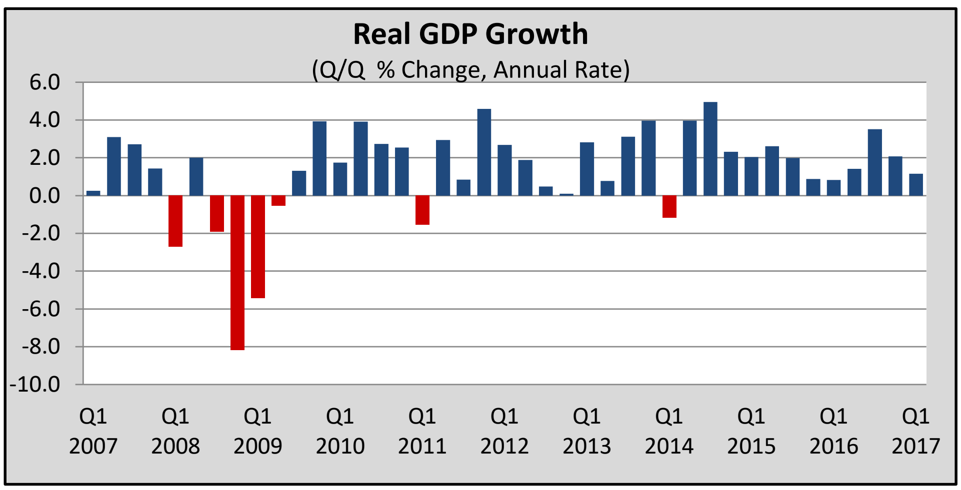
MONTHLY UPDATE AND COMMENTARY
JUNE 2017

Recap: U.S. economic growth in early 2017 was modest but stronger than initially thought, and the pace picked up in the second quarter. Gross domestic product expanded at an inflation and seasonally adjusted annual rate of 1.2% in the first quarter as opposed to the 0.7% initial estimate.

Revisions to economic-output data for the first quarter were largely upbeat, with stronger growth for spending by consumers and businesses and a less-dramatic pullback in spending by governments compared with initial estimates. Capital expenditures by U.S. businesses accelerated in the first quarter. A major driver of the recent investment pickup was a rebound in domestic energy production.

U.S. growth has averaged 2.1% a year since the recession ended in mid-2009. First-quarter growth has repeatedly disappointed in recent years due to seasonal adjustment problems before rebounding in the spring and summer. This year should follow that pattern. Still, the biggest issue for the U.S. economy will be how to grow faster in an environment where both the labor force participation rate and productivity remains so low.

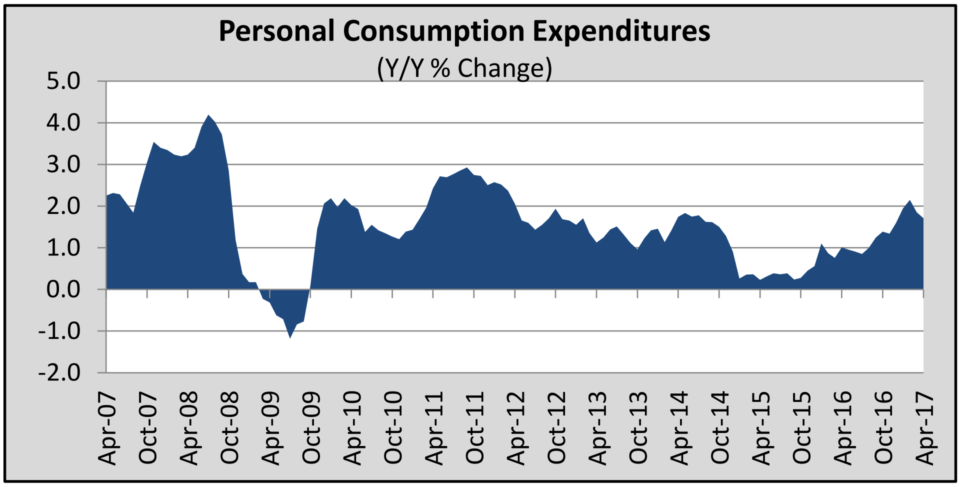


Real GDP: The second estimate of U.S. real GDP growth for the first quarter of 2017 was revised up to 1.2% (annualized), from 0.7% in the advance estimate. This reflected upward revisions to business investment, consumer spending, and state and local government spending that were partly offset by downward revision to private inventories. On the downside, weaker inventory investment subtracted 1.1 percentage points from growth. Many of the factors depressing growth in the first quarter were temporary, and a reversal in the second quarter is expected to drive a rebound of greater than 2% growth.

