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MONTHLY MARKET UPDATE

August 2016

Economic indicators were generally mixed through August, with some indicators consistent with an accelerating economy, while others suggest the current recovery is running out of steam. With mixed economic data, capital markets generally traded in narrow ranges and returns were slightly negative to slightly positive. Based on this mixed outlook, the Fed is not expected to move in September.

Key Economic Statistics*	Period	Level	Vs. Prior
Manufacturing Economy Strength	Aug	49.4	Weaker
Service Economy Strength	Aug	51.4	Weaker
Monthly Jobs Report	Aug	151k	Weaker
National Unemployment Rate	Aug	4.9%	Same
Annualized Quarterly GDP Growth	Q2 – 2nd	1.1%	Weaker
Personal Consumption (Spending)	Q2 – 2nd	4.4%	Stronger
Inflation–CPI ex. Food/Energy	July	2.2%	Lower

** See disclosure for underlying economic indicator definition. FactSet*

August: Nothing to Get Excited About

Key Index Performance*	1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Equities							
Large Domestic Companies S&P 500 Total Return Index	0.14	4.10	7.82	12.55	12.30	14.69	7.51
Small Domestic Companies Russell 2000 Total Return Index	1.77	7.78	10.23	8.59	8.53	12.85	7.04
International Developed Companies MSCI EAFE Index	0.07	1.61	0.49	-0.12	2.47	5.00	1.71
Emerging Market Companies MSCI EM Index	2.49	11.94	14.55	11.83	1.12	-0.42	3.90
Taxable Fixed Income							
Short Term Bonds Barclays U.S. 1-3 Year Aggregate Index	-0.10	0.51	1.57	1.51	1.18	1.02	2.72
Intermediate Term Bonds Barclays U.S. Aggregate Bond Index	-0.11	2.32	5.86	5.97	4.37	3.24	4.89
High Yield Bonds Barclays U.S. Corporate High Yield Index	2.09	5.82	14.35	9.07	5.40	7.48	7.79
International Government Bonds Citigroup World Government Bond Index	-0.87	3.33	10.36	9.83	2.22	0.24	4.00
Tax Exempt Fixed Income							
Short Term Municipals Barclays Municipal 1-3 Year Index	-0.17	0.35	0.99	1.12	1.01	0.98	2.31
Intermediate Term Municipals Barclays Municipal 5-10 Year Intermediate Index	0.01	1.48	3.65	5.87	5.14	3.89	4.93
High Yield Municipals Barclays High Yield Municipal Index	0.36	4.16	9.08	13.38	9.14	7.59	4.97
Real Assets							
Commodities Bloomberg Commodity Index	-1.76	-2.93	5.57	-8.76	-13.98	-12.75	-6.20
Global Real Estate Dow Jones Global Select REIT Index	-3.07	5.81	11.78	20.98	14.47	11.83	5.37

** All data as of 8/31/2016. See disclosures for underlying index definitions. Periods longer than one year represent annualized performance.*

Economic Update

The month of August provided a mix of positive indicators indicating that the economic recovery is accelerating and negative indicators indicating the recovery is running out of steam. The mixed news likely means the Federal Reserve will continue to hold short term interest rates at the 0.25-0.50% range set last December when they next meet on September 20 and 21.

On the positive side, industrial production increased month-over-month at the fastest pace since late 2014. This can generally be interpreted as good for consumption and business investment in the third quarter. At the same time, manufacturing output was relatively strong, signaling that the impact of a stronger dollar may be fading, boosting manufacturing in anticipation of export demand. Both of these indicators were released mid-month and relate to economic strength in July. Later in August, the consumer confidence numbers came out and were stronger than expected. Strong consumer confidence typically means the U.S. consumer will continue to spend, a factor which has been the base of this economic expansion. These indicators are all consistent with accelerating economic growth.

On the negative side, August saw a slight downtick in the estimate for second quarter GDP growth. At the same time, inflation was muted as energy prices moderated, in part due to transient factors including a relatively mild weather forecast. Following month end, both the ISM Manufacturing and Non-Manufacturing indices disappointed. The manufacturing index declined below the threshold level of 50, indicating the manufacturing is once again contracting. In the recent past, the service (non-manufacturing) side of the economy was strong enough that it didn't matter too much that manufacturing was contracting. However, the service index came in well below consensus at 51.4. While technically still on the growth side of the ledger, this signals much slower growth than recent levels above 55. Both of these weaker measures are inconsistent with expectations for a strong rebound in GDP growth, and more consistent with more of the same – a historically weak, muddle through mid-1 to 2% growth outlook. Finally, the August labor market report disappointed many who were looking for a continuation of a relatively strong rebound in hiring which started in June and continued through July. August broke the trend at "only" 150,000 jobs – enough to keep the current recovery going, but not consistent with the wished for acceleration in economic growth.

As mentioned above, the mixed economic picture fails to signal an all-clear to the Fed. The Fed will also have limited additional information beyond retail sales and inflation indicators prior to their next meeting. This puts the probability of a Fed move at the September meeting at only 15% while investors suggest even odds of a move by December.[1] Of course, if economic data does not improve over the next few months, expectations for a 2016 Fed hike might slip and investors may start to question when or if the Fed will move in 2017.

