



**PERSPECTIVES
THAT DRIVE
ENTERPRISE
SUCCESS**

AUGUST 2017
Capital Markets Update

Market commentary

ECONOMIC CLIMATE

- Headline CPI increased by 1.9% YoY in August, up 20 bps from July, affected by higher gasoline and shelter prices. Core CPI increased by 1.7% YoY, unchanged from the prior month. Core CPI was led by modest price increases in automobiles and medical services.
- The U.S. dollar depreciated for a fifth consecutive month, decreasing by -1.6% to 100.7 in August against a trade weighted basket of currencies. The currency has fallen -7.8% year-to-date.
- The Conference Board's Consumer Confidence Index, a survey of business and employment sentiment, rose to 122.9 in August, near the fifteen year high of 124.9 set in March.
- Initial unemployment claims jumped in the first week of September to 284,000, above the consensus estimate of 241,000, but well below the 10-year average of 372,000. A significant portion of the increase was attributed to people affected by Hurricanes Harvey and Irma.

DOMESTIC EQUITIES

- Domestic equities continued to appreciate as the S&P 500 returned 0.3% in August, marking the tenth consecutive monthly gain for the index.
- Information Technology outperformed all other S&P 500 sectors – the tech sector index returned 3.5% in August (26.6% year-to-date).
- Implied volatility of the S&P 500 peaked intra-month on August 10th (VIX 16.0) following the North Korean nuclear threat on the U.S. territory of Guam. By month-end the VIX declined back down to 10.6, well below the three-year average of 15.1.

DOMESTIC FIXED INCOME

- Domestic fixed income returns were positive in August as the Bloomberg Barclays U.S. Aggregate Index returned 0.9%.
- Long-term U.S. Treasury rates fell, as the 10-year (-18 bps) and 30-year yields (-16 bps) decreased to 2.12% and 2.73%, respectively.
- The U.S. Treasury curve flattened modestly – the 10-year minus 2-year Treasury yield spread contracted -17 bps to 0.79%.

INTERNATIONAL MARKETS

- International equities narrowly outperformed domestic equities in August (S&P 500 +0.3%) as the unhedged MSCI ACWI ex U.S. Index returned 0.5% (+0.6% hedged). Emerging market equities also outperformed in August, returning 2.2% (+2.0% hedged).
- Eurozone CPI increased by 1.5% YoY in August, up 20 bps from the prior month, but below the recent high in February of 2.0%. CPI ex food and energy was unchanged at 1.2% YoY.
- U.K. unemployment fell 10 bps to 4.3% in July, the lowest rate since 1975, while the labor force participation rate increased to 75.3%, the highest since records began in 1971.
- U.K. citizens experienced negative real wage growth in July, as nominal wages increased by 2.1% YoY (3-month average) while inflation increased at a rate of 2.7% YoY.
- Japan's finalized real GDP grew at a rate of 1.4% YoY in the second quarter (2.4% QoQ annualized). This marked the sixth consecutive quarter of economic expansion, the longest streak since 2006.