Retail Sales: Retail sales increased 0.4% in April while March sales were revised upward by 0.1% instead of a 0.2% decline. An encouraging element of the report was the breadth of the gains themselves, with strength in building materials and discretionary spending categories. The former would suggest that the healing housing market was increasing renovation activity, a positive sign for residential investment. The latter would indicate that consumers were spending on wants in addition to needs, and reinforced the view that strong job growth and rising wages have boosted confidence – something expected to continue to support consumption.

Personal Consumption: Consumer spending and broader economic growth slowed over the winter months. Multiple factors were at work, including mild winter weather that reduced the need for home heating and delayed income-tax refunds for many households. However, Americans ramped up their spending in April at the fastest pace in four months, offering fresh evidence the U.S. economy rebounded this spring after a lackluster winter. Personal income rose 0.4% from March. The personal-saving rate was steady in April at 5.3%.

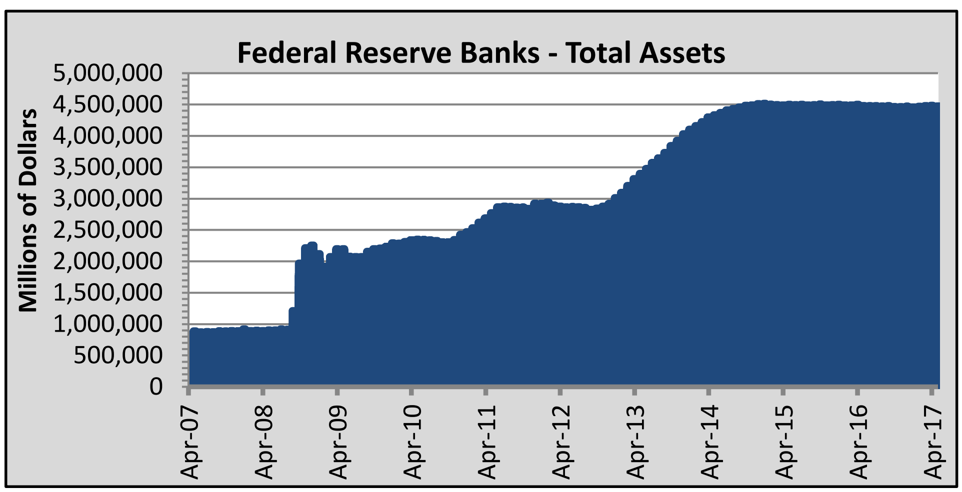
Inflation: The Federal Reserve's preferred measure of inflation, the price index for personal-consumption expenditures, rebounded in April rising 0.2% from the prior month after falling 0.2% in March. Excluding the often-volatile categories of food and energy, core prices were up 0.2% in April after dipping 0.1% in March. Overall prices rose 1.7% in April from a year earlier, down from 1.9% in March. Core prices were up 1.5% on the year in April, their weakest annual gain since December 2015. The recent softening in core inflation was a result of continued deflation in goods prices as well as a slowing in services prices.



After some softness in inflation data throughout March and April, driven by one-off factors, inflation should firm in the coming months. Price pressures in other measures, such as the producer price index, showed strong gains in April suggesting higher inflation could be on its way.

