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Global Economic Growth: In Concert

Quarterly Snapshot

- Prime Minister Theresa May helped thaw the contentious postures on both sides of the Brexit negotiating table by offering concessions as she formalised the UK's expectations and proposed timetable.
- Stocks continued to advance around the globe; the US dollar continued to weaken versus other major currencies; and WTI Cushing crude-oil prices bottomed in early July before climbing to finish the quarter above $50 per barrel.
- A large portion of the world appears to be growing at a slightly better-than-trend pace. While we would not rule out a correction in asset values more notable than those seen in the recent past, our buy-on-the-dip approach still holds.

Economic Backdrop

A late-quarter speech by Prime Minister Theresa May in Florence—the birthplace of the Renaissance and symbol of common European ideas—helped thaw the contentious postures on both sides of the Brexit negotiating table by offering concessions as she formalised the UK's expectations and proposed timetable. Afterward, German Chancellor Angela Merkel's Christian Union received the largest share of votes in a federal election (ensuring her continued leadership)—but in smaller proportion than in the past and at the cost of her coalition with the Social Democrats. Near the end of the quarter, an independence referendum held in Iraqi Kurdistan voted overwhelmingly in favour of independence—yet the outcome was not recognised by Iraq's federal government. Similarly, Catalonians held an independence vote immediately after the end of the quarter that the Spanish government declared illegitimate and sought to disrupt.

In the US, Senate Republicans seemed to accept that their recent Obamacare repeal effort was unlikely to succeed in its current form as the quarter came to a close. Attention shifted to tax reform; the Trump administration's proposal favoured a substantial reduction in the corporate tax rate and lower top-individual income-tax rates, as well as the elimination of estate taxes and consolidated deductions typically claimed by the middle class. Natural disasters wrought havoc around the globe: a brutal hurricane season left the Caribbean in tatters and the US with one of its largest recovery bills in history; earthquakes in Mexico killed hundreds; more than 1,000 people lost their lives in monsoon floods on the Indian sub-continent; and tens of thousands in Indonesia were forced to evacuate areas near expected volcanic activity.

Stocks continued to advance around the globe, driven by Brazil and other emerging markets. European and Japanese stocks finished modestly higher, rallying in September after sliding for much of the quarter. US stocks gained, led by smaller companies that accelerated in the second half of the quarter. UK stocks also delivered healthy performance. China performed well, with Hong Kong stocks outperforming the mainland. US Treasury yields increased (yields move inversely to prices), with shorter-term rates rising by more than longer-term rates. Currency trends held for most of the quarter, as the US dollar weakened further versus the euro and yen before reversing course and strengthening in early September. The US dollar-sterling relationship was fairly steady until mid-September, when the

Key Measures: Q3 2017

EQUITY		
Dow Jones Industrial Average	5.58%	↑
S&P 500 Index	4.48%	↑
NASDAQ Composite Index	6.06%	↑
MSCI ACWI Index (Net)	5.18%	↑
BOND		
Bloomberg Barclays Global Aggregate Index	1.76%	↑
VOLATILITY		
Chicago Board Options Exchange Volatility Index PRIOR MONTH: **11.18**	9.51	↓
OIL		
WTI Cushing crude oil prices PRIOR MONTH: **$46.04**	$51.67	↑
CURRENCIES		
Sterling vs. US dollar	$1.34	↑
Euro vs. US dollar	$1.18	↑
US dollar vs. yen	112.57	↑

Sources: Bloomberg, FactSet, Lipper

dollar resumed its slide. Oil prices bottomed in early July, climbed to a late-September peak and finished the quarter above $50 per barrel.

