Monthly Economic Update: April 2017

HD VEST
FINANCIAL SERVICES®

U.S. Equity Returns

INDEX	April	3 Mo	1 Year	3 Year	5 Year	10 Year
Russell 1000 Value TR USD	-0.19	2.35	16.55	8.26	13.32	5.53
Russell 1000 TR USD	1.06	5.04	18.03	10.20	13.63	7.25
Russell 1000 Growth TR USD	2.29	7.77	19.50	12.11	13.87	8.88
S&P 500 TR USD	1.03	5.16	17.92	10.47	13.68	7.15
Russell 2000 Value TR USD	0.39	0.98	27.18	8.71	12.96	6.02
Russell 2000 TR USD	1.10	3.18	25.63	9.03	12.95	7.05
Russell 2000 Growth TR USD	1.84	5.57	24.06	9.27	12.89	7.97

For the month of April, markets were mostly positive as data continue to show economic growth. Expectations of major policy changes do not appear to be the driver of returns for April as we did not see any specific policy proposals during the month. Earnings and revenue continue to show growth as the number of companies in the S&P 500 beating EPS and revenue estimates are above 5 year averages. Over the past 3 months, large caps have outperformed small caps. The growth style indices continue to lead value style indices as we move into Q2 of 2017.

Returns as of 4/30/2017

Source: Morningstar Direct

International Equity Returns

INDEX	April	3 Mo	1 Year	3 Year	5 Year	10 Year
MSCI EAFE Value NR USD	2.10	5.67	13.92	-0.64	6.66	-0.19
MSCI EAFE NR USD	2.54	6.87	11.29	0.86	6.78	0.87
MSCI EAFE Growth NR USD	3.01	8.15	8.61	2.26	6.82	1.85
MSCI AC Europe NR USD	3.56	8.79	10.97	-1.30	6.36	0.20
MSCI Japan NR USD	1.05	1.80	10.50	7.32	7.74	0.93
MSCI United Kingdom NR USD	2.08	5.85	6.00	-3.32	3.63	0.29
MSCI Portugal NR USD	0.19	9.16	5.32	-14.31	-3.73	-8.63
MSCI Ireland NR USD	3.53	6.88	4.58	1.14	10.58	-8.58
MSCI Italy NR USD	2.21	11.36	7.02	-8.24	4.09	-6.85
MSCI Greece NR USD	11.31	16.59	4.25	-41.08	-20.09	-28.21
MSCI Spain NR USD	4.55	16.83	17.73	-3.98	8.83	-1.23
MSCI EM NR USD	2.19	7.98	19.13	1.79	1.49	2.47
MSCI Brazil NR USD	-0.05	-0.38	29.29	-4.66	-6.16	0.27
MSCI Russia NR USD	-0.21	-4.56	18.15	1.02	-3.89	-4.51
MSCI China NR USD	2.67	8.57	23.12	8.17	5.41	5.16
MSCI India NR USD	1.93	14.40	20.11	8.55	7.70	3.74

Despite early rhetoric regarding major revisions to trade policies, it now appears that we will not see major alterations as the current administration has raised the possibility of renegotiations as opposed to revocation of trade agreements. Improving growth estimates for economies outside of the U.S. as well as the U.S. dollar slightly weakening, which provided favorable currency translation effects, led to generally stronger relative returns for international markets.

Developed markets and emerging markets were broadly in line with each other through April.

Returns as of 4/30/2017

Source: Morningstar Direct

Fixed Income Returns

INDEX	April	3 Mo	1 Year	3 Year	5 Year	10 Year
Barclays US Aggregate 1-3 Yr TR USD	0.18	0.41	0.78	0.99	0.94	2.40
Barclays US Agg Bond TR USD	0.77	1.40	0.83	2.66	2.27	4.30
Barclays Global Aggregate TR USD	1.13	1.76	-2.10	-0.40	0.37	3.34
Citi WGBI USD	1.30	1.84	-3.61	-1.13	-0.62	3.05
Barclays US Corporate High Yield TR USD	1.15	2.40	13.30	4.74	6.84	7.44
Credit Suisse Leveraged Loan TR USD	0.44	1.10	8.16	3.80	4.81	4.23
Barclays Municipal 1-3 Yr TR USD	0.20	0.60	0.67	0.81	0.88	2.12
Barclays Municipal Interm 5-10 Yr TR	0.92	1.92	0.12	2.84	2.71	4.55
Barclays Municipal TR USD	0.73	1.65	0.14	3.39	3.16	4.37
Barclays HY Muni TR USD	0.68	3.31	4.38	5.29	5.31	4.30

Since December, rates have remained relatively steady with the 10-year treasury rate trading in a narrow range from 2.3 to 2.6%. April saw a small decline in the 10-year Treasury rate as the 10-year started April with a 2.4% rate and finished with a 2.28% rate. That rate has changed little over the previous 3 months. As the next slide shows, credit spreads were slightly narrower for the month, resulting in positive returns on the US Aggregate and marginally stronger returns for the High Yield index. For the trailing three months, fixed income indices were widely positive, with outperformance in lower credit qualities.

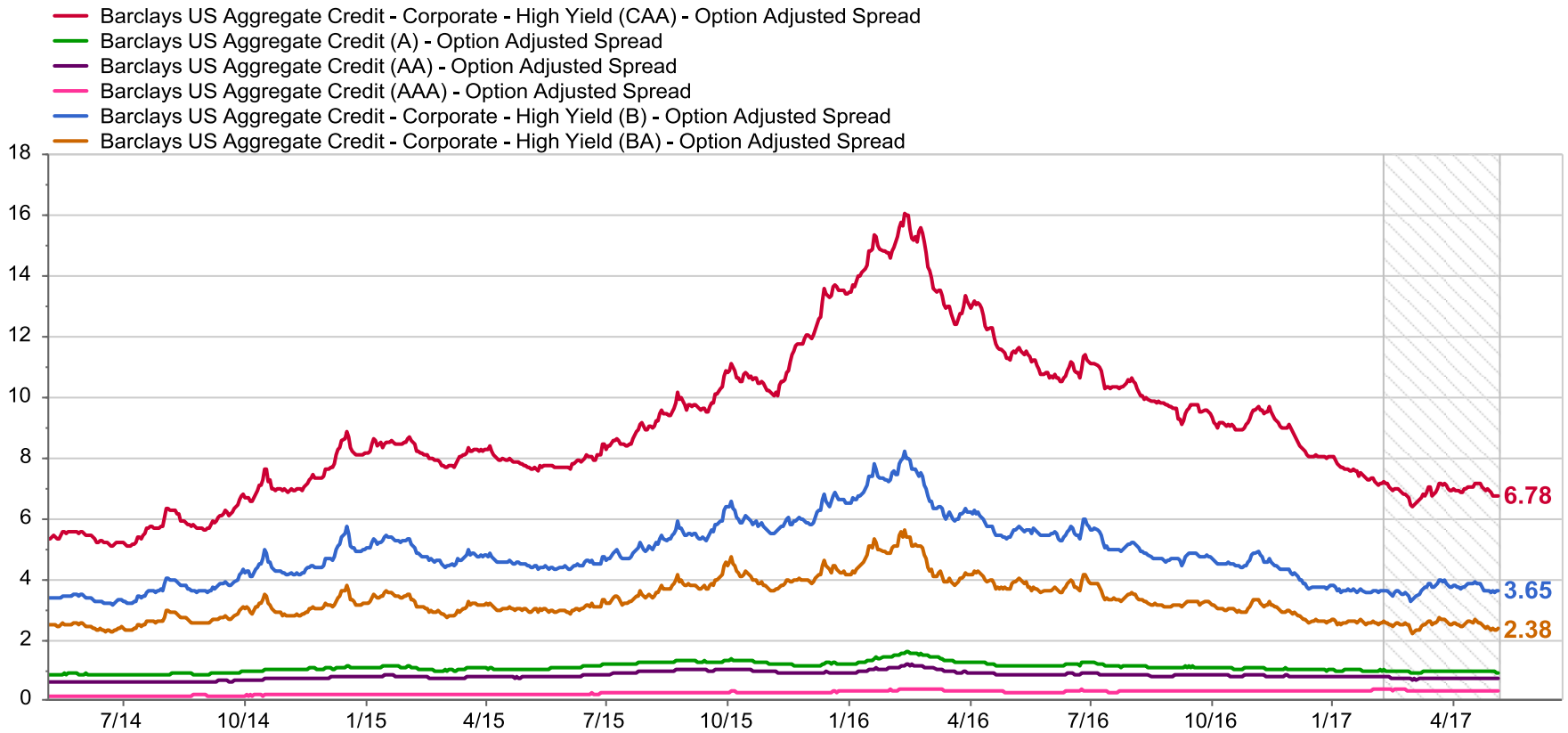
Municipal debt was positive once again. In part this can be explained by the normal cycle of supply and demand as a new calendar year results in new issuance. Intermediate-term municipals were the strongest relative performer for the month as rates slightly declined during April. Within municipals, the strongest relative performer for all fixed income for the last three months has been high yield municipals.

