



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

JANUARY 2017  
Capital Markets Update



# Market commentary

## ECONOMIC CLIMATE

- Real GDP grew at a 1.9% annualized rate in the fourth quarter (1.9% year-over-year). The lower real GDP growth rate relative to the third quarter (3.5% annualized) was partially attributed to a downturn in exports and an acceleration in imports.
- The U.S. dollar changed course in January after three months of consecutive gains and fell 2.7% against a trade weighted basket of major currencies.
- Headline CPI increased by 2.1% year-over-year in December, up 40 bps from the prior month. Core CPI increased by 2.2% over the previous year, up 8 bps from the prior month.
- The University of Michigan's consumer sentiment index increased modestly from 98.2 to 98.5 in January. Respondents cited optimistic outlooks on the economy and job growth.
- Nonfarm payrolls added 227,000 jobs in January, above the consensus estimate of 175,000. The unemployment rate rose from 4.7% to 4.8%, partially influenced by an increase in the participation rate from 62.7% to 62.9%.

## DOMESTIC EQUITIES

- On January 26<sup>th</sup> the Dow Jones Industrial Average (DJIA) and S&P 500 indices reached all-time highs. The DJIA and S&P 500 returned 0.6% and 1.9% in the month, respectively.
- According to FactSet, 71% of S&P 500 companies had reported Q4 earnings as of February 10<sup>th</sup>, and the blended year-over-year earnings growth rate was 5.0%. The index benefited from higher than expected growth rates in 8 of 11 sectors.

## DOMESTIC FIXED INCOME

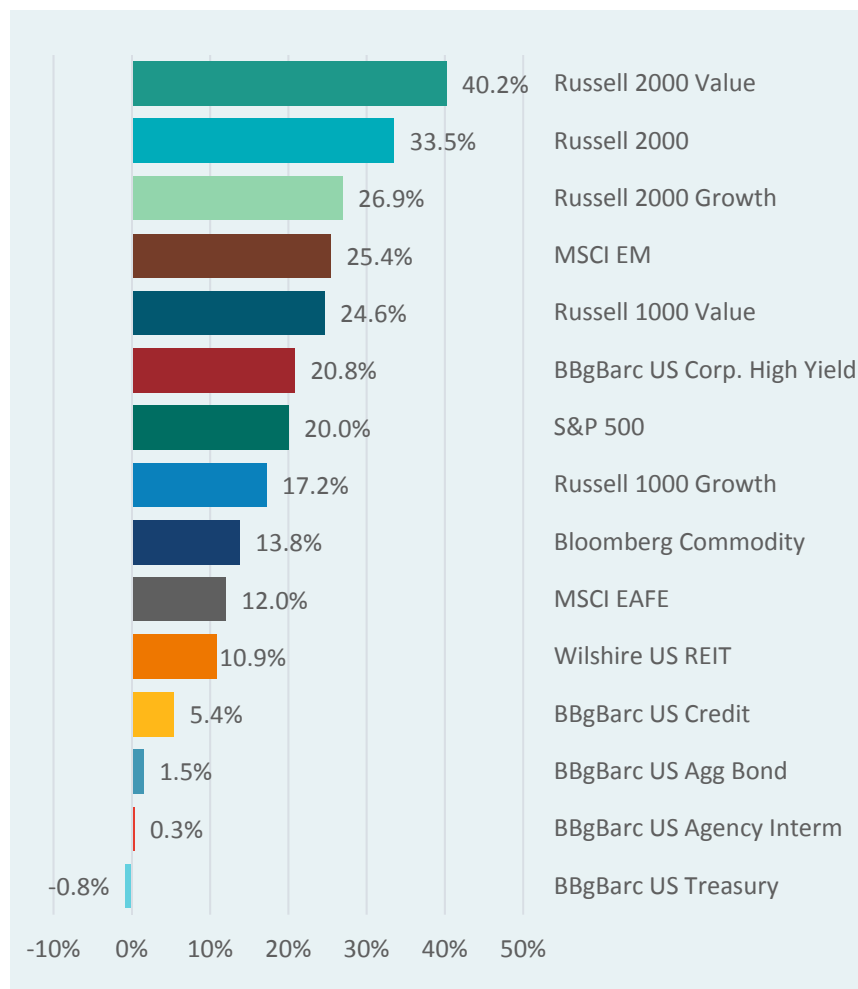
- Domestic fixed income returns were positive, as the Bloomberg Barclays U.S. Aggregate returned 0.2% in January.
- U.S. interest rates held steady, as the 10-year Treasury yield remained at 2.45%.
- U.S. high yield option-adjusted spreads continued a year long downward trend, as they decreased by 22 bps and ended the month at 4.0%.

## INTERNATIONAL MARKETS

- International equities outperformed domestic markets in January (S&P 500, 1.9%), as the MSCI ACWI ex US returned 3.5%.
- On January 23<sup>rd</sup>, U.S. President Trump signed an executive order to withdrawal the country from the Trans-Pacific Partnership (TPP), a proposed 12-nation trade agreement.
- International inflation picked up in December. U.K. headline CPI rose 1.6% year-over-year, up from 1.2% in November. Inflation also rose in the Eurozone in December, as headline CPI rose 1.1% year-over-year, up from 0.6% in the prior month.
- On January 31<sup>st</sup>, the Bank of Japan agreed to maintain the current 10-year government bond yield target of 0.0% and asset purchase program of approximately 80 trillion yen annually.
- China's GDP grew at 6.8% annualized in the fourth quarter (6.7% year-over-year), above the consensus estimate of 6.7%. Growth was influenced by increased government spending, financial sector lending and consumer spending.

