UNION

MONTHLY UPDATE AND COMMENTARY
DECEMBER 2017

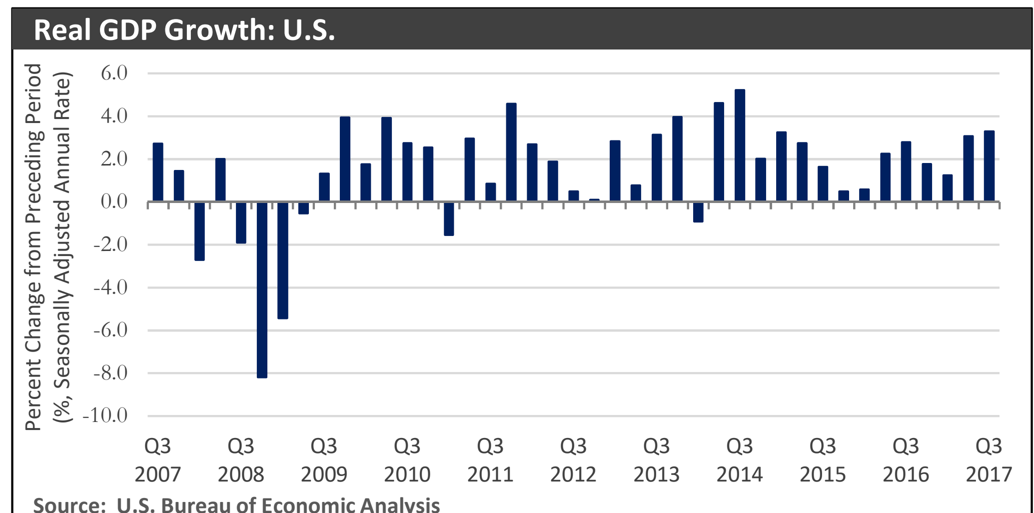
Recap: The U.S. economy has been running at its full potential for the first time in a decade, a new milestone for an expansion now in its ninth year. The revised GDP grew at 3.3% in the third quarter of 2017. That means economic output was slightly above the maximum sustainable level of output as estimated by the Congressional Budget Office.

For the second half of 2017, the growth momentum in the U.S. economy shifted up a gear relative to a year ago. On the domestic side, consumer spending and equipment investment have provided the push. The fundamentals of real disposable income and corporate profit growth have improved over the last three quarters. Gains in employment and an upturn in factory orders would indicate further progress lies ahead.

GDP: As stated earlier, revised estimates show that GDP grew by 3.3% in the third quarter of 2017.

It was the first time actual GDP had exceeded potential GDP since the fourth quarter of 2007, suggesting the nation's economic resources are being used efficiently.

An acceleration in growth at this point could generate overheating that produces financial excesses or long-elusive consumer price pressures.



Additional expansion with unemployment already at a 17-year low of 4.1% should raise pressure for higher wages, and make the Federal Reserve inclined to become more aggressive in its efforts to raise interest rates. Looking ahead, the year should end on solid footing with a projected 2.5% GDP growth rate for the fourth quarter.

Inflation: Three of the leading U.S. inflation indicators, the consumer price index, the producer price index and the import price index, collectively showed a firming of price growth in October. Although the headline CPI decelerated slightly in October, the slowdown reflected a decline in energy prices as the supply disruptions surrounding Hurricanes Harvey and Irma abated. Excluding food and energy, inflation was noticeably stronger. On balance, inflation has not rebounded sharply from its recent slowdown, but neither has it continued to fall. As a result, the stabilization of price growth and the expectation that it will slowly pick up, should keep the FOMC on the path of gradual rate increases in the months ahead.

Manufacturing: U.S. manufacturing made a strong post hurricane recovery in October making up almost all output lost from Hurricanes Harvey and Irma and boosting over-all industrial production. Manufacturing output registered a one-month increase of 1.3% in October, significantly above the combined manufacturing output change in each of the five prior months. Hurricane-related catch up drove most of the growth, with newly minted cars and automobile parts playing a big part in the output. More broadly, manufacturing helped drive nationwide growth in industrial production which rose to a seasonally adjusted 0.9% in October from the prior month.

