



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

MAY 2017
Capital Markets Update

Market commentary

ECONOMIC CLIMATE

- As of June 9th, the Atlanta Fed GDPNow forecast for real U.S. GDP growth was a 3.0% QoQ annualized rate.
- Real GDP in the first quarter was revised up from 1.9% to 2.0% YoY (0.7% to 1.2% QoQ annualized). The measure benefited from upward revisions to consumer and government spending.
- Headline CPI increased by 2.2% YoY in April, down 20 bps from March, partially affected by decreases in medical care, commodities and telecommunication prices. Core CPI increased 1.9% over the previous year, down 10 bps from the prior month.
- The U.S. economy added 138,000 non-farm jobs in May, below the consensus estimate of 185,000. The unemployment rate fell from 4.4% to 4.3%, partially influenced by a decrease in the participation rate of 0.2% to 62.7%.
- Aggregate U.S. household debt increased in Q1 for an 11th straight quarter and surpassed the peak of \$12.7 trillion set in Q3 of 2008.

DOMESTIC EQUITIES

- Domestic equities posted a positive return for a seventh consecutive month in May as the S&P 500 returned 1.4%. According to FactSet on June 9th, the estimated Q2 earnings growth rate of the index was 6.6% YoY.
- For a third consecutive month Information Technology companies outperformed all other S&P 500 sectors – the tech sector index returned 4.4% in May.

DOMESTIC FIXED INCOME

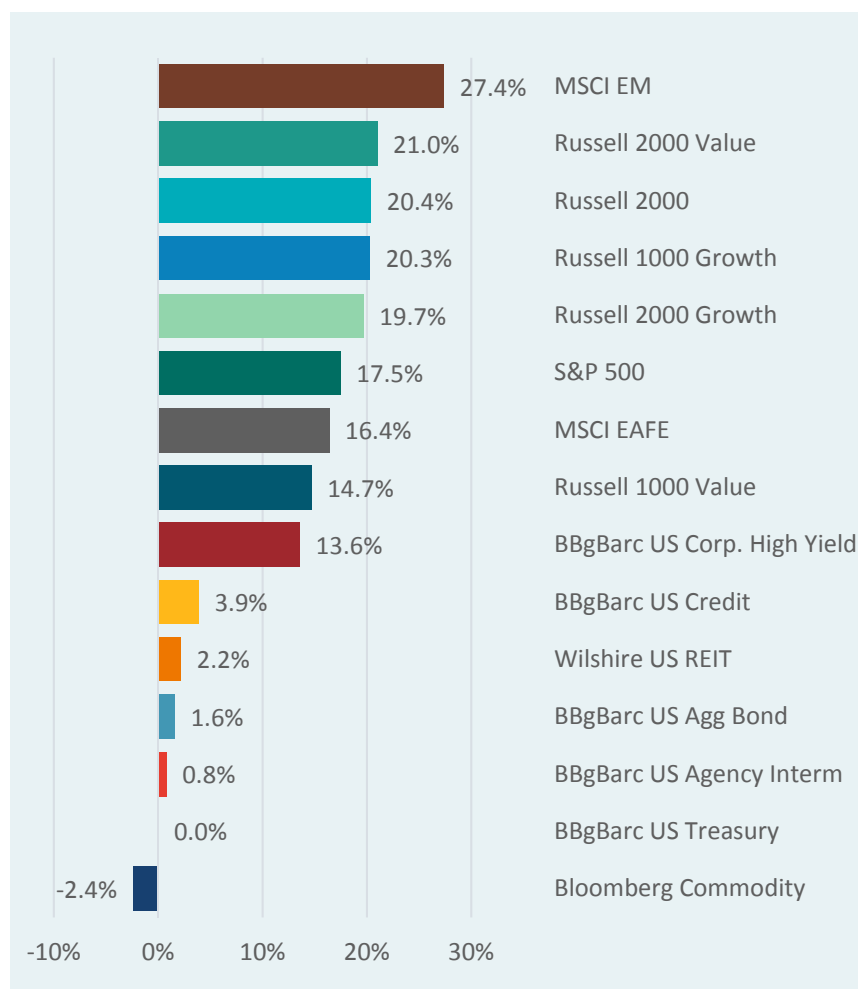
- Domestic fixed income returns were positive in May as the Bloomberg Barclays U.S. Aggregate Index returned 0.8%.
- The U.S. Treasury curve flattened modestly, as the 10-year minus 2-year Treasury yield spread contracted 8 bps to 0.93%, the lowest since October of 2016.

INTERNATIONAL MARKETS

- International equities outperformed domestic equities (S&P 500 1.4%) as the unhedged MSCI ACWI ex U.S. index returned 3.2% (2.0% hedged).
- Real U.K. GDP growth was revised down to 2.0% year-over-year, from the initial estimate of 2.1% due to drawdowns across the services sector.
- Japan's real GDP grew at a rate of 1.0% YoY during the first quarter, down from an initial estimate of 2.2% YoY. The negative revision was partially due to less accumulation of private inventories, of which the largest reduction was in stored oil reserves.
- Credit rating agency Moody's downgraded Chinese sovereign debt from Aa1 to Aa3, influenced by concerns over high leverage and slowing economic growth.
- Brazilian equities and currency fell sharply on May 18th, as new bribery allegations were directed at the current president Michel Temer.

