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QUARTERLY MARKET COMMENTARY | Q1 2018

Stocks Descend from the Summit

Quarterly Snapshot

- Equities tumbled around the globe during the first quarter after climbing to record highs in late January. Most stock markets ended March near the low end of their quarterly range.
- The equity selloff and return to volatile price action appear to have been driven by the upward shift in investors' interest-rate expectations and the increased possibility of a trade war.
- A synchronized global expansion nevertheless remains alive and well, and earnings continue to climb briskly around the world. We believe that economic conditions point to further gains in US and global equity prices.

Economic Backdrop

Equities tumbled around the globe during the first quarter after climbing to record highs in late January. Several partial rebounds had varying degrees of success and staying power, depending on the country and region—the US and China fared better than Europe, the UK and Japan—but most stock markets ended March near the low end of their quarterly range. Government bond yields rose across all maturities in the US (yields move inversely to prices) and generally declined in Japan. UK and euro-area yields mostly increased, although longer-term yields declined. Oil prices fell with the initial stock selloff, but recovered to finish the first quarter higher than where they began.

The one-year countdown to Brexit Day began at the end of the quarter, shortly after UK and EU negotiators struck a provisional agreement on the post-divorce transition period; this tentatively extended the horizon for uncertainty about the terms of their relationship out to January 2021. The agreement includes a backstop plan for avoiding a hard Irish border; UK negotiators have already offered a fix that combines their preference for a unified UK market with a UK-EU trade proposal (which may be too ambitious for the European Commission).

US President Donald Trump volleyed a series of tariffs as the quarter progressed, beginning with specific consumer products, then moving to industrial metals, and concluding with a round dedicated to China. These invited a range of proposed retaliation measures (as well as a concrete response from China at the beginning of April). Several countries received exemptions as an incentive to hammer out trade deals with the US.

Fresh on the heels of retired term limits, China's President Xi Jinping launched a restructuring of the country's financial regulators as part of a broad reimagining of the bureaucracy. North Korea commenced a diplomatic charm offensive, including a showing at the Winter Olympics held just south of the 38th parallel; an agreement to hold separate talks with US and South Korean leaders; and Supreme Leader Kim Jong Un's first international trip since taking power in 2011, for a surprise meeting in Beijing with President Xi.

The Bank of England's Monetary Policy Committee did not make policy changes during the first quarter, although a unanimous vote in February was spoiled by two dissenters in March favouring a higher bank rate. US Federal Reserve (Fed) Chair Jerome Powell was sworn in shortly after his

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

Key Measures: Q1 2018

Equity		
Dow Jones Industrial Average	-1.96%	↓
S&P 500 Index	-0.76%	↓
NASDAQ Composite Index	2.59%	↑
MSCI ACWI Index (Net)	-0.96%	↓
Bond		
Bloomberg Barclays Global Aggregate Index	1.36%	↑
Volatility		
Chicago Board Options Exchange Volatility Index PRIOR MONTH: **11.04**	19.97	↑
Oil		
WTI Cushing crude oil prices PRIOR MONTH: **$60.42**	$64.94	↑
Currencies		
Sterling vs. US dollar	$1.40	↑
Euro vs. US dollar	$1.23	↑
US dollar vs. yen	¥106.35	↓

