Market & Economic Review

First Half 2018

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Review

Summary of Market and Economy

Market

- The full year 2017 marked the best year for global stock market returns since 2013, and the lowest volatility since 1972.
- U.S. stocks reached many new record highs in 2017, as accelerating economic growth and rising corporate earnings drove high returns.
- International stocks generated even higher returns in 2017 amid improving economic conditions abroad and appreciating foreign currencies.
- Bonds delivered higher-than-expected returns in 2017, a year in which the Federal Reserve (the Fed) raised short-term interest rates three times.
- Although economic conditions improved, expectations for future inflation and growth pared back throughout 2017, which lowered long-term interest rates and helped bond returns.

Economy

- Economic growth broadened across all major countries around the world in 2017.
- The U.S. economy continued growing at a moderate pace but showed signs of acceleration in the second and third quarters to slightly above 3% annualized growth, coinciding with a healthy job market that is at "full employment" and consumer confidence that is near its highest level since 2000.
- Economic recoveries continued across Europe and Asia. Macroeconomic improvements abroad resulted in strong corporate earnings growth and high stock market returns last year.
- Unlike the U.S., however, many major central banks around the world, including the European Central Bank and the Bank of Japan, held off raising their interest rates. Although these major international economies are growing, they are still not as far into the economic cycle as the U.S..

Outlook

Market and Economy

Market

- We are optimistic about the markets going forward. However, it is almost inevitable that we will experience higher levels of market volatility.
- In 2018, we expect stock markets to continue their advance. Healthy economic conditions led to strong corporate earnings growth in 2017, which is forecast to continue this year.
- Although current stock market valuations are slightly elevated, we don't believe stocks are any more at risk of falling significantly than they normally are, though their longer-term returns are likely to be lower going forward.
- We also don't expect stocks to be as tranquil as they were in 2017.
- Bond markets were surprisingly resilient last year but they are likely to be challenged in 2018, especially if the global economy accelerates materially.
- However, in the scenario of continued modest growth and inflation, bond returns will likely be positive and deliver higher levels of income over time as interest rates gradually move up

Economy

- We expect global economic growth to continue and moderately accelerate in 2018.
- Although the recovery is in its ninth year, we don't believe the dynamics of it will change with the turn of another calendar year.
- Almost all of the various economic and market indicators we monitor are trending in a positive direction, and there are no imminent signs of recession.
- Still, many risks remain, including a potential sharp rise in global inflation, changes in central bank policies, and tensions with North Korea, to name a few.
- Notwithstanding these risks, the significant economic improvement happening in Europe and other parts of the world, combined with the potential impact of tax cuts in the U.S., will likely result in faster growth this year.

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Tax Cuts and Jobs Act (TCJA)

Potential Economic and Market Impacts

Economic Impact

- The tax bill is likely to stimulate U.S. economic growth in 2018 and 2019 through higher consumer and business spending.
- In the current environment, American consumers are likely to spend most of the dollars they get from the new tax cuts, and businesses are likely to speed up and increase capital expenditures.
- In the long term, there will likely be negative impact to the country's budget deficit and federal debt levels. The degree of the impact will depend on, among other things, on how effective the tax cuts will be at increasing economic growth in the long-run.

Market Impact

- The most immediate impact of the tax bill will be an increase in company profits with the corporate tax rate declining from 35% to 21%.
- This earnings growth is likely to push long-term stock returns marginally higher and potentially prolong the current bull market.
- On the other hand, because these tax cuts are coming at a time when the economy is near full employment, they could spark higher inflation sooner.
- If inflation moves above the Fed's 2% target, it may need to raise interest rates faster than expected, which would hurt bond market returns in the short-term.

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Capstone Portfolios

Review and Updates

Portfolio Review

- The global diversification of our client portfolios enhanced returns.
- Client portfolios remained fully invested and were managed strategically, rather than tactically based on the day-to-day news cycle.
- Executing a disciplined approach throughout 2017 proved once again to be the key to investment success.
- With our expectations that economic momentum and corporate profit growth will likely continue, we maintain our view that clients should stay invested in growth-oriented assets.
- However, considering where we are in the economic cycle, stock market valuations, and the current risks that investors face today, we believe client portfolios should remain diversified globally and balanced with an appropriate allocation to defensive-oriented assets.

Portfolio Updates

- With our expectations that longer-term market returns will likely be lower and more volatile than recent years, we will be making some strategic changes to client portfolios this year to reduce costs, broaden diversification, and improve the credit quality of bond allocations.
- Reducing the cost of the portfolios will enable them to keep more of future market returns.
- Broadening out the diversification (globally) will position portfolios to capture market returns across more asset classes without taking on more risk.
- Improving the credit quality of bond allocations will lower the risk of portfolios by becoming more defensive against future stock market volatility.
- It is important to note that while these changes may appear to be well-timed given where we are in the market cycle, they are strategic in the context of our long-term view.

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Market Review

Overview

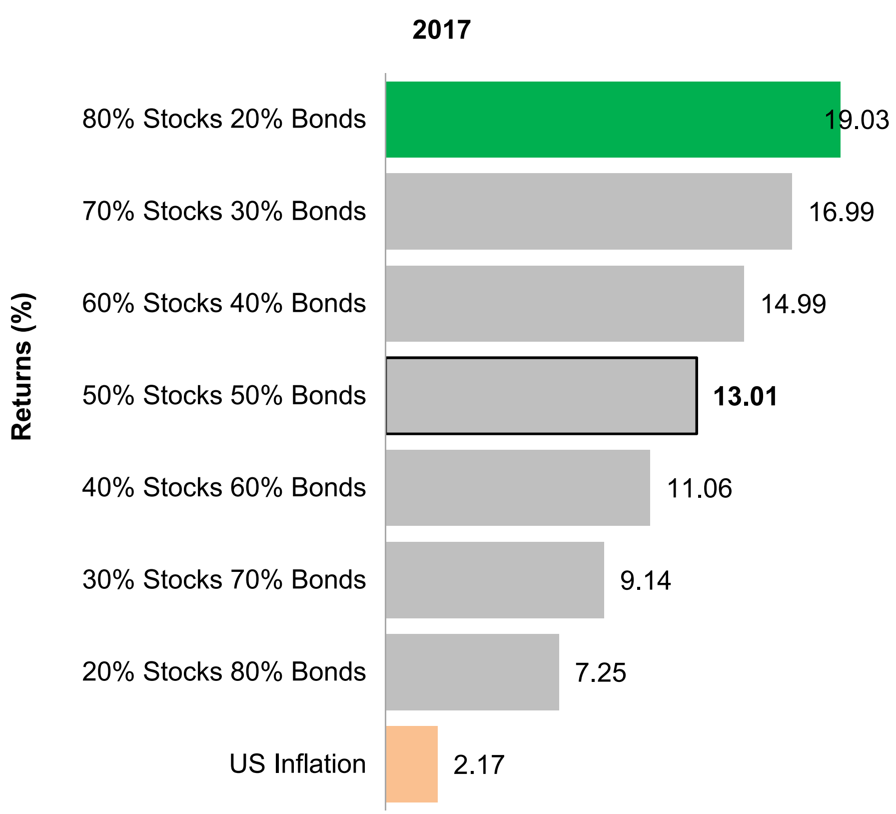
Overview

- Balanced Portfolios
- World Asset Classes
- US Stocks
- International Stocks
- US Bonds
- International Bonds
- Real Assets
- U.S. Interest Rates
- U.S. Inflation Expectations
- Energy Prices
- Currency
- Stock Market Valuations
- Corporate Earnings Growth

Market Review: Balanced Portfolios

2017 Index Returns (%)

❑ Balanced and diversified portfolios have performed well, outpacing inflation by a significant margin. Aggressive allocations have outperformed conservative allocations, more so in recent years.



Historical Returns	2016	2 Years	3 Years	5 Years	10 Years
80% Stocks 20% Bonds	8.98	13.89	8.90	10.99	6.76
70% Stocks 30% Bonds	8.24	12.53	8.11	9.89	6.56
60% Stocks 40% Bonds	7.48	11.17	7.30	8.79	6.31
50% Stocks 50% Bonds	**6.72**	**9.82**	**6.48**	**7.68**	**6.03**
40% Stocks 60% Bonds	5.93	8.47	5.65	6.57	5.70
30% Stocks 70% Bonds	5.13	7.12	4.81	5.46	5.34
20% Stocks 80% Bonds	4.32	5.77	3.96	4.34	4.93
US Inflation	2.07	2.12	1.66	1.45	1.62

Source: Morningstar Direct. Data as of 12/31/2017. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Stocks = 70% Russell 3000 TR USD + 30% MSCI ACWI Ex USA IMI NR USD, Bonds = 100% BBgBarc US Agg Bond TR USD, US Inflation = IA SBBI US Inflation (Ibbotson Associates *Stocks, Bonds, Bills, and Inflation)*

Assumes portfolios are rebalanced monthly.

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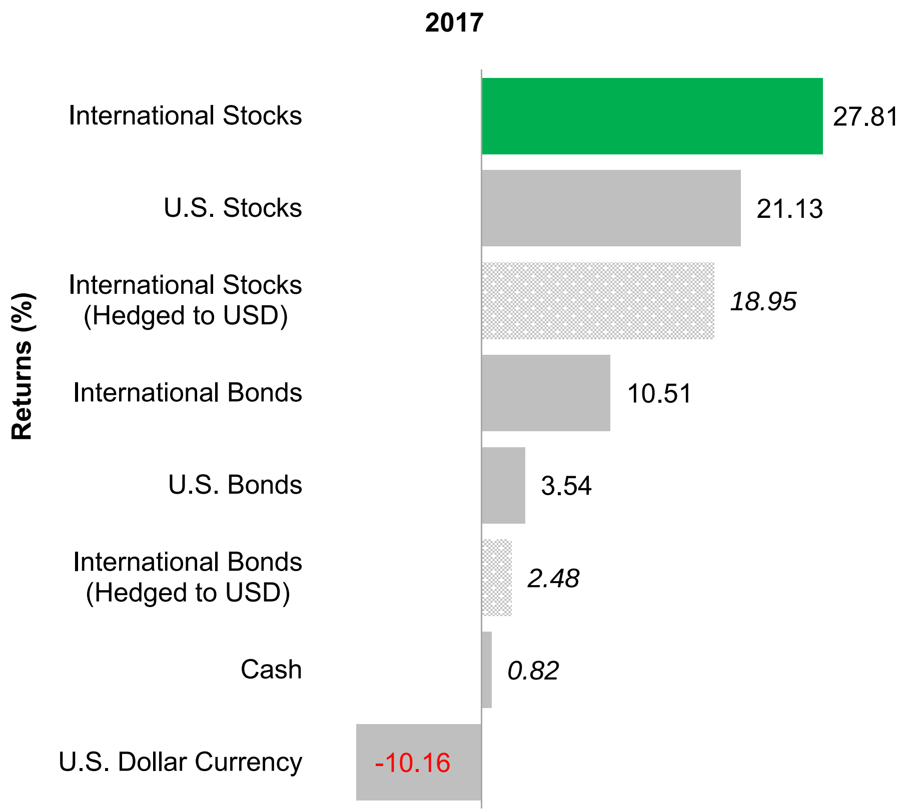
Market Review: Major World Asset Classes

2017 Index Returns (%)

- After several years of underperformance, international stocks outperformed U.S. stocks. The depreciation of the U.S. dollar in 2017 helped (unhedged) international investment returns measured in US dollars.



Historical Returns	2016	2 Years	3 Years	5 Years	10 Years
International Stocks	4.41	15.52	8.38	7.22	2.20
U.S. Stocks	12.74	16.86	11.12	15.58	8.60
International Stocks (Hedged to USD)	*7.13*	*12.89*	*8.82*	*10.05*	*3.35*
International Bonds	10.51	5.90	1.77	-0.20	2.40
U.S. Bonds	2.65	3.09	2.24	2.10	4.01
International Bonds (Hedged to USD)	*1.49*	*3.68*	*2.90*	*3.70*	*4.23*
Cash	0.25	0.54	0.37	0.24	0.34
U.S. Dollar Currency	3.63	-3.51	0.57	2.68	1.82

Source: Morningstar Direct. Data as of 12/31/2017. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

U.S. Stocks = Russell 3000 TR USD, International Stocks (Hedged to USD) = MSCI ACWI ex US 100% Hedged NR USD, International Stocks = MSCI ACWI Ex USA IMI NR USD, U.S. Bonds = BBgBarc US Agg TR USD, International Bonds = BBgBarc Gbl Agg Ex USD TR USD, Cash = BofAML US Treasury Bills 0-3 Mon TR USD

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Market Review: U.S. Stocks (Styles)

2017 Index Returns (%)

- Growth stocks have outperformed due to significant outperformance by technology companies. Large caps outperformed small caps in 2017 with the global economy improving and the depreciation of the U.S. dollar helping corporations with international sales.

Historical Returns	2016	2 Years	3 Years	5 Years	10 Years
Large Cap Growth	6.89	16.72	12.86	17.00	9.99
Large Cap Blend	11.96	16.79	11.41	15.79	8.50
U.S. Total	**12.74**	**16.86**	**11.12**	**15.58**	**8.60**
Mid Cap Growth	14.77	17.32	11.98	14.93	10.35
Mid Cap Blend	20.74	18.47	11.14	15.01	9.97
Large Cap Value	17.40	16.38	9.47	14.24	6.80
Small Cap Growth	22.16	18.41	12.96	16.39	10.82
Small Cap Blend	26.56	19.71	12.00	15.99	10.43
Mid Cap Value	26.53	19.21	9.88	14.83	9.46
Small Cap Value	31.32	21.01	10.97	15.52	9.99

Source: Morningstar Direct. Data as of 12/31/2017. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

U.S. Stocks = Russell 3000 TR USD, Large Cap Blend = S&P 500 TR USD, Large Cap Value = S&P 500 Value TR USD, Large Cap Growth = S&P 500 Growth TR USD, Mid Cap Blend = S&P MidCap 400 TR, Mid Cap Value = S&P MidCap 400 Value TR USD, Small Cap Blend = S&P SmallCap 600 TR USD, Small Cap Value = S&P SmallCap 600 Value TR USD, Small Cap Growth = S&P SmallCap 600 Growth TR USD

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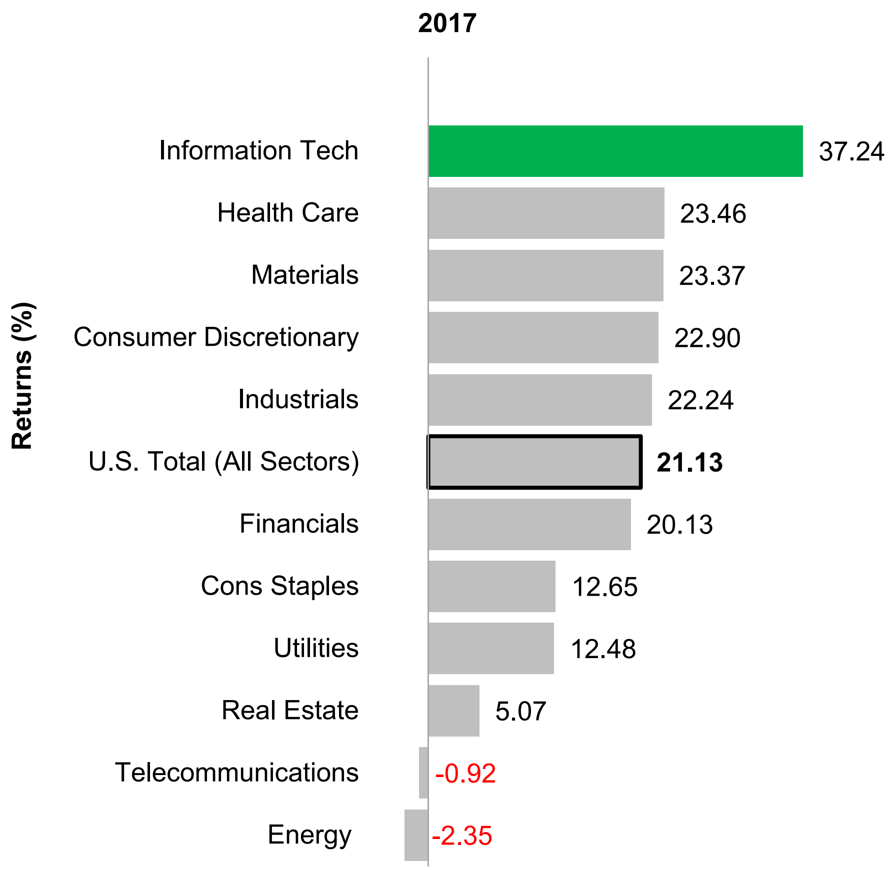
Market Review: U.S. Stocks (Sectors)

2017 Index Returns (%)

- The best performing sector in 2017 was technology, which experienced high revenue growth, particularly from relatively high international revenue exposure (60%). The energy sector was the worst performing sector despite a 15% rebound in oil prices this year.



Historical Returns	2016	2 Years	3 Years	5 Years	10 Years
Information Tech	13.90	25.03	18.01	20.54	11.86
Health Care	-3.28	9.27	8.58	18.06	11.65
Materials	21.59	22.48	10.46	12.24	6.84
Consumer Discretionary	6.75	14.54	11.81	17.08	13.01
Industrials	20.85	21.54	12.53	16.53	8.81
U.S. Total (All Sectors)	**12.74**	**16.86**	**11.12**	**15.58**	**8.60**
Financials	24.93	22.51	14.29	17.79	5.08
Cons Staples	6.11	9.33	8.14	13.32	10.09
Utilities	17.67	15.05	8.03	13.03	6.82
Real Estate	8.60	6.82	5.37	9.34	7.44
Telecommunications	23.68	10.69	8.23	8.32	5.13
Energy	27.47	11.57	-1.42	1.68	0.60

Source: Morningstar Direct. Data as of 12/31/2017. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Energy = MSCI USA IMI/Energy GR USD, Telecommunicaitons = MSCI USA IMI/Telecom Svcs GR USD, Financials = MSCI USA IMI/Financials GR USD, Industrials = MSCI USA IMI/Industrials GR USD, Materials = MSCI USA IMI/Materials GR USD, Utilities = MSCI USA IMI/Utilities GR USD, Information Technology = MSCI USA IMI/Information Tech GR USD, Consumer Discretionary = MSCI USA IMI/Cons Disc GR USD, Consumer Staples = MSCI USA IMI/Cons Staples GR USD, Real Estate = MSCI US REIT GR USD, Health Care = MSCI USA IMI/Health Care GR USD. U.S. Total (All Sectors) = Russell 3000 TR USD

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Market Review: International Stocks (Regions and Styles)

2017 Index Returns (%)

- Emerging markets outperformed developed markets for the second year in a row. Emerging market countries have benefited from a combination of a weaker dollar, accommodative monetary policy, stabilization in commodity prices, and improved export demand.

