Economic & Market Commentary

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Market Update – September 2017

Global stocks climbed 2.1% higher during September despite anxiety over the political climate in Europe and rising tensions between the U.S. and North Korea. U.S. stocks had a steady month, with the S&P 500 Index returning 2.1%, putting the S&P 500 up 14.2% year-to-date as markets continue to post record highs.

Economy

- U.S. real GDP growth for the second quarter was revised up to 3.1%, the highest rate of growth since the first quarter of 2015.
- Inflation rose slightly to 1.9% on a year-over-year basis.
- A total of 33,000 jobs were lost in September, with the loss largely being attributed to disruptions caused by multiple hurricanes during the month. At 4.2%, U.S. unemployment remains near what economists consider full employment.

Stocks

- The S&P 500 Index rose 2.1% in September. Energy and financials were the leading sectors with gains of 9.9% and 5.1%, respectively.
- U.S small cap stocks had a strong month, gaining 6.2%.
- International developed large cap markets posted another positive month rising 2.5% overall, led by Germany at 5.6%.

Bonds

- The 10-year U.S. Treasury yield remained at 2.2% in September.
- Across traditional bond asset classes, only short-term bonds had positive returns during September.
- Intermediate-term bonds are the top performers this year with a 2.3% gain through September.

Alternatives

- Managed futures and reinsurance struggled in September and are now down year-to-date 5.4% and 3.2% respectively. Commodities and REITs were close to flat in September. For the year, commodities are down 2.9% while REITs are up 5.2%.
- Commodities sub-sectors experienced mixed results with energy, grains, and livestock all positive, while industrial and precious metals were down.
- Reinsurance posted a loss of 6.3% in September, primarily due to Hurricanes Harvey, Irma, and Maria.

It's Time to Unwind

In June the Federal Open Market Committee (FOMC) outlined details of how the Federal Reserve (Fed) would begin to unwind the $4.5 trillion of securities held on its balance sheet. With the unwinding process set to begin in October, let's take a look at the history, process, and potential impact of the Fed reducing its balance sheet.

From November 2008 through December 2013, the Fed purchased more than $3 trillion in securities in an effort to stabilize financial markets and encourage lending, a policy known as Quantitative Easing (QE). The bulk of these purchases were composed of mortgage-backed securities and Treasury/Federal agency securities. As a result the Fed's balance sheet grew from $800 billion to $4.5 trillion during this time period.

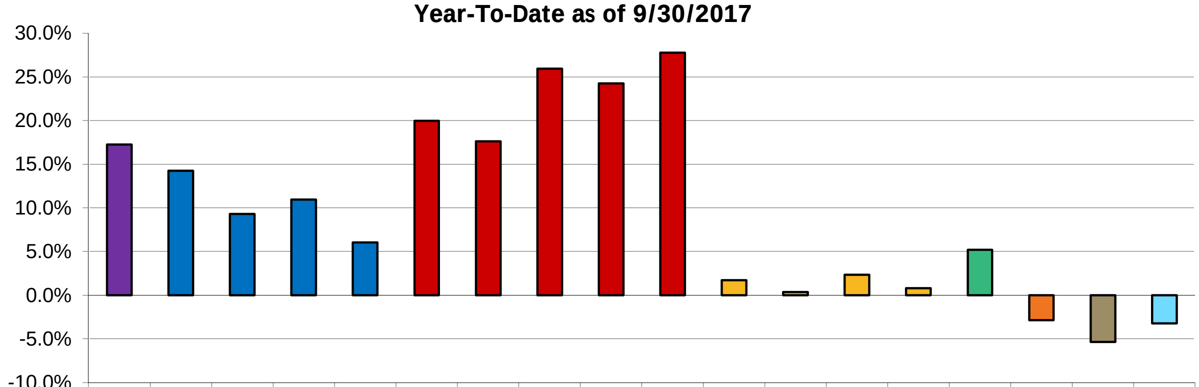
Since 2014, the Fed has been reinvesting the principal payments from maturing securities to keep a stable balance sheet. The unwinding process beginning this month will involve the Fed allowing $10 billion of bonds to mature each month without reinvesting the principal. These maturing securities will consist of 60% Treasuries and 40% mortgage-backed securities. The amount of securities maturing each month without reinvestment will gradually increase until they reach a cap of $50 billion.

The Fed has not publicly announced an end goal for the size of its balance sheet, but James Bullard, Chief Executive of the Federal Reserve Bank of St. Louis, estimates the balance sheet could shrink to as low as $2.5 trillion. Using this estimate, it would take a minimum of four years to complete the reduction.

