

Quarterly Market Review

Fourth Quarter 2017

Q4



Global capital markets delivered strong results in 2017

Fourth Quarter & Calendar Year Results - 2017

The global capital markets delivered strong results in 2017. Global stocks registered their second best year in the ten calendar years since 2008. Commodities notched their fourth best year and real estate its fifth best year over the same period. While US and world bonds have had multiple solid years over the decade, positive results in 2017 were a noteworthy triumph as interest rate headwinds continued to build. The following table summarizes major asset class performance for the fourth quarter and calendar year:



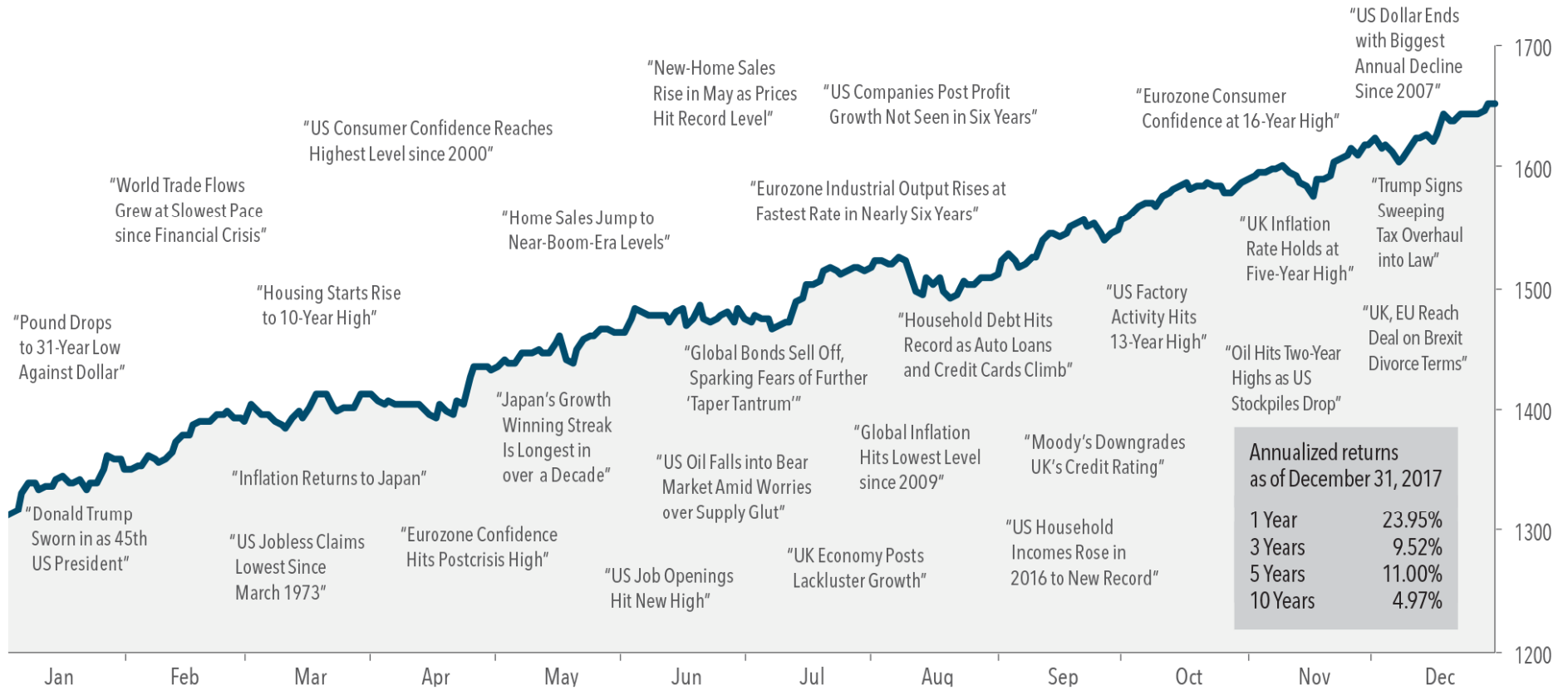
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Economic headlines were generally positive over the year

MSCI All Country World Index with selected headlines from 2017



Source: MSCI.

