



Markets and Economic Update

Third Quarter 2017

GLOBAL REVIVAL

Post the Great Recession of 2008, global markets looked to the US economy and financial markets for leadership. For nearly a decade the US economy and markets have provided that leadership, albeit at a slower pace than policy makers would like. This leadership has taken a toll, largely in the form of extended central bank balance sheets and stretched financial asset valuations. Now, faced with the prospect of further interest rate hikes, the normalization of central bank balance sheets and the lack of slack in domestic labor markets, the US expansion is likely to face headwinds going forward.

Fortunately, there are increasing signs of a broader global economic revival beyond the US. Developed markets are currently seeing broad-based improvement, driven by improving corporate fundamentals and receding political uncertainty. Many of these markets look to be in the early stages of an economic cycle with corporate profit cycles still in their earliest stages. This would appear to provide for significant upside to both profits and margins. Leading economic indicators have been on an upward trend since early 2016, with gains in industrial production and exports driving capacity utilization higher. In addition, labor markets have steadily improved. Eurozone unemployment peaked at over 12% in 2014, but now resides at 9.3%. While much progress has been made, significant labor market slack provides for an extended run of growth before any significant wage pressures are expected.

One of the most compelling indicators of broad-based growth lies in the Global Purchasing Manager's Index (PMI) for manufacturing. A PMI rating below 50 indicates a decelerating or slowing manufacturing sector. A rating above 50 reflects a growing or accelerating environment. Developed markets have steadily climbed from 50 (no acceleration) in early 2016 to nearly 55 at the end of 3Q2017. Importantly, this index reflects widespread participation in the economic upturn. The largest economies, including the UK, Germany, France and Canada are all trending significantly higher. The lone exception within the developed markets remains Japan, with a PMI rating flatlined at 53 reflecting acceleration but at a more modest level. Emerging markets, while demonstrating much higher levels of dispersion, have also shown significant improvement. China had a PMI rating of 48 (deceleration) at the beginning of 2016 and currently stands at 51. Russia and Brazil, both large EM economies, have transitioned into accelerating economies as well.

While the US economic cycle looks to be showing its age, there is increasing evidence of a broad-based revival in both developed and emerging markets on a global basis. After nearly a decade of leadership and slow growth here in the US, the global acceleration is a welcomed trend that may lay the groundwork for an extended, positive economic cycle on a global basis.

GLOBAL ECONOMIC LANDSCAPE

- The current economic expansion started in July 2009, reflecting a current expansion over 99 months. The longest expansion on record is 120 months.
- The unemployment rate remains at historically low levels. The current 4.4% rate compares to a 50-year average of 6.2%.
- Inflation remains subdued. Both Headline and Core CPI growth remain under 2% on a year-over-year basis.
- US economic indicators were mixed this quarter. The most recent (September) jobs report indicated the first negative payroll growth since 2010. Yet, average hourly earnings jumped 2.9% year-over-year, the strongest growth since 2009. These conflicting signals have both been largely discounted in the marketplace due to hurricane distortions.
- The Fed continues to consider one additional rate hike in 2017. At the beginning of the quarter, markets put the probability of a December rate hike at only 40%. Markets are now pricing in a 90% probability of a December rate hike based on modestly stronger economic indicators.
- The breadth of participation in global growth across economies has continued to expand including housing, consumption, manufacturing and services.
- Nearly all countries (94% globally) have been generating positive economic growth year-over-year. More than half of all countries (61%) are experiencing acceleration in year-over-year growth.

