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Advisory Solutions Monthly Update
January 2017

ASSET ALLOCATION UPDATE

- We recommend a mild underweight to Global Equities and overweight to Fixed Income across models.
- Within the equity allocation, we continue to recommend an overweight to non-U.S. developed equity, concentrated in the growth segment.
- Within the fixed income allocation, we recommend an overweight to U.S. TIPS.

EQUITY HIGHLIGHTS

- Global equity markets continued to rise in December as optimism around potential pro-growth policy initiatives such as increased infrastructure spending, financial services deregulation and tax reform helped equities close the year on a high note. International equity markets outperformed U.S. equities in December, driven by strength in international developed markets. Italian, Spanish and German equities were among the top performing market segments. Value led growth during the month, continuing post-election relative strength.
- U.S. equity managers generally struggled to keep pace with their benchmarks in 2016. Strong returns in utilities and real estate created difficulties for active managers during the first half of the year, while a rotation to lower quality cyclical companies was a headwind in the second half of 2016. International managers also underperformed on average during 2016.
- U.S. equites continued to outperform international equities in 2016. The relative performance of U.S. versus international developed markets equites has tended to move in long cycles over time, with an average duration of 72 months. This current cycle of rolling three-year U.S. equity outperformance began 85 months ago, which suggests mean reversion could be on the horizon.

FIXED INCOME HIGHLIGHTS

- Fixed income markets were largely positive during the month of December. Within the opportunity set, high yield was once again the top performer returning 1.85%, followed by emerging market debt, which returned 1.14%. Treasuries produced a negative return, with both nominals and TIPS down 0.11% and 0.10%, respectively. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.14% during the month.
- Over the month of December, the yield on the 10-year U.S. Treasury inched higher, from 2.39% to 2.45%. This comes on the heels of a significant increase in the prior month (following the Presidential election). During December, select international 10-year government bonds yields moved lower.
- Municipal/Treasury yield ratios moved lower over the month. Ratios are now in-line with historical averages across the curve.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields		Rates/Commodities	
Russell Global	8.39%	Barclays US Aggregate	2.65%	60% LgShort-40% MktNeutral	-1.14%	6-month	0.62%	Prime Rate	3.75%
Russell 3000	12.74%	Barclays Gbl Treas xUS Hdg	4.96%	DJ Equity All REIT	8.88%	1-year	0.85%	LIBOR (3 Mo)	1.00%
S&P 500	11.96%	Barclays US TIPS	4.68%	Bloomberg Commodity	11.77%	3-year	1.47%	Oil Price ($/barrel)	$53.72
MSCI EAFE	1.00%	Barclays US High Yield	17.13%			5-year	1.93%	Gold ($/t oz)	$1,151.70
MSCI EM	11.19%	Barclays EM Aggregate	9.88%			10-year	2.45%		
						30-year	3.06%		

Data as of 12.31.2016; Source: Morningstar, FactSet, Russell Investments, Barclays, U.S. Department of Treasury

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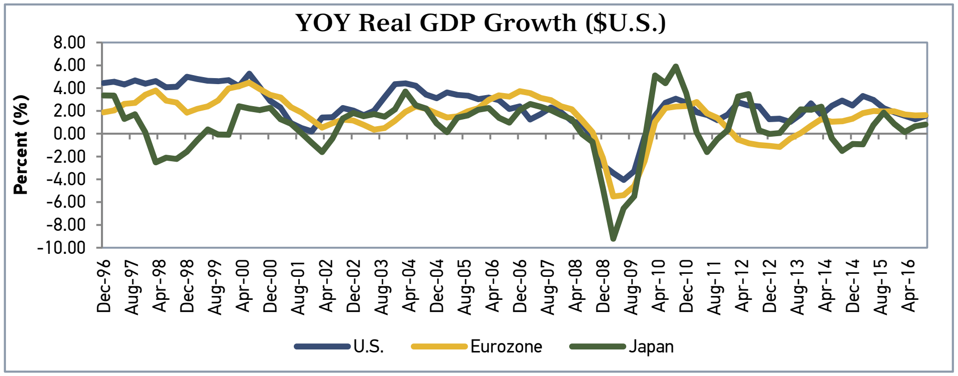
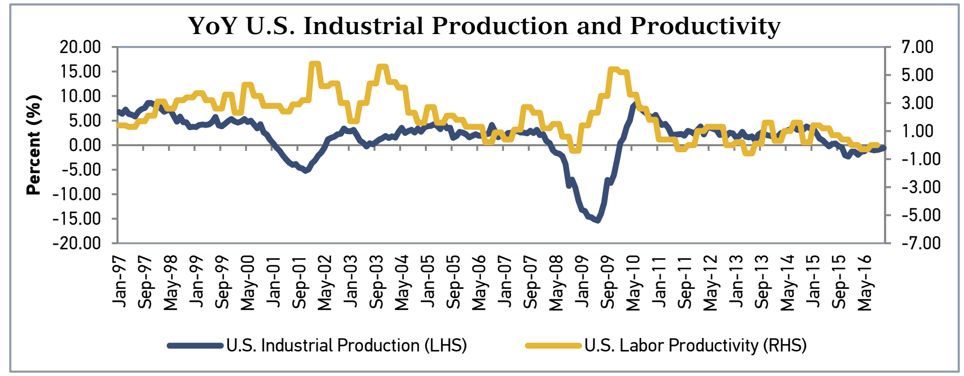
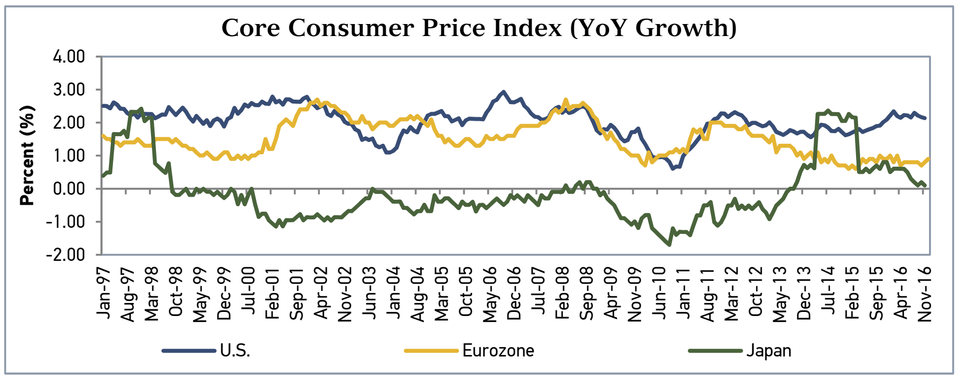
Global Economic Snapshot