Historical Returns	2016	2 Years	3 Years	5 Years	10 Years
Emerging Market	9.90	22.63	9.01	4.47	1.85
International Growth	0.06	15.03	9.69	8.25	2.63
International Small Cap	3.91	16.96	11.96	10.03	4.69
International Total	**4.41**	**15.52**	**8.38**	**7.22**	**2.20**
International Large/Mid Cap	4.50	15.29	7.83	6.80	1.84
Developed Market	2.95	13.52	8.11	7.97	2.28
International Value	8.83	15.99	7.01	6.14	1.72

Source: Morningstar Direct. Data as of 12/31/2017. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

International Total = MSCI ACWI Ex USA IMI NR USD, Developed Market = MSCI World Ex USA IMI NR USD, Emerging Market = MSCI EM IMI NR USD, International Large/Mid Cap = MSCI ACWI Ex USA NR USD, International Small Cap = MSCI ACWI Ex USA Small NR USD, International Growth = MSCI ACWI Ex USA IMI Growth NR USD, International Value = MSCI ACWI Ex USA IMI Value NR USD

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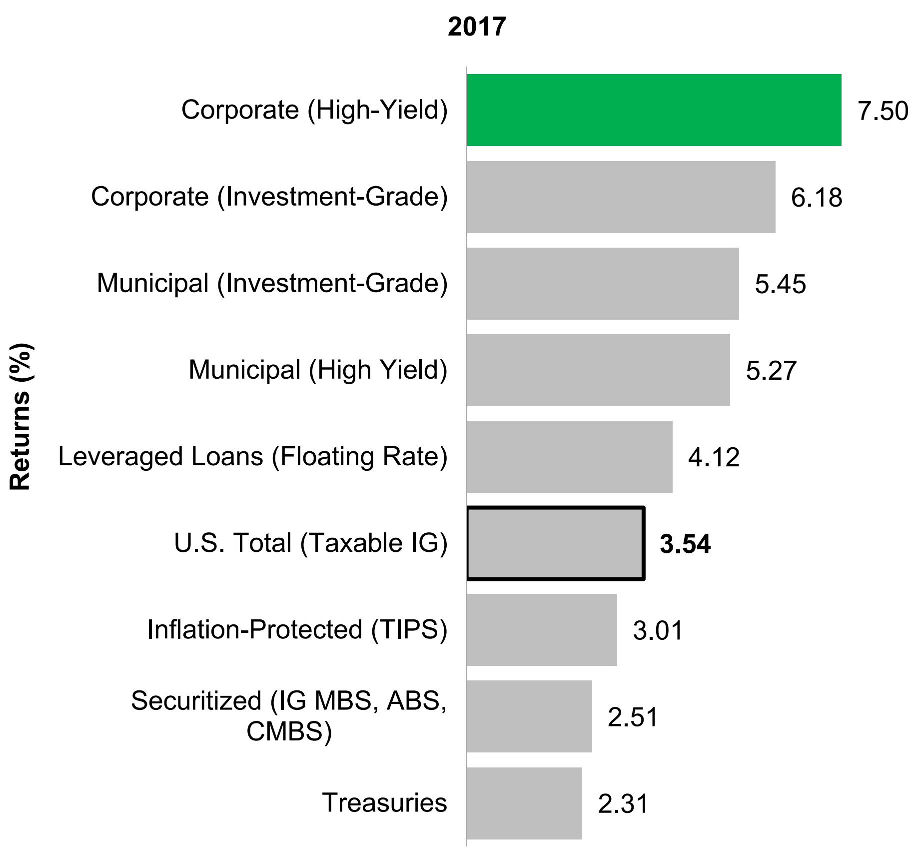
Market Review: U.S. Bonds (Sectors)

2017 Index Returns (%)

- Bond returns surpassed expectations in 2017 as longer-term interest rates declined. Lower quality (high-yield) bonds significantly outperformed investment-grade bonds due to improving economic conditions and corporate earnings, and low market volatility.



Historical Returns	2016	2 Years	3 Years	5 Years	10 Years
Corporate (High-Yield)	17.13	12.21	6.35	5.78	8.03
Corporate (Investment-Grade)	5.63	5.90	3.63	3.24	5.42
Municipal (Investment-Grade)	0.25	2.82	2.98	3.02	4.46
Municipal (High Yield)	4.92	5.10	4.34	4.56	5.45
Leveraged Loans (Floating Rate)	10.16	7.10	4.44	4.03	4.85
U.S. Total (Taxable IG)	2.65	3.09	2.24	2.10	4.01
Inflation-Protected (TIPS)	4.68	3.84	2.05	0.13	3.53
Securitized (IG MBS, ABS, CMBS)	1.78	2.14	1.92	2.04	3.81
Treasuries	1.04	1.67	1.40	1.27	3.31

Source: Morningstar Direct. Data as of 12/31/2017. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

U.S. Total (Taxable IG + HY) = BBgBarc US Universal TR USD, U.S. Total (Taxable IG) = BBgBarc US Agg Bond TR USD, Corporate (High-Yield) = BBgBarc High Yield Corporate TR USD, Leveraged Loans (Floating Rate) = S&P/LSTA Leveraged Loan TR, Corporate (Investment Grade) = BBgBarc US Credit TR USD, Municipal (High Yield) = S&P Municipal Bond High Yield TR, Inflation-Protected Bonds (TIPS) = BBgBarc US Treasury US TIPS TR USD, Securitized (IG MBS, ABS, CMBS) = BBgBarc US Scrtzd MBS ABS CMBS TR USD, Treasuries = BBgBarc US Treasury TR USD, Municipal (Investment Grade) = BBgBarc Municipal TR USD

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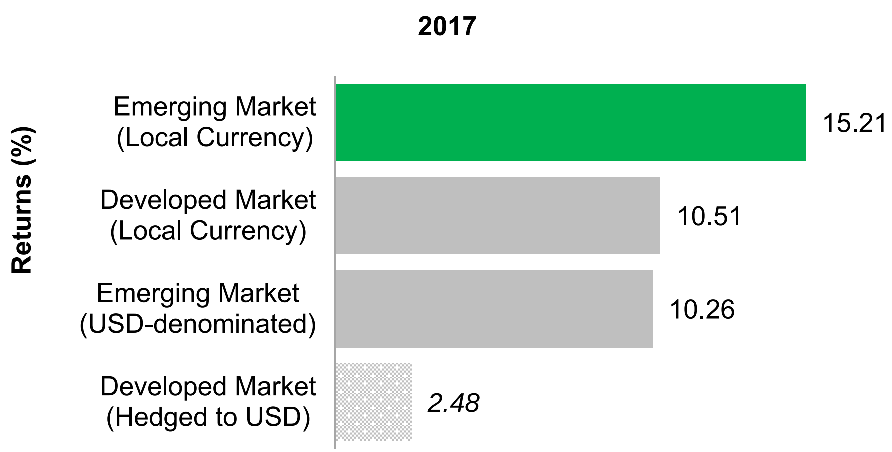
Market Review: International Bonds

2017 Index Returns (%)

- Similar to stocks, emerging markets bonds led developed markets due to improvement in the global economy, relatively strong growth in emerging market countries, appreciating currencies, and a slow-moving U.S. interest rate policy.



Historical Returns	2016	2 Years	3 Years	5 Years	10 Years
Emerging Market (Local Currency)	9.94	12.55	2.53	-1.55	3.56
Developed Market (Local Currency)	1.49	5.90	1.77	-0.20	2.40
Emerging Market (USD-denominated)	10.15	10.20	7.11	4.58	7.29
Developed Market (Hedged to USD)	*4.90*	*3.68*	*2.90*	*3.70*	*4.23*

Source: Morningstar Direct. Data as of 12/31/2017. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Developed Market (Local Currency) = BBgBarc Gbl Agg Ex USD TR USD, Developed Market (Hedged to USD) = BBgBarc Gbl Agg Ex USD TR Hdg USD, Emerging Market (Local Currency) = JPM GBI-EM Global Diversified TR USD, Emerging Market (USD-denominated) = JPM EMBI Global Diversified TR USD

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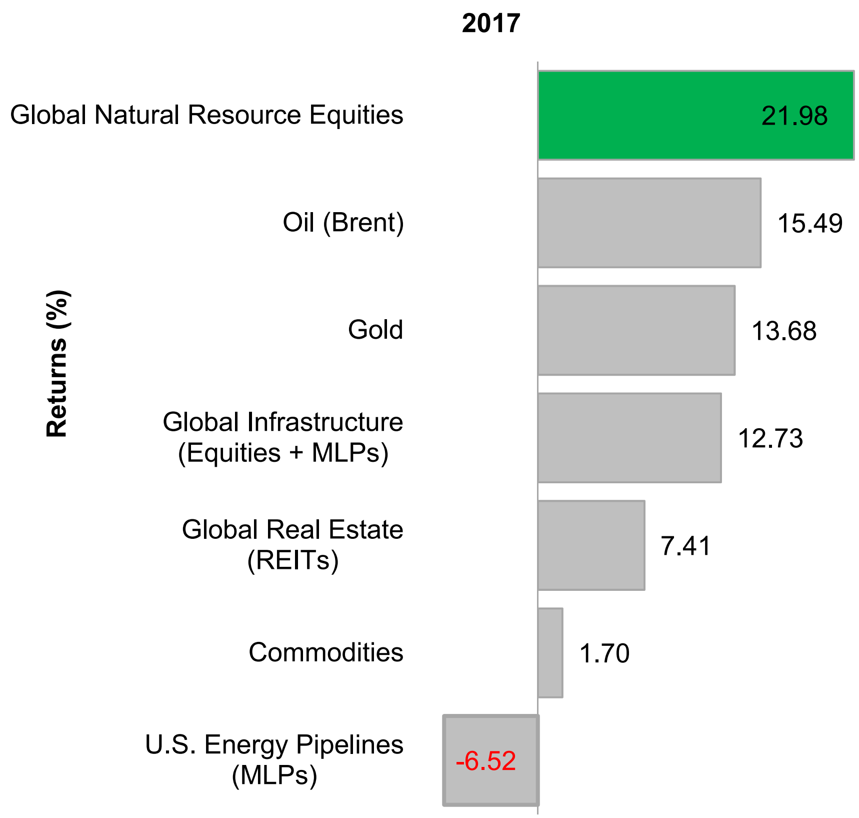
Market Review: Real Assets

2017 Index Returns (%)

- Commodities on the whole stabilized in 2017. Real assets tied to commodity prices (other then energy assets) had strong returns in 2017. Real estate securities have been held back by rising rates but rental demand remains strong.



Historical Returns	2016	2 Years	3 Years	5 Years	10 Years
Global Natural Resource (Equities)	31.45	26.63	6.58	1.88	-0.91
Oil (Brent)	28.46	21.80	-6.93	-14.84	
Gold	8.63	11.13	3.41	-4.82	4.56
Global Infrastructure (Equities + MLPs)	11.68	12.21	2.47	8.12	6.98
Global Real Estate (REITs)	5.77	6.59	4.19	6.94	4.17
Commodities	11.77	6.62	-5.03	-8.45	-6.83
U.S. Energy Pipeline (MLPs)	18.31	5.16	-9.33	-0.06	6.05

Source: Morningstar Direct. Data as of 12/31/2017. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

U.S. Energy Pipelines (MLPs) = Alerian MLP TR USD, Commodities = Bloomberg Commodity TR USD, Gold = S&P GSCI Gold Spot, Oil = S&P GSCI Brent Crude TR USD, U.S. Real Estate (REITs) = FTSE NAREIT Equity REITs TR USD, International Real Estate (REITs) = S&P Global ex US REIT NR USD, Global Real Estate (REITs) = S&P Global REIT NR USD

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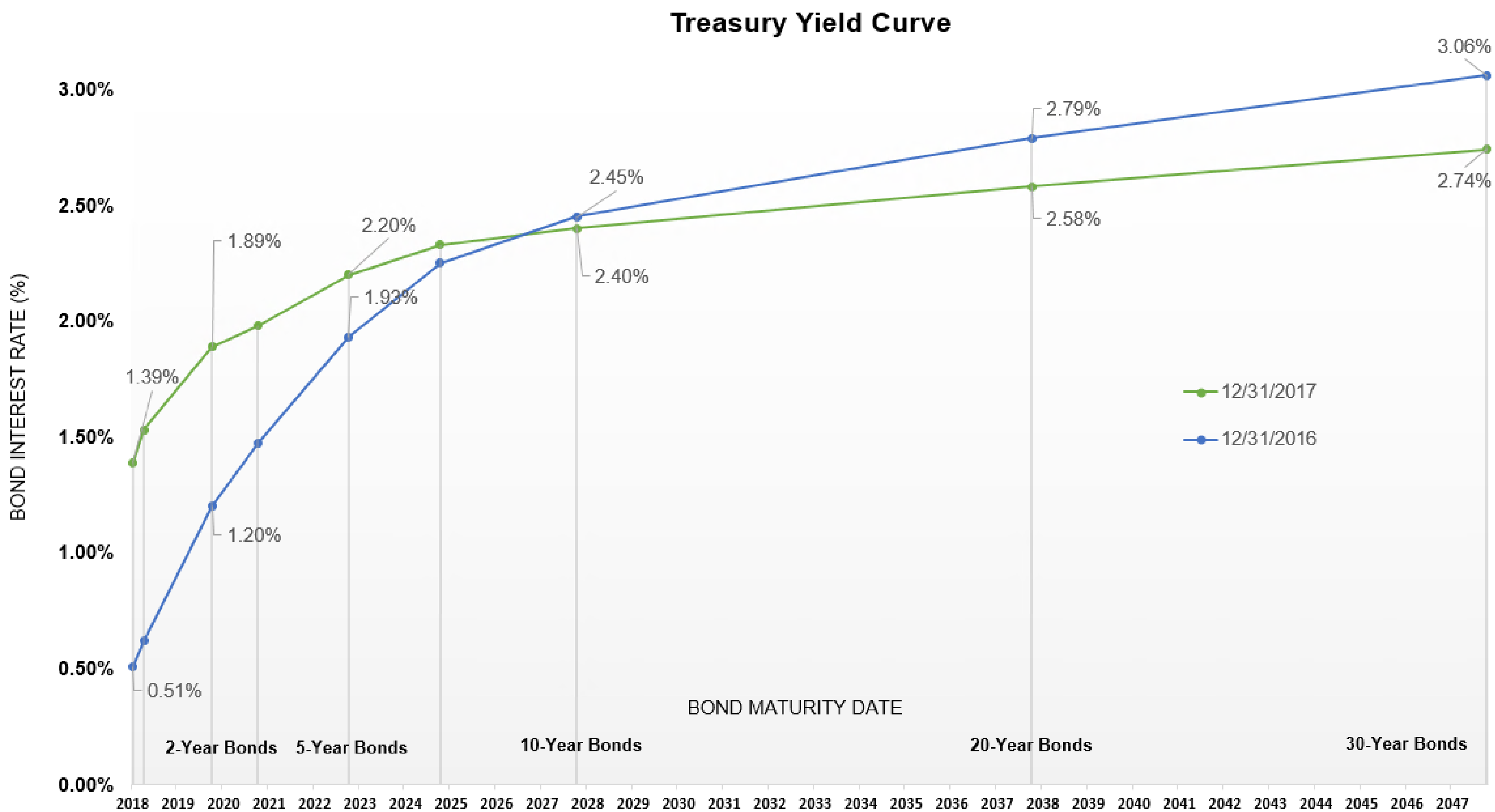
Market Review: US Interest Rates

Treasury Yield Curve

- In 2017, short-term rates have moved up in line with Fed interest rate hikes. However, longer-term rates came down because of steady demand for long-term government bonds, preemptively priced-in rate hikes (in Q4 2016), and persistently low inflation expectations.



- The Treasury Yield Curve is a graph of the interest rates (yields) of U.S. government bonds plotted against the time they have to maturity. Treasury yields impact consumer and business borrowing rates (e.g., 10-year Treasury yields influence 30-year mortgage rates).

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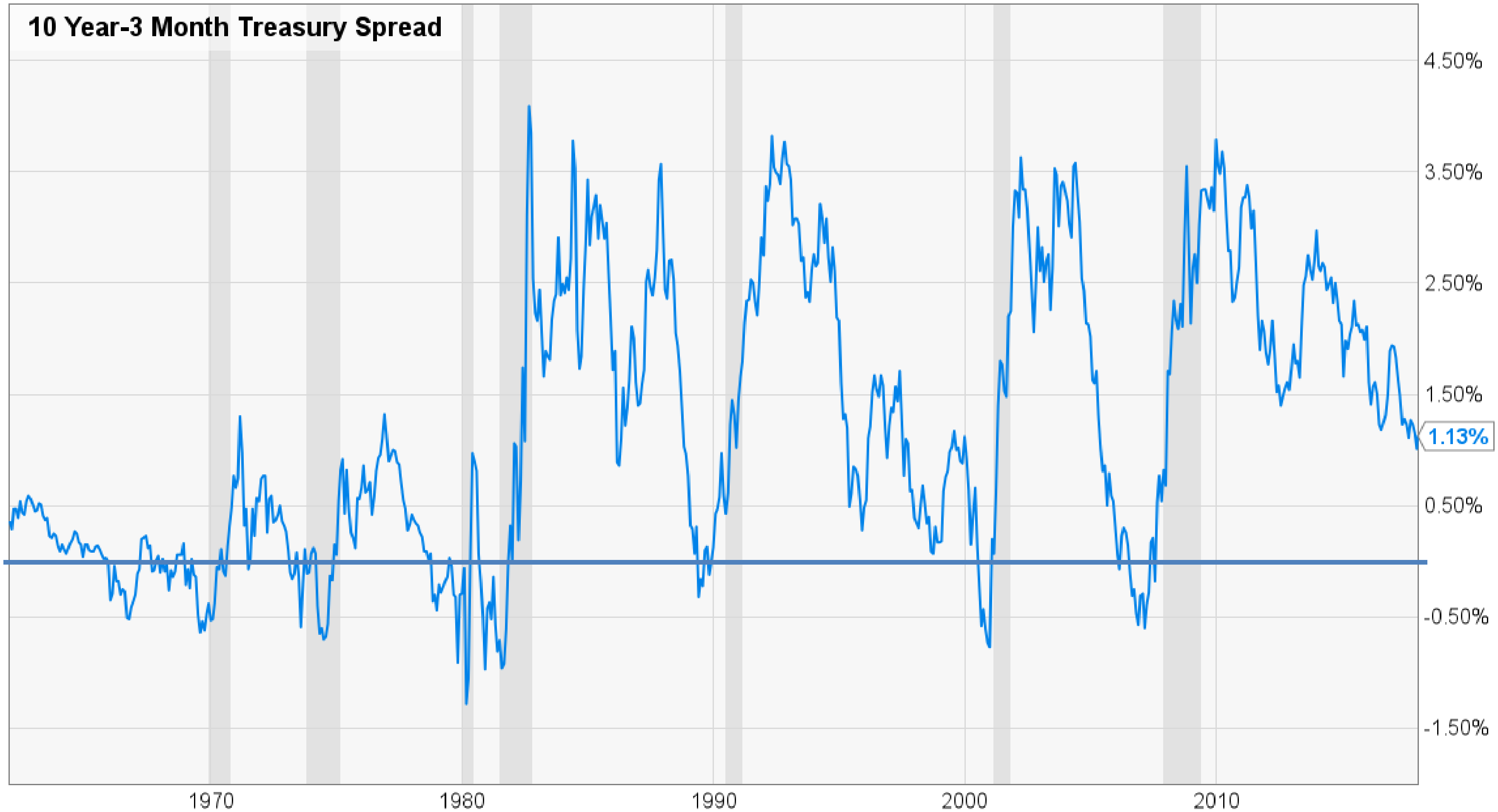
Source: YCharts. Data as of 12/31/2017. Past performance is not a guarantee of future results.