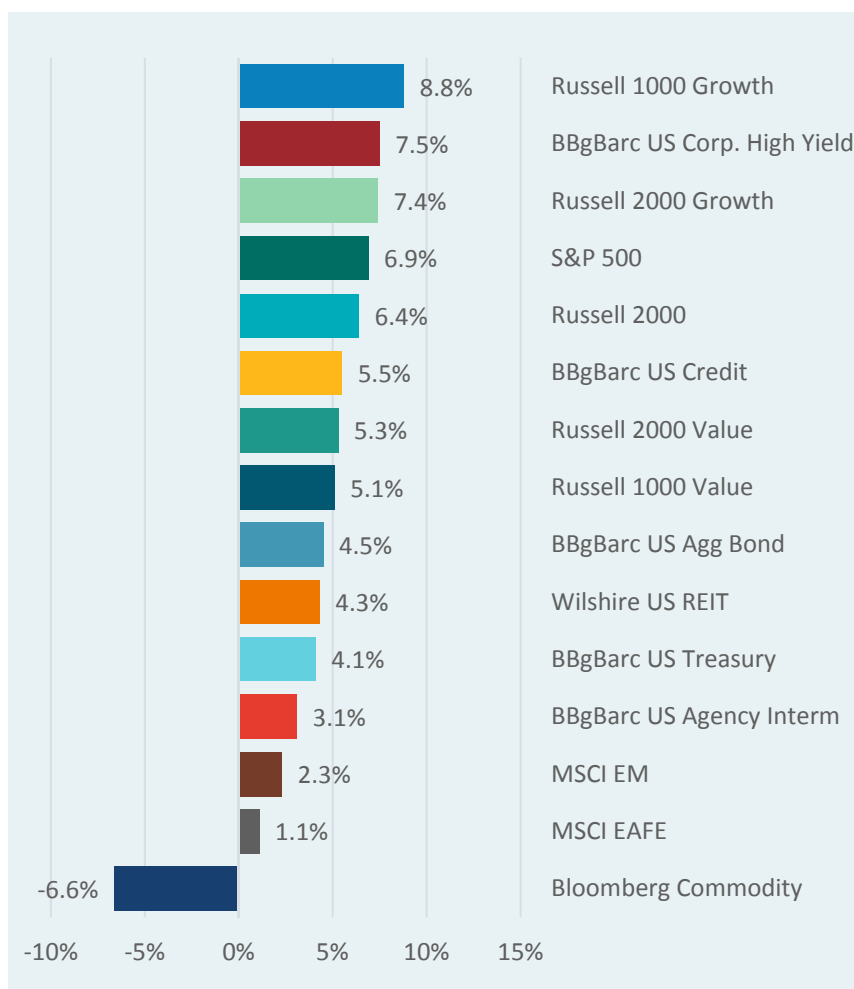
Major asset class returns

ONE YEAR ENDING MAY



Source: Morningstar, as of 5/31/17

TEN YEARS ENDING MAY

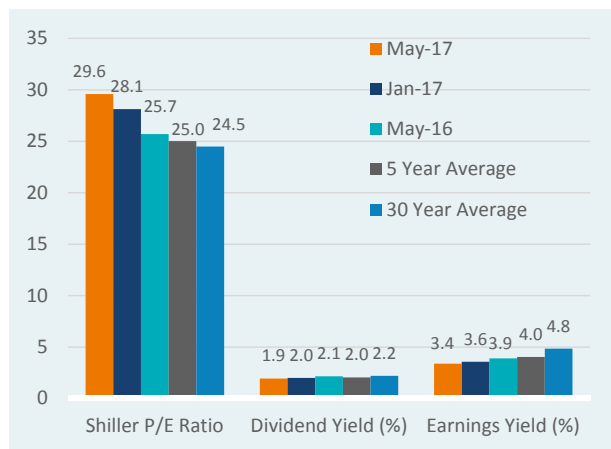


Source: Morningstar, as of 5/31/17

U.S. large cap equities

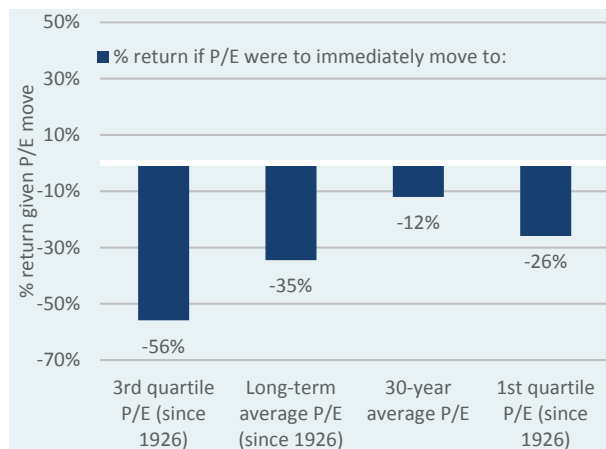
- Large cap equities moved steadily higher in May, as the S&P 500 returned 1.4%. According to FactSet, the year-over-year Q1 earnings growth rate was revised up from 13.5% to 14.0%.
- On May 8th the VIX, a measure of 30-day implied volatility for the S&P 500, closed at the lowest level since December 1993 at 9.77. The measure ended the month at 10.41, well below the 3-year average of 15.22.
- The Information Technology sector outperformed the broad index (+1.4%) and returned 4.4% in May. The sector was led by large technology firms like Apple, Alphabet, Amazon and Netflix which all returned over 6% in the month.
- Telecom Services companies underperformed in May, returning -1.0% and -8.1% year-to-date. The sector has been affected by increased competition, decreased prices for wireless services and lower overall revenue projections.

