Economic and Capital Market Review

First Quarter 2017

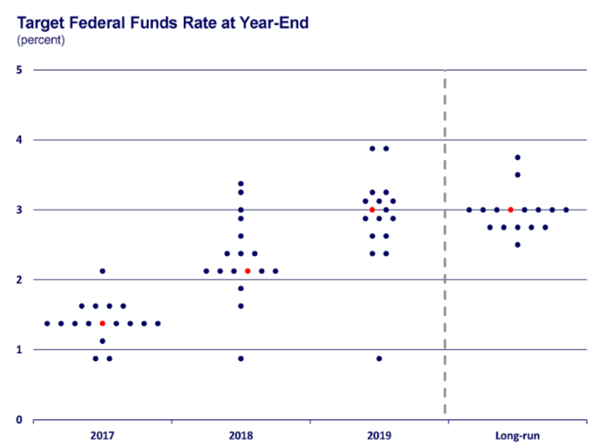
2017 is shaping up to be an intriguing year. In one hand, we have optimism. The optimism our elected officials will succeed in crafting lasting policies that will lead to increased economic growth via tax reform, regulatory relief and infrastructure spending. In the other hand, we have reality. The reality that, at this point in time, our elected officials could not reach an agreement on the number of letters in the alphabet. When we mix this optimism with this reality, we get uncertainty. And uncertainty is the one thing all businesses, consumers and markets hate.

The economic data reported during the first quarter confirm this uncertainty as the soft data and hard data indictors diverged. The 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.) are currently at multi-year highs. Optimism abounds. The hard data indicators (data based backward looking reports like GDP, Employment, Housing, Auto Sales, Retail Sales, etc.) are currently a mixed bag containing good, mediocre and poor reports. The hard data results have yet to provide support for the soft data optimism.

Since the election, equity markets have advanced dramatically based upon the expectation of better growth and earnings resulting from the incoming administration's desire for faster economic growth. Given the lack of success on the administration's first major legislative initiative (healthcare), investors are starting to question the administration's ability to deliver on its key platform promises. As we mentioned last quarter, compromise is necessary when the promises made on the campaign trail collide with the realities of governing. If the policies that get ***implemented*** do not meet the expectation of the policies ***promised***, expect markets to react accordingly.

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 March meeting. The Fed Funds rate now stands at 0.75% to 1.0%. The latest Fed minutes indicate the committee "expects that economic conditions will evolve in a manner that will warrant only gradual increases in the federal funds rate".



The Fed also left its balance sheet policy unchanged and will continue reinvesting principal payments from its holdings of agency and mortgage-backed securities purchased during quantitative easing. However, New York Fed President William Dudley recently stated that he believes the Fed should start the process of normalizing its balance sheet by the end of this year. As of now, analysts believe a normalization of the Fed's balance sheet would entail allowing maturing securities to roll off. This process would likely begin prior to the end of Chairman Yellen's term in February 2018.

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 two additional rate hikes 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.

Real GDP increased at an annual rate of +0.7% during 1Q 2017, according to the "advance" estimate released by the Bureau of Economic Analysis. The final revision for 4Q 2016 was +2.1%.

The U.S. economy grew at its weakest pace in three years during the first quarter as consumer spending virtually stalled, but an increase in business investment and wage growth suggests activity could regain momentum in the coming quarters.

There is a counter argument to the narrative that economic activity is just around the corner. The argument reasons that as we approach full employment the slower labor force growth rate will translate into slower economic growth unless productivity gains increase sharply.

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.

