Economic & Market Commentary

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Market Update – June 2017

Global stocks had modest gains for the month of June, up 0.6%. The stock leader for the month was U.S. small cap, which rose 3.5%. Bonds had mostly negative returns for the month as a result of the slight increase in yields. Alternative asset classes had mixed results.

Economy

- U.S. real GDP expanded at an annual rate of 1.4% in the latest measure, down from the previous quarterly report.
- Inflation (CPI) fell to 1.9% on a year-over-year basis, a reflection of lower prices for energy as producers continue their struggle to find a balance between global supply and demand.
- In June 222,000 jobs were added – a strong report indicating a tighter labor market. U.S. unemployment rose slightly to 4.4% as more workers entered the labor force.

Stocks

- The S&P 500 Index crept higher in June with a 0.6% return driven by the financial and healthcare sectors. U.S. small cap stocks led global stock returns with their 3.5% gain.
- International stocks in developed countries did not add much to overall returns. Emerging markets stocks, however, returned 1.0% in June.

Bonds

- The Federal Reserve raised rates for the fourth time this cycle, increasing the target rate by 0.25%. They also laid out additional details about their plans to reduce their balance sheet later this year by not reinvesting bond assets.
- As a result, bond returns in the U.S. were either flat or slightly negative depending on the maturity range.
- International bonds were also slightly in the red.

Alternatives

- Results for alternatives were mixed in June. Positive contributions came from global REITs and reinsurance, which rose 1.1% and 0.4% respectively.
- Despite a seven-day consecutive gain in oil prices at the end of June, commodities as an asset class were down slightly by 0.2%. Managed futures also fell during June by 1.9%.

What's Working in 2017?

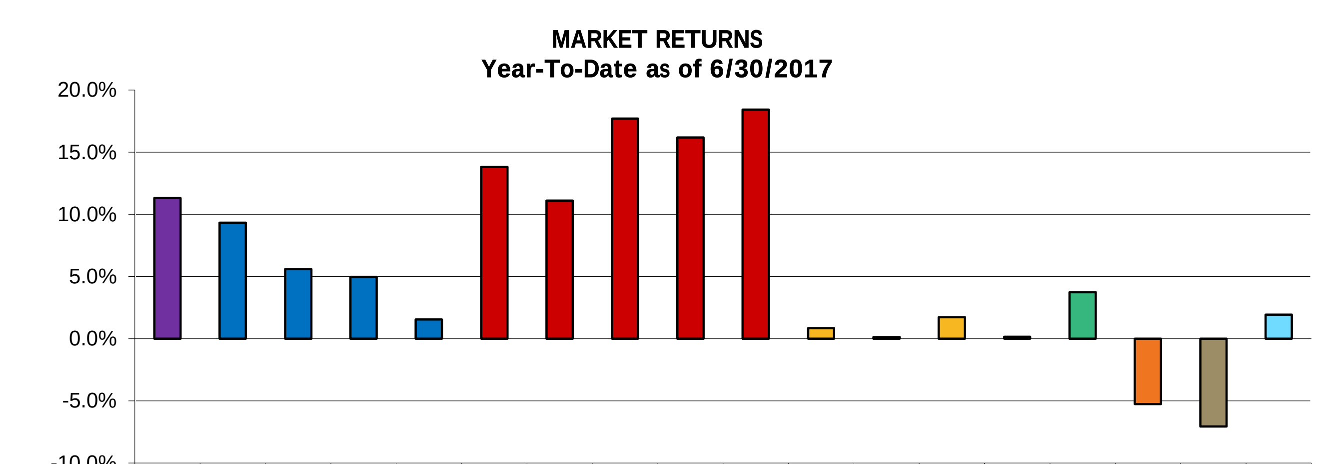
One short answer to what's working in 2017 is international stocks. Looking beyond international, however, one can see there are a number of other stock segments that provided solid returns for the first half of 2017. In aggregate, diversified investors should have earned favorable returns. For example, a basic benchmark index portfolio made up of 60% stocks/40% bonds rose 7% in the first half of 2017, mostly due to the 11.3% gain in global stocks from strong earnings and confidence about the global economy. Emerging markets, part of the global stock market, boosted those year-to-date results with an 18.4% jump.

