

Global Economy

An active month saw both the House and the Senate narrowly passing tax reform measures, while the President formally nominated the next Fed Chair. Tax reform is not a done deal, as Congressional leaders will attempt to come up with a compromise that will suit both chambers. Valuations and volatility, or the lack thereof, seem to be priced for successful and meaningful tax reform on the corporate side of the ledger. While Jerome Powell is viewed as the "continuity candidate," a notable degree of turnover at the Fed happens to coincide with the unwinding of what is, arguably, the largest monetary policy experiment of all time.

The US economy continues to display solid fundamental trends, with 3Q-17 real gross domestic product (GDP) revised upward to 3.3%. A common survey measuring current consumer confidence reached its highest level since November 2000. Expectations for future growth are more modest, and this aligns with moderate weakness in monthly manufacturing and production data. Analyst estimates for 4Q-17 GDP are in the 2.0% to 2.5% range. Core PCE, the Federal Reserve's preferred measure of inflation, advanced a bit, but remains below target at 1.45% on a year-over-year basis.

The Federal Open Market Committee (FOMC) made no changes to target rates in November. Though inflation continues to be somewhat perplexing, an upward adjustment at the December 12-13 meeting is virtually consensus, and markets are now signaling two additional rate hikes in 2018. Minutes suggest financial conditions are generally favorable, even as it's difficult to judge positioning of the economic cycle (mid/late).

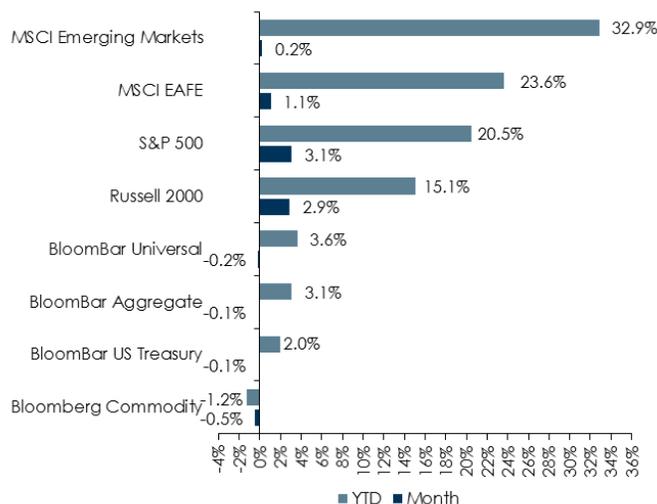
November's jobs report was very solid, with payrolls beating expectations and prior months revised upward. With a streak of 86 consecutive monthly gains, the unemployment rate remains very low at 4.1% and the participation rate is steadying at 62.7%. Nonfarm payrolls increased by 228,000 overall, bringing the average for the year up to 174,000 per month. Professional and business services was up in November, continuing its growth, with 548,000 jobs added over the past 12-months. Average hourly earnings remain tepid for a maturing cycle, with wages increasing just 2.5% year-over-year.

	Current	Dec-16
US GDP (%)	3.30	1.90
US Unemployment (%)	4.10	4.70
CPI (Core) (%)	1.80	2.10
Fed Funds (%)	1.00 – 1.25	0.50 – 0.75
10 Year UST Yld (%)	2.41	2.45
S&P 500 Div Yld (%)	1.90	2.09
S&P 500 P/E (Trailing)	22.32	20.61
Gold/oz.	\$1,273.20	\$1,151.70
Oil (Crude)	\$57.40	\$53.72
Gasoline (Natl Avg)	\$2.65	\$2.39
USD/Euro	\$1.19	\$1.05
USD/GBP	\$1.35	\$1.23
Yen/USD	¥112.54	¥116.96

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

The equity surge continued in November, with markets strong across regions and styles. In the US, the S&P 500 (+3.1%) repeatedly set new highs, with any notable dip in the market perceived as a buying opportunity. Large cap sectors were strong across the board, with Telecom (+5.9%) and Consumer Staples (+5.4%) leading the way. Year-end profit taking and some initial signs of rotation caused Materials (+0.7%) and IT (+0.9%) to lag.

In small cap, returns were also strong, due significantly to increased expectations of tax reform. Within the sectors, the negative outlier was IT (-1.2%), with Consumer Discretionary (+7.1%) and Consumer Staples (+6.9%) outperforming the broader Russell 2000 index (+2.9%)

Positive growth data abroad contributed to US dollar weakening, which benefited international markets. Emerging countries paused in their significant advancement for the year, while the developed markets continued their slow and steady pace. The MSCI Emerging Markets index was up +0.2% for the month, with South Africa (+9.0%) leading the way, while Brazil (-3.1%) and Taiwan (-3.3%) held the index back.

