June Update | As of May 31, 2017

MAY 2017 IN REVIEW

ECONOMY:
DATA DISAPPOINTS, BUT GROWTH STILL STEADY

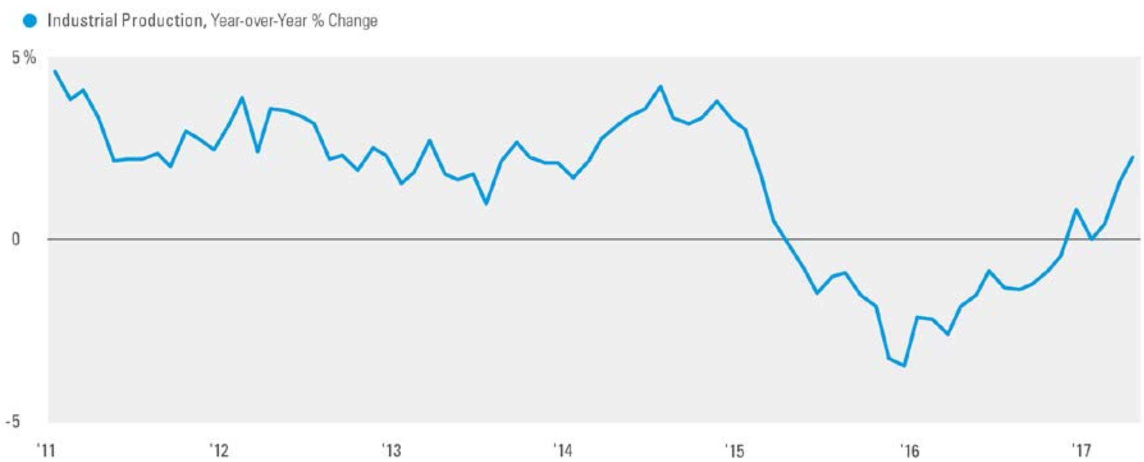
Economic Data

Economic reports released in May 2017, which mostly reflect economic activity in April, signaled that economic growth has likely picked up in the second quarter of the year. The consensus estimate by Wall Street Journal surveyed economists project growth near 3%, similar to the average of the New York Federal Reserve (Fed) and Atlanta Fed NowCast models, which forecast quarterly GDP based on currently available data. Overall, data did not meet increased expectations during the month, with particular weakness in housing, but strength in some measures of business activity may be pointing to prospects of better economic growth in the second half of the year.

Industrial production and production-related data were among the highlights of the month. Industrial production grew 1.0% in April, its largest gain since February 2014. The strong month pushed the year-over-year gain to 2.25%, squarely returning to the normal range seen during much of the expansion. The three sub-components of industrial production (manufacturing, mining, and utilities) all posted gains, with the monthly gain in manufacturing also the strongest since February 2014.

Looking inside the data, business equipment saw particularly solid gains, outpacing manufacturing as a whole. The data provide further evidence that businesses may be refocusing on driving productivity through increased investment after persistent weakness in productivity growth throughout the expansion. Business fixed investment was also the leading contributor to an upward revision of first quarter 2017 gross domestic product (GDP) growth from 0.7% to 1.2%. With the revision, business fixed investment made its largest contribution to GDP growth since the first quarter of 2012. While the Atlanta Fed's NowCast model estimate

INDUSTRIAL PRODUCTION NORMALIZING



Source: LPL Research, Federal Reserve 05/31/17 forecasts a smaller contribution to GDP growth from business spending in the second quarter, the expected contribution, if met, would still top any of the prior eight quarters. Looking shorter-term, production-related economic data in April propelled the Chicago Fed's National Activity Index, a proxy for overall economic activity, to a solid upside surprise, posting its best month since November 2014.

Job growth remained solid in April and retail sales, while missing expectations, accelerated from March and saw upward revisions to prior data. Data on income, however, disappointed. Personal income for March decelerated from February, missing expectations, and year-over-year growth in average hourly earnings decelerated slightly in April versus expectations of holding steady. Limited wage growth and heightened uncertainty may be keeping consumers somewhat cautious heading into the summer months.

