VOLATILITY AWAKENED IN FEBRUARY AFTER TWO-YEAR HIBERNATION

- After 15 consecutive months of positive returns, the global equity market posted its first negative monthly return since October 2016 and its highest monthly volatility since June 2016.
- Up more than 7% ytd into late January, the global equity market quickly changed direction and sold off more than 9% in less than two weeks.
- February saw 12 daily moves in the S&P 500 of at least 1%, already 50% more than 2017's total of eight. In addition to higher realized volatility, the VIX spiked to its highest level since August of 2015.
- The start of February's downturn coincided with two economic data surprises. Larger-than-expected growth in both payrolls and average hourly earnings triggered fears that the Fed would begin to tighten policy at a faster rate than previously expected.
- As is often the case in times of market stress, February's downturn saw correlations across market segments and asset classes push higher.

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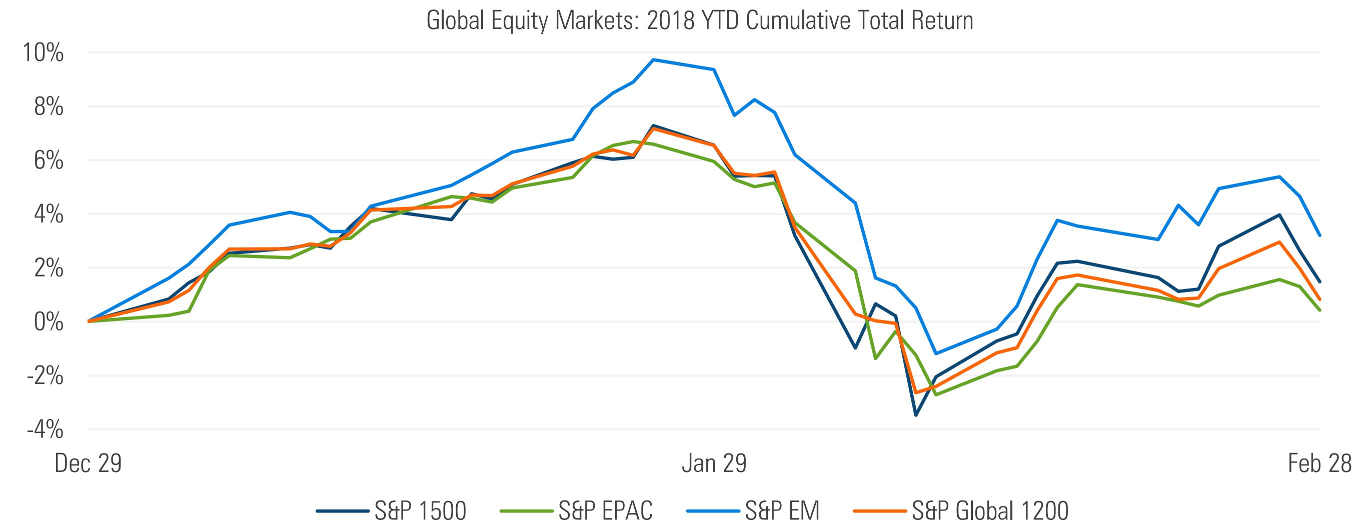
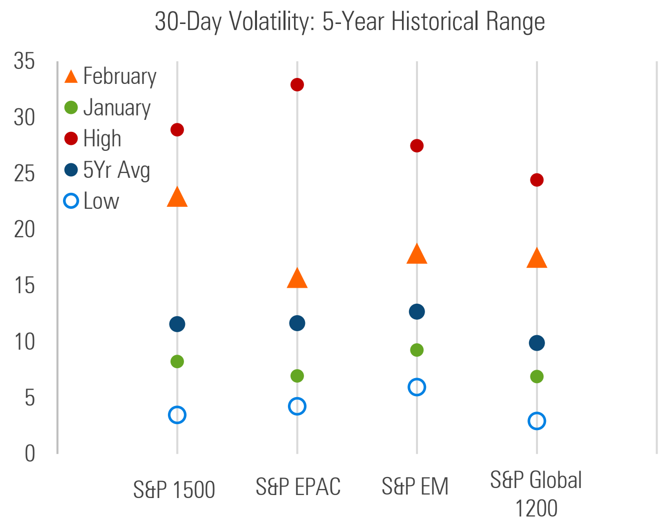
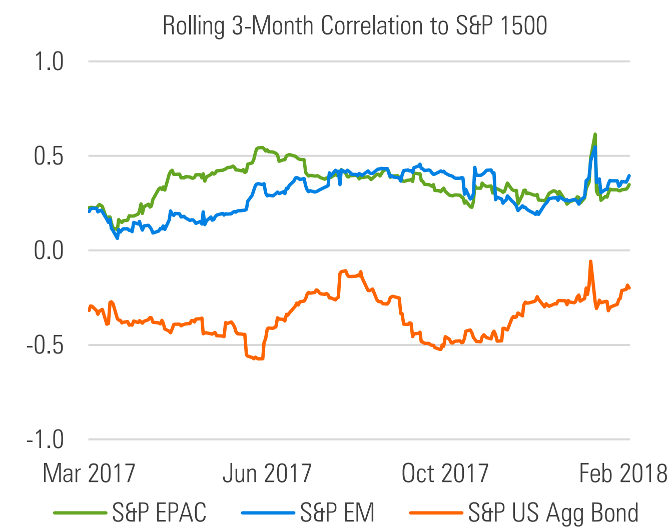




