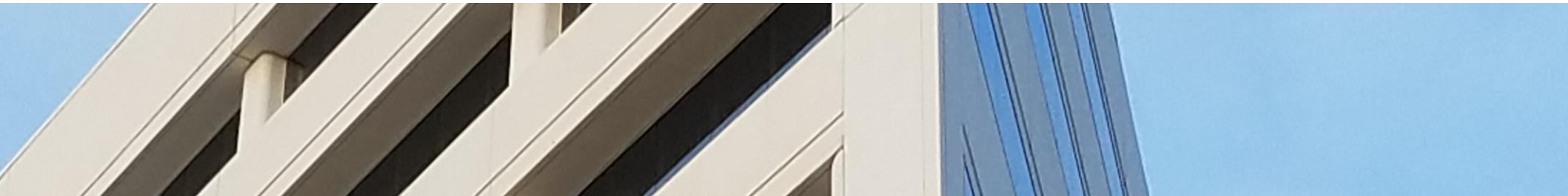




# WILSHIRE ASSOCIATES

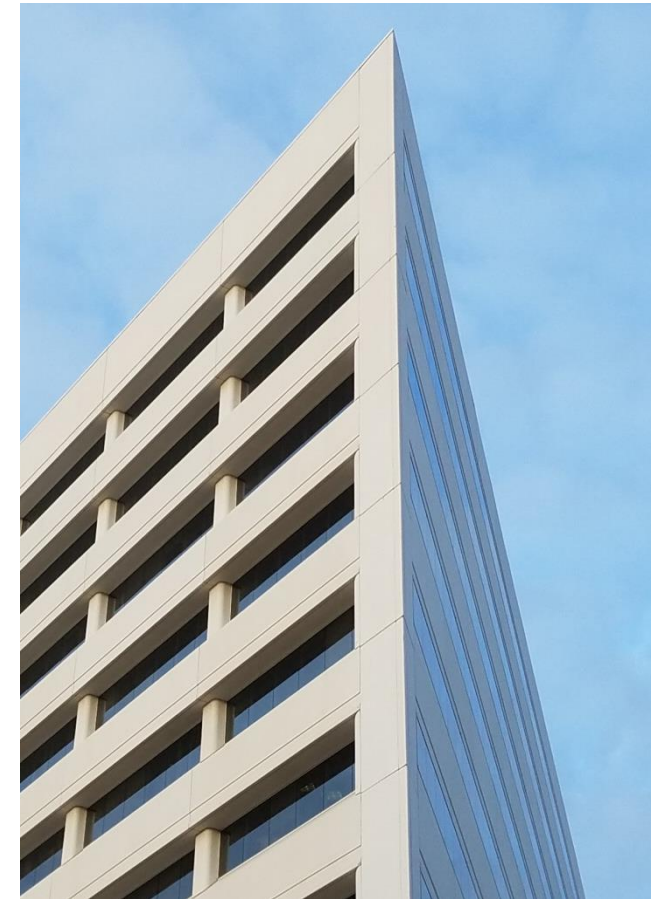
Wilshire Consulting



Monthly Valuation Analysis

# INTRODUCTION

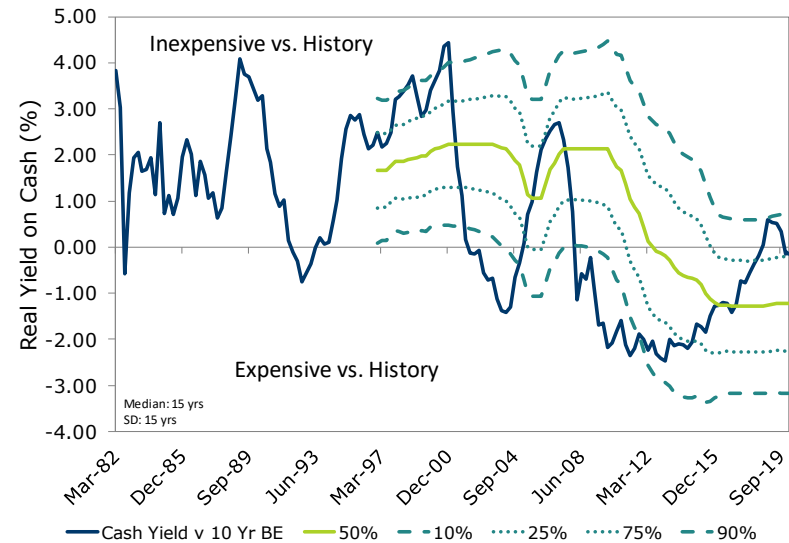
- Analysis includes current valuation levels versus historical norms within and among various asset classes
- Results rely on historical data (i.e. current price levels are compared to historical observations)
- Historical time period used to calculate average observation is the past 15 years ending the most recent quarter-end
- Most exhibits include a ‘median’ line along with breakpoints calculated assuming a normal distribution of outcomes:
  - Conditions are expressed as probabilities with the low end (1%) implying an “expensive” situation and the high end (99%) as “inexpensive” versus history
  - +/- 0.67 standard deviations represents the 75/25% outcomes
  - +/- 1.28 standard deviations represents the 90/10% outcomes
- Yields, including dividend yield for equities, have been used throughout to create a consistent comparison when comparing one asset class to another



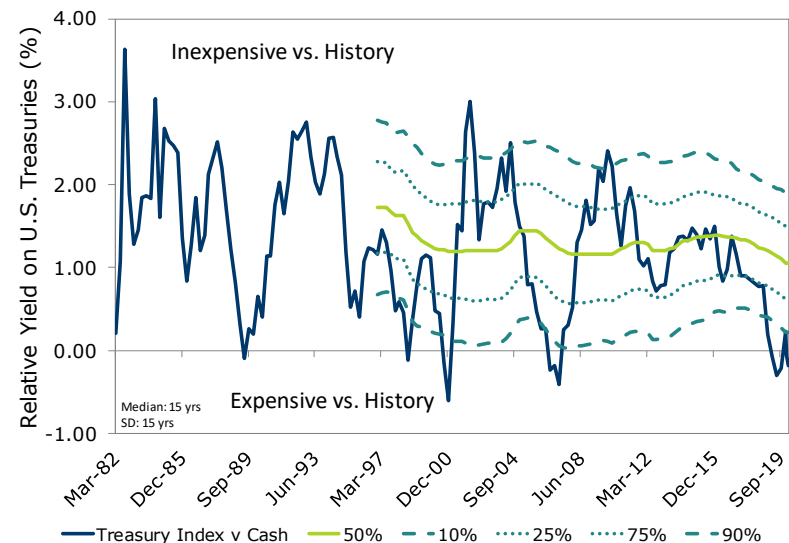
# CASH AND TREASURY BONDS

- Real yield on cash is again below zero
  - 3-month Treasury = 1.27%;  
Breakeven inflation = 1.41%
  - Yield on 10-year TIPS is negative (-0.28%) but has generally been positive since 2013
  
