Economic and Capital Market Review

Second Quarter 2017

Last quarter, we stated that 2017 was shaping up to be an intriguing year. Probably safe to call this an understatement.

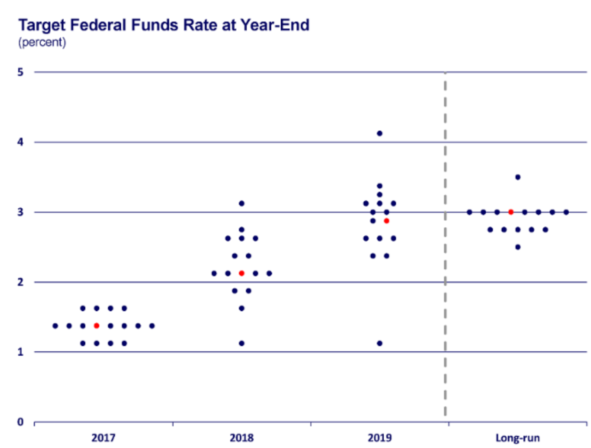
Consumers, business owners and investors continue to be optimistic about brighter economic prospects ahead as measured by soft data indicators (survey based forward looking reports like the Leading Economic Index, Small Business Optimism Index, ISM Manufacturing and Services Index, Consumer Confidence, etc.) which remain near multi-year highs. However, the hard data indicators (data based backward looking reports like GDP, Employment, Housing, Auto Sales, Retail Sales, etc.) have yet to provide consistent support for the soft data optimism.

As if the soft/hard data divergence isn't confusing enough for investors, add to the mix a dash of bitter partisanship which has paralyzed the legislative process in Washington and put into doubt if any substantive legislation will be passed in 2017, a pinch of market complacency and a sprinkle of FOMC policy changes.

This recipe creates stasis. Without meaningful change in government policies - infrastructure investment, tax reform, improving the skills of American workers, etc. - there is little reason to expect the domestic outlook to change significantly. Without meaningful change, consumer, business owner and investor optimism will wane. Thus, the pace of growth in 2017 will not be much faster than it was last year, or the year before, or the year before that. The economy is still on track for 2 percent growth, but not the 3 percent the Trump administration used to generate their budget proposal. And while a 1 percent difference might not sound like much, in a $17 trillion economy it is a difference of $170 billion per year, which has major implications for corporate profits, worker pay and the federal government tax receipts.

Federal Open Market Committee (FOMC)

Calm financial markets and moderate inflation allowed the Fed to increase short-term interest rates by 25 basis points during their June meeting. The Fed Funds rate now stands at 1.00% to 1.25%. The latest Fed minutes indicate the committee "expects that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate".



While the Fed left its current balance sheet policy unchanged, they announced they will begin reducing their holding of Treasuries and mortgage-backed securities by not reinvesting some of quarterly the proceeds. Initially, the amounts are $6 billion of Treasuries and $4 billion of Agencies and Mortgage Backed Securities per quarter, gradually rising to $30 billion and $20 billion, respectively. Analysts expect the balance sheet reductions to begin as early as September. If so, we expect the FOMC will hold off on additional rate increases to allow the market to absorb the change in policy. We believe the next Fed rate increase would occur in December, completing four 25 bps increases over the past 12-months and end the year with a fed funds rate in the 1.25% to 1.50% target range.

The chart at the right depicts the FOMC's projection for the federal funds rate at the end of 2017, 2018 and 2019. Their current projection indicates a rate of 1.375% at the end of 2017 which implies one additional rate hike this year.

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Real Gross Domestic Product (GDP)

Real GDP measures the value of all goods and services produced by the nation's economy.

In what's starting to become an annual pattern, the U.S. economy rebounded in the second quarter after an underwhelming start to the year. Economic growth registered a +2.6% annual rate of expansion during the second quarter, according to the "advance" estimate released by the Bureau of Economic Analysis. The final revision for first quarter was a +1.2% annual rate of expansion, an increase from the advance estimate of +0.7%.

A rebound in consumer spending accounted for the majority of the increase in economic growth in the second quarter. Consumer spending, which makes up more than two-thirds of the U.S. economy, contributed +1.9% of the +2.6% increase for the quarter. But with wage growth remaining sluggish despite the labor market being near full employment, there are concerns that consumer spending could slow in the coming quarters.