Market Review: US Interest Rates

Treasury Yield Curve Slope

- Despite "flattening" in 2017, the U.S. treasury yield curve is still "upward sloping"; the yield curve is currently not indicating a recession is near.



- The slope of the yield curve provides an important clue to the direction of future short-term interest rates; an upward sloping curve generally indicates that the financial markets expect higher future interest rates (i.e., a stronger economy); a downward sloping curve indicates expectations of lower rates in the future. Historically, the slope of the yield curve is the single best indicator of trouble.

Source: YCharts. Data as of 12/31/2017. Past performance is not a guarantee of future results.
Shaded areas indicate past U.S. recessions.

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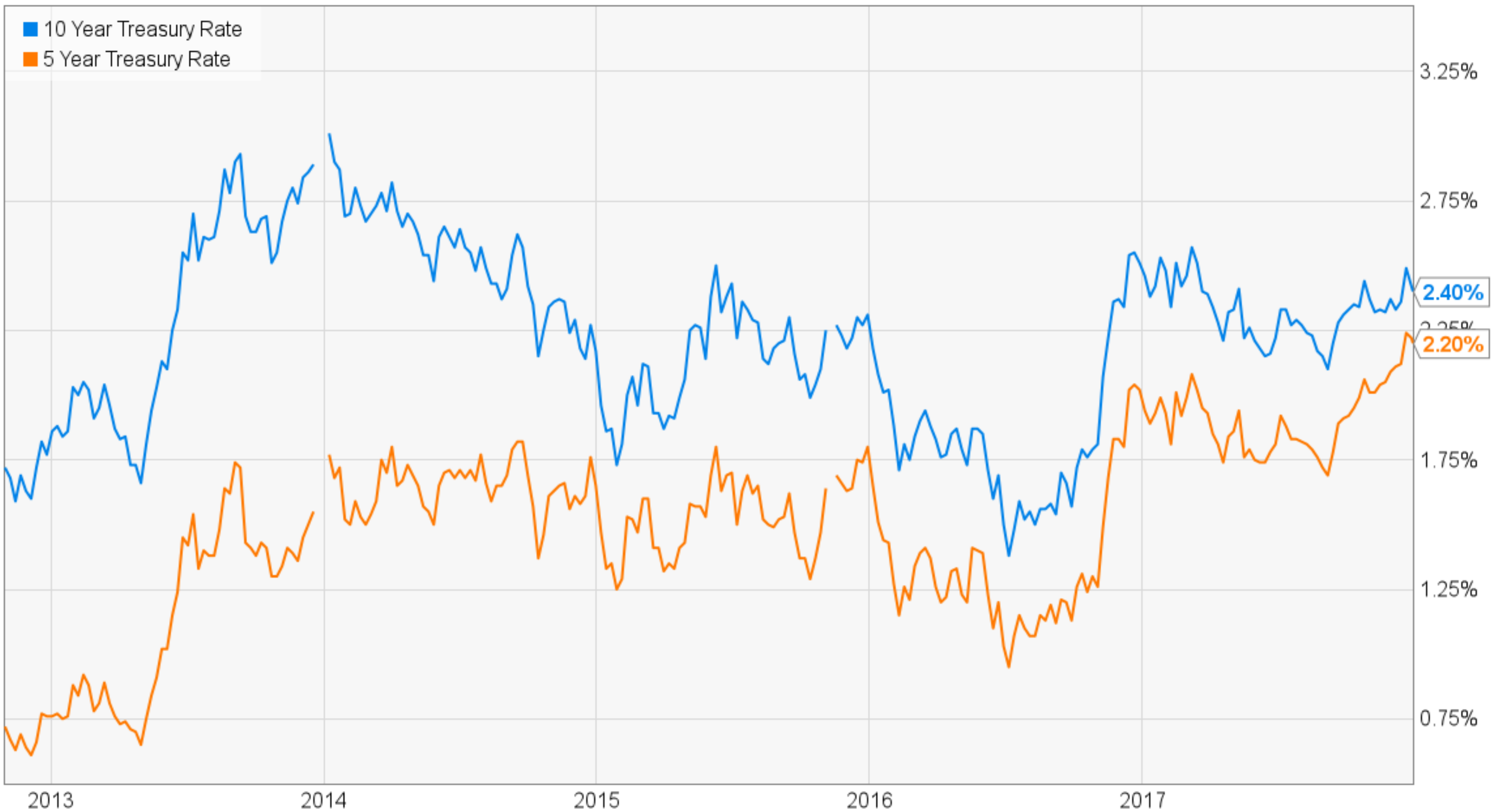
Market Review: US Interest Rates

US 10-Year and 5-Year Treasury Yields

- 10-Year treasury yields, on which borrowing rates for mortgage rates are based, moved down slightly last year. 5-Year treasury yields, on which auto loans are based, moved up. Both are still at relatively low levels.

10-Year and 5-Year Treasury Rates



- The 10-year treasury yield is the benchmark yield that borrowing rates for mortgage rates and Home Equity Loans, Federal student Loans (once a year in May reset) are based on. The 5-year treasury yield is pegged for auto loans.

Source: YCharts. Data as of December 2017. Past performance is not a guarantee of future results.
Shaded areas indicate past U.S. recessions.

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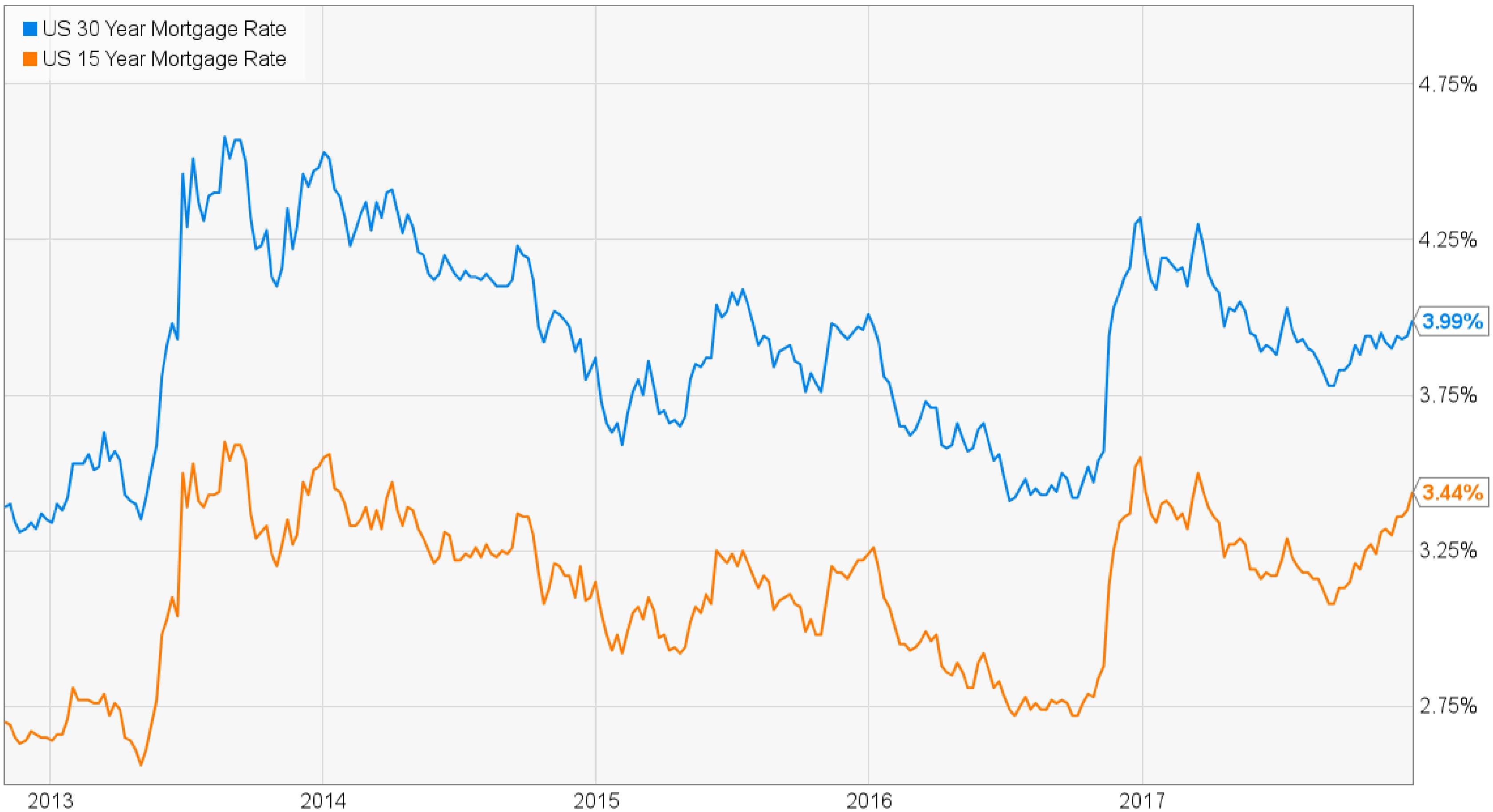
Market Review: US Interest Rates

30-Year Fixed Mortgage Rate

- Mortgage rates moved down in 2017 after spiking at the end of 2016, along with longer-term treasury yields.

Mortage Rates



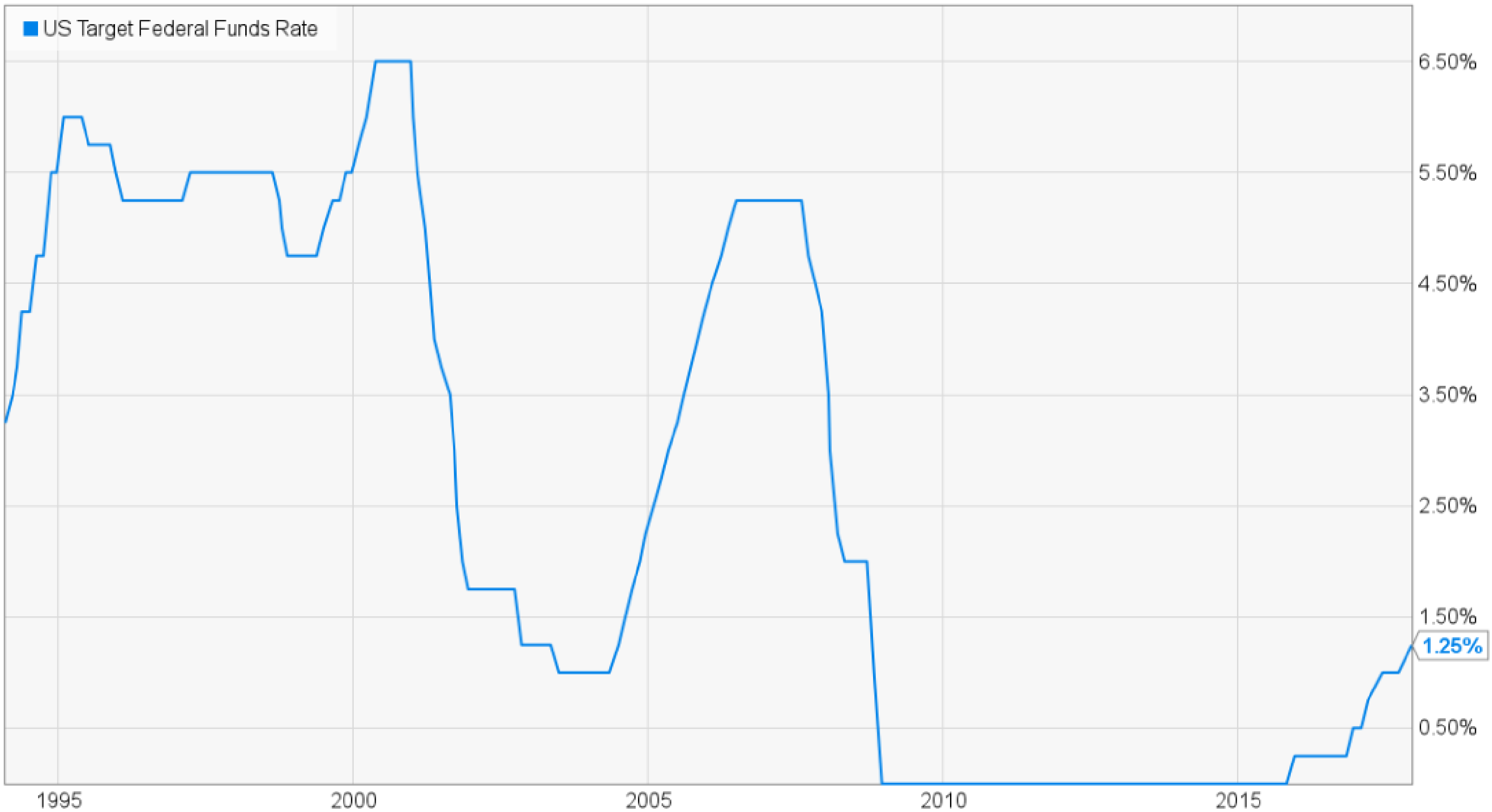
Source: YCharts, Freddie Mac. Data as of December 2017. Past performance is not a guarantee of future results.
Shaded areas indicate past U.S. recessions.

Market Review: US Interest Rates

Federal Funds Rate

- The Federal Funds rate, a short-term interest rate based on policy set by the U.S. Federal Reserve, was increased by 0.25% three times in 2017. This is due to improving economic conditions, however the pace has been gradual because growth and inflation levels have been moderate.

Short-Term (Policy) Interest Rate Target



- The federal funds rate is rate at which banks can borrow and lend to each other overnight. It is one of the most influential interest rates in the U.S. economy because it affects other short-term and long-term lending rates in the U.S. economy (e.g., credit cards, mortgages, home equity lines, etc.).

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Source: YCharts, Federal Reserve. Data as of December 2017. Past performance is not a guarantee of future results.
Shaded areas indicate past U.S. recessions.

Market Review: US Interest Rates

Prime Rate

- Many of the major banks increased their prime rates following the federal fund rate increases. Credit cards, brokerage margin loans, and home equity lines of credit have increased. These rates remain low by historical standards.

- The prime rate is the interest rate that commercial banks charge their most credit-worthy customers and large corporations. The prime interest rate, or prime lending rate, is largely determined by the federal funds rate; the prime rate is also important for individual borrowers as it influences credit card rates and home-equity lines of credit.

Source: Board of Governors of the Federal Reserve System (US), fred.stlouisfed.org. Data as of December 2017. Past performance is not a guarantee of future results. Shaded areas indicate past U.S. recessions.

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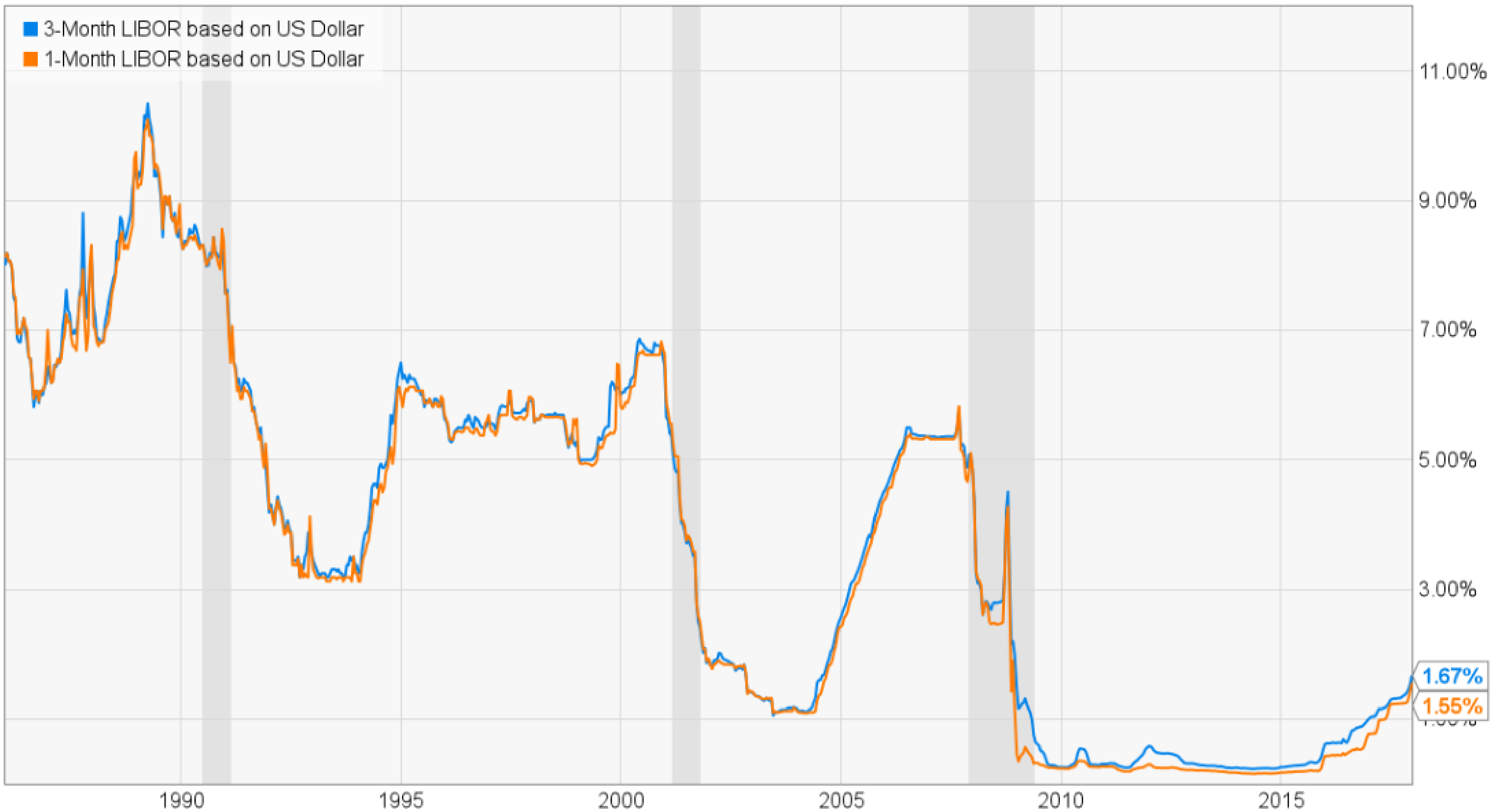
Market Review: US Interest Rates

1-Month and 3-Month London Interbank Offer Rate (LIBOR)

- LIBOR rates have moved up, with both 1-month and 3-month LIBOR crossing 1.5% for the first time since the US emerged from recession in 2009. Some variable rate loans (e.g., ARMs) and leveraged loans have been impacted, but not to a large degree yet.

London Interbank Offered Rate (LIBOR)



- The Intercontinental Exchange London Interbank Offered Rate (LIBOR or ICE LIBOR) is a benchmark rate that some of the world's leading banks charge each other for short-term loans. It stands for and serves as the first step to calculating interest rates on various loans throughout the world.

Source: YCharts, ICE. Data as of December 2017. Past performance is not a guarantee of future results.
Shaded areas indicate past U.S. recessions.

