March Update | As of March 31, 2017

MARCH 2017 IN REVIEW

ECONOMY:

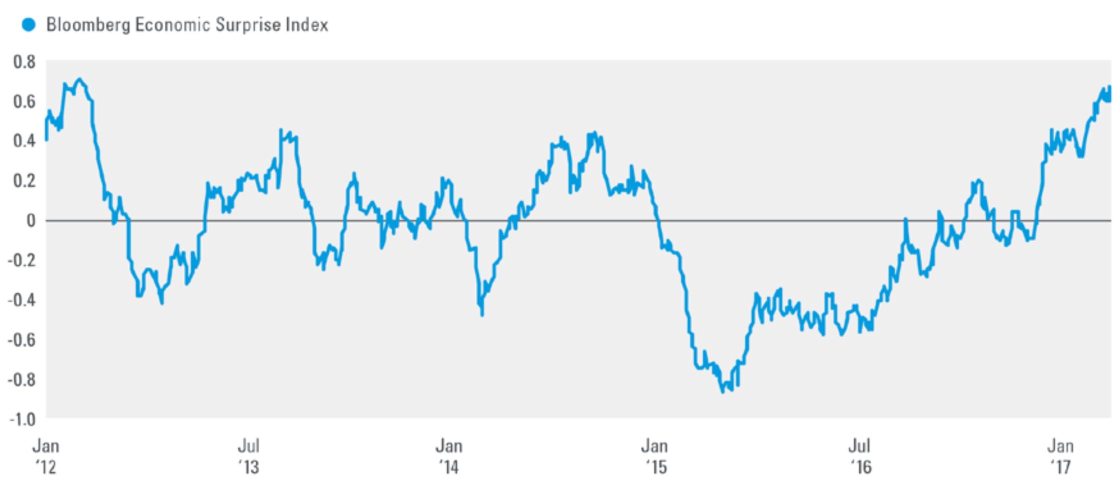
MIXED DATA STILL SUPPORTS IMPROVED GROWTH

Economic Data

March 2017 economic reports, which mostly reflect economic activity in February, continued to point to prospects of improved growth over the course of 2017, but there are signs that growth in the first quarter may not be as strong as had been expected. The advance estimate of first quarter 2017 gross domestic product (GDP) growth will be released on April 28. While both consumer and business confidence remain strong on prospects of growth-friendly policy changes, such as tax reform, infrastructure spending, and decreased regulatory burdens, the impact on consumer and business economic activity thus far has been mixed. On the positive side, there are continued signs of a manufacturing rebound and improved labor markets. Policy uncertainty has increased, however, following Congress' inability to pass the American Health Care Act (AHCA) as an alternative to the Affordable Care Act (ACA or "Obamacare"). Nevertheless, a Republican majority in Congress keeps the odds of a damaging series of stalemates low and the general policy outlook continues to favor greater impact from pro-growth initiatives.

Even with growth expectations rising, economic data overall continues to come in above consensus estimates, indicating that expectations probably have not gotten ahead of themselves. Despite a strong series of economic surprises, there has been increasing concern about decidedly greater strength in more forward-looking, survey-based "soft data" versus "hard data" directly related to actual economic activity, which has come in largely flat.

ECONOMIC SURPRISE INDEX REACHES HIGHEST LEVEL SINCE 2012



Source: LPL Research, Bloomberg 03/31/17

The Bloomberg Economic Surprise Index standardizes economic surprises (actual data compared to pre-release consensus estimates) and averages them over time with more recent data receiving greater weight.

On the consumer side, jobs data remain strong. The U.S. economy added 235,000 jobs in February 2017, exceeding expectations of a 200,000 increase. The details of the report were solid, with a 0.1% drop in the unemployment rate to 4.7%, and an acceleration in average hourly earnings to +2.8% year over year from +2.6% in January 2017. By contrast, February retail sales were largely in line, growing just 0.1% despite strong consumer confidence data; however, solid upward revisions to January retail sales data added some strength to the headline number.

