Market Commentary
Q3 2017

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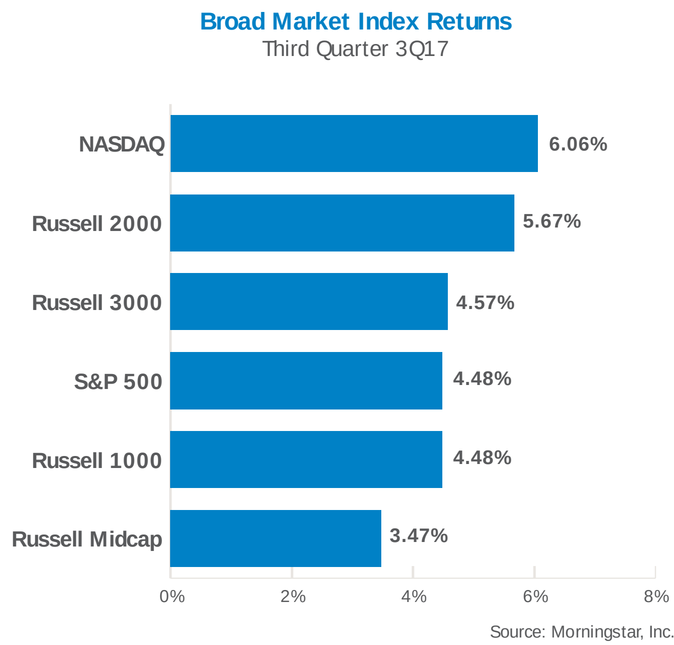
Summer doldrums in the market did not occur this year as the market's 2017 increase continued through the third quarter. As we've seen though the year most all areas of the market were up over the summer. International stocks performed in line with the U.S. markets for the quarter, but are outpacing domestic equities for the year. Bonds also posted positive total returns for the quarter. Volatility continued to remain low. All in all it was a very nice quarter.

The Economy



The US economy continues on a solid growth trajectory, despite the negative short-term impacts of Hurricanes Harvey and Irma, the continued uncertainty over various policy initiatives in Congress, and the nuclear brinksmanship with North Korea. The Bureau of Economic Analysis reported its third estimate of second quarter 2017 gross domestic product (GDP) of +3.1%, up slightly from the prior estimate, and also higher than the first quarter's +1.2% reading. The employment situation improved over the prior quarter, with an average of approximately 185,000 jobs added each month. At the same time, the unemployment rate ticked up to 4.4%. The Federal Open Market Committee (FOMC) kept its interest rate policy unchanged, with a fed funds rate target range of 1.00% - 1.25%. However, the FOMC announced that it would begin the process of normalizing its balance sheet in October by not replacing maturing securities.

The global economic environment is picking up steam, as many regions of the world are experiencing accelerating growth. The Eurozone economy grew at a 2.2% annual rate in the second quarter, which follows a strong showing in the first quarter. A surge in exports was the primary driver of the region's growth. Asian economies have experienced mixed results, with China producing adequate growth, but emerging economies in the region not faring as well. Economists are forecasting that China should generate 6.7% GDP growth for

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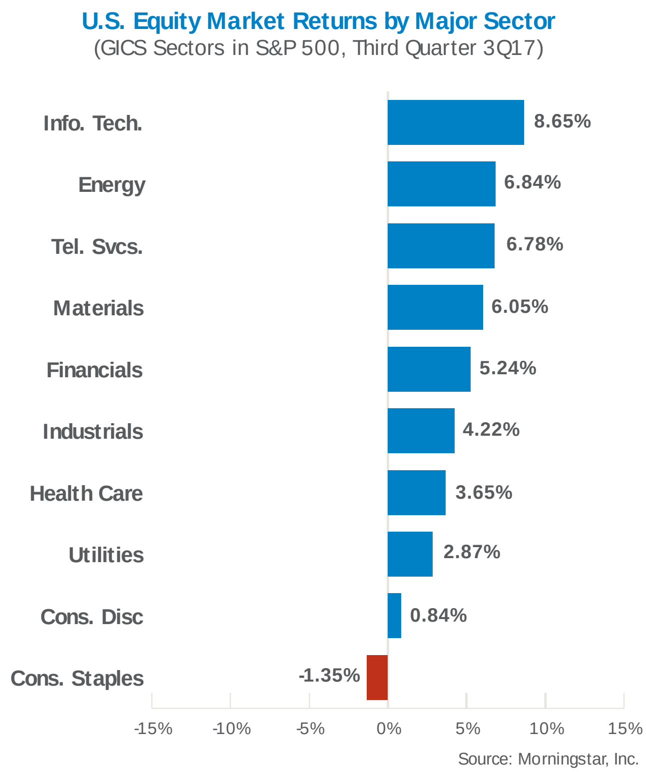
2017. Latin American economies such as Brazil and Peru are beginning to accelerate, and inflation remains under control.

