



KEY TAKEAWAYS

- U.S. equities continued to shine during the third quarter, outpacing their overseas counterparts and delivering impressive performance over the past twelve months. Domestic stocks have been supported by growing profits and a healthy economic environment.
- Trade frictions have weighed on international equities. President Trump moved forward with additional tariffs on \$200 billion worth of imports from China; this was in addition to tariffs on \$50 billion worth of imports already implemented in the summer. The White House has threatened to tariff \$267 billion worth of additional Chinese imports, which would cover essentially all of the goods imported into the U.S. from China.
- In September the Fed hiked rates by 0.25%, for the third time this year. A strong labor market and stable inflation have supported the Fed's path toward policy normalization. The Fed has signaled to markets that another rate hike is likely to take place in December, followed by the possibility of three more in 2019.
- MSCI and S&P have updated the GICS (Global Industry Classification Standard) effective September 28th, removing Telecommunication Services in favor of a Communication Services sector. The scope of the sector has been expanded to include the Media and Entertainment industry groups. Companies such as Facebook, Alphabet (Google), and Netflix will move into this new sector. Another notable change impacts Online Retailers, such as eBay and Alibaba, which will move from Information Technology to Consumer Discretionary.

INDEX PERFORMANCE (as of 9/30/18)

Equity	Quarter	Year-to-Date	One-Year	Three-Year
U.S. Large Cap	7.7%	10.6%	17.9%	17.3%
U.S. Small Cap	3.6%	11.5%	15.2%	17.1%
Developed Non-U.S.	1.4%	-1.4%	2.7%	9.2%
Emerging Market	-1.1%	-7.7%	-0.8%	12.4%
Real Assets				
Real Estate	-1.2%	-2.1%	1.7%	7.7%
Commodities	-2.0%	-2.0%	2.6%	-0.1%
Natural Resource Equities	-2.1%	3.1%	9.3%	10.3%
Fixed Income				
<u>Core Plus</u>				
U.S. High Yield Debt	2.4%	2.6%	3.1%	8.2%
Emerging Market Debt	-1.8%	-8.2%	-7.4%	5.2%
<u>Core Bonds</u>				
U.S. Aggregate Bonds	0.0%	-1.6%	-1.2%	1.3%
U.S. Treasuries	-0.6%	-1.7%	-1.6%	0.2%
U.S. Municipal Bonds	-0.1%	0.0%	-0.2%	1.4%
Month-End Values/Yields	Current	Prior Month	One-Year Ago	Three-Years Ago
CBOE Volatility Index	12.1	12.9	9.5	24.5
10-Year Treasury Yield	3.1%	2.9%	2.3%	2.1%

NEW JERSEY
201-944-PATH (7284)

MASSACHUSETTS
617-350-8999

FLORIDA
239-214-7931

GEORGIA
404-592-0180

WASHINGTON D.C.
301-998-0300

CALIFORNIA
310-734-5320

OREGON
503-228-3941

www.Pathstone.com

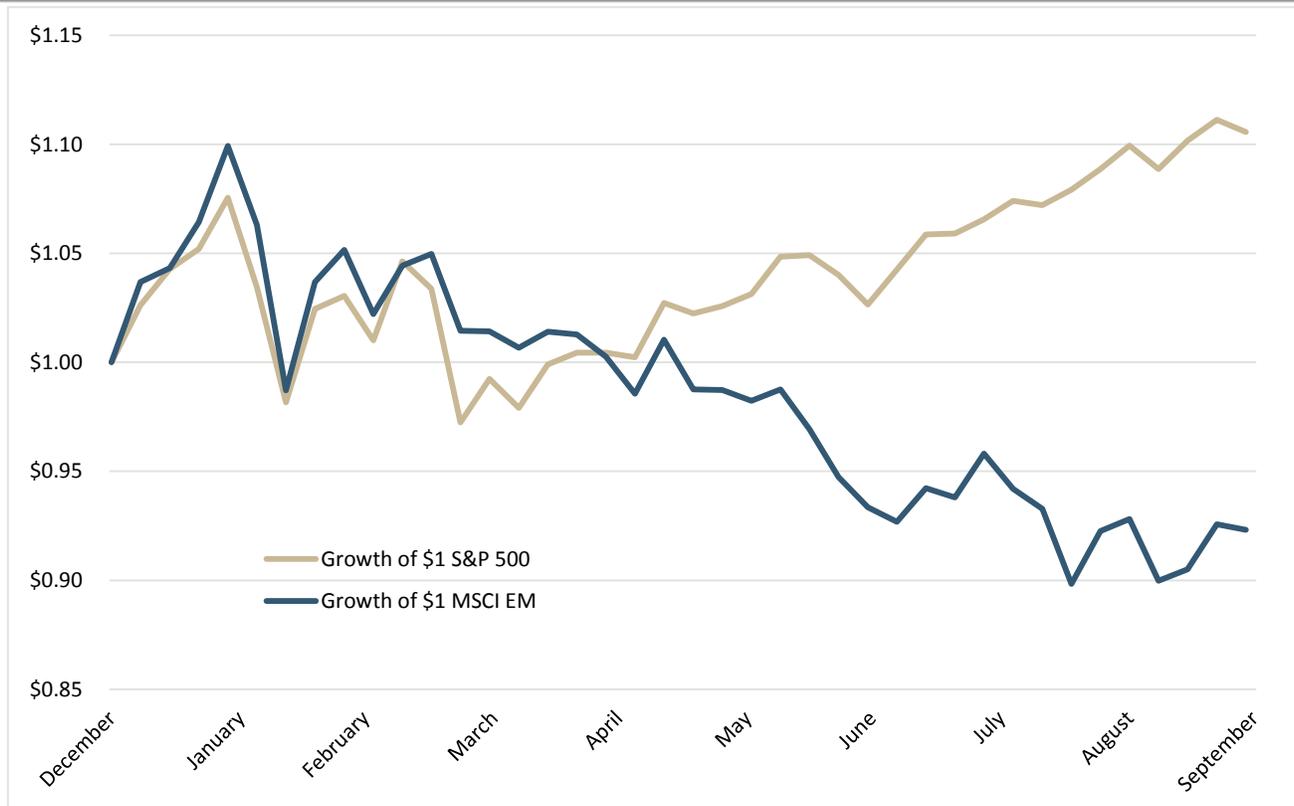
Sources: Bloomberg, Morningstar, treasury.gov.

