

# Quarterly Market Review

Second Quarter 2017

# Q2

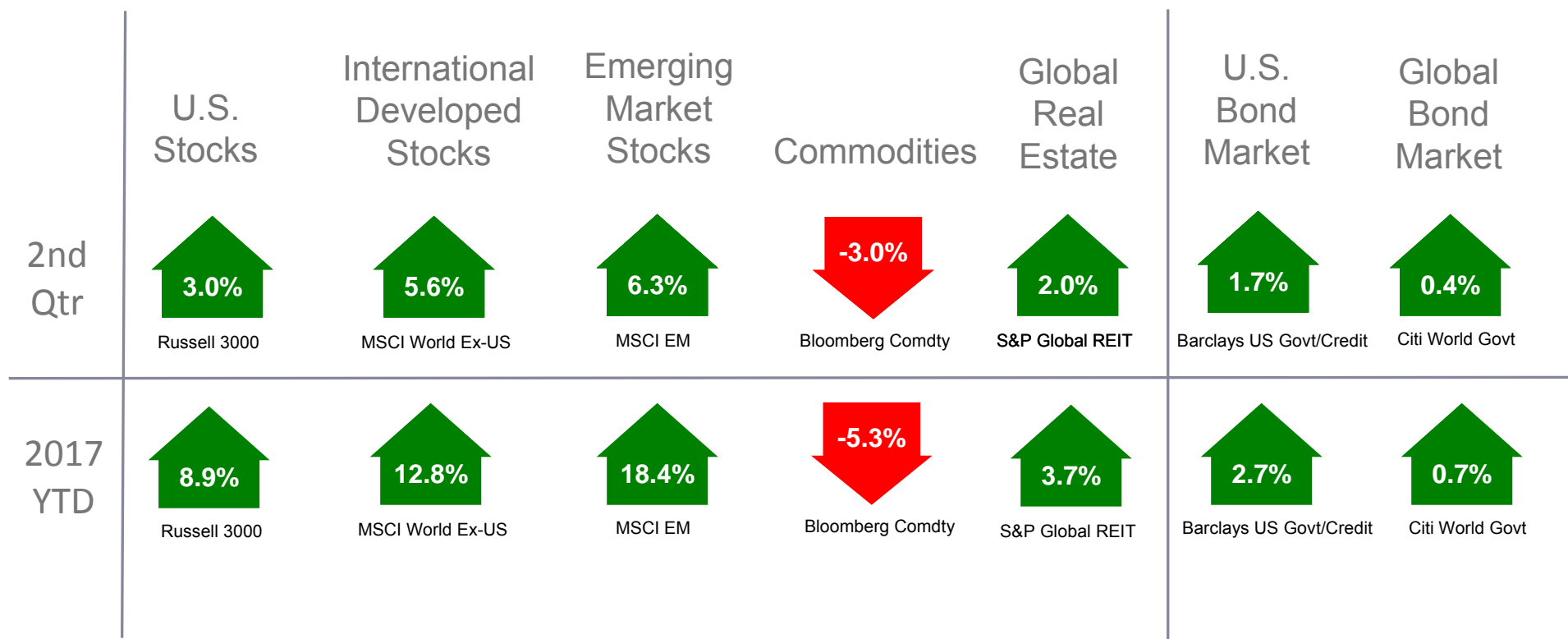


# Stocks, bonds and real estate continued to climb in Q2

Second Quarter 2017 results



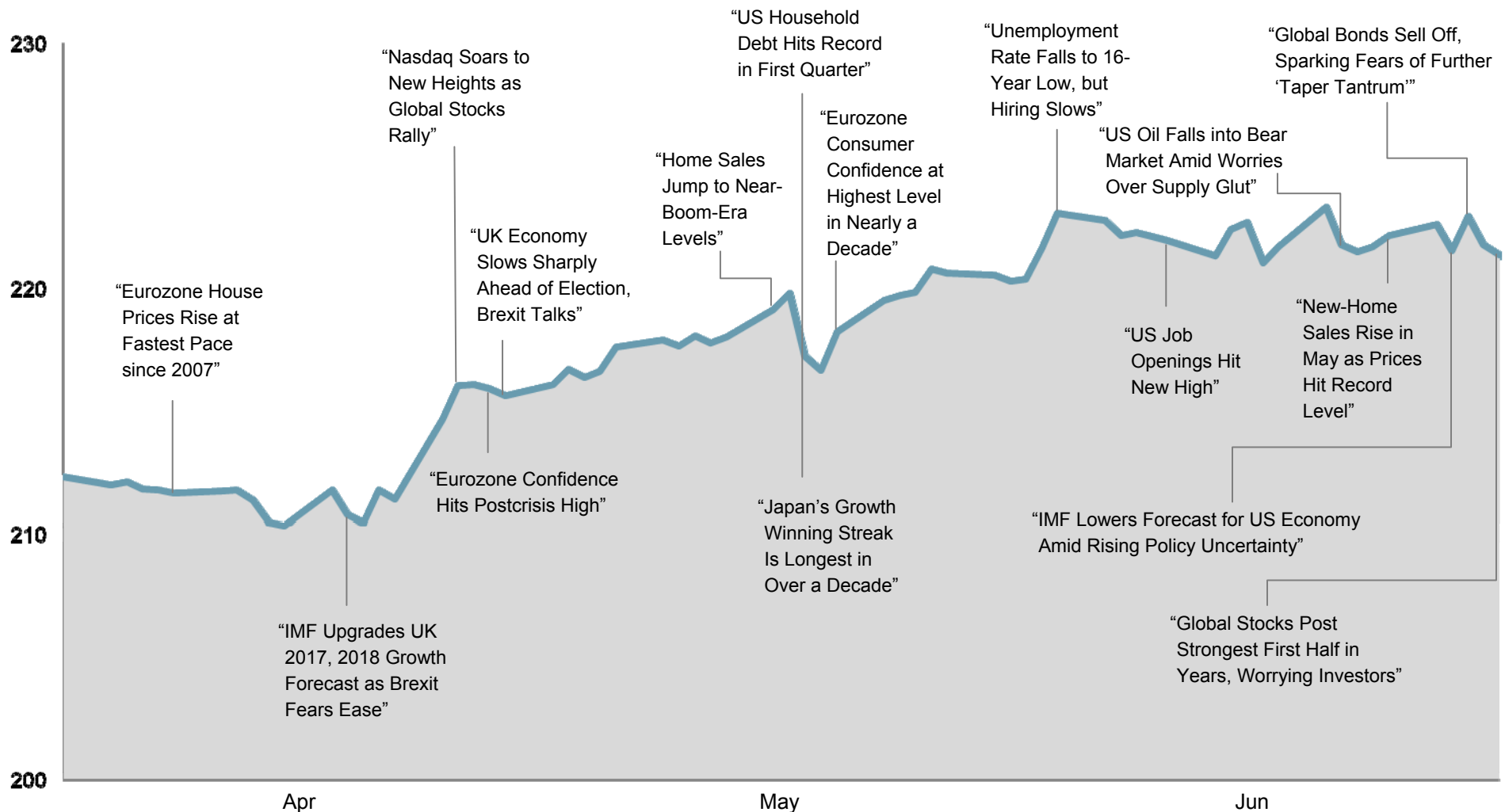
Emerging market stocks registered another strong quarter returning 6.3% for the period. International developed stocks and US stocks also rose, returning 5.6% and 3.0% respectively. Global real estate increased 2.0%, while U.S. bonds returned 1.7% and global bonds returned 0.4%. Commodities declined for the second quarter in a row falling 3.0% for the period. With the first half of 2017 in the books, six of the seven major asset classes are in positive territory.



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), Commodities (Bloomberg Commodity Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Govt./Credit), and Global Bond ex US Market (Citigroup WGBI ex USA 1-5 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2016, all rights reserved. Bloomberg Barclays data provided by Bloomberg. Citigroup bond indices © 2016 by Citigroup.

# Headlines failed to halt the progress of global stocks

MSCI All Country World Index with selected headlines from Q2 2017



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2017, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

# Emerging market stocks registered another strong quarter

## Second Quarter 2017 Index Returns



Emerging market stocks shined brightest for the second straight quarter. Emerging markets include China, Brazil, South Africa and countries in Eastern Europe and Latin America. These countries boast projected GDP growth rates of 4% or more per year, while developed countries are forecast to grow at 2% or less. Emerging market economies also have lower relative debt ratios compared to their developed counterparts. Factor in favorable demographics and it was not surprising to see this asset class perform well during the period.

