

Key Takeaways

- **Equity markets were mixed but clustered around flat; we see increasing opportunities outside the U.S.**
- **Despite low inflation and wage growth, the Fed seems intent on raising rates and shrinking its balance sheet**
- **GDP posted a 3% rise in Q2, but longer-term productivity and population growth challenges remain**

Overview

- Global equity markets were mixed, with U.S. large cap rising modestly while mid- and small-cap U.S. stocks declined. Overseas, most markets were flat although Asia ex-Japan and emerging markets rose.
- Bond prices were also positive with Treasuries, investment grade credit, and mortgage-backed securities up modestly while high yield declined slightly.
- Hedging strategies and commodities were both slightly positive, but the dollar declined again.

Areas of Opportunity & Concern

- We believe most equity market valuations are stretched, particularly the U.S. Consequently, we have redeployed some capital to non-U.S. equities and toward factors, sectors, and themes that we believe are more attractively valued and may better weather some retrenchment.
- Despite low inflation and wage growth, the Fed seems intent on maintaining its drive toward higher short-term rates, even if longer fixed income maturities have not followed suit.
- In our view, political and geopolitical risks remain high. North Korea and the Middle East continue to pose serious risks, while on the domestic front, the U.S. Congress has very little time to raise the debt limit, pass a budget for fiscal 2018, and provide clean up funds for hurricane Harvey's destruction, let alone pass tax reform or an infrastructure bill.
- We continue to focus on active diversification from straight beta portfolio exposures in favor of factor allocations, along with non-correlated investment strategies, and direct equity hedge strategies.

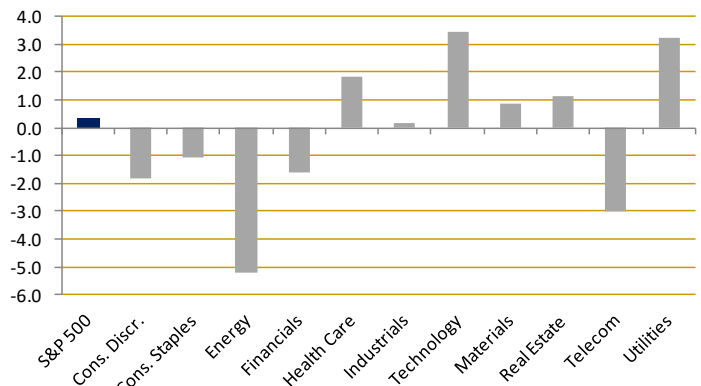
Key Market & Economic Indicators

	Bullish	Favorable	Neutral	Cautious	Bearish
Equities					
		Aug 2017	Trailing 3 Months	Trailing 1 Year	Current View
U.S. Large & Mid Cap		0.31%	3.01%	16.23%	■ Cautious
U.S. Small Cap		-1.27%	2.90%	14.91%	■ Cautious
International		-0.04%	2.66%	17.64%	■ Neutral
Emerging Markets		2.23%	9.42%	24.53%	■ Neutral
Fixed Income					
U.S. Aggregate		0.90%	1.23%	0.49%	■ Neutral
U.S. Government		1.06%	1.08%	-0.84%	■ Cautious
U.S. Corporate		0.84%	1.84%	1.90%	■ Favorable
U.S. High Yield		-0.04%	1.20%	8.63%	■ Neutral
Non-U.S. Developed		1.35%	4.64%	1.11%	■ Cautious
Emg Market Debt		1.63%	4.13%	9.45%	■ Bearish
Alternatives					
REITs		-0.25%	3.17%	-1.08%	■ Neutral
Commodities		0.65%	4.10%	5.81%	■ Bearish
Managed Futures		2.28%	2.82%	-2.01%	■ Cautious
Hedge Fund		0.29%	1.44%	5.58%	■ Favorable

Source: Morningstar

Data as of 08/31/2017

S&P 500 Sector Returns (%) 1 Month Trailing (As of 08/31/2017)



Source: Morningstar

Important Disclosures

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Genesis and Palladium have discretion to change allocations to styles and vehicles at any time.

Index definitions:

“U.S. Large Cap” represented by the S&P 500 Index.

“U.S. Small Cap” represented by the Russell 2000 Index.

“International” represented by the MSCI Europe, Australasia, Far East (EAFE) Net Return Index.

“Emerging” represented by the MSCI Emerging Markets Net Return Index.

“U.S. Aggregate” represented by the Barclays U.S. Aggregate Bond Index.

“U.S. Government” represented by the Barclays U.S. Government Bond Index.

“U.S. Corporate” represented by the Barclays U.S. Credit Bond Index.

“U.S. High Yield” represented by the Barclays U.S. Corporate High Yield Index.

“Non-U.S. Developed” represented by the S&P International Treasury ex U.S. Index.

“Emg Market Debt” represented by the JP Morgan GBI-EM Global Core Index

“REITs” represented by the FTSE North American Real Estate Investment Trust (REIT) Equity REITs Index.

“Commodities” represented by the Dow Jones Commodity Index.

“Managed Futures” represented by the Credit Suisse Managed Futures Index.

“Global Macro” represented by the Credit Suisse Global Macro Index

Direct investment in an index is not possible.

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