Capital Markets Update

With the backdrop of mixed economic news in August, capital markets were generally well-behaved. The S&P 500 quietly set a new record level at 2,190 on August 15, but overall volatility was muted as the index traded in a tight 1.5% approximate range between 2,160 and 2,190 for nearly all of August. The failure to break through the 2,200 level or to fall below recent levels can be attributed to the lack of a catalyst for a move to either side. As stated above, economic news was mixed, but on balance consistent with continued weak growth. At the same time, earnings declined once again, but the decline is balanced by expectations for a rebound in earnings that keeps getting pushed to the next quarter. This

[1] CMEGroup.com on 9/7/2016

uneasy balance exists at above historical average valuations in U.S. equities and historically low interest rates in fixed income across the globe.

Within U.S. markets, small companies outperformed large companies, notching into the double digit return range on a year-to-date basis. The one-year number is much improved for many markets, but that is a somewhat artificial impact of the August 2015 downturn rolling off the 12-month calculation. If markets simply stay at this level through month-end, the one-year number will improve again as the September 2015 weakness similarly rolls off the calculation.

On a quarter to date basis, international equities are outperforming U.S. markets with emerging markets leading equity markets globally. This seems to have more to do with a benign period characterized by a lack of adverse geopolitical events and economic news than any real improvement in the outlook for the global economy. That being said, many foreign markets remain discounted to U.S. equities, providing some room for valuation adjustments on a marginal growth outlook globally.

Fixed income markets were generally negative in the U.S. as interest rates increased slightly through August (similar to equities this occurred without significant moves in either direction). Following month-end, the 10-year Treasury rate has declined slightly as the weak jobs report, coupled with the ISM reports on economic activity, lessened the chance of a Fed move in September. Spreads on credit narrowed as investors who are hungry for any yield over treasuries have continued to chase fixed income securities. While this helps to generate short term returns to investors, it continues to erode traditional income payments to retirees while increasing the risk of adverse short term price impacts when interest rates finally do start to move up.

As the economic indicators show, it appears the base case remains for growth to continue with limited risk of both recession or of an unexpected acceleration in growth. In such an environment economic and geopolitical surprises can send shocks through the system, particularly with valuations somewhat stretched. We continue believe investors should be prepared for unpredictable market events by utilizing diversified portfolios of stocks and bonds along with a financial plan to guide financial decisions. If recent market events have you concerned, we suggest speaking with your HD Vest Financial Advisor.

Asset allocation and diversification do not assure or guarantee better performance and cannot eliminate the risk of investment losses. Your individual allocation may be different than the HDVAS sample strategic model due to your unique individual circumstances.

Disclosures:

Unless footnoted and disclosed otherwise, all economic data throughout report sourced from FactSet.

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

Small domestic companies measured by the Russell 2000 Index which measures the performance of small-cap segment of the U.S. equity universe. Small domestic companies also measured by the S&P Small Cap 600 index.

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International developed companies measured by the MSCI EAFE Index, which 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.

The Euro Stoxx index measures the performance of a subset of 12 Eurozone countries within the Stoxx Europe 600 index.

Emerging market companies measured by the MSCI Emerging Markets Index, which is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Short-term taxable bonds measured by the Barclays U.S. 1-3 Year Aggregate, which is a subset of the Barclays U.S. Aggregate index, representing securities with 1 to 3 years remaining until maturity.

Intermediate-term bonds measured by the Barclays U.S. Aggregate Bond index, which 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.

High-yield bonds measured by the Barclays US Corporate High Yield Index, which tracks the performance of domestic non-investment grade corporate bonds.

International government bonds measured by the Citi World Government Bond Index (WGBI), which 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.

Short-term municipals measured by the Barclays Municipal 1-3 Yr index, which measures the performance of investment-grade municipal securities with 1 to 3 years remaining until maturity.

Intermediate term municipals measured by the Barclays Municipal Intermediate 5-10 Year index, which measures the performance of investment grade municipal securities with 5 to 10 years remaining until maturity.

High-yield municipals measured by the Barclays High Yield Municipal index, which measures the performance of below investment-grade municipal securities with at least 1 year remaining until maturity.

Commodities measured by the Bloomberg Commodity index, which 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.

Real estate measured by the Dow Jones Global Select REIT index, which represents equity real estate investment trusts (REITs) and REIT like securities traded globally.

Manufacturing economy strength measured by the Institute for Supply Management Manufacturing Index. A measure above 50 indicates expansion while a measure below 50 indicates contraction.

Service economy strength measured by the Institute for Supply Management Non-Manufacturing Index. A measure above 50 indicates expansion while a measure below 50 indicates contraction.

Monthly jobs report measured by the Bureau of Labor Statistics' US Employees on Non-Farm Payrolls Month over Month net change.

National unemployment rate measured by Bureau of Labor Statistics.

Annualized Quarterly GDP Growth measured by Bureau of Economic Analysis and is released as preliminary (1st estimate), revised (2nd estimate) and final over the course of a quarter.

Personal Consumption growth measured by the Bureau of Economic Analysis and represents final market value of all goods and services produced in the U.S.

Annual Inflation Rate measured by the Bureau of Labor Statistics Consumer Price Index (CPI). Value reflects year over year change in the CPI ex-Food and Energy index.

An investment cannot be made directly into an index.

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

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