Looking at broad emerging market indices, the value effect was negative across all size ranges, and small caps underperformed large caps.

### World Market Capitalization—Emerging Markets

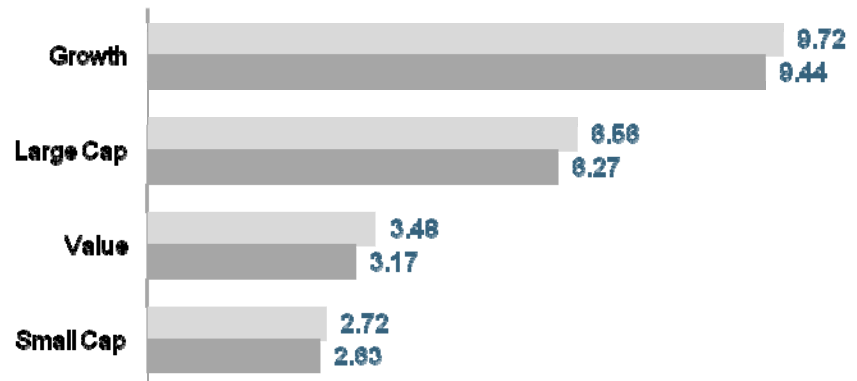
**11%**

Emerging Markets  
\$6.4 trillion



### Ranked Returns (%)

Local currency US currency



### Period Returns (%)

\* Annualized

| Asset Class | YTD   | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|-------|--------|----------|----------|-----------|
| Large Cap   | 18.43 | 23.75  | 1.07     | 3.96     | 1.91      |
| Small Cap   | 15.99 | 17.03  | 0.81     | 5.15     | 2.17      |
| Value       | 13.65 | 21.57  | -1.33    | 1.67     | 1.53      |
| Growth      | 23.45 | 25.99  | 3.42     | 6.18     | 2.22      |

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# International developed stocks rose despite uneasiness

## Second Quarter 2017 Index Returns



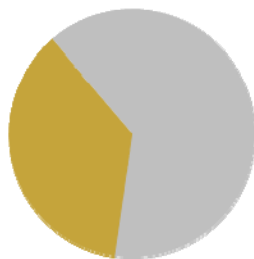
A military strike against Syria, strikes against ISIS, a North Korean missile test, the Manchester bombing, the Paris climate accord, a London terrorist attack, and highly contested elections in France and the UK failed to derail significant progress in international developed equity markets.

Looking at broad market indices, the value effect was negative across all size ranges, and small caps outperformed large caps.

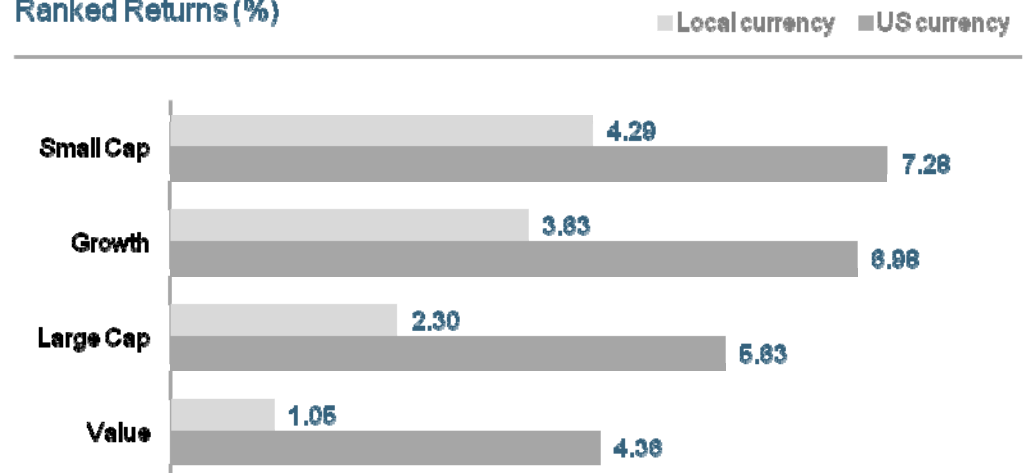
### World Market Capitalization—International Developed

