.3% annualised rate—in line with the typically mild pace of the three-month period ending March, yet slower than the rate of expansion recorded in the fourth quarter.

Our View

We suspect the bull market in US equities is somewhere near the beginning of the end, while it may be somewhat closer to the end of the beginning in other countries. To be clear, we are not saying that the bull market in US stocks is concluding. Rather, we are noting that the fundamental, technical and psychological factors driving equity-market performance appear consistent with the latter stages of an up cycle. This particular phase can last a few years if all goes well, but the ride will likely be bumpier than in recent years. We still do not see many serious signs of overvaluation or economic imbalances in the US that would suggest imminent danger of a severe correction, much less a devastating bear market on par with the 2008-to-2009 experience.

Although equity markets underwent their first real correction in some 20 months during the first quarter, the pullback does not look like the start of a more serious decline. At SEI, we see two fundamental drivers behind the correction in equities and the return to more-volatile price action. The first is the upward shift in investors' interest-rate expectations as the global economy kicks into a higher gear. The second is concern that the Trump administration's recent actions on the trade front will lead to a broader trade war that could hurt global growth and push inflation higher sooner.

There certainly are cyclical pressures pushing yields up from their historic lows. The long bull market in equities and other risk-oriented assets has been sustained by the extraordinarily expansive monetary policies of the

On a fundamental basis, we think investors remain sceptical about the staying power of the European expansion. The European Central Bank is moving away from the asset purchases that have supported the eurozone's economic recovery and credit markets.

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world's most important central banks. And the subsequent decline in yields across the maturity spectrum reached levels never seen before. In our view, this 37-year tailwind is turning into a headwind.

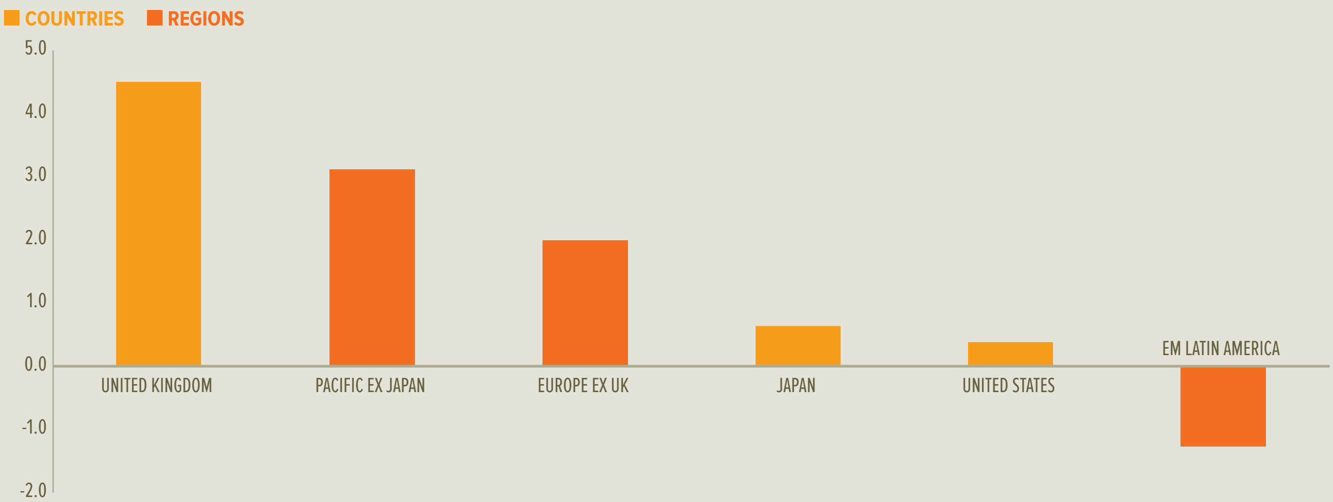
But the US Treasury yield curve remains upward sloping and, in our opinion, can narrow further without causing too many problems. Interest-rate spreads for investment-grade, high-yield and emerging-market debt also remain near cycle lows. High-yield bonds, in particular, should be considered the canary in the coal mine. Spreads tend to widen well before the stock market tops out. Even during the recent turbulence in the stock market, the option-adjusted spread on high-yield bonds held surprisingly steady.