Sources: Bloomberg, FactSet, Lipper

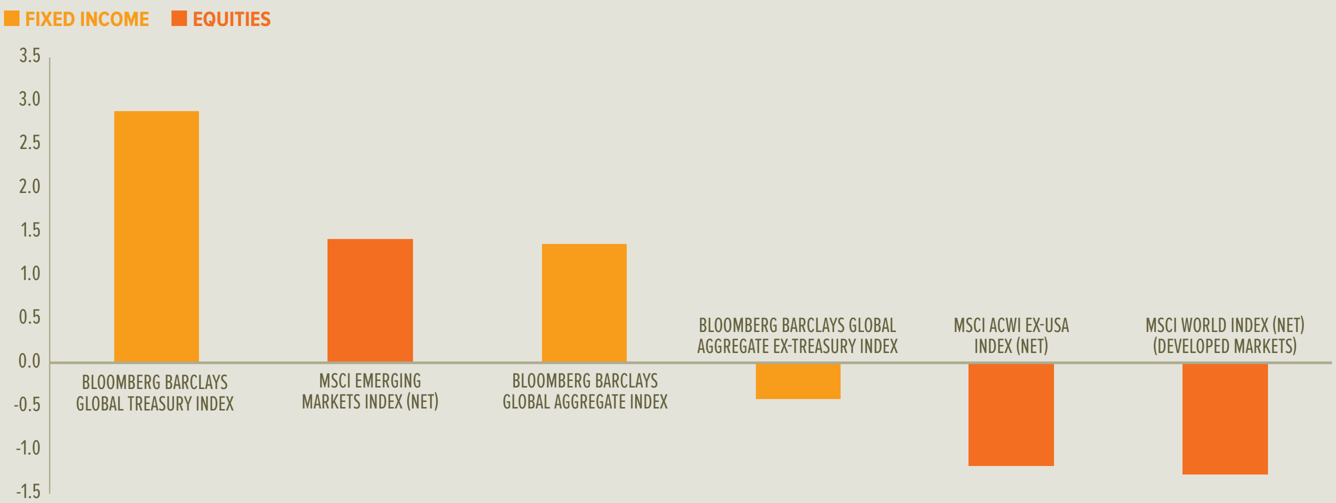
predecessor, Janet Yellen, presided over her final central bank meeting in January. The Fed increased its funds rate in March, as anticipated; it maintained its outlook for two additional rate hikes this year, but boosted the number of expected rate hikes for 2019. The European Central Bank (ECB) and Bank of Japan took no new actions at their respective January and March meetings, but the ECB removed some dovish language from its forward guidance during the latter meeting.

Retail sales in the UK appeared set to disappoint in March, based on a preliminary distributor's survey, while February was a modestly strong sales month following a decline in January. The claimant-count jobless rate finished February matching its year-end 2017 level after climbing in January; overall unemployment for the November-to-January period came down to 4.3%, and average year-over-year earnings growth increased to 2.8% following an upward revision to the prior period. The final reading for overall fourth-quarter economic growth held at 0.4% (just below the third-quarter pace) and 1.4% year over year.

Eurozone manufacturing and services growth moderated during the first quarter after nearing red-hot levels in the prior three-month period; economic sentiment also slid, as optimism waned on both the industrial and consumer fronts. Labour-market conditions improved at a measured pace as the unemployment rate edged down to 8.5% in February after remaining unchanged in January. The consumer price index declined in the two months through February on a year-over-year basis, due to a large one-month drop in January. Total economic growth in the fourth quarter of 2017 was unchanged at 0.6% for the three-month period and 2.7% year over year.

US manufacturing conditions remained vibrant throughout the first quarter. The unemployment rate held at 4.1% throughout the quarter; average year-over-year hourly earnings jumped in January (bearing some of the blame for the early February stock selloff, as investors feared it may trigger more hawkish Fed actions), and the labour-force participation rate followed suit in February. Personal-income strength held at 0.4% through February, outpacing consumer spending, while personal consumption expenditure

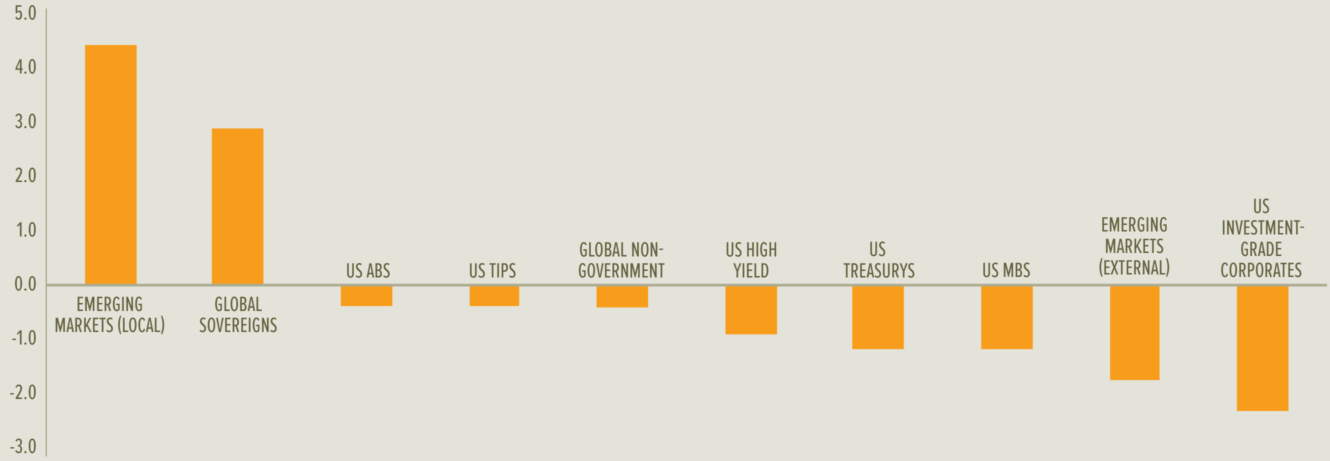
Major Index Performance in Q1 2018 (Percent Return)