The MSCI EAFE index was up moderately at +1.1%. Japan (+3.0%) set the pace in November, despite additional missile tests by North Korea. Most of the Eurozone was up in line with the index, although Belgium (-2.0%), Denmark (-1.6%), Ireland (-1.6%), Norway (-1.8%), and Sweden (-3.3%) all retreated. The UK traded virtually flat.

Real estate rebounded nicely in November, with both the FTSE NAREIT US Real Estate index (+2.6%) and the FTSE EPRA/NAREIT Developed index (+2.8%) up significantly. The Alerian MLP index (-1.4%) was down again, even as oil advanced (+5.6%) to its highest level since mid-2015 given agreements to extend production cuts through 2018.

Commodities continued to be mixed, with gold (+0.2%) following oil higher for the month, but weakness in industrial metals and agricultural/livestock weighing down the broader Bloomberg Commodity index (-0.5%).

Global Markets (continued)

Through all the events of November, fixed income markets seemed relatively unfazed. The Bloomberg Global Aggregate index gained +1.1% during the month, with modestly positive underlying bond returns being supplemented by 96 bps of additional return resulting from US dollar weakness versus a broad basket of foreign currencies.

A record run in equities is yet to spark inflation-related concern on the long end of the UST curve, even as ongoing points of economic strength make a December rate hike by the FOMC a near certainty. Policy sensitive 2-year UST yields advanced steadily to 1.78%, while the 30-year bond yield actually fell. The slope of the UST curve, as measured by these key points, dipped below 1% for the first time since 2007. Be it caution or complacency, the flattening trend is notable.

The Bloomberg US Aggregate index returned -0.1% in November, with government-related issues mixed versus the primary market's other key sectors. IG corporate credit spreads could not hold recent 10-year lows amid heavy supply stemming from industrial M&A, but rallied back into month end and closed just 2 bps wider. Consumer-centric ABS outperformed.

The Bloomberg 1-15-Year Municipal index dropped -0.8%. Progress with tax reform likely increases volatility and alters near-term supply expectations for the category. Notably, both versions of the proposed tax bill seek to remove the exemption for advance refundings (opportunistic refinancing) across all issuing sectors. Private activity bonds, including non-profit hospitals, airports, and private universities, may also face some risk going forward. As issuers race to market with deals ahead of any change, municipals broadly underperformed UST as managers repositioned to take advantage.

The Bloomberg US Corporate High Yield index produced a loss of -0.3% in November, with spreads widening modestly despite the ongoing search for yield. That said, emerging market bond returns were universally positive and built upon YTD gains. With both yields and spreads in these higher-beta sectors in rarified air, careful security selection is warranted.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-16
Japan	0.03	0.04
Germany	0.37	0.20
France	0.68	0.68
United Kingdom	1.33	1.24
Spain	1.44	1.38
Italy	1.74	1.81
United States	2.41	2.45
Mexico	7.26	7.42
Brazil	10.36	11.40