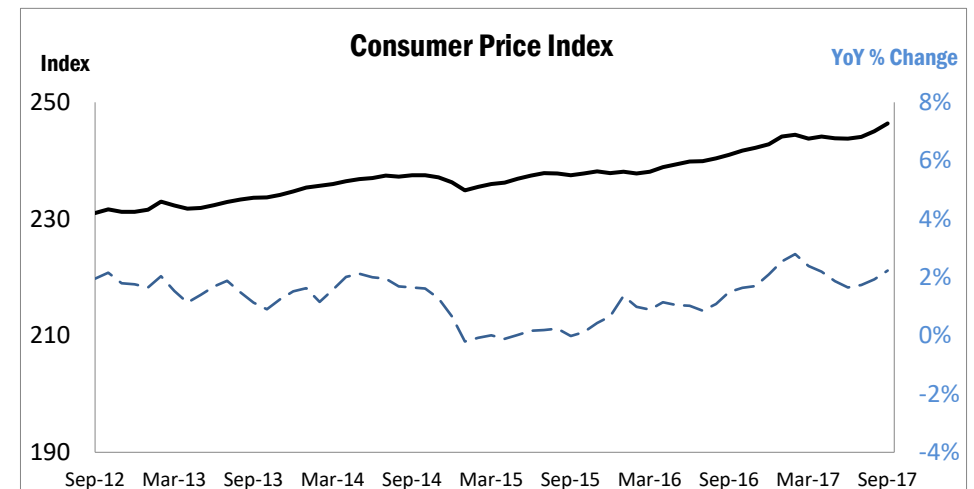
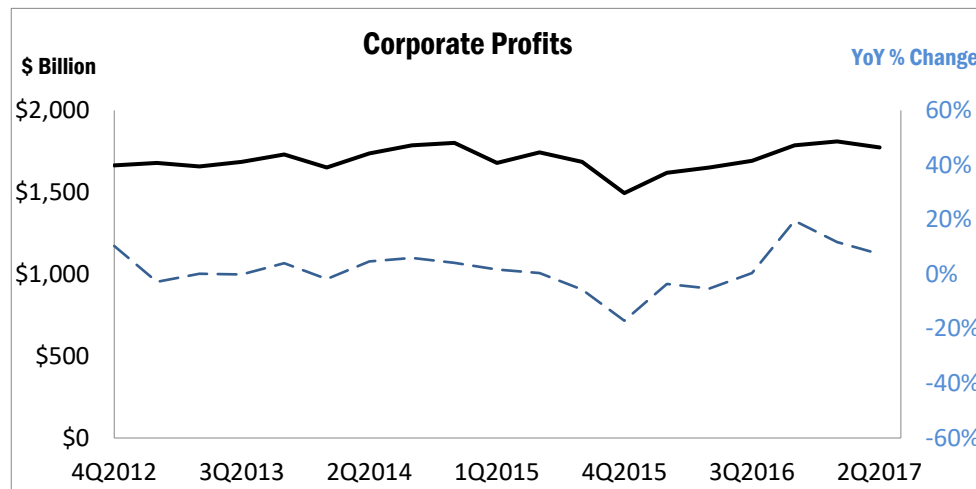
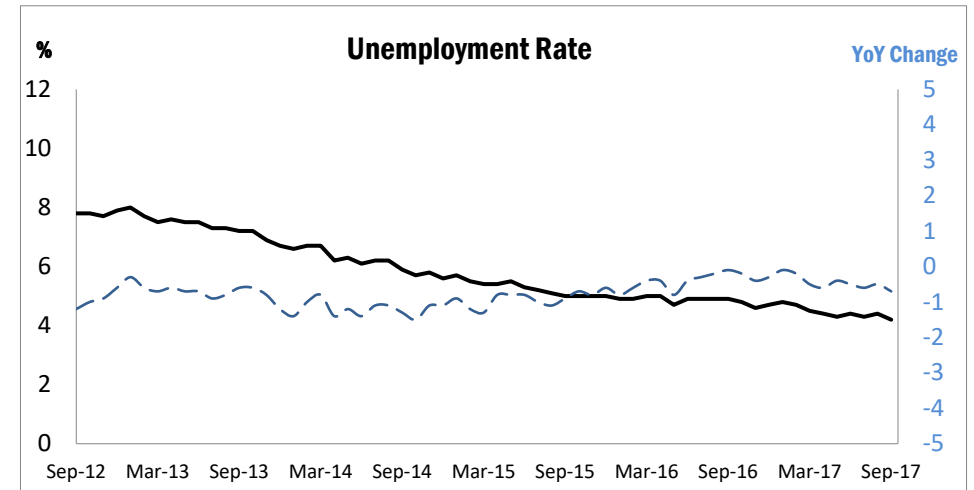
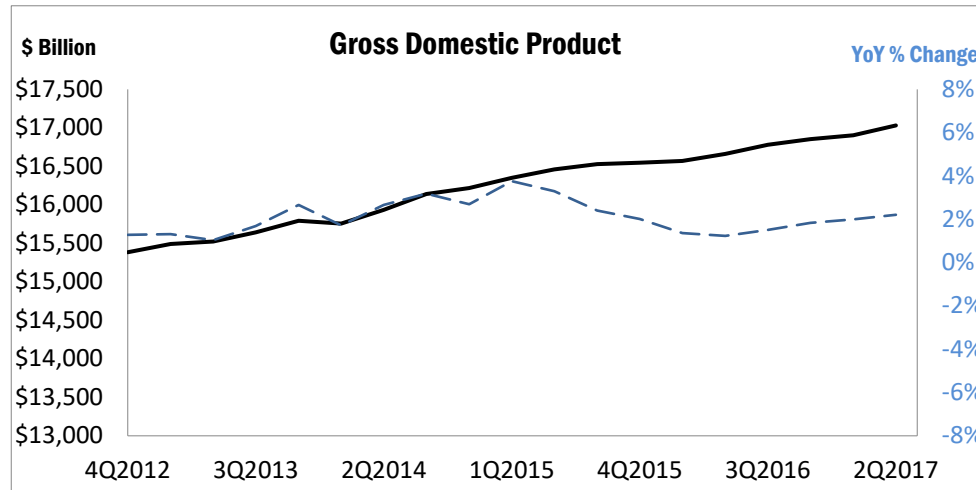
GLOBAL FINANCIAL MARKETS