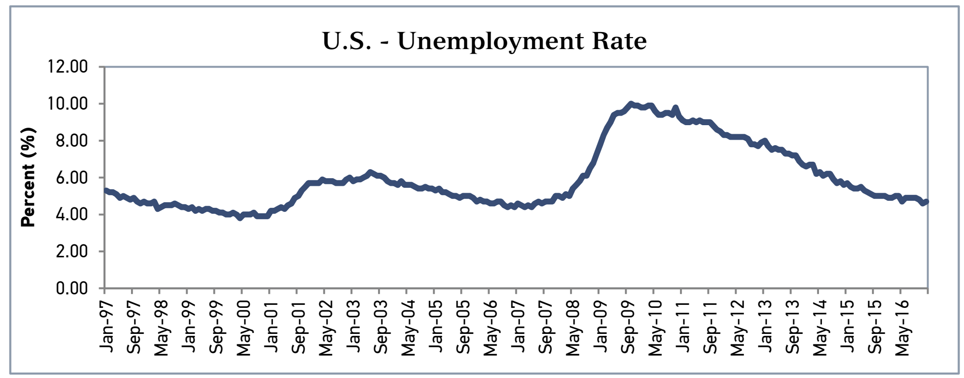
Data as of 09.30.2016; Source: FactSet



Industrial Production as of 11.30.2016; U.S. Labor Productivity as of 09.30.2016; Source: FactSet



U.S. data as of 11.30.2016; Eurozone data as of 12.31.2016. Japan data as of 11.30.2016; Source: FactSet
The sudden increase in Japan CPI growth in 2014 coincided with an increase in national sales tax that impacted final price levels.



Data as of 12.31.2016; Source: FactSet

- U.S. GDP growth improved in the third quarter of 2016 but remains tepid. The Eurozone has closed the growth gap to the U.S. and Japan growth has gradually improved.
- U.S. productivity rebounded somewhat in the third quarter but generally remains low. Without further improvement in productivity, long-term real growth in the U.S. will be low.
- Core inflation has slowly picked up in the U.S., and Eurozone inflation has held steady at low but positive levels. Deflation remains a threat in Japan.
- Tightening U.S. labor markets suggest more inflation pressure that is likely to lead to further Fed rate hikes.

Note: Please see Appendix for important definitions.

