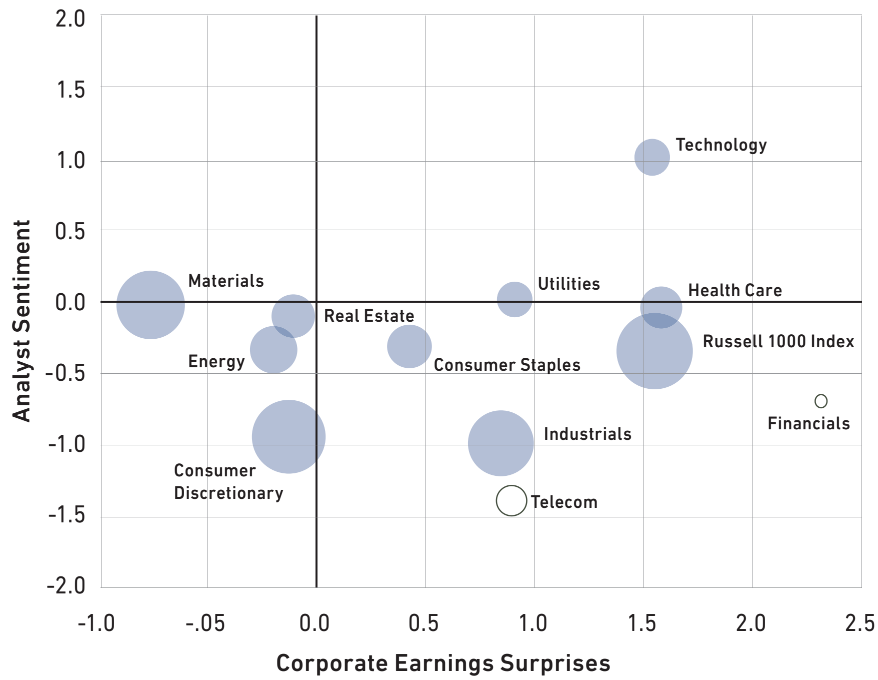
361 CAPITAL

Wall Street Mood Monitor™

The Wall Street Mood Monitor is a three-factor model gauging the climate or "mood" for active management within each sector. The factors include sentiment, earnings trends and correlations. Sectors in the top right represent areas where active management conditions may be favorable based on positive earnings surprises and positive analyst sentiment, as measured by the number of upward revisions during the quarter. Correlations are assessed by comparing each sector's current intra-sector correlations to its historical average. Larger circles represent lower correlations.



Circle size represents the magnitude of difference between current correlation to its long-term average (i.e., larger equals lower correlation). Hollow circles indicate higher-than-average correlations.

Below we examine the three components of the chart in more detail, including earnings, sentiment and correlations.

Earnings Still Riding Hot Streak

Corporate earnings continue to pleasantly surprise. Fifty-four percent of companies beat their consensus estimates by at least one standard deviation this quarter, down from the record 55% set last quarter.

The number of companies reporting substantial earnings misses, meanwhile, remains low. Only 13% of companies announced one standard deviation misses, which is near record lows set in 2010. The spread between one standard deviation beats and misses remains near its highest level in 15 years.

In every sector, the percentage of companies reporting one standard deviation earnings surprises exceeded those reporting substantial misses. The Technology, Health Care and Financial sectors experienced the highest ratios of earnings surprises.

Wall Street Sentiment Languishes

The third quarter was marked by a sudden disconnect between earnings results and analyst sentiment.

In the first half of the year, as a greater portion of corporate earnings surpassed expectations, earnings upgrades followed. For the first time since early 2014, Wall Street experienced several consecutive months in which the total number of analyst earnings estimate upgrades exceeded downgrades.

In the third quarter, however, the relationship between earnings and sentiment broke down. Earnings continued to topple expectations, but the ratio of positive and negative estimate revisions was neutral in July and August. Downgrades then increased considerably in September. For the last month, 55% of total Wall Street analyst earnings revisions were negative, marking the highest level of pessimism since June 2016.

The only segments where analysts remained relatively optimistic were the Technology, Health Care and Utility sectors.

Correlations: Lower for Longer

There was little change to report about intra-market correlations, which continue to hover near 15-year lows.

The most remarkable thing about the low correlation environment may be its persistence: Stocks are experiencing the longest period in which market correlations were below long-term averages since before the financial crisis.