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 Q1 2018 (Percent Return)



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

prices (the Fed's preferred inflation gauge) edged upward. The US economy expanded at a 2.9% annualised rate in the fourth quarter, based on the final reading of gross-domestic product for the period.

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 ending. 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 February and March, 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 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.

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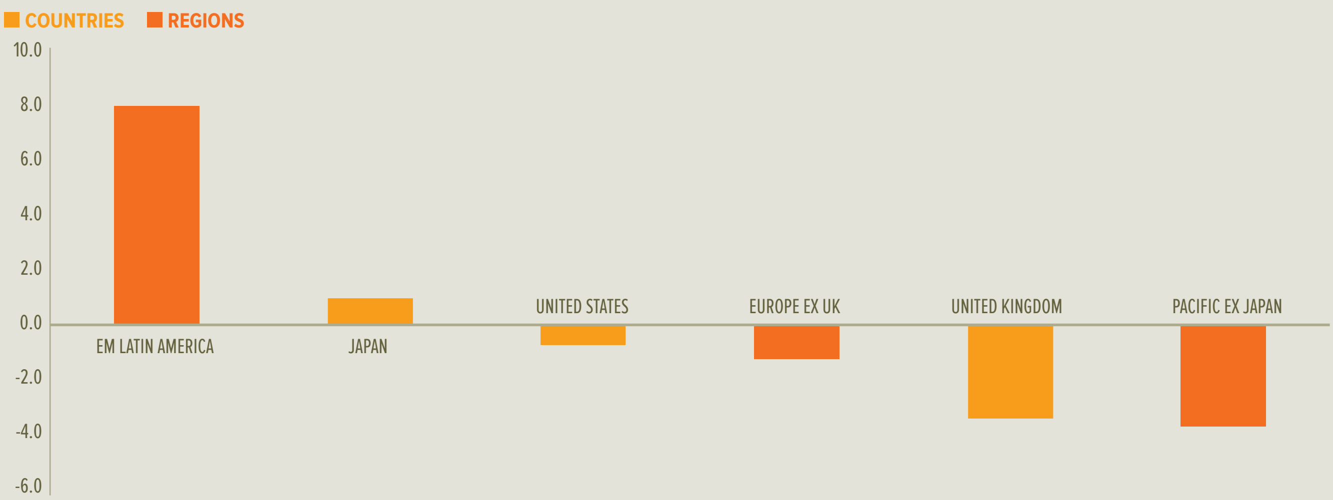
But the US Treasury yield curve remains upward sloping and, in our opinion, can narrow further without causing too many problems. Interest-rate spreads for investment-grade, high-yield and emerging-market debt also remain near cycle lows. High-yield bonds, in particular, should be considered the canary 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 focus on the strong fundamental backdrop. Profit growth remains vibrant, inflation is still well-contained and the Fed's decision-makers would prefer

