Monthly Market Review

pfm

U.S. Equity

- Domestic equity markets, as represented by the S&P 500 Index (S&P), ended the month increasing 1.1%, pushing the year-to-date (YTD) performance up to 21.8%.
- Sector performance within the S&P was mostly strong with eight of the 11 sectors posting positive returns. Telecom was the best performing sector for a second consecutive month, with a 5.8% return. The Utilities sector finished as the worst performing sector, declining 6.1%.
- By market capitalizations, large-caps (Russell 1000 Index) led the pack with a 1.1% return, followed by mid-caps (Russell Mid Cap Index, 0.9%) and small-caps (Russell 2000 Index, -0.4%). Value stocks outperformed growth in large- and mid-caps while growth stocks outperformed value across small-caps.

Non-U.S. Equity

- Non-U.S. equity markets, represented by MSCI ACWI ex-U.S., ended the month with a 2.2% return. Developed Markets, represented by MSCI EAFE Index, finished up 1.6% while the Emerging Markets, represented by MSCI Emerging Markets Index, finished up 3.6%. On the year, both Developed and Emerging Markets have maintained strong returns of 25.0% and 37.3%, respectively.
- Within the ACWI ex-U.S. Index, Materials was the strongest performer over the month, gaining 5.1%. Telecom (-0.4%) and Utilities (-1.7%) were the only sectors in the red. Small-caps continue to outperform large-caps in both the Developed and Emerging Markets. Growth stocks slightly outperformed value stocks in developed markets, while value stocks outperformed growth in emerging markets.

Fixed Income

- The Bloomberg Barclays U.S. Aggregate Index rose 0.5% as intermediate-term yields rose modestly, while the longer term yields were mostly flat.
- Investment grade (IG) credit within the Aggregate rose 0.8% as IG credit spreads tightened. Within the IG credit spectrum, returns were positive across all qualities and tilted towards lower-quality with BBB rising 0.89%. A-rated bonds rose 0.86%, with AA (0.61%) and AAA (0.30%) lagging behind. High Yield (HY), represented by the Bloomberg Barclays U.S. Corporate HY Index, also rose 0.3% as HY spreads were relatively flat.
- The U.S. Treasury Yield curve followed the trend in 2017 and flattened during the month of December. Yields increased across all tenors except for the 10- and 30-year, as the intermediate-term yields increased more than the longer term. Yields along the three-month and two-year terms increased between 9 and 13 basis points (bps), while the 30-year fell 9 bps.

Other Asset Classes

- Real estate investment trusts (REITs) represented by FTSE NAREIT index fell 0.2% in December, slightly decreasing the YTD return to 5.2%. Returns within the individual real estate sectors were mixed as five of the nine sectors ended the month in the red. Retail led the way for the second consecutive month with a return of 3.7% but still ended the year with a return of -4.8%. Health Care (-2.9%) and Industrials (-2.8%) were the biggest detractors in the month.
- Commodities, represented by the Bloomberg Commodity Index, rose as the index posted a 2.88% return, bringing the YTD return to 0.75%. The active contract for West Texas Intermediate (WTI) crude closed at $60.4/barrel, which marks the first time since 2015 that the oil prices closed above $60/barrel.

Items to Watch

- On December 20, Congress passed the final version of the Tax Cuts and Jobs Act. Although the wealthy are expected to benefit more than the middle class, the overall reduction in tax rates for all individuals is expected to boost consumer spending in 2018. The decline in corporate taxes from 35% to 21% should also boost corporate profits but the one-time repatriation tax could partially offset some gains from companies with assets overseas.
- In December, 148,000 jobs were added, which was fewer than expected. The unemployment rate remained at 4.1% for the third straight month and average hourly earnings grew 2.5% from last year.
- The official minutes from the December Federal Open Market Committee (FOMC) meeting, when the Federal Reserve (Fed) hiked interest rate by 25 bps, were acknowledged as a bit on the hawkish side. Most of the Fed officials supported the gradual increase in borrowing costs and have stuck to their estimates of three rate hikes in 2018 on the grounds of strong job creation and a record low unemployment level. However, weak inflation could serve as the primary barrier for the pace of rate hikes. The Fed also debated the impacts of the $1.5 trillion tax bill signed in by President Trump noting the "fiscal stimulus" as one of the primary risks, which may overheat the economy and warrant for faster rate hikes than currently planned.
- The European Central Bank (ECB) left its deposit rate and refinancing rate unchanged in its latest policy meeting. Additionally, ECB also lifted its growth forecasts for 2018-2019, signaling its expectation of a healthy Eurozone economy. The Eurozone Manufacturing Purchasing Managers' Index reading for December reached its highest level since its inception and is seen as an indicator of economic growth and confidence amongst businesses across the continent. This growth could lead to an end of quantitative easing towards the end of 2018.