Business activity data reported in March was also mixed but saw some strong positive data points. The Institute for Supply Management's (ISM) Manufacturing Purchasing Managers' Index (PMI) for February surged to 57.7 (above 50 indicates expansion), its highest level in since August 2014, while its services counterpart, the Non-Manufacturing Composite, nearly matched it, climbing to 56.6. February industrial production, weighed down by the utilities sub-component, came in flat, while core capital goods orders contracted.

Overall, March economic reports put the economy on a solid path, and economic indicators that tend to lead changes in economic activity continue to indicate a low probability of recession in the next 12–18 months. The Conference Board's Leading Economic Index (LEI), an aggregate of leading indicators, rose 0.6% in February, topping consensus expectations and matching similarly strong gains in December and January. The index accelerated to a 3.1% gain year over year, its highest growth rate since August 2015, as the economy continues to rebound from a mid-cycle slowdown in late 2015 and early 2016.

Central Banks

Following the conclusion of its March 14–15, 2017 policy meeting, the Federal Reserve (Fed) announced that it was raising rates for the third time since the end of the Great Recession, increasing the target range for the federal funds rate by 25 basis points (0.25%) to 0.75–1.00%. Expectations for a rate hike had been fully priced in by the meeting date, after a series of Fed speakers had primed the market for a hike over the weeks prior to the meeting. The hike came earlier than had been expected at the start of the year and keeps the Fed on track to raise rates two more times in 2017.

Fed members made very few changes to their forecasts for the economy, inflation, and the unemployment rate versus the projections they made at the December 2016 policy meeting, when the last set of forecasts were released. More importantly, Fed members didn't make any substantive changes to the "dot plots" for fed funds rate expectations in 2017, 2018, 2019, or the "long run." Additionally, the Fed did not hint that a hike was likely at its next policy meeting on May 2–3, 2017, and made no changes to the management of its balance sheet.

The European Central Bank (ECB) also met in March but made no major policy changes. Comments from ECB Chair Mario Draghi suggesting that the economy likely would not need further support from new action was taken as a hint that the ECB may start to slowly wind down its extraordinarily accommodative monetary policy in the next several months if the region's economy continues to improve. The Bank of England also kept rates unchanged in March, although signs of rising inflation did lead one member to support a rate increase.

WAGE GROWTH CONTINUES TO ACCELERATE

Source: LPL Research, U.S. Bureau of Labor Statistics 03/31/17

GLOBAL EQUITIES:

STRONG START TO 2017 FOR STOCKS

U.S.

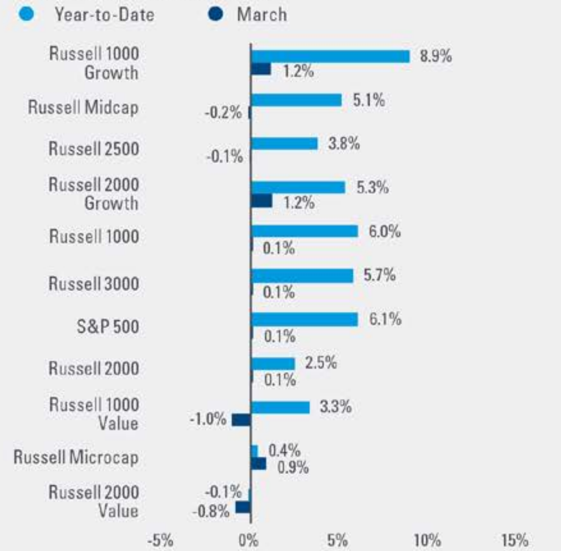
Stocks paused in March, producing flat performance for the S&P 500 after solid gains in January and February. On a total return basis, the month marked the fifth straight in positive territory. The flat performance continues the stock market's recent stretch of consistency, with only one down month in the past 13. Year to date, the S&P 500 has returned 6.1%. The improving economic backdrop provided support.

Market participants remained focused on President Trump's bold policy agenda during the month, something that will likely continue throughout the year. The administration's failure to get an ACA replacement to the House floor for a vote on March 24 led many to question whether other key pieces of the Trump agenda, including tax reform, will get done. Some loss of confidence on the policy front kept stocks in check, although a generally positive mix of economic data globally helped support investor sentiment. Meanwhile, the continued and widespread belief among analysts and strategists that tax reform will get done at some point in late 2017 or early 2018, even if scaled down from prior proposals, helped support stocks and keep market volatility down.

