



Capital Market Review

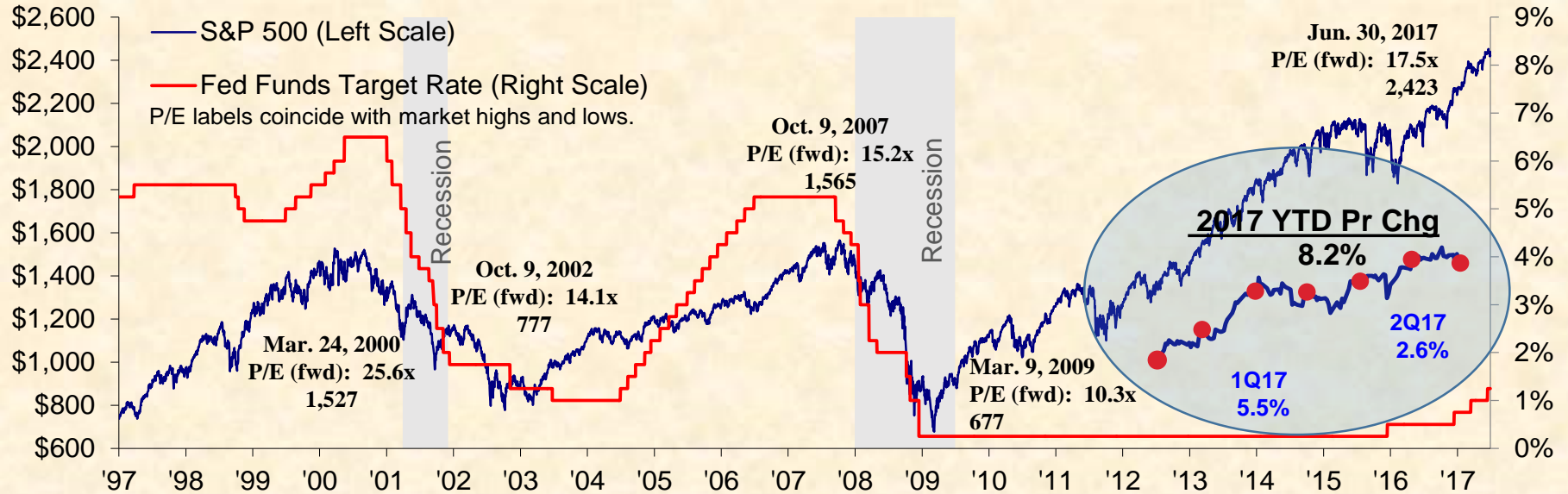
June 30, 2017

DeMarche Client Conference

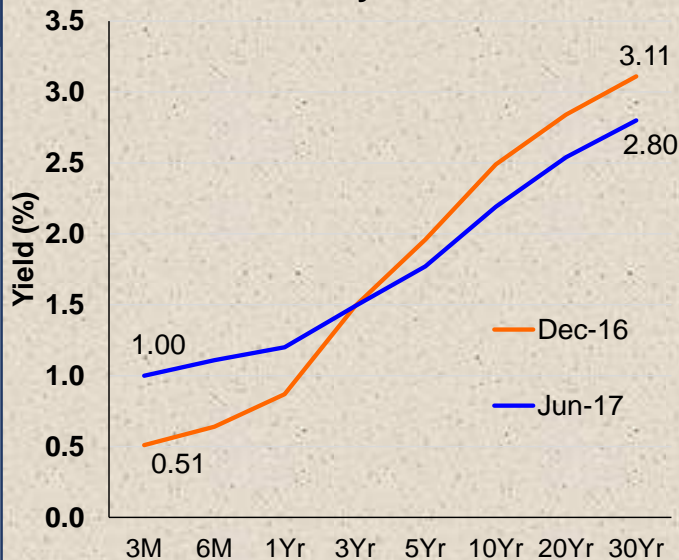
Save the date for the 34th annual DeMarche Client Conference, [September 6-8, 2017](#) at [The Sheraton Kansas City Hotel at Crown Center](#) in Kansas City, Missouri. Questions may be directed to your DeMarche consultant.