U.S. Economic Indicators

Leading

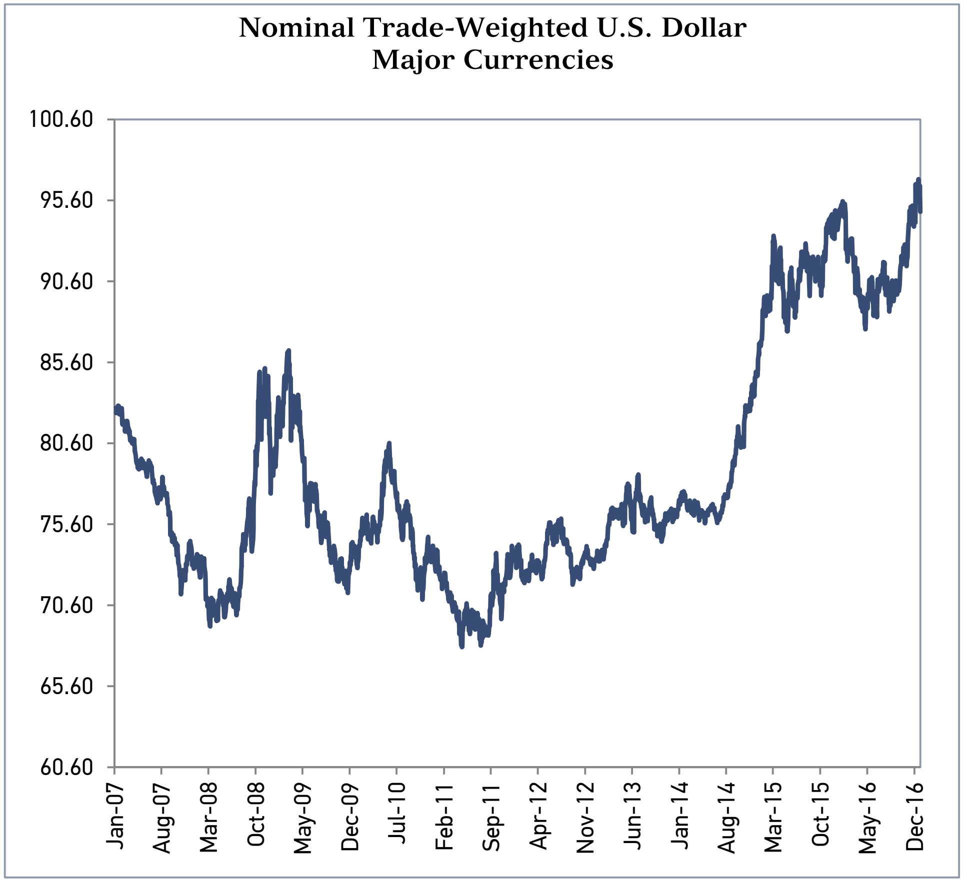
Coincident

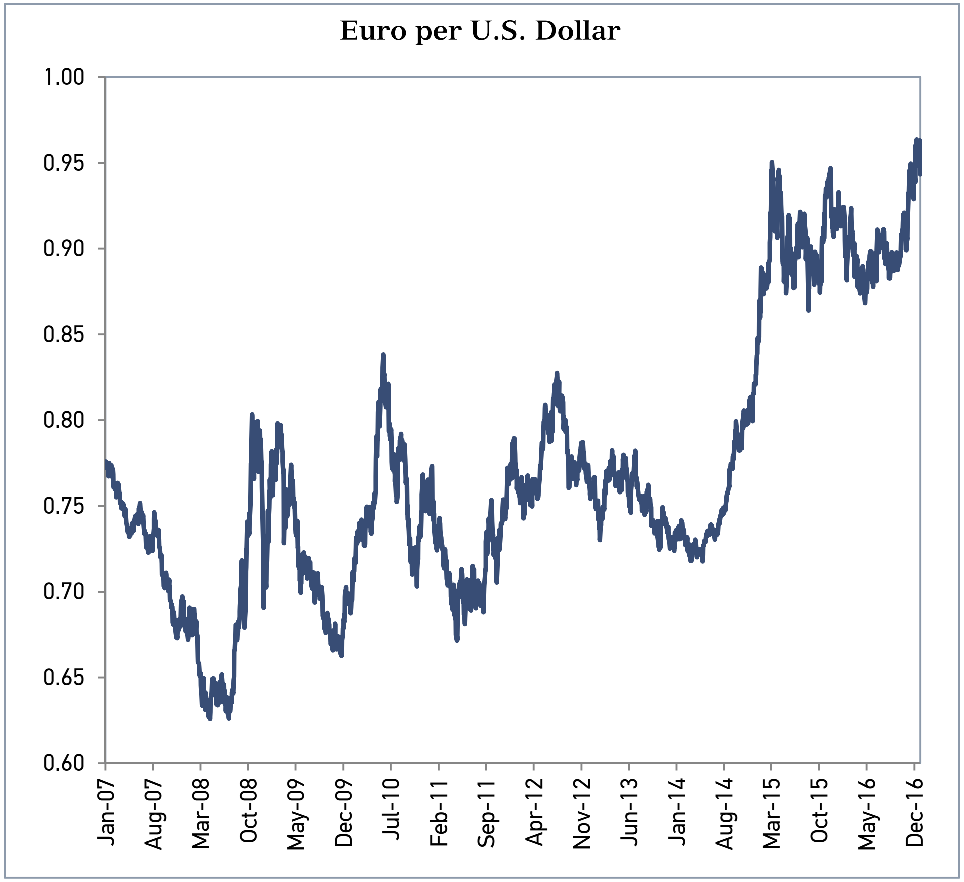
Lagging

Initial Jobless Claims	• In the week ending December 31, the four-week moving average of initial jobless claims was 256,750 – a decrease of 5,750 from the Initial Jobless Claims previous week's revised average.
Manufacturing	• ISM Manufacturing registered 54.7% in December, an increase of 1.5 percentage points from the prior month. A reading below 50.0% indicates contraction. • ISM Manufacturing New Orders registered 60.2% in December, 7.2 percentage points above the November reading. • ISM Non-Manufacturing registered 57.2% in December, unchanged from the prior month's reading.
Housing/Construction	• Building permits decreased 3.8% in November and have decreased 5.7% over the past year.
Consumer Confidence	• The Consumer Confidence Index increased in December to 113.7 compared to 109.4 in November.
Nonfarm Payrolls	• Total nonfarm payroll employment increased by 156,000 in December. The unemployment rate was little changed at 4.7%.
Industrial Production	• Industrial Production declined 0.4 % in November and is down -0.6% over the past year.
Personal Income	• Real Disposable Personal Income decreased 0.1% in November, and is up 2.3% over the past year.
Ratio of Consumer Installment Credit to Personal Income	• This ratio rose 0.6% in October, and is up 2.8% year-over-year. Consumer borrowing tends to lag improvements in personal income by many months because people remain hesitant to take on new debt until they are sure that their improved income level is sustainable.
Inflation	• CPI (All Items) rose 0.2% in November and is up 1.7% over the trailing one year period. CPI (Core) increased 0.15% in November, and is up 2.1% over the trailing one-year period.