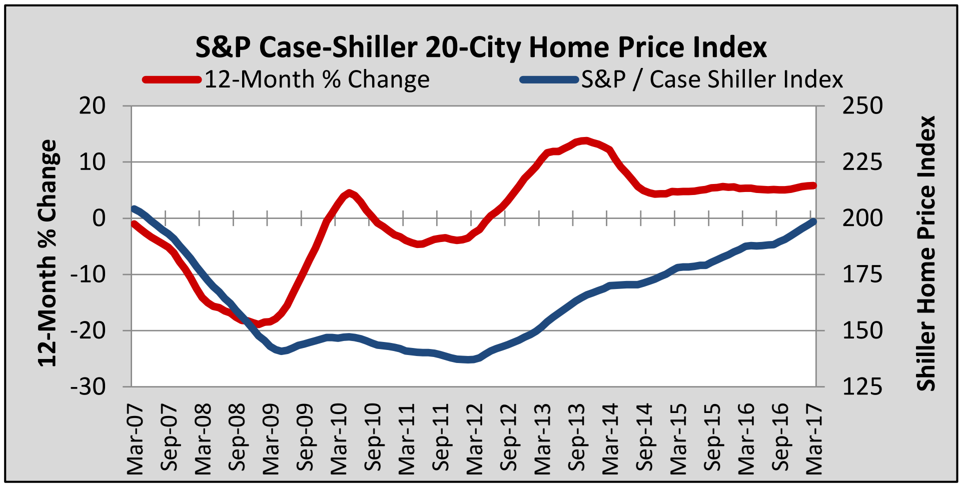
Fed: The Federal Reserve is expected to raise short-term interest rates by a quarter percentage point to a range between 1% and 1.25% at their meeting in mid-June, and announce their framework for shrinking a $4.5 trillion portfolio of bonds and other assets later this year. They will slowly reduce the balance sheet of Treasury securities and mortgages by allowing a small number of assets to mature every month without reinvesting any proceeds. The Fed will likely start small and allow that amount to rise over time.

There is some uncertainty about this sequence of events. One source of uncertainty emerging in recent weeks is the possibility that Congress and the White House might have trouble reaching agreement in September to raise the federal debt limit and approve government funding for the fiscal year beginning in October. The looming debt-limit fight raises the possibility that the Fed might delay a third-rate increase until after September or initiate the portfolio wind-down sooner, perhaps as early as September, if a rancorous fiscal fight threatens to disturb markets.



Housing: After hitting a decade high in March, some pullback in existing homes sales was largely anticipated. Resale activity has been quite volatile for several months, with mortgage rates movements and dearth of inventory contributing to the fluctuations. Existing home sales fell 2.3% from March to April. At the current sales pace, inventory has accounted for just 4.2 months' worth of supply compared to 4.6 a year ago. The low supply of homes available for sale has been pressuring prices to go higher. New homes sales fell 11.4% to a 569,000-unit pace in April. April's decline was largely due to seasonal influences. Warmer than usual weather pulled some of the spring selling season forward into the first quarter, particularly in the Northeast and Midwest.

New-home construction has lagged throughout much of the housing market's current recovery, but there have been recent signs of a resurgence in the starter-home segment. The housing market has been at or near 10-year highs for newly built and previously owned homes, and that momentum is likely to continue in 2017 despite April's dip. The trend in sales for both new and existing homes has clearly been up. The job numbers have been solid, wages have appeared to be picking up a bit of steam, and mortgage rates have not moved up much. All these factors will help the housing market going forward. The housing market should make a positive contribution to economic growth in the coming months.



Labor Market: The U.S. job market may be losing some steam. Non-farm payrolls increased by lower-than-expected 138,000 in May. Due to downward revisions to the previous two months' payrolls, the three-month moving average of job growth slowed from 174,000 to 121,000.

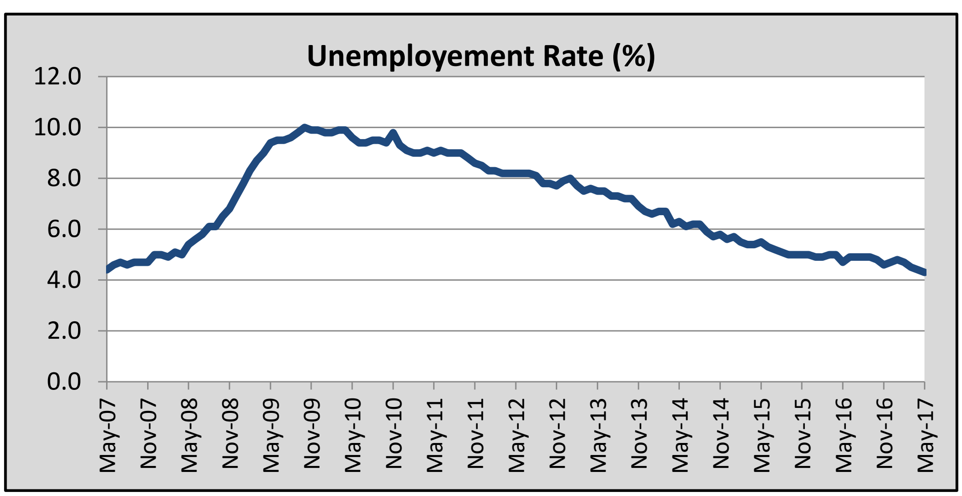
Private payrolls, led by healthcare and education, rose by 147,000 in May. Job growth in construction, mining & logging, and manufacturing were flat. Government hiring was weak, as federal level hiring was more than offset by sharp cutbacks at the local and state level.

