



Asset Strategy Consultants

MARKET ENVIRONMENT

First Quarter 2017

Market Environment: Economy

Economies in the U.S. and Europe continued to gain traction. Expectations for lower taxes, reduced regulation, and other pro-growth reforms helped propel U.S. equity prices to new highs. In Europe, economic momentum picked up. In Japan, growth remained weak but positive.

- Fourth quarter GDP was revised to +2.1%
- The Fed raised its Fed Funds target 25 bps to a range of 0.75% - 1.0%
 - The Fed expects two additional hikes in 2017
- Inflation edged up in February
 - Headline CPI +2.8% y-o-y, the highest in five years; Core CPI +2.2% y-o-y
 - Personal Consumption Expenditures Index +2.1% y-o-y; Core was +1.8% y-o-y, nearing Fed's 2% target
 - Wages advanced 2.8% y-o-y
- Unemployment fell to 4.7%
- Consumer confidence hit its highest level since December 2000
 - According to the Conference Board's Index
- Home data continued to show strength
 - U.S. single family home starts approached a 10-year high
- Eurozone fourth quarter GDP +1.7%
 - GDP was positive in each country except Greece (-1.2%)
- Eurozone unemployment remained high at 9.5%, though down from its peak of 12.1% in July 2013
- Japanese fourth quarter GDP +1.2%
- Chinese fourth quarter GDP +6.8%
 - Manufacturing growth was strong
 - Concerns over excessive credit remain



Market Environment: Fixed Income

U.S. Treasury yields were relatively range-bound in the first quarter despite a Fed hike in March. The 10-year U.S. Treasury hit an intra-quarter high of 2.62% on March 13 and closed the quarter at 2.40%, five basis points lower than at year-end. Overseas, rates were generally modestly higher.

- Bloomberg Barclays U.S. Aggregate Index returned +0.8% for the quarter
 - Corporate bonds outperformed, with BBB-rated credit (+1.7%) posting the strongest returns
- High yield corporates performed best
 - Bloomberg Barclays High Yield Index +2.7%
 - Lower-rated bonds outperformed higher-rated issues
- Municipal bonds outperformed Treasuries
 - Relatively light issuance and strong demand provided a solid technical backdrop
 - Bloomberg Barclays Municipal Bond Index +1.6%
- TIPS performed well as expectations for future inflation climbed
 - Bloomberg Barclays TIPS Index +1.3%
 - 10-year breakeven spread was 1.97% as of quarter-end
- Foreign bonds (unhedged) helped by weaker dollar
 - Bloomberg Barclays Global Aggregate ex-US (unhedged): +2.5%
 - Bloomberg Barclays Global Aggregate ex-US (hedged): +0.1%
 - The U.S. dollar lost nearly 5% versus the yen and depreciated to a lesser extent versus other developed markets currencies
- Emerging markets debt outperformed
 - Dollar-denominated JPM EMBI Global Diversified Index +3.9%
 - Local currency-denominated JPM GBI-EM Global Diversified Index +6.5%
 - Country gains were broad-based across both indices



Market Environment: Global Equity

The S&P 500 Index has lodged gains for eight consecutive calendar years, and the first quarter continued on that trajectory. US equity market volatility remained subdued. Non-US markets modestly outperformed U.S. markets, bolstered by dollar weakness.

U.S. Equity

- Large stocks outperformed mid and small caps
 - S&P 500 +6.1%
 - Russell Mid Cap +5.1%
 - Russell 2000 +2.5%
- Growth outperformed value
 - Russell 1000 Value +3.3% vs. Growth +8.9%
 - Russell 2000 Value -0.1% vs. Growth +5.3%
 - Growth was bolstered by Technology sector while value was hurt by Energy stocks
- Sector returns divergent
 - Best performing sector was Technology (+12.6%)
 - Healthcare (+8.4%) rebounded after being the worst performer in 2016
 - Energy (-6.7%) was the worst performer as oil prices fell 7% during Q1

International Equity

- Developed markets modestly outperformed U.S.
 - MSCI EAFE +7.2%
 - Best performer was Spain (+14.8%)
- Emerging markets outperformed
 - MSCI EM +11.4%
 - Countries with the top performance included India (+17.1%), Mexico (+16.0%), Korea (+16.8%), China (+12.9%), and Brazil (+10.4%)
 - Russia fared the worst (-4.6%), pulling back from a 55% gain in 2016



Market Environment: Liquid Real Assets

Oil and commodity prices fell while gold posted a strong gain during the quarter. Uncertainty over global geo-political risks led to safe haven demand.