Data as of June 30, 2017			
Economic Growth	**2Q17**	**1Q17**	**4Q16**
Real GDP [1]	**2.6%**	**1.2%**	**1.8%**
Personal Consumption [2]	**1.9%**	**1.3%**	**2.0%**
Goods [2]	*1.0%*	*0.1%*	*1.0%*
Services [2]	*0.9%*	*1.2%*	*1.0%*
Private Investment [2]	**0.3%**	**-0.2%**	**1.4%**
Business [2]	*0.6%*	*0.9%*	*0.0%*
Residential [2]	*-0.3%*	*0.4%*	*0.3%*
Inventories [2]	*0.0%*	*-1.5%*	*1.1%*
Government [2]	**0.2%**	**-0.1%**	**0.0%**
Federal [2]	*0.2%*	*-0.2%*	*0.0%*
State [2]	*0.0%*	*0.1%*	*0.0%*
Net Exports [2]	**0.2%**	**0.2%**	**-1.6%**
Exports [2]	*0.5%*	*0.8%*	*-0.5%*
Imports [2]	*-0.3%*	*-0.6%*	*-1.1%*

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

We anticipate +2.0% to +2.5% GDP growth during 2017 as the overall economic environment supports consumer spending through low interest rates, modest inflation, low energy prices and a continued recovery in the housing market.

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.

As of June 30, headline CPI increased +1.6% on a year-over-year basis with the primary contributors to the increase coming from the housing and medical care subcomponents.

When making decisions on monetary policy, the Fed is more interested in the less volatile Core CPI, which excludes food and energy. Core CPI inflation declined slightly to +1.7% on a year-over-year basis and continues to trend below the Fed's targeted range of +2.0% to +2.5%.

Data as of June 30, 2017				
Inflation	**Weight**	**YoY 6/17**	**YoY 3/17**	**YoY 12/16**
Headline CPI	**100%**	**1.6%**	**2.4%**	**2.1%**
Housing	43%	3.0%	3.1%	3.0%
Food/Beverage	15%	0.9%	0.5%	-0.1%
Transportation	15%	0.5%	4.6%	2.5%
Medical Care	8%	2.7%	3.5%	4.1%
Education	7%	-2.5%	-2.2%	-0.2%
Recreation	6%	0.8%	1.3%	0.8%
Apparel	3%	-0.7%	0.6%	-0.1%
Other	3%	2.4%	1.8%	2.1%
Core CPI	**77%**	**1.7%**	**2.0%**	**2.2%**
Food/Beverage	15%	0.9%	0.5%	-0.1%
Energy	8%	2.3%	10.9%	5.4%

Business

The Conference Board's Leading Economic Index (LEI) increased +1.1% during the quarter to 127.8 and marked its highest ever reading. For the six-month period ending June, the leading economic index has increased by +2.5% which suggests continued economic growth in 2017, with perhaps an acceleration for the remainder of the year if consumer spending holds up and business investment picks up.

Data as of June 30, 2017			
Key Business Indicators	**6/17**	**5 Year High**	**5 Year Low**
Leading Economic Index	127.8	127.8	107.0
Leading Economic Index [3]	4.0%	6.5%	0.4%
Small Business Optimism Index	103.6	105.9	87.2
ISM Manufacturing	57.8	58.1	48.0
ISM Service	57.4	59.6	51.7

[3] Y/Y % Change

According to the Institute for Supply Management's (ISM) Manufacturing Report on Business, manufacturing activity expanded in June and the overall economy grew for the 97th consecutive month. The Purchasing Manager's Index (PMI) ended June with a reading of 57.8%, well into expansionary territory. The past relationship between PMI and the overall economy indicates that the average PMI reading of 56.4% between January and June corresponds to a +4.1% increase in real gross domestic product on an annualized basis. *(A reading above 50% indicates that the non-manufacturing economy is generally expanding and a reading below 50% indicates that it is generally contracting.)*

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The Non-manufacturing ISM Report on Business indicates economic activity in the non-manufacturing sector grew in June for the 90th consecutive month. The Non-Manufacturing Index (NMI) ended June with a reading of 57.4%, also well into expansionary territory. The past relationship between NMI and the overall economy indicates that the June reading corresponds to a +3.3% increase in real gross domestic product on an annualized basis. (A reading above 50% indicates that the non-manufacturing economy is generally expanding and a reading below 50% indicates that it is generally contracting.)

