

**Global Economy**

September reported positive economic results, as second quarter growth was revised higher, job gains were solid, and US housing activity continued to be steady. In its final estimate of 2Q16 gross domestic product, the government said the US economy expanded at a 1.4% annualized rate, compared with a prior estimate of 1.1%. The upward improvement was driven by strong consumer spending and less negative drag from business investment. Household consumption rose 4.3%, while business spending advanced at a 1.0% annualized pace. Additionally, the economy added 156,000 new jobs in September and the unemployment rate rose to 5.0% from 4.9%.

Relatively low borrowing costs coupled with modest gains in household income is contributing to improving demand in the US housing market and rising home prices. New home sales in August were an annualized 609,000, beating consensus estimate of 600,000. Existing home sales for August were an annualized 5.33 million units, down slightly from the 5.38 million reported in July. Likewise, the supply of homes available dwindled further in August, helping drive prices higher. The median existing home price for all housing types in August was \$240,200, up 5.1% from August 2015. August's price increase marks the 54th consecutive month of year-over-year gains.

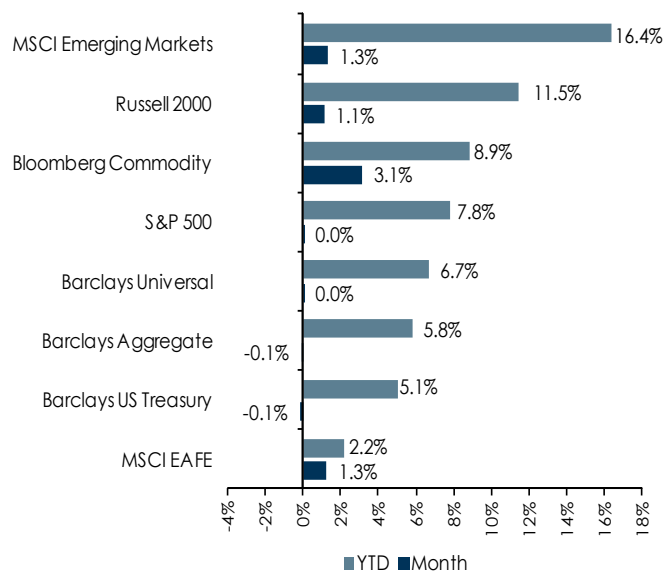
Gauges of business activity showed modest improvement in the manufacturing sector, while the services sector expanded at the quickest pace in almost a year. The September ISM manufacturing report came in at 51.5 from August's 49.4 as a reading above 50 signals growth. The ISM's non-manufacturing index jumped to 57.1, the highest since October 2015 and up from 51.4 in August. The Federal Reserve (Fed) left interest rates unchanged in September for the sixth straight meeting. They judged the case had "strengthened" for an increase but decided to "wait for further evidence of continued progress toward objectives."

The ECB and Bank of England left interest rates unchanged and did not increase their stimulus purchases. The Bank of Japan (BOJ) also kept policy rates unchanged and adopted "yield curve control" under which it will buy long-term government bonds to keep 10-year bond yields at current levels of around 0%.

	Current	Dec-15
US GDP (%)	1.40	0.70
US Unemployment (%)	5.00	5.00
CPI (Core) (%)	2.30	2.00
Fed Funds (%)	0.25 – 0.50	0.25 – 0.50
10 Year U.S.T Yld (%)	1.60	2.27
S&P 500 Div Yld (%)	2.13	2.15
S&P 500 P/E (Trailing)	20.42	18.27
Gold/oz.	\$1,313.30	\$1,060.20
Oil (Crude)	\$48.24	\$37.04
Gasoline (Nat'l Avg)	\$2.33	\$2.14
USD/Euro	\$1.12	\$1.09
USD/GBP	\$1.30	\$1.47
Yen/U.S.D	¥101.35	¥120.22

**Global Markets**

**Key Market Indices**



US stocks were relatively flat as expectations that the Fed would increase rates by the end of 2016 weighed on investor appetites for riskier assets. The S&P 500 advanced 0.02%, a seventh consecutive monthly gain, while the Dow Jones Industrial Average underperformed with a 0.4% decline. Three of the eleven S&P 500 sectors (real estate was added in September) posted gains in September led by energy, technology and utilities. Financials did the worst amid concerns about weakness among European banks. Small caps outpaced both large and mid caps as the Russell 2000 gained 1.1% paced by healthcare and energy stocks with more than 5% gains.

Globally, September was generally a positive month for equities as markets were buoyed by continued central bank stimulus. The MSCI World index moved higher, up 0.6% and the MSCI EAFE index rose 1.3%. European equities eked out positive returns, overcoming a surge in volatility led by financials after the US government demanded \$14 billion from Deutsche Bank to settle the sale of government backed bonds prior to the global financial crisis. Ultimately, stocks recovered earlier losses amid rumors a reduced settlement was being negotiated. Japanese equities advanced 1.7% supported by the BOJ's decision to keep interest rates low, which raised the prospects for corporate profitability.

Emerging market equities delivered monthly gains of 1.3%. Brazil's Ibovespa index posted its fourth monthly advance amid optimism the new president will implement fiscal reforms and restore confidence in the economy. Six of the eleven MSCI Emerging Market sectors rose as technology, energy and consumer discretionary stocks were the top performers, while utilities fell over 3%.

Commodities rallied after the Organization of Petroleum Exporting Countries (OPEC) announced a plan to reduce oil output for the first time since 2008, helping send oil prices nearly 8% higher for the month. OPEC agreed to limit production to a range of 32.5 to 33.0 million barrels a day. Gold held on to slight gains despite rising expectations of higher US interest rates.