- Spread between the broad Treasury market index and cash is again negative (-0.18%)
  
- After briefly correcting its inversion, the yield curve is sharply downward sloping from the short-term to the 2-year maturity and generally inverted across most of the maturity spectrum

CASH YIELD VS 10-YEAR BREAKEVEN



TREASURY INDEX VS CASH

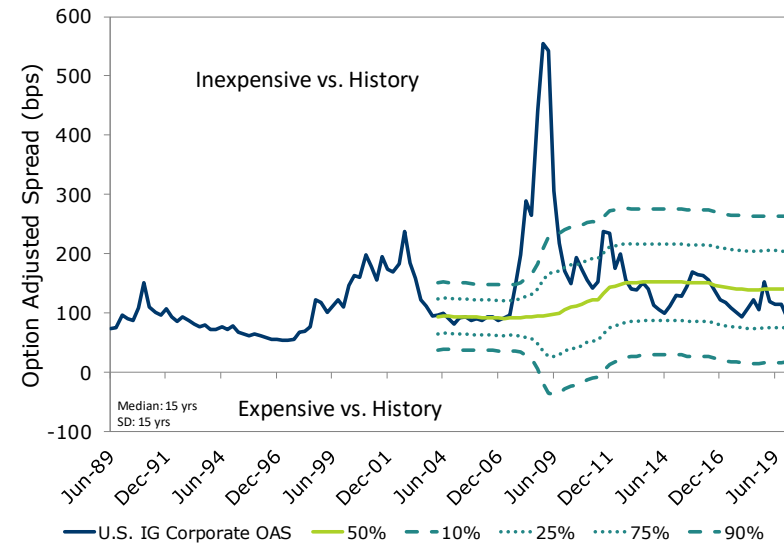


Data source: Bloomberg

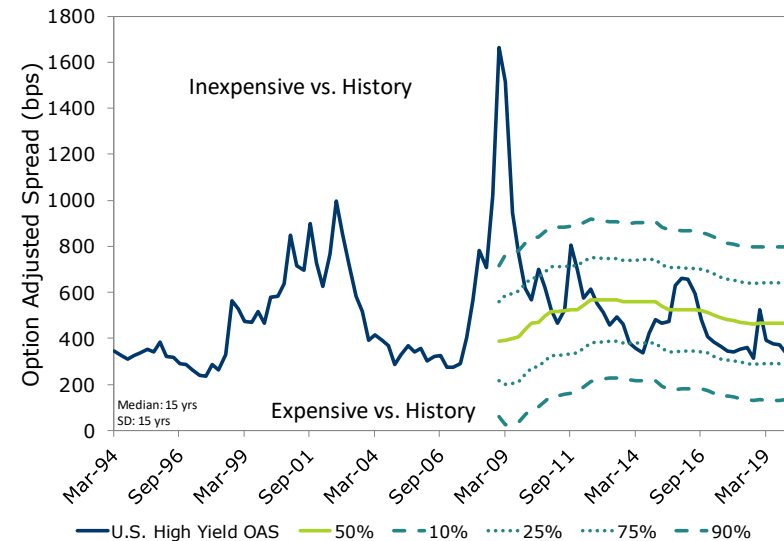
# RELATIVE FIXED INCOME YIELDS

- Spread versus Treasuries on the investment grade index is below its 15 year historical median, at the 43%-percentile outcome
- Spread on high yield bonds is above the historical median, currently at the 55%-percentile outcome

INVESTMENT GRADE CORPORATE OAS



HIGH YIELD OAS

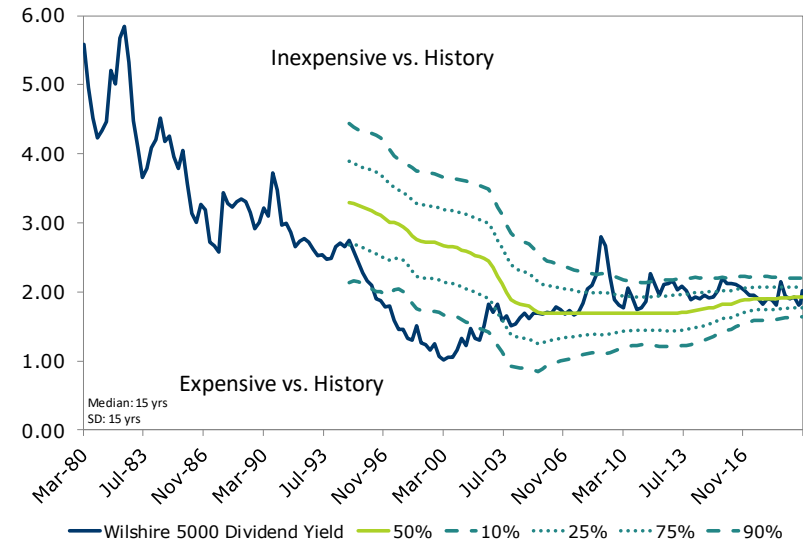


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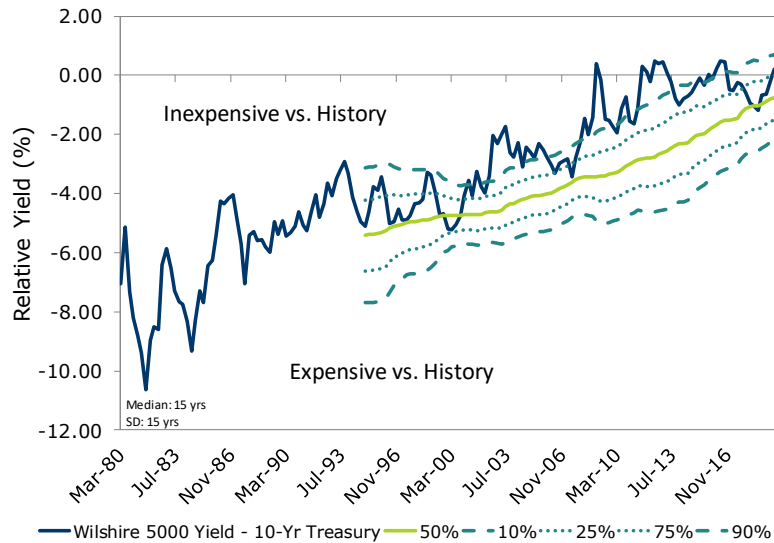
# U.S. EQUITY VALUATIONS

- Distribution of historical dividend yield is tight; current observation at the 66%-percentile outcome
- Spread (discount) between the dividend yield and Treasuries has decreased as yields have fallen through the years

