

Economic Review

Surprising no one, the Fed continued on a steady course to raise rates multiple times in 2017, increasing the fed funds rate by ¼ point at the March Federal Open Market Committee meeting to a target range of ¾ to 1%.

Real gross domestic product (real GDP) increased at an annual rate of 2.1% in the fourth quarter of 2016. This compares to an increase of 3.5% in the third quarter according to the Commerce Department. The increase in real GDP reflected an increase in consumer spending, private inventory investment, residential investment, business investment, and state and local government spending. The deceleration in real GDP reflected downturns in exports and in federal government spending.

The conference Board Leading Economic Index (LEI) for the U.S. increased to its highest level in over a decade. Widespread gains across a majority of the leading indicators points to an improving economic outlook for 2017.

Inflation remains tame. The Consumer Price Index (CPI) increased 2.7% over the last 12 months according to the Bureau of Labor Statistics.

Business conditions continue to improve and the business outlook is positive according to supply executives in the latest Manufacturing ISM Report On Business. Economic activity in the manufacturing sector expanded in March, and the overall economy grew for the 94th consecutive month.

The failure of health care reform to move forward in congress has put a damper on the ambitious Trump agenda. More than two months into the Trump presidency little progress has been made by the administration on any significant piece of legislation related to the many economic policies touted during the campaign, including lower corporate taxes, big infrastructure spending, relaxing of banking regulations, more restrictive trade policies and faster growth.

Expectations regarding future economic conditions remained highly partisan according to the latest University of Michigan Surveys of Consumers as Democrats expect an imminent recession, higher unemployment, lower income gains, and more rapid inflation, while Republicans anticipate a new era of growth in incomes, job prospects and lower inflation.

Financial Markets Review:

Domestic Stock Market

The Dow Jones Industrial Average, S&P 500, and the NASDAQ all continued to advance in the first quarter. The Dow closed at 20,663.22 for a 4.56% return and the sixth straight quarter of gains. Since the 2016 presidential election, the Dow has set 32 new record closing highs with the most recent record of 21,115.55 set on March 1, 2017. The S&P 500 finished the quarter with a gain of 5.53%, excluding dividends, to 2,362.72. The Nasdaq finished within striking distance of 6,000 leaping 9.82% to 5,911.74.

Technology was the best performing S&P sector in the first quarter, climbing 12.57%. Consumer discretionary, added 8.45% and health care, was up 8.37%. The two negative sectors in the first quarter were telecom services down 3.97% and energy, dropping 6.68%.

Mid- and small-cap stocks did not fare as well as large-caps with the S&P MidCap 400 Index rising 3.94% and the S&P SmallCap 600 Index up a meager 1.06%.

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

The top-performing stocks in the Dow Jones Industrial Average for the first quarter were Apple (+24.0%), Visa (+13.9%), and Boeing (+13.6%). Detractors from the Dow included Exxon Mobil (-9.1%), Chevron (-8.8%), and Verizon (-8.7%).

The best performers for the first quarter among S&P Dow Jones industry groups were computer hardware (+19.8%), mortgage finance (+17.2%) and aluminum (+16.4%). The worst performers were integrated oil & gas (-5.8%), oil equipment & services (-5.7%) and exploration & production (-4.2%).

The price-earnings level of the S&P 500 remains significantly above historical valuation averages at 26.52 (per Barron's) and remains 16.0% higher than a year ago.

Expectations of real structural and fiscal policy reforms in 2017 emanating from the Trump administration have moderated. With the "Trump trade" fading, the market focus will return to an improving economy, earnings growth, stubbornly high market valuations, trade fears, rising inflation, prospects of increased volatility, tax reform, global political tensions, and the on-going threat of terrorism.

We encourage investors to remain focused on their long-term goals, periodically rebalance their portfolios and diversify broadly.

Category/Style	Total Returns (3/31/17)			Annualized Returns (3/31/17)		
	1st Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
S&P 500 (w/ dividends)	6.07	6.07	17.17	10.37	13.30	7.51
Russell 1000 Large Cap	6.03	6.03	17.43	9.99	13.26	7.58
Russell 1000 Growth	8.91	8.91	15.76	11.27	13.32	9.13
Russell 1000 Value	3.27	3.27	19.22	8.67	13.13	5.93
Russell 2000 Small Cap	2.47	2.47	26.22	7.22	12.35	7.12
Russell 2000 Growth	5.35	5.35	23.03	6.72	12.10	8.06

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Russell 2000 Value	-0.13	-0.13	29.37	7.62	12.54	6.09
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Source: Frank Russell Company, Standard and Poor's

International Stock Markets

On March 29, British Prime Minister Theresa May formally notified the European Union of Britain's departure stating, "This is an historic moment from which there can be no turning back".

