

## KEY TAKEAWAYS

- The S&P 500 and Nasdaq Composite continued to hit new record highs in another month of gains for stocks. U.S. equity markets have been overcoming all obstacles during the past year, including an uncertain legislative environment. Market-friendly policy changes such as tax reform, infrastructure spending, and further deregulation all remain on the table, though recent political issues have driven the timing of new legislation further down the road than initially anticipated and the magnitude is uncertain.
- Earnings growth at U.S. companies in the S&P 500 index grew last quarter at the fastest pace in nearly six years, which may help investors justify elevated valuations. While much of the gains came from energy companies (thanks to stabilizing commodity prices), there has also been a welcome reduction in share buybacks (which tend to prop up near-term earnings results at the expense of longer-term growth).
- Calm was restored overseas as there were no surprises with the French presidential election, with pro-European Union candidate Emmanuel Macron winning in the second round. Subsequent to the election, the VIX index of volatility closed at its lowest level in over two decades. The U.S. dollar, meanwhile, broke to a six-month low, continuing to benefit international investments (in U.S. dollar terms). U.S. multinationals have also received a currency benefit.
- Given the strong labor market, it is likely the Federal Reserve will raise short-term rates by 25 basis points at their June meeting. The Fed may also elaborate on plans to start winding down its \$4.5 trillion balance sheet.

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## INDEX PERFORMANCE (as of 05/31/17)

| Equity                    | May     | Year-to-Date | One-Year     |
|---------------------------|---------|--------------|--------------|
| U.S. Large Cap            | 1.4%    | 8.7%         | 17.5%        |
| U.S. Small Cap            | -2.0%   | 1.5%         | 20.4%        |
| Developed Non-U.S.        | 3.8%    | 14.4%        | 17.0%        |
| Emerging Market           | 3.0%    | 17.3%        | 27.9%        |
| Real Assets               |         |              |              |
| Real Estate               | 1.7%    | 6.9%         | 6.8%         |
| Commodities               | -1.3%   | -5.1%        | -2.4%        |
| Natural Resource Equities | -3.6%   | -10.5%       | 1.4%         |
| Fixed Income              |         |              |              |
| <u>Core Plus</u>          |         |              |              |
| U.S. High Yield Debt      | 0.9%    | 4.8%         | 13.6%        |
| Emerging Market Debt      | 2.0%    | 9.9%         | 12.2%        |
| <u>Core Bonds</u>         |         |              |              |
| U.S. Aggregate Bonds      | 0.8%    | 2.4%         | 1.6%         |
| U.S. Treasuries           | 0.7%    | 2.0%         | 0.0%         |
| U.S. Municipal Bonds      | 1.1%    | 3.3%         | 1.5%         |
| Month-End Values/Yields   | Current | Prior Month  | One-Year Ago |
| CBOE Volatility Index     | 10.4    | 10.8         | 14.2         |
| 10-Year Treasury Yield    | 2.2%    | 2.3%         | 1.8%         |

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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