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Market Review: US Inflation Expectations

Breakeven Rates

- Investors had lower expectations of future inflation throughout the first half of 2017, but they have increased recently, likely because of the passage of tax cuts in the U.S. Expectations for pro-growth policies that involve increasing government debt levels (hence future inflation) have increased.

Market Inflation Expectations

- Breakeven rates are market-based inflation indicators. They are the differential between nominal (non-inflation-adjusted) Treasuries and Treasury-Inflation-Protected-Securities. Policy makers pay close attention to inflation expectation because they can influence firms' and households' spending decisions, which affect actual prices.

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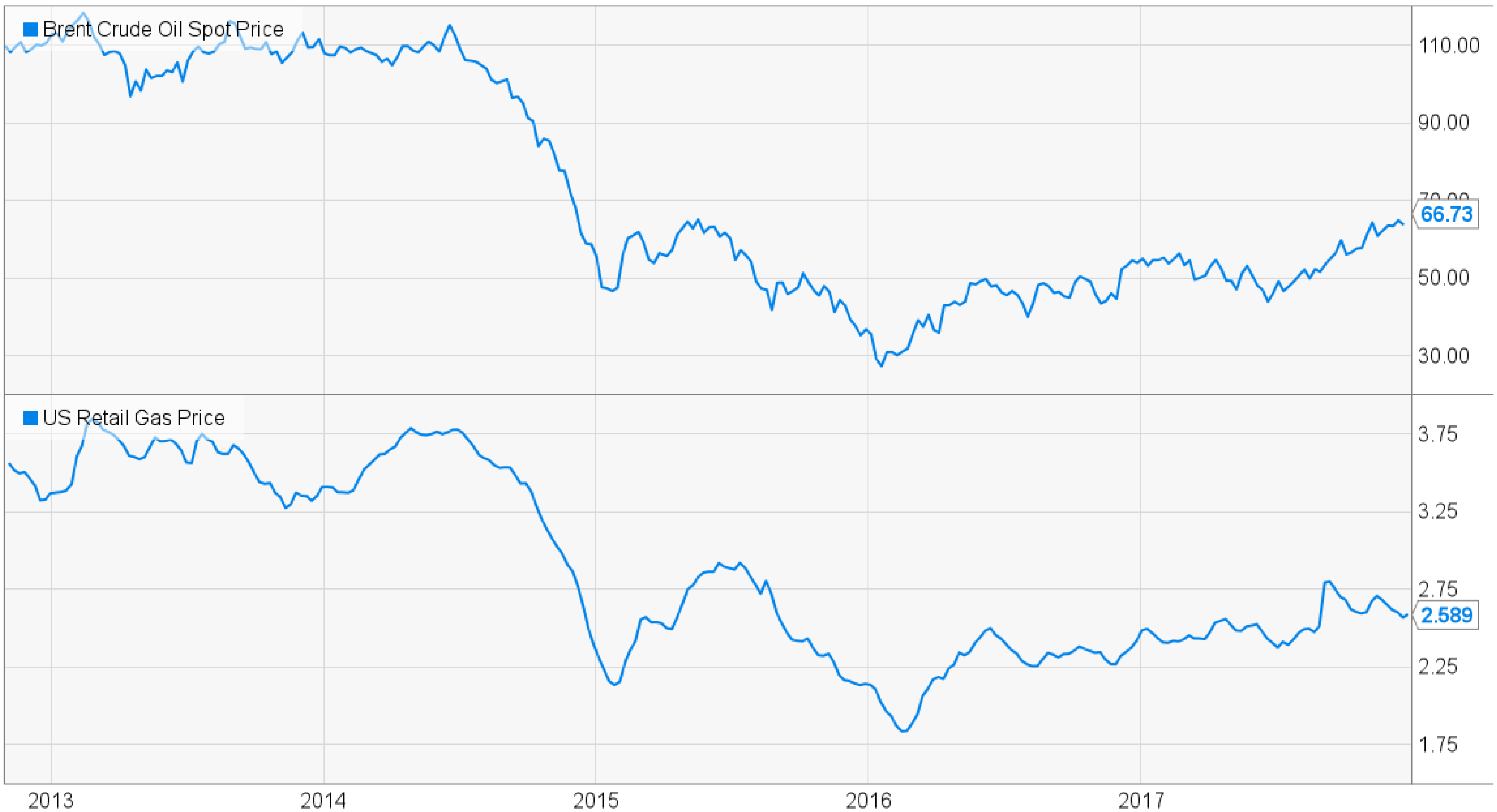
Source: YCharts. Data as of December 2017. Past performance is not a guarantee of future results.

Market Review: Energy Prices

Oil & Gas

- Oil prices have been supported by both demand and supply dynamics. Global growth, particularly in manufacturing (at its strongest level since 2011) and strength in emerging markets has boosted demand. Supply has also normalized, with production cuts by OPEC and Russia.

Energy Prices



Source: YCharts, Energy Information Administration. Data as of December 2017. Past performance is not a guarantee of future results.

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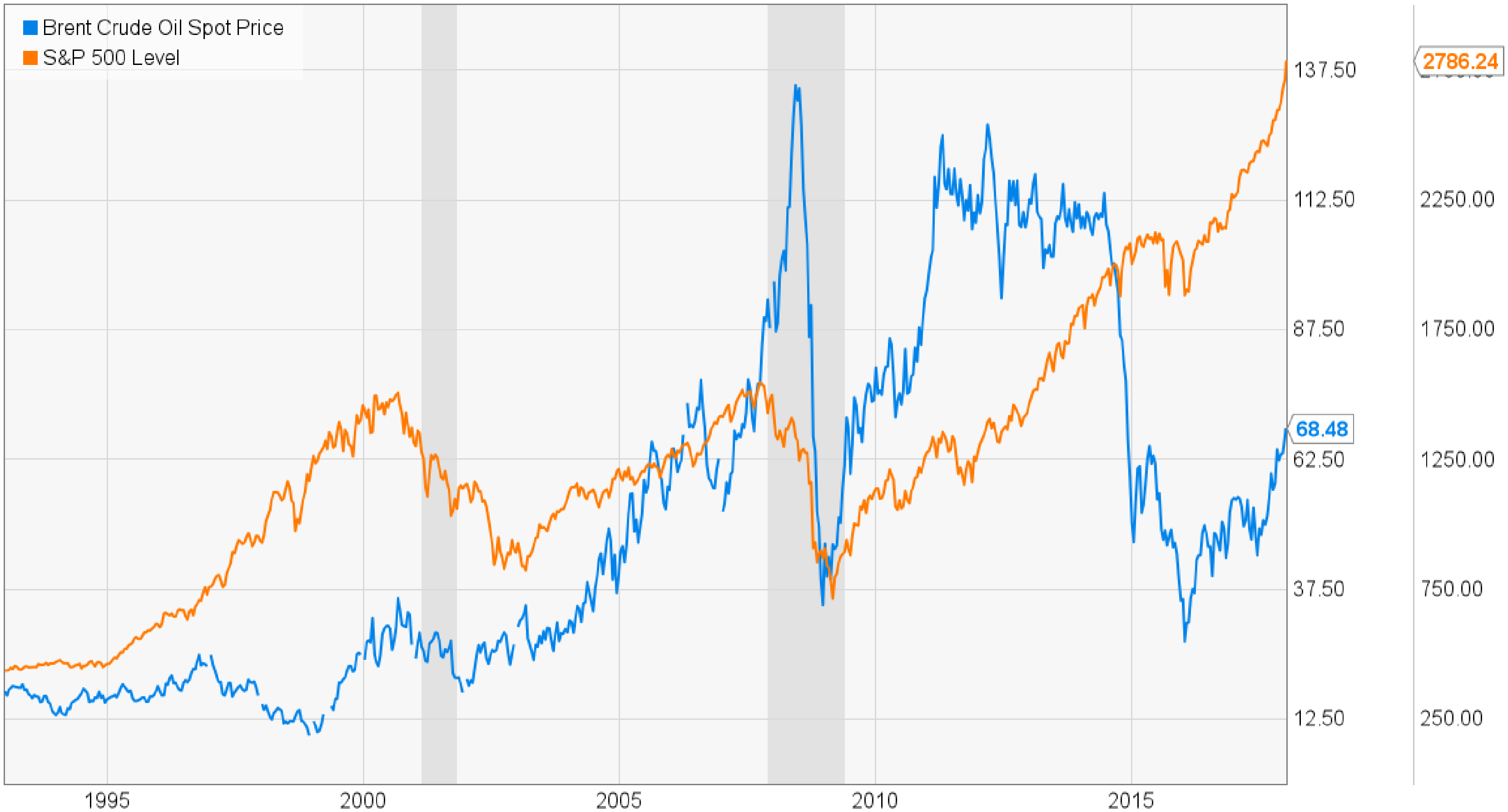
Market Review: Energy Price Impact

Oil & Markets

- Historically the correlation between oil prices and the U.S. stock market has not been strong. High oil prices (e.g., over $130/barrell) are generally not good for the economy (aside from the energy industry), but oil prices in the $60 to $90 range will likely not choke off the current economic recovery.

Oil's Impact on U.S. Stock Market



Source: YCharts, Energy Information Administration. Data as of December 2017. Past performance is not a guarantee of future results.

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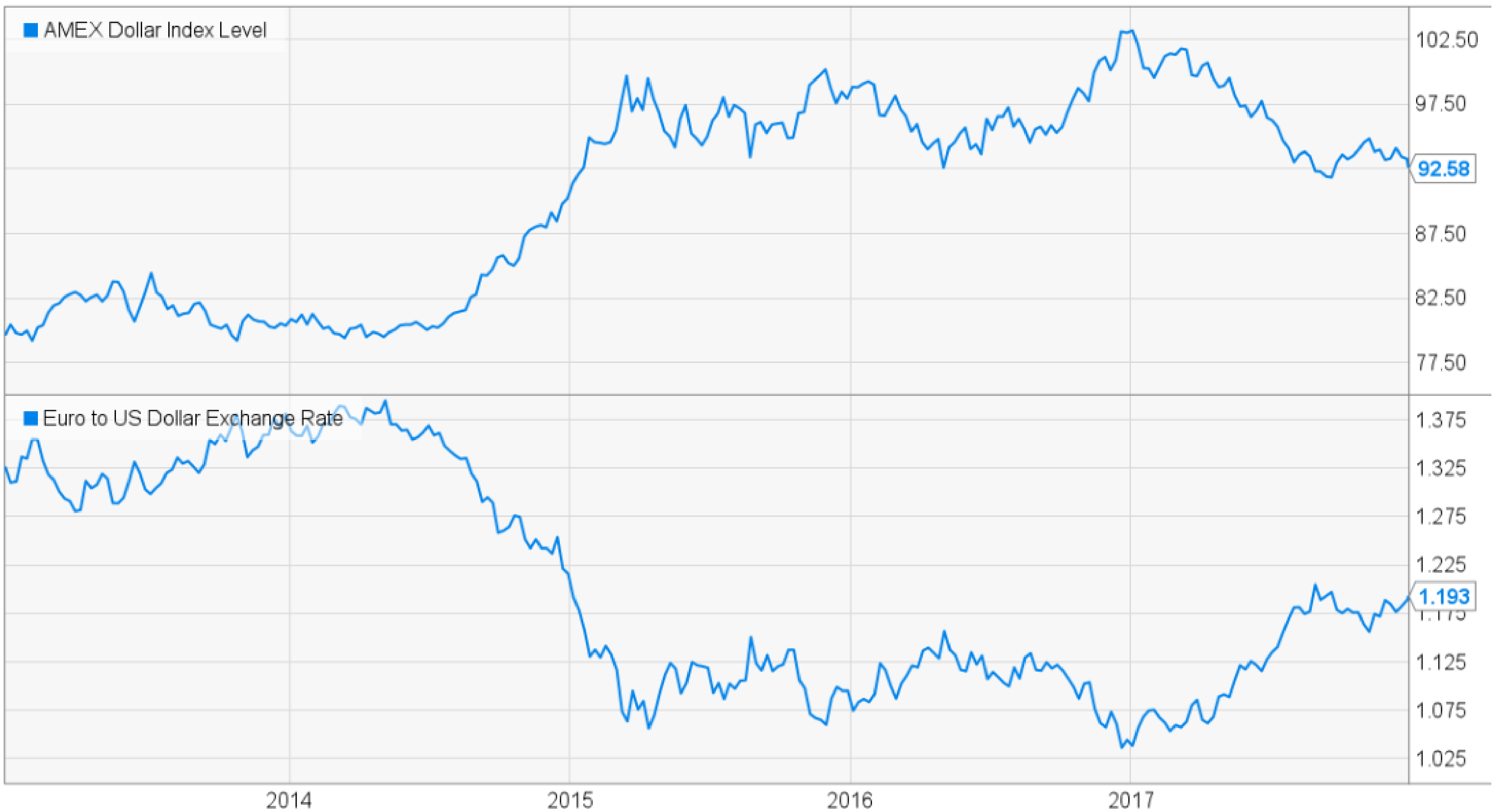
Markets Review: Currency

US Dollar

- The U.S. dollar depreciated around 10% in 2017, the slow pace of policy rate increases in the U.S. was part of the reason. The euro was up nearly 13% against the dollar with improvements in the eurozone economy paving the way for the ECB to eventually raise rates.

U.S. Dollar $



- The US Dollar Index (DXY) is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of US trade partners' currencies. It is a weighted geometric mean of the dollar's value relative to other select currencies. The Euro to US Dollar Exchange Rate is a direct quote of the U.S. dollars per unit of Euro.

Source: YCharts. Data as of July 2017. Past performance is not a guarantee of future results.

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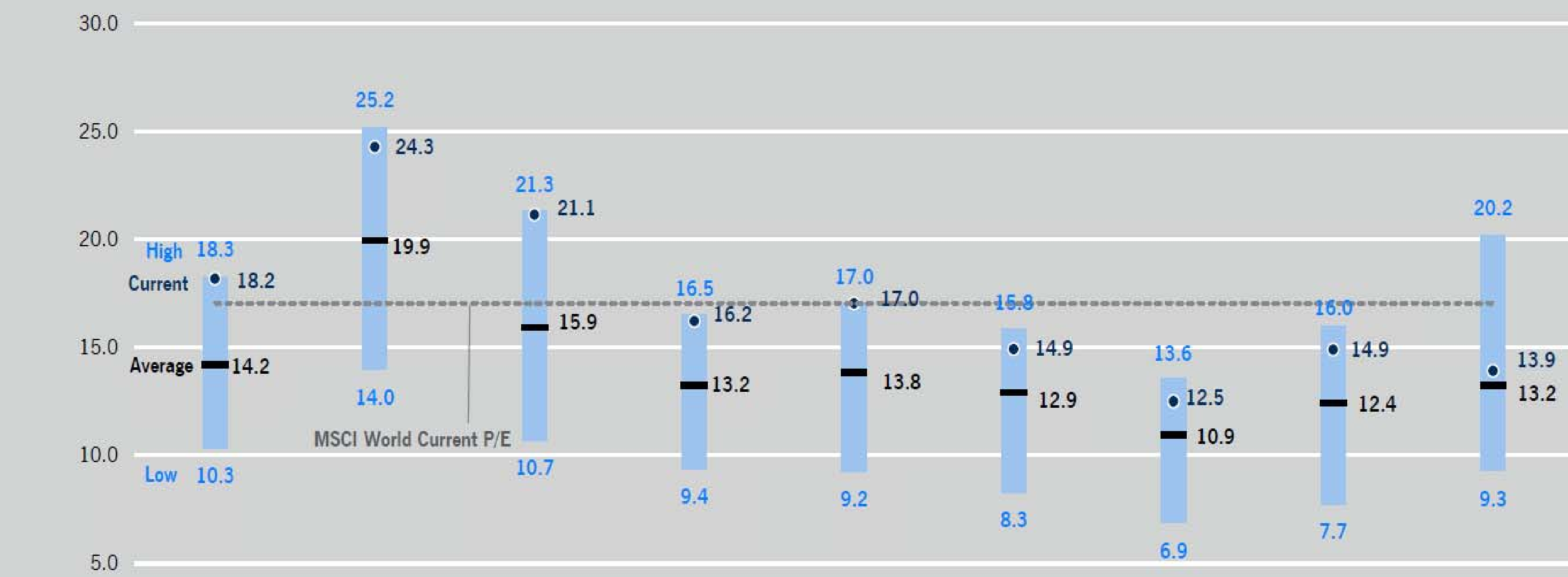
Markets Review: Valuations

Stock Valuations

- Stock markets overall are above historical average valuations across the world. Low interest rates are part of the reason. However, if the earnings growth expansion continues, current valuations could be supported for longer.

Regions/Styles: Current NTM P/E vs. 10-Year High, Low, Average



	S&P 500	Russell 2000	Russell 1000 Growth	Russell 1000 Value	MSCI World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Date	11/17	9/17	11/17	2/17	12/17	5/15	12/07	3/15	7/09
Low Date	9/11	9/11	11/08	9/11	10/08	10/08	10/08	10/08	10/08

Source: Eaton Vance, Factset. Data as of 12/31/2017. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

NTM P/E is market price per share divided by expected earnings per share over the next twelve months. ..

