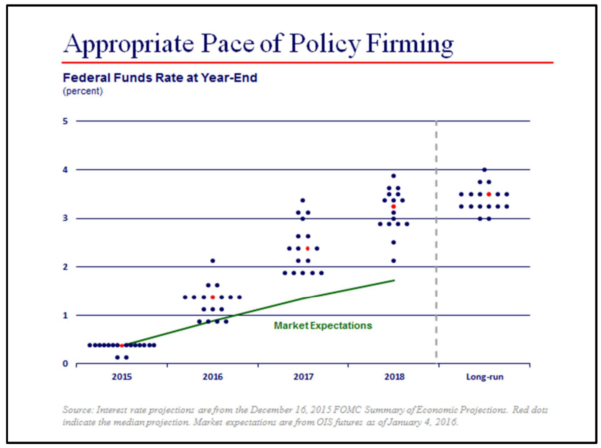
NORTHVIEW ASSET MANAGEMENT

# Fourth Quarter 2015 Market Review

January 2016

## Economic Summary

**Federal Open Market Committee (FOMC)**
After seven years of near-zero interest rates, the FOMC raised its target rate for federal funds by 25bps at its December meeting. In addition, the FOMC maintained its reinvestment program, which will keep its balance sheet at existing levels for the foreseeable future.




With the December announcement, the Fed has embarked on what most analysts believe will be a gradual unwinding of the easy-money experiment it adopted to counter the Great Recession. Current expectations are for the FOMC to implement 25 basis point increases at alternate meetings in 2016, for a total of four rate hikes. The FOMC stated that future rate hikes will be "data-dependent", meaning it has no pre-determined timeline for increasing interest rates.

As indicted by the chart at the right, Fed members median projection for the federal funds at the end of 2016 is 1.375%.

**Real Gross Domestic Product (GDP)**
Real GDP measures the value of all goods and services produced by the nation's economy. It consists of four major categories: personal consumption, private investment, government spending and net exports.

Real GDP increased at an annual rate of +0.7% in the fourth quarter, according to the "advance" estimate released by the Bureau of Economic Analysis. This follows a revised growth rate of +2.0% in the third quarter. The results affirmed the sluggish manufacturing data published during the quarter. On a positive note, consumer spending remains resilient.

| Data as of December 31, 2015 | | | |
|---|---|---|---|
| **Economic Growth** | **4Q15** | **3Q15** | **2Q15** |
| **Real GDP** [(1)] | **0.7%** | **2.0%** | **3.9%** |
| **Personal Consumption** [(2)] | **1.5%** | **2.0%** | **2.4%** |
| *Goods* [(2)] | *0.5%* | *1.1%* | *1.2%* |
| *Services* [(2)] | *0.9%* | *1.0%* | *1.2%* |
| **Private Investment** [(2)] | **-0.4%** | **-0.1%** | **0.9%** |
| *Nonresidential* [(2)] | *-0.2%* | *0.3%* | *0.5%* |
| *Residential* [(2)] | *0.3%* | *0.3%* | *0.3%* |
| *Inventories* [(2)] | *-0.5%* | *-0.7%* | *0.0%* |
| **Government** [(2)] | **0.1%** | **0.3%** | **0.5%** |
| *Federal* [(2)] | *0.2%* | *0.0%* | *0.0%* |
| *State* [(2)] | *-0.1%* | *0.3%* | *0.5%* |
| **Net Exports** [(2)] | **-0.5%** | **-0.3%** | **0.2%** |
| *Exports* [(2)] | *-0.3%* | *0.1%* | *0.6%* |
| *Imports* [(2)] | *-0.2%* | *-0.4%* | *-0.4%* |

[(1)] Annualized Q/Q % Change, [(2)] Contribution to GDP Growth

The slight increase in real GDP in the fourth quarter primarily reflected positive contributions from personal consumption expenditures on goods and services, residential fixed investment, and federal government spending that were partially offset by negative contributions from private inventory investment, exports, and nonresidential fixed investment. Imports, which are a subtraction in the calculation of GDP, increased.