Stock market investors generally shrugged off the Fed's third rate hike since the 2008–2009 financial crisis, including the central bank's reiterated forecast of two more rate hikes (three total) in 2017. The Fed's acknowledgement of an improving economy, its desire to hike rates gradually, and its efforts to telegraph the move ahead of time all helped markets digest the news. The marginal move in the 10-year Treasury yield during the month also helped keep stock market investors from getting alarmed by the Fed or any other developments in the fixed income markets.

Technology topped the March sector rankings, buoyed by a strong earnings outlook and attractive relative valuations compared with the S&P 500. The sector's gains were broad-based, with hardware, software, and semiconductors all making strong contributions. Consumer

DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 03/31/17

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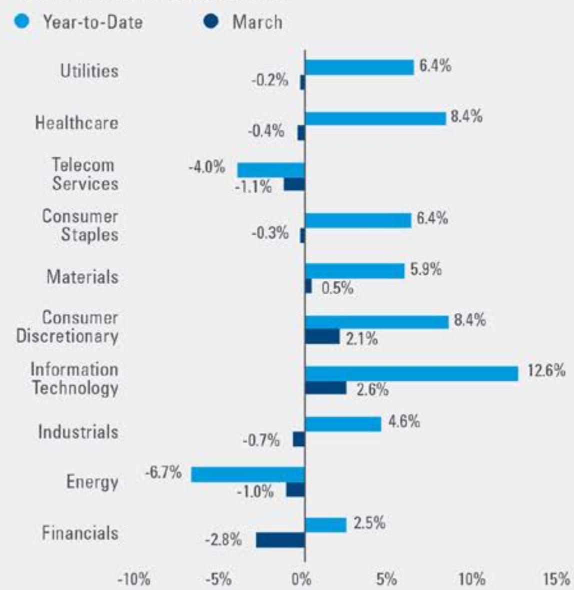
S&P 500 SECTOR PERFORMANCE



Source: LPL Research, FactSet 03/31/17

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Stock investing involves risk, including loss of principal.

Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

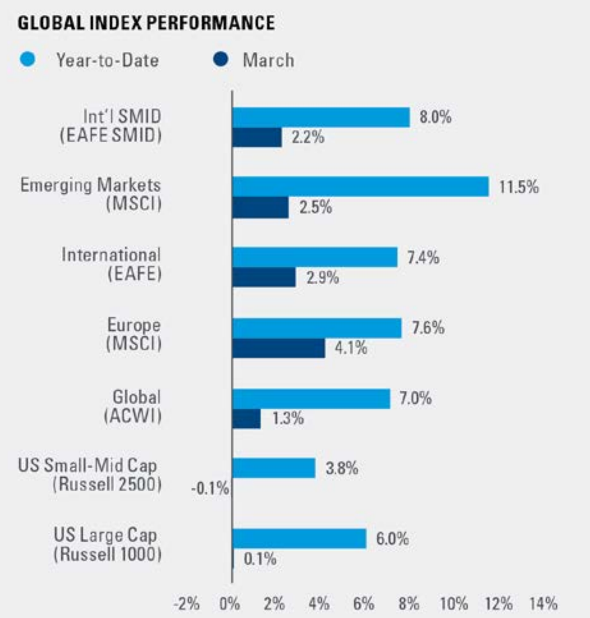
discretionary was also a strong performer for the month on solid contributions from retail, media, and housing. The month's biggest laggard, financials, struggled with some modest yield curve flattening and the aforementioned concerns about how much of the Trump agenda will be achieved. Year to date, technology and consumer discretionary have led all sectors, while telecom and energy are the only decliners.

Turning to style, growth outperformed value for the third straight month in March based on the Russell 3000 style indexes. The two biggest growth sectors, technology and consumer discretionary, outperformed, while the two biggest value sectors, energy and financials, lagged, thus powering growth leadership. By market cap (again based on Russell indexes), small caps matched large cap's modest losses in March after two straight months of small cap underperformance. Weakness was widely attributed to the aforementioned questions about the nature and timing of tax reform, as smaller and more U.S.-focused companies are more sensitive to corporate tax reform and deregulation initiatives. Small caps have trailed both mid and large caps year to date.