Employment

Consumption represents ~70% of the U.S. GDP and is driven by two primary factors: growth in both employment and wages. The U.S. labor market is in better shape now than at any point since the recovery started, but many of the longer-term challenges with the work force have remained unsolved (like the low participation rate). Even with those challenges, the latest employment report continued a long stretch of showing steady improvement. The average monthly gain in total nonfarm employment during the quarter was a respectable 194,000 per month.

Data as of June 30, 2017			
Key Labor Indicators	6/17	5 Year High	5 Year Low
Wage Growth [3]	2.4%	2.7%	1.7%
Unemployment Claims [5]	243	389	240
Nonfarm Payrolls [6]	194	293	111
Unemployment Rate	4.4%	8.2%	4.3%
Under-employment Rate	8.6%	14.8%	8.4%
Labor Force Participation	62.8%	63.8%	62.4%

[3] Y/Y % Change, [5] Four Week Moving Average in Thousands
[6] Three Month Moving Average in Thousands

Despite the relatively strong employment situation, wage gains remain difficult to sustain. The employment-cost index, a broad measure of wages and salaries in the private industry, only increased 2.4% year over year through June 2017.

Consumer

Consumer survey readings moderated slightly during the quarter but consumers continue to be optimistic on the outlook for the economy. Consumer confidence and expectations about the economy as measured by the Conference Board registered 118.9 as of June.

Data as of June 30, 2017			
Key Consumer Indicators	6/17	5 Year High	5 Year Low
Consumer Confidence	118.9	124.9	58.4
Consumer Sentiment	95.1	98.5	72.3
Auto Sales [3]	-2.1%	14.8%	-4.4%
Retail Sales [3]	2.8%	5.6%	1.6%

[3] Y/Y % Change

According to the surveys, consumers generally feel better about the economy's current health than they do about the direction in which it's headed. A sub-index measuring Americans' assessments of current conditions climbed during the quarter to its highest level in a decade. But future expectations declined, hitting the lowest level recorded since before November's presidential election. Historically, strength in confidence surveys bode well for increased economic activity in the following months.

Housing

Housing remains a bright spot in the U.S. economy. Based on the most recent measures, activity in the housing market during the quarter surprised to the upside. New home sales remained at levels last seen in 2007 and construction as measured by housing starts has reached the fastest pace since the Great Recession.

Data as of June 30, 2017			
Key Housing Indicators	6/17	5 Year High	5 Year Low
Housing Affordability	153	215	153
Housing Starts [4]	1,215	1,328	740
Building Permits [4]	1,275	1,363	832
New Home Sales [4]	610	638	358
Existing Home Sales [4]	5,520	5,700	4,530

[4] Monthly Seasonally Adjusted Annual Rate in Thousands

However, we believe the picture for 2017 remains mixed as rising mortgage rates threaten to slow and possibly turn back housing's momentum. While housing affordability is still near all-time highs, the affordability index has been declining as home prices have been increasing faster than incomes. The rise in mortgage rates will reduce affordability further in coming months. The combined effect of rising demand and limited supply helped increase the national median sales price to $263,800.

The view forward

Overall, domestic economic indicators remained moderate during the quarter. We believe the prospects for 2017 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 2017 due in large part to low energy prices and low unemployment, a combination that produces stronger consumer purchasing power. We expect inflation to remain within the Fed's 2.0%-2.5% threshold throughout 2017 until a tighter labor market delivers meaningful wage gains.

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Equity Market Summary

Equity markets repeatedly set new record highs during the quarter supported by a domestic economy that continues to show signs of gradual improvement, or at least few signs of broad weakness. The market rally was primarily driven by increased corporate earnings and to a lesser extent by multiple expansion.

The Dow Jones Industrial Average (DJIA) gained +3.9%, the S&P 500 gained +3.1% and the Nasdaq gained +4.2% during the quarter.

Market Cap and Style
All market caps and styles were positive during the quarter. The outperformance of large-cap stocks relative to small-caps may in part be attributed to a more stable global economic environment.