We anticipate 2.0% to 2.5% GDP growth in the coming quarters as labor gains and reduced energy costs support sustained consumer spending.

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### Inflation

The table at the right illustrates the annualized (YoY) change in the unadjusted Consumer Price Index (CPI) at the headline and core level. Also included are the eight subcomponents of Headline CPI and the two subcomponents (food and energy) removed from Headline CPI to calculate Core CPI. The Energy subcomponent is a collection of sub-indexes in Housing and Transportation.

| Data as of December 31, 2015 | | | | |
|---|---|---|---|---|
| **Inflation** | **Weight** | **YoY 12/15** | **YoY 9/15** | **YoY 6/15** |
| **Headline CPI** | **100%** | **0.7%** | **0.0%** | **0.1%** |
| Housing | 42% | 2.1% | 2.1% | 2.0% |
| Food/Beverage | 15% | 0.8% | 1.6% | 1.7% |
| Transportation | 15% | -4.1% | -8.7% | -7.0% |
| Medical Care | 8% | 2.6% | 2.5% | 2.5% |
| Education | 7% | 1.4% | 0.5% | 0.1% |
| Recreation | 6% | 0.7% | 0.6% | 0.3% |
| Apparel | 3% | -0.9% | -1.4% | -1.8% |
| Other | 4% | 1.9% | 1.8% | 1.7% |
| **Core CPI** | **77%** | **2.1%** | **1.9%** | **1.8%** |
| Food/Beverage | 15% | 0.8% | 1.6% | 1.7% |
| Energy | 8% | -12.6% | -18.4% | -15.0% |

Underlying inflation pressures began to show strength during the quarter despite stubbornly low energy prices and a stronger dollar. Headline CPI increased +0.7% on a year-over-year basis at year-end. The 12.6% decline in energy prices has been masking the inflationary pressures from other subcomponents of Headline CPI. Inflation is expected to increase in 2016 as the effects of last year's sharp drop in energy prices are now reflected in the denominator of the year-over-year calculation.

When making decisions on monetary policy, the Fed is more concerned with the less volatile Core CPI, which excludes food and energy. Core CPI increased +2.1% for the 12 months ending December, marking the largest annual gain since May 2014, and now sits at the Fed's target range of +2.0%.

### Business

The Conference Board's Leading Economic Index (LEI) decreased -0.2% in December to 123.7 following a +0.5% increase in both October and November. Despite the slight decline in the LEI, in the six-month period ending December, the leading economic index increased +0.7%, slower than its growth of +2.0% over the previous six months. The index suggests moderate growth in the near-term despite the economy losing some momentum at the end of 2015. While the LEI's growth rate has been on the decline, it's too early to interpret this as a substantial rise in the risk of recession.

| Data as of December 31, 2015 | | | |
|---|---|---|---|
| **Key Business Indicators** | **12/15** | **11/15** | **10/15** |
| Leading Economic Index | 123.7 | 123.9 | 123.3 |
| Leading Economic Index (3) | -0.2% | 0.5% | 0.5% |
| Durable Goods Orders | -5.1% | -0.5% | 2.8% |
| ISM Manufacturing | 48.2 | 48.6 | 50.1 |
| ISM Service | 55.3 | 55.9 | 59.1 |

(3) M/M % Change

According to the Institute for Supply Management (ISM) Manufacturing Report on Business, economic activity in the manufacturing sector contracted in both November and December. The Purchasing Manager's Index (PMI) ended December with a reading of 48.2%. While a reading below 50.0 in the overall index denotes contraction, the ISM stipulates that a reading above 43.1, over a period of time, generally indicates an expansion in overall economic activity.

