

Global Economy

President Trump signed into law the Tax Cuts and Jobs Act, the most sweeping change to our nation's tax code in more than 30 years. Addressing primarily corporate tax rates, the legislation also adjusted some personal tax rates and modified several key deductions/credits. Having been in the works for much of 2017, the reaction from the markets has been somewhat muted. Growth momentum continues to be strong in most economies of the world, although the UK is experiencing some notable "Brexit-pains."

The US economy continues to display solid fundamental trends, with recent manufacturing data improving and confidence continuing to be high both among consumers and in the business sector. That said, 3Q-17 real gross domestic product (GDP) was revised slightly downward to 3.2%. Core PCE, the Federal Reserve's preferred measure of inflation, advanced a bit, but remains below target at 1.5% on a year-over-year basis.

In line with expectations, the Federal Open Market Committee (FOMC) increased rates by 25 bps mid-month. Though inflation continues to be lower than anticipated (and desired), three additional rate hikes are forecasted for 2018, as financial conditions continue to be favorable and asset values continue to rise. Subsequently released minutes from the meeting indicated much discussion around the risks of increasing rates too quickly as well as too slowly. Certain economic relationships continue to be puzzling, particularly as it relates to inflation and unemployment.

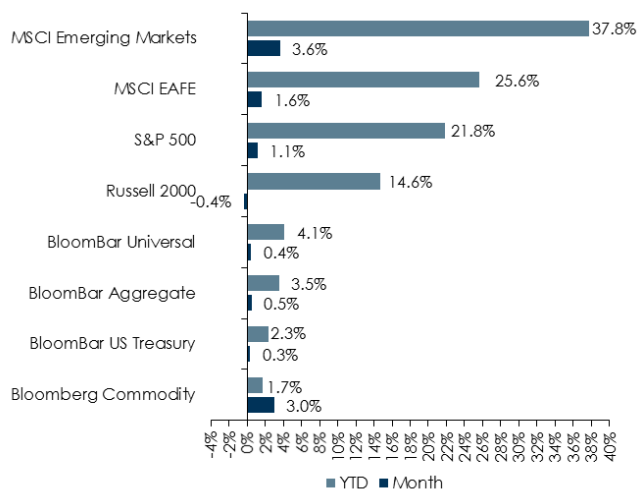
December's jobs report continued the trend of strong net workforce additions, but came in slightly below expectations. The unemployment rate remained at 4.1% and the participation rate held steady at 62.7%. Nonfarm payrolls increased by 148,000 overall, 32,000 below expectations. For the year, 2.1 million jobs were added, the seventh straight year above 2.0 million. Manufacturing added 196,000 jobs in 2017, following a nearly flat 2016. Average hourly earnings remain tepid for a maturing cycle, with wages increasing just 2.5% year-over-year.

	Current	Dec-16
US GDP (%)	3.20	1.90
US Unemployment (%)	4.10	4.70
CPI (Core) (%)	1.70	2.10
Fed Funds (%)	1.25 – 1.50	0.50 – 0.75
10 Year UST Yld (%)	2.41	2.45
S&P 500 Div Yld (%)	1.89	2.09
S&P 500 P/E (Trailing)	22.45	20.61
Gold/oz.	\$1,309.30	\$1,151.70
Oil (Crude)	\$60.42	\$53.72
Gasoline (Natl Avg)	\$2.59	\$2.39
USD/Euro	\$1.20	\$1.05
USD/GBP	\$1.35	\$1.23
Yen/USD	¥112.69	¥116.96

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

US equities finished a strong year, with the benchmark S&P 500 index completing its 14th straight month of positive returns (+1.1%). In fact, there has only been one negative month in the last twenty-two, and the lack of even intra-month declines is quite rare. Telecom (+5.8%) and Energy (+4.7%) led the way, with Utilities (-6.4%) hardest hit. For the year, IT (+36.9%) led the way, with Healthcare (+20.0%), Financials (+20.0%), Consumer Discretionary (+21.2%) and Materials (+21.4%) close behind. Energy (-3.8%) and Telecom (-6.0%) were the laggards of 2017.

In small cap, returns were slightly negative (-0.4%), and perhaps surprising in light of the passage of tax reform. However, with the outcome expected since late November, investors "sold the news." Growth (+0.1%) exceeded Value (-0.9%) by nearly 110 bps. For the year, Growth (22.2%) also significantly outperformed Value (10.4%).

Overseas, the MSCI EAFE index was up strongly at +1.6%. Although Japanese stocks advanced moderately at +0.7%, the MSCI Pacific Ex Japan index was up 3.8% for the month. For the year, international developed markets were strong across the board, with many countries/regions in the +25% range. Developing economies performed well in December, with MSCI Emerging Markets up another +3.6%. For the year, the index gained +37.8%, with MSCI Emerging Markets Asia (+43.3%) leading the way on the back of Chinese and South Korean IT names.

Real estate was mixed in December, with the FTSE EPRA/NAREIT Developed index up (+1.4%) and the FTSE NAREIT US Real Estate index essentially flat (-0.1%). The Alerian MLP index had a very solid month (+4.7%) amid firming energy prices, but the category stands out as the dramatic underperformer for the full year (-6.5%).

