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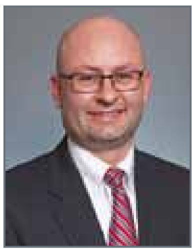

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We are pleased to present Market Review, featuring a discussion of the Capital Markets during the Second Quarter 2017 and a summary of historical performance for the major asset style passive indices for the period ending June 30, 2017. We hope you find the information useful and helpful in your investment considerations.

We welcome your comments.

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Asset Strategy Consultants

Founded in 1991, Asset Strategy Consultants provides investment consulting services to institutional clients representing over $8.1 billion under advisement. Headquartered in Baltimore, ASC has offices throughout the East Coast.

Second Quarter 2017

Market Review

MACROECONOMIC ENVIRONMENT

"Not too hot, not too cold, but just right." This Goldilocks sentiment, fueled by years of central bank accommodation and tepid economic growth has kept volatility at multi-decade lows, interest rates range-bound, and propelled domestic stock markets to new highs. Even persistent political drama and geopolitical headwinds have failed to create sufficient investor angst to unglue the markets. That said, it is safe to say that many investors are nervous and discovering "value" across market sectors is increasingly difficult.

In the second quarter, the S&P 500 Index hit a record high, fueled by technology stocks, non-US equities outperformed domestic, and within bonds corporate credit and emerging markets debt posted the strongest returns as the "risk-on" theme continued unabated. The Treasury yield curve flattened, with short rates up and longer rates falling, but the broad bond market returned roughly 1.4%. The U.S. dollar weakened versus most currencies and, as in the first quarter, commodities were the lone area to deliver a negative return as oil prices continued to fall on supply concerns. The quarter closed with an upbeat assessment of the euro zone's recovery from the President of the ECB, Mario Draghi, fueling speculation that the tapering of ECB asset purchases may be on the horizon. This change in tone spooked investors and sent global yields higher and stocks lower going into quarter-end.

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While the U.S. entered its 96th month of expansion, economic data was uninspiring. First quarter GDP growth was revised up to 1.4% (annualized) and was the weakest in three quarters. Personal consumption expenditures grew 1.1%, but this was the smallest advance since the second quarter of 2013. After a strong 2016, light vehicle sales were down nearly 2% in June (year-over-year) with passenger car sales off 13% over the past year. Pending home sales and housing starts were also softer going into quarter-end, but the median price of a new home jumped 17% year-over-year to a record $345,800. While unemployment fell to a 15-year low of 4.3%, declining workforce participation continues to play a role in that metric. Consumer spending continues to be a driver of growth, but its pace of growth has also slowed. Expectations for 2017 U.S.

GDP growth were cut by the International Monetary Fund from 2.3% to 2.1% in response to lowered expectations for fiscal stimulus, including tax reform. Inflation remained stubbornly low. Headline CPI was 1.9% as of May (year-over-year) while Core was 1.7%. The Fed's favored measure, the PCE price index, gained 1.4% (year-over-year) still below the 2% target. While growth appears to have moderated, the Fed believes that the upward trajectory is intact and consequently raised the Fed Funds rate by 25 bps, as markets expected, to 1.0% - 1.25%. Markets are currently divided as to whether we will see another hike this year. More significantly, however, was the Fed's announcement that it will begin to reduce the size of its $4.5 trillion balance sheet. While timing remains uncertain, the Fed made clear the process by which it intends to begin the tapering process. It will begin to allow U.S. Treasuries and mortgages to mature each month, up to a set amount, or cap, that will rise over time. Proceeds from maturities in amounts over the cap will continue to be reinvested. This approach is both more moderate and more transparent than investors expected and while the timing is uncertain, markets were unfazed.

A number of notable events occurred overseas on the political front. Populism appeared to lose favor as both the Netherlands and France declared centrist victories - Italy is up next with its election in spring of 2018. In the U.K., a surprising result came out of the snap election called by Prime Minister Theresa May; her Conservative Party lost its majority in the House of Commons, thus increasing the likelihood of a "softer" Brexit. First quarter GDP growth was 2.3% (annualized) for the euro zone, exceeding expectations and the best in two years. Unemployment dropped to 9.3%, the lowest since 2009. The European Central Bank kept rates unchanged, but it also removed language that suggested rates would continue to decline. Comments in late June by ECB President Mario Draghi hinted at a normalization/reduction of bond buying caused yields to rise; markets have priced in a near 100% probability of an ECB rate hike over the next twelve months. The euro and the pound strengthened significantly versus the U.S. dollar over the course of the quarter, up about 7% and 4%, respectively, on mixed economic data and uncertainty over the political climate. Inflation in the U.K. hit a four-year high of 2.9% (year-over-year) in May, leading to hawkish rhetoric from the Bank of England's chief economist. The post-Brexit decline in the pound has been a key culprit in rising inflation. Japan's first quarter GDP growth was 1.3% (annualized). While lower than expected it was the fifth quarter of economic expansion, the longest in more than a decade, and above Japan's long-range potential of roughly 0.7%. China exceeded expectations with a 6.9% annual growth pace in the first quarter and, more recently, unexpectedly strong manufacturing data. ■