The Non-manufacturing ISM Report on Business indicated economic activity in the non-manufacturing sector grew in December for the 71st consecutive month. The Non-manufacturing Index (NMI) ended December with a reading of 55.3%. *(A reading above 50% indicates that the non-manufacturing economy is generally expanding and a reading below 50% indicates that it is generally contracting.)*

### Consumer

The Conference Board's Consumer Confidence Index declined to 96.3 in December from 103.0 in September. Consumers' assessment of the current state of the economy remains guardedly optimistic as they are expecting little change in business conditions and the labor market.

| Data as of December 31, 2015 | | | |
|---|---|---|---|
| **Key Consumer Indicators** | **12/15** | **11/15** | **10/15** |
| Consumer Confidence | 96.3 | 92.6 | 99.1 |
| Auto Sales (4) | 17.2 | 18.1 | 18.1 |
| Retail Sales (3) | -0.1% | 0.4% | 0.0% |

(3) M/M % Change, (4) Monthly Seasonally Adjusted Annual Rate in Millions

Total fourth quarter retail sales increased +2.2% from the same period a year ago and +0.2% from the third quarter. Consumers spending accounts for approximately 68% of U.S GDP and although consumers have contributed to recent GPD gains, future growth depends on their continued spending.



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## Housing

The recovery in home sales and new home construction remains modest according to housing market data released during the fourth quarter. Housing starts in December came in at an annualized rate of 1.15 million units, down -2.5% from November but up +6.4% from December 2014. Housing permits in December came in at an annualized rate of 1.20 million units, down -6.1% from November but up +11.8% from December 2014.

| Data as of December 31, 2015 | | | |
|---|---|---|---|
| **Key Housing Indicators** | **12/15** | **11/15** | **10/15** |
| Housing Starts (5) | 1,149 | 1,179 | 1,071 |
| Building Permits (5) | 1,204 | 1,282 | 1,161 |
| New Home Sales (5) | 544 | 491 | 482 |
| Existing Home Sales (5) | 5,460 | 4,760 | 5,320 |

(5) Monthly Seasonally Adjusted Annual Rate in Thousands

Existing-home sales data remains positive with December sales advancing at an annualized rate of 5.46 million units, up +14.7% from November and up +7.7% from December 2014. The combined effect of rising demand and limited supply helped maintain the national median sales price near its all-time high of $236,300.

The housing industry is in its best shape in years. Even if higher interest rates dampen future growth, the underlying strength should allow the housing recovery to continue well into 2016.

## Employment

Total nonfarm employment rose by 292,000 in December, well ahead of the average monthly gains of 214,000 recorded in January to November 2015 and 260,000 during 2014. During the quarter, job gains occurred in professional and business services, construction, health care and retail trade.

As a result, the unemployment rate in December declined to 5.0% from September's 5.1%. The labor force participation rate ticked up during the quarter, with a December reading of 62.6%.

| Data as of December 31, 2015 | | | |
|---|---|---|---|
| **Key Labor Indicators** | **12/15** | **11/15** | **10/15** |
| Unemployment Claims (6) | 277 | 273 | 271 |
| Nonfarm Payrolls (7) | 292 | 252 | 307 |
| Unemployment Rate | 5.0% | 5.0% | 5.0% |
| Under-employment Rate | 9.9% | 9.9% | 9.8% |
| Labor Force Participation Rate | 62.6% | 62.5% | 62.5% |

(6) Four Week Moving Average in Thousands, (7) Month over Month Change In Thousands

More importantly, the tightening labor market has resulted in long-awaited signs of wage growth. Average hourly earnings increased 2.5% over the past 12 months.

## The view forward

***Overall, the domestic economy turned in a solid performance in 2015. And in our opinion, the prospects for 2016 appear favorable based on positive trends in consumer spending, job gains, wage growth, housing and inflation. We expect the U.S. economy to grow at annualized rate of +2.0% to +2.5% in 2016 due in large part to continued low energy prices and lower unemployment, a combination that produces stronger consumer purchasing power. We expect inflation to become a topic in the latter half of 2016 as a tighter labor market results in continued wage gains.***

***The global economy wasn't quite as strong as it was domestically in 2015, but analysts expect it to strengthen in 2016. Emerging markets economies suffered from the plunge in commodity prices, which was keyed by a slowdown in demand from China and a rising U.S. dollar. Analysts expect a modest recovery for commodities, including the energy sector, in 2016.***


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## Equity Summary

**Stocks post broad-based gains**
The S&P 500 recorded a solid gain in the final quarter of the year, helping reverse the previous quarter's slide and pushing the benchmark index back into positive territory for the year. Most of the rebound occurred in the first month of the quarter, however, and stocks were volatile in the closing weeks of the year as terrorist attacks, geopolitical instability, and uncertainty over monetary policies took tolls on market sentiment.