US LARGE CAP (S&P 500) VALUATION SNAPSHOT



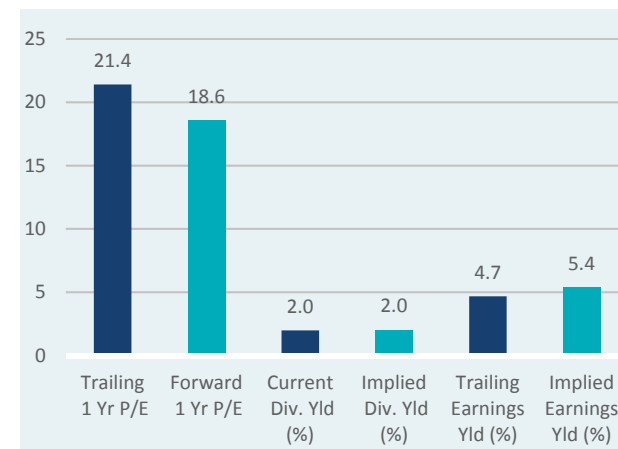
Source: Yale/Shiller, as of 5/31/17

RETURNS IF P/E MOVED TO HISTORIC LEVEL



Source: Yale/Shiller, Verus, as of 5/31/17

S&P 500 VALUATION SNAPSHOT

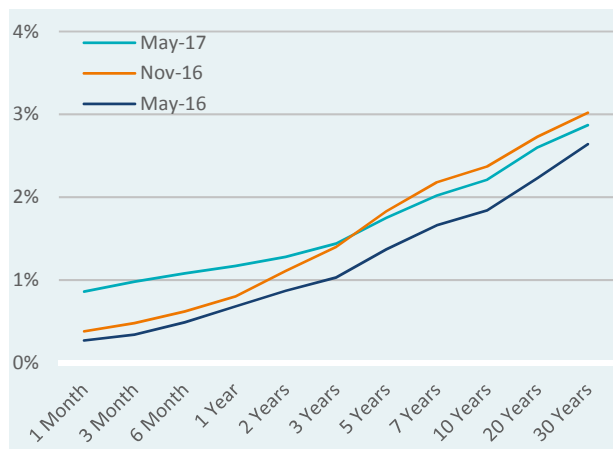


Source: Bloomberg, as of 5/31/17

Fixed income

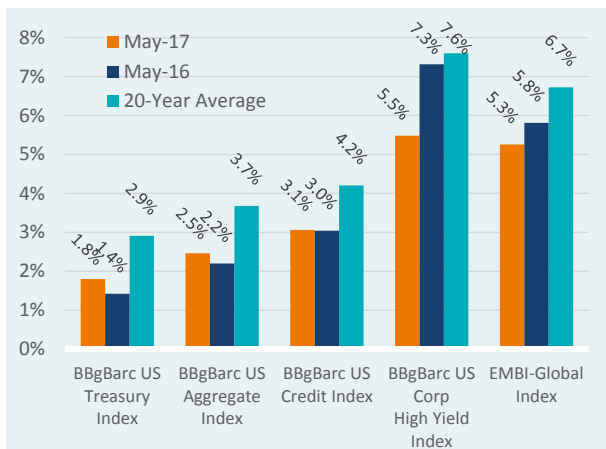
- The Bloomberg Barclays U.S. Treasury Long index (+2.0%) outperformed the U.S. Treasury index (+0.7%) in May. The longer duration index benefitted from a slight flattening of the yield curve, as the 10-year and 30-year yields fell by 8 bps and 9 bps, respectively.
- Nominal rates fell in May, affected by a reduction in inflation expectations. The 10-year TIPS breakeven rate decreased to 1.8%, down from 1.9% in April and 2.0% in March.
- U.S. high yield option-adjusted spreads resumed their downward trend and contracted 7 bps in the month, matching a 3-year low of 3.74%.
- The two largest non-U.S. holders of U.S. government debt, the central banks of Japan and China, have shown recent increased demand in U.S. Treasury bills, notes and bonds. Increased foreign investment can provide downward pressure on rates.

