

Global Economy

In the US, the Commerce Department revised 1Q-17 real gross domestic product (GDP) upward from 0.7% to 1.2%. Personal consumption expenditures (PCE) rose 0.2% in April, but year-over-year (YoY) reading was 1.7%, down from the 1.9% annual rate in March. The labor market was mixed, with jobless claims remaining relatively low and unemployment declining to 4.3% (its lowest level in 16 years). Wage growth remains stubbornly low at 2.5% and the pace of average job growth is significantly down from 2015 and 2016. The latest readings on housing starts and both new and existing home sales came in lower than expected. President Trump's plans for tax reform and fiscal spending may face a tough road ahead due to political headwinds. On the positive side, corporate earnings and revenue reports have been very strong.

The Federal Reserve took no action in May, but is expected to raise rates by another 25 basis points (bps) at its next meeting in mid-June. With the recent slowdown in inflation, the market is divided on whether we will see a third move higher by year-end as the "dots" project. Meeting minutes indicated broad support for a gradual reduction of the Fed's \$4.5 trillion balance sheet by year-end. Importantly, this is to be accomplished by letting maturing bonds roll off, not reinvesting the proceeds unless they exceed a cap limit, which is expected to grow over time.

As the snap-called general election approaches in the United Kingdom (UK), things are not as rosy for the Conservatives as was originally believed. The Dementia Tax issue, among others, has turned a potential landslide victory for the Prime Minister into a tight race, raising concerns that there will not be a strong coalition for Brexit negotiations. Emmanuel Macron has had a strong first month as President of France, suggesting his plans for reviving France's economy may be given a chance. Also in the Eurozone, unemployment fell to 9.3% in April, the lowest level in eight years.

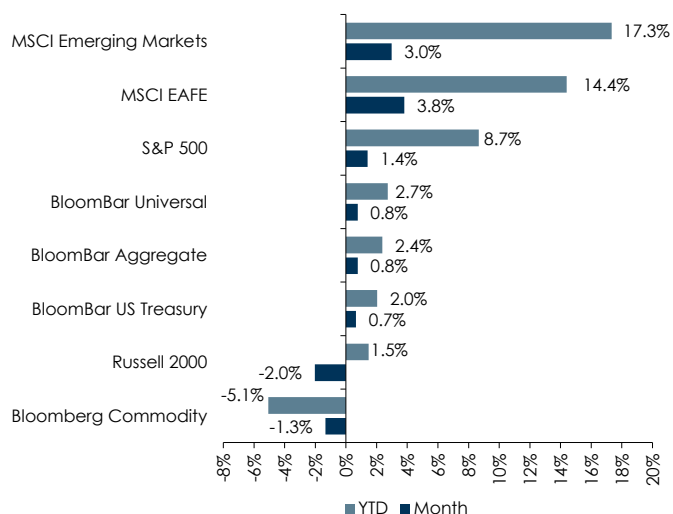
A political scandal in Brazil caused some turmoil in emerging markets. However, economic news was positive as GDP was up for the first time in two years and manufacturing statistics were stronger. The Caixin-Markit manufacturing index in China dropped below 50 in May, signifying contraction for the first time in nearly a year. China's sovereign credit rating dropped to A1 from Aa3 at Moody's, but the news wasn't met with much surprise given the well-publicized accumulation of debt. Japan had real GDP growth of 2.2% in 1Q-17, which was driven by net exports and capital spending beating estimates.

	Current	Dec-16
US GDP (%)	1.20	1.90
US Unemployment (%)	4.30	4.70
CPI (Core) (%)	1.90	2.10
Fed Funds (%)	0.75 – 1.00	0.50 – 0.75
10 Year U.S.T Yld (%)	2.20	2.45
S&P 500 Div Yld (%)	1.97	2.09
S&P 500 P/E (Trailing)	21.07	20.61
Gold/oz.	\$1,272.00	\$1,151.70
Oil (Crude)	\$48.32	\$53.72
Gasoline (Natl Avg)	\$2.52	\$2.42
USD/Euro	\$1.12	\$1.05
USD/GBP	\$1.29	\$1.23
Yen/U.S.D	¥110.78	¥116.96