International

Developed international equity markets produced solid gains in March, as both the MSCI EAFE Index (developed foreign markets) and the MSCI Emerging Markets (EM) Index outperformed the S&P 500 with U.S. dollar-based returns of 2.9% and 2.6%, respectively. Both indexes are also ahead of the S&P 500 year to date. During March, overseas markets were helped by a weaker U.S. dollar, which translated into stronger returns for U.S. investors in foreign markets, and by mostly positive economic data and an improving earnings picture. Market participants are likely also recognizing the relative value in overseas markets compared with the U.S., despite political risk associated with the upcoming French elections beginning in late April. Developed foreign market strength was concentrated in Europe, led by Italy, Spain, and France, while Japan fell marginally based on MSCI country indexes.

EM benefited from stable-to-improving growth out of China, easing concerns about the Trump administration's trade policies and improving earnings, in addition to a weaker U.S. dollar. Ebbing trade concerns were evident in the very strong performance by the Mexican stock market during the month (the MSCI Mexico Index rose 9.9% in March alone), along with a more than 3% gain in the corresponding Chinese index. India and South Korea were other top EM performers, while Brazil suffered a more than 4% loss for the month.



Source: LPL Research, FactSet 03/31/17

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International and emerging markets investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors.

FIXED INCOME:

RATES RISE AS MARKETS CONTINUE TO PRICE IN IMPLICATIONS OF TRUMP POLICIES

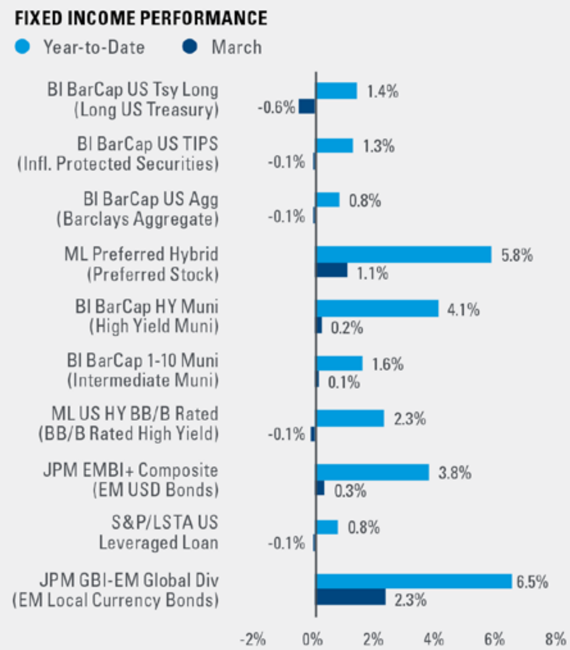
Treasury yields rose at the shortest maturities in March, while the majority of the yield curve was little changed over the month. The Fed's decision to raise rates, though unexpected earlier in the year, was telegraphed by Fed speakers early in the month. This led to the hike being fully priced into the market ahead of the meeting, leading to a relatively uneventful post-hike reaction in fixed income. Longer-maturity Treasury yields were quiet as markets continued to digest the implications of President Trump's policies and his ability to implement them in a timely manner.

The quiet nature of yields led to a mixed month for fixed income. The broad Bloomberg Barclays Aggregate Bond Index returned -0.1% during the month, in line with Treasuries (Bloomberg Barclays U.S. Treasury Index). Municipals continued their rebound, with a 0.2% return during March (Bloomberg Barclays Municipal Index). Investment-grade corporates, returning -0.2%, underperformed the broad market as valuations cheapened slightly.

Equity volatility during March was a headwind for high yield, which returned -0.2%. Emerging market debt (EMD) continued its rebound to return 0.3%. Preferreds followed suit, leading all major fixed income sectors with a 1.1% return during March.

Investing in foreign and emerging markets debt securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical and regulatory risk, and risk associated with varying settlement standards.

Municipal bonds are subject to availability, price, and to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rate rise. Interest income may be subject to the alternative minimum tax. Federally tax-free but other state and local taxes may apply.



