

Global Economy

Mixed signals continue in the US economy. The Commerce Department revised 1Q-17 real gross domestic product (GDP) upward from 1.2% to 1.4%, which now represents a full doubling of the initial estimate for economic growth, as consumer spending and exports have been revised higher. On the other hand, the latest report on personal consumption expenditures (PCE) indicated that spending declined in May, restraining the overall monthly increase to just 0.1%. This reading was up 1.4% on a year-over-year (YoY) basis, a notable decline from the 1.7% annual rate reported in April, and perhaps the result of the national savings rate reaching 5.5%. The Institute for Supply Management's Purchasing Managers Index (PMI) exceeded expectations at 57.80, led by New Orders and Production factors. In contrast, the HIS Markit US Manufacturing PMI was lower for the fifth consecutive month. Despite the unemployment rate ticking up to 4.4%, the June jobs report reaffirmed the health of the labor market. Nonfarm payrolls exceeded expectations, with 220,000 jobs added. The higher unemployment rate is primarily due to more workers entering the labor market, as participation rates have been rising alongside confidence. Wage growth has lagged expectations, continuing its relatively slow pace of 2.5%.

As expected, The Federal Open Market Committee (FOMC) utilized its mid-June meeting to further its rate hiking campaign, which now includes four 25 basis points (bps) adjustments over the past 18-months. That said, the market's response to the rate increase has been somewhat conflicted given the continued slowdown in inflation and more tempered growth estimates. In a special supplement to the official statement, the FOMC also offered details on how it expects to begin the gradual reduction of the Fed's \$4.5 trillion balance sheet by year-end. This is to be accomplished by letting maturing bonds roll off, subject to a monthly cap limit that begins at \$10 billion and slowly grows to \$50 billion.

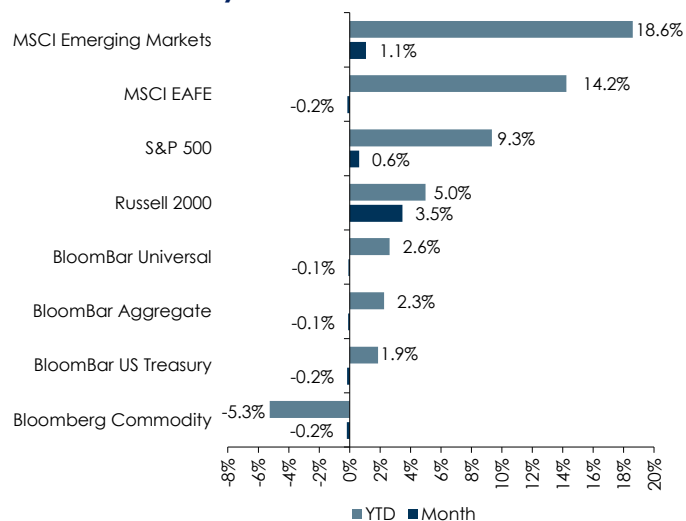
Globally, the general election in the United Kingdom (UK) did not turn out as Prime Minister May had hoped, leaving no clear majority. The election result has increased speculation that Brexit terms are now likely to be more "soft" than "hard." The Eurozone continues to show strong signals within its economy, but the European Central Bank (ECB) has given no indication that rates will rise with inflation well in check at 1.3%. Despite its worrisome debt levels, China's GDP for 1Q-17 was reported ahead of expectations at 6.9%, and manufacturing and services PMIs rose in June.

	Current	Dec-16
US GDP (%)	1.40	1.90
US Unemployment (%)	4.40	4.70
CPI (Core) (%)	1.70	2.10
Fed Funds (%)	1.00 – 1.25	0.50 – 0.75
10 Year U.S.T Yld (%)	2.31	2.45
S&P 500 Div Yld (%)	1.97	2.09
S&P 500 P/E (Trailing)	21.46	20.61
Gold/oz.	\$1,242.30	\$1,151.70
Oil (Crude)	\$46.04	\$53.72
Gasoline (Natl Avg)	\$2.40	\$2.39
USD/Euro	\$1.14	\$1.05
USD/GBP	\$1.30	\$1.23
Yen/U.S.D	¥112.39	¥116.96

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

June was a relatively moderate month for the US equity markets, with the exception of domestic small caps, which saw the Russell 2000 advance by +3.5%. The S&P 500 ended the first half of 2017 up an impressive +9.3%, with the growth-oriented Nasdaq up +14.1% year-to-date (YTD). Healthcare (+4.5%) and Financials (+6.3%) led the way in the S&P 500 this month, with the latter driven by the passing results of stress tests given to the 34 largest banks by the Federal Reserve. Sectors producing the most significant losses included Telecommunications, Utilities, and Information Technology. In the broader large stock indexes, Russell 1000 value outperformed Russell 1000 growth by 189 bps, reversing the recent trend. Style had less impact in the Russell 2000, with value edging out growth by just 6 bps.

Globally, equity returns for June varied across developed markets (MSCI EAFE was down modestly at -0.2%) and emerging markets (MSCI EM up another +1.1%). Of note, international stocks exceeded their domestic counterparts for the first half of the year, with returns of +14.2% for the basket of developed countries and +18.6% in the emerging world. Active managers have had the opportunity to add value in emerging markets thus far in 2017, with differentiation illustrated by the widely varied performance of MSCI's Emerging Markets Asia index (+23.3%) relative to the Latin America (+10.1%), and Europe, Middle East & Africa (+4.9%) regional counterparts. Given the absence of any negative outliers across the developed international markets, results have been more uniformly strong, with the majority of countries ranging from +10% to +16% for the first six months of the year.

Real estate bounced back in June, with the FTSE NAREIT US Real Estate index up +2.2% for the month, bringing YTD results to +2.7%. The Alerian MLP index was down -0.7% for the month, with losses now at -2.7% thus far this year.