U.S. TREASURY YIELD CURVE



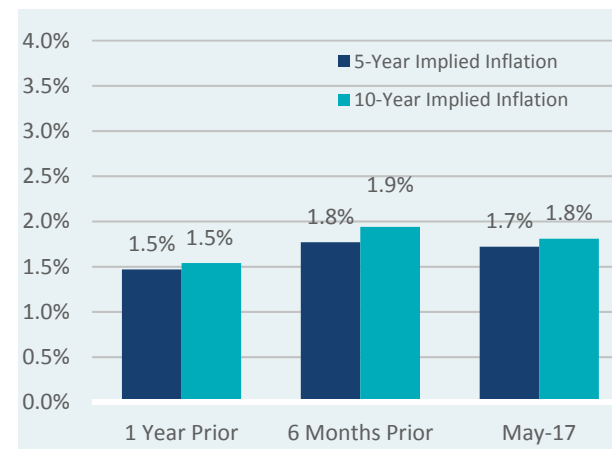
Source: Federal Reserve, as of 5/31/17

NOMINAL FIXED INCOME YIELDS



Source: Morningstar, as of 5/31/17

IMPLIED INFLATION (TIPS BREAKEVEN)

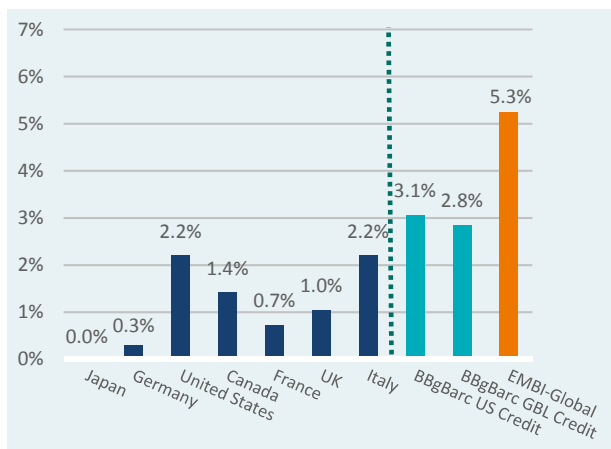


Source: Federal Reserve, as of 5/31/17

Global markets

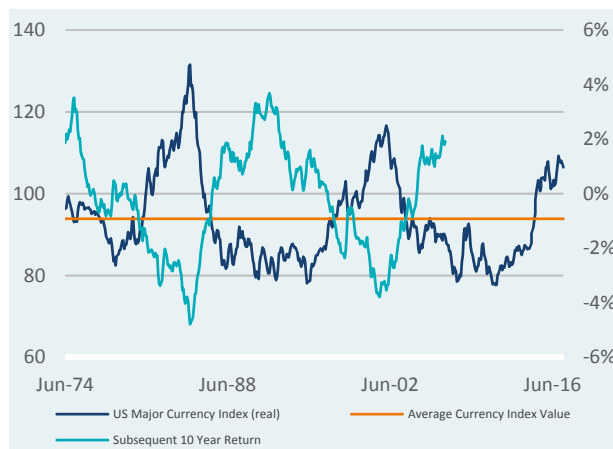
- Global sovereign bond yields were generally lower during the month. The Canadian 10-year yield experienced the largest change, decreasing by 13 bps.
- The U.S. major currency index decreased 0.8% to 106.5 in May against a trade weighted basket of currencies. The index has fallen -2.5% year-to-date, but remains well above its long-term average of 93.9.
- The Euro appreciated against the U.S. dollar by 3.3% in May. The unhedged MSCI Euro index benefited from the currency movement and returned 4.6% in the month.
- Moody's Investors Service cut its rating on six Canadian banks following the run on deposits at Home Capital Group, an alternative mortgage lender.

GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS



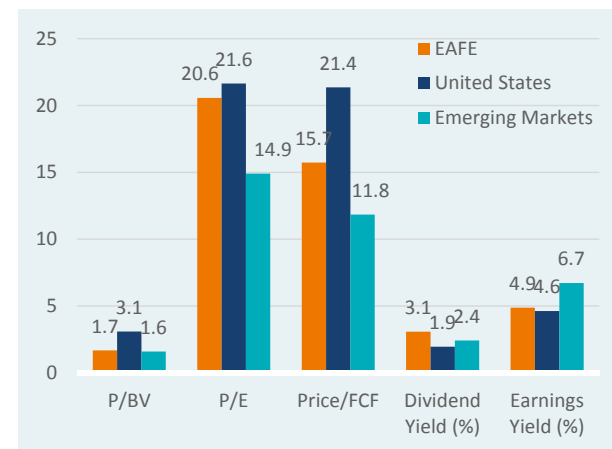
Source: Morningstar, as of 5/31/17

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 5/31/17

MSCI VALUATION METRICS (3 MONTH AVERAGE)

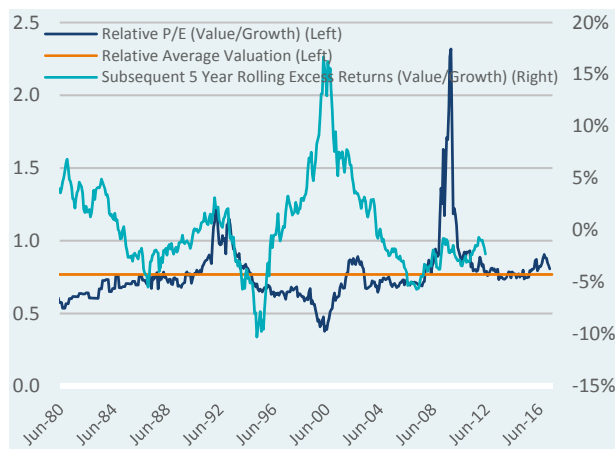


Source: Bloomberg, as of 5/31/17

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

- For a fifth consecutive month, growth equities outperformed value equities. In May, the Russell 1000 Growth Index and Russell 1000 Value Index returned 2.6% and -0.1%, respectively. Large cap growth equities have outperformed value by 11.3% year-to-date.
- The relative trailing P/E ratio of value to growth equities decreased to 0.81 in May, down from 0.91 at year-end but above the long term average of 0.77.
- Value equities were negatively effected by their higher relative concentration to Energy and Financial Services companies, which returned -3.7% and -0.3%, respectively.
- Consistent with style expectations, the 5-year EPS growth rate of the Russell 1000 Growth in May was 9.8%, compared to the Russell 1000 Value at 2.8%.

