

**Global Economy**

The economy showed a mixed bag of data in January as the nation's industrial sector has been in steady decline, but strengthening housing and labor markets underscored the general health of the economy. Cooling demand from overseas markets and a stronger US dollar led to persistent weakness in the manufacturing sector. The Institute for Supply Management's (ISM) factory barometer contracted in January for a fourth consecutive month driven by a drop of exports. However, the gauge of new orders, which is a leading signal for production, climbed for the first time in three months, suggesting some stabilization on the horizon for the sector.

Purchases of existing homes in the US climbed as solid job gains and low mortgage rates enticed more buyers into the market. Figures from the National Association of Realtors showed home sales jumped 14.7% in December, to a 5.46 million annualized rate as home prices rose and inventories eased. Housing markets are tight, as the number of previously owned homes on the market dropped to 1.79 million in December which at the current sales pace would take 3.9 months to sell, the lowest since January 2005.

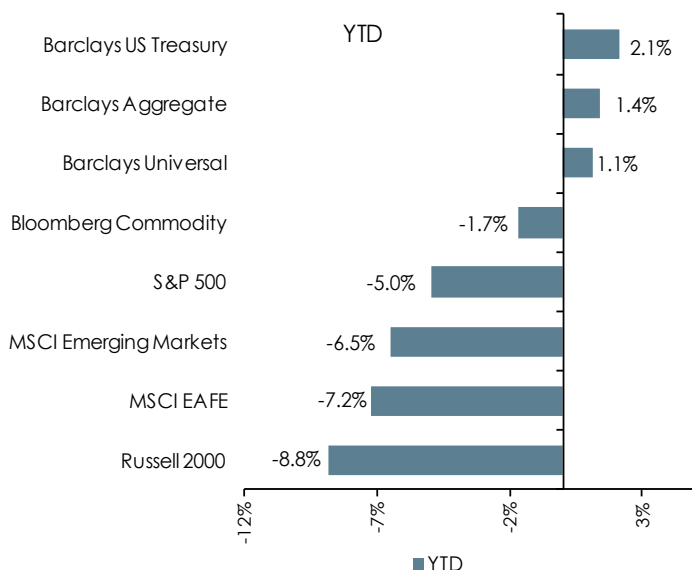
Additionally, the labor market continued to show improvement as US payrolls climbed 151,000 in January while December job gains were 262,000. The jobless rate fell to an almost eight year low of 4.9% from 5.0% in December. Additionally, the further tightening of labor conditions sparked wage gains. Average hourly wages increased 2.5% from a year earlier, after a 2.7% jump in the 12 months ended in December.

The Federal Reserve (Fed) kept interest rates on hold in January and maintained a cautiously optimistic US economic outlook. However, they acknowledged recent turmoil in financial markets had "significantly" tightened financial conditions and could weigh on the level of economic activity. Meanwhile, the European Central Bank (ECB) signaled it could increase and/or lengthen its quantitative easing program as needed in support of its targets for inflation. Also, the Bank of Japan (BOJ) in a surprise move, cut policy rates into negative territory.

	Current	Dec-15
US GDP (%)	0.7	0.7
US Unemployment (%)	4.90	5.00
CPI (Core) (%)	2.10	2.00
Fed Funds (%)	0.25 – 0.50	0.25 – 0.50
10 Year U.S.T Yld (%)	1.92	2.27
S&P 500 Div Yld (%)	2.27	2.15
S&P 500 P/E (Trailing)	17.45	18.27
Gold/oz.	\$1,116.40	\$1,060.20
Oil (Crude)	\$33.62	\$37.04
Gasoline (Natl Avg)	\$1.97	\$2.14
USD/Euro	\$1.08	\$1.09
USD/GBP	\$1.42	\$1.47
Yen/U.S.D	¥121.14	¥120.22

**Global Markets**

**Key Market Indices**



US equities performed poorly in January whipsawed by fears of slowing global growth and lower oil prices that dominated the tone of the markets. The S&P 500 opened the year with a 6.0% decline in the first week as poor Chinese manufacturing data caused a sell off in Chinese equities that permeated across the globe. From that point forward, uneven reports on US economic growth and fourth quarter corporate earnings kept volatility at the forefront. With 70% of S&P 500 companies reporting for Q415, 71% have beaten estimates while 18% have missed analyst estimates. The S&P 500 closed January down 5.0%, the worst January since 2009 (-8.4%) as the materials and energy sector lagged driven by fears the slump in commodity prices would negatively impact earnings. The financials sector declined as market expectations moderated for the number of times the Fed would increase rates in 2016. More defensive, higher yielding sectors (Utilities, Consumer Staples) posted positive returns. Small companies underperformed as the Russell 2000 posted its worst month since August 2011.

Global markets had broad-based declines amid fears of slower economic growth that overshadowed accommodative central bank actions in developed markets. European equities experienced a volatile January with the MSCI Europe posting a loss of 6.6% (USD) weighed heavily by losses in the financial sector. Japanese equities were weak, but slightly recovered on the final day of trading after the BOJ implemented negative interest rates. Chinese stocks underperformed, leading emerging market stocks lower, as continued weak economic growth and the removal of selling restrictions on Chinese mainland stock markets hurt performance.

The Bloomberg Commodity index was down 1.7% for the month with oil negative for January, while gold returned a positive 5.3% as investors used it as a safe haven asset.

