



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

**MARCH 2017
Capital Markets Update**

Market commentary

ECONOMIC CLIMATE

- Real GDP in the fourth quarter was revised up from 1.9% to an annualized rate of 2.1% (2.0% year-over-year). Higher than estimated consumer spending contributed to the upward revision.
- On March 15th, the Federal Reserve announced a 25 bp increase in the fed funds rate to a target of 0.75% - 1.00%. FOMC members discussed the possibility of additional rate hikes and a reduction of the Fed balance sheet beginning as soon as this year.
- Nonfarm payrolls added 98,000 jobs in March, below the consensus estimate of 178,000. The labor force participation rate remained at 63.0% while the unemployment rate fell from 4.7% to 4.5%, the lowest since 2007.
- The Conference Board's Consumer Confidence Index, a survey of business and employment perceptions, rose in March from 114.8 to 125.6, the highest level since December of 2000.
- Headline CPI increased 25 bps to 2.7% year-over-year in February, driven by higher energy prices. Core CPI increased 2.2% over the previous year, steady from the prior month.

DOMESTIC EQUITIES

- Domestic equities were flat in March, as the S&P 500 returned 0.1%. Realized volatility remained low as the annualized standard deviation in March was 8.1%, below the 10-year average of 15.3%.
- According to FactSet, the estimated Q1 2017 earnings growth rate of the S&P 500 was 8.9% year-over-year. The estimate was revised downward from 12.5% on December 31st due to negative EPS guidance in the Materials and Consumer Discretionary sectors.

DOMESTIC FIXED INCOME

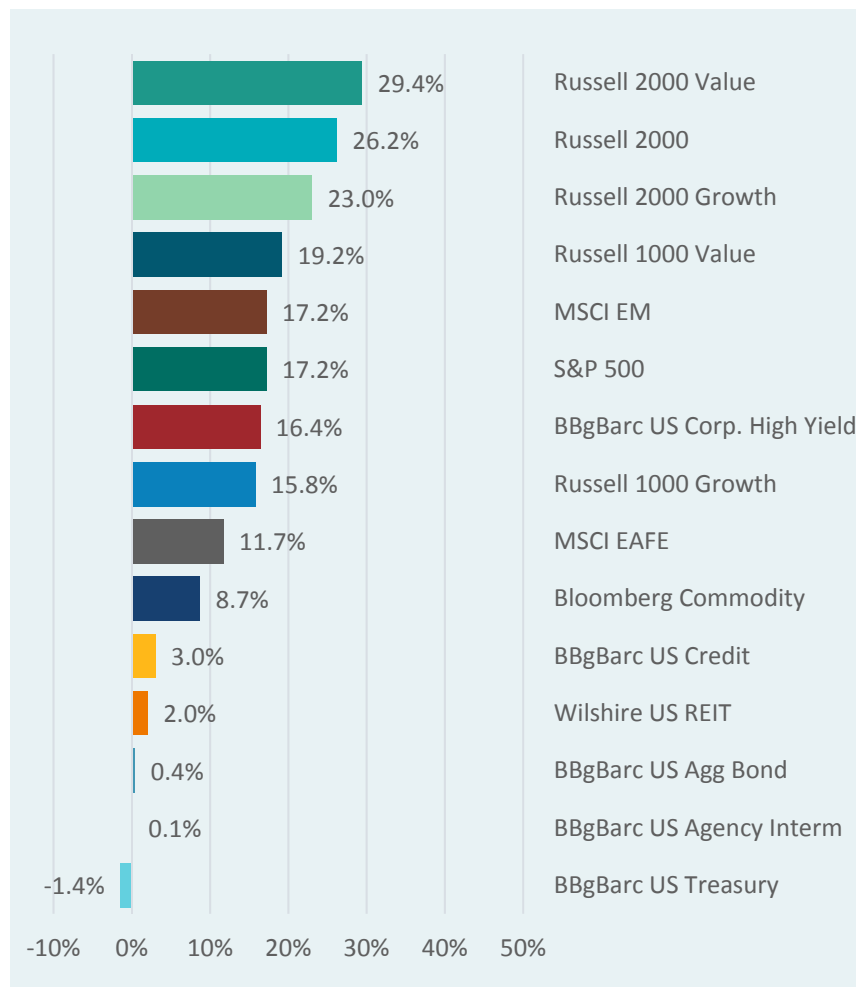
- Domestic fixed income returns were flat in March, as the Bloomberg Barclays U.S. Aggregate returned -0.1%.
- The U.S. Treasury curve flattened as short-term interest rates increased and long-term rates remained unchanged. The 1-month Treasury yield increased from 0.40% to 0.74% during the month.
- Coincident with the FOMC decision to raise interest rates, the 10-year Treasury yield jumped to a 2-year high of 2.62%. However, the 10-year yield ended March at 2.40%, up only 4 bps from the prior month.

INTERNATIONAL MARKETS

- International equities outperformed domestic equities (S&P 500 0.1%) as the unhedged MSCI ACWI ex U.S. Index returned 2.5% (2.3% hedged).
- On March 29th, the British Prime Minister, Theresa May, filed the official papers to withdraw the U.K. from the European Union. Article 50 of the Treaty of Lisbon outlines a 2-year timeframe for negotiations to take place.
- The Eurozone Purchasing Managers' Composite Index (PMI) rose to a six-year high of 56.7 in March. Readings above 50 indicate expansionary expectations in the Eurozone economy.
- The Eurozone unemployment rate fell to 9.5% in February, down from 9.6% in January and 10.3% one year prior. Compared to the previous year, 26 of the 28 member states reported a lower rate of unemployment.