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EQUITY MARKET RESULTS

In the U.S., pro-growth initiatives such as tax reform and infrastructure investment failed to materialize, and repeal/replacement of the Affordable Health Care Act has, also, stalled. Instead, Russia's alleged influence over the Presidential election and multiple corresponding investigations took center stage during the quarter. However, investors shrugged off political drama choosing instead to focus on climbing after-tax corporate profits. S&P 500 companies reported the strongest quarterly earnings growth in six years with more than 75% reporting earnings above expectations. The S&P 500 Index gained 3.1% in the second quarter as the bull market reached its 99th month, nearly twice as long as the historical average of 54 months. Year-to-date, the Index is up 9.3%. Apple was added to "FANG" – now "FAANG" as this technology collective continue to fuel results in the large cap growth space. Technology stocks now comprise 22% of the S&P 500 Index and 36% of the Russell Growth Index. Growth stocks continued to solidly outperform Value (R1000G: +4.7% vs. R1000V: +1.3%).

Along with Technology (+4.1%), Health Care (+7.1%) and Industrials (+4.7%) were strong performers. Large caps outperformed small caps across styles, but by a smaller margin (R1000: +3.1% vs. R2000: +2.5%). Telecomm, which includes only four companies (AT&T, Verizon, CenturyLink and Level3), sank 7% with AT&T and Verizon down over 8%. Energy returned -6.4% on falling oil prices. Financials got a June boost from the Fed's announcement that 34 of the largest U.S. banks had passed their stress tests; the sector was up 4.2% for the quarter.

Overseas, the MSCI EAFE Index (+6.1%) outperformed U.S. markets, bringing year-to-date returns to 13.8%. Gains were broad-based, though helped by U.S. dollar weakness. Within the MSCI, Europe ex-U.K. was up 8.4%, the U.K. gained 4.7% and Japan returned +5.2%. Emerging markets modestly outperformed developed (MSCI EM USD: +6.3%) and are up 18.4% year-to-date. Emerging Asia was the key driver in both the first and second quarters. Countries with the top performance in the second quarter included China (+10.6%), Greece (+33.8%), Korea (+10.2%), Turkey (+19.3%) and Poland (+13.6%). Elsewhere, Russia and Brazil posted sharp declines (-10.0% and -6.7%) and India's gain was muted at +2.9%. Brazil's president was implicated in country's wide-ranging corruption investigation and Russia suffered from falling oil prices and questions over US/Russian relations. In other news, MSCI announced that it would be adding China A-shares to its emerging markets indices, albeit in a fairly small sliver. ■

FIXED INCOME MARKET RESULTS

Intermediate and long U.S. Treasury yields fell modestly in the second quarter as inflation data releases were persistently weak. Short rates rose, consistent with the Fed hike, and thus the yield curve flattened. Risky assets continued their long streak of outperformance. The 10-year U.S. Treasury yield closed the quarter at 2.31%, down from 2.40% as of 3/31, though it hit a 2017 low of 2.12% earlier in June. The 2-year U.S. Treasury yield climbed 11 bps to close at 1.38%. As a result, short and intermediate maturity Treasuries underperformed; the Bloomberg Barclays Intermediate Treasury Index returned 0.7% while the Long Index gained 4.0%. The Bloomberg Barclays Aggregate Index earned 1.4% with corporate bonds performing the best on strong demand. The Bloomberg Barclays Corporate Index was up 2.5% for the quarter, outperforming the High Yield Index (+2.2%). TIPS underperformed as expectations for inflation sank. The Bloomberg Barclays TIPS Index lost 0.4% for the quarter. The 10-year breakeven spread (the difference between nominal and real yields) was 173 bps as of quarter-end, down from 1.97% at the end of the first quarter.

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Overseas, broad-based dollar weakness boosted returns. The U.S. dollar lost nearly 7% versus the euro and almost 5% versus a broad basket of developed markets currencies. The Bloomberg Barclays Global Aggregate Index returned 2.6% (unhedged) versus 1.0% for the hedged version. Emerging markets debt posted solid returns. The JPM EMBI Global Diversified Index ($ denominated) was up 2.2% with broad-based gains across countries. The local currency JPM GBI-EM Global Diversified Index returned +3.6% with more divergent results. Russia, Brazil and Argentina lost over 2% while Mexico and Turkey were among the strongest performers with 7.5% gains.

