Global Economy

Themes of mild inflation, moderate growth, low unemployment and persistently low volatility are shared around the globe, even as North Korea continues its provocative pursuit of nuclear capability. In the US, Hurricane Harvey's impact will be felt in the short run, particularly as it relates to the energy markets and productivity, although expectations are high that Houston recovers well. Congress took its summer recess, but returns to work needing to address the rapidly approaching debt ceiling and desiring to achieve meaningful tax reform. Backward-looking economic signals continue to be positive, with 2Q-17 real gross domestic product (GDP) revised up to 3.0%, exceeding the market's expectations. The latest report on personal consumption expenditures (PCE) continued the recent trend of moderate increases. Year-over-year spending on goods and services has advanced by 2.7% on a real basis, which captures true demand growth. Core PCE, the Federal Reserve's preferred measure of price inflation, ticked down to 1.4% on a year-over-year basis.

The unemployment rate notched up to 4.4% in August, even as the participation rate held steady and nonfarm payrolls expanded by 156,000 jobs. Combined with downward revisions for the prior two months, reported new hires missed the consensus estimate of economists by 65,000. Wage growth had been expected to rise modestly, but continued at the lackluster pace of 2.5%. In a recent speech, Federal Reserve Governor Lael Brainard commented on the apparent flattening of the Phillips curve, which would suggest that a strong job market alone should not stoke fears of inflation.

The Federal Open Market Committee (FOMC) did not meet in August, and Chair Yellen's speech at the annual Jackson Hole summit focused on the benefits of financial market regulation rather than monetary policy. Most observers still expect the Fed to initiate its balance sheet reduction program, commonly referred to as quantitative tightening (QT), at the upcoming meeting on September 19/20. The odds of a concurrent rate hike are effectively 0%.

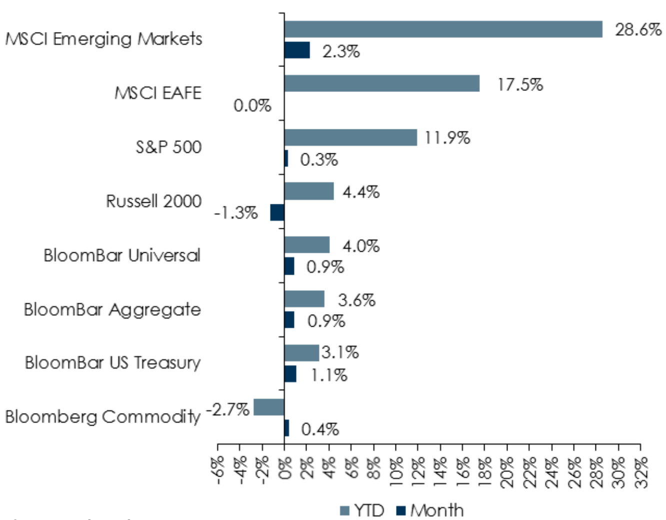
International macroeconomic data continued to show strength, increasing the probability that the European Central Bank (ECB) will soon begin discussing how and when to dial back quantitative easing (QE). President Draghi has acknowledged positive growth signs, but has also alluded to the potential adverse impact of a strong Euro on export-driven economies going forward. The market is currently not expecting meaningful policy tightening by either the ECB or the Bank of Japan (BoJ) until 2019. China's Purchasing Managers' Index (PMI) remained stable, and independent GDP tracking figures produced by Capital Economics have been converging with official government reports.

	Current	Dec-16
US GDP (%)	3.00	1.90
US Unemployment (%)	4.40	4.70
CPI (Core) (%)	1.70	2.10
Fed Funds (%)	1.00 – 1.25	0.50 – 0.75
10 Year UST Yld (%)	2.12	2.45
S&P 500 Div Yld (%)	2.00	2.09
S&P 500 P/E (Trailing)	21.17	20.61
Gold/oz.	$1,318.50	$1,151.70
Oil (Crude)	$47.23	$53.72
Gasoline (Natl Avg)	$2.51	$2.39
USD/Euro	$1.19	$1.05
USD/GBP	$1.29	$1.23
Yen/USD	¥109.98	¥116.96

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

The equity markets took a bit of a breather in August, even as year-to-date (YTD) appreciation remains quite strong domestically and abroad. Although the forward-looking landscape appears less stable as valuation levels, policy uncertainty, and geopolitical risk grab headlines, these factors have generally not been the best near-term indicators for investors. The volatility futures markets are still quite low relative to their past averages, despite episodic moves higher throughout the month. A potential North Korean conflict creates left-tail risk, but the most recent comments from Washington DC have favored strong diplomacy over previously aggressive tones.