The unemployment rate ticked down by 0.1 percentage points to 4.3% as many Americans left the labor force in May. As a result, the labor participation rate fell 0.2 percentage points to 62.7% - the lowest level in six months. The data would suggest employers are starting to add to payrolls more slowly in a tight labor market.

Average hourly wages rose by 0.2% during the month with the year-over-year wage metric holding steady at 2.5% in May. The wage growth did not show as much strength as would be suggested by the very low jobless rate.

One explanation for why wages have not grown even faster would be worker productivity has declined this year. Low productivity made it difficult for businesses to generate higher profits, invest and raise workers' pay. Another factor influencing wages would be stronger hiring in lower-wage sectors suggesting tightness at the lower end of the market. Having said that, this metric should begin to grind higher in the coming months, and should help put some upward pressure on inflation.

Even as the fall in job growth numbers has disappointed, underlying numbers are still robust which should help solidify expectations about a June interest rate increase by the Federal Reserve. After raising rates in March, the Fed was expected to do so twice more in 2017. But lower-than-expected labor market participation, and slowing pace of job and wage growth combined with the upcoming Congressional debate on debt-limit hike could make it think twice about more rate increases beyond June.



Small Business Optimism Index: The level of optimism among American small businesses continued to lose steam in April, although only gradually. The NFIB's small business optimism index fell 0.2 points to 104.5 in April, the third consecutive monthly softening. Still, the level of optimism has remained at the top end of the range of historical highs since late last year. Expectations that now would be a good time to expand, and higher real sales improved, while optimism regarding the economy pulled back.

The pullback in April was also likely in part the result of the failure to push ahead with the American Health Care Act (AHCA), but the recent passing in the House could show up in improved optimism in the next report. Overall, businesses have remained relatively confident that now would be a good time to expand. But, delays in the political process appeared to be pulling back expectations for immediate improvement in the economy and higher sales.

Industrial Production & Introduction: U.S. industrial output jumped 1.0% in April from a month earlier, the latest evidence that economic growth has picked up following a lackluster start to the year. The strong showing followed a string of upbeat April indicators, including the unemployment rate falling to its lowest level since 2007, solid consumer spending gains at online sellers, restaurants and other retailers, and existing-home sales climbing at their fastest pace in a decade. This broad-based growth across key sectors of the economy would suggest healthy demand from consumers and businesses, reversing some gloomier readings from earlier in the year.

U.S. factory activity was stagnant through much of 2015 and 2016 as the dollar strengthened, making U.S. goods more expensive to sell overseas, and global economic growth remained tepid. Now, the dollar has stabilized and overseas demand has picked up, helping American factories.

Euro Zone: Signs of economic revival in the euro currency zone are multiplying, indicating that Europe could be finally healing from a crisis-racked decade. The 19-country eurozone enjoyed a second successive quarter of strong growth in early 2017, outpacing the U.S. Markets have been rising strongly as confidence in the economic outlook has swelled. Corporate earnings have been rising briskly from a year ago. Eurozone politics also appeared headed for greater stability than looked likely only a few months ago.

GDP in the Euro zone grew at an annualized rate of 1.8% in the first quarter of 2017. Stronger eurozone growth would bode well for the global economy, which has had to carry a sluggish, export-dependent Europe in recent years. Crucially, the improvement stemmed mainly from domestic demand, which should benefit companies in the U.S., Asia and elsewhere that sell into the eurozone. The broadening recovery could also help Europe's political establishment in its contest for popularity against anti-euro nationalists and populists.

However, growth has spread unevenly, with Italy still struggling. Scars from the crisis years lingered in swaths of the eurozone, ranging from high debt and unemployment to weak banks and a legacy of mistrust between creditor and debtor countries.

Persistently low oil prices have helped a continent that imports the bulk of its fuel. Eurozone governments, apart from Greece, have largely stopped fiscal belt-tightening as bond markets have recovered from the eurozone crisis. Germany's government has raised spending to deal with the influx of refugees. Households and companies have paid down debt, opening the door to more consumption and investment.
And the European Central Bank's assorted measures to cut the cost of credit, including large-scale bond buying, has appeared to have made a difference, giving governments and other debtors breathing room.