Source: FactSet

Currency





- The Traded-Weighted U.S. Dollar Index (Major Currencies) rose 0.5% in December and the index is up 1.6% year-to-date. The dollar appreciated 0.6% versus the euro in December.

Data as of 01.05.2017; Source: FactSet

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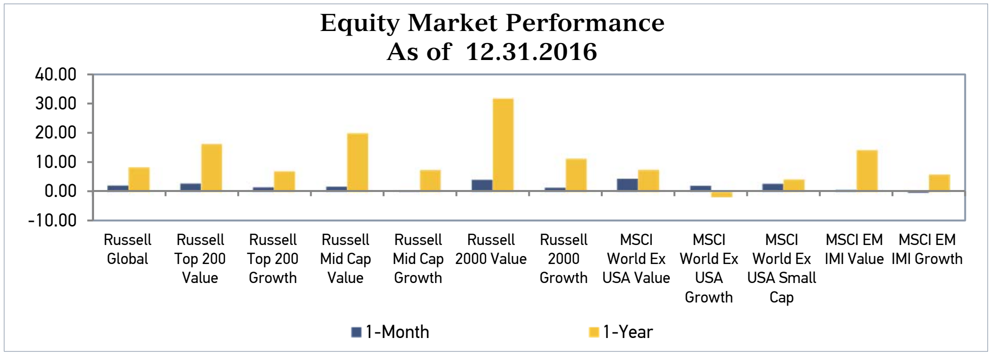
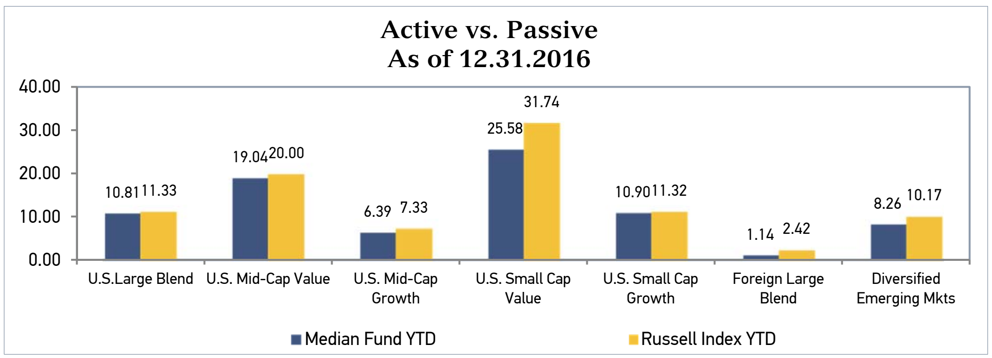
Global Equity Markets



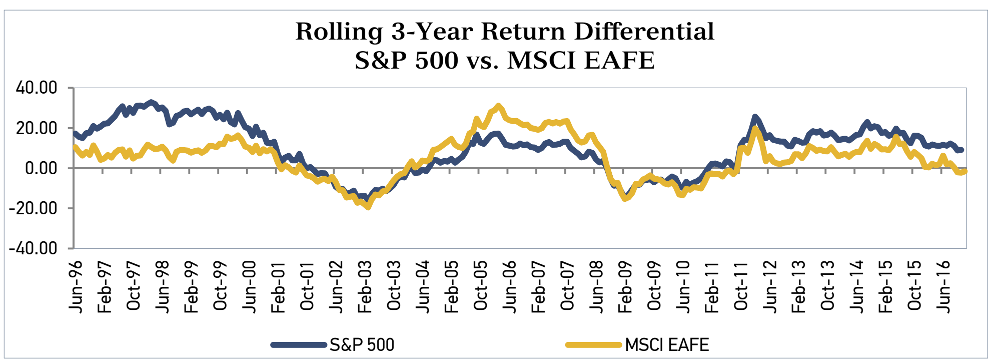
Source: Morningstar, Russell Investments

- Global equity markets continued to rise in December as optimism around potential pro-growth policy initiatives such as increased infrastructure spending, financial services deregulation and tax reform helped equities close the year on a high note. International equity markets outperformed U.S. equities in December, driven by strength in international developed markets. Italian, Spanish and German equities were among the top performing market segments. Value led growth during the month, continuing post-election relative strength.



Source: Morningstar, Russell Investments
Median return of Morningstar open-end fund category (institutional share class). Russell return of U.S. categories.