For the quarter, the S&P 500 was up +7.0% while the return for the year was +1.4%. This marks the lowest annual return in the S&P 500 since 2008.

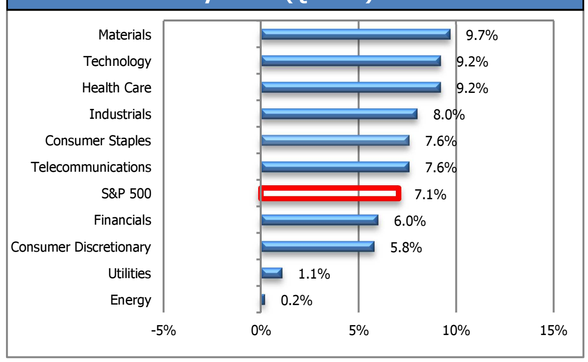
| Domestic Equity | Total Return December 31, 2015 | | | |
|---|---|---|---|---|
| | QTD | YTD | 2014 | 2013 |
| **Major Indices** | | | | |
| DJIA | 7.7% | 0.2% | 10.0% | 29.7% |
| S&P 500 | 7.0% | 1.4% | 13.7% | 32.4% |
| Nasdaq | 8.8% | 7.1% | 14.7% | 40.2% |
| **Market Cap** | | | | |
| Large [1] | 6.5% | 0.9% | 13.3% | 33.1% |
| Mid [2] | 3.6% | -2.5% | 13.2% | 34.8% |
| Small [3] | 3.6% | -4.4% | 4.9% | 38.8% |
| **Style (Growth)** | | | | |
| Large | 7.3% | 5.7% | 13.1% | 33.5% |
| Mid | 4.1% | -0.2% | 11.9% | 35.8% |
| Small | 4.3% | -1.4% | 5.6% | 43.3% |
| **Style (Value)** | | | | |
| Large | 5.5% | -3.8% | 13.5% | 32.5% |
| Mid | 3.1% | -4.8% | 14.8% | 33.5% |
| Small | 2.9% | -7.5% | 4.2% | 34.5% |

[1] Russell 1000, [2] Russell Midcap, [3] Russell 2000

**Market Cap and Style**
During the quarter, large-cap stocks gained +6.5% while mid-cap and small-cap stocks each gained +3.6%. Growth stocks outperformed value stocks across the each market cap.

Year-to-date, large-cap was the lone positively returning market cap category and large-cap growth was the lone positively returning style category.

**S&P 500 Returns by Sector (Quarter)**




**Sectors**
Once again, the ten economic sectors in the S&P 500 index generated significant differences in performance during the quarter. Materials, healthcare and information technology were the strongest performers, delivering gains of +9.7%, +9.2% and +9.2%, respectively. The energy and utilities sectors were the weakest performers, posting gains of +0.2% and +1.1%, respectively.

Year-to-date, the consumer discretionary sector was the top performer up +10.1%. This is encouraging since the consumer is responsible for approximately 68% of U.S. GDP. Energy and materials stocks, which are closely tied to Chinese demand for commodities, performed worst within the S&P 500 Index, declining -21.1% and -8.4%, respectively.

**Corporate revenue and earnings**
According to FactSet, 55% of companies in the S&P 500 reported revenue above estimates in the third quarter and 74% of companies reported earnings above estimates. Third quarter revenue growth came in at -3.9% compared to -3.4% in the second quarter. Third quarter earnings growth came in at -1.5% compared to -0.7% in the second quarter. Fourth quarter projected revenue decline is -3.2% and projected earnings decline is -4.7%.