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



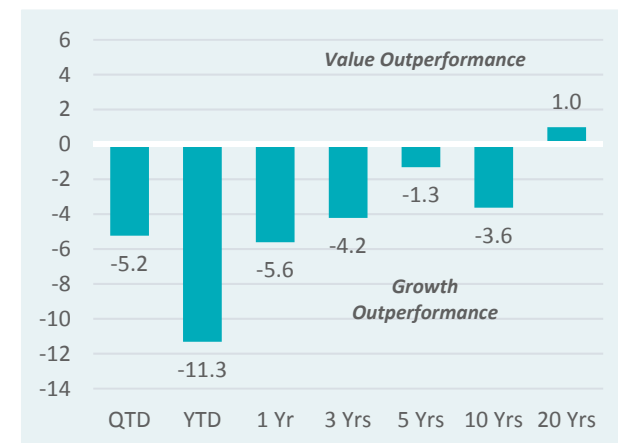
Source: Russell, Bloomberg, as of 5/31/17

U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

	RUSSELL 1000 VALUE ANNUALIZED RETURN TO DATE %	RUSSELL 1000 GROWTH ANNUALIZED RETURN TO DATE %
QTD	(0.3)	4.9
YTD	3.0	14.3
1 YEAR	14.7	20.3
3 YEARS	7.7	11.9
5 YEARS	14.7	16.0
10 YEARS	5.1	8.8
20 YEARS	7.8	6.8
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.73	1.06
5 YEARS	1.40	1.51
10 YEARS	0.36	0.59
20 YEARS	0.44	0.35

Source: Morningstar, as of 5/31/17

U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE

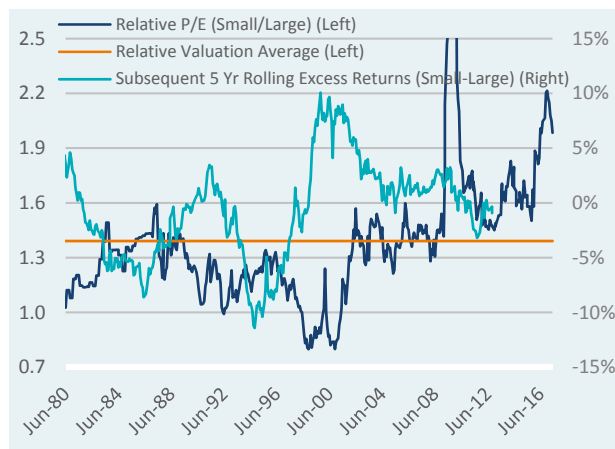


Source: Morningstar, as of 5/31/17

Style tilts: U.S. large vs. small

- U.S. large cap equities continued their recent outperformance over small cap equities in May as the Russell 1000 index and Russell 2000 index returned 1.3% and -2.0%, respectively.
- The relative trailing P/E ratio of small to large equities continued to regress from a 7-year high (2.20) in December to 1.98 in May. The ratio remains well above its long-term average of 1.40.
- Large cap equities have provided superior risk adjusted returns, as measured by the Sharpe ratio, over all time periods examined below.

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



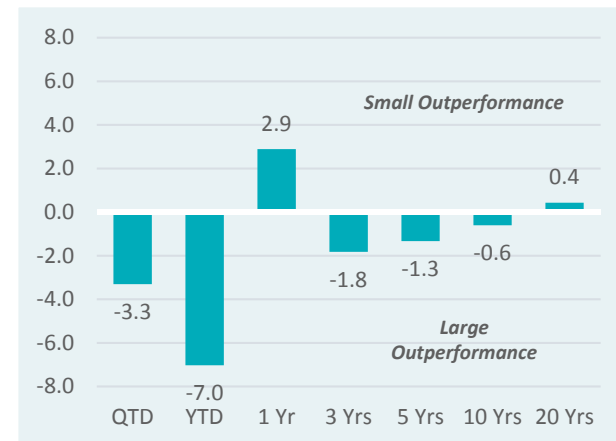
Source: Russell, Bloomberg, as of 5/31/17

U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

	RUSSELL 1000 INDEX ANNUALIZED RETURN TO DATE %	RUSSELL 2000 INDEX ANNUALIZED RETURN TO DATE %
QTD	2.3	(1.0)
YTD	8.5	1.5
1 YEAR	17.5	20.4
3 YEARS	9.8	8.0
5 YEARS	15.4	14.0
10 YEARS	7.0	6.4
20 YEARS	7.6	8.0
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.93	0.56
5 YEARS	1.51	1.00
10 YEARS	0.48	0.38
20 YEARS	0.42	0.38

