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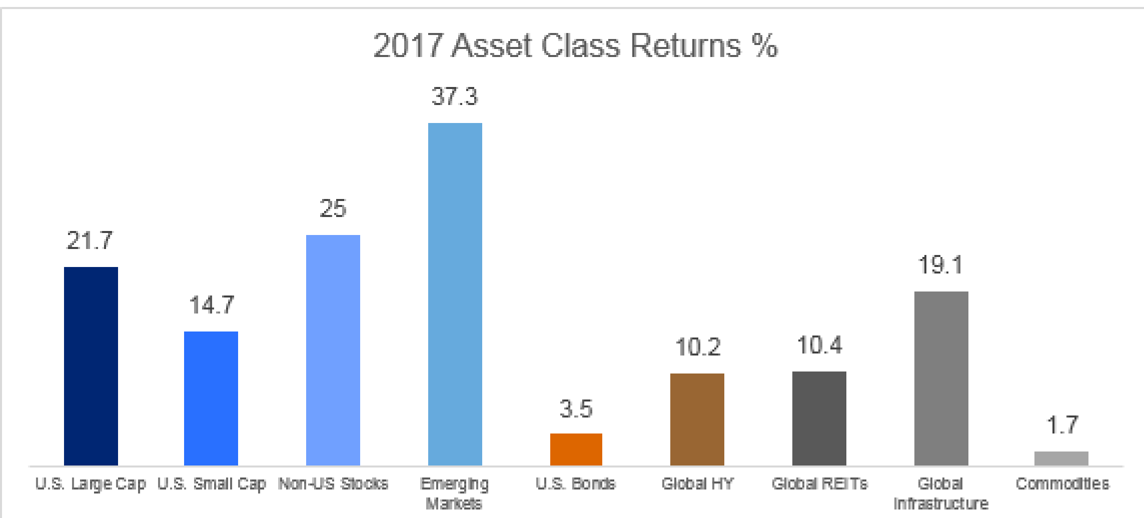
2017, The Answer to Why You Stay Invested

The capital markets narrative heading into 2017 was one of modest expectations. Interest rates were low and expected to increase, suggesting meager bond returns. Equity valuations were high and the cycle was getting long in the tooth, indicating that equity returns could be muted with increased risk of downside. In addition to the fundamentals, there appeared to be a high level of geopolitical uncertainty heading into the year. Some investors questioned whether the return opportunities were worth the potential risks of staying invested. In hindsight, the short answer was "Yes."

2017 was a strong year for many investors. It was difficult to find segments of the capital markets that disappointed during the year. Those that did, tended to represent small segments of the market and typically small allocations within an investor's portfolio. Most investors holding diversified global portfolios with meaningful allocations to growth assets should be pleased with 2017 returns.

Following is a recap of how 2017 played out.



Sources: U.S. Large Cap: Russell 1000 Index; U.S. Small Cap: Russell 2000 Index; Non-US Stocks: MSCI EAFE Index; Emerging Markets: MSCI Emerging Markets Index; U.S. Bonds: Bloomberg Barclays U.S. Aggregate Bond Index; Global HY: ICE BofAML Global High Yield Index; Global REITs: FTSE EPRA/NAREIT Developed Real Estate Index NET; Global Infrastructure: S&P Global Infrastructure Index (Net TR); Commodities: Bloomberg Commodity Index Total Return

First Quarter

The year got off to a great start, with **emerging markets** and **growth stocks** leading the charge. **Emerging market stocks** (MSCI Emerging Markets Index) were up 11.7% during the quarter, bouncing back from a difficult 4th quarter of 2016, and in recognition of positive global economic momentum. Within the **U.S. market** (Russell 3000® Index), stocks were up 5.7%, primarily driven by the strength of **growth stocks**. The Russell 1000® Technology Index was up 13.1% and the Russell 1000® Health Care Index was up 8.6% during the quarter.

The Bloomberg Barclays U.S. Aggregate Bond Index finished the quarter in positive territory (+0.8%) despite a late-quarter rate hike by the **Federal Reserve**. Investors taking credit risk did even better as **the ICE BofAML Global High Yield Index** returned 3.2%. High yield bonds could have performed even better if they hadn't been burdened by one segment of the capital markets that struggled mightily during the quarter: Energy. The Russell 1000® Energy Index was down -6.6% during the quarter, the worst performing equity sector. In addition, commodity prices reflected the energy challenges, with the Bloomberg Commodity Index down -2.3% during the quarter, pulled down by the -17% return of the natural gas sector.

