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Economic Review

With a wary eye to the global growth outlook, the Fed stood pat on interest rates at its June Federal Open Market Committee meeting, keeping the target range for the federal funds rate at ¼ to ½ percent. According to the Fed, the pace of improvement in the labor market has slowed while growth in economic activity appears to have picked up. Although the unemployment rate has declined, job gains have diminished. The housing sector has continued to improve and the drag from exports appears to have lessened, but business fixed investment has been soft. Inflation continues to run below the Committee's 2 percent longer-run objective, partly reflecting earlier declines in energy prices and in prices of non-energy imports.

The Consumer Price Index rose just 1.0% over the last 12 months, while the index less food and energy increased by 2.2% over the same period.

Real gross domestic product (GDP) increased at an annual rate of 1.1% in the first quarter of 2016 according to the Bureau of Economic Analysis. This continues a deceleration following 2015 increases of 1.4% in the fourth quarter, 2.0% in the third quarter, and 3.9% in the second quarter. The gain primarily reflected positive contributions from personal consumption expenditures (PCE), residential fixed investment, and federal government spending.

Economic activity in the manufacturing sector expanded in June for the fourth consecutive month, while the overall economy grew for the 85th consecutive month according to the latest Manufacturing ISM report On Business.

The U.S. Bureau of Labor Statistics reported that the unemployment rate declined to 4.7% in its latest release and the number of unemployed persons declined to 7.4 million. The civilian labor force participation rate decreased to 62.6% and the number of long-term unemployed fell to 1.9 million. These individuals account for 25.1% of the unemployed.

Consumers were a bit less optimistic in June due to rising concerns about prospects for the economy. While no recession is anticipated, consumers increasingly expect a slower pace of growth in the year ahead according to the latest release of the University of Michigan Surveys of Consumers.

Financial Markets Review: Domestic Stock Market

The markets ended the quarter on a wild ride with the surprising Brexit vote sending the Dow down 4.99% in two days only to see it rebound 4.53% on the last three days of the session. In the end, the Dow Jones Industrial Average gained 1.38% for the second quarter to 17,929.99. The S&P 500 also advanced 1.90%, excluding dividends, to 2,098.86 and is only 1.5% below the record high of 2,130.82 set on May 21, 2015. The NASDAQ slipped 0.56% to 4,842.67.

Sector returns were mostly higher with energy jumping 11.62% for the quarter followed by utilities, gaining 6.79% and health care advancing 6.27%. Negative sectors for the quarter were information technology declining 2.84% and consumer discretionary dipping 0.91%.

Mid- and small-cap stocks fared better than large-caps in the quarter, with the S&P Midcap 400 Index rising 3.99% and the S&P SmallCap 600 Index ahead 3.48%.

With respect to style, value outperformed growth for the three-month period according to the Russell indexes.

The top-performing stocks in the Dow Jones Industrial Average for the second quarter were Pfizer (+18.79%), ExxonMobil (+12.14%), and Johnson & Johnson (+12.44%). Detractors from the Dow included Apple (-12.29%), Nike (-11.20%), and Microsoft (-7.35%).

The best performers for the second quarter among the Dow Jones industry groups were platinum & precious metals (+41.9%), gold mining (+37.2%) and coal (+14.1). The worst performers were airlines (-21.0%), forestry (-17.2%) and electronic office equipment (-13.9%).

The price-earnings level of the S&P 500 is above historical valuation averages at 23.55 (per Barron's) and is 15% higher than a year ago.

Looking ahead to the third quarter of 2016, with interest rates now expected to stay lower for longer, the outlook for US companies remains positive. Worries, however, abound including heightened volatility as the market digests the Brexit impact, populist pressures and political risks, terrorism, dollar strength, negative interest rates, market valuations and global growth concerns.

We remind investors to keep invested in line with their goals, don't let emotions drive your investment decisions, periodically rebalance and diversify broadly to dampen volatility.

	Total Returns (06/30/16)			Annualized Returns (06/30/16)		
Category/Style	2nd Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500 (w/ dividends)	2.46	3.84	3.99	11.66	12.10	7.42
Russell 1000 Large Cap	2.54	3.74	2.93	11.48	11.88	7.51
Russell 1000 Growth	0.61	1.36	3.02	13.07	12.35	8.78
Russell 1000 Value	4.58	6.30	2.86	9.87	11.35	6.13
Russell 2000 Small Cap	3.79	2.22	-6.73	7.09	8.35	6.20
Russell 2000 Growth	3.24	-1.59	-10.75	7.74	8.51	7.14
Russell 2000 Value	4.31	6.08	-2.58	6.36	8.15	5.15

Source: Frank Russell Company, Standard and Poor's

International Stock Markets

Amidst Brexit uncertainty around the exit & timing of the withdrawal from the European union, the MSCI EAFE Index of developed markets ended the quarter with a drop of 1.46%. Emerging markets, on-the-other-hand, benefiting from a continued recovery in commodity prices and easing monetary, edged up 0.66% as measured by the MSCI Emerging Markets Index. Global growth concerns, a strong dollar and volatile commodities prices still weigh on the emerging markets outlook going forward. Emerging market stocks have underperformed developed markets for the past five years, but have outperformed them over the past ten years. Frontier markets lost 0.94% for the quarter.