Data as of March 31, 2017			
Economic Growth	**1Q17**	**4Q16**	**3Q16**
Real GDP (1)	**0.7%**	**2.1%**	**3.5%**
Personal Consumption (2)	**0.2%**	**2.4%**	**2.0%**
Goods (2)	*0.0%*	*1.3%*	*0.8%*
Services (2)	*0.2%*	*1.1%*	*1.2%*
Private Investment (2)	**0.7%**	**1.5%**	**0.5%**
Business (2)	*1.1%*	*0.1%*	*0.2%*
Residential (2)	*0.5%*	*0.4%*	*-0.2%*
Inventories (2)	*-0.9%*	*1.0%*	*0.5%*
Government (2)	**-0.3%**	**0.0%**	**0.1%**
Federal (2)	*-0.1%*	*-0.1%*	*0.2%*
State (2)	*-0.2%*	*0.1%*	*-0.1%*
Net Exports (2)	**0.1%**	**-1.8%**	**0.9%**
Exports (2)	*0.7%*	*-0.5%*	*1.2%*
Imports (2)	*-0.6%*	*-1.3%*	*-0.3%*

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

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 March 31, headline CPI increased +2.4% on a year-over-year basis with the primary contributors to the increase coming from the housing, medical care and transportation components.

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 +2.0% on a year-over-year basis and continues to trend within the Fed's targeted range of +2.0% to +2.5%.

Data as of March 31, 2017				
Inflation	**Weight**	**YoY 3/17**	**YoY 12/16**	**YoY 9/16**
Headline CPI	**100%**	**2.4%**	**2.1%**	**1.5%**
Housing	43%	3.1%	3.0%	2.7%
Food/Beverage	15%	0.5%	-0.1%	-0.2%
Transportation	15%	4.6%	2.5%	-1.1%
Medical Care	8%	3.5%	4.1%	4.9%
Education	7%	-2.2%	-0.2%	0.1%
Recreation	6%	1.3%	0.8%	0.8%
Apparel	3%	0.6%	-0.1%	-0.1%
Other	3%	1.8%	2.1%	2.2%
Core CPI	**77%**	**2.0%**	**2.2%**	**2.2%**
Food/Beverage	15%	0.5%	-0.1%	-0.2%
Energy	8%	10.9%	5.4%	-2.9%

Business

The Conference Board's Leading Economic Index (LEI) increased +1.5% during the quarter to 126.7 and marked its highest ever reading. For the six-month period ending March, the leading economic index has increased by +2.4% which suggests continued economic growth in 2017, with perhaps an acceleration later in the year if consumer spending and business investment pick up.

According to the Institute for Supply Management's (ISM) Manufacturing Report on Business, manufacturing activity expanded in March and the overall economy grew for the 94th consecutive month. The Purchasing Manager's Index (PMI) ended March with a reading of 57.2%, well into expansionary territory. The past relationship between PMI and the overall economy indicates that the average PMI reading of 57.0% between January and March corresponds to a +4.3% 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.)*

Data as of March 31, 2017			
Key Business Indicators	**3/17**	**5 Year High**	**5 Year Low**
Leading Economic Index	126.7	126.7	107.0
Leading Economic Index (3)	3.5%	6.4%	0.4%
Small Business Optimism Index	104.7	105.9	87.2
ISM Manufacturing	57.2	58.1	48.0
ISM Service	55.2	59.6	51.7

(3) Y/Y % Change

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The Non-manufacturing ISM Report on Business indicates economic activity in the non-manufacturing sector grew in March for the 87th consecutive month. The Non-Manufacturing Index (NMI) ended March with a reading of 55.2%, also well into expansionary territory. The past relationship between NMI and the overall economy indicates that the March reading corresponds to a +2.4% 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 first quarter was a respectable 178,000 per month.

Data as of March 31, 2017			
Key Labor Indicators	**3/17**	**5 Year High**	**5 Year Low**
Wage Growth (3)	2.6%	2.7%	1.7%
Unemployment Claims (5)	247	389	244
Nonfarm Payrolls (6)	178	293	90
Unemployment Rate	4.5%	8.2%	4.5%
Under-employment Rate	8.9%	14.8%	8.9%
Labor Force Participation	63.0%	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 2.6% year over year through March 2017.

Consumer

Survey readings improved sharply this quarter as consumers continue to be optimistic on the outlook for the economy. Consumer confidence and expectations about the economy as measured by the Conference Board hit a 17-year high. The largest improvement came in the number of consumers expecting more jobs to be created over the next six months. A growing number of consumers also expected their income to rise over the six months.

