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QUARTERLY MARKET INSIGHTS
2ND QUARTER 2017



DISMANTLING DODD-FRANK

In early June, the House of Representatives passed the Financial Choice Act which would scale back a number of financial regulations put in place by the 2010 Dodd-Frank Act. The bill cleared the House on a vote of 233 to 186, with one Republican voting against the reform. The objective of the bill is to encourage economic growth by loosening the heavy regulation of the financial sector. The House bill would unravel significant parts of Dodd-Frank by alleviating healthy banks of certain regulatory requirements, such as annual stress tests, and allow failing banks to go through bankruptcy rather than a liquidation process headed by regulators. Stress tests of major banks would be limited to every 2 years under the proposed bill. Additional aspects of the bill include forcing new financial rules to be analyzed via a cost-benefit analysis, increasing penalties for violators of regulatory requirements, and repealing the Volcker Rule which prevents banks from speculative trading. Those that defend the bill point to helping smaller businesses by allowing them to grow and create new jobs under the new legislation. Furthermore, the bill would help smaller community banks that are more burdened by the costs of financial regulation. In the United States, the four largest retail banks hold 45% of all customer bank deposits; this concentration of deposits has been exacerbated by smaller community banks closing their doors over costly regulation.

The heart of the bill focuses on offering banks an option: remain under Dodd-Frank's expensive regulations, or hold capital equal to 10% of assets in return for more lending freedom and less regulation. The 10% capital requirement obligates banks to fund every \$100 of loans or investments with at least \$10 of equity, as opposed to borrowed money. This stipulation should make banks more stable by relying less on borrowed money. Large banks oppose this stipulation because they currently do not meet the threshold. Big banks have prospered under Dodd-Frank since they can easily handle compliance costs unlike their smaller competitors. In a statement, Sen. Mike Crapo chairman of the Senate Committee on Banking, Housing and Urban Affairs, said the bill "makes a positive move away from government micromanagement, and returns to basic principles of safety and soundness and market-driven principles." In theory, well-capitalized banks would not benefit from additional

regulation, as moral hazard concerns are less of an issue.

Opponents of the 10% capital requirement, however, suggest that given how interconnected and complex large financial institutions are today, a 10% capital requirement does not go far enough to protect the financial system. In their view, government oversight of these firms would remain an absolute necessity.

Though the Financial Choice Act has been passed by the House, it is doubtful that it will become law in its current form, due to lack of backing within the Senate. The bar is higher in the Senate, which unlike the House vote, would need to sway eight democrats to meet the 60-vote threshold. Aspects of the plan could be passed through the budget reconciliation process, which would only require a 50-vote majority in the Senate. In addition, the Trump administration has the power to affect change here, as much of the language in Dodd-Frank is fairly vague and open to interpretation by regulatory bodies. Changes to the Dodd-Frank regulations must be approved by three bank regulators: the FDIC, the Fed and the Office of the Comptroller of the Currency. Several of the top posts at these organizations are yet to be filled by President Trump.

The Senate remains preoccupied with health care and tax reform, thus the timeline remains up in the air. The Financial Choice Act bill has been vehemently opposed by Democrats, stating the bill would destroy important policies put in place to prevent another financial crisis as well as protect consumers. Specifically, the bill targets reducing the enforcement ability of the Consumer Financial Protection Bureau (CFPB), which is a federal agency created by Dodd-Frank to monitor financial firms for compliance. Under the bill the CFPB's budget would be controlled by Congress, opening the door for the possibility that the organization is defunded. Democrats showed their opposition by not offering any amendments to the current form of the bill, reflecting their belief that the bill is beyond repair.

Overall, the picture regarding the future outlook of banking regulation appears murky at best. Even if the bill goes nowhere, it shows Republicans are focused on reducing regulation of the financial sector. Each political party has valid points regarding the proposed deregulation and a compromise that focuses on preventing another financial crisis as well as easing regulation in order to spur economic growth seems to be the most appropriate. The coming months will paint a clearer picture of what aspects will be implemented and how this will affect consumers, banks, and the economy as a whole.