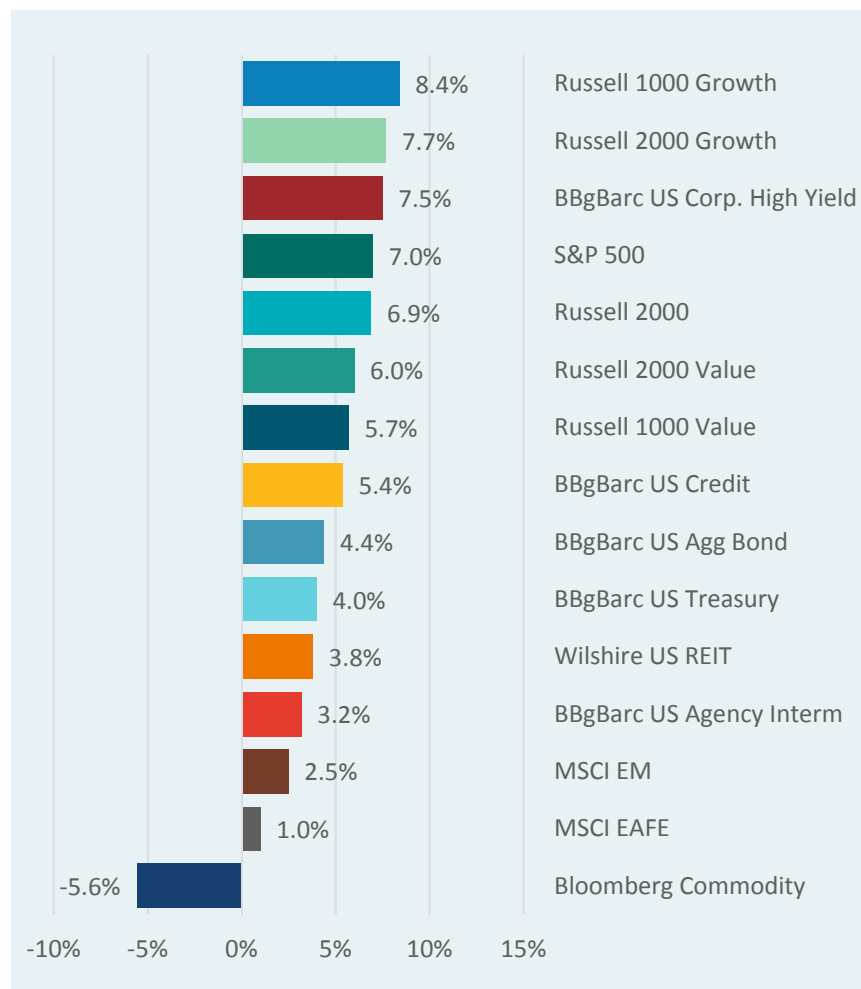
# Major asset class returns

ONE YEAR ENDING JANUARY



Source: Morningstar, as of 1/31/17

TEN YEARS ENDING JANUARY

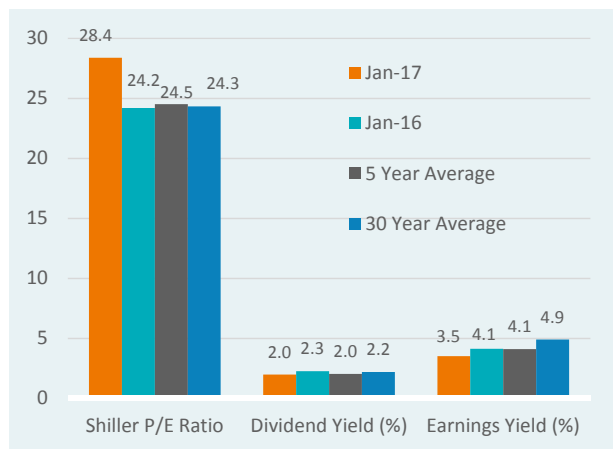


Source: Morningstar, as of 1/31/17

# U.S. large cap equities

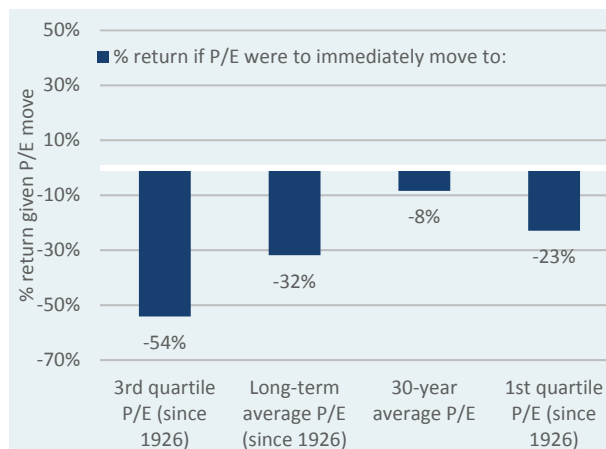
- The S&P 500 returned 1.9% in January and reached a new intra-day high on January 26<sup>th</sup> of 2,301.
- Realized volatility of U.S. equities remained low, as the annualized standard deviation of the S&P 500 in January was 6.5%, down from 8.0% in the prior month and well below the 10-year average of 15.3%.
- The 1-year trailing P/E ratio of the S&P 500 fell to 23.2 in January, due to an increase in earnings.
- The Materials sector outperformed the S&P 500 index (1.9%) in January, as the sub-index returned 4.6%. The trailing 1-year earnings for the sector was \$13.49 per share, up 59% from prior year.
- The two worst performing sectors in the S&P 500 were Energy and Telecom, returning -3.6% and -2.5%, respectively.

