Market Update – May 2018

Global stocks eked out a gain of 0.4% in May, with U.S. stocks pulling all of the weight. U.S. small stocks were the top performer – gaining 6.1%! Results were mixed among bonds, but U.S. bonds managed marginal, positive returns. Despite continued global growth, stock and bond markets have had trouble gaining traction in 2018, resulting in mostly flat returns.

Economy

- The second estimate of first quarter real GDP growth was revised down to an annualized rate of 2.2% - down from the fourth quarter rate of 2.9%. However, the first quarter has been a bit of an anomaly in recent years – frequently posting more sluggish growth than the rest of each year.
- Inflation (CPI) ticked up slightly, although still rounding to a 2.4% gain over last year's data. The Fed appears to welcome a modest overshoot of its 2% goal, given years of shortfall.
- The unemployment rate continued its fall and now sits at 3.8% - a figure that has not been bested since 1969!

Stocks

- The S&P 500 gained 2.4% in May, but U.S. small cap (+6.1%) and U.S. small value stocks (+4.7%) posted even stronger gains.
- Flipping the script from April, international stocks were the weakest performers. Specifically, international large value (-4.3%) and emerging markets (-3.5%) were a drag on performance.

Bonds

- Geopolitical concerns overseas increased interest in U.S. bonds while putting some pressure on international bonds (-0.1%).
- The increased interest drove yields on U.S. bonds lower, prompting gains in short-term (+0.2%) and intermediate-term bonds (+0.6%), as well as TIPS (+0.4%).

Alternatives

- Global REITs (+2.2%), commodities (+1.4%), and reinsurance (+0.6%) continued to post gains in May, while managed futures (-1.1%) were stifled by prices whipsawing in several global markets.

Sources: Bureau of Economic Analysis (BEA), Federal Reserve, Morningstar Direct, Standard and Poor's, JP Morgan.

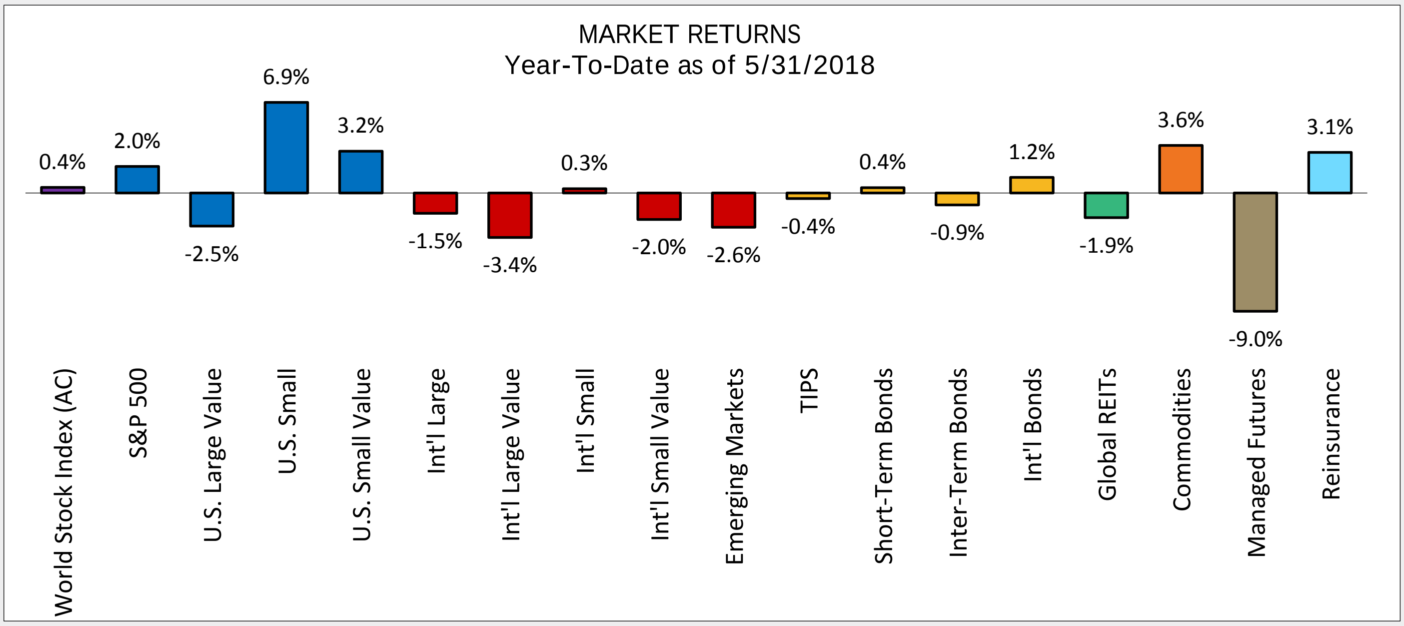
Brexit: **Then, Now, and What's to Come**

