Independence | Asset Advisors

May 2017 – Market Update & Outlook

“Managing in Mature Markets”

Global Market Returns – May 2017

		May 2017	Year To Date	One Year	Three Years	Five Years
U.S. Large Cap Equities	S&P 500	1.41%	8.66%	17.47%	10.14%	15.42%
U.S Mid Cap Equities	Russell Midcap	0.91%	6.92%	15.86%	8.50%	15.13%
U.S. Small Cap Equities	Russell 2000	(2.03%)	1.48%	20.36%	8.00%	14.04%
International Developed Equities	MSCI EAFE	3.67%	14.01%	16.44%	1.53%	10.21%
Emerging Market equities	MSCI Emerging Markets	2.96%	17.25%	27.41%	1.62%	4.54%
U.S. Taxable Fixed Income	Barclay's U.S. Aggregate	0.77%	2.38%	1.58%	2.53%	2.24%
U.S. Tax-Exempt Fixed Income	Barclay's Municipal Aggregate	1.59%	3.94%	1.46%	3.49%	3.31%
High Yield Fixed Income	Barclay's U.S. Corporate High Yield	0.87%	4.79%	13.58%	4.73%	7.31%
Floating Rate Loans	S&P/LSTA Leveraged Loan	0.37%	1.96%	7.49%	3.57%	4.73%
International Fixed Income	Barclay's Global Aggregate Ex-U.S.	2.19%	6.21%	(0.04%)	(2.01%)	(0.20%)

- Global equity markets moved collectively higher in May as investors focused more on strong "hard data" and less on political headlines.
- The S&P 500 gained 1.4% after a stronger than expected earnings season; three-quarters of U.S. companies beat revenue estimates.
- The U.S. dollar weakened in May for the third consecutive month, as the US Dollar Index fell 2%, favoring non-$U.S. investments.
- International developed equities advanced strongly in May as the Eurozone continued to show signs of improvement.
- Emerging market equities gained nearly 3% in May despite a downgrade of China's sovereign credit rating.
- U.S. bonds rallied alongside stocks, with investment grade taxable and municipal bond indexes gaining 0.8% and 1.6%, respectively. Large foreign funds flows only partially explain lower long-term yields. The bond market is not pricing in an increase in growth and inflation.
- High yield bonds and floating rate loans rose 0.9% and 0.4%, respectively, and continue to offer good protection against rising rates.
- Global non-U.S. bonds have performed well as the U.S. dollar weakened. The trade-weighted $U.S. is trading at pre-election levels.

This Year's Theme…

"Managing in Mature Markets"

1) Adapting to mature economic, credit and equity market cycles.

2) Upgrading strategies, investment advisors and allocations to meet global market risks.

3) Adding new strategies to increase diversification and sources of return.

4) Staying the course and rebalancing into non-U.S. allocation.

Which Market is Right?

Which market is right, stock or bond market?

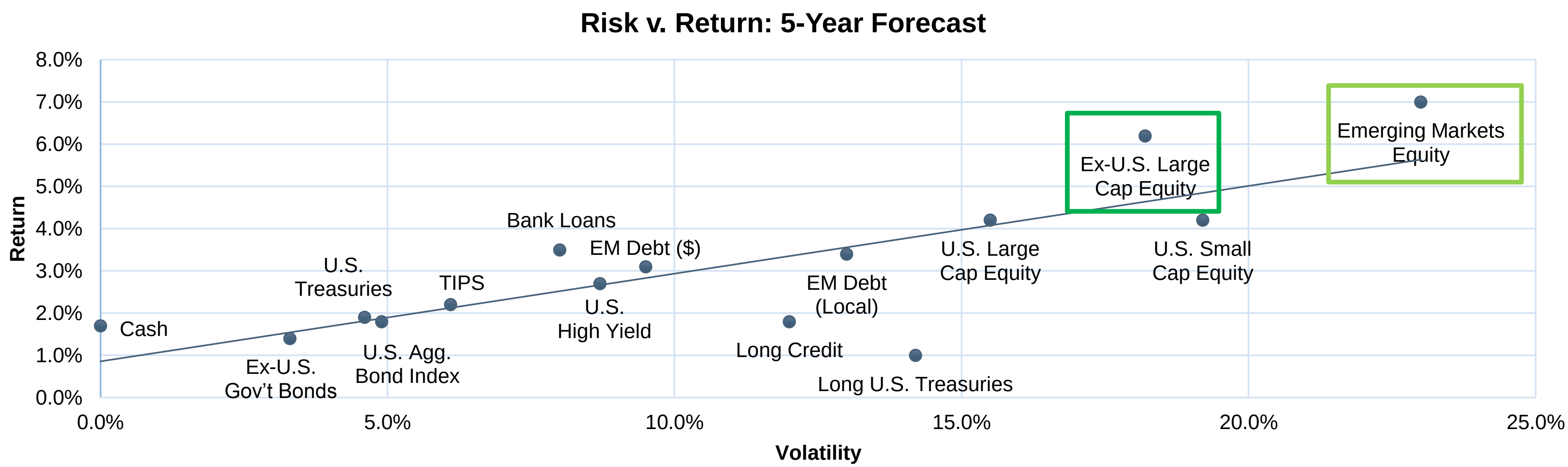
- Despite high consumer confidence, U.S. economic growth data continues to come up below expectations.
- While slow GDP growth in the 1st quarter, revised up to a paltry 1.2% annualized, was thought to be transitory, it has been followed by weak data early in the 2nd quarter.
- But U.S. stocks keep hitting record highs with high valuations.
- The U.S. bond market, with a 10-Year Treasury at 2.2%, is not pricing in higher growth or inflation.

Connecting the Dots

- Weaker economic data combined with high U.S. equity valuations and low interest rates suggests a cautious approach to investing.
- While still relatively attractive compared to fixed income, U.S. equity valuations look stretched.
- Stronger European economic data, more attractive equity valuations and optimistic earnings growth make EAFE & Europe more attractive than U.S. markets.
- As indicated in the Risk/Return chart that follows, assets look priced to provide below average returns going forward, but some look better than others.

Global Market Outlook – 2H 2017

Asset Class	View	Tailwinds	Headwinds
U.S. Equity		Healthy growth, moderating inflation, full employment.	Suspicion over certainty of proposed stimulus/reform.
Europe ex.-UK Equity		Improving fundamentals, attractive valuations, ECB support	Political risk remains impactful
EM Equity		Weaker U.S. dollar has driven return and fund flows	China's growth outlook is uncertain, U.S. trade critical
REIT Equity		Full employment and higher wages should drive growth	Rising interest rates and recent retail bankruptcies
Midstream MLP		High income, better coverage ratios, room to run	Oil price volatility, infrastructure regulation, headline risk
U.S. Treasuries		Higher yields expected, low volatility	Appear overvalued, Fed policy dependent
IG U.S. Bonds		Low default risk, low volatility, ample new issuance	Underwhelming yields, bonds trading at premium to par
HY U.S. Bonds		Low default risk, improving fundamentals, spread pickup	Repricing, bonds trading at a premium to par



Source: BlackRock Five Year Return Forecast – May 2017