**36%**

**International  
Developed  
Market  
\$17.5 trillion**



### Ranked Returns (%)



### Period Returns (%)

\* Annualized

| Asset Class | YTD   | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|-------|--------|----------|----------|-----------|
| Large Cap   | 12.82 | 19.49  | 0.67     | 8.15     | 1.00      |
| Small Cap   | 15.45 | 21.26  | 4.02     | 11.43    | 2.92      |
| Value       | 10.27 | 24.24  | -0.94    | 7.69     | 0.09      |
| Growth      | 15.57 | 14.90  | 2.22     | 8.54     | 1.84      |

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# US stocks gained even with looming uncertainties

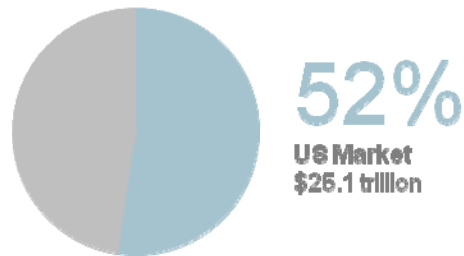
## Second Quarter 2017 Index Returns



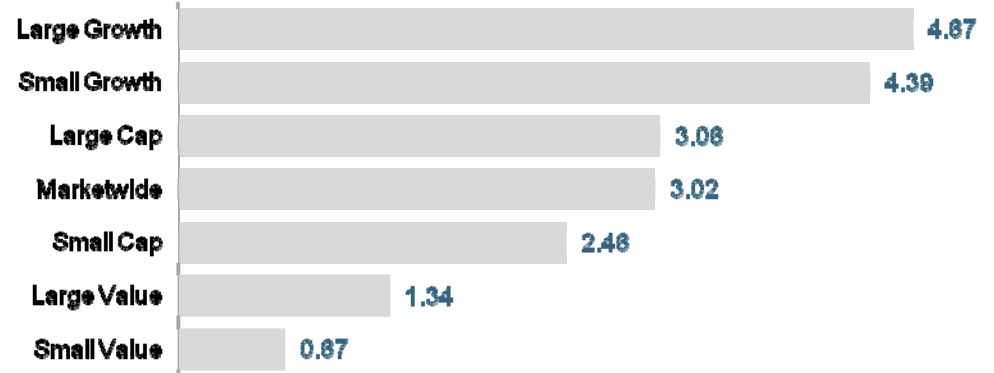
Uncertainties surrounding healthcare reform, tax reform, the Comey investigation, the Russian probe and the shooting of House Majority Whip Steve Scalise and others could not stall progress in US stocks.

Value underperformed growth indices in the US across all size ranges, and small caps underperformed large caps.

### World Market Capitalization—US



### Ranked Returns for the Quarter (%)



### Period Returns (%)

| Asset Class  | YTD   | 1 Year | * Annualized |          |           |
|--------------|-------|--------|--------------|----------|-----------|
|              |       |        | 3 Years*     | 5 Years* | 10 Years* |
| Marketwide   | 8.93  | 18.51  | 9.10         | 14.58    | 7.26      |
| Large Cap    | 9.27  | 18.03  | 9.26         | 14.67    | 7.29      |
| Large Value  | 4.66  | 15.53  | 7.36         | 13.94    | 5.57      |
| Large Growth | 13.99 | 20.42  | 11.11        | 15.30    | 8.91      |
| Small Cap    | 4.99  | 24.60  | 7.36         | 13.70    | 6.92      |
| Small Value  | 0.54  | 24.86  | 7.02         | 13.39    | 5.92      |
| Small Growth | 9.97  | 24.40  | 7.64         | 13.98    | 7.82      |

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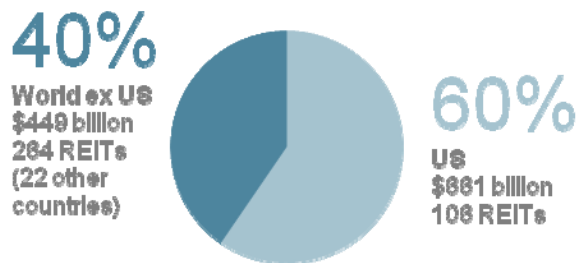
# Global REITs advanced modestly

## Second Quarter 2017 Index Returns



After a 4.9% decline in the 4<sup>th</sup> quarter of 2016, Global REITs advanced for the second quarter in a row as Non-US REITs outperformed US REITs.