Second Quarter

While not quite as strong as the first quarter, the positive momentum of the markets continued into the second quarter. **Emerging markets (MSCI EM Index)** and **non-U.S. developed stocks** (MSCI EAFE Index), were the clear winners. Both markets were up over 6% during the period. Strong global demand and a weaker **U.S. dollar** helped emerging markets performance, and reduced political risk post the French election combined with strong economic data, contributed to the rising **European market returns** (MSCI Europe Index +7.4%). The U.S. stock market (Russell 3000® Index) was also solid at +3.0%, although that represented only half the return international equity markets (MSCI EM and MSCI EAFE Indexes) delivered.

Like in the first quarter, **growth stocks** led the way: The Russell 1000® Growth Index finished the quarter up 4.7%. In the bond markets, investment grade bonds (Bloomberg Barclays U.S. Aggregate Bond Index) almost doubled their first quarter results at +1.5%, influenced by healthy economic data and low inflation numbers. **Credit markets** sustained leadership within fixed income, (**Global High Yield bonds ICE BofAML Global High Yield Index)** essentially repeated their first quarter results: +3.2%.

Real assets continued to lag relative to **global equity**, hurt by concerns about higher interest rates or lagging energy prices. **Infrastructure** was the one segment that bucked this trend: The S&P Global Infrastructure Index was up 6.5%, almost matching its first quarter return of 7.2%. These strong results reflected the ongoing optimism about global economies and the recognized need for capital investment in this sector.

Third Quarter

The third quarter carried on the strong performance trend of the first half of the year. Even the Bloomberg Commodity Index the laggard of the first six months, posted a positive return (+2.5%), reflecting improving energy prices. Equity sustained its strength, again led by the emerging markets (MSCI EM Index), up 7.9% as improving economic indicators continued to fuel returns. Three of the four "BRIC" countries—Brazil, Russia, and China—posted returns of 15% or greater. The fourth, India, did not fare as well, but still posted positive results. In the developed markets, **non-U.S. stocks (MSCI EAFE)** topped **U.S. stocks (Russell 3000 Index)** due to anticipation of stronger earnings, with both markets having solid quarters, +5.4% and +4.6%. In the U.S., **growth** maintained its lead over **value** as the Russell 1000® Growth Index returned 5.9% propelled along by Technology stocks and their 8.2% return.

Two segments of the U.S. market experienced turnarounds during the quarter. **Energy stocks** rebounded as energy prices improved. The Russell 1000 Energy Index returned 6.8% during the quarter. From a capitalization perspective, **small stocks** had trailed **large cap** for the first six months, but third quarter saw the Russell 2000® Index top the Russell 1000 Index, 5.7% vs 4.5%.

Bonds sustained their steady gains, with the Bloomberg Barclays U.S. Aggregate Bond Index finishing up +0.8%. Credit remained the most rewarded sector within the fixed income market as ICE BofAML global High Yield Index posted the third straight quarterly return over 2% at 2.8%.

Among **real assets**, infrastructure (S&P Global Infrastructure Index), real estate securities (FTSE EPRA/NAREIT Developed Real Estate Index) and commodities (Bloomberg Commodity Index) all provided investors with positive results. **Infrastructure** maintained its 2017 leadership position with the highest return among the three, +2.9%.

Fourth Quarter

While fourth quarter didn't finish as strongly as first quarter started the year, it did a very respectable job of wrapping up a strong 2017. The U.S. equity market played catch-up to the non-U.S. markets for most of the year and made up some ground during fourth quarter. **The Russell 3000 Index** returned 6.3% during the quarter, again led by **large cap growth** stocks. The Russell 1000® Growth Index returned 7.9% during the period compared to only 3.3% for the **small cap stocks** of the Russell 2000® Index. Keeping pace with their U.S. counterparts in the fourth quarter, non-U.S. stocks posted strong results to wrap the year: **Emerging markets (MSCI EM Index)** added to their spectacular 2017 with another 7.4% return to post +37.3% for the year. **Non-U.S. developed stocks (MSCI EAFE Index)** did not quite keep pace, but still finished the quarter with a positive 4.2%, reflecting positive contributions from both European and Asian markets.

Bonds markets kept up the positive gains seen during the first three quarters, posting a return of 0.5% for **investment grade fixed income** (Bloomberg Barclays U.S. Aggregate Index). Tighter credit spreads caught up with **Global High Yield** returns (ICE BofAML Global High Yield Index), as they trailed results from earlier in the year, but still posted a positive return of 0.8%.

