Global Economy

The global economy finds itself unusually calm, despite being surrounded by several strong currents. As it relates specifically to the US, there has been inconsistent economic data combined with unfolding political developments. The Commerce Department provided the advance release of 2Q-17 real gross domestic product (GDP), suggesting accelerated consumption and non-residential investment produced annualized growth of 2.6%. While this more than doubles the 1Q-17 reading, it was accompanied by negative GDP revisions for six of the past seven quarters. The latest report on personal consumption expenditures (PCE) indicated that spending was up modestly in June, with gains in services offsetting declines in finished goods (particularly autos). Core PCE, the Federal Reserve's preferred measure, has now increased by 1.5% on a year-over-year (YoY) basis. With total personal income unchanged in June, the national savings rate dropped to just 3.8%, which is the lowest level since late 2008.

The unemployment rate dropped back to 4.3% in July, reflecting the continued health of the labor market. Nonfarm payrolls exceeded expectations, with 209,000 jobs added. The labor force participation rate inched higher to 62.9%, and the combination of lower unemployment with higher participation is a positive sign. Wage growth was simply in line with muted expectations, continuing its relatively slow pace of 2.5%. Given technology advances, some economists are questioning the ongoing validity of the Phillips Curve, which historically links rising wages with labor market tightness.

As expected, The Federal Open Market Committee (FOMC) did not change the federal funds rate at its late July meeting. Acknowledging offsetting forces impacting its mandate, the intent to gradually normalize monetary policy was confirmed. The time frame for the balance sheet reduction program was revised from "this year" to "relatively soon."

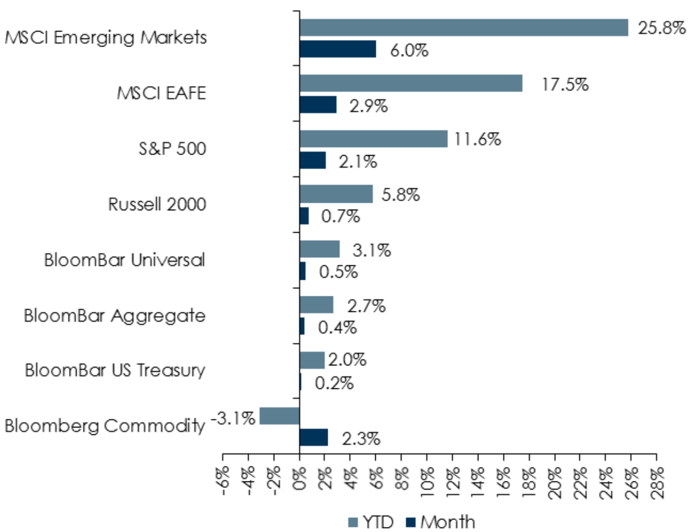
There have generally been mostly positive signals from areas outside of the US. Foreign central banks remain quite patient with policy normalization given no clear sign of impending inflation. The strength of the Euro versus the US dollar may present some eventual growth headwinds as the region's exports become more expensive. China's construction sector showed strength with the sub-index for activity rising to 62.5 in July, the highest level since December, 2013. Politically, China is in the middle of the North Korea missile situation, and questions remain about the outcome of the 19th Party Congress this fall.

	Current	Dec-16
US GDP (%)	2.60	1.90
US Unemployment (%)	4.30	4.70
CPI (Core) (%)	1.70	2.10
Fed Funds (%)	1.00 – 1.25	0.50 – 0.75
10 Year UST Yld (%)	2.30	2.45
S&P 500 Div Yld (%)	1.98	2.09
S&P 500 P/E (Trailing)	21.30	20.61
Gold/oz.	$1,266.60	$1,151.70
Oil (Crude)	$50.17	$53.72
Gasoline (Natl Avg)	$2.47	$2.39
USD/Euro	$1.18	$1.05
USD/GBP	$1.32	$1.23
Yen/U.S.D	¥110.26	¥116.96

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

The combination of moderate economic growth, low inflation, and a tepid pace of monetary policy change has created a comfortable scenario for investors, allowing global risk assets to continue appreciating in July. Domestically, large cap stocks outperformed small caps. The S&P 500 was up another 2.1%, and achieved record closing levels on five separate occasions. Although divergence is developing within sectors and individual stocks, uncommonly low index-level volatility has been a hallmark of financial markets this year. Of note, the S&P 500 benchmark is riding its second longest stretch since 1950 without a 3% fall, and it has been over a year since it fell by 5% or more.

In general, public company reports for 2Q-17 have been very strong, both in top-line revenues and in earnings. Forward looking management guidance has been mixed, but strong enough to suggest that recent success should not be viewed as an aberration. Across the large cap sectors, Telecom (5.1%) and IT (4.3%) led the way in July. Telecom was helped by better than expected results from AT&T, Sprint and Verizon. No sectors posted a loss, but Industrials (flat) and Consumer Staples (0.4%) were the laggards. In the small cap space, Russell 2000 growth stocks (0.8%) outpaced value stocks (0.6%). Tax reform is still on the docket for later this year, and could potentially drive M&A, but expectations are muted given the lack of legislative accomplishments thus far in the Trump presidency.

Aided by ongoing declines in the US dollar, international equity returns for July were up solidly across the board. MSCI EAFE (2.9%) showed strong growth, but paled in comparison to MSCI Emerging Markets (6.0%), which was led by MSCI Emerging Markets Latin America (8.3%). Brazil continues to recover from its political scandal, with an impressive 10.9% return for the month. India and China were not far behind, up 9.0% and 8.9%, respectively. In the developed world, Japan (2.0%) showed strength, but trailed MSCI Europe (3.0%) and MSCI Pacific ex Japan (4.3%).