**Still watching earnings**
Our outlook for U.S. equities is currently neutral. Corporate earnings are being pressured by the strong U.S. dollar, signs of wage growth, and the recent increase in interest rates. Volatility is likely as price/earnings (P/E) multiples are trending above their ten year average while earnings are trending below their ten year average. We believe stock market returns will continue to be driven by corporate earnings growth and dividends.

**The view forward**
***In the current environment we are currently a hold on equities and will look to add equity exposure when credit spreads stabilize and the equity indices move back into the range of their average P/E multiple over the past 5 and 10-years.***



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## Taxable Bond Summary

**Treasury yields increase**
After seven years of near-zero interest rates, the FOMC raised its target rate for federal funds by 25bps at its December meeting. As a result, yields were higher across all maturities on the treasury yield curve. The treasury curve also flattened as short term rates increased more than longer term rates. The yield on the benchmark 10-year Treasury increased 21 basis points to 2.27% and the yield on the 30-year Treasury increased 14 basis points to 3.01%.

| U.S. Treasury Yield Curve (%) | | | | |
|---|---|---|---|---|
| | Dec15 | Sep15 | Dec14 | Dec13 |
| 6 Month | 0.49% | 0.08% | 0.12% | 0.10% |
| 2 Year | 1.06% | 0.64% | 0.67% | 0.38% |
| 5 Year | 1.76% | 1.37% | 1.65% | 1.75% |
| 10 Year | 2.27% | 2.06% | 2.17% | 3.04% |
| 30 Year | 3.01% | 2.87% | 2.75% | 3.96% |

Globally, the yield on the 10-year U.S. Treasury bond continues to look attractive to foreign investors when compared to the 10-year government bonds in Germany (+0.6%), Japan (+0.3%) and the U.K. (+2.0%).

**Taxable bonds post negative returns**
The Barclays Aggregate Bond Index ended the year with a meager return +0.6% after posting a -0.6% loss in the fourth quarter.

Within the Barclays Aggregate Index, the securitized sector was the top performer this quarter posting a loss of -0.2%. The FOMC's statement in December that they will continue to reinvest principal payments from its holdings of mortgage-backed securities provided support for the mortgage-backed market. Within the corporate sector, the financial subcomponent was the overall top performer in the index with a gain of +0.1% for the quarter as higher interest rates allow financial institutions to charge higher rates on loans.

High yield corporate bonds declined sharply as investors continued to express concern that slowing economic growth in China will dampen global demand for energy and commodities. The energy sector issuers account for a substantial proportion of the high yield index. For the quarter, the high yield index lost -2.1%.

| Domestic Taxable Bonds | Returns as of December 31, 2015 | | | |
|---|---|---|---|---|
| | QTD | YTD | 2014 | 2013 |
| **Index** | | | | |
| Barclays Aggregate | -0.6% | 0.6% | 6.0% | -2.0% |
| **Sectors** | | | | |
| Treasury | -0.9% | 0.8% | 5.1% | -2.8% |
| Agency | -0.7% | -0.4% | 3.7% | -1.6% |
| Corporate | -0.6% | -0.7% | 7.5% | -1.5% |
| Securitized | -0.2% | 1.5% | 5.9% | -1.3% |
| **Quality** | | | | |
| Aaa | -0.6% | 1.1% | 5.3% | -2.1% |
| Aa | -0.1% | 1.0% | 6.1% | -2.0% |
| A | -0.1% | 0.5% | 7.5% | -1.9% |
| Baa | -1.0% | -2.7% | 8.2% | -2.0% |
| < Baa | -2.1% | -4.5% | 2.5% | 7.4% |
| **Maturity** | | | | |
| Short (1) | -0.4% | 0.7% | 0.8% | 0.6% |
| Intermediate (2) | -0.5% | 1.2% | 5.0% | -1.6% |
| Long (3) | -0.9% | -3.3% | 17.7% | -8.6% |

(1) Short 1-3 Years, (2) Intermediate 5-7 Years, (3) Long 10+ Years

Credit spreads measure the additional yield above that of a comparable-maturity Treasury security that investors demand for holding a bond with credit risk. During the quarter, credit spreads narrowed by -4 basis points on corporate bonds and -6 basis points on securitized bonds while credit spreads widened by +30 basis points on high yield debt bonds.

