RESEARCH REVIEW

JULY 2017

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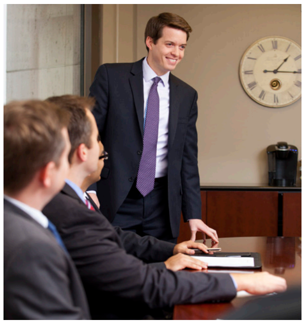

The U.S. labor market improved further in July, as the unemployment rate dipped to a 16-year low and 209,000 jobs were added to the economy. Among major asset categories, global equities marched higher—with particularly impressive gains witnessed internationally—while high yield credit continued to post solid returns. In real assets, crude oil's price rebound during the month served as a tailwind to energy-related asset categories, such as master limited partnerships

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Economic Update

U.S. Labor Market Strength Continues Through July

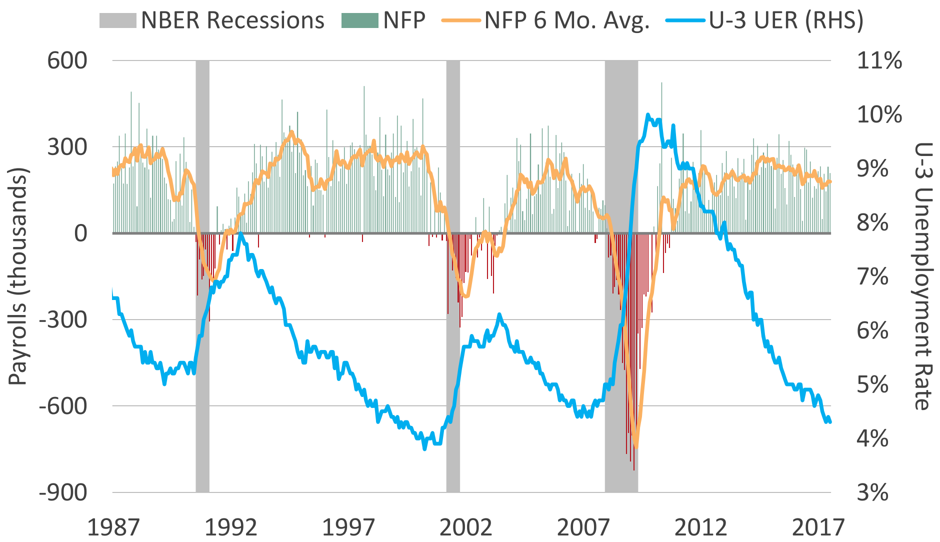
In July, the Bureau of Labor Statistics *Employment Situation* report showed that employers added 209,000 jobs during the month, exceeding the Bloomberg median consensus estimate by a healthy margin and in-line with smoothed measures of payroll gains witnessed in the current expansion. After ticking 0.1 ppts higher in June to 4.4%, the headline (U-3) unemployment rate dropped back down to 4.3% in July, matching May's 4.3% print as the lowest unemployment rate since February 2001 (4.2%).

Despite the lowest U-3 rate in nearly two decades, payrolls growth remains solid, with monthly payrolls growth averaging an impressive 179,000 in the trailing six-month timeframe. While some momentum has been lost on the jobs front since 2015, on balance, employers continue to add to headcounts at a healthy and expansionary pace. Moreover, after appearing to have settled near 5% in 2016, the unemployment rate has resumed descent to even lower levels, concurrent with historically subdued layoff activity (i.e., initial jobless claims).

The subsequent chart compares the U-3 rate with monthly payrolls prints, juxtaposed against the previous three recessionary environments.

In summary, the U.S. labor market witnessed further improvement in July, driven by strong payrolls gains, an improving unemployment rate, and a modest increase in broad labor participation rates. Furthermore, after a slight loss of momentum in fundamental improvement from 2015 to 2016, the labor market is on the path to even stronger levels, likely serving as a tailwind to tighter Fed policy over the coming quarters.

