

Global Economy

Uncertainty over trade continues, with no clear direction. There has been an extension of the exemption on aluminum and steel tariffs for "friends" until June 1st, and the future of the North American Free Trade Agreement (NAFTA) is still up in the air. Talks continue with China, but there has been no measurable progress. On a positive note, North Korea has shown a willingness to embrace peace, with a new accord with South Korea and a willingness for discussions with the US.

The Federal Open Market Committee (FOMC) met during the first two days of May, but unanimously voted not to increase rates. Expectations are for another 25 bps hike at the June meeting, and implied rates are now projecting a >50% chance of at least three more adjustments by year-end. The official statement commented on the strengthening labor market and moderate economic activity. Core PCE, the FOMC's preferred measure of inflation, has risen 1.9% over the past 12-months. This is just below the 2.0% target, but the first quarter's rate was 2.5% on an annualized basis.

The initial release of 1Q-18 GDP beat expectations at 2.3%. The full effects of the stimulus package of December 2017, have not yet been felt, but the expectations are for the quarterly growth to be near 3% for the remainder of the year.

The unemployment rate dropped to 3.9%, after being at 4.1% for six consecutive months, fueling additional concerns of an overheating economy. This was not unexpected, as the FOMC had projected unemployment to continue to dip. Wages are still in check, with an increase of 2.6% year-over-year, slightly below expectations.

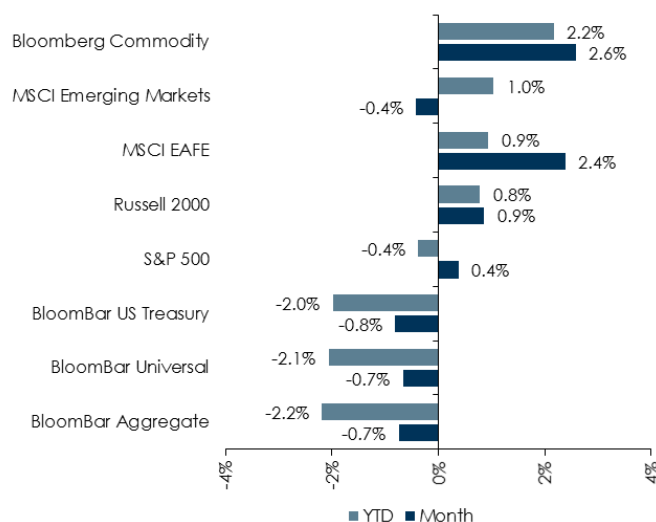
In China, the measure of manufacturing by Caixin-Market was slightly above expectations in April at 51.1, but only moderately expansionary. On a somewhat related note, the service Purchasing Managers Index (PMI) rose to 52.9, showing strength and reflecting an increased focus in this area.

| | Current | Dec-17 |
|------------------------|-------------|-------------|
| US GDP (%) | 2.30 | 3.20 |
| US Unemployment (%) | 3.90 | 4.10 |
| CPI (Core) (%) | 2.10 | 1.70 |
| Fed Funds (%) | 1.50 – 1.75 | 1.25 – 1.50 |
| 10 Year UST Yld (%) | 2.95 | 2.41 |
| S&P 500 Div Yld (%) | 1.96 | 1.89 |
| S&P 500 P/E (Trailing) | 20.59 | 22.45 |
| Gold/oz. | \$1,319.20 | \$1,309.30 |
| Oil (Crude) | \$68.57 | \$60.42 |
| Gasoline (Natl Avg) | \$2.96 | \$2.59 |
| USD/Euro | \$1.21 | \$1.20 |
| USD/GBP | \$1.38 | \$1.35 |
| Yen/USD | ¥109.34 | ¥112.69 |

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

The majority of risk assets produced positive total returns during April, with developed international markets leading the way. Large domestic stocks, as represented by the S&P 500, were up 0.4% for the month, but this was not enough to pull the asset class out of negative territory on a year-to-date basis. Energy was far and away the top sector at +9.3%, while Consumer Staples brought up the rear, down -4.5%. Strength was also shown in Consumer Discretionary and Utilities at +2.3% and +2.1%, respectively.

