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Advisory Solutions Monthly Update
July 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 equities rose for the eighth consecutive month in June despite a slight uptick in volatility later in the month. U.S. equities outperformed international equities in June, led by relative strength in small-caps. After underperforming throughout much of 2017, value outpaced growth in the across all market capitalizations in the U.S. and international developed markets. In the U.S., health care and financials were the top performing sectors, while technology experienced a pullback after posting substantial gains during the first five months of 2017. Emerging markets continued to post strong gains during the month, led by strong performance from growth companies in China.
- The environment for active managers has improved substantially in 2017, especially in the international developed markets and emerging markets categories. Intra-stock correlation, which began to fall in mid-2016 and has remained relatively low during in 2017, has been a tailwind for active managers.
- U.S. equities have outperformed international equites by a substantial margin since the financial crisis. 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 roughly 73 months. This current cycle of rolling three-year U.S. equity outperformance began 91 months ago, which suggests mean reversion could be on the horizon. International equities have outperformed U.S. equities in 2017 as compelling relative valuations and improving economic data in key international markets have attracted investor interest.

FIXED INCOME HIGHLIGHTS

- Fixed income markets had mixed results during the month of June. Within the opportunity set, corporate credit led the way with investment grade and high yield debt as the top performers, returning 0.26% and 0.14%, respectively. Government related bonds as well as foreign debt (both developed and emerging market) posted negative returns for the month. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned -0.10% during the month.
- Over the month, select 10-year government bond yields largely moved higher, led by the U.K. and Germany. One outlier was Italy, as the yield on its 10-year government bond declined by three basis points. The 10-year U.S. Treasury yield increased from 2.21% to 2.31%.
- Municipal/Treasury yield ratios moved higher over the month of June with larger increases occurring in shorter-dated maturities. Ratios remain below historical averages.

Stock Indexes	YTD	Bond Indexes	YTD	Other Indexes	YTD	U.S. Treasury Yields		Rates/Commodities	
Russell Global	11.30%	Barclays US Aggregate	2.27%	60% LgShort-40% MktNeutral	3.35%	6-month	1.14%	Prime Rate	4.00%
Russell 3000	8.93%	Barclays Gbl Treas xUS Hdg	0.35%	DJ Equity All REIT	4.93%	1-year	1.24%	LIBOR (3 Mo)	1.30%
S&P 500	9.34%	Barclays US TIPS	0.85%	Bloomberg Commodity	-5.26%	3-year	1.55%	Oil Price ($/barrel)	$46.04
MSCI EAFE	13.81%	Barclays US High Yield	4.93%			5-year	1.89%	Gold ($/t oz)	$1,242.30
MSCI EM	18.43%	Barclays EM Aggregate	5.11%			10-year	2.31%		
						30-year	2.84%		

Data as of 06.30.2017; Source: Morningstar, FactSet, Russell Investments, Barclays, U.S. Department of Treasury