ECONOMY

ECONOMY JUST SLIGHTLY BETTER IN SECOND QUARTER

U.S. economic growth slowed less sharply in the first quarter than initially reported. GDP increased at a 1.4% pace according to the third and final estimate released by the Bureau of Economic Analysis, above the first reading of 0.7%. The adjustment was driven by an upward revision in consumer spending growth to 0.6%, above the previously reported 0.3%. During the first quarter of the year, spending on housing, health care and financial services, including insurance, rose much higher in the third estimate than the prior estimate. In the second quarter, analysts expect growth to accelerate slightly, fueled by solid hiring and an uptick in consumer spending. Indications are that the U.S. economy continues to plod along at the same modest rate as it has for years, with steady growth of around 2%.

In June, the Federal Reserve announced its third rate hike in the last six months, even though inflation is running below the central bank's target. The new benchmark policy interest rate range is now 1.00% to 1.25%. The recent economic data has caused the FOMC to decrease their median projection for core inflation to 1.6% in 2017, down from the 1.9% forecast in March. The members of the FOMC continue to try to understand contradictory signals from the labor market and inflation. The Fed also provided details on how they intend to reduce their \$4.5 trillion balance sheet this year. The balance sheet normalization program is contingent upon the economy continuing to evolve as the Fed expects. Minutes from the meeting showed that officials had already discussed setting a limit each month on the amount that the balance sheet will shrink. The "dot plot" data from the latest FOMC meeting showed a median expectation of another three quarter-point rate increase in 2018.

ECONOMIC INDICATORS	LATEST	3MO PRIOR	CHANGE*
REAL GDP (QoQ ANNUALIZED)	1.4%	2.1%	▼
TRADE BALANCE	-46.51	-44.91	▼
UNEMPLOYMENT RATE	4.4%	4.5%	▲
NON-FARM PAYROLLS	222K	50K	▲
ISM MANUFACTURING	57.8	57.2	▲
ISM NON-MANUFACTURING	57.4	55.2	▲
RETAIL SALES (LESS AUTOS)	0.0%	0.1%	▼
INDUSTRIAL PRODUCTION	0.0%	0.3%	▼
HOUSING STARTS	1092M	1288M	▼
CONSUMER PRICE INDEX (YoY)	1.9%	2.7%	▲
CONSUMER CONFIDENCE	118.9	124.9	▼
EXISTING HOME SALES	5.62M	5.47M	▲
CONSUMER CREDIT	18.41B	16.58B	▼
CRUDE OIL PRICE	46.04	50.60	▲

Source: Bloomberg. Past performance does not guarantee future results. *The change arrow is indicative of a positive or negative change in the economic nature of the data series. For example, a downward-pointing change arrow assigned to the crude oil price field will correspond with an increase in the actual price of crude oil over the last three months. This is because a short-term increase in the price of crude oil has historically been detrimental to U.S. economic growth.

ECONOMY CONTINUED

HOUSING

In May, existing home sales contract closings rose 1.1% from April, and the median sales price rose 5.8% year over year to a record \$252,800. Inventory of available properties fell 8.4% year over year to 1.96 million units. Meanwhile, median prices for new home sales increased by 16.8% year over year to a record \$345,800, while the supply of homes remained unchanged at 5.3 months. These results suggest the supply of houses in the U.S. is most likely tight and might continue to tighten. Further, housing prices could continue to increase with the supply of houses decreasing as demand increases. The supply of available properties is shrinking, with 24 straight months of year-over-year declines. Also, there are no signs of a supply rebound coming soon with construction starts for new homes having declined for three straight months and building permits touching a one-year low in May. The housing market appears strong with current economic conditions of near historically low mortgage rates, a healthier labor market, and rising wages. As a consequence, affordability for first-time buyers might become more challenging in the months and quarters ahead.

