Economic Review

Undeterred by persistent low inflation readings, Federal Reserve chair Janet Yellen appears resolute in her desire to increase interest rates at a measured pace pointing to another rate hike in December. Additionally, the Federal Reserve ("Fed") announced the beginning of policy normalization though a balance sheet reduction plan to tackle a $4 ½ trillion balance sheet that has ballooned as a result of three rounds of quantitative easing since the financial crisis. This quantitative tightening will involve a run off of maturing treasury, agency, and mortgage backed securities starting at $10 billion/month increasing to $50 billion/month one year from now.

The headline Consumer Price Index (CPI) rose 1.9% on an annualized basis in August according to the Bureau of Labor Statistics. The index for all items less food and energy remained at 1.7% for the fourth month in a row and has remained in a lackluster range of 1.6%-2.3% since June 2011.

Real gross domestic product (GDP) increased 3.1% in the second quarter according to the Bureau of Economic Analysis (BEA), reflecting increases in consumer spending as well as increases in business investment, exports, and federal government spending. The increase was the greatest since the first quarter of 2015. In 2017's first quarter, real GDP increased 1.2%.

Unemployment has hovered between 4.3%- 4.4% since April according to the US Bureau of Labor Statistics. The number of unemployed persons at 7.1 million was little changed and the labor force participation rate, at 62.9% in August has shown little movement over the past year.

The Conference Board Leading Economic Index (LEI) gained again in August. Although the economic impact of the recent hurricanes is not fully reflected yet, the underlying trends suggest that the current solid pace of growth should continue in the near term.

The University of Michigan Surveys of Consumers index slipped slightly in September, largely due to concerns about the impact of the hurricanes on the national economy. Nevertheless in the first nine months of 2017 the index averaged the highest recording since 2000. Overall, consumer expenditures are expected to increase by 2.6% in 2017 and in the 1st half of 2018 according to the survey.

Financial Markets Review: Domestic Stock Market

The S&P 500 hit a record high on the last day of September advancing for the eighth straight quarter to 2,519.36, up 3.96% excluding dividends. The Dow Jones Industrial Average also gained for the eighth straight quarter returning 5.58% to close at 22,405.09 just shy of its record. The technology heavy NASDAQ finished at 6,495.96 up 5.79%.

Information Technology was the best performing S&P sector in the third quarter, climbing 8.65%. Energy jumped 6.84% and financials added 6.78%. The only negative sector was consumer staples which fell 1.35%.

Among capitalizations, small-cap stocks topped performance with the S&P SmallCap 600 Index rising 5.96% . MidCaps lagged with a gain of 3.22%.

With respect to style, growth continued its domination of value in the third quarter in both the large and small cap space. For the year-to-date growth has beaten value by a whopping 12.82% in large caps and 11.13% in small caps, according to Russell.

The top-performing stocks in the Dow Jones Industrial Average for the third quarter included Boeing (+28.55%), Caterpillar (+16.05%), and Intel (+12.86%). Detractors were Nike (-12.12%), General Electric (-10.48%), and Walt Disney (-7.23%).

The best performers for the third quarter among S&P Dow Jones industry groups were Aluminum (+32.6%), Trucking (+17.4%) and Forestry (+16.2%). The worst performers were Airlines (-11.7%), Footwear (-10.8%), and Tobacco (-9.2%).

The price-earnings level of the S&P 500 is still trading significantly above historical valuation averages at 25.1 (per Barron's) although the multiple is at the same point as one year earlier with earnings increases having kept pace with market appreciation.

Three devastating hurricanes, one catastrophic earthquake, and an irrational North Korean leader have not derailed the S&P train from a steady ride to new records. Obstacles still on the tracks ahead include uncomfortably high valuations, worrisome national debt, nonstop political bickering, fading real tax reform expectations, likely interest rate hikes and potential trade wars. An improving economy, low inflation, near full employment and record low volatility keep the train chugging forward. All aboard.

	Total Returns (9/30/17)			Annualized Returns (9/30/17)		
Category/Style	**3rd Quarter**	**Year-to-Date**	**One Year**	**Three Years**	**Five Years**	**Ten Years**
S&P 500	4.48	14.24	18.61	10.81	14.22	7.44
S&P Midcap 400	3.22	9.40	17.52	11.18	14.43	9.00
S&P Small Cap 600	5.96	8.92	21.05	14.07	15.60	9.27
Russell 1000 Large Cap Growth	5.90	20.72	21.94	12.69	15.26	9.08
Russell 1000 Large Cap Value	3.11	7.92	15.12	8.53	13.20	5.92
Russell 2000 Small Cap Growth	6.22	16.81	20.98	12.17	14.28	8.47
Russell 2000 Small Cap Value	5.11	5.68	20.55	12.12	13.27	7.14

Source: Frank Russell Company, Standard and Poor's

International Stock Markets

Global trade growth has maintained momentum and fundamental trends remain intact with the global Leading Economic Indicators pointing to continued economic strength. Globally, the MSCI All Country index is currently within striking distance of an all-time high. The MSCI All Country World ex-USA Index representing only non-U.S. stocks has tied a record of 11 months in a row of gains.