Commodities finished the year on a strong note, with both gold (+2.8%) and the Bloomberg Commodity index (+3.0%) up in December. For the year, gold was up +13.7%, even as weak agricultural returns tempered the full index (+1.7%).

Global Markets (continued)

Within fixed income, December was really a microcosm of year-long trends. The Bloombar Global Aggregate index gained +0.4% during the month, with modestly positive underlying bond returns supplemented by the benefits of currency translation. The US dollar depreciated against every other G10 currency in 2017, and this factor accounted for nearly 60% of the return earned by unhedged US-based investors.

With the FOMC increasing its benchmark interest rate for the fifth time since the hiking cycle began in late 2015, the dominant story continued to be around the shape of the US Treasury (UST) yield curve. Policy sensitive 2-year UST yields advanced steadily to 1.89%, while the 30-year bond yield actually fell below 2.75%. Longer-term bonds continue to reflect relatively benign inflation signals and central bank intervention overseas, which offsets the Fed's policy normalization and a corporate tax cut that promises to widen deficits and add to the stockpile of government debt.

The Bloombar US Aggregate index returned +0.5% in December, lifting calendar year returns to +3.5%. Government-related issues trailed the primary market's other key sectors on a duration-matched basis. IG corporate credit spreads tightened by 4 bps, and have re-established new 10-year lows. The IG corporate credit basket currently yields just 3.25%.

The Bloombar 1-15-Year Municipal index returned +0.8%. Tax reform drove December issuance to record levels, but robust investor demand allowed tax-exempt issues to outperform UST's across the curve. Despite a slightly lowered top tax rate, it's believed that retail investors (~70% of the buyer base) should have a sustained appetite for the category.

The Bloombar US Corporate High Yield index produced a gain +0.3% in December. With over 65 bps of spread tightening throughout the year, 2017 returns of +7.5% exceeded "coupon clipping" assumptions. Emerging market bond returns were universally positive, although local currency bonds dramatically outperformed issues more sensitive to US rates.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-16
Japan	0.04	0.04
Germany	0.42	0.20
France	0.78	0.68
United Kingdom	1.19	1.24
Spain	1.56	1.38
Italy	2.01	1.81
United States	2.41	2.45
Mexico	7.65	7.42
Brazil	9.80	11.40

Source: Bloomberg

Indices Report (Periods Ending December 31, 2017)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	1.11	21.83	21.83	11.41	15.79	8.50	9.92
Russell 1000	1.11	21.69	21.69	11.23	15.71	8.59	10.18
Russell 1000 Growth	0.78	30.21	30.21	13.79	17.33	10.00	10.69
Russell 1000 Value	1.46	13.66	13.66	8.65	14.04	7.10	9.55
Russell 2500	0.34	16.81	16.81	10.07	14.33	9.22	11.75
Russell 2000	-0.40	14.65	14.65	9.96	14.12	8.71	11.17
Russell 2000 Growth	0.12	22.17	22.17	10.28	15.21	9.19	11.57
Russell 2000 Value	-0.95	7.84	7.84	9.55	13.01	8.17	10.66
Wilshire 5000 Cap Wtd	1.08	20.99	20.99	11.36	15.67	8.64	10.40
MSCI ACWI	1.65	24.62	24.62	9.89	11.40	5.22	9.57
MSCI ACWI ex US	2.27	27.77	27.77	8.33	7.28	2.31	9.23
MSCI EAFE	1.62	25.62	25.62	8.30	8.39	2.42	8.60
MSCI EAFE Local Currency	1.22	15.77	15.77	9.04	11.95	3.79	7.88
MSCI EAFE Growth	1.69	29.34	29.34	9.56	9.18	3.05	8.49
MSCI EAFE Value	1.56	22.12	22.12	6.94	7.52	1.73	8.62
MSCI Emerging Markets	3.64	37.75	37.75	9.50	4.73	2.02	12.68
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.00	0.42	0.42	0.61	0.56	1.44	2.00
BloomBar US Aggregate	0.46	3.54	3.54	2.24	2.10	4.01	4.15
BloomBar Govt Bond	0.30	2.30	2.30	1.40	1.28	3.23	3.52
BloomBar US Credit	0.80	6.18	6.18	3.63	3.24	5.42	5.23
BloomBar 10 Yr Municipal	1.20	5.83	5.83	3.13	3.13	4.86	4.68
BloomBar US Corp High Yield	0.30	7.50	7.50	6.35	5.78	8.03	8.98
Citigroup World Govt Bond	0.16	7.49	7.49	1.74	0.12	2.67	4.03
BloomBar Global Aggregate	0.35	7.39	7.39	2.02	0.79	3.09	4.22
BloomBar Multiverse	0.36	7.69	7.69	2.31	1.03	3.29	4.44
Real Assets							
NCREIF Property	0.00	5.08	5.08	8.74	9.80	5.89	8.89
NFI ODCE Net	0.00	4.72	4.72	8.75	10.11	3.88	7.16
FTSE NAREIT US Real Estate	-0.21	5.23	5.23	5.62	9.46	7.44	10.90
Bloomberg Commodity	2.99	1.70	1.70	-5.03	-8.45	-6.83	-0.27
Cash and Equivalents							
US T-Bills 90 Day	0.11	0.85	0.85	0.41	0.27	0.39	1.29

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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