

# Economic & Market Commentary

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## Market Update – May 2017

Global stocks climbed 2.0% in May after the release of strong economic data worldwide. U.S. stock markets trailed ever so slightly with the S&P 500 Index returning 1.4%. Following a modest month in April, the S&P 500 is up 8.7% year-to-date as signs of a stronger economy and low unemployment persist.

### Economy

- The estimate for U.S. real GDP growth was revised upward for the first quarter from 0.7% to 1.2%.
- Inflation fell to 2.2% on a year-over-year basis.
- A modest 138,000 jobs were added in May. At 4.3%, U.S. unemployment remains near what economists consider full employment.

### Stocks

- The S&P 500 Index rose 1.4% in May. Information technology and utilities were the leading sectors with gains of 4.4% and 4.2%, respectively.
- International markets had another strong month as international small stocks led the way with a 4.4% gain.
- All international stock asset classes now have double-digit gains for the year. International small currently leads the pack, up 17.5% through the end of May. Emerging markets follows closely with its 17.3% year-to-date return.

### Bonds

- The 10-year U.S. Treasury yield pulled back 0.1% to a level of 2.2% in May.
- Intermediate-term bonds were the best performers for the month with a gain of 0.5%.
- Intermediate-term bonds are the top performers so far this year with a 1.9% gain through May.

### Alternatives

- Results were mostly positive for alternatives in May. Managed futures, reinsurance, and global REITs experienced gains, while commodities had losses for the month.
- Declines in the prices for energy had the largest impact on commodities as a whole.
- Managed futures are down 5.2% year-to-date, and reinsurance is up 1.5%. Long-term returns for both asset classes have been favorable. Managed futures and reinsurance are up 4.1% and 7.9%, respectively, over the last ten years.

## Vanguard - Lower Fees! More Savings!

Vanguard recently announced expense reductions for over 80 mutual funds and ETFs. Savant currently uses 17 of those funds across different investment models. This is exciting news as one of the pillars of Savant's investment philosophy is keeping portfolio expenses low. The rising momentum in demand for lower expenses on investment products is another example of how Savant has been ahead of the marketplace in seeking out lower costs for investors.

U.S. mutual funds and ETFs that charged a fee of 0.50% of assets or less attracted \$1.4 trillion in new money over the past three years, while \$0.9 trillion came out of funds charging more than 0.50%. As markets continue to develop and investors continue to move money from actively managed to passively managed funds, there could potentially be even more pressure among firms to offer lower expense ratios for their funds.

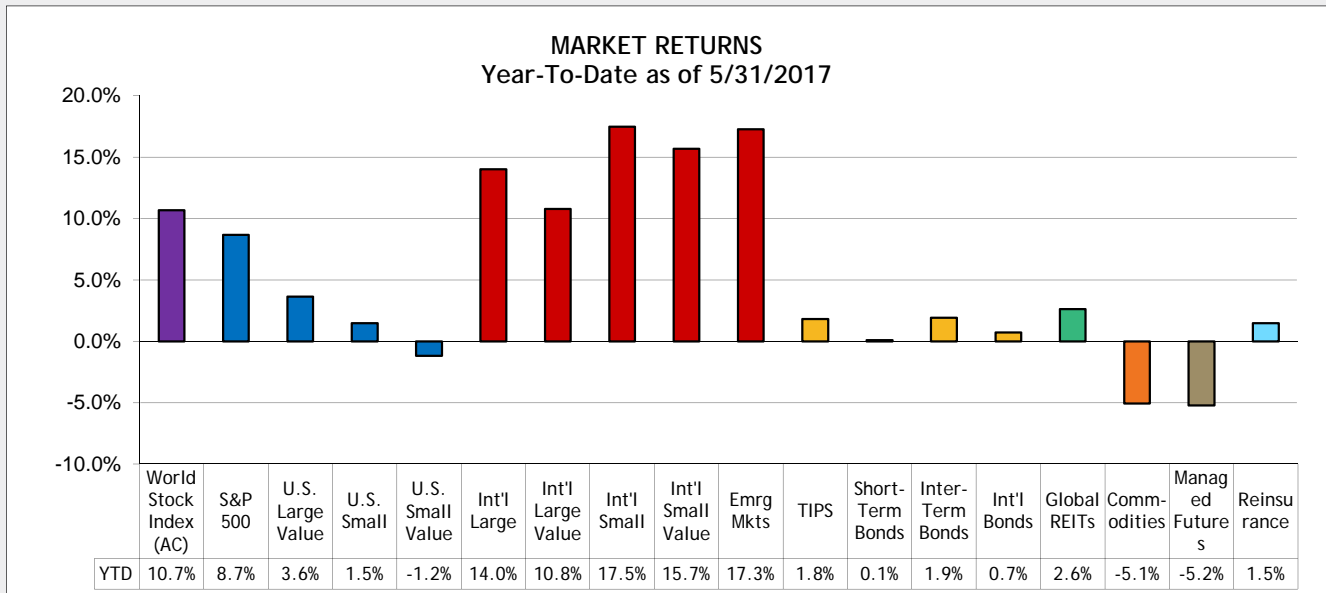
Nickel and diming your way to lower expenses may not always be the quickest way to growing assets. However, in this case the adage "a penny saved is a penny earned" applies, as these savings may help our clients compound their wealth at a faster rate than before!