Returns as of 4/30/2017

Source: Morningstar Direct

Corporate Spreads vs. U.S. Treasuries

Chart reflects option adjusted spreads of AAA through CAA U.S. corporate bonds.



Credit spreads narrowed slightly during April but were wider than the March lows. Higher credit qualities where mostly unchanged. In aggregate, spreads were little changed over the proceeding three months, resulting in positive returns to credit over that time frame.

Source: FactSet as of 5/8/2017

Real Asset Returns

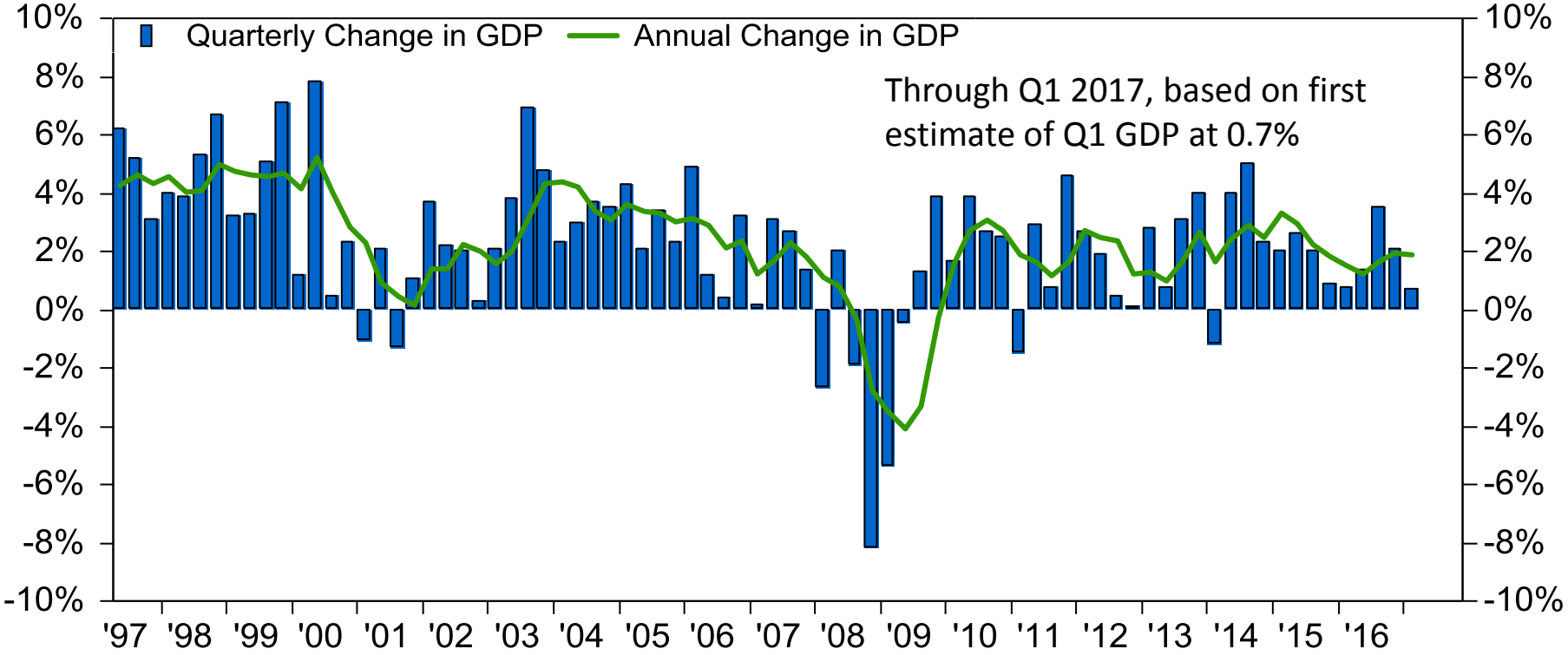
INDEX	March	3 Mo	1 Year	3 Year	5 Year	10 Year
DJ Gbl Select REIT TR USD	0.42	1.57	1.42	6.83	8.43	2.75
DJ US Select REIT TR USD	-0.24	0.35	4.01	8.56	8.75	4.20
Bloomberg Commodity TR USD	-1.51	-3.93	-1.32	-15.03	-9.74	-6.47
Alerian MLP TR USD	-1.28	-2.17	14.08	-6.88	1.92	6.37

Global REITs were positive for the month, while US REITS, commodities, and the MLP index were negative. Active managers generally outperformed REIT indices as measured by Morningstar category averages.

Returns as of 3/31/2016

Source: Morningstar Direct

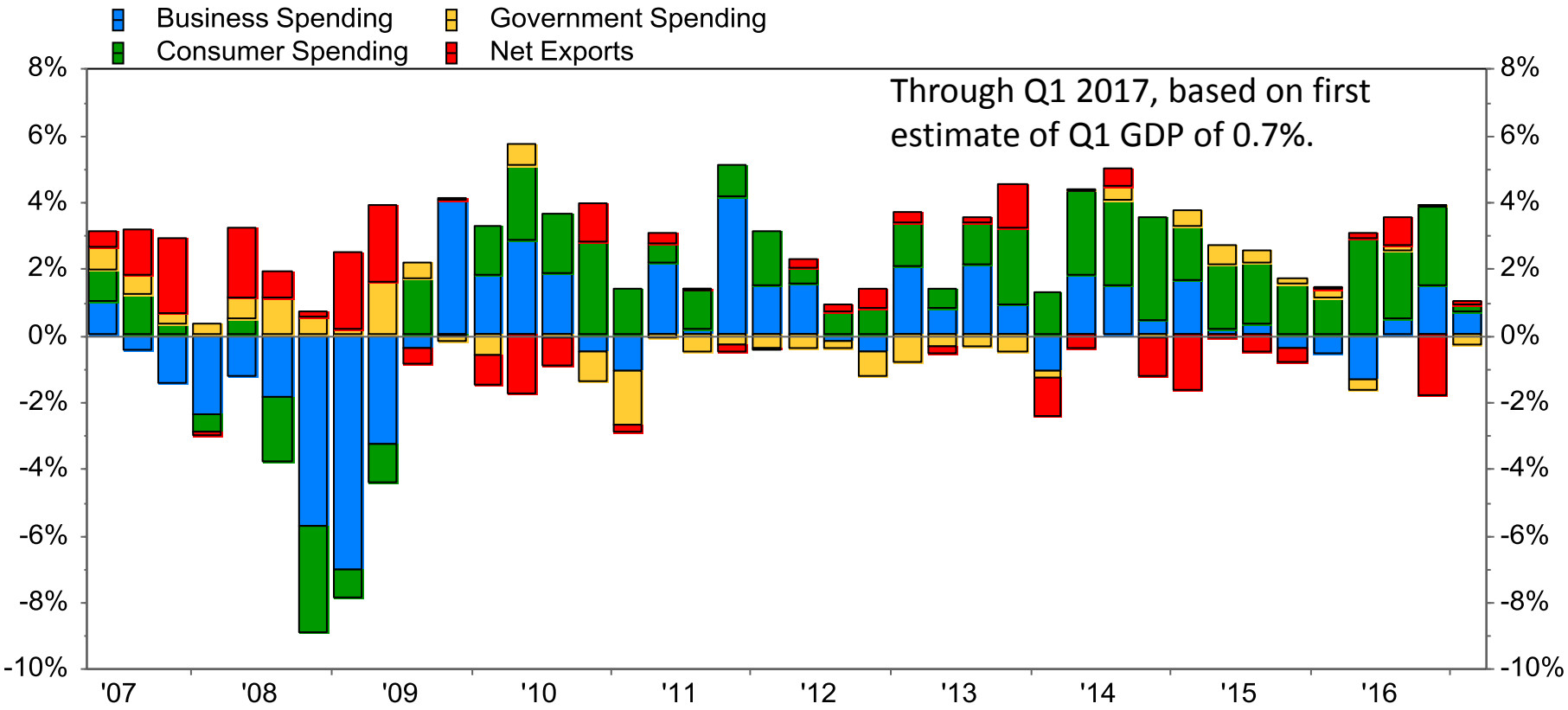
GDP Growth



The first estimate of first quarter GDP came in at 0.7% which was below expectations for a 1.2% growth rate. Despite this disappoint, the average growth rate for the year was 2% which was an increase from 1.6% as the weak growth number from Q1 of 2016 rolled off. GDP Growth for 2017 is expected to average 2.2% while expectations for 2018 are for it to average 2.4% before falling back to a 1.9% growth rate in 2010.