With a strengthening global economy as backdrop, the MSCI EAFE Index of developed markets ended the quarter with a gain of 7.25%. Emerging markets soared 11.45% as measured by the MSCI Emerging Markets Index and Frontier markets jumped 8.89%.

European markets were higher in the first quarter. The Stoxx Europe 600 Index gained 5.46% to 381.14. Among European nations, Germany's DAX Index climbed 7.25% to 12,312.87, France's CAC-40 Index added 5.35% to 5,122.51 ahead of the upcoming May elections, and the UK London FTSE 100 Index closed at 7,322.92, higher by 2.52%.

In Asia, the Dow Jones Asia-Pacific TSM Index gained 8.78% to finish the quarter at 1,547.58. Japan's Nikkei stock average slid 1.07% to 18,909.26, while in emerging markets China's Shanghai Composite Index grew 3.83% to 3,222.51.

The Americas DJ Americas index was ahead 5.45% to 569.81. Brazil's Sao Paulo Bovespa Index surged 7.90% to 64,984.07, Canada's S&R/TSX composite index increased 1.70% to 15,547.75 and Mexico's IPC All-Share Index, ended the quarter at 48,541.56 up 6.35%.

Top performing countries for the quarter (in \$US) included Argentina (+34.9%), Kazakhstan (23.6%), and India (19.3%). Laggards included Sri Lanka (-5.1%), Lebanon (-4.7%), and Oman (-4.5%).

The dollar weakened 4.80% against the yen, ending the period at 111.39 (JPY/USD). The dollar also fell 1.28% versus the euro, ending the quarter at .9385 (EUR/USD).

World Bond Markets

With global growth picking up yields are trending higher. In this rising yield environment, the Barclays U.S. Aggregate Bond Index was still able to return a positive 0.82% in the first quarter. The Barclays Municipal Index rose 1.58%, and the Barclays U.S. Treasury TIPS Index advanced 1.26%. The U.S. 10-year note yield dipped slightly to 2.39% from 2.45% at year-end and the 7-day yield on retail money funds trended higher to 0.60% according to Crane Data. Yields on foreign bonds diverged in the first quarter, with the 10-year bond yield rising to 0.34% in Germany, holding steady at 0.06% in Japan, and falling in Canada and the UK to 1.59% and 1.15% respectively.

Commodities

Commodities drifted lower in the first quarter posting a 2.33% loss for the period as measured by the Bloomberg Commodity Index. Gold advanced 8.46% for the quarter to \$1,247.30 per troy ounce. OPEC stuck to a production cut to limit daily production and prices drifted lower 5.81% to \$50.60. Natural gas retreated in the first quarter by 14.34% to \$3.19/MMBtu after climbing 28.15% in the previous quarter.

Mutual Funds/Exchange-Traded Funds

The March 29 release from the Investment Company Institute showed that the combined assets of the nation's mutual funds increased \$1.8 trillion (12.2%) over the last twelve months to \$16.9 trillion. Over the same period, Exchange-traded fund (ETF) assets continued their inroads, gaining an impressive \$717.8 billion (35.7%) year-over-year to \$2.7 trillion in total. The ETF ranks continue to proliferate, with the addition of another 124 net funds over the past year to 1,736 representing an increase of 7.7%. Mutual funds, on the other hand, gained a paltry 5 funds over the same period to 8,116.

MUTUAL FUNDS OVERVIEW AS OF MARCH 31, 2017

Category	Total Returns			Annualized Returns		
	1st Quarter	Year-to-Date	One Year	Three Years	Five Years	Ten Years
Municipal Bond Intermed.	1.30	1.30	-0.32	2.71	2.58	3.49
Short Taxable Bond	0.62	0.62	1.65	1.07	1.29	2.40
Intermed. Taxable Bond	1.06	1.06	1.78	2.44	2.57	4.09
Long Taxable Bond	1.59	1.59	0.28	5.61	4.93	6.49
High Yield Bond	2.29	2.29	13.50	3.16	5.56	5.86
World Bond	2.31	2.31	1.68	0.30	1.33	3.49
Small-Cap Stock	1.75	1.75	21.75	5.89	11.17	6.56
Mid-Cap Stock	4.19	4.19	17.14	6.29	11.48	6.71
Large-Cap Stock	5.55	5.55	15.88	8.04	11.68	6.48
World Stock	7.39	7.39	13.63	4.08	8.27	4.15
Foreign Stock	7.77	7.77	10.64	0.30	4.92	0.88
Natural Resources	0.50	0.50	19.85	-4.82	-0.72	0.59
Real Estate	2.55	2.55	5.25	10.56	10.32	4.97

Source: Morningstar Category Returns, Morningstar, Inc.

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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. **Manufacturing ISM Report** is a monthly report based on a national survey of purchasing managers that tracks month-over-month changes in new orders, production, employment, supplier deliveries and inventories for the manufacturing sector. 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. **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. **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.

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