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Market Commentary
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Introduction
As Washington remained in a stand still on some key policy initiatives, the market continued to provide investors with more of the same in Q2 2017. Yet again, U.S. economic data continued to be mixed but mostly positive. One major positive for the economy has been an improving labor market, with the unemployment rate declining to 4.3% as of May 2017. Also supporting the U.S. economy has been a healthy consumer, with consumer spending and personal income positive year over year. The Conference Board's Leading Economic Indicator index points to growth, as it is up 3.5% year over year. Although inflation has been somewhat muted, with the headline rate of 1.9% (as of May 2017), the Federal Reserve increased rates by a quarter of a point in their June meeting with confidence that the US economy has shown enough strength in other areas to do so (i.e. labor market). With no sign of an imminent recession here at home, positive U.S. earnings and political uncertainty fading abroad, equities continue to be attractive globally.

Domestic Equities
US stocks continue to be a positive performer for investors as the S&P 500 finished Q2 2017 up 3.09% and year-to-date 9.34%. Improved earnings of U.S. corporations along with a continued push from Washington to implement pro-business policies has given confidence to consumers to take their money off the sidelines and invest in the market. In fact, this is now the third consecutive quarter of positive earnings growth since the earnings recession, with earnings growth of companies within the S&P 500 in Q1 2017 up 14.71%. Leading sectors year to date continue to be growth sectors such as Information Technology and Healthcare but the more value oriented sectors which have experienced less positive performance have become more attractive from a valuation standpoint and may present opportunities for investors during the remainder of the year. Smaller size stocks have not performed as well as they did last year, as investors are waiting for a clearer picture surrounding tax reductions, which would have a significant positive impact on these smaller companies.

As market participants try to figure out when this equity rally will take a break, we remind ourselves that bull markets do not die of old age but also do not last forever. Based on this, we intend to continue to monitor earnings and the overall health of the U.S. economy in making decisions in our portfolios.

International Equities
International equities outperformed domestic equities for the quarter as the MSCI EAFE index returned 6.12%, beating the S&P 500 by 3.03%, as political headwinds are mitigated. Prime Minister Theresa May of the United Kingdom lost her overall majority in Parliament, which led to more uncertainty on the next steps to BREXIT but also created hope that there will not be a hard exit after all. The risk of a FREXIT (France exit) also subsided as Emmanuel Macron won both the presidency and dominant position in Parliament. In addition, Eurozone grew faster than expected at 0.6% quarter-on-quarter and 1.9% year-on-year. First quarter earnings growth for STOXX 600 is expected to outpace that of the S&P 500. Japan also posted growth for the fifth consecutive quarter, which represented the longest stretch of growth in more than a decade. Although uncertainty and downside risk remain, we believe international equities now present attractive opportunities due to their cheap valuations and better growth potential compared to domestic equities.

Emerging markets (EM) had another good quarter in the second quarter, as the MSCI EM index returned 6.27%. This was based on expectations that stronger global economic momentum should support more robust trade activity in EM countries, and range bound commodity prices should support growth. From a long-term perspective, a growing middle-class population will dictate stronger consumer spending power and economic growth. While it is still concerning that the asset class has historically been susceptible to speculation and political instability, we believe the fundamentals of EM countries have turned more favorable and valuations of

EM equities are attractive. Critically, it is important to note that not all EM countries are alike. We prefer more consumer-oriented EM economies over commodity-oriented EM economies.

Fixed Income

Fixed Income markets exhibited some volatility in the second quarter. Despite the Fed pushing rates another 25 basis points higher, the U.S. 10-year Treasury yield was reluctant to go any higher than 2.42% and ended the quarter as low as 2.30%. The Bloomberg Barclays Agg Bond Index managed to return 1.45% for the quarter. As short-term interest rates moved higher and intermediate and long term rates moved lower, short duration fixed-income securities underperformed their longer duration counterparts. With no significant increases in inflation and moderate economic growth, the market believes the Fed will raise rates at a more modest pace. Additionally, the high demand for yields from both the aging domestic population and foreign investors who favor higher yielding U.S. bonds relative to other developed country debt, should hold U.S. intermediate to long term rates range bound. However, if other major central banks also become less accommodative in their monetary policies, there could be a selloff in global bonds, which would drive yields up. Since it will be hard to predict each force's magnitude of impact on the fixed-income market, we believe the asset class will continue to experience volatility in 2017 and it would be prudent to not make large bets on duration.

Alternatives

Alternative asset classes lagged during the second quarter. Oil prices slipped at the end of the quarter, erasing all of the gains made after OPEC's commitment to supply cuts in November, and ending the quarter at $46/per barrel WTI. Though the Credit Suisse Hedge Fund index returned only 1.25%, risk-reducing alternatives were able to provide valuable downside protection during a quarter that saw an increasing level of doubt in the health of the global economy and a pickup in volatility. Hedge fund type alternatives will continue to play a key role in downside protection and reducing volatility within a portfolio by maintaining low correlation to equity and fixed income markets as we approach a late stage U.S. economy.

Real Estate

Real estate should remain a positive contributor to the economy in the quarters ahead as wage growth accelerates and low borrowing rates encourage more people to buy homes. Recent data has been positive, with existing home sales up 1.1% in May, and up 2.7% from a year ago. The NAHB index, a measure of homebuilder optimism and leading indicator for the housing market, remained high at 67 in May. Though the data has been positive, tight supply, rising home prices, and rising cost of borrowing remain headwinds for housing moving forward.

Conclusion

The economy remains in a "Goldilocks" state. Like the porridge in the fairy tale it is not too hot, as it continues to grow at a steady pace, and not too cold, as it shows no signs of an impending recession. This environment should be positive for U.S. equities and fixed income to continue to grow at a steady pace, but we do not expect above average growth in the near term. Further, diverging global growth may present attractive opportunities to diversify our portfolios to capture returns outside of domestic markets. We remain constructive in our view on financial markets but have all intentions of tactically navigating these markets in a risk conscious way, and we maintain our belief that a diversified portfolio appears to be the best way to limit volatility while remaining invested.