EMPLOYMENT AND MANUFACTURING

U.S. nonfarm payroll employment increased in May, adding 138,000 new jobs, and coming in below consensus estimates. March and April payrolls were each revised downward. The economy is growing, but at a reduced pace. The unemployment rate fell by 10 basis points for the second straight month to 4.3%, the lowest reading since May of 2001. The drop might not indicate a strengthening labor market as the decline was due to fewer Americans looking for work and a drop in the labor participation rate. In May, average hourly earnings year over year came in at 2.5%, below economists' estimates of 2.6%, but matching April's rate of 2.5%.

The ISM Manufacturing Index rose to 57.8 points in June, up 2.9% from the May reading and its highest level since August 2014, according to the Institute for Supply Management. This indicates growth in manufacturing for the 10th consecutive month. A reading above 50% indicates that the manufacturing economy is generally expanding; below 50% indicates that it is generally contracting. Of the eighteen manufacturing industries, fifteen reported growth, while three reported contraction. Nine of the ten index components grew, while the inventories index was the only to contract. ISM's Backlog of Orders Index registered 57% in June, an increase of 2% from the 55% reported for May, indicating growth in order backlogs for the fifth consecutive month. The report provides support for continued growth in the manufacturing sector and adds to encouraging signs that the U.S. economy rebounded in the second quarter.

EQUITY

THE SIGNS OF SYNCHRONIZED GROWTH

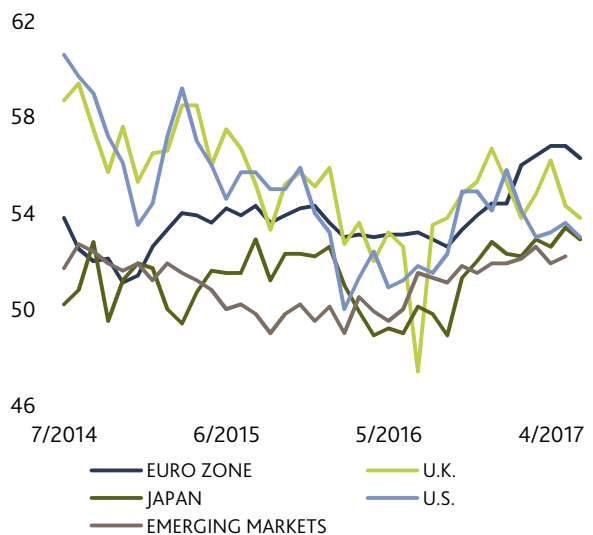
The positive momentum of the first three months of 2017 extended to the second quarter for almost every major global equity market. Global stocks as measured by the MSCI All-Country World Index generated a total return¹ of 4.4% in the second quarter, following a 7.0% first quarter gain. The Wall Street Journal noted in a recent front page article that 26 of the world's 30 largest equity indexes by market capitalization advanced in the first two quarters of 2017, marking the best first half performance since 2009.² In the U.S., the Dow Jones Industrial Average, S&P 500 Index and NASDAQ Composite all provided investors with quarterly total returns of at least 3.1%. The impressive breadth of this synchronized global first half rally seems to be supported by improving corporate earnings in the U.S. and Europe, improving economic data in the euro zone and emerging markets, and a timely reduction of political risk in continental Europe.

This quarter and through the first half of 2017 has witnessed the somewhat unexpected outperformance of European equities compared to U.S. and Japanese equities in the developed markets. Coming into the year, concerns about elections in several key euro zone countries, as well as the overall rise in populism in Europe, weighed on the outlook for stability in financial markets. However, European equities, as measured by the STOXX Europe 600 Index, posted a total return in dollar terms of 8.5% in the quarter and 18.0% in the first half of the year. This compares with U.S. equity performance as measured by the Russell 3000 of 3.0% in the second quarter and 8.9% year to date through the end of June. Contributing factors include strong leading economic indicators; above average sentiment among businesses, consumers and manufacturers; first quarter year-over-year annualized GDP growth of 1.9% which exceeded expectations;

declines in the unemployment rate in key countries; centrist victories in France and the Netherlands; and the stabilization of the euro against the U.S. dollar.