On The Rise: Valuations, Rates and Tech



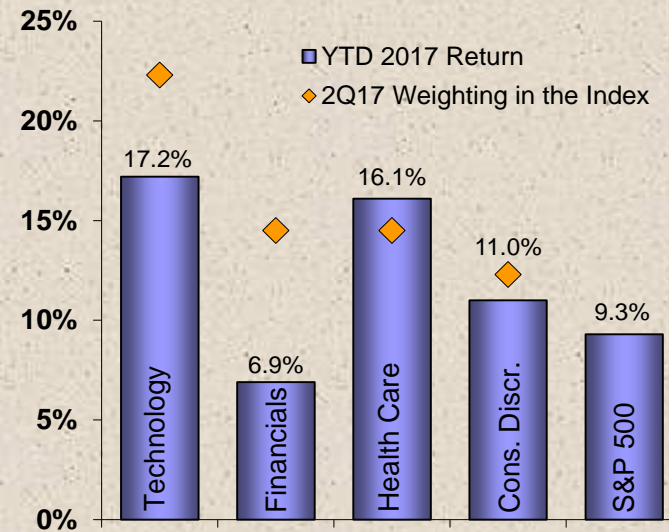
Treasury Yield Curve



Source: St. Louis Federal Reserve

The solid economy coupled with low volatility resulted in another good quarter for the markets. Despite the Federal Reserve raising the target fed funds rate to 1.25%, global equities continued their solid and steady gains with little interruption. Inflation remains subdued and longer term rates fell slightly in response. Modest economic growth and low volatility fueled the rise of growth stocks, which outperformed value stocks. International stocks have enjoyed their first sustained outperformance against U.S. stocks in a year due to optimism about growth prospects in Europe. Reassured investors spurred a 7% gain of the euro to the dollar.

S&P 500 Index Sector Returns



Source: JPMorgan

BROAD MARKET OVERVIEW

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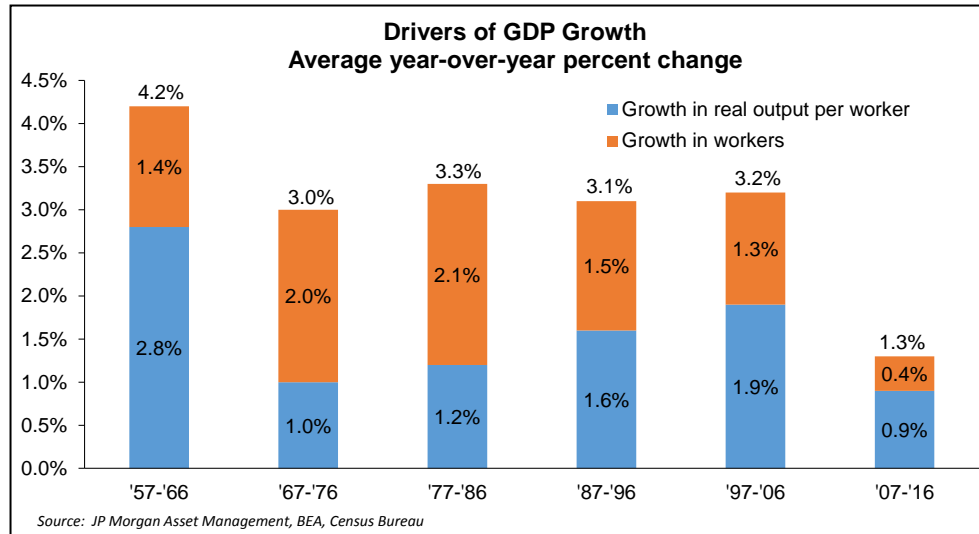
Putting Research To Work