**Global Markets (continued)**

High levels of stock market volatility led to sharp declines in risk appetites as investors rotated toward the safety of high quality sovereign bonds. US Treasury rates dropped in January as markets discounted the probability of higher interest rates despite the Fed's projection of four hikes in 2016. The 10-year Treasury yield fell from 2.27% to 1.92%, while the 30-year Treasury yield declined 27 basis points (bps) to 2.74%. US Treasuries posted positive gains, as the BofA ML US Treasury index rose 2.2%. High grade US corporate bonds rose modestly, while US high yield bonds closed lower.

European sovereign bond yields dropped amid anticipation of further ECB policy stimulus after ECB President Mario Draghi said additional measures may be implemented at its March 2016 meeting. German 10-year bond yields fell 30 bps to 0.33%, and peripheral 10-year bond yields in Italy and Spain declined to 1.42% and 1.51%, respectively. The BOJ reduced its benchmark policy rate from +0.10% to -.10% helping drive 10-year Japanese bond yields down 17 bps to 0.10%, the lowest since 1994. The BofA ML Global Government index jumped 1.4% in January.

Emerging market debt (EMD) yields initially spiked early in the month before the higher yielding assets attracted capital, recovering most of the initial losses. The JPMorgan EMBI Global Diversified index of USD bonds fell 0.2%. The local currency JP Morgan GBI-EM Global Diversified index rose 0.3% (USD). In corporate bonds, the USD CEMBI Diversified index dropped 0.3%.

**Selected Bond Yields**

10 Year Sovereign Bond Yields (%)		
	Current	Dec-15
Japan	0.10	0.27
Germany	0.33	0.63
France	0.64	0.99
Italy	1.42	1.60
Spain	1.51	1.77
United States	1.92	2.27
Portugal	2.88	2.52
Greece	9.58	8.29

**Indices Report (Periods Ending January 31, 2016)**

Index Name	3 Months (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
<b>Equity</b>							
S&P 500	-6.18	-4.96	-0.67	11.30	10.91	6.48	4.41
Russell 1000	-6.78	-5.38	-1.82	10.94	10.68	6.52	4.64
Russell 1000 Growth	-6.71	-5.58	1.32	13.02	11.67	7.72	3.47
Russell 1000 Value	-6.85	-5.17	-5.00	8.79	9.61	5.19	5.46
Russell 2500	-9.99	-7.97	-8.77	7.00	8.22	5.94	7.25
Russell 2000	-10.56	-8.79	-9.92	6.11	7.25	4.92	6.26
Russell 2000 Growth	-11.98	-10.83	-10.01	7.68	8.28	5.74	4.68
Russell 2000 Value	-9.12	-6.72	-9.94	4.53	6.17	4.01	7.47
Wilshire 5000 Cap Wtd	-6.90	-5.46	-2.11	10.63	10.37	6.42	4.95
MSCI ACWI	-8.38	-6.01	-6.29	4.45	5.01	4.15	4.07
MSCI ACWI ex US	-10.39	-6.79	-11.57	-1.74	-0.11	1.97	3.87
MSCI EAFE	-9.87	-7.22	-8.04	1.11	2.04	2.12	3.46
MSCI EAFE Local Currency	-7.17	-5.82	-3.30	8.45	6.70	2.72	2.61
MSCI EAFE Growth	-7.70	-6.36	-3.37	3.30	3.54	3.09	3.23
MSCI EAFE Value	-12.09	-8.12	-12.69	-1.14	0.48	1.07	3.58
MSCI Emerging Markets	-12.08	-6.48	-20.62	-8.91	-5.23	2.16	7.46
<b>Fixed Income</b>							
BofA ML 1-3 Yr Treasury	0.26	0.60	0.64	0.70	0.79	2.47	2.79
Barclays US Aggregate	0.78	1.38	-0.16	2.15	3.51	4.66	4.95
Barclays Gov't Bond	1.50	2.08	0.44	1.96	3.19	4.33	4.60
Barclays US Credit	-0.46	0.52	-3.00	1.97	4.44	5.25	5.66
Barclays 10 Yr Municipal	2.71	1.50	3.24	3.79	5.97	5.32	5.30
Barclays US Corp High Yield	-6.22	-1.61	-6.62	0.70	4.24	6.62	6.95
Citigroup World Govt Bond	0.16	1.36	-1.98	-1.84	0.19	3.45	4.69
Barclays Global Aggregate	-0.28	0.87	-2.16	-1.15	1.03	3.70	4.78
Barclays Multiverse	-0.53	0.74	-2.38	-1.17	1.11	3.78	4.87
<b>Real Assets</b>							
NCREIF Property	N/A	N/A	N/A	N/A	N/A	N/A	N/A
NFI ODCE Net	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FTSE NAREIT US Real Estate	-2.09	-3.35	-6.53	8.63	10.49	6.29	10.83
Bloomberg Commodity	-11.63	-1.68	-23.36	-18.41	-13.93	-6.76	-0.98
<b>Cash and Equivalents</b>							
US T-Bills 90 Day	0.04	0.00	0.05	0.05	0.07	1.23	1.58

# Definitions

## **Barclays Capital Aggregate**

The 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.

## **Barclays Capital Global Aggregate Index**

The 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.

## **Barclays Capital Muni 5 Yr**

The 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.

## **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 Barclays U.S. Treasury Index**

The Barclays U.S. Treasury Index is a component of the 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 Barclays Capital U.S. Universal Index**

The 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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