Regarding market-friendly European political surprises, the early May election of pro-euro and pro-reform candidate Emmanuel Macron as French president was probably most critical. Later in the quarter, Macron's recently formed En Marche party secured a parliamentary majority, thus possibly setting the stage for pro-growth reforms of the French corporate sector and labor market. While French politics may seem far afield for some U.S. investors, France is the world's sixth largest economy by Gross Domestic Product, a founding member of both the European

GLOBAL PURCHASING MANAGER'S INDEXES



Source: Bloomberg. Past performance does not guarantee future results.

EQUITY CONTINUED

Union and euro zone currency bloc, and home to multinational corporate giants like integrated oil firm Total, S.A, pharmaceutical blue chip Sanofi S.A., commercial jet maker Airbus SE and luxury goods conglomerate LVMH Moët Hennessy Louis Vuitton SA.

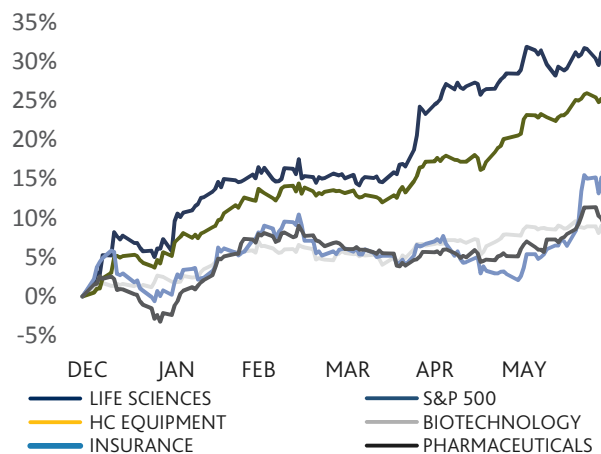
European purchasing managers indexes are sharply higher than their lows during the financial crisis as seen in the chart on the previous page. Construction activity is improving while capital investment has rebounded from its low in 2013. In addition, earnings expectations for European companies in the MSCI Europe Index have risen over the last year from 13.9% to 23.2% while credit availability and lending conditions are also improving. European equities are now approaching their 2014 highs, but are still below their peak in 2007. Looking at the key countries in Europe, year-to-date returns have ranged from 10.7% for the UK MSCI IMI country index to 18.6% for France.

Turning stateside, in the past three months, U.S. markets sidestepped a bear market in crude oil prices, a bout of negative sentiment and data in key cyclical sectors like autos and homebuilding, and another quarter point rate hike from the Fed in mid-June. As mentioned above, part of this resilience was driven by a very strong batch of first quarter corporate earnings. According to Bloomberg, S&P 500 first quarter earnings per share grew at a year-over-year clip of 17.8%, marking the best growth rate since 2011. Several other notable variables may have supported U.S. equities in recent months including a steady 5.2% decline in the Bloomberg trade-weighted dollar Index over the first two quarters of 2017. This follows an enormous 29.2% advance over the years 2013 to 2016. A weaker dollar generally helps support profits of U.S. multinationals with significant international revenue exposure. Additionally, shares of U.S. banks were given a shot in the arm during the second quarter by the Fed's June rate hike,

successful navigation of the daunting Fed "stress tests", and subsequent regulatory approval of the vast majority of their capital plans.

The S&P 500 healthcare sector was the top performing major sector in the broad index during the second quarter. Investors bid up shares of medical device makers, insurers, clinical and laboratory diagnostics providers, and biotechnology firms. Market commentators have pointed to disagreement among Senate Republicans and a subsequent delay of a vote on legislation to repeal the Affordable Care Act as recent catalysts for the sector. Also seen as supporting the sector was draft language suggesting alleged excessive drug pricing from U.S. pharmaceutical manufacturers may not be as much of a concern for Congressional Republicans as previously thought.

HEALTHCARE INDUSTRY 1H17 PERFORMANCE
DECEMBER 30, 2016 THROUGH YTD



Source: Bloomberg. Past performance does not guarantee future results.

¹ Total Return = Price Appreciation + reinvested dividend payments

² Russolillo, S. (2017, July 1-2). Global Stocks Cap Strong First Half. The Wall Street Journal, pp. A1, A2.

