

MARKET COMMENTARY

December 8, 2017

Stocks ended the month on a strong note, posting solid gains in the final day of trading. Market participants were encouraged by the prospects that a tax bill would be approved by year-end after one of the last holdouts, Senator John McCain, backed the Senate tax bill. Investors reacted positively because the Senate bill would cut the corporate tax rate from 35 percent to 20 percent. All three major domestic equity indices posted strong gains in November. The Dow Industrials posted the strongest November gain, with a 4.24% return, including dividends. The NASDAQ Composite advanced 2.34%, while extending its year-to-date gain to over 29%.

Within the S&P 500, all 11 major sectors advanced in November, led by Telecom (+6.03%), Consumer Staples (+5.67%) and Consumer Discretionary (+5.06%). Energy (+1.76%), Technology (+1.15%) and Materials (+0.99%) were up the least. On a YTD basis, Technology (+38.82%), Healthcare (+22.87%) and Materials (+21.48%) are this year's best performing sectors, while Telecom (-6.64%) and Energy (-5.62%) are the only sectors that remain negative in 2017. Mid cap stocks edged out large caps and small cap stocks last month. Mid cap companies, as measured by the Russell Mid Cap Index, rose 3.36%, while the Russell 2000 Index gained 2.88%. Looking at the Russell suite of indices, large cap stocks are still up the most this year, rising 20.35% YTD versus 17.43% for mid caps and 15.11% for small caps. Growth stocks performed in line with value stocks in November, with the Russell 1000 Growth Index up 3.04%, while the Russell 1000 Value Index rose 3.06%. Growth shares advancing 29.21% YTD, while value stocks trailed with a respectable 12.03% YTD gain.

In international equities, the MSCI EAFE Index, a broad performance measure of global developed markets outside the U.S. and Canada, underperformed again relative to domestic equities in November, rising just 1.05%, making its gain YTD 23.06%. Within the index, Japanese equities outperformed European equities, which were barely able to eke out a gain. Looking to less developed countries, the MSCI Emerging Markets Index underperformed the U.S., posting a 0.20% gain last month and 32.53% YTD. The MSCI All Country World Index, excluding the U.S., rose 0.81% in November and 24.42% YTD.

In fixed income markets, yields on the benchmark 10-year U.S. Treasury notes increased by 0.03% in November, to end the month at 2.41%. The Bloomberg Barclays U.S. Municipal Bond Index lost 0.54% for the month, underperforming the Bloomberg Barclays U.S. Aggregate

Bond Index. The Aggregate Bond Index, a broader measure of U.S. investment grade bonds, fell 0.13%. Riskier bonds, as measured by the Bloomberg Barclays U.S. Corporate High Yield Index—a proxy for below-investment grade corporate bonds, lost 0.26% in November, dropping its YTD gain to 7.18%.

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	3.3%	↑	The second estimate for Q3 GDP was increased by 0.3%. The acceleration reflected an increase in private inventory investment and a downturn in imports.
Global Real GDP Growth (ann. rate; Source: IMF)	Q3 2017	3.0%	n/a	The prospects for stronger global growth in 2017 are led by expectations of more robust global demand, reduced deflationary pressures and optimism in financial markets.
Non-Farm Employment Growth	Nov 2017	228,000	↓	US employers hired at a strong pace in November, adding jobs in professional and business services, manufacturing, and health care industries. However, wage growth remained tepid.
Unemployment Rate	Nov 2017	4.1%	↓	The unemployment rate remained near its 17-year low. The participation rate was also unchanged and has shown no real movement over the last 12 months.
ISM Manufacturing Index	Nov 2017	58.2	↑	Manufacturing activity retreated slightly for a second consecutive month, after reaching a 13-year high in September. Even with the decline, the index points to continued growth ahead.
ISM Non-Manufacturing Index	Nov 2017	57.4	↑	Activity in service-related industries declined by 2.7% in November, after reaching a 9-year high in October. This level represents continued growth, but at a slower pace.
Capacity Utilization	Oct 2017	77.0	↔	Capacity utilization for the industrial sector increased in October. Utilization for manufacturing and utilities increased, but were offset by a decline on utilization for mining.
Consumer Price Index (CPI, SA)	Oct 2017	0.1%	↑	An increase in the shelter index was the main contributor to the CPI increase. The energy index declined, while the food index was unchanged for the month.
Producer Price Index (Finished Goods, SA)	Oct 2017	0.4%	↔	Producer prices advanced in October, as prices for both final demand goods and services climbed. Prices for the majority of indexes increased, while food retailing, alcohol wholesaling, and loan services declined.
Leading Economic Indicators Index (LEI)	Oct 2017	1.2%	↑	The LEI increased sharply in October, as the impact of hurricanes dissipated. The widespread growth among its components suggests solid growth in the US economy.
10-year Treasury Yield	Nov 2017	2.42%	↓	The 10-year Treasury yield rose slightly in November, after the Fed signaled support for another rate increase in 2017.

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

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	November Close	November	Year-to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	24,272	4.24%	25.69%	30.02%	13.68%	16.11%
S&P 500	2,648	3.07%	20.49%	22.87%	10.91%	15.74%
Nasdaq	6,874	2.34%	29.02%	30.55%	14.11%	19.40%
Russell 2000	1,544	2.88%	15.11%	18.34%	11.14%	15.02%
International Indices						
MSCI EAFE (Developed)	8,005	1.06%	23.61%	27.86%	6.47%	8.72%
MSCI EM (Emerging)	2,433	0.21%	32.91%	33.30%	6.53%	4.98%
US Fixed Income						
Bloomberg Barclays US Aggregate	--	-0.13%	3.07%	3.21%	2.11%	1.98%
Bloomberg Barclays US TIPS	--	0.13%	2.07%	1.97%	1.36%	-0.18%
Commodities and Real Estate						
Bloomberg Commodity Index	175	-0.46%	-1.24%	0.54%	-8.42%	-9.47%
Crude Oil (\$/bbl)	--	\$57.40	\$53.72	\$49.44	\$66.15	\$88.91
DJ US Select REIT	9,741	3.07%	3.74%	8.60%	5.58%	9.90%



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.

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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.

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