



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

JULY 2017
Capital Markets Update

Market commentary

ECONOMIC CLIMATE

- Real GDP grew at 2.1% YoY in the second quarter (2.6% QoQ annualized), above first quarter's growth rate of 2.0% YoY (1.2% QoQ annualized). Growth was mainly attributed to consumer spending, which increased at a 2.8% annualized rate.
- On July 26th, the FOMC voted unanimously to keep the fed funds rate unchanged at a target range of 1.00% - 1.25%. The committee reaffirmed that balance sheet normalization was a priority and would begin "relatively soon".
- Headline CPI increased by 1.6% YoY in June, down 30 bps from May, mainly affected by lower energy prices. Core CPI increased by 1.7% YoY, unchanged from the prior month. The effect of lower vehicle prices offset positive price inflation in prescription drugs and hospital services.
- Nominal wages grew at a slightly lower rate in the second quarter, as average hourly earnings in the private sector rose by 2.5% YoY, below the first quarter growth rate of 2.6%.
- The U.S. added 209,000 nonfarm jobs in July, above the consensus estimate of 178,000. The unemployment rate decreased from 4.4% to 4.3% despite a 0.1% increase in the labor participation rate, which ended the month at 62.9%.

DOMESTIC EQUITIES

- Domestic equities rose for a ninth consecutive month in July - the S&P 500 returned 2.1%.
- As of August 11th, 91% of S&P 500 companies had reported second quarter earnings. According to FactSet, the blended Q2 earnings growth rate was 10.2% YoY, well above the June 30th estimate of 6.4%.

DOMESTIC FIXED INCOME

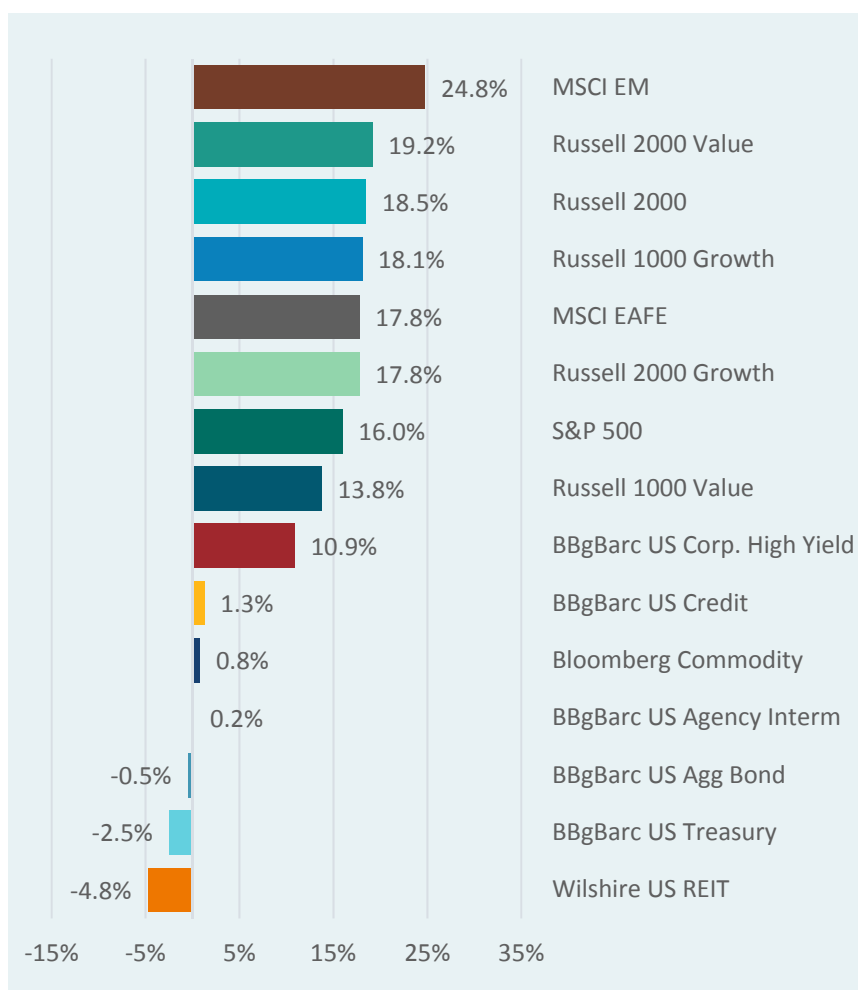
- Domestic fixed income returns were positive in July as the Bloomberg Barclays U.S. Aggregate Index returned 0.4%.
- U.S. high yield option-adjusted spreads continued downward, falling by 16 bps in July to 3.6%, the lowest mark since May of 2014.
- The U.S. Treasury curve was materially unchanged in July. The 10-year Treasury yield ended the month at 2.30%.