The Bloomberg Barclays Municipal Bond Index returned +2.0% in the second quarter and, generally, lower quality bonds outperformed. Results were bolstered by lowered investor expectations for meaningful tax reform, both in terms of scale and timing. Additional support came from favorable supply/demand technicals; supply declined roughly 14% year-over-year while investors put new money into the sector. Fundamentals remained broadly positive in spite of a few troubled credits making headlines. Illinois failed to pass a budget on the last day of the quarter (the end of its fiscal year) for the third consecutive calendar year, prompting threats of a downgrade to junk by S&P. ■

REAL ASSETS RESULTS

Real assets had a tough quarter with few exceptions. Brent crude oil prices fell 10% to $47 as of quarter-end. The energy-heavy S&P GSCI Commodity Index lost 5.5% while the more diversified Bloomberg Commodity Index fell 3.0%. MLPs suffered alongside oil; the Alerian MLP Index was down 6.4%. Gold was down nearly 1% and REITs were up only modestly (MSCI REIT: +1.7%). U.S. TIPS performed poorly as expectations for future inflation sank. The Barclays U.S. TIPS Index returned -0.4%. In a bright spot, global infrastructure (DJB Global Infrastructure Index) gained 3.7%. . ■

CLOSING THOUGHTS

We entered 2017 with U.S. stock markets at record highs and historically low volatility. Not much has changed although geopolitical risks have not abated and the previously envisioned pro-growth policies sought by enthusiastic market participants remain elusive. That said, economic news has brightened outside of the U.S. with global economies seemingly on steadier footing and the prospect of reflation on the horizon. While consensus is that valuations remain stretched across asset classes, it is impossible to predict what will thwart this Goldilocks environment. We caution investors to temper return expectations. As always, Asset Strategy Consultants encourages investors to maintain a long-term perspective and prudent asset allocation with appropriate levels of diversification. ■

