

# Economic & Market Commentary

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## Market Update – April 2017

Global stocks climbed 1.6% higher during the month of April despite anxiety over the political climate in Europe and geopolitical concerns in emerging market countries, e.g. North Korea and Turkey. U.S. stock markets had a slightly softer month, with the S&P 500 Index returning 1.0%. Despite a modest April, the S&P 500 is up 7.2% year-to-date as signs of a possible tax overhaul later this year begin to take shape.

### Economy

- U.S. real GDP growth slowed during the first quarter, with the first estimate coming in at 0.7% following a 2.1% rate reported during the fourth quarter.
- Inflation fell to 2.4% on a year-over-year basis. A decline in the gasoline index was the largest contributing factor.
- A robust 211,000 jobs were added in April, more than double the growth in March. At 4.4%, U.S. unemployment remains near what economists consider full employment.

### Stocks

- The S&P 500 Index rose 1.0% in April. Consumer discretionary and info tech were the leading sectors with gains of 2.4% and 2.5%, respectively.
- International markets had another strong month. International small stocks led the way with a 4.1% gain.
- All but one international stock asset class now has double-digit gains for the year. Emerging markets led the pack, up 13.9% through the end of April.

### Bonds

- The 10-year U.S. Treasury yield pulled back 0.11% to a level of 2.29% in April.
- International bonds were the best performers for the month with a gain of 0.7%.
- U.S. TIPS are the top performers so far this year with a 1.9% gain through April.

### Alternatives

- Results were mixed for alternatives in April. Commodities and managed futures experienced losses while reinsurance and global REITs had gains.
- Declines in the prices for energy and industrial metals had the largest impact on commodities as a whole.
- Managed futures are down 5.3% year-to-date, and reinsurance is up 1.0%. Long-term returns for both asset classes are favorable. Managed futures and reinsurance are up 4.3% and 7.9% respectively over the last ten years.

## Trump's Playbook for Tackling Taxes

Just before the end of President Trump's first 100 days in office, Steve Mnuchin and Gary Cohn, two of Trump's top economic advisors, revealed a new tax plan for individuals and businesses. Although the proposal lacked detail, it still gave investors a glimpse of what a new tax code could look like under the new administration. Let's take a closer look.

### Individual Tax Rates

The plan reduces the number of individual tax brackets from seven to three (10%, 25%, and 35%). President Trump said this will be finalized in negotiations with Congress.

### Corporate Tax Rate

The new proposed corporate tax rate of 15% is a reduction from the current 35% rate. Small businesses would also be eligible for this rate. Although most corporations do not pay 35% as a result of itemizing deductions, this is an effort to simplify the tax code, incentivize business investment, and stimulate growth in the United States.

### Deductions

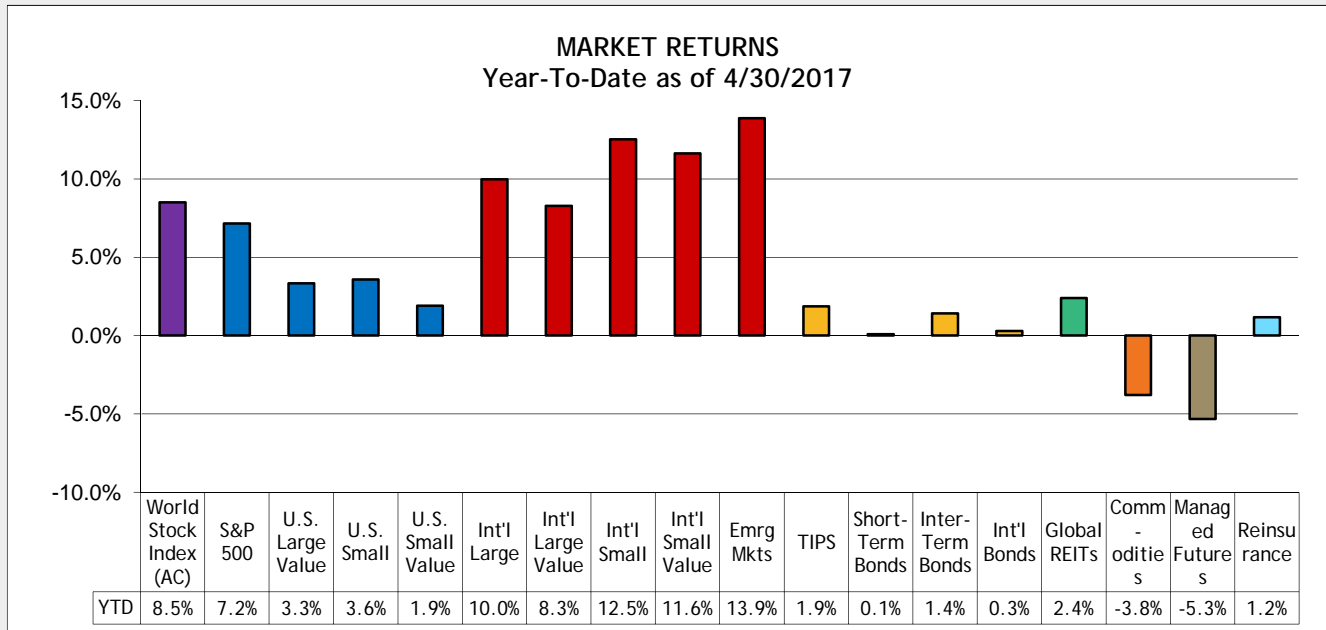
The largest deduction being taken away is the ability to deduct state and local taxes paid. This would hurt consumers who live in higher income tax districts such as California, New York, and Minnesota. Other common deductions such as real estate taxes, tuition paid, and home improvement loan interest would also go away. The mortgage interest deduction and charitable contributions will remain. Additionally, the current standard deduction for individuals (\$6,350) and married couples (\$12,700) would double to \$12,700 and \$25,400, respectively.

