

## Economic Review

The presidential election rhetoric has heated up but the economy has not, prompting the Fed to keep key interest rates unchanged at its September Committee meeting. According to the Fed, jobs gains have been solid and household spending has been growing, strengthening the case for an increase in the federal funds rate. But business investment has remained soft and inflation continues to run below the Committee's 2% longer-run objective. With December as the next likely opportunity to increase rates, the Committee continues to closely monitor labor market conditions, inflation indicators and global economic and financial developments.

Real gross domestic product (GDP) increased at an annual rate of 1.4% in the second quarter compared to 0.8% in the first quarter, according to the Commerce Department. Still this growth was slower than the 2.1% annual rate averaged since the recession ended in mid-2009. Economic growth has remained below 1.5% for the last three quarters and the current expansion's pace is the weakest of any since 1949.

The U.S. Bureau of Labor Statistics reported the Consumer Price Index increased 1.1% over the last 12 months. The food index was unchanged over the last year, while the energy index declined 9.2 percent.

Home prices have been moderating this year with the median sales price of new houses, at \$284,000, down 5.4% for the year. Earlier this summer, existing-home sales, reached the highest level since 2007.

Economic activity in the manufacturing sector contracted in August following five consecutive months of expansion, while the overall economy grew for the 87<sup>th</sup> consecutive month, according to the most recent Manufacturing ISM Report on Business.

The unemployment rate remained at 4.9% in August according to the U.S. Bureau of Labor Statistics. Employment continued to trend up in several service-providing industries.

Consumers became a bit more optimistic about prospects for the economy as well as their own personal finances according to the latest release of the University of Michigan Surveys of Consumers. The robust level of consumer spending has offset declines in business investment expenditures.

## Financial Markets Review:

### Domestic Stock Market

The markets ended the quarter on the upside with the Dow Jones Industrial Average, S&P 500, and the Nasdaq all hitting all-time highs during the summer. The Dow closed at 18,308.15 for a 2.11% return. The S&P 500 finished the period with a gain of 3.31%, excluding dividends, to 2,168.27. The NASDAQ finished at 5,312.00 with a return of 9.69%. Year-to-date, the Dow is up 5.07% while the S&P 500 and the NASDAQ have both increased an identical 6.08%.

Information technology ran ahead of other S&P sectors in the third quarter, jumping 12.86%. Financials and industrials came in second and third, up 4.59% and 4.14% respectively. The three negative sectors for the quarter were utilities declining 5.91%, telecommunication services down 5.60%, and consumer staples dipping 2.63%.

Mid- and small-cap stocks fared better than large-caps in the quarter, with the S&P SmallCap 600 Index ahead 7.20% and the S&P Midcap 400 Index rising 4.14%.

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

The top-performing stocks in the Dow Jones Industrial Average for the third quarter were Apple (+18.25%), Caterpillar (+17.10%), and Intel (+15.09%). Detractors from the Dow included Verizon (-6.91%), Exxon Mobil (-6.89%), and Coca-Cola (-6.64%).

The best performers for the third quarter among S&P Dow Jones industry groups were general mining (+21.1%), diamonds & gemstones (+20.3%) and semiconductors (+18.6). The worst performers were gold mining (-5.9%), multiutilities (-5.0%), and drug retailers (-4.9%).

The price-earnings level of the S&P 500 remains well above historical valuation averages at 25.09 (per Barron's) and is 28% higher than a year ago.

Looking ahead to the fourth quarter of 2016, with low interest rates persisting, the outlook for US companies remains positive. Apprehensions, however, abound with the upcoming presidential election, third quarter earnings season, market valuations and bouts of volatility, populist pressures and political risks across the sea, negative interest rates, the global trade picture, and terrorism.

We remind investors to stay mindful of their long-term goals and try to keep emotions from driving short-term investment decisions.

Category/Style	Total Returns (09/30/16)			Annualized Returns (09/30/16)		
	3 <sup>rd</sup> Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500 (w/ dividends)	3.85	7.84	15.43	11.16	16.37	7.24
Russell 1000 Large Cap	4.03	7.92	14.93	10.78	16.41	7.40
Russell 1000 Growth	4.58	6.00	13.76	11.83	16.60	8.85
Russell 1000 Value	3.48	10.00	16.20	9.70	16.15	5.85
Russell 2000 Small Cap	9.05	11.46	15.47	6.71	15.82	7.07
Russell 2000 Growth	9.22	7.48	12.12	6.58	16.15	8.29
Russell 2000 Value	8.87	15.49	18.81	6.77	15.45	5.78

Source: Frank Russell Company, Standard and Poor's

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## International Stock Markets

With Brexit uncertainty abated, the MSCI EAFE Index of developed markets ended the quarter with a gain of 6.43%. Emerging markets continued their resurgence among top performing asset classes adding 9.03% 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 returned 2.65% for the quarter moving them into positive territory for the year-to-date.