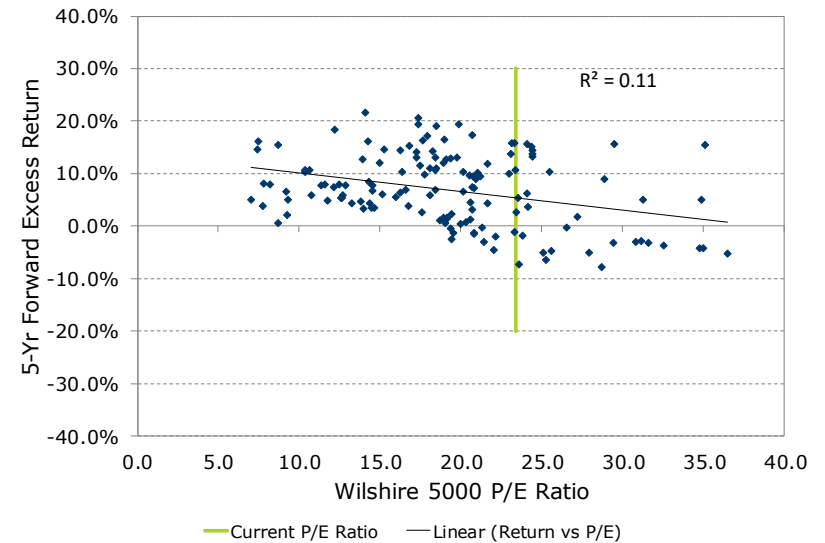
WILSHIRE 5000 DIVIDEND YIELD %



EQUITY TO TREASURY YIELD SPREAD



P/E RATIO & SUBSEQUENT EXCESS RETURN (OVER CASH)

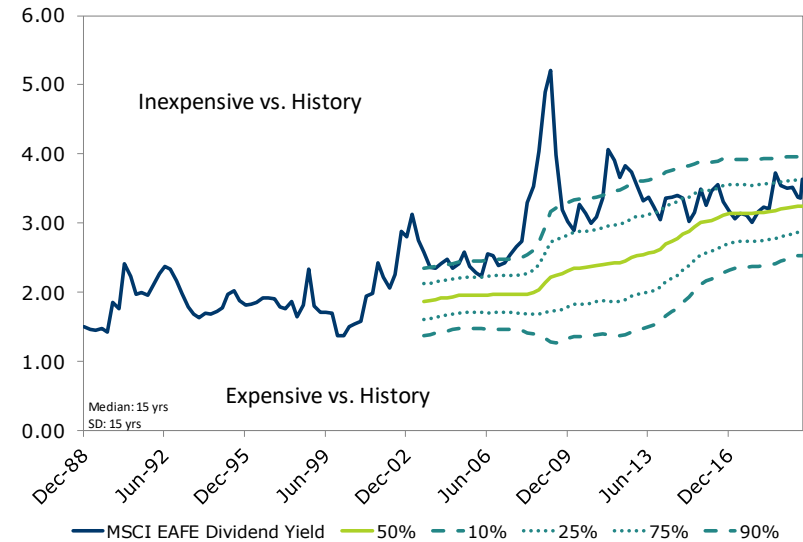


Data sources: Wilshire Atlas, Bloomberg

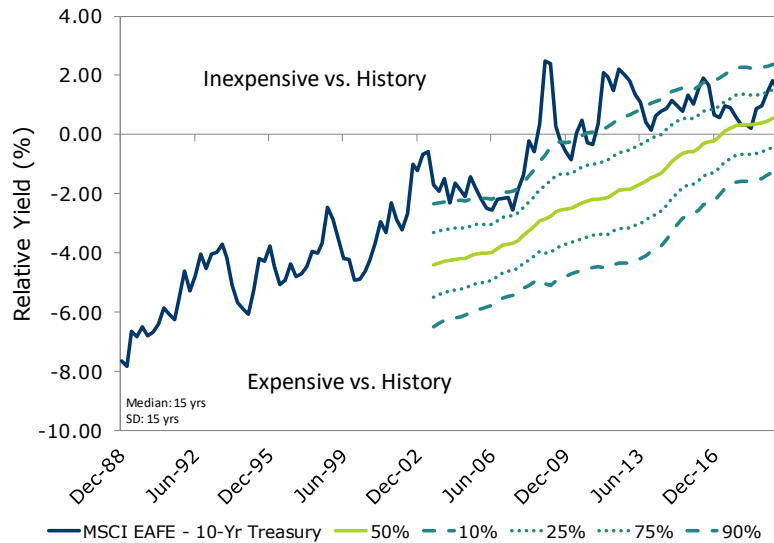
# DEVELOPED MARKET VALUATIONS

- Dividend yield is above the 15-year median; at the 76%-percentile outcome
- Spread between Developed Equity and the 10-Year Treasury has been narrowing

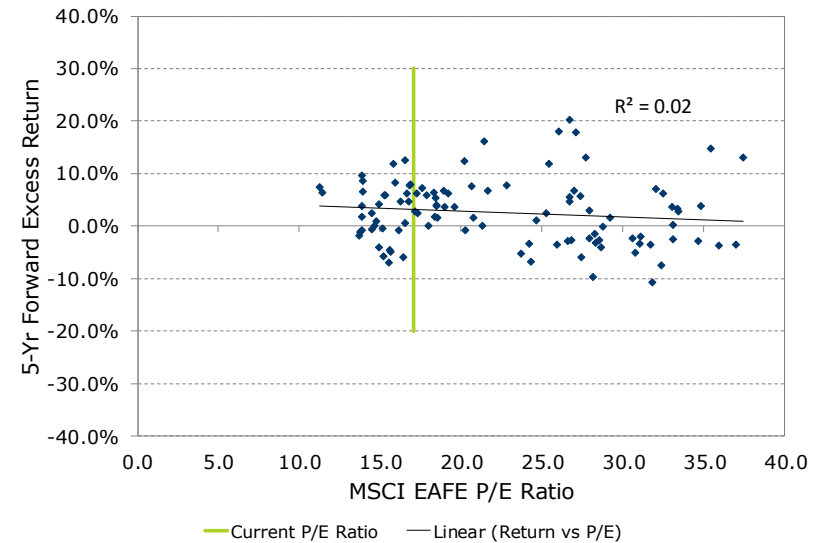
MSCI EAFE DIVIDEND YIELD %



EQUITY TO TREASURY YIELD SPREAD



P/E RATIO & SUBSEQUENT EXCESS RETURN (OVER LIBOR)