INDEX	2 nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	4.0	18.2	5.2	11.4	4.0
DeMarche World*	4.8	19.9	5.1	11.1	4.0
DeMarche 3000	3.0	17.3	6.6	12.3	5.5
Russell 3000	3.0	18.5	9.1	14.6	7.3
S&P 500	3.1	17.9	9.6	14.6	7.2
DeMarche International	6.9	22.7	3.7	9.9	2.3
MSCI EAFE USD	6.1	20.3	1.1	8.7	1.0
DeMarche Bond	1.1	-1.5	2.2	1.8	4.1
BlmBarc Aggregate	1.4	-0.3	2.5	2.2	4.5
Citigroup Non-U.S. Gov't Bond	3.8	-5.0	-2.2	-0.8	3.2
BlmBarc Global Aggregate	2.6	-2.2	-0.4	0.8	3.7
NCREIF (Private RE)	1.8	7.0	10.2	10.5	6.4
Bloomberg Commodity	-3.0	-6.5	-14.8	-9.2	-6.5

Notes: Data are presented as percent returns. All 3, 5 and 10-year returns are annualized. *Does not include Canada or Brazil.

Indicator Year Ending 6/30	2017	2016	2015	2014	50 Year Average
GDP Annual Growth Rate	2.1	1.2	3.3	2.4	2.8
Unemployment	4.4	4.9	5.3	6.1	6.2
Inflation (CPI)	1.6	1.0	0.1	2.1	4.1
10-Year Interest Rates	2.3	1.5	2.4	2.6	6.5

- Global stocks continued their advance in the 2nd quarter of the year. Investor confidence in improving corporate earnings and modest global growth has fueled the advance. The first-half performance of stocks was wide-ranging with 26 of the 30 largest stock markets rising this year, a first-half performance unmatched since 2009 when global markets were much more in sync.
- The dollar continued its weakening trend versus global currencies in the quarter. International stocks and bonds, when translated back to dollars, posted strong returns. The MSCI EAFE return almost doubled that of the S&P 500 at 6.1% versus 3.1%, and the international bond return of 3.8% was 2.4% above the Bloomberg Barclays Aggregate. However, longer-term dollar strength is evident as the returns of international stocks and bonds lag domestic returns.
- The Federal Reserve, citing strong labor market conditions and moderate inflation outlook, hiked interest rates once again in June. The target range for Fed Funds is now 1.0% to 1.25%. Interestingly, longer maturity bonds dropped in yield from 2.40% at the end of the first quarter to 2.30% by June 30. Bonds posted a 1.4% return for the quarter, yet are negative for the past 12 months.
- The chart to the left shows the drivers of long term GDP growth – growth of workers and their productivity. It is going to be more difficult for the U.S. to reach the historical average of over 3% growth going forward due to the lack of growth in the workforce.



DeFact

Passive strategies and quantitative computer-driven strategies make up 60% of trading volume, twice as much as a decade ago, according to JP Morgan. ETFs, a popular vehicle for such strategies, now make up 6% of stock ownership globally, the highest on record. Mutual funds have dropped to 24%, the lowest since 2004. There are more than 1800 US-listed ETFs, of which 1,300 (\$2.3 trillion) are equity-linked and 300 (\$500 billion) are linked to bonds.