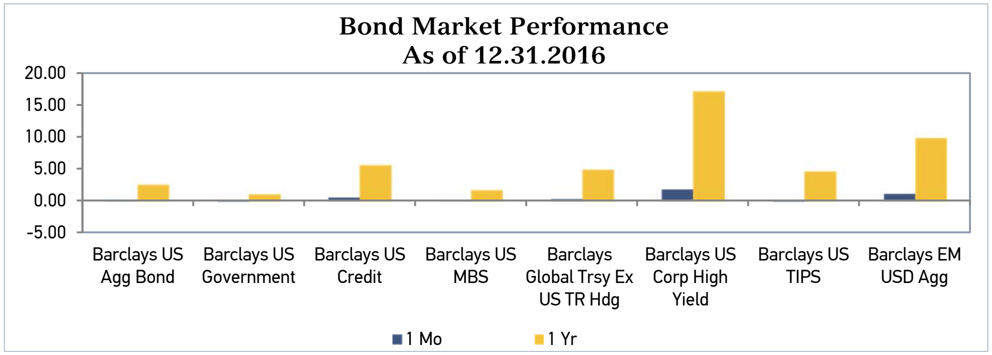
- U.S. equity managers generally struggled to keep pace with their benchmarks in 2106, especially in the small cap value segment where lower quality cyclicals generally outperformed during the year. Overall, strong returns in utilities and real estate created difficulties for active managers during the first half of the year, while a rotation to lower quality cyclical companies was a headwind in the second half of 2016. International managers also underperformed on average during 2016.



Data as of 12.31.2016; Source: Morningstar

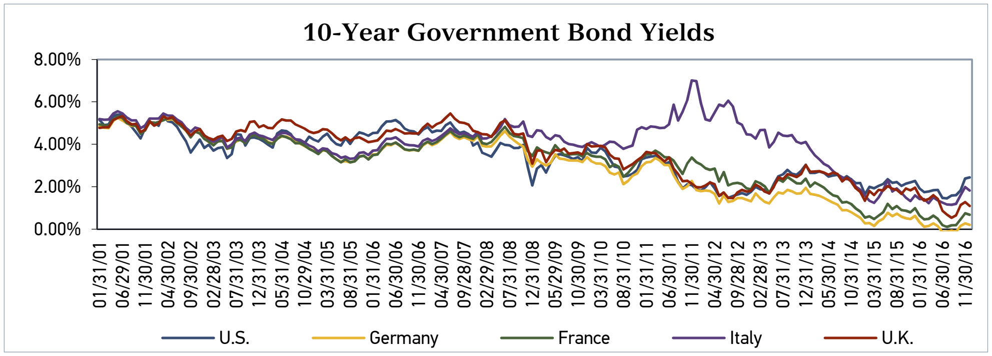
- U.S. equites continued to outperform international equities in 2016. While relative performance for emerging markets equites improved during the year, international developed market equity returns, driven partially by a strengthening U.S. dollar, underperformed by a fairly wide margin. The relative performance of U.S. versus international developed markets equites has tended to move in long cycles over time, with an average duration of 72 months. This current cycle of rolling three-year U.S. equity outperformance began 85 months ago, which suggests mean reversion could be on the horizon.

Fixed Income Markets



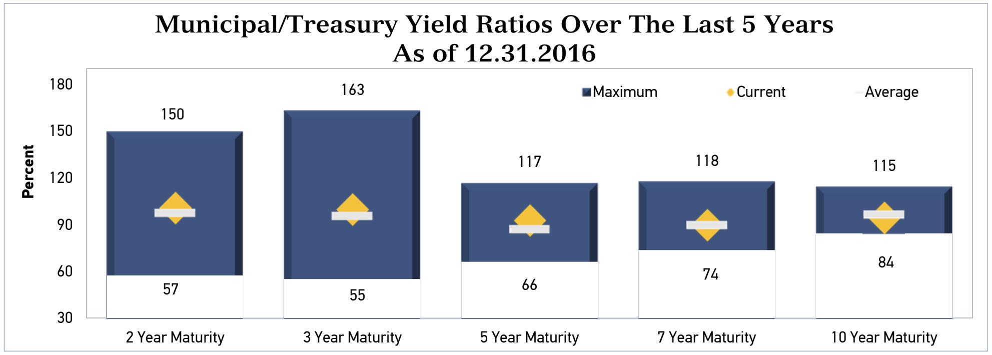
Source: Morningstar, Barclays

- Fixed income markets were largely positive during the month of December. Within the opportunity set, high yield was once again the top performer returning 1.85%, followed by emerging market debt, which returned 1.14%. Treasuries produced a negative return, with both nominals and TIPS down 0.11% and 0.10%, respectively. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned 0.14% during the month.



Data as of 12.31.2016; Source: FactSet

- Over the month of December, the yield on the 10-year U.S. Treasury inched higher, from 2.39% to 2.45%. This comes on the heels of a significant increase in the prior month (following the Presidential election). During December, select international 10-year government bonds yields moved lower.



Source: Thompson Reuters; Sterling Capital Management Analytics.

- Municipal/Treasury yield ratios moved lower over the month. Ratios are now in-line with historical averages across the curve.