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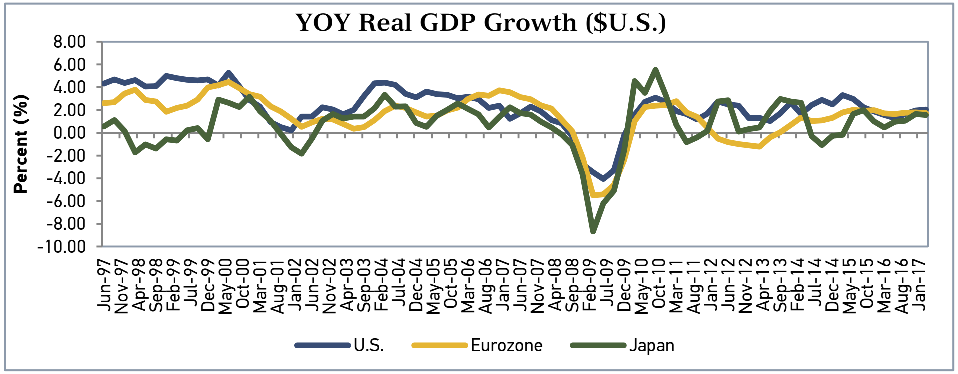
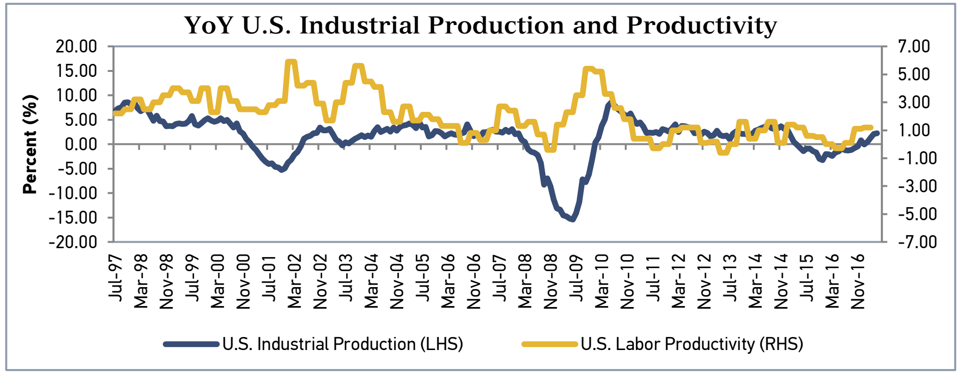
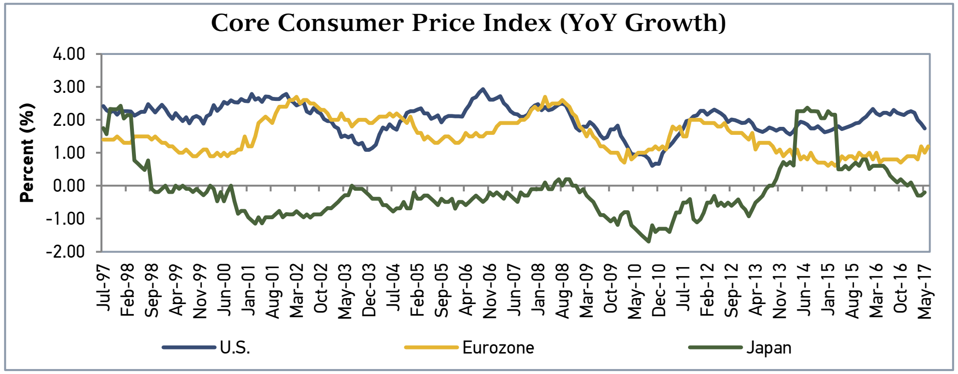
Global Economic Snapshot



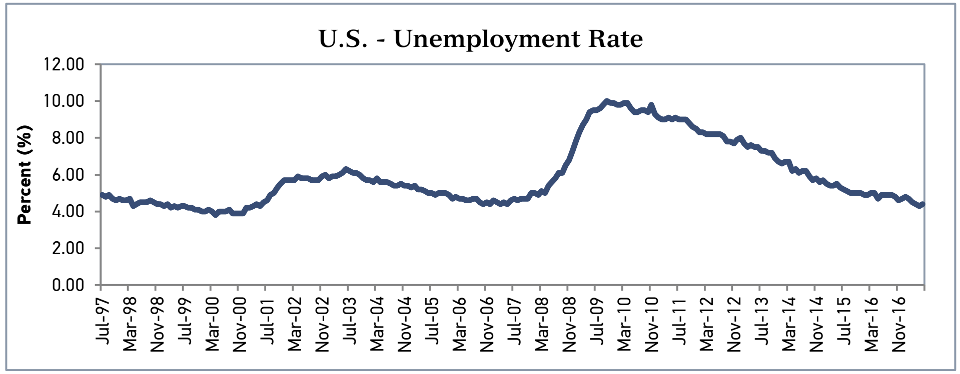
Japan data as of 03.31.2017. U.S. and Eurozone data as of 03.31.2017; Source: FactSet



Industrial Production as of 05.31.2017. Labor Productivity as of 03.31.2017; Source: FactSet



U.S. and Japan as of 05.31.2017. Eurozone as of 06.30.2017; 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 06.30.2017; Source: FactSet

- Similar to prior years, first quarter U.S. GDP was disappointingly slow, but is expected to improve during the remainder of the year. YOY global growth rates have converged across economies at a slow but positive level.
- U.S. productivity growth was flat in the first quarter, but the year-over-year rate held steady at 1.2%. Improvement in productivity is essential to drive long-term real growth.
- Despite a recent soft spot, tightening labor conditions in the US and improved growth in the Eurozone should keep the slow upward trend in inflation in both regions intact. Japan inflation has eased into negative territory.
- Current U.S. Unemployment of 4.4% matches the pre-crisis low in 2007 and is likely to keep the Fed on a gradual tightening path.

Note: Please see Appendix for important definitions.