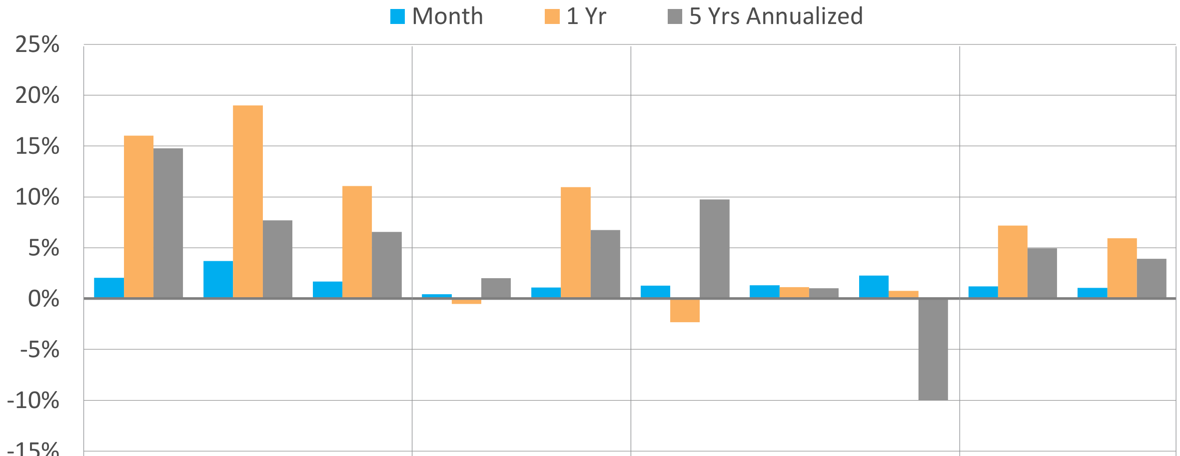
NONFARM PAYROLLS AND UNEMPLOYMENT RATE



Data sources: BLS, NBER, Bloomberg, L.P.; Data as of July 2017

Market Summary

JULY 2017



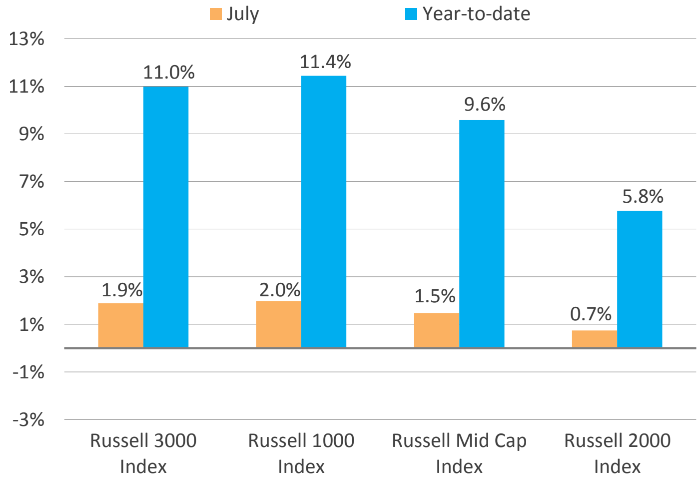
	GLOBAL EQUITY			GLOBAL FIXED INCOME		REAL ASSETS			DIVERSIFYING STRATEGIES	
	S&P 500 Index	MSCI ACWI ex-U.S.	HFRI Equity Hedge Index	Blmbrg Barclays U.S. Agg Index	Blmbrg Barclays HY Index	FTSE NAREIT All Equity Index	Alerian MLP Index	Blmbrg Cmdty Index	HFRI Fund Wtd Comp. Index	HFRI Fund of Fund Index
Month	2.1%	3.7%	1.7%	0.4%	1.1%	1.3%	1.3%	2.3%	1.2%	1.1%
1 Yr	16.0%	19.0%	11.1%	-0.5%	10.9%	-2.3%	1.1%	0.8%	7.2%	5.9%
5 Yrs Annualized	14.8%	7.7%	6.6%	2.0%	6.7%	9.8%	1.0%	-10.0%	4.9%	3.9%

Data sources: Lipper, HedgeFund Research

Global Equity

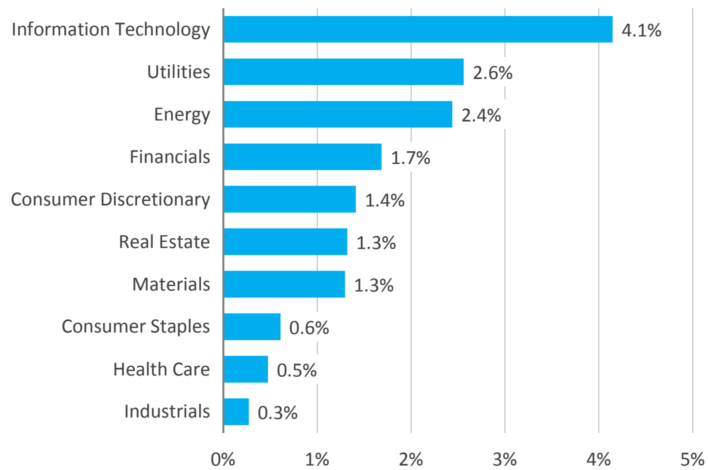
- U.S. stocks continued to grind higher, with large cap outpacing smaller peers amid an environment of low volatility. The S&P 500 hit a record high during the month, topping 2,400.
- Growth outperformed against value, as technology stocks—particularly the FAANG stocks—rallied during the month following a brief sell-off at the end of June. Supported by the FAANG stocks, growth funds are on pace to outperform their value brethren this year by the largest margin since the Global Financial Crisis.
- International equity markets maintained strength as underlying economic readings continued to improve. German and French manufacturing purchasing manager's indices (PMIs) were 58.1 and 54.9, respectively, indicating continued expansion in both countries. Euro zone inflation readings remained muted, offering optimism for continued quantitative easing.
- Emerging markets were the best performing global equity market on the back of strong economic readings out of China. GDP growth surprised to the upside and measured 6.9% year-over-year. Chinese industrial production and retail sales also beat expectations.