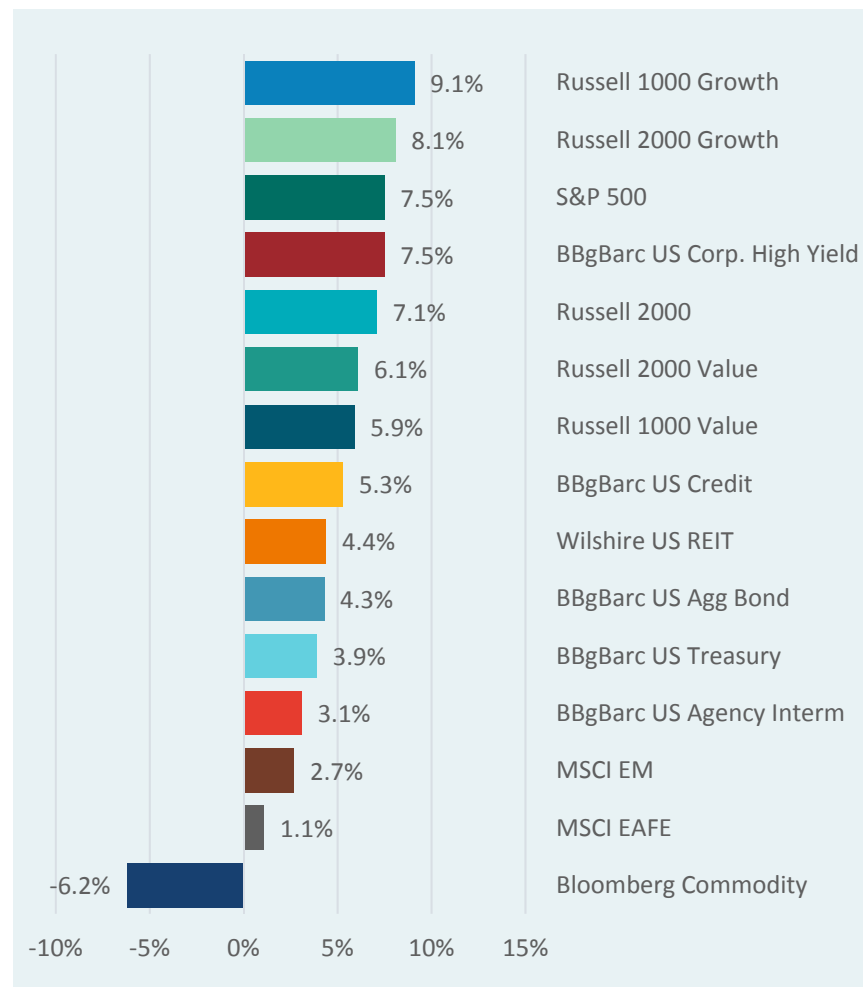
Major asset class returns

ONE YEAR ENDING MARCH



Source: Morningstar, as of 3/31/17

TEN YEARS ENDING MARCH

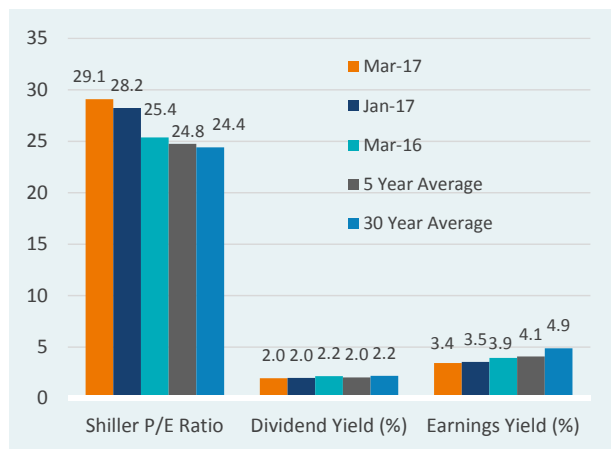


Source: Morningstar, as of 3/31/17

U.S. large cap equities

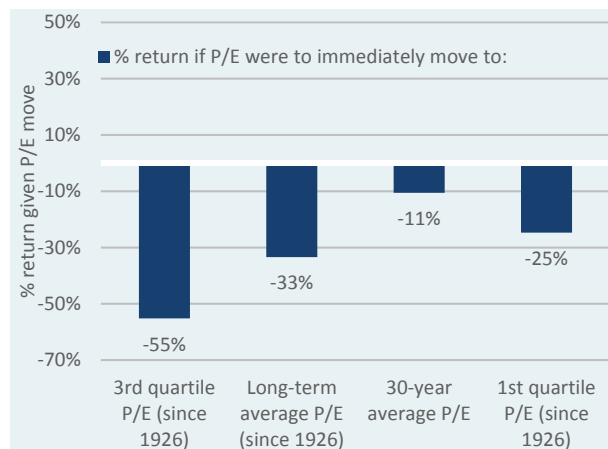
- The S&P 500 returned 0.1% in March. According to FactSet, eight sectors were estimated to have positive year-over-year earnings growth rates, led by Energy and Financials.
- Information Technology outperformed the S&P 500 index (+0.1%) in March, as the sub-index returned 2.6%. The two worst performing sectors were Telecom Services and Financials, returning -1.1% and -2.8%, respectively.
- The Shiller P/E ratio of the S&P 500 increased from 28.7 to 29.1 in March, well above the 30-year average of 24.4.
- The S&P 500 Auto Manufacturers sub-index returned -5.6% in March as U.S. automobile sales fell from 17.5 million (annualized seasonally adjusted) in February to 16.5 million in March. The rate is down from a 10-year high of 18.3 million in December.

