



Market Commentary | Q2 2017

Overview

The second quarter proved to be a bit bumpy for equities, but each of the equity benchmarks listed in the table below closed the quarter ahead of their first-quarter closing values. April saw equities close the month ahead of March, buoyed by favorable corporate earnings reports, proposed tax cuts, and strong foreign economic advances. Nasdaq led the way posting monthly gains of 2.30%, followed by the Global Dow, which gained almost 1.50%. The large-cap Dow advanced 1.34%, ahead of the S&P 500, which increased close to 1.00% for the month. Even the small-cap Russell 2000, which has had some rough weeks, closed April 1.05% ahead of its March close.

May was a slower month as consumer spending and wage growth were relatively weak, with only 138,000 new jobs were added in May, compared with an average monthly gain of 181,000 over the prior 12 months. Nevertheless, only the Russell 2000 lost value, falling 2.16% from its April closing mark. Nasdaq continued to surge, ending May with a monthly gain of 2.50%.

June saw mixed results. The Nasdaq lost almost 1.00%, while the Russell 2000 made up for its May losses, advancing almost 4.00% over May. The Dow had a strong June, closing the month up 1.62%, while the S&P 500 and the Global Dow failed to advance 0.50% over May. Long-term bond prices increased in the second quarter with the yield on 10-year Treasuries falling 8 basis points. The price of gold fell during the second quarter, closing June at \$1,241.40, down from its \$1,251.60 closing price at the end of the first quarter.

International Markets

Major elections were held in France (Emmanuel Macron and his party were elected) and the UK (Theresa May was reelected, but her Conservative Party lost parliamentary seats). Brexit negotiations began during the third week of June, although European markets had little reaction. Japan's economic growth slowed in the first quarter on the heels of weaker consumer spending, softening what had been the country's longest run of economic expansion since 2006. China has attempted to expand its financial markets and entice more foreign capital, which may help drive that country's GDP and stock markets.

The Economy

Employment: May's employment report showed unexpected weakness in the labor sector with 138,000 new jobs added in the month, on the heels of 174,000 new jobs added in April, revised. April and March were downwardly revised a combined 66,000, which, when coupled with the average gain of 181,000 over the prior 12 months, clearly shows that job growth is slowing. For May, job gains occurred in health care, mining, and professional and business services. The unemployment rate dipped to 4.3% — down from 4.4% in April. There were 6.9 million

unemployed persons in May. The labor participation rate inched down 0.2 percentage point to 62.7%. The average workweek was unchanged at 34.4 hours. Average hourly earnings increased by \$0.04 to \$26.22. Over the last 12 months ended in May, average hourly earnings have risen by \$0.63, or 2.5%

GDP/Budget: Expansion of the U.S. economy slowed over the first three months of 2017. According to the Bureau of Economic Analysis, the first-quarter 2017 gross domestic product grew at an annualized rate of 1.4% compared to the fourth-quarter GDP, which grew at an annualized rate of 2.1%. Growth in the GDP was slowed by downturns in private inventory investment, a deceleration in consumer spending, and a slowing in state and local government spending that were partly offset by an upturn in exports, an acceleration in nonresidential (commercial and business) fixed investment, and a deceleration in imports. As to the government's budget, the federal deficit for May was \$88.4 billion. Through the first eight months of the fiscal year, the deficit sits at \$432.9 billion, which is more than \$27 billion above the deficit over the same period last year

Inflation/consumer spending: Inflationary growth is slowing. Consumer spending, as measured by personal consumption expenditures, expanded at a rate of 0.1% in May. In contrast, PCE climbed 0.4% in both April and March. Core PCE (excluding energy and food) inched ahead 0.1% for the month. Personal income (pre-tax earnings) rose 0.4% for the month, and disposable personal income (income less taxes) enjoyed a 0.5% increase over April. However, wages and salaries moved very little in May, inching up 0.1%. Year-on-year, both the PCE price index and core prices have increased 1.4%.