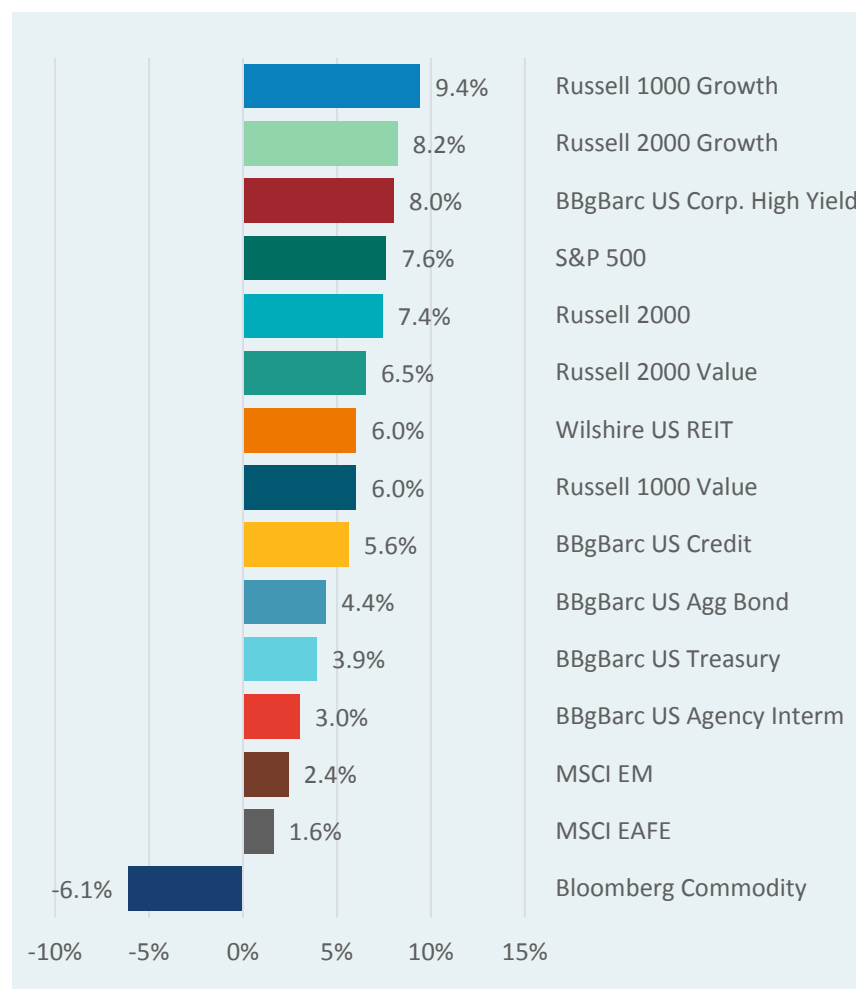
Major asset class returns

ONE YEAR ENDING AUGUST



Source: Morningstar, as of 8/31/17

TEN YEARS ENDING AUGUST



Source: Morningstar, as of 8/31/17

U.S. large cap equities

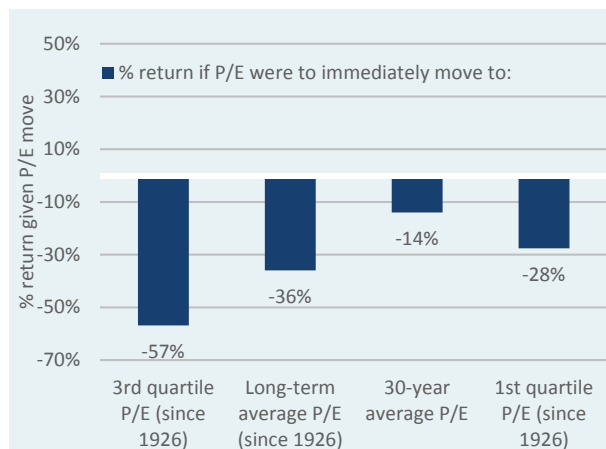
- Large cap equities posted a positive return for a tenth consecutive month (S&P 500 +0.3%).
- According to FactSet, as of September 8th, estimated Q3 earnings and sales growth rates for the S&P 500 were 4.9% and 5.1% YoY, respectively. Energy, Materials and Information Technology led all other sectors with the highest estimated earnings and revenue growth.
- S&P 500 buybacks fell to \$120 billion in Q2. The preliminary figures estimate a decrease of 9.8% quarter-over-quarter and 5.8% from the prior year.
- Energy was the worst performing sector, returning -5.2% (-15.1% year-to-date). Despite Energy leading the S&P in estimated Q3 earnings growth, the sector has experienced the largest relative decrease in forecasted earnings. According to FactSet, 22 of the 32 companies decreased their mean EPS estimates by 10% or greater.