- US corporate earnings stood at all-time highs at the end of 2Q2017. Energy sector earnings turned sharply positive after nearly two years of flat-to-negative results
- The extreme popularity of passive investing is reflected in the fact that we now have more reported indices than we do individual stocks in the domestic stock market. In 2016, there were 167 new ETFs created. In 2017, we've eclipsed that record number in the first 9 months of the year!
- The duration (measure of interest rate risk) of the widely tracked Barclays US Aggregate Bond Index is at its highest level in 30 years. Current duration stands at 6.0 years. The 30-year average duration of the Index is 4.8 years. Based on current duration, a 1% rise in interest rates would result in a decline of nearly 6% for the Index.
- High yield bond spreads have declined sharply since the Great Recession in 2008, having declined from over 16% to 4.2%. Current spreads are near historical lows and well below the 30-year average of 5.8%. At the same time default rates are nearing historical lows. The current default rate is 1.1% compared to the 30-year historical average of 3.9%.
- Global equity market correlations (1-year rolling) peaked at 0.77 in September 2009. They have since declined dramatically to 0.35. The decoupling of correlations provides investors with increased diversification benefits from a globally diversified portfolio. In addition, it is generally viewed as a favorable environment for active management.
- Developed international equity valuations remain below those of the US with the EAFE Index trading at a forward P/E ratio of 14.8x vs. 17.7x for the S&P 500. However, this remains above the 15-year historical average. The same can be said for emerging markets, which trade at 12.5x vs. 11.1x their historical average. One of the few global exceptions is Russia, which trades at 6.7x and below its 7.2x average.

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3Q2017 Economic Data



Labor Market Statistics (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	5-Yr Avg.	Date
Jobs Added/Lost Monthly	-33,000	344,000	-33,000	201,817	Sep-17
Unemployment Rate	4.2%	8.0%	4.2%	5.8%	Sep-17
Median Unemployment Length (Weeks)	10.3	20.3	7.6	13.2	Sep-17
Average Hourly Earnings	\$26.55	\$26.55	\$23.57	\$24.94	Sep-17

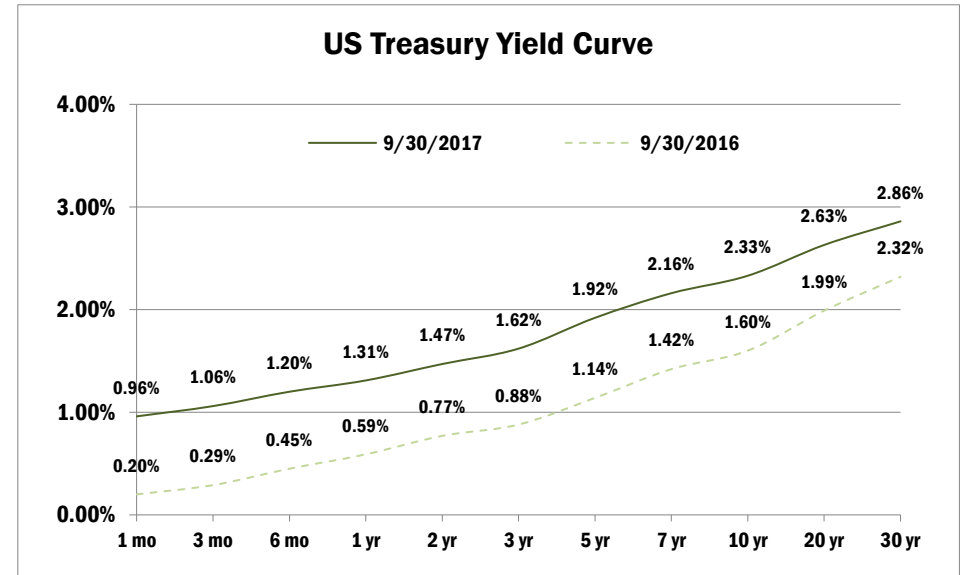
Other Prices and Indexes (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	% Off Peak	Date
Gas: Price per Gallon	\$2.69	\$3.71	\$1.79	-27.6%	Sep-17
Spot Oil	\$49.82	\$106.57	\$30.32	-53.3%	Sep-17
Case-Shiller Home Price Index	199.4	199.4	142.8	39.6%*	Jul-17
Medical Care CPI	476.7	477.0	419.1	13.8%*	Sep-17