The prices companies receive for goods and services were unchanged in May from April, according to the Producer Price Index. Year-over-year, producer prices have increased 2.4%. Energy prices, which fell 3.0% for the month, have played a large part in the lack of movement of the PPI. Prices less food and energy climbed 0.3% in May over April. The PPI less food and energy has risen 2.1% since last May.

Consumer prices fell 0.1% in May following a 0.2% increase in April. For the 12 months ended in May, consumer prices are up 1.9% for the year, a mark that remains below the Fed's 2.0% target for inflation. Even the core rate, which excludes food and energy, climbed 0.1% in May and is up 1.7% year-over-year.

Housing: Sales of new and existing homes, which had slowed during the first quarter of the year, may have picked up the pace in May. Generally, a lack of available homes for sale is driving home prices higher. The median price for existing homes reached its highest recorded level, coming in at \$252,800 — 5.8% higher than the price last May. Sales of existing homes climbed 1.1% in May to a seasonally adjusted annual rate of 5.62 million from a downwardly revised 5.56 million in April. May's sales pace is 2.7% above a year ago and is the third highest over the past year. The Census Bureau's latest report reveals sales of new single-family homes increased 2.9% in May to an annual rate of 610,000 — up from April's rate of 593,000. The median sales price of new houses sold in May was \$345,800. The average sales price was \$406,400. The seasonally adjusted estimate of new houses for sale at the end of May was 268,000. This represents a supply of 5.3 months at the current sales rate, which is essentially unchanged from April.

Manufacturing: One of the reasons the Fed raised interest rates in June was due to expansion in business fixed investment. However, manufacturing did not expand in May according to the Federal Reserve's monthly index of industrial production (which includes factories, mines, and utilities). Manufacturing output declined 0.4% in May following an April increase of 1.1%. Overall, industrial production was unchanged in May, as declines in manufacturing were offset by gains in mining (1.6%) and utilities (0.4%). Total industrial production in May was 2.2% above its year-earlier level. Capacity utilization for the industrial sector edged down 0.1 percentage point in May to 76.6%, a rate that is 3.3 percentage points below its long-run average. As for durable goods, May's report from the Census Bureau shows new orders decreased \$2.5 billion, or 1.7%, from the prior month. Excluding the volatile transportation segment, new durable goods orders increased 0.1%. Orders for core capital goods (excluding defense and transportation) dropped 0.2% in May, but are up 5.0% over May 2016.

Oil: The price of crude oil (WTI) closed June at \$46.33 per barrel, down from its end of May value of \$48.63. The national average retail regular gasoline price was \$2.288 per gallon on June 26, 2017, \$0.118 lower than the May 29 price but \$0.145 more than a year ago.

Imports and exports: The advance report on international trade in goods revealed that the trade gap narrowed by 1.8% in May. The overall trade deficit was \$65.9 billion in May, down \$1.2 billion from April. Exports increased 0.4% to \$127.1 billion, \$0.4 billion more than April exports. Imports fell 0.4% to \$193.0 billion, \$0.8 billion less than April imports. Both import and export prices fell in May. Import prices fell 0.3%, led by a sharp 3.9% fall in petroleum imports. This was the largest monthly drop since import prices fell 0.5% in February 2016. U.S. export prices declined 0.7% in May, after advancing 0.2% the prior two months. The May decrease was the first monthly drop since August 2016 when the export prices fell 0.8%.

Consumer sentiment: The Conference Board Consumer Confidence Index® for June rose 1.3 points to 118.9. Consumers expressed confidence in current economic conditions, but were somewhat reticent about their expectations for future economic growth. The Index of Consumer Sentiment from The Surveys of Consumers of the University of Michigan dipped from 97.1 in May to 95.1 in June. Keeping in line with The Conference Board's report, consumers indicated current economic conditions were favorable, but respondents were less certain about future expectations.