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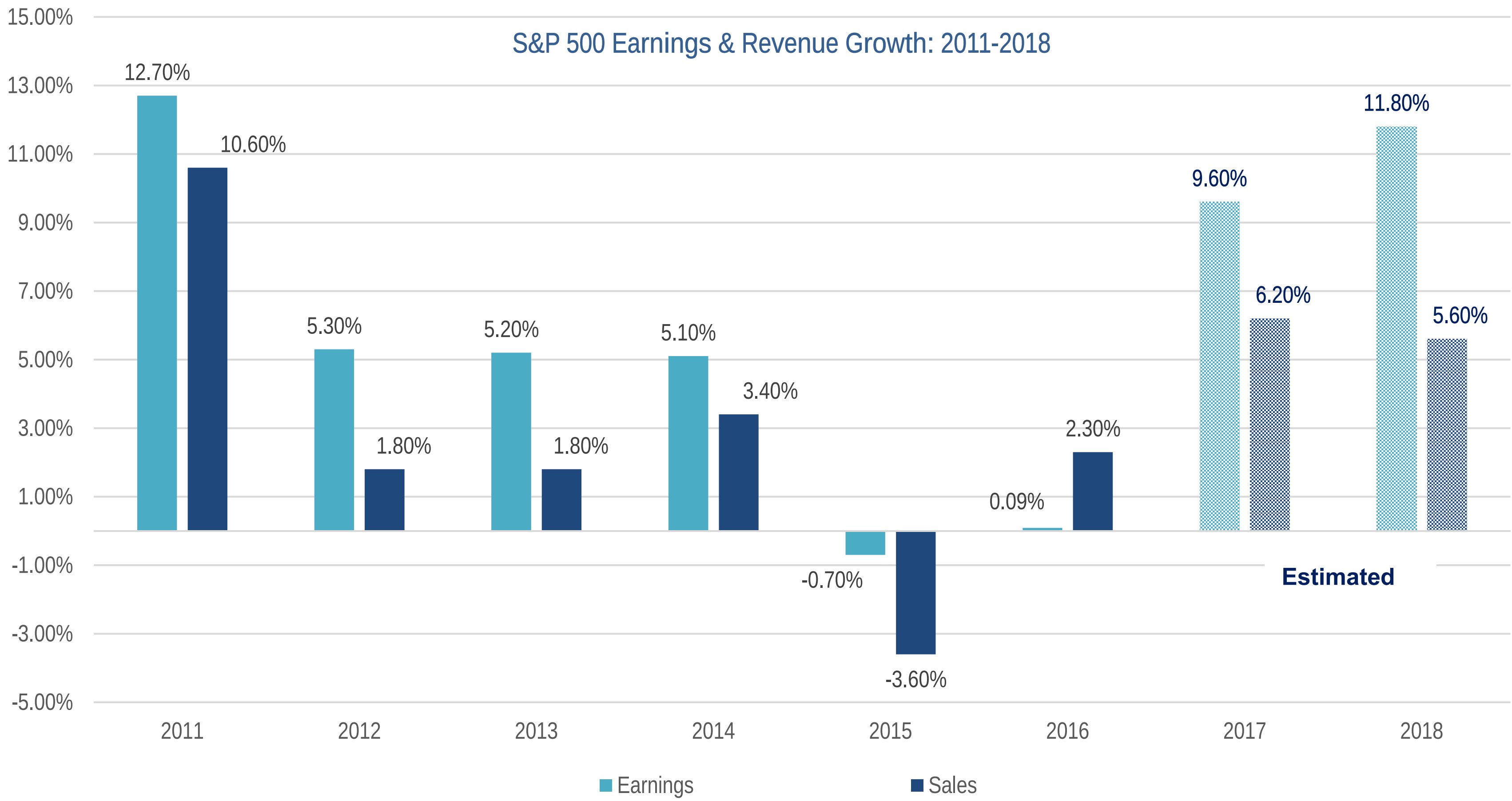
Markets Review: U.S. Earnings Growth

U.S. Corporate Earnings Growth

- Based on reports released through the third-quarter, full year 2017 earnings growth for the largest corporations in the U.S. is estimated to be +9.6%. U.S. earnings growth for 2018 is estimated to be +11.8%. These would be highest annual earnings growth rate since 2011.



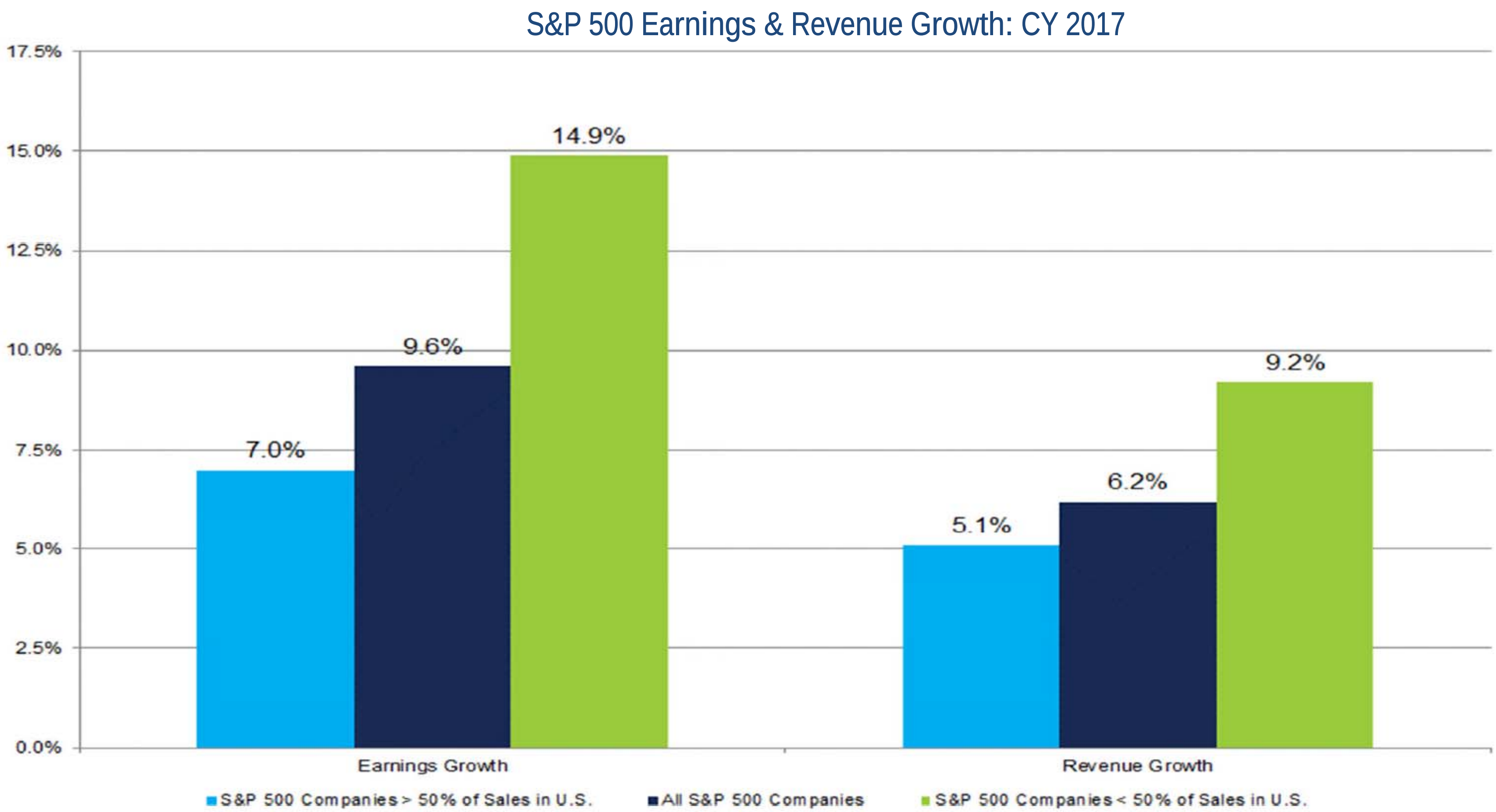
Source: Factset. Data as of 12/22/2017. Past performance is not a guarantee of future results.

Earnings Growth is the % change in YoY EPS from the prior year.

Markets Review: U.S. Earnings Growth

U.S. Corporate Earnings Growth

- Companies that have the highest international revenue exposures have had higher earnings and revenue growth in 2017.



Source: Factset. Data as of 12/22/2017. Past performance is not a guarantee of future results.

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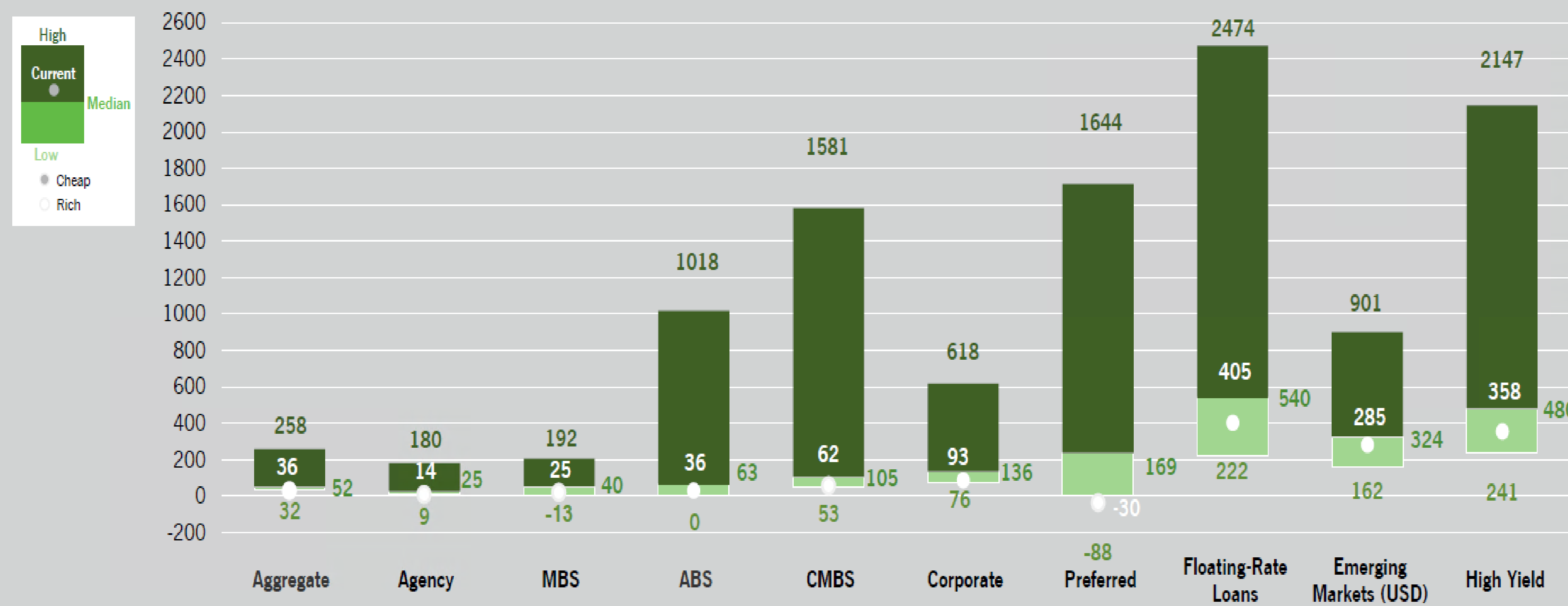
Markets Review: Valuations

Bond Valuations

- Credit spreads are at historically tight levels given the significant improvements in corporate fundamentals.



	Aggregate	Agency	MBS	ABS	CMBS	Corporate	Preferred	Floating-Rate Loans	Emerging Markets (USD)	High Yield
Max Spread Date	12/3/2008	11/20/2008	12/3/2008	1/6/2009	11/21/2008	12/3/2008	3/9/2009	12/19/2008	10/24/2008	12/15/2008
Min Spread Date	2/23/2005	3/12/2013	7/27/2010	10/1/2009	12/8/2004	3/11/2005	12/6/2017	3/31/2006	6/1/2007	6/1/2007
Spread on 12/31/17	36	14	25	36	62	93	-30	405	285	358
Spread on 12/31/16	43	21	15	59	75	123	213	465	342	422
Spread on 12/31/15	56	21	24	72	121	165	158	714	415	695

Source: Eaton Vance, Factset. Data as of 12/31/2017. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

NTM P/E is market price per share divided by expected earnings per share over the next twelve months. ..

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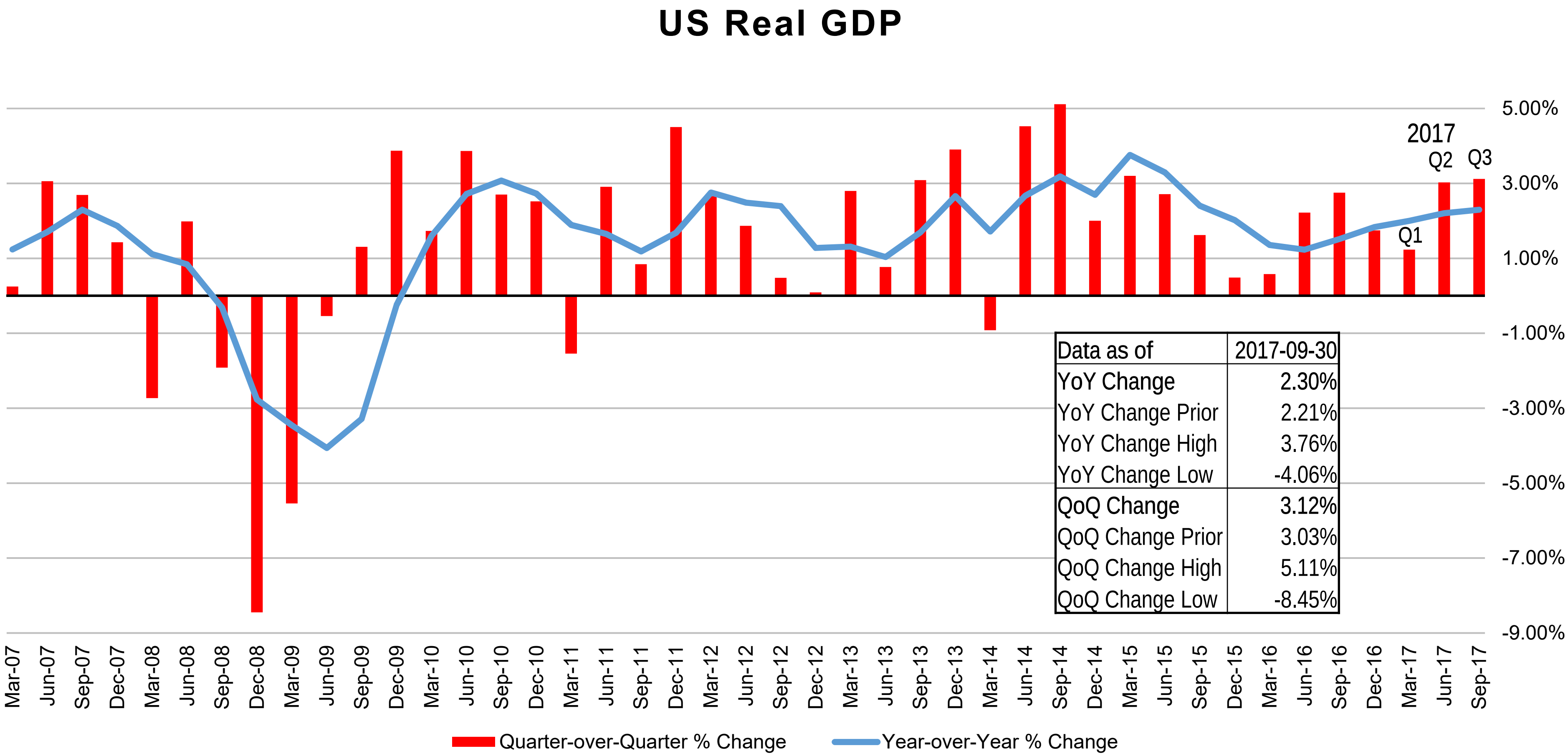
Overview

- U.S. Growth
- U.S. Inflation
- U.S. Job Market
- U.S. Consumer
- U.S. Housing Market

Economy: US Growth

Gross Domestic Product (GDP)

- The U.S. economy is entering into its ninth year of expansion, and growth remains slow and steady. Economic expansion has accelerated over the last two quarters (slightly above a 3% annual rate), and year-over-year growth has recently been trending up (currently at 2.30%).



Data as of	2017-09-30
YoY Change	2.30%
YoY Change Prior	2.21%
YoY Change High	3.76%
YoY Change Low	-4.06%
QoQ Change	3.12%
QoQ Change Prior	3.03%
QoQ Change High	5.11%
QoQ Change Low	-8.45%

- Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well. GDP includes all private and public consumption, government outlays, investments and exports minus imports that occur within a defined territory. GDP is a broad measurement of a nation’s overall economic activity.

Source: YCharts, Bureau of Economic Analysis. Past performance is not a guarantee of future results.

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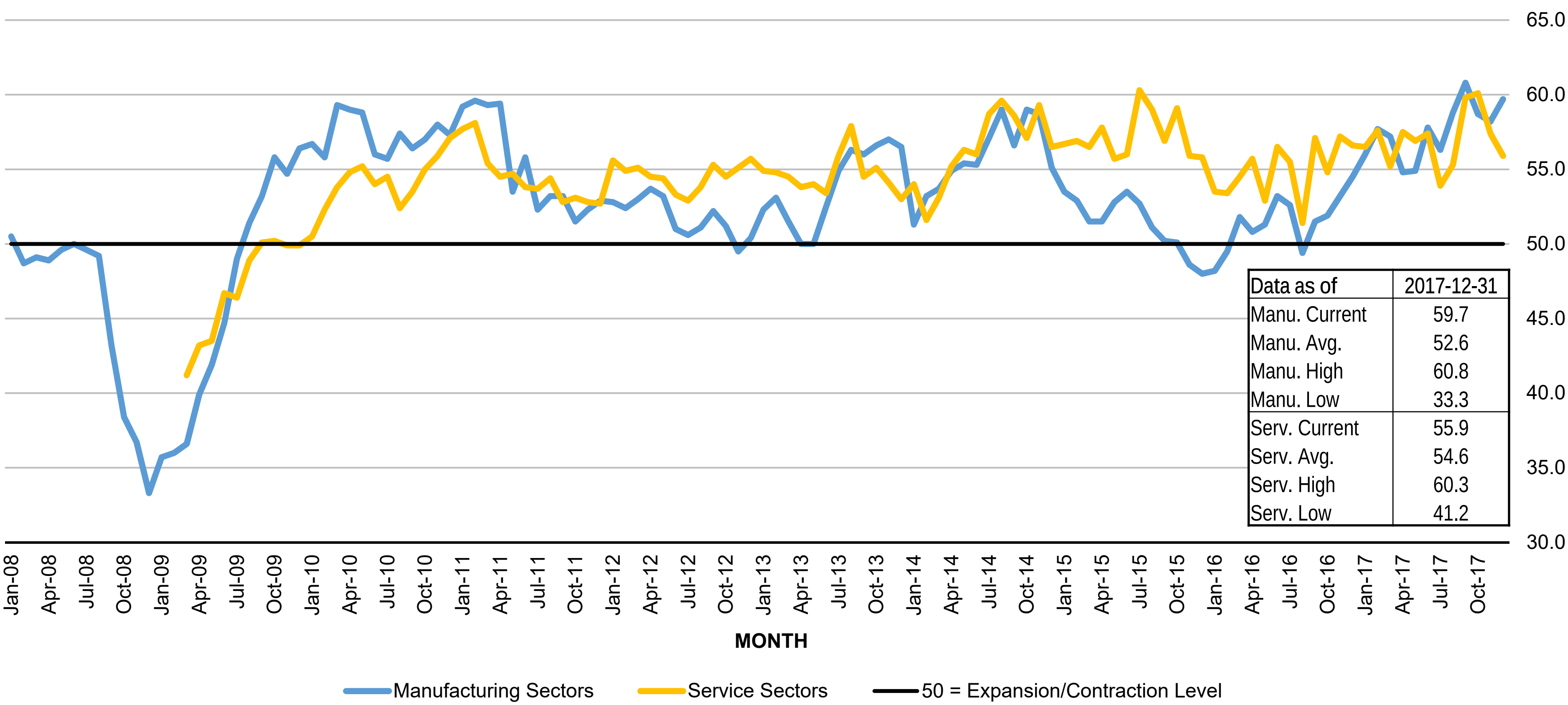
Economy: US Growth

Manufacturing & Service Sectors

- The health of U.S. service sectors remains strong, while manufacturing sector activity has reached its highest level in almost 3 years.

ISM Purchasing Managers Index



Data as of	2017-12-31
Manu. Current	59.7
Manu. Avg.	52.6
Manu. High	60.8
Manu. Low	33.3
Serv. Current	55.9
Serv. Avg.	54.6
Serv. High	60.3
Serv. Low	41.2

- The Purchasing Managers' Index (PMI) is an indicator of the economic health of the manufacturing and service sectors. The PMI is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment. It provides information about current business conditions to company decision makers, analysts and purchasing managers. It is produced from monthly surveys sent to purchasing executives at approximately 300 companies. Readings over 50 imply expansion.