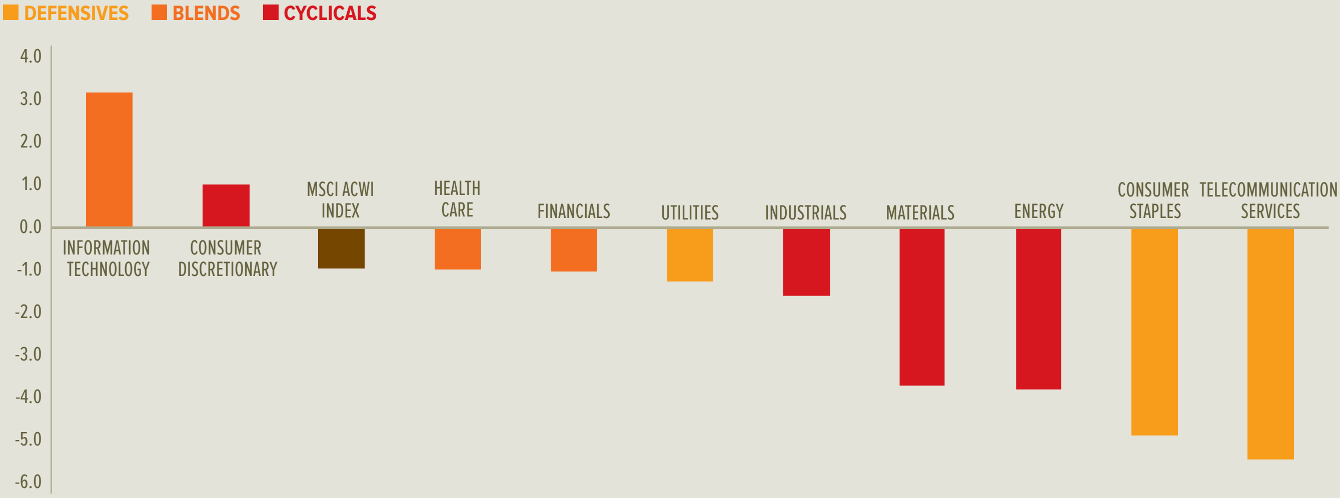
Regional Equity Performance in Q1 2018 (Percent Return)



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. See Standardised Performance for more information.

Global Equity Sector Performance in Q1 2018 (Percent Return)



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

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've been disappointed by the poor relative performance of eurozone equities 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 ECB 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. Consumers in the UK are particularly perturbed. Businesses seem to be doing well, owing to the Brexit-related decline in the value of the pound and the buoyant demand arising from the global economic recovery. But uncertainties associated with Brexit have been depressing investment in the UK, and will likely continue to do so until there is more clarity on the country's future relationship with its biggest trading partner.

The latest wrinkle in the Brexit saga is the backing by the Labour Party leader, Jeremy Corbyn, of a customs union that would keep the UK closely tied to the EU. This is a shrewd political move since it capitalizes on the rifts within the Conservative Party as well as on Prime Minister Theresa May's low popularity. She has managed to hang on precisely because the prospect of a government headed by Corbyn is beyond the pale for most Conservatives and political moderates. We would expect a radical policy shift to the left, both economically and socially, if Corbyn manages to gain the keys to 10 Downing Street.

Although the ride has turned bumpier, we believe that economic fundamentals justify further gains in US and global equity prices.

Italian politics also retain the potential to depress European equity markets if the populist 5 Star Movement and regionalist Lega (formerly Lega Nord, or the Northern League) parties manage to cobble together a coalition government. At best, this would cause the usual kind of Italian political dysfunction; at worst, it could lead to additional worries about the solvency of the country and its commitment to the euro and the European project.

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 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 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. There really are few signs that a recession will rear its ugly head anytime in the next 12 to 18 months.

