Economic Review

The election of Donald Trump in November was largely unexpected but the Federal Reserve announcement in December to raise rates was not. The ¼- point boost in the federal funds rate was the first in a year but widely anticipated and a harbinger of more to come according to the Federal Open Market Committee outlook. According to the Fed, the labor market has continued to strengthen and economic activity has been expanding at a moderate pace. Job gains have been solid in recent months and the unemployment rate has declined. Inflation has increased but is still below the Committee's 2 Percent longer-run objective.

Real gross domestic product (GDP) increased at an annual rate of 3.5% in the third quarter compared to 1.4% in the second quarter, according to the Commerce Department. The increase in GDP was the largest since the third quarter of 2014. The acceleration in the quarter primarily reflected an upturn in private inventory, acceleration in exports and an upturn in federal government spending.

The unemployment rate declined to 4.6% in November and the number of unemployed persons fell to 7.4 million according to the U.S. Bureau of Labor Statistics. The average hourly earnings for all employees on private nonfarm payrolls rose by 2.5% over the past year to $25.89.

The U.S. Bureau of Labor Statistics reported the Consumer Price Index increased 1.7% over the last 12 months and 2.1% excluding food and energy.

Existing-home sales rose to an annual rate of 5.6 million units in November and are now at the highest pace since February 2007. The median existing-home price was $234,900 up 6.8% from a year earlier.

The U.S. manufacturing sector finished 2016 with its strongest growth in two years and the overall economy grew for the 91st consecutive month, according to the most recent Manufacturing ISM Report on Business.

A surge in consumer confidence following Trump's election led the University of Michigan Surveys of Consumers to its highest level since January 2004. Consumers held the most favorable personal financial outlook of the past ten years and anticipated that a stronger economy would create more jobs.

Financial Markets Review: Domestic Stock Market

Donald Trump's election propelled the markets higher in the fourth quarter with the Dow Jones Industrial Average, S&P 500, and the NASDAQ l hitting all-time highs. The Dow closed at 19,762.60 for a 7.94% return. The S&P 500 finished the period with a gain of 3.25%, excluding dividends, to 2,238.83. The Nasdaq finished at 5,383.12 with a return of 1.34%. Year-to-date, the Dow advanced 13.42%, followed by the S&P 500 gaining 9.54% and the Nasdaq returning 7.50%.

Financials were far and away the best performing S&P sector in the fourth quarter, leaping 21.10%. They were followed by energy gaining 7.28% and industrials up 7.21%. Negative sectors in the fourth quarter included the recently added real estate sector, dropping 4.41%, health care, down 4.00% and consumer staples slipping 2.02%.

Mid- and small-cap stocks fared better than large-caps in the quarter, with the S&P SmallCap 600 Index ahead 11.13% and the S&P MidCap 400 Index rising 7.42%.

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

The top-performing stocks in the Dow Jones Industrial Average for the fourth quarter were Goldman Sachs Group (+48.88%), JPMorgan Chase (+30.30%), and Boeing (+19.00%). Detractors from the Dow included Procter & Gamble (-5.57%), Visa (-5.46%), and Merck & Co (-4.92%).

The best performers for the fourth quarter among S&P Dow Jones industry groups were consumer electronics (+32.2%), U.S. banks (+30.4%) and airlines (+29.8). The worst performers were gold mining (-14.1%), US brewers (-11.01%) and personal products (-10.8%).

The price-earnings level of the S&P 500 remains significantly above historical valuation averages at 25.76 (per Barron's) and is 20% higher than a year ago.

The prospect for real structural and fiscal policy reforms emanating from the Trump administration will be a major catalyst for markets in 2017. Risks abound including high market valuations, continuing strength in the dollar, rising inflation, increased volatility, global trade and populism, politics, low interest rates, and terrorism.

We remind investors to be mindful of their long-term goals, keep emotions from driving short-term investment decisions, periodically rebalance and diversify broadly.

	Total Returns (12/31/16)			Annualized Returns (12/31/16)		
Category/Style	**4th Quarter**	**Year-to-Date**	**One Year**	**Three Years**	**Five Years**	**Ten Years**
S&P 500 (w/ dividends)	3.82	11.96	11.96	8.87	14.66	6.95
Russell 1000 Large Cap	3.83	12.05	12.05	8.59	14.69	7.08
Russell 1000 Growth	1.01	7.08	7.08	8.55	14.50	8.33
Russell 1000 Value	6.68	17.34	17.34	8.59	14.80	5.72
Russell 2000 Small Cap	8.83	21.31	21.31	6.74	14.46	7.07
Russell 2000 Growth	3.57	11.32	11.32	5.05	13.74	7.76
Russell 2000 Value	14.07	31.74	31.74	8.31	15.07	6.26

Source: Frank Russell Company, Standard and Poor's

International Stock Markets

International equity markets continued to lag in the fourth quarter as a result of global growth concerns, volatile commodities prices, a strong US dollar and potential isolationist trade policies from the new Trump administration. The MSCI EAFE Index of developed markets ended the quarter with a loss of 0.71% and finished the year with a meager 1.00% increase. Emerging markets fared worse in the fourth quarter, sliding 4.16% as measured by the MSCI Emerging Markets Index. For the year, however, emerging market stocks posted double digit returns, advancing 11.19%. Frontier markets eked out a positive return of 0.49% for the quarter keeping them in positive territory for the year, up 2.66%.