US LARGE CAP (S&P 500) VALUATION SNAPSHOT



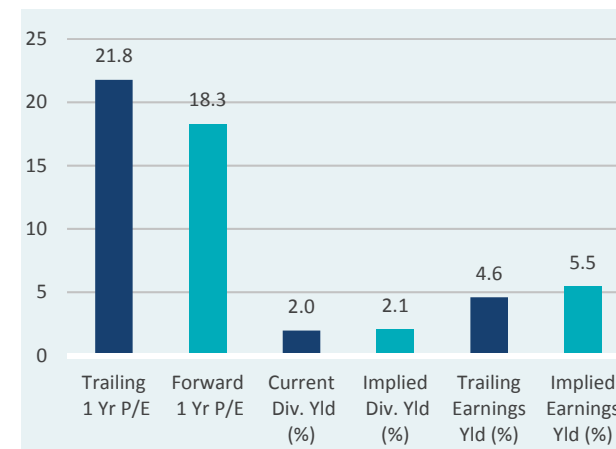
Source: Yale/Shiller, as of 3/31/17

RETURNS IF P/E MOVED TO HISTORIC LEVEL



Source: Yale/Shiller, Verus, as of 3/31/17

S&P 500 VALUATION SNAPSHOT

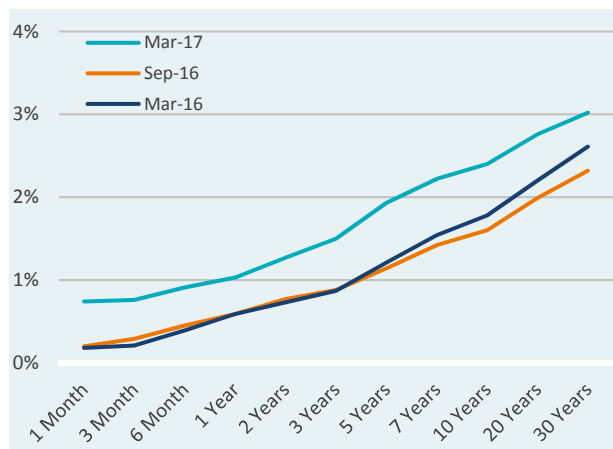


Source: Bloomberg, as of 3/31/17

Fixed income

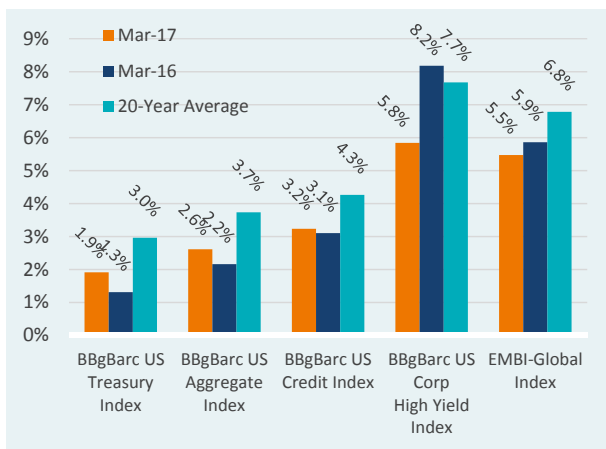
- In March, the Federal Reserve announced an increase to the federal funds target rate from 0.50% - 0.75% to 0.75% - 1.00%. The move resulted in the U.S. Treasury curve flattening moderately as short-term interest rates increased and long-term rates remained materially unchanged. The 1-month and 3-month Treasury yields increased by 34 bps and 23 bps, respectively.
- U.S. high yield option-adjusted spreads halted their downward trend and increased 18 bps in March, ending the month at 3.9%. The Bloomberg Barclays U.S. Corporate High Yield Index fell -0.2% during the month.
- The yield of the J.P. Morgan Emerging Markets Bond Index (hard currency) ended March down 33 bps year-to-date at 5.5%, below 5.9% from 1-year prior, and well below the 20-year average of 6.8%.