RUSSELL INDICES PERFORMANCE



Data source: Russell

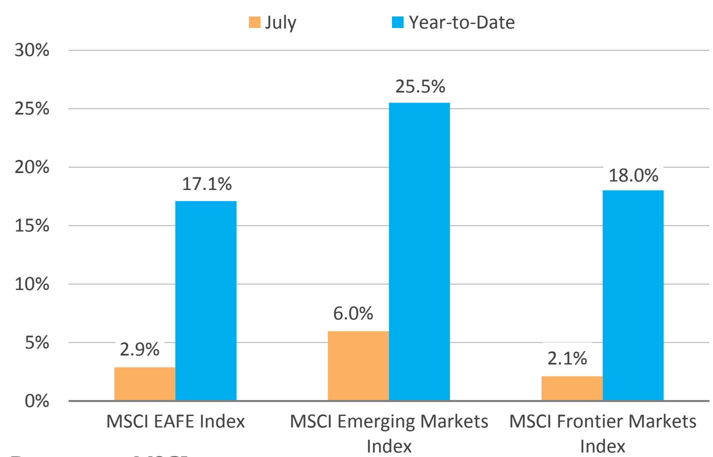
JULY RUSSELL 3000 SECTOR PERFORMANCE



Data source: Russell

MSCI INDICES PERFORMANCE

Returns in U.S. Dollars



Data source: MSCI

Fixed Income

MARKET DRIVERS

- Corporate earnings have exceeded expectations providing support for the Fed to continue the long-term path to normalization.
- The Fed's meeting on July 26 included a few minor policy comments, including an expectation to begin shrinking the size of the balance sheet relatively soon. Expectations for a near-term rate hike declined. The market implied a 42% probability of a third rate hike by year-end, down from 57% at the end of June.

MARKET MOVEMENT

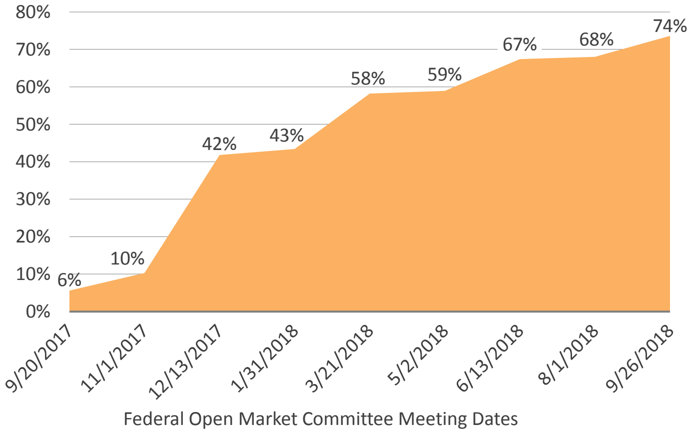
- The yield curve remained largely unchanged for the month across all maturities; with relatively stable rates, almost all major fixed income indices provided positive returns.
- Developed and emerging market international debt performed well due to the broad decline in the U.S. dollar.