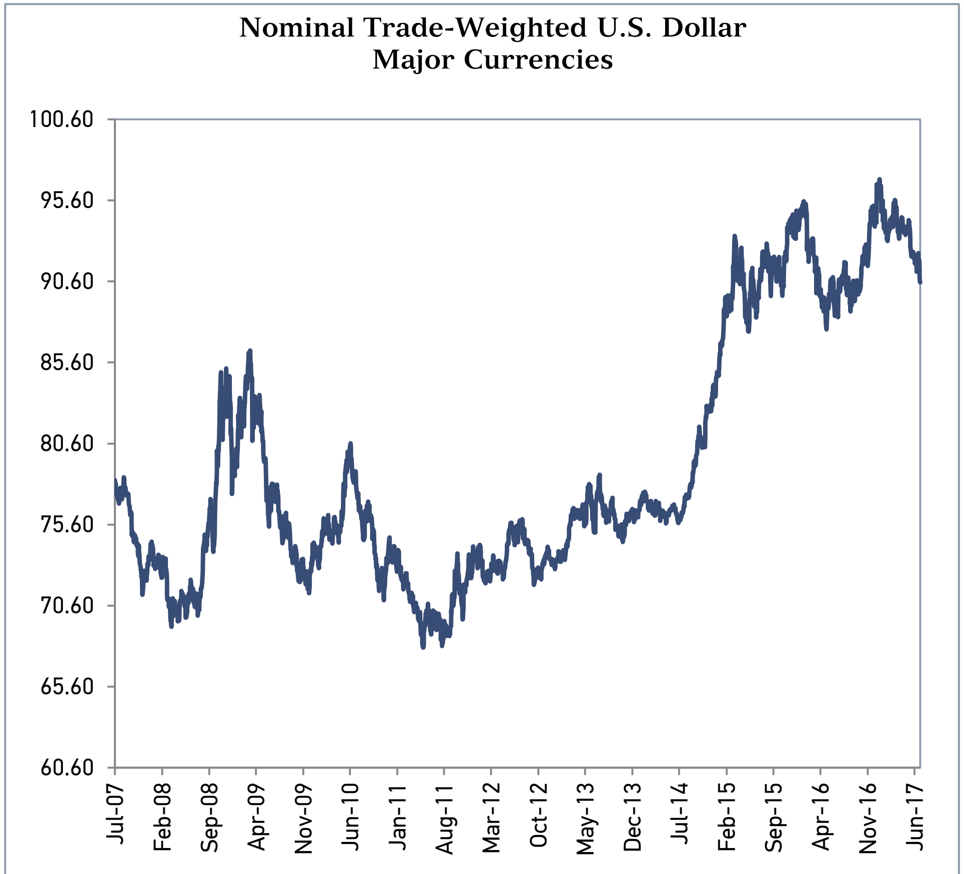
U.S. Economic Indicators

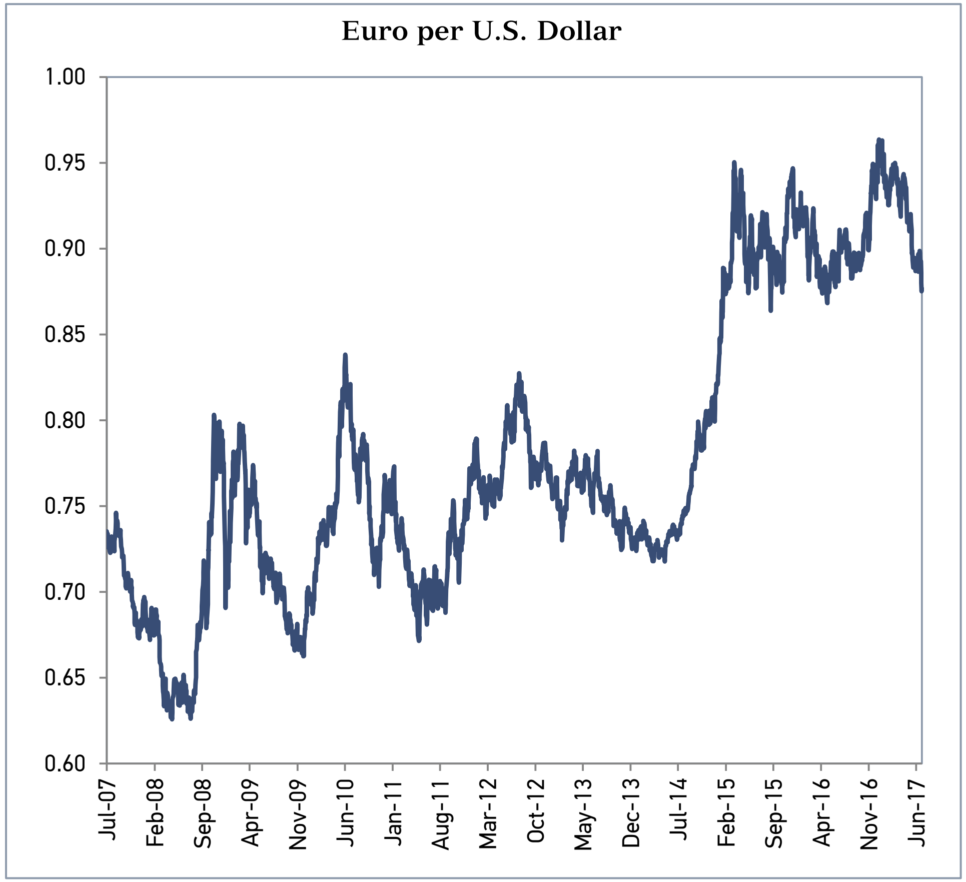
Leading → Coincident → Lagging

Initial Jobless Claims	• In the week ending July 1, the four-week moving average of Initial Jobless Claims was 243,000, an increase of 750 from the previous week's unrevised average.
Manufacturing	• ISM Manufacturing registered 57.8% in June, 2.9 percentage points above the May reading. A reading below 50.0% indicates contraction. • ISM Manufacturing New Orders registered 63.5% in June, 4.0 percentage points above the May reading. • ISM Non-Manufacturing registered 57.4% in June, a 0.5 percentage point above the May reading.
Housing/Construction	• Building permits decreased 4.9% in May and have decreased 0.8% over the past year.
Consumer Confidence	• The Consumer Confidence Index increased in June to 118.9 compared to 117.6 in May.
Nonfarm Payrolls	• Total nonfarm payroll employment increased by 222,000 in June. The unemployment rate was little changed at 4.4%.
Industrial Production	• Industrial Production was unchanged in May and is up 2.2% over the past year.
Personal Income	• Real Disposable Personal Income increased 0.6% in May, and is up 2.2% over the past year.