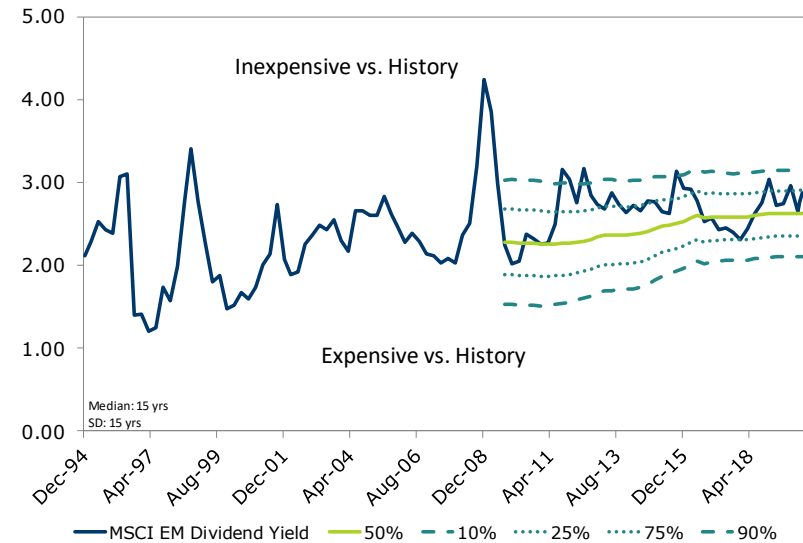


Data source: Bloomberg

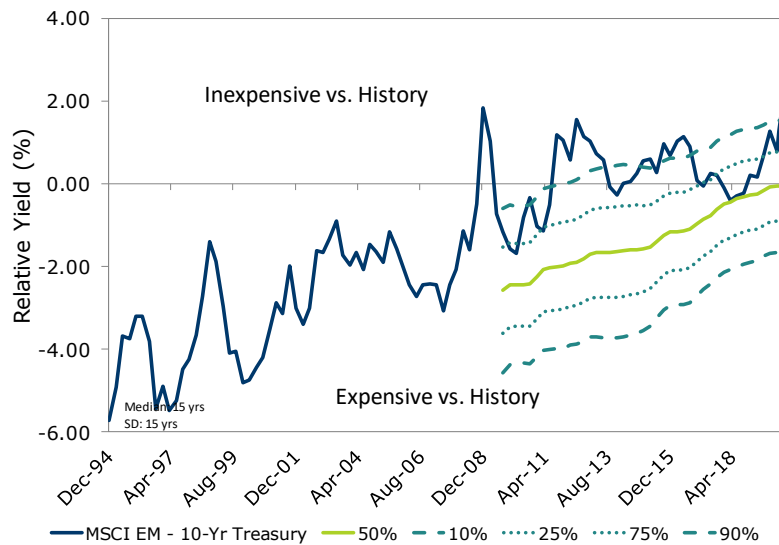
# EMERGING MARKET VALUATIONS

- Current dividend yield above its 15-year median; at the 73%-percentile outcome
- Spread between Emerging Market Equity and the 10-Year Treasury has been narrowing

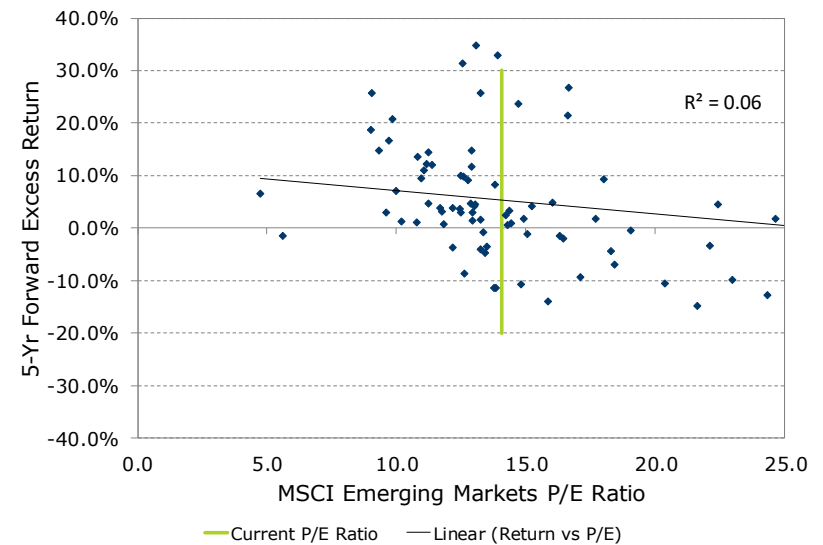
MSCI EMRG MRKT DIVIDEND YIELD %



EQUITY TO TREASURY YIELD SPREAD



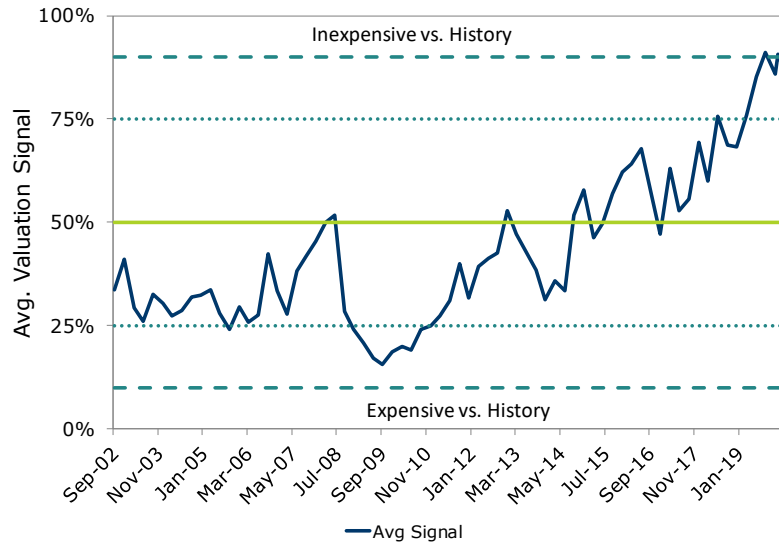
P/E RATIO & SUBSEQUENT EXCESS RETURN (OVER LIBOR)