Source: FactSet

Contribution to GDP Growth



Q1 GDP saw a smaller than expected increase in business and consumer spending. A contraction in government spending generally detracted from GDP growth.

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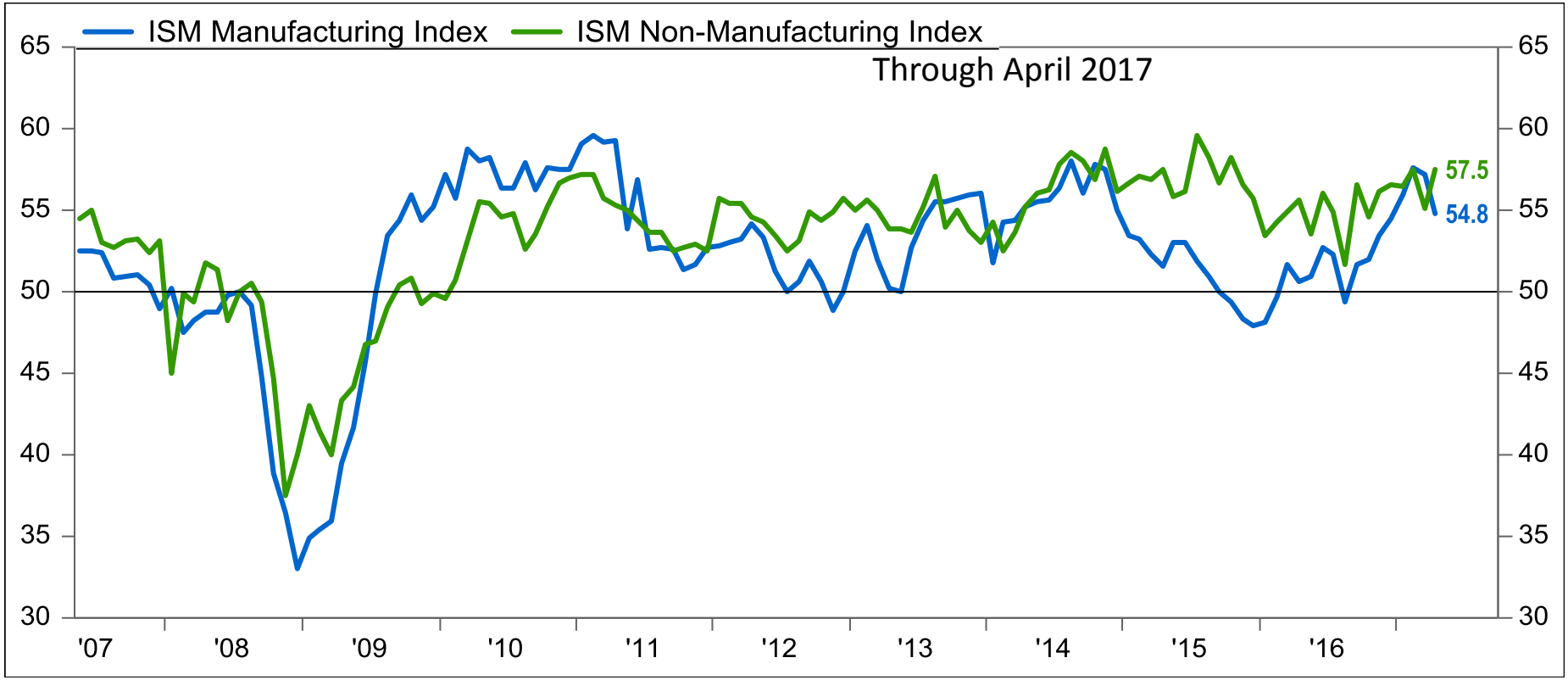
Source: FactSet

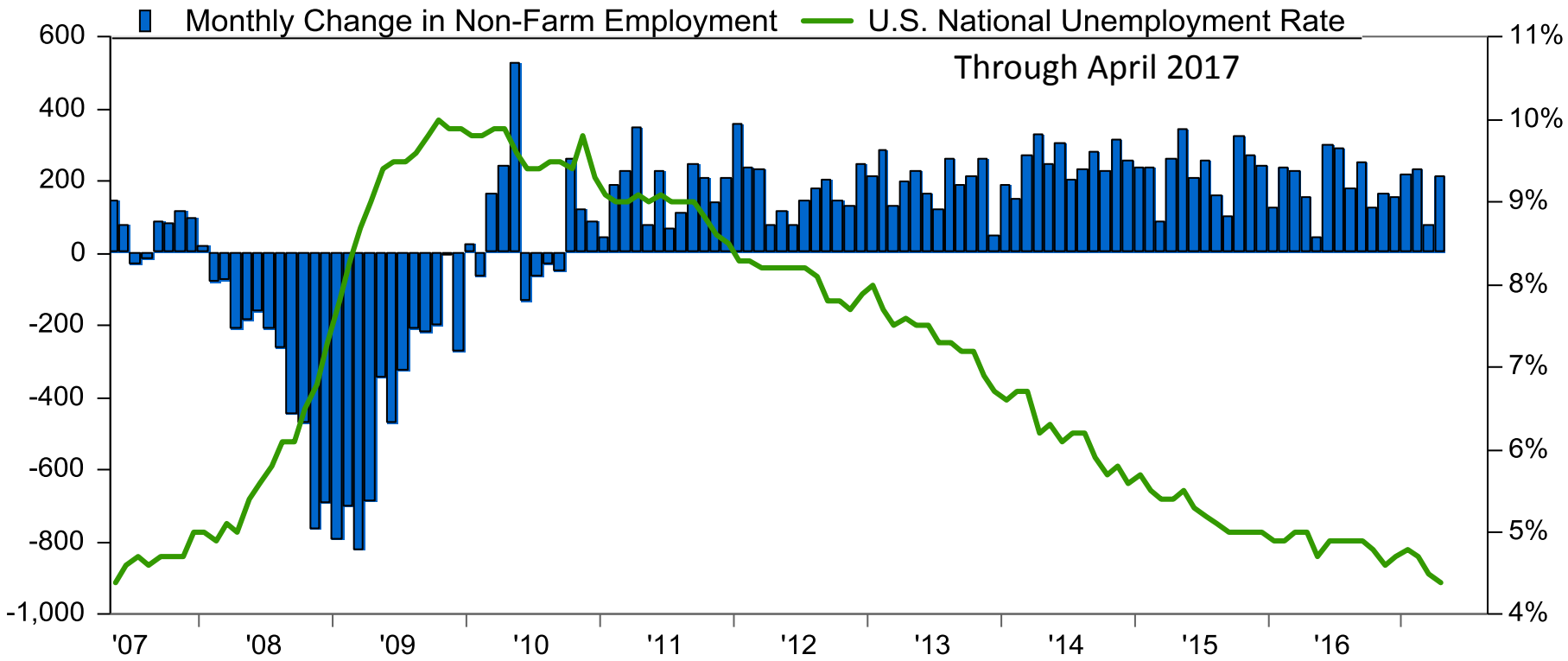
ISM Manufacturing and Non-Manufacturing Indices



The Manufacturing recovery continues as the ISM Manufacturing index remained in expansionary territory with a 54.8 reading The Service index increased to robust expansionary territory with a 57.5 print which was an increase from the previous month's 55.2 value. Both levels are indicative of continuing growth.