Source: Federal Reserve Bank of St. Louis and Bureau of Labor Statistics

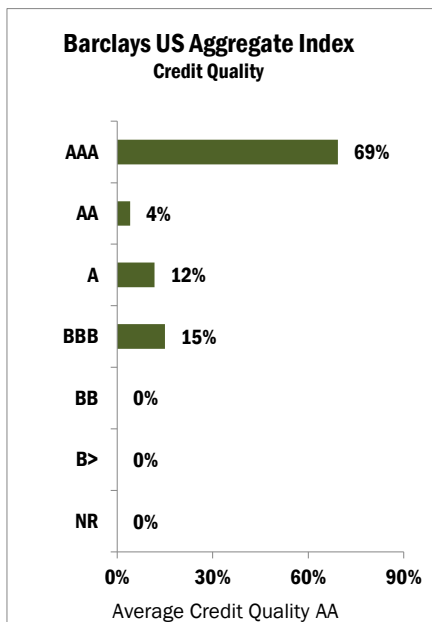
*% Off Low

3Q2017 Bond Market Data

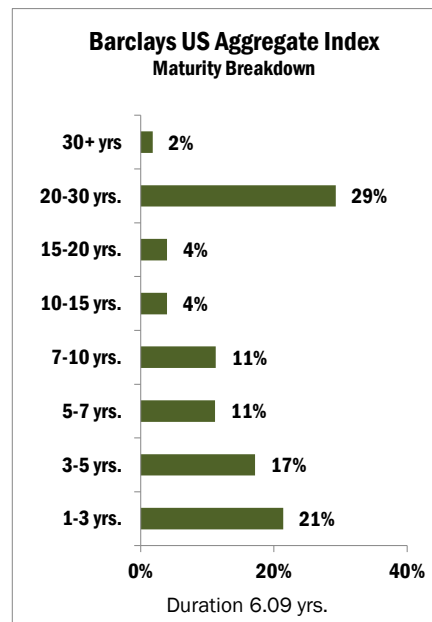
Index	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
90-Day T-Bill	0.25%	0.50%	0.57%	0.26%	0.19%	0.45%
Barclays US Aggregate	0.85%	3.14%	0.07%	2.71%	2.06%	4.27%
Barclays Short US Treasury	0.28%	0.58%	0.67%	0.41%	0.30%	0.65%
Barclays Int. US Treasury	0.34%	1.56%	-0.73%	1.59%	1.00%	3.15%
Barclays Long US Treasury	0.58%	6.02%	-6.35%	4.85%	2.84%	6.89%
Barclays US TIPS	0.86%	1.72%	-0.73%	1.62%	0.02%	3.90%
Barclays US Credit	1.35%	5.08%	1.96%	3.87%	3.23%	5.54%
Barclays US Mortgage-Backed	0.96%	2.32%	0.30%	2.44%	1.96%	4.13%
Barclays US Asset-Backed	0.42%	1.56%	0.86%	1.80%	1.33%	2.88%
Barclays US 20-Yr Municipal	1.51%	5.59%	0.81%	4.05%	3.78%	5.28%
Barclays US High Yield	1.98%	7.00%	8.88%	5.83%	6.36%	7.84%
Barclays Global	1.76%	6.25%	-1.26%	1.30%	0.48%	3.31%
Barclays International	2.48%	8.74%	-2.42%	0.20%	-0.73%	2.57%
Barclays Emerging Market	2.27%	7.50%	4.70%	5.55%	4.42%	7.16%