Data as of March 31, 2017			
Key Consumer Indicators	**3/17**	**5 Year High**	**5 Year Low**
Consumer Confidence	125.6	125.6	58.4
Auto Sales (3)	-0.3%	21.9%	-4.4%
Retail Sales (3)	5.2%	5.9%	1.5%

(3) Y/Y % Change

This surge in consumer confidence likely reflects a legitimate improvement in business conditions. Overall consumer confidence has risen about 25 points since October 2016 and coincides with improvement in other consumer surveys, as well as surveys of manufacturers, small businesses and homebuilders. Historically, strength in confidence surveys bode well for increased economic activity in the following months.

Housing

Based on the most recent measures, activity in the housing market during the first quarter of 2017 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 March 31, 2017			
Key Housing Indicators	**3/17**	**5 Year High**	**5 Year Low**
Housing Affordability	160.6	214.5	155.8
Housing Starts (4)	1,215	1,320	708
Building Permits (4)	1,260	1,334	747
New Home Sales (4)	621	622	354
Existing Home Sales (4)	5,710	5,710	4,470

(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 $236,400.

The view forward

Overall, domestic economic indicators moderated during the first 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

The "Trump Trade" in U.S. equity markets began to slow at the end of the quarter, but its strength in January and February led domestic stock market indexes to record highs during the quarter. This was supported by a domestic economy that continues to show signs of gradual improvement, or at least few signs of broad weakness.

Domestic Equity	Total Return as of March 31, 2017			
	QTD	YTD	2016	2015
Major Indices				
DJIA	5.2%	5.2%	16.5%	0.2%
S&P 500	6.1%	6.1%	12.0%	1.4%
Nasdaq	10.1%	10.1%	8.9%	7.1%
Market Cap				
Mega [1]	6.6%	6.6%	10.4%	4.3%
Large [2]	6.4%	6.4%	11.3%	2.4%
Mid [3]	5.1%	5.1%	13.8%	-2.5%
Small [4]	2.5%	2.5%	21.3%	-4.4%
Style - Growth				
Large [2]	9.6%	9.6%	6.9%	8.2%
Mid [3]	6.9%	6.9%	7.3%	-0.2%
Small [4]	5.3%	5.3%	11.3%	-1.4%
Style – Value				
Large [2]	3.0%	6.4%	16.2%	-3.4%
Mid [3]	3.8%	5.1%	20.0%	-4.8%
Small [4]	-0.1%	2.5%	31.7%	-7.5%

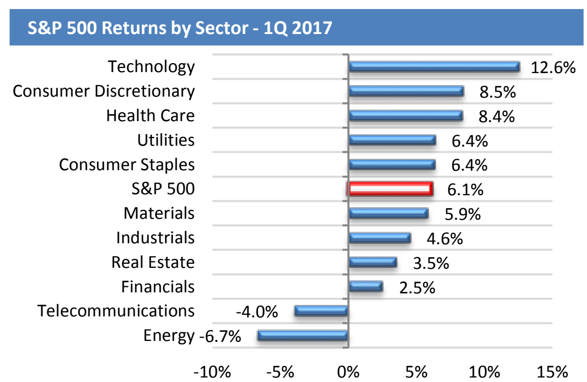
[1] Russell Top 50, [2] Russell top 200, [3] Russell Midcap, [4] Russell 2000

The Dow Jones Industrial Average (DJIA) gained +5.2%, the S&P 500 gained +6.1% and the Nasdaq gained +10.1% during the quarter. The market rally was primarily driven by multiple expansion, as prices moved higher while the underlying earnings only showed modest improvement.

Market Cap and Style

All market caps and styles were positive during the first 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 regained the momentum over value stocks to start off 2017. Sector performance was the primary driver of this divergence as growth stocks were lifted by strong results in Technology, Consumer Discretionary and Health Care stocks. Financials make up a large portion of the value universe and this sector was unable to sustain the advances seen at the end of last year.