Below is a table detailing the impact lower fees can have on fund returns. The difference in compounding returns over time can play a huge role in building financial wealth for investors.

U.S. Large Cap Funds	Average Expense Ratio	Average 10-Year Return	Growth of \$10,000
Low Expense Funds	0.31%	6.47%	\$65,587
High Expense Funds	1.53%	3.71%	\$29,828

Data: Morningstar Direct. Low and high expense funds are funds in the first and fourth quartiles of expense ratios in their category. Returns are the average fund returns of those quartiles. Data as of 12/31/2016.

Sources: Bureau of Economic Analysis (BEA), Bloomberg, 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 5/31/2017**

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
<b>EQUITIES</b>							
S&P 500		1.4%	8.7%	17.5%	10.1%	15.4%	6.9%
U.S. Large Value	0.3%	3.6%	15.6%	8.4%	14.7%	5.3%	7.5%
U.S. Small	-2.0%	1.5%	20.4%	8.0%	14.0%	6.4%	8.6%
U.S. Small Value	-3.0%	-1.2%	17.8%	7.9%	14.4%	6.5%	9.4%
Int'l Large	3.7%	14.0%	16.4%	1.5%	10.2%	1.1%	6.0%
Int'l Large Value	2.3%	10.8%	18.4%	-0.3%	9.9%	-0.1%	5.8%
Int'l Small	4.4%	17.5%	17.2%	6.3%	14.2%	3.5%	9.9%
Int'l Small Value	3.6%	15.7%	18.7%	6.1%	14.8%	3.6%	10.7%
Emerging Mkts	3.0%	17.3%	27.4%	1.6%	4.5%	2.3%	9.9%
World Stock Index (AC)	2.0%	10.7%	17.5%	5.4%	11.6%	3.8%	7.2%
<b>FIXED INCOME</b>							
TIPS	0.0%	1.8%	2.4%	1.1%	0.3%	4.4%	5.0%
Short-Term Bonds	0.0%	0.1%	0.3%	0.1%	0.1%	1.1%	1.5%
Interm-Term Bonds	0.5%	1.9%	1.4%	2.0%	1.8%	3.9%	4.0%
International Bonds	0.4%	0.7%	1.1%	4.6%	4.3%	4.7%	4.6%
<b>ALTERNATIVES</b>							
Global REITs	0.2%	2.6%	2.3%	5.9%	9.8%	2.8%	9.5%
Commodities	-1.3%	-5.1%	-2.4%	-14.6%	-8.2%	-6.6%	0.1%
Managed Futures	0.1%	-5.2%	-3.4%	7.4%	3.1%	4.1%	7.4%
Reinsurance	0.3%	1.5%	5.7%	5.4%	7.4%	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 Mtg 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

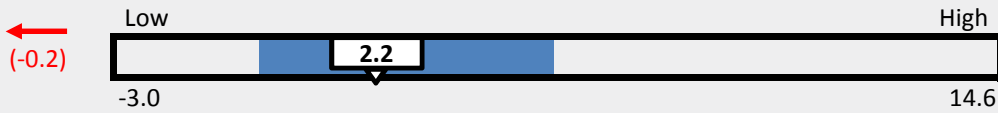
**Leading Economic Index (%)**



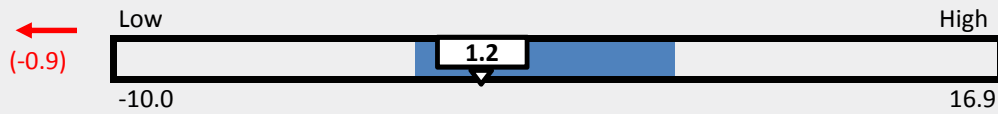
**Unemployment (%)**



**Inflation CPI (YOY %)**



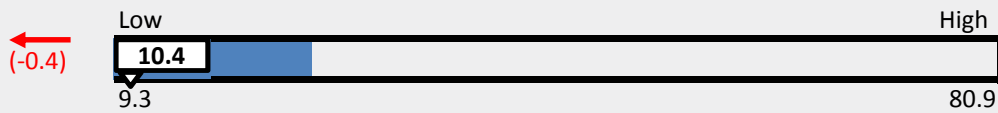
**Real GDP Growth (%)**



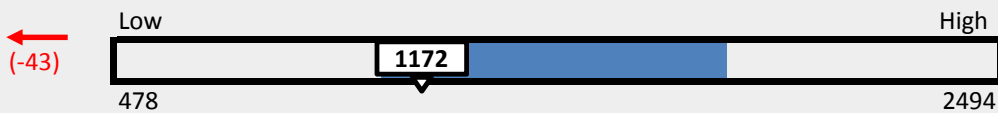
**Consumer Confidence**



**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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