U.S. TREASURY YIELD CURVE



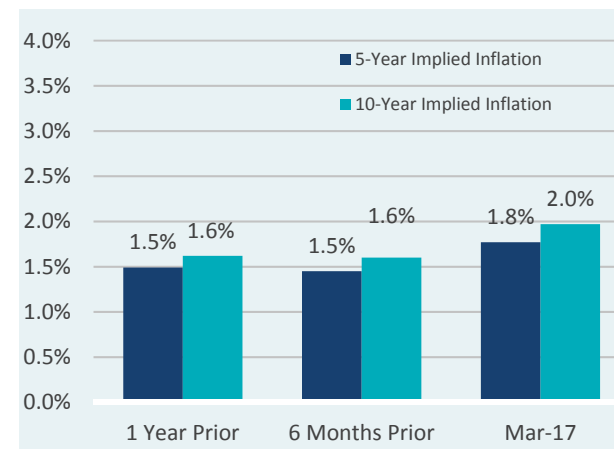
Source: Federal Reserve, as of 3/31/17

NOMINAL FIXED INCOME YIELDS



Source: Morningstar, as of 3/31/17

IMPLIED INFLATION (TIPS BREAK-EVEN)

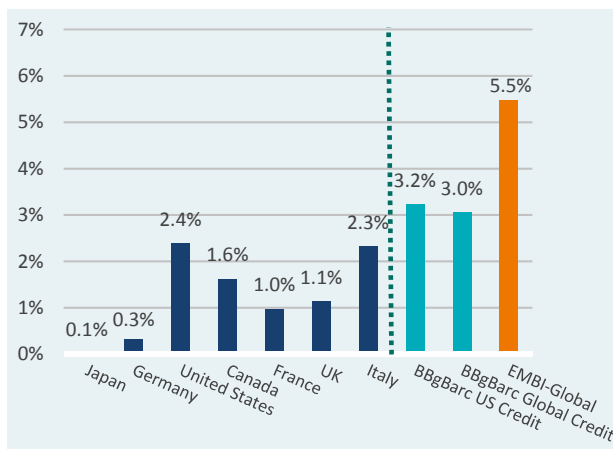


Source: Federal Reserve, as of 3/31/17

Global markets

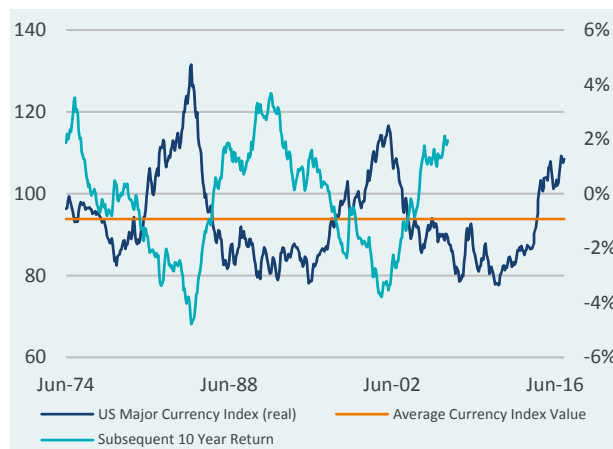
- Global sovereign bond yields were generally higher in March. Italian and German 10-year yields experienced the largest change, increasing by 23 and 12 bps, respectively.
- The U.S. major currency index increased 0.8% to 108.4 in March against a trade weighted basket of currencies. The index remained above its long-term average of 93.8.
- U.S. equity valuations are elevated relative to international and emerging markets based on the MSCI index valuation metrics P/E and P/FCF, listed below.
- Following the removal of South Africa's finance minister, S&P Global Ratings downgraded the nation's debt to junk status. Three of the five major emerging countries (South Africa, Russia and Brazil) now have below investment grade credit ratings.

GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS



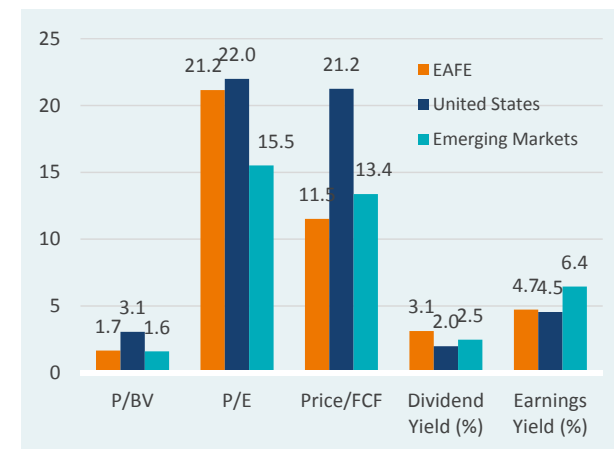
Source: Morningstar, as of 3/31/17

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 3/31/17

MSCI VALUATION METRICS (3 MONTH AVERAGE)

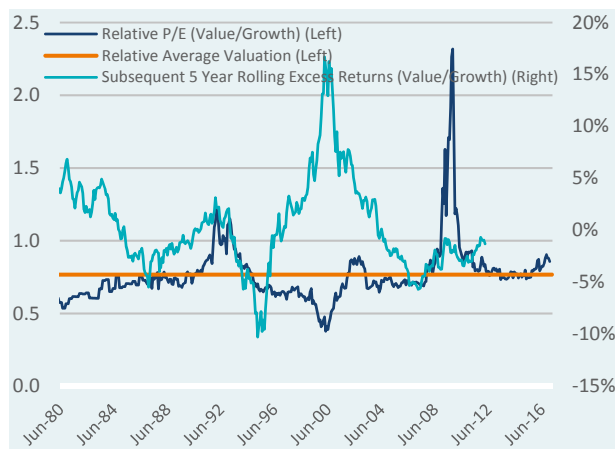


Source: Bloomberg, as of 3/31/17

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

- For a third consecutive month, growth equities outperformed value equities. In March, the Russell 1000 Growth Index and Russell 1000 Value Index returned 1.2% and -1.0%, respectively.
- The performance of value equities was negatively affected by a relatively larger weight in Financial Services companies. The Russell 1000 Financial Services sub-index returned -2.1% during the month.
- The outperformance of growth equities in March was attributable to a higher concentration of Technology companies in the Russell 1000 Growth relative to the Russell 1000 Value. The Russell 1000 Technology sub-index returned 2.7% in March.
- The relative trailing P/E ratio of value to growth equities remained unchanged in March at 0.86, slightly above the long-term average of 0.77.