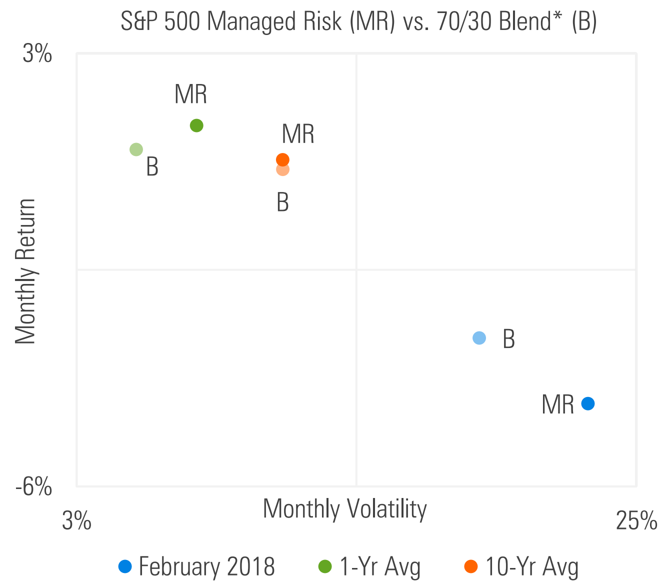


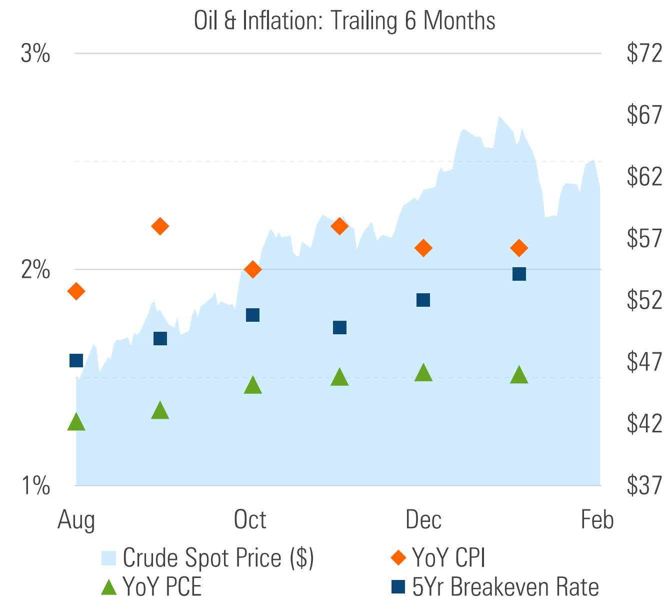
MANAGED RISK INVESTING

- Higher market volatility in February meant that the **S&P 500 Managed Risk Index**, which has an 18% vol cap and no fixed allocation to bonds, reduced its equity allocation for the first time in 18 months. After starting February at a 100% equity allocation, it was reduced down to 60% before finishing the month at 72%.
- Its hedge position helped to limit its participation in both the downturn and the subsequent upturn so that it exhibited less volatility than the S&P 500, but trailed its return by 59 bps for the month.
- Over the last 10 years, the Managed Risk Index has exhibited the same average monthly volatility as a 70/30 blend*, while generating an average excess monthly return of 20 bps.

- If early-month hints of higher inflation stoked fear, the mid-month release of actual inflation numbers probably helped to assuage it.
- The price of oil finished the month lower, while year-over-year CPI and PCE were unchanged.
- The US bond market's return was negative for the second month in a row as rates moved higher and credit spreads widened.

*As measured by the S&P 500 Index and the S&P US Aggregate Bond Index.





Total Returns as of February 28, 2018

	S&P 500	S&P 500 MR	S&P 400	S&P 600	S&P EPAC	S&P EM	S&P Global 1200	S&P US AGG	Crude Oil	US Dollar
1 Month	-3.7%	-4.3%	-4.4%	-3.9%	-4.4%	-4.7%	-4.2%	-0.8%	-5.8%	1.4%
3 Months	3.0%	2.3%	-1.5%	-2.0%	2.0%	6.7%	2.6%	-1.4%	5.6%	-2.4%
6 Months	10.8%	10.2%	8.6%	10.4%	7.4%	10.4%	9.2%	-1.8%	33.0%	-1.5%
1 Year	17.1%	16.4%	9.5%	10.3%	20.6%	30.4%	18.9%	0.7%	14.1%	-8.4%
1M Volatility	8.3%	8.4%	9.1%	10.9%	6.9%	9.3%	6.9%	2.1%	16.5%	5.1%

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