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Overall positive news across the world led to equity gains once again, with only domestic small cap equities spoiling the party. In the US, the S&P 500 reached 8.7% for the year, with a 1.4% gain in May. The Russell 2000 was off 2.0% for the month, reacting primarily to the troubles within the Trump administration and the impact on potential tax cuts. Growth stocks continue to outperform value stocks, with a 2.7% advantage among the large caps and a 2.2% advantage in small caps. At the sector level, technology and utilities led the way within the S&P 500, up 4.2% and 3.6%, respectively, for the month. On the other side, energy stocks continued to feel the effects of falling oil prices, down 4.0% for the month. Financials and telecommunications were also down, at -1.4% and -1.0%, respectively.

Globally, both developed (MSCI EAFE) and emerging market equities continued to shine, bringing their year-to-date (YTD) returns to 14.4% and 17.3%, respectively. Asia was a big part of the growth in emerging markets, retuning 4.5%. The developed markets were uniformly strong, with the exception of Pacific ex Japan, which was down 1.0%. Europe looks solid overall with generally positive economic news from Germany, Spain, and France, in particular. It appears unlikely that the European Central Bank (ECB) will take any monetary tightening action in the near future, consistent with ongoing low inflation expectations.

Real estate in the US was down, with the NAREIT US Real Estate off 0.2% for the month, but is still up 3.3% for the year. The Alerian MLP index was off 4.5% for the month as energy prices continue to negatively impact performance.

Organization of the Petroleum Exporting Countries (OPEC) continued its efforts to prop up oil prices with an agreement to limit production through March of next year. This had little impact on the market, though, with NYMEX crude ending the month at \$48.32, down from \$49.33 in March. Gold slipped below \$1,220 in early May, but recovered to be up just slightly for the month.

Global Markets (continued)

Global bonds remained well bid, with the broad Bloomberg Global Aggregate index advancing 1.6%. With historically low correlations to equity markets, the continued rally in bonds has caused some market observers to question the sustainability of the low-volatility regime benefitting risk assets. Given varied political distractions, Trump-related policy optimism continued to fade, and domestic yield curves exhibited a flattening bias that allowed the US Treasury (UST) complex to return 0.7% in May. With the market pricing a roughly 95% chance that the Federal Reserve will extend its path of "gradual" monetary policy adjustment at the June 13/14 meeting, two-year UST yields settled slightly higher at 1.28%. The 10-year UST remains range bound, but more muted assumptions around forward growth and inflation ultimately caused this benchmark yield measure to decline 8 bps and finish at 2.20%. The Bloomberg US Aggregate index provided modest duration-adjusted excess return, advancing 0.8%. The Bloomberg US Corporate Investment Grade index added almost 1.2%, as longer-duration and lower-rated issues outperformed. The Bloomberg US Corporate High Yield index provided total returns of 0.9% in May, with CCC-rated bonds resuming their leadership role.

Unhedged developed international bonds delivered more robust gains given the sustained decline in the US dollar (especially relative to the euro) and the positive impact of currency translation for US-based investors. The ECB made no policy changes in May. However, President Mario Draghi stated that structural headwinds and resource underutilization have kept inflationary pressures low and that these conditions continue to warrant "extraordinary support" despite some recovery in the European economy. Benchmark German 10-year rates declined modestly, with sovereign yields in other developed markets generally following suit.

Emerging market bonds extended their impressive YTD rally, driven by the attractiveness of higher interest rates offered versus developed market bonds and steady/improving economic fundamentals. The USD sovereign JPMorgan EMBI Global Diversified index rose 0.9%, while local currency denominated EM bonds within the JPMorgan GBI-EM Global Diversified index returned 2.0% for the month despite modestly higher rates and currency weakness in Brazil.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-16
Japan	0.05	0.05
Germany	0.30	0.21
France	0.73	0.69
United Kingdom	1.05	1.24
Spain	1.55	1.38
Italy	2.20	1.82
United States	2.20	2.45
Mexico	7.32	7.42
Brazil	10.70	11.40