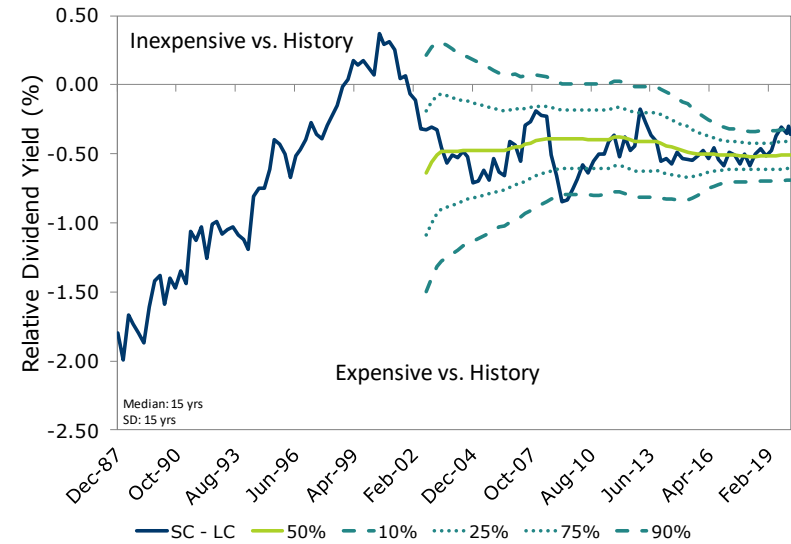
Data source: Bloomberg

# RELATIVE U.S. EQUITY: SIZE

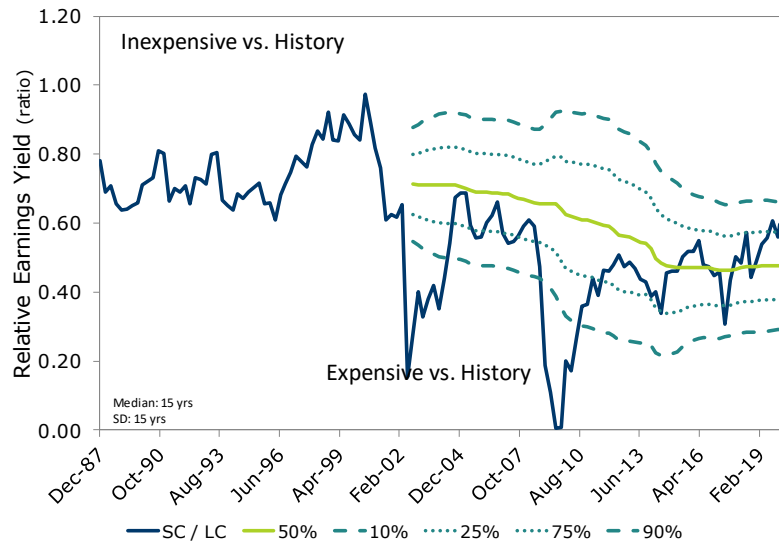
U.S. SMALL CAP RELATIVE TO LARGE CAP



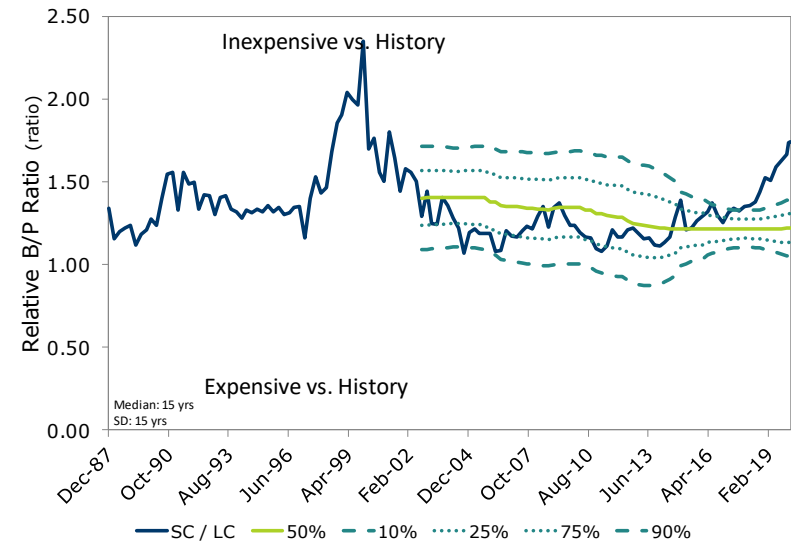
U.S. SMALL CAP RELATIVE TO LARGE CAP



U.S. SMALL CAP RELATIVE TO LARGE CAP



U.S. SMALL CAP RELATIVE TO LARGE CAP



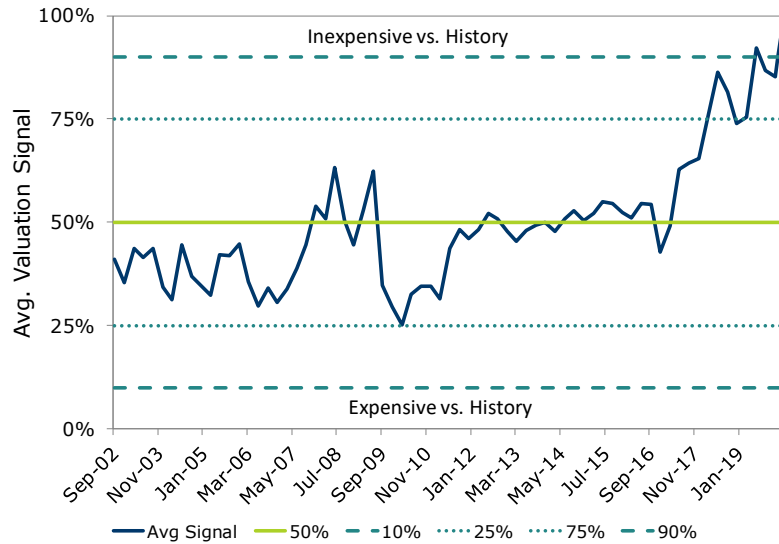
Data source: Bloomberg

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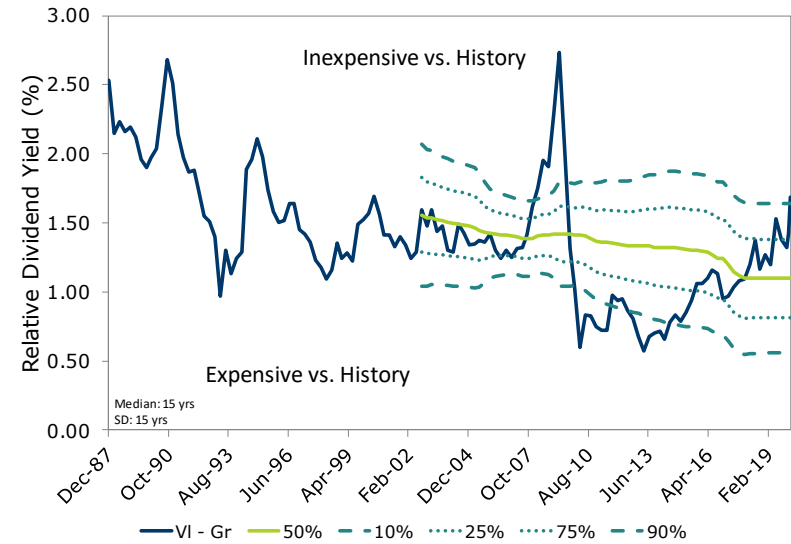