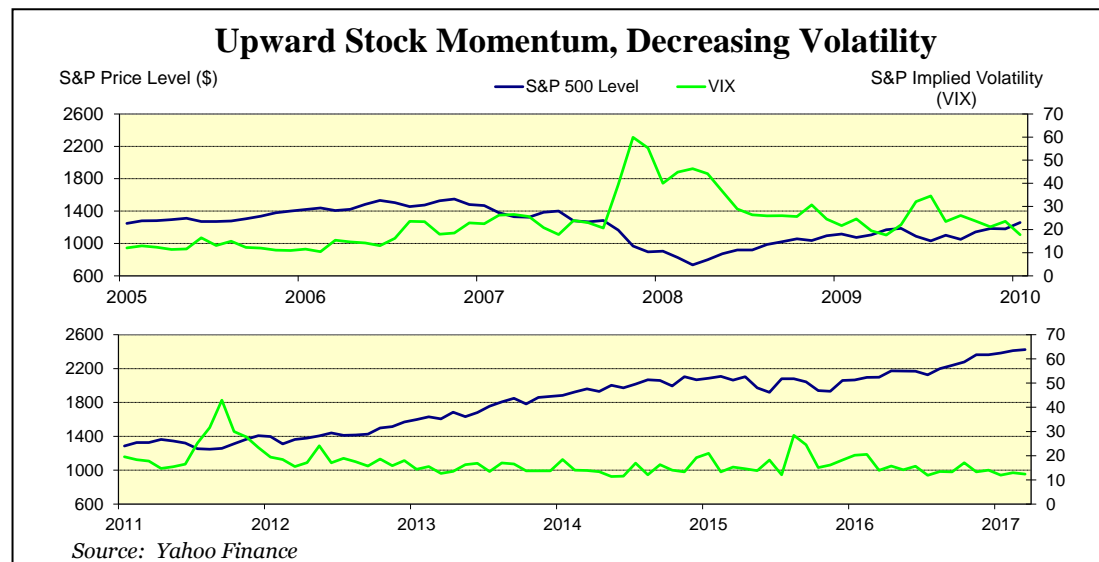
~ WSJ, CNBC, JP Morgan Chase

DOMESTIC EQUITIES

INDEX	2 nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	4.8	20.4	9.5	14.0	7.3
DeMarche Value	0.8	13.7	3.0	10.2	3.4
DeMarche Aggressive	-0.7	17.2	-1.1	11.0	2.5
DeMarche Defensive	3.3	17.3	7.3	12.2	5.7
DeMarche Large Cap	3.4	16.5	6.7	11.8	5.0
Large Cap Growth	5.3	20.2	10.1	14.1	7.1
Large Cap value	1.2	12.4	2.7	9.3	2.4
DeMarche Small Cap	2.5	29.8	5.8	13.8	6.4
Small Cap Growth	4.1	31.9	5.7	12.4	5.6
Small Cap Value	1.2	28.1	5.7	14.6	6.9
S&P 500	3.1	17.9	9.6	14.6	7.2
S&P Mid-Cap 400	2.0	18.6	8.5	14.9	8.6
S&P Small-Cap 600	1.7	22.5	9.3	15.5	8.4
Russell 1000	3.1	18.0	9.3	14.7	7.3
Russell 1000 Growth	4.7	20.4	11.1	15.3	8.9
Russell 1000 Value	1.3	15.5	7.4	13.9	5.6
Russell 2000	2.5	24.6	7.4	13.7	6.9
Russell 2000 Growth	4.4	24.4	7.6	14.0	7.8
Russell 2000 Value	0.7	24.9	7.0	13.4	5.9

Notes: Data are presented as percent returns. All 3, 5 and 10-year returns are annualized.

- Growth stocks continued their outperformance compared to value stocks in the 2nd quarter. Healthcare stocks led the way with over a 7% return for the quarter for large cap and 9% for small cap. Technology sector returns, after a strong first quarter, lagged slightly, returning approximately 4% for both large and small cap stocks. Large cap growth stocks are now ahead of value stocks for all trailing time frames shown.
- Small growth stocks led value stocks in the quarter for the second quarter in a row; returns have tied small value stocks for the past 12 months. Small growth stocks lead in all longer trailing time periods but by a smaller margin than large growth stocks.
- Defensive stocks outperformed aggressive for the quarter and are way ahead for the three-year time period. Defensive stocks are characterized as large cash flow generating companies which have done well in the past few years.
- As the S&P 500 moves higher, market volatility has trended lower. The chart to the left shows that the VIX, a measure of volatility has trudged sideways with only an occasional blip in the last few years. It is now at 24-year lows as investors like modest growth and a Fed that is only slowly raising rates.



DeFact

The four largest stocks in the S&P 500 by market cap include three technology stocks (Apple, Microsoft and Facebook) and a consumer discretionary stock (Amazon). All four outperformed the broad index for the first half of 2017. Amazon and Facebook returned 29% and 31% respectively. Apple returned just over 25% of which 24.5% was in the first quarter. Microsoft brought up the rear with a 12% six month return.