Much has happened in 2017 so far, but markets pushed higher, reflecting solid fundamentals. The list below is a brief recap of world events (good, bad, and ugly) which have transpired thus far:

- U.S. political administration changes
- Deadly terrorist attacks occur in Turkey and the UK
- UK activates Article 50 (Brexit process commences)
- Global tensions with North Korea build
- France elects Macron, setting country on new path
- Cyberattacks globally continue to threaten computers
- Puerto Rico files for local government bankruptcy
- Fed raises U.S. interest rates twice
- U.S. job openings hit new high
- Broader access to China's local stock market begins
- Global stocks make new highs

As we begin the journey through the second half of 2017, we believe that global stock markets have rewarded disciplined investors with strong returns so far this year. Of course it is easier said than done, but despite positive stock market performance and historically low volatility, it is important to remain focused on the future and prepare for the possibility of more volatility or unexpected events. Maintaining broad global diversification across regions and asset classes can help reduce exposure to unnecessary risks in your portfolio.

Sources: Bureau of Economic Analysis (BEA), Federal Reserve, JP Morgan, Morningstar Direct, Standard and Poor's. Basic Benchmark Index is a hypothetical index portfolio constructed as follows: 37.5% S&P 500 Index, 22.5% MSCI EAFE Index, 20.1% BbgBarc U.S. Govt/Credit Bond Index, 19.9% BbgBarc U.S. TBill Index. For additional information regarding our Basic Benchmark Index disclosures, please contact your Advisor.



	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	Manag ed Future s	Reinsu rance
YTD	11.3%	9.3%	5.6%	5.0%	1.5%	13.8%	11.1%	17.7%	16.2%	18.4%	0.9%	0.1%	1.7%	0.2%	3.7%	-5.3%	-7.1%	1.9%

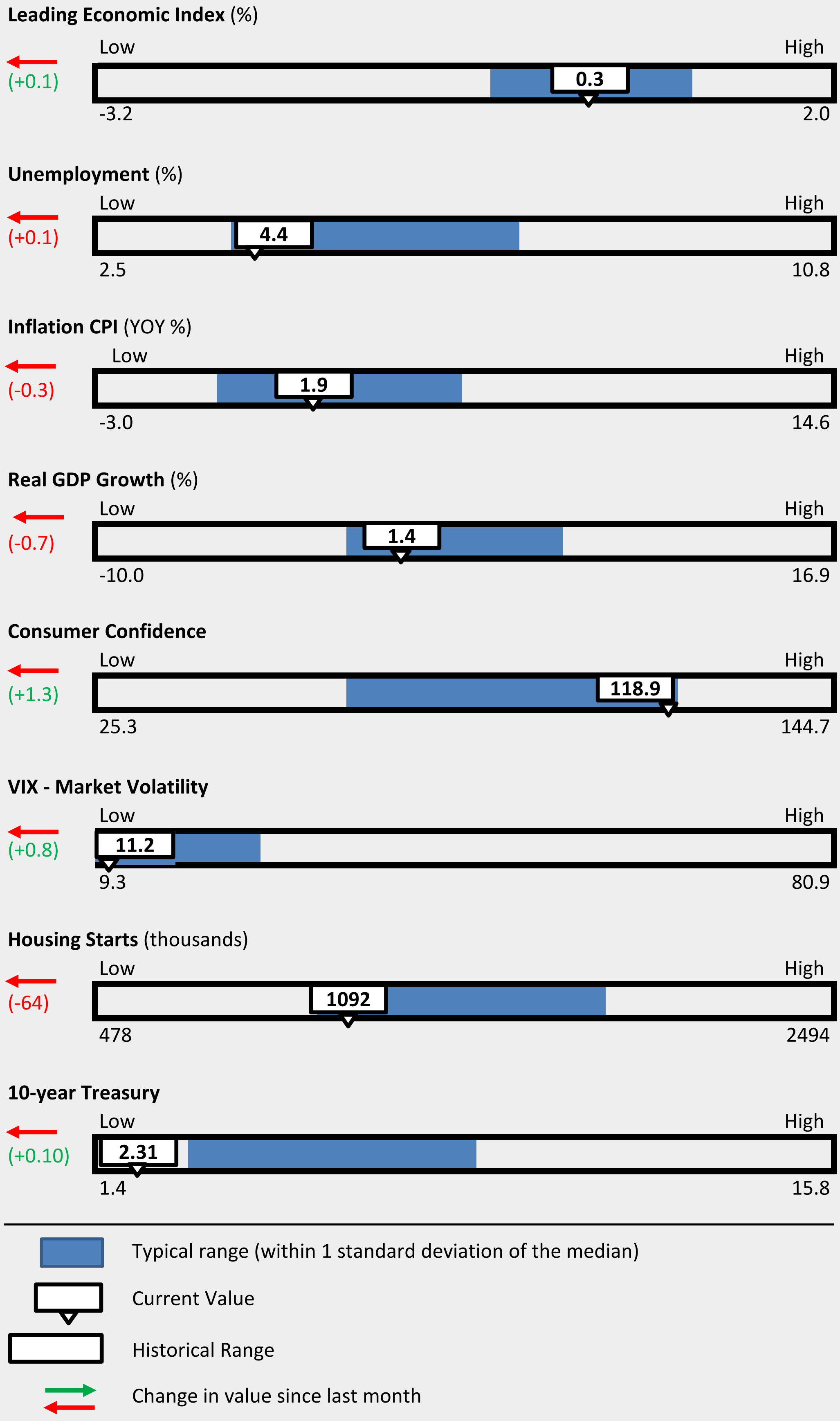
MARKET RETURNS - Longer Term Annualized as of 6/30/2017