Real assets closed the year strong. **Commodities** (Bloomberg Commodity Index) sustained their 3Q rally by posting a return of 4.7% during the quarter. **Real estate securities** (FTSE EPRA/NAREIT Developed Real Estate Index)) also wrapped up well, posting a 3.6% return. **Infrastructure** (S&P Global Infrastructure Index) was the laggard in the group, but still returned 1.6%.

The bottom line

2017 proved to be a strong year. Global equity markets (MSCI World) finished up over 20%, led by emerging markets (MSCI Emerging Markets) up over 37%; and investment grade bonds (Bloomberg Barclays U.S. Aggregate Index) returned 3.5%. Given modest expectations coming into the year, these returns were a pleasant surprise for many investors and a good reminder of the potential benefits of sticking to long-term investment plans.

Entering 2018, many of the same market conditions that existed heading into 2017, remain: Equity valuations still appear on the high side and interest rates remain historically low. Like last year, few are projecting strong equity returns and speculation is leaning towards modest capital market results at best. If 2017 taught us anything, the difficulty in predicting short-term market direction should be near the top of the list. Thus, steering investors back towards the long-held principles of portfolio diversification can be beneficial. We believe that investors taking a global, multi-asset approach should be well positioned to capture the upside of another strong run by the equity markets, while providing adequate exposures to other asset segments to navigate market challenges.

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Index returns represent past performance, are not a guarantee of future performance, and are not indicative of any specific investment. Indexes are unmanaged and cannot be invested in directly.

Bloomberg Barclays U.S. Aggregate Bond Index: An index, with income reinvested, generally representative of intermediate-term government bonds, investment grade corporate debt securities, and mortgage-backed securities. (specifically: Barclays Government/Corporate Bond Index, the Asset-Backed Securities Index, and the Mortgage-Backed Securities Index).

Bloomberg Commodity Index Total Return: Composed of futures contracts on physical commodities. Unlike equities, which typically entitle the holder to a continuing stake in a corporation, commodity futures contracts normally specify a certain date for the delivery of the underlying physical commodity. In order to avoid the delivery process and maintain a long futures position, nearby contracts must be sold and contracts that have not yet reached the delivery period must be purchased. This process is known as "rolling" a futures position.

FTSE EPRA/NAREIT Developed Index: A global market capitalization weighted index composed of listed real estate securities in the North American, European and Asian real estate markets.

ICE BofA Merrill Lynch Global High Yield Index: Tracks the performance of USD, CAD, GBP and EUR denominated below investment grade corporate debt publicly issued in the major domestic or Eurobond markets.

MSCI EAFE (Europe, Australasia, Far East) Index: A free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

MSCI Emerging Markets Index: A float-adjusted market capitalization index that consists of indices in 21 emerging economies: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI Europe Index: A free float?adjusted market capitalization weighted index that is designed to measure the equity market performance of the developed markets in Europe. The MSCI Europe Index consists of the following 15 developed market country indexes: Austria, Belgium, Denmark, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

MSCI World Index: A broad global equity benchmark that represents large and mid-cap equity performance across 23 developed markets countries. It covers approximately 85% of the free float-adjusted market capitalization in each country and it does not offer exposure to emerging markets.

Russell 1000® Index: Measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000® Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership.

Russell 1000® Energy Index: Within the Russell 1000®, those energy-related businesses, such as oil companies involved in the exploration, production, servicing, drilling and refining processes, and companies primarily involved in the production and mining of coal and other fuels used in the generation of consumable energy. Gas extraction, distribution and pipeline companies classify into this Sector.

Russell 1000® Growth Index: Measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000® Health Care Index: Within the Russell 1000®, those companies that manufacture health care equipment and supplies or provide health care-related services such as lab services, in-home medical care and health care facilities. Also included are companies involved in research, development and production of pharmaceuticals and biotechnology.

Russell 1000® Technology Index: Within the Russell 1000®, those companies that serve the information technology, telecommunications technology and electronics industries.

Russell 2000® Index: Measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

Russell 3000® Index: Index measures the performance of the largest 3000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The S&P Global Infrastructure Index: Provides liquid and tradable exposure to 75 companies from around the world that represent the listed infrastructure universe. To create diversified exposure across the global listed infrastructure market, the index has balanced weights across three distinct infrastructure clusters: Utilities, Transportation, and Energy.

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