



Markets and Economic Update

First Quarter 2017

SHRINKING UNIVERSE

Per the “Big Bang” theory, the universe we live in was born some 13.8 billion years ago and has been expanding ever since. What is quite clear is that the physical laws of cosmology do not apply to the US public equity markets. The universe of domestic public companies is shrinking. The number of US-listed (public) companies peaked at just over 9,000 in 1997 and has since declined by over 3,000 companies. Today there are fewer than 6,000 listed companies, despite a US economy (as measured by GDP) that has more than doubled in size over the same period. So why has the number of public companies continued to shrink and what is the impact on average investors?

The increase of private market investment capital has had a significant impact on public equity markets. A broad range of investors have become increasingly comfortable investing in private companies and accepting lower levels of liquidity in pursuit of higher returns. From the largest sovereign wealth funds to high-net-worth individual investors, we’ve seen a proliferation of private market investment capital. The increased popularity of private equity fund-of-funds (FOFs) has allowed smaller, less sophisticated investors to participate in this asset class in a diversified fashion and the development of secondary markets has provided for enhanced liquidity leading to more capital inflows. This has led to increased competition for corporate equity financing and with more private capital available, less demand for public capital. In addition, many smaller companies are delaying or skipping going public due to high regulatory costs and potential disclosure of information that may place them at a competitive disadvantage.

At the same time, the number of companies leaving the public ranks through mergers and acquisitions as well as leveraged buyouts stands near all-time highs. A combination of historically low interest rates and anemic economic growth have served as catalysts for consolidation. In many cases, public company managements are under significant pressure to generate growth despite a stubbornly sluggish economy. In this environment, many companies are looking to grow via acquisitions and historically low interest rates make debt financing highly attractive.

The exact impact on average investor returns is hard to quantify, but intuitively they are being excluded from participating in a great number of companies that are often in the prime stages of value creation. The equity market would appear to be less democratized, increasingly resulting in two classes of investors, institutional and individual, with different levels of access and opportunity.

GLOBAL ECONOMIC LANDSCAPE

- The Federal Reserve raised short-term rates an additional 0.25% in March and has indicated that it will continue to raise rates throughout 2017.
- March economic data painted a mixed picture. The US economy added fewer jobs than expected while the unemployment rate plunged to new lows. Payrolls grew by 98,000, well below the 180,000 expected in March and reported job gains of 219,000 in February. The unemployment rate, however, plunged to 4.5%, a new post-crisis low and the lowest in nearly 10 years.

- Headline inflation, which includes food and energy, continued its strong upward trend to a year-over-year (YOY) increase of 2.8% as of February 2017, boosted largely by the rebound in energy prices. Core inflation on the other hand remains largely range-bound at 2.2%.
- The spread between hard and soft (consumer sentiment) US economic data is at record levels. Investor sentiment has skyrocketed in advance of any hard-economic data support to-date. The actual pace of policy change relative to expectations is likely to disappoint such lofty sentiment.
- The US central bank holds nearly \$4.5 trillion in bonds on its balance sheet most of which were acquired during an attempt at quantitative easing following the financial crisis in 2008. Fed officials are on record stating the reduction of this balance sheet will begin in 2017. This reduction is generally expected to put downward pressure on bond prices and upward pressure on interest rates.
- Consumer balance sheets remain very strong. Household average net worth stands at the highest level on record and household debt service levels are at 35 year lows.
- Europe is looking at a political “super cycle” in 2017 which will likely determine the fate of the European Union (EU) as we know it. The Netherlands’ pro-EU party won in March elections, with pro-EU parties looking to have the upper hand in upcoming elections across France and Germany. Italy appears to be the primary wild card. With a weak economy and a current governing party at risk of splitting up, anti-EU sentiment continues to grow.
- Manufacturing purchasing manager indices in the Eurozone reached near six-year highs. Strong gains in employment and new orders reflect strong growth momentum.