Long maturity bonds underperformed both short and intermediate term bonds during the quarter.

**New issue activity continues to slow**
Investment grade and high yield bond issuance continued to slow in the fourth quarter. In all, the issuers brought $261 billion in new investment grade issues, $36 billion in new high yield issues and $380 billion in new issue mortgage-backed securities during the quarter.

**The view forward**
***We continue to underweight Treasury and Agency bonds in favor of Corporate and Securitized bonds. As market conditions allow, and as appropriate for each client, we will shorten duration, improve credit quality and increase coupons in anticipation of gradually rising interest rates in 2016.***



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## Municipal Bond Summary

| Domestic Municipal Bonds | Returns as of December 31, 2015 | | | |
|---|---|---|---|---|
| | QTD | YTD | 2014 | 2013 |
| **Index** | | | | |
| Barclays Muni Bond | 1.5% | 3.3% | 9.0% | -2.6% |
| **Bond Type** | | | | |
| General Obligation | 1.4% | 3.1% | 7.8% | -2.3% |
| Revenue | 1.7% | 3.6% | 10.1% | -2.9% |
| **Largest Issuers** | | | | |
| California | 1.5% | 3.5% | 10.0% | -1.8% |
| Florida | 1.3% | 3.6% | 8.8% | -1.5% |
| Illinois | 2.5% | 2.4% | 10.4% | -3.0% |
| New York | 1.4% | 3.4% | 8.6% | -2.2% |
| Texas | 1.6% | 3.5% | 9.4% | -2.1% |
| **Quality** | | | | |
| Aaa | 1.1% | 2.7% | 6.3% | -1.6% |
| Aa | 1.3% | 3.2% | 8.2% | -2.1% |
| A | 2.0% | 3.7% | 10.5% | -2.6% |
| Baa | 2.4% | 4.2% | 14.5% | -7.2% |
| <Baa | 1.8% | 1.8% | 13.9% | -5.5% |
| **Maturity** | | | | |
| Short | 0.0% | 1.2% | 1.2% | 1.3% |
| Intermediate | 1.3% | 3.3% | 6.1% | -1.0% |
| Long | 1.6% | 3.8% | 8.7% | -2.2% |

(1) Short 3 Years, (2) Intermediate 6-8 Years, (3) Long 8-12 Years

**Municipal bonds rally**
Aided by limited new issuance and strong demand, and insulated from the volatility of international markets and falling commodity prices, municipal bonds were up +1.6% during the quarter and +3.3% for the year as measured by the Barclays Municipal Bond Index.

The municipal market continues to be supported by improving economic fundamentals which is translating into improved state tax revenues. For the municipal market as a whole, credit quality continues to improve.

General obligation bonds, revenue bonds and the largest municipal issuers performed in line with the Barclays Municipal Bond Index this quarter, with the notable exception of Illinois. Higher-rated (Aaa) municipal bonds underperformed lower-rated (Baa) municipal bonds during the quarter as investors resumed their search for yield.

During the quarter, longer-term yields declined more than shorter-term yields, causing the municipal yield curve to flatten. As a result, longer maturity bonds outperformed their shorter maturity counterparts during the quarter +1.6% to +0.0%.

There continues to be a steady supply of municipal bond issuance as indicated by the $85 billion issued during the fourth quarter. Year-to-date, investors have absorbed $403 billion in municipal issuance which represents a +20% increase compared to 2014.