American manufacturing has picked up pace over the last 12 months thanks to a steady global economic growth, a rise in energy and other commodity prices, and an increased business confidence. Employment numbers have pointed to the overall progress. The U.S. manufacturers have added 156,000 workers since November 2016. Also, business investment

has risen, a sign companies are spending to increase productivity.

A confluence of factors has been helping manufacturing - a shrinking wage differential between U.S. and foreign workers, and rapid technological advances in the sector. Global macroeconomic conditions have solidly led to strong orders and optimistic forecasts for global gross domestic growth and industrial production. Global energy and commodity prices have rebounded amid growth in many economies around the world. The overall environment has been more business friendly and this has created some business confidence.

To be sure, manufacturing growth could again slow if the economy would tip into recession or if there would be disruptions in trade or other geopolitical problems. A weaker dollar—which has boosted exports by making American goods cheaper abroad—could reverse direction. Those factors could fuel a long-term decline in the sector fueled by advances in automation and shifting of production abroad.

Federal Reserve: The U.S. economy rebounded from recent hurricanes, sending the jobless rate down to a 17-year low in October and driving up the pace of hiring. While that's good news, it could pose a challenge for policy makers if the economy or financial markets overheat, if labor becomes more scarce, stocks continue marching to new highs and if stimulative tax cuts kick in during the coming months.

The Federal Reserve has been widely expected to raise short-term interest rates at its final meeting of the year in December. But it might need to consider picking up the pace of rate increases next year to cool down the risk of financial excesses or the threat of future inflation.

Recent job reports have shown signs that new hires have rapidly become harder to find, a challenge aggravated by an aging workforce and the retirement of many workers. The continued strength of the labor market might warrant a faster pace of tightening. For now, weak inflation has been holding the Fed back. But there are good reasons to expect that inflation should resume its gradual rise in an environment of tighter labor markets and increased consumer spending.

Financial markets could overheat without any sign of excess in inflation readings. The jobless rate has been below any level hit in the mid-2000s, when real-estate markets overshot, and a financial crisis brewed without ever driving inflation to alarmingly high levels

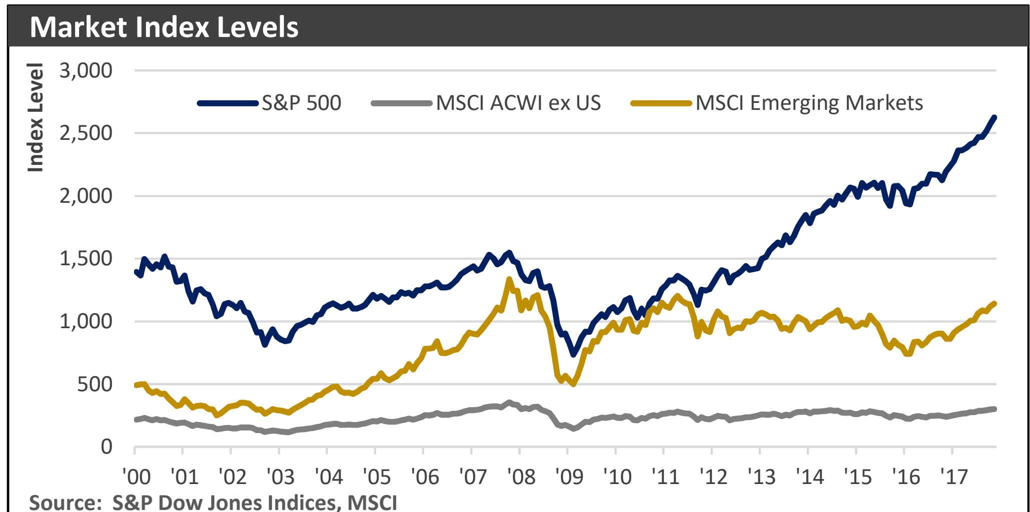
It would be hard to say the economy is overheating now. In addition to low inflation, growth in economic output has advanced at a modest pace near 2% for most of the expansion that started in 2009. It has picked up to 3% in the past six months, but it's not clear that faster pace will be sustained. Tax cuts being considered by Congress could boost growth as it's an added fuel to a synchronized global economic upturn and financial markets that have already been shooting higher. In this environment the Fed will see even more need for a steady, regular removal of accommodation.