Source: FactSet

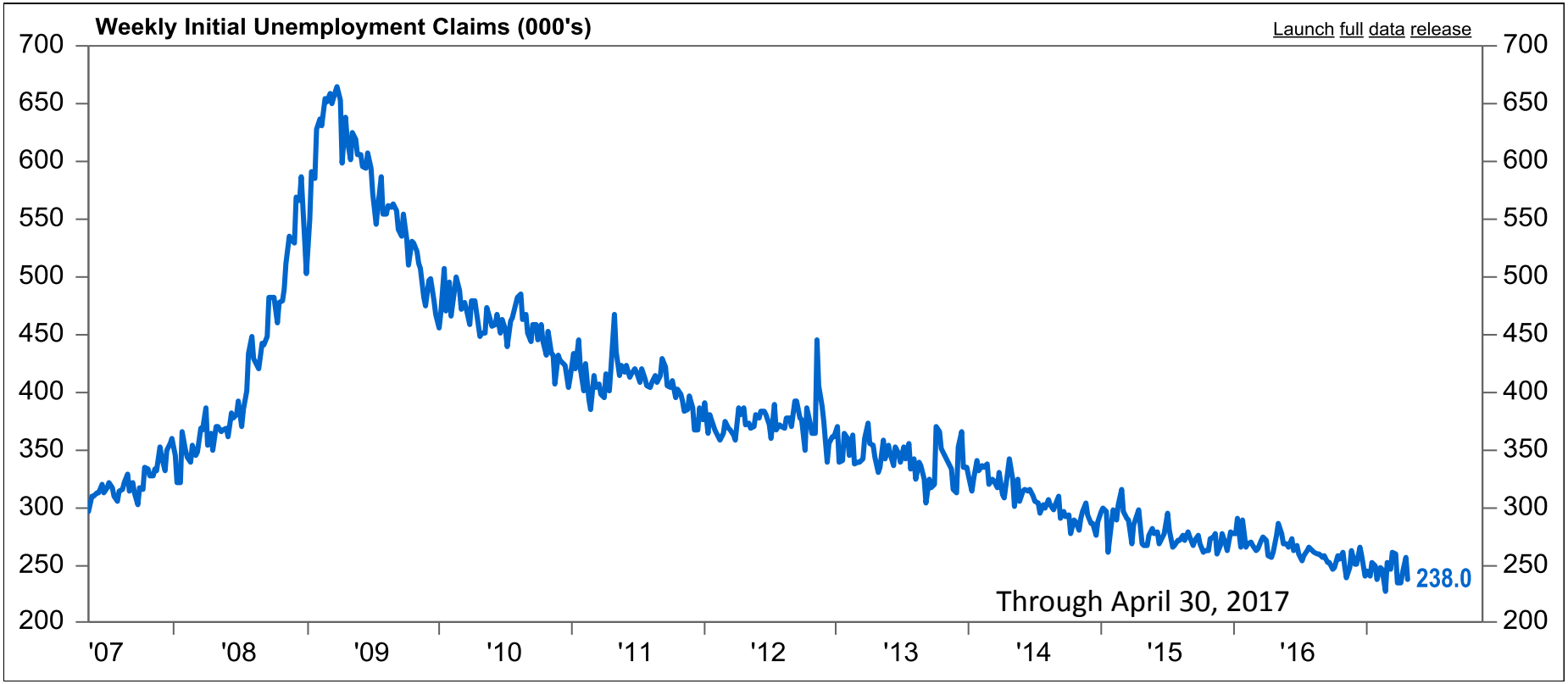
Non-Farm Payrolls and the Unemployment Rate



The April employment report surpassed estimates as the economy added 211,000 jobs. This is a return to the relatively robust expansion of 216,000 and 219,000 jobs in January and February, respectively. The overall unemployment rate declined to 4.4% as the employed labor force grew more quickly than the labor force overall. Beyond monthly payrolls and the unemployment rate, other signs of continuing tightening of the labor market includes rising wages on a year over year basis.

Source: FactSet

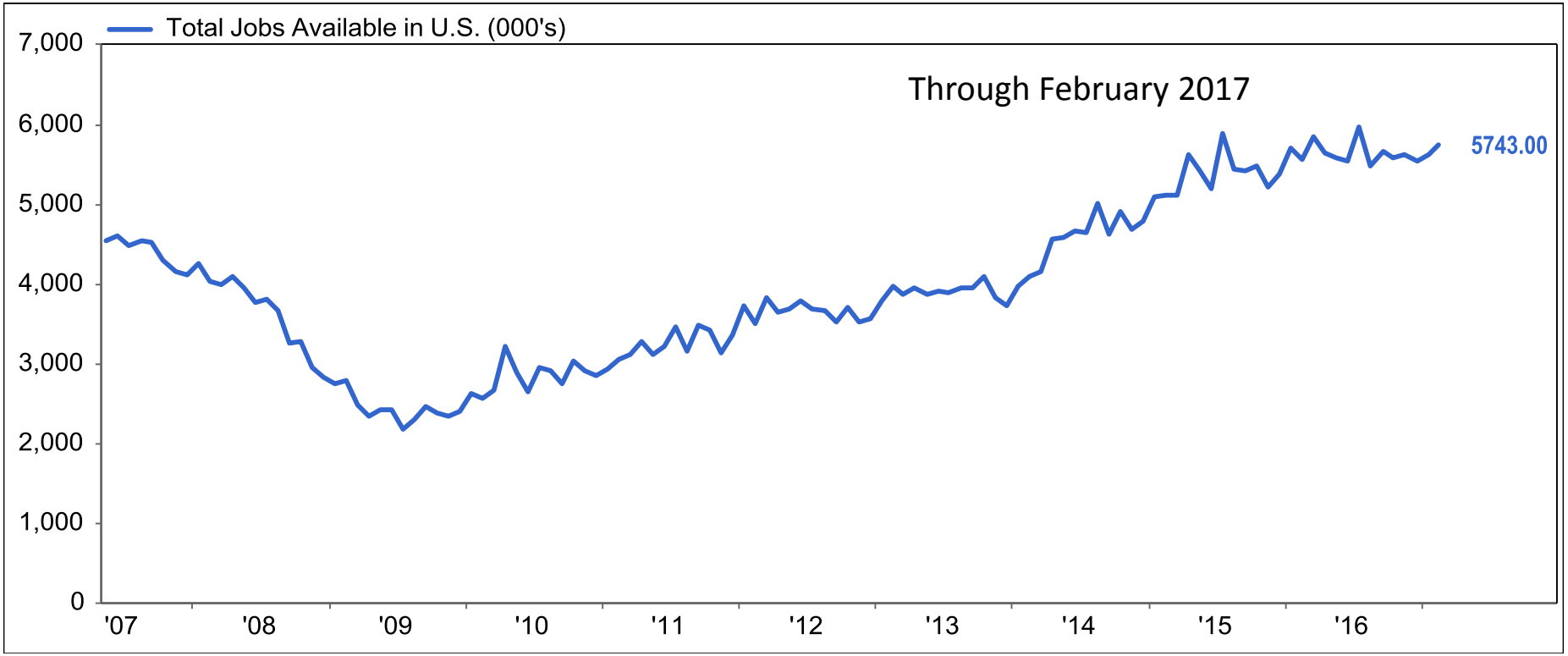
New Unemployment Filings



Over the last few years we have noted that new unemployment filings have continued to oscillate between 250,000 and 300,000 and that reports have not been significant as none have represented an outlier and all have been consistent with an improving labor market. The report has recently broken out to the downside, with a reading of 238,000 new claims in April. New filings have increased in early April but fell later in the month and remain at historically low levels consistent with a tightening labor market.

Source: FactSet

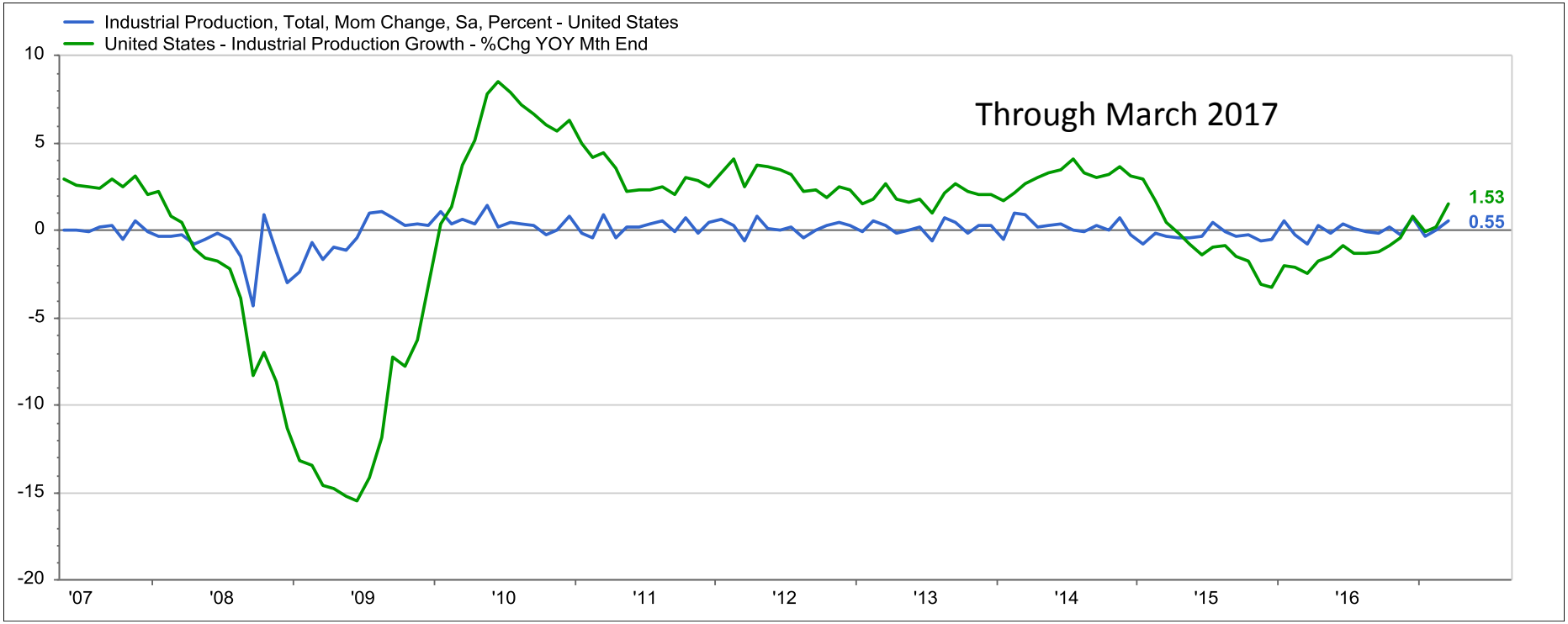
Job Openings and Labor Turnover Survey (JOLTS) Report