US LARGE CAP (S&P 500) VALUATION SNAPSHOT



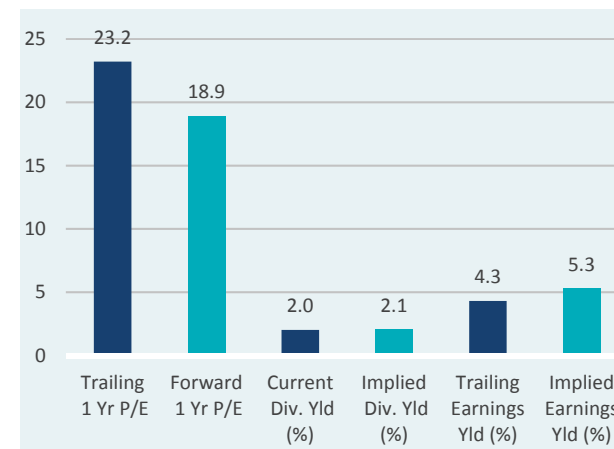
Source: Yale/Shiller, as of 1/31/17

RETURNS IF P/E MOVED TO HISTORIC LEVEL



Source: Yale/Shiller, Verus, as of 1/31/17

S&P 500 VALUATION SNAPSHOT

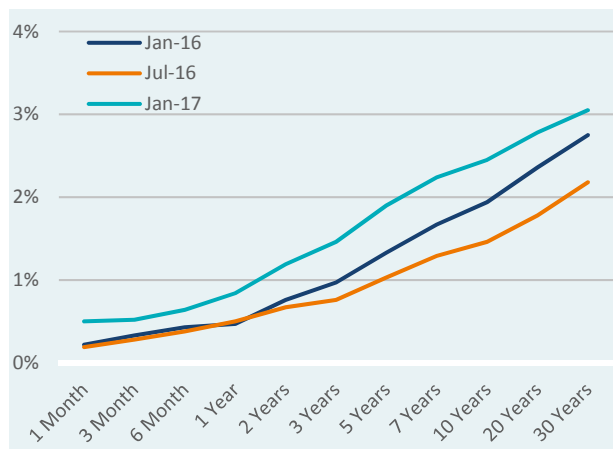


Source: Standard & Poor's, as of 1/31/17

# Fixed income

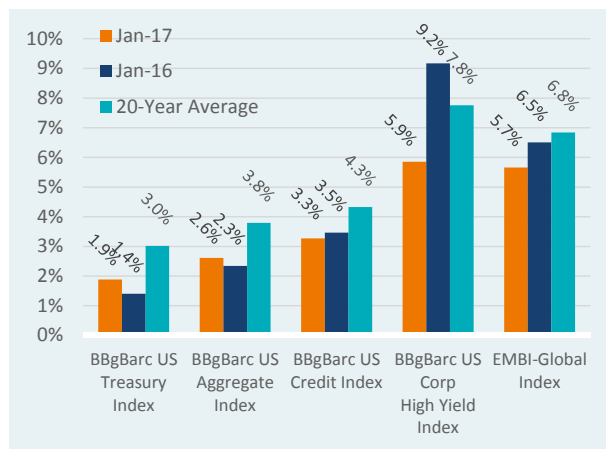
- U.S. interest rates were flat in January, as the 10-year Treasury yield remained unchanged at 2.45%. The short-term 1-month Treasury yield showed the largest increase among listed maturities of 6 bps and ended at the month at 0.50%.
- U.S. high yield option-adjusted spreads continued a downward trend, as they decreased by 22 bps and ended the month at 4.0%.
- Market-based implied inflation rose slightly during the month. The 10-year TIPS breakeven rate increased to 2.1% from 2.0% in the prior month. Despite the recent rise in breakeven rates, the market is pricing in no further increases in inflation over the next 10 years.