Source: Bloomberg

Indices Report (Periods Ending May 31, 2017)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	1.41	8.66	17.47	10.14	15.42	6.94	7.77
Russell 1000	1.28	8.51	17.48	9.83	15.37	7.01	8.02
Russell 1000 Growth	2.60	14.30	20.27	11.92	15.98	8.77	8.35
Russell 1000 Value	-0.10	2.97	14.66	7.70	14.67	5.15	7.55
Russell 2500	-1.12	3.39	16.87	7.72	14.29	6.96	9.38
Russell 2000	-2.03	1.48	20.36	8.00	14.04	6.40	8.57
Russell 2000 Growth	-0.91	6.31	19.71	8.59	14.36	7.39	8.66
Russell 2000 Value	-3.11	-2.86	21.00	7.34	13.67	5.31	8.34
Wilshire 5000 Cap Wtd	1.00	7.79	17.89	9.90	15.30	7.02	8.23
MSCI ACWI	2.30	11.26	18.17	5.89	12.12	4.19	7.38
MSCI ACWI ex US	3.35	14.05	18.80	1.73	8.88	1.64	7.03
MSCI EAFE	3.81	14.40	17.00	2.00	10.71	1.53	6.52
MSCI EAFE Local Currency	2.22	8.75	18.99	7.86	14.38	2.56	5.42
MSCI EAFE Growth	5.16	17.78	14.83	3.68	10.89	2.53	6.55
MSCI EAFE Value	2.49	11.22	19.14	0.25	10.45	0.47	6.40
MSCI Emerging Markets	2.98	17.34	27.88	1.99	4.91	2.61	10.30
Fixed Income							
BofA ML 1-3 Yr Treasury	0.13	0.52	0.57	0.70	0.64	2.00	2.28
BloomBar US Aggregate	0.77	2.38	1.58	2.53	2.24	4.46	4.55
BloomBar Gov't Bond	0.64	2.02	0.07	2.00	1.27	3.95	4.09
BloomBar US Credit	1.08	3.41	3.89	3.34	3.71	5.54	5.57
BloomBar 10 Yr Municipal	1.79	4.59	1.68	3.66	3.45	5.12	4.99
BloomBar US Corp High Yield	0.87	4.79	13.58	4.73	7.31	7.46	8.50
Citigroup World Gov't Bond	1.71	4.63	-0.46	-0.69	-0.16	3.44	4.76
BloomBar Global Aggregate	1.55	4.50	0.77	-0.08	0.89	3.66	4.79
BloomBar Multiverse	1.53	4.66	1.52	0.12	1.18	3.81	4.98
Real Assets							
NCREIF Property	0.00	1.55	7.27	10.58	10.69	6.71	9.01
NFI ODCE Net	0.00	1.55	7.36	10.77	10.94	4.62	7.24
FTSE NAREIT US Real Estate	-0.77	0.50	2.91	7.97	10.25	4.77	10.09
Bloomberg Commodity	-1.33	-5.07	-2.45	-14.58	-8.24	-6.61	0.14
Cash and Equivalents							
US T-Bills 90 Day	0.05	0.22	0.44	0.21	0.16	0.61	1.31

Definitions

Bloomberg Barclays Capital Aggregate

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

Bloomberg Barclays Capital Global Aggregate Index

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

Bloomberg Barclays Capital Muni 5 Yr

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

Bloomberg Barclays Capital U.S. Credit Index

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

The Bloomberg Barclays U.S. Treasury Index

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

The Bloomberg Barclays Capital U.S. Universal Index

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

BofA ML High-Yield Index Master II

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Bloomberg Commodity Index

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

CITI World Government Bond Index

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

FTSE EPRA/NAREIT Developed Index

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

HFRI Fund of Funds (FOF) Conservative Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

HFRI Fund of Funds (FOF) Strategic Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

MSCI ACWI Index (exU.S.)

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI EAFE® Index

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI EAFE Growth Index

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI EAFE Value Index

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI Emerging Markets Index

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Ncreif® Property Index

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

Russell 1000® Growth Index

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 1000® Value Index

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

Russell 2000® Index

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

Russell 2000® Growth Index

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

Russell 2000® Value Index

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Midcap® Index

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

S&P 500

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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