

Market Overview

The trade disputes between the United States and most of its largest trading partners loomed over the global market in the third quarter. Since the spring, there had been a significant divergence between the equity markets of nations heavily dependent upon trade and the U.S. equity market. While the S&P500® slowly worked higher in value, major indices of such export-dependent nations as China and Korea saw double-digit declines (in both local currency and U.S. dollar terms). Some indices, such as the Shanghai Composite, entered bear market territory with losses from the January peaks of over 20%.

On September 17th, the Trump Administration announced the latest round of tariffs on Chinese imports. The 10% tariff on \$200 billion in imports seems to have been taken with a sense of relief by the markets, as there had been indications the tariffs could be 25%. In fact, mid-September marked an interim trough in many trade-sensitive equity markets. By quarter-end most of these indices had rebounded.

In the third quarter the U.S. equity markets largely shook off this noise, instead focusing on strong Gross Domestic Product and earnings growth. By late August the S&P500 was hitting all-time highs. The S&P500 ended the quarter with a 7.7% total return, 2.8% above its January peak.

The blockbuster second quarter earnings release season delivered earnings growth over 25%. Much of that growth is directly due to the first-order effects of lower corporate tax rates. However, we believe even without lower taxes earnings would still be strong, as evidenced by the second quarter revenue growth of over 10%. This represents the fastest revenue growth since 2011.

Looking forward, October will see the beginning of the third quarter earnings season. At this point, it is expected that the companies of the S&P500 will report earnings over 20% higher than the same period last year, on revenue growth of over 8% (according to FactSet). Assuming a strong fourth quarter as well, the consensus estimates currently expect full-year earnings growth in 2018 of over 20%, with revenue growth topping 8%. Having lapped the implementation of the corporate tax cuts, companies will face tough earnings comparisons in 2019.

Fund Overview

The 1290 DoubleLine Dynamic Allocation Fund pursues its investment objective by investing, under normal circumstances, in a diversified range of securities, and other financial instruments, including derivatives, which provide investment exposure to equity and fixed income investments. In the third quarter of 2018, the 1290 DoubleLine Dynamic Asset Allocation Fund gained 4.08%, while the Fund's benchmark – a blend of the S&P500 (60%) and Bloomberg Barclays U.S. Aggregate (40%) – gained 4.59%. This underperformance was partially due to the Fund's conservative asset allocation, underweight equities relative to the 60% benchmark weight during the quarter. During the period, the S&P500 gained 7.71% and the Bloomberg Barclays U.S. Aggregate was essentially flat (returning 0.02%).

Source for all figures above: DoubleLine Capital

Fund Highlights

What helped performance during the quarter?

The return of the Fund's fixed income investments was positive in the quarter, exceeding the Bloomberg Barclays U.S. Aggregate. Within the fixed income portfolio, the high yield, bank loans, and investment grade corporate bonds delivered the best returns. The weakest returns were in global bonds, residential mortgage-backed securities, and government bonds.

During the quarter, the Shiller Barclays CAPE U.S. Sector Index (CAPE Index) was allocated to four sectors: consumer discretionary, healthcare, industrials and technology. One of these sectors, consumer discretionary, slightly underperformed the S&P500. Of the three outperforming sectors, healthcare provided the best returns. The Fund's overall exposure to the CAPE Index outperformed the S&P500 in the third quarter.

The Fund's allocation to active equities underperformed during the quarter. Within the Fund's active equity investments, holdings in materials and healthcare were the greatest contributors to relative returns. Investments in the information technology and energy sectors were the greatest detractors .

Source: Brandywine Global

An investor should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. To obtain a prospectus containing this and other information, please call 1-888-310-0416 or download the file from www.1290funds.com. Read the prospectus carefully before you invest.

1290 DoubleLine Dynamic Allocation Fund seeks to achieve total return from long-term capital appreciation and income. The Fund's allocations may change at any time. Performance may be affected by one or more of the following risks. Fixed income investments are subject to interest rate risk so that when interest rates rise, the prices of a fixed income security can decrease and the investor can lose principal value. Equity securities may be bought on stock exchanges or in the over-the-counter market. Equity securities generally include common stock, preferred stock, warrants, securities convertible into common stock, securities of other investment companies and securities of real estate investment trusts. In general, stocks and other equity security values fluctuate, and sometimes widely fluctuate, in response to changes in a company's financial conditions as well as general market, economic and political conditions and other factors. To the extent the Fund invests more heavily in particular sectors, its performance will be especially sensitive to developments that significantly affect those sectors.

The Fund's Index is a blend of 60% S&P 500® Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index. The **S&P 500® Index** is an unmanaged index which contains 500 of the largest U.S. industrial, transportation, utility and financial companies deemed by Standard and Poor's to be representative of the larger capitalization portion of the U.S. stock market. **The Bloomberg Barclays U.S. Aggregate Bond Index** is an unmanaged index considered representative of the U.S. investment-grade fixed-rate bond market. Includes government and credit securities, agency mortgage pass through securities, asset-backed securities, and commercial-backed mortgage securities. **The Shanghai Stock Exchange Composite Index**, is a market composite made up of all the A-shares and B-shares that trade on the Shanghai Stock Exchange. Individuals cannot invest directly in an index.

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Past performance is no guarantee of future performance.

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