U.S. LARGE CAP EQUITIES



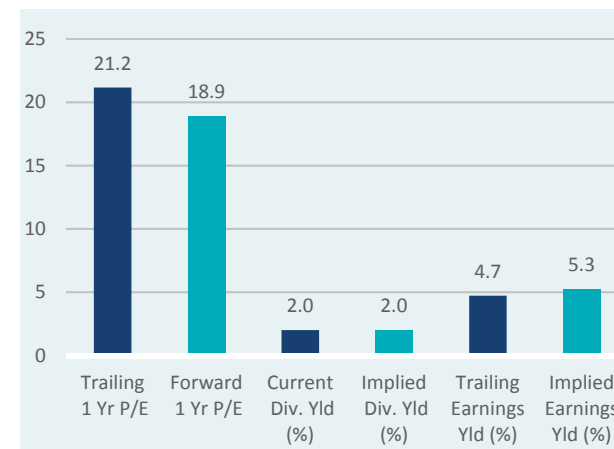
Source: Bloomberg, as of 8/31/17

RETURNS IF TRAILING P/E MOVED TO HISTORIC LEVEL



Source: Yale/Shiller, Verus, as of 8/31/17

S&P 500 VALUATION SNAPSHOT

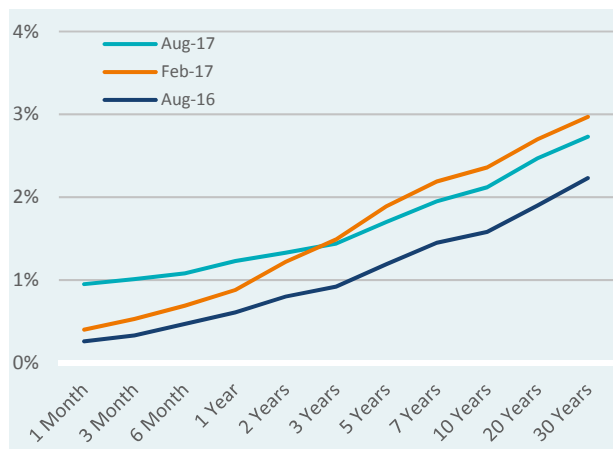


Source: Bloomberg, as of 8/31/17

Fixed income

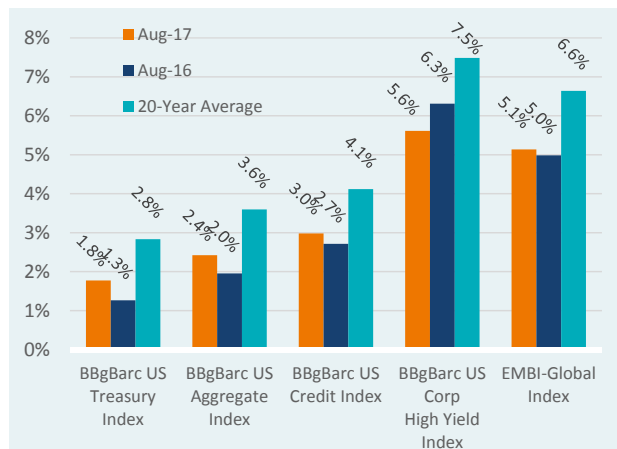
- The Bloomberg Barclays U.S. Treasury Long (+3.4%) outperformed the broad U.S. Treasury Index (+1.1%). The long end of the U.S. Treasury curve fell during the month, as the 10-year and 30-year yields decreased by 18 bps and 16 bps, respectively.
- Year-to-date, the U.S. has issued \$318 billion in asset-backed debt securities, 78% higher than the same period in 2016. Asset-backed debt includes auto loans, credit cards, student loans and USD denominated CDO's.
- High yield fixed income underperformed in August, as the Bloomberg Barclays U.S. Corp High Yield Index returned 0.0%. U.S. high yield option-adjusted spreads widened intra-month by 40 bps with rising geopolitical tension. Spreads partially retraced and ended the month up 24 bps at 3.85%.
- A decline in U.S. 10-year real yields (-12 bps) combined with a slight decrease in inflation expectations (-6 bps), which resulted in a decrease in nominal yields over the month.

U.S. TREASURY YIELD CURVE



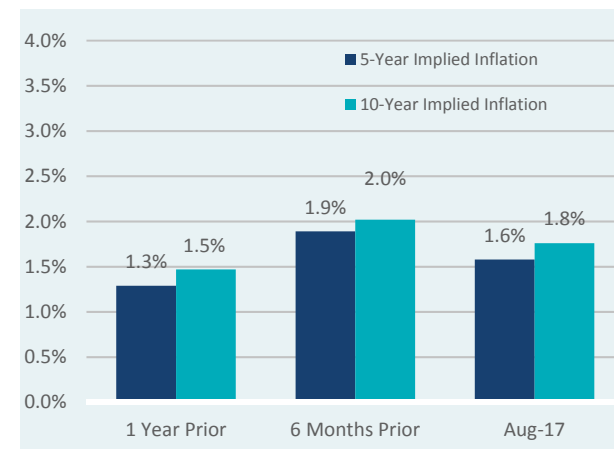
Source: Federal Reserve, as of 8/31/17

NOMINAL FIXED INCOME YIELDS



Source: Morningstar, as of 8/31/17

IMPLIED INFLATION (TIPS BREAK-EVEN)