The MSCI EAFE Index of developed markets continued to advance in the third quarter, outpacing the S&P 500 for a quarterly increase of 5.40%.

With a strengthening global economy as the backdrop, emerging markets vaulted 7.89% in the third quarter as measured by the MSCI Emerging Markets Index. Year-to-date emerging markets have soared 27.78%. Frontier markets shot up 8.03% in the quarter and have added 24.86% year-to-date.

Business surveys for the euro-zone suggest that growth in advanced economies is quite strong and that price pressures may have picked up a bit. The Stoxx Europe 600 Index climbed 2.32% to 388.16 at quarter's close. Germany's economy has continued its growth path and the DAX Index moved ahead 4.08% to 12,828.86. France's CAC-40 Index advanced an identical 4.08% to 5,329.81. Still digesting the ramifications of Brexit, the UK London FTSE 100 Index edged up 0.82% to 7,372.76. In Asia, Japan's Nikkei stock average added 1.61% to 20,356.28. In emerging markets China's Shanghai Composite Index returned 4.90% to 3,348.94 and India's S&P BSE Sensex index added 1.17% to 31,283.72.

The Americas DJ Americas index was ahead 4.40% to 608.28. Brazil's Sao Paulo Bovespa Index rebounded sharply, leaping 18.11% to 74,293.51, Canada's S&R/TSX composite index rose 2.98% to 15,634.94 and Mexico's S&P/BMV IPC Index ended the quarter at 49,857.49, eking out a 0.97% gain. Top performing countries for the quarter (in $U.S.) included Brazil (+23.2%), Kazakhstan (+19.9%), and Chile (+16.9%). Laggards included Pakistan (-11.6%), Greece (-8.4%) and Israel (-8.0%). The dollar fell 0.03% against the yen, ending the period at 112.50 (JPY/USD). The dollar was also 3.28% weaker versus the euro, ending the quarter at 0.8465(EUR/USD).

World Bond Markets

The pickup in yields abated somewhat in the second quarter. The Barclays U.S. Aggregate Bond Index returned 1.76%, the Barclays Municipal Index rose 1.06%, and the Barclays U.S. Treasury TIPS Index added 0.86%. The U.S. 10-year note yield barely moved ending the quarter at 2.33% compared to 2.30% at second quarter's end. The 7-day yield on retail money funds trended a little higher to 0.86% according to the Crane 100 Money Fund index. Yields on foreign bonds moved up in the third quarter, with the 10-year bond yield up 0.10% in Germany to 0.47%, 0.23% to 1.38% in the UK, and jumping 0.51% in Canada to 2.13%. Yields stayed motionless in Japan at 0.06%.

Commodities

The Bloomberg Commodity Index posted a gain of 2.52% in the third quarter, but remains in the negative for year-to-date, 1, 3, 5, 10, and 15 year annualized returns. Gold moved $40.80 higher in the third quarter to 1,281.50 for a gain of 3.29%. Crude oil added 12.22% in a somewhat range bound market trading between $42.53 and $54.45 over the past year and finishing the quarter at $51.67/barrel.

Mutual Funds/Exchange-Traded Funds

The September 28 release from the Investment Company Institute showed that the combined assets of the nation's mutual funds increased $1.5 trillion (9.0%) over the last twelve months to $17.8 trillion, while the number of funds fell by over 50 to 8,018. On the other hand, the number of Exchange-Traded Funds (ETF) continued to expand with new additions exceeding 100 to 1,783. Assets increased by almost $700 billion (29.2%) to surpass $3 trillion.

MUTUAL FUNDS OVERVIEW AS OF SEPTEMBER 30, 2017

	Total Returns			Annualized Returns		
Category	**3rd Quarter**	**Year-to-Date**	**One Year**	**Three Years**	**Five Years**	**Ten Years**
Municipal Bond Intermed.	0.99	4.13	0.47	2.52	2.36	3.72
Short Taxable Bond	0.49	1.74	1.29	1.43	1.20	2.48
Intermed. Taxable Bond	0.87	3.40	0.84	2.52	2.14	4.31
Long Taxable Bond	1.54	7.47	0.78	5.22	4.38	6.72
High Yield Bond	1.77	5.91	7.76	4.15	5.12	6.24
World Bond	1.62	6.08	1.86	1.49	1.14	3.68
Small-Cap Stock	5.08	8.42	18.88	10.01	12.84	7.22
Mid-Cap Stock	3.67	10.15	16.02	8.15	12.86	6.88
Large-Cap Stock	4.20	13.19	17.63	9.04	12.87	6.59
World Stock	4.70	17.63	17.49	7.23	10.42	4.04
Foreign Stock	5.30	20.29	17.98	5.11	7.78	1.28
Natural Resources	8.52	8.83	15.23	-0.46	1.85	0.43
Real Estate	0.72	3.99	1.55	8.73	8.74	5.13

Source: Morningstar Category Returns, Morningstar, Inc.

