SAWGRASS Asset Management, L.L.C.

Financial Review & Outlook

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Stock Market: Quarter in Review

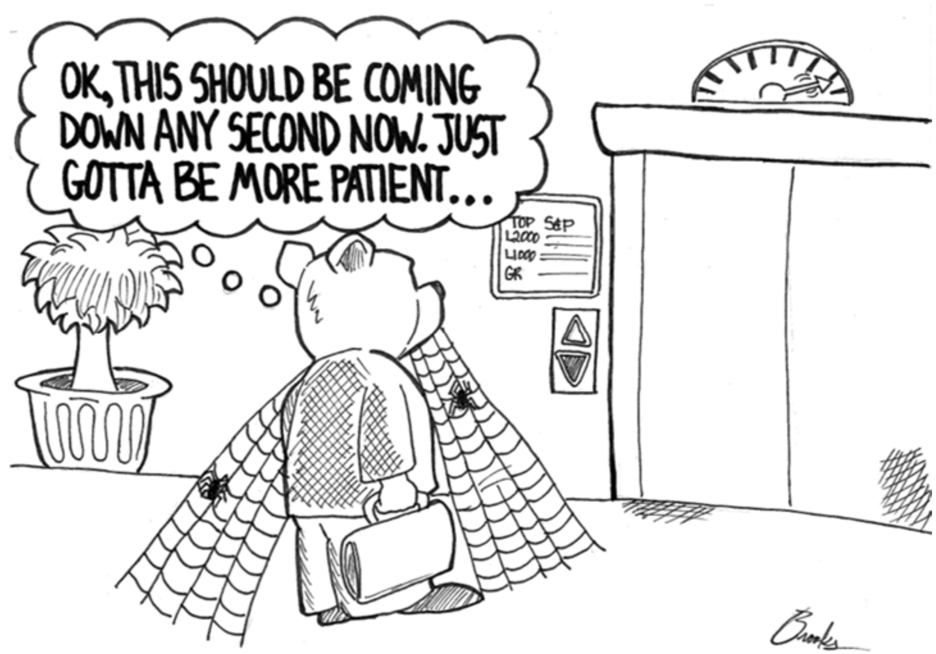
- The equity markets continued their low volatility rise in the third quarter as the major indices posted 4-6% gains to record impressive year-to-date and one year returns.
- The rally since the lows prior to the election has seen the major large cap indices rise over 20% while enduring little in the way of meaningful downside.
- Factor performance was mixed for the quarter with the strongest signals being generated by higher beta and higher momentum stocks as the markets generally continued to embrace risk.
- Small cap and growth outperformed large cap and value as the best sector performers were Information Technology, Energy, and Materials while the relative laggards were Consumer Staples, Consumer Discretionary, and Healthcare.

Stock Market: The Quarter Ahead

- Stocks enter the fourth quarter on an unlikely run that has seen continued momentum despite a number of headwinds, most notably the current valuation landscape.
- Political and international uncertainties remain wild cards for the maintenance of recent gains and the ability to continue higher once this momentum driven portion of the rally has run its course.
- The major indices are now in ninth year of a bull market run that has seen compounded annual returns of over 15% with valuation multiples expanding well beyond the rate of earnings growth and the economic fundamentals that support that growth.
- Despite the recent improvement in earnings growth rates, the market's rise in advance of this improvement has already potentially discounted much of the better growth with valuation multiples remaining at elevated levels.
- Still unknown and yet to be implemented fiscal stimulus packages, including tax reform, are likely underpinning some of the hopes for continued gains and any failure to see anticipated changes could leave the markets vulnerable.
- The recent strength in the small and midcap indices, after lagging most of the year, provides technical support for continued upside going forward.
- Additionally, the inability of the major indices to correct in any meaningful way over the last year shows the underlying momentum and strength in the uptrend that could continue through the fourth quarter and beyond as the major indices have little in the way of major resistance to impede their progress higher.
- However, the continued momentum and frequency of new highs has likely led to greater investor complacency about risk levels and possibly created a chase men-

3rd Quarter Scorecard		Table 1
Index	Quarter	1 Year
S&P 500	4.5%	18.6%
Russell 1000	4.5%	18.5%
Russell 2000	5.7%	20.7%
Russell 3000	4.6%	18.7%
Russell 3000 Growth	5.9%	21.9%
Russell 3000 Value	3.3%	15.5%
Barclays Capital US Aggregate	1.1%	0.7%
3 Month T-Bills	0.3%	0.7%

Source: Bloomberg & Russell Investments



tality in market participants that is not as fundamentally driven and is easily reversed once sentiment changes.

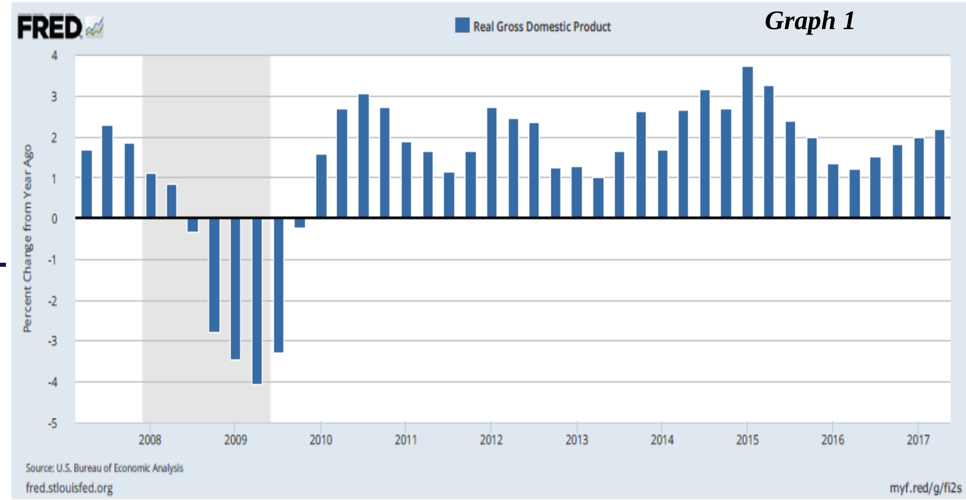
- Despite the market's overall continued strength and momentum, investor expectations should remain low for meaningful increases from this point until stocks have a chance to more thoroughly digest the recent gains.