**U.S. TREASURY YIELD CURVE**



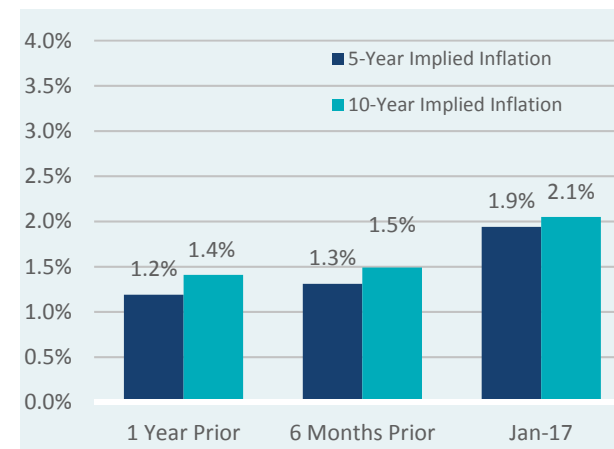
Source: Federal Reserve, as of 1/31/17

**NOMINAL FIXED INCOME YIELDS**



Source: Morningstar, as of 1/31/17

**IMPLIED INFLATION (TIPS BREAKEVEN)**

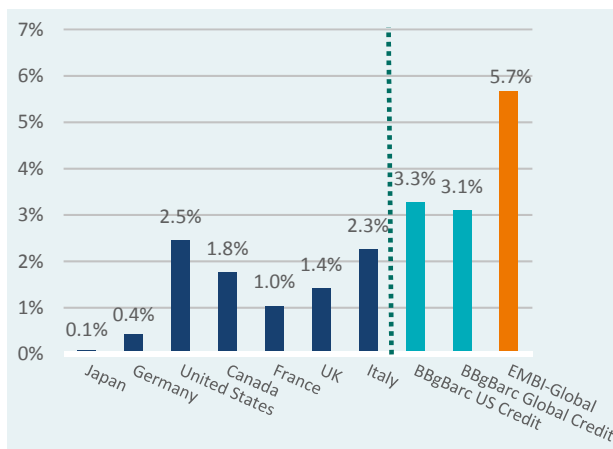


Source: Federal Reserve, as of 1/31/17

# Global markets

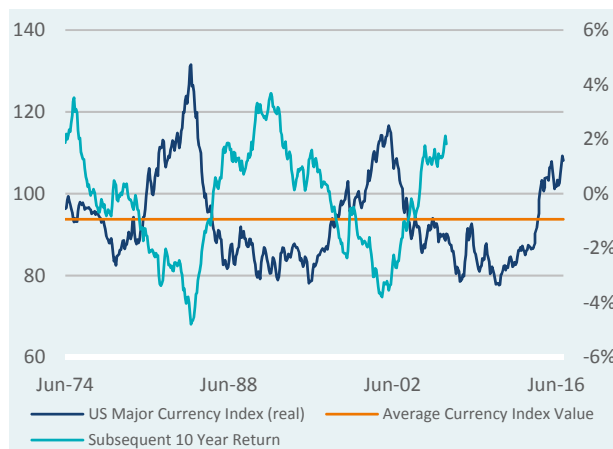
- Sovereign yields generally increased in the month of January. Notable increases were seen in the French and Italian sovereign 10-year bond yields, which increased by 35 and 45 bps, respectively.
- International inflation picked up in December. Headline CPI rose in the Eurozone by 1.6% year-over-year, up from 1.2% in November. U.K. inflation increased by 1.1% year-over-year, up from 0.6% in November.
- Emerging market equities outperformed developed international equities on an unhedged basis in January as the MSCI EM and MSCI EAFE indices returned 5.5% and 2.9%, respectively. This was partially influenced by the appreciation of emerging market currencies – the MSCI EM Currency index returned 2.1% during the month.

**GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS**



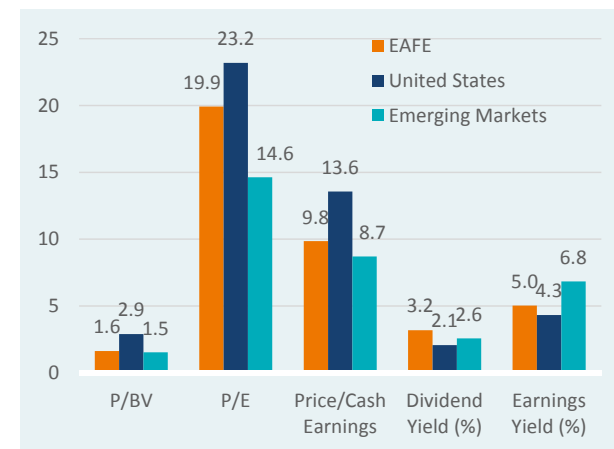
Source: Morningstar, as of 1/31/17

**U.S. DOLLAR MAJOR CURRENCY INDEX**



Source: Federal Reserve, as of 1/31/17

**MSCI VALUATION METRICS (3 MONTH AVERAGE)**

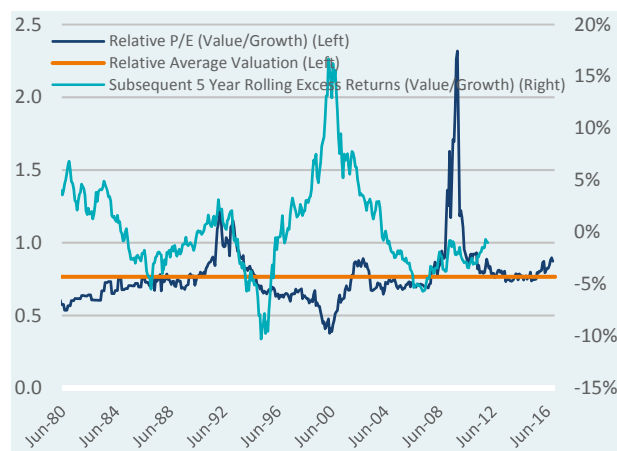


Source: MSCI, as of 1/31/17

# Style tilts: U.S. large value vs. growth

- Growth equities outperformed value equities for the first time since September 2016, as the Russell 1000 Growth index and Russell 1000 Value index returned 3.4% and 0.7%, respectively.
- Recently the relative P/E ratio of value to growth stocks has shown little deviation and ended the month down from 0.90 to 0.87. This metric remained slightly above its long-term average of 0.77.
- The outperformance of growth equities in January was attributable to the higher concentration of Technology and Consumer Discretionary companies in the Russell 1000 Growth relative to the Russell 1000 Value.