PRELIMINARY RETURNS FOR VARIOUS PERIODS: 2Q17

	Mo. Ending 12/31/16	Mo. Ending 5/31/17	Mo. Ending 4/30/17	Last Quarter	Last 2 Quarters	Last 3 Quarters	Last Year	Last 3 Years	Last 5 Years	Last 10 Years	Last 15 Years
MSCI:ACWI	0.45	2.21	1.56	**4.27**	11.48	12.80	**18.78**	4.82	10.54	3.71	7.31
Russell:3000 Index	0.90	1.02	1.06	**3.02**	8.93	13.52	**18.51**	9.10	14.58	7.26	8.66
Russell:3000 Growth Index	0.00	2.34	2.25	**4.65**	13.69	15.05	**20.72**	10.83	15.20	8.82	9.07
Russell:3000 Value Index	1.78	(0.34)	(0.14)	**1.29**	4.32	11.87	**16.21**	7.32	13.89	5.59	8.13
MegaCap											
Russell:Top 50	0.16	1.20	1.18	**2.56**	9.31	13.08	**16.90**	10.22	13.53	6.78	7.36
Russell:Top 200	0.58	1.42	1.17	**3.20**	9.79	14.27	**18.65**	9.93	14.64	7.15	7.93
Russell:Top 200 Growth	(0.45)	2.67	2.56	**4.83**	14.90	16.29	**21.62**	12.44	15.76	9.39	8.73
Russell:Top 200 Value	1.70	0.00	(0.36)	**1.33**	4.42	11.95	**15.36**	7.32	13.42	4.88	7.09
Large Cap											
S&P:500	0.62	1.41	1.03	**3.09**	9.34	13.52	**17.90**	9.61	14.63	7.18	8.34
Russell:1000 Index	0.70	1.28	1.06	**3.06**	9.27	13.46	**18.03**	9.26	14.67	7.29	8.62
Russell:1000 Growth	(0.26)	2.60	2.29	**4.67**	13.99	15.15	**20.42**	11.11	15.30	8.91	9.03
Russell:1000 Value	1.63	(0.10)	(0.19)	**1.34**	4.66	11.64	**15.53**	7.36	13.94	5.57	8.09
MidCap											
S&P:400 Mid Cap	1.62	(0.49)	0.84	**1.97**	5.99	13.85	**18.57**	8.53	14.92	8.56	10.40
Russell:Midcap Index	0.99	0.91	0.77	**2.70**	7.99	11.45	**16.48**	7.69	14.72	7.67	10.50
Russell:Midcap Growth	0.30	2.39	1.48	**4.21**	11.40	11.91	**17.05**	7.83	14.19	7.87	10.34
Russell:Midcap Value	1.49	(0.31)	0.19	**1.37**	5.18	10.99	**15.93**	7.46	15.14	7.23	10.45
Small Cap											
S&P:600 Small Cap	2.99	(2.13)	0.90	**1.71**	2.79	14.24	**22.47**	9.32	15.47	8.44	10.38
Russell:2000 Index	3.46	(2.03)	1.10	**2.46**	4.99	14.26	**24.60**	7.36	13.70	6.92	9.19
Russell:2000 Growth	3.44	(0.91)	1.84	**4.39**	9.97	13.90	**24.40**	7.64	13.98	7.82	9.55
Russell:2000 Value	3.50	(3.11)	0.39	**0.67**	0.54	14.69	**24.86**	7.02	13.39	5.92	8.75
Russell:Microcap	5.19	(2.29)	1.03	**3.83**	4.23	14.70	**27.60**	6.69	13.73	5.47	8.44
Non-US Equity											
MSCI:ACWI ex US	0.31	3.24	2.14	**5.78**	14.10	12.67	**20.45**	0.80	7.22	1.13	6.90
MSCI:EAFE	(0.18)	3.67	2.54	**6.12**	13.81	13.00	**20.27**	1.15	8.69	1.03	6.31
MSCI:EAFE Growth	(0.65)	5.07	3.01	**7.52**	16.68	10.24	**15.70**	2.81	9.19	2.06	6.32
MSCI:EAFE Value	0.30	2.32	2.10	**4.78**	11.12	15.75	**25.01**	(0.59)	8.12	(0.08)	6.22
MSCI:EAFE Small Cap	(0.02)	3.69	4.28	**8.10**	16.72	13.39	**23.18**	5.60	12.94	3.41	9.95
MSCI:EM	1.01	2.96	2.19	**6.27**	18.43	13.50	**23.75**	1.07	3.96	1.92	10.60
Fixed Income											
Blmbg:Aggregate	(0.10)	0.77	0.77	**1.45**	2.27	(0.77)	**(0.31)**	2.48	2.21	4.48	4.48
Blmbg:US TIPS	(0.95)	(0.04)	0.59	**(0.40)**	0.85	(1.58)	**(0.63)**	0.63	0.27	4.27	4.86
Blmbg:Long Gov/Credit	0.76	2.02	1.55	**4.39**	6.03	(2.28)	**(1.07)**	5.28	4.26	7.58	7.23
Blmbg:Long Credit A	1.10	2.10	1.52	**4.80**	5.94	(0.11)	**1.68**	5.70	5.25	7.16	6.99
Blmbg:High Yield Cash Pay	0.13	0.87	1.15	**2.16**	4.92	6.75	**12.68**	4.47	6.88	7.68	8.98
Blmbg:Muni 1-10 Yr	(0.35)	1.09	0.64	**1.39**	2.96	0.27	**0.16**	2.24	2.26	3.93	3.77
Blmbg:Glob Agg ex USD	(0.09)	2.19	1.42	**3.55**	6.12	(4.77)	**(3.80)**	(2.42)	(0.36)	3.05	4.58
Blmbg:Glob Agg ex USD H	(0.44)	0.43	0.60	**0.59**	0.65	(1.23)	**(0.71)**	3.78	4.04	4.47	4.39
JPM:EMBI Plus	(0.38)	0.62	2.16	**2.40**	6.27	0.62	**3.75**	4.78	4.97	7.19	9.80
Other Assets											
Blmbg:Commodity TR Idx	(0.19)	(1.33)	(1.51)	**(3.00)**	(5.26)	(2.74)	**(6.50)**	(14.81)	(9.25)	(6.49)	(0.01)
GS Commodity Index	(1.92)	(1.54)	(2.11)	**(5.46)**	(10.24)	(5.07)	**(9.01)**	(24.82)	(13.70)	(9.67)	(2.64)
S&P:Gold Spot Price Ix	(2.60)	0.56	1.37	**(0.71)**	7.87	(5.68)	**(5.93)**	(2.05)	(4.98)	6.68	9.60
FTSE:NAREIT Equity Index	2.19	(0.77)	0.12	**1.52**	2.70	(0.27)	**(1.70)**	8.36	9.52	6.00	10.06
Alerian:MLP Index	(0.65)	(4.52)	(1.28)	**(6.35)**	(2.66)	(0.67)	**0.40**	(11.23)	1.77	5.74	11.49

DISCLAIMER AND SOURCES

The material contained in Asset Strategy Consultants quarterly Capital Markets Review is based upon information and data produced by Asset Strategy Consultants and Callan Associates.