European markets were higher in the third quarter. The Stoxx Europe 600 Index gained 3.95% to 342.92. Among European nations, Germany's DAX Index climbed 8.58% to 10,511.02, France's CAC-40 Index added 4.97% to 4,448.26, and the UK London FTSE 100 Index closed at 6,899.33, higher by 6.07%.

In Asia, the Dow Jones Asia-Pacific TSM Index jumped 8.06% to finish the quarter at 1,474.48. Japan's Nikkei stock average returned 5.61% to 16,449.84, and China's Shanghai Composite Index grew 2.56% to 3,004.70.

The Americas DJ Americas index was ahead 3.69% to 523.66. Brazil's Sao Paulo Bovespa index surged 13.27% to 58,367.05, Canada's S&R/TSX composite index increased 4.70% to 14,725.86, and Mexico's IPC All-Share index ended the quarter at 47,245.80 up 2.78%.

Top performing countries for the quarter (in \$US) included Croatia (+17.6%), Kazakhstan (+17.3%), and Ukraine (+15.4%). Laggards included Nigeria (-13.7%), Kenya (-5.5%), and Turkey (-4.7%).

The dollar weakened 1.80% against the Yen for the quarter, with the Yen ending the period at 101.34 (JPY/USD). The Dollar also slipped 1.80% versus the Euro ending the quarter at 1.124 (USD/EUR).

## World Bond Markets

Slow global growth, deflationary pressures, a strong dollar and demographic trends are likely to keep yields lower longer. The Barclays U.S. Aggregate Bond Index was modestly higher for the quarter, gaining 0.46%. The Barclays Municipal Index fell 0.30%, while the Barclays U.S. Treasury TIPS Index rose 0.96%. The U.S. 10-year note yield rose to 1.60%, a gain of 11 basis points. The 7-day yield on retail money funds remained at 0.12% according to iMoneyNet.

Yields on foreign bonds continued to move mostly lower in the third quarter, with the 10-year bond yield dropping to 0.68% in the United Kingdom and 0.98% in Canada. German and Japanese 10-year bonds stayed in negative territory at -0.15% and -0.09% respectively.

## Commodities

Commodities maintained upward momentum in the third quarter posting an 11.49% gain to 548.11 as measured by the DJ Commodity Index. Gold was little changed for the quarter at \$1,313.30 per troy ounce. For the year-to-date the precious metal is up 23.86%. Crude oil barely budged to end the quarter at \$48.24 per barrel. Oil had traded as low as \$26.21 over the past 12 months and as high as \$51.23. OPEC tentatively agreed to a production cut to limit daily production. The cartel controls more than a third of world output. Natural Gas also moved little in the third quarter but is up 24.35% for the year, ending at \$2.906/MMBtu.

## Mutual Funds/Exchange-Traded Funds

The September 29 release from the Investment Company Institute showed that the combined assets of the nation's mutual funds increased \$725.5 billion (4.6%) over the last twelve months to \$16.3 trillion. Over the same period, Exchange-traded fund (ETF) assets continued their rapid growth pace gaining \$379.1 billion (19.0%) year-over-year to \$2.4 trillion in total. The ETF ranks continue to proliferate, with the addition of another 147 funds over the past year to 1,680 representing an increase of 9.6%.

## MUTUAL FUNDS OVERVIEW AS OF SEPTEMBER 30, 2016

Category	Total Returns			Annualized Returns		
	3 <sup>rd</sup> Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Intermed.	-0.24	3.36	4.78	4.47	3.80	3.87
Short Taxable Bond	0.47	2.52	2.11	1.39	1.69	2.80
Intermed. Taxable Bond	0.98	5.97	5.28	3.74	3.46	4.56
Long Taxable Bond	1.05	14.49	13.51	9.10	6.50	7.53
High Yield Bond	4.67	11.41	9.10	3.76	7.04	6.15
World Bond	1.47	8.20	7.58	2.06	2.41	4.41
Small-Cap Stock	6.96	10.05	13.00	5.55	14.53	6.66
Mid-Cap Stock	5.01	7.86	10.46	6.67	14.40	6.80
Large-Cap Stock	3.81	6.00	12.02	8.76	14.73	6.35
World Stock	5.43	5.78	10.58	4.67	10.85	4.59
Foreign Stock	6.19	2.95	6.56	0.55	7.16	1.75
Natural Resources	5.06	20.22	18.62	-4.91	1.64	1.00
Real Estate	-0.90	9.53	16.72	12.76	14.59	5.53

Source: Morningstar Category Returns, Morningstar, Inc.

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## 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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