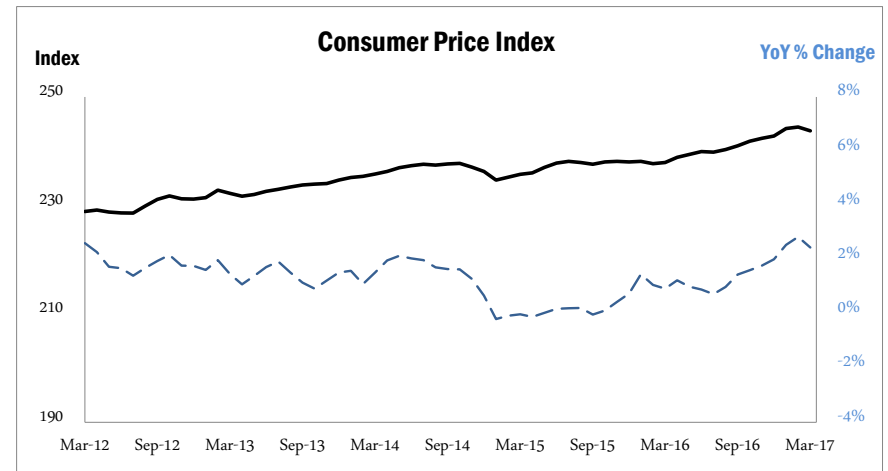
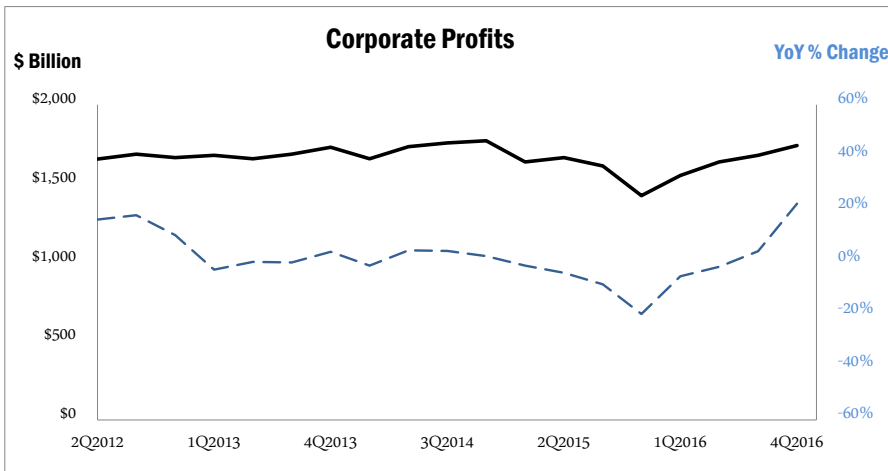
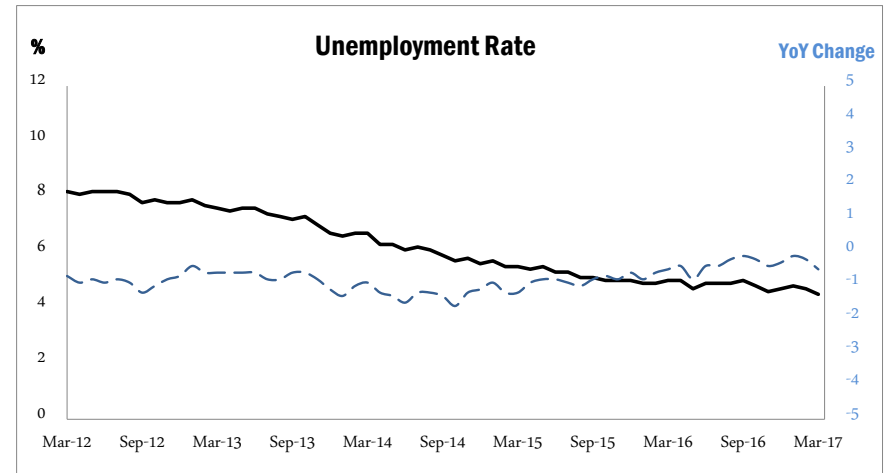
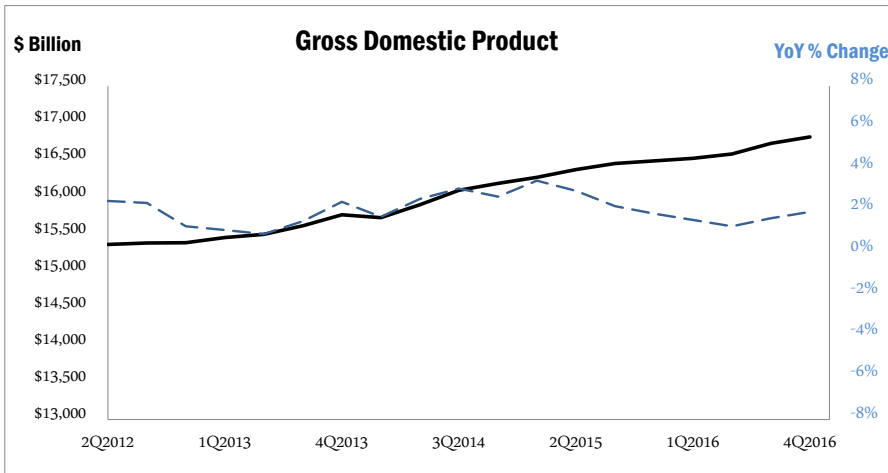
GLOBAL FINANCIAL MARKETS