The latest available government JOLTS report (which tracks the number of jobs available in the economy) remains above 5 million available positions. As stated previously, that level is consistent with continuing strength in labor markets. Notably, the index appears to have reached a plateau in the mid-5-6 million jobs level.

Source: FactSet

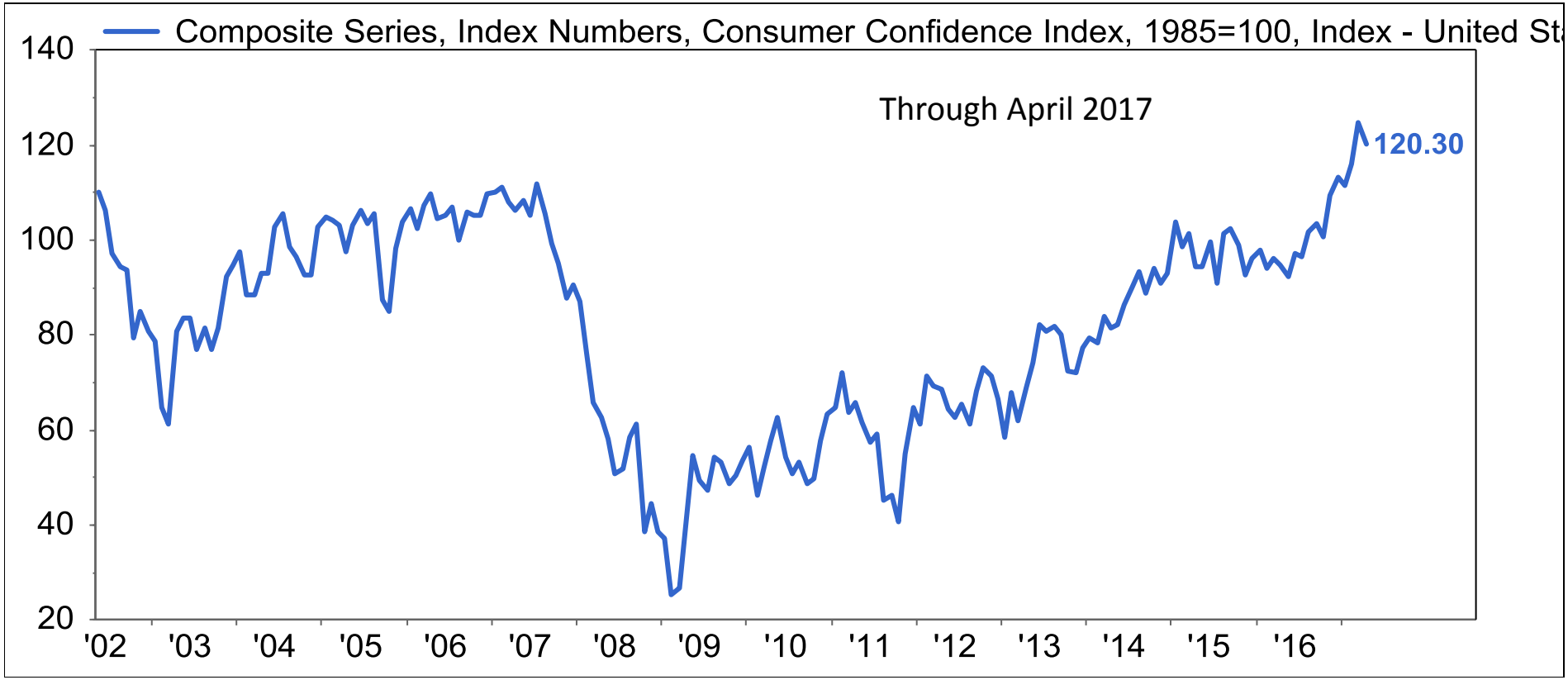
Industrial Production



Month-over-month and year-over-year Industrial Production remained slightly positive territory in March. The current absolute level of growth is neither good nor bad, but the overall trend appears to be improving. The question is whether industrial production can break out to the upside.

Source: FactSet

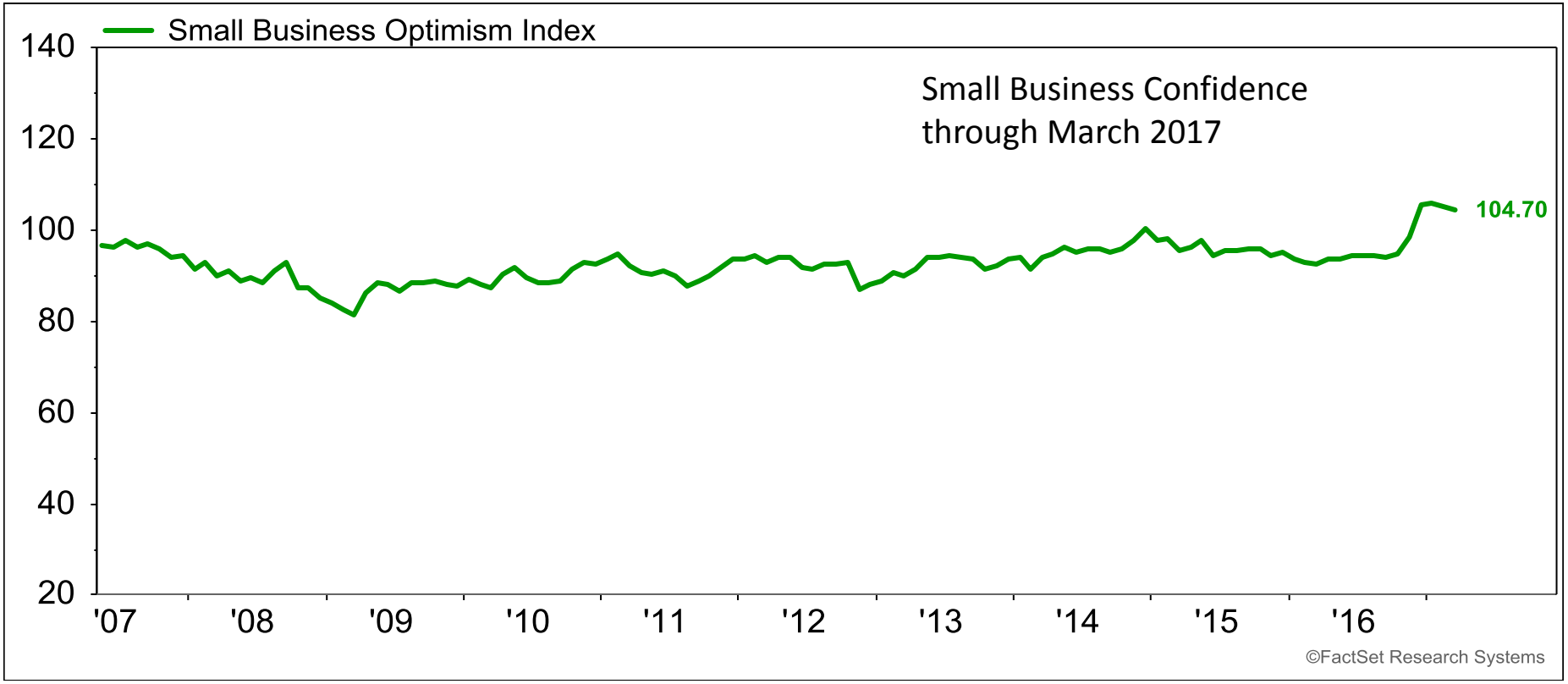
Conference Board Survey of Consumer Confidence



Consumer Confidence had been climbing since the bottom of the recession in 2009. Following the election, the pace of improvement has broken out above trend. Given the highly partisan atmosphere and seemingly divided nation, it is curious that consumer confidence keeps climbing. Reviewing the components of the survey, the drop from last month's reading is a result of consumers being less optimistic about the current situation.