Ratio of Consumer Installment Credit to Personal Income	• This ratio remained unchanged in April, and is up 2.2% 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) fell 0.1% in May and is up 1.9% over the trailing one year period. CPI (Core) rose 0.1% in May, and is up 1.7% over the trailing one-year period.

Source: FactSet

Currency





- The Trade-Weighted U.S. Dollar Index (Major Currencies) fell -1.7% in June and the index is down -5.5% year-to-date. The dollar depreciated -1.4% versus the euro in June.

Data as of 06.30.2017; Source: FactSet

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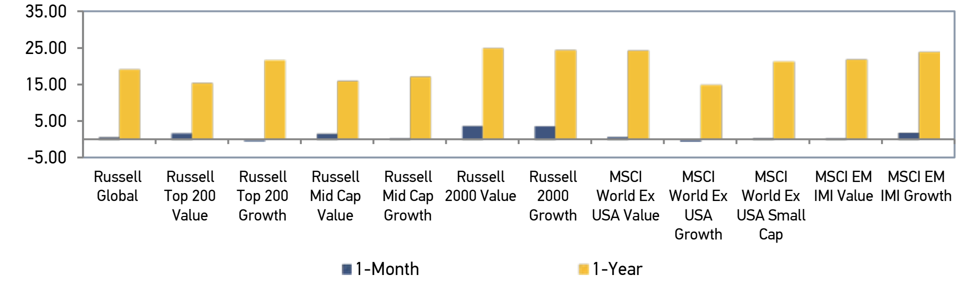
Global Equity Markets

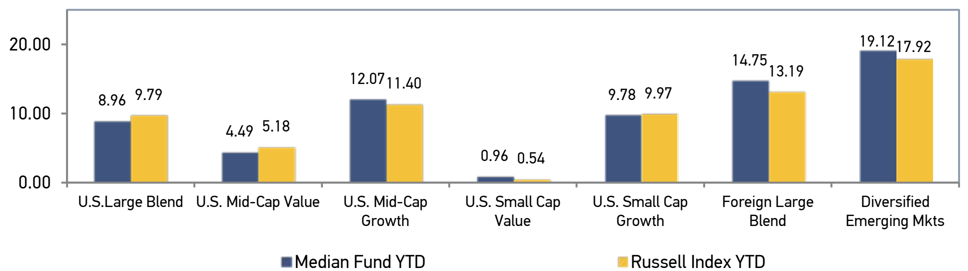
Equity Market Performance
As of 6.30.2017



Source: Morningstar, Russell Investments

- Global equities rose for the eighth consecutive month in June despite a slight uptick in volatility later in the month. U.S. equities outperformed international equities in June, led by relative strength in small-caps. After underperforming throughout much of 2017, value outpaced growth in the across all market capitalizations in the U.S. and international developed markets. In the U.S., health care and financials were the top performing sectors, while technology experienced a pullback after posting substantial gains during the first five months of 2017. Emerging markets continued to post strong gains during the month, led by strong performance from growth companies in China.