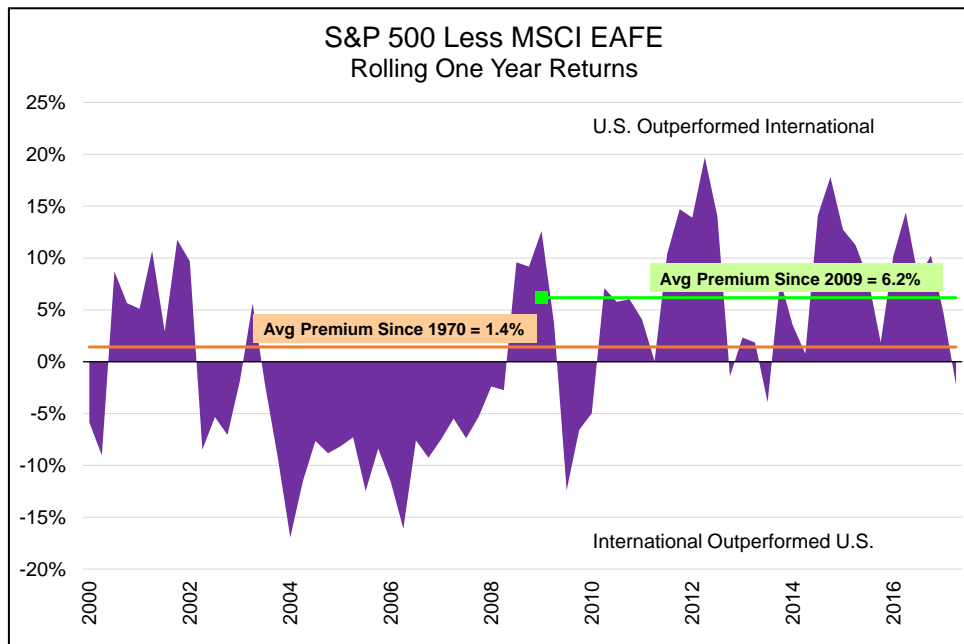
~DeMarche

INTERNATIONAL EQUITIES



INDEX	2 nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Int'l	6.9	22.7	3.7	9.9	2.3
Growth	8.6	19.4	4.1	8.5	2.6
Value	5.3	26.2	1.7	9.9	1.5
DeMarche Int'l Small Cap	9.8	28.7	5.9	12.3	4.2
DeMarche EM	6.6	21.8	4.0	5.3	1.9
MSCI EAFE Local	2.7	22.1	7.0	12.5	2.0
MSCI EAFE USD	6.1	20.3	1.1	8.7	1.0
Growth	7.5	15.7	2.8	9.2	2.1
Value	4.8	25.0	-0.6	8.1	-0.1
MSCI Japan	5.2	19.2	5.5	9.6	1.2
MSCI AC Asia-ex Japan	8.3	26.7	5.0	8.0	4.2
MSCI Germany	6.4	28.7	0.9	11.1	1.6
MSCI France	9.1	28.1	1.8	10.6	0.1
MSCI U.K.	4.7	13.3	-3.0	5.3	0.3
MSCI EAFE Small Cap	8.1	23.2	5.6	12.9	3.4
MSCI EM	6.3	23.7	1.1	4.0	1.9
MSCI All Country-ex U.S.	5.8	20.5	0.8	7.2	1.1

Notes: Data are presented as percent returns. All 3, 5 and 10-year returns are annualized.



- The dollar continued to weaken against other currencies during the second quarter, thus international stock returns benefited. However, international returns still lag local currency returns over the longer term.
- Developed European stocks continued their rally during the quarter. The French stock index jumped ahead of the pack after the results of the French election became known and Emmanuel Macron was in the lead.
- Emerging market stocks also continued their strong first quarter performance. One-year returns significantly outperformed longer-term returns, suggesting that investors are more comfortable with growth prospects globally and are looking for undervalued asset classes.
- Among Asian stocks, the strong performance of Chinese technology giants, Alibaba and Tencent, powered the index in the quarter. In addition, MSCI announced plans in June they will begin adding China A shares to the emerging market index in 2018.
- International stocks finally have outpaced domestic stocks over the past 12 months. The chart to the left shows the MSCI EAFE outperforming the S&P 500 for the most recent year by 2.4%. The S&P 500 has outperformed for most of the period since 2009, with an average premium of 6.2%, far outpacing the long-term average of 1.4%.