Highlights

GDP

The Bureau of Economic Analysis released the third estimate of the second-quarter 2017 real GDP, a seasonally adjusted annualized rate of +3.1%, up from the first quarter's +1.2% annualized growth, and also up slightly from the +3.0% prior estimate. Economists were buoyed by the results, which demonstrate the economy continues to post steady, albeit unremarkable, growth. Consumer spending was a key driver of growth during the quarter, and fixed investment and trade also contributed positively. Inflation remained in check in the quarter, with the personal consumption expenditures (PCE) index of prices rising +0.3%, following a +2.2% advance in the prior quarter. Corporate profits rose +0.7% (not annualized) during the quarter. Economists generally believe the current growth trend for the remainder of this year and next, despite a possible short-term hurricane-related setback.



HOUSING

The housing segment, while slowing somewhat, continues to produce gains strong enough to cause analysts to maintain a cautiously optimistic outlook. Existing home sales for August (the latest monthly data available) grew at an annualized rate of 5.4 million units, a decrease of about -1.7% from the 5.44 million-unit-rate reached in July, and down -4.8% from May 2017. The inventory of existing homes was slightly more than four months of supply, down modestly from year-ago levels. Existing home prices in August were

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down -8.8% from July, and have dropped -5.6% from August 2016. In the new-home segment, the NAHB Housing Market Index, a measure of homebuilding activity, ended the quarter at a level of 64, below the level of both the prior month and the level in May. Economists point out that the slowdown is in part due to Hurricanes Harvey and Irma, and the housing segment should accelerate once rebuilding begins in earnest.

EMPLOYMENT

The employment situation eased somewhat in August from the prior two months' solid growth. Employers added 156,000 jobs during the month, below the consensus expectations of 185,000 new jobs, and also falling short of the prior month's gain of 189,000. Despite the drop in August, the three-month moving average rose slightly, coming in at 185,000. The unemployment rate in August was 4.4%, a slight increase from the prior month. Average hourly earnings increased by a modest +0.1% in August, and have risen +2.5% in the past 12 months. Economists expect a continuation of steady job growth increases, perhaps with an interruption resulting from the effects of the hurricanes.

FED POLICY

The FOMC ended its recent September meeting by announcing, in a widely expected move, that it would be moving from a posture of quantitative easing to one of quantitative tightening. The process of reducing its balance sheet will begin in October, with a cap on maturing Treasury's rolling off the balance sheet initially set at $6 billion per month, and the cap on mortgage securities set at $4 billion per month. The Committee kept interest rate policy unchanged, with the federal funds rate target range remaining at 1.00% - 1.25%. In its statement, the Committee indicated that the hurricanes would cause some short-term slowing of activity, but should have little or no impact over the intermediate term. Inflation is expected to hover around the FOMC's equilibrium target of 2%.

Interest Rates

Fixed income securities' prices continued to be affected by several important factors, including the FOMC's widely anticipated decision to begin reducing its balance sheet; a steadily improving economy; rising stock prices; the threat on the Korean peninsula; and an environment of partisan bickering in Washington. Although the FOMC left its interest rate policy unchanged this quarter, it did announce that it would begin the process of unwinding its balance sheet in October. Because the move has been widely anticipated, the formal announcement ultimately had little impact on bond prices. Even though there was some volatility in prices within the quarter, prices and yields ended September at approximately the same levels as in June.