YIELD TO YOUR SENSE OF CAUTION

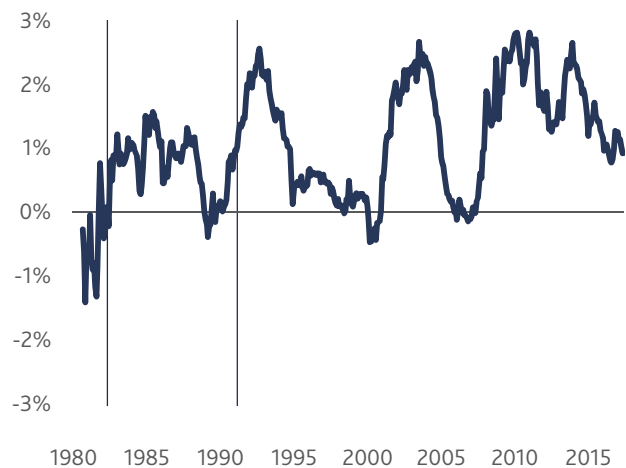
As yields at the long end of the curve slid lower and short-term yields rose throughout the quarter, investors grew increasingly concerned with what that might mean for the banking sector and the broader economy. While the yield on the 10-year U.S. Treasury only fell eight basis points by the end of the quarter, it hit a low of 2.13%, representing a decline of roughly 25 basis points relative to where it began the quarter. This decline, combined with a steady rise in the front end of the curve following the FOMC rate hike at their June meeting led to a flattening of the curve by the end of the quarter. A persistent curve flattening, a smaller yield differential between the yield on a two-year U.S. Treasury and that of a 10-year U.S. Treasury tends to signal a “risk-off” atmosphere for the market. The yield advantage of lending to the U.S. government for ten years instead of just two years fell to just 79 basis points on the day the Fed raised rates, but has since risen back to 92 basis points at the end of the second quarter. Investors appear concerned that further curve flattening will hinder the ability of banks to make loans, which could in turn lead to a recession. However, it is the inversion of the yield curve rather than flattening that tends to precede recessions. Going back to June of 1976, a recession has not occurred without the yield curve first inverting. In fact, since that date the average steepness of the yield curve at the end of a month has been 96 basis points, just 4 basis points steeper than where it ended the quarter.

Even after the comments made by ECB president Mario Draghi about the “strengthening and broadening recovery in the euro area,” the yield advantage provided by U.S. Treasuries remains relatively attractive compared to its counterparts in other developed countries. Despite recently converging, the yield difference between

the 10-year U.S. Treasury and an equivalent bond in Germany is still the 12th highest since 1989. In the second quarter, the PIMCO Global Advantage US Government Bond Index has returned 1.39%, while the PIMCO Global Advantage Germany Government Bond Index has returned -1.14%. Given the continued elevated yield differentials and the real potential for other developed central banks to become comparatively more hawkish than the Fed, it makes sense to focus on domestic fixed income markets for the time being.

Based on the historical spread analysis, both the U.S. high yield sector and emerging market bonds appear to be relatively less attractive compared to their average levels

U.S. 2-YEAR YIELD
FROM SEPTEMBER 1980 THROUGH JUNE 2017



Source: Bloomberg. Past performance does not guarantee future results.