INTERNATIONAL MARKETS

- International equities outperformed domestic equities in July (S&P 500 +2.1%) as the unhedged MSCI ACWI ex U.S. returned 3.7%. The unhedged index outperformed the hedged (+1.7%) over the month due to depreciation of the U.S. dollar.
- Eurozone core inflation rose 1.2% YoY in July, 10 bps higher than the previous month and above consensus expectations of 1.1%. Headline inflation increased by 1.3%, unchanged from the prior month, and well below the recent high in February of 2.0%.
- German business sentiment hit a record high in July, as the IFO Business Climate index rose to 116 in the month. The survey was bolstered by optimism in manufacturing, wholesaling and construction.
- The BOE cut both economic and wage growth forecasts, citing lower confidence in a positive outcome from the Brexit negotiations. Real GDP growth expectations for 2018 were cut from 1.9% to 1.7%.
- Chinese Q2 real GDP was 6.9% YoY (7.0% QoQ annualized), above the consensus estimate of 6.8%. Industrial production also surprised to the upside, expanding 7.6% in June from the prior year, above the consensus estimate of 6.5%.

Major asset class returns

ONE YEAR ENDING JULY



Source: Morningstar, as of 7/31/17

TEN YEARS ENDING JULY



Source: Morningstar, as of 7/31/17

U.S. large cap equities

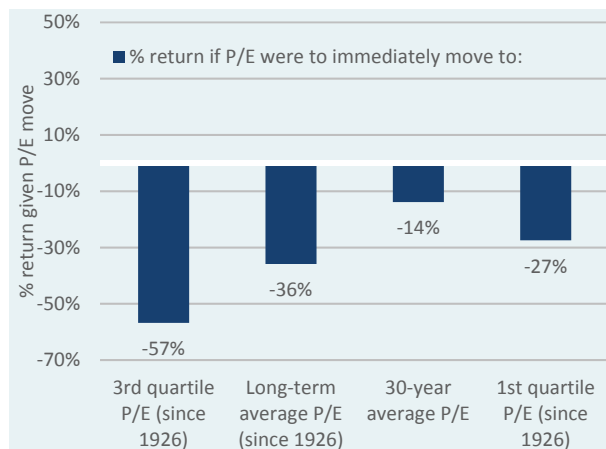
- Large cap equities provided positive returns in July, as the S&P 500 returned 2.1% in the month.
- According to FactSet, as of August 11th, 91% of companies in the S&P 500 had reported earnings and the blended Q2 earnings and sales growth rates were 10.2% and 5.1% YoY, respectively. Energy, Information Technology and Financials led all other sectors with the highest earnings and revenue growth.
- Telecommunication equities made up ground in July after a series of positive earnings reports, outperforming the broad index (+2.1%) and returning 6.4% in July. The sector performance remains negative year-to-date at -5.1%.
- Information Technology was the second highest returning sector in July (+4.3%) and the highest year-to-date (+22.3%). The sector's revenue growth was 8.8% in the second quarter, with 81% of companies reporting revenue above their consensus estimates.