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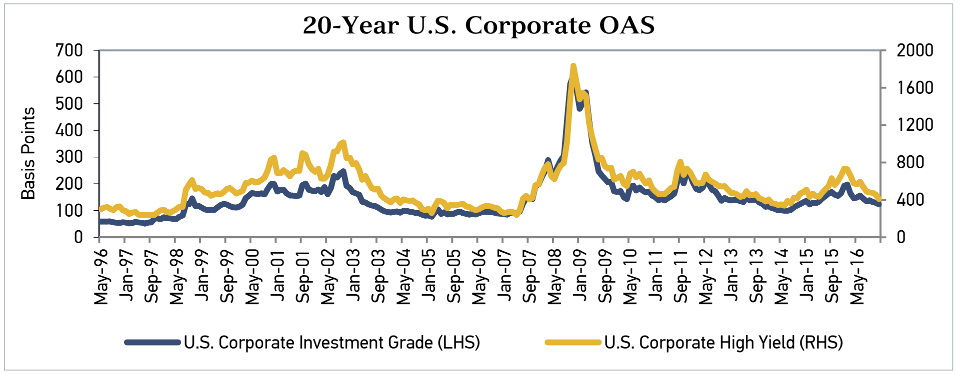
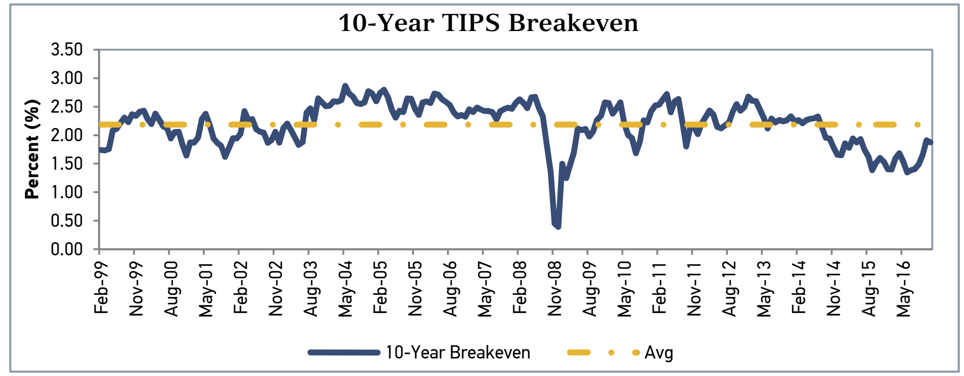
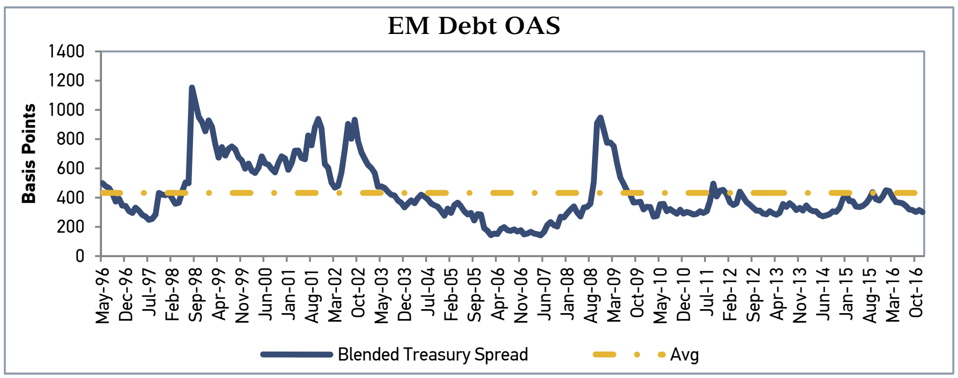
Fixed Income Spreads and TIPS Breakeven



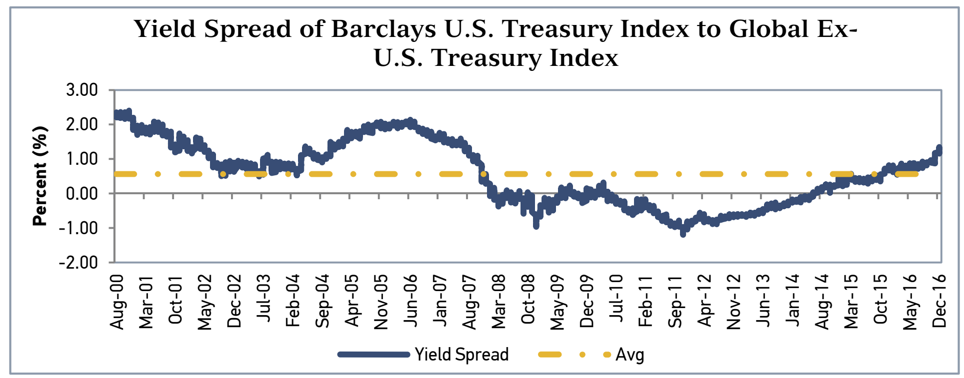
Data as of 12.31.2016; Source: FactSet



Data as of 12.31.2016; Source: Federal Reserve Board of Governors



Data as of 12.31.2016; Source: Barclays



Data as of 12.31.2016; Source: Barclays

- Corporate credit spreads have continued to decline from the wide levels of early 2016 and are below historical averages.
- Market inflation expectations as measured by TIPS breakeven rates have increased significantly in recent months but remain below both historical averages and the trailing one-year core inflation rate.
- Emerging market spreads have moved below their historical average, while the yield spread of U.S. to Global Treasuries has moved slightly above the historical average.

Note: Please see Appendix for important definitions.