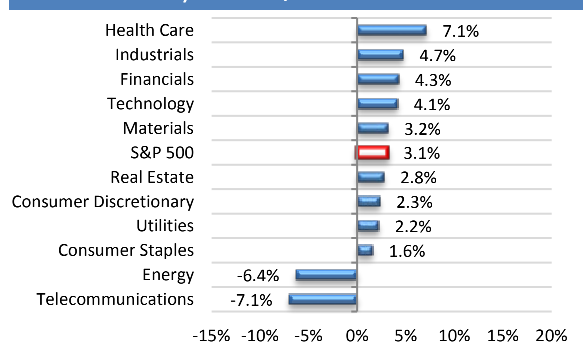
Growth stocks maintained the momentum over value stocks during the quarter. Sector performance was the primary driver of this divergence as growth stocks were lifted by strong results in Technology, Consumer Discretionary and Health Care sectors. Financial stocks make up a large portion of the value universe but were unable to offset the lackluster results recorded in other value stocks, primarily the Energy and Telecommunications sectors.

Domestic Equity	Total Return as of June 30, 2017			
	QTD	YTD	2016	2015
Major Indices				
DJIA	3.9%	9.3%	16.5%	0.2%
S&P 500	3.1%	9.3%	12.0%	1.4%
Nasdaq	4.2%	14.8%	8.9%	7.1%
Market Cap				
Mega [1]	2.6%	9.3%	10.4%	4.3%
Large [2]	3.2%	9.8%	11.3%	2.4%
Mid [3]	2.7%	8.0%	13.8%	-2.5%
Small [4]	2.5%	5.0%	21.3%	-4.4%
Style - Growth				
Large [2]	4.8%	14.9%	6.9%	8.2%
Mid [3]	4.2%	11.4%	7.3%	-0.2%
Small [4]	4.4%	10.0%	11.3%	-1.4%
Style – Value				
Large [2]	1.3%	4.4%	16.2%	-3.4%
Mid [3]	1.4%	5.2%	20.0%	-4.8%
Small [4]	0.7%	0.5%	31.7%	-7.5%

[1] Russell Top 50, [2] Russell top 200, [3] Russell Midcap, [4] Russell 2000

Sectors
Second quarter sector performance varied significantly. Healthcare was the top-performing sector with a total return of +7.1%, while Industrials, Financials and Technology each posted gains in excess of +4.1%. The sectors perceived to benefit from the new administration's proposed agenda of less burdensome regulation (financials) and increased fiscal spending (industrials and materials) recorded another strong quarter. However, as investors recalibrate their expectations based on gridlock in Washington, these sectors are at risk of a modest sell-off.

S&P 500 Returns by Sector - 2Q 2017



Corporate revenue and earnings
Corporate earnings gained momentum in 1Q 2017 with a solid year-over-year increase of +12.7%. Projections for 2Q 2017 corporate earnings call for a year-over-year gain of +18.3%. The consensus forecast for full year 2017 corporate earnings currently stands at +20.0%. (Earnings data is according to S&P Dow Jones.) Earnings growth drives sustainable gains in stocks, so the recent improvement provides hope for forward-looking valuations and the sustainability of the bull market.

According to S&P Dow Jones, ten sectors are reporting or are projected to report year-over-year growth in earnings, led by the Energy, Financials, Materials, and Information Technology sectors. One sector, Real Estate, is projected to report a year-over-year decline in earnings.

Corporate revenue also gained momentum in 1Q 2017 with a year-over-year increase of +3.7%. Projections for 2Q 2017 corporate revenue call for a year-over-year increase of +5.0%. The consensus forecast for full year 2017 corporate revenue currently stands at +5.0%. (Revenue data is according to S&P Dow Jones.)

The view forward
In the current environment, we are neutral on equities and will add equity exposure as earnings justify the current P/E multiples and/or when equity indices move back into the range of their average P/E multiple over the past 5 to 10 years.

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Taxable Bond Market Summary

The bond market's initial reaction to the anticipated inflationary impact of significant and immediate policy measures to boost growth has officially deflated. While it is still possible that the new administration will eventually implement some of their platform promises, the timing will likely be pushed into future months, quarters and years.

Yield Curve

The yield on the 2-year Treasury increased 11 basis points while the yield on the 30-year Treasuries decreased 18 basis points. As a result, the U.S. Treasury yield curve flattened by 29 basis points during the quarter (difference in 30-year yield minus the 2-year yield between Jun17 and Mar17).