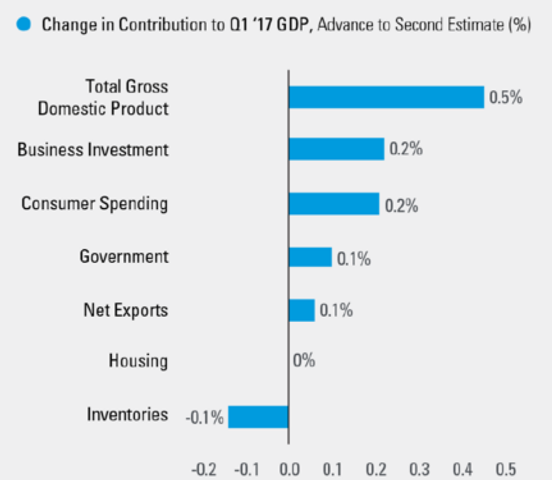
Despite some upbeat numbers, data disappointed overall in May. The Citi Economic Surprise Index, an aggregate measure of economic surprises, fell from -5 to a low of -39 in May, the lowest level since February 2016. While there were disappointments across economic sectors, housing showed particular weakness, with new home sales, existing home sales, housing starts, and permits all missing expectations. In contrast to the housing crisis, however, where vulnerability in housing was caused by overheating demand pushing up prices, current markets are being driven by tight supply keeping prices high and limiting demand. High prices, in this case, may lead to a pick-up in construction to alleviate supply problems. While such a process would take time, the potential is exhibited by a housing data point that did not disappoint in April, homebuilder sentiment as measured by the NAHB Housing Market Index, which surprised to the upside.

Higher expectations did play a role in setting up data disappointments and the final numbers were sound taken as a whole, but the inability of the economy to meet rising expectations does raise modest concerns. Looking forward, however, leading indicators continue to be robust and the economy may still be able to meet increased expectations. The Conference Board's Leading Economic Index, an aggregate of economic data that tend to lead overall economic activity, rose 3.2% year over year in April, a level that has been associated with a low chance of recession over the next 12–18 months and that indicates continued potential for an accelerating growth path, especially if we see progress on pro-growth policies and increased stability in Washington, D.C.

Central Banks

As was broadly expected, the Fed left rates unchanged at the conclusion of its May 2–3 policy meeting, but left a June rate hike in play with its characterization of soft first quarter growth as "transitory." The Fed's effort to emphasize the positive broad economic backdrop put markets on notice that it has not yet abandoned its outlook of two additional rate hikes in 2017, while still maintaining flexibility should data not improve. The meeting minutes, released May 22, confirmed that general view. It also provided a first glimpse of discussions of plans for reducing the Fed's balance sheet by gradually decreasing the level of repurchases as bonds mature. The Fed's next policy meeting takes place June 13–14, with fed fund futures markets indicating a high likelihood of an additional rate hike. Neither the European Central Bank (ECB) nor the Bank of Japan (BOJ) held policy meetings in May. The ECB meets next on June 8 and the BOJ on June 16.

MORE STRENGTH IN BUSINESS INVESTMENT ANCHORS UPWARD REVISION TO GDP



Source: LPL Research, Bureau of Economic Analysis 05/31/17

GLOBAL EQUITIES:

ANOTHER POSITIVE MONTH IN THE U.S. AND OVERSEAS

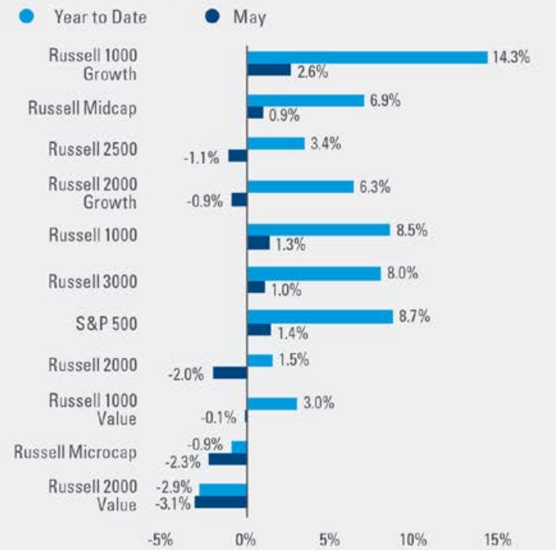
U.S.

