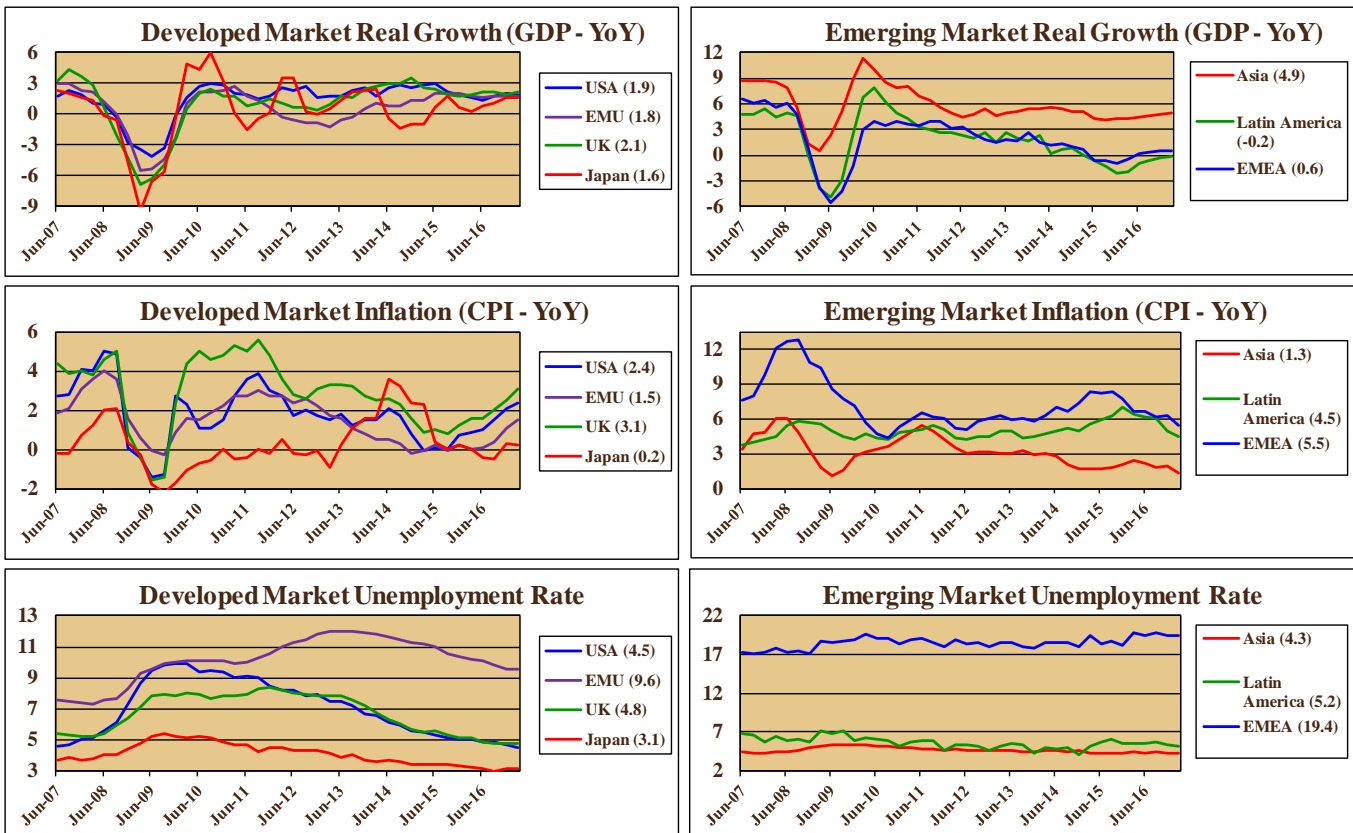


First Quarter 2017

Global Market and Economic Perspective

Global Economic Commentary

- ❖ **The Unemployment rate in the United States declined to 4.5% at the end of the first quarter, which is below most economists' estimates of the non-accelerating inflationary rate of unemployment (NAIRU). Even though economic growth in the first quarter was relatively weak in the US, positive growth over the past eight years has continued to reduce the number of potential workers seeking employment.**
- ❖ **Although the level of real economic growth remains low relative to historical averages, global activity is relatively stable and has shown signs of improvement in several countries that were at risk of disruption due to the changing political landscape.**
- ❖ **The rate of inflation in developed countries continued to trend modestly higher, which fits with most central bank narratives going into the second quarter. Although the US and the UK are above the common long-term goal of 2%, there is no evidence that central bankers in either country are particularly worried.**



Notes: Emerging market economic statistics are estimated by region using eight countries, which represent roughly 80% of the MSCI Emerging Market Equity Index. Recent observations may be estimated where reporting lags make official data unavailable at the time of this report.

