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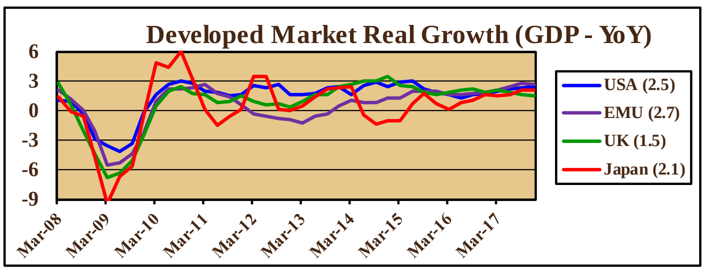
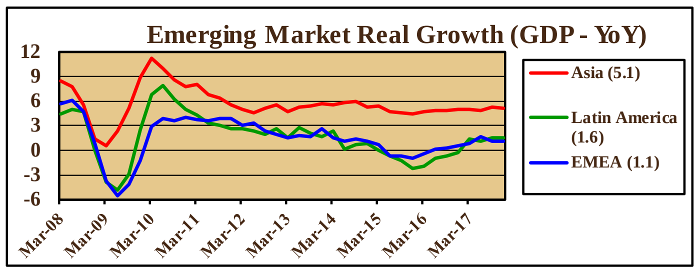
Fourth Quarter 2017

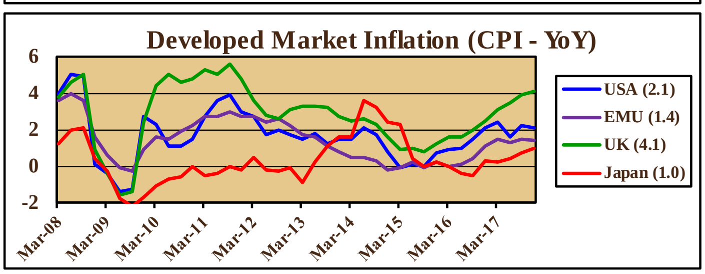
Global Market and Economic Perspective

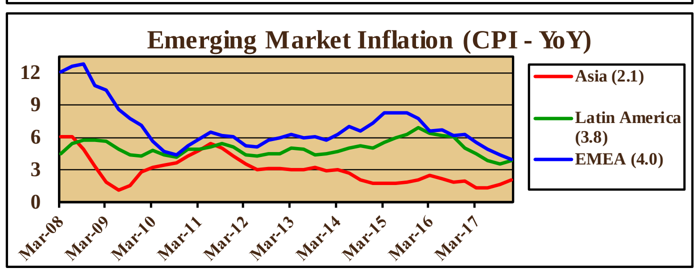
Global Economic Commentary

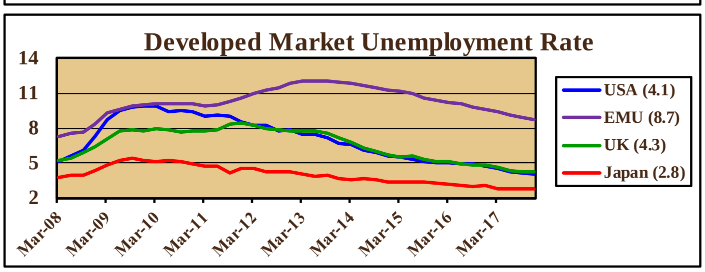
- **During the fourth quarter of 2017, economic growth in developed countries remained on a moderate, well-synchronized path. The US saw solid GDP growth, although spending on imports and inventory drawdowns meant that output grew somewhat slower than spending. Apart from the UK where Brexit uncertainty continued to weigh on confidence, European economies grew at a fairly strong pace. In emerging markets, growth in Asia remained good, but was disappointing in the other regions which are more heavily reliant on commodities.**
- **Good growth throughout last year led to continued reductions in unemployment in most regions. The US unemployment rate declined to 4.1% in the fourth quarter, which was the lowest since 2000.**
- **Although inflation in most countries has been trending higher, rates remain in most places near or below the 2% targets of many central banks. As the British pound has continued to fall due to Brexit, UK inflation has been trending higher as imports become more expensive.**

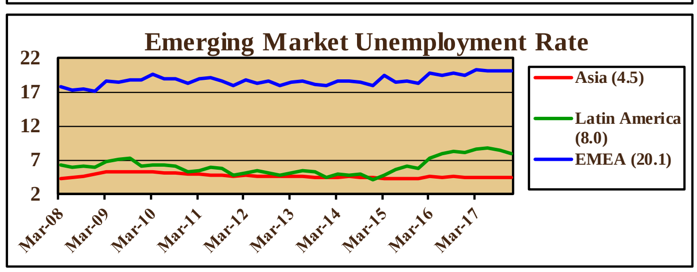












Notes: Emerging market economic statistics are estimated by region using eight countries, which represent roughly 80% of the MSCI Emerging Market Equity Index. Recent observations may be estimated where reporting lags make official data unavailable at the time of this report.