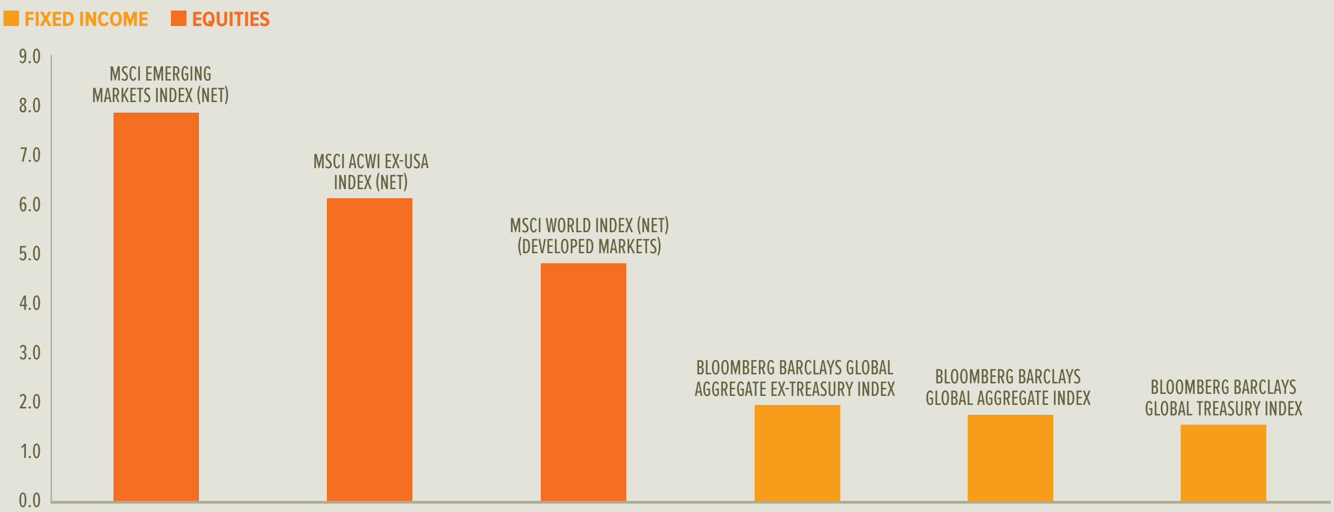
Global central banks continued to migrate slowly toward tighter policy, most notably with the US Federal Reserve's (Fed) formal announcement in September that it would begin to modestly reduce balance-sheet assets accumulated through its quantitative-easing programmes during and after the global financial crisis. The Fed also projected an additional interest-rate increase before the end of the calendar year. In its September statement, the Bank of England's (BOE) Monetary Policy Committee expressed that it may tighten policy by more than markets expect. The European Central Bank's (ECB) September meeting did not yield new information regarding an anticipated reduction (and ultimate cessation) of its asset-purchase programme; although prior comments by ECB officials suggest a firm announcement could be made in the relative near future. The Bank of Japan did not take any new policy actions during the quarter.

UK retail activity finished the quarter on a promising note, with a significant jump in retail sales volumes. Manufacturing growth was off a bit in September from its August peak, but finished the quarter in better overall circumstances. Economic growth was a firm 0.3% in the final second-quarter reading, but revised downward to 1.5% for the year-over-year period.

The eurozone manufacturing and services sectors both accelerated during September from already-robust levels earlier in the quarter; manufacturing activity pushed to its highest level in more than six-and-a-half years. Price pressures rebounded during the quarter, but remained relatively subdued at the consumer level for the year-over-year period, while producer prices were more elevated. Improvement in the headline unemployment rate levelled off during the quarter through August, holding at 9.1%.

US manufacturing activity accelerated in September, maintaining momentum from August. Growth in the services sector settled, albeit at healthy levels. Personal income and consumer spending growth both slowed in August from stronger July reports; the core personal consumption expenditure index (the Fed's go-to inflation gauge) moved