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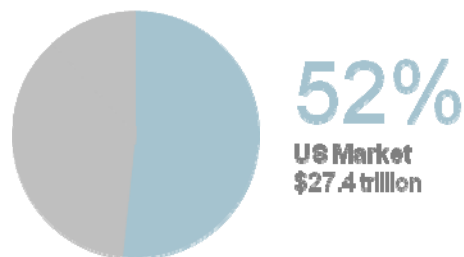
Low volatility was major theme for US stocks

2017 Index Returns

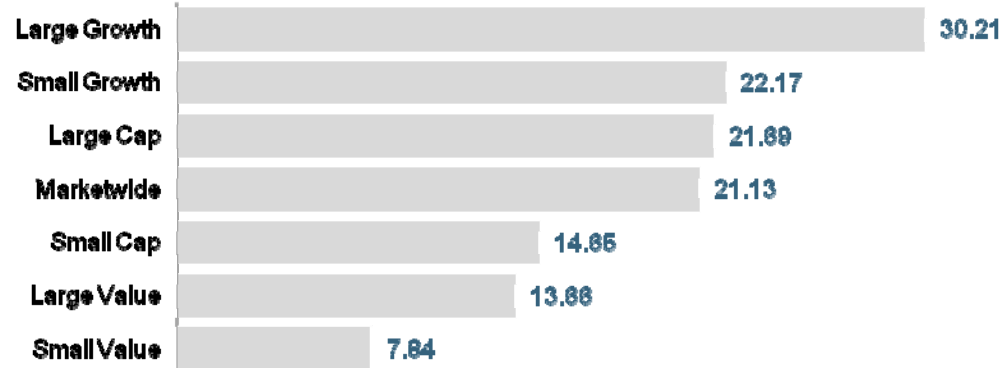
The S&P 500 had twelve straight months of positive returns (including dividends) in 2017 and did not trade more than 3% below any of its numerous record highs for the entire calendar year. The last glimpse of a market correction dates back to February 11, 2016, when the S&P 500 dropped 11.4% to begin that year. The worst decline since then has been a two-day 5.8% Brexit induced slide in June of 2016. The appetite for US stocks proved strong throughout the year as investors bought aggressively at the slightest hint of price declines.

Value underperformed growth in the US across large and small cap indices. Small caps underperformed large caps in the US.

World Market Capitalization—US



Ranked Returns for 2017 (%)



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	30.21	13.79	17.33	10.00
Small Growth	22.17	10.28	15.21	9.19
Large Cap	21.69	11.23	15.71	8.59
Marketwide	21.13	11.12	15.58	8.60
Small Cap	14.65	9.96	14.12	8.71
Large Value	13.66	8.65	14.04	7.10
Small Value	7.84	9.55	13.01	8.17

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Earnings growth led international stocks higher

2017 Index Returns

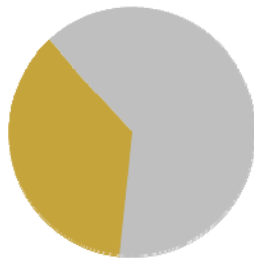
Recording their best annual return since 2009, international developed stocks advanced propelled by a eurozone earnings recovery that finally began to take hold. Reinvigorated European growth accelerated gains over the year, while lower earnings multiples relative to US counterparts made international developed stocks a comparative bargain.

Looking at broad market indices, the value effect was negative. Small caps outperformed large caps in non-US developed markets.

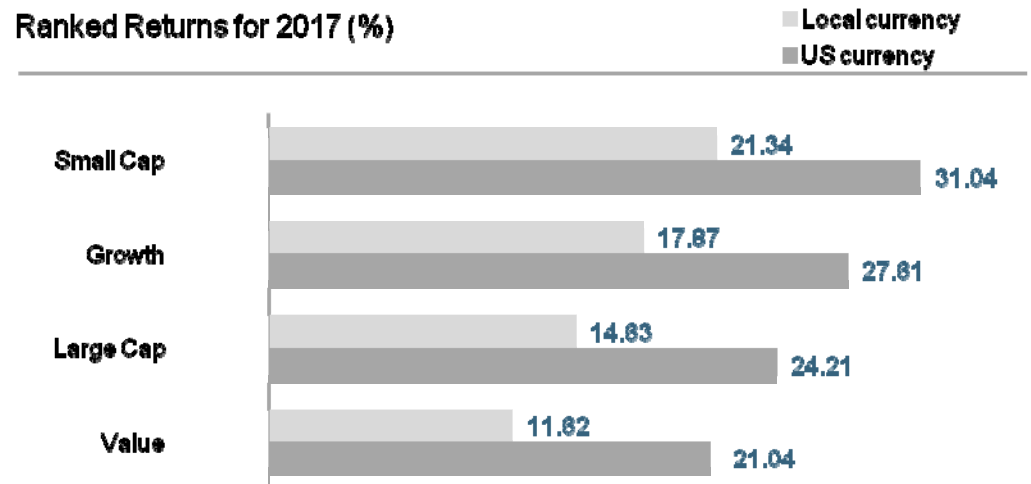
World Market Capitalization—International Developed