### Total Value of REIT Stocks



### Ranked Returns (%)



### Period Returns (%)

| Asset Class          | YTD  | 1 Year | * Annualized |          |           |
|----------------------|------|--------|--------------|----------|-----------|
|                      |      |        | 3 Years*     | 5 Years* | 10 Years* |
| US REITs             | 1.36 | -2.43  | 8.04         | 9.00     | 5.42      |
| Global REITs (ex US) | 6.30 | -0.37  | 1.13         | 6.86     | 0.20      |

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones US Select REIT Index data provided by Dow Jones<sup>®</sup>. S&P Global ex US REIT Index data provided by Standard and Poor's Index Services Group © 2017.

# Bonds advanced moderately

## Second Quarter 2017 Index Returns



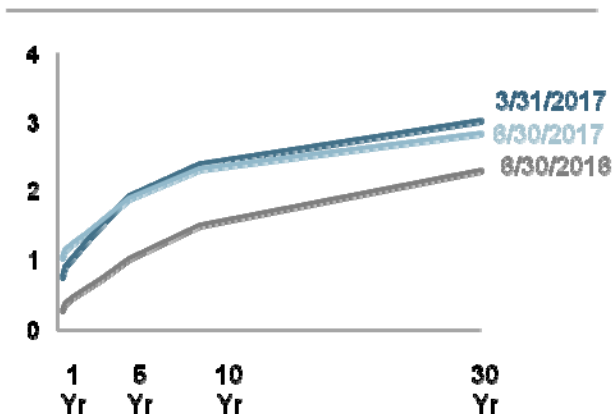
Interest rates were mixed across the US fixed income market during the second quarter. The yield on the 5-year Treasury note decreased 4 basis points (bps) to 1.89%. The yield on the 10-year Treasury note decreased 9 bps to 2.31%. The 30-year Treasury bond yield decreased 18 bps to finish at 2.84%.

The yield on the 1-year Treasury bill rose 21 bps to 1.24%, and the 2-year Treasury note yield rose 11 bps to 1.38%. The yield on the 3-month Treasury bill climbed 27 bps to 1.03%, while the 6-month Treasury bill yield increased 23 bps to 1.14%.

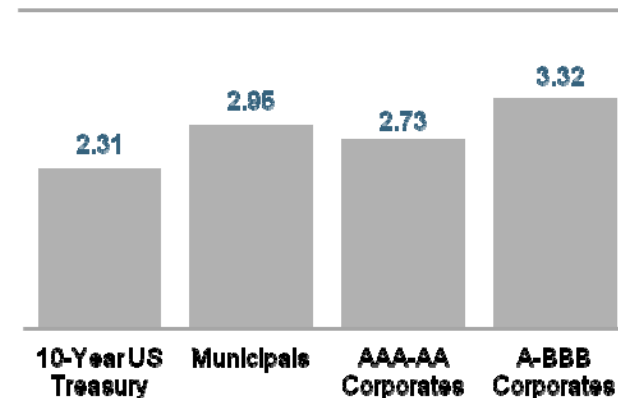
In terms of total returns, short-term corporate bonds gained 0.59% and intermediate corporates gained 1.49%.

Short-term municipal bonds gained 0.56%, while intermediate-term municipal bonds returned 1.97%. Revenue bonds gained 2.19%, outperforming general obligation bonds by 39 bps.

### US Treasury Yield Curve (%)



### Bond Yields across Issuers (%)



### Period Returns (%)

\* Annualized

| Asset Class  | YTD  | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--|------|--------|----------|----------|-----------|
| Bloomberg Barclays Long US Government Bond Index           | 5.44 | -6.96  | 5.54     | 2.82     | 7.27      |
| Bloomberg Barclays Municipal Bond Index                    | 3.57 | -0.49  | 3.33     | 3.26     | 4.60      |
| Bloomberg Barclays US Aggregate Bond Index                 | 2.27 | -0.31  | 2.48     | 2.21     | 4.48      |
| Bloomberg Barclays US Corporate High Yield Index           | 4.93 | 12.70  | 4.48     | 6.89     | 7.67      |
| Bloomberg Barclays US TIPS Index                           | 0.85 | -0.63  | 0.63     | 0.27     | 4.27      |
| BofA Merrill Lynch 1-Year US Treasury Note Index           | 0.30 | 0.40   | 0.41     | 0.37     | 1.21      |
| BofA Merrill Lynch Three-Month US Treasury Bill Index      | 0.31 | 0.49   | 0.23     | 0.17     | 0.58      |
| Citi World Government Bond Index 1-5 Years (hedged to USD) | 0.65 | 0.28   | 1.30     | 1.37     | 2.52      |

One basis point equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBB) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citi fixed income indices copyright 2017 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2017 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation. The S&P data are provided by Standard & Poor's Index Services Group.