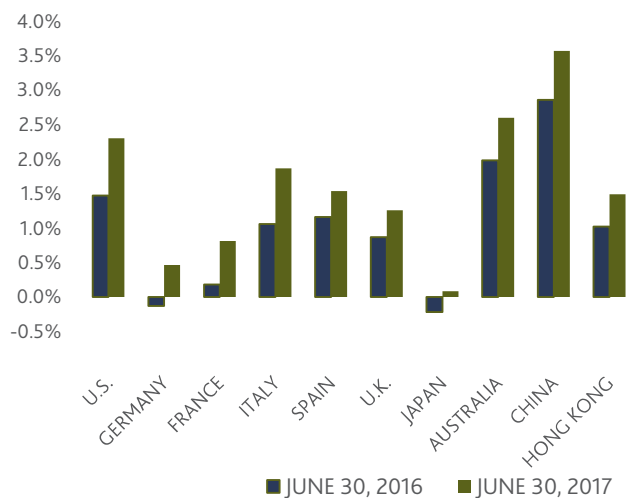
FIXED INCOME CONTINUED

dating back to the end of 2001. The current spread of the Barclays Capital US Corporate High Yield to the 10-year U.S. Treasury yield is roughly 332 basis points, while averaging 523 basis points since November 2001. Similarly, emerging market bonds are trading inside their historical average spread based on the Credit Suisse Emerging Market Corporate Bond Total Spread Over Benchmark measure. Even investment grade corporate spreads are relatively narrow, though not as much as they have been in recent memory. As a result, investors should be cautious when considering an overweight exposure to higher yielding, lower quality paper as the risk/reward appears to be unbalanced at the moment.

Extending the average maturity of your bond portfolio offers some yield pickup, but that comes with additional duration risk, which came out of the woodwork after the election last year. While it is true that the BofA Merrill Lynch Current 30-Year US Treasury Index has gained 5.53% year to date, it is also true that the same index suffered a loss of 8.94% over the last twelve months. Much of the move higher in rates last year appears to have been driven by the fear that Trump's policies would cause inflation. In contrast, at least part of the decline in rates this year seems to have been caused by the realization that he will face intense opposition to major parts of his agenda. It is not unreasonable to think that certain policy triumphs for Trump could bring back some of the inflation fears to the market. While the Fed continues to push forward with its tightening rhetoric, which suggests that they believe the current level of employment will eventually result in inflation, market based inflation measures and consumer surveys continue to show that consumer expectations for inflation remain well anchored

around the Fed's 2% target. Drifting too low in credit quality or too far out the yield curve appear relatively unattractive compared to remaining neutral to your fixed income benchmark as much of the risks appear to be weighted to the downside for bond investors at the moment.

10-YEAR GOVERNMENT BOND YIELDS
YIELDS AS OF JUNE 30, 2016 AND JUNE 30, 2017



Source: Bloomberg. Past performance does not guarantee future results.

OUTLOOK

COMPARING LAST YEAR'S CONSENSUS TO THE CURRENT ENVIRONMENT

At mid-year, it is often instructive to look back on the first half and extrapolate which of those moves in the securities markets have the best potential to continue. Since the first half of this year has been more volatile in economic and political terms, as contrasted to the rather tame securities markets, it could be more illustrative this time to review the 2016 year-end consensus expectations and observe whether they have panned out. Depending on how the markets have performed compared to what was believed to happen last year, this may provide even better insights for the near term.

Our view of the most commonly held beliefs at the end of 2016 are listed below. Please note that these are our views of the commonly held beliefs in that market at that time, and not necessarily our current views.

BELIEFS

- Regulations and taxes would both decline.
- The U.S. would run a larger budget deficit as a result of both falling tax collection and increased spending on defense and infrastructure.
- GDP growth and inflation would be high enough to merit 3-4 rate hikes.
- Protectionist trade policies would create headwinds for U.S.-based multinational corporations.
- The U.S. dollar would strengthen.
- Longer-term bond rates would rise.
- U.S. equities would outperform developed and emerging market foreign equities.

In the order listed above, we notice the following have happened instead:

OUTCOMES

- Initial efforts to roll back the Affordable Care Act have been unsuccessful and tax reform efforts have now been delayed to later this summer.
- The first budget had only modest increases to defense and infrastructure spending.
- First quarter GDP growth was reported at only 1.9% and many inflation measures remain below 2%.

- The protectionist rhetoric has retreated, allowing only a modest difference between equity returns categorized by market cap size.
- At the end of 2016, it took only \$1.05 to buy €1.00 and recently it took \$1.11, indicating the dollar has fallen.
- Despite hawkish Federal Policy moves, the yield on U.S. 10-Year Treasuries has fallen from 2.45% to 2.20%.
- Developed and emerging market foreign equities have vastly outperformed their U.S. counterparts.