37%

**International
Developed
Market
\$19.4 trillion**



Ranked Returns for 2017 (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	31.04	12.96	11.37	5.16
Growth	27.61	8.38	8.22	2.36
Large Cap	24.21	7.36	7.46	1.87
Value	21.04	6.26	6.64	1.32

* Annualized

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Emerging markets registered an impressive year

2017 Index Returns

Emerging markets posted a second straight year of double digit returns after several years of soft commodity prices and weak global trade growth. Emerging markets benefited from low interest rates in developed markets as investors searched for higher returns further afield. The weakening dollar also provided a tailwind for emerging market companies as it made dollar denominated debt cheaper to service.

Across the large cap and mid cap space, the value effect was negative; however, in the small cap space, the effect was positive. Overall, small caps underperformed large caps in emerging markets.

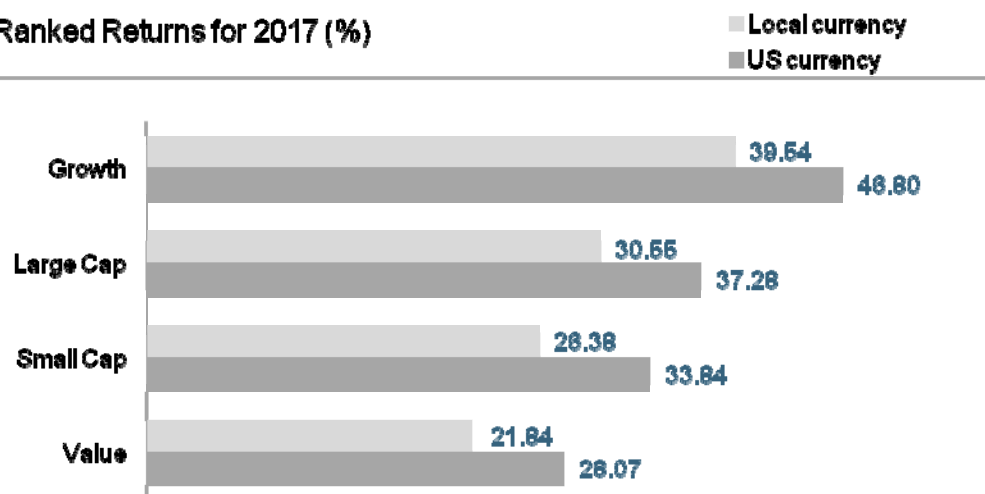
World Market Capitalization—Emerging Markets

12%

Emerging Markets
\$8.2 trillion



Ranked Returns for 2017 (%)



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Growth	46.80	11.88	6.85	2.35
Large Cap	37.28	9.10	4.35	1.68
Small Cap	33.84	8.44	5.41	2.78
Value	28.07	6.21	1.75	0.91

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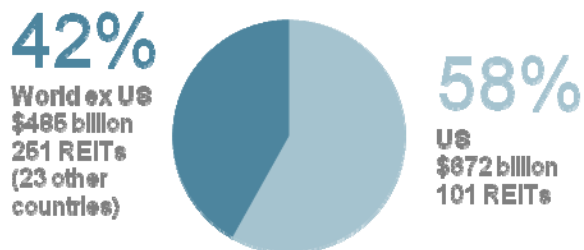
Real estate pushed higher