Global: The global economy has been on course for its best year since 2010 as both the U.S. and the Euro zone grew more rapidly than had been expected. Further acceleration is likely in 2018, but growth could slow from 2019 without new measures to encourage business investment, which has remained short of pre-crisis levels.

Much of the recent pickup in growth has been due to the continuation of supportive central-bank policies around the world, with the recent addition of more stimulative fiscal policies, including proposed tax cuts in the U.S. But what has been missing is an intensification of competition that would drive increased investment and gains in productivity that could, in turn, raise real wages.

Equity Markets: The majority of global stock markets in 2017 have surged either to fresh records or multi-year highs, one of the broadest rallies in years that is a result of the increasingly synchronized global economic recovery. Half of

the 35 major indexes representing the world's biggest stock markets by value have hit all-time highs this year. Even markets that were not at records, have set other milestones.



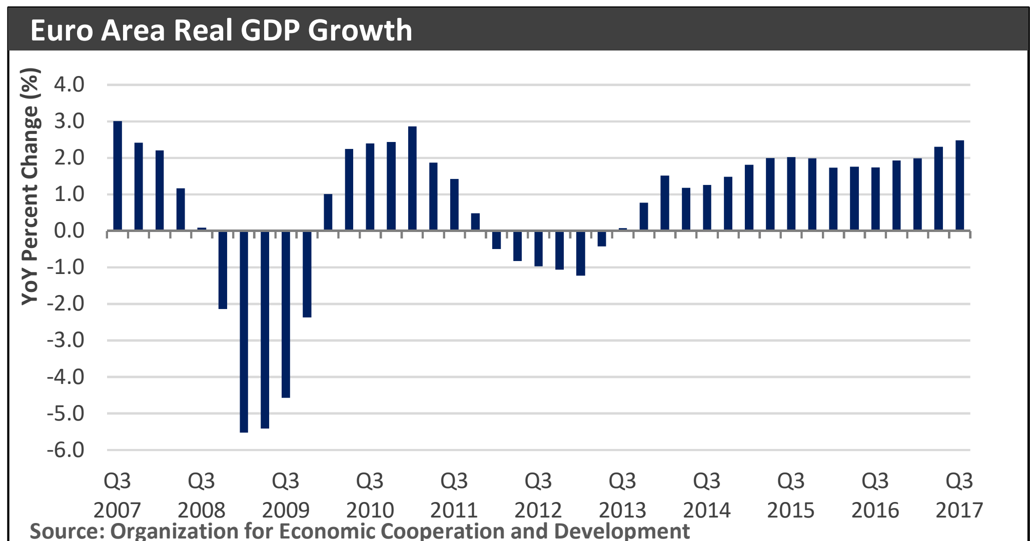
Source: S&P Dow Jones Indices, MSCI

The global stock rally has been a culmination of improving corporate earnings, strengthening economies and supporting monetary policies from central banks around the world. Market volatility has fallen to historic lows and investors have used nearly every dip as a buying opportunity. Despite lofty valuations, conditions should be ripe for the rallies to continue.

The return to growth and diminished market volatility have been driven in part by stimulative central banks. The Bank of Japan and European Central Bank have been overly accommodative since the recession. And although the Federal Reserve has raised interest rates four times, Treasury yields and mortgage rates have remained near historic lows.

For sure, concerns remain. Geopolitical risks between the U.S. and North Korea linger. And valuations are more elevated than usual in many parts of the world. Lower volatility has been consistent with higher price to earnings multiples. Recessionary risks have been extremely muted and credit spreads have remained tight. All of this would support the case that volatility should remain subdued.

Euro Zone: The Euro zone has been on track to post its fastest growth rate in a decade as a variety of political uncertainties largely failed to materialize. On the back of robust consumer spending and a global economic recovery, the 28-member bloc's GDP, meanwhile, should expand by 2.3%. The long-lasting moderate expansion has shifted into more robust and long-lasting growth.



Source: Organization for Economic Cooperation and Development

The improving economic outlook reflected a broader global economic upswing that has stoked investments by EU companies as political and economic uncertainties dimmed. Centrist, pro-European governments kept power in Germany, France and the Netherlands in the wake of a busy election cycle this year, while the European Central Bank (ECB) opted to maintain its accommodative monetary policies.