Source: FactSet

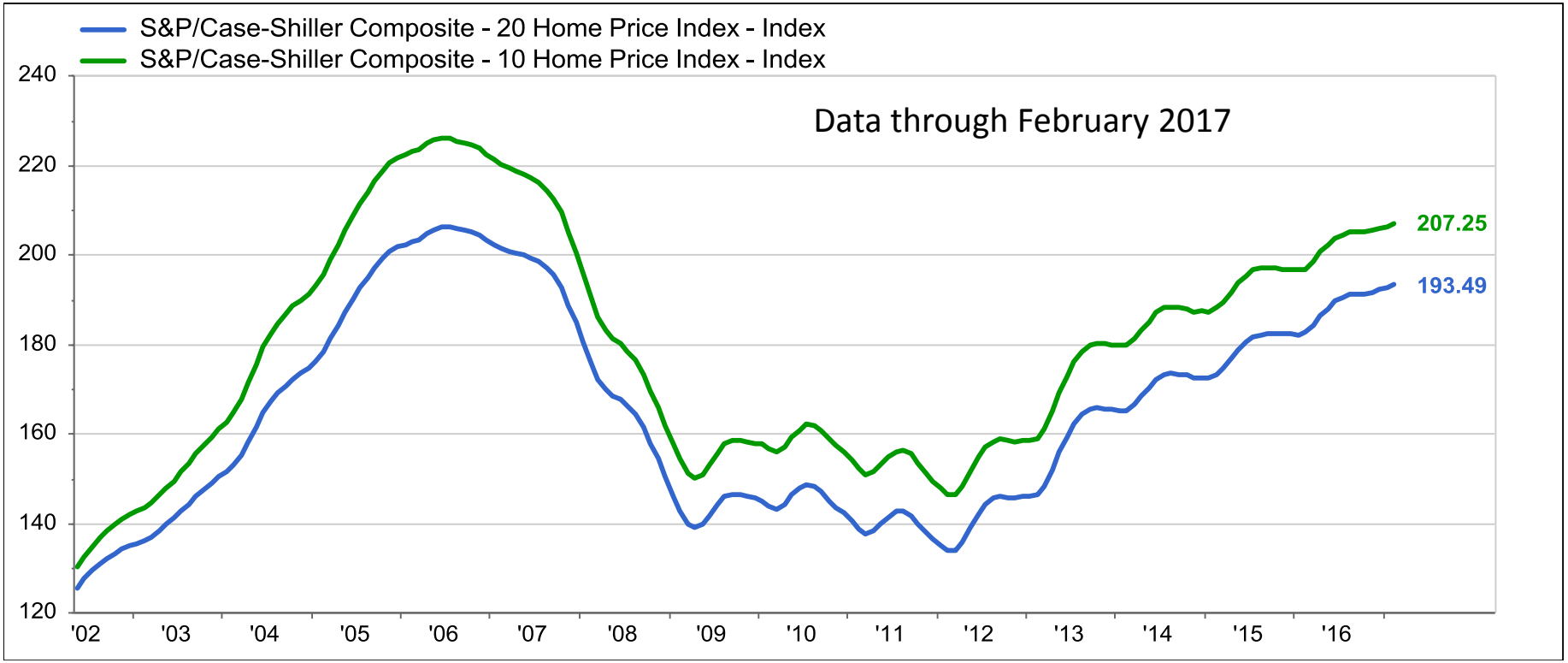
Small Business Confidence Indices



The March data for small business remains near its highest level in recent years. This is consistent with other surveys and news articles showing anticipation of a friendlier regulatory environment as the Trump administration unwinds regulations imposed by the Obama administration.

Source: FactSet

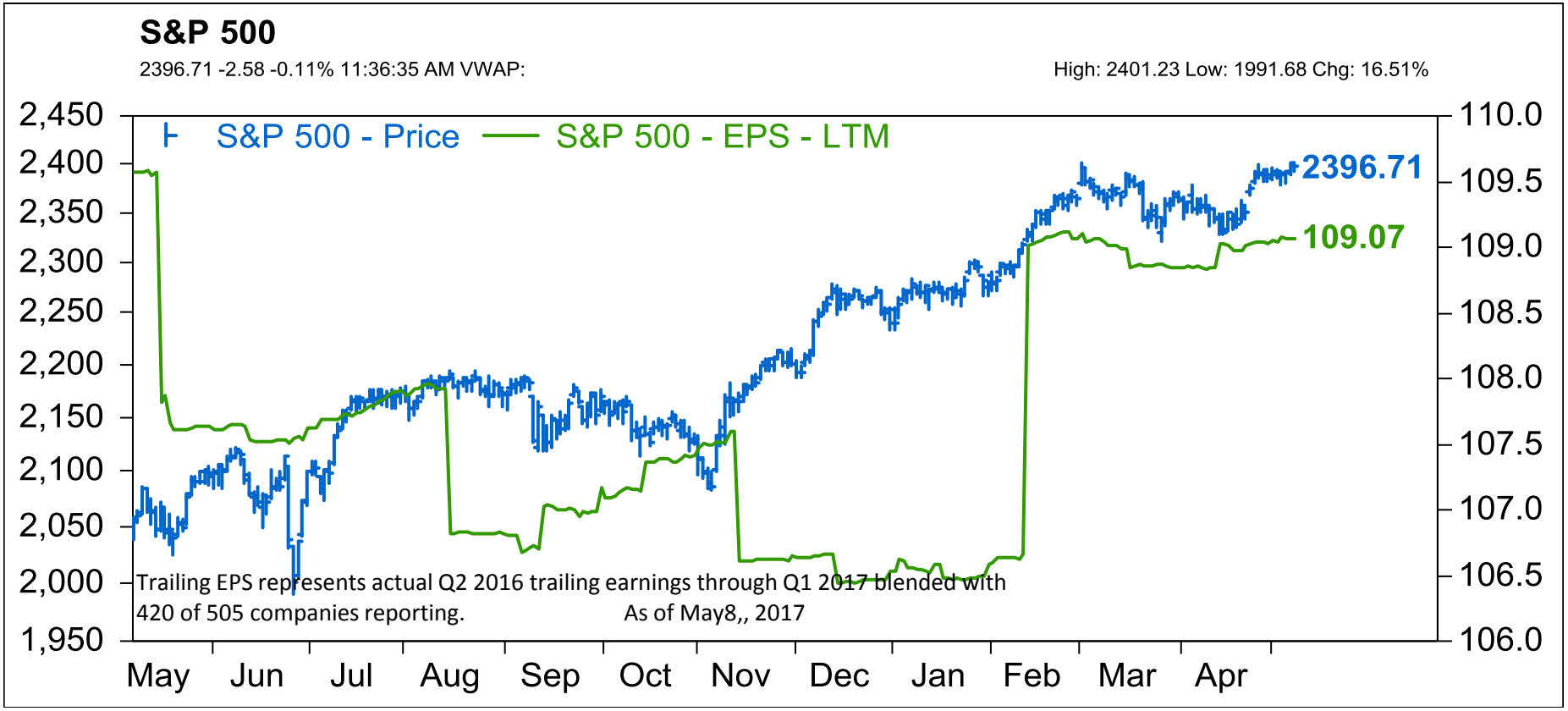
Home Prices



Home prices have continued to recover in line with sales volumes. The important thing to watch as interest rates move up is whether it has a dampening effect on home prices. There may be an initial increase as buyers look to buy before interest rates move too far. The indices above are as of February and so far do not show an impact of the bump in mortgage interest rates.

Source: FactSet

S&P 500 vs. S&P 500 EPS



FactSet EPS numbers generally include both actual reported earnings and consensus expectations for earnings for companies which have not yet reported for the period. As the graph above shows, earnings climbed through Q117 relative to 2016. As we near the end of Q1 earnings season, the EPS line will climb again as current expectations are for 13.5% YoY growth. If actual earnings growth matches expectations then it will be the highest growth since Q3 2011. Importantly, unlike earnings growth early in the recovery which was driven primarily by margin expansion, the quarterly growth has been driven largely by revenue growth.