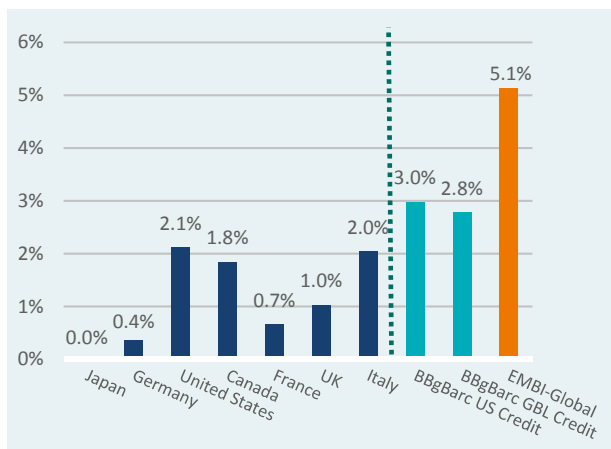


Source: Federal Reserve, as of 8/31/17

Global markets

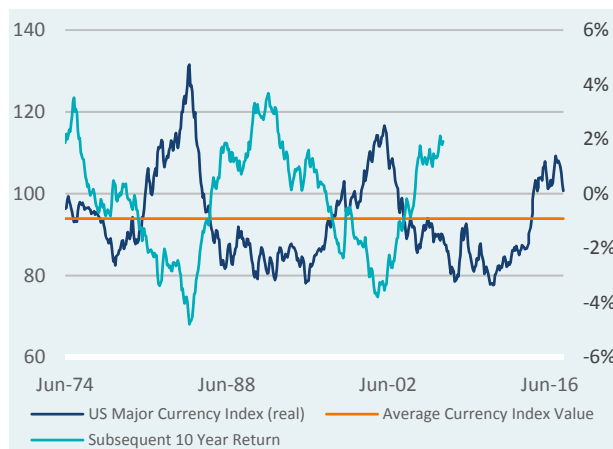
- Emerging market equities (MSCI EM) returned 2.2% in August (2.0% hedged). The 3-month average trailing P/E ratio of the MSCI EM index was 15.4 in August, above the 10-year average of 13.5.
- Brazil officially emerged from recession in the second quarter. Real GDP grew by 0.2% YoY (1.0% QoQ annualized), the second consecutive quarter of expansion.
- In August, global sovereign 10-year bond yields were down across all nations examined below, decreasing by an average of 15 bps during the month.
- Chinese officials formalized the 2016 foreign investment restrictions to specifically prohibit property, hotels, cinema and entertainment companies. China's foreign direct investment in the U.S. was down an estimated 40% year-to-date.

GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS



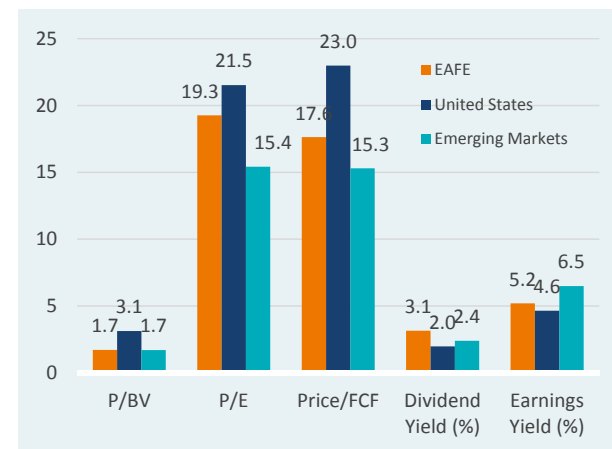
Source: Morningstar, as of 8/31/17

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 8/31/17

MSCI VALUATION METRICS (3 MONTH AVERAGE)

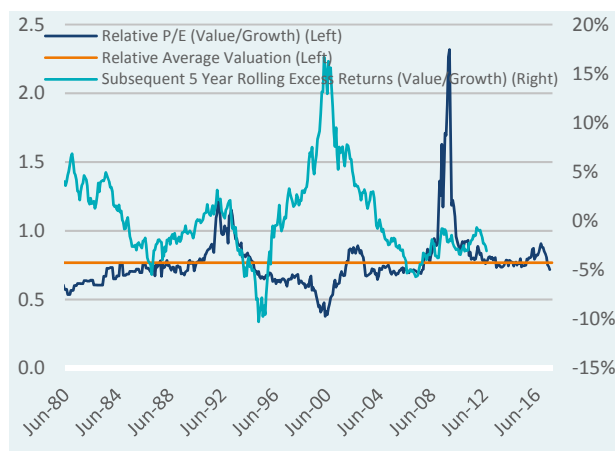


Source: Bloomberg, as of 8/31/17

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

- Growth equities outperformed value equities in August, as the Russell 1000 Growth and Russell 1000 Value returned 1.8% and -1.2%, respectively.
- Growth equities were driven by a higher relative concentration to the Technology sector. The Russell 1000 Technology sub-index outperformed all of the sectors for a second consecutive month and returned 3.8% in the month (31.3% year-to-date).
- The relative trailing P/E ratio of value to growth equities continued its downward trend in August and ended the month at 0.72. The ratio is below its long-term average of 0.77.
- The Russell 1000 Value was negatively affected by its higher relative allocation to Energy, which returned -5.3% in the month.