Stocks added to an already strong year in May, as the S&P 500 gained 1.4% for the month, bringing the year-to-date return for the index to 8.7%. On a total return basis, May's gain marked the seventh straight positive month and the 14th positive month out of the last 15. Earnings remained a key driver as results in May followed the same positive trends as those in April. The market also appeared to gain some comfort that the U.S. economy's sluggish start to the year was temporary. Political risk did weigh on stocks on May 17, when the S&P 500 dropped 1.8% for its worst one-day performance of the year; however, gains the rest of the month more than offset that loss and the index ended the month within a small fraction of its all-time high.

Markets impressively remained resilient in the face of what has become an increasingly challenging path to fiscal policy initiatives in Washington, D.C., evident in the reception the president's budget proposal received. Investigation into the nature of the Trump campaign's Russia contacts may be a distraction for policymakers on what was already a difficult path to policy implementation given the divisiveness on Capitol Hill. Meanwhile, markets continued to shrug off heightened geopolitical tensions, in North Korea in particular, while a global cyber attack on May 12 and terrorist attack in the U.K. on May 22 did little to slow down the powerful bull market.

Corporate fundamentals remain supportive. First quarter 2017 earnings for the S&P 500 rose more than 15% year over year, with a solid 75% of companies exceeding consensus estimates, about 5% above estimates as of quarter-end (Thomson Reuters data). Even excluding the sharp rebound in energy sector profits, S&P 500 earnings rose 11% over the year-ago quarter, suggesting broad-based earnings gains. Earnings estimates for the balance of the year were uncharacteristically resilient during reporting season, which is an encouraging sign reflective of generally upbeat guidance from corporate management teams.

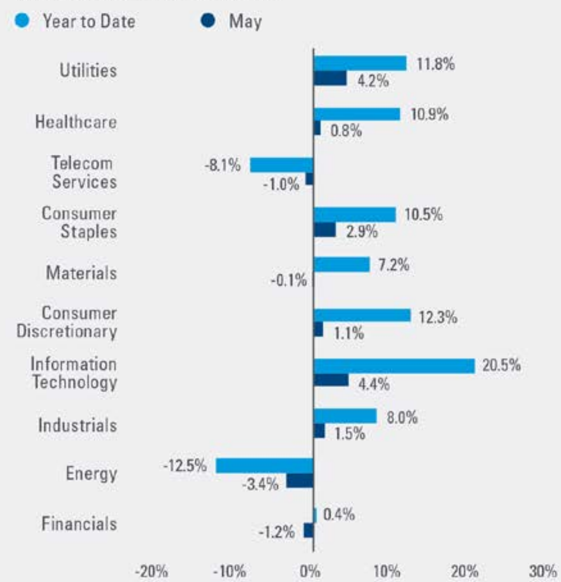
DOMESTIC INDEX PERFORMANCE



Source: LPL Research, FactSet 05/31/17

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

S&P 500 SECTOR PERFORMANCE



Source: LPL Research, FactSet 05/31/17

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

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.

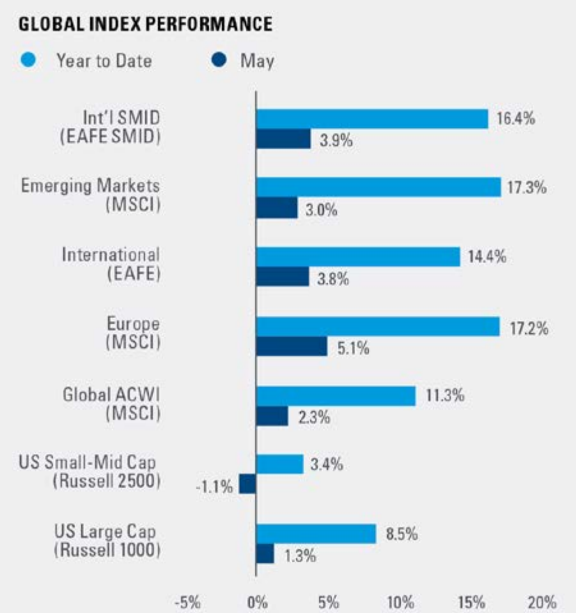
Technology topped the sector rankings in May for the third straight month, buoyed by a strong earnings season and continued momentum for several industry trends such as cloud computing, e-commerce, digital advertising, and machine learning (artificial intelligence). The semiconductor industry, which plays a key role in several of these trends, led the sector higher. Utilities and consumer staples also enjoyed strong months, benefiting from the drop in interest rates that attracted equity investors to the rich yields these sectors offer. Energy was the worst sector performer as oil prices fell, despite OPEC's decision to extend its global production agreement.