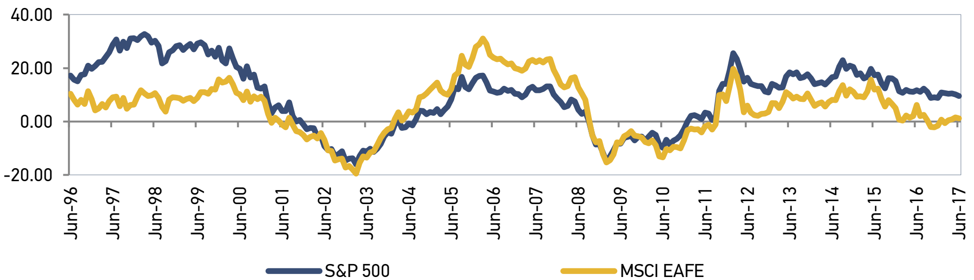
Active vs. Passive
As of 6.30.2017



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

- The environment for active managers has improved substantially in 2017, especially in the international developed markets and emerging markets categories. Intra-stock correlation, which began to fall in mid-2016 and has remained relatively low during in 2017, has been a tailwind for active managers.

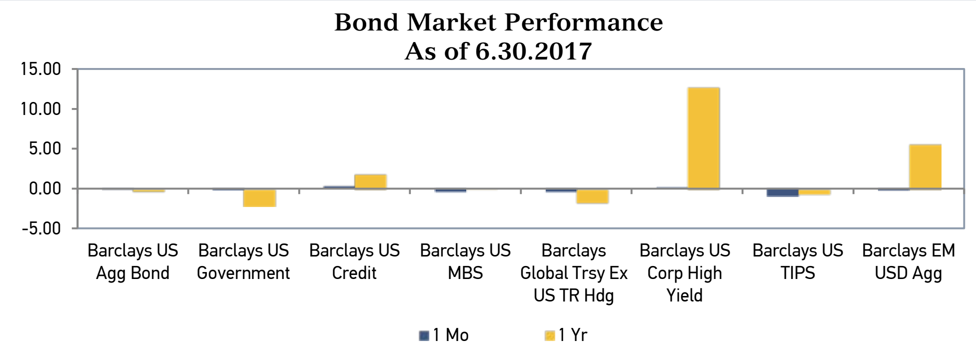
Rolling 3-Year Return Differential
S&P 500 vs. MSCI EAFE



Data as of 05.31.2017; Source: Morningstar

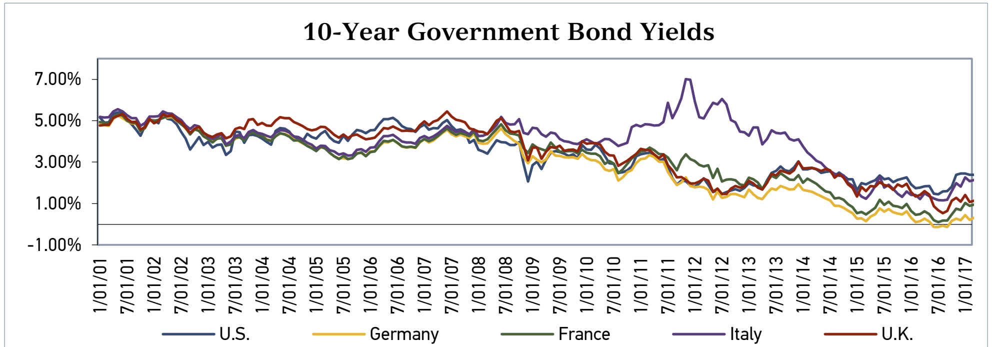
- U.S. equities have outperformed international equites by a substantial margin since the financial crisis. The relative performance of U.S. versus international developed markets equites has tended to move in long cycles over time, with an average duration of roughly 73 months. This current cycle of rolling three-year U.S. equity outperformance began 91 months ago, which suggests mean reversion could be on the horizon. International equities have outperformed U.S. equities by a wide margin in 2017 as compelling relative valuations and improving economic data in key international markets have attracted investor interest.

