

KEY TAKEAWAYS

- U.S. stock markets wrapped up 2016 on a strong note, as the post-election rally continued in anticipation of the new administration's proposed business-friendly policies. For the S&P 500, December's 2% advance (including dividends), capped off the index's 8th consecutive year of gains. On the international front, emerging stock markets notched their first positive year since 2012 on signs of improving fundamentals, but developed overseas markets (Europe in particular) continued to lag due to slow growth and structural concerns.
- With valuations looking a bit expensive, U.S. markets may need renewed earnings growth to power returns over the next year. Fortunately, recent readings on the economy suggest business activity may just be picking up. Real gross domestic product, the broadest measure of economic production, expanded at a rate of 3.5% in the third quarter, its strongest pace in two years.
- Reflective of jobs gains and possible reflation, the Federal Reserve not only raised rates in December (by 25 basis points) but also indicated that the path of future rate hikes may come at a slightly quicker pace. While interest rates will likely still remain relatively low for some time from a historical perspective, U.S. bond markets may continue to struggle in the upcoming year if the Fed follows through. Other central banks are on a divergent path (still easing), which may lead to further U.S. dollar strength as we head into 2017.

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INDEX PERFORMANCE (as of 12/31/16)

| Equity | December | Q4 2016 | YTD 2016 |
|---------------------------|----------|-------------|--------------|
| U.S. Large Cap | 2.0% | 3.8% | 12.0% |
| U.S. Small Cap | 2.8% | 8.8% | 21.3% |
| Developed Non-U.S. | 3.4% | -0.7% | 1.5% |
| Emerging Market | 0.3% | -4.1% | 11.6% |
| Real Assets | | | |
| Real Estate | 2.4% | -5.4% | 4.9% |
| Commodities | 1.8% | 2.7% | 11.8% |
| Natural Resource Equities | 0.7% | 5.0% | 30.9% |
| Fixed Income | | | |
| <u>Core Plus</u> | | | |
| U.S. High Yield Debt | 1.8% | 1.8% | 17.1% |
| Emerging Market Debt | 1.9% | -6.1% | 9.9% |
| <u>Core Bonds</u> | | | |
| U.S. Aggregate Bonds | 0.1% | -3.0% | 2.6% |
| U.S. Treasuries | -0.1% | -3.8% | 1.0% |
| U.S. Municipal Bonds | 0.7% | -2.6% | -0.1% |
| Month-End Values/Yields | Current | Prior Month | One-Year Ago |
| CBOE Volatility Index | 14.0 | 13.3 | 18.2 |
| 10-Year Treasury Yield | 2.4% | 2.4% | 2.3% |

Sources: Bloomberg, Morningstar

You cannot invest directly in an index; therefore, performance returns do not reflect any management fees. Returns of the indices include the reinvestment of all dividends and income, as reported by the commercial databases involved.

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