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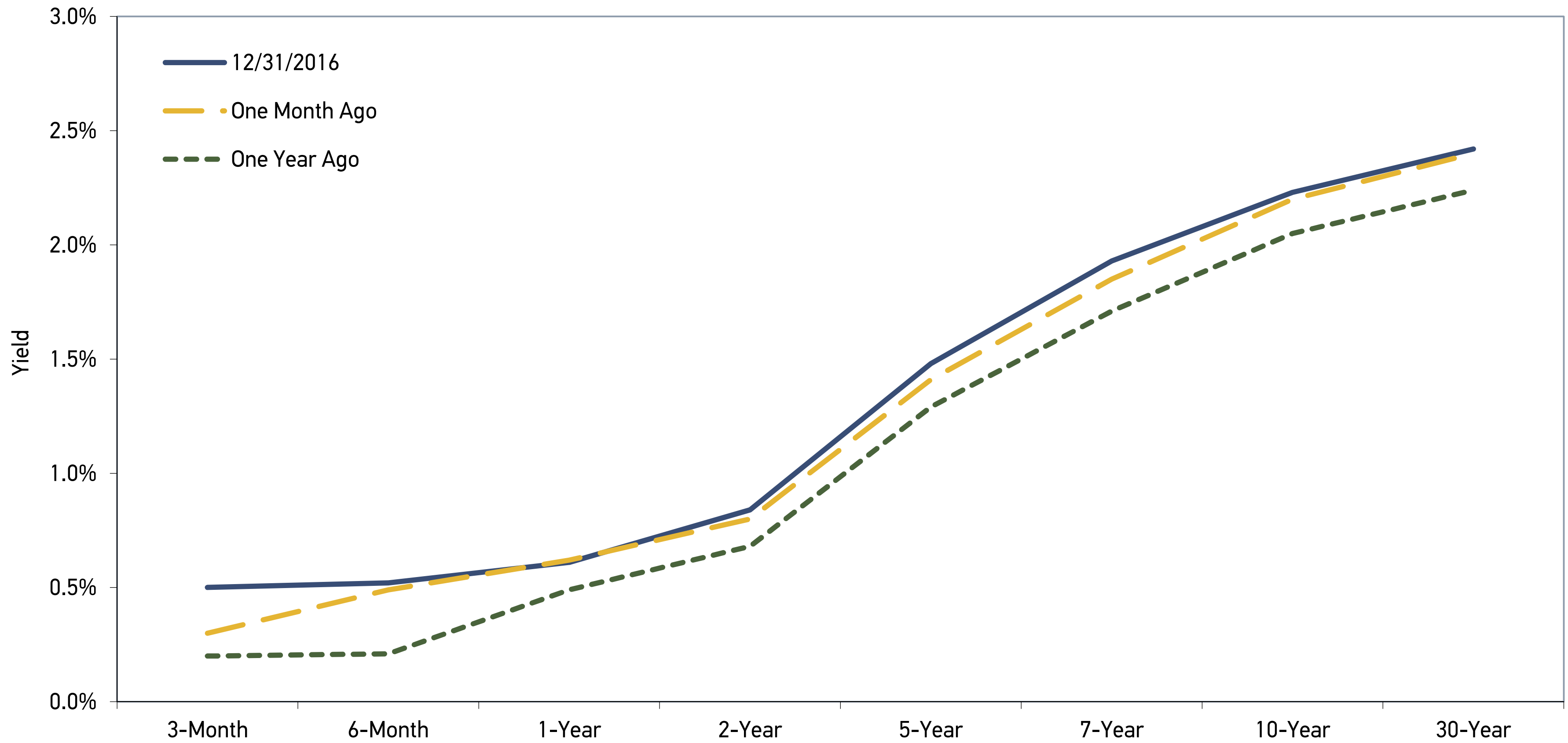
U.S. Treasury Yield Curve



- Month-over-month, yields were mostly higher across the curve with the front-end seeing the largest increase.