Real estate had moderate returns in July with the FTSE NAREIT US Real Estate index up 1.2% and the FTSE EPRA/NAREIT Developed up 1.9%. The Alerian MLP index trimmed year to date (YTD) losses, gaining 1.3% for the month. The Bloomberg Commodity Index was up 2.3% in July. Nymex West Texas Intermediate (WTI) oil had its best month since April 2016, gaining 9.0% on US dollar weakness and favorable supply data. Gold was up another 2.0%.

Global Markets (continued)

Fixed income assets maintained an upward trajectory throughout July. The broad Bloombar Global Aggregate index posted an impressive gain of +1.7%. The benchmark's YTD total return of +6.2% is higher than most expected since yields remain depressed from a historical perspective. With the sustained decline in the US dollar (especially relative to the Euro), the resulting positive impact of currency translation for US-based investors remains the primary driver. This factor alone accounted for 80% of the unhedged benchmark's monthly return.

The US Treasury (UST) yield curve reversed course and steepened modestly in July. Amid increased uncertainty around future FOMC rate hikes, policy sensitive 2-year UST yields stayed well-anchored and actually closed the month slightly lower at 1.35%. The general risk-on tone supported a rise in longer-term rates and the 30-year bond closed at 2.90%. The 10-year breakeven rate implied by TIPS moved higher, helping inflation-protected issues to outperform nominal UST.

With the implied probability of an additional Fed rate hike before year-end falling to approximately 40%, the market's interpretation of gradual policy adjustments looks increasingly dovish. The FOMC's September 19/20 meeting will be key to watch. This meeting will likely include revised economic projections, a new "dots plot," and potentially the commencement of the balance sheet reduction program, commonly referred to as Quantitative Tightening (QT). It is expected that pre-meeting signaling will be aimed at reducing the chance of surprise. However, any unanticipated eagerness on the part of the Federal Reserve is a tail risk that could prompt an adjustment in asset prices.

The Bloombar US Aggregate index rebounded with a return of +0.4% in July. The Bloombar US Corporate Investment Grade index added just over +0.7% for the month, as insatiable investor demand overcame heavy supply. Credit spreads finished within 3 basis points (bps) of 10-year lows. The Bloombar US Corporate High Yield index provided enhanced returns of +1.1%, with energy-related names reacting to higher oil prices and spreads contracting overall. Emerging market bonds (particularly local currency issues) extended their impressive YTD rally, driven by the attractiveness of higher interest rates 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	0.54	0.20
France	0.80	0.68
United Kingdom	1.23	1.24
Spain	1.48	1.38
Italy	2.09	1.81
United States	2.30	2.45
Mexico	6.86	7.42
Brazil	9.99	11.40

Source: Bloomberg

Indices Report (Periods Ending July 31, 2017)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	2.06	11.59	16.04	10.87	14.78	7.74	9.08
Russell 1000	1.98	11.44	15.95	10.58	14.85	7.84	9.32
Russell 1000 Growth	2.66	17.02	18.05	12.66	15.60	9.36	9.64
Russell 1000 Value	1.33	6.05	13.76	8.45	14.00	6.21	8.89
Russell 2500	1.04	7.07	15.08	9.12	14.43	8.16	10.99
Russell 2000	0.74	5.77	18.45	9.89	14.19	7.76	10.44
Russell 2000 Growth	0.85	10.91	17.76	10.22	14.58	8.49	10.83
Russell 2000 Value	0.63	1.18	19.21	9.50	13.76	6.94	9.96
Wilshire 5000 Cap Wtd	1.88	10.77	16.21	10.71	14.80	7.86	9.57
MSCI ACWI	2.83	14.98	17.69	6.80	11.45	4.72	8.70
MSCI ACWI ex US	3.71	18.70	19.55	2.84	8.18	1.99	8.37
MSCI EAFE	2.89	17.53	18.32	3.26	9.55	1.94	7.74
MSCI EAFE Local Currency	0.68	8.67	17.90	7.83	12.87	2.91	6.75
MSCI EAFE Growth	2.43	19.87	13.40	4.83	9.73	2.76	7.67
MSCI EAFE Value	3.35	15.34	23.42	1.61	9.29	1.05	7.72
MSCI Emerging Markets	6.04	25.77	25.30	2.76	5.14	2.32	11.98
Fixed Income							
BofA ML 1-3 Yr Treasury	0.21	0.65	0.17	0.79	0.63	1.88	2.15
BloomBar US Aggregate	0.43	2.71	-0.51	2.71	2.02	4.44	4.43
BloomBar Gov't Bond	0.17	2.03	-2.40	2.10	1.14	3.80	3.85
BloomBar US Credit	0.73	4.44	1.26	3.67	3.27	5.65	5.63
BloomBar 10 Yr Municipal	0.93	5.15	0.45	3.78	3.28	5.14	4.85
BloomBar US Corp High Yield	1.11	6.09	10.95	5.34	6.72	8.17	9.47
Citigroup World Govt Bond	1.86	6.43	-2.87	-0.08	-0.02	3.37	4.48
BloomBar Global Aggregate	1.68	6.16	-1.28	0.51	0.88	3.66	4.60
BloomBar Multiverse	1.71	6.37	-0.53	0.72	1.16	3.84	4.83
Real Assets							
NCREIF Property	0.00	3.33	6.98	10.17	10.49	6.42	9.02
NFI ODCE Net	0.00	3.05	6.91	10.33	10.76	4.29	7.27
FTSE NAREIT US Real Estate	1.22	3.96	-4.47	8.78	9.36	7.00	10.53
Bloomberg Commodity	2.26	-3.11	0.77	-12.69	-9.98	-6.48	0.18
Cash and Equivalents							
US T-Bills 90 Day	0.09	0.39	0.54	0.26	0.19	0.55	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 compromised 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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