U.S. Treasury Yield Curve (%)					
	Jun 17	Mar 17	Dec 16	QTR Change	YTD Change
2 Yr.	1.38%	1.27%	1.20%	11 bps	18 bps
5 Yr.	1.89%	1.93%	1.93%	-4 bps	-4 bps
10 Yr.	2.31%	2.40%	2.45%	-9 bps	-14 bps
30 Yr.	2.84%	3.02%	3.06%	-18 bps	-22 bps

U.S. Treasury yields remain above yields on other high-quality global sovereign debt, drawing investors into the US government bond market. At the end of June, the yield on German, Japanese and United Kingdom 10-year government bonds were +0.47%, +0.08% and +1.26%, respectively.

Taxable bonds

The Barclays Aggregate Bond Index increased +1.4% in the first quarter, bringing its year-to-date return up to +2.3%.

Within the Barclays Aggregate Index, investment-grade corporate bonds were up +2.5% for the quarter. Within the investment-grade corporate bond category, the financial, industrial and utilities sectors were up +2.1%, +2.7% and +3.0%, respectively.

Similar to the first quarter, high-yield returns were fueled by investor's confidence that the domestic economy will continue on a path of solid if unspectacular growth. The high yield bond market ended the quarter up +2.2% and remains well ahead of all other fixed income options on a year-to-date basis. While high yield bond valuations are slightly less attractive now than in months past, we believe that spreads are poised to continue to tighten based upon stable energy prices, improving corporate credit quality and stable economic conditions.

Domestic Taxable Bonds	Total Return as of June 30, 2017			
	QTD	YTD	2016	2015
Index				
Barclays Aggregate	1.4%	2.3%	2.7%	0.6%
Sectors				
Treasury	1.2%	1.9%	1.0%	0.8%
Agency	0.9%	2.1%	2.3%	-0.4%
Corporate	2.5%	3.8%	6.1%	-0.7%
Securitized	0.9%	1.4%	1.8%	1.5%
Quality				
Aaa	1.1%	1.7%	1.4%	1.1%
Aa	1.6%	2.6%	3.1%	1.0%
A	2.4%	3.5%	4.7%	0.5%
Baa	2.7%	4.4%	7.9%	-2.7%
< Baa	2.2%	4.9%	17.1%	-4.5%
Maturity				
Short (1)	0.3%	0.7%	1.3%	0.7%
Intermediate (2)	1.0%	1.8%	1.9%	1.2%
Long (3)	4.3%	5.8%	6.7%	-3.3%

(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 9 basis points on corporate bonds and by 3 basis points on high yield debt bonds. Credit spreads on securitized bonds widened by 5 basis points as the market tries to ascertain the impact of the Fed's planned balance sheet reduction of mortgage-backed securities.

New issue activity

Both investment grade and high yield bond issuance remained robust during the quarter. In all, issuers brought $325 billion in new investment grade issues, $65 billion in new high yield issues and $401 billion in new mortgage-backed issues. Comparing the second quarter of 2017 to the second quarter of 2016, investment grade new issuance decreased -8%, high yield new issuance decreased -23% and mortgage-backed new issuance decreased -10% over 2016 levels.

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 keep duration slightly short to respective benchmarks, improve credit quality and increase coupons in anticipation of gradually rising interest rates in 2017.

Municipal Bond Market Summary

The municipal market continues to shrug off lingering concerns about increasingly restrictive monetary policy from the Fed, potential tax-reform and infrastructure spending, and developing municipal credit concerns. How investors react to the changing landscape on each of the above-mentioned concerns will determine the level of volatility in the municipal market for the remainder of the year.

Yield Curve

Yields on U.S. Municipal bonds declined in the 5 through 30-year portion of the yield curve, while yields were basically unchanged from 0 through 2 years. As a result, the municipal curve flattened by 22 basis points during the second quarter (difference in 30 Year yield minus the 2 Year yield between Mar17 and Jun17).

Relative to Treasuries, the municipal bonds got slightly more expensive across the yield curve as the 2-year municipal to treasury ratio decreased from 81% to 72% and the 30-year municipal to treasury ratio decreased from 102% to 99%. Given a 35% income tax rate, an investor would be neutral between municipal bonds and treasury bonds at a ratio of 65%. Anything above a 65% ratio an investor would prefer municipal bonds, anything below and an investor would prefer treasuries.