On a style basis, growth outperformed value in May, based on the Russell 3000 style indexes, and has now outpaced value every month this year. Strength for the biggest growth sector, technology, coupled with weakness in the two biggest value sectors, energy and financials, drove growth leadership, as has generally been the case throughout 2017. In terms of market cap, small caps lagged in May after outpacing large and mid caps in April. Small caps are more sensitive to Washington D.C.'s pro-growth policy proposals, so stalled progress may have weighed on sentiment. Small caps also tend to do better when the dollar rises (it fell in May).

International

International equity markets produced solid gains in May, outpacing the U.S. equity market (S&P 500) for the third straight month. Specifically, in May the MSCI EAFE Index (developed foreign markets) and the MSCI Emerging Markets (EM) Index returned 3.8% and 3.0%, respectively, both ahead of the S&P 500's 1.4% for the month. Both indexes remain well ahead of the S&P 500 year to date. A weaker U.S. dollar has helped boost international returns, but gradually improving economic growth and an improved earnings outlook have also been supportive. The reduced political uncertainty following market-friendly results in the French election has also been supportive. Top markets in May included India, Switzerland, and France, while Australia suffered the biggest monthly decline.

Like developed international equities, EM performance benefited from a weaker U.S. dollar and an improving economic and earnings outlook. Market participants were not at all concerned with the North Korean nuclear threat as the South Korean equity market jumped nearly 8% in May to lead all major international markets. China also outperformed solidly during the month, shrugging off a debt rating downgrade, and benefiting from strength in the technology and consumer discretionary sectors. Brazil suffered a 5% decline after a political scandal raised prospects for another leadership change, while weak energy prices and political uncertainty dragged Russian equities lower.



Source: LPL Research, FactSet 05/31/17

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

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 CONTINUE TO FALL AS BOND MARKET SENDS MESSAGE OF CAUTION

Treasury yields in the intermediate and long portion of the yield curve continued to decline in May, leading to a positive month for fixed income overall. Treasury yields with maturities two years and greater continued the decline that started mid-March as investors continued to question President Trump's ability to implement stimulative policy in a timely manner. Shorter-term Treasury yields rose as a Fed rate hike in June looked increasingly likely. This led the Treasury yield curve to flatten to its flattest point year to date, a warning sign from fixed income markets and slightly out of step with continued equity market strength.

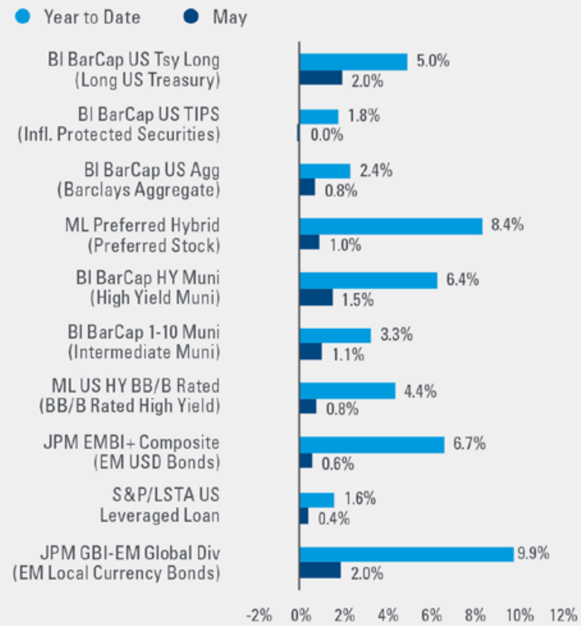
The decline in longer-term yields led to a positive month for high-quality fixed income, as longer-duration assets benefited more so than shorter-dated. The broad Bloomberg Barclays Aggregate Bond Index returned 0.8% during the month, slightly ahead of Treasuries (Bloomberg Barclays U.S. Treasury Index), which returned 0.7%. Investment-grade corporates, which returned 1.1%, were boosted by the sector's longer duration profile.