# RELATIVE U.S. EQUITY: STYLE

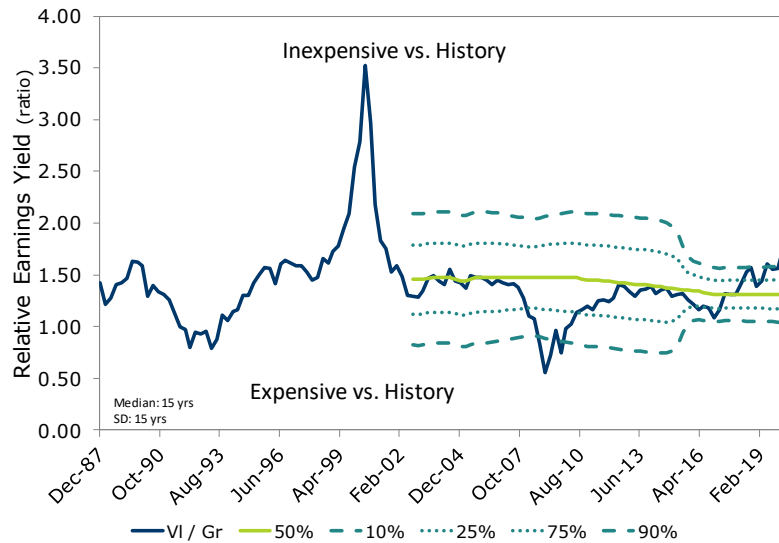
U.S. VALUE RELATIVE TO GROWTH



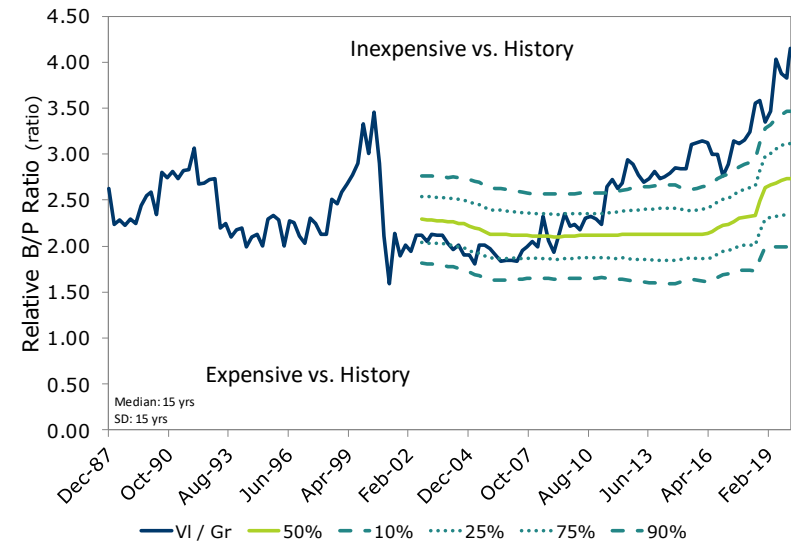
U.S. VALUE RELATIVE TO GROWTH



U.S. VALUE RELATIVE TO GROWTH



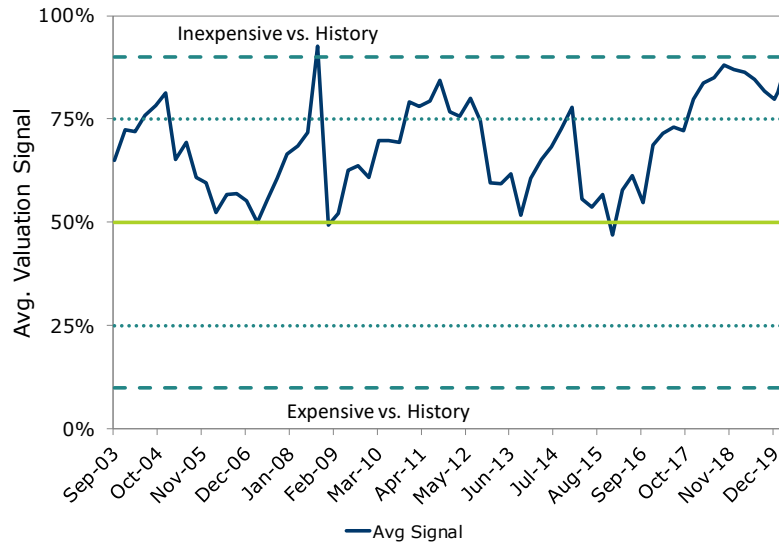
U.S. VALUE RELATIVE TO GROWTH



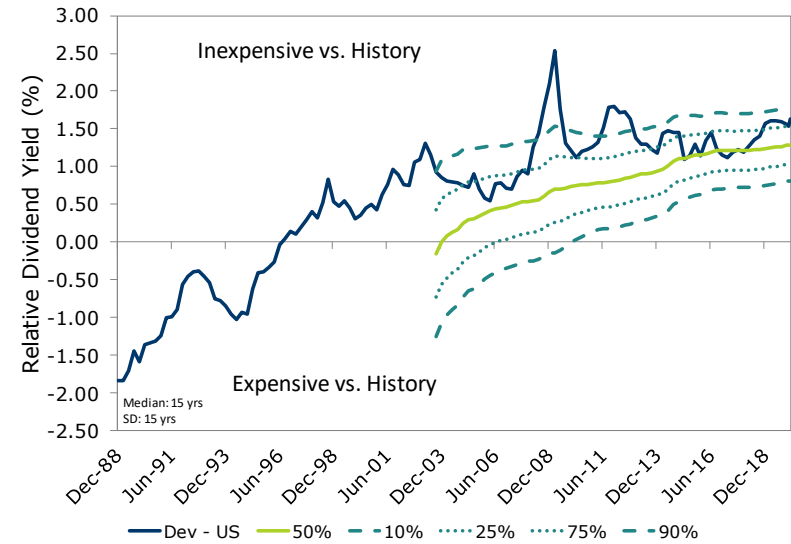
Data source: Bloomberg

# GLOBAL EQUITY: DEVELOPED

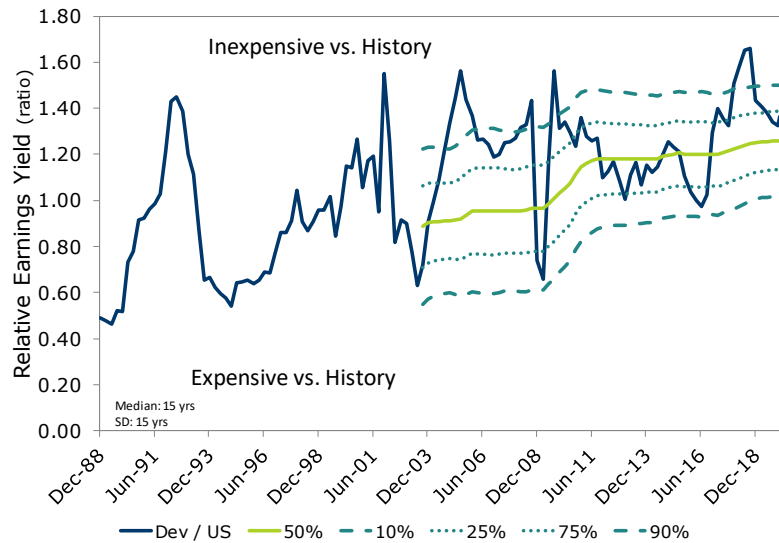
NON-U.S. DEV EQUITY RELATIVE TO U.S. EQUITY