On June 23, 2016 British voters stunned politicians and investors alike by choosing to leave the European Union (EU). The narrow victory hammered stocks around the globe as the S&P 500 dropped 5.3% and the FTSE 100, measuring U.K. stocks, plunged 5.6% over their next two trading sessions. Legislators and economists, among other influencers, insisted that Brexit may be the wrench in the synchronized global growth story. So with the benefit of watching this story play out for almost two years, what do we know now and what can we expect?

Looking back, we experienced yet another period in which markets dared investors to cash out, yet rewarded those who remained fully invested. Since the initial drop following the vote, the MSCI World Stock Index is up 40.0%. Even the FTSE 100 has gained 38.6%! According to the International Monetary Fund, the global economy grew at a rate of 3.8% in 2017. Again besting fearful predictions, the U.K. economy grew 1.8% during 2017. So much for a speed bump for global growth and an imminent recession in the U.K.!

As expected, Brexit has been a very slow process. About nine months after the vote, the U.K. invoked Article 50 on March 29, 2017 – an official plan to negotiate their exit from the EU. By invoking Article 50, the U.K. initiated a two-year discussion on how they will withdraw from the EU – scheduling the official exit for March 29, 2019. However, as it stands, both sides have agreed to a 21-month transition period to help ensure a smooth start to this new era which will officially begin on January 1, 2021. This long transitional period may appear to drag out the process, but it is pivotal to ensure both parties are ready to participate in the global economy in a way neither has had to in decades.

While both sides have reason to prefer a smooth exit, prior to Brexit no nation state has ever left the EU. Even after negotiations are complete and policies are set, we likely will not know the true impact of Brexit for many years. As always, it will be important to separate geopolitical noise from true market fundamentals. But this uncertainty, once again, reinforces the importance of maintaining a globally diversified portfolio.



MARKET RETURNS - Longer Term Annualized as of 5/31/2018

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
STOCKS							
S&P 500	2.4%	2.0%	14.4%	11.0%	13.0%	9.1%	9.3%
U.S. Large Value	0.6%	-2.5%	8.7%	8.6%	10.5%	7.7%	8.8%
U.S. Small	6.1%	6.9%	20.8%	11.0%	12.2%	9.6%	10.6%
U.S. Small Value	4.7%	3.2%	14.0%	10.2%	11.1%	9.3%	10.7%
Int'l Large	-2.2%	-1.5%	8.0%	4.3%	5.9%	2.1%	7.5%
Int'l Large Value	-4.3%	-3.4%	5.9%	2.7%	4.8%	1.3%	7.2%
Int'l Small	-0.7%	0.3%	14.4%	10.0%	11.1%	5.9%	11.4%
Int'l Small Value	-2.0%	-2.0%	11.3%	9.1%	10.8%	5.8%	11.8%
Emerging Mkts	-3.5%	-2.6%	14.0%	6.2%	4.5%	1.6%	11.4%
World Stock Index (AC)	0.4%	0.4%	12.5%	7.7%	9.1%	5.3%	8.7%
BONDS							
TIPS	0.4%	-0.4%	0.7%	1.5%	0.9%	3.1%	3.9%
Short-Term Bonds	0.2%	0.4%	0.6%	0.3%	0.2%	0.5%	1.4%
Interm-Term Bonds	0.6%	-0.9%	-0.7%	1.0%	1.4%	3.1%	3.2%
International Bonds	-0.1%	1.2%	2.5%	3.3%	4.1%	4.5%	4.2%
ALTERNATIVES							
Global REITs	2.2%	-1.9%	3.9%	4.8%	6.3%	5.1%	9.1%
Commodities	1.4%	3.6%	11.0%	-2.8%	-6.6%	-7.9%	-0.6%
Managed Futures	-1.1%	-9.0%	-6.2%	-3.8%	2.5%	2.5%	5.3%
Reinsurance	0.6%	3.1%	2.1%	4.5%	5.2%	6.9%	7.4%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mty Index, Interm-Term Bonds-Barclays Interm-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdg, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

Past performance is historical and does not guarantee or indicate future results. Index returns assume reinvestment of all distributions and unlike mutual funds, do not reflect fees or expenses. It is not possible to invest directly in an index. This report is not intended to provide personalized investment advice. Some information has been produced by unaffiliated third parties, and while it is deemed reliable, the advisor does not guarantee its accuracy or completeness.