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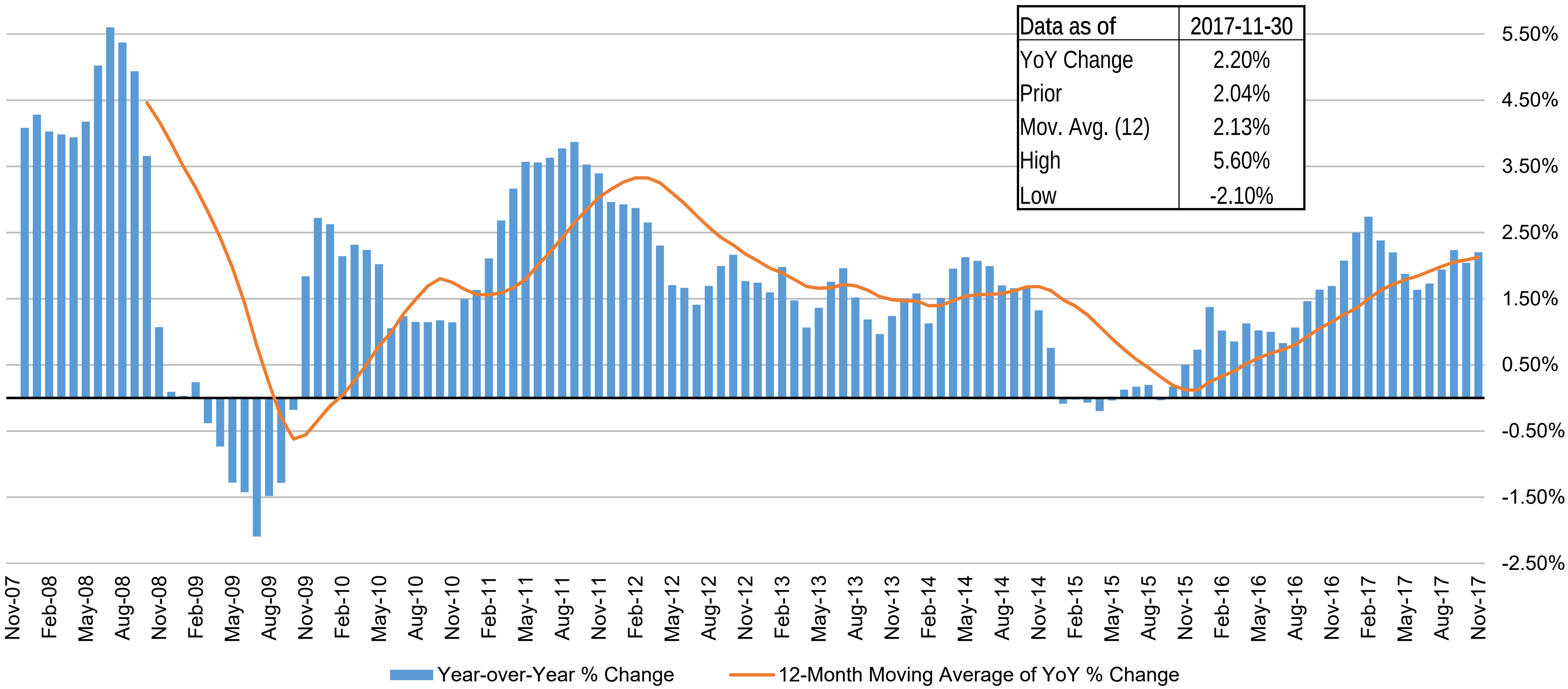
Source: YCharts, Institute for Supply Management (ISM). Past performance is not a guarantee of future results.

Economy: US Inflation

Consumer Price Index (CPI)

- Many Federal Reserve officials were right about the temporary slowdown in inflation in mid-2017. The stabilization in commodity prices has helped inflation pick up recently.



Data as of	2017-11-30
YoY Change	2.20%
Prior	2.04%
Mov. Avg. (12)	2.13%
High	5.60%
Low	-2.10%

- The Consumer Price Index (CPI) is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

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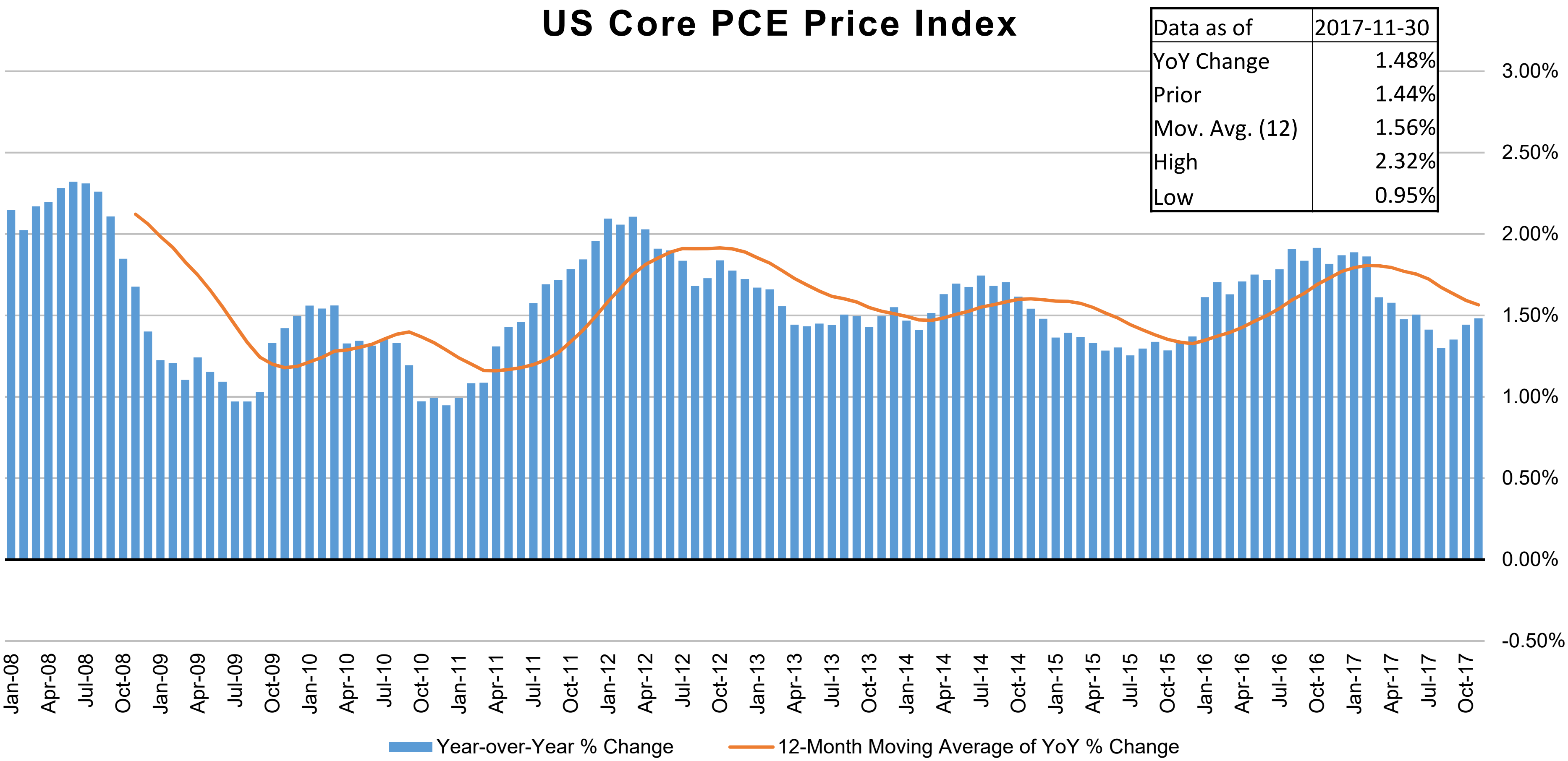
Source: YCharts, Bureau of Labor Statistics (Labor Department),. Past performance is not a guarantee of future results.

Economy: US Inflation

Core Personal Consumption Expenditures Price Index (Core PCE)

- The Federal Reserve's preferred measure of inflation, Core PCE, declined in 2017, but started to pick up at the end of the year. It has failed to hit the Federal Reserve's 2% annual target for more than five years.



Data as of	2017-11-30
YoY Change	1.48%
Prior	1.44%
Mov. Avg. (12)	1.56%
High	2.32%
Low	0.95%

- The Core PCE Price Index is a measure of the price changes of consumer goods and services excluding food and energy. While it shares similarities with the Consumer Price Index (CPI), it is considered a more comprehensive, dynamic and reliable inflation metric. The Fed prefers it when reviewing economic conditions.

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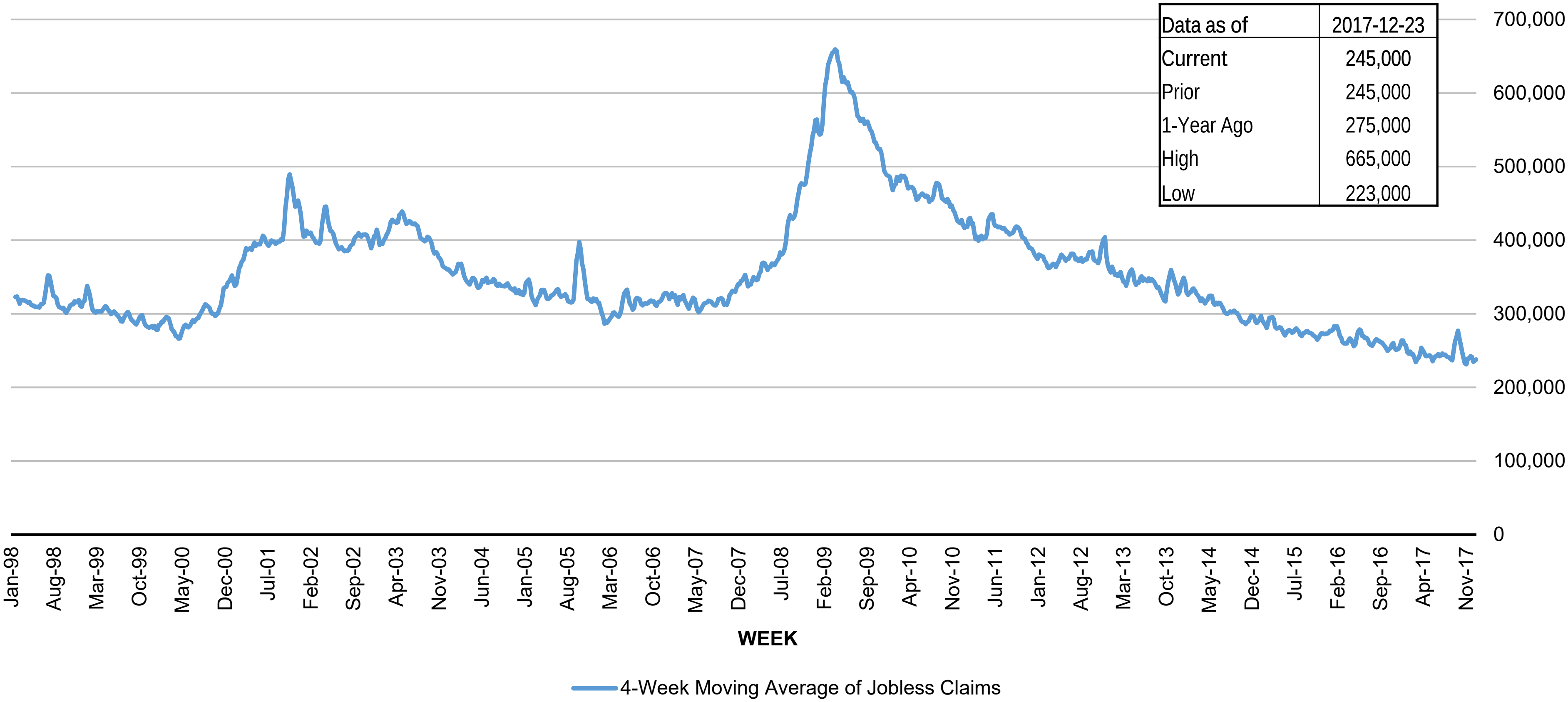
Source: YCharts, Bureau of Economic Analysis (Commerce Department. Past performance is not a guarantee of future results.

Economy: US Job Market

Jobless Claims

- Jobless claims, a proxy for layoffs, continued its downward trend in 2017 and is at an historically low level signaling a healthy job market. The number remains at the lowest level since November 1973. This means that employers are generally content to maintain and expand their payrolls.

US Initial Jobless Claims



Data as of	2017-12-23
Current	245,000
Prior	245,000
1-Year Ago	275,000
High	665,000
Low	223,000

- Initial claims for unemployment insurance, to be exact, offer weekly information on layoff activity. Any reading below 300,000 is considered low in a historical context. In the post-war period, when initial claims head above 320,000 per week on a consistent basis, a recession is just around the corner.

Source: YCharts, Department of Labor. Past performance is not a guarantee of future results.

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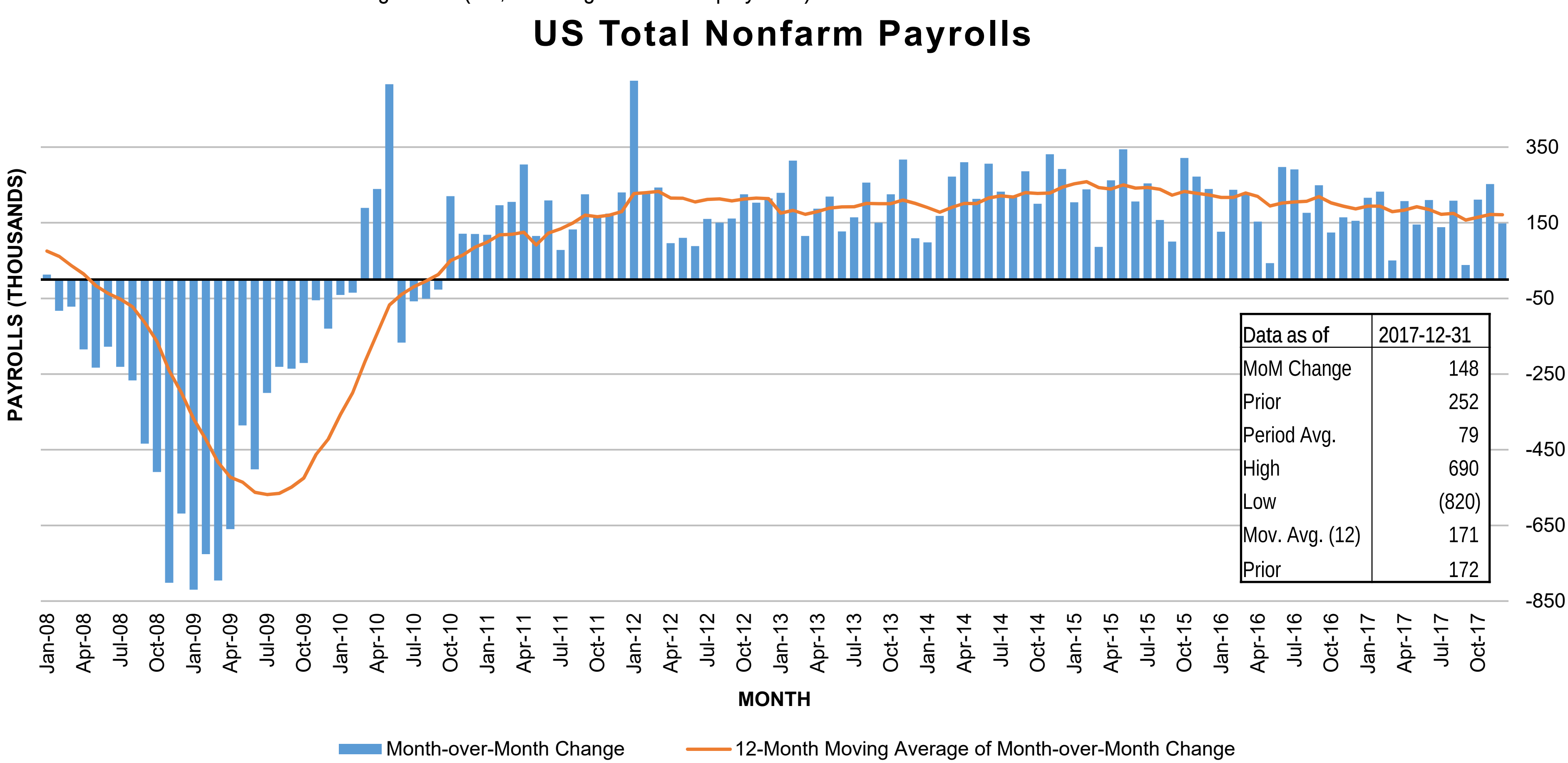
Economy: US Job Market

Change in Nonfarm Payrolls

- Monthly average payroll increases are still close to a healthy pace of 200,000 per month. The recent trend has been a slightly declining number of payroll increases as the labor market has tightened (i.e., reaching near full employment).



- Nonfarm payroll is a monthly report intended to represent the number of additional jobs added from the previous month Despite the name nonfarm payroll, the report excludes workers from general government jobs, private household jobs, employees of nonprofit organizations and farm employees.

Source: YCharts, Bureau of Labor Statistics. Past performance is not a guarantee of future results.