U.S. LARGE CAP EQUITIES



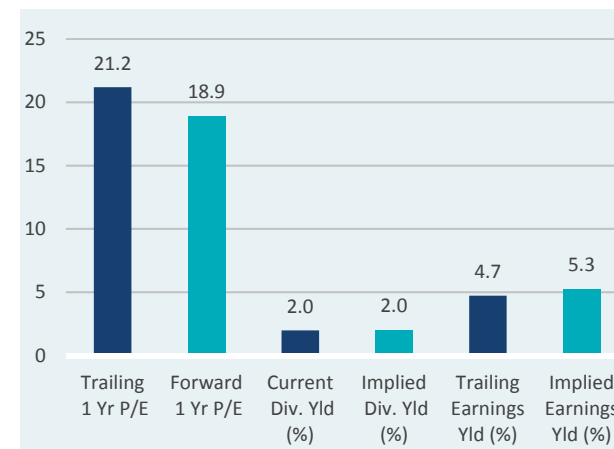
Source: Bloomberg, as of 7/31/17

RETURNS IF TRAILING P/E MOVED TO HISTORIC LEVEL



Source: Yale/Shiller, Verus, as of 7/31/17

S&P 500 VALUATION SNAPSHOT

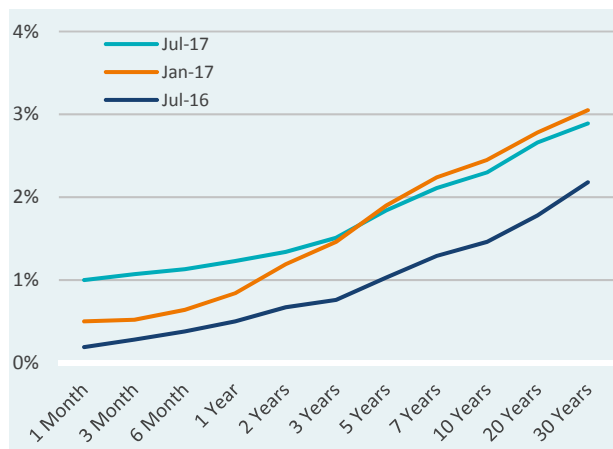


Source: Bloomberg, as of 7/31/17

Fixed income

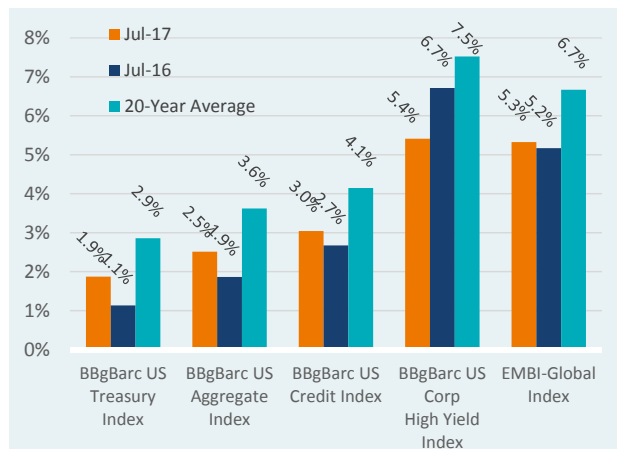
- In July, the Bloomberg Barclays U.S. Corp. High Yield index (+1.1%) outperformed the broad U.S. Aggregate Bond index (+0.4%). The sector benefitted from higher carry and a moderate reduction in high yield option-adjusted spreads (-16 bps to 3.6%).
- In July, a decrease in real 10-year Treasury yields (-10 bps) was offset by an increase in inflation expectations (+9 bps) and resulted in nominal rates that were materially unchanged over the period.
- On July 27th, it was announced that the London Interbank Offered Rate (LIBOR), a widely used benchmark for short-term rates, would be phased out by 2021 following a series of manipulation scandals. According to the BOE, an estimated \$350 trillion in financial products utilize the benchmark.

U.S. TREASURY YIELD CURVE



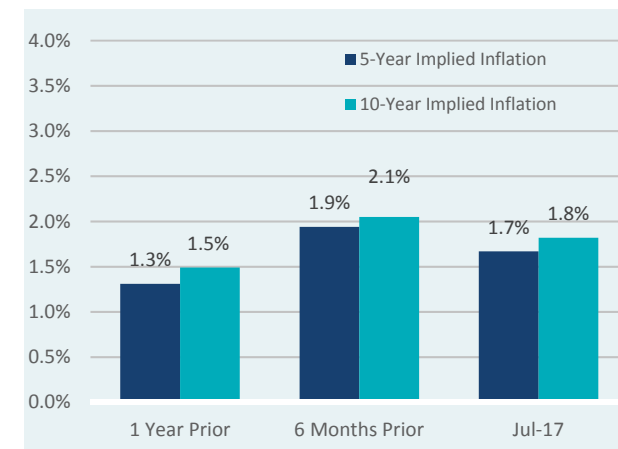
Source: Federal Reserve, as of 7/31/17

NOMINAL FIXED INCOME YIELDS



Source: Morningstar, as of 7/31/17

IMPLIED INFLATION (TIPS BREAK-EVEN)