### Tax Eliminations

Other taxes such as the estate tax, alternative minimum tax, and taxes that help pay for the Affordable Health Care Act would all be removed under the proposal.

It is unlikely that this proposal will be signed into law in its current form. However, it does give legislatures a starting point for negotiations and a path toward tax reform. Stay tuned for more details.

Sources: Bureau of Economic Analysis (BEA), Federal Reserve, JP Morgan, Morningstar Direct, Standard and Poor's, Wells Fargo, Yahoo! Finance, BofA Merrill Lynch, Vanguard



**MARKET RETURNS - Longer Term Annualized as of 4/30/2017**

	1 Month	1 Year	3 Years	5 Years	10 Years	15 Years
<b>EQUITIES</b>						
S&P 500	1.0%	17.9%	10.5%	13.7%	7.2%	7.6%
U.S. Large Value	-0.1%	17.1%	8.9%	13.3%	5.6%	7.5%
U.S. Small	1.1%	25.6%	9.0%	13.0%	7.0%	8.4%
U.S. Small Value	0.5%	23.5%	9.4%	13.6%	7.2%	9.5%
Int'l Large	2.5%	11.3%	0.9%	6.8%	0.9%	5.9%
Int'l Large Value	2.1%	13.9%	-0.6%	6.7%	-0.2%	5.8%
Int'l Small	4.1%	12.5%	5.3%	10.5%	3.2%	9.9%
Int'l Small Value	3.7%	14.1%	5.2%	11.3%	3.4%	10.8%
Emerging Mkts	2.2%	19.1%	1.8%	1.5%	2.5%	9.6%
World Stock Index (AC)	1.6%	15.4%	5.4%	9.1%	4.0%	7.1%
<b>FIXED INCOME</b>						
TIPS	0.6%	1.7%	1.8%	0.7%	4.2%	5.1%
Short-Term Bonds	0.0%	0.2%	0.1%	0.2%	1.1%	1.5%
Interm-Term Bonds	0.6%	0.8%	2.1%	1.8%	3.8%	4.1%
International Bonds	0.7%	1.7%	4.7%	4.4%	4.6%	4.6%
<b>ALTERNATIVES</b>						
Global REITs	0.7%	2.4%	6.7%	8.6%	2.8%	9.6%
Commodities	-1.5%	-1.3%	-15.0%	-9.7%	-6.5%	0.1%
Managed Futures	-1.2%	-6.4%	7.5%	3.6%	4.3%	7.6%
Reinsurance	0.2%	6.0%	5.2%	7.6%	7.9%	7.8%

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 Mtly 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 (%)**



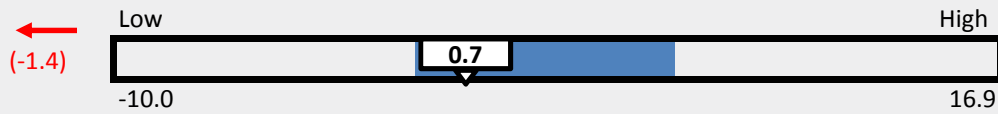
**Unemployment (%)**



**Inflation CPI (YOY %)**



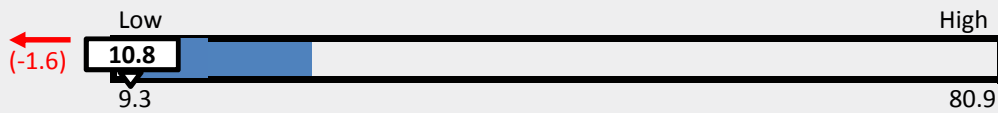
**Real GDP Growth (%)**



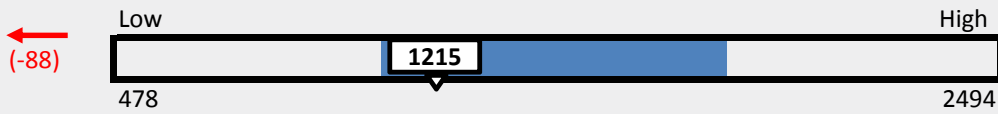
**Consumer Confidence**



**VIX - Market Volatility**



**Housing Starts (thousands)**



**10-year Treasury**



- 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

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