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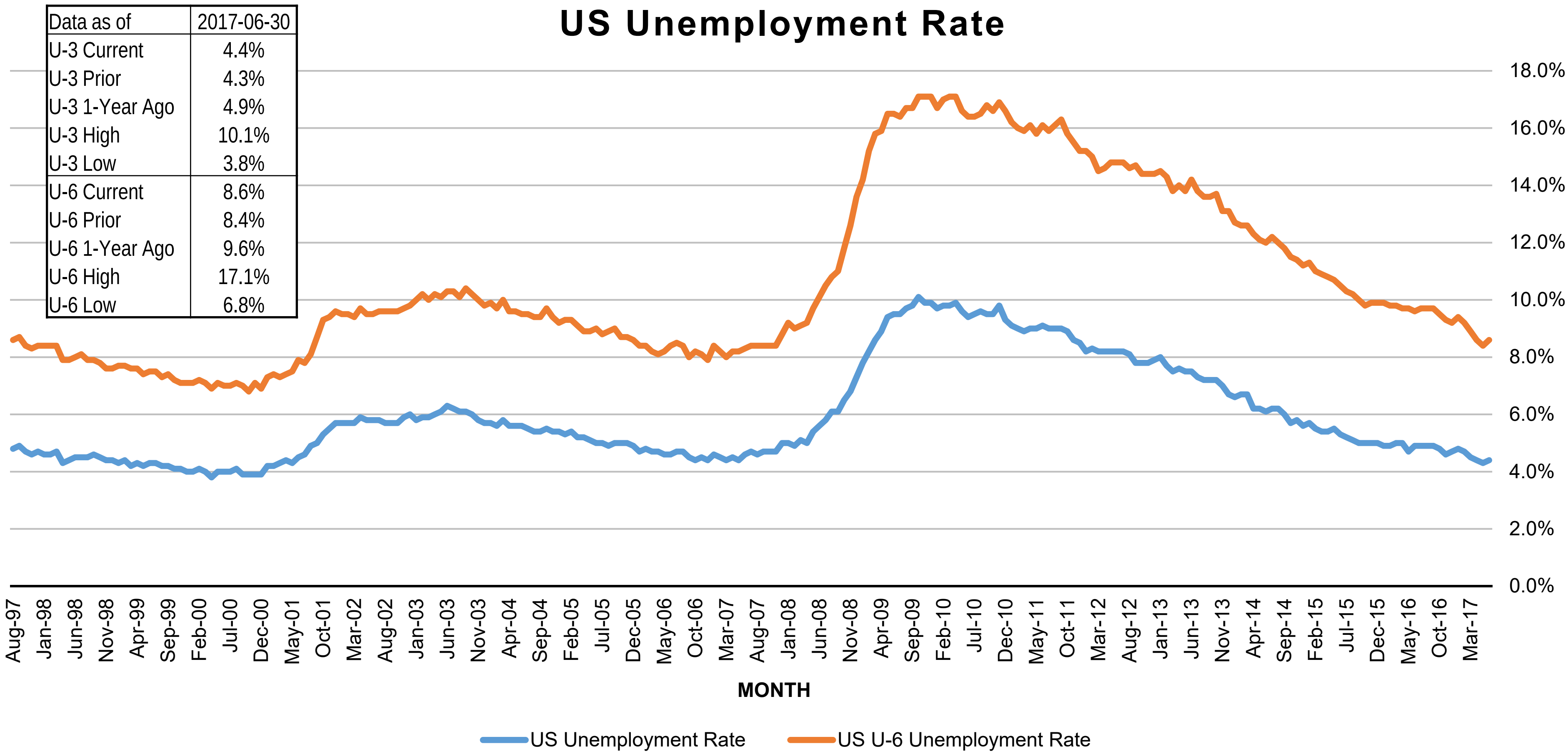
Economy: US Job Market

Unemployment Rates

- Unemployment rates continue to decline. The official unemployment rate (U-3) has reached a level that is consistent with "full employment." The unemployment rate that includes part-time workers (U-6) has not reached pre-2008/2009 recession levels yet, but is getting closer.

Data as of	2017-06-30
U-3 Current	4.4%
U-3 Prior	4.3%
U-3 1-Year Ago	4.9%
U-3 High	10.1%
U-3 Low	3.8%
U-6 Current	8.6%
U-6 Prior	8.4%
U-6 1-Year Ago	9.6%
U-6 High	17.1%
U-6 Low	6.8%



- The unemployment rate is the percentage of the total labor force that is unemployed but actively seeking employment and willing to work. The U-3 rate is the officially recognized rate of unemployment, measuring the number of unemployed people as a percentage of the labor force. The U-6 rate includes people who work part time because full-time work is not available due to economic conditions.

Source: YCharts, Bureau of Labor Statistics. Past performance is not a guarantee of future results.

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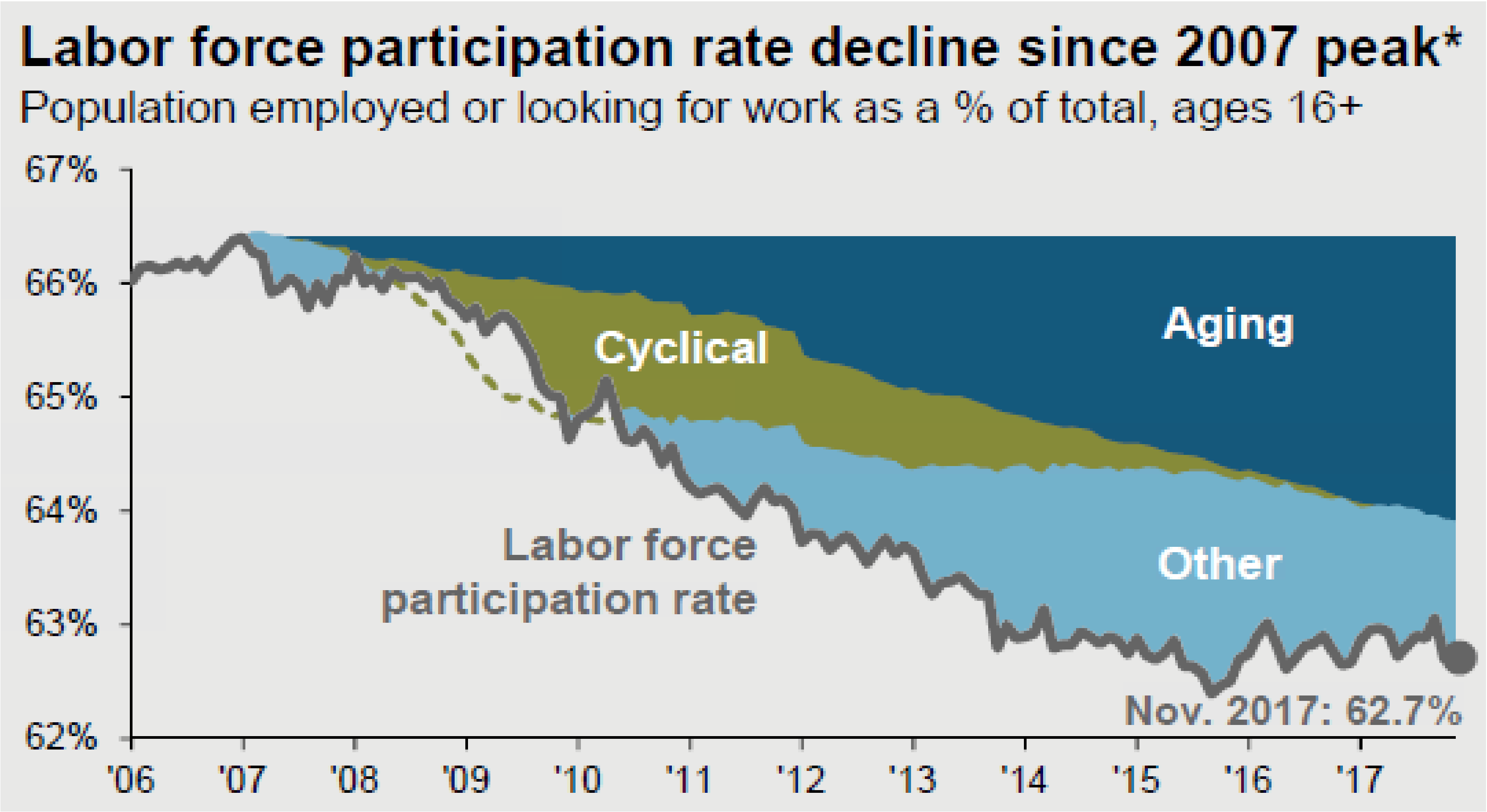
Economy: US Job Market

Labor Force Participation Rate

- The share of Americans participating in the labor force has moved sideways the past two years, a sign that some people are being drawn off the sidelines of the labor market and countering the long-run trend of aging baby boomers retiring.



- Source: BLS, FactSet, J.P. Morgan Asset Management. (Bottom right) Info. fin. & bus. svcs. = Information, financial activities and professional and business services; Mfg. trade & trans. = Manufacturing, trade, transportation and utilities; Leisure, hospt. & other svcs. = Leisure, hospitality and other services; Educ. & health svcs. = Education & health services; Mining and construct = Natural resources mining & construction; Gov't = Government. *Aging effect on the labor force participation rate is the estimated number of people who are no longer employed or looking for work because they are retired. Cyclical effect is the estimated number of people who lose their jobs and stop looking for work or do not look for work because of the economic conditions. Other represents the drop in labor force participation from the prior expansion peak that cannot be explained by age or cyclical effects. Estimates for reason of decline in labor force participation rate are made by J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results.
Guide to the Markets – U.S. Data are as of December 31, 2017.

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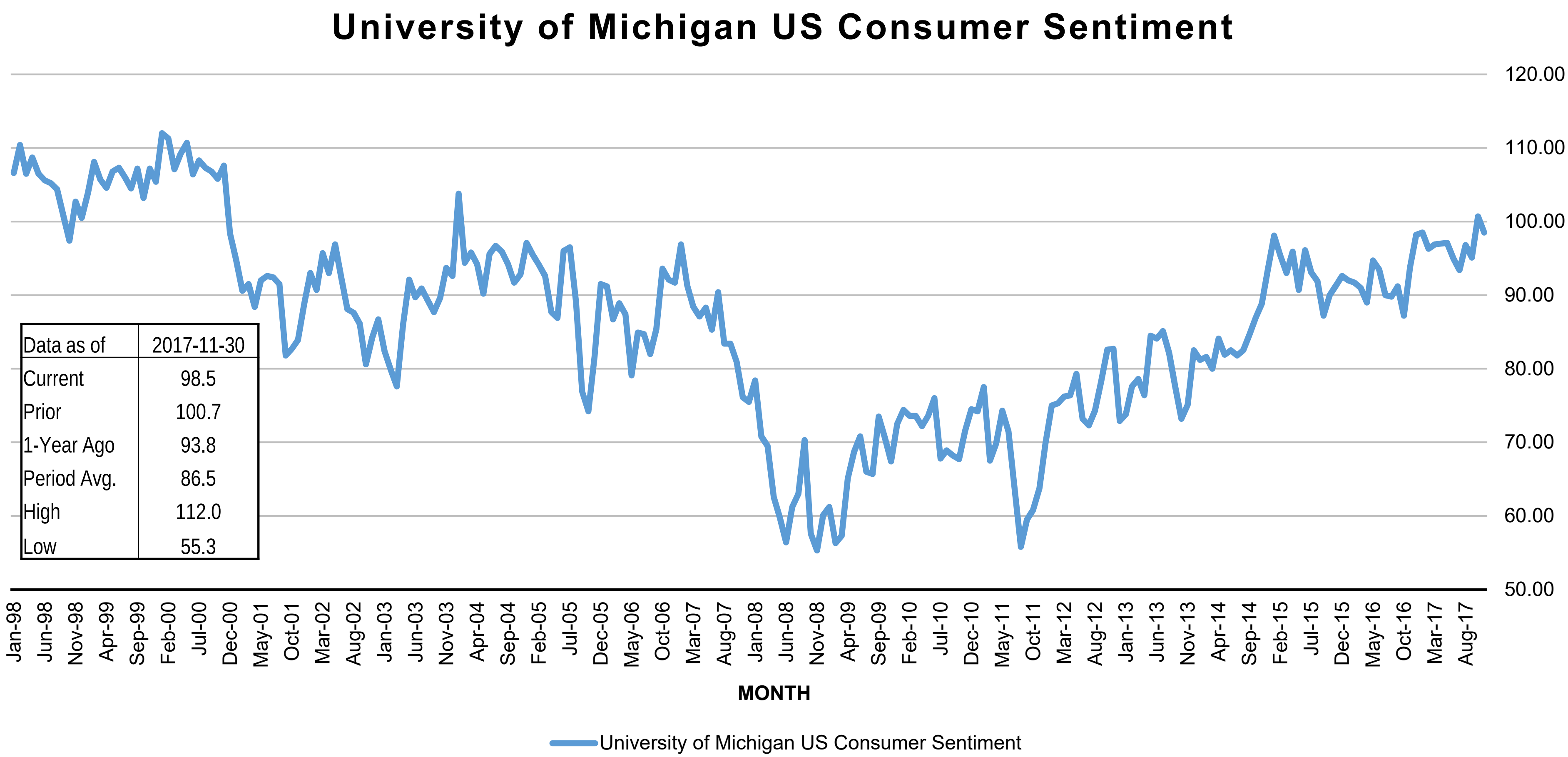
Economy: US Consumer

Consumer Sentiment

- ❑ Consumer sentiment continues to rise and is at a 14-year high. This is consistent with improving labor market conditions and growing wealth.



- ❑ The U.S. Consumer Sentiment report is published by the University of Michigan. Data is collected from a query of 500 adults regarding their attitude on financial and income situations. Interviewers ask 50 core questions, and the responses are standardized on a 100 point scale.

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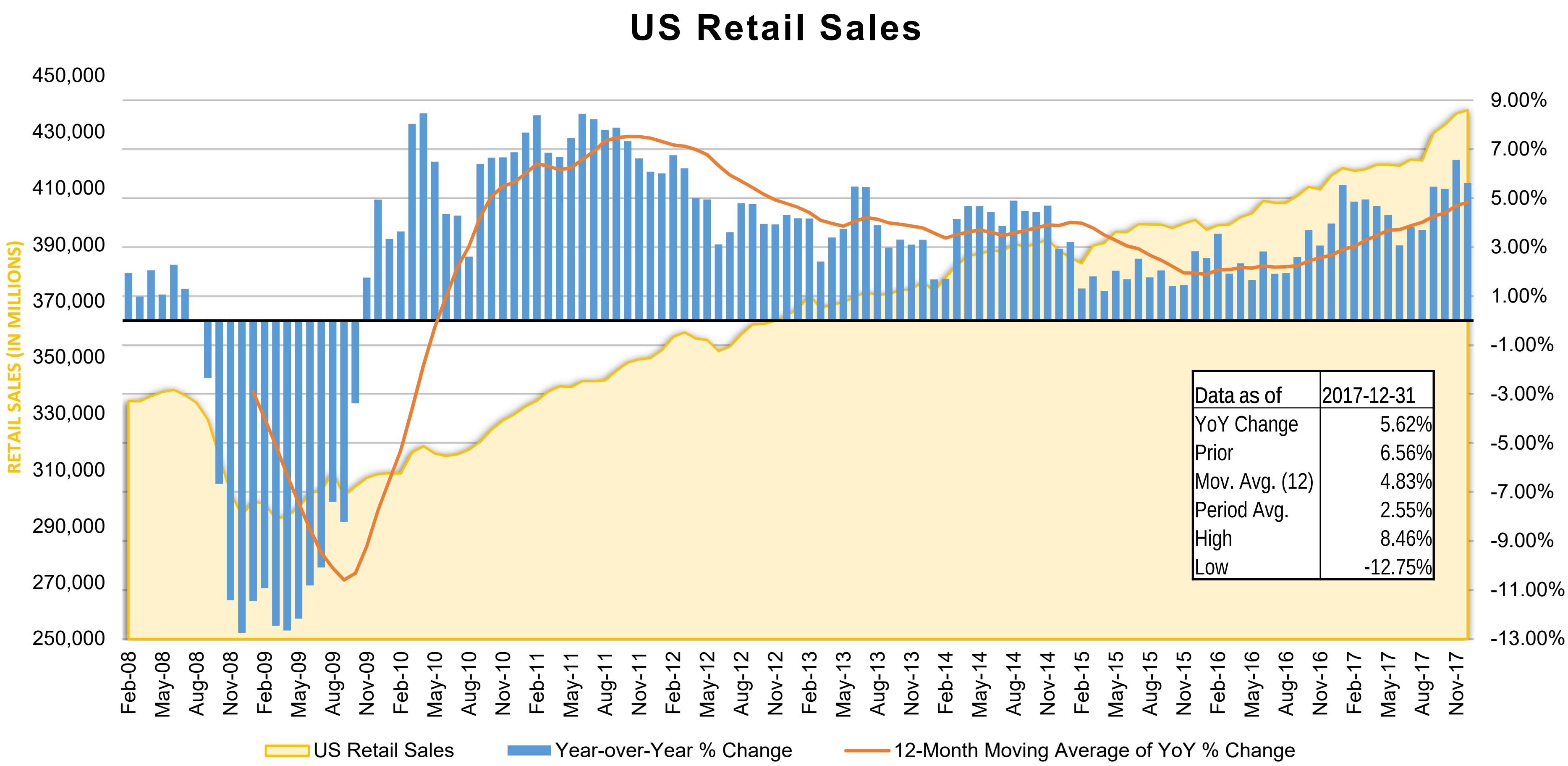
Source: YCharts, University of Michigan. Past performance is not a guarantee of future results.

Economy: US Consumer

Retail Sales

- Consumer spending was strong in 2017 supporting the economy. This has been due to broadly favorable economic conditions, including job gains, continued low gas prices, and reduced consumer debt burdens.



- Retail sales, a measure of purchases at stores, gas stations, car dealerships, restaurants and online, is a substantial portion of consumer spending and an important indicator of economic health. Increased consumer spending is generally considered a sign of stability and growth. Retail sales are important measure of consumer spending, which accounts for more than two-thirds of economic activity in the U.S

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Source: YCharts, Department of Commerce. Past performance is not a guarantee of future results.

Economy: US Consumer

U.S. Holiday Spending

- Fueled by high consumer confidence and a robust job market, 2017 U.S. retail sales in the holiday period rose at their best pace since 2011. Sales, excluding automobiles, rose 4.9% from Nov. 1 through Christmas Eve, compared with a 3.7% gain in the same period last year.

- "Holiday Spending" is a read on retail sales, excluding automobile purchases, from Nov. 1 to Dec. 24th.

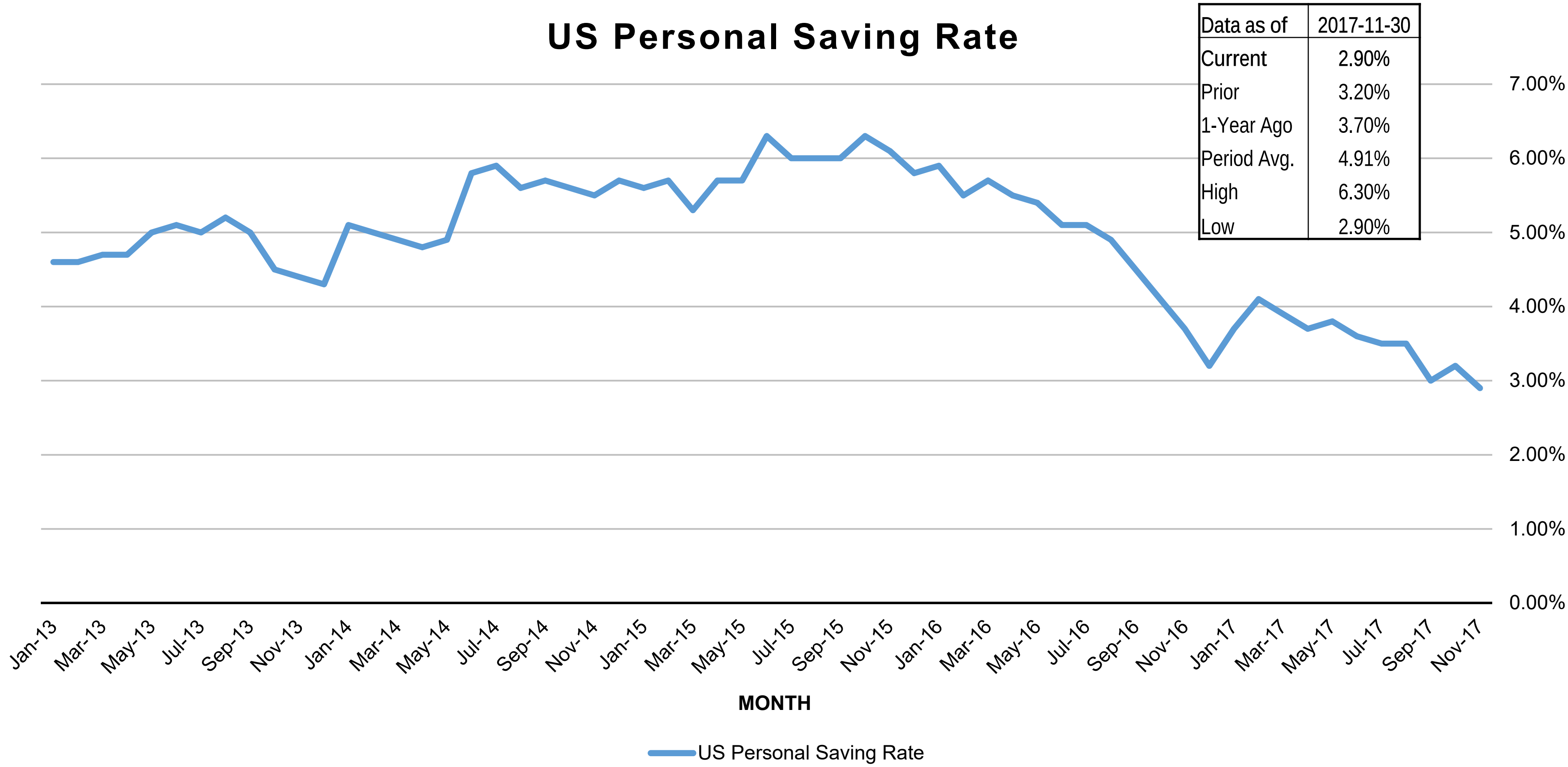
Source: WSJ, Mastercard Spending Pulse

Economy: US Consumer

U.S. Personal Savings Rate

- Americans are saving at the slowest pace in a decade, likely in anticipation of continued job and wealth gains with the rise of the stock and housing markets. The personal savings rate fell to 2.9% in November, falling below 3% for the first time since November 2007.