**RELATIVE PE RATIO OF U.S. VALUE VS. GROWTH**



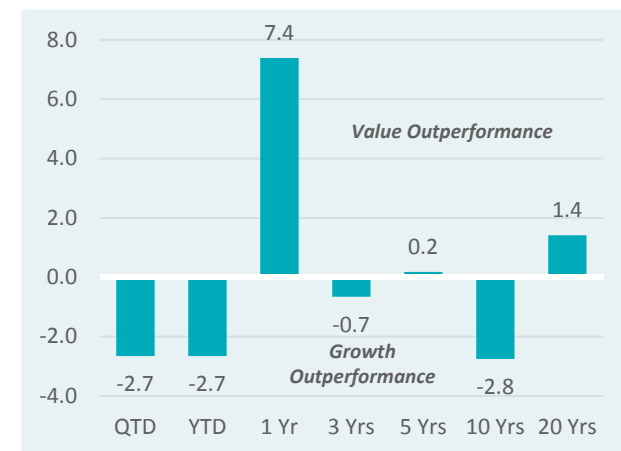
Source: Russell, Bloomberg, as of 1/31/17

**U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE**

	RUSSELL 1000 GROWTH ANNUALIZED RETURN TO DATE %	RUSSELL 1000 VALUE ANNUALIZED RETURN TO DATE %
QTD	3.4	0.7
YTD	3.4	0.7
1 YEAR	17.2	24.6
3 YEARS	10.8	10.2
5 YEARS	13.9	14.1
10 YEARS	8.4	5.7
20 YEARS	6.7	8.1
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.96	0.95
5 YEARS	1.26	1.30
10 YEARS	0.56	0.38
20 YEARS	0.34	0.45

Source: Morningstar, as of 1/31/17

**U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE**

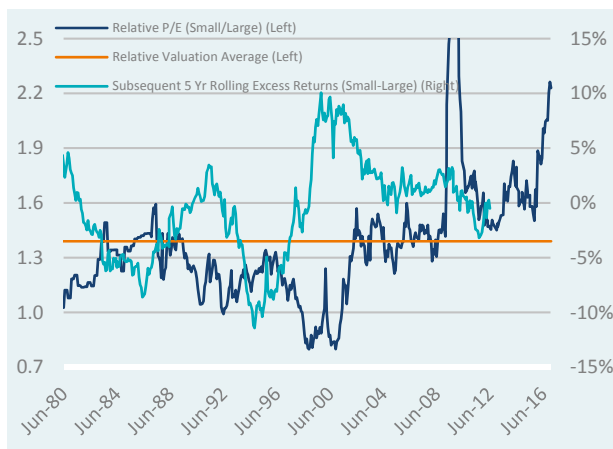


Source: Morningstar, as of 1/31/17

# Style tilts: U.S. large vs. small

- U.S. large cap equities outperformed small cap equities in January, as the Russell 1000 index and Russell 2000 index returned 2.0% and 0.4%, respectively.
- As measured by the Sharpe ratio, large cap stocks provided superior risk adjusted returns over all the time periods examined below.
- The relative P/E ratio of small to large cap equities was 2.23, well above the long term average of 1.39.
- As a product of the ongoing domestic equity bull market, the trailing P/E ratio of small cap equities (48.0) extended well above its 20-year average of 31.7. The P/E of large cap equities (21.5) was also above its 20-year average of 20.9.

RELATIVE PE RATIO OF U.S. SMALL VS. LARGE



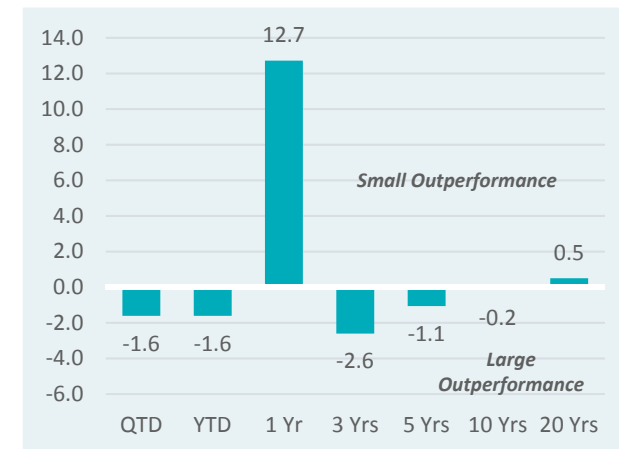
Source: Russell, Bloomberg, as of 1/31/17

U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

	RUSSELL 1000 INDEX	RUSSELL 2000 INDEX
	ANNUALIZED RETURN TO DATE %	ANNUALIZED RETURN TO DATE %
QTD	2.0	0.4
YTD	2.0	0.4
1 YEAR	20.8	33.5
3 YEARS	10.5	7.9
5 YEARS	14.1	13.0
10 YEARS	7.1	6.9
20 YEARS	7.7	8.2
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.98	0.55
5 YEARS	1.32	0.92
10 YEARS	0.48	0.40
20 YEARS	0.42	0.38