U.S. AAA Municipal Yield Curve (%)					
	Jun 17	Mar 17	Dec 16	QTR Change	YTD Change
2 Yr.	0.99%	1.03%	1.23%	-4 bps	-24 bps
5 Yr.	1.35%	1.58%	1.80%	-23 bps	-45 bps
10 Yr.	1.96%	2.26%	2.35%	-30 bps	-39 bps
30 Yr.	2.81%	3.07%	3.09%	-26 bps	-28 bps
Municipal AAA Yield to Treasury Yield Ratio (%)					
2 Yr.	72%	81%	103%	-9%	-31%
5 Yr.	72%	82%	93%	-10%	-21%
10 Yr.	85%	94%	96%	-9%	-11%
30 Yr.	99%	102%	101%	-3%	-2%

Municipal bonds

The Barclays Municipal Bond Index increased +2.0% in second quarter, bringing its year-to-date return up to +3.6%.

Within the Barclays Municipal Bond Index, general obligation bonds (GO), revenue bonds and the largest issuers performed in line with the Barclays Municipal Bond Index. Higher-rated (Aaa) municipal bonds fared slightly worse than lower-rated (Baa) and (<Baa) municipal bonds during the quarter. While shorter maturity bonds once again underperformed their intermediate and longer maturity counterparts.

There continues to be a steady supply of municipal bond issuance as indicated by the $105 billion issued during the second quarter.

Domestic Municipal Bonds	Total Return as of June 30, 2017			
	QTD	YTD	2016	2015
Index				
Barclays Muni	2.0%	3.6%	0.2%	3.3%
Bond Type				
GO	1.8%	3.5%	-0.2%	3.1%
Revenue	2.2%	3.8%	0.4%	3.6%
Largest Issuers				
California	2.0%	3.6%	-0.1%	3.5%
Florida	1.9%	3.7%	0.2%	3.6%
Illinois	1.3%	3.5%	0.6%	2.4%
New York	2.0%	3.5%	0.4%	3.4%
Texas	2.1%	3.8%	0.2%	3.5%
Quality				
Aaa	1.7%	3.2%	-0.2%	2.7%
Aa	1.9%	3.4%	0.0%	3.2%
A	2.2%	3.9%	0.8%	3.7%
Baa	2.1%	4.3%	0.3%	4.2%
<Baa	2.0%	6.1%	3.0%	1.8%
Maturity				
Short	0.5%	1.8%	0.1%	1.2%
Intermediate	1.9%	3.9%	-0.5%	3.3%
Long	2.4%	4.2%	-0.1%	3.8%

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

Municipal credit concerns

Rating agencies issued downgrades to Connecticut, Illinois and Massachusetts during the quarter citing revenue volatility and rising expenditure pressures in these States.

Illinois is another story altogether. After two years without a budget, the Illinois General Assembly voted to override a governor veto and passed a budget for fiscal year 2018. Although the budget includes increased revenues ("taxes") and decreased spending, Moody's is still reviewing the possibility of downgrading the State to junk status due to its severely underfunded pensions and backlog of unpaid bills.

The view forward

We believe that municipals are fairly valued 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 keep duration slightly short to respective benchmarks, improve credit quality and increase coupons in anticipation of gradually rising interest rates in 2017.

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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.

NFIB Small Business Optimism Index: The small business optimism index is compiled from a survey that is conducted each month by the National Federation of Independent Business (NFIB) of its members. The index is a composite of 10 seasonally adjusted components based on the following questions: plans to increase employment, plans to make capital outlays, plans to increase inventories, expect economy to improve, expect real sales higher, current inventory, current job openings, expected credit conditions, now a good time to expand, and earnings trend.

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.

Mega Cap: The Russell Top 50 Index measures the performance of the 50 largest companies in the Russell 1000 Index, which represents approximately 40% of the total market capitalization of the of the Russell 1000 Index.

Large Cap: The Russell Top 200 Index measures the performance of the 200 largest companies in the Russell 1000 Index, which represents approximately 68% of the total market capitalization of the of the Russell 1000 Index.

Mid Cap: The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index, which represent approximately 36% of the total market capitalization of the Russell 1000 Index.

Small Cap: The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

Growth: The Russell 3000 Growth Index measures the performance of those Russell 3000 index companies with higher price-to-book ratios and higher forecasted growth values.

Value: The Russell 3000 Value Index measures the performance of those Russell 3000 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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