Stairway Partners is an SEC registered investment advisor, providing comprehensive investment advice and industry-leading portfolio management solutions to qualified investors. Our conflict-free structure and sophisticated investment capabilities have allowed us to serve as a valued advisor and trusted fiduciary to clients throughout the United States. For more information, please call (630) 371-2626 or email us at stairwaypartners@stairwaypartners.com.

Global Market and Economic Perspective – Q1 2017

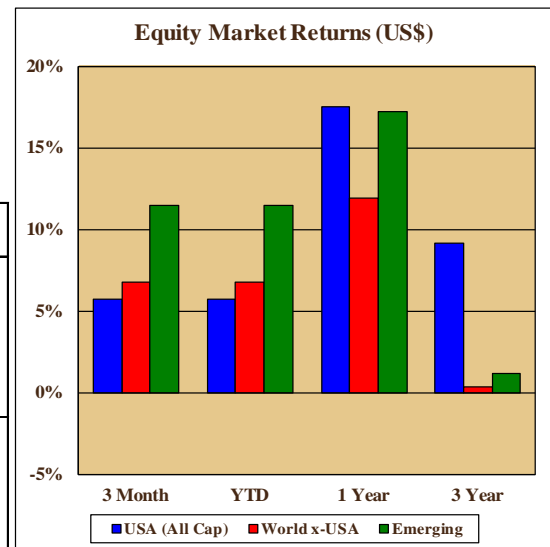
Global Equity and Currency Commentary

- ❖ Equity market returns were broadly positive in the first quarter. In the United States, there was some normalization of markets after last December's reaction to the surprise victory of Donald Trump led to extreme return differences between small and large-cap stocks. Although broad market returns were still positive in the first quarter, large-cap stocks produced higher returns.
- ❖ Emerging market equity returns were particularly strong in the first quarter. Although some of the gains were currency related, the bulk of the positive performance came from the underlying local markets. Positive earnings and stable currencies were supportive of the rally in emerging equity markets. It is worth noting that emerging markets are still making up for years of underperformance relative to developed markets across the globe.
- ❖ The value of foreign currencies increased, as the dollar gave back some of last year's gains. The Fed has continued to raise cash rates at a measured pace, which should boost the value of the dollar, all other things being equal. However, prior appreciation of the US Dollar relative to other developed and emerging currencies may have already fully discounted higher US interest rates.

Global Equity Market Returns (MSCI)

	Returns (US\$)				Returns (Local)			
	3 Month	YTD	1 Year	3 Year	3 Month	YTD	1 Year	3 Year
United States								
USA (All Cap)	5.7%	5.7%	17.5%	9.2%				
USA Growth	9.0%	9.0%	16.0%	10.9%				
USA Value	3.3%	3.3%	17.5%	8.0%				
USA SC Growth	5.3%	5.3%	21.4%	6.7%				
USA SC Value	2.0%	2.0%	23.6%	8.1%				
Foreign Developed								
World x-USA	6.8%	6.8%	11.9%	0.4%	4.5%	4.5%	18.0%	7.0%
Europe	7.4%	7.4%	9.8%	-1.5%	6.0%	6.0%	19.6%	7.0%
Far East	5.9%	5.9%	14.4%	5.9%	1.8%	1.8%	13.9%	8.3%
Australia	11.0%	11.0%	21.1%	0.5%	5.3%	5.3%	22.2%	7.3%
Canada	2.5%	2.5%	14.7%	-1.1%	1.9%	1.9%	18.3%	5.4%
Emerging Markets								
Emerging	11.4%	11.4%	17.2%	1.2%	7.8%	7.8%	15.1%	5.6%
Asia	13.4%	13.4%	18.0%	4.5%	9.7%	9.7%	16.9%	6.1%
Latin America	12.1%	12.1%	23.3%	-4.0%	7.6%	7.6%	19.6%	7.2%
EMEA	2.7%	2.7%	9.1%	-5.3%	-0.1%	-0.1%	4.3%	3.8%

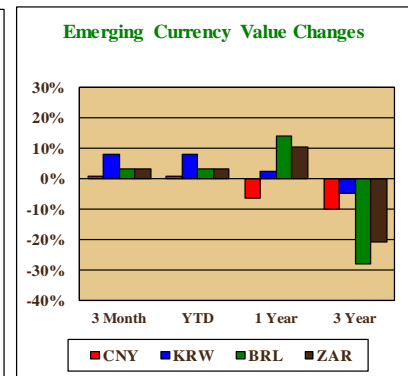
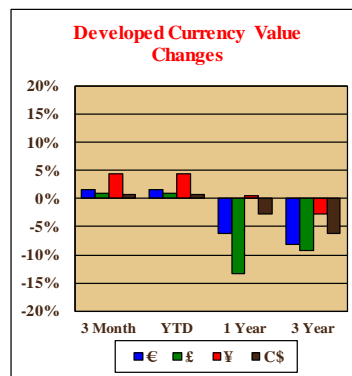
Annualized if greater than one year