- Domestic equity markets moved steadfastly forward in 1Q17. Since the market low in March of 2009, large cap stocks are up 314%. An impressive number for sure, but small cap stocks are up 351% and mid cap stocks up nearly 380%. These returns have taken us nearly 90% above the October 2007 peak market valuations.
- The first quarter of 2017 brought several sharp market reversals. Domestic growth stocks handily outperformed value stocks and large company stocks turned the tables on small company stocks.
- Domestic equity valuations appear lofty by most measures. Domestic small, mid and large cap stocks are currently all trading at roughly 120% of their 15-year average P/E.
- Volatility remains at historically low levels. The Chicago Board Options Exchange volatility index, or VIX, continues to be anchored at low levels and the S&P 500 has not swung 1% intraday for nearly 60 days, the longest trend in 35 years.
- Developed international markets posted strong returns as France, Germany and Asia ex-Japan all outperformed domestic markets. Emerging equity markets stole the show, returning 11.5% for the quarter. China, India and Brazil all turned in double digit returns.
- In contrast to domestic markets, international markets are generally trading at or below long-term valuations. It is also important to note that domestic valuations are priced off peak earnings while Europe and emerging markets are reflective of earnings well off their historical peaks.

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1Q2017 Economic Data



Labor Market Statistics (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	5-Yr Avg.	Date
Jobs Added/Lost Monthly	98,000	423,000	24,000	204,267	Mar-17
Unemployment Rate	4.5%	8.2%	4.5%	6.2%	Mar-17
Median Unemployment Length (Weeks)	11.6	22.3	8.3	14.1	Mar-17
Average Hourly Earnings	\$26.14	\$26.14	\$23.40	\$24.66	Mar-17

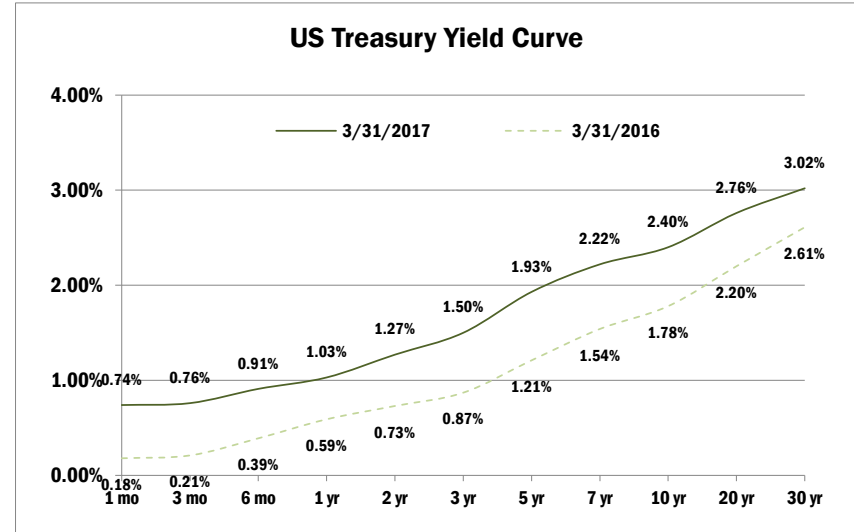
Other Prices and Indexes (Monthly)					
Category	Recent	5-Yr High	5-Yr Low	% Off Peak	Date
Gas: Price per Gallon	\$2.36	\$3.89	\$1.79	-39.5%	Mar-17
Spot Oil	\$49.33	\$106.57	\$30.32	-53.7%	Mar-17
Case-Shiller Home Price Index	195.5	195.5	137.1	42.6%*	Jan-17
Medical Care CPI	473.4	473.4	411.4	15.1%*	Mar-17