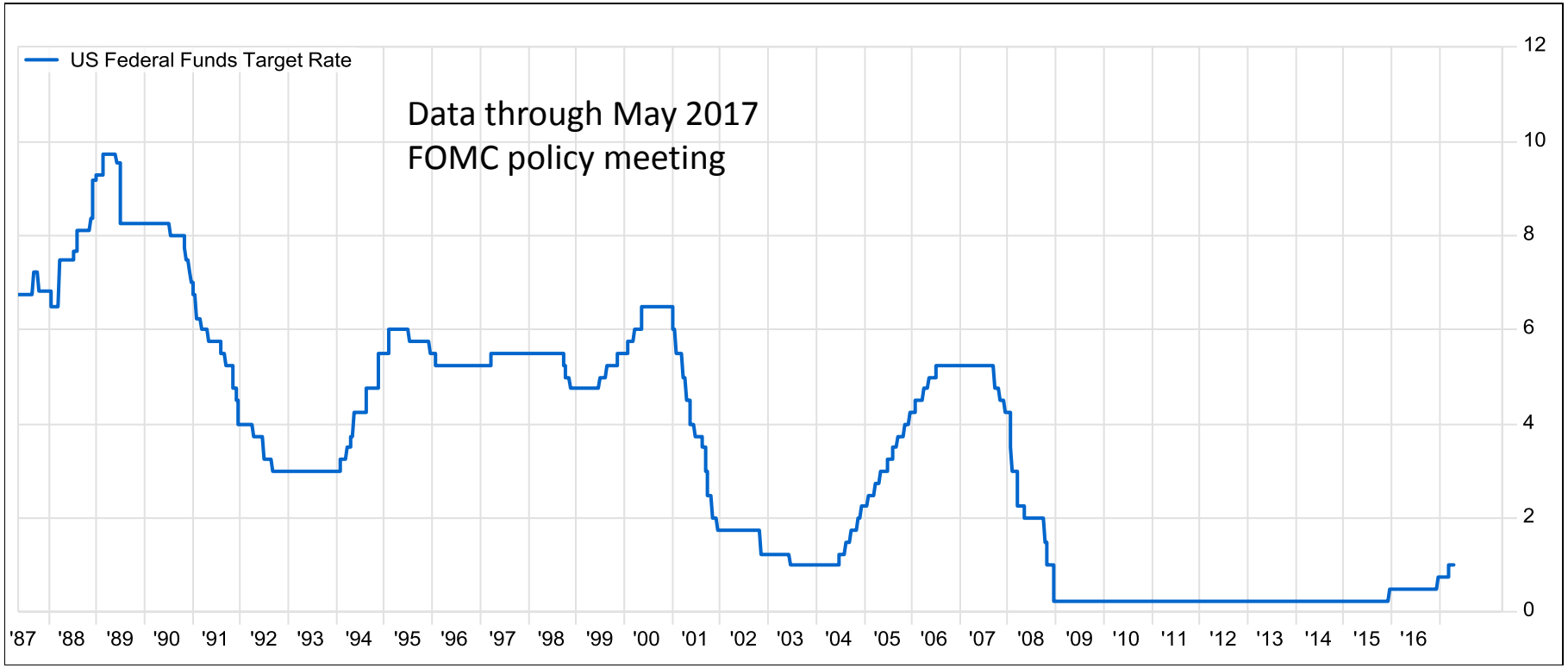
Source: FactSet

10-Year Treasury Yield

The 10-year Treasury rate peaked in December before selling off to roughly 2.3% in mid-January. Rates have generally settled into a range of 2.3 to 2.6% on the 10-year. It seems investors are waiting on the next shoe to drop. That shoe was briefly the FOMC raising interest rates in March, but rates have since settled back down to the lower end of the range.

Source: FactSet

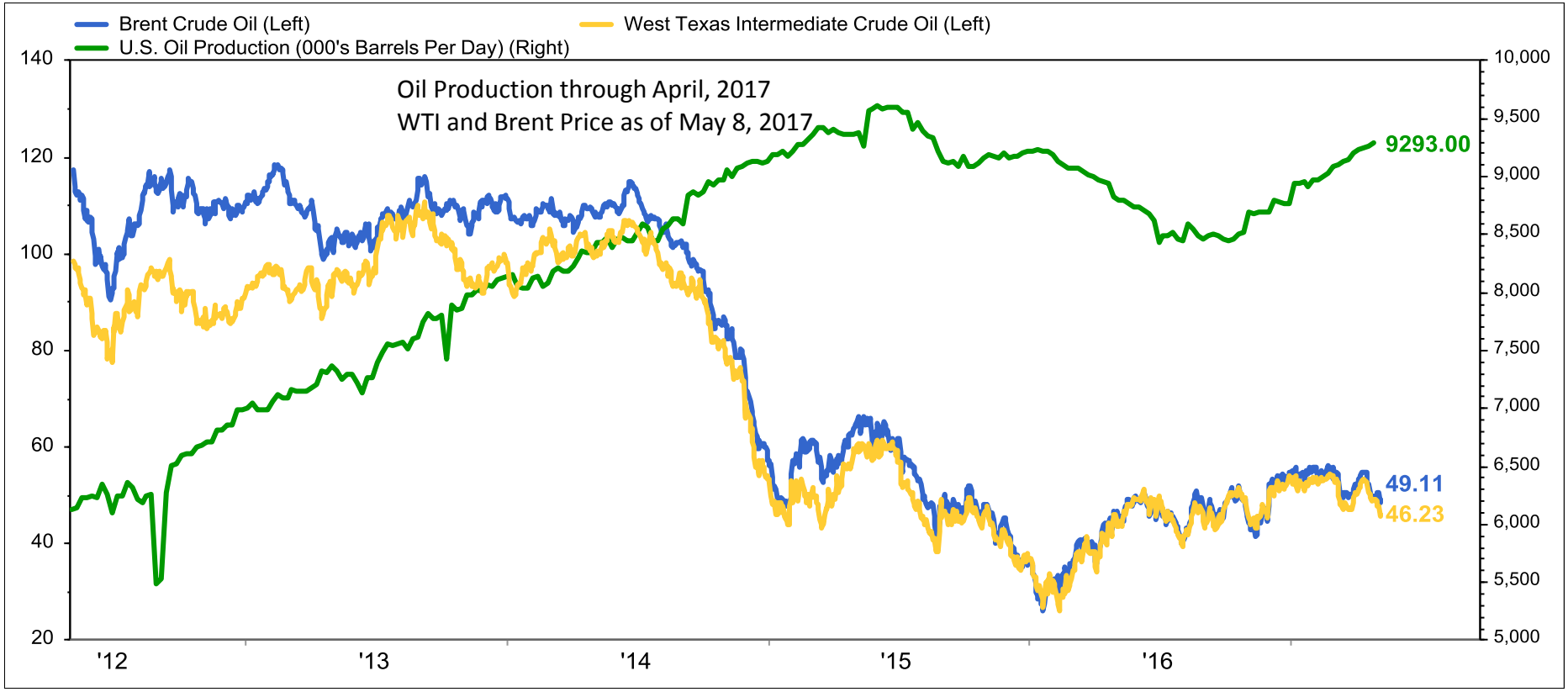
Fed Funds Rate



The FOMC raised rates again at their March meeting. The accompanying statement provided and materials suggest there could be two more rate hikes this year. next rate hike to March. According to CMEGroup.com, the probability of a rate hike at the June FOMC meeting stands at roughly 88%, with probabilities also indicating raises in September and December. Investment strategists are implying there likely will be a pause for one of those three meetings.

Source: FactSet

Oil Supply and Price



The price of crude fell after a brief rise at the beginning of April. With US production continuing to recover and climb, the increase from domestic production is likely offsetting the cuts by OPEC. It appears various US fields have become profitable at current price levels. The increase in efficiencies and application of advanced data analytics to improve production further has been the focus of various articles on the industry. Active rotary rigs have more than doubled since the low reached in mid-2016. There doesn't appear to be a fundamental reason for a breakout of oil prices despite a forecast for a pickup in global growth. Geopolitical risk (could of course create uncertainty and lead to an increase in prices.

Source: FactSet

Global Risks

Economic

- Fed Policy Error –In FOMC minutes, the debate seems to no longer be whether there should be further rate hikes but rather over the pace of the hikes. Some Fed officials have made recent statements to express that they feel the pace of hikes has not been fast enough. With some recent softening of selected economic reports, the risk of stalling out growth from a faster pace of rate hikes becomes an issue. The Federal Reserve has also been debating the size of its balance sheet. The April meeting provided some clarity on this as they stated that the Fed would not begin trimming their balance sheet until interest rates have been normalized. A reduction in size of the Fed's balance sheet is a tightening of monetary policy that could lead to higher interest rates.