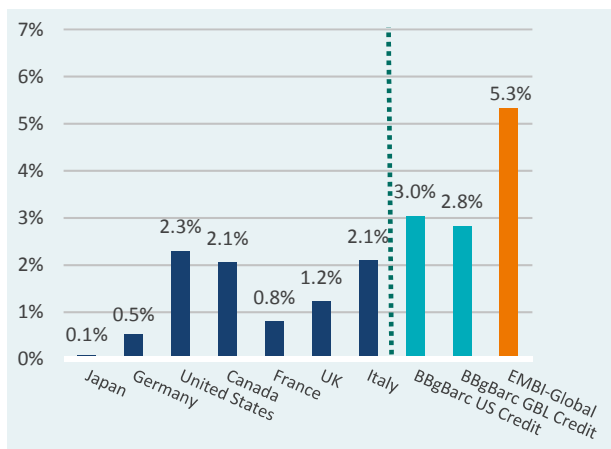


Source: Federal Reserve, as of 7/31/17

Global markets

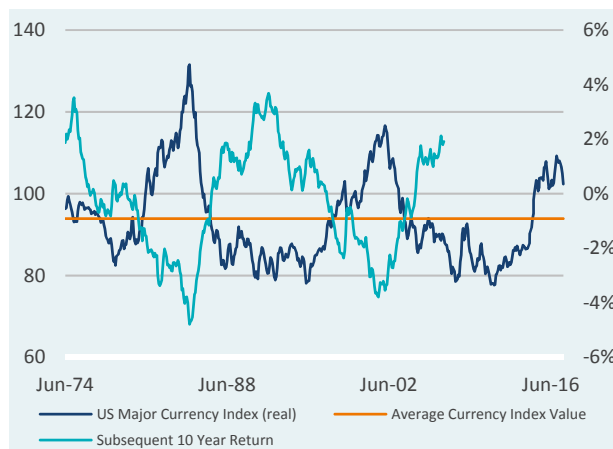
- Emerging market equities outperformed developed international equities in July, as the MSCI EM index and the MSCI ACWI ex U.S. index returned 6.0% and 3.7%, respectively (4.7% and 1.7% hedged).
- Global sovereign bond yields were generally unchanged in July after broad increases in global rates during the prior month. Canada was the exception after their central bank raised its benchmark rate for the first time in seven years. The Canadian 10-year yield rose by 30 bps in the month to 2.06%.
- According to J.P. Morgan, with two-thirds of developed nation's earnings reported, Japanese companies have delivered the highest year-over-year second quarter earnings growth (25% - TOPIX), followed by Europe (13% - STOXX 600) and the U.S. (10% - S&P 500).
- The U.S. dollar major currency index decreased by -2.5% to 102.3 in July against a trade weighted basket of currencies. The index has fallen -6.3% year-to-date but remains above its long-term average of 93.9.

GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS



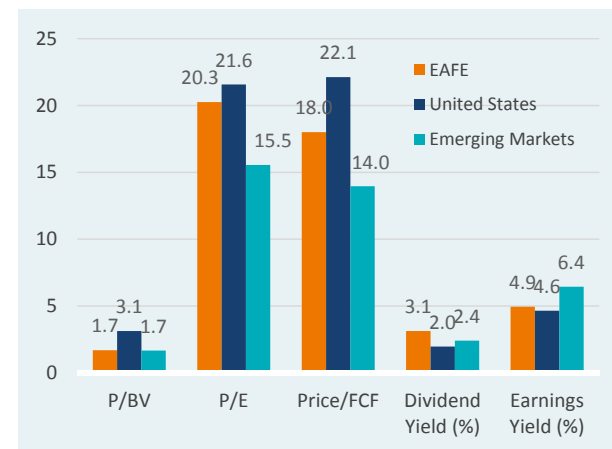
Source: Morningstar, as of 7/31/17

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 7/31/17

MSCI VALUATION METRICS (3 MONTH AVERAGE)

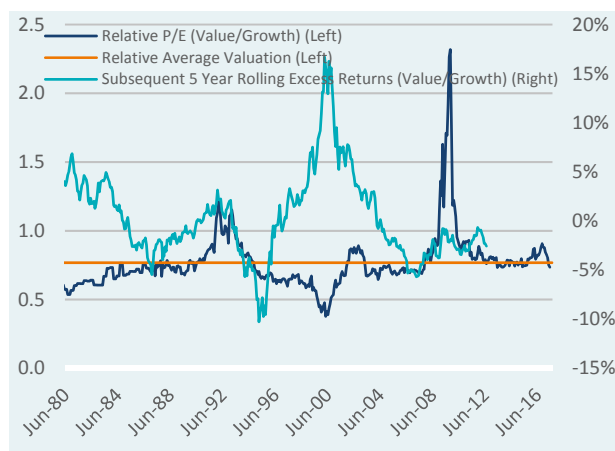


Source: Bloomberg, as of 7/31/17

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

- Growth equities outperformed value in July, as the Russell 1000 Growth and Russell 1000 Value returned 2.7% and 1.3%, respectively. Growth companies have outperformed value by 11.0% year-to-date.
- Growth equities benefited from a higher relative concentration to the Technology sector. The Russell 1000 Technology sub-index returned 3.9% in the month.
- The relative trailing P/E ratio of value to growth equities decreased to 0.74 in July. The ratio was pushed lower as the Russell 1000 Growth P/E ratio increased to 25.7, its highest since 2002.

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



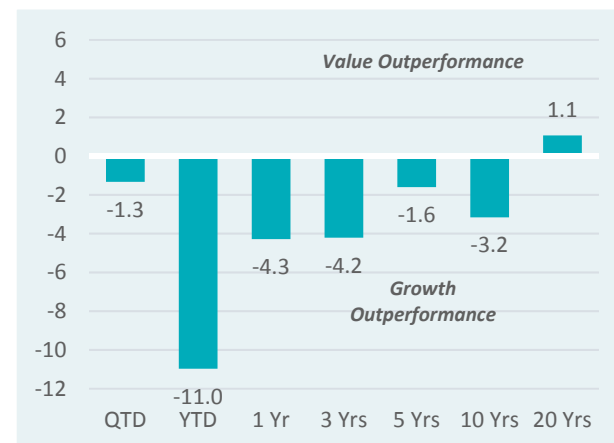
Source: Russell, Bloomberg, as of 7/31/17