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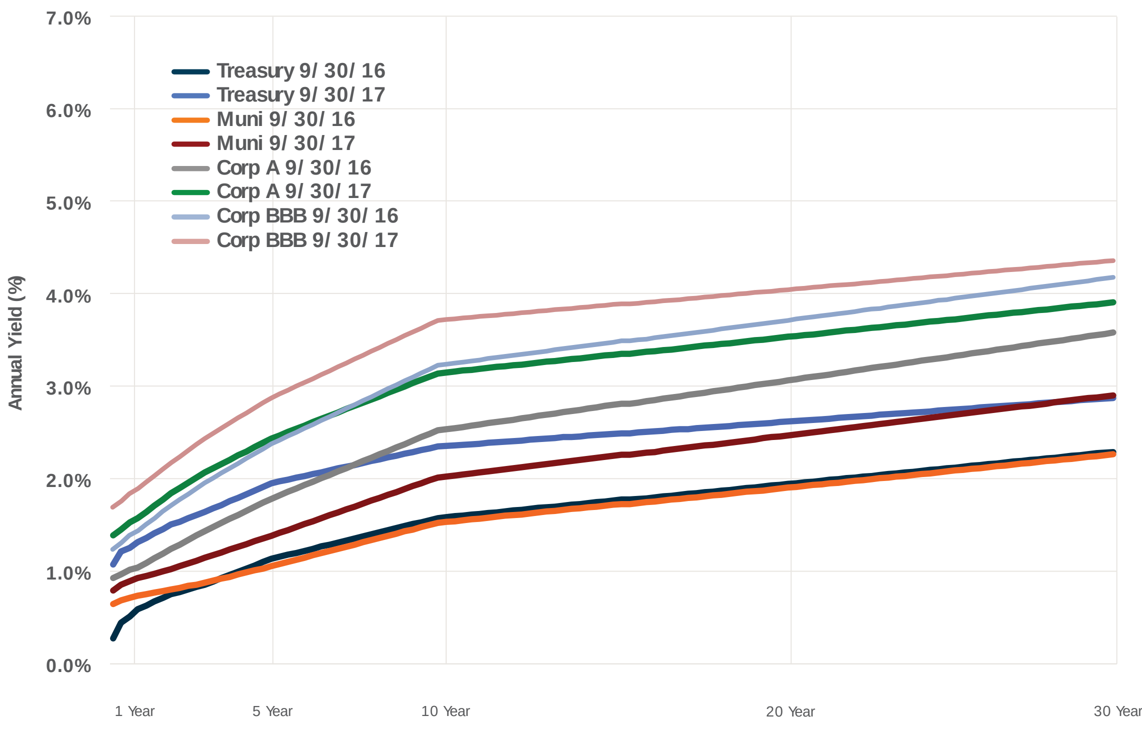
U.S. Treasury, Muni, and Corporate 30-Year Yield Curves



Source: Bloomberg

The shape of the Treasury yield curve flattened modestly in the quarter, but on balance was little changed. Yields on short- to intermediate-term maturities edged slightly higher, while those on long-term issues were substantially unchanged. By the end of the quarter, the yield on the benchmark 10-year U.S. Treasury Note was marginally higher, ending the quarter at 2.33%, compared to 2.31% on June 30.

As with the previous quarter, while there was some volatility in yields surrounding the back-and-forth with North Korea, yield changes during the quarter were minimal, as the yield on the 10-year Treasury Note traded within a 33-basis-point range. In addition to the situation surrounding North Korea, other factors contributing to the yield changes were the FOMC's decision to move ahead with reducing the size of its balance sheet and the expectation for Congress to enact some form of tax reform. Inflation expectations inched higher, with the Fed's gauge of five-year forward inflation expectations rising slightly from its 1.75% level of June 30.

Fixed income securities delivered positive total returns in most market segments. The Bloomberg Barclays Treasury 5-7 Yr. Index gained +0.5% for the quarter, and is up +2.4% year-to-date. The Bloomberg Barclays U.S. Corporate 5-10 Yr. Index advanced +1.4% during the three months. High yield securities, which often

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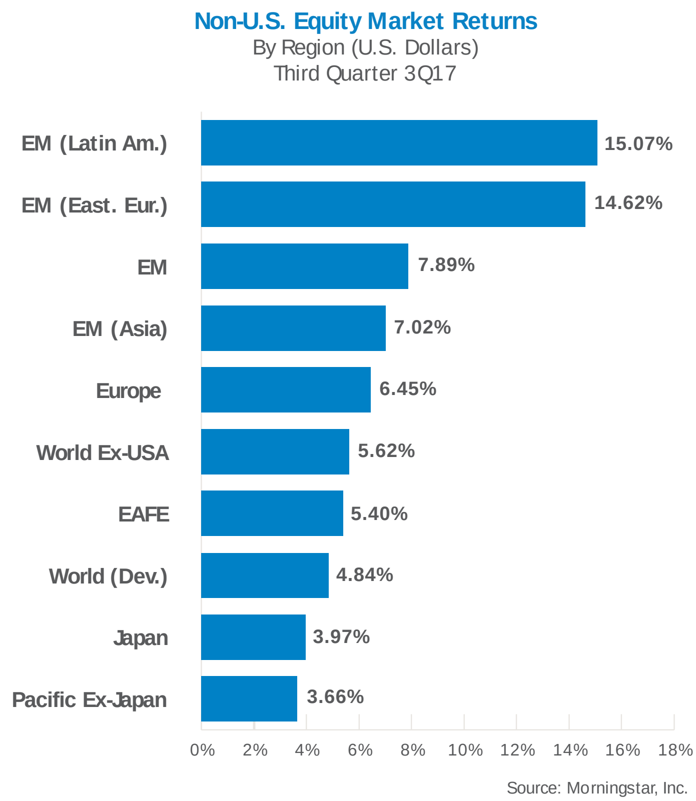
follow the performance of equities, posted a gain of +2.0%; the asset class has gained +7.0% on a year-to-date basis. Municipals were also positive, as the Bloomberg Barclays Municipal Bond Index rose by +1.1% during the quarter. Prices of non-US fixed income securities generated sharp gains in the quarter, as the Bloomberg Barclays Global Aggregate ex-U.S. Index advanced +2.5%. Emerging markets bonds continued to benefit from improving global economic conditions, with the JPM EMBI Global Index rising +2.4%.