Market Performance

Index Performance for Period Ending 6/30/2017

US Equity Markets	Index	Quarter	YTD	One Year	3 Year	5 Year	10 Year
US Small Growth	Russell 2000 TR Growth	4.39%	9.97%	24.40%	7.64%	13.98%	7.82%
US Small Value	Russell 2000 TR Value	0.67%	0.54%	24.86%	7.02%	13.39%	5.92%
US Small Blend	Russell 2000 TR	2.46%	4.99%	24.60%	7.36%	13.70%	6.92%
US Mid Growth	Russell Mid Cap TR Growth	4.21%	11.40%	17.05%	7.83%	14.19%	7.87%
US Mid Value	Russell Mid Cap TR Value	1.37%	5.18%	15.93%	7.46%	15.14%	7.23%
US Mid Blend	Russell Mid Cap TR	2.70%	7.99%	16.48%	7.69%	14.72%	7.67%
US Large Growth	Russell 1000 TR Growth	4.67%	13.99%	20.42%	11.11%	15.30%	8.91%
US Large Value	Russell 1000 TR Value	1.34%	4.66%	15.53%	7.36%	13.94%	5.57%
US Large Blend	Russell 1000 TR	3.06%	9.27%	18.03%	9.26%	14.67%	7.29%
S&P 500	S&P 500 TR USD	3.09%	9.34%	17.90%	9.61%	14.63%	7.18%

US Fixed Income Markets	Index	Quarter	YTD	One Year	3 Year	5 Year	10 Year
US Multisector Bond	Barclays US Agg Bond TR USD	1.45%	2.27%	-0.31%	2.48%	2.21%	4.48%
Intermediate	Barclays US Govt/Credit Interm TR U	0.94%	1.73%	-0.21%	1.92%	1.77%	3.87%
Short Term Bond	Barclays US Govt/Credit 1-3 Yr TR U	0.31%	0.72%	0.35%	0.95%	0.95%	2.30%

International Markets	Index	Quarter	YTD	One Year	3 Year	5 Year	10 Year
Emerging Markets	MSCI EM PR USD	5.47%	17.22%	21.18%	-1.28%	1.52%	-0.47%
Foreign Large Blend	MSCI EAFE PR USD	5.03%	11.83%	17.08%	-1.53%	5.76%	-1.82%
World Bond	Barclays Global Aggregate TR USD	2.60%	4.41%	-2.18%	-0.35%	0.78%	3.69%

Allocation Portfolios	Index	Quarter	YTD	One Year	3 Year	5 Year	10 Year
Balanced	DJ Moderate TR USD	2.72%	7.27%	10.35%	4.36%	7.87%	5.22%
Target Date 2046-2050	S&P Target 2050 TR USD	3.54%	9.25%	16.24%	5.96%	11.16%	5.14%
Target Date 2036-2040	S&P Target 2040 TR USD	3.36%	8.60%	14.77%	5.66%	10.47%	5.02%
Target Date 2026-2030	S&P Target 2030 TR USD	3.01%	7.59%	12.55%	5.16%	9.41%	4.89%
Target Date 2016-2020	S&P Target 2020 TR USD	2.55%	6.32%	9.84%	4.58%	7.91%	4.73%
Target Date Income	S&P Target Today TR USD	1.79%	4.03%	4.95%	3.20%	4.76%	3.93%

Key Takeaways

- ▶ The Federal Open Market Committee (FOMC) raised the target range for the fed funds rate by 25 basis points to 1.00%-1.25%.
- ▶ Final GDP growth for Q1, 2017 was announced at 1.4% (annualized) which was slower than Q4, 2016's growth rate of 2.1% (annualized).
- ▶ Inflationary growth is slowing. For the 12 months ended in May, changes in consumer prices rose 1.9% which is below the FOMC's target of 2%.
- ▶ U.S. housing prices are being driven higher by a lack of available homes for sale. The median sales price of homes sold in May was \$345,800 and the average was \$406,400.
- ▶ Brexit negotiations began in June and the European markets had little reaction. Positive economic data from the Eurozone helped international stocks post gains for February.
- ▶ Consumers expressed confidence in current economic conditions, but were somewhat reticent about their expectations for future economic growth.

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