Market Commentary

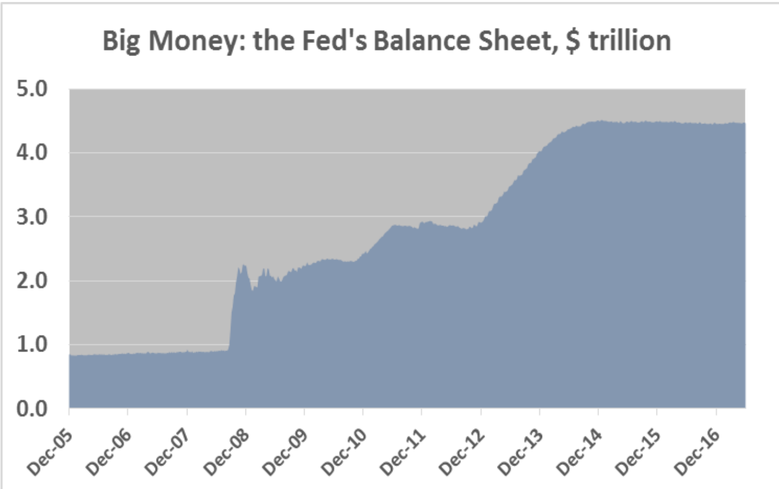
2Q 2017

Review: The first six months of 2017 have been a great year. Our Asset Class Returns table shows that stock returns year-to-date (YTD) have exceeded our 2017 full-year forecasts for expected returns (ER) by a wide margin, have beat full-year 2016 actual returns (ACT) in many cases, and are outpacing 10-year average annual returns (AVE). Risker areas of the equity market have done best, with Emerging Markets returning twice as much as US equities. One question we are asked often is: how can stock prices keep going up in the face of such terrible news? With all the political turmoil, populist revolts, and terrorism, when will the markets take a big hit? Simply put, nasty news does not necessarily precipitate poor price performance.

Asset Class Returns %	2017 YTD	2017 ER	2016 ACT	10Y AVE
Emerging Markets Stocks	18.4	8.0	11.2	1.9
Non-US Stocks	13.2	4.0	1.0	1.0
US Stocks	9.3	6.0	12.0	7.2
Emerging Markets Bonds	6.2	3.0	10.2	7.3
High Yield Bonds	4.9	3.0	17.5	7.5
Investment Grade Bonds	2.3	0.5	2.7	4.5
US Treasury Bonds	1.2	-1.5	1.1	3.5

When financial markets sense that political developments or policy shifts may change things in the economy, then prices will adjust accordingly. If policy makers seem ready to take action that might hurt consumer or business sentiment, then stock prices are likely to fall. In the presence of a supportive backdrop with broad-based growth and lots of liquidity, asset prices can continue to rise.

Outlook: Some may find it surprising that the pivotal story for the markets so far in 2017 has not sprung from Donald Trump's Twitter account. But it does involve a woman, big money, and global intrigue. The woman, Janet Yellen, leads the Federal Reserve System (the US central bank), and the Fed is pushing short-term rates higher. The Fed is also close to adjusting its crisis-era policy of creating money and using it to buy Treasury and mortgage bonds. This activity, often called 'Quantitative Easing' (QE) expands the Fed's balance sheet and pushes money into the financial system. This is the 'big money' part. Since the crisis of 2008, the Fed has created and pushed more than $3 trillion of new money into the financial system. In addition to keeping longer-term interest rates low, this activity has increased demand for risky assets like high-yield bonds and stocks.



The 'global intrigue' part of this economic drama centers on the question of what other central banks around the world will do. When we add up post-crisis central bank action across the globe, the QE figure swells to above $10 trillion. The European Central Bank and the Bank of Japan are still in easing mode and continue to grow their balance sheets. But global growth is picking up steam. And the Fed is close to changing policies that have been in place for nearly a decade. Japan and Europe may soon decide to be less supportive, similar to US policy changes.

Which takes us back to the point we made in our Review section: if financial markets sense that political developments or policy shifts are likely to affect the economy, then prices will adjust accordingly. We expect to see choppy market conditions from time to time, especially with equity market volatility sitting at extraordinarily low levels. Corrections in richly-valued sectors (i.e., technology shares since early June) will be part of the investment landscape. When selloffs occur, we work to understand if the movement is contained and temporary or likely to broaden out and persist.

However, we do retain our optimism. The US economy, and many others around the world are healthy. Consumer and business confidence is strong. Unemployment is low in the US and declining in other countries. The US President and the Republican Congress were elected on a platform promising higher economic growth, more jobs, lower taxes and less red tape for businesses. While implementation has proven to be challenging, their agenda has not changed. Monetary policy shifts in the US and elsewhere are generally well-telegraphed. These days, when central banks move, they seem to do so at a measured pace. And corporate profits are likely to continue marching higher in the US and Europe. We are starting to hear economists talk about 'synchronized global economic expansion', which should be quite supportive for stock prices.

One of the best ways we can think of to protect and grow your wealth is to make sure your portfolio is well diversified. We discussed the benefits of diversification in our July Monthly Newsletter. We know that, eventually, a market correction will occur. We can't tell you when.

But we do know that, when it does occur, you will be happier if you own a broad spectrum of assets, as opposed to only the hot stocks or funds of the day. And if we are years away from the next downturn, you likely will to continue to reap the benefits of multiple sources of returns: dividends, coupon payments, currency appreciation, and price appreciation from the US and foreign stocks and bonds.

Asset Class Returns Table: Emerging Market Stocks in the MSCI Emerging Markets Index, which represents 23 countries and 10% of world market capitalization. Non-US Stocks is the MSCI EAFE Index, which represents the performance of large and mid-cap securities across 21 developed markets, including countries in Europe, Australasia and the Far East, excluding the U.S. and Canada. Global Stocks is the MSCI World Index, a market capitalization-weighted index that is designed to measure the equity market performance of developed markets. US Stocks is the S&P 500 index, a market capitalization-weighted index consisting of a basket of 500 stocks that are widely held. Emerging Markets Bonds is the JP Morgan Emerging Markets Bond Index Global tracks total returns for US dollar-denominated instruments issued by emerging markets sovereign and quasi-sovereign entities: Brady bonds, loans, and Eurobonds. High Yield Bonds is the Banc of America/Merrill US Master HY Index total return of high yield US corporate bonds. Investment Grade Bonds is the Bloomberg Barclays US Aggregate Bond Index, which measures the total return of the investment grade, US dollar, fixed-rate taxable bond market. U.S. Treasuries is the Bloomberg Barclays US Treasury Intermediate Index, which measures the total return of USD denominated, fixed rate 1-10-year nominal debt. **Big Money Chart:** Source is Federal Reserve Economic Data, Federal Reserve Bank of St. Louis, December 28, 2005, through June 28, 2017. **Website:** please visit us here www.LaurentideAdvisory.com for important disclosures.