Data as of 12.31.2016; Source: FactSet

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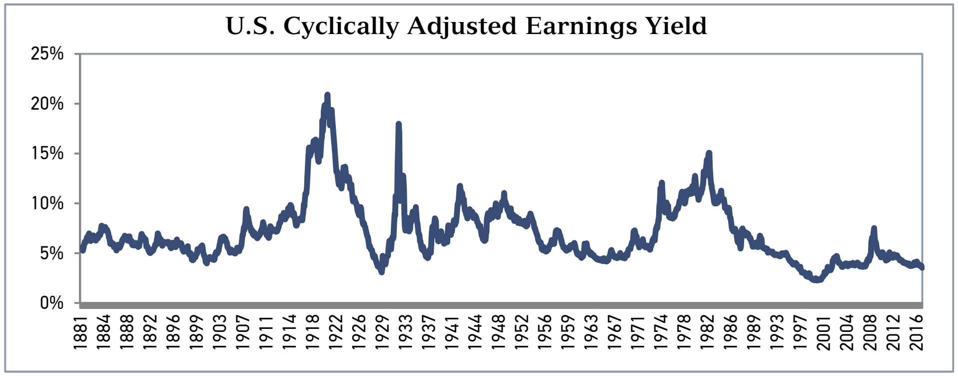
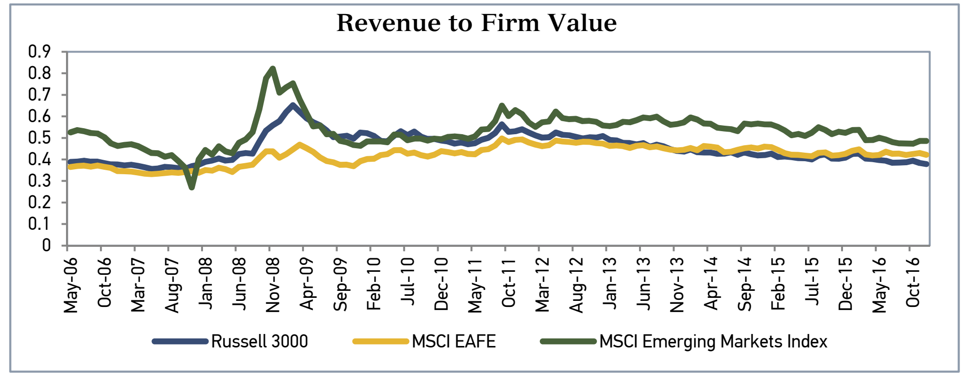
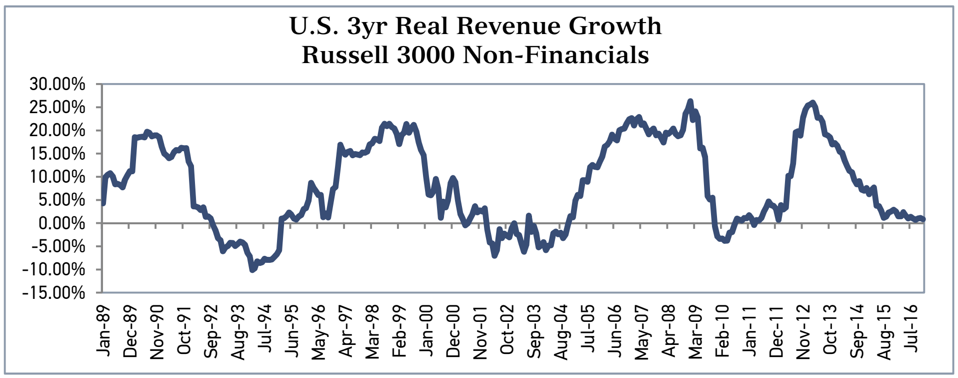
Global Equity Market Fundamentals



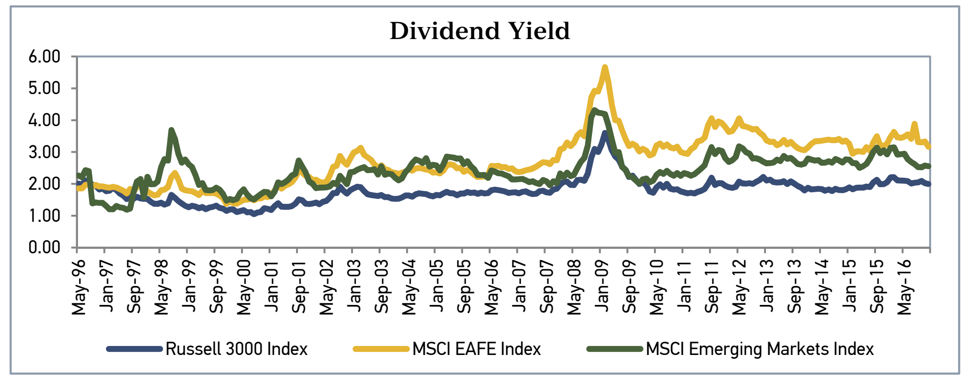
Data as of 12.31.2016; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"



Data as of 12.31.2016; Source: Russell, MSCI



Data as of 12.31.2016; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics



Data as of 12.31.2016; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield continues to slowly decline and is well below longer-term averages, while real U.S. sales growth continues to be weak.
- Revenue to firm value in the U.S. has moved below international developed markets. The emerging markets' ratio is only slightly higher than developed markets.
- International developed equities provide a significant dividend yield advantage over emerging market and U.S. equities.

Note: Please see Appendix for important definitions.

Appendix

Definitions

Core Consumer Price Index: Core inflation is a measure of inflation that excludes certain items, usually food and energy, that face volatile price movements.

Option Adjusted Spread (OAS): A bond's yield spread over comparable maturity government bonds, adjusted for any embedded options.

Real GDP: Real gross domestic product (GDP) is an inflation-adjusted measure that reflects the value of all goods and services produced by an economy in a given year, expressed in base-year prices.

Revenue to Firm Value: Total Index Revenues of the past 12 months divided by the sum of equity market value and the value of total debt. This is a measure of total sales generated on the total value (debt plus equity) of firms in the index.

TIPS Breakeven: The inflation rate implied by the spread in yield between U.S. TIPS (Treasury Inflation Protected Securities) and nominal U.S. Government Bonds of equal maturity.

U.S. 3 yr. Real Revenue Growth, Russell 3000 Non-Financials: For the Russell 3000 excluding financial firms, the percentage change in trailing 12-month inflation adjusted revenue over 12-month inflation adjusted revenue three years prior.

U.S. Cyclically Adjusted Earnings Yield: The 10-year average of annual, inflation adjusted earnings divided by the current inflation adjusted price of the S&P 500 index. This measure is the inverse of the Shiller CAPE Ratio.

YOY US Productivity Growth: The year-over-year growth in real U.S. output produced per hour worked for non-farm workers.

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