Source: Morningstar, as of 1/31/17

U.S. SMALL VS. LARGE RELATIVE PERFORMANCE



Source: Morningstar, as of 1/31/17



# Commodities

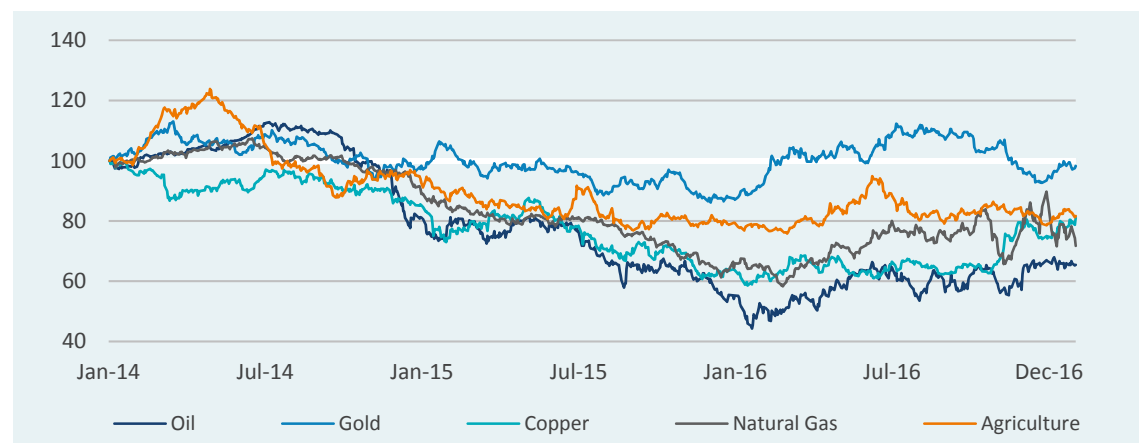
- The Industrial Metals and Softs Bloomberg sub-indices outperformed in January, returning 7.5% and 6.5%, respectively. The overall Bloomberg Commodity Index returned 0.1%.
- The Bloomberg Energy sub-index returned -7.6% in January, underperforming the rest of the index. The fall in natural gas prices was the largest detractor.
- WTI crude oil fell by -1.7% and ended the month at \$52.81 per barrel. Spot prices remained within a narrow \$4.00 band in January.
- Gold Bullion increased for the first time in three months, as it rose 3.4% in January and ended the month at \$1,199 per ounce.

## INDEX AND SECTOR PERFORMANCE

	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	0.1	0.1	13.8	(11.3)	(9.4)	(5.6)
Bloomberg Agriculture	3.3	3.3	6.4	(6.7)	(6.2)	(0.8)
Bloomberg Energy	(7.6)	(7.6)	15.9	(27.2)	(17.0)	(16.3)
Bloomberg Grains	2.3	2.3	(6.2)	(10.7)	(7.1)	(2.4)
Bloomberg Industrial Metals	7.5	7.5	30.7	(2.6)	(7.2)	(5.2)
Bloomberg Livestock	(1.3)	(1.3)	(8.1)	(6.8)	(5.2)	(7.7)
Bloomberg Petroleum	(4.6)	(4.6)	23.6	(26.6)	(16.9)	(9.2)
Bloomberg Precious Metals	6.3	6.3	11.1	(1.9)	(8.9)	4.8
Bloomberg Softs	6.5	6.5	33.3	(1.2)	(8.7)	(0.8)