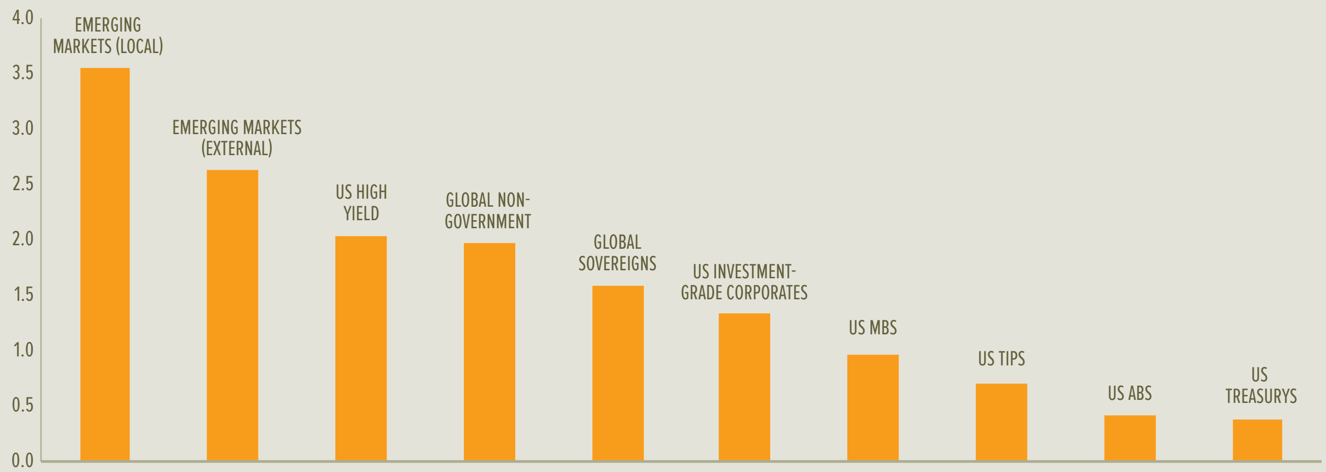
Major Index Performance in Q3 2017 (Percent Return)



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.

Fixed-Income Performance in Q3 2017 (Percent Return)



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

lower for the year-over-year period. Overall US economic growth accelerated to an annualised 3.1% during the second quarter, primarily thanks to strong consumer spending.

Our View

Neither devastating hurricanes nor all-around political dysfunction have done much to halt the US equity market's rise. Even the game of nuclear chess being played between North Korea's Kim Jong-un and President Donald Trump has failed to elicit much of a response. To be sure, all good things eventually come to an end. Yet when we consider valuations, the upward momentum of the US economy and earnings, and the likely path of US Fed policy and inflation, we still conclude that the US equity bull market isn't dead yet.

On the issue of valuations, there is no denying that US equities are trading at elevated levels. But the exceedingly low level of prevailing interest rates is an important mitigating factor. There has been a strong inverse relationship between bond yields and valuations over the past four decades, which we believe justifies structurally elevated valuations.

US equities also appear relatively expensive when comparing their valuations against those of other countries. Indeed, many other countries are on the cheap side—not only against the US, but also against their own histories. This is one reason we currently favour international equity markets versus US equities.

High valuations imply the US equity market could be a performance laggard in the years ahead relative to other stock markets; but they cannot predict an imminent downturn. We believe that valuations are a lousy timing tool for the simple reason that expensive markets can get more expensive.

The overriding question among investors is a simple one: is a recession on the horizon? We are confident that the answer is "no." Financial stress, a harbinger of recession, is virtually non-existent. Recent economic data also point to the continuation of slow-but-steady economic growth.

All references to performance are in US dollar terms unless otherwise noted.

A large portion of the world appears to be growing at a slightly better-than-trend pace. The breadth of the improvement is particularly impressive; as at July 2017, 72% of the countries that make up the Organisation for Economic Cooperation and Development's (OECD) Composite Leading Indicator index have posted gains over the past year—and 75% of the countries in the index came in above 100. This means above-trend growth will likely continue in the months ahead on a global basis.

According to the OECD's calculations, Brazil's economic situation is improving at the fastest rate. The eurozone as a whole looks set to grow above trend, as does Japan. China's momentum remains toward the upside, even though recent economic data suggest some deceleration. The US economy, by contrast, is growing somewhat below trend. India also is signalling below-trend growth, but has begun to rebound. On balance, things are looking up in much of the world.