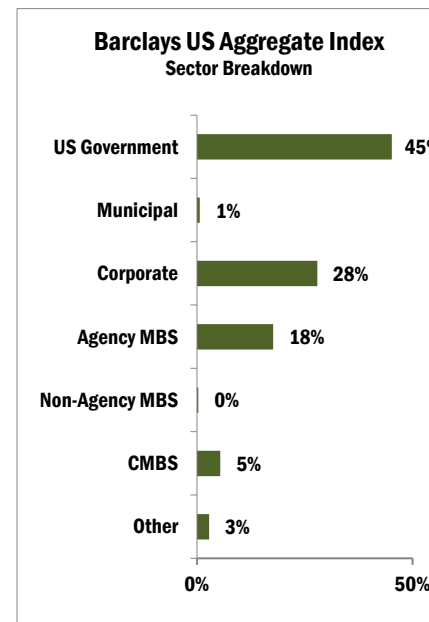
Source: Department of US Treasury



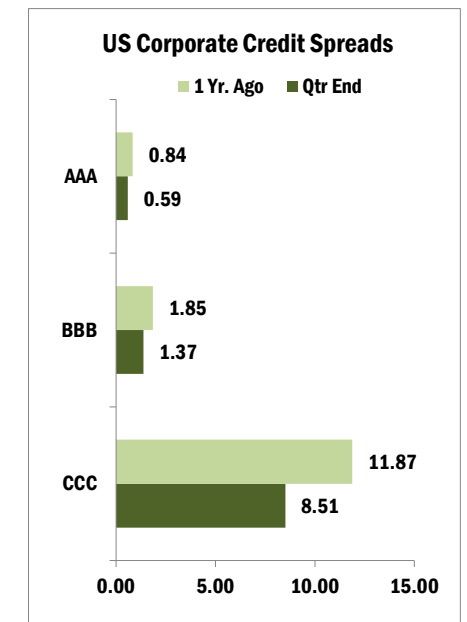
Source: Morningstar



Source: Morningstar



Source: Morningstar



Source: Federal Reserve / Bank of America

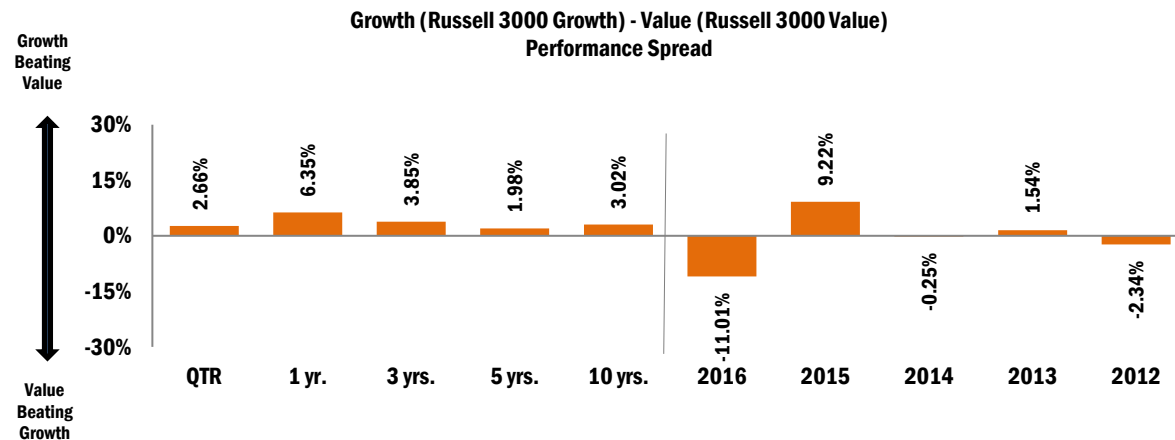
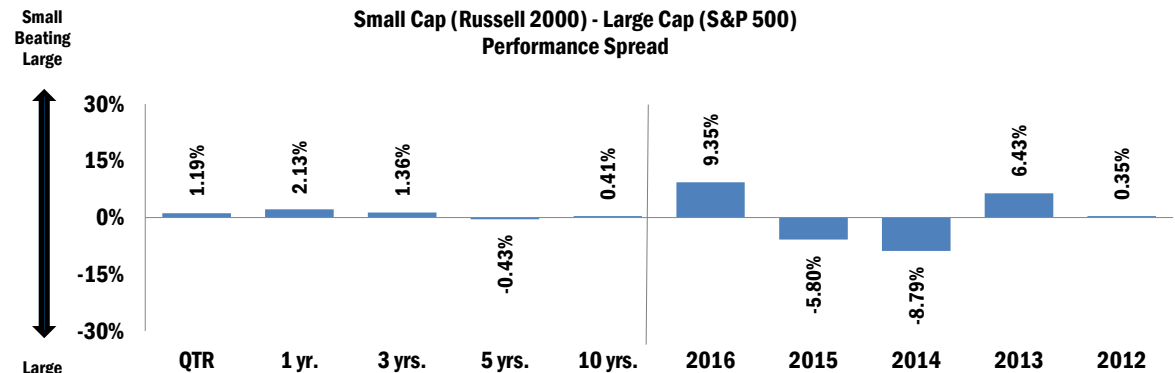
3Q2017 US Equity Market Data

Sectors Weights/Returns (ranked by quarter performance)

	Wgt.	Sector	QTR	1 Yr.
S&P 500 Index	23%	Information Technology	8.65%	28.88%
	6%	Energy	6.84%	0.16%
	2%	Telecom Services	6.78%	-0.14%
	3%	Materials	6.05%	21.26%
	15%	Financials	5.24%	36.21%
	10%	Industrials	4.22%	22.35%
	15%	Health Care	3.65%	15.49%
	3%	Utilities	2.87%	12.03%
	3%	Real Estate	0.93%	2.66%
	12%	Consumer Discretionary	0.84%	14.52%
8%	Consumer Staples	-1.35%	4.42%	
S&P Midcap 400 Index	4%	Energy	9.32%	-17.57%
	16%	Industrials	6.22%	28.15%
	7%	Materials	4.98%	21.99%
	17%	Information Technology	4.89%	25.63%
	17%	Financials	3.87%	28.14%
	6%	Utilities	2.19%	13.46%
	11%	Consumer Discretionary	1.89%	14.30%
	4%	Consumer Staples	-0.22%	0.34%
	10%	Real Estate	-0.93%	-0.08%
	8%	Health Care	-1.74%	19.15%
0%	Telecom Services	-9.24%	-33.38%	
S&P Smallcap 600 Index	3%	Energy	11.57%	-18.51%
	3%	Utilities	8.59%	23.84%
	19%	Industrials	8.07%	23.64%
	3%	Consumer Staples	7.72%	9.76%
	15%	Information Technology	6.72%	24.84%
	5%	Materials	6.23%	24.32%
	13%	Health Care	5.85%	25.46%
	17%	Financials	4.76%	27.46%
	15%	Consumer Discretionary	3.74%	17.53%
	6%	Real Estate	2.83%	10.38%
1%	Telecom Services	0.56%	19.93%	