Sectors

First quarter sector performance varied significantly. Technology was the top-performing sector with a total return of +12.6%, while Consumer Discretionary and Health Care each posted gains in excess of +8.5%. As forewarned in our fourth quarter commentary, the sectors that enjoyed significant post-election rallies (Financials, Energy, Industrials and Materials), lagged the broader market during the first quarter of 2017 as investors recalibrated their expectations for the prospects of immediate benefit from less burdensome regulation (financials and energy) and increased fiscal spending (industrials and materials).

Corporate revenue and earnings

Corporate earnings rebounded in 4Q 2016 with a respectable year-over-year increase of +5.0%. Projections for 1Q 2017 corporate earnings call for a year-over-year gain of +9.0%. The consensus forecast for full year 2017 corporate earnings currently stands at +9.7%. (Earnings data is according to FactSet.) 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 FactSet, "eight sectors are reporting or are projected to report year-over-year growth in earnings, led by the Energy, Financials, Materials, and Information Technology sectors. Three sectors are reporting or are projected to report a year-over-year decline in earnings, led by the Industrials sector."

Corporate revenue rebounded in 4Q 2016 with a respectable year-over-year increase of +5.0%. Projections for 1Q 2017 corporate revenue call for a year-over-year increase of +7.2%. The consensus forecast for full year 2017 corporate revenue currently stands at +5.3%. (Revenue data is according to FactSet.)

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 expectation for significant and immediate policy measures to boost growth have been steadily dialed back after assumptions on both the size and timing proved overly optimistic. 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

As a result, yields remained virtually unchanged across the treasury curve. The yield on the benchmark 10-year Treasury ended the quarter at 2.40%, a decrease of 5 basis points from December 31. The yield on the 30-year Treasury fell 4 basis points to 3.02%. The treasury curve flattened as short term rates increased more than longer term rates.

U.S. Treasury Yield Curve (%)					
	Mar 17	Dec 16	Dec 16	QTR Change	YTD Change
2 Yr.	1.27%	1.20%	1.20%	7 bps	7 bps
5 Yr.	1.93%	1.93%	1.93%	0 bps	0 bps
10 Yr.	2.40%	2.45%	2.45%	-5 bps	-5 bps
30 Yr.	3.02%	3.06%	3.06%	-4 bps	-4 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 March 31, the yield on German, Japanese and United Kingdom 10-year government bonds were +0.33%, +0.07% and +1.14%, respectively.

Taxable bonds

The Barclays Aggregate Bond Index increased +0.8% in the first quarter.

Within the Barclays Aggregate Index, investment-grade corporate bonds were up +1.2%% for the quarter. Within the investment-grade corporate bond category, the financial, industrial and utilities sectors were up +1.3%, +1.2% and +1.0%, respectively.

The high yield bond market ended the quarter well ahead of all other fixed income options as investors flocked to the space for higher income. For the quarter, the Barclays High Yield Corporate Index was up +2.7%. The promise of regulatory reform, tax reform, infrastructure spending and health care reform were viewed positively by risk markets. While the failed attempt at health care reform in March tempered the optimism that the promised reforms would materialize, the markets quickly shifted their focus to the more economically important tax and regulatory reforms.

Domestic Taxable Bonds	Total Return as of March 31, 2017			
	QTD	YTD	2016	2015
Index				
Barclays Aggregate	0.8%	0.8%	2.7%	0.6%
Sectors				
Treasury	0.7%	0.7%	1.0%	0.8%
Agency	1.1%	1.1%	2.3%	-0.4%
Corporate	1.2%	1.2%	6.1%	-0.7%
Securitized	0.5%	0.5%	1.8%	1.5%
Quality				
Aaa	0.6%	0.6%	1.4%	1.1%
Aa	1.0%	1.0%	3.1%	1.0%
A	1.0%	1.0%	4.7%	0.5%
Baa	1.7%	1.7%	7.9%	-2.7%
< Baa	2.7%	2.7%	17.1%	-4.5%
Maturity				
Short (1)	0.4%	0.4%	1.3%	0.7%
Intermediate (2)	0.8%	0.8%	1.9%	1.2%
Long (3)	1.4%	1.4%	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 5 basis points on corporate bonds and by 26 basis points on high yield debt bonds. Credit spreads on securitized bonds widened by 11 basis points.