Foreign Exchange Rate History (Bloomberg)

	Current Level	Change (Foreign Currency versus \$)			
		3 Month	YTD	1 Year	3 Year
Developed					
Euro (€)	1.07	1.5%	1.5%	-6.2%	-8.1%
British Pound (£)	1.25	1.0%	1.0%	-13.4%	-9.2%
Japanese Yen (¥)	112	4.5%	4.5%	0.5%	-2.7%
Canadian Dollar (C\$)	1.33	0.7%	0.7%	-2.7%	-6.1%
Emerging					
Chinese Renminbi (CNY)	6.89	0.8%	0.8%	-6.3%	-9.8%
Korean Won (KRW)	1117	7.9%	7.9%	2.3%	-4.7%
Brazilian Real (BRL)	3.15	3.3%	3.3%	14.0%	-27.9%
South African Rand (ZAR)	13.28	3.4%	3.4%	10.6%	-20.8%

Annualized if greater than one year



Global Market and Economic Perspective – Q1 2017

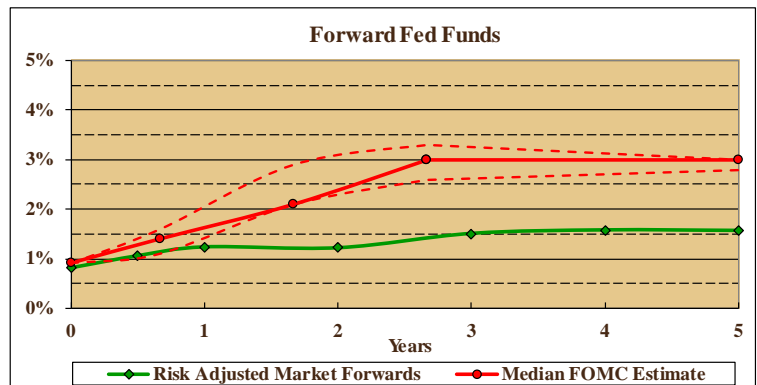
US Fixed Income and Fed Commentary

- ❖ US Treasury rates declined modestly in the first quarter, even though the Fed followed through with its anticipated rate increase in March. Continued stable real growth, declining unemployment and modestly higher inflation are all keeping the Fed on their stated path toward higher cash rates. Although the Fed’s current guidance indicates that the Fed Funds Rate will level off at 3% in three years’ time, the market continues to price in long-term cash rates of only about 1.5%. If economic conditions remain positive, policy movements should force market rates higher.
- ❖ Positive credit conditions and relatively stable long-term Treasury rates have kept mortgage interest rates low, which has been good for both broad bond market returns and homeowners.
- ❖ High yield bond markets performed well in the first quarter, with a modest compression in credit spreads adding to the positive returns that resulted from declining Treasury rates. Although performance has been stellar over the past 12 months, high-yield bond rates are currently higher than they were at the end of 2014.
- ❖ Municipal bond yields declined modestly along with Treasury yields in the first quarter.

FOMC Fed Funds Rate Projections as of March 2017 Meeting						
	Current	Dec-17	Dec-18	Dec-19	Dec-19	Long Run
Upper	0.91%	1.10%	2.10%	2.60%	2.60%	2.80%
Median	0.91%	1.40%	2.10%	3.00%	3.00%	3.00%
Lower	0.91%	1.60%	2.90%	3.30%	3.30%	3.00%

Market Implied Fed Funds Rate as of Apr 03, 2017					
Current	6 Month	1 Year	2 Year	3 Year	5 Year
0.82%	1.06%	1.24%	1.22%	1.51%	1.57%

Notes
 Upper and lower bands show central tendency for FOMC projections.
 Market implied Fed Funds rates are risk adjusted.



US Bond Yield and Spread History (Barclays)

	Current Level	Change Through March 2017			
		3 Month	YTD	1 Year	3 Year
US Treasury					
Short	1.50%	0.06%	0.06%	0.60%	0.73%
Intermediate	2.21%	-0.03%	-0.03%	0.67%	-0.06%
Long	2.95%	-0.04%	-0.04%	0.48%	-0.47%
US High Yield					
Yield	5.84%	-0.28%	-0.28%	-2.34%	0.61%
Spread	3.83%	-0.26%	-0.26%	-2.73%	0.25%
Tax-Exempt Muni.					
Short	1.31%	-0.31%	-0.31%	0.37%	0.52%
Intermediate	2.16%	-0.18%	-0.18%	0.54%	0.11%
Long	3.00%	-0.07%	-0.07%	0.60%	-0.44%