Index Performance Data

Index	QTR	YTD	1 yr.	Annualized		
				3 yrs.	5 yrs.	10 yrs.
S&P 500	4.48%	14.24%	18.61%	10.81%	14.22%	7.44%
Russell 1000 Value	3.11%	7.92%	15.12%	8.53%	13.20%	5.92%
Russell 1000 Growth	5.90%	20.72%	21.94%	12.69%	15.26%	9.08%
Russell Mid Cap	3.47%	11.74%	15.32%	9.54%	14.26%	8.08%
Russell Mid Cap Value	2.14%	7.43%	13.37%	9.19%	14.33%	7.85%
Russell Mid Cap Growth	5.28%	17.29%	17.82%	9.96%	14.18%	8.20%
Russell 2000	5.67%	10.94%	20.74%	12.18%	13.79%	7.85%
Russell 2000 Value	5.11%	5.68%	20.55%	12.12%	13.27%	7.14%
Russell 2000 Growth	6.22%	16.81%	20.98%	12.17%	14.28%	8.47%
Russell 3000	4.57%	13.91%	18.71%	10.74%	14.23%	7.57%
DJ US Select REIT	0.38%	1.75%	-0.83%	9.28%	9.16%	5.31%



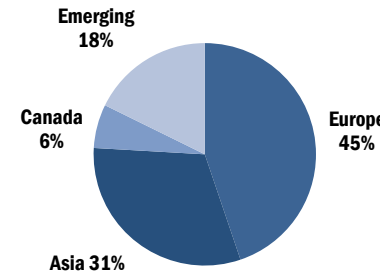
3Q2017 International Market Data

Index Performance Data (net)

Index (US\$)	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
MSCI ACWI ex-US	6.16%	21.13%	19.61%	4.70%	6.97%	1.28%
MSCI EAFE	5.40%	19.96%	19.10%	5.04%	8.38%	1.34%
Europe	6.45%	22.79%	22.30%	4.36%	8.36%	1.08%
United Kingdom	5.17%	15.68%	14.64%	0.76%	4.90%	0.74%
Germany	7.74%	24.25%	26.06%	7.66%	9.86%	2.02%
France	8.36%	26.84%	30.56%	7.68%	10.88%	0.97%
Pacific	3.87%	15.41%	14.22%	6.62%	8.57%	2.07%
Japan	3.97%	14.28%	14.09%	7.75%	10.60%	1.69%
Hong Kong	5.11%	27.77%	16.31%	10.24%	9.90%	5.36%
Australia	3.14%	12.31%	13.09%	2.80%	3.91%	1.65%
Canada	7.92%	11.33%	14.96%	0.05%	2.57%	0.95%
MSCI EM	7.89%	27.78%	22.46%	4.90%	3.99%	1.32%
MSCI EM Latin America	15.07%	26.71%	25.59%	-0.30%	-1.92%	-0.77%
MSCI EM Asia	7.02%	31.82%	23.82%	7.97%	7.42%	2.75%
MSCI EM Eur/Mid East	8.35%	11.13%	19.34%	-2.43%	-3.57%	-4.37%
MSCI ACWI Value ex-US	5.99%	17.68%	21.55%	2.92%	6.02%	0.61%
MSCI ACWI Growth ex-US	6.33%	24.82%	17.68%	6.43%	7.87%	1.89%
MSCI AC World Sm Cap ex-US	6.90%	23.54%	19.19%	8.14%	9.68%	3.58%

Regional Exposure

MSCI ACWI ex-USA

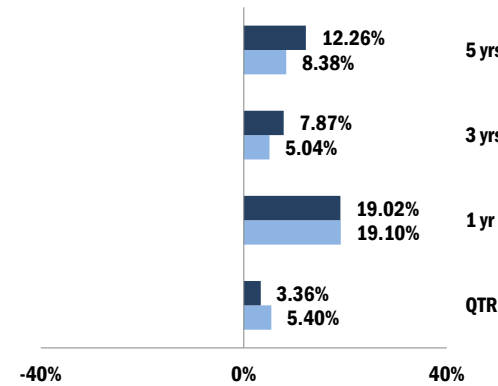


Top 10 Countries (MSCI AC World ex-USA)

Japan	17%
UK	11%
France	7%
China	7%
Canada	7%
Germany	7%
Switzerland	6%
Australia	5%
South Korea	4%
Hong Kong	3%