The eurozone's annual rate of inflation fell more sharply than expected in May despite a drop in the jobless rate to a seven-year low, a combination that should reinforce the European Central Bank's reluctance to quickly unwind its stimulus programs. Underlying core inflation has been too weak to justify any change in policy.

Global: Global economic activity has picked up with a long-awaited cyclical recovery in investment, manufacturing, and trade. Global growth was expected to rise from 3.0% in 2016 to 3.5% in 2017. The Chinese economy grew 6.9% year-over-year in Q1, and real GDP in the Eurozone grew nearly 2% (annualized) on a sequential basis. The U.K. economy has continued to expand after the Brexit vote clouded its long-term economic outlook.

Rates of consumer price inflation have edged higher this year as energy prices stabilized. That said, real GDP growth rates generally have not been robust enough yet to lead to a significant increase in inflation. So, most major foreign central banks have been expected to keep their policy rates unchanged through 2017. The ECB may further dial back its monthly QE purchases later this year and likely will cease buying bonds altogether in 2018. An ECB rate hike would not be likely until late 2018, at the earliest. The French election eliminated a downside risk to the Eurozone economic outlook, because a Le Pen presidency would have called into question the very long-run viability of the European Union. There have been plenty of geopolitical risks in the world, but the modest pace of global expansion that has been underway over the past few years should continue.

Outlook: It is not expected that the weakness in U.S. economic growth in the first quarter of 2017 is likely to persist or extend into the rest of the year. Continuous strength in the U.S. labor market should keep the economy going during the rest of the year and any slowdown in the first quarter will be more than compensated by the strength in the rest of the quarters. Thus, the U.S. economy should grow by at least 2.0% during 2017 and accelerate a bit next year as some of the new administration's proposals, such as lower taxes and higher expenditures, come into focus during 2018. Still, the biggest issue for the U.S. economy is how to grow faster in an environment where both the labor force participation rate and productivity remains so low.