As we have pointed out on several occasions in the past, the US equity market has historically managed to withstand the depressive impact of rising interest rates until the 10-year US Treasury reaches a level of 4% to 5%. Owing to the structural decline in bond yields and the elevated equity valuations that have resulted, we now think it prudent to assume that the stock market will begin to struggle if the 10-year Treasury rate approaches 4% (the lower end of the traditional "danger zone").

While we maintain a positive view of equities and other risk assets, we must admit that our optimism is being tested as the Trump administration uses protectionism as a bargaining tool against friend and foe alike. Impediments to trade—tariffs, quotas and non-tariff barriers—raise prices and reduce demand, leading to a dead-weight loss for society. More jobs are lost by consuming industries than are gained by the beneficiaries of protectionism. A trade war of consequence could add to the inflation pressures that have already emerged as a result of the pick-up in economic activity and the tightening employment situation.

We are in watchful-waiting mode when it comes to trade, but think it's premature to expect a catastrophe. Our preference is to see what trade sanctions are actually levied, and how target countries respond, instead of assuming the worst from the get-go. Until there is more clarity on the extent of the US protectionist measures being put into place, we think it's best to

Regional Equity Performance in April 2018 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index Descriptions section for more information.

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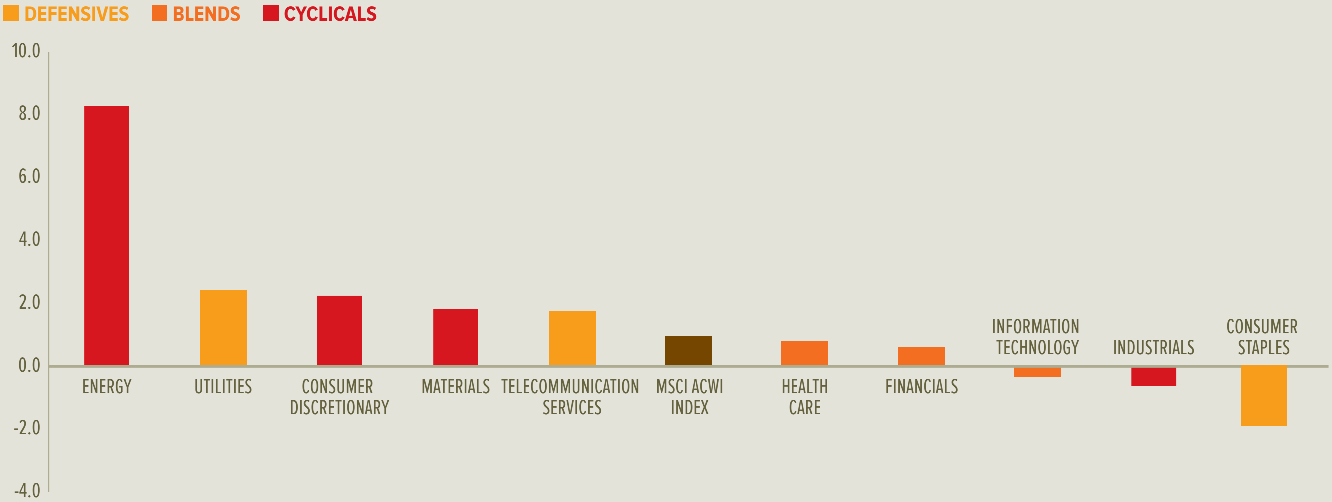
Global Equity Sector Performance in April 2018 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Sector Components (Cyclicality determined by SEI).

focus on the strong fundamental backdrop. Profit growth remains vibrant, inflation is still well-contained and the US Federal Reserve's decision-makers would prefer to normalise monetary policy in a steady, predictable fashion. For now, we believe it's proper for us to maintain a "risk-on" investment orientation.

We may have finally begun to see a shift away from the poor relative performance of eurozone equities that has persisted since the middle of last year. The eurozone economy has been gaining traction since early 2016; we judged the potential for future growth to be much greater in the eurozone than in the US given their respective points in the economic cycle. We also looked for a jump in earnings, as European companies have a high degree of operational leverage, while valuation considerations also provided support to our bullish rationale.

On a fundamental basis, we think investors remain sceptical about the staying power of the European expansion. The European Central Bank is moving away from the asset purchases that have supported the eurozone's economic recovery and credit markets. And by mid-year 2019, if not sooner, we should see the first steps toward normalising policy rates—although negative yields are an absurdly low starting point. While the outlook for the eurozone is mixed, it seems bright and sunny compared to that of the UK. As we have mentioned in previous reports, Brexit has become the overwhelming obsession of investors and policymakers.