U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

	RUSSELL 1000 VALUE	RUSSELL 1000 GROWTH
	ANNUALIZED RETURN TO DATE %	ANNUALIZED RETURN TO DATE %
QTD	1.3	2.7
YTD	6.0	17.0
1 YEAR	13.8	18.1
3 YEARS	8.5	12.7
5 YEARS	14.0	15.6
10 YEARS	6.2	9.4
20 YEARS	7.4	6.3
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.80	1.12
5 YEARS	1.36	1.47
10 YEARS	0.43	0.63
20 YEARS	0.41	0.32

Source: Morningstar, as of 7/31/17

U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE

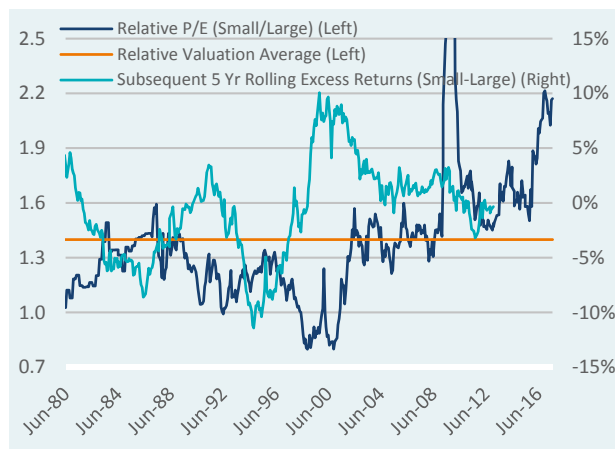


Source: Morningstar, as of 7/31/17

Style tilts: U.S. large vs. small

- U.S. large cap equities outperformed small cap equities in July, as the Russell 1000 index and Russell 2000 index returned 2.0% and 0.7%, respectively.
- Large cap equities have provided superior risk-adjusted returns relative to small cap equities over all time periods examined below.
- The recent outperformance of U.S. large cap companies (+5.7% year-to-date) was partially attributable to the U.S. dollar weakness against major currencies (-6.3% year-to-date) and the corresponding effects on international trade that disproportionately favor large corporations.
- The relative trailing P/E ratio of small to large cap equities was elevated in July, increasing slightly from 2.16 to 2.17 in the month. The ratio remains well above its long-term average of 1.40.

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



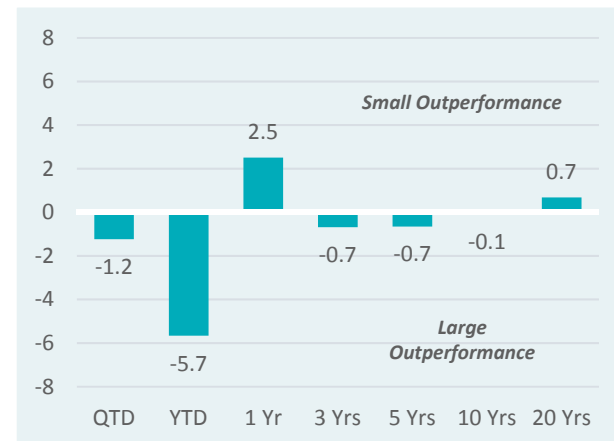
Source: Russell, Bloomberg, as of 7/31/17

U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

	RUSSELL 1000 INDEX	RUSSELL 2000 INDEX
	ANNUALIZED RETURN TO DATE %	ANNUALIZED RETURN TO DATE %
QTD	2.0	0.7
YTD	11.4	5.8
1 YEAR	16.0	18.5
3 YEARS	10.6	9.9
5 YEARS	14.8	14.2
10 YEARS	7.8	7.8
20 YEARS	7.1	7.8
	SHARPE RATIO	SHARPE RATIO
3 YEARS	1.00	0.69
5 YEARS	1.47	1.02
10 YEARS	0.54	0.45
20 YEARS	0.39	0.37

