SAGE VIEW

MARKET COMMENTARY

January 5, 2018

U.S. equity markets pared their best annual gains since 2013, but finished around 0.5% lower on the final trading day of the year as investors prepared for the extended New Year's weekend. Overall, domestic equities powered higher on a year-long theme of accelerating economic growth, rising at its fastest pace since early 2015. Other key catalysts include central banks' continued dovish policies, increased corporate earnings and improving labor market conditions; together they pushed consumer confidence to a 17-year high. Stocks also benefited from the passage of the Trump administration's Tax Cuts and Jobs Act, which reduces corporate tax rates to 21% from 35%, as well as lowering individual tax rates. The S&P 500 Index, the broadest measure of U.S. equity performance, posted 62 record-setting highs in 2017 and returned 21.83% in 2017, almost double its 2016 gain.

The Dow Industrials finished the year with 71 new all-time highs, topping its prior annual record of 69 in 1995. The Dow, which began the year below 20,000, posted successive 1,000-point milestones at the fastest pace since its creation in 1896. The index topped the 20,000 mark shortly after President Trump took office, advanced above 24,000 on November 30 and finished the year at 24,719.22, registering a 28.11% gain for the year. Among the three major U.S. indices, the NASDAQ Composite performed best, advancing 29.64% amid strong gains in technology companies.

Equity markets proved to be resilient in 2017, even as investors faced heightened uncertainty associated with historically-high valuations and a flurry of natural disasters, including wildfires in the west and three hurricanes along the gulf coast and southern Florida. Moreover, lingering geopolitical tensions with North Korea, threatening nuclear war against the U.S. and its allies, have not kept many investors sidelined. Despite short-lived spikes associated with these events, the CBOE VIX Volatility Index has mostly traded within a narrow range of its long-term average and ended the year more than 21% below where it began.

The U.S. Dollar Index capped its fourth straight quarterly decline, down 1% in the latest quarter, extending its drop this year to 9.9% for its worst year since 2005. Gold futures rebounded to $1,303.05/ounce at the end of the fourth quarter, extending their 2017 gain to 13.09%, their best year since 2010. Helped in large part by OPEC-led production cuts, oil finished the year broadly higher, recovering from a low of $43.22 on June 21 to ending the year above $60/bbl. WTI crude oil rose 12.47% in 2017.

U.S. large cap companies, as measured by the S&P 500, outperformed mid and small caps in the fourth quarter and year-to-date (YTD) periods. The Russell Mid Cap Index rose 6.07% in the fourth quarter, whereas the Russell 2000, the leading measure of small cap performance, gained 3.34%. These same indices advanced 18.52% and 14.65%, respectively for the year. Value-oriented equities outperformed growth in December, while growth outpaced value in the fourth quarter and YTD. The Russell 1000 Value Index rose 1.46% last month versus a 0.78% gain on the Russell 1000 Growth Index. In contrast, the Russell 1000 Growth Index rose 7.86% in the fourth quarter and 30.21% YTD, whereas the Russell 1000 Value Index gained 5.33% and 13.66% respectively.

Within the S&P 500 Index, 8 of its 11 major sector groups advanced in December, led by Telecom (+5.77%), Energy (+4.88%) and Consumer Discretionary (+2.41%). Utilities (-6.14%) and Healthcare (-0.65%) declined the most last month. All 11 major sectors posted gains in the fourth quarter, with Consumer Discretionary (+9.87%), Technology (+9.01%) and Financials (+8.63%) up the most, while Utilities (+0.21%) gained the least. For the year, Technology (+38.83%), Materials (+23.84%) and Consumer Discretionary (+22.98%) rose the most, while just two sectors, Telecom (-1.25%) and Energy (-1.01%) ended negative in 2017.

The MSCI EAFE Index, which measures returns on developed markets outside of U.S. and Canada, trailed U.S. equities in the fourth quarter, but outperformed domestic equities on a full-year basis. The MSCI EAFE Index rose 4.23% last quarter versus a 6.64% return on the S&P 500. For 2017, the MSCI EAFE Index advanced 25.03%, whereas the S&P 500 returned 21.83%. Emerging markets equities, as measured by the MSCI Emerging Markets Index, outperformed relative to the U.S. equities in all three time periods. Emerging market stocks gained 3.59% in December, extending its fourth quarter gain to 7.44% and YTD advance to 37.28%. It was the best year for developing markets since 2009.

Turning to bonds, U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, rose 0.30% in December, which more than erased a November loss to end the fourth quarter with a 0.05% gain, and extended its 2017 return to 2.30%. The yield on benchmark 10-year Treasury notes ended the fourth quarter at 2.41%, up eight basis points during the quarter, while falling by four basis points during the year. Investment grade bonds, as measured by the Bloomberg Barclays U.S. Aggregate Bond

Index, performed incrementally better than safer-haven U.S. government bonds, up 0.46% last month, which extended its fourth quarter and YTD gains to 0.39% and 3.54%, respectively.