Fixed Income Markets



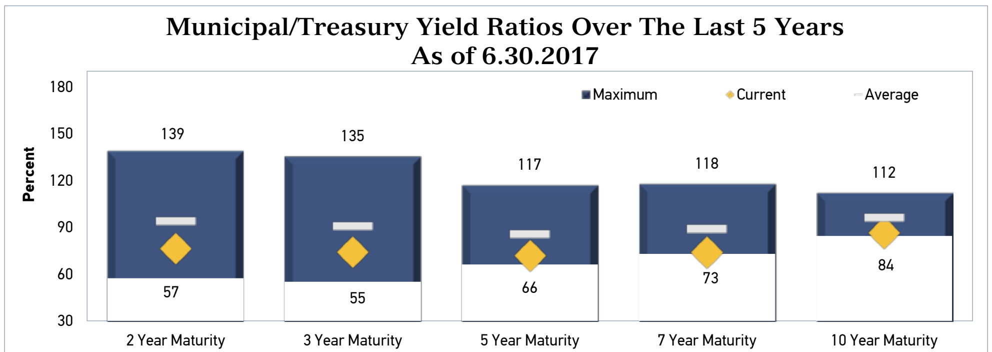
Source: Morningstar, Barclays

- Fixed income markets had mixed results during the month of June. Within the opportunity set, corporate credit led the way with investment grade and high yield debt as the top performers, returning 0.26% and 0.14%, respectively. Government related bonds as well as foreign debt (both developed and emerging market) posted negative returns for the month. The Bloomberg Barclays U.S. Aggregate Bond Index, a proxy for the overall bond market, returned -0.10% during the month.



Data as of 05.31.2017; Source: FactSet, U.S. Department of Treasury

- Over the month, select 10-year government bond yields largely moved higher, led by the U.K. and Germany. One outlier was Italy, as the yield on its 10-year government bond declined by three basis points. The 10-year U.S. Treasury yield increased from 2.21% to 2.31%.



Source: Thompson Reuters; Sterling Capital Management Analytics.

- Municipal/Treasury yield ratios moved higher over the month of June with larger increases occurring in shorter-dated maturities. Ratios remain below historical averages.

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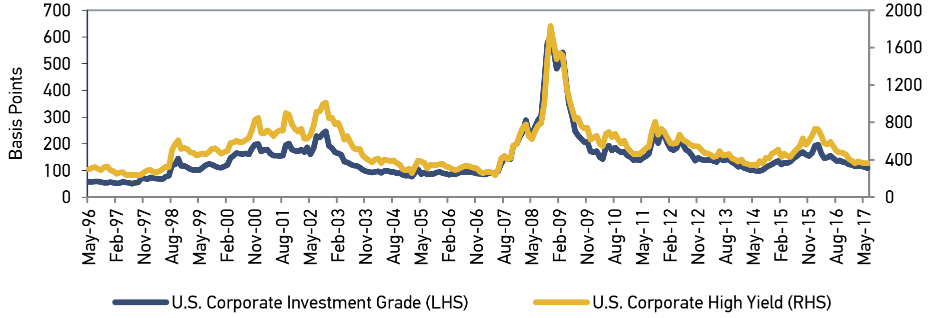
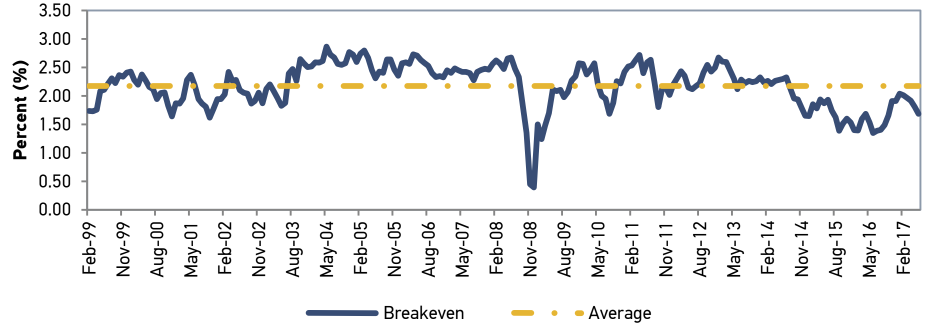
Fixed Income Spreads and TIPS Breakeven