Source: Morningstar, as of 7/31/17

U.S. LARGE VS. SMALL RELATIVE PERFORMANCE



Source: Morningstar, as of 7/31/17

Commodities

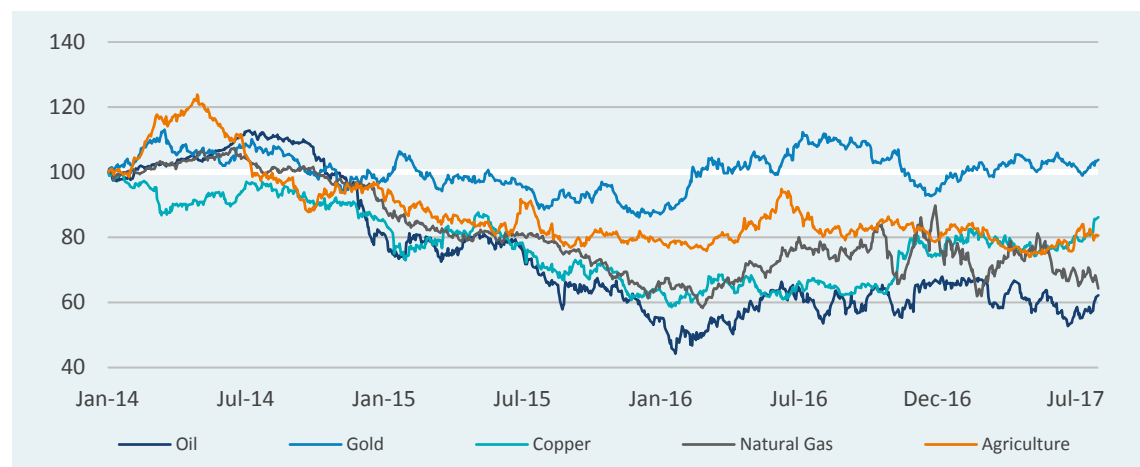
- In July, the Bloomberg Commodity index reversed its recent downward trend and returned a positive 2.3%.
- The Bloomberg Industrial Metals sub-index returned 4.1%. The move was largely influenced by an increase in copper prices, which rose by 6.7% during the month and ended at \$289.15 per pound. Strong demand from China and reduced supply expectations aided the July rally.
- The Bloomberg Petroleum sub-index outperformed the broad index and returned 9.2%. The rally was influenced by high seasonal demand and a coincident 9.6 million barrel reduction in U.S. gasoline inventories.
- WTI Crude Oil prices increased by 9.0% and ended the month at \$50.17 per barrel. U.S. crude oil inventories fell by 21 million barrels and ended the month at 482 million barrels.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	2.3	2.3	(3.1)	0.8	(12.7)	(10.0)	(6.5)
Bloomberg Agriculture	0.9	0.9	(2.5)	(5.3)	(7.8)	(10.8)	(1.8)
Bloomberg Energy	4.6	4.6	(16.3)	(0.2)	(28.9)	(17.9)	(17.6)
Bloomberg Grains	(2.3)	(2.3)	0.6	(2.1)	(8.4)	(13.3)	(2.9)
Bloomberg Industrial Metals	4.1	4.1	10.7	18.6	(5.1)	(3.5)	(6.1)
Bloomberg Livestock	(4.8)	(4.8)	6.0	11.0	(8.0)	(2.5)	(7.7)
Bloomberg Petroleum	9.2	9.2	(10.7)	10.2	(29.0)	(16.7)	(11.9)
Bloomberg Precious Metals	1.8	1.8	8.1	(10.7)	(2.7)	(6.7)	4.9
Bloomberg Softs	7.3	7.3	(12.4)	(16.3)	(10.2)	(10.5)	(2.6)