The annual rate of inflation in the eurozone rebounded in November as the unemployment rate hit its lowest level since the

start of 2009, offering some encouragement to the ECB as it prepared to cut back on a key stimulus measure. Consumer prices were 1.5% higher than a year earlier, a pickup from the 1.4% rate of inflation recorded in October.

However, the rise in inflation, largely driven by a rise in energy prices, may likely prove to be temporary due to the volatile nature of energy prices. The rate of inflation should ease in the early months of next year as a result of base effects. Early 2017 saw a short-lived jump in energy prices, and that meant tariffs would have to increase even more sharply in early 2018 to see inflation push higher.

The ECB is expected to cut its monthly bond purchases to €30 billion from €60 billion in January, but continue with quantitative easing until September, and possibly beyond. It has said it won't raise its key interest until sometime after its last bond purchase.

November's rise in headline eurozone consumer price inflation and the fall in the unemployment rate in October offered some reassurance to the ECB as it prepared to reduce the pace of its asset purchases. But the low rate of core inflation supported its cautious approach to changing policy. The ECB has been pinning its hopes for meeting its target on a pickup in wages as the eurozone's economic recovery strengthens and broadens.

Despite the upbeat projections, the Euro zone has still faced labor, wage and inflationary pressures that were compounded by risks posed by the U.K.'s exit from the bloc and President Trump's protectionist economic policies.

Japan: Japan's economy grew at an annualized pace of 1.4% in the July-September quarter, marking its longest growth streak in 16 years with help from stronger global demand. But private consumption fell an annualized 1.8% in the quarter, showing how current economic policies have yet to rouse consumers. The expansion was largely driven by exports, which rose an annualized 6% in the quarter.

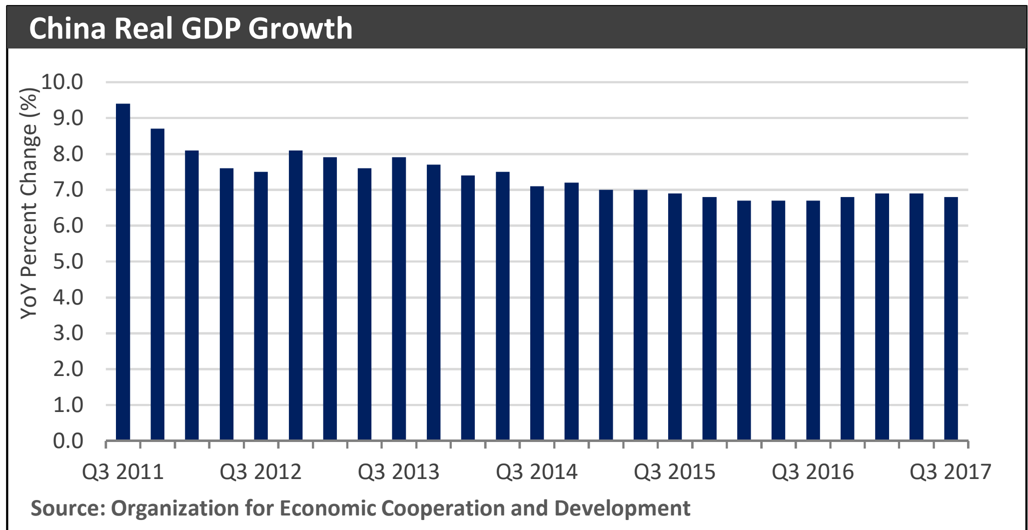
After a choppy period following the global financial crisis and a tax increase in 2014, Japan's economy has been remarkably consistent since the beginning of 2016, growing at an annual rate between 0.9% and 2.6% every quarter. A growth rate of 1% to 2% should continue with help from higher corporate investment, barring any surprises from overseas.
Since Prime Minister Abe took office in late 2012, he has been trying to end years of sluggish growth and deflation through his Abenomics policy package, which has been aimed at getting the economy into a cycle of rising wages, spending and inflation. Recently, a weaker yen and a stronger economy in key markets such as China and the U.S. have boosted corporate earnings to a record high.