Source: Bloomberg

Indices Report (Periods Ending November 30, 2017)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	3.07	20.49	22.87	10.91	15.74	8.30	9.40
Russell 1000	3.05	20.35	22.61	10.73	15.69	8.40	9.68
Russell 1000 Growth	3.04	29.21	30.81	13.10	17.14	9.87	10.11
Russell 1000 Value	3.06	12.03	14.83	8.35	14.17	6.84	9.13
Russell 2500	3.29	16.42	18.68	10.45	14.84	9.12	11.38
Russell 2000	2.88	15.11	18.34	11.14	15.02	8.75	10.77
Russell 2000 Growth	2.87	22.03	23.69	11.32	15.84	9.25	11.03
Russell 2000 Value	2.89	8.88	13.37	10.89	14.16	8.18	10.41
Wilshire 5000 Cap Wtd	3.04	19.70	22.16	10.94	15.70	8.46	9.90
MSCI ACWI	1.98	22.61	25.30	8.60	11.54	4.94	9.09
MSCI ACWI ex US	0.83	24.94	28.18	6.23	7.54	1.93	8.83
MSCI EAFE	1.06	23.61	27.86	6.47	8.72	2.03	8.23
MSCI EAFE Local Currency	-0.50	14.37	19.57	8.09	12.39	3.54	7.25
MSCI EAFE Growth	1.22	27.19	30.02	7.68	9.33	2.66	8.20
MSCI EAFE Value	0.91	20.24	25.77	5.17	8.05	1.33	8.18
MSCI Emerging Markets	0.21	32.91	33.30	6.53	4.98	1.70	12.16
Fixed Income							
BofA ML 1-3 Yr Treasury	-0.20	0.42	0.44	0.53	0.57	1.46	2.06
BloomBar US Aggregate	-0.13	3.07	3.21	2.11	1.98	3.99	4.26
BloomBar Gov't Bond	-0.14	1.99	1.88	1.34	1.13	3.22	3.66
BloomBar US Credit	-0.09	5.34	5.98	3.36	3.05	5.35	5.37
BloomBar 10 Yr Municipal	-0.89	4.58	6.08	2.88	2.60	4.76	4.75
BloomBar US Corp High Yield	-0.26	7.18	9.16	5.73	6.04	8.03	9.06
Citigroup World Gov't Bond	1.42	7.32	6.59	1.46	-0.10	2.60	4.36
BloomBar Global Aggregate	1.11	7.02	6.53	1.67	0.66	3.02	4.47
BloomBar Multiverse	1.07	7.30	6.97	1.91	0.91	3.22	4.68
Real Assets							
NCREIF Property	0.00	5.08	6.90	9.83	10.35	6.23	9.01
NFI ODCE Net	0.00	4.72	6.69	9.83	10.56	4.08	7.29
FTSE NAREIT US Real Estate	2.71	5.45	10.40	6.35	10.32	6.91	10.97
Bloomberg Commodity	-0.46	-1.24	0.54	-8.42	-9.47	-6.68	-0.15
Cash and Equivalents							
US T-Bills 90 Day	0.08	0.75	0.79	0.37	0.25	0.41	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.

Disclosures and Legal Notice

The views expressed herein are those of Asset Consulting Group (ACG). They are subject to change at any time. These views do not necessarily reflect the opinions of any other firm.

This report was prepared by ACG for you at your request. 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. Accordingly, ACG does not itself endorse or guarantee, and does not itself assume liability whatsoever for, the accuracy or reliability of any third party data or the financial information contained herein.

Certain information herein constitutes forward-looking statements, which can be identified by the use of terms such as “may”, “will”, “expect”, “anticipate”, “project”, “estimate”, or any variations thereof. As a result of various uncertainties and actual events, including those discussed herein, actual results or performance of a particular investment strategy may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making their investment decisions. ACG has no duty to update or amend such forward-looking statements.

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 a security.

Please be aware that there are inherent limitations to all financial models, including Monte Carlo Simulations. Monte Carlo Simulations are a tool used to analyze a range of possible outcomes and assist in making educated asset allocation decisions. Monte Carlo Simulations cannot predict the future or eliminate investment risk. The output of the Monte Carlo Simulation is based on ACG's capital market assumptions that are derived from proprietary models based upon well-recognized financial principles and reasonable estimates about relevant future market conditions. Capital market assumptions based on other models or different estimates may yield different results. ACG expressly disclaims any responsibility for (i) the accuracy of the simulated probability distributions or the assumptions used in deriving the probability distributions, (ii) any errors or omissions in computing or disseminating the probability distributions and (iii) any reliance on or uses to which the probability distributions are put.

The projections or other information generated by ACG regarding the likelihood of various investment outcomes are hypothetical in nature, do not reflect actual investment results and are not guarantees of future results. Judgments and approximations are a necessary and integral part of constructing projected returns. Any estimate of what could have been an investment strategy's performance is likely to differ from what the strategy would actually have yielded had it been in existence during the relevant period. The source and use of data and the arithmetic operations used for calculating projected returns may be incorrect, inappropriate, flawed or otherwise deficient.

Past performance is not indicative of future results. Given the inherent volatility of the securities markets, you should not assume that your investments will experience returns comparable to those shown in the analysis contained in this report. For example, market and economic conditions may change in the future producing materially different results than those shown included in the analysis contained in this report. Any comparison to an index is for comparative purposes only. An investment cannot be made directly into an index. Indices are unmanaged and do not reflect the deduction of advisory fees.

This report 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 assurance can be given that the investment objectives described herein will be achieved and investment results may vary substantially on a quarterly, annual or other periodic basis. There is no representation or warranty as to the current accuracy of, nor liability for, decisions based on such information.

© 2017 Asset Consulting Group. All Rights Reserved. Asset Consulting Group is the sole owner of all rights, title, and interest to the materials, methodologies, techniques, and processes set forth herein, including any and all intellectual property rights. No part of this document may be reproduced, stored, or transmitted by any means without the express written consent of Asset Consulting Group.