Source: Morningstar, as of 7/31/17

COMMODITY PERFORMANCE



Source: Bloomberg, as of 7/31/17

Appendix

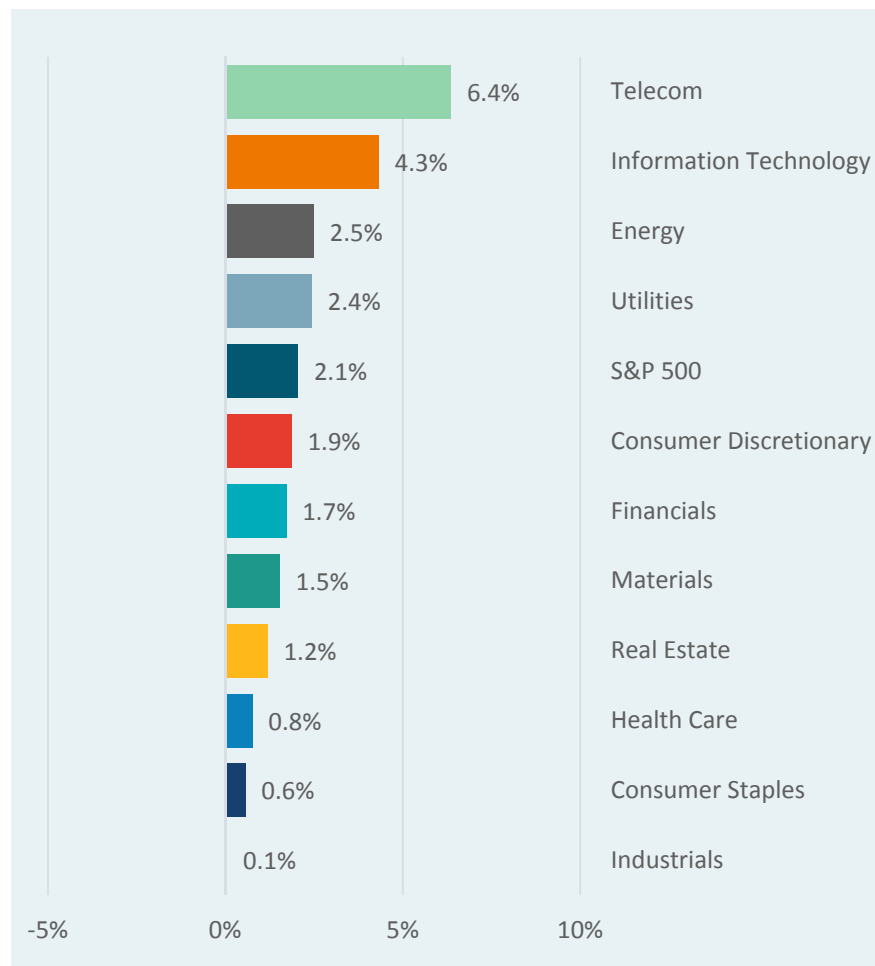
Periodic table of returns

	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	13.3	31.7	25.5	15.6	9.4	
	International Equity	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	17.1	14.8	8.5
	Large Cap Growth	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	17.0	14.6	7.8
	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	11.4	14.2	7.8
	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	11.2	14.0	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	10.9	13.8	6.4
	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	6.0	10.5	6.2
	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	5.8	9.1	4.4
	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	4.2	6.9	4.3
	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	3.3	4.8	2.0
	US Bonds	-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	2.7	3.9	1.5
	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	1.2	2.0	0.9
	Cash	-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	0.5	0.2	0.4
	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	-3.1	-10.0	-6.5
WORST																											
	Large Cap Equity																										
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	Emerging Markets 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 6/30/17.