U.S. TREASURY YIELDS

Security	02/28/17	03/31/17	Change in Yield
3 Month	0.53	0.76	0.23
2 Year	1.22	1.27	0.05
5 Year	1.89	1.93	0.04
10 Year	2.36	2.40	0.04
30 Year	2.97	3.02	0.05

AAA MUNICIPAL YIELDS

Security	02/28/17	03/31/17	Change in Yield
2 Year	1.08	1.09	0.01
5 Year	1.62	1.64	0.02
10 Year	2.34	2.37	0.03
20 Year	2.97	3.02	0.05
30 Year	3.17	3.20	0.03

Source: LPL Research, Bloomberg, FactSet 03/31/17

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Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Bank loans are loans issued by below investment-grade companies for short-term funding purposes with higher yield than short-term debt and involve risk.

ALTERNATIVES:

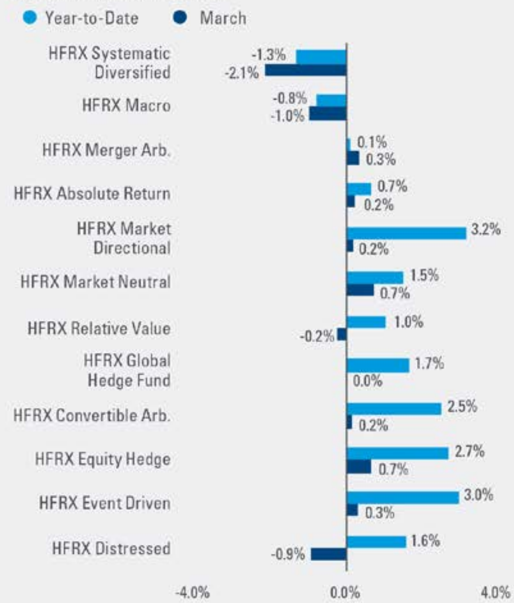
RETURN DISPERSIONS SUPPORT LONG/SHORT EQUITY STRATEGIES

Equity centric alternative investment strategies led category gains during the final month of the quarter, as the HFRX Equity Market Neutral and Equity Hedge Indices gained 0.74% and 0.66%, respectively. The dispersion between S&P 500 sector returns continues to act as tailwind for fundamental stock pickers. For the quarter, long/short equity strategies benefited from their overweight exposure to the information technology sector, which led sector returns with a gain of 12.57%, while an underweight to lagging sectors such as industrials and utilities was also beneficial. Long/short strategies have also recently added to their European positioning, with North American based manager's net exposure at the highest level since the beginning of 2010.

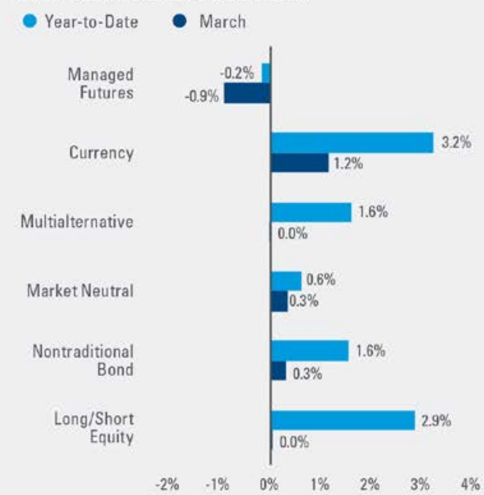
Event-driven strategies were also positive on the month, with the HFRX Event Driven Index gaining 0.33%, for a quarterly return of 2.96%. Merger and acquisition activity remains healthy, with announced deal spreads in a 6–8% annualized return range. Additionally, concerns over concentrated positioning across the event driven space have been alleviated, as most strategies have balanced, well-diversified portfolios across multiple sectors. Within the event-driven subcategories, distressed investment strategies encountered their first monthly decline (down 0.93% on the HFRX Distressed Securities Index) since February 2016, as the rally in energy-related credits had buoyed returns for almost a year. However, with the price of oil declining over 6% in March, we witnessed the downside this sensitivity can have for managers in the space.

