Quarterly Investment Summary

DECEMBER 2016

Performance Summary (as of 12/31/2016)

	Target Allocation	Trailing Returns				
	Equity/Fixed	3 Months	YTD	1 Year	3 Year	5 Year
Fixed Income	0%/100%	-1.23%	3.07%	3.07%	1.83%	2.54%
Conservative	25%/75%	-0.13%	5.23%	5.23%	2.92%	4.87%
Balanced	50%/50%	0.98%	7.02%	7.02%	3.62%	6.96%
Growth	75%/25%	2.09%	8.82%	8.82%	4.45%	9.09%
Equity	100%/0%	3.15%	10.65%	10.65%	5.51%	11.52%

Market Commentary

- The consumer side of the economy remains in relatively good shape while the industrial side showed signs of improvement throughout 2016, in part due to a rebound in energy-related commodities. Undoubtedly, the biggest story during the final quarter of 2016 was the unexpected election of Donald Trump as President of the United States. That result, which surprised most poll-watchers, coupled with Republicans maintaining majorities in Congress, has led to a general belief among investors that the business environment and corporate profitability may show improvement. The final reading of third quarter GDP checked in at 3.5%, showing the fastest growth in two years. While most economists expect growth in the US to return to the "new normal" of 2.0%-2.5% growth going forward, there has been a notable uptick in optimism. Consumer confidence and sentiment surveys increased markedly towards the end of the year, with the Conference Board's consumer confidence release showing its strongest reading since 2001. The labor market remains strong and now appears to be reaching levels that most economists would consider to represent full-employment. At the end of November, the headline unemployment rate stood at 4.6%, its lowest level since mid-2007. As the economy nears full employment, wage growth is showing signs of materializing, which may be a harbinger of inflation concerns.

- As the year came to an end, investors watched the Dow Jones Industrial Average flirt with the 20,000 level on the heels of the "Trump Rally". Although the Dow ultimately fell short of the 20,000 threshold in 2016, shares of stocks within financial and industrial sectors were bid up strongly following the election, which propelled the Dow to an outsized gain relative to other widely followed large-cap indices during the quarter. Meanwhile, smaller-capitalization stocks experienced a dramatic run-up in the final quarter of 2016, gaining over 11% in the month of November alone. Another notable characteristic of 2016 was the outperformance of value stocks versus growth, which reversed a trend seen in previous years. International equities failed to fully participate in the late-year rally, and had mixed results for the full year.

- The Federal Open Market Committee raised the federal funds rate by 0.25%, to a range of 0.50%-0.75% at its December meeting. Also of note during the December meeting was the Fed's projections for three rate hikes in 2017, up from the previously expected two hikes. The yields on longer-term bonds also rose during the fourth quarter, pushing bond prices lower. Expectations for stronger growth and inflation helped move the benchmark 10-year Treasury note from 1.60% where it began the quarter to its year-end closing yield of 2.45%. The rise in yields caused losses in many bond funds, with the Barclays Aggregate bond benchmark losing 3% in the fourth quarter. Internationally, interest rates remain near historic lows with most central banks stuck in an accommodative phase, versus the tightening being experienced in the US.