Global Market and Economic Perspective – Q4 2017

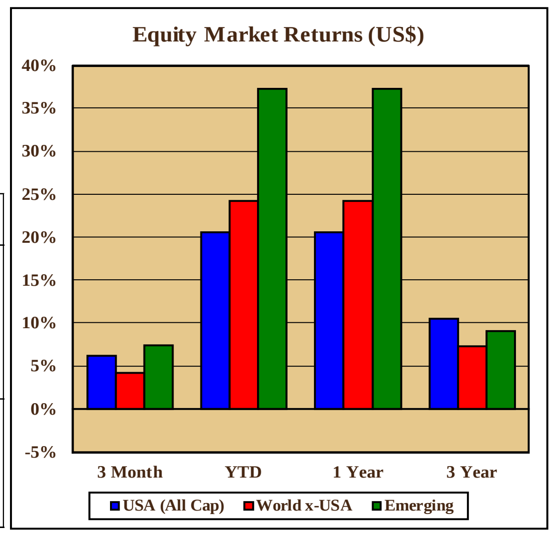
Global Equity and Currency Commentary

- **In many ways, equity markets in the fourth quarter saw a repeat of earlier quarters. Returns were again strong in most markets, resulting in very high full-year 2017 returns. In the US, growth stocks had much better returns than value stocks, which can be partially attributed to continued outperformance of large technology companies.**
- **Strengthening currencies and solid equity market returns in emerging markets produced outstanding returns to US investors. For the full year, the return for the emerging markets index exceeded 37%. We consider some of this to be "catch up" to the US, given the outperformance of the US equity market relative to both emerging and developed non-US markets for the past decade.**
- **Equity market performance has been supported by good earnings growth, which has benefited from reasonably strong and stable economic growth. This picture of growth and stability also provided some justification for equity market volatility that remained around record lows for the entire year. However, the years-long outperformance of the US equity market and the low level of risk reflected in prices means that the US is priced much more expensively than non-US markets.**

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)	**6.2%**	**20.6%**	**20.6%**	**10.5%**				
USA Growth	7.3%	28.3%	28.3%	12.3%				
USA Value	5.4%	14.4%	14.4%	8.8%				
USA SC Growth	6.2%	23.1%	23.1%	11.0%				
USA SC Value	3.2%	10.7%	10.7%	9.2%				
Foreign Developed								
World x-USA	**4.2%**	**24.2%**	**24.2%**	**7.4%**	**3.7%**	**14.6%**	**14.6%**	**8.3%**
Europe	2.2%	25.5%	25.5%	6.7%	1.3%	13.1%	13.1%	8.3%
Far East	8.3%	25.9%	25.9%	11.2%	8.3%	22.0%	22.0%	9.3%
Australia	6.8%	19.9%	19.9%	6.4%	7.1%	11.0%	11.0%	8.0%
Canada	4.3%	16.1%	16.1%	3.1%	4.5%	8.4%	8.4%	5.9%
Emerging Markets								
Emerging	**7.4%**	**37.3%**	**37.3%**	**9.1%**	**5.7%**	**30.6%**	**30.6%**	**10.5%**
Asia	8.4%	42.8%	42.8%	11.0%	6.0%	35.9%	35.9%	11.0%
Latin America	-2.3%	23.7%	23.7%	3.8%	1.9%	22.1%	22.1%	11.5%
EMEA	11.7%	24.5%	24.5%	6.1%	7.3%	15.2%	15.2%	8.0%

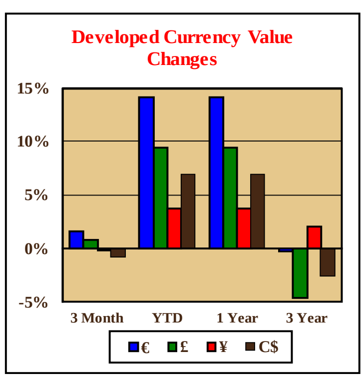
Annualized if greater than one year

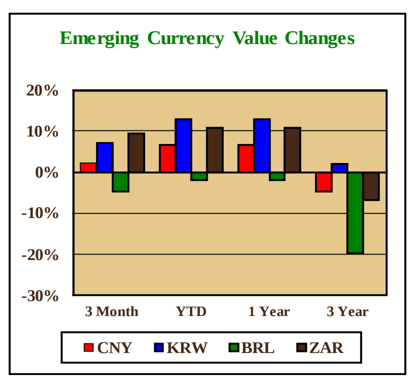


Foreign Exchange Rate History (Bloomberg)