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



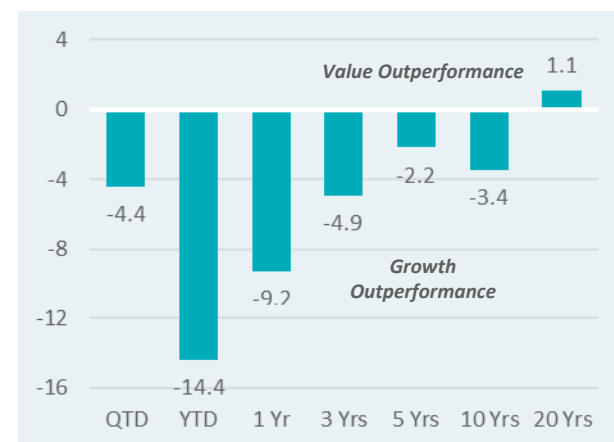
Source: Russell, Bloomberg, as of 8/31/17

U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

	RUSSELL 1000 VALUE ANNUALIZED RETURN TO DATE %	RUSSELL 1000 GROWTH ANNUALIZED RETURN TO DATE %
QTD	0.1	4.5
YTD	4.8	19.2
1 YEAR	11.6	20.8
3 YEARS	6.7	11.7
5 YEARS	13.2	15.4
10 YEARS	6.0	9.4
20 YEARS	7.5	6.7
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.65	1.05
5 YEARS	1.29	1.46
10 YEARS	0.42	0.63
20 YEARS	0.42	0.35

Source: Morningstar, as of 8/31/17

U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE

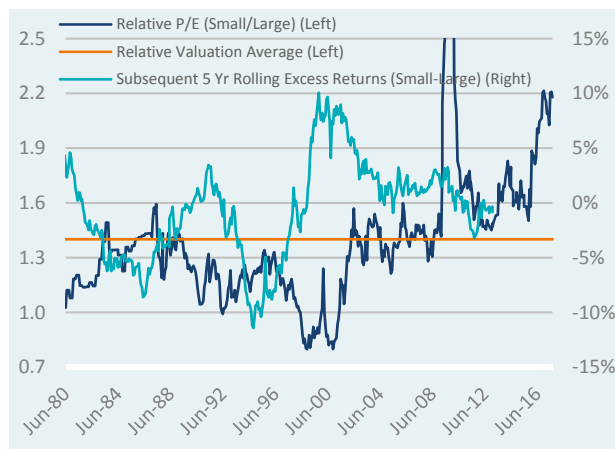


Source: Morningstar, as of 8/31/17

Style tilts: U.S. large vs. small

- U.S. large cap equities continued to outperform small cap equities, as the Russell 1000 index and Russell 2000 index returned 0.3% and -1.3%, respectively.
- Large cap equities have provided superior risk-adjusted returns (Sharpe ratio) relative to small cap equities over all time periods examined below.
- The relative trailing P/E ratio of small to large cap equities remained elevated in August and ended the month near recent highs of 2.2, well above the long-term average of 1.4. According to Bloomberg, the trailing P/E ratio of the Russell 2000 index was near business cycle highs at 47.3.

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



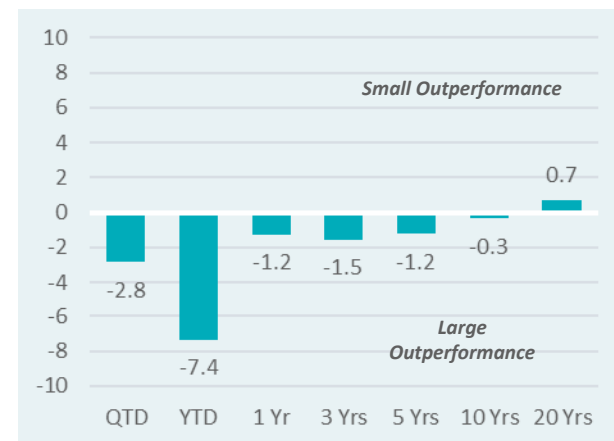
Source: Russell, Bloomberg, as of 8/31/17

U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE

	RUSSELL 1000 INDEX	RUSSELL 2000 INDEX
	ANNUALIZED RETURN TO DATE %	ANNUALIZED RETURN TO DATE %
QTD	2.3	(0.5)
YTD	11.8	4.4
1 YEAR	16.2	14.9
3 YEARS	9.2	7.7
5 YEARS	14.4	13.2
10 YEARS	7.7	7.4
20 YEARS	7.4	7.6
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.89	0.55
5 YEARS	1.42	0.95
10 YEARS	0.53	0.44
20 YEARS	0.41	0.37