DeFact

According to the “Big Mac” index - i.e. the cost of a Big Mac in other countries – the euro is 16% undervalued versus the dollar. A Big Mac averages \$5.30 in America but only \$4.47 in euro land (after conversion). The euro has strengthened this year so the Big Mac has gotten a bit more expensive to Europeans. At the beginning of the year, the Big Mac cost \$4.24.

~ The Economist

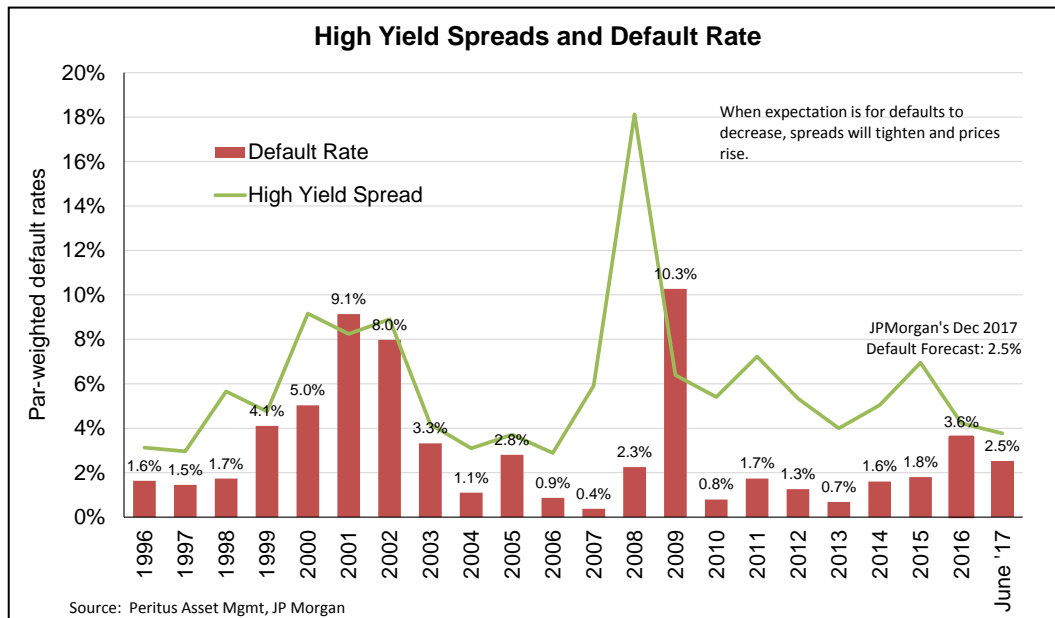
FIXED INCOME

DeMarche
ASSOCIATES, INC.

Putting Research To Work

INDEX	2 nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Bond Index	1.1	-1.5	2.2	1.8	4.1
Quality					
AAA/Aaa	1.0	-2.3	1.9	1.2	3.7
BBB/Baa	1.5	2.7	3.6	4.3	6.5
Duration					
1-5 Years	0.4	-0.3	1.2	1.2	3.0
5-10 Years	1.0	-1.8	2.6	2.0	5.2
10-20 Years	3.3	-3.9	5.3	3.6	6.4
Sector					
U.S. Treasuries	1.0	-2.4	1.9	1.2	3.9
U.S. Agencies	0.7	-0.2	1.6	1.3	3.1
Corporates	1.5	2.1	3.6	4.1	6.1
BlmBarc U.S. TIPS	-0.4	-0.6	0.6	0.3	4.3
BlmBarc Aggregate	1.4	-0.3	2.5	2.2	4.5
BlmBarc Gov Credit Long	4.4	-1.1	5.3	4.3	7.6
Merrill Lynch High Yield	2.2	12.8	4.5	6.9	7.5
CSFB Leveraged Loan	0.8	7.5	3.5	4.8	4.2
JPM Emerging Mkt Debt Global	2.2	5.5	4.6	5.2	7.3

Notes: Data are presented as percent returns. All 3, 5 and 10-year returns are annualized.