European markets were mostly lower in the second quarter with a notable exception being the United Kingdom. The Stoxx Europe 600 Index fell 2.27% to 329.88. Germany's DAX Index declined 2.86% to 9,680.09, and France's CAC-40 Index receded 3.37% to 4,237.48. The UK London FTSE 100 Index closed at 6,504.33, climbing 5.33%.

In Asia, the Dow Jones Asia-Pacific TSM Index inched up 0.44%, to finish the quarter at 1,364.49. Japan's Nikkei stock average sank 7.06% to 15,575.92, and China's Shanghai Composite Index lost 2.47% to 2929.61 after dropping 15.12% in the first quarter.

The Americas fared better than the Eurozone and Asia, with the DJ Americas index ahead 2.17% to 505.02. Brazil's Sao Paulo Bovespa index gained 2.94% to 51,526.93, Canada's S&R/TSX composite index increased 4.23% to 14,064.54, and Mexico's IPC All-Share index ended the quarter at 45,966.49 up 6.95%.

Top performing countries for the quarter included Peru (+14.1%), Brazil (+13.8%), and Pakistan (+10.7%).

The dollar weakened 8.33% against the Yen for the quarter, with the Yen ending the period at 103.20 (JPY/USD). The Dollar strengthened 2.40% versus the Euro ending the quarter at 1.1108 (USD/EUR).

World Bond Markets

As yields continued to drop, bond market returns moved higher in the second quarter. The Barclays U.S. Aggregate Bond Index increased 2.21%, the Barclays Municipal Index was up 2.61%, and the Barclays U.S. Treasury TIPS Index rose 1.71%. The U.S. 10-year note yield fell to 1.49%, a drop of 29 basis points at the quarter's close. Yields for money funds inched higher, with the 7-day yield on retail money funds at 0.12% according to iMoneyNet.

Yields on foreign bonds continued to move lower in the second quarter, with the 10-year bond yielding 1.31% in the United Kingdom, 1.23% in Canada, and 0.06% in Germany. The Japan 10-year bond remained in negative territory in the second quarter, ending at -0.14%.

Commodities

Commodities maintained upward momentum in the second quarter posting an 11.49% gain to 548.11 as measured by the DJ Commodity Index. Gold advanced 6.82% to $1,318.40 per troy oz. and is up 24.34% year-to-date. Crude oil rocketed 26.06% to $48.33 per barrel. Oil had traded as low as $26.21 over the past twelve months. Natural Gas soared 49.26% in the second quarter to $2.924/MMBtu after plummeting 16.17% in the first.

Mutual Funds/Exchange-Traded Funds

Bonds outperformed stocks again in the second quarter with intermediate taxable bonds up 2.34% compared to 1.74% for large cap stocks.

The June 29 release from the Investment Company Institute showed that the combined assets of the nation's mutual funds fell $426 billion (2.6%) over the last twelve months to $15.9 trillion. Exchange-traded fund assets, on the other hand, gained $87 billion (4.1%) year-over-year to $2.2 trillion in total. The ETF ranks continued to proliferate, with the addition of 181 funds over the past year to 1,646 representing an increase of 12.35%. Gold ETFs experienced the greatest inflows for the first half of the year.

Mutual Funds Overview As of June 30, 2016

	Total Returns			Annualized Returns		
Category	2nd Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Intermed.	2.16	3.61	6.40	4.58	4.48	4.21
Short Taxable Bond	1.02	2.03	1.49	1.42	1.54	2.98
Intermed. Taxable Bond	2.34	4.92	4.63	3.61	3.66	4.83
Long Taxable Bond	5.81	12.44	13.88	8.12	7.75	7.80
High Yield Bond	4.21	6.42	-0.45	2.93	4.58	5.97
World Bond	2.24	6.60	4.75	2.08	1.91	4.46
Small-Cap Stock	2.37	2.93	-5.77	6.36	7.63	5.88
Mid-Cap Stock	1.39	2.61	-4.47	7.53	8.27	6.40
Large-Cap Stock	1.74	2.13	-0.03	9.42	10.11	6.42
World Stock	0.77	0.40	-4.18	5.64	5.34	4.33
Foreign Stock	-1.08	-3.04	-9.94	1.69	1.11	1.54
Natural Resources	8.54	14.43	-9.42	-3.60	-4.85	-0.19
Real Estate	5.48	10.43	19.49	12.11	11.16	6.41

Source: Morningstar Category Returns, Morningstar, Inc.