US congressional elections will take place in November, potentially jeopardising current Republican control of the House of Representatives. Legislating in the US has been tough enough under a "unified" government; it will become next to impossible under split governance, should power become more evenly distributed across the two major parties. We would also expect a Democratic House to ramp up the pace of investigations into the president, his staff and his cabinet.

The past nine years have been full of challenges and uncertainties. The years ahead don't seem to promise anything different in that regard. Yet, the bull market has managed through it all. Let's give it the benefit of the doubt for a while longer. Although the ride has turned bumpier, we believe

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The synchronized global expansion is still alive and well. Earnings continue to climb briskly around the world.

that economic fundamentals justify further gains in US and global equity prices. The synchronized global expansion is still alive and well. Earnings continue to climb briskly around the world. US companies' cash flows and earnings, meanwhile, are benefiting mightily from tax reform passed late last year by the US government. There really are few signs that a recession will rear its ugly head any time in the next 12 to 18 months.

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Standardised Performance

		1 year to 30-Apr-18	1 year to 30-Apr-17	1 year to 30-Apr-16	1 year to 30-Apr-15	1 year to 30-Apr-14
Key Measures						
Dow Jones Industrial Average		18.09%	20.90%	2.25%	10.11%	14.44%
S&P 500 Index		13.27%	17.92%	1.21%	12.98%	20.44%
NASDAQ Composite Index		18.09%	28.18%	-2.19%	21.52%	25.20%
MSCI ACWI Index (Net)		14.16%	15.14%	-5.66%	7.45%	14.40%
Bloomberg Barclays Global Aggregate Index		4.09%	-2.10%	4.84%	-3.73%	1.62%
Major Index Performance						
Bloomberg Barclays Global Aggregate ex-Treasury Index		3.30%	-0.10%	2.66%	-1.58%	1.97%
Bloomberg Barclays Global Aggregate Index		4.09%	-2.10%	4.84%	-3.73%	1.62%
Bloomberg Barclays Global Treasury Index		4.76%	-3.75%	6.70%	-5.54%	1.31%
MSCI ACWI ex-USA (Net)		15.91%	12.59%	-11.28%	2.63%	9.76%
MSCI Emerging Markets Index (Net)		21.71%	19.13%	-17.87%	7.80%	-1.84%
MSCI World Index (Net)		13.22%	14.65%	-4.17%	7.41%	16.62%
Fixed-Income Performance						
US Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year U.S. TIPS Index	-0.15%	1.64%	1.23%	0.97%	-4.02%
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index	3.30%	-0.10%	2.66%	-1.58%	1.97%
Global Sovereigns	Bloomberg Barclays Global Treasury Index	4.76%	-3.75%	6.70%	-5.54%	1.31%
US Investment-Grade Corporates	Bloomberg Barclays U.S. Corporate Investment Grade Index	0.67%	3.00%	3.03%	4.81%	0.84%
US Asset-Backed Securities (ABS)	Bloomberg Barclays U.S. Asset-Backed Securities Index	0.27%	1.27%	1.87%	1.98%	0.16%
US Mortgage-Backed Securities (MBS)	Bloomberg Barclays U.S. Mortgage-Backed Securities Index	-0.38%	0.66%	2.56%	4.61%	0.59%
US Treasurys	Bloomberg Barclays U.S. Treasury Index	-1.07%	-0.65%	2.83%	4.23%	-1.59%
US High Yield	ICE BofAML US High Yield Constrained Index	3.22%	13.65%	-1.30%	2.58%	6.29%
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index	1.27%	8.62%	4.33%	6.06%	-1.08%
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index	8.38%	4.03%	-1.98%	-9.35%	-9.42%
Regional Equity Performance						
United Kingdom	FTSE All-Share Index	15.14%	6.10%	-10.10%	-2.18%	19.90%
EM Latin America	MSCI Emerging Markets Latin America Index (Net)	17.78%	16.31%	-12.71%	-15.08%	-11.26%
Europe ex UK	MSCI Europe ex UK Index (Net)	13.17%	12.95%	-9.34%	-3.19%	24.28%
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)	11.28%	16.55%	-11.28%	1.26%	-0.23%
United States	S&P 500 Index	13.27%	17.92%	1.21%	12.98%	20.44%
Japan	TOPIX, also known as the Tokyo Stock Price Index	20.69%	12.04%	-3.84%	19.15%	-2.97%
Global Equity Sector Performance						
MSCI ACWI Index		14.16%	15.14%	-5.66%	7.46%	14.40%
MSCI ACWI Consumer Discretionary Index		16.50%	14.72%	-3.20%	13.97%	17.45%
MSCI ACWI Consumer Staples Index		1.00%	5.73%	5.79%	6.67%	6.42%
MSCI ACWI Energy Index		17.97%	4.69%	-15.59%	-13.71%	16.24%
MSCI ACWI Financials Index		16.12%	22.12%	-11.46%	7.27%	9.89%
MSCI ACWI Healthcare Index		8.64%	6.75%	-5.33%	20.55%	21.39%
MSCI ACWI Industrials Index		11.24%	16.89%	-2.20%	4.06%	20.07%
MSCI ACWI Information Technology Index		25.54%	33.93%	-4.15%	18.67%	21.54%
MSCI ACWI Materials Index		17.29%	17.38%	-9.98%	-3.87%	8.11%
MSCI ACWI Telecommunication Services Index		2.42%	-0.46%	-2.93%	6.30%	10.63%
MSCI ACWI Utilities Index		7.32%	4.84%	1.76%	0.85%	8.24%