Standardised Performance

		1 year to 31-Mar-18	1 year to 31-Mar-17	1 year to 31-Mar-16	1 year to 31-Mar-15	1 year to 31-Mar-14
KEY MEASURES						
Dow Jones Industrial Average		19.39%	19.91%	2.08%	10.57%	15.66%
S&P 500 Index		13.99%	17.17%	1.78%	12.73%	21.86%
NASDAQ Composite Index		20.76%	22.88%	0.55%	18.12%	30.18%
MSCI ACWI Index (Net)		14.85%	15.04%	-4.34%	5.42%	16.55%
Bloomberg Barclays Global Aggregate Index		6.97%	-1.90%	4.57%	-3.66%	1.88%
MAJOR INDEX PERFORMANCE						
Bloomberg Barclays Global Aggregate ex-Treasury Index		5.61%	-0.26%	2.72%	-1.47%	2.68%
Bloomberg Barclays Global Aggregate Index		6.97%	-1.90%	4.57%	-3.66%	1.88%
Bloomberg Barclays Global Treasury Index		8.14%	-3.27%	6.14%	-5.51%	1.19%
MSCI ACWI ex-USA (Net)		16.53%	13.13%	-9.19%	-1.02%	12.31%
MSCI Emerging Markets Index (Net)		24.93%	17.21%	-12.03%	0.44%	-1.43%
MSCI World Index (Net)		13.59%	14.77%	-3.45%	6.02%	19.07%
FIXED-INCOME PERFORMANCE						
US Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year U.S. TIPS Index	0.43%	1.45%	1.84%	1.08%	-4.93%
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index	5.61%	-0.26%	2.72%	-1.47%	2.68%
Global Sovereigns	Bloomberg Barclays Global Treasury Index	8.14%	-3.27%	6.14%	-5.51%	1.19%
US Investment-Grade Corporates	Bloomberg Barclays U.S. Corporate Investment Grade Index	2.70%	3.31%	0.92%	6.81%	1.47%
US Asset-Backed Securities (ABS)	Bloomberg Barclays U.S. Asset-Backed Securities Index	0.62%	1.20%	1.71%	2.24%	0.21%
US Mortgage-Backed Securities (MBS)	Bloomberg Barclays U.S. Mortgage-Backed Securities Index	0.77%	0.17%	2.43%	5.53%	0.20%
US Treasurys	Bloomberg Barclays U.S. Treasury Index	0.43%	-1.44%	2.39%	5.36%	-1.26%
US High Yield	ICE BofAML US High Yield Constrained Index	3.70%	16.87%	-3.96%	2.06%	7.52%
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index	4.30%	8.92%	4.19%	5.65%	0.56%
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index	12.96%	5.47%	-1.65%	-11.14%	-7.14%
REGIONAL EQUITY PERFORMANCE						
United Kingdom	FTSE All-Share Index	13.59%	6.10%	-6.98%	-5.10%	19.46%
EM Latin America	MSCI Emerging Markets Latin America Index (Net)	19.29%	23.25%	-9.16%	-20.94%	-13.83%
Europe ex UK	MSCI Europe ex UK Index (Net)	15.51%	10.68%	-8.27%	-4.73%	28.47%
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)	8.43%	18.39%	-9.65%	-0.33%	1.49%
United States	S&P 500 Index	13.99%	17.17%	1.78%	12.73%	21.86%
Japan	TOPIX, also known as the Tokyo Stock Price Index	21.40%	15.68%	-4.85%	12.23%	8.24%
GLOBAL EQUITY SECTOR PERFORMANCE						
MSCI ACWI Index		14.85%	15.04%	-4.34%	5.42%	16.55%
MSCI ACWI Consumer Discretionary Index		17.26%	11.41%	-1.90%	11.25%	23.06%
MSCI ACWI Consumer Staples Index		4.54%	3.88%	7.45%	8.17%	6.66%
MSCI ACWI Energy Index		6.90%	15.50%	-14.54%	-17.16%	10.71%
MSCI ACWI Financials Index		16.46%	24.84%	-10.93%	3.53%	15.22%
MSCI ACWI Healthcare Index		9.77%	8.19%	-8.34%	20.99%	25.89%
MSCI ACWI Industrials Index		14.98%	16.01%	-1.82%	2.41%	20.04%
MSCI ACWI Information Technology Index		29.44%	24.93%	1.94%	15.94%	23.86%
MSCI ACWI Materials Index		15.91%	25.74%	-12.43%	-7.05%	5.10%
MSCI ACWI Telecommunication Services Index		-0.34%	0.50%	2.82%	1.77%	15.94%
MSCI ACWI Utilities Index		5.29%	3.95%	4.89%	0.36%	12.90%

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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.

Dovish: Dovish refers to the views of a policy advisor (for example at the Bank of England) who has a positive view of inflation and its economic impact and thus tends to favour lower interest rates.

Federal funds rate: The Federal funds rate is the interest rate at which a depository institution lends immediately available funds (balances at the Federal Reserve) to another depository institution overnight in the US.

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.

Hawk: Hawk refers to a policy advisor, for example at the Bank of England, who has a negative view of inflation and its economic impact and thus tends to favour higher interest rates.

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

Technicals: Technicals (also known as technical indicators) are designed to help analyse short-term price movements of stocks and are used to try to predict future price levels.

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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