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



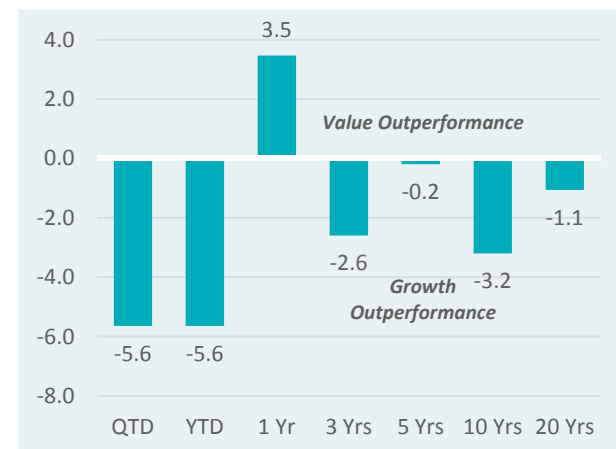
Source: Russell, Bloomberg, as of 3/31/17

U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

	RUSSELL 1000 VALUE ANNUALIZED RETURN TO DATE %	RUSSELL 1000 GROWTH ANNUALIZED RETURN TO DATE %
QTD	3.3	8.9
YTD	3.3	8.9
1 YEAR	19.2	15.8
3 YEARS	8.7	11.3
5 YEARS	13.1	13.3
10 YEARS	5.9	9.1
20 YEARS	8.4	7.3
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.82	1.01
5 YEARS	1.22	1.22
10 YEARS	0.40	0.60
20 YEARS	0.47	0.37

Source: Morningstar, as of 3/31/17

U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE

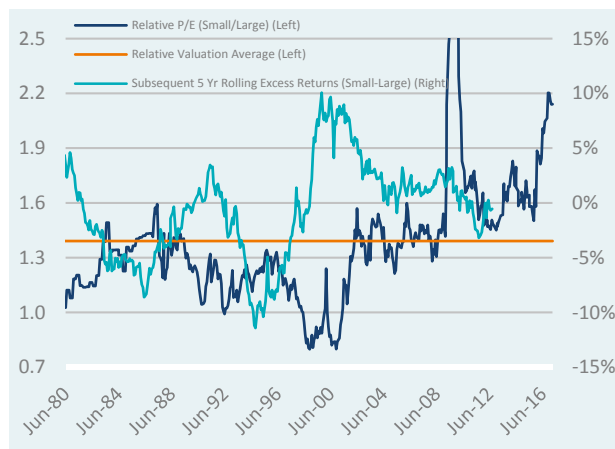


Source: Morningstar, as of 3/31/17

Style tilts: U.S. large vs. small

- U.S. small cap equities narrowly outperformed large cap equities in March, as the Russell 2000 index and Russell 1000 index returned 0.13% and 0.06%, respectively.
- The relative trailing P/E ratio of small to large equities remained elevated at 2.14, well above the long-term average of 1.39.
- As measured by the Sharpe ratio, large cap equities have provided superior risk-adjusted returns relative to small cap equities over all time periods examined below. The largest difference was seen over the trailing 3-year period when the Russell 1000 outperformed the Russell 2000 by 2.8% annualized.

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



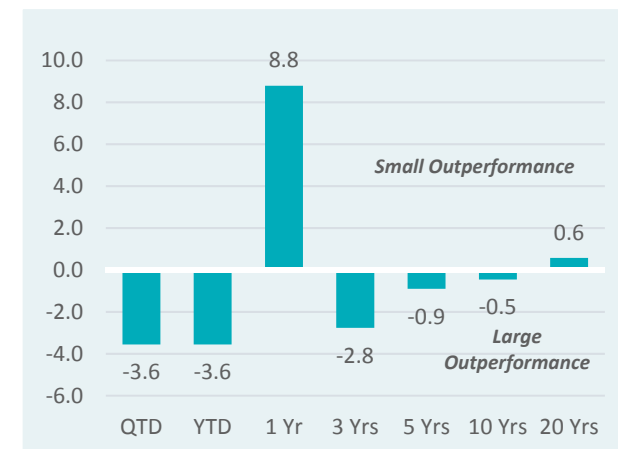
Source: Russell, Bloomberg, as of 3/31/17