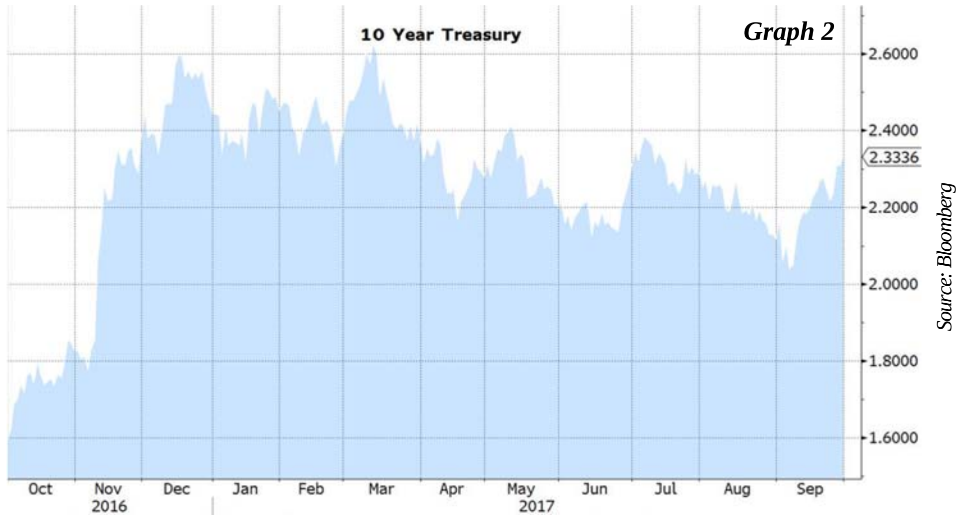
Fixed Income Markets

As the bull market enters its ninth year, a slow but steady pace of economic growth has persisted (see Graph 1). Job growth continues with unemployment at 4.4%, wages growing at 2.5% year-over-year and an upward revision in GDP signaling positive momentum in the economy. Consumer confidence can be seen in sentiment indicators as well as in positive housing and manufacturing statistics. The recent hurricanes in Texas, Florida and Puerto Rico will slow down economic growth in the near-term but the rebuilding effort and subsequent spending will boost activity later in the year and into 2018. Confirmation of this growth story can be seen in the equity markets as the Dow, S&P and Nasdaq sit at record highs.

Much of the growth can be attributed to unprecedented levels of monetary policy quantitative easing as pleas for assistance in the form of fiscal policy have become louder. Immediately after the election, the hope that an accommodative fiscal policy stance would become reality seemed to overtake the markets leading to a bullish atmosphere and rising rates (see Graph 2). After the initial move, however, hope began to fade as various efforts stalled in Washington with the lack of any major legislative victories. But, as the current quarter came to an end, optimism was once again restored in the markets as the administration released a preliminary outline of tax reform. While there are still many details to work out and changes that will inevitably be made, the framework for the plan calls for simplified individual tax brackets and a corporate tax rate of 20%, with the hopes of providing economic stimulus. Even with a one party majority in the House and Senate, a difficult road awaits with an early 2018 passage seen as the earliest timeline.

Before this announcement, and without the impetus of any major developments for much of the quarter, the Treasury market remained mostly range bound. The 10 year Treasury moved from 2.30% on 6/30 to 2.32% on 9/30 and the Barclays Aggregate returned 0.85% for the quarter, mostly driven by corporate spread tightening. Fed dots continue to forecast rising rates, with three rate hikes expected in 2018 and two in 2019. The probability of a December 2017 rate hike increased from 25% to 70% by the end of September. With numerous openings at the Federal Reserve, including a potential new Chair with Janet Yellen's term expiring in February, a shift in policy beliefs may occur with a more hawkish tone the most likely scenario. As discussed in last quarter's writing, continued rate hikes will be accompanied by the reduction of the Federal Reserve Balance sheet beginning in October. With rising rates and a low probability of an impending recession, caution in bonds is recommended.





Interest Rate Summary **Table 2**

	9/30/16	6/30/17	9/30/17	Qtr Change	12-Month Change
3 Month T-Bills	0.3	1.0	1.0	0.0	+0.8
5 Year Treasury	1.1	1.9	1.9	0.0	+0.8
10 Year Treasury	1.6	2.3	2.3	0.0	+0.7
30 Year Treasury	2.3	2.8	2.9	0.0	+0.5
5 Year Corporate ('A')	1.9	2.5	2.5	0.0	+0.6
10 Year Corporate ('A')	2.6	3.2	3.2	0.0	+0.6
30 Year Fixed Rate Mortgage	3.32	3.9	3.8	-0.1	+0.5

Source: Bloomberg