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

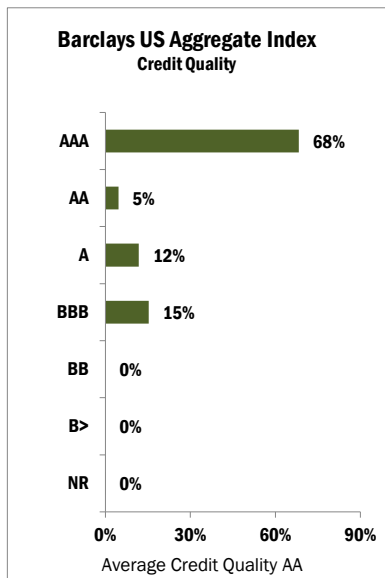
*% Off Low

1Q2017 Bond Market Data

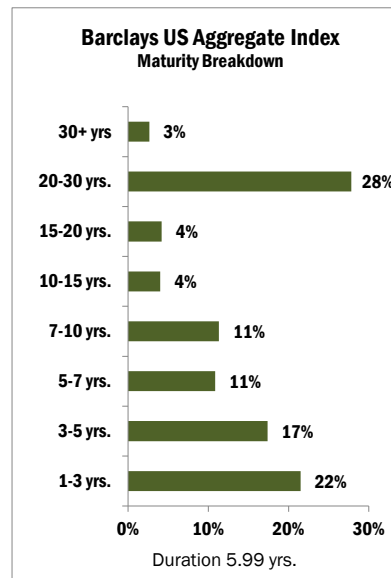
Index	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
90-Day T-Bill	0.09%	0.09%	0.28%	0.13%	0.11%	0.67%
Barclays US Aggregate	0.82%	0.82%	0.44%	2.68%	2.34%	4.27%
Barclays Short US Treasury	0.12%	0.12%	0.46%	0.27%	0.23%	0.88%
Barclays Int. US Treasury	0.54%	0.54%	-0.72%	1.57%	1.24%	3.40%
Barclays Long US Treasury	1.40%	1.40%	-5.00%	5.83%	4.04%	6.71%
Barclays US TIPS	1.26%	1.26%	1.48%	2.03%	0.97%	4.24%
Barclays US Credit	1.30%	1.30%	2.96%	3.52%	3.70%	5.29%
Barclays US Mortgage-Backed	0.47%	0.47%	0.17%	2.69%	2.04%	4.16%
Barclays US Asset-Backed	0.54%	0.54%	1.20%	1.72%	1.64%	2.93%
Barclays US 20-Yr Municipal	1.50%	1.50%	0.04%	4.58%	4.12%	4.93%
Barclays US High Yield	2.70%	2.70%	16.39%	4.56%	6.82%	7.46%
Barclays Global	1.76%	1.76%	-1.90%	-0.39%	0.38%	3.34%
Barclays International	2.48%	2.48%	-3.93%	-2.68%	-1.13%	2.58%
Barclays Emerging Market	3.28%	3.28%	8.58%	5.41%	5.24%	6.83%