**Global Markets (continued)**

Central bank policy was a key driver of interest rates in September leading to divergent trends across yield curves. In the US, two and five-year US Treasury yields declined after the Fed reduced its outlook for the path of interest rates in 2017. They now project only two rate hikes next year, which is down from their June median projection of three. The long end of the US Treasury curve rose as the 10-year yield increased 1 basis point (bps) to 1.60%, while the 30-year yield jumped 8 bps to 2.32%. The BofA Merrill Lynch US Treasury index lost 0.2%.

The US broad bond market experienced a second month of losses in September hurt by declines in the long end of the credit markets. Average yields on the Bloomberg Barclays U.S. Aggregate index rose 1 bp to 1.96% in September, but have declined from 2.59% at the start of the year. US investment grade bonds declined in September driven by nearly 1.0% losses in the Bloomberg Barclays Long U.S. Corporate index. The search for yield dominated bond markets again in September after US high yield bonds moved higher, registering an eighth consecutive monthly advance. Energy continues to be a top performer in the high yield markets, rising 1.6% for the month.

Negative interest policies implemented by both the ECB and BOJ continued to lead to an increase in negative yielding debt in September. Per Bloomberg, the total face value of negative yielding corporate and government debt in the Bloomberg Barclays Global Aggregate Index jumped to \$11.6 trillion as of the end of September, up 6.1% from August. Concerns over the health of European banks led to a flight to quality within Euro area bond markets. Germany's sovereign debt rallied, sending 10-year yields down to -0.15%. Europe's peripherals experienced mixed performance as Italy's 10-year yield increased 8 bps to 1.19%, while Spain's 10-year yield declined 13 bps to 0.88%.

Local currency emerging market debt (EMD) outpaced US dollar EMD amid solid currency performance versus the US dollar. A basket of EM currencies gained nearly 1% against the dollar. EMD corporate bonds rose 0.3% in US dollars.

**Selected Bond Yields**

10 Year Sovereign Bond Yields (%)		
	Current	Dec-15
Germany	-0.12	0.63
Japan	-0.09	0.27
France	0.19	0.99
Spain	0.88	1.77
Italy	1.19	1.60
United States	1.60	2.27
Portugal	3.33	2.52
Greece	8.28	8.29

**Indices Report (Periods Ending September 30, 2016)**

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
<b>Equity</b>							
S&P 500	0.02	7.84	15.43	11.16	16.37	7.24	7.15
Russell 1000	0.08	7.92	14.93	10.78	16.41	7.40	7.48
Russell 1000 Growth	0.37	6.00	13.76	11.83	16.60	8.85	7.35
Russell 1000 Value	-0.21	10.00	16.20	9.70	16.15	5.85	7.46
Russell 2500	0.48	10.80	14.44	7.77	16.30	7.94	10.07
Russell 2000	1.11	11.46	15.47	6.71	15.82	7.07	9.26
Russell 2000 Growth	1.44	7.48	12.12	6.58	16.15	8.29	8.90
Russell 2000 Value	0.79	15.49	18.81	6.77	15.45	5.78	9.38
Wilshire 5000 Cap Wtd	0.10	8.44	15.35	10.65	16.31	7.44	7.84
MSCI ACWI	0.66	7.09	12.60	5.74	11.23	4.90	7.01
MSCI ACWI ex US	1.28	6.29	9.80	0.64	6.52	2.63	7.02
MSCI EAFE	1.27	2.20	7.06	0.93	7.88	2.30	6.28
MSCI EAFE Local Currency	0.34	-1.15	5.15	5.78	11.72	2.67	4.94
MSCI EAFE Growth	1.52	2.99	9.90	2.78	9.12	3.51	6.50
MSCI EAFE Value	1.03	1.40	4.16	-0.96	6.58	1.02	5.98
MSCI Emerging Markets	1.32	16.36	17.21	-0.21	3.39	4.28	11.90
<b>Fixed Income</b>							
BofA ML 1-3 Yr Treasury	0.12	1.33	0.88	0.85	0.69	2.25	2.43
Barclays US Aggregate	-0.06	5.80	5.19	4.03	3.08	4.79	4.80
Barclays Gov't Bond	-0.12	4.96	4.00	3.32	2.16	4.34	4.34
Barclays US Credit	-0.28	8.86	8.30	5.44	4.83	5.77	5.78
Barclays 10 Yr Municipal	-0.29	4.35	6.02	5.55	4.67	5.26	5.19
Barclays US Corp High Yield	0.67	15.11	12.73	5.28	8.34	7.71	8.64
Citigroup World Gov't Bond	0.65	11.07	9.71	1.78	0.77	4.10	5.16
Barclays Global Aggregate	0.55	9.85	8.83	2.13	1.74	4.26	5.13
Barclays Multiverse	0.57	10.21	9.23	2.22	1.97	4.38	5.29
<b>Real Assets</b>							
NCREIF Property	0.00	4.28	7.32	10.66	10.79	7.03	8.80
NFI ODCE Net	0.00	3.90	7.13	10.75	10.93	4.86	6.90
FTSE NAREIT US Real Estate	-1.76	11.75	19.86	14.22	15.91	6.35	11.37
Bloomberg Commodity	3.13	8.87	-2.58	-12.34	-9.37	-5.33	0.57
<b>Cash and Equivalents</b>							
US T-Bills 90 Day	0.05	0.24	0.27	0.11	0.10	0.93	1.39

# 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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