

**Global Economy**

After subdued growth during the first half of the year, the US economy picked up steam during the third quarter driven by strong business spending and growth in exports. The Commerce Department reported gross domestic product (GDP) jumped an annualized 2.9%, following a 1.4% gain the prior quarter. Corporations rebuilt inventories in anticipation of a rebound in new orders and exports accelerated. Consumer spending rose 2.1%, which was less than projected.

The US labor market showed continued progress in October as employers added 161,000 jobs, after the 191,000 gains in September. The unemployment rate fell to 4.9% from 5.0% the prior month. The underemployment rate, which includes part-time workers looking for full time work, dropped to 9.5% from 9.7%. Wages increased as average hourly earnings rose 0.4% in October from a month earlier to \$25.92, which represents a 2.8% improvement over the past year. Higher wages should continue to support US consumer spending during the fourth quarter.

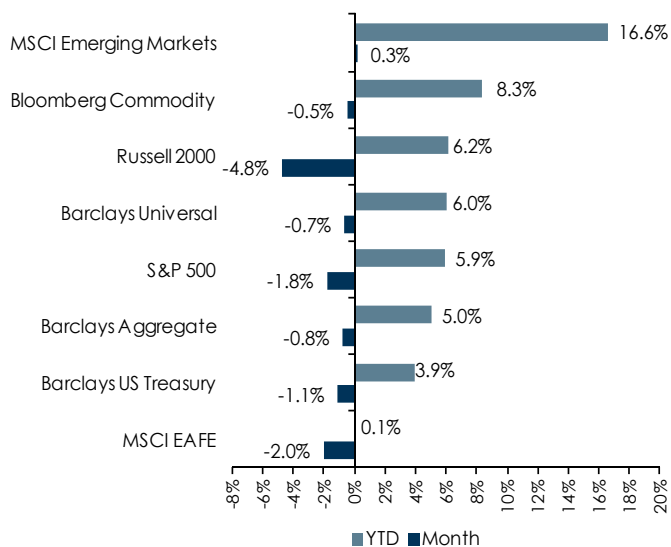
US inflation trended higher in September amid rising energy and housing costs. A government report showed inflation is getting closer to the Federal Reserve's goal of 2.0%. The consumer price index (CPI) increased 0.3% in September from the previous month as energy prices increased 2.9%, and food costs remained unchanged. The year over year increase in CPI was 1.5%, the highest since October 2014. Excluding the volatile energy and food costs, prices were up 0.1% in September and rose 2.2% over the past 12 months.

The Federal Reserve (Fed) left its benchmark interest rate unchanged but indicated the case for raising interest rates had strengthened. This caused financial markets to raise the odds of higher rates before the end of the year. Fed policy makers felt the pace of inflation had "increased somewhat since earlier this year" and were increasingly confident inflation was on track to reach their 2.0% target. Policy makers believed that growth of economic activity was accelerating and labor markets continued to strengthen. Investors showed an 84% probability of a 0.25% hike at the December meeting, according to pricing in federal funds futures.

	Current	Dec-15
US GDP (%)	2.90	0.70
US Unemployment (%)	4.90	5.00
CPI (Core) (%)	2.20	2.00
Fed Funds (%)	0.25 – 0.50	0.25 – 0.50
10 Year U.S.T Yld (%)	1.83	2.27
S&P 500 Div Yld (%)	2.17	2.15
S&P 500 P/E (Trailing)	19.87	18.27
Gold/oz.	\$1,273.10	\$1,060.20
Oil (Crude)	\$46.86	\$37.04
Gasoline (Nat'l Avg)	\$2.34	\$2.14
USD/Euro	\$1.10	\$1.09
USD/GBP	\$1.22	\$1.47
Yen/U.S.D	¥104.82	¥120.22

**Global Markets**

**Key Market Indices**



US stocks fell in October with the S&P 500 recording a loss of 1.8%, ending a streak of seven consecutive monthly gains amid political uncertainty surrounding the US elections and mixed corporate earnings. Two of the eleven S&P 500 sectors posted gains with financials the top performer, up 2.2%. Telecommunication stocks fell 7.5% and healthcare continued to be pressured due to uncertainty regarding drug pricing policies. As of early November, 454 companies have reported third quarter earnings. Of these, 73% reported earnings that surpassed analyst estimates and 6% met expectations. Sales have come in stronger than expected with 65% beating estimates. Small cap stocks underperformed both large and mid caps, as investors took profits after advancing nearly 12% through September. The Russell 2000 declined 4.8% in October as all sectors fell, led by an 11.7% drop in healthcare followed by energy related issues that lost 7.6%.

Euro zone equities ended in negative territory amid concerns about inflationary pressures and a weakening euro. A government report showed consumer prices in Germany rose in October at the fastest annual pace in two years. Meanwhile, the euro declined 2.3% versus the USD amid speculation the European Central Bank (ECB) may extend its asset purchase program as the Fed begins to raise rates. The MSCI Europe index lost 3.3% as the real estate and technology sectors plunged over 8.0%. Japanese shares rose to a six-month high as the yen weakened boosting expectations for earnings for companies that export goods. The MSCI Japan index climbed 1.3% led by financials as the Bank of Japan's policy switch to control yields was viewed as a positive for bank's balance sheets. Emerging market equities recorded a marginally positive return overall as the MSCI EM index advanced for the fifth consecutive month driven by the MSCI EM Latin America index that soared 10% largely from a rally in Brazil.

The Bloomberg Commodity index posted a slight loss largely due to declines in energy and precious metals. In October, oil traded at a 15-month high of \$51.93 per barrel on hopes that OPEC may cap production in November. Concerns regarding the ability of members to strike a compromise led to a sell off, dropping 2.9% to \$46.86 per barrel.