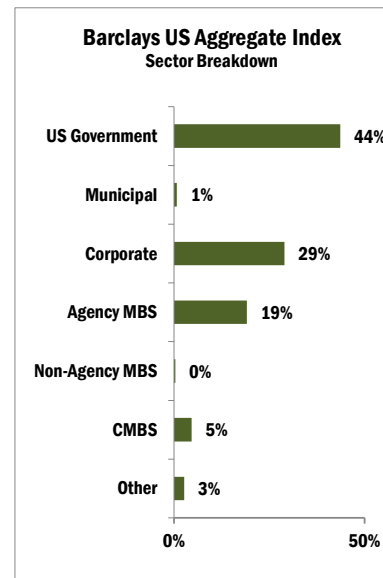
Source: Department of US Treasury



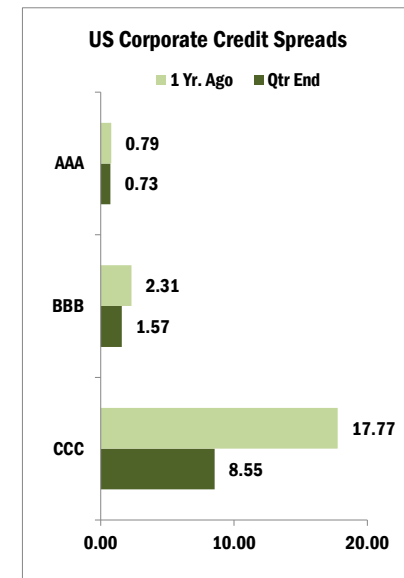
Source: Morningstar



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Source: Federal Reserve / Bank of America

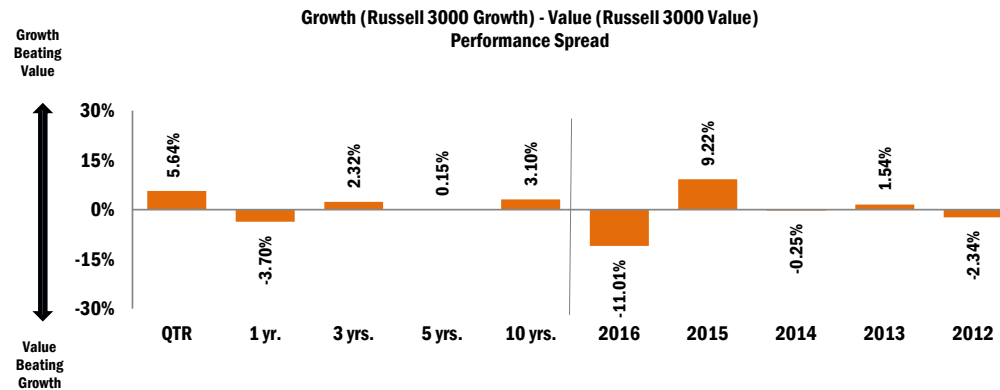
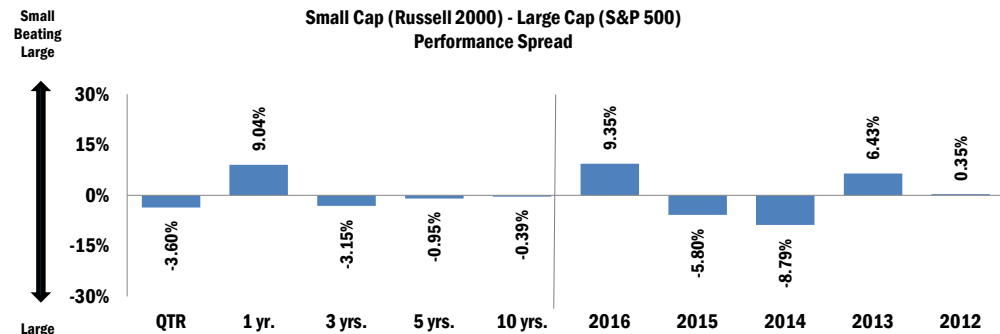
1Q2017 US Equity Market Data

Sectors Weights/Returns (ranked by quarter performance)