- Corporate credit spreads tightened during the quarter, which drove the return of high yield bonds and investment grade corporates for the quarter and the year. The rise in rates over the past year has resulted in negative returns for Treasuries. The added yield from corporates provided the incremental positive return.
- The flattening of the yield curve during the quarter helped longer maturity bonds. Short term interest rates increased with the Fed tightening, but longer-term rates fell. The drop in longer-term rates helped long bond returns. The long bond index returned a strong 4.4% during the quarter.
- The weakening of the US dollar versus other currencies helped the returns of emerging market debt. Most EM debt is denominated in dollars and a weaker dollar provides a tailwind for countries to service debt. More stable energy prices, China's growth rebound, and improved financial conditions also contributed a sound backdrop for EM countries.
- High yield spreads continue to tighten as the chart to the left shows. Defaults are expected to trend downward in 2017 from a recent pickup. Increased defaults were due to struggles with energy companies brought forth from falling energy prices.

DeFact

The duration of the Bloomberg Barclays Aggregate Bond index has reached 6 years, the longest duration in its almost 30 year history. The average duration of the index is 4.8 years. As duration increases, the index becomes more sensitive to changes in interest rates. This suggests that a rise in rates will adversely impact strategies benchmarked to the Aggregate index to a greater degree than history shows.