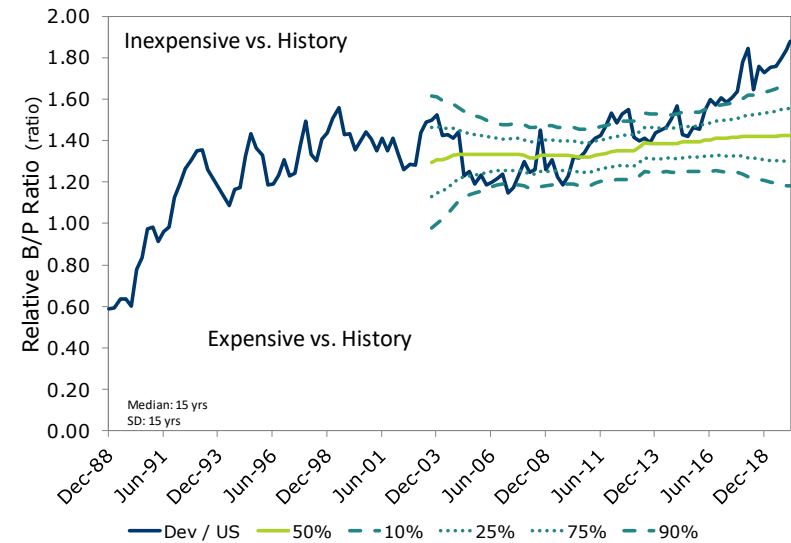
NON-U.S. DEV EQUITY RELATIVE TO U.S. EQUITY



NON-U.S. DEV EQUITY RELATIVE TO U.S. EQUITY



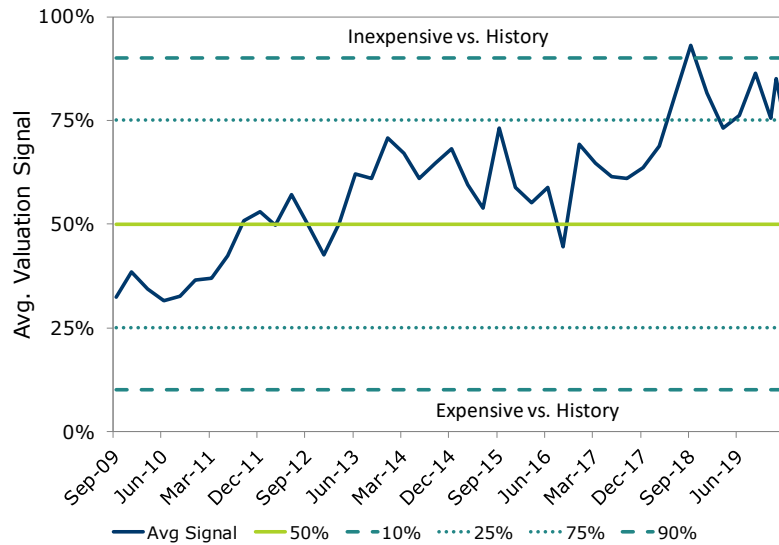
NON-U.S. DEV EQUITY RELATIVE TO U.S. EQUITY



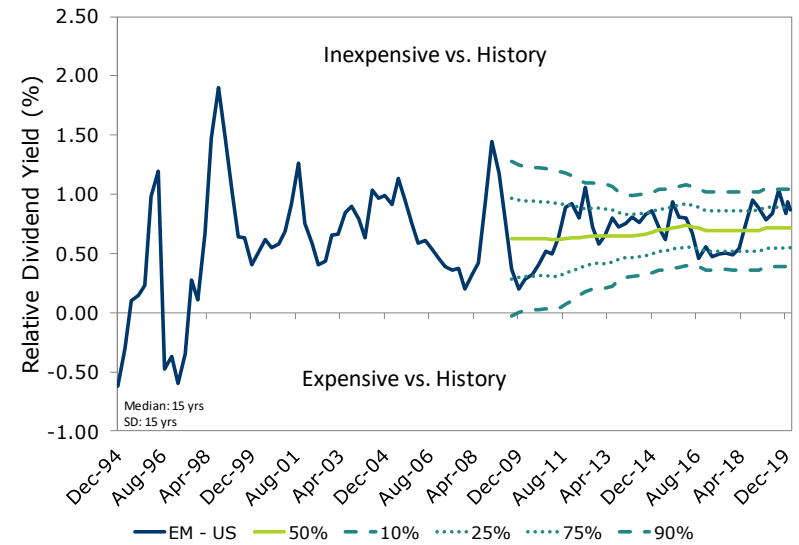
Data sources: Wilshire Atlas, Bloomberg

# GLOBAL EQUITY: EMERGING

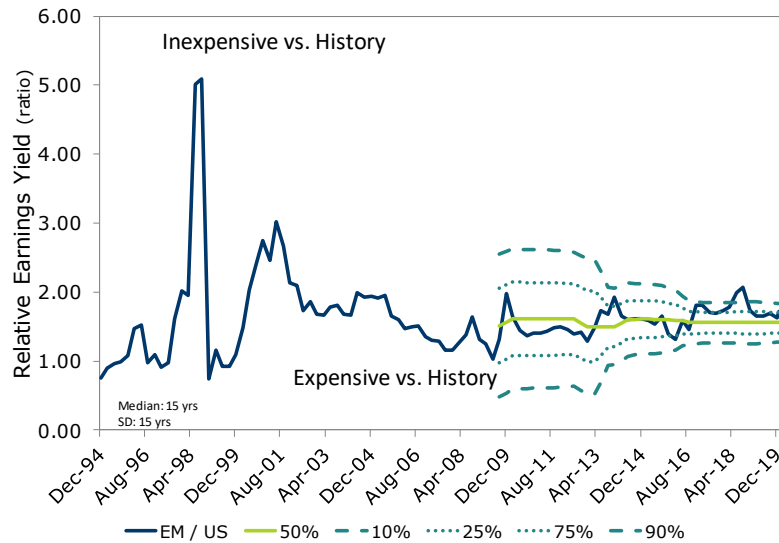
EMRG MRKT EQUITY RELATIVE TO U.S. EQUITY



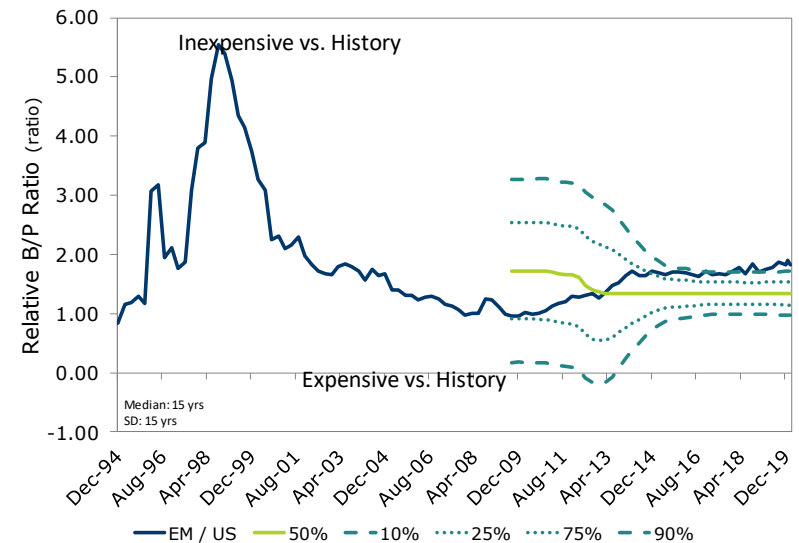
EMRG MRKT EQUITY RELATIVE TO U.S. EQUITY