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
EQUITIES							
S&P 500	0.6%	9.3%	17.9%	9.6%	14.6%	7.2%	8.3%
U.S. Large Value	1.9%	5.6%	16.4%	8.3%	14.1%	5.7%	8.1%
U.S. Small	3.5%	5.0%	24.6%	7.4%	13.7%	6.9%	9.2%
U.S. Small Value	2.8%	1.5%	21.1%	7.4%	14.1%	7.0%	9.8%
Int'l Large	-0.2%	13.8%	20.3%	1.1%	8.7%	1.0%	6.3%
Int'l Large Value	0.3%	11.1%	25.0%	-0.6%	8.1%	-0.1%	6.2%
Int'l Small	0.2%	17.7%	23.4%	5.9%	13.2%	3.6%	10.2%
Int'l Small Value	0.5%	16.2%	25.3%	5.9%	13.8%	3.8%	10.9%
Emerging Mkts	1.0%	18.4%	23.7%	1.1%	4.0%	1.9%	10.6%
World Stock Index (AC)	0.6%	11.3%	19.0%	4.9%	10.7%	3.9%	7.7%
FIXED INCOME							
TIPS	-0.9%	0.9%	-0.6%	0.6%	0.3%	4.3%	4.9%
Short-Term Bonds	0.0%	0.1%	0.1%	0.1%	0.2%	1.0%	1.5%
Interm-Term Bonds	-0.2%	1.7%	-0.2%	1.9%	1.8%	3.9%	4.0%
International Bonds	-0.5%	0.2%	-1.9%	4.2%	4.3%	4.7%	4.5%
ALTERNATIVES							
Global REITs	1.1%	3.7%	-1.3%	5.6%	8.7%	3.7%	9.4%
Commodities	-0.2%	-5.3%	-6.5%	-14.8%	-9.3%	-6.5%	0.0%
Managed Futures	-1.9%	-7.1%	-8.9%	6.7%	3.9%	3.6%	6.9%
Reinsurance	0.4%	1.9%	5.7%	5.5%	7.2%	7.8%	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 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



**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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