U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

	RUSSELL 1000 INDEX ANNUALIZED RETURN TO DATE %	RUSSELL 2000 INDEX ANNUALIZED RETURN TO DATE %
QTD	6.0	2.5
YTD	6.0	2.5
1 YEAR	17.4	26.2
3 YEARS	10.0	7.2
5 YEARS	13.3	12.4
10 YEARS	7.6	7.1
20 YEARS	8.1	8.7
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.94	0.51
5 YEARS	1.25	0.88
10 YEARS	0.51	0.41
20 YEARS	0.44	0.41

Source: Morningstar, as of 3/31/17

U.S. LARGE VS. SMALL RELATIVE PERFORMANCE



Source: Morningstar, as of 3/31/17

Commodities

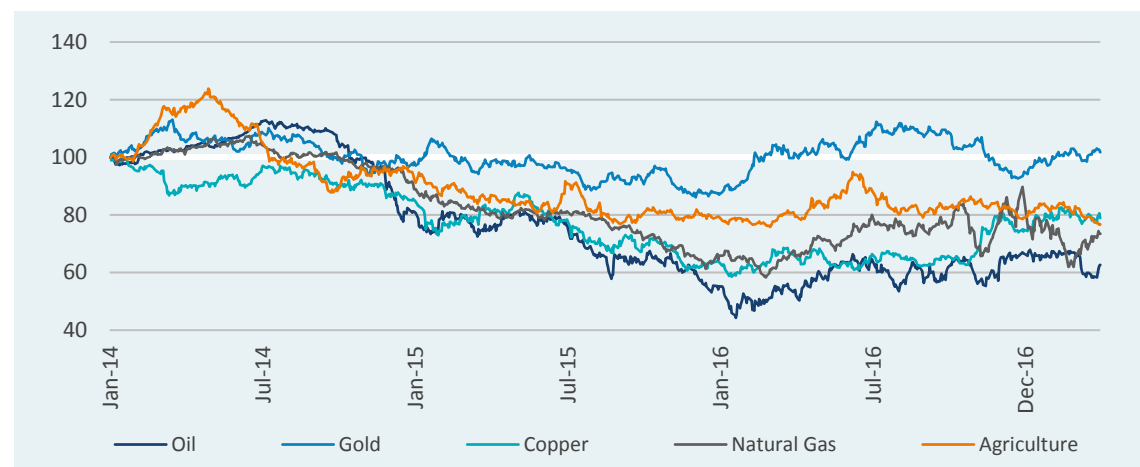
- The Bloomberg Commodity index returned -2.7% in March. The Livestock sub-index outperformed the broad index as it returned 0.2% in the month.
- Seven of the eight commodity sub-indices provided negative returns in March, of which the worst performer was the Bloomberg Softs (-6.2%). The index was negatively affected by sugar futures, which fell by -12.8%.
- WTI Crude Oil ended the month down -6.3% at \$50.60 per barrel. U.S. Crude Oil inventory rose in March (7 million barrels) but at a decreased rate relative to the prior month (34 million barrels). Reports of a short-term production outage in the North Atlantic Sea and speculation of an OPEC production cut extension helped raise oil futures from an intra-month low of \$47.34 on March 21st.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(2.7)	(2.3)	(2.3)	8.7	(13.9)	(9.5)	(6.2)
Bloomberg Agriculture	(5.8)	(3.0)	(3.0)	(1.6)	(13.3)	(8.1)	(1.1)
Bloomberg Energy	(1.5)	(11.4)	(11.4)	13.6	(28.4)	(17.3)	(17.4)
Bloomberg Grains	(5.2)	(1.4)	(1.4)	(7.3)	(16.4)	(8.8)	(2.4)
Bloomberg Industrial Metals	(2.0)	7.6	7.6	26.2	(2.7)	(6.3)	(6.2)
Bloomberg Livestock	0.2	0.1	0.1	(6.6)	(9.7)	(3.4)	(7.8)
Bloomberg Petroleum	(5.4)	(9.3)	(9.3)	12.8	(28.6)	(18.8)	(10.8)
Bloomberg Precious Metals	(0.6)	9.8	9.8	4.3	(2.0)	(7.6)	5.0
Bloomberg Softs	(6.2)	(4.8)	(4.8)	8.7	(10.4)	(10.5)	(1.4)