	Current	Change (Foreign Currency versus $)			
	Level	3 Month	YTD	1 Year	3 Year
Developed					
Euro (€)	**1.20**	1.6%	14.1%	14.1%	-0.3%
British Pound (£)	**1.35**	0.9%	9.5%	9.5%	-4.6%
Japanese Yen (¥)	**113**	-0.2%	3.8%	3.8%	2.1%
Canadian Dollar (C$)	**1.26**	-0.8%	6.9%	6.9%	-2.6%
Emerging					
Chinese Renminbi (CNY)	**6.51**	2.2%	6.7%	6.7%	-4.6%
Korean Won (KRW)	**1067**	7.3%	13.0%	13.0%	2.2%
Brazilian Real (BRL)	**3.31**	-4.5%	-1.7%	-1.7%	-19.8%
South African Rand (ZAR)	**12.38**	9.5%	11.0%	11.0%	-6.7%

Annualized if greater than one year





Global Market and Economic Perspective – Q4 2017

US Fixed Income and Fed Commentary

- **In mid-December, the Federal Reserve raised its short-term policy rate for the third time in 2017. This move brought the Fed Funds rate to 1.25%, and the Fed signaled that they expect to implement additional rate increases over the next couple of years. Although inflation remains relatively subdued, Fed communication indicated that the policy-making committee views the low unemployment rate and good GDP growth as indicating an increased potential for an inflation resurgence.**
- **Despite the large increase in short-term interest rates during the fourth quarter, interest rates on long-term Treasury bonds actually fell. This "flattening" of the yield curve means that the additional compensation for holding long-term bonds instead of short-term bonds has narrowed considerably, to less than three-quarters of one percentage point.**
- **The municipal bond market reflected the same yield curve changes seen in the Treasury market, although the rise in short-term rates for the year was lower than in Treasuries. As a result, returns in the municipal bond market were quite strong.**
- **High yield bond credit spreads over Treasury bonds narrowed further in the fourth quarter, which produced returns in high yield that were above returns in the investment-grade bond market.**

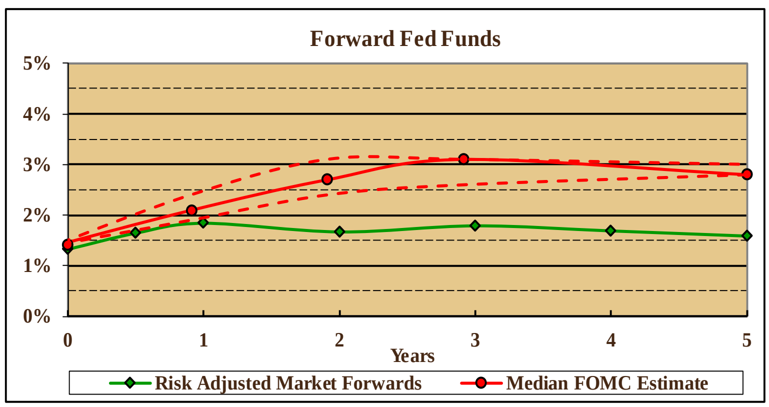
FOMC Fed Funds Rate Projections as of December 2017 Meeting

	Current	Dec-17	Dec-18	Dec-19	Dec-20	Long Run
Upper	1.42%	1.40%	1.90%	2.40%	2.60%	2.80%
Median	**1.42%**	**1.40%**	**2.10%**	**2.70%**	**3.10%**	**2.80%**
Lower	1.42%	1.40%	2.40%	3.10%	3.10%	3.00%

Market Implied Fed Funds Rate as of Jan 02, 2018

Current	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
1.33%	**1.65%**	**1.84%**	**1.67%**	**1.79%**	**1.69%**	**1.59%**

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 December 2017: 3 Month	YTD	1 Year	3 Year
US Treasury					
Short	**1.99%**	0.37%	0.55%	0.55%	1.03%
Intermediate	**2.32%**	0.18%	0.09%	0.09%	0.38%
Long	**2.69%**	-0.08%	-0.29%	-0.29%	0.06%
US High Yield					
Yield	**5.72%**	0.27%	-0.40%	-0.40%	-0.89%
Spread	***3.43%***	*-0.03%*	*-0.66%*	*-0.66%*	*-1.40%*
Tax-Exempt Muni.					
Short	**1.69%**	0.46%	0.07%	0.07%	0.74%
Intermediate	**2.05%**	0.14%	-0.28%	-0.28%	0.24%
Long	**2.55%**	-0.13%	-0.53%	-0.53%	-0.17%