Equity Markets

Equity markets also continued their march higher in the quarter, tacking on to the strong returns of the past 11 months since the presidential election. Continuing to drive returns during the quarter were steadily improving economic data, accelerating corporate profitability, and anticipation of a tax reform package that would include material tax cuts. These factors contributed to the ongoing low volatility financial market landscape, with the Chicago Board Options Exchange Volatility Index—better known as VIX—remaining at historically low levels. Within this context, the S&P 500 Index finished the quarter with a gain of +4.5%. The index is now up +14.2% year-to-date.



The ten primary economic sectors each generated positive returns, with only one exception. Information Technology, Energy, and Telecommunications Services were the strongest performers, generating gains of +8.7%, +6.8%, and +6.8%, respectively. The Consumer Staples, Consumer Discretionary, and Utilities sectors were the poorest relative performers, posting returns of -1.4%, +0.8%, and +2.9%, respectively.

The Russell 1000 Index of large capitalization stocks generated a +4.5% total return, and is up +14.2% on a year-to-date basis. Within the large cap segment, growth stocks once again outperformed value stocks. Small cap stocks, as represented by the Russell 2000 Index, outperformed large caps, finishing the quarter with a

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total return of +5.7%. Small cap growth outperformed small cap value, with the outperformance now amounting to more than 10% year-to-date. The Nasdaq Composite, dominated by information technology stocks, finished the quarter with a gain of +6.1%, and is now up +21.7% in 2017. The Dow Jones Industrial Average of 30 large industrial companies advanced +5.6%.

Real Estate Investment Trusts (REITs) were little changed during the quarter, with the DJ US Select REIT Index gaining +0.4%. Commodities rebounded, with the Bloomberg Commodity Index gaining +2.5%.

International stocks performed in line with US equities, on balance. European economies continued their resurgence, after several years of sub-par results. In addition, China's growth has held steady, even as the country goes through a process of structural reforms. With that as a backdrop, international stock indices were almost universally higher. The MSCI ACWI ex-USA Index, which measures performance of world markets outside the US, gained +6.2%. The MSCI EAFE Index of developed markets stocks advanced +5.4%, and is now up +20.0% in 2017. Regional performance was also strongly positive. Latin America was the strongest performer on a relative basis, with the MSCI EM Latin America Index posting a return of +15.1%. Eastern Europe and China also delivered outsize returns, with gains of +14.6% and +14.7%, respectively. Japan was the poorest performer on a relative basis, but still delivered a +4.0% return. Emerging markets performance continued to be solid, as the MSCI Emerging Markets Index jumped +7.9%, and is now up +27.8% year-to-date.

Looking Forward

Despite bitter divisions in Washington, flashpoints in North Korea and Iran, and a devastating hurricane season, the US economy continues to churn ahead. It remains the third-longest economic expansion on record, and the consensus among economists is that there is little on the horizon to indicate its steady path will face obstacles in the near term. Expectations for tax reform are high, and rising corporate profitability is providing justification for record stock prices. Interest rates remain low, inflation continues to be benign, and the subdued market reaction to the FOMC's initiation of balance sheet normalization have combined to create a low volatility environment. Unlike the past several years, the global environment is now contributing positively, with the Eurozone picking up steam, and other regions enjoying a positive outlook. In spite of the seeming "Goldilocks" environment, risks do remain. As mentioned last quarter, with the market at all-time highs, volatility at historic lows, and valuations extended (at least in the eyes of some market analysts), stock prices could be susceptible to an unforeseen outcome, either on the policy side or on the earnings front. In

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addition, if tensions with North Korea go beyond mere rhetoric, volatility is likely to spike, and stock prices may suffer a setback. But on balance, investors have reason to be cautiously optimistic.

No question, it has been a great year for the market, but things can change quickly and at some point they will change. The market goes both up and down. If you have any upcoming cash needs that we are not aware of or if you have any concerns regarding your portfolio or feel your asset allocation is no longer appropriate please be sure to contact us. As we've mentioned in previous reports we believe it is important to have such conversations and shore up client cash if needed when the market is up.