More domestically-oriented small cap stocks continued to perform slightly better amid trade uncertainties, with the Russell 2000 index up +0.9%. Value was significantly more in favor, up +1.7%, while growth was up +0.1%. The small cap universe is up for the year at +0.8%, with growth focused stocks leading the way at +2.4%.

In the broad international developed markets, the MSCI EAFE index was up +2.4% in April. Among the various regions, Pacific Ex Japan was up +3.1%, and the Eurozone was up +2.9%. Developing economies were down for the month (-0.4%), but the MSCI Emerging Markets index remains positive with a year-to-date return of +1.0%. Currency markets fluctuated with the perceived impact of protectionist measures, and the US dollar ultimately ended the month slightly stronger.

Real estate remained positive in April, as the category's income levels continued to offer excess value versus long-term interest rates. The FTSE EPRA/NAREIT Developed index advanced +2.1%, while the FTSE NAREIT US Real Estate index gained +0.6%.

The Alerian MLP index skyrocketed (+8.1%) in April, and is now down just -3.9% year-to-date. The Bloomberg Commodity index was up +2.6% for the month as oil neared \$70 per barrel, and this broad benchmark now leads the way among major asset classes.

Global Markets (continued)

The US Treasury (UST) market experienced its third monthly decline since the beginning of the year. Front-end rates continued to grind higher with anticipated monetary policy action, and longer-dated issues gave back much of the prior month's gain (20+ year index down -2.0%). After briefly surpassing the psychologically relevant 3% threshold for the first time since December 2013, the 10-year UST yield ended the month at 2.95%. The yield curve continued to flatten, and with the futures market still pricing somewhat below the Fed's policy projections in 2019 and 2020, the potential exists for ongoing headwinds to UST performance.

The Bloomberg US Aggregate index returned -0.7% in April, pushing year-to-date losses to -2.2%. As credit spreads recovered slightly, each of the primary market's key sectors outperformed government issues on a duration-matched basis. IG corporate credit spreads were 1 bps tighter, but overall yields for IG corporates now exceed 3.9%.

The Bloomberg 1-15-Year Municipal index returned -0.3%, as tax-exempt issues outperformed taxable counterparts. Retail fund flows were mostly negative during the month, but the concentration in short-term funds suggests seasonal tax selling rather than negative sentiment. While valuations are not excessively cheap following April's outcome, the 10-year municipal/UST ratio declined to ~85%, this category has historically done well as yields rise given the growing tax benefit.

The Bloomberg US Corporate High Yield index recovered +0.7% in April. The benchmark's overall spread tightened by 16 bps, but the steepening of the credit curve (CCC vs. BB expanding) is notable as the credit cycle ages. Unhedged international government bonds, including local currency emerging market debt (-3.0%), struggled with the impact of a stronger US dollar, even as their yields remain more stable with monetary policy normalization that lags the US.

Selected Bond Yields

| 10 Year Sovereign Bond Yields (%) | | |
|-----------------------------------|---------|--------|
| | Current | Dec-17 |
| Japan | 0.05 | 0.04 |
| Germany | 0.56 | 0.42 |
| France | 0.78 | 0.78 |
| Spain | 1.27 | 1.56 |
| United Kingdom | 1.42 | 1.19 |
| Italy | 1.78 | 2.01 |
| United States | 2.95 | 2.41 |
| Mexico | 7.48 | 7.65 |
| Brazil | 9.84 | 10.26 |