Geopolitical –

- Partisanship– It is clear that the Trump presidency has so far resulted in one of the most partisan atmospheres in history, not just between Democrats and Republicans, but between moderate Republicans and ultra-conservative Republicans. The Republicans have passed a health care bill in the House that appears to have serious challenges to its passage in the Senate. Much of the recent rally has been attributed to increased expectations due to policy changes. As we move further into the Trump administration's tenure, the amount of policy change we can expect has become even murkier.
- The surge of conservative populism in Europe has hit a major stumbling block with Emmanuel Macron's victory in France. This is a relief to supporters of the European Union as it signals France will remain in the EU, but it could embolden the EU to make Britain's exit more painful.
- Sabre rattling over North Korea and Syria continues to this day. It is looking less likely that we will see significant US involvement in Syria, however North Korea continues to test international patience with another failed missile test in April.

Disclosures

Domestic equities: The value of the fund's domestic and foreign investment will vary from day-to-day in response to many factors. Stock values fluctuate in response to the activities of individual companies, and general market and economic conditions. The prices of small and medium sized company stocks are generally more volatile than large company stocks. They often involve higher risks because smaller companies may lack the management expertise, financial resources, product diversification and competitive strengths to endure adverse economic conditions.

Investing in foreign securities presents certain risks that may not be present in domestic securities. For example, investments in foreign and emerging markets present special risks, including currency fluctuation, the potential for diplomatic and potential instability, regulatory and liquidity risks, foreign taxation and differences in auditing and other financial standards. Securities in emerging markets are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments.

Fixed income securities are subject to availability and market fluctuation. These securities may be worth less than the original cost upon redemption. Certain high-yield/high-risk bonds carry particular market risks and may experience greater volatility in market value than investment-grade corporate bonds. Government bonds and Treasury bill are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and fixed principal value. Interest from certain municipal bonds may be subject to state and/or local taxes and in some instances, the alternative minimum tax. The fund's yield, share price, and total return change daily and are based on changes in interest rates, market conditions, other economic and political news, and on the quality and maturity of its investments. In general, bond prices rise when interest rates fall, and vice versa. This effect is usually more pronounced for longer-term securities. You may have a gain or loss when you sell your shares

High yield bonds, also known as junk bonds, are subject to greater risk of loss of principal and interest, including default risk, than higher-rated bonds. Investors should not place undue reliance on yield as a factor to be considered in selecting a high yield investment. These securities are rated below investment grade.

Real Estate Investment Trust (REIT) is a security that sells like a stock on the major exchanges and invests in real estate directly, either through properties or mortgages. REITs receive special tax considerations and typically offer investors high yields, as well as a highly liquid method of investing in real estate. Individuals can invest in REITs either by purchasing their shares directly on an open exchange or by investing in a mutual fund that specializes in public real estate.

P/E (Price-to-Earnings Ratio) is a valuation ratio of a company's current share price compare to its per-share earnings. It is also known as the "price multiple" or "earnings multiple."

Beta measures the risk potential of a stock or an investment portfolio expressed as a ratio of the stock's or portfolio's volatility to the volatility of the market as a whole.

Standard deviation is an indicator of the portfolio's total return volatility. The larger the portfolio's standard deviation, the greater the portfolio's volatility.

Spread sectors include all non-Treasury fixed income investments. These investments typically have an interest rate that is different from the prevailing rate on Treasury securities. The difference in interest rates is known as the spread.

Duration is a measure of the sensitivity of bond prices to interest rate changes.

Investments are subject to market risks including the potential loss of principal invested.

An investment cannot be made directly into an index .

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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 expected growth values.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 1000 represents approximately 92% of the U.S. market.

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 expected growth values.

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe.

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 Index companies with higher price-to-book ratios and higher forecasted growth values.

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Large domestic companies measured by the S&P 500, which is an index of 500 major U.S. large cap corporation.

Index Definitions (cont.)

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The MSCI EAFE Index is an unmanaged market capitalization-weighted index of equity securities of companies domiciled in various countries. The Index is designed to represent the performance of developed stock markets outside the United States and Canada and excludes certain market segments unavailable to U.S. based investors. USD indicates performance calculated assuming foreign holdings values are converted from currency of domicile to US Dollar. LCL indicates performance calculated assuming foreign holdings values are not converted to US Dollar.

The MSCI EAFE Value Index is a market capitalization-weighted index that monitors the performance of value stocks from Europe, Australasia, and the Far East.

The MSCI EAFE Growth Index is a market capitalization-weighted index that monitors the performance of growth stocks from Europe, Australasia, and the Far East.

The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets. USD indicates performance calculated assuming foreign holdings values are converted from currency of domicile to US Dollar. LCL indicates performance calculated assuming foreign holdings values are not converted to US Dollar.

The MSCI Japan measures the performance of Japanese equities.

The MSCI All Country Europe measures the performance of equities domiciled in developed and emerging European countries.

Barclay's Capital U.S. Treasury Index includes public obligations of the U.S. Treasury with a remaining maturity of one year or more.

The Barclays U.S. Aggregate Bond index measures the performance of investment grade bonds in the U.S. fixed income universe. It includes U.S Treasury issues, agency issues, corporate bond issues and mortgage-backed issues. It is unmanaged, includes reinvestment of dividends, does not reflect the impact of transaction, manager or performance fees and is unavailable for investment.

The Barclays Global Aggregate Bond Index measures the performance of investment grade fixed rate debt globally. The major components are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate. Additionally, the index contains various other investment grade fixed rate instruments not already included in the sub-components.

The Barclays U.S. 1-3 Year Aggregate is a subset of the Barclays U.S. Aggregate index, representing securities with 1 to 3 years remaining until maturity.

The Barclays U.S. Credit Index comprises the U.S. Corporate Index and a non-corporate component that includes foreign agencies, sovereigns, supranationals and local authorities.

The Barclays Treasury Bond Index is a capitalization weighted index measuring the performance of U.S. Treasury bonds.

The Barclays U.S. High Yield Loan index measures the performance of loans rated below investment grade in the U.S.

The Barclays Municipal index measures the performance of tax exempt bonds in the U.S.

The Barclays Municipal Intermediate 5-10 Year index measures the performance of investment grade municipal securities with 5 to 10 years remaining until maturity.

The Barclays US Corporate High Yield Index tracks the performance of domestic non-investment grade corporate bonds.

Credit Suisse Leveraged Loan index measures the investable universe of the USD-denominated leveraged loan market

Index Definitions (cont.)

The Citi World Government Bond Index (WGBI) measures the performance of 23 government bonds markets including Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Malaysia, Mexico, the Netherlands, Norway, Poland, Portugal, Singapore, Spain, Switzerland, Sweden, the United Kingdom and the U.S.

The Bloomberg Commodity index is comprised of future contracts on physical commodities which trade here in the U.S. and certain foreign markets. It measures the performance of investment in a broad basket of commodity futures contracts. The index is composed of futures contracts on 19 physical commodities. No related group of commodities (e.g., energy, precious metals, livestock and grains) may constitute more than 33% of the index as of the annual re-weightings of the components. No single commodity may constitute less than 2% of the index.

The Dow Jones Industrial Average (DJIA) is a price weighted index of 30 U.S blue-chip companies. The DJIA covers all industries with the exception of transportation and utilities.

The Dow Jones Select REIT index represents equity real estate investment trusts (REITs) and REIT-like securities traded in the U.S.

The Dow Jones Global Select REIT index represents equity real estate investment trusts (REITs) and REIT like securities traded globally.

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and real estate investment trusts (REITs) worldwide.

The Standard and Poor's 500 is a capitalization weighted index of 500 leading companies in leading industries of the U.S. economy. It covers approximately 75% of the total capitalization of U.S. equities.

The NASDAQ Index is a market capitalization weighted index of common equities listed on the NASDAQ stock exchange.

The NASDAQ 100 Index is composed of the 100 largest and most actively traded securities listed on the NASDAQ stock exchange, excluding those securities in the financial sector.

The Case Shiller Composite 20 City Home Price Index measures price changes in residential sales within the 20 largest metropolitan areas in the United States.

National Association of Realtors Home Affordability Index measures whether a family earning the median income as reported by the U.S. Census Bureau could qualify for a mortgage on a property at the median price and at the prevailing interest rate, assuming 20% down payment.