One of the big surprises of 2017 is the extensive weakness of the US dollar, which has fallen by about 8% against a trade-weighted basket of foreign currencies since the end of last year. The US dollar can appreciate and depreciate in long cycles. If the peak at the end of 2016 proves to be the top of the current cycle, the most recent upswing would be shorter in duration than previously experienced—but the magnitude of the trough-to-peak rise would be similar to that of the up-cycle that occurred from April 1995 to March 2002 (about 41%).

The drop in the greenback coincides with the improved global macroeconomic outlook. Economic growth of developed economies around the world is converging with that of the US. Although US monetary policy is further along the path toward tightening, other central banks have already begun to raise policy rates (Canada) or may do so soon (the UK). Even the ECB is expected to announce its first steps away from unconventional monetary stimulus by the end of this year.

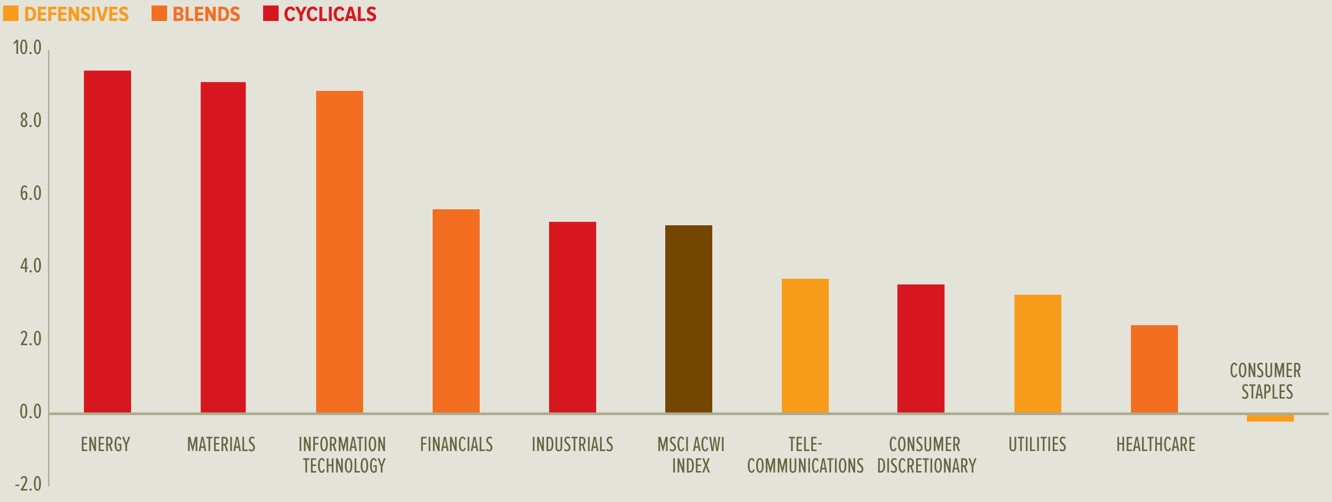
Political considerations are coming into play as well. Participants in the currency markets have adopted a far more sanguine view regarding the political stability of the eurozone following a series of national elections this year that enhanced the position of parties favouring further European

Regional Equity Performance in Q3 2017 (Percent Return)

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

All references to performance are in US dollar terms unless otherwise noted.

Global Equity Sector Performance in Q3 2017 (Percent Return)



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

integration. While confidence in the eurozone has increased, international confidence in the US has ebbed. The Trump administration's decision to pull out of the Trans-Pacific Partnership and Paris climate accord was controversial in the US; it was especially confounding to those outside the US, and raised questions of whether it is relinquishing its role as leader of the free world. Confidence in the existing international economic order was also hurt by the threat of additional US trade discord with Canada, Mexico, South Korea and China. Trump was voted into office partially owing to his populist stance on trade; but we think a trade war could be as dangerous an economic blunder today as it was during the Great Depression.

We continue to expect a US business-friendly tax package to be enacted and signed by the Trump administration before the end of the year. However, the absence of such legislation could further dampen investors' expectations for US economic growth—thereby causing a serious correction in the overall US equity market, especially hurting economically sensitive small-company and value stocks.