The S&P 500 index narrowly avoided its first monthly decline since before the US election, finishing up slightly (+0.3%) in August. Enduring two of its three worst days of 2017, both down more than -1.5%, the domestic benchmark managed to end well above the intra-month lows. As the market discerns potential winners and losers, there was a healthy divergence in returns among various sectors. In the large cap space, IT (+3.2%) and Utilities (+2.7%) were strong, offsetting Energy (-5.7%) and an abrupt reversal in Telecom (-3.1%). In the small cap space, Russell 2000 growth stocks (-0.1%) held up better than value stocks (-2.5%), with the broader universe being down 1.3% overall. The small cap market continues to trade with a higher sensitivity to uncertainty in the legislative agenda.

In the international markets, MSCI EAFE index was essentially flat overall and performance was consistent across the major regions. On the other hand, emerging market equities continued their strong run of 2017, with the MSCI Emerging Markets index up another 2.3%. MSCI Emerging Markets Asia was the laggard in terms of regions, but still managed a decent 1.4% return. MSCI Emerging Markets Eastern Europe (7.5%) set the pace, with MSCI Emerging Markets Latin America (4.7%), and MSCI Emerging Markets Europe, Middle East and Africa (4.4%) also strong.

Real estate posted moderate returns, as measured by the FTSE NAREIT US Real Estate index (+0.6%) and the FTSE EPRA/NAREIT Developed index (+0.2%). The Alerian MLP index (-4.9%) reversed course from the prior month, as hurricane-related disruptions in Houston impacted pipeline and processing volumes. More directly within the energy complex, oil was down sharply (-5.9%) but gasoline futures spiked double-digits given reduced refining capacity. The safe-haven bid for gold continued (+4.1%), and the Bloomberg Commodities index finished up overall (+0.4%).

Global Markets (continued)

Diverging from somewhat neutral equity outcomes, fixed income assets continued to appreciate throughout August. The broad Bloombar Global Aggregate index posted a gain of +1.0%, bringing the benchmark's YTD total return to an impressive level of +7.2%. With the US dollar sliding back to early-2015 levels, the resulting positive impact of currency translation for US-based investors remained a benefit. That said, this factor accounted for less than 10% of the unhedged benchmark's monthly return, and it was a risk-off decline in yields across the developed markets that drove results. Given historically depressed yields, ending the month at just 1.50%, prospective returns become more challenging.

The US Treasury (UST) yield curve resumed the flattening pattern that has dominated most of the year. With weak inflation data causing the market to discount future FOMC rate hikes, the policy sensitive 2-year UST yields drifted modestly lower and closed the month at 1.33%. The move in longer-term rates was more pronounced, with the 30-year bond closing very near its YTD low at 2.73%.

As policymakers grapple with cross-currents of low inflation, reasonably solid economic data and elevated levels of consumer sentiment, the implied probability of an additional Fed rate hike before year-end has fallen to approximately 30%. The FOMC's next meeting will be key to watch, as it will include revised economic projections and a new "dots plot". Pre-meeting signaling is expected to reduce the chance of surprise, but any unanticipated hawkishness from the Federal Reserve would likely drive an adjustment in both rates and risk assets.

The Bloombar US Aggregate index returned +0.9% in August, with high-quality government and asset-backed securities leading the way. Although ongoing heavy supply weighed on results, the Bloombar US Corporate Investment Grade index gained just under +0.8% for the month. Credit spreads finished 8 basis points (bps) wider, but remain near 10-year lows. The Bloombar US Corporate High Yield index essentially broke even in August, with overall spreads moving wider by 26 bps. Emerging market bonds (particularly local currency issues) extended their impressive YTD rally, driven by the attractiveness of higher interest rates and steady/improving economic fundamentals.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-16
Japan	0.00	0.04
Germany	0.36	0.20
France	0.66	0.68
United Kingdom	1.03	1.24
Spain	1.55	1.38
Italy	2.04	1.81
United States	2.12	2.45
Mexico	6.84	7.42
Brazil	9.98	11.40