Analysts generally agree that the policy will suppress Treasury prices and consequently boost 10-year Treasury yields with one forecast from Goldman Sachs projecting an average annual increase of 0.15% for the duration of the unwind. Although Fed officials have stated they hope the big unwind will be "as boring as watching paint dry," they will undoubtedly monitor the process to ensure it does not cause significant market disruption.

Sources: *Federal Reserve Bank of St. Louis, Bureau of Economic Analysis, Federal Reserve, Yahoo! Finance*, *Goldman Sachs*.

MARKET RETURNS
Year-To-Date as of 9/30/2017



	World Stock Index (AC)	S&P 500	U.S. Large Value	U.S. Small	U.S. Small Value	Int'l Large	Int'l Large Value	Int'l Small	Int'l Small Value	Emrg Mkts	TIPS	Short-Term Bonds	Inter-Term Bonds	Int'l Bonds	Global REITs	Comm-odities	Managed Futures	Reinsurance
YTD	17.2%	14.2%	9.3%	10.9%	6.0%	20.0%	17.6%	25.9%	24.2%	27.8%	1.7%	0.4%	2.3%	0.8%	5.2%	-2.9%	-5.4%	-3.2%

MARKET RETURNS - Longer Term Annualized as of 9/30/2017

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
EQUITIES							
S&P 500	2.1%	14.2%	18.6%	10.8%	14.2%	7.4%	10.0%
U.S. Large Value	3.0%	9.3%	16.4%	9.5%	13.6%	6.1%	9.8%
U.S. Small	6.2%	10.9%	20.7%	12.2%	13.8%	7.8%	11.4%
U.S. Small Value	5.7%	6.0%	18.9%	11.2%	13.8%	8.0%	11.5%
Int'l Large	2.5%	20.0%	19.1%	5.0%	8.4%	1.3%	8.3%
Int'l Large Value	3.1%	17.6%	22.5%	3.5%	7.8%	0.5%	8.3%
Int'l Small	2.7%	25.9%	21.7%	11.1%	13.0%	4.4%	12.1%
Int'l Small Value	2.7%	24.2%	23.1%	11.1%	13.7%	4.6%	12.8%
Emerging Mkts	-0.4%	27.8%	22.5%	4.9%	4.0%	1.3%	12.5%
World Stock Index (AC)	2.1%	17.2%	18.7%	7.7%	10.4%	4.2%	9.5%
FIXED INCOME							
TIPS	-0.6%	1.7%	-0.7%	1.6%	0.0%	3.9%	4.4%
Short-Term Bonds	0.0%	0.4%	0.3%	0.2%	0.2%	0.9%	1.4%
Interm-Term Bonds	-0.5%	2.3%	0.2%	2.1%	1.6%	3.6%	3.7%
International Bonds	-0.6%	0.8%	-1.4%	3.7%	4.0%	4.4%	4.3%
ALTERNATIVES							
Global REITs	-0.3%	5.2%	0.1%	7.5%	8.3%	3.7%	10.1%
Commodities	-0.1%	-2.9%	-0.3%	-10.4%	-10.5%	-6.8%	-0.3%
Managed Futures	-2.9%	-5.4%	-5.3%	4.6%	4.6%	4.1%	6.3%
Reinsurance	-6.3%	-3.2%	-2.4%	2.8%	5.1%	6.8%	7.3%

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.

Economic Indicators

Leading Economic Index (%)

(+0.0) — Low: -3.2 | Current: 0.4 | High: 2.0

Unemployment (%)

(-0.2) — Low: 2.5 | Current: 4.2 | High: 10.8

Inflation CPI (YOY %)

(+0.2) — Low: -3.0 | Current: 1.9 | High: 14.6

Real GDP Growth (%)

(+1.9) — Low: -10.0 | Current: 3.1 | High: 16.9

Consumer Confidence

(-0.6) — Low: 25.3 | Current: 122.3 | High: 144.7

VIX - Market Volatility

(-1.6) — Low: 10.3 | Current: 10.4 | High: 62.6

Housing Starts (thousands)

(-58) — Low: 478 | Current: 1155 | High: 2494

10-year Treasury

(+0.00) — Low: 1.5 | Current: 2.20 | High: 15.3

Typical range (within 1 standard deviation of the median)

Current Value

Historical Range

Change in value since last month

**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