European markets were higher in the fourth quarter. The Stoxx Europe 600 Index gained 5.39% to 361.42. Among European nations, Germany's DAX Index climbed 9.23% to 11481.06, France's CAC-40 Index added 9.31% to 4,862.31, and the UK London FTSE 100 Index closed at 7,142.83, higher by 3.53%.

In Asia, the Dow Jones Asia-Pacific TSM Index lost 3.51% to finish the quarter at 1,422.73. Japan's Nikkei stock average returned 16.2% to 19,114.37, and China's Shanghai Composite Index grew 3.29% to 3,103.64.

The Americas DJ Americas index was ahead 3.19% to 540.38. Brazil's Sao Paulo Bovespa Index surged an identical 3.19% to 60,227.29 and Canada's S&R/TSX composite index increased 3.81% to 15,287.59. Mexico's IPC All-Share Index, on the other hand, ended the quarter at 45,642.90 down 3.39%.

Top performing countries for the quarter (in $US) included Russia (+18.56%), Bulgaria (+17.20%), and Pakistan (+16.19%). Laggards included Egypt (-23.34%), Slovenia (-17.83%), and Turkey (-13.72%).

The dollar strengthened 16.05% against the yen for the quarter, with the yen ending the period at 117.61 (JPY/USD). The dollar also gained 6.79% versus the euro, ending the quarter at 1.0477 (USD/EUR).

World Bond Markets

Weak global growth, a strong dollar and demographic trends are still likely to keep yields lower longer. The Barclays U.S. Aggregate Bond Index dipped 7.07% in the fourth quarter. The Barclays Municipal Index fell 3.08%, and the Barclays U.S. Treasury TIPS Index lost 2.41%. The U.S. 10-year note soared 85 basis points to 2.45% and the 7-day yield on retail money funds moved higher to 0.23% according to iMoneyNet.

Yields on foreign bonds continued to move up in the fourth quarter, with the 10-year bond yield rising to 1.30% in the United Kingdom and 1.73% in Canada. Both German and Japanese 10-year bonds moved into positive territory ending the quarter at 0.20% and 0.06% respectively.

Commodities

Commodities maintained upward momentum in the fourth quarter posting a 3.49% gain for the period and a 25.00% return for the year to 567.25 as measured by the DJ Commodity Index. Gold sank 12.43% for the quarter to end at $1,150.00 per troy ounce. For the year-to-date, the precious metal is up 8.46%. OPEC agreed to a production cut to limit daily production which drove crude oil higher, ending the quarter at up 11.36% to $53.72. For the year oil vaulted 45.03%. Natural gas also surged in the fourth quarter, climbing 28.15% to $3.724/MMBtu.

Mutual Funds/Exchange-Traded Funds

The December 29 release from the Investment Company Institute showed that the combined assets of the nation's mutual funds increased $269.9 billion (1.9%) over the last twelve months to $16.2 trillion. Over the same period, Exchange-traded fund (ETF) assets continued their rapid growth outpacing mutual funds and gaining $314.9 billion (14.8%) year-over-year to $2.4 trillion in total. The ETF ranks continue to proliferate, with the addition of another 119 net funds over the past year to 1,694 representing an increase of 7.6%.

Mutual Funds Overview As of December 31, 2016

	Total Returns			Annualized Returns		
Category	4th Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Intermed.	-3.52	-0.21	-0.21	3.20	2.62	3.41
Short Taxable Bond	-0.51	2.06	2.06	1.06	1.46	2.55
Intermed. Taxable Bond	-2.56	3.22	3.22	2.74	2.64	4.13
Long Taxable Bond	-7.44	5.80	5.80	6.80	4.84	6.60
High Yield Bond	1.65	13.23	13.23	3.23	6.17	5.91
World Bond	-4.06	3.57	3.57	0.33	1.40	3.62
Small-Cap Stock	9.48	20.71	20.71	5.89	13.50	6.81
Mid-Cap Stock	5.28	14.11	14.11	5.85	13.34	6.74
Large-Cap Stock	3.86	10.36	10.36	6.78	13.17	6.07
World Stock	-0.39	5.50	5.50	2.08	9.26	3.69
Foreign Stock	-2.22	0.79	0.79	-2.09	5.77	0.58
Natural Resources	5.14	26.38	26.38	-4.49	0.21	1.34
Real Estate	-2.68	6.76	6.76	11.77	10.81	4.35

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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