~ J.P. Morgan

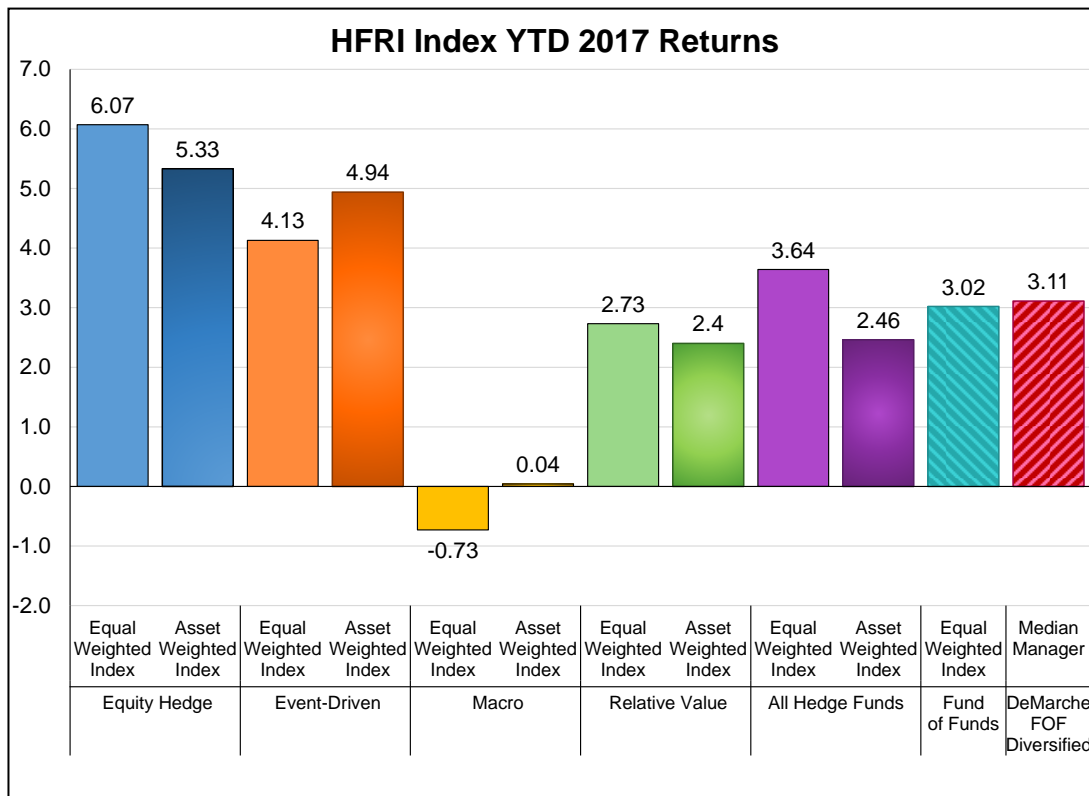
LESS LIQUID STRATEGIES



INDEX	2 nd QTR.	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	1.8	7.0	10.2	10.5	6.4
Apartment	1.5	6.3	9.2	9.6	6.2
Industrial	3.1	12.4	13.5	12.8	7.1
Office	1.6	5.6	9.2	9.5	5.5
Retail	1.5	6.9	10.8	11.8	8.0
NAREIT (Public RE)	2.4	1.4	8.9	10.0	6.0
NCREIF Timberland	0.7	3.4	5.5	7.2	5.5
HFR FOF Composite	0.6	6.3	1.5	3.8	0.8
Conservative	0.5	5.3	1.5	3.6	0.8
Diversified	0.2	5.0	1.2	3.6	0.8
Strategic	1.5	9.3	1.8	4.5	0.9
Bloomberg Commodities	-3.0	-6.5	-14.8	-9.2	-6.5

Notes: Data are presented as percent returns. All 3, 5 and 10-year returns are annualized.

- Commodity prices continue to be buffeted by falling energy prices. Energy prices are down over 31% for the past three years and down almost 15% for the past 12 months.
- Hedge funds have benefitted from a global growth environment. In addition, the resurgence of lower stock correlations and higher dispersion has helped equity-focused (i.e. strategic) strategies outperform others in the quarter.
- Private real estate continues its quarterly advance. However, returns for the past 12 months are below longer term returns as capital appreciation is more muted now. However, returns on REITs were more tepid as a rise in rates over the past 12 months negatively impacted performance.
- The chart to the left shows that returns for large and small funds were broad-based. HFR provides returns on equally-weighted and asset-weighted indexes. The takeaway is that most funds of all sizes enjoyed attractive returns for the first half of 2017. However, global macro funds struggled due to the reversals in global currencies.



DeFact

Oil prices rallied at the end of June and into July for its longest rally since 2010, eight straight trading days. Oil gained about 11% in the eight sessions – the longest rally since a 10-session streak in January 2010. The rebound came after a 20% decline from February to June 21

~ WSJ

June 2017 Asset Allocation Workshop Series – How Do Supercycles Impact Your Portfolio

Supercycle	Beginning	End	Environment	DJIA Price Return	GDP / EPS Growth Rates
A	1900	1929	High population growth	+882%	High
B	1929	1942	High unemployment	-76	Moderate
C	1942	1966	Baby boom / income growth	+971	High
D	1966	1980	Inflation	-24	Moderate
E	1980	2000	Expansion of consumer credit	+1,444	High
F	2000	Present*	Demographics & debt	+76	Moderate

In June, we presented new research on Supercycles at luncheons in various cities. Our research included bonds and international stocks and the impact on asset allocation. We will be further discussing our research at our upcoming Client Conference.

Implications of the current Supercycle include:

- GDP growth below average overall
- Volatility of risky asset classes likely higher
- Correlation of risky assets trend higher
- Lower highs / lower lows in near term
- P/E ratios constrained or trend lower
- Supercycles are country/population specific

Upcoming Events

34th Annual DeMarche Client Conference – September 6-8, 2017

The Elephant in the Room

Among the elephants we will be discussing:

- The role of traditional Fixed Income
- Diversification and Asset Allocation
- Active and Passive
- Geo-political landscape

Please sign up on-line:

<https://www.demarche.com/34th-annual-demarche-client-conference/>
 To be held at **The Sheraton Hotel at Crown Center** in Kansas City, Missouri. Questions may be directed to your DeMarche consultant.

We look forward to seeing you there!