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Glossary of Financial Terms

Bear market: A bear market refers to a market environment In which prices are generally falling (or are expected to do so) and investor confidence is low.

Bull market: A bull market refers to a market environment in which prices are generally rising (or are expected to do so) and investor confidence is high.

Fundamentals: Fundamentals refers to data that can be used to assess a country or company's financial health such as amount of debt, level of profitability, cash flow, inventory size, etc.

Option-adjusted yield spreads: A calculation used to help determine price differences between similar products that allow different embedded options.

Yield curve: The yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (likelihood of default). A steeper yield curve represents a greater difference between the yields. A flatter curve indicates the yields are closer together.

Yield spreads: Yield spreads represents the difference in yields offered between different types of bonds. If they tighten, this means that the difference has decreased. If they widen, this means the difference has increased.

Corresponding Indexes for Key Measures Exhibit

Dow Jones Industrial Average	The Dow Jones Industrial Average is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of The Wall Street Journal.
NASDAQ Composite Index	The NASDAQ Composite Index is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system, representing a subset of the US equity market.
MSCI ACWI Index	The MSCI ACWI Index is a market-capitalization-weighted index composed of over 2,000 companies, and is representative of the market structure of 46 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in US dollars.
Bloomberg Barclays Global Aggregate Index	The Bloomberg Barclays Global Aggregate Index is an unmanaged market-capitalization-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.
Chicago Board Options Exchange Volatility Index (VIX)	The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

Corresponding Indexes for Major Index Performance Exhibit

MSCI ACWI ex-USA Index	The MSCI ACWI ex-USA Index includes both developed- and emerging-market countries, excluding the US.
MSCI Emerging Markets Index	The MSCI Emerging Markets Index is a free float-adjusted market-capitalization-weighted index designed to measure the performance of global emerging-market equities.
MSCI World Index	The MSCI World Index is a free float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets.
Bloomberg Barclays Global Aggregate Index	The Bloomberg Barclays Global Aggregate Index is an unmanaged market-capitalization-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.
Bloomberg Barclays Global Aggregate ex-Treasury Index	The Bloomberg Barclays Global Aggregate ex-Treasury Index is an unmanaged market index representative of the total return performance of ex-Treasury major world bond markets.
Bloomberg Barclays Global Treasury Index	The Bloomberg Barclays Global Treasury Index is composed of those securities included in the Bloomberg Barclays Global Aggregate Index that are Treasury securities.

Corresponding Indexes for Fixed-Income Performance Exhibit

US High Yield	BofA Merrill Lynch U.S. High Yield Master II Constrained Index
Global Sovereigns	Bloomberg Barclays Global Treasury Index
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
US Mortgage-Backed Securities (MBS)	Bloomberg Barclays U.S. Mortgage Backed Securities Index
US Asset-Backed Securities (ABS)	Bloomberg Barclays U.S. Asset-Backed Securities Index
US Treasurys	Bloomberg Barclays U.S. Treasury Index
US Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year U.S. TIPS Index
US Investment-Grade Corporates	Bloomberg Barclays U.S. Corporate Investment Grade Index

Corresponding Indexes for Regional Equity Performance Exhibit

United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex UK	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

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Data refers to past performance. Past performance is not a reliable indicator of future results.

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