Data as of	2017-11-30
Current	2.90%
Prior	3.20%
1-Year Ago	3.70%
Period Avg.	4.91%
High	6.30%
Low	2.90%



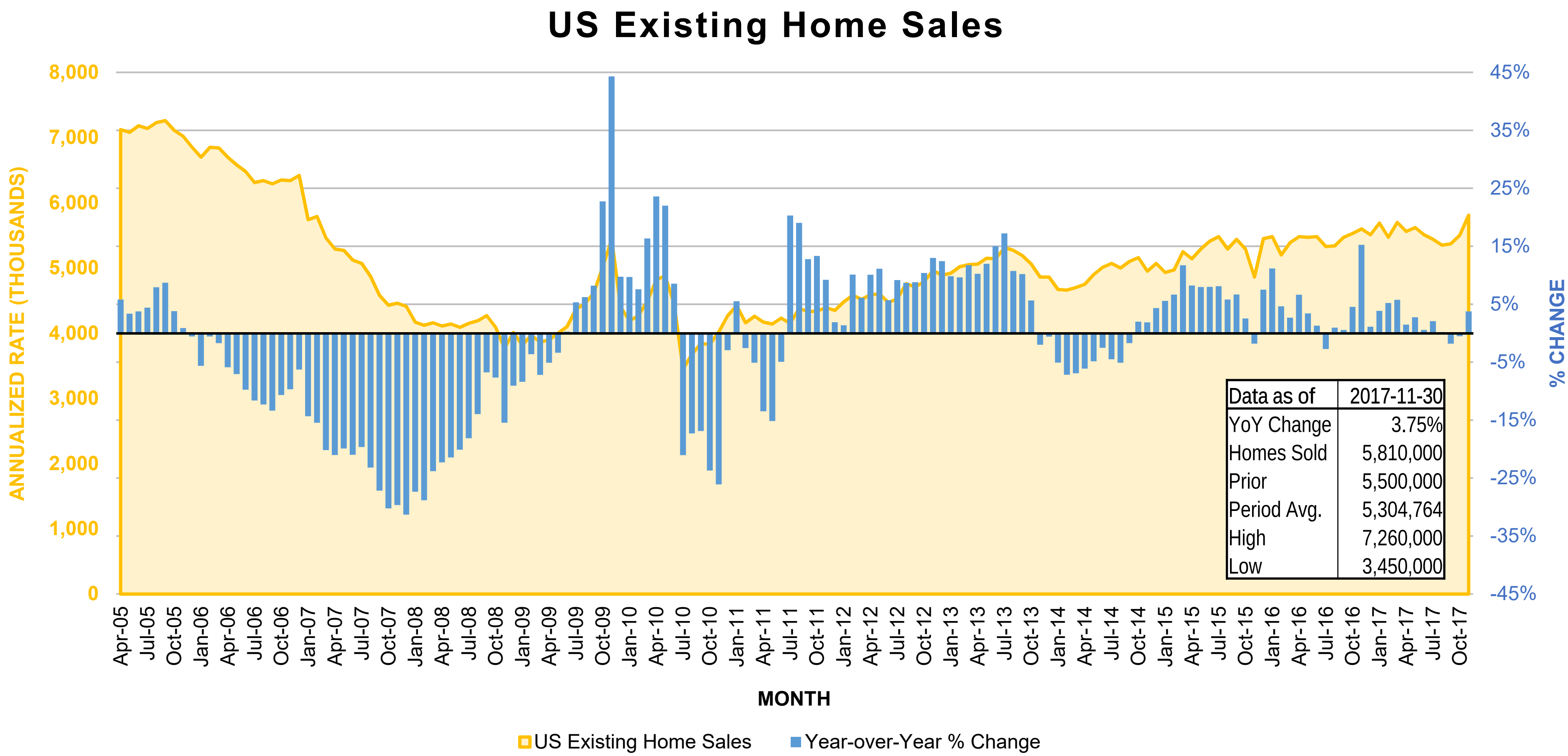
- A savings rate is the amount of money, expressed as a percentage or ratio, that a person deducts from his disposable personal income to set aside as a nest egg or for retirement.

Source: Ycharts, Bureau of Economic Analysis

Economy: US Housing Market

Home Sales

- Existing home sales were choppy throughout 2017 despite high demand for housing and affordable mortgage rates. Tight supply has pushed costs higher in many parts of the country potentially pricing out many would-be buyers.



- Existing home sales is an economic indicator of both the number and prices of existing single-family homes, condos and co-op sales (which is the vast majority of home sales) over a one-month period. The existing home sales report is released monthly. It is a lagging indicator as it tends to react after a change in mortgage rates.

Source: YCharts, U.S. National Association of Realtors. Past performance is not a guarantee of future results.

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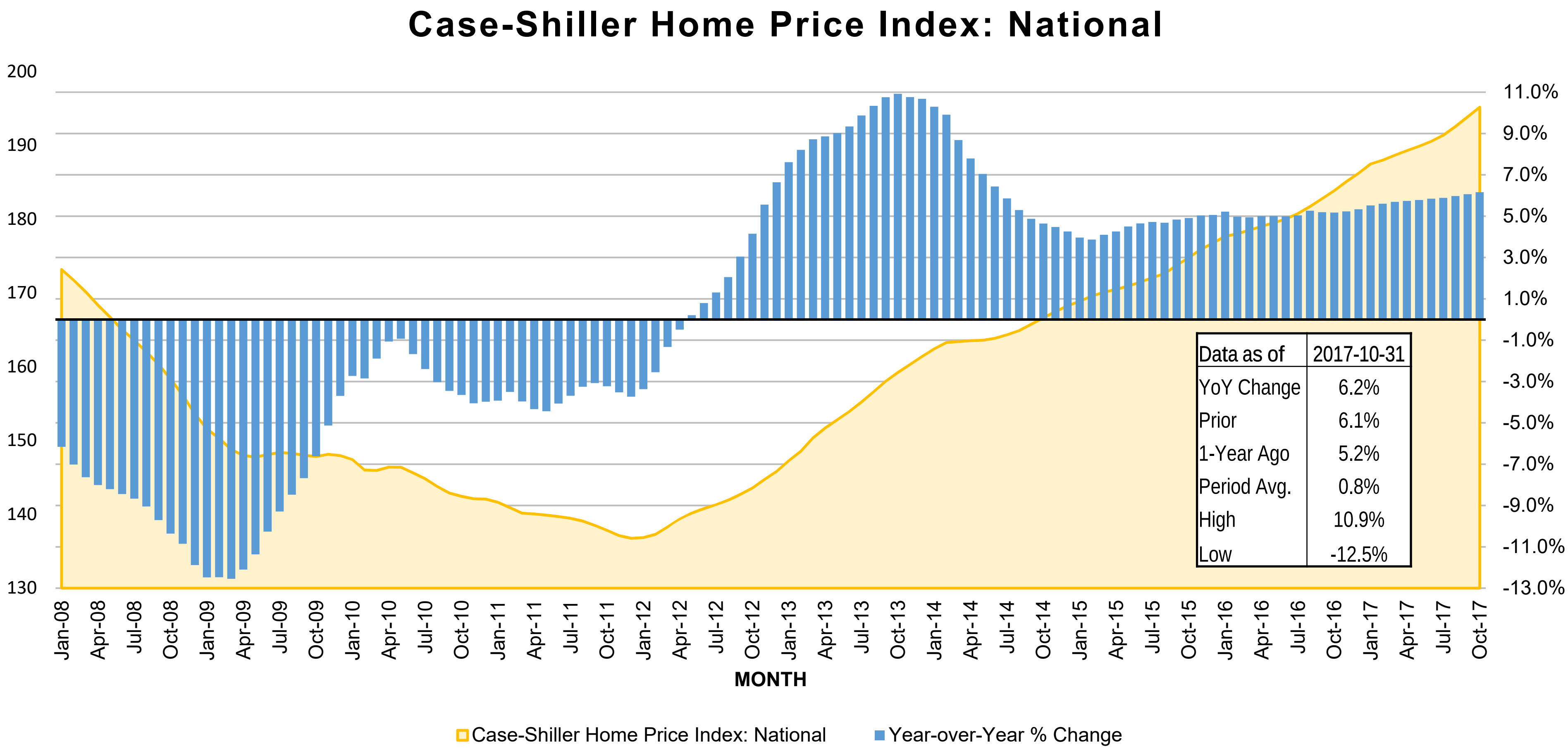
Economy: US Housing Market

Home Prices

- On a national level, single-family home prices have increased around 6.2% over the past year as of October. Low inventories have helped push prices higher as buyers compete over limited number of homes.



- The S&P/Case–Shiller U.S. National Home Price Index is a composite of single-family home price indices for the nine U.S. Census divisions. It is calculated monthly, using a three-month moving average. The S&P national index is normalized to have a value of 100 in the January 2000.

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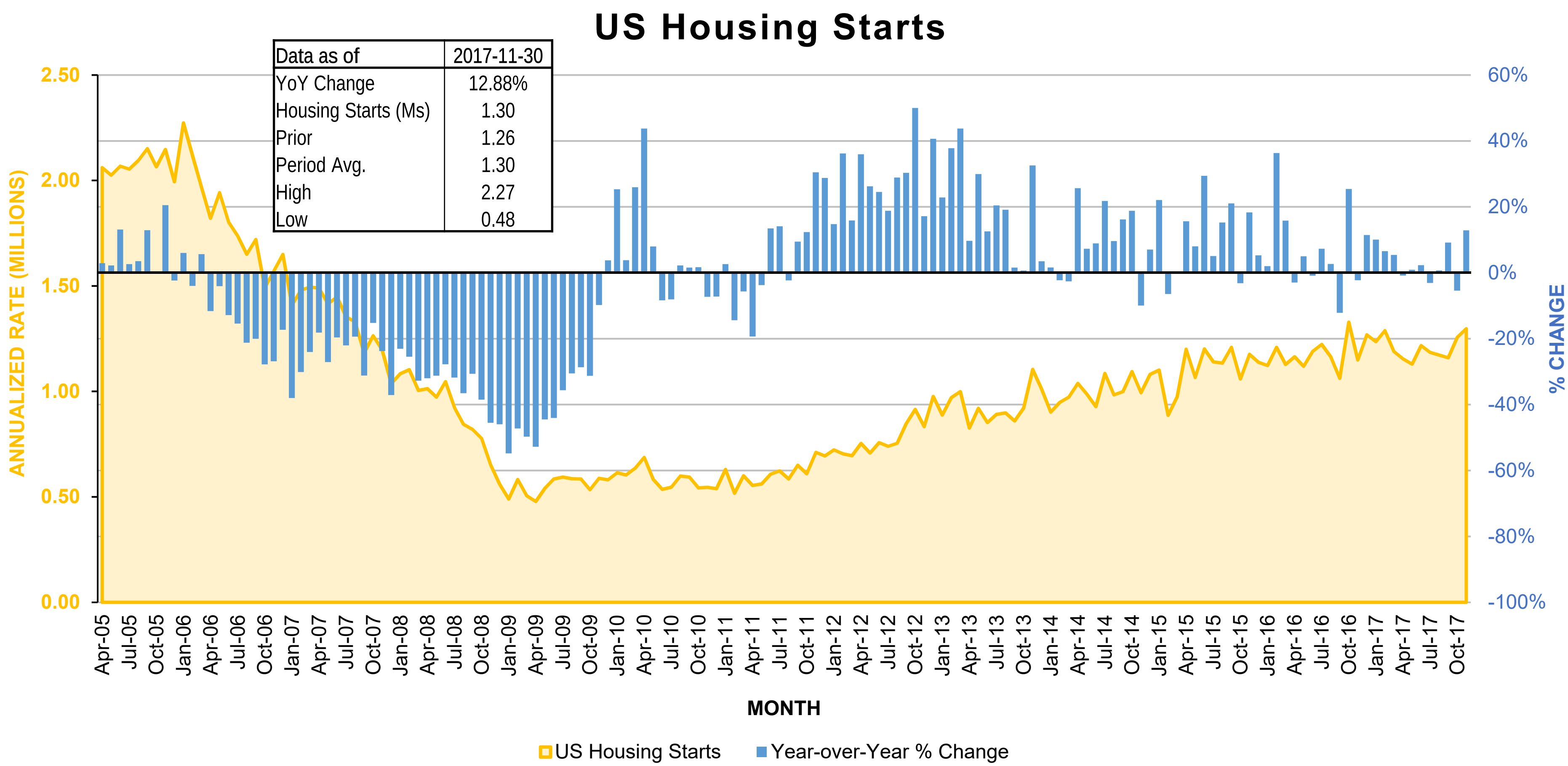
Source: YCharts, Standard and Poor's. Past performance is not a guarantee of future results.

Economy: US Housing Market

Housing Starts

- Homebuilders continued slowly increasing the pace of construction in 2017. Shortages of skilled workers and available lots have weighed on the industry even as home-buying demand remains strong.



Data as of	2017-11-30
YoY Change	12.88%
Housing Starts (Ms)	1.30
Prior	1.26
Period Avg.	1.30
High	2.27
Low	0.48

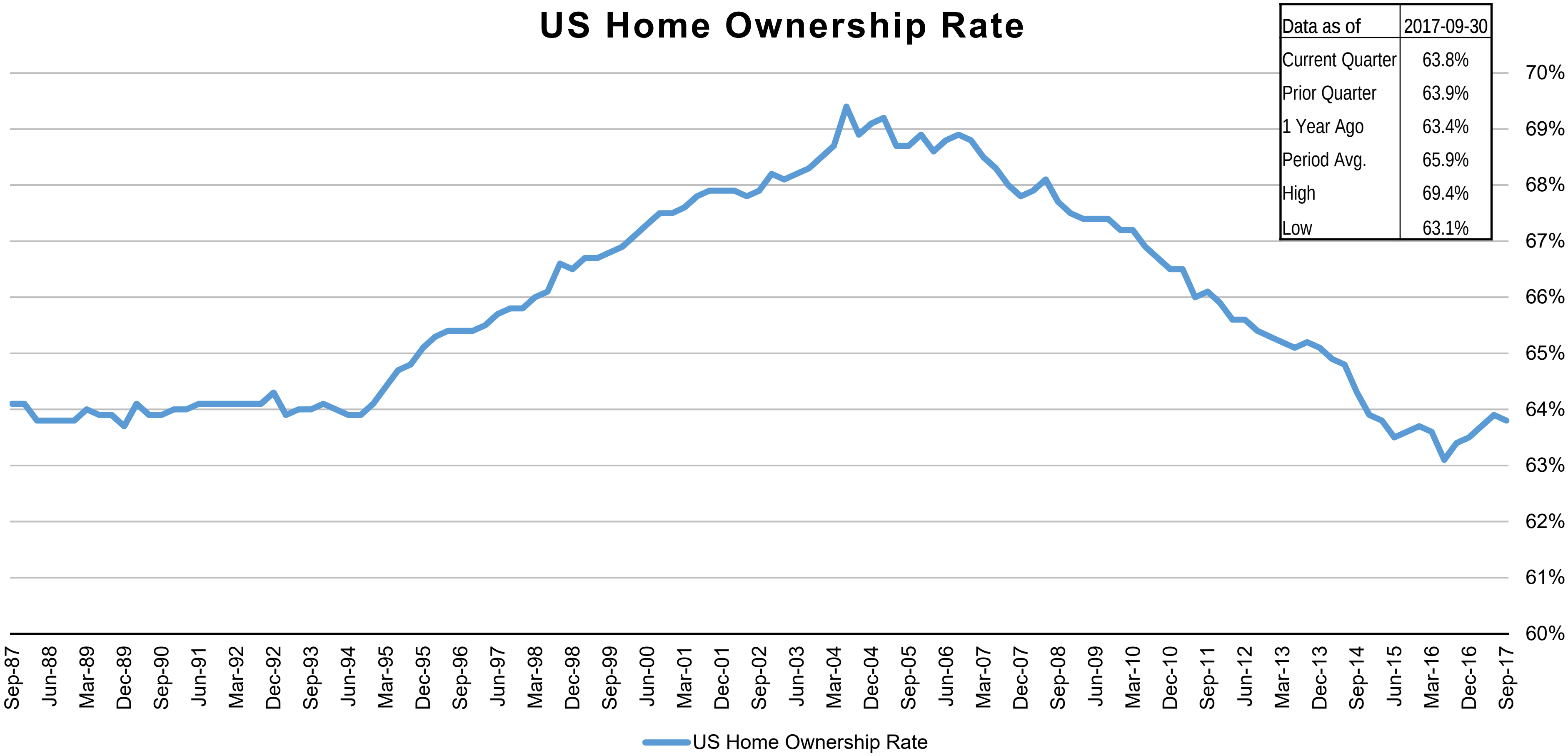
- Housing starts are the number of new residential construction projects that have begun during any particular month. .

Source: Census Bureau, YCharts. Past performance is not a guarantee of future results.

Economy: US Housing Market

Homeownership Rate

- Homeownership remains at 50-year low. Although mortgage rates have remained affordable, many economists believe the main reason for falling homeownership is mortgage availability due to tough lending standards.



Data as of	2017-09-30
Current Quarter	63.8%
Prior Quarter	63.9%
1 Year Ago	63.4%
Period Avg.	65.9%
High	69.4%
Low	63.1%

- The homeownership rate is the percentage of homes that are owned by their occupants; it is not the percentage of adults that own their own home. The homeownership rate is computed by dividing the number of owner-occupied housing units by the total number of occupied housing units

Source: Census Bureau, YCharts. Past performance is not a guarantee of future results.

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Important Disclosure Information

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