The Bloomberg Commodity Index was down slightly for the month at -0.2%, but 2017 has been challenging overall with losses of -5.3% YTD. Among commodities, Nymex West Texas Intermediate (WTI) oil was down another -4.7% for the month, and the first half of the year has been particularly difficult with a total decline of -14.3%. Gold was down -2.3% for the month, but has been up +7.9% since the year began.

Global Markets (continued)

Fixed income assets remained well bid throughout most of June, only to stumble a bit into the finish. The broad Bloomberg Global Aggregate index suffered a modest loss of -0.1%. However, YTD performance of +4.4% is pacing well ahead of the return investors should expect to capture with yields still quite depressed from a historical perspective. Worth noting, the sustained decline in the US dollar (especially relative to the euro), and the resulting positive impact of currency translation for US-based investor, has accounted for nearly 70% of the return for this unhedged benchmark in the first half of the year.

Domestically, the US Treasury (UST) yield curve continued to exhibit a flattening bias, as the FOMC affirmed its stance to move forward with normalizing monetary policy. Policy sensitive 2-year UST yields marched consistently upward, closing at a post-crisis high of 1.38%. Longer-term rates trended down toward pre-election levels, and the 30-year bond closed at 2.84%.

Subsequently released meeting minutes indicated Fed officials had "expressed concern that subdued market volatility, coupled with a low equity premium, could lead to a buildup of risks to financial stability." Despite the trend of increased policy signaling, any unanticipated eagerness on the part of the Federal Reserve, or other prominent central banks, is a tail risk that could prompt an adjustment in asset prices. With the roughly 50% implied probability of an additional rate hike before year-end, the market's interpretation of "gradual" policy adjustments is starting to look relatively dovish.

The Bloomberg US Aggregate index posted a negative return of -0.1%. The Bloomberg US Corporate Investment Grade index added just over +0.3% in June, as strong investor demand drove credit spreads to their tightest level since mid-2014. The Bloomberg US Corporate High Yield index provided more muted returns of +0.1%, as energy-related names reacted to declining oil prices and spreads widened a bit overall. Emerging market bonds cooled slightly, but were able to extend their impressive YTD rally, driven by the attractiveness of higher interest rates offered versus developed market bonds and steady/improving economic fundamentals.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-16
Japan	0.08	0.04
Germany	0.47	0.20
France	0.81	0.68
United Kingdom	1.26	1.24
Spain	1.52	1.38
Italy	2.15	1.81
United States	2.31	2.45
Mexico	6.78	7.42
Brazil	10.54	11.40

Source: Bloomberg

Indices Report (Periods Ending June 30, 2017)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	0.62	9.34	17.90	9.61	14.63	7.18	8.35
Russell 1000	0.70	9.27	18.03	9.26	14.67	7.29	8.62
Russell 1000 Growth	-0.26	13.99	20.42	11.11	15.30	8.91	9.03
Russell 1000 Value	1.63	4.66	15.53	7.36	13.94	5.57	8.09
Russell 2500	2.50	5.97	19.84	6.93	14.04	7.42	9.98
Russell 2000	3.46	4.99	24.60	7.36	13.70	6.92	9.19
Russell 2000 Growth	3.44	9.97	24.40	7.64	13.98	7.82	9.55
Russell 2000 Value	3.50	0.54	24.86	7.02	13.39	5.92	8.75
Wilshire 5000 Cap Wtd	0.87	8.73	18.54	9.34	14.61	7.29	8.82
MSCI ACWI	0.50	11.82	19.42	5.39	11.14	4.27	7.87
MSCI ACWI ex US	0.35	14.45	21.00	1.27	7.70	1.59	7.37
MSCI EAFE	-0.15	14.23	20.83	1.61	9.18	1.50	6.79
MSCI EAFE Local Currency	-0.75	7.94	22.68	7.52	13.05	2.50	5.95
MSCI EAFE Growth	-0.64	17.03	16.13	3.20	9.58	2.43	6.69
MSCI EAFE Value	0.34	11.60	25.71	-0.05	8.70	0.50	6.81
MSCI Emerging Markets	1.07	18.60	24.17	1.44	4.33	2.25	10.95
Fixed Income							
BofA ML 1-3 Yr Treasury	-0.08	0.44	-0.11	0.69	0.63	1.95	2.22
BloomBar US Aggregate	-0.10	2.27	-0.31	2.48	2.21	4.48	4.48
BloomBar Gov't Bond	-0.16	1.86	-2.18	1.99	1.30	3.93	3.99
BloomBar US Credit	0.26	3.68	1.84	3.40	3.68	5.61	5.58
BloomBar 10 Yr Municipal	-0.40	4.18	-0.41	3.56	3.40	5.13	4.88
BloomBar US Corp High Yield	0.14	4.93	12.70	4.48	6.89	7.67	9.06
Citigroup World Govt Bond	-0.14	4.49	-4.14	-1.00	-0.20	3.49	4.42
BloomBar Global Aggregate	-0.09	4.41	-2.18	-0.35	0.78	3.69	4.55
BloomBar Multiverse	-0.07	4.58	-1.38	-0.16	1.05	3.85	4.76
Real Assets							
NCREIF Property	0.00	1.55	5.14	9.53	10.11	6.24	8.89
NFI ODCE Net	0.00	1.55	5.35	9.79	10.44	4.13	7.17
FTSE NAREIT US Real Estate	2.19	2.70	-1.70	8.36	9.52	6.00	10.05
Bloomberg Commodity	-0.19	-5.26	-6.50	-14.81	-9.25	-6.49	-0.01
Cash and Equivalents							
US T-Bills 90 Day	0.08	0.31	0.49	0.23	0.17	0.58	1.31

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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