Source: Bloomberg

Indices Report (Periods Ending April 30, 2018)

| Index Name | 1 Month (%) | YTD (%) | 1 Year (%) | 3 Years (%) | 5 Years (%) | 10 Years (%) | 15 Years (%) |
|-----------------------------|-------------|---------|------------|-------------|-------------|--------------|--------------|
| Equity | | | | | | | |
| S&P 500 | 0.38 | -0.38 | 13.27 | 10.57 | 12.96 | 9.02 | 9.55 |
| Russell 1000 | 0.34 | -0.35 | 13.17 | 10.25 | 12.84 | 9.10 | 9.81 |
| Russell 1000 Growth | 0.35 | 1.77 | 18.96 | 12.84 | 15.13 | 10.81 | 10.38 |
| Russell 1000 Value | 0.33 | -2.51 | 7.50 | 7.66 | 10.52 | 7.30 | 9.12 |
| Russell 2500 | 0.24 | 0.00 | 11.72 | 8.88 | 11.53 | 9.73 | 11.43 |
| Russell 2000 | 0.86 | 0.78 | 11.54 | 9.64 | 11.74 | 9.48 | 10.89 |
| Russell 2000 Growth | 0.10 | 2.40 | 16.60 | 9.89 | 13.07 | 10.41 | 11.37 |
| Russell 2000 Value | 1.73 | -0.95 | 6.53 | 9.27 | 10.36 | 8.46 | 10.30 |
| Wilshire 5000 Cap Wtd | 0.39 | -0.37 | 12.95 | 10.43 | 12.83 | 9.16 | 10.02 |
| MSCI ACWI | 1.01 | 0.16 | 14.77 | 8.02 | 9.38 | 5.67 | 9.33 |
| MSCI ACWI ex US | 1.68 | 0.58 | 16.45 | 5.50 | 5.93 | 2.73 | 9.16 |
| MSCI EAFE | 2.39 | 0.94 | 15.07 | 5.44 | 6.38 | 2.91 | 8.59 |
| MSCI EAFE Local Currency | 4.61 | 0.25 | 9.09 | 4.99 | 8.95 | 4.73 | 8.01 |
| MSCI EAFE Growth | 1.61 | 0.64 | 16.22 | 6.35 | 6.97 | 3.47 | 8.52 |
| MSCI EAFE Value | 3.19 | 1.26 | 13.96 | 4.45 | 5.71 | 2.29 | 8.58 |
| MSCI Emerging Markets | -0.42 | 1.04 | 22.14 | 6.39 | 5.11 | 2.51 | 12.57 |
| Fixed Income | | | | | | | |
| ICE BofA ML 1-3 Yr Treasury | -0.14 | -0.28 | -0.25 | 0.33 | 0.46 | 1.19 | 1.93 |
| BloomBar US Aggregate | -0.74 | -2.19 | -0.32 | 1.07 | 1.47 | 3.57 | 3.84 |
| BloomBar Gov't Bond | -0.80 | -1.94 | -1.04 | 0.37 | 0.74 | 2.77 | 3.28 |
| BloomBar US Credit | -0.91 | -3.02 | 0.65 | 2.05 | 2.27 | 4.99 | 4.72 |
| BloomBar 10 Yr Municipal | -0.22 | -1.83 | 1.11 | 2.27 | 2.41 | 4.57 | 4.41 |
| BloomBar US Corp High Yield | 0.65 | -0.21 | 3.26 | 4.98 | 4.75 | 7.88 | 8.02 |
| Citigroup World Gov't Bond | -1.89 | 0.56 | 5.08 | 2.42 | 0.59 | 2.12 | 3.77 |
| BloomBar Global Aggregate | -1.60 | -0.26 | 4.09 | 2.23 | 0.89 | 2.60 | 3.93 |
| BloomBar Multiverse | -1.55 | -0.28 | 4.18 | 2.47 | 1.09 | 2.81 | 4.12 |
| Real Assets | | | | | | | |
| NCREIF Property | 0.00 | 1.70 | 7.13 | 8.73 | 10.00 | 6.09 | 9.01 |
| NFI ODCE Net | 0.00 | 1.97 | 7.11 | 9.00 | 10.41 | 4.16 | 7.32 |
| FTSE NAREIT US Real Estate | 1.43 | -6.88 | -3.26 | 3.49 | 4.86 | 5.92 | 10.01 |
| Bloomberg Commodity | 2.58 | 2.17 | 8.02 | -4.18 | -7.33 | -7.80 | -0.28 |
| Cash and Equivalents | | | | | | | |
| US T-Bills 90 Day | 0.14 | 0.49 | 1.18 | 0.57 | 0.36 | 0.34 | 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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