2017 Index Returns

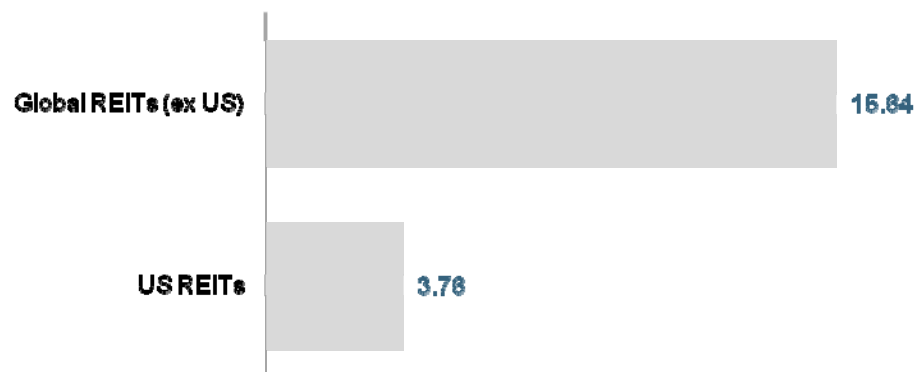
Real estate prices continued to push ahead benefitting from years of low borrowing costs and demand for income producing assets. Infrastructure and data centers led all REIT sectors, followed by timber and industrial. Retail was the only negative sector weighed down by notable weakness in regional malls and shopping centers, thanks to the “Amazon” effect.

Non-US real estate investment trusts outperformed US REITs in 2017.

Total Value of REIT Stocks



Ranked Returns for 2017 (%)



Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
Global REITs (ex US)	15.64	4.78	5.49	2.05
US REITs	3.76	4.97	9.09	7.07

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 ©. S&P Global ex US REIT Index data provided by Standard and Poor's Index Services Group © 2018.



Commodities built slightly on last year's progress

2017 Returns

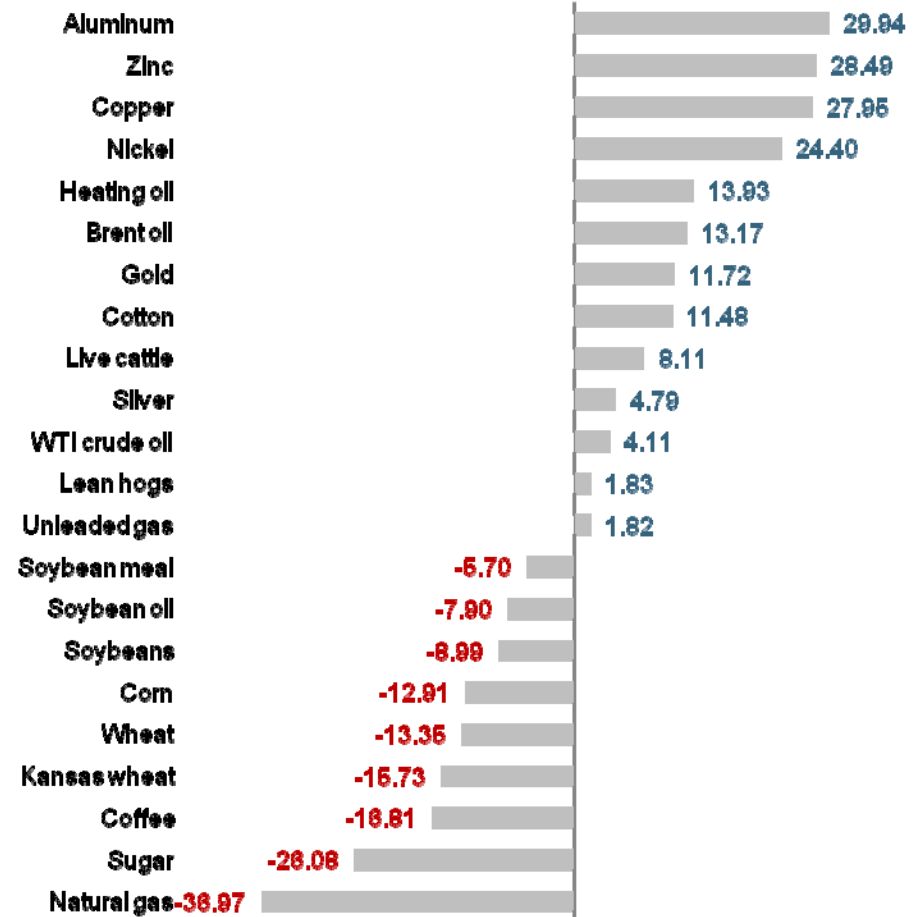
Improved global growth and a modestly weaker dollar pushed commodities into positive territory against a backdrop of stubbornly low inflation that suppressed prices for most of the year. Historically, a weaker dollar has tended to lift dollar denominated commodities.