Systematic macro strategies were the main laggards, as the HFRX Systematic Diversified Index fell 2.10% during March for a quarterly decline of 1.32%. For the month, long U.S. dollar and long European sovereign fixed income exposure were the main detractors, as the U.S. dollar declined against the pound, yen, and euro, while yields on German and Japanese debt were marginally higher.

HFRX INDEX PERFORMANCE



MORNINGSTAR INDEX PERFORMANCE



Source: LPL Research, FactSet 03/31/17

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Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may accelerate the velocity of potential losses.

INVESTORS APPEAR TO HAVE QUESTIONED THE REFLATION THEME IN MARCH

Real assets, which often act as a hedge against inflation, generally underperformed during the month. The dollar declined about 1%, which typically rewards real asset investors, though not this month. Oil declined more than 6% as increased production from the U.S. caused global inventories to increase. Reports are that the OPEC is considering extending the production cuts it agreed to at its November, 2016 meeting. However, this has not been enough to stem oil's decline. This action reinforces to us the role that the U.S., Texas in particular, plays as a "swing producer" of crude oil.

MLPs

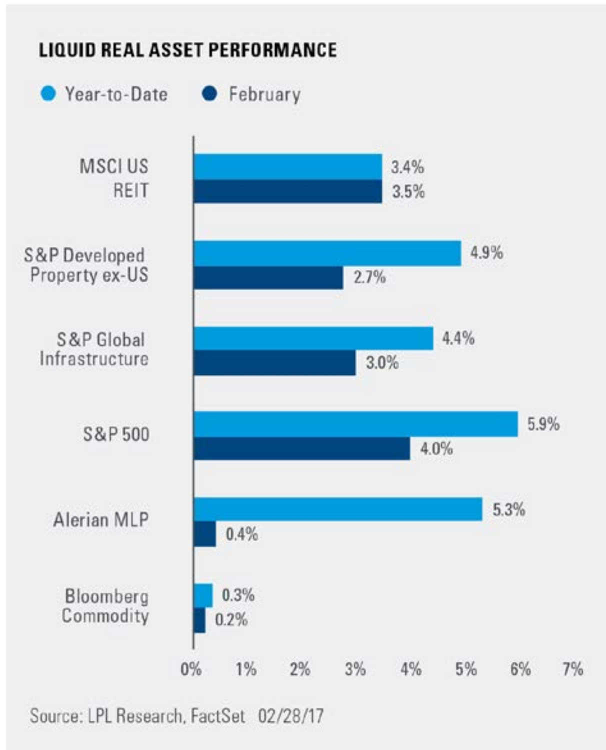
The Alerian MLP Index was down -1.3% in March, though is still up nearly 4% for the quarter. Though master limited partnerships (MLP) benefit from increasing U.S. energy production, the oil price sensitivity weighed on the asset class during the month.

REITs & Global Listed Infrastructure

REIT returns were lower in March, with the MSCI US REIT Index falling -2.4%, as investors turned more cautious on the asset class. Some investors may have been concerned about consumer retailers as media reports of several major national retailers facing financial troubles and possible bankruptcies. Global listed infrastructure bucked this negative trend, gaining 3.4%.

Commodities

The Bloomberg Commodity Index returned 0.2% in Oil and agriculture dragged commodity indexes lower in March. The Bloomberg Commodity Index lost 2.7% in March despite a weaker U.S. dollar that has tended to support commodity prices. Declines were led by crude oil (-6.3%) and agriculture (-5.9%). Uncertainty surrounding the possible extension of the global production cut agreement between OPEC and Russia amid rising U.S. production weighed on oil. Global supply pressures weighed on crop prices, particularly soybeans (-8.7%); higher yields in South America put pressure on corn (-2.5%) and wheat (-3.9%). Higher natural gas prices (+11.2%) helped mitigate some of the commodity index's decline after weekly inventory drawdowns and colder weather. Precious metal prices fell despite a weaker U.S. dollar while industrial metal prices were mixed with aluminum up 1.8% and copper down 2.3%. Historically, copper has been tied to the Chinese economy. However, as China transitions from an industrial to a more service-oriented economy, base metals like copper no longer necessarily rally with better Chinese data.



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