Another strong month for equity markets was a tailwind for economically sensitive portions of fixed income, leading lower-quality fixed income to outperform higher-quality. High-yield corporates, up 0.9% on the month, were able to shrug off oil-related weakness, as the price of oil declined by 2.1% during May. Emerging market debt (EMD) displayed similar resilience to the decline in oil and continued its rebound from election-related weakness to return 0.8%. Preferred stocks had another strong month with a 1.0% return during May.

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.

FIXED INCOME PERFORMANCE



U.S. TREASURY YIELDS

Security	04/30/17	05/31/17	Change in Yield
3 Month	0.80	0.98	0.18
2 Year	1.28	1.28	0.00
5 Year	1.81	1.75	-0.06
10 Year	2.29	2.21	-0.08
30 Year	2.96	2.87	-0.09

AAA MUNICIPAL YIELDS

Security	04/30/17	05/31/17	Change in Yield
2 Year	1.06	0.98	-0.08
5 Year	1.56	1.38	-0.18
10 Year	2.30	2.09	-0.21
20 Year	2.95	2.79	-0.16
30 Year	3.13	2.94	-0.19

Source: LPL Research, Bloomberg, FactSet 05/31/17

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

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.

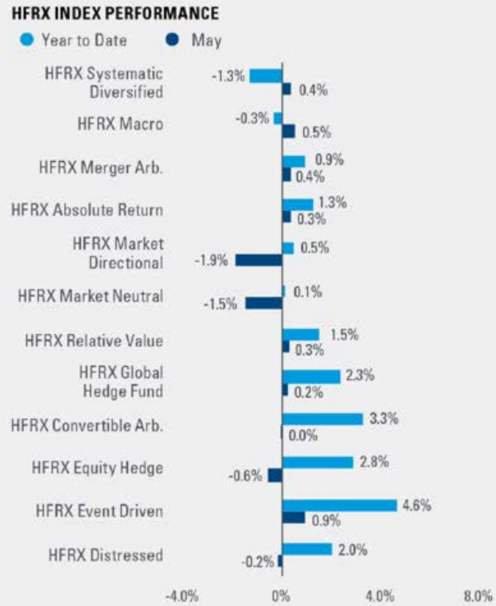
ALTERNATIVES:

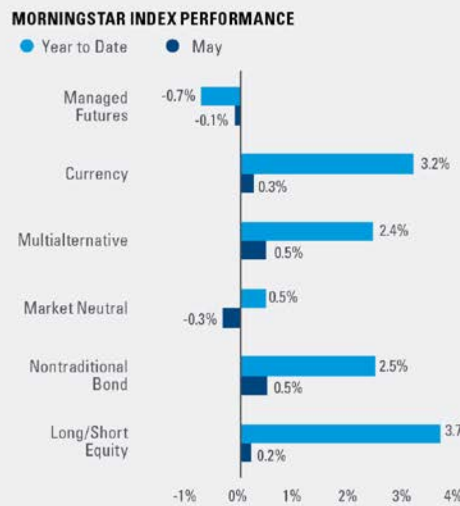
SHORT POSITIONING DETRACTS FROM LONG/SHORT EQUITY PERFORMANCE

May returns in the long/short equity industry disappointed for the first time this year, as the HFRX Equity Hedge Index declined 0.57%, while the S&P 500 gained 1.41%. For the year, this brought long/short returns to 2.85%. The information technology and consumer discretionary sectors continue to drive long positioning gains and represent the largest sector overweights as compared to traditional benchmarks. However, these gains were impacted by short positioning in defensive sectors such as utilities and consumer staples, which gained 4.24% and 2.85%, respectively, during the month. Outside of the technology and consumer discretionary overweights, strategies have also consistently added to their European equity exposure over the course of the year, which has acted as a small tailwind given the strong overseas returns.

Event-driven strategies continue to perform well, as the HFRX Event Driven Index gained 0.93% during the month and has now gained 4.64% for the year. Within the category, special situation managers have fared particularly well, benefiting from a variety of idiosyncratic events such as post-bankruptcy reorganizations, spin-offs, and the use of a variety of activism techniques.