Total Return of Major Indices as of 12/31/17

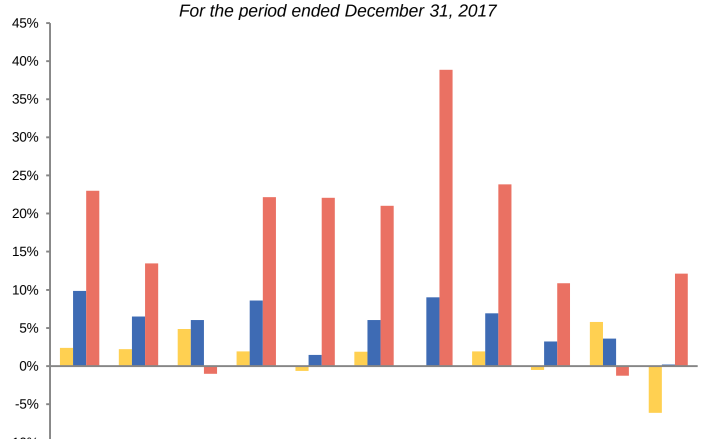
Domestic Equity	MTD	QTD	YTD	1 YR
S&P 500	1.10%	6.64%	21.82%	21.82%
Russell 3000	0.99%	6.33%	21.12%	21.12%
Russell 2000	-0.41%	3.33%	14.63%	14.63%
Russell 1000	1.11%	6.58%	21.68%	21.68%
International Equity	**MTD**	**QTD**	**YTD**	**1 YR**
MSCI ACWI ex US	2.23%	5.00%	27.19%	27.19%
MSCI EAFE	1.61%	4.23%	25.03%	25.03%
MSCI Emerging Markets	3.59%	7.44%	37.28%	37.28%
Fixed Income*	**MTD**	**QTD**	**YTD**	**1 YR**
Barclays Aggregate	0.46%	0.39%	3.54%	3.54%
Barclays Global Agg	0.35%	1.08%	7.39%	7.39%
Barclays US High Yield	0.30%	0.47%	7.50%	7.50%
Alternatives	**MTD**	**QTD**	**YTD**	**1 YR**
FTSE NAREIT Equity	-0.21%	1.51%	5.23%	5.23%
Bloomberg Commodity	2.88%	4.39%	0.75%	0.75%

Economic Indicators

Domestic	Current	Previous
Unemployment Rate (%)	4.1%	4.1%
Initial Jobless Claims (4 week avg)	241.8 K	238.3 K
CB Leading Economic Indicators	0.4	1.2
Capacity Utilization	77.1%	77.0%
GDP (annual growth rate)	3.2%	3.1%
Univ Michigan Consumer Confidence	95.9	98.5
New Home Starts	733 K	624 K
Existing Home Sales	5.8 MM	5.5 MM
Retail Sales (YoY)	5.7%	4.6%
U.S. Durable Goods (MoM)	1.3%	-0.4%
Consumer Price Index (YoY)	2.2%	2.0%
Producer Price Index (MoM)	1.4%	0.2%
Developed International**	**9/30/2017**	**6/30/2017**
Market GDP (ann'l rate)	2.3%	2.2%
Market Unemployment	5.2%	5.3%