Important Definitions and Disclosures

The opinions and material presented are provided for informational purposes only. No person or system can predict the market. Neither asset allocation nor diversification guarantee a profit or protect against a loss. All investments are subject to risk, including the risk of principal loss. There is no assurance that the investment goals and process described herein will consistently lead to successful investing. Asset allocation and diversification do not eliminate the risk of experiencing investment losses. The investment return and principal value of an investment will fluctuate, and an investor's shares, when redeemed, may be worth more or less than their original cost. Funds that invest in stocks of small-cap or mid-cap companies involve additional risks. The securities of these companies may be more volatile and less liquid than the securities of larger companies. Funds that invest in international securities involve special additional risks. These risks include, but are not limited to, currency risk, political risk, and risk associated with varying accounting standards. Investment in emerging markets may accentuate these risks. Alternative strategies, including those used in mutual funds, have risks that may substantially increase the potential for loss. Bonds are subject to interest rate risk. Bonds have interest rate risk and credit risk. As interest rates rise, existing bond prices fall and can cause the value of an investment to decline. Changes in interest rates generally have a greater effect on bonds with longer maturities than on those with shorter maturities. Funds that hold bonds are subject to declines and increases in value due to general changes in interest rates. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and/or interest payments.

The information shown does not constitute investment advice, does not consider the investment objectives, risk tolerance or financial circumstances of any specific investor. The information provided is not intended to be a complete analysis of every material fact respecting any portfolio, security, or strategy and has been presented for educational purposes only. Data obtained from the sources cited is believed to be reliable and accurate at the time of compilation.

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. **Consumer Price Index (CPI)** measures prices of a fixed basket of goods bought by a typical consumer. It is widely used as a cost-of-living benchmark and uses January 1982 as the base year. The **unemployment rate** percentage of total workforce who are unemployed and are looking for a paid job. Unemployment rate is one of the most closely watched statistics because a rising rate is seen as a sign of weakening economy that may call for cut in interest rate. A falling rate, similarly, indicates a growing economy which is usually accompanied by higher inflation rate and may call for increase in interest rates. Labor force participation rate is the percentage of working age population that is part of the labor force. It is a measure of what proportion of a country's population is employed or actively looking for employment. The index of leading economic indicators (LEI) is intended to predict future economic activity. Typically, three consecutive monthly LEI changes in the same direction suggest a turning point in the economy. The Conference Board Leading Economic Index® (LEI) for the U.S. are the key elements in an analytic system designed to signal peaks and troughs in the business cycle. The leading, coincident, and lagging economic indexes are essentially composite averages of several individual leading, coincident, or lagging indicators. They are constructed to summarize and reveal common turning point patterns in economic data in a clearer and more convincing manner than any individual component – primarily because they smooth out some of the volatility of individual components. The **University of Michigan Consumer Sentiment Index** is a consumer confidence index published monthly by the University of Michigan. The index is normalized to have a value of 100 in December 1964. Each month at least 500 telephone interviews are conducted of a continental United States sample (Alaska and Hawaii are excluded). Fifty core questions are asked. **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. **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. **MSCI ACWI ex US Index** is the Morgan Stanley Capital International All Country World Index, which captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. With 1,838 constituents, the index covers approximately 85% of the global equity opportunity set outside the US. The securities represented in this index may experience loss of invested principal and are subject to investment risk. In exchange for greater growth potential, investments in foreign securities can have added risks. These include changes in currency rates, economic and monetary policy, differences in auditing standards and risks related to political and economic developments. **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. 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. 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. **S&P BSE Sensex index**, is the benchmark index of the Bombay Stock Exchange (BSE). It is composed of 30 of the largest and most actively-traded stocks on the BSE, providing an accurate gauge of India's economy. The BM&F Bovespa, also known as the Sao Paul Stock Exchange, is Brazil's stock exchange. It is the third largest stock exchange in the world by market value with over 500 companies traded on the exchange. The IBOVESPA is an index of about 50 stocks and is the main indicator of the Brazilian stock market's average performance. **S&P/TSX 60 Index** is a stock market index of 60 large companies listed on the Toronto Stock Exchange. Maintained by the Canadian S&P Index Committee, a unit of Standard & Poor's, it exposes the investor to ten industry sectors.

S&P/BMV IPC Index seeks to measure the performance of the largest and most liquid stocks listed on the Bolsa Mexicana de Valores. The index is designed to provide a broad, representative, yet easily replicable index covering the Mexican equities market. The constituents are weighted by modified market cap subject to diversification requirements. **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. **Bloomberg Commodity Index:** is a world-production weighted total return index, including reinvested dividends, measuring investor returns from a fully-collateralized commodity futures investment. Due to market fluctuation, the commodities represented by this index may experience loss of invested principal and are subject to investment risk. 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.