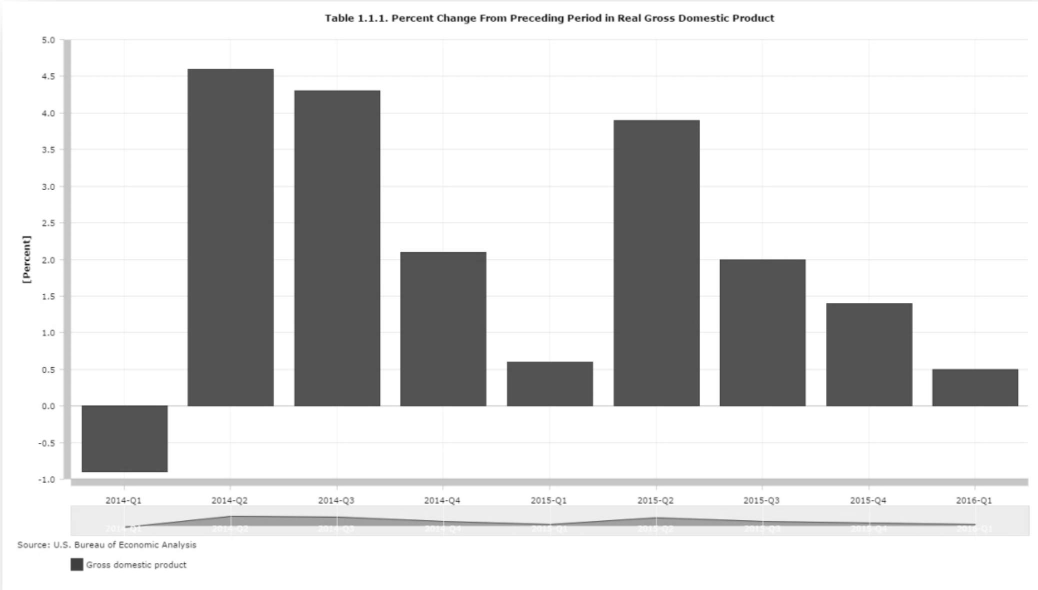
Market Commentary | Q1 2016

U.S. Economy

Real GDP growth for Q1, 2016 increased at a rate of 0.5% (est. U.S. Department of Labor), the slowest since Q1, 2014 and less than one-half of the 1.4% rate for Q4, 2015. A growth rate of 0.7% had been estimated by many economists.

The Q1 increase reflected positive contributions from personal consumption expenditures (PCE), residential fixed investment, and state and local government spending; however, they were partly offset by negative contributions from nonresidential fixed investment, private inventory investment, exports, and federal government spending. Imports, which are a subtraction in the calculation of GDP, increased.



Consumer Spending rose 0.05% from Q4, 2015. Durable and non-durable goods spending were down, and spending on services was up.

The Consumer Price Index through February was up 1% (year-over-year). After removing food and energy prices, the core inflation rate was down 1.7% (year-over-year) signaling deflation.

The unemployment rate fell to 4.9% versus 5.0% at the end of 2015 vs. 5.7% at January 2015. Nearly 690,000 jobs were created over the quarter. The workforce participation rate improved slightly to 63% vs. 62.5% at November 2015 and may remain low due to current and anticipated retirements of Baby Boomers.

The Federal Reserve kept the Fed Funds rate steady after December 2015's increase of 0.25%. The Fed cited global economic and financial risks and expectations of low inflation in the near term. The Federal Reserve Open Market Committee appears to be looking towards two rate increases for 2016 instead of the four that were forecasted at the beginning of 2016.

The U.S. dollar has strengthened 35% since mid-2011 against the currencies of most trading partners reaching a peak in mid-January. By the end of the quarter, the U.S. Dollar Index fell 2.9% driven, in part, by the anticipated decrease in the number of Fed rate hikes for 2016.

Foreign Economies

Certain key central banks added more aggressive monetary easing measures due to weakening economic growth and deteriorating inflation. The European Central Bank (ECB) made additional rate cuts and adopted new quantitative easing including the purchase of corporate bonds. The Bank of Japan adopted negative deposit rates following the ECB which, as of early March 2016, is charging banks 0.4 percent to hold their cash overnight.

China's manufacturing PMI for March 2016 indicated expanding activity for the first time since July 2015, and a similar index for services also increased over the month, from 52.7 to 53.8.

In Europe, economic data continued to indicate slow but steady growth, mainly driven by domestic demand that has been bolstered by the ECB's monetary easing program, though a weaker global outlook and financial volatility provided some headwinds. The region's estimated headline inflation rate for March remained below zero for the second consecutive month, though core inflation edged up over the same period.

Japan's economy is not achieving stable growth as private consumption remains weak and subdued global demand is weighing on imports. In Q4, GDP fell 1.1% over the previous quarter. In February, consumer sentiment continued its downward trend and exports contracted for the fifth consecutive month. With the recent appreciation of the yen, exports may continue to contract.