The point of reviewing these surprises is not to embarrass those who held the belief, but rather to illustrate that allowing public opinion to shape investment decisions can be counterproductive. Instead of focusing on popular sentiment, we think an understanding of the fundamental characteristics of the economy and markets can provide better insights.

ECONOMIC INDICATOR	LATEST	SIGNAL
FED FUNDS POLICY	1.25%	BEAR
STEEPNESS OF YIELD CURVE	1.39%	BULL
UNEMPLOYMENT RATE	4.30%	BULL
WTI OIL PRICE	\$46.04	BULL
S&P 500 INDEX	2624.00	BULL
S&P/CASE-SHILLER HOME PRICE INDEX	197.19	BULL
PRODUCER PRICE INDEX	2.60%	BULL
PHILADELPHIA FED SURVEY	27.60	NEUTRAL

Source: Bloomberg

OUTLOOK CONTINUED

The following is a review of the latest trends in economic and fundamental data that can influence returns for the major asset classes. Being aware of these trends helps investors better understand how rewards and risks of investing in the securities markets evolve over time. Additionally, having a deeper understanding of the opportunities in the current market can help investors craft a customized portfolio better suited to their goals.

For an intermediate-term read on how the economy can impact the equity markets, we track eight broad economic indicators. Consistent with our belief that security prices ought to reflect economic fundamentals, these eight factors cover everything from interest rate policy and inflation to unemployment and oil prices.

REAL ESTATE

For many Americans a residence, be it an apartment or a stand-alone home, can be their largest investment. It should then follow, that changes in home values can influence spending. Even before the cash out refinancing practice of the prior decade amplified this relationship, economists were well aware of it and have called it the wealth effect. Economist Edward Leamer of the John Anderson Graduate School of Management at UCLA wrote a paper in 2007 titled "Housing is the Business Cycle" which included more than 50 references, some as far back as the 1950s.

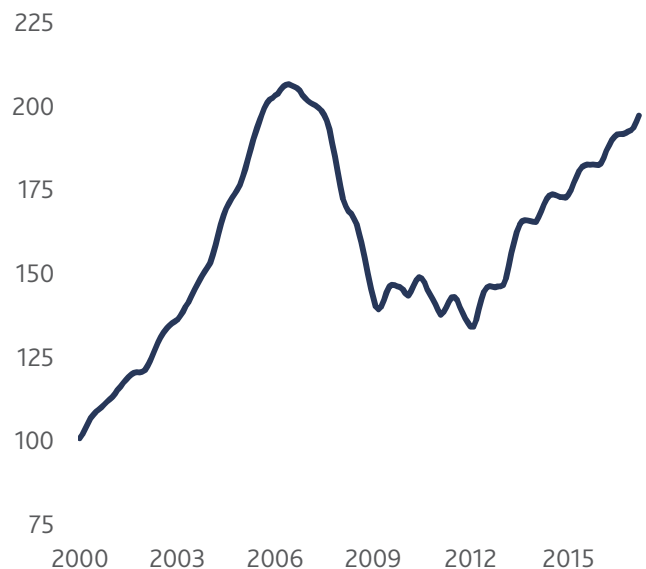
Our analysis of personal real estate values has shown that often the wealth effect from housing also positively affects the stock market. This relationship appears to be disproportionately strong on the downside. We observed that when house prices have declined over a six-month period, equity prices tend to underperform over the following year.

Up until the peak in 2006, there was a general perception that "home prices always go up." True, there was some seasonality to the pattern, with prices moving sideways in the winter months only to begin rising again over the summer, but broadly speaking the average American homeowner had great confidence in his or her home as an investment. Historically, short lived breaks in this gentle uptrend only occurred when too many homes were built

too quickly or bank appetites for originating mortgage loans declined. The experience during the real estate bust of 2007-2008 can be regarded as an extreme example.