	Wgt.	Sector	QTR	1 Yr.
S&P 500 Index	22%	Information Technology	12.57%	24.91%
	12%	Consumer Discretionary	8.45%	13.17%
	14%	Health Care	8.37%	11.59%
	3%	Utilities	6.39%	7.06%
	9%	Consumer Staples	6.36%	6.16%
	3%	Materials	5.86%	19.22%
	10%	Industrials	4.56%	18.38%
	14%	Financials	2.53%	32.60%
	3%	Real Estate	1.49%	9.73%
	2%	Telecom Services	-3.97%	1.69%
7%	Energy	-6.68%	14.26%	
S&P Midcap 400 Index	8%	Health Care	9.64%	20.43%
	8%	Materials	7.95%	30.54%
	18%	Information Technology	7.31%	30.05%
	5%	Utilities	5.66%	15.35%
	12%	Consumer Discretionary	4.54%	8.99%
	15%	Industrials	3.36%	24.60%
	4%	Consumer Staples	2.29%	11.51%
	16%	Financials	2.16%	31.42%
	10%	Real Estate	1.49%	9.73%
	3%	Energy	-14.01%	4.18%
0%	Telecom Services	-14.56%	-16.71%	
S&P Smallcap 600 Index	12%	Health Care	9.43%	20.93%
	14%	Information Technology	4.94%	33.07%
	3%	Utilities	4.04%	14.64%
	6%	Real Estate	3.54%	2.49%
	19%	Industrials	0.66%	25.10%
	15%	Consumer Discretionary	0.55%	9.07%
	3%	Consumer Staples	-0.43%	15.06%
	6%	Materials	-1.96%	47.35%
	18%	Financials	-2.90%	33.84%
	1%	Telecom Services	-4.33%	11.67%
3%	Energy	-13.41%	22.62%	

Index Performance Data

Index	QTR	YTD	1 yr.	Annualized		
				3 yrs.	5 yrs.	10 yrs.
S&P 500	6.07%	6.07%	17.17%	10.37%	13.30%	7.51%
Russell 1000 Value	3.27%	3.27%	19.22%	8.67%	13.13%	5.93%
Russell 1000 Growth	8.91%	8.91%	15.76%	11.27%	13.32%	9.13%
Russell Mid Cap	5.15%	5.15%	17.03%	8.48%	13.09%	7.94%
Russell Mid Cap Value	3.76%	3.76%	19.82%	8.94%	14.07%	7.47%
Russell Mid Cap Growth	6.89%	6.89%	14.07%	7.88%	11.95%	8.13%
Russell 2000	2.47%	2.47%	26.22%	7.22%	12.35%	7.12%
Russell 2000 Value	-0.13%	-0.13%	29.37%	7.62%	12.54%	6.09%
Russell 2000 Growth	5.35%	5.35%	23.03%	6.72%	12.10%	8.06%
Russell 3000	5.74%	5.74%	18.07%	9.76%	13.18%	7.54%
DJ US Select REIT	-0.27%	-0.27%	1.21%	9.96%	9.45%	4.22%



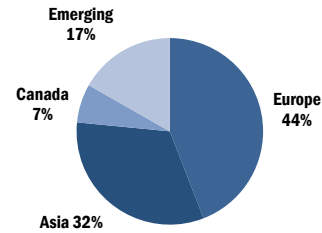
1Q2017 International Market Data

Index Performance Data (net)

Index (US\$)	QTR	YTD	1 yr.	3 yrs.	5 yrs.	10 yrs.
MSCI ACWI ex-US	7.86%	7.86%	13.13%	0.56%	4.36%	1.35%
MSCI EAFE	7.25%	7.25%	11.67%	0.50%	5.83%	1.05%
Europe	7.44%	7.44%	9.76%	-1.51%	5.63%	0.70%
United Kingdom	5.04%	5.04%	7.44%	-2.55%	3.47%	0.52%
Germany	8.36%	8.36%	14.20%	-0.58%	6.85%	2.52%
France	7.28%	7.28%	12.38%	-0.54%	6.69%	0.18%
Pacific	6.92%	6.92%	15.77%	4.60%	6.30%	1.84%
Japan	4.49%	4.49%	14.44%	6.02%	6.82%	0.63%
Hong Kong	13.41%	13.41%	16.62%	7.84%	8.77%	6.97%
Australia	10.98%	10.98%	21.14%	0.52%	4.65%	3.61%
Canada	2.51%	2.51%	14.75%	-1.08%	1.26%	2.44%
MSCI EM	11.45%	11.45%	17.22%	1.18%	0.81%	2.72%
MSCI EM Latin America	12.06%	12.06%	23.25%	-3.98%	-6.11%	0.83%
MSCI EM Asia	13.38%	13.38%	18.05%	4.53%	4.37%	4.72%
MSCI EM Eur/Mid East	1.51%	1.51%	10.19%	-7.10%	-5.70%	-3.86%
MSCI ACWI Value ex-US	6.68%	6.68%	16.68%	-0.51%	3.81%	0.68%
MSCI ACWI Growth ex-US	9.13%	9.13%	9.63%	1.55%	4.84%	1.97%
MSCI AC World Sm Cap ex-US	8.78%	8.78%	12.26%	2.46%	6.68%	3.04%