New issue activity

Both investment grade and high yield bond issuance was robust during the quarter. In all, issuers brought $383 billion in new investment grade issues, $89 billion in new high yield issues and $407 billion in new mortgage-backed issues. Comparing the first quarter of 2017 to the first quarter of 2016, investment grade new issuance increased +6%, high yield new issuance increased +146% and mortgage-backed new issuance increased +12% 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.

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Municipal Bond Market Summary

The municipal market found its footing during the first quarter, despite ongoing concerns about increasingly restrictive monetary policy from the Fed, potential tax-reform and potential infrastructure spending. How investors react to the changing landscape each of the above-mentioned concerns might deliver 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 2 through 10-year portion of the yield curve, while yields were unchanged from 15 years and out. As a result, the municipal curve steepened by 18 basis points during the first quarter (difference in 30 Year yield minus the 2 Year yield between Dec16 and Mar17).

Relative to Treasuries, the short end of the municipal yield curve got more expensive as the 2-year municipal to treasury ratio decreased from 103% to 81% while the longer end of the curve got slightly cheaper as the 30-year municipal to treasury ratio increased from 101% to 102%. 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 (%)					
	Mar 17	Dec 16	Dec 16	QTR Change	YTD Change
2 Yr.	1.03%	1.23%	1.23%	-20 bps	-20 bps
5 Yr.	1.58%	1.80%	1.80%	-22 bps	-22 bps
10 Yr.	2.26%	2.35%	2.35%	-9 bps	-9 bps
Municipal AAA Yield to Treasury Yield Ratio (%)					
2 Yr.	81%	103%	103%	-22%	-22%
5 Yr.	82%	93%	93%	-11%	-11%
10 Yr.	94%	96%	96%	-2%	-2%
30 Yr.	102%	101%	101%	1%	1%

Municipal bonds

The Barclays Municipal Bond Index increased +1.6% in first quarter.

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 worse than lower-rated (Baa) and (<Baa) municipal bonds during the quarter.

Shorter maturity bonds underperformed their intermediate and longer maturity counterparts.

There continues to be a steady supply of municipal bond issuance as indicated by the $90 billion issued during the first quarter.

Domestic Municipal Bonds	Total Return as of March 31, 2017			
	QTD	YTD	2016	2015
Index				
Barclays Muni	1.6%	0.2%	0.2%	3.3%
Bond Type				
GO	1.6%	-0.2%	-0.2%	3.1%
Revenue	1.6%	0.4%	0.4%	3.6%
Largest Issuers				
California	1.6%	-0.1%	-0.1%	3.5%
Florida	1.7%	0.2%	0.2%	3.6%
Illinois	2.2%	0.6%	0.6%	2.4%
New York	1.5%	0.4%	0.4%	3.4%
Texas	1.6%	0.2%	0.2%	3.5%
Quality				
Aaa	1.4%	-0.2%	-0.2%	2.7%
Aa	1.5%	0.0%	0.0%	3.2%
A	1.7%	0.8%	0.8%	3.7%
Baa	2.2%	0.3%	0.3%	4.2%
<Baa	4.1%	3.0%	3.0%	1.8%
Maturity				
Short	1.3%	0.1%	0.1%	1.2%
Intermediate	1.9%	-0.5%	-0.5%	3.3%
Long	1.8%	-0.1%	-0.1%	3.8%

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

Municipal credit concerns

The credit landscape remained unchanged for the big credit stories, Puerto Rico, Illinois and the City of Chicago.

Illinois still has not approved a budget, leaving the state with growing unfunded liabilities and nearly $12 billion in unpaid bills.

In January, the City of Chicago sold $1.2 billion GO and the tax-exempt portion of the deal was weaker than expected requiring prices below par to attract buyers.

A group of COFINA bondholders have filed a lawsuit against the Commonwealth, the first suit since the Stay Provision was lifted on May 1. In addition, an unnamed bond insurer has issued a notice to COFINA that it was in default relating to house bill 938.

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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