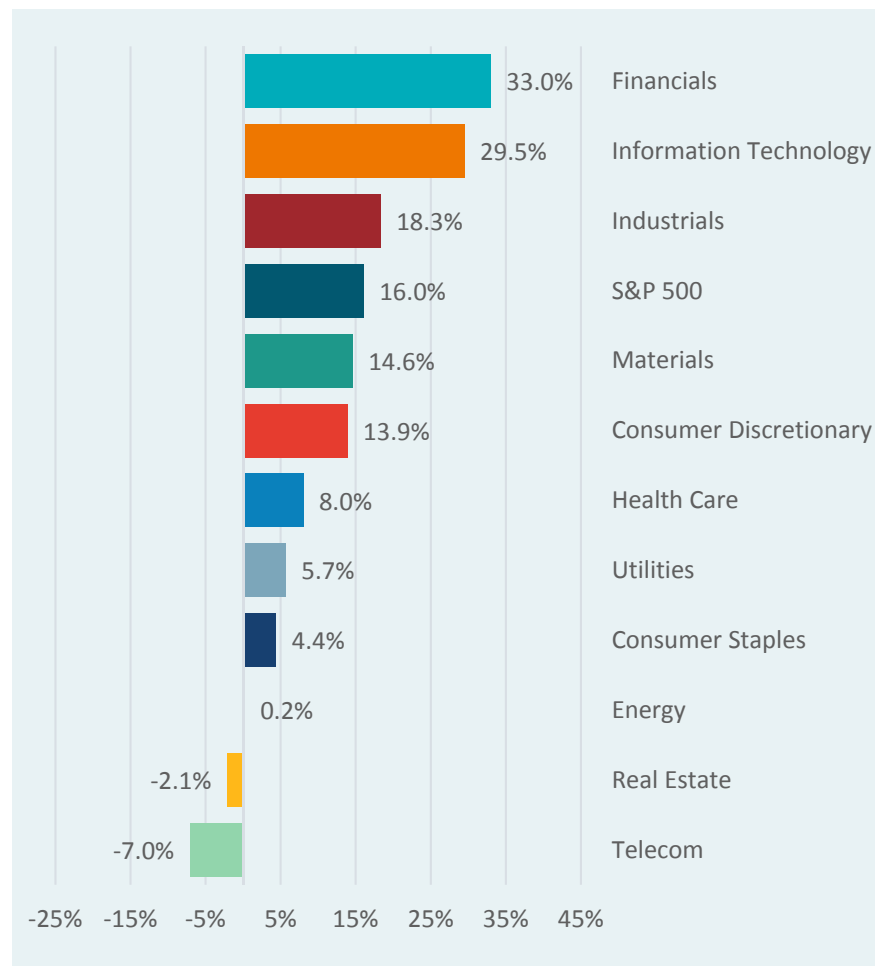
S&P 500 sector returns

QTD



Source: Morningstar, as of 7/31/17

ONE YEAR ENDING JULY



Source: Morningstar, as of 7/31/17

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	2.1	2.1	11.6	16.0	10.9	14.8	7.7
S&P 500 Equal Weighted	1.6	1.6	9.8	14.3	10.0	15.8	9.0
DJ Industrial Average	2.7	2.7	12.3	21.8	12.5	13.8	8.0
Russell Top 200	2.2	2.2	12.2	17.1	11.1	14.8	7.7
Russell 1000	2.0	2.0	11.4	16.0	10.6	14.8	7.8
Russell 2000	0.7	0.7	5.8	18.5	9.9	14.2	7.8
Russell 3000	1.9	1.9	11.0	16.1	10.5	14.8	7.8
Russell Mid Cap	1.5	1.5	9.6	13.0	9.3	15.0	8.2
Style Index							
Russell 1000 Growth	2.7	2.7	17.0	18.1	12.7	15.6	9.4
Russell 1000 Value	1.3	1.3	6.0	13.8	8.5	14.0	6.2
Russell 2000 Growth	0.9	0.9	10.9	17.8	10.2	14.6	8.5
Russell 2000 Value	0.6	0.6	1.2	19.2	9.5	13.8	6.9

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	2.8	2.8	14.6	17.1	6.2	10.9	4.2
MSCI ACWI ex US	3.7	3.7	18.3	19.0	2.4	7.7	1.5
MSCI EAFE	2.9	2.9	17.1	17.8	2.8	9.1	1.5
MSCI EM	6.0	6.0	25.5	24.8	2.4	4.8	2.0
MSCI EAFE Small Cap	3.6	3.6	20.9	20.3	7.7	13.7	3.8
Style Index							
MSCI EAFE Growth	2.4	2.4	19.5	13.0	4.4	9.3	2.4
MSCI EAFE Value	3.3	3.3	14.8	22.7	1.1	8.7	0.5
Regional Index							
MSCI UK	2.6	2.6	12.8	13.1	(1.7)	5.6	0.8
MSCI Japan	2.0	2.0	12.1	14.2	6.0	10.5	1.4
MSCI Euro	3.7	3.7	20.9	25.5	3.3	11.1	0.1
MSCI EM Asia	5.6	5.6	30.1	28.8	5.7	8.5	3.6
MSCI EM Latin American	8.3	8.3	19.2	18.0	(4.4)	(2.5)	(0.5)

Source: Morningstar, as of 7/31/17

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US Treasury US TIPS	0.4	0.4	1.3	(1.0)	0.8	(0.0)	4.1
BBgBarc US Treasury Bills	0.1	0.1	0.4	0.5	0.3	0.2	0.6
BBgBarc US Agg Bond	0.4	0.4	2.7	(0.5)	2.7	2.0	4.4
Duration							
BBgBarc US Treasury 1-3 Yr	0.2	0.2	0.7	0.2	0.8	0.6	1.9
BBgBarc US Treasury Long	(0.6)	(0.6)	4.8	(9.8)	5.2	2.0	7.0
BBgBarc US Treasury	0.2	0.2	2.0	(2.5)	2.1	1.1	3.9
Issuer							
BBgBarc US MBS	0.5	0.5	1.8	0.2	2.5	1.9	4.3
BBgBarc US Corp. High Yield	1.1	1.1	6.1	10.9	5.3	6.7	8.2
BBgBarc US Agency Interim	0.3	0.3	1.3	0.2	1.5	1.1	3.0
BBgBarc US Credit	0.7	0.7	4.4	1.3	3.7	3.3	5.7

OTHER

Index							
Bloomberg Commodity	2.3	2.3	(3.1)	0.8	(12.7)	(10.0)	(6.5)
Wilshire US REIT	1.1	1.1	2.9	(4.8)	8.7	9.2	6.6
CS Leveraged Loans	0.8	0.8	2.8	6.8	3.8	4.8	4.6
Regional Index							
JPM EMBI Global Div	0.8	0.8	7.1	5.0	5.5	5.1	7.6
JPM GBI-EM Global Div	2.1	2.1	12.6	8.0	(1.8)	(0.7)	4.1
Hedge Funds							
HFRI Composite	1.2	1.2	4.8	7.2	3.1	4.9	3.1
HFRI FOF Composite	1.1	1.1	4.2	5.9	2.0	3.9	0.9
Currency (Spot)							
Euro	3.4	3.4	11.8	5.4	(4.1)	(0.9)	(1.5)
Pound	1.5	1.5	6.7	(0.7)	(7.9)	(3.4)	(4.2)
Yen	1.7	1.7	5.6	(7.2)	(2.4)	(6.7)	0.7

Definitions

German IFO Business Climate Index – The Ifo Business Climate Index is based on ca. 7,000 monthly survey responses from firms in manufacturing, construction, wholesaling and retailing. The firms are asked to give their assessments of the current business situation and their expectations for the next six months. They can characterise their situation as “good”, “satisfactory” or “poor” and their business expectations for the next six months as “more favourable”, “unchanged” or “more unfavourable”. (<https://www.cesifo-group.de/ifoHome/facts/Survey-Results/Business-Climate.html>)

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