Regional Exposure

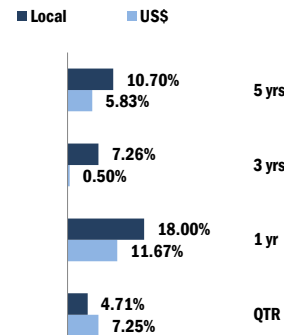
MSCI ACWI ex-USA



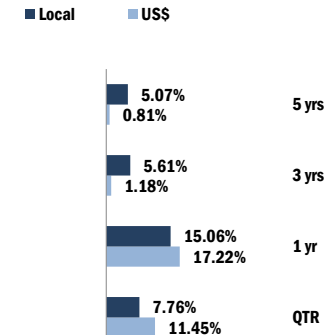
Top 10 Countries (MSCI AC World ex-USA)

Japan	17%
UK	12%
France	7%
Canada	7%
Germany	7%
China	6%
Switzerland	6%
Australia	5%
South Korea	4%
Hong Kong	3%

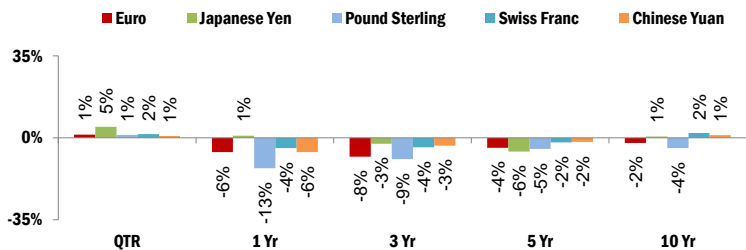
MSCI EAFE Index Return



MSCI Emerging Index Return



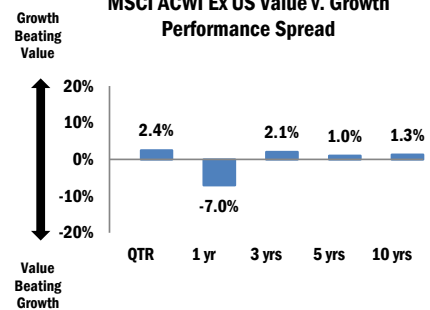
Foreign Currency v. US\$ Returns



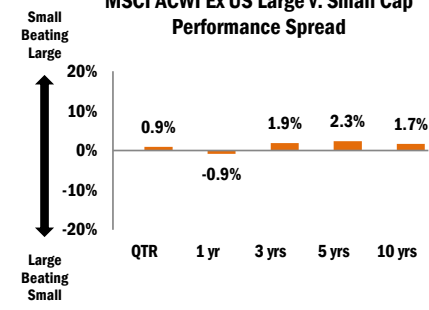
Exchange Rates

	1Q17	4Q16	3Q16	2Q16	1Q16	4Q15
Japanese Yen	111.41	116.80	101.21	102.77	112.42	120.27
Euro	0.93	0.95	0.89	0.91	0.88	0.92
British Pound	0.80	0.81	0.77	0.76	0.70	0.68
Swiss Franc	1.00	1.02	0.97	0.98	0.96	1.00
Chinese Yuan	6.88	6.94	6.67	6.65	6.45	6.48

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	1Q17
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 11.44%	Emerging Markets 11.44%
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 7.86%	Intl 7.86%
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 6.07%	Large Cap 6.07%
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%	Mid Cap 5.15%	Mid Cap 5.15%
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	Global Balanced 4.45%	Global Balanced 4.45%
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%	High Yield 2.70%	High Yield 2.70%
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%	Small Cap 2.47%	Small Cap 2.47%
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 1.76%	Global Bonds 1.76%
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 1.55%	Core Real Estate 1.55%
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%	TIPS 1.26%	TIPS 1.26%
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%	US Bonds 0.82%	US Bonds 0.82%
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 0.09%	Cash 0.09%
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. -2.32%	Commod. -2.32%

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