Source: Bloomberg

Indices Report (Periods Ending August 31, 2017)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	0.31	11.93	16.23	9.54	14.34	7.61	9.06
Russell 1000	0.31	11.79	16.16	9.21	14.37	7.73	9.30
Russell 1000 Growth	1.83	19.17	20.82	11.67	15.41	9.39	9.75
Russell 1000 Value	-1.16	4.81	11.58	6.74	13.25	5.96	8.75
Russell 2500	-0.83	6.18	13.22	7.08	13.44	7.96	10.91
Russell 2000	-1.27	4.42	14.91	7.67	13.15	7.38	10.37
Russell 2000 Growth	-0.12	10.78	16.39	8.20	13.75	8.21	10.83
Russell 2000 Value	-2.46	-1.31	13.47	7.07	12.51	6.46	9.81
Wilshire 5000 Cap Wtd	0.24	11.04	16.20	9.33	14.31	7.74	9.55
MSCI ACWI	0.43	15.48	17.75	6.16	11.06	4.79	8.71
MSCI ACWI ex US	0.55	19.35	19.43	2.83	7.85	2.20	8.41
MSCI EAFE	-0.02	17.50	18.19	3.30	8.97	2.10	7.75
MSCI EAFE Local Currency	-0.02	8.65	16.77	7.47	12.51	3.05	6.76
MSCI EAFE Growth	0.57	20.55	15.65	4.94	9.43	2.92	7.76
MSCI EAFE Value	-0.61	14.64	20.70	1.59	8.43	1.20	7.65
MSCI Emerging Markets	2.27	28.62	24.99	2.75	5.67	2.76	12.03
Fixed Income							
BofA ML 1-3 Yr Treasury	0.19	0.84	0.52	0.80	0.66	1.79	2.14
BloomBar US Aggregate	0.90	3.64	0.49	2.64	2.19	4.40	4.37
BloomBar Gov't Bond	1.06	3.12	-0.84	2.12	1.37	3.76	3.79
BloomBar US Credit	0.84	5.31	1.90	3.46	3.40	5.65	5.51
BloomBar 10 Yr Municipal	0.71	5.89	1.06	3.59	3.44	5.19	4.81
BloomBar US Corp High Yield	-0.04	6.05	8.63	4.77	6.47	8.02	9.26
Citigroup World Govt Bond	1.18	7.68	-0.87	0.16	0.06	3.33	4.44
BloomBar Global Aggregate	0.99	7.22	0.19	0.65	0.91	3.63	4.56
BloomBar Multiverse	0.97	7.41	0.80	0.86	1.17	3.81	4.78
Real Assets							
NCREIF Property	0.00	3.33	6.98	10.17	10.49	6.42	9.02
NFI ODCE Net	0.00	3.05	6.91	10.33	10.76	4.29	7.27
FTSE NAREIT US Real Estate	-0.25	3.69	-1.08	7.64	9.30	6.29	10.53
Bloomberg Commodity	0.40	-2.72	2.99	-12.27	-10.14	-6.09	-0.05
Cash and Equivalents							
US T-Bills 90 Day	0.09	0.49	0.62	0.29	0.20	0.50	1.30

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 compromised 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.

General Notes and Disclaimers

The views contained in this report are those of Asset Consulting Group (ACG). The information contained herein is given as of the date hereof and this does not purport to give information as of any other date. Neither the delivery of this memorandum nor any information sales contained herein shall, under any circumstances, create an implication that there has been no change in the matters discussed herein since the date hereof.

The information presented herein is for informational purposes only and is not intended as an offer to sell or the solicitation of an offer to purchase any securities or any product or service.

Past performance is not indicative of future results. Given the inherent volatility of the securities markets, it should not be assumed that investors will experience returns comparable to those shown here. Market and economic conditions may change in the future producing materially different results than those shown here.

Although the information presented herein has been obtained from and is based upon sources ACG believes to be reliable, no representation or warranty, express or implied, is made as to the accuracy or completeness of that information. Such information is not necessarily all-inclusive and is not guaranteed as to its accuracy. Accordingly, ACG does not itself endorse or guarantee, and assumes no liability whatsoever for, the accuracy or reliability of any third party data or the financial information contained herein.

All information presented herein is subject to a disclaimer included in all research. Any material excerpted or summarized from a full research report is subject to the terms of the disclaimer. The information in this report, including research, is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to local law or regulation.

Comparisons of the performance of any securities or portfolio to the market indicators, benchmarks and indices presented herein may not be meaningful since the constitution and risks associated with each market indicator, benchmark or index may be significantly different. Accordingly, no representation or warranty is made to the sufficiency, relevance, importance, appropriateness, completeness, or comprehensiveness of the market data, information or summaries contained herein for any specific or purpose.

The information and views described herein is general in nature and is not intended as investment advice or recommendations. This material is distributed with the understanding that it is not rendering accounting, legal or tax advice. Please consult your legal or tax advisor concerning such matters.

No part of this publication may be copied, or duplicated in any form without the written consent ACG. ACG is not responsible for typographical or clerical errors in this report or in the dissemination of its contents. Reliance upon information in the report is at the sole discretion of the reader.