

Global Economy

Throughout March, financial markets began to formally take notice of certain "gaps" that have developed across the political and economic landscape. Observing the partisan fractures that exist between the new administration and Congress, an expectations gap emerged between pro-growth policy aspirations and the less-optimistic reality of when and to what degree the proposed changes can be implemented. Embarking on its ninth year of economic expansion, recent indicators for the US economy have also been divergent. While survey-based "soft-data" signals are increasingly robust, the "hard data" results related to housing, industrial, labor, and retail metrics are mixed. For example, even as the Conference Board's Consumer Confidence index continued to make new highs (reaching 125.6 in March, the strongest reading since December 2000), Markit's US manufacturing PMI fell to 53.2 this past month as service sector employment slowed and reported backlogs of orders softened.

The Commerce Department reported its third estimate of 4Q-16 gross domestic product (GDP), upping its measure to a 2.1% growth rate. Personal consumption expenditures (PCE) and private inventory investments increased more than previously estimated. A downward revision to non-residential fixed investments and lower net exports curtailed growth and partially offset these other positive factors. The consensus GDP estimate for 2017 remains modest at 2.2%, and this includes seasonally weak expectations for 1Q-17. While past growth has been supported by the resiliency of the US consumer, it's worth noting that forward estimates currently assume a meaningful improvement in business investment.

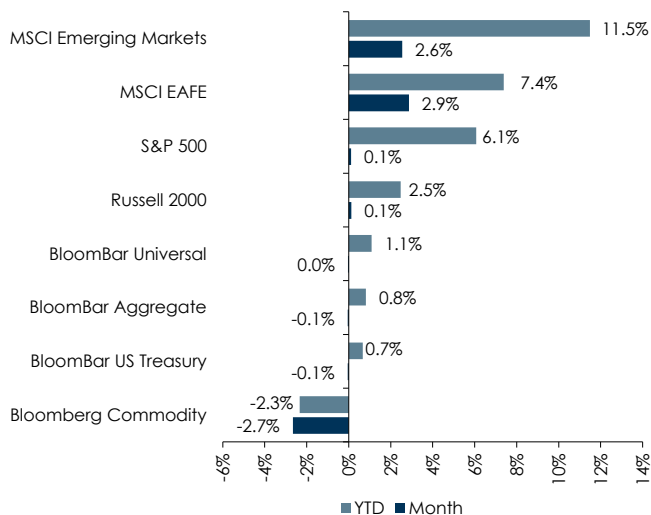
Mid-month the Federal Reserve (Fed) announced a 25 basis point (bps) increase to short-term interest rates, and commented that their 2% inflation goal is "not a ceiling." US inflation data continued to press higher in February, such that year-over-year headline CPI reached 2.7%. This is the highest level since March 2012, and reflects the rebound in energy prices, which were up 15.2% over the past 12-months. The Core CPI index, which excludes the volatile food and energy components, remains firm at 2.2% year-over-year. The Fed's preferred inflation gauge, core PCE has been below their 2% target since April 2012, but this measure increased to 1.8% year-over-year in February.

	Current	Dec-16
US GDP (%)	2.10	1.90
US Unemployment (%)	4.50	4.70
CPI (Core) (%)	2.20	2.10
Fed Funds (%)	0.75 – 1.00	0.50 – 0.75
10 Year U.S.T Yld (%)	2.39	2.45
S&P 500 Div Yld (%)	1.97	2.09
S&P 500 P/E (Trailing)	21.75	20.96
Gold/oz.	\$1,247.30	\$1,151.70
Oil (Crude)	\$50.60	\$53.72
Gasoline (Natl Avg)	\$2.43	\$2.42
USD/Euro	\$1.07	\$1.05
USD/GBP	\$1.26	\$1.23
Yen/U.S.D	¥111.39	¥116.96

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

US stocks advanced slightly in March, allowing 1Q-17 to become the sixth consecutive quarter of gains. However, increased skepticism of the administration's ability to implement pro-growth policies is leading to cracks in the domestic stock thesis. The general feeling among investors is that near-term positive catalysts are needed to validate current levels. The S&P 500 returned 0.1% in March, posting gains for 10 of the 23 trading days, bringing the year-to-date (YTD) advance to 6.1%. Just three of the eleven S&P 500 sectors gained, led by Information Technology (+2.5%) and Consumer Discretionary (+1.9%). Although trailing 12-month performance remains impressive, Financials stocks performed poorly (-2.9%) as prospects were dampened by the murkier policy outlook. As 1Q-17 reporting season is upon us, the consensus estimate calls for S&P 500 companies to produce operating earnings that are up 9.9% versus the same period last year. Seven sectors are projected to see year-over-year increases, led by double-digit gains for Financials, Information Technology, and Materials. Small cap stocks also produced a return of 0.1% in March, but have lagged both mid and large caps YTD. The notable advantage of growth over value has persisted across all market caps.

Global equities provided investors with solid gains as economic data continued to be supportive, the US dollar (USD) generally weakened, and valuations remained relatively attractive. The MSCI ACWI index climbed 1.3% and added to a YTD gain of 7.1%. The MSCI EAFE index of non-US developed markets advanced 2.9%. The MSCI Europe index increased an impressive 4.1%, with equities tracking strong data from the region's manufacturing sector. Despite constraints on sentiment given the political uncertainty of upcoming elections (particularly in France), the Eurozone flash composite purchasing managers' index rose to its highest level in six years. Japanese stocks posted modest declines, even as recent export and inflation trends have been positive. Investors continued to rotate into perceived riskier equities in March, with emerging market stocks recording a positive return as the MSCI Emerging Market index climbed another 2.6%.