Source: Morningstar, as of 5/31/17

U.S. LARGE VS. SMALL RELATIVE PERFORMANCE



Source: Morningstar, as of 5/31/17

Commodities

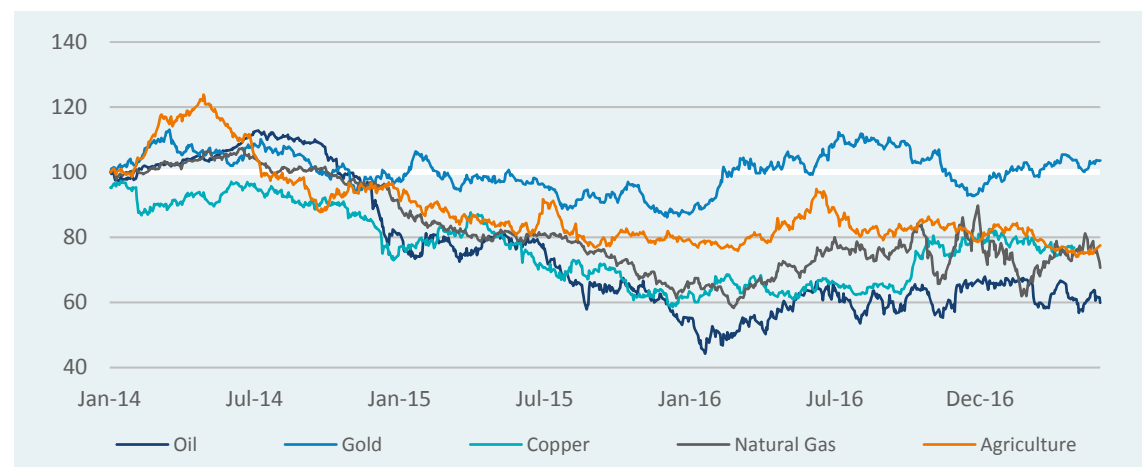
- The Bloomberg Commodity index performance was negative for a third consecutive month, returning -1.3%. The Livestock sub-index continued to outperform the broad index as it returned 5.5% during the month.
- Precious Metals was the second highest performing commodity sub-index, returning 0.5%. The price of gold increased 0.6% to \$1,275 per ounce and silver 0.8% to \$17.41 per ounce.
- On May 25th OPEC agreed to extend production cuts through March of 2018. WTI Crude Oil prices softened in May over concerns about the effectiveness and depth of the cuts, resulting in a wider trading range compared to the start of 2017. Oil ended the month down 2.0% to \$48.32 per barrel.
- The Bloomberg Softs sub-index returned -4.8% in May and was negatively affected by crashing sugar prices which fell -7.8% in the month (-24% year-to-date).

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(1.3)	(2.8)	(5.1)	(2.4)	(14.6)	(8.2)	(6.6)
Bloomberg Agriculture	(2.2)	(3.4)	(6.2)	(14.1)	(13.1)	(6.7)	(1.8)
Bloomberg Energy	(3.3)	(6.2)	(16.9)	(8.9)	(30.5)	(16.3)	(17.7)
Bloomberg Grains	(0.8)	(1.6)	(3.0)	(17.5)	(15.4)	(7.8)	(3.2)
Bloomberg Industrial Metals	(1.0)	(4.4)	2.9	21.3	(5.9)	(5.3)	(7.1)
Bloomberg Livestock	5.5	13.3	13.5	7.1	(4.7)	(1.0)	(6.5)
Bloomberg Petroleum	(1.3)	(5.6)	(14.4)	(11.2)	(30.5)	(16.9)	(11.1)
Bloomberg Precious Metals	0.5	(0.1)	9.7	4.5	(0.8)	(6.0)	5.1
Bloomberg Softs	(4.8)	(8.2)	(12.6)	(5.8)	(11.6)	(8.4)	(1.8)