Correlations within the Materials and Consumer Discretionary sectors have declined the most relative to their long-term averages. The Financials and Telecom sectors were the only two experiencing correlations higher than their long-term averages.

Sector Spotlight: Technology, Utilities

Technology: A Sweet Spot

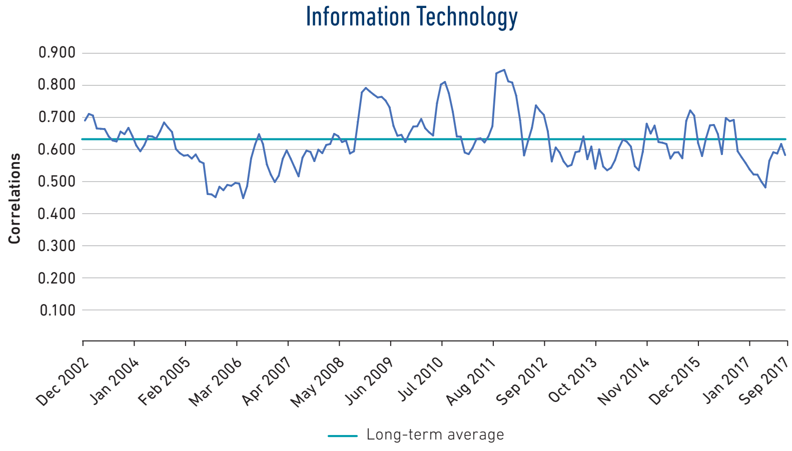
Conditions within the Technology sector appear far more favorable for active managers than other sectors. This sector is one of few areas where Wall Street's sentiment remains favorable.

Sentiment broadly took a turn for the worse in September, with downward earnings estimate revisions far outpacing positive ones. The Technology sector bucked the trend: nearly 70% of all revisions within the sector were positive. That marks the highest rate of positive revisions for the sector in seven years.

Earnings trends in the sector were also stronger than the rest of the market. Seventy-one percent of technology companies reported earnings that were one standard deviation greater than consensus estimates, while only 6% reported earnings substantially lower. The rate of technology companies significantly beating consensus expectations was higher than any other sector (Health Care was second with 62%).

Correlations within the Technology sector fell in the last three months and remain below their long-term averages.

Intra-Sector Correlations



- **Correlations among technology stocks are still below their long-term average.**

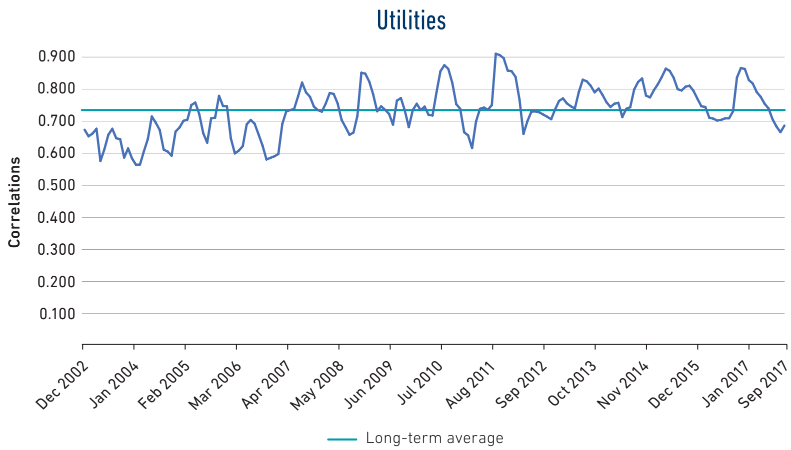
Utilities: Power Potential

While Technology stands out as the brightest sector for active managers on our three-factor model, conditions in the Utilities sector are also conducive for stock selection.

Similar to Technology, sentiment remains positive; the Utilities sector was one of only three in which analysts continued to issue more positive earnings estimate revisions than negative. (Health Care was the other sector.)

Earnings trends within the Utilities sector were also positive: forty-nine percent of companies reported earnings that significantly beat consensus expectations, while only 20% reported earnings that significantly disappointed.

The big change for Utilities lies in correlations. Since late 2016, stock correlations within the sector have steadily trended lower, finally resting below long-term averages.



- **Since late 2016, correlations within the Utilities sector have trended lower and now rest below long-term averages.**

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