The Bloomberg Commodities index was down in March as oil declined 6.3%, back below the psychologically important \$50 per barrel mark for the first time since November 2016, and gold was virtually flat.

Global Markets (continued)

Global bonds managed slight gains, as investors digested the Fed's less hawkish rate hike and continued to discount the varied elements of uncertainty that exist. The Bloomberg Global Aggregate index advanced 0.2%, leaving this broad index up 1.8% YTD. Although the mid-month rate hike was anticipated, and the market actually reacted positively to the lack of increase in 2017 and 2018 projections per the dots plot, overall US Treasury (UST) performance was modestly negative in March. Discussions regarding the great unwinding of the Fed's balance sheet came into focus, but the messaging of "gradual" policy normalization was reinforced by Chair Yellen. The two-year UST yield settled unchanged for the month at 1.26%, while 10-year UST yields were more volatile (25 bps intra-month trading range) but also ended unchanged at 2.39%. The Bloomberg US Aggregate index declined 0.1%. The Bloomberg US Corporate Investment Grade index shed just over 0.2% as the streak of tightening in corporate credit spreads came to an end. The Bloomberg US Corporate High Yield index also gave back 0.2% in March, with wider spreads for B- and CCC-rated issuers.

Unhedged developed international bonds delivered gains given the positive impact of currency translation for US-based investors. However, core sovereign yields actually increased slightly during March. German benchmark 10-year yields increased from 0.21% to 0.33%, while Italian 10-year yields rose another 23 bps to 2.32%. In France, bond yields rose amid anxiety about upcoming presidential elections, driving the spreads between French and German yields to levels not seen since the European debt crisis. Although the United Kingdom triggered Article 50 on March 29th, the "irrevocable" notification of intent to secede from the European Union had surprisingly little impact on bond yields.

Emerging market (EM) bonds extended their 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 0.4%, while local currency denominated EM bonds within the JPMorgan GBI-EM Global Diversified index returned an impressive 2.3% for the month.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-16
Japan	0.07	0.05
Germany	0.33	0.21
France	0.97	0.69
Spain	1.67	1.38
Italy	2.32	1.82
United States	2.39	2.45
Portugal	3.98	3.76
Greece	6.99	7.11

Source: Bloomberg

Indices Report (Periods Ending March 31, 2017)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	0.12	6.07	17.17	10.37	13.30	7.51	7.09
Russell 1000	0.06	6.03	17.43	9.99	13.26	7.58	7.36
Russell 1000 Growth	1.16	8.91	15.76	11.27	13.32	9.13	7.21
Russell 1000 Value	-1.02	3.27	19.22	8.67	13.13	5.93	7.35
Russell 2500	-0.07	3.76	21.53	7.43	12.60	7.71	9.17
Russell 2000	0.13	2.47	26.22	7.22	12.35	7.12	8.38
Russell 2000 Growth	1.18	5.35	23.03	6.72	12.10	8.06	8.00
Russell 2000 Value	-0.85	-0.13	29.37	7.62	12.54	6.09	8.54
Wilshire 5000 Cap Wtd	0.20	5.78	18.53	10.07	13.26	7.63	7.65
MSCI ACWI	1.29	7.05	15.69	5.65	8.97	4.56	6.88
MSCI ACWI ex US	2.63	7.98	13.70	1.03	4.84	1.82	6.76
MSCI EAFE	2.87	7.39	12.25	0.96	6.32	1.53	6.21
MSCI EAFE Local Currency	2.53	4.85	18.61	7.76	11.21	2.82	4.92
MSCI EAFE Growth	2.81	8.64	7.86	1.89	6.39	2.35	6.04
MSCI EAFE Value	2.93	6.21	16.73	-0.06	6.15	0.63	6.30
MSCI Emerging Markets	2.55	11.49	17.65	1.55	1.17	3.05	9.85
Fixed Income							
BofA ML 1-3 Yr Treasury	0.03	0.26	0.25	0.72	0.64	2.00	2.37
BloomBar US Aggregate	-0.05	0.82	0.44	2.68	2.34	4.27	4.63
BloomBar Gov't Bond	-0.04	0.68	-1.34	2.04	1.59	3.78	4.21
BloomBar US Credit	-0.15	1.30	2.96	3.52	3.70	5.29	5.62
BloomBar 10 Yr Municipal	0.33	1.78	-0.24	3.60	3.35	4.81	5.00
BloomBar US Corp High Yield	-0.22	2.70	16.39	4.56	6.82	7.46	8.43
Citigroup World Gov't Bond	0.15	1.55	-3.65	-1.20	-0.58	3.03	4.99
BloomBar Global Aggregate	0.15	1.76	-1.90	-0.39	0.38	3.34	4.97
BloomBar Multiverse	0.16	1.90	-1.02	-0.20	0.65	3.49	5.14
Real Assets							
NCREIF Property	0.00	0.00	5.63	10.02	10.35	6.55	8.89
NFI ODCE Net	0.00	0.00	5.67	10.18	10.58	4.46	7.13
FTSE NAREIT US Real Estate	-2.29	1.16	3.56	10.26	9.99	4.85	10.30
Bloomberg Commodity	-2.66	-2.33	8.71	-13.91	-9.54	-6.22	0.22
Cash and Equivalents							
US T-Bills 90 Day	0.02	0.10	0.36	0.17	0.14	0.69	1.33

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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