**Global Markets (continued)**

Global bond markets came under pressure in October after the Fed signaled a rate hike was looming. In the US, Treasury yields climbed to their highest levels since May, resulting in the biggest monthly loss since February 2015. The US Treasury yield curve steepened in October as two-year yields rose 8 basis points (bps) to 0.84% and 10-year yields jumped 23 bps to 1.83%. Yields on the 30-year rose 26 bps to 2.58%. Treasury Inflation Protected Securities (TIPS) breakeven rates, a measure of market based inflation expectations, widened to the highest levels since July 2015 as 10-year breakevens jumped to 173 bps, an increase of 53 bps from the 2016 lows in February. The Bank of America Merrill Lynch US Treasury Index fell 1.15% posting a loss for the third consecutive month.

The current state of monetary policy divergence among major developed central banks set the tone for global bond markets in October as global high grade bonds had their worst month in a year. While the Fed appears on course to tighten policy in December, the Bank of England and the ECB kept accommodative quantitative easing plans in place as overall government bond yields were sharply higher. In the United Kingdom, the two-year gilt yield rose from 0.10% to 0.26%, while the 10-year gilt yield rose from 0.75% to 1.25%. In the euro zone, German 10-year yields rose from -0.12% to 0.16%. Italy's bonds were the worst performers within the region amid uncertainty over an upcoming national election. The yield on Italian 10-year bonds rose to 1.70% before closing at 1.66%. The Bloomberg Barclays Global Aggregate Index declined 2.8%.

Emerging market debt was weaker in October as the USD sovereign JPMorgan EMBI Global Diversified index fell 1.2%. This was the first decline since May and the premium to own EM debt over US Treasuries rose 4 bps to 340 bps. Both local currency and USD corporate EM bonds suffered slight losses for the month.

**Selected Bond Yields**

10 Year Sovereign Bond Yields (%)		
	Current	Dec-15
Japan	-0.05	0.27
Germany	0.16	0.63
France	0.47	0.99
Spain	1.20	1.77
Italy	1.66	1.60
United States	1.83	2.27
Portugal	3.32	2.52
Greece	8.29	8.29

**Indices Report (Periods Ending October 31, 2016)**

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
<b>Equity</b>							
S&P 500	-1.82	5.87	4.51	8.84	13.57	6.70	6.88
Russell 1000	-1.95	5.82	4.26	8.48	13.51	6.83	7.19
Russell 1000 Growth	-2.35	3.51	2.28	9.36	13.65	8.22	6.82
Russell 1000 Value	-1.55	8.29	6.37	7.59	13.31	5.35	7.41
Russell 2500	-4.06	6.31	3.98	5.17	12.22	7.00	9.39
Russell 2000	-4.75	6.16	4.11	4.12	11.51	5.96	8.50
Russell 2000 Growth	-6.21	0.80	-0.49	3.70	11.34	6.92	7.78
Russell 2000 Value	-3.29	11.69	8.81	4.47	11.63	4.91	8.95
Wilshire 5000 Cap Wtd	-2.03	6.24	4.63	8.36	13.37	6.84	7.51
MSCI ACWI	-1.67	5.30	2.64	3.77	8.62	4.34	6.74
MSCI ACWI ex US	-1.43	4.77	0.72	-1.04	4.11	2.07	6.72
MSCI EAFE	-2.04	0.12	-2.74	-0.86	5.48	1.70	5.95
MSCI EAFE Local Currency	1.20	0.03	-1.40	5.05	10.65	2.53	4.75
MSCI EAFE Growth	-4.30	-1.43	-2.84	0.43	6.10	2.71	5.91
MSCI EAFE Value	0.24	1.65	-2.75	-2.21	4.77	0.61	5.91
MSCI Emerging Markets	0.25	16.64	9.67	-1.70	0.90	3.82	11.47
<b>Fixed Income</b>							
BofA ML 1-3 Yr Treasury	-0.07	1.26	0.92	0.79	0.66	2.21	2.36
BloomBar US Aggregate	-0.76	4.99	4.37	3.48	2.90	4.64	4.60
BloomBar Gov't Bond	-1.06	3.85	3.25	2.79	2.09	4.17	4.09
BloomBar US Credit	-0.85	7.93	6.87	4.64	4.35	5.60	5.55
BloomBar 10 Yr Municipal	-1.21	3.09	4.31	4.85	4.52	5.07	5.01
BloomBar US Corp High Yield	0.39	15.56	10.14	4.55	7.17	7.60	8.49
Citigroup World Govt Bond	-3.43	7.27	5.99	0.28	-0.04	3.64	4.86
BloomBar Global Aggregate	-2.78	6.80	5.59	0.85	0.90	3.87	4.87
BloomBar Multiverse	-2.62	7.32	5.96	0.97	1.13	4.00	5.04
<b>Real Assets</b>							
NCREIF Property	0.00	6.13	9.22	11.31	11.18	7.22	8.93
NFI ODCE Net	0.00	5.80	9.09	11.42	11.33	5.05	7.03
FTSE NAREIT US Real Estate	-5.66	5.43	6.81	10.40	11.52	5.09	11.16
Bloomberg Commodity	-0.49	8.34	-2.62	-12.05	-10.61	-5.81	0.87
<b>Cash and Equivalents</b>							
US T-Bills 90 Day	0.03	0.27	0.31	0.12	0.11	0.89	1.37

# Definitions

## **Barclays Capital Aggregate**

The 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.

## **Barclays Capital Global Aggregate Index**

The 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.

## **Barclays Capital Muni 5 Yr**

The 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.

## **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 Barclays U.S. Treasury Index**

The Barclays U.S. Treasury Index is a component of the 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 Barclays Capital U.S. Universal Index**

The 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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