

MARKET COMMENTARY

June 7, 2017

U.S. stocks ended moderately higher in May for a seventh straight month, as the S&P 500 and NASDAQ Composite more than fully recovered from their May 17th declines of 1.8% and 2.6%, respectively. The NASDAQ Composite performed the best among the three major U.S. equity indices, as solid technology earnings drove investor optimism. The index rose 2.67% last month, and was up 15.72% YTD. The Dow Jones Industrials trailed with a 0.71% May gain, up 7.47% YTD. The month was characterized by mixed economic data pointing toward modestly improving GDP growth and tame consumer prices. Investors also assessed the likelihood of another rate hike by the Federal Reserve in June. Fed policymakers last lifted interest rates in March with the consensus view expecting two more increases this year. Meanwhile, Wall Street has been supported by stronger-than expected corporate earnings, with the first quarter earnings season finishing with overall profit growth of 15.4% for the companies in the S&P 500.

Within the S&P 500, 7 of its 11 major sector groups advanced last month, led by Technology (+4.40%), Utilities (+4.24%) and Consumer Staples (+2.85%). On the other hand, value-oriented sectors such as Energy (-3.40%), Financials (-1.21%) and Telecom (-0.98%) fell the most. So far this year, Technology (+20.49%) is the leader, followed by Consumer Discretionary (+12.34%) and Utilities (+11.77%). Only two sectors are negative this year, Energy (-12.46%) and Telecom (-8.06%).

In a reversal from April, large cap stocks, as measured by the S&P 500, performed best in May, outperforming small and mid-cap companies. Small cap companies, as measured by the Russell 2000 Index, fell 2.03% last month, while the Russell Mid Cap Index returned 0.91%. Large cap stocks have also gained the most this year, up 8.66% YTD. Growth stocks outperformed value stocks in May, with the Russell 1000 Growth Index up 2.60%, while the Russell 1000 Value Index fell 0.10%. The outperformance in growth stocks has continued to widen on a year-to-date basis, with growth shares up 14.30%, while value stocks trailed with a 2.97% YTD gain.

The MSCI EAFE Index, a broad performance measure of global developed markets outside of the U.S. and Canada, outperformed emerging market equities last month, gaining 3.67%. The MSCI Emerging Markets

Index posted a 2.96% advance in May. On a YTD basis, however, the MSCI Emerging Markets Index has risen the most, up 17.25% versus a return of 14.01% for the MSCI EAFE Index. The MSCI All Country World Index excluding the U.S. rose 3.24% in May and 13.74% YTD.

Even amid somewhat diminished geopolitical risks, prices on benchmark 10-year U.S. Treasury notes edged higher in May, sending its yield lower by 7.6 basis points to end the month at 2.20%, its lowest level this year. The Bloomberg Barclays U.S. Municipal Bond Index gained 1.59% last month, while the Bloomberg Barclays U.S. Aggregate Bond Index, a broader measure of U.S. investment grade bonds, rose 0.77%. At the other end of the credit spectrum, the Bloomberg Barclays U.S. Corporate High Yield Index, a proxy for below-investment grade corporate bonds, returned 0.87% in May and 4.79% YTD.



SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q1 2017	1.2%	↓	First quarter GDP was revised up to 1.2%. The general picture of economic growth remains the same, but increases in non-residential investment and personal consumption were larger than previously estimated.
Global Real GDP Growth (ann. rate; Source: IMF)	Q1 2017	3.5%	n/a	The prospects for stronger global growth in 2017 are led by expectations of more robust global demand, reduced deflationary pressures, and optimistic financial markets.
Non-Farm Employment Growth	May 2017	138,000	↓	Job creation was weaker than expected in May, but still respectable. May numbers are often subject to seasonal quirks and come in low. Job growth occurred in health care and mining.
Unemployment Rate	May 2017	4.3%	↓	The unemployment rate ticked down to its lowest level since 2001. The decline was primarily due to a drop in the labor force participation rate, which is near its late 1970s lows.
ISM Manufacturing Index	May 2017	54.9	↔	Manufacturing activity increased slightly in May. The industry is generally seeing stable to growing business conditions, new orders, and inventories.
ISM Non-Manufacturing Index	May 2017	56.9	↔	Activity in service-related industries grew in May, but at a slower pace than the previous month. 17 non-manufacturing industries reported growth, such as real estate, construction, and utilities.
Capacity Utilization	Apr 2017	76.7	↔	Capacity utilization for the industrial sector increased 0.6% in April. Utilization for manufacturing, mining, and utilities each increased for the month.
Consumer Price Index (CPI, SA)	Apr 2017	0.2%	↑	CPI rebounded in April as energy prices rose. Core inflation, which excludes food and energy prices, rose 0.1%. Over the past 12 months inflation is up 2.2%, above the Fed's target of 2%.
Producer Price Index (Finished Goods, SA)	Apr 2017	0.5%	↑	Producer prices rebounded sharply in April, fueled by rising food and energy prices. Over the last 12 months, inflation at the wholesale level is up 2.5%.
Leading Economic Indicators Index (LEI)	Apr 2017	0.3%	↑	The increase in Leading Indicators was led by the positive outlook of consumers and financial markets. The recent trend continues to point to a growing economy, perhaps even a cyclical pickup.
10-year Treasury Yield	May 2017	2.21%	↓	10-year Treasury yields fell by 8 bps in May, and are 24 bps lower than where they started the year, despite the rate increase in March.

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

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	May Close	May	Year-to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	21,009	0.71%	7.47%	21.16%	10.65%	13.96%
S&P 500	2,412	1.41%	8.66%	17.47%	10.14%	15.42%
Nasdaq	6,199	2.67%	15.72%	26.75%	14.83%	18.47%
Russell 2000	1,370	-2.03%	1.48%	20.36%	8.00%	14.04%
International Indices						
MSCI EAFE (Developed)	7,408	3.81%	14.40%	17.00%	2.00%	10.71%
MSCI EM (Emerging)	2,148	2.98%	17.34%	27.88%	1.99%	4.91%
US Fixed Income						
Bloomberg Barclays US Aggregate	---	0.77%	2.38%	1.58%	2.53%	2.24%
Bloomberg Barclays US TIPS	---	-0.04%	1.82%	2.41%	1.05%	0.35%
Commodities and Real Estate						
Bloomberg Commodity Index	168	-1.33%	-5.07%	-2.45%	-14.58%	-8.24%
Crude Oil (\$/bbl)	---	\$48.32	\$53.72	\$49.10	\$102.71	\$86.53
DJ US Select REIT	9,291	-0.55%	-1.06%	1.40%	7.48%	9.65%



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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