

Global Economy

Recent economic indicators showed momentum was building in US manufacturing. Latest results indicate that activity is broadening outside the US consumer who has served as the primary engine of growth in 2016. The services sector, that represents a much larger share of the economy, continued to expand, while another month of job gains helped drive consumer confidence back to pre-recessionary levels.

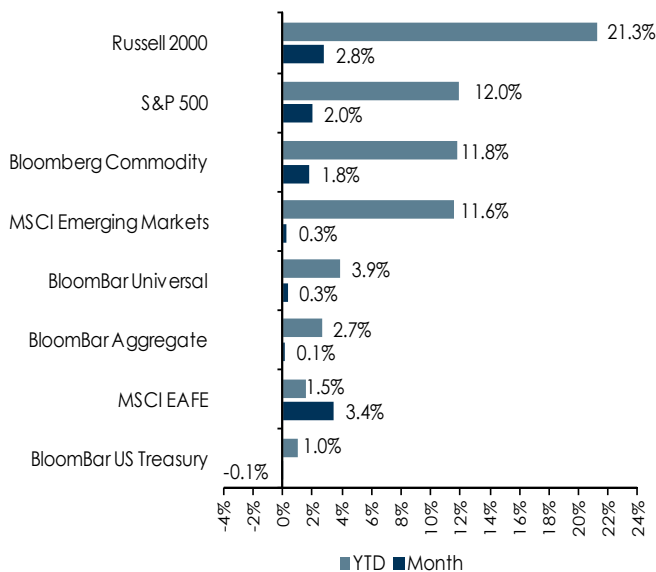
The Commerce Department's final estimate of third quarter real gross domestic product placed the rate at an annualized 3.5%, the strongest in two years. This follows a 1.4% pace in the second quarter. Nonresidential fixed investment, consumer spending, and state and local government spending increased more than previously estimated. Additionally, a key gauge of US manufacturing activity showed the sector expanded in December, as production climbed to an almost two-year high, amid improving new orders. Similarly, the US service industries that includes retail and healthcare, strengthened as a measure of the group's business activity jumped to the highest level in over a year.

The economy added 156,000 jobs in December, and for 2016, employers added an average 180,000 per month to payrolls. The unemployment rate rose to 4.7% from 4.6% as the size of the labor force increased with the participation rate inching higher to 62.7% from 62.6%. Labor costs appeared to be intensifying, as average hourly earnings reached a new cyclical high in December, with year-over-year growth accelerating to 2.9%, the highest since the last recession ended in June 2009. The Federal Reserve (Fed) took steps to normalize interest rates, hiking for the first time in 2016, raising its benchmark Fed funds rate 0.25% to a target range of 0.50% - 0.75%. However, it maintained its view that future rate hikes are likely to remain at a gradual pace.

	Current	Dec-15
US GDP (%)	3.50	0.70
US Unemployment (%)	4.70	5.00
CPI (Core) (%)	2.10	2.00
Fed Funds (%)	0.50 – 0.75	0.25 – 0.50
10 Year U.S.T Yld (%)	2.45	2.27
S&P 500 Div Yld (%)	2.09	2.15
S&P 500 P/E (Trailing)	20.96	18.27
Gold/oz.	\$1,151.70	\$1,060.20
Oil (Crude)	\$53.72	\$37.04
Gasoline (Natl Avg)	\$2.42	\$2.14
USD/Euro	\$1.05	\$1.09
USD/GBP	\$1.23	\$1.47
Yen/U.S.D	¥116.96	¥120.22

Global Markets

Key Market Indices



Equity markets rallied in December amid investor optimism that the recently elected US administration's plans to cut taxes, ease regulation, and boost fiscal spending were seen as positive for domestic growth, benefiting the world's largest economy. For the month, the S&P 500 gained 2.0% as nine of the eleven sectors moved higher, up from seven in November. Telecommunication services was the top performer, gaining 8.1% for the month amid expectations of easier regulations in 2017. Energy stocks added 1.8% as major oil producing nations announced supply cuts. Utility companies rose 4.6%. Material and consumer discretionary companies were slightly lower. US small cap stocks jumped 2.8% to conclude a very strong 2016, while mid cap stocks rose 1.1%.

Stocks moved higher globally, as the MSCI All Country World index gained 2.2%, and the MSCI All Country World index ex-US rose 2.6%. Euro area stocks advanced, after the European Central Bank (ECB) extended its quantitative easing program through December 2017, despite cutting monthly purchases to 60 billion euros from 80 billion euros starting in April 2017. The MSCI Europe index climbed 5.3%. Japanese stocks gained 1.0%.

Emerging market equities initially came under pressure during December as investors weighed the prospects of tighter Fed policy, thereby reducing the appeal of the asset class. However, by month end, emerging markets had moved into positive territory, closing the month with a slight gain of 0.3%. On a regional basis, emerging market equities in Eastern Europe climbed 11.2%, and emerging market equities in Asia were slightly lower.

The Bloomberg commodities index rose 1.8% in December, boosted by the energy segment, with oil prices rising 8.7% offsetting a decline of 1.6% in gold prices.