Foreign currencies mostly saw gains as the U.S. Dollar retreated. The Japanese yen was up 6% and the Euro was up 4% despite the Bank of Japan moving to negative bank deposit rates in January and the ECB's continued monetary easing.

U.S Equities

U.S equity markets were down 10% over the first 6 weeks of the quarter. January 2016 proved to be the worst January since the launch of the S&P 500 index in 1957; however, the index managed to finish the quarter with a gain of 1.3%. Events contributing to the early decline included fears about a recession, the possibility of four rate hikes by the Federal Reserve during 2016, the impact of any continued strength in the U.S. dollar on foreign trade and falling oil and commodity prices.

All market cap and style indexes, except for small cap growth, produced gains. Mid cap value was the best performing U.S. equity index with a gain of 3.9%. Value outperformed growth in all market cap segments after trailing growth in 2015. Correlation between stocks was at the lowest level in 12 months, but the dispersion of the returns between individual stocks and the market as a whole was high.

Corporate profit growth is estimated to have declined almost 8% quarter-over-quarter with the energy, commodity and manufacturing sectors affected the most.

Sectors within the S&P 500 with the largest gains were 16.6% telecommunications (+16.6%) and utilities (+15.5%). Sectors with the largest losses were in financials (-5%) and healthcare (-5.5%). In the Russell 2000 small cap index, the utilities sector saw the largest gain (+12%) and healthcare experienced the largest loss (-17%).

Valuation of the S&P 500 ended the quarter with at near 16.6 times estimated 2016 earnings, which was above the 25-year average of 15.8.

Foreign Equities

Europe's stock market index (MSCI Europe) was down 2.4% (USD) for the quarter. A January sell-off was triggered by declining oil prices, weak export demand and near zero inflation. Financial stocks were hit the hardest as some banks had quarterly losses and predicted weak future profits.

Japan's stock market index (MSCI Japan) lost 6.4% (USD) for the quarter as Japan continues to face lower than forecasted household spending and low demand for its exports.

Emerging Markets' equities performed better than developed countries' equities, but also saw declines for the first two months of the year. The MSCI Emerging Markets Index (USD) was up 5.4% for the quarter. Contributors were increasing oil prices (after falling to their lowest level in more than 13 years during January) and stabilization of world currencies along with positive indicators in China, where the PMI manufacturing index reached a 13-month high. Profits among industrial companies in China showed the strongest growth for over 18 months, rising 4.8% on an annual basis over January and February, which was supported by additional monetary stimulus and higher government spending on infrastructure projects.

U.S. Fixed Income

High quality U.S. credit and Treasurys benefited from a shift to fixed income in response to equity market turmoil at the beginning of the year. Both fixed income sectors held on to gains ending the quarter up 3.2% (investment grade credit sector) and 4.7% (Treasurys). For most investment-grade bond indexes, gains were the best in nearly five years, and Treasurys gave their best performance in four years.

The AAA-rated portion of the Barclays US Investment Grade Bond Index achieved the highest gain at 4.6%, followed by BBB-rated bonds at 4%. Based on the industry sectors within the index, metals and mining companies experienced the largest gains of near 11%. The financial sector underperformed relative to the index as a whole.

High Yield, running parallel in direction to the equity markets, suffered a loss during the early part of the quarter. The downturn then reversed, and the Credit Suisse High Yield index gained 3% for the quarter, ranging from 2.5% to 3.7% gains across all credit qualities.

U.S. Treasuries were influenced by a flattening yield curve as the Fed's tone became dovish and interest rates fell across the curve. Longer duration Treasuries, such as 30-year Treasuries (up 8.9%), the 10-year Treasury (up 4.8%) and Treasury Inflation-Protected Bonds (up 4.5%) reaped the most rewards.

Municipals, Agencies, and Mortgage-Backed Securities underperformed Treasuries with index returns (Barclay's) in the 1%-2% range.

Foreign Fixed Income

Developed countries' bond performance was boosted by sovereign bonds which, in U.S. dollars, gained 8.9% (Barclays Global Treasury ex US TR USD). In local currency terms, United Kingdom and Japan sovereign bonds led the way with returns of 5% and 4.69%, respectively.

Emerging markets government bonds were among the top performing global fixed income performers, for the second quarter in a row, with an index gain of 5% (JPMorgan EMBIG, USD). Corporate bonds achieved returns similar to investment-grade U.S. corporates posting a 3.9% gain (JPMorgan CEMBI Broad Diversified, USD).

Commodities

Commodities had mixed quarterly results despite a strong rally in the latter half.