Important definitions and disclosures

Gross Domestic Product (GDP) is a measure of output from U.S factories and related consumption in the United States. It does not include products made by US companies in foreign markets. The **Federal Open Market Committee** (FOMC), a committee within the Federal Reserve System is charged under United States law with overseeing the nation's open market operations (i.e., the Fed's buying and selling of United States Treasury securities). Real Gross Domestic Product (real GDP) is a macroeconomic measure of the value of economic output adjusted for price changes (i.e., inflation or deflation). The S&P/Case-Shiller Home Price Indices are the leading measures of U.S. residential real estate prices, tracking changes in the value of residential real estate both nationally as well as in 20 metropolitan regions. **S&P 500 Index** is an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. The **Dow Jones Industrial Average** is a widely watched index of 30 American stocks thought to represent the pulse of the American economy and markets. The **NASDAQ** is an index that tracks the cumulative results on a market capitalization basis of all stocks trading in the NASDAQ system. An investment concentrated in sectors and industries may involve greater risk and volatility than a more diversified investment. The **S&P SmallCap 600 Index** (S&P600) covers roughly the small-cap range of US stocks, using a capitalization-weighted index. The index covers roughly three percent of the total US stock market. The **S&P MidCap 400 Index** (S&P400) is a stock market index from S&P Dow Jones Indices. The index serves as a barometer for the US mid-cap equities sector and is the most widely followed mid-cap index in existence. To be included in the index, a stock must have a total market capitalization that ranges from roughly $750 million to $3.3 billion. The **Russell 1000 Index** is a capitalization-weighted price-only index which is comprised of 1000 of the largest capitalized US-domiciled companies whose common stock trade in the United States on the New York Stock Exchange, American Stock Exchange and NASDAQ which are included in the Russell 3000 Index. This large cap market-oriented Index is highly correlated with the S&P 500 Index. **Russell 2000 Index** is a market-value-weighted index representing the 2,000 smallest companies in the Russell 3000 index, representative of the US small capitalization securities market. **Price-earnings (P/E) ratio** is a measure of valuation for a company or a collection of companies such as an index; it is calculated by dividing the market value per share by the earnings per share. **Morgan Stanley Capital International Index** (MSCI) EAFE is a market capitalization-weighted index of the leading stocks in Europe, Australasia and Far East. Membership of the index is selected by MSCI and designed for leading stocks roughly to match market sector weights. The **MSCI Emerging Markets Index** is an index created by Morgan Stanley Capital International (MSCI) that is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey. **International investing** involves special risks, including the possibility of substantial volatility due to currency fluctuation and political uncertainties. The **STOXX Europe 600 Index** is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. The **CAC 40 Index** is a benchmark French stock market index. The index represents a capitalization-weighted measure of the 40 most significant values among the 100 highest market caps on the Paris Bourse (now Euronext Paris). The **DAX Index** is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The **FTSE 100** is a share index of the 100 companies listed on the London Stock Exchange with the highest market capitalization. The **DJ Asia-Pacific Index** represents the leading stocks by dividend yield traded in the Asia/Pacific region. The **Nikkei Index** is a stock market index for the Tokyo Stock Exchange (TSE). The **Shanghai Composite Index** is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. The **MSCI Frontier Markets Indexes** provide broad representation of the equity opportunity set while taking investability requirements into consideration within each market. MSCI classifies 34 countries as Frontier Markets, 26 of which are included in the MSCI Frontier Markets Index. **Barclays Aggregate Bond Index** is made up of the Lehman Brothers Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million. The **Barclays Municipal Bond Index** is a market value weighted index of investment grade municipal bonds with maturities of one year or more. The **Barclays Capital US Government Inflation-Linked Bond Index** (US TIPS) measures the performance of the TIPS market. TIPS form the largest component of the Barclays Capital Global Inflation-Linked Bond Index. Inflation-linked indices include only capital indexed bonds with a remaining maturity of one year or more. The **S&P Goldman Sachs Commodity Index** (S&P GSCI) serves as a benchmark for investment in the commodity markets and as a measure of commodity performance over time. It is a tradable index that is readily available to market participants of the Chicago Mercantile Exchange. The **Investment Company Institute** (ICI) is the national trade association of US investment companies, which includes mutual funds, closed-end funds, exchange-traded funds and unit investment trusts. An investment in a money market fund is not insured or guaranteed by the FDIC or any other government agency. Although a money market fund seeks to preserve the value of your investment at $1.00 per share, it is possible to lose money by investing in the fund. An exchange-traded fund (**ETF**) is a security that tracks an index, a commodity or a basket of assets like an index fund, but trades like a stock on an exchange. Indexes are unmanaged and investors cannot invest directly in an index.

Morningstar Category Returns are composed of the average return for the funds in each Morningstar category over the indicated time period. Categories are defined by Morningstar based on holdings statistics. The category returns are adjusted for survivorship bias, meaning they include all investments even if liquidated, merged or otherwise now obsolete. The returns also include funds that were in a given Morningstar category, but have since changed to another category.

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