**Puerto Rico, Illinois and Chicago**
In early December, the U.S. Supreme Court agreed to review a Puerto Rico debt-restructuring law that would allow some public agencies to ask bondholders to accept losses on the securities in the form of lower payments. The Commonwealth has said it wants to reach a negotiated settlement with all bondholders, but currently there is no mechanism to bind holdout creditors to any possible deal involving debt haircuts. We believe political pressures will build for Washington to take action in 2016.

The State of Illinois continues to operate without a budget for fiscal year 2016, which began on July 1. The Republican Governor and Democrat-controlled legislature remain at odds over how to address structural imbalances in the budget and the significant underfunding of state pension plans. As a result, Moody's and Fitch downgraded Illinois' general obligation bonds to BBB+ during the fourth quarter.

In Chicago, the Mayor was able to get the City to pass its 2016 budget in late October, which included $170 million in savings and reforms, along with $588 million in increased property taxes. Interestingly, Moody's is rating the City of Chicago bonds as junk, while Standard & Poor's and Fitch rate the bonds as BBB+. Only time will tell which rating agency is correct.

**The view forward**
***We continue to believe that municipals offer good value, especially when compared to other asset classes on a taxable equivalent basis. We favor A-rated bonds in the intermediate part of the curve. As market conditions allow, and as appropriate for each client, we will look to shorten duration, improve credit quality an increase coupons in anticipation of gradually rising interest rates in 2016.***



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## Economic Index Descriptions

**Real Gross Domestic Product (GDP):** Real GDP is a basic measure of U.S. economic output adjusted for inflation. Alternatively, it can be thought of as the final value of all goods and services produced within the U.S. Positive Real GDP growth signals an expanding economy.

**Consumer Price Index (CPI):** Measuring the change in the CPI provides an estimate for inflation. The CPI tracks the price of a basket of consumer goods and services. High inflation or deflation (negative inflation) can be signs of economic worry. CPI is typically reported in two ways: headline and core CPI. Headline CPI includes all categories that comprise the CPI basket of goods and services. Core CPI, which is closely monitored by the Fed, strips out the more volatile Food and Energy categories.

**Conference Board Index of Leading Economic Indicators (LEI)**: The LEI is designed to signal peaks and troughs in the business cycle. The ten components of for the U.S. include: average weekly manufacturing hours; average weekly initial claims for unemployment insurance; manufacturers' new orders for consumer goods and materials; ISM® Index of New Orders; manufacturers' new orders for nondefense capital goods excluding aircraft orders; building permits for new private housing units; stock prices of 500 common stocks; Leading Credit Index™; interest rate spread on 10-year Treasury bonds less federal funds and average consumer expectations for business conditions.

**Durable Goods Orders:** An economic indicator released monthly by the Bureau of Census that reflects new orders placed with domestic manufacturers for delivery of factory hard goods (durable goods) in the near term or future. Durable goods orders come in two releases per month: the advance report on durable goods and the manufacturers' shipments, inventories and orders.

**The Institute for Supply Management (ISM) PMI Index:** The PMI is a composite index of five "sub-indicators", which are extracted through surveys to purchasing managers from around the country, chosen for their geographic and industry diversification benefits. The five sub-indexes are: Production, New orders, Supplier deliveries, Inventories and Employment level. An Index value over 50 indicates expansion; below 50 indicates contraction.

**The Institute for Supply Management (ISM) Non-manufacturing Index (NMI):** The NMI is a composite index of four "sub-indicators", which are extracted through surveys to purchasing managers from around the country, chosen for their geographic and industry diversification benefits. The four sub-indexes: Business activity, New orders, Employment, Supplier deliveries. An Index value over 50 indicates expansion; below 50 indicates contraction.

**Consumer Confidence Index (CCI):** The Consumer Confidence Index is a well-known proxy for the attitudes of U.S. consumer towards topics such as the business climate, personal finances and spending. In essence, this index attempts to measure the confidence that consumers have in the overall economy. This is important because consumer spending accounts for a large portion of U.S. GDP.