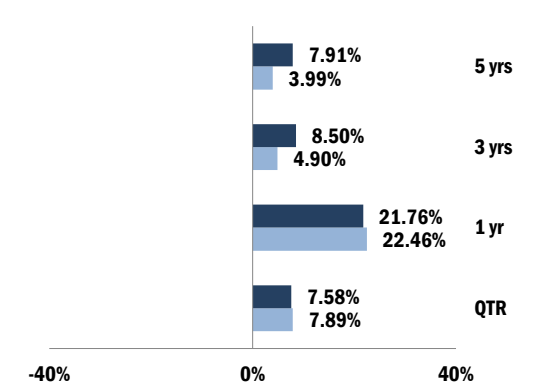
MSCI EAFE Index Return

Local (Dark Blue), US\$ (Light Blue)

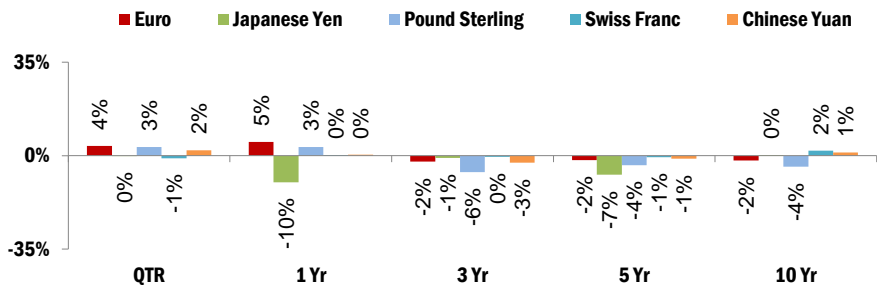


MSCI Emerging Index Return

Local (Dark Blue), US\$ (Light Blue)

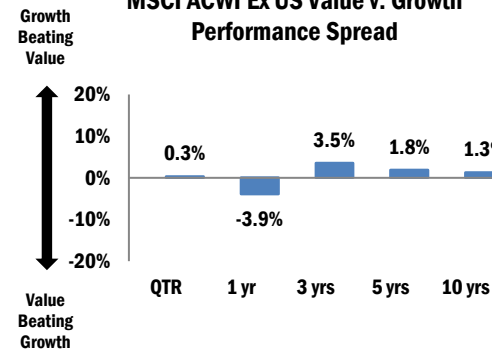


Foreign Currency v. US\$ Returns

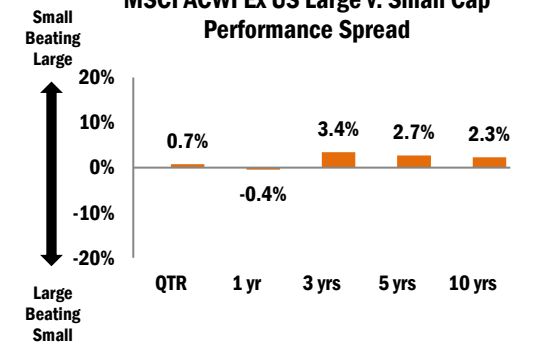


Exchange Rates	3Q17	2Q17	1Q17	4Q16	3Q16	2Q16
Japanese Yen	112.64	112.40	111.41	116.80	101.21	102.77
Euro	0.85	0.88	0.93	0.95	0.89	0.91
British Pound	0.75	0.77	0.80	0.81	0.77	0.76
Swiss Franc	0.97	0.96	1.00	1.02	0.97	0.98
Chinese Yuan	6.65	6.78	6.88	6.94	6.67	6.65