Source: Morningstar, as of 8/31/17

U.S. LARGE VS. SMALL RELATIVE PERFORMANCE



Source: Morningstar, as of 8/31/17

Commodities

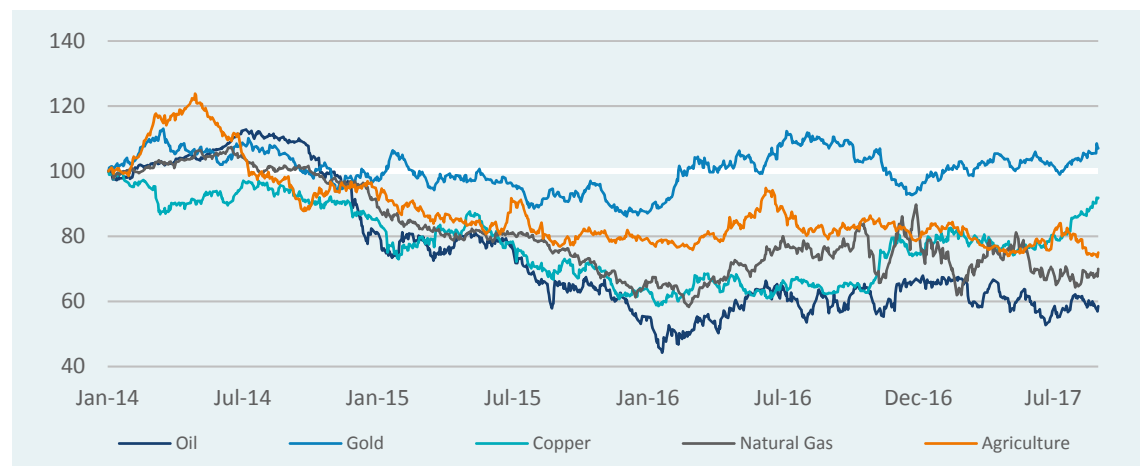
- Gold returned 3.1% in August and ended the month at \$1,306 per ounce. The safe-haven asset has benefitted from rising geopolitical risks, appreciating 12.7% year-to-date.
- The Bloomberg Agriculture sub-index returned -6.9%. Corn prices (-7.0%) were negatively affected by increased 2017 supply estimates. However, an unusually cool August in the Midwest may create supply risks and reverse the trend.
- Industrial Metals continued to rally during the month. The Bloomberg sub-index (+9.6%) significantly outperformed the broad index (+0.4%). Aluminum and Copper, the primary industrial metals, appreciated by 10.4% and 7.2% in the month, aided by the weak U.S. dollar and global demand exceeding supply.

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	0.4	2.7	(2.7)	3.0	(12.3)	(10.1)	(6.1)
Bloomberg Agriculture	(6.9)	(6.1)	(9.2)	(7.4)	(9.3)	(12.2)	(2.7)
Bloomberg Energy	1.4	6.1	(15.1)	(2.3)	(28.5)	(17.9)	(16.9)
Bloomberg Grains	(8.5)	(10.6)	(8.0)	(2.9)	(10.7)	(15.1)	(4.5)
Bloomberg Industrial Metals	9.6	14.2	21.4	35.5	(2.3)	(1.7)	(4.5)
Bloomberg Livestock	(6.2)	(10.7)	(0.6)	4.2	(8.7)	(3.4)	(7.8)
Bloomberg Petroleum	(0.4)	8.7	(11.0)	3.2	(28.6)	(18.4)	(11.4)
Bloomberg Precious Metals	4.0	5.8	12.5	(2.2)	(1.0)	(7.1)	5.5
Bloomberg Softs	(4.3)	2.7	(16.2)	(19.9)	(11.0)	(10.0)	(2.5)