Source: Morningstar, as of 5/31/17

COMMODITY PERFORMANCE



Source: Bloomberg, as of 5/31/17

Appendix

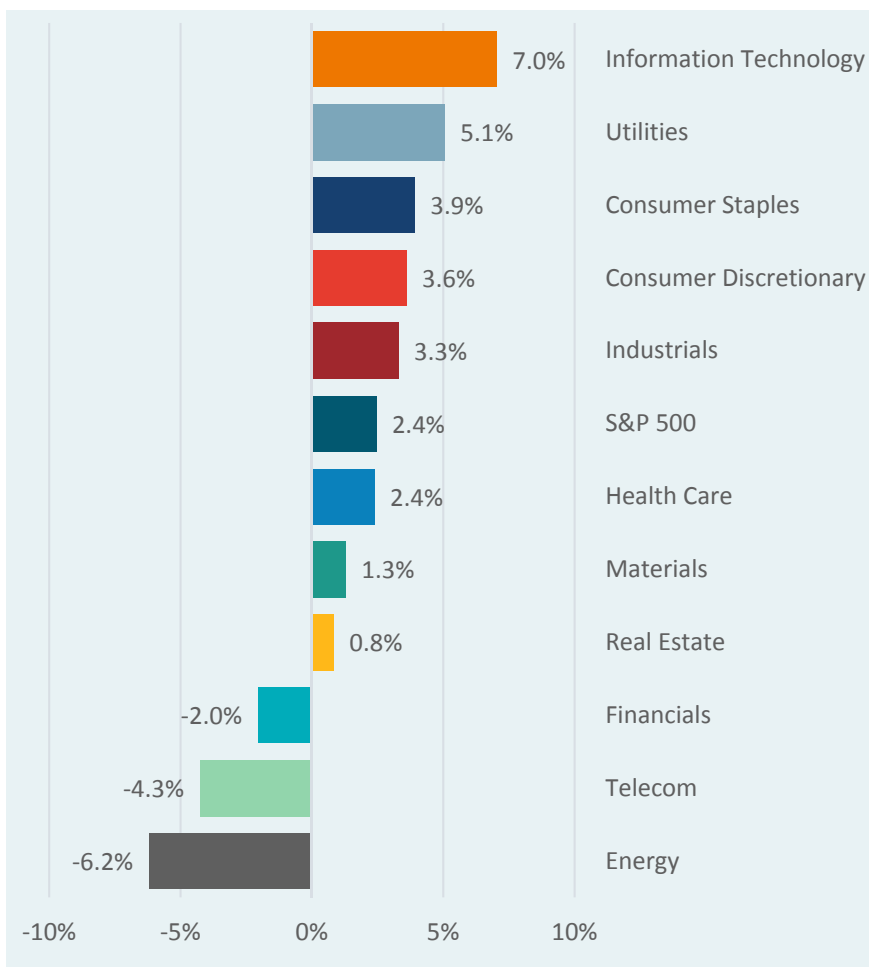
Periodic table of returns

	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	17.3	16.0	8.8
	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	14.3	15.4	7.4
	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	14.0	14.7	7.0
	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	8.5	14.4	6.7
	60/40 Global Portfolio	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	8.3	14.0	6.4
	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	6.3	13.7	5.3
	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	3.0	10.7	5.1
	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	2.8	10.2	4.5
	US Bonds	-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	2.4	7.3	3.9
	Real Estate	-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	1.6	4.5	2.3
	Small Cap Equity	-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	1.5	3.7	1.1
	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	0.3	2.2	0.9
	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	-2.9	0.1	0.5
WORST	Commodities	-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	-5.1	-8.2	-6.6

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 3/31/17.