Source: Morningstar, as of 3/31/17

COMMODITY PERFORMANCE



Source: Bloomberg, as of 3/31/17

Appendix

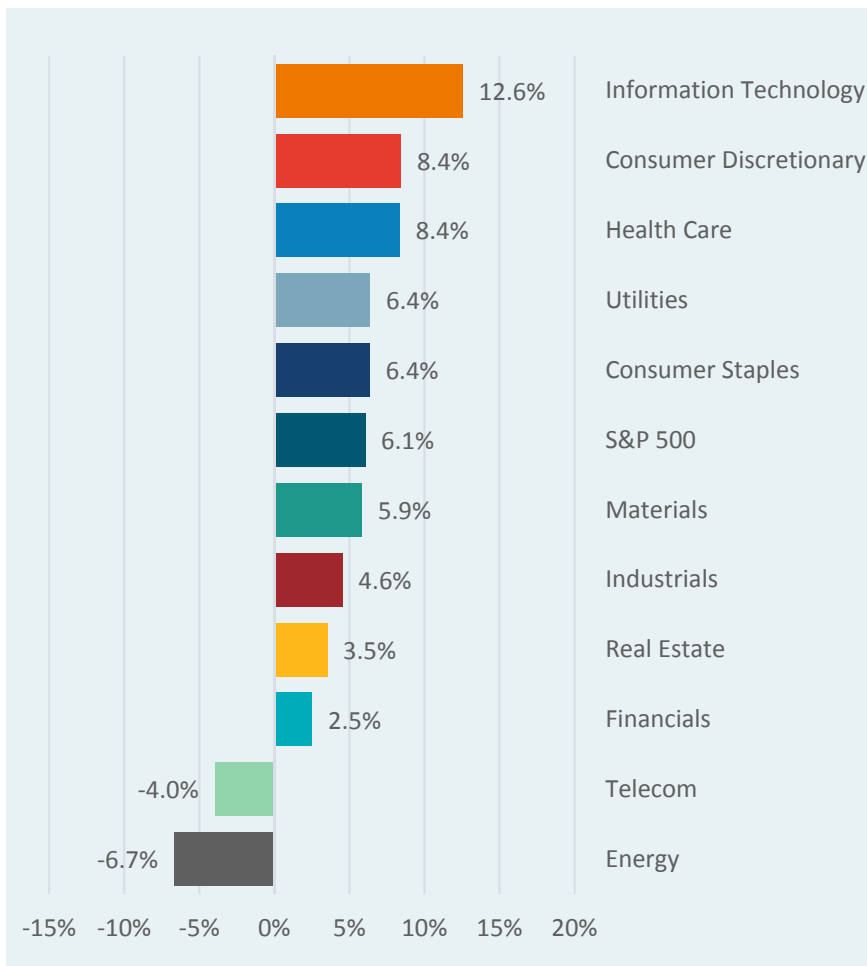
Periodic table of returns

	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	
BEST	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	11.4	13.3	9.1
	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	8.9	13.3	8.1
	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	7.2	13.1	7.6
	Large Cap Equity	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	6.0	12.5	7.1
	Small Cap Growth	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	5.3	12.4	6.9
	60/40 Global Portfolio	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	4.8	12.1	6.1
	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	3.3	10.9	5.9
	Small Cap Equity	-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	2.5	5.8	4.3
	Hedge Funds of Funds	-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	2.0	5.2	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	0.8	3.1	2.7
	Cash	-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	2.3	1.2
	Small Cap Value	-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	-0.1	0.8	1.1
	Commodities	-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	-2.3	0.1	0.5
	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	-9.5	-6.2
WORST																											
	Large Cap Equity																										
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	Cash																										
	Commodities																										
	Real Estate																										
	Hedge Funds of Funds																										
	60% MSCI ACWI/40% BBgBarc Global Bond																										

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.