Source: Morningstar, as of 1/31/17

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 1/31/17

# Appendix

# Periodic table of returns

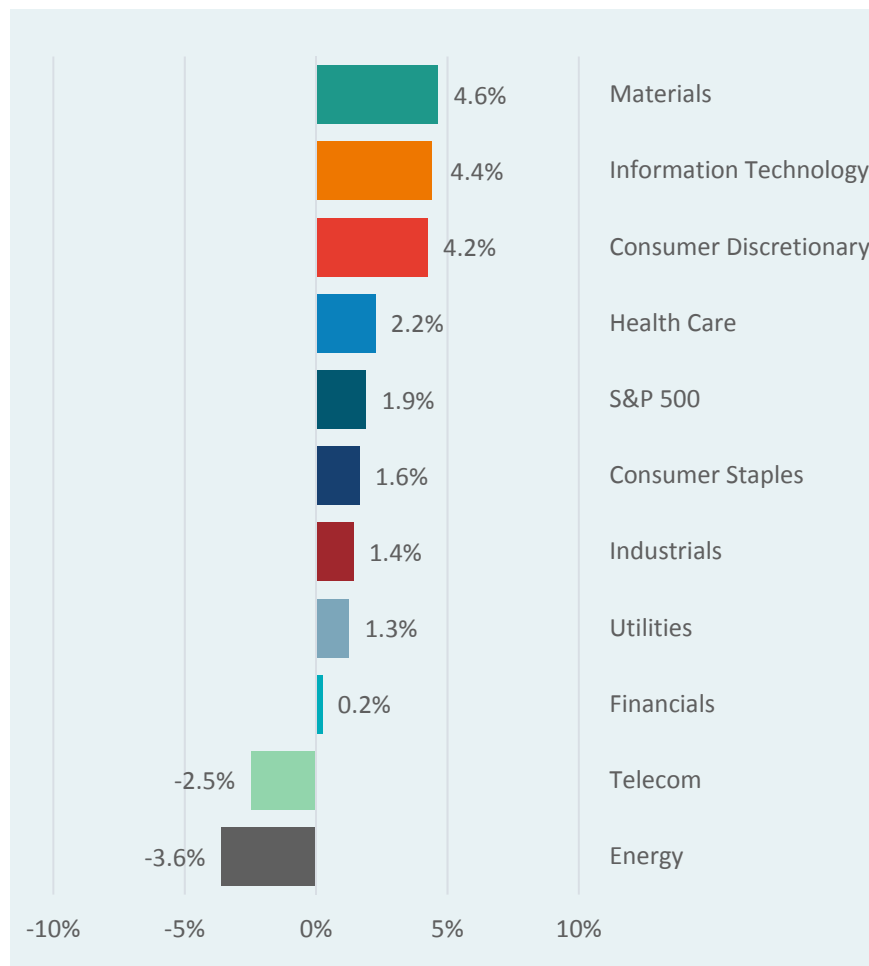
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	5-Year	10-Year
Emerging Markets Equity	16.6	38.4	23.2	35.2	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	5.5	14.1	8.4
Large Cap Growth	8.1	37.8	23.1	32.9	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	3.4	14.1	7.7
International Equity	6.4	37.2	22.4	31.8	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	2.9	13.9	7.1
60/40 Global Portfolio	4.4	31.0	21.6	30.5	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	2.1	13.4	6.9
Large Cap Equity	3.2	28.5	21.4	22.4	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	2.0	13.0	6.9
Small Cap Growth	2.6	25.7	16.5	16.2	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	1.6	12.5	6.0
Large Cap Value	0.4	19.6	14.4	13.9	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	0.7	10.9	5.7
Hedge Funds of Funds	-1.5	18.5	11.3	12.9	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	0.7	6.0	4.4
Small Cap Equity	-1.8	15.2	10.3	10.6	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	0.4	5.3	4.0
US Bonds	-2.0	11.6	9.9	9.7	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	0.2	3.2	2.5
Commodities	-2.4	11.1	6.4	5.2	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	0.1	2.1	1.3
Cash	-2.9	7.5	6.0	2.1	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	0.0	0.2	1.0
Small Cap Value	-3.5	5.7	5.1	-3.4	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	-0.7	0.1	0.6
Real Estate	-7.3	-5.2	3.6	-11.6	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	N/A	-9.4	-5.6

Large Cap Equity	Small Cap Growth	Commodities
Large Cap Value	International Equity	Real Estate
Large Cap Growth	Emerging Markets Equity	Hedge Funds of Funds
Small Cap Equity	US Bonds	60% MSCI ACWI/40% BBgBarc Global Bond
Small Cap Value	Cash	

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 12/31/16.