Global Markets (continued)

In the domestic bond market, US Treasury (UST) yields rose following the Fed interest rate hike and amid rising inflation expectations. Short dated UST yields climbed and yields on five year notes rose 9 basis points (bps) to 1.93%, the highest since 2011. Benchmark 10-year yields traded to an intraday high of 2.64% on December 15, but as rates ultimately softened in the final two weeks of the year, this closely watched indicator finished just 6 bps higher for the month to close at 2.45%. The BloomBar US Treasury index fell 0.11% and the BloomBar Aggregate index gained 0.14%, even while average yields rose to 2.61% from 2.57% in November. US investment grade corporate average yields were unchanged at 3.37%, with investor demand for yield producing spread tightening that effectively offset rising rates. Investment grade bonds rebounded somewhat from November's losses, climbing 0.7% in December. High yield corporate average yields narrowed 45 bps to 6.12%, helping "junk" bonds rally 1.9%. Municipal bonds recovered some of their recent losses, climbing 1.2% for the month.

European bond markets advanced following the European Central Bank's decision to extend its monthly bond purchases to the end of 2017. The yield on Germany's benchmark 10-year bund declined 7 bps to 0.21% from 0.28% in November. Likewise, Italian 10-year yields fell 17 bps to 1.82%, while Spanish 10-year yields declined 17 bps to 1.38%. The Bank of Japan remained committed to easy monetary policy and will keep expanding the monetary base until inflation is above 2%, as Japan's 10-year yield rose 2 bps to 0.05%. USD denominated emerging market bonds gained in December as the JPMorgan EMBI Global bond index rose 1.4%. The premium investors demand to own emerging market bonds rather than US Treasuries narrowed to 365 bps from 388 bps in November.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-15
Japan	0.05	0.27
Germany	0.21	0.63
France	0.69	0.99
Spain	1.38	1.77
Italy	1.82	1.60
United States	2.45	2.27
Portugal	3.76	2.52
Greece	7.11	8.29

Indices Report (Periods Ending December 31, 2016)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	1.98	11.96	11.96	8.87	14.66	6.95	6.69
Russell 1000	1.88	12.05	12.05	8.59	14.69	7.08	7.00
Russell 1000 Growth	1.24	7.08	7.08	8.55	14.50	8.33	6.42
Russell 1000 Value	2.50	17.34	17.34	8.59	14.80	5.72	7.41
Russell 2500	1.94	17.59	17.59	6.93	14.54	7.69	9.17
Russell 2000	2.80	21.31	21.31	6.74	14.46	7.07	8.49
Russell 2000 Growth	1.36	11.32	11.32	5.05	13.74	7.76	7.48
Russell 2000 Value	4.13	31.74	31.74	8.31	15.07	6.26	9.22
Wilshire 5000 Cap Wtd	2.06	13.37	13.37	8.76	14.71	7.17	7.32
MSCI ACWI	2.20	8.48	8.48	3.69	9.96	4.12	6.46
MSCI ACWI ex US	2.59	5.01	5.01	-1.32	5.48	1.42	6.33
MSCI EAFE	3.44	1.51	1.51	-1.15	7.02	1.22	5.75
MSCI EAFE Local Currency	4.55	5.88	5.88	6.01	12.35	2.68	4.73
MSCI EAFE Growth	2.23	-2.66	-2.66	-0.82	7.06	2.01	5.43
MSCI EAFE Value	4.60	5.68	5.68	-1.62	6.87	0.35	5.98
MSCI Emerging Markets	0.29	11.60	11.60	-2.19	1.64	2.17	9.85
Fixed Income							
BofA ML 1-3 Yr Treasury	0.03	0.88	0.88	0.68	0.57	2.11	2.35
BloomBar US Aggregate	0.14	2.65	2.65	3.03	2.23	4.34	4.58
BloomBar Gov't Bond	-0.11	1.05	1.05	2.26	1.22	3.86	4.12
BloomBar US Credit	0.61	5.63	5.63	4.07	3.85	5.31	5.51
BloomBar 10 Yr Municipal	1.44	-0.12	-0.12	4.05	3.10	4.70	4.96
BloomBar US Corp High Yield	1.85	17.13	17.13	4.66	7.36	7.45	8.35
Citigroup World Gov't Bond	-0.67	1.60	1.60	-0.84	-0.99	2.99	4.77
BloomBar Global Aggregate	-0.46	2.09	2.09	-0.19	0.21	3.29	4.79
BloomBar Multiverse	-0.30	2.84	2.84	-0.02	0.49	3.44	4.96
Real Assets							
NCREIF Property	0.00	6.13	6.13	10.38	10.54	6.75	8.88
NFI ODCE Net	1.83	7.73	7.73	11.02	11.14	4.84	7.15
FtSE NAREIT US Real Estate	4.69	8.52	8.52	13.38	12.01	5.08	10.80
Bloomberg Commodity	1.80	11.77	11.77	-11.26	-8.95	-5.58	1.16
Cash and Equivalents							
US T-Bills 90 Day	0.04	0.33	0.33	0.14	0.12	0.81	1.35

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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