# Commodities slid courtesy of weak energy prices

## Second Quarter 2017 Index Returns



Energy performed poorly during the quarter as oil and gas prices fell. With a 30% weighting to energy, the Bloomberg Commodity Index registered its second consecutive negative quarter.

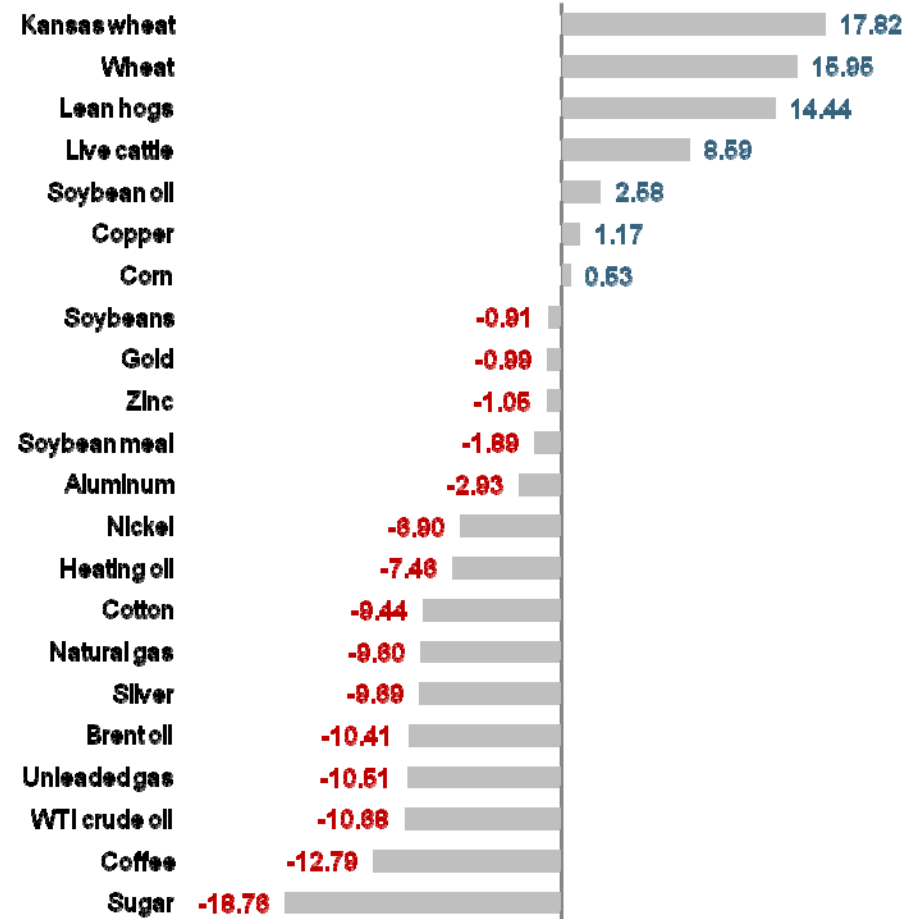
Softs were the worst-performing commodities, with sugar and coffee declining 18.76% and 12.79%, respectively. Cotton experienced a decline, decreasing 9.44%.

On the upside, livestock and grains led quarterly performance, with lean hogs returning 14.44%, live cattle 8.59%, wheat (Chicago) 15.95%, and wheat (Kansas) 17.82%.

| Asset Class | Period Returns (%) |        |          |          |           |
|-------------|--------------------|--------|----------|----------|-----------|
|             | YTD                | 1 Year | 3 Years* | 5 Years* | 10 Years* |
| Commodities | -5.26              | -6.50  | -14.81   | -9.25    | -6.49     |

\* Annualized

### Ranked Returns for Individual Commodities (%)



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