The biggest problem facing the Japanese economy is the lack of growth in average wages, which has made many workers reluctant to spend more freely. Modest inflation is returning, but it is still far from the central bank's goal of 2%.

China: Activity in China's critical manufacturing sector picked up in November, as robust global demand for Chinese exports boosted the world's second-largest economy. The purchasing manager index edged up to 51.8 in November from 51.6 in October. China's economy has shown surprising strength, confounding the expectations of many analysts for a slowdown in the year's final months due to Beijing's efforts to cut excess capacity, curb pollution and reduce corporate and financial-sector debt. The purchasing manager index would suggest that growth momentum held up well in the final quarter despite all these headwinds.

Orders for exports and imports showed improvement in November and that should bode well for China's trade figures. Global demand, which has been weak in recent years, has staged a sustained revival this year, helping China clock better-than-expected economic growth in the first three quarters. Adding to the brighter outlook was increased spending by enterprises and faster expansion by equipment and high-tech manufacturing as well as consumer-goods makers.
Strong exports, along with aggressive government spending, drove the Chinese economy to a 6.9% growth rate in the first

nine months of the year, putting the government's 6.5% annual growth target in easy reach for the final quarter.



Beijing has already started to scale back its fiscal spending while moving forward in its deleveraging campaign and keeping a lid on a hot property market to try to guide the economy to a healthier footing. The slower credit growth, a cooler housing market, reduced fiscal support plus the antipollution crackdown should sap the current growth momentum in the coming months.

Outlook: The global economic expansion is expected to remain intact, although a return to the "boom" years of 2003-2007 does not look likely anytime soon. Sluggish GDP growth and benign inflation have induced many central banks to adopt extraordinarily accommodative policy stances over the past few years. However, policy stances in many foreign economies are starting to evolve as growth footing around the world firms.

Index Performance as of 11/30/17

	1 Week	1 Month	QTD	3 Month	YTD	1 Year	3 Year	5 Year
Russell								
3000 Value	2.64	3.05	3.75	7.14	11.76	14.71	8.53	14.17
3000	1.92	3.04	5.28	7.85	19.93	22.29	10.75	15.63
3000 Growth	1.23	3.03	6.83	8.56	28.65	30.28	12.95	17.04
1000 Value	2.67	3.06	3.81	6.89	12.03	14.84	8.35	14.18
1000	1.92	3.05	5.41	7.66	20.35	22.62	10.73	15.69
1000 Growth	1.20	3.04	7.03	8.42	29.21	30.83	13.10	17.14
Mid Cap Value	2.14	3.38	4.21	7.06	11.96	13.96	8.82	15.00
Mid Cap	1.84	3.36	5.09	8.00	17.43	18.77	9.32	15.26
Mid Cap Growth	1.45	3.34	6.23	9.24	24.60	25.05	9.99	15.59
2000 Value	2.19	2.89	3.03	10.32	8.88	13.38	10.89	14.16
2000	1.85	2.88	3.76	10.23	15.11	18.35	11.14	15.02
2000 Growth	1.52	2.87	4.46	10.15	22.03	23.71	11.31	15.84
Standard & Poors								
S&P 500	2.02	3.07	5.47	7.65	20.49	22.89	10.91	15.75
Consumer Disc	2.36	5.06	7.28	8.18	20.08	20.18	12.28	17.20
Consumer Staples	2.26	5.67	4.18	3.29	11.03	14.57	7.26	12.29
Energy	2.15	1.76	1.09	11.13	-5.62	-3.80	-1.59	1.93
Financials	4.86	3.50	6.54	12.02	19.84	24.53	13.84	18.86
Health Care	2.32	2.92	2.13	3.14	22.87	23.79	8.04	17.73
Industrials	4.22	3.86	4.07	8.24	18.78	19.40	11.17	16.87
Information Technology	-0.91	1.15	9.00	9.69	38.82	41.02	18.06	20.89
Materials	1.73	0.99	4.89	8.58	21.48	21.65	8.86	12.46
Real Estate	-0.26	2.97	3.74	2.31	11.41	16.27	6.75	10.61
Telecom Services	6.08	6.03	-2.05	1.40	-6.64	0.94	3.82	6.28
Utilities	1.48	2.75	6.76	3.84	19.44	25.36	11.01	14.07
Other U.S. Equity								
Dow Jones Industrial Avg.	3.31	4.24	8.87	11.22	25.69	30.04	13.68	16.11
Wilshire 5000 (Full Cap)	1.89	3.01	5.17	7.69	19.63	21.96	10.45	15.44
International Equity - Broad Market								
MSCI EAFE	0.31	1.05	2.58	5.14	23.06	27.29	5.97	8.24
MSCI EM	-2.73	0.20	3.71	3.30	32.53	32.84	6.14	4.61
MSCI Frontier Markets	0.66	1.16	2.40	4.50	27.86	31.36	2.52	9.04
MSCI ACWI	0.74	1.94	4.05	6.06	22.01	24.66	8.01	10.94
MSCI ACWI Ex USA	-0.54	0.81	2.71	4.62	24.41	27.61	5.74	7.06
MSCI AC Asia Ex Japan	-2.81	0.63	5.38	5.26	37.99	35.19	8.97	8.05
International Equity - Country Region								
MSCI Brazil	-4.46	-3.11	-6.29	-2.32	18.67	19.68	0.93	-2.11
MSCI BRIC	-3.31	0.60	3.64	4.56	37.79	36.17	8.18	5.65
MSCI China	-3.84	1.56	5.60	6.69	51.18	45.03	12.45	10.52
MSCI Europe	0.56	0.22	0.69	4.01	23.64	30.15	4.61	7.65
MSCI India	-0.86	-0.70	6.62	2.68	32.29	32.22	4.80	7.83
MSCI Japan	0.15	2.99	7.74	9.85	23.13	24.34	10.83	12.16
MSCI EM Latin America	-3.55	-3.01	-6.50	-5.02	18.48	19.52	-0.92	-2.83
MSCI Russia	-2.28	3.39	1.37	5.90	2.29	15.05	8.20	-1.05