20-Year U.S. Corporate OAS



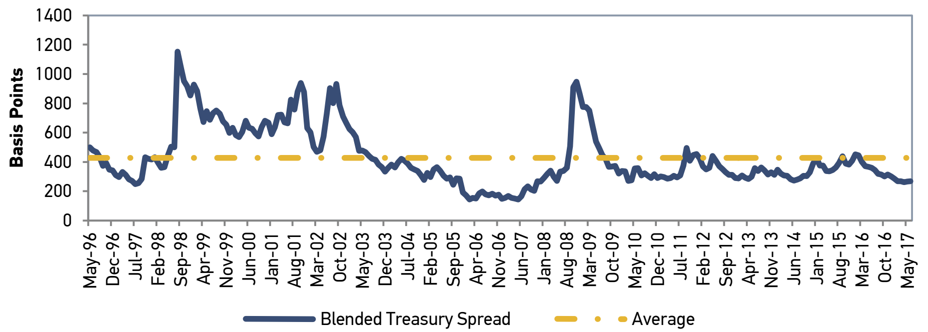
Data as of 06.30.2017; Source: FactSet

10-Year TIPS Breakeven



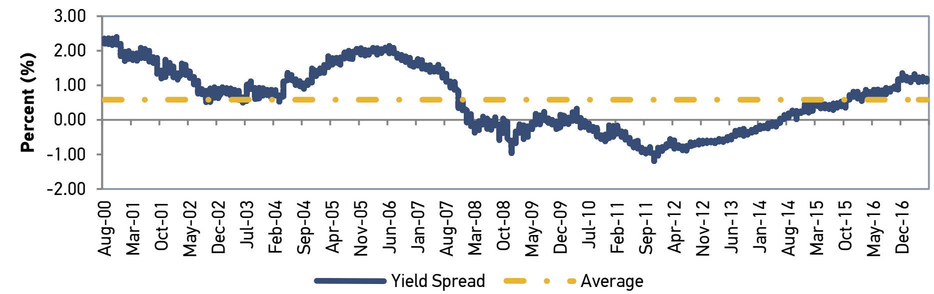
Data as of 06.30.2017; Source: Federal Reserve Board of Governors