Oil prices gained traction before turning sharply higher from nearly 13-year lows. Prices for US natural gas futures fell nearly 15% (to $1.94 per million British thermal units), hit 17-year lows and had their worst quarter in four years as the ongoing surplus widened. **Spot gold prices** (+16.1%, to $1,233 per troy ounce) had their biggest quarterly advance since September 1990 with virtually all of the gain occurring in the first five weeks of the year. **Agricultural prices** were helped by rising crop prices that were partially offset by declines for livestock which resulted in a modest rebound for the quarter (+0.42%, Bloomberg Commodity Index). Prices were still 6.4% below levels from one year ago because the market has not corrected for excess supply.

Market Performance

Index Performance for Period Ending 3/31/2016

US Equity Markets	Index	Quarter	YTD	One Year	3 Year	5 Year	10 Year
US Small Growth	Russell 2000 TR Growth	-4.68%	-4.68%	-11.84%	7.91%	7.70%	6.00%
US Small Value	Russell 2000 TR Value	1.70%	1.70%	-7.72%	5.73%	6.67%	4.42%
US Small Blend	Russell 2000 TR	-1.52%	-1.52%	-9.76%	6.84%	7.20%	5.26%
US Mid Growth	Russell Mid Cap TR Growth	0.58%	0.58%	-4.75%	10.99%	9.99%	7.43%
US Mid Value	Russell Mid Cap TR Value	3.92%	3.92%	-3.39%	9.88%	10.52%	7.23%
US Mid Blend	Russell Mid Cap TR	2.24%	2.24%	-4.04%	10.45%	10.30%	7.45%
US Large Growth	Russell 1000 TR Growth	0.74%	0.74%	2.52%	13.61%	12.38%	8.28%
US Large Value	Russell 1000 TR Value	1.64%	1.64%	-1.54%	9.38%	10.25%	5.72%
US Large Blend	Russell 1000 TR	1.17%	1.17%	0.50%	11.52%	11.35%	7.06%
S&P 500	S&P 500 TR USD	1.35%	1.35%	1.78%	11.82%	11.58%	7.01%

US Fixed Income Markets	Index	Quarter	YTD	One Year	3 Year	5 Year	10 Year
US Multisector Bond	Barclays US Agg Bond TR USD	3.03%	3.03%	1.96%	2.50%	3.78%	4.90%
Intermediate	Barclays US Govt/Credit Interm TR U	2.45%	2.45%	2.06%	1.83%	3.01%	4.34%
Short Term Bond	Barclays US Govt/Credit 1-3 Yr TR U	0.98%	0.98%	1.04%	0.95%	1.14%	2.80%

International Markets	Index	Quarter	YTD	One Year	3 Year	5 Year	10 Year
Emerging Markets	MSCI EM PR USD	5.37%	5.37%	-14.14%	-6.84%	-6.50%	0.61%
Foreign Large Blend	MSCI EAFE PR USD	-3.74%	-3.74%	-10.67%	-0.45%	-0.60%	-1.01%
World Bond	Barclays Global Aggregate TR USD	5.90%	5.90%	4.57%	0.87%	1.81%	4.35%

Allocation Portfolios	Index	Quarter	YTD	One Year	3 Year	5 Year	10 Year
Balanced	DJ Moderate TR USD	2.42%	2.42%	-1.07%	5.12%	5.67%	5.31%
Target Date 2046-2050	S&P Target 2050 TR USD	1.18%	1.18%	-2.15%	7.11%	7.13%	
Target Date 2036-2040	S&P Target 2040 TR USD	1.32%	1.32%	-1.82%	6.74%	6.84%	5.16%
Target Date 2026-2030	S&P Target 2030 TR USD	1.52%	1.52%	-1.33%	6.19%	6.44%	5.12%
Target Date 2016-2020	S&P Target 2020 TR USD	1.77%	1.77%	-0.75%	5.40%	5.89%	5.02%
Target Date Income	S&P Target Today TR USD	2.18%	2.18%	0.31%	3.43%	4.49%	4.28%

Key Takeaways

►**Economies:** U.S. - Real GDP growth for the quarter increased at a rate of 0.5%, the slowest since Q1, 2014 and less than one-half of the 1.4% rate for Q4, 2015. Foreign - Certain key central banks added more aggressive monetary easing measures due to weakening economic growth and deteriorating inflation.

►**Equity Markets:** U.S. - January 2016 proved to be the worst January since the launch of the S&P 500 index in 1957; however, the index managed to finish the quarter with a gain of 1.3%. Emerging Markets' equities - performed better than developed countries' stocks, but also saw declines for the first two months of the year.

►**Fixed Income:** U.S. - For most investment-grade bond indexes, gains were the best in nearly five years, and Treasurys gave their best performance in four years. Emerging markets - government bonds were among the top performing global fixed income performers, for the second quarter in a row.

►**Commodities:** Oil prices gained traction before turning sharply higher from nearly 13-year lows.

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Sources: U.S. Federal Reserve, Morningstar, JPMorgan Guide to the Markets U.S. | 1Q 2016 | As of December 31, 2015