**Unemployment Rate:** Calculated monthly by the Bureau of Labor Statistics, the unemployment rate is a gauge of the health of the U.S. labor market. High unemployment can stifle the growth of the economy.

## Domestic Equity Benchmark Descriptions

**Investment Style:** Performance of different types of stocks will vary over time. A common way to characterize a stock is by market capitalization (e.g., large cap or small cap) or style (e.g., value or growth).

**Large Cap vs. Small Cap:** Large companies tend to be more established companies and therefore exhibit lower volatility. Over an extended period of time, expected returns of small cap companies are often higher due to the risks associated with smaller, less established companies.

**Value vs. Growth:** Value companies typically trade at discount valuations and may pay a dividend. Growth companies are those that are experiencing greater earnings growth prospects.

**Large Cap:** The Russell 1000 Index measures the performance of the 1,000 largest companies in the Russell 3000 Index, which represents approximately 90% of the investible U.S. equity market.

**Large Cap Growth:** The Russell 1000 Growth Index measures the performance of those Russell 1000 index companies with higher price-to-book ratios and higher forecasted growth values.

**Large Cap Value:** The Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

**Mid Cap:** The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 30% of the total market capitalization of the Russell 1000 Index.

**Mid Cap Growth:** The Russell Midcap Growth Index measures the performance of those Russell Midcap companies with higher price-to-book ratios and higher forecasted growth values.

**Mid Cap Value:** The Russell Midcap Value Index measures the performance of those Russell Midcap companies with lower price-to-book ratios and lower forecasted growth values.

**Small Cap:** The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 8% of the total market capitalization of the Russell 3000 Index.

**Small Cap Growth:** The Russell 2000 Growth Index measures the performance of those Russell 2000 Index companies with higher price-to-value ratios and higher forecasted growth values.

**Small Cap Value:** The Russell 2000 Value Index measures the performance of those Russell 2000 Index companies with lower price-to-book ratios and lower forecasted growth values.



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**Domestic Fixed Income Benchmark Descriptions**

**U.S. Aggregate Bond:** The Barclays U.S. Aggregate Bond Index measures the performance of USD-denominated, SEC-registered, investment-grade, fixed-rate or step up, taxable bonds. The index includes bonds from the Treasury, Government-Related, Corporate and MBS (agency fixed-rate and hybrid ARM pass-through), ABS, and CMBS sectors. Securities included in the index must have at least 1 year until final maturity.

**U.S. Treasury:** The Barclays Capital U.S. Treasury Index measures the performance of public obligations of the U.S. Treasury with a remaining maturity of one year or more.

**U.S. Agency:** The Barclays Capital U.S. Agency Bond Index measures the performance of the agency sector of the U.S. government bond market and is comprised of investment-grade U.S. dollar-denominated debentures issued by government and government-related agencies, including FNMA. The index includes both callable and non-callable securities that are publicly issued by U.S. government agencies, quasi-federal corporations, and corporate and foreign debt guaranteed by the U.S. government.

**U.S. Corporate:** The Barclays Capital U.S. Corporate Bond Index measures the performance of publicly issued USD-denominated corporate and Yankee debentures and secured notes that meet specified maturity, liquidity, and quality requirements.

**U.S. MBS:** The Barclays Capital U.S. Mortgage Backed Securities Index measures the performance of mortgage-backed pass-through securities of Ginnie Mae (GNMA), Fannie Mae (FNMA), and Freddie Mac (FHLMC).

**U.S. Municipal Bond:** The Barclays Capital Municipal Bond Index measures the performance of the USD-denominated, investment grade, fixed-rate tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and pre-refunded bonds. Securities included in the index must have at least 1 year until final maturity.

**General Obligation Bond Index:** The Barclays General Obligation Bond Index measures the average market-weighted performance of general obligations securities that have been issued in the last five years with maturities greater than one year.

**Revenue Bond Index:** The Barclays Revenue Bond Index measures the average market-weighted performance of revenue backed securities that have been issued in the last five years with maturities greater than one year.



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