EM Debt OAS



Data as of 06.30.2017; Source: Barclays

Yield Spread of Barclays U.S. Treasury Index to Global Ex-U.S. Treasury Index

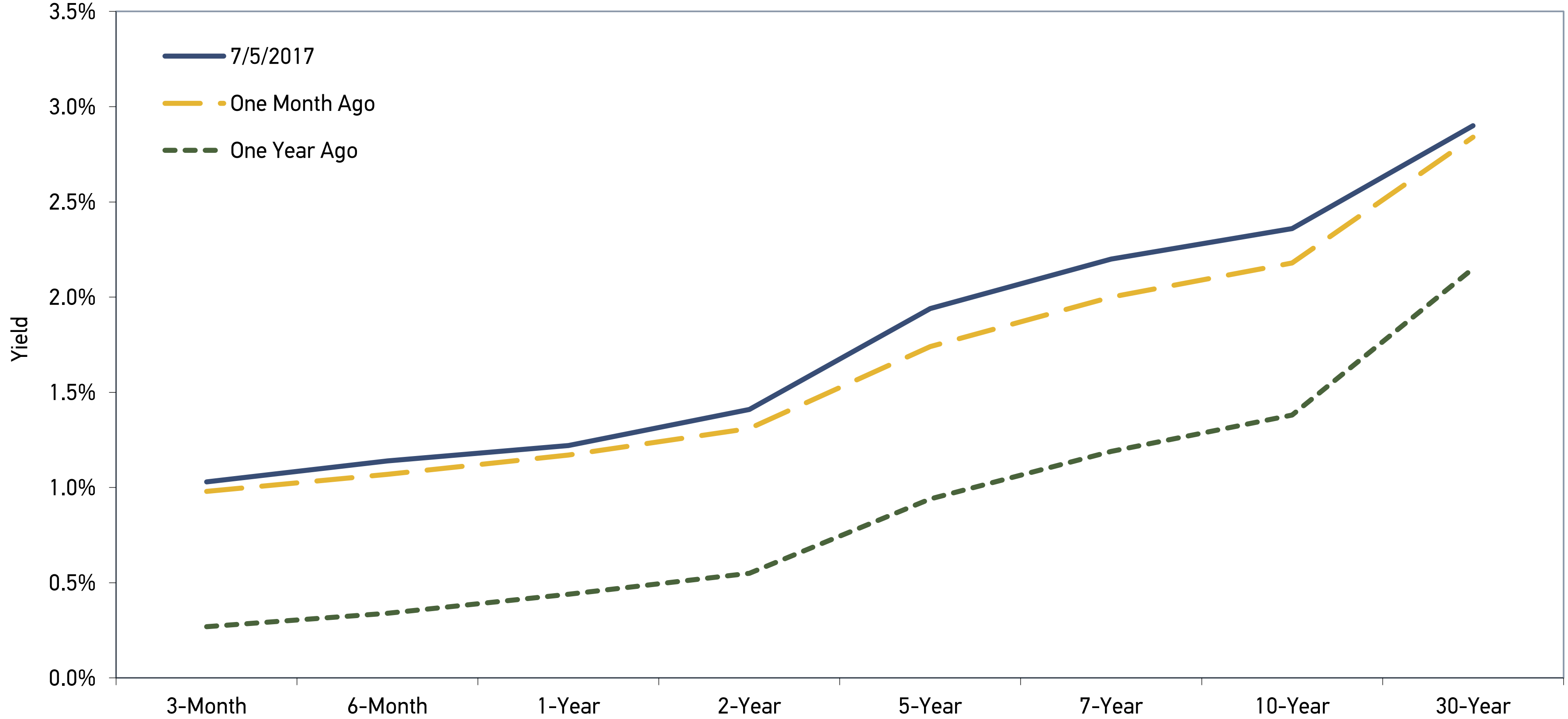


Data as of 06.30.2017; Source: Barclays

- Investment grade corporate credit spreads declined slightly in June and remain well below historical averages. High yield spreads were virtually unchanged for the month.
- Market inflation expectations as measured by TIPS breakeven rates fell significantly in June and are below long run averages.
- Emerging market spreads moved slightly higher in June but remain well below historical averages, while the yield spread of U.S. to Global Treasuries has moved above the historical average.

Note: Please see Appendix for important definitions.

U.S. Treasury Yield Curve

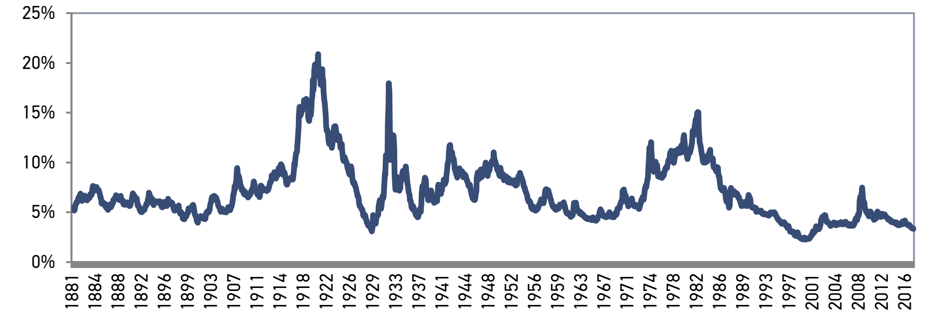


- Month-over-month, yields moved higher across the curve with the largest increases occurring in the belly of the curve.

Data as of 07.05.2017; Source: FactSet

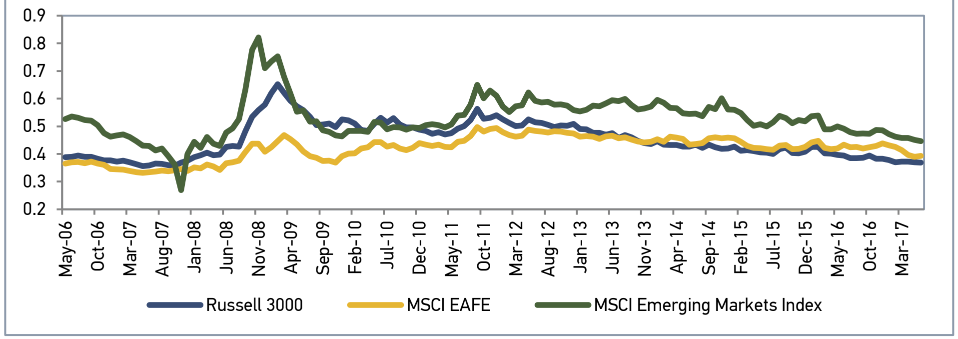
Global Equity Market Fundamentals

U.S. Cyclically Adjusted Earnings Yield



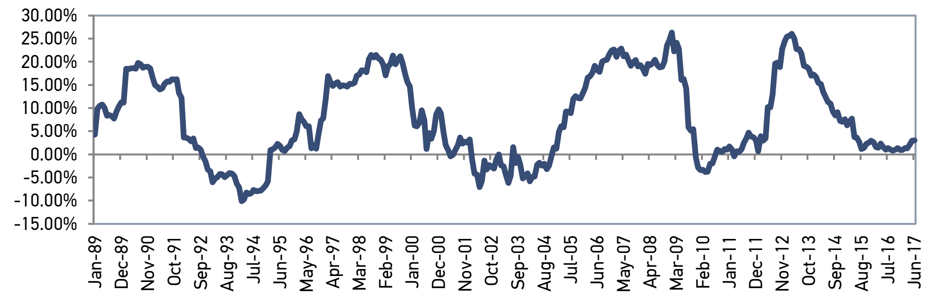
Data as