The Bloomberg Commodity Index Total Return advanced 1.70% in 2017.

Aluminum was the strongest performer, posting a return of 29.94%. Zinc and copper followed with respective returns of 28.49% and 27.95%. Natural gas was the weakest performer, falling 36.97%.

Period Returns (%)		<i>* Annualized</i>		
Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Commodities	1.70	-5.03	-8.45	-6.83

Ranked Returns for Individual Commodities (%)



Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

All index returns are net of withholding tax on dividends. Securities and commodities data provided by Bloomberg.

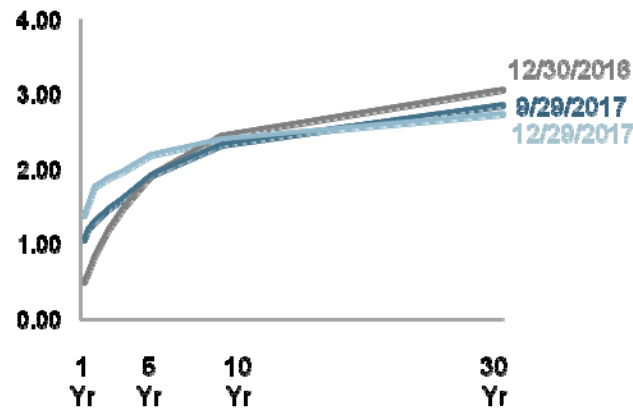
Global & US bonds advanced as interest rate headwinds build

2017 Index Returns

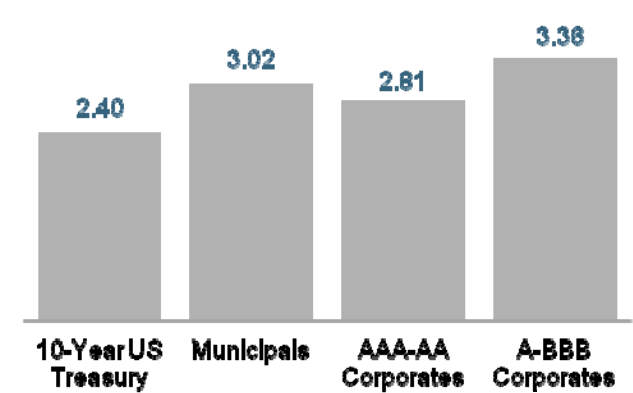
US government and corporate bonds advance for the fourth year in a row even as higher interest rates are anticipated in the not too distant future. Over the current tightening cycle, the Fed has raised short-term rates five times over two years. This has been a slow process considering the Fed last hiked rates seventeen times over two years on the heels of the 2000-2001 recession.

Global government bond returns notched meek returns due to highly accommodative monetary policy with some countries like Germany, France, and Japan remaining in negative yield territory. Under negative yield scenarios, bond holders pay governments for holding their money instead of investing for a return.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Long US Government Bond Index	8.53	2.85	3.49	6.49
Bloomberg Barclays US Corporate High Yield Index	7.50	6.35	5.78	8.03
Bloomberg Barclays Municipal Bond Index	5.45	2.98	3.02	4.46
Bloomberg Barclays US Aggregate Bond Index	3.54	2.24	2.10	4.01
Bloomberg Barclays US TIPS Index	3.01	2.05	0.13	3.53
Citi World Government Bond Index 1-5 Years (hedged to USD)	1.13	1.21	1.23	2.13
ICE BofAML 3-Month US Treasury Bill Index	0.86	0.41	0.27	0.39
ICE BofAML 1-Year US Treasury Note Index	0.57	0.49	0.38	0.90

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 (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citi fixed income indices © 2018 by Citigroup. ICE BofAML index data © 2018 ICE Data Indices, LLC. The S&P data are provided by Standard & Poor's Index Services Group.



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