As shown in the chart below, home prices hit bottom in 2012 and the seasonal pattern now appears to again be in force. Notice how the line in the chart beginning in 2013 moves upward and to the right followed by a move horizontally to the right. This pattern is the familiar experience of "home prices always go up" that was widely held pre-2006. With home prices nearing the 2006 peak, the wealth effect from housing ought to remain a constructive force for consumer spending and the stock market. Other housing data that tracks activity tend to be rather volatile in the near term, but we monitor them nonetheless. With inflation, interest rates and unemployment at or near historical lows, the momentum in real estate could support the markets for quite some time.

HOME PRICES
SINCE 2000



Source: Bloomberg. Past performance does not guarantee future results.

ECONOMIC OUTLOOK

ECONOMIC FACTORS	CURRENT OUTLOOK
U.S. GDP Growth	After relatively tepid growth for the first half of the year, the median forecast for U.S. GDP growth in 2017 remains at 2.2%.
Federal Funds Rate	Without a timetable in place for unwinding its balance sheet, concern is growing over the financial stability risks of loose policy.
Inflation	With the Fed's preferred inflation measure now running below the central bank's target, opposition to additional 2017 rate hikes has increased.
Employment	Job gains in excess of 100k per month should keep the unemployment rate below full employment and drive increases in labor force participation.
Consumer Confidence	Consumer expectations, while still high, have cooled since the November election. Policy unknowns may weigh on confidence in 2H17.
Oil	Persistent signs of an oversupply of oil (U.S. production increases and rising OPEC exports) should keep a lid on prices.
Housing	Weakening affordability is having a cooling effect on the housing market, especially on the low end of the market where demand is the highest.
International Economies	Despite improving global growth, the IMF has warned that low interest rates and slowing U.S. growth could increase the risk of financial distress.

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
FIXED INCOME		●		CURRENT OUTLOOK
Core Bonds		●		We suggest a neutral allocation to core investment grade bonds, and expect this allocation to perform well in the event of a stock market sell off. We recommend an underweight to satellite fixed income, where spreads further narrowed in recent months. We still do not see much value in developed international government bonds given their low yields. On the contrary, we continue to own TIPs as a hedge against an unexpected spike in inflation as the economy approaches full employment. Municipal bonds should be utilized where appropriate, but ratios to Treasuries are relatively unfavorable. <i>Benchmark: BB BC Intermediate Government/Credit Index</i>
TIPS			●	
Non-Investment Grade		●		
International	●			

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT	
EQUITIES		●		CURRENT OUTLOOK
Large Cap			●	The nearly simultaneous easing of political risk and improvement in economic indicators across the euro zone in recent months has led us to be less cautious towards developed market international equities relative to emerging market equities. Within an international equity allocation, we still believe a moderate overweight to emerging market equities relative to their developed market peers is appropriate given a backdrop of favorable demographics and significant pro-market reform efforts in key nations. <i>Benchmark: MSCI All Country World Index (ACWI)</i>
Mid Cap			●	
Small Cap			●	
Developed International		●		
Emerging Markets			●	

	UNDERWEIGHT	NEUTRAL	OVERWEIGHT		
ALTERNATIVES*			●	CURRENT OUTLOOK	
	CAP PRES	IWSG	BAL	GWSI	GROWTH
Global Real Estate				●	●
Global Infrastructure	●	●	●	●	●
Hedged Equity	●	●	●	●	●
Arbitrage	●	●	●		
Strategic Income		●	●	●	

Given our expectation for increased periods of both equity and fixed income volatility in 2017, we have moderately increased our weighting to alternative investments. It is our view that both equities and fixed income are approaching full valuation, and the early policy implementation challenges for the Trump administration may have appreciably increased the likelihood of downside volatility. In response, we have constructed diversified alternatives portfolios meant to decrease the risk profile of their respective recommended total AI portfolios, which are listed to the left (CAP PRES, IWSG, BAL, GWSI, GROWTH).

The above underweight/neutral/overweight calls represent the MainStreet Advisors current positions relative to market weights.

*Cap Pres: Capital Preservation, IWSG: Income with some growth, Bal: Balanced, GWSI: Growth with some income

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