Real Assets

REAL ESTATE

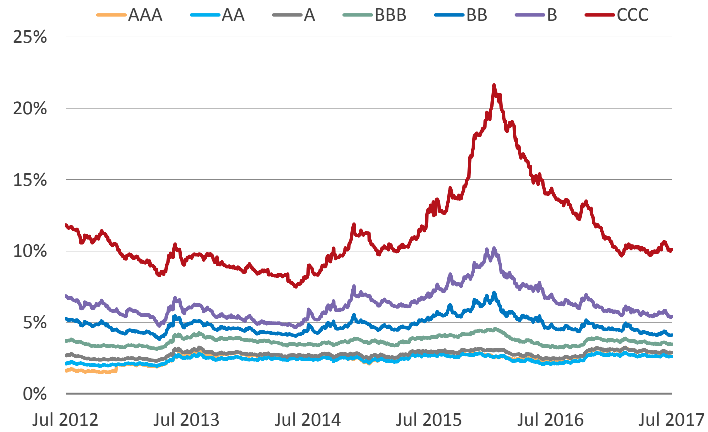
- Domestic real estate securities rose 1.3% during July and 6.2% year-to-date. Shopping centers (+7.7%) rebounded with the strongest retail sales growth all year.
- International real estate securities were positively affected by a weaker U.S. dollar and an improving economic environment in Europe.
- There was growth in overall construction throughout the international markets due in part to accessible capital markets and to the summer construction season.

IMPLIED RATE HIKE PROBABILITY



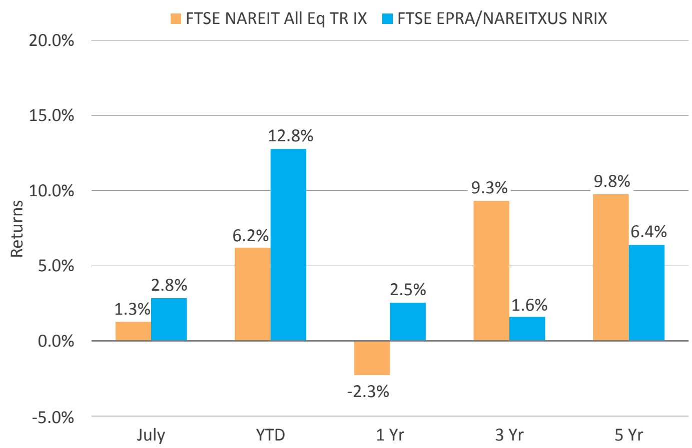
Data source: Bloomberg, L.P.

U.S. CORPORATE YIELD TO WORST PER CREDIT RATING



Data source: St. Louis Fed

DOMESTIC vs. INTERNATIONAL REIT RETURNS
As of July 31, 2017

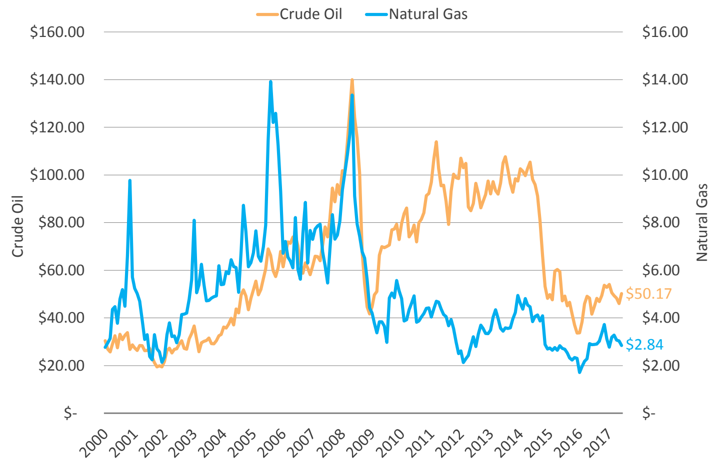


Data source: Bloomberg, L.P.

NATURAL RESOURCES

- Oil prices rose 9% in July and closed at $50.17/barrel, benefitting from factors including ongoing instability in Venezuela, OPEC's reiteration of commitments to curb production, and declining U.S. inventories. The gain in July was the largest since April 2016, and sentiment appeared to be improving after the sharp declines witnessed in the second quarter.
- The broad commodity market, as measured by the Bloomberg Commodity Index, rose 2.3% for the month, supported by the energy sector's gain of 4.6%. Livestock and grains negatively impacted returns due in part to weaker beef demand and growing supply.