Index Performance as of 5/31/17

	1 Week	1 Month	QTD	3 Month	YTD	1 Year	3 Year	5 Year
Russell								
3000 Value	-0.36	-0.34	-0.48	-1.48	2.50	15.14	7.66	14.59
3000	0.23	1.02	2.09	2.16	7.96	17.70	9.68	15.26
3000 Growth	0.79	2.34	4.65	5.86	13.68	20.25	11.66	15.86
1000 Value	-0.29	-0.10	-0.29	-1.30	2.97	14.67	7.70	14.68
1000	0.32	1.28	2.35	2.41	8.51	17.49	9.83	15.37
1000 Growth	0.90	2.60	4.95	6.16	14.30	20.28	11.92	15.99
Mid Cap Value	-0.16	-0.31	-0.12	-0.85	3.63	15.28	8.15	15.63
Mid Cap	0.17	0.91	1.69	1.53	6.92	15.87	8.50	15.13
Mid Cap Growth	0.56	2.39	3.91	4.48	11.07	16.69	8.83	14.56
2000 Value	-1.18	-3.11	-2.73	-3.56	-2.86	21.02	7.34	13.68
2000	-0.86	-2.03	-0.96	-0.83	1.48	20.38	8.00	14.04
2000 Growth	-0.52	-0.91	0.92	2.11	6.31	19.72	8.59	14.36
Standard & Poors								
S&P 500	0.37	1.41	2.45	2.57	8.66	17.48	10.13	15.42
Consumer Disc	1.57	1.12	3.59	5.72	12.34	16.93	13.40	18.14
Consumer Staples	1.34	2.85	3.91	3.60	10.52	10.90	10.96	13.95
Energy	-3.33	-3.40	-6.19	-7.16	-12.46	-0.82	-8.98	2.81
Financials	-1.33	-1.21	-2.05	-4.76	0.43	23.14	10.93	17.69
Health Care	0.61	0.82	2.37	1.95	10.94	8.61	10.15	18.12
Industrials	0.83	1.51	3.29	2.58	8.01	21.79	9.85	16.60
Information Technology	0.82	4.40	7.03	9.77	20.49	33.84	17.91	18.52
Materials	0.32	-0.10	1.29	1.78	7.23	15.41	4.68	11.74
Real Estate	-0.73	0.72	0.82	-0.21	4.39	3.99	8.41	10.63
Telecom Services	1.96	-0.98	-4.26	-5.36	-8.06	-0.56	4.66	7.63
Utilities	1.61	4.24	5.05	4.86	11.77	13.55	11.99	12.67
Other U.S. Equity								
Dow Jones Industrial Avg.	0.06	0.71	2.17	1.56	7.47	21.18	10.65	13.96
MSCI USA	0.38	1.36	2.46	2.60	8.85	17.60	9.97	15.35
Wilshire 5000 (Full Cap)	0.18	0.95	2.05	2.18	7.89	17.91	9.42	15.10
International Equity - Broad Market								
MSCI EAFE	0.18	3.67	6.31	9.23	14.01	16.45	1.53	10.21
MSCI EM	0.07	2.96	5.21	7.87	17.25	27.43	1.62	4.54
MSCI Frontier Markets	0.65	4.27	5.48	8.09	14.87	14.38	-3.62	8.37
MSCI ACWI	0.23	2.21	3.80	5.07	10.97	17.54	5.31	11.51
MSCI ACWI Ex USA	0.09	3.24	5.46	8.13	13.74	18.26	1.26	8.39
MSCI AC Asia Ex Japan	0.90	4.35	6.62	10.10	20.89	28.10	5.27	8.27
International Equity - Country Region								
MSCI Brazil	-0.41	-5.01	-5.06	-9.33	4.78	42.25	-5.73	-4.18
MSCI BRIC	0.55	2.08	3.97	5.73	16.01	29.22	2.85	4.48
MSCI China	0.53	5.28	8.08	10.39	22.06	30.62	8.37	8.90
MSCI Europe	0.01	4.85	8.55	12.91	16.63	17.01	0.09	10.74
MSCI India	3.18	1.76	3.72	9.92	21.48	19.98	5.91	10.78
MSCI Japan	0.88	3.01	4.09	3.71	8.77	15.03	6.97	10.43
MSCI EM Latin America	-0.97	-2.37	-2.38	-1.84	9.40	27.36	-5.55	-3.15
MSCI Russia	-3.80	-6.29	-6.48	-4.49	-10.79	17.41	-4.87	-0.96

Index Performance as of 5/31/17

	1 Week	1 Month	QTD	3 Month	YTD	1 Year	3 Year	5 Year
Fixed Income								
Barclays U.S. Aggregate	0.39	0.77	1.55	1.49	2.38	1.58	2.53	2.24
BofAML 3-Month T-Bill	0.00	0.05	0.12	0.13	0.22	0.44	0.21	0.16
Barclays U.S. Gov't	0.40	0.64	1.33	1.29	2.02	0.07	2.00	1.27
Barclays U.S. Credit	0.46	1.08	2.09	1.93	3.41	3.89	3.34	3.71
Barclays High Yield Corp.	0.18	0.87	2.03	1.81	4.79	13.59	4.73	7.31
Barclays Municipal	0.46	1.59	2.32	2.55	3.94	1.46	3.49	3.31
Barclays TIPS	0.51	-0.04	0.55	0.49	1.82	2.41	1.05	0.35
Barclays Gbl Agg Ex USD	0.89	2.19	3.64	3.96	6.21	-0.04	-2.01	-0.20
Barclays Global Aggregate	0.66	1.55	2.69	2.85	4.50	0.77	-0.08	0.89
BofAML Emerg. Mkt. Cred	0.32	0.24	2.10	2.03	6.41	16.75	7.23	9.99
Alternative Investments								
Alerian MLP	-3.71	-4.52	-5.74	-6.97	-2.02	6.24	-9.32	2.57
Bloomberg Commodity	-1.92	-1.33	-2.81	-5.40	-5.07	-2.45	-14.58	-8.24
FTSE NAREIT Equity REIT	-1.21	-0.77	-0.65	-2.92	0.50	2.91	7.97	10.25
S&P Global Natural Res.	-1.53	-0.44	-0.97	-1.07	1.92	17.79	-3.62	1.68
S&P N. Amer Natural Res.	-3.35	-3.63	-6.56	-7.10	-10.53	1.44	-9.77	1.03

Sources: Department of Labor, Department of Commerce, National Association of Small Business, National Association of Realtors, European Central Bank, International Monetary Fund, Standard and Poors.