Source: Morningstar, as of 8/31/17

COMMODITY PERFORMANCE



Source: Bloomberg, as of 8/31/17

Appendix

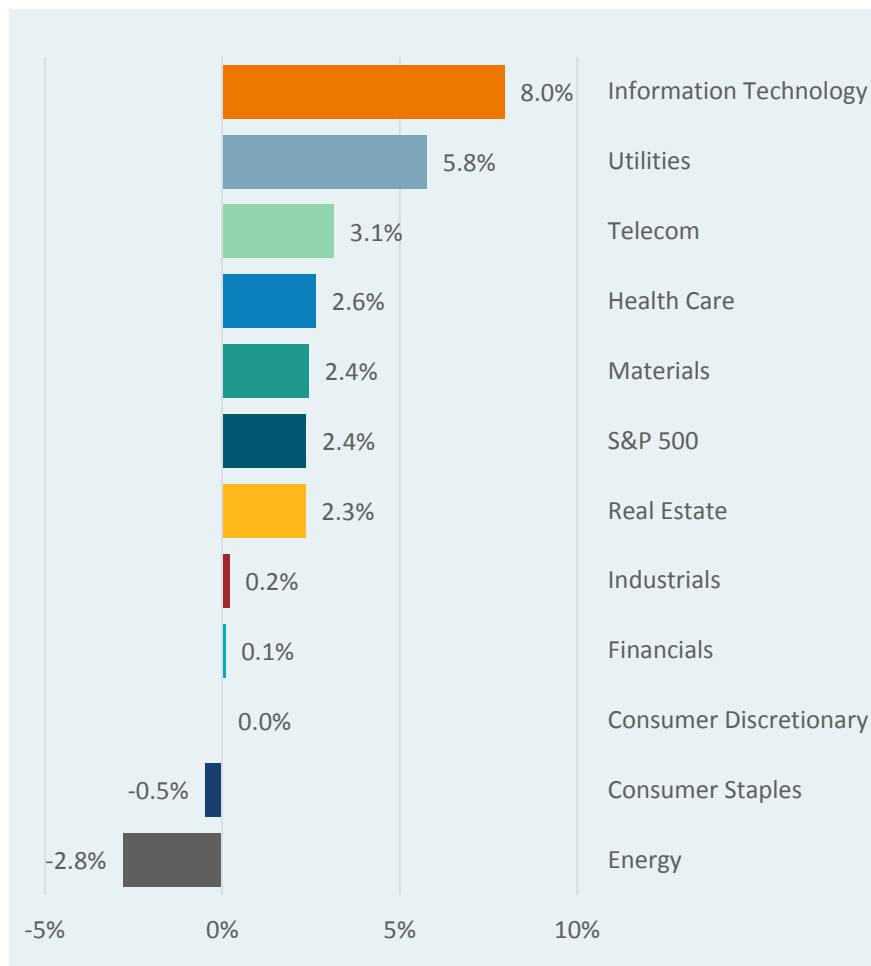
Periodic table of returns

	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	28.3	15.4	9.4	
	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	19.2	14.4	8.2
	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	17.0	13.7	7.7
	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	11.9	13.2	7.4
	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	11.8	13.2	6.5
	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	10.8	12.5	6.4
	Hedge Funds of Funds	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	5.5	10.5	6.0
	Large Cap Value	-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	4.8	8.5	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	4.4	6.7	4.3
	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	3.6	5.3	2.4
	Real Estate	-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	3.3	4.0	1.6
	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	0.5	2.2	1.3
	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	-1.3	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	-2.7	-10.1	-6.1
WORST																											
	Large Cap Equity																										
	Large Cap Value																										
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	Small Cap Growth																										
	International Equity																										
	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.