As noted above, the upturn in global economic activity has spurred the world's major central banks to reassess their policy stance. The danger is that they could make a policy mistake, either by acting too quickly or not fast enough. The Bank of England faces the greatest policy challenge, with an accelerating inflation rate at a time when its overall economic growth has been somewhat below that of the US and eurozone. Although the BOE has signalled its intention to reverse the easing implemented in the aftermath of the Brexit vote, it is unclear whether the correct policy course calls for further tightening moves.

In the run-up to this October's all-important National Congress of the Communist Party of China, the country's economic policy has been geared toward growth. President Xi Jinping's government has been focused on restraining rampant speculation in the property markets and curtailing the growth of the shadow-banking system—with mixed success. As soon as China's economy begins to weaken and financial markets exhibit signs of stress, its economic planners tend to reengage the accelerator.

Indeed, our caution toward equities is most pronounced in the US, where the outlook for earnings growth is more modest than elsewhere in the world.

It may be time to step on the brake again following the National Congress and the likely strengthening of President Xi's political power coming out of that meeting. The current inflation rate for Chinese manufacturing producer prices is near the peak levels recorded in 2004, 2008 and 2011. A cyclical slowdown in China's economy would likely be bad news for commodity prices and other emerging economies. Since the overall consumer price index remains at less than a 2% rate, we expect the People's Bank of China to try a gentle tap on the brake.

While we would not rule out a correction in asset values more notable than others that occurred in the past 18 months, our investment mantra of buying on the dip still holds.

Our equity strategies remain positioned for further cyclical improvement around the world. They generally have a smaller-company and value bias versus their benchmarks. We tend to favour momentum-oriented opportunities, and view equity markets outside the US as more attractive than US equity markets. Indeed, our caution toward equities is most pronounced in the US, where the outlook for earnings growth is more modest than elsewhere in the world.

On the fixed-income side, we expect yields will slowly move higher as global growth becomes more entrenched and central banks begin to remove the extraordinary stimulative measures of quantitative easing and zero (or negative) interest rates. Our underlying managers are generally short duration versus their benchmarks, favour credit-spread strategies and are positioned for a further narrowing of the yield curve, especially in the US.

Glossary of Financial Terms

Asset-backed securities: Asset-backed securities are a type of securitised debt that are backed by loans, leases or credit card debt, but not mortgages. Securitised debt consists of a portfolio of assets, such as mortgages or bank loans, which have been grouped together and repackaged as individual securities.

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.

Credit spread: Credit spread is the additional yield, usually expressed in basis points (one basis point is 0.01%), that an index or security offers relative to a comparable duration index or security (the latter is often perceived as a "risk-free" credit, such as sovereign government debt).

Duration: Duration is a measure of risk in bond investing and indicates how price-sensitive a bond is to changes in interest rates. A long (overweight) duration stance indicates the portfolio duration is higher than that of the benchmark whereas a short (underweight) duration stance indicates a lower duration. Duration is measured in years and securities with longer durations are more sensitive to interest-rate changes.

High-yield debt: High-yield debt is rated below investment grade and is considered to be riskier.

Macroeconomic: Macroeconomic refers to the broad economy of a country or region, or the global economy.

Mortgage-backed securities: Mortgage-backed securities are made up of multiple mortgages packaged together into single securities. These can be composed of commercial or residential mortgages. Agency means that the debt is guaranteed by a government-sponsored entity, while non-agency means that it is not.

Quantitative easing/tightening: : Quantitative easing refers to expansionary efforts by central banks to help increase the supply of money in the economy; quantitative tightening refers to efforts by central banks to help decrease the supply of money in the economy.

Treasury inflation-protected securities: Treasury inflation-protected securities are US Treasury securities issued at a fixed rate of interest, but with principal adjusted every six months based on changes in the consumer price index.

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.

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)

All references to performance are in US dollar terms unless otherwise noted.

Important Information

Past performance is not an indicator of future performance.

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SEI sources data directly from FactSet, Lipper, and BlackRock, unless otherwise stated.

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