MSCI ACWI Ex US Value v. Growth Performance Spread



MSCI ACWI Ex US Large v. Small Cap Performance Spread



Historical Market Returns

Ranked by Performance

2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	3Q17
Emerging Markets 55.82%	Emerging Markets 25.55%	Emerging Markets 34.00%	Emerging Markets 32.14%	Emerging Markets 39.42%	US Bonds 5.24%	Emerging Markets 78.51%	Small Cap 26.85%	Core Real Estate 14.96%	Emerging Markets 18.22%	Small Cap 38.82%	Large Cap 13.68%	Core Real Estate 13.95%	Small Cap 21.30%	Emerging Markets 27.78%	Emerging Markets 7.89%
Small Cap 47.25%	Intl 20.91%	Commod. 21.36%	Intl 26.65%	Intl 16.65%	Global Bonds 4.79%	High Yield 58.21%	Mid Cap 25.48%	TIPS 13.56%	Mid Cap 17.28%	Mid Cap 34.76%	Mid Cap 13.21%	Large Cap 1.38%	High Yield 17.12%	Intl 21.13%	Intl 6.16%
Intl 40.83%	Mid Cap 20.22%	Core Real Estate 20.15%	Small Cap 18.37%	Commod. 16.23%	Cash 1.39%	Intl 41.45%	Emerging Markets 18.88%	US Bonds 7.84%	Intl 16.83%	Large Cap 32.39%	Core Real Estate 11.44%	US Bonds 0.55%	Mid Cap 13.79%	Large Cap 14.24%	Small Cap 5.67%
Mid Cap 40.06%	Small Cap 18.33%	Intl 16.62%	Large Cap 15.79%	Core Real Estate 14.84%	TIPS -2.35%	Mid Cap 40.48%	Commod. 16.83%	Global Bonds 5.64%	Small Cap 16.35%	Intl 15.29%	US Bonds 5.97%	Cash 0.03%	Large Cap 11.95%	Global Balanced 11.74%	Large Cap 4.48%
High Yield 28.97%	Global Balanced 12.18%	Mid Cap 12.65%	Core Real Estate 15.27%	TIPS 11.64%	Core Real Estate -10.70%	Small Cap 27.17%	Core Real Estate 15.26%	High Yield 4.98%	Large Cap 16.00%	Global Balanced 14.46%	Small Cap 4.89%	TIPS -1.43%	Commod. 11.76	Mid Cap 11.74%	Global Balanced 3.53%
Large Cap 28.68%	Core Real Estate 12.00%	Large Cap 4.91%	Mid Cap 15.26%	Global Bonds 9.48%	Global Balanced -24.51%	Large Cap 26.46%	High Yield 15.12%	Large Cap 2.11%	High Yield 15.81%	Core Real Estate 12.95%	TIPS 3.64%	Global Balanced -1.45%	Emerging Markets 11.18%	Small Cap 10.94%	Mid Cap 3.47%
Global Balanced 24.27%	High Yield 11.13%	Small Cap 4.55%	Global Balanced 14.53%	Global Balanced 9.07%	High Yield -26.16%	Global Balanced 20.49%	Large Cap 15.06%	Cash 0.06%	Global Balanced 11.06%	High Yield 7.44%	Global Balanced 3.17%	Mid Cap -2.43%	Core Real Estate 7.76%	High Yield 7.00%	Commod. 2.52%
Commod. 23.93%	Large Cap 10.88%	Global Balanced 4.16%	High Yield 11.85%	US Bonds 6.97%	Small Cap -33.79%	Commod. 18.91%	Intl 11.15%	Global Balanced -0.97%	Core Real Estate 9.76%	Cash 0.07%	High Yield 2.45%	Global Bonds -3.15%	Global Balanced 5.38%	Global Bonds 6.25%	High Yield 1.98%
Global Bonds 12.51%	Global Bonds 9.27%	Cash 3.25%	Global Bonds 6.64%	Mid Cap 5.60%	Commod. -35.65%	TIPS 11.41%	Global Balanced 9.40%	Mid Cap -1.55%	TIPS 6.98%	US Bonds -2.02%	Global Bonds 0.59%	Small Cap -4.41%	TIPS 4.68%	Core Real Estate 4.72%	Global Bonds 1.76%
TIPS 8.40%	Commod. 9.15%	TIPS 2.84%	Cash 4.85%	Large Cap 5.49%	Large Cap -37.00%	Global Bonds 6.93%	US Bonds 6.54%	Small Cap -4.18%	Global Bonds 4.32%	Global Bonds -2.60%	Cash 0.04%	High Yield -4.46%	Intl 4.50%	US Bonds 3.14%	Core Real Estate 1.64%
Core Real Estate 8.28%	TIPS 8.46%	High Yield 2.74%	US Bonds 4.33%	Cash 4.44%	Mid Cap -41.46%	US Bonds 5.93%	TIPS 6.31%	Commod. -13.32%	US Bonds 4.21%	Emerging Markets -2.60%	Emerging Markets -2.18%	Intl -5.66%	US Bonds 2.65%	TIPS 1.72%	TIPS 0.86%
US Bonds 4.10%	US Bonds 4.34%	US Bonds 2.43%	Commod. 2.07%	High Yield 1.87%	Intl -45.53%	Cash 0.16%	Global Bonds 5.54%	Intl -13.71%	Cash 0.08%	TIPS -8.61%	Intl -3.86%	Emerging Markets -14.90%	Global Bonds 2.09%	Cash 0.50%	US Bonds 0.85%
Cash 1.03%	Cash 1.44%	Global Bonds -4.49%	TIPS 0.41%	Small Cap -1.57%	Emerging Markets -53.33%	Core Real Estate -30.40%	Cash 0.15%	Emerging Markets -18.42%	Commod. -1.06%	Commod. -9.52%	Commod. -17.00%	Commod. -24.60%	Cash 0.25%	Commod. -2.87%	Cash 0.25%

Global Balanced is composed of 60% MSCI World Stock Index, 35% Barclays Global Aggregate Bond Index, and 5% US 90-Day T-Bills.