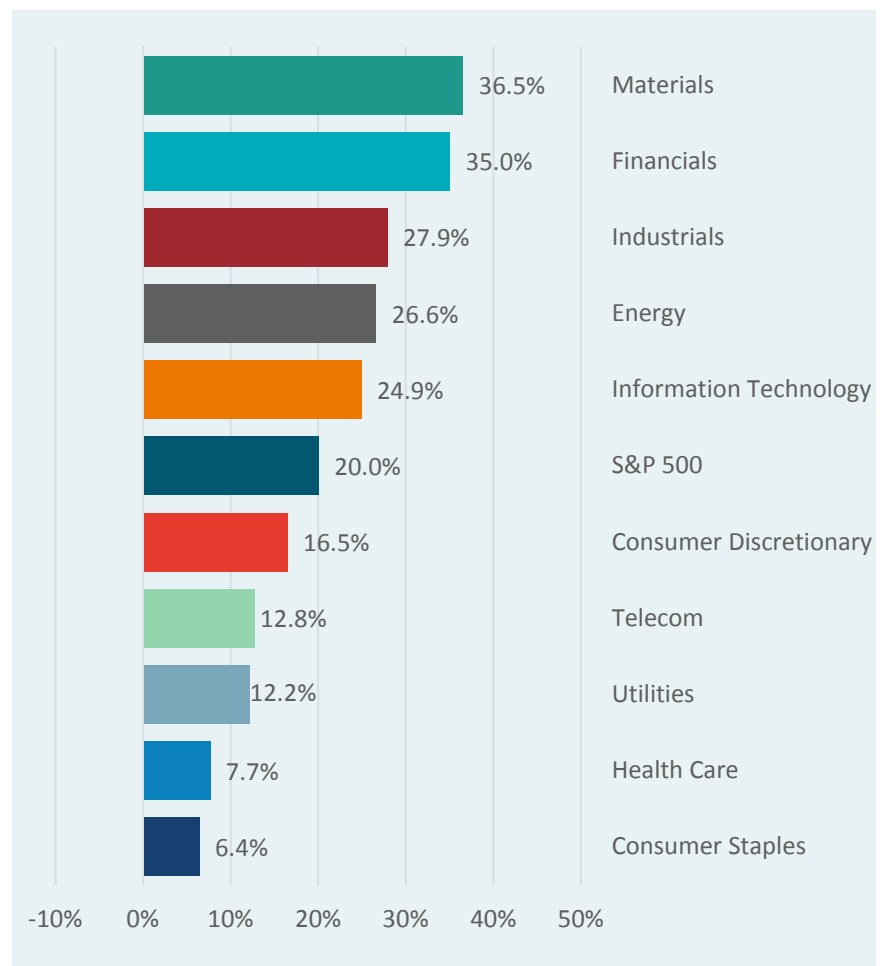
# S&P 500 and S&P 500 sector returns

QTD



Source: Morningstar, as of 1/31/17

ONE YEAR ENDING DECEMBER



Source: Morningstar, as of 1/31/17



# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	1.9	1.9	1.9	20.0	10.8	14.1	7.0
S&P 500 Equal Weighted	2.1	2.1	2.1	24.2	10.6	14.8	8.4
DJ Industrial Average	0.6	0.6	0.6	23.9	10.9	12.3	7.4
Russell Top 200	1.8	1.8	1.8	19.2	10.9	14.1	6.8
Russell 1000	2.0	2.0	2.0	20.8	10.5	14.1	7.1
Russell 2000	0.4	0.4	0.4	33.5	7.9	13.0	6.9
Russell 3000	1.9	1.9	1.9	21.7	10.3	14.0	7.1
Russell Mid Cap	2.4	2.4	2.4	24.7	9.5	13.9	7.8
<b>Style Index</b>							
Russell 1000 Growth	3.4	3.4	3.4	17.2	10.8	13.9	8.4
Russell 1000 Value	0.7	0.7	0.7	24.6	10.2	14.1	5.7
Russell 2000 Growth	1.6	1.6	1.6	26.9	6.2	12.5	7.7
Russell 2000 Value	(0.7)	(0.7)	(0.7)	40.2	9.5	13.4	6.0

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	2.7	2.7	2.7	17.9	5.5	8.7	3.7
MSCI ACWI ex US	3.5	3.5	3.5	16.1	0.9	4.4	1.3
MSCI EAFE	2.9	2.9	2.9	12.0	0.7	6.0	1.0
MSCI EM	5.5	5.5	5.5	25.4	1.4	0.2	2.5
MSCI EAFE Small Cap	3.5	3.5	3.5	14.8	3.8	9.6	3.1
<b>Style Index</b>							
MSCI EAFE Growth	3.4	3.4	3.4	7.0	1.4	6.2	1.9
MSCI EAFE Value	2.5	2.5	2.5	17.1	(0.1)	5.7	(0.0)
<b>Regional Index</b>							
MSCI UK	1.3	1.3	1.3	7.7	(2.6)	3.5	0.5
MSCI Japan	3.7	3.7	3.7	15.7	5.1	8.0	0.8
MSCI Euro	1.2	1.2	1.2	9.9	(1.4)	6.1	(0.6)
MSCI EM Asia	5.9	5.9	5.9	21.2	3.7	3.4	4.2
MSCI EM Latin American	7.6	7.6	7.6	47.8	(2.0)	(6.5)	0.8

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US Treasury USTIPS	0.8	0.8	0.8	4.0	1.9	0.6	4.4
BBgBarc US Treasury Bills	0.1	0.1	0.1	0.4	0.2	0.2	0.8
BBgBarc US Agg Bond	0.2	0.2	0.2	1.5	2.6	2.1	4.4
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	0.1	0.1	0.1	0.4	0.7	0.6	2.1
BBgBarc US Treasury Long	0.4	0.4	0.4	(3.1)	6.0	2.6	6.8
BBgBarc US Treasury	0.2	0.2	0.2	(0.8)	1.9	1.2	4.0
<b>Issuer</b>							
BBgBarc US MBS	(0.0)	(0.0)	(0.0)	0.3	2.5	2.0	4.3
BBgBarc US Corp. High Yield	1.5	1.5	1.5	20.8	4.9	7.0	7.5
BBgBarc US Agency Interm	0.3	0.3	0.3	0.3	1.4	1.1	3.2
BBgBarc US Credit	0.3	0.3	0.3	5.4	3.6	3.5	5.4

## OTHER

<b>Index</b>							
Bloomberg Commodity	0.1	0.1	0.1	13.8	(11.3)	(9.4)	(5.6)
Wilshire US REIT	(0.7)	(0.7)	(0.7)	10.9	12.1	10.5	3.8
CS Leveraged Loans	0.5	0.5	0.5	11.3	3.7	5.0	4.3
<b>Regional Index</b>							
JPM EMBI Global Div	1.4	1.4	1.4	11.9	6.9	5.9	7.1
JPM GBI-EM Global Div	2.3	2.3	2.3	12.0	(1.8)	(2.3)	4.1
<b>Hedge Funds</b>							
HFRI Composite	1.2	1.2	1.2	9.6	3.0	4.2	3.4
HFRI FOF Composite	0.7	0.7	0.7	4.0	1.6	3.2	1.3
<b>Currency (Spot)</b>							
Euro	2.5	2.5	2.5	(0.1)	(7.1)	(3.8)	(1.8)
Pound	1.8	1.8	1.8	(11.3)	(8.5)	(4.4)	(4.3)
Yen	3.6	3.6	3.6	7.5	(3.2)	(7.5)	0.7

Source: Morningstar, as of 1/31/17

# Notices & disclosures

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