EMRG MRKT EQUITY RELATIVE TO U.S. EQUITY



EMRG MRKT EQUITY RELATIVE TO U.S. EQUITY



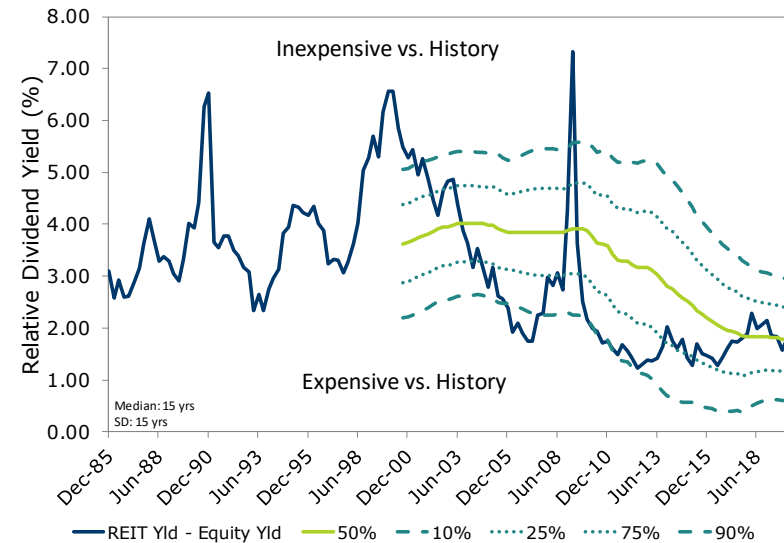
Data sources: Wilshire Atlas, Bloomberg

# RELATIVE YIELD ON REAL ASSETS

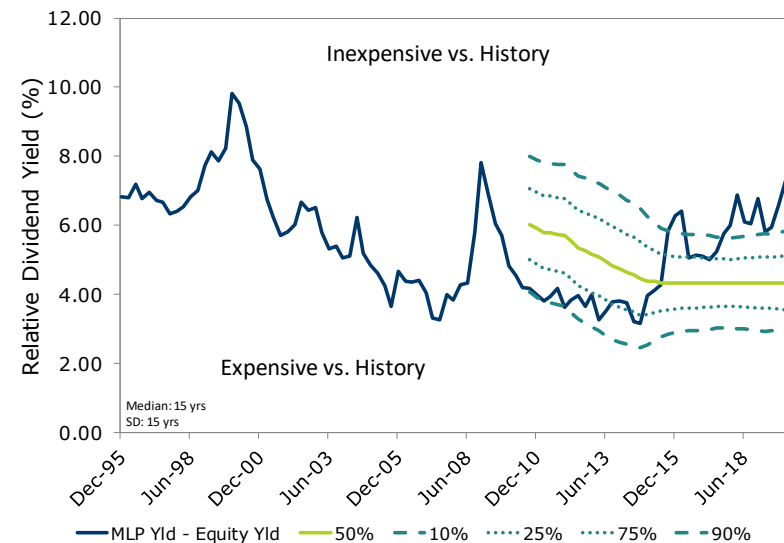
- REIT yields typically run higher than the earnings yield for the broad equity market
- Current relative yield at the 56%-percentile outcome

- MLP prices have been quite volatile for the past few years
- Current relative yield is at the 100%-percentile outcome after a -19% sell-off this year

REIT YIELD RELATIVE TO U.S. EQUITY



MLP YIELD RELATIVE TO U.S. EQUITY



Data sources: Wilshire Atlas, Bloomberg

Wilshire Consulting  
SUMMARY



- Yield spread on the broad Treasury index is negative versus 3-month Treasuries
- Credit spreads are near the historical medians
- Equity signals are yield-based only in the following exhibit
- Non-U.S. equity is Inexpensive versus U.S. stocks

ASSET CLASS	FACTOR	CURRENT	HISTORICAL MEDIAN	CURRENT FROM MEDIAN (SD)	CURRENT VALUATION %
CASH	Real Yield	-0.14	-1.23	0.72	76%
U.S. TREASURIES	Relative Yield to Cash	-0.18	1.06	(1.89)	3%
U.S. IG CORPORATE	Spread to Treasuries	122	140	(0.19)	43%
U.S. HIGH YIELD	Spread to Treasuries	500	466	0.13	55%
U.S. EQUITY	Dividend Yield	2.01	1.92	0.41	66%
NON-U.S. DEV EQUITY	Dividend Yield	3.64	3.25	0.69	76%
NON-U.S. EMRG MRKT	Dividend Yield	2.87	2.63	0.60	73%
U.S. REITs	Relative Yield to Eqty	1.91	1.78	0.14	56%
MLPs	Relative Yield to Eqty	9.53	4.35	4.44	100%
SMALL V LARGE	Relative Yield	-0.36	-0.51	1.02	85%
VALUE V GROWTH	Relative Yield	1.68	1.10	1.39	92%
NON-U.S. DEV V U.S.	Relative Yield	1.63	1.28	0.93	82%
EMRG MRKT V U.S.	Relative Yield	0.86	0.72	0.58	72%

# CROSS-ASSET CLASS VALUATION

- Methodology: matrix below summarizes relative relationships among asset classes
  - 15 years of yield data is used for each AC
  - The difference in yield is calculated and the resulting percentile of each outcome is included in the matrix, for example:
    - » Current Treasuries to Core Bonds spread is -0.6%, above its median of -0.9%
    - » Spread is tighter than normal (with 72% probability) meaning that Treasuries are getting “inexpensive” relative to Core Bonds (which are getting “expensive”)
- Relative yields on Non-U.S. markets are attractive versus U.S. Equity

AS OF FEBRUARY 29, 2020	ASSET CLASS RELATIONSHIP RELATIVE TO EACH OF THE FOLLOWING:									
	INFLATION	CASH	TREASURY	CORE BONDS	HIGH YIELD	REITs	MLPs	U.S. STOCKS	NON-U.S. DEV	EMRG MRKT
CASH	76%		97%	94%	64%	62%	2%	70%	61%	60%
TREASURY	34%	3%		72%	47%	25%	0%	26%	24%	21%
CORE BONDS	32%	6%	28%		41%	18%	0%	19%	19%	16%
HIGH YIELD	45%	36%	53%	59%		22%	0%	29%	27%	27%
REITs	73%	38%	75%	82%	78%		0%	56%	38%	41%
MLPs	100%	98%	100%	100%	100%	100%		100%	100%	100%
U.S. STOCKS	89%	30%	74%	81%	71%	44%	0%		18%	28%
NON-U.S. DEV	87%	39%	76%	81%	73%	62%	0%	82%		60%
EMRG MRKT	90%	40%	79%	84%	73%	59%	0%	72%	40%	