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved.

REGIONAL COMMENTARY

- Sentiment toward Emerging Market equities has deteriorated quickly this year after a blowout 2017, which saw the asset class return over 37%. As trade concerns escalated over the spring and summer months, momentum quickly shifted out of EM in favor of the U.S.
- U.S. equities have been able to shrug off ongoing trade discussions, and the S&P 500 has propelled to all-time highs.
- Strong economic growth within the U.S. and rising interest rates have caused strengthening of the USD relative to many Emerging Market currencies this year. News headlines throughout the third quarter highlighted concerns of potential contagion effects, as the value of both the Turkish lira and the Argentine peso depreciated rapidly relative to the U.S. dollar.
- Turkey comprises less than 1% of the MSCI Emerging Markets Index. Argentina is classified as a Frontier Market, meaning the index does not have any direct exposure to the country.
- China makes up the largest country allocation within the index (around 31%), and from an attribution standpoint has been the primary contributor to the negative performance.

Year-to-Date Growth of \$1 Invested in the S&P 500 vs MSCI Emerging Markets Index



Sources: Bloomberg. Growth of \$1 represents the year to date total return of each index through 9/30/2018.

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved.

DISCLOSURE

Past Performance Is No Guarantee Of Future Performance. Any opinions expressed are current only as of the time made and are subject to change without notice. This report may include estimates, projections or other forward looking statements, however, due to numerous factors, actual events may differ substantially from those presented. The graphs and tables making up this report have been based on unaudited, third-party data and performance information provided to us by one or more commercial databases. Additionally, please be aware that past performance is not a guide to the future performance of any manager or strategy, and that the performance results and historical information provided displayed herein may have been adversely or favorably impacted by events and economic conditions that will not prevail in the future. Therefore, it should not be inferred that these results are indicative of the future performance of any strategy, index, fund, manager or group of managers. While we believe this information to be reliable, Pathstone bears no responsibility whatsoever for any errors or omissions. Index benchmarks contained in this report are provided so that performance can be compared with the performance of well-known and widely recognized indices. Index results assume the re-investment of all dividends and interest. Moreover, the information provided is not intended to be, and should not be construed as, investment, legal or tax advice. Nothing contained herein should be construed as a recommendation or advice to purchase or sell any security, investment, or portfolio allocation. Any investment advice provided by Pathstone is client specific based on each clients' risk tolerance and investment objectives. This presentation is not meant as a general guide to investing, or as a source of any specific investment recommendations, and makes no implied or express recommendations concerning the manner in which any client's accounts should or would be handled, as appropriate investment decisions depend upon the client's specific investment objectives.

U.S. Large Cap Equity is represented by the S&P 500 Index, with dividends reinvested. U.S. Small Cap Equity is represented by the Russell 2000 Index. Developed Non-U.S. Equity is represented by the MSCI EAFE Index. Emerging Market Equity is represented by the MSCI EM Index. Real Estate is represented by the S&P Global Property Index. Commodities are represented by the DJ UBS Commodity Index. Natural Resource Equities are represented by the S&P North American Natural Resources Index. U.S. High Yield Debt is represented by the Bloomberg Barclays U.S. Corporate High Yield Index. Emerging Market Debt is represented by the JPM GMI-EM Global Diversified Index. U.S. Aggregate Bonds is represented by the Bloomberg Barclays U.S. Aggregate Bond Index. U.S. Treasuries is represented by the Bloomberg Barclays U.S. Treasury Index. U.S. Municipal Bonds is represented by the Bloomberg Barclays Municipal 1-10yr Index.