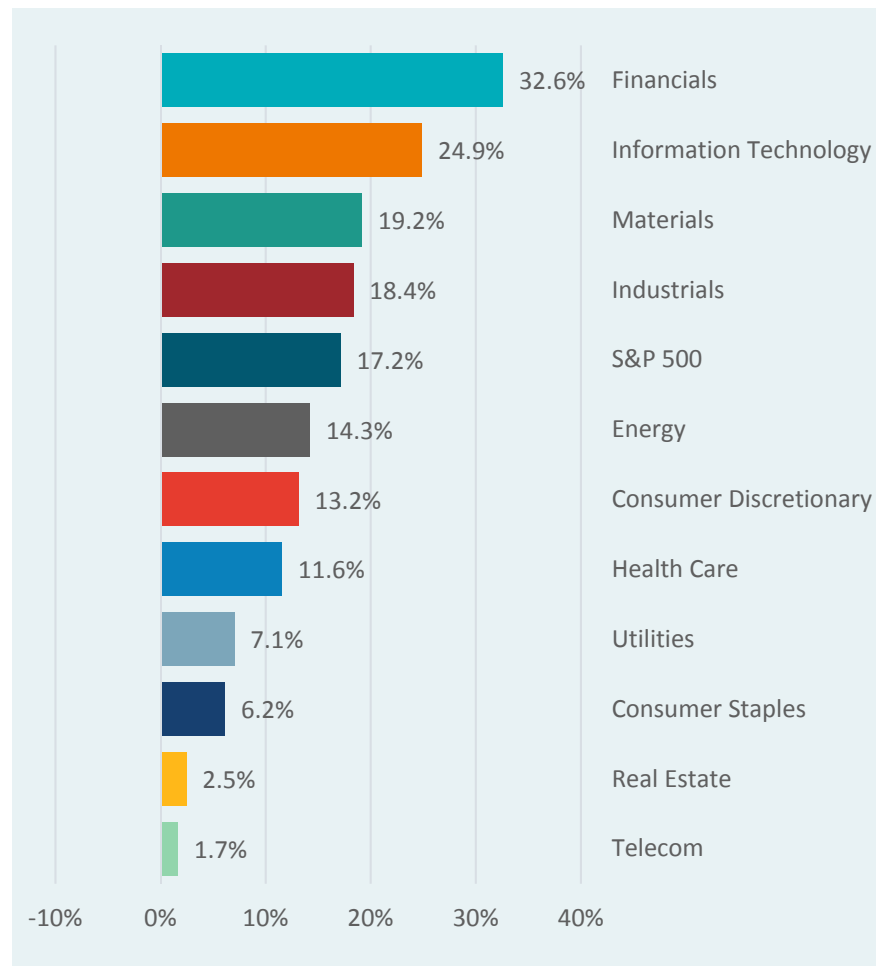
S&P 500 and S&P 500 sector returns

QTD



Source: Morningstar, as of 3/31/17

ONE YEAR ENDING MARCH



Source: Morningstar, as of 3/31/17

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	0.1	6.1	6.1	17.2	10.4	13.3	7.5
S&P 500 Equal Weighted	0.0	5.4	5.4	17.4	9.6	14.0	8.7
DJ Industrial Average	(0.6)	5.2	5.2	19.9	10.6	12.2	8.1
Russell Top 200	0.2	6.4	6.4	17.6	10.6	13.3	7.5
Russell 1000	0.1	6.0	6.0	17.4	10.0	13.3	7.6
Russell 2000	0.1	2.5	2.5	26.2	7.2	12.4	7.1
Russell 3000	0.1	5.7	5.7	18.1	9.8	13.2	7.5
Russell Mid Cap	(0.2)	5.1	5.1	17.0	8.5	13.1	7.9
Style Index							
Russell 1000 Growth	1.2	8.9	8.9	15.8	11.3	13.3	9.1
Russell 1000 Value	(1.0)	3.3	3.3	19.2	8.7	13.1	5.9
Russell 2000 Growth	1.2	5.3	5.3	23.0	6.7	12.1	8.1
Russell 2000 Value	(0.8)	(0.1)	(0.1)	29.4	7.6	12.5	6.1

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	1.2	6.9	6.9	15.0	5.1	8.4	4.0
MSCI ACWI ex US	2.5	7.9	7.9	13.1	0.6	4.4	1.4
MSCI EAFE	2.8	7.2	7.2	11.7	0.5	5.8	1.1
MSCI EM	2.5	11.4	11.4	17.2	1.2	0.8	2.7
MSCI EAFE Small Cap	2.0	8.0	8.0	11.0	3.6	9.2	3.0
Style Index							
MSCI EAFE Growth	2.7	8.5	8.5	7.4	1.5	6.0	2.0
MSCI EAFE Value	2.8	6.0	6.0	16.0	(0.6)	5.6	0.0
Regional Index							
MSCI UK	1.7	5.0	5.0	7.4	(2.6)	3.5	0.5
MSCI Japan	(0.4)	4.5	4.5	14.4	6.0	6.8	0.6
MSCI Euro	6.2	8.5	8.5	12.8	(1.3)	6.4	(0.2)
MSCI EM Asia	3.3	13.4	13.4	18.0	4.5	4.4	4.7
MSCI EM Latin American	0.6	12.1	12.1	23.3	(4.0)	(6.1)	0.8

Source: Morningstar, as of 3/31/17

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US Treasury USTIPS	(0.1)	1.3	1.3	1.5	2.0	1.0	4.2
BBgBarc US Treasury Bills	0.0	0.1	0.1	0.4	0.2	0.2	0.8
BBgBarc US Agg Bond	(0.1)	0.8	0.8	0.4	2.7	2.3	4.3
Duration							
BBgBarc US Treasury 1-3 Yr	0.0	0.3	0.3	0.2	0.7	0.6	2.0
BBgBarc US Treasury Long	(0.6)	1.4	1.4	(5.0)	5.8	4.0	6.7
BBgBarc US Treasury	(0.0)	0.7	0.7	(1.4)	2.1	1.6	3.9
Issuer							
BBgBarc US MBS	0.0	0.5	0.5	0.2	2.7	2.0	4.2
BBgBarc US Corp. High Yield	(0.2)	2.7	2.7	16.4	4.6	6.8	7.5
BBgBarc US Agency Interim	0.0	0.5	0.5	0.1	1.4	1.2	3.1
BBgBarc US Credit	(0.2)	1.3	1.3	3.0	3.5	3.7	5.3

OTHER

Index							
Bloomberg Commodity	(2.7)	(2.3)	(2.3)	8.7	(13.9)	(9.5)	(6.2)
Wilshire US REIT	(2.7)	0.0	0.0	2.0	10.2	9.8	4.4
CS Leveraged Loans	0.1	1.2	1.2	9.7	3.7	4.9	4.2
Regional Index							
JPM EMBI Global Div	0.4	3.9	3.9	8.9	6.2	5.8	7.0
JPM GBI-EM Global Div	2.3	6.5	6.5	5.5	(2.7)	(1.6)	4.1
Hedge Funds							
HFRI Composite	0.2	2.3	2.3	8.6	2.8	4.0	3.3
HFRI FOF Composite	0.1	2.0	2.0	5.9	1.7	3.1	1.2
Currency (Spot)							
Euro	0.7	1.4	1.4	(6.1)	(8.1)	(4.3)	(2.2)
Pound	0.5	1.2	1.2	(13.0)	(9.1)	(4.8)	(4.4)
Yen	0.4	4.7	4.7	0.9	(2.6)	(5.9)	0.6

Definitions

Conference Board Consumer Confidence Index – a barometer of the health of the U.S. economy from the perspective of the consumer. The index is based on consumers' perceptions of current business and employment conditions, as well as their expectations for six months hence regarding business conditions, employment, and income. (www.conference-board.org)

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