In the macro space, strategies were broadly higher on the month; however, they continue to lag all other alternative investment categories on the year. As measured by the HFRX Systematic Diversified Index, managed futures gained 0.36%. Gains were well-diversified across asset classes, with long equity positioning, short energy related contracts and long Yen and Euro currency holdings against the U.S. dollar all providing gains. While fixed income positioning was roughly flat on the month, it's worth noting that a majority of the intermediate and long-term trend-following models are now positioned with long Treasury exposure across most of the maturity spectrum.





Source: LPL Research, FactSet 05/31/17

Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

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.

STRONG MONTH FOR INTERNATIONAL ASSETS

International real estate and global infrastructure both outpaced the S&P 500, making May a good month for international real asset categories. However, the story was not as good for commodities, master limited partnerships (MLP), or domestic real estate which all fell throughout the month. Overall, non-U.S. assets were buoyed by a weaker U.S. dollar.

MLPs

The Alerian MLP Index fell 4.5% in April, weighed down by lower oil and natural gas prices. Though MLPs have historically not been as sensitive to oil prices as traditional energy stocks, lower oil prices do impact U.S. energy production which translates into MLP price sensitivity. MLPs have not been as sensitive to interest rates recently either and, therefore, did not benefit noticeably from the latest drop in Treasury yields. The Alerian MLP Index has lost a disappointing 2.0% year to date but has held up better than the S&P 500 energy sector which has fallen 12.5% so far in 2017.

REITs & Global Listed Infrastructure

U.S. real estate investment trusts (REIT) suffered a modest loss in May, as lower interest rates and investor interest in more defensive equity sectors were not enough to keep the group positive. Retailer disruption from e-commerce continued to weigh on domestic REIT indexes. Still, the economic and credit backdrop remains generally favorable for U.S. real estate. International real estate fared better, benefiting from the strong environment for broad international equities and the weak dollar. Global infrastructure benefited from those same dynamics, in addition to the global demand for yield.

Commodities

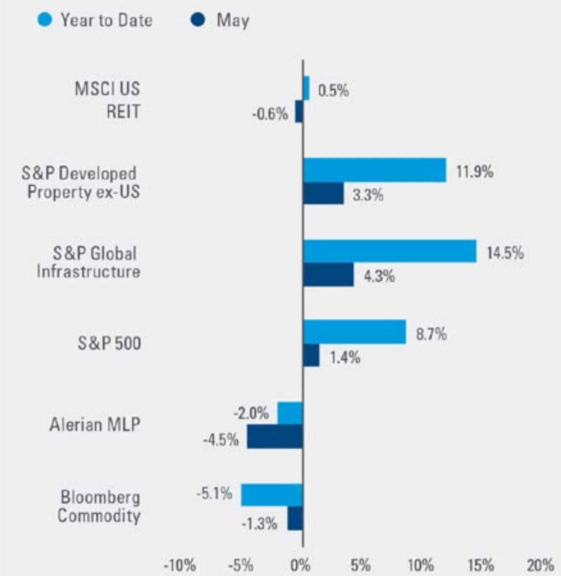
The Bloomberg Commodity Index fell for the third straight month, slipping 1.3% in May and bringing the year-to-date decline to 5.1%. Some commodity tailwinds have been blowing, including a weaker dollar, slow-moving Fed, and OPEC's extension of global production cuts. But with the exception of select agriculture commodities (corn and lean hogs), no commodities were able to produce anything more than a minimal gain in May. Aluminum, corn, gold, and silver were among the commodities in the green for the month, while oil fell 2% on skepticism surrounding whether the global production cut agreement would be enough to balance global supply and demand.

Investing in real estate/REITs involves special risks such as potential illiquidity and may not be suitable for all investors. There is no assurance that the investment objectives of this program will be attained.

Investing in MLPs involves additional risks as compared with the risks of investing in common stock, including risks related to cash flow, dilution, and voting rights.

MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling. MLPs are subject to significant regulation and may be adversely affected by changes in the regulatory environment, including the risk that an MLP could lose its tax status as a partnership. Additional management fees and other expenses are associated with investing in MLP funds.

LIQUID REAL ASSET PERFORMANCE



Source: LPL Research, FactSet 05/31/17