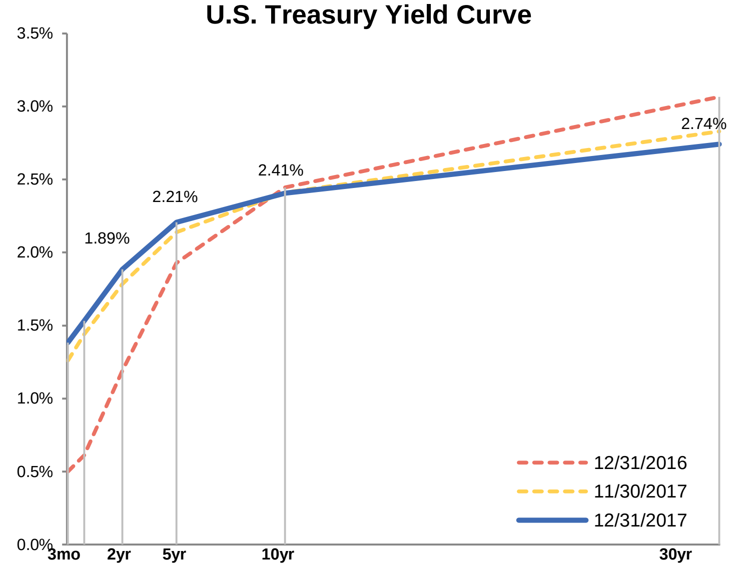
Stock Market Sector Performance (S&P 500)

For the period ended December 31, 2017

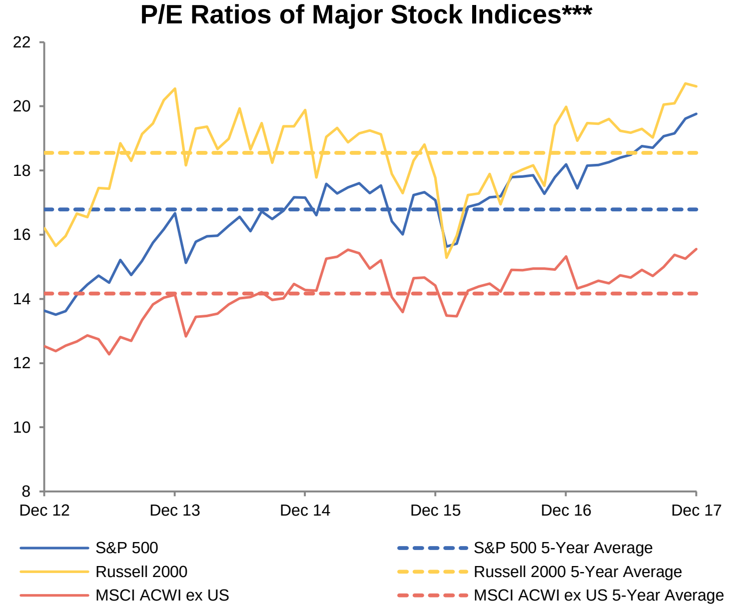


	Cons. Disc.	Cons. Staples	Energy	Financial	H'lthcare	Industrial	Info. Tech	Materials	Real Estate	Telecom	Utilities
MTD	2.41%	2.21%	4.88%	1.92%	-0.65%	1.88%	0.01%	1.94%	-0.50%	5.77%	-6.14%
QTD	9.87%	6.49%	6.02%	8.59%	1.47%	6.03%	9.01%	6.93%	3.22%	3.61%	0.21%
YTD	22.98%	13.49%	-1.01%	22.14%	22.08%	21.01%	38.83%	23.84%	10.85%	-1.25%	12.11%

U.S. Treasury Yield Curve



P/E Ratios of Major Stock Indices***



Source: Bloomberg. Data as of December 31, 2017 unless otherwise noted.

*Effective August 25, 2016, all Barclays fixed income indices were transitioned to Bloomberg and renamed Bloomberg Barclays indices.

**Developed market data is calculated with respect to the weightings in the MSCI World ex-US index. Most current data is as of September 30, 2017 due to release dates of numerous countries.

***P/E ratios are calculated based on 1-year-forward estimates and adjusted to include only positive earning results for consistency.