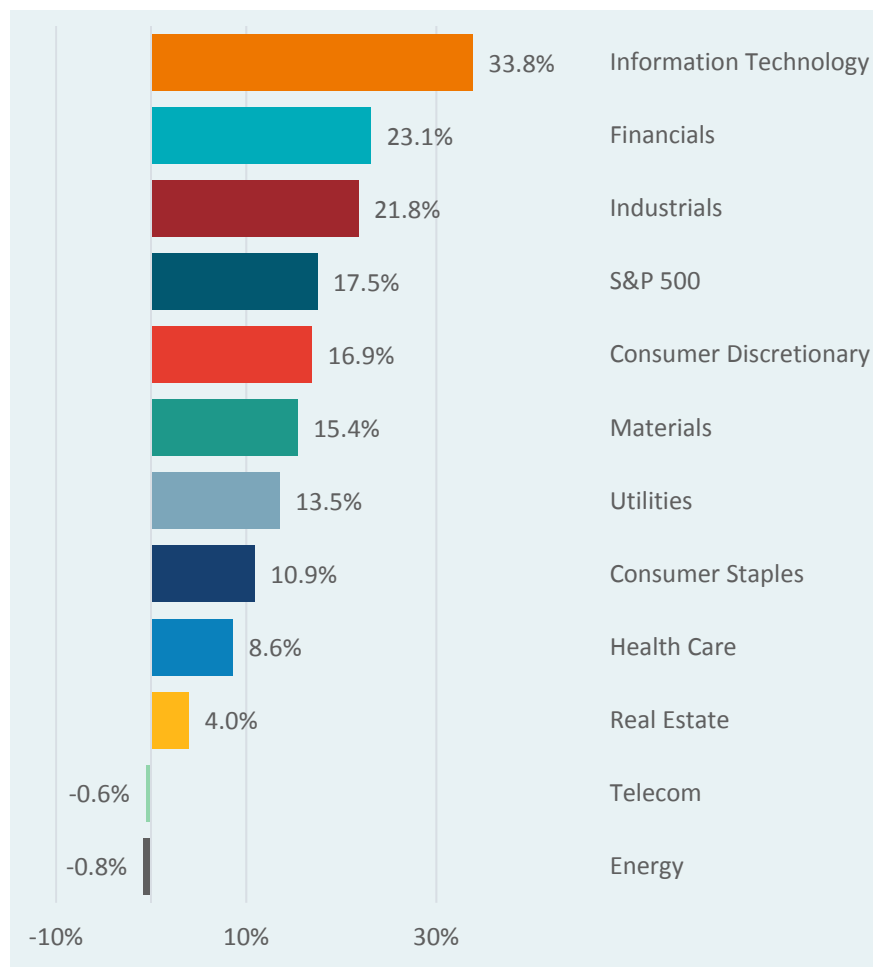
S&P 500 sector returns

QTD



Source: Morningstar, as of 5/31/17

ONE YEAR ENDING MAY



Source: Morningstar, as of 5/31/17

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	1.4	2.4	8.7	17.5	10.1	15.4	6.9
S&P 500 Equal Weighted	0.6	1.3	6.8	15.8	9.1	16.1	8.0
DJ Industrial Average	0.7	2.2	7.5	21.2	10.6	14.0	7.2
Russell Top 200	1.4	2.6	9.2	18.1	10.4	15.5	6.9
Russell 1000	1.3	2.3	8.5	17.5	9.8	15.4	7.0
Russell 2000	(2.0)	(1.0)	1.5	20.4	8.0	14.0	6.4
Russell 3000	1.0	2.1	8.0	17.7	9.7	15.3	7.0
Russell Mid Cap	0.9	1.7	6.9	15.9	8.5	15.1	7.3
Style Index							
Russell 1000 Growth	2.6	4.9	14.3	20.3	11.9	16.0	8.8
Russell 1000 Value	(0.1)	(0.3)	3.0	14.7	7.7	14.7	5.1
Russell 2000 Growth	(0.9)	0.9	6.3	19.7	8.6	14.4	7.4
Russell 2000 Value	(3.1)	(2.7)	(2.9)	21.0	7.3	13.7	5.3

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	2.2	3.8	11.0	17.5	5.3	11.5	3.6
MSCI ACWI ex US	3.2	5.5	13.7	18.2	1.3	8.4	1.2
MSCI EAFE	3.7	6.3	14.0	16.4	1.5	10.2	1.1
MSCI EM	3.0	5.2	17.3	27.4	1.6	4.5	2.3
MSCI EAFE Small Cap	3.7	8.1	16.7	16.7	6.1	13.8	3.4
Style Index							
MSCI EAFE Growth	5.1	8.2	17.5	14.4	3.3	10.5	2.2
MSCI EAFE Value	2.3	4.5	10.8	18.4	(0.3)	9.9	(0.1)
Regional Index							
MSCI UK	4.6	6.8	12.2	11.4	(2.1)	7.2	0.6
MSCI Japan	3.0	4.1	8.8	15.0	7.0	10.4	1.1
MSCI Euro	4.6	8.8	18.0	21.1	0.5	12.6	(0.4)
MSCI EM Asia	4.5	6.8	21.1	29.2	5.4	7.9	4.3
MSCI EM Latin American	(2.4)	(2.4)	9.4	27.3	(5.6)	(3.2)	(0.9)

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US Treasury US TIPS	(0.0)	0.5	1.8	2.4	1.1	0.3	4.4
BBgBarc US Treasury Bills	0.1	0.1	0.2	0.5	0.2	0.2	0.7
BBgBarc US Agg Bond	0.8	1.5	2.4	1.6	2.5	2.2	4.5
Duration							
BBgBarc US Treasury 1-3 Yr	0.1	0.3	0.5	0.6	0.7	0.6	2.0
BBgBarc US Treasury Long	2.0	3.6	5.0	(1.9)	5.4	2.4	7.2
BBgBarc US Treasury	0.7	1.4	2.0	0.0	2.0	1.2	4.1
Issuer							
BBgBarc US MBS	0.6	1.3	1.8	1.2	2.4	2.1	4.3
BBgBarc US Corp. High Yield	0.9	2.0	4.8	13.6	4.7	7.3	7.5
BBgBarc US Agency Interm	0.3	0.6	1.1	0.8	1.4	1.2	3.1
BBgBarc US Credit	1.1	2.1	3.4	3.9	3.3	3.7	5.5

OTHER

Index							
Bloomberg Commodity	(1.3)	(2.8)	(5.1)	(2.4)	(14.6)	(8.2)	(6.6)
Wilshire US REIT	(0.6)	(0.6)	(0.6)	2.2	7.8	10.0	4.3
CS Leveraged Loans	0.4	0.8	2.0	7.6	3.7	5.0	4.2
Regional Index							
JPM EMBI Global Div	0.9	2.4	6.3	9.8	5.6	6.5	7.2
JPM GBI-EM Global Div	2.0	3.2	9.9	12.2	(2.6)	0.3	3.9
Hedge Funds							
HFRI Composite	0.5	1.0	3.5	8.3	3.0	4.9	3.0
HFRI FOF Composite	(0.2)	0.4	2.8	5.5	1.7	3.7	0.9
Currency (Spot)							
Euro	3.3	5.1	6.6	1.0	(6.2)	(1.9)	(1.8)
Pound	(0.2)	3.2	4.5	(11.3)	(8.4)	(3.5)	(4.2)
Yen	0.8	0.8	5.5	0.3	(2.7)	(6.6)	1.0

Source: Morningstar, as of 5/31/17

Notices & disclosures

Past performance is no guarantee of future results. This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security or pursue a particular investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Verus Advisory Inc. and Verus Investors, LLC (“Verus”) file a single form ADV under the United States Investment Advisors Act of 1940, as amended. Additional information about Verus Advisory, Inc. and Verus Investors, LLC is available on the SEC’s website at www.adviserinfo.sec.gov.