CRUDE OIL AND NATURAL GAS PRICE



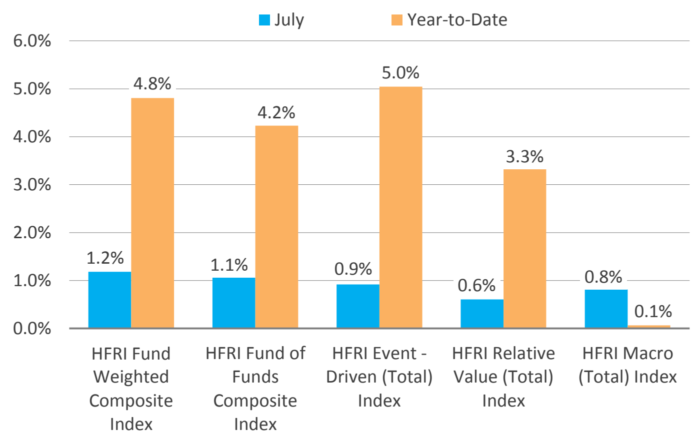
Data source: Energy Information Agency

Diversifying Strategies

- Merger arbitrage deals and spin-offs were down in the U.S. but were notably increased across Europe. The European economy is driving the uptick in event activity, as corporations are inclined to transact in stronger economies. A number of idiosyncratic situations became available, providing event managers with a deep pipeline, despite general high market valuations.
- Volatility remained suppressed, as the Federal Reserve policies continued to act as a backstop whenever markets encounter any sort of turbulence. In fact, during the month of July, the CBOE Volatility Index, the VIX, hit its lowest intraday level on record.
- Hedge funds enjoyed a strong start to the year, with nearly all strategies posting gains. The industry also experienced net inflows for the first time in nearly two years. Both data points are a welcome sign for an industry that has come under pressure of late, especially in the financial media outlets.

HFRI INDICES PERFORMANCE

Returns in U.S. Dollars



Data source: HedgeFund Research

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All data is as of July 31, 2017 unless otherwise noted.

INDICES

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class.

Barclays Capital Fixed Income Indices is an index family comprised of the Barclays Capital Aggregate Index, Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, Municipal Index, High-Yield Index, and others designed to represent the broad fixed income markets and sectors within constraints of maturity and minimum outstanding par value. See https://ecommerce.barcap.com/indices/index.dxml for more information.

The CBOE Volatility Index (VIX) is an up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500 Index option bid/ask quotes. The Index uses nearby and second nearby options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index. FTSE Real Estate Indices (NAREIT Index and EPRA/NAREIT Index) includes only those companies that meet minimum size, liquidity and free float criteria as set forth by FTSE and is meant as a broad representation of publicly traded real estate securities. Relevant real estate activities are defined as the ownership, disposure, and development of income-producing real estate. See www.ftse.com/Indices for more information.

HFRI Monthly Indices (HFRI) are equally weighted performance indexes, compiled by Hedge Fund Research Inc. (HFX), and are used by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 37 different categories by strategy, including the HFRI Fund Weighted Composite, which accounts for over 2000 funds listed on the internal HFR Database. The HFRI Fund of Funds Composite Index is an equal weighted, net of fee, index composed of approximately 800 fund- of- funds which report to HFR. See www.hedgefundresearch.com for more information on index construction.

J.P. Morgan's Global Index Research group produces proprietary index products that track emerging markets, government debt, and corporate debt asset classes. Some of these indices include the JPMorgan Emerging Market Bond Plus Index, JPMorgan Emerging Market Local Plus Index, JPMorgan Global Bond Non-US Index and JPMorgan Global Bond Non-US Index. See www.jpmorgan.com for more information.

Merrill Lynch high yield indices measure the performance of securities that pay interest in cash and have a credit rating of below investment grade. Merrill Lynch uses a composite of Fitch Ratings, Moody's and Standard and Poor's credit ratings in selecting bonds for these indices. These ratings measure the risk that the bond issuer will fail to pay interest or to repay principal in full. See www.ml.com for more information.

Morgan Stanley Capital International – MSCI is a series of indices constructed by Morgan Stanley to help institutional investors benchmark their returns. There are a wide range of indices created by Morgan Stanley covering a multitude of developed and emerging economies and economic sectors. See www.morganstanley.com for more information.

Russell Investments rank U.S. common stocks from largest to smallest market capitalization at each annual reconstitution period (May 31). The primary Russell Indices are defined as follows: 1) the top 3,000 stocks become the Russell 3000 Index, 2) the largest 1,000 stocks become the Russell 1000 Index, 3) the smallest 800 stocks in the Russell 1000 Index become the Russell Midcap index, 4) the next 2,000 stocks become the Russell 2000 Index, 5) the smallest 1,000 in the Russell 2000 Index plus the next smallest 1,000 comprise the Russell Microcap Index. See www.russell.com for more information.

S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation, among other factors by the S&P Index Committee, which is a team of analysts and economists at Standard and Poor's. The S&P 500 is a market-value weighted index, which means each stock's weight in the index is proportionate to its market value and is designed to be a leading indicator of U.S. equities, and meant to reflect the risk/return characteristics of the large cap universe. See www.standardandpoors.com for more information.

Information on any indices mentioned can be obtained either through your consultant or by written request to information@feg.com.

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Research and Investments Team as of date of publication.