Municipal bonds outperformed government and other investment grade bonds, as the Bloomberg Barclays Municipal Bond Index rose 1.05% last month, pushing its fourth quarter gain to 0.75% and full-year return to 5.45%. At the other end of the credit spectrum, the Barclays U.S. Corporate High Yield Index, which measures returns of below-investment grade corporate bonds, trailed its investment grade counterparts in December and the fourth quarter, but outperformed for the year. High yield corporate bonds gained 0.30% in December and 0.47% last quarter, which extended 2017 return to 7.50%.

Source: Tower Square Investment Management ®

SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q3 2017	3.2%	↑	The third estimate for Q3 GDP was decreased by 0.1%, after personal consumption expenditures increased less than previously estimated. This follows a 3.1% growth rate in Q2.
Global Real GDP Growth (ann. rate; Source: IMF)	Q3 2017	3.0%	n/a	The prospects for stronger global growth in 2017 were led by expectations of more robust global demand, reduced deflationary pressures and optimism in financial markets.
Non-Farm Employment Growth	Dec 2017	148,000	↓	US payrolls came in below expectations of 190,000. Job gains occurred in healthcare, construction, and manufacturing, while the retail sector lost jobs despite the holiday shopping season.
Unemployment Rate	Dec 2017	4.1%	↓	The unemployment rate remained steady for the third consecutive month. The participation rate was also unchanged and has shown no real movement over the last 12 months.
ISM Manufacturing Index	Dec 2017	59.7	↑	Manufacturing activity expanded by more than expected in December, boosted by a surge in new orders growth, as well as an increase in export orders.
ISM Non-Manufacturing Index	Dec 2017	55.9	↑	Activity in service-related industries slowed for the 2nd consecutive month. Despite the slower growth rate, a measure over 50 indicates continued growth in the service sector.
Capacity Utilization	Nov 2017	77.1	↔	Capacity utilization for the industrial sector increased slightly in November, due to a large jump in the index for mining. This was partially offset by a decrease in the index for utilities.
Consumer Price Index (CPI, SA)	Nov 2017	0.4%	↑	An increase in the energy index accounted for about three-fourths of the rise in CPI. The food index was unchanged, and the index for all items less food and energy increased 0.1%.
Producer Price Index (Finished Goods, SA)	Oct 2017	0.4%	↔	Producer prices continued to advance in November, led by an increase in prices for final demand goods. Process for final demand services also climbed 0.2%.
Leading Economic Indicators Index (LEI)	Nov 2017	0.4%	↑	The LEI increased in November, suggesting continued economic growth into the first half of 2018. New manufacturing orders and historically high consumer sentiment led to the increase.
10-year Treasury Yield	Dec 2017	2.40%	↑	The 10-year Treasury yield ended 2 basis points lower in December, and 5 basis points below where it started 2017, despite 3 interest rate increases by the Fed.

*NOTE: The “Value” column shows the most current level or change over the prior month or quarter.

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	December Close	December	Year- to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	24,719	1.92%	28.11%	28.11%	14.36%	16.37%
S&P 500	2,674	1.11%	21.83%	21.83%	11.41%	15.79%
Nasdaq	6,903	0.48%	29.64%	29.64%	14.72%	19.40%
Russell 2000	1,536	-0.40%	14.65%	14.65%	9.96%	14.12%
International Indices						
MSCI EAFE (Developed)	8,135	1.62%	25.62%	25.62%	8.30%	8.39%
MSCI EM (Emerging)	2,522	3.64%	37.75%	37.75%	9.50%	4.73%
US Fixed Income						
Bloomberg Barclays US Aggregate	---	0.46%	3.61%	3.61%	2.16%	2.07%
Bloomberg Barclays US TIPS	---	0.92%	3.01%	3.01%	2.05%	0.13%
Commodities and Real Estate						
Bloomberg Commodity Index	180	2.99%	1.70%	1.70%	- 5.03%	- 8.45%
Crude Oil ($/bbl)	---	$60.42	$53.72	$53.72	$53.27	$91.82
DJ US Select REIT	9,744	0.03%	3.76%	3.76%	4.97%	9.09%

Sources: Bloomberg, MSCI. Non-US index returns are shown in US Dollar terms and are considered to be currency unhedged. Total returns include dividend and income accruals and price changes. Returns for three and five years are annualized and assume the reinvestment of interest and dividend payments. Investors cannot invest directly in any of the above indices. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

About Tower Square Investment Management ®
Tower Square Investment Management LLC is an SEC registered investment adviser owned by Cetera Financial Group®. Tower Square Investment Management provides market perspectives, portfolio guidance, investment research, and other investment advice to its affiliated broker-dealers, dually registered broker-dealers and registered investment advisers.

GLOSSARY
*The **Bloomberg Barclays Capital U.S. Aggregate Bond Index**, which was originally called the Lehman Aggregate Bond Index, is a broad based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government–related and corporate debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly.*
*The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Many of the sub-indicies of the Municipal Index have historical data to January 1980. In addition, several sub-indicies based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.*
*The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.*
*The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.*
*The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.*
*The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.*
*The **MSCI ACWI Excluding the U.S.** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets without the inclusion of the United States. The MSCI full ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey* and United Arab Emirates.*

*The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.*
*The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.*
*The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.*
*The **Russell 3000** Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.*
*The **Russell Mid Cap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.*
*The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.*
*The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.*
*The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.*
*The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.*