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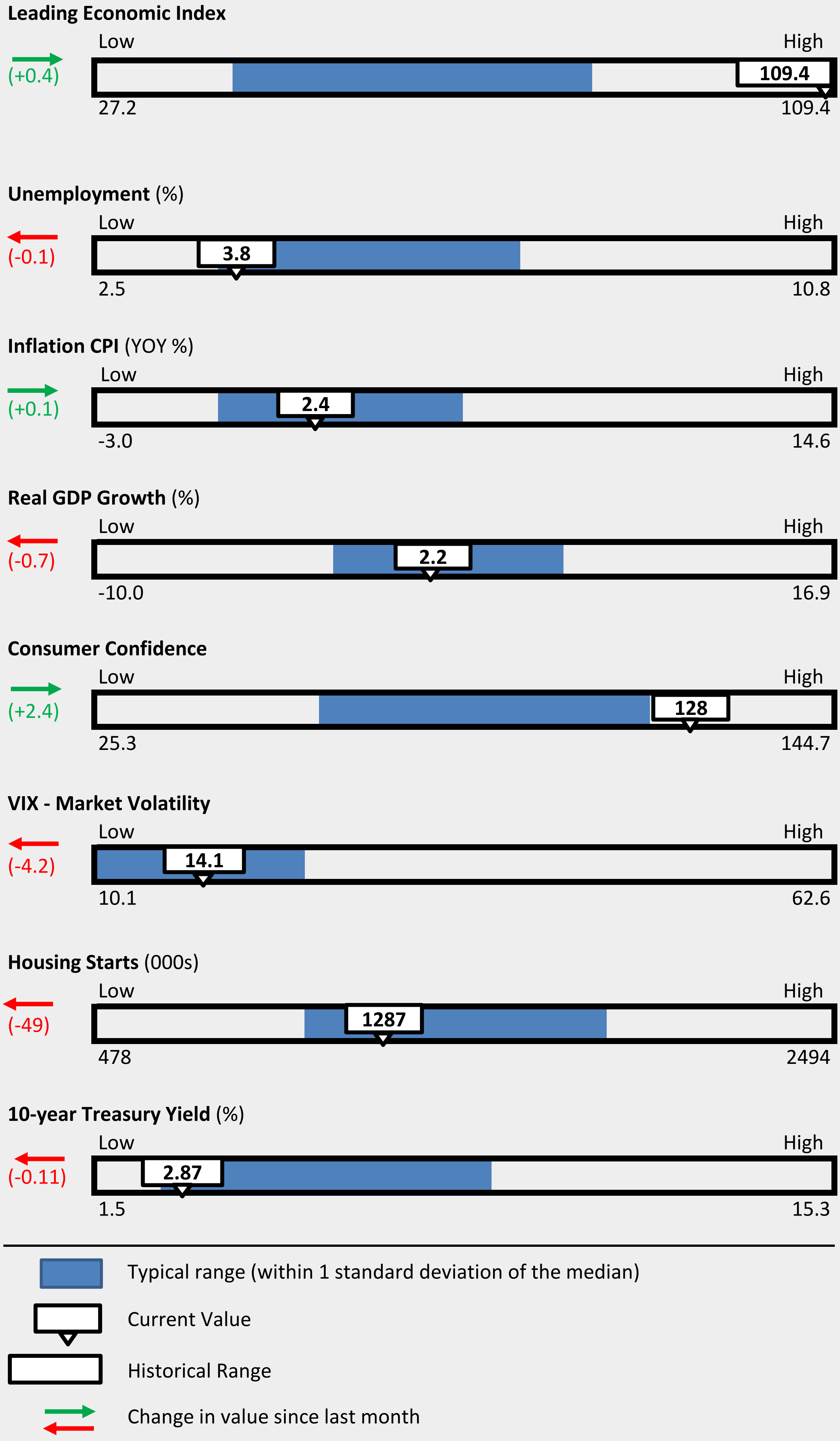
Economic Indicators



**See appendix for sources and data ranges*

Appendix

Leading Economic Index

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. *(Data Source: The Conference Board. Monthly data since 1/1/1959)*

Unemployment

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Inflation CPI (YOY)

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Real GDP Growth

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. *(Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947)*

Consumer Confidence

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. *(Data Source: The Conference Board. Monthly data since 1/31/1991)*

VIX

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. *(Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990)*

Housing Starts

The number of housing starts (new construction) in the U.S. each year. *(Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959)*

10-year Treasury

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. *(Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962)*

Disclosure

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