- Oil prices fell 7% after rising more than 50% in 2016
 - WTI was at \$52.83 at quarter-end
- Commodities lost ground
 - Bloomberg Commodity Index -5.1%
- Gold outshined the market
 - Nearly +9% for the quarter
- MLPs posted decent returns
 - Alerian MLP +3.9%
- REITs were essentially flat
 - MSCI REIT +1.0%
- Headline inflation rose at the fastest rate in five years
 - Headline CPI +2.8% y-o-y; Core CPI +2.2% y-o-y
- TIPS performed well as expectations for future inflation climbed
 - Bloomberg Barclays TIPS Index +1.3%
 - 10-year breakeven spread was 1.97% as of quarter-end



Returns for Various Periods

	Month Ending			Last Quarter	Last Year	Last 3 Years	Last 5 Years	Last 10 Years
	Jan-31	Feb-28	Mar-31					
Capital Growth								
Russell:3000 Index	1.90	3.70	0.10	5.70	18.10	9.80	13.20	7.50
Russell:1000 Index	2.00	3.90	0.10	6.00	17.40	10.00	13.30	7.60
Russell:1000 Growth	3.40	4.20	1.20	8.90	15.80	11.30	13.30	9.10
Russell:1000 Value	0.70	3.60	-1.00	3.30	19.20	8.70	13.10	5.90
Russell:Midcap Index	2.40	2.80	-0.20	5.10	17.00	8.50	13.10	7.90
Russell:2500 Index	1.40	2.40	-0.10	3.80	21.50	7.40	12.60	7.70
Russell:2500 Growth	2.40	3.00	0.70	6.30	19.80	7.20	12.20	8.50
Russell:2500 Value	0.50	1.90	-0.80	1.60	23.10	7.60	12.90	6.80
Russell:2000 Index	0.40	1.90	0.10	2.50	26.20	7.20	12.40	7.10
Russell:2000 Growth	1.60	2.50	1.20	5.30	23.00	6.70	12.10	8.10
Russell:2000 Value	-0.70	1.40	-0.80	-0.10	29.40	7.60	12.50	6.10
S&P:1500	1.80	3.80	0.10	5.70	17.70	10.20	13.30	7.70
S&P:500	1.90	4.00	0.10	6.10	17.20	10.40	13.30	7.50
S&P:1000 Index	1.00	2.30	-0.30	3.10	22.00	9.40	13.60	8.90
S&P:400 Mid Cap	1.70	2.60	-0.40	3.90	20.90	9.40	13.30	9.00
S&P:600 Small Cap	-0.40	1.60	-0.10	1.10	24.60	9.50	14.20	8.80
MSCI:ACWI ex US	3.50	1.60	2.50	7.90	13.10	0.60	4.40	1.40
FTSE:All Wld x US Idx	3.40	1.70	2.60	7.90	13.90	1.50	5.10	2.20
MSCI:EAFE	2.90	1.40	2.80	7.20	11.70	0.50	5.80	1.10
MSCI:EM	5.50	3.10	2.50	11.40	17.20	1.20	0.80	2.70
MSCI:ACWI	2.70	2.80	1.20	6.90	15.00	5.10	8.40	4.00
Fixed Income								
Blmbg:Aggregate	0.20	0.70	-0.10	0.80	0.40	2.70	2.30	4.30
Blmbg:Multiverse	1.20	0.50	0.20	1.90	-1.00	-0.20	0.70	3.50
Blmbg:US Universal	0.40	0.80	0.00	1.10	1.90	3.00	2.80	4.50
Blmbg:Gov/Credit	0.30	0.80	-0.10	1.00	0.50	2.70	2.50	4.30
Blmbg:Credit 1-5 Yr	0.40	0.40	0.10	0.90	1.70	1.90	2.20	3.80
Blmbg:Corporate High Yld	1.50	1.50	-0.20	2.70	16.40	4.60	6.80	7.50
Blmbg:HY Ba/B 2% Iss Cap	1.20	1.20	-0.20	2.30	13.00	4.50	6.50	7.00
ML:1-3 BB US HY CP	0.40	0.50	0.10	1.00	7.20	3.80	5.30	6.50
Blmbg:Muni 1-10 Yr	0.80	0.70	0.10	1.60	0.20	2.30	2.20	3.80
Blmbg:Muni 1-15 Yr	0.70	0.70	0.20	1.50	0.10	2.80	2.70	4.10
Blmbg:Muni 5 Yr	1.00	0.80	0.00	1.90	0.30	2.00	2.10	3.80
Blmbg:Muni 7 Yr	1.00	0.80	0.20	1.90	-0.10	2.90	2.70	4.50
Blmbg:Municipal Bond	0.70	0.70	0.20	1.60	0.20	3.50	3.20	4.30
Blmbg:US TIPS	0.80	0.50	-0.10	1.30	1.50	2.00	1.00	4.20
Blmbg:Glob Agg ex USD	1.90	0.30	0.30	2.50	-3.90	-2.70	-1.10	2.60
S&P:LSTA Levlg Loan	0.60	0.50	0.10	1.10	9.70	3.60	4.60	4.50
3 Month T-Bill	0.00	0.00	0.00	0.10	0.40	0.20	0.10	0.70
Real Assets								
Blmbg:US TIPS	0.80	0.50	-0.10	1.30	1.50	2.00	1.00	4.20
Blmbg:Commodity TR Idx	0.10	0.20	-2.70	-2.30	8.70	-13.90	-9.50	-6.20
MSCI:REIT Idx	0.00	3.50	-2.40	1.00	3.20	10.10	9.80	4.70
FTSE:NAREIT Equity Index	0.10	3.40	-2.30	1.20	3.60	10.30	10.00	4.80
US DOL:CPI All Urban Cons	0.60	0.30	--	--	--	--	--	--