Index Performance as of 11/30/17

	1 Week	1 Month	QTD	3 Month	YTD	1 Year	3 Year	5 Year
Fixed Income								
Barclays U.S. Aggregate	-0.39	-0.13	-0.07	-0.55	3.07	3.22	2.11	1.98
ICE BofAML US 3M Trsy Bill	0.03	0.08	0.17	0.26	0.74	0.79	0.37	0.25
Barclays U.S. Gov't	-0.46	-0.14	-0.25	-1.09	1.99	1.89	1.34	1.13
Barclays U.S. Credit	-0.37	-0.09	0.25	0.02	5.34	5.98	3.36	3.05
Barclays High Yield Corp.	0.18	-0.26	0.17	1.07	7.18	9.17	5.73	6.04
Barclays Municipal	-0.45	-0.54	-0.29	-0.80	4.36	5.59	2.79	2.55
Barclays TIPS	-0.45	0.13	0.34	-0.30	2.07	1.97	1.36	-0.18
Barclays Gbl Agg Ex USD	0.15	2.12	1.36	0.08	10.22	9.17	1.27	-0.35
Barclays Global Aggregate	-0.08	1.11	0.73	-0.18	7.02	6.54	1.67	0.66
JPM EMBI Global Div	0.06	0.05	0.42	0.43	9.45	10.92	6.02	4.57
Alternative Investments								
Alerian MLP	1.36	-1.35	-5.43	-4.78	-10.75	-6.84	-12.42	-1.61
Bloomberg Commodity	-1.51	-0.46	1.67	1.52	-1.24	0.54	-8.41	-9.47
FTSE NAREIT Equity REIT	-0.49	2.71	1.72	1.70	5.45	10.41	6.35	10.32
S&P Global Natural Res.	-0.05	0.53	2.72	5.97	16.03	19.48	4.21	1.96
S&P N. Amer Natural Res.	1.23	1.58	0.24	8.16	-4.22	-3.50	-2.00	0.14

Sources: Department of Labor, Department of Commerce, Eurostat, Japanese Cabinet Office .

Securities are not insured by FDIC or any other government agency, are not bank guaranteed, are not deposits or a condition to any banking service or activity, are subject to risk and may lose value, including the possible loss of principal.