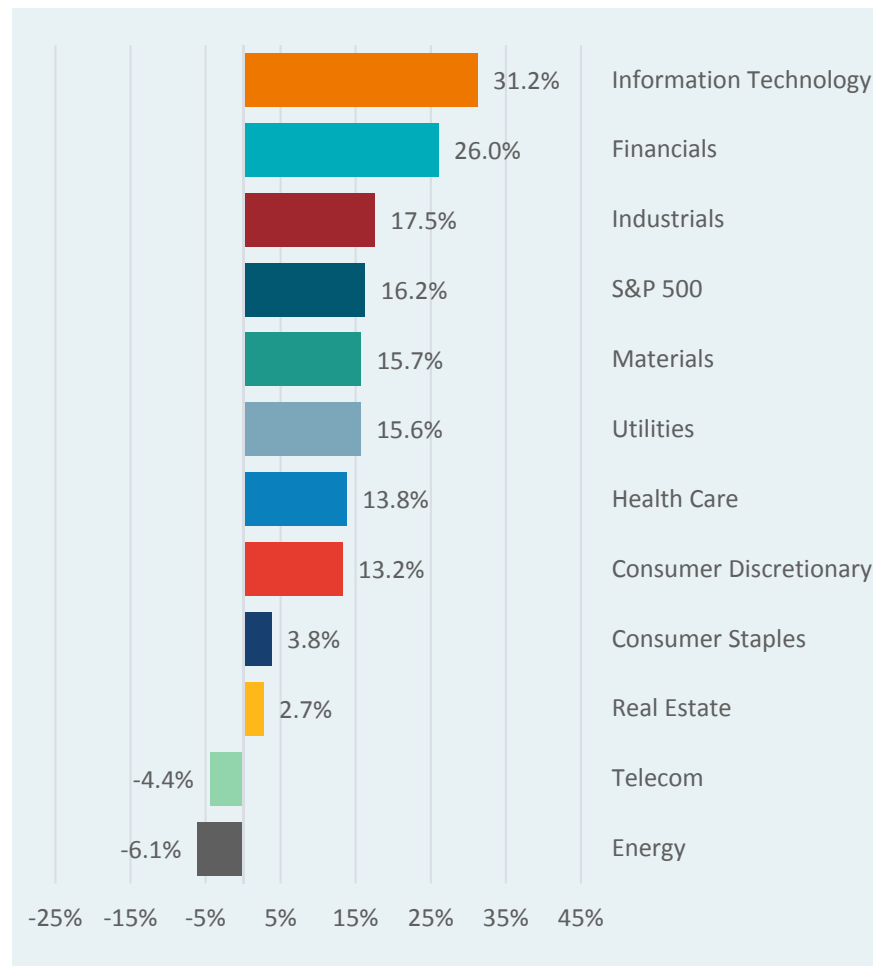
S&P 500 sector returns

QTD



Source: Morningstar, as of 8/31/17

ONE YEAR ENDING AUGUST



Source: Morningstar, as of 8/31/17

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	0.3	2.4	11.9	16.2	9.5	14.3	7.6
S&P 500 Equal Weighted	(0.9)	0.7	8.8	13.0	8.1	14.9	8.9
DJ Industrial Average	0.7	3.3	13.0	22.3	11.5	13.7	7.9
Russell Top 200	0.7	2.9	13.0	17.7	10.0	14.5	7.6
Russell 1000	0.3	2.3	11.8	16.2	9.2	14.4	7.7
Russell 2000	(1.3)	(0.5)	4.4	14.9	7.7	13.2	7.4
Russell 3000	0.2	2.1	11.2	16.1	9.1	14.3	7.7
Russell Mid Cap	(0.8)	0.7	8.7	12.4	7.3	14.1	8.1
Style Index							
Russell 1000 Growth	1.8	4.5	19.2	20.8	11.7	15.4	9.4
Russell 1000 Value	(1.2)	0.1	4.8	11.6	6.7	13.2	6.0
Russell 2000 Growth	(0.1)	0.7	10.8	16.4	8.2	13.7	8.2
Russell 2000 Value	(2.5)	(1.8)	(1.3)	13.5	7.1	12.5	6.5

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	0.4	3.2	15.0	17.1	5.6	10.5	4.2
MSCI ACWI ex US	0.5	4.2	18.9	18.9	2.4	7.4	1.7
MSCI EAFE	(0.0)	2.8	17.0	17.6	2.8	8.5	1.6
MSCI EM	2.2	8.3	28.3	24.5	2.4	5.3	2.4
MSCI EAFE Small Cap	0.8	4.5	21.9	22.0	8.1	13.2	4.5
Style Index							
MSCI EAFE Growth	0.6	3.0	20.2	15.2	4.5	9.0	2.5
MSCI EAFE Value	(0.6)	2.7	14.1	20.0	1.0	7.8	0.6
Regional Index							
MSCI UK	(0.8)	1.8	12.0	12.1	(2.1)	4.7	0.8
MSCI Japan	(0.1)	2.0	12.1	13.7	6.8	10.7	1.7
MSCI Euro	0.2	3.9	21.1	24.4	3.3	9.7	0.2
MSCI EM Asia	1.4	7.0	31.8	25.5	5.9	8.9	3.9
MSCI EM Latin American	4.6	13.3	24.7	22.6	(5.4)	(1.5)	0.2

Source: Morningstar, as of 8/31/17

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US Treasury US TIPS	1.1	1.5	2.4	0.5	1.0	0.3	4.1
BBgBarc US Treasury Bills	0.1	0.2	0.5	0.6	0.3	0.2	0.6
BBgBarc US Agg Bond	0.9	1.3	3.6	0.5	2.6	2.2	4.4
Duration							
BBgBarc US Treasury 1-3 Yr	0.2	0.4	0.9	0.5	0.8	0.7	1.8
BBgBarc US Treasury Long	3.4	2.8	8.4	(5.8)	5.0	2.9	7.2
BBgBarc US Treasury	1.1	1.3	3.1	(0.9)	2.1	1.4	3.9
Issuer							
BBgBarc US MBS	0.7	1.2	2.5	0.8	2.5	2.1	4.2
BBgBarc US Corp. High Yield	(0.0)	1.1	6.1	8.6	4.8	6.5	8.0
BBgBarc US Agency Interim	0.4	0.6	1.7	0.7	1.5	1.1	3.0
BBgBarc US Credit	0.8	1.6	5.3	1.9	3.5	3.4	5.6

OTHER

Index							
Bloomberg Commodity	0.4	2.7	(2.7)	3.0	(12.3)	(10.1)	(6.1)
Wilshire US REIT	(0.4)	0.7	2.5	(2.0)	7.5	9.1	6.0
CS Leveraged Loans	(0.1)	0.6	2.6	5.9	3.6	4.5	4.6
Regional Index							
JPM EMBI Global Div	1.8	2.6	9.0	5.0	5.9	5.3	7.7
JPM GBI-EM Global Div	1.8	3.9	14.7	9.9	(1.4)	(0.3)	4.5
Hedge Funds							
HFRI Composite	0.8	1.9	5.5	7.4	3.0	4.9	3.3
HFRI FOF Composite	1.2	2.2	5.5	6.8	2.1	4.0	1.3
Currency (Spot)							
Euro	0.8	4.2	12.7	6.7	(3.4)	(1.2)	(1.4)
Pound	(2.3)	(0.8)	4.3	(1.6)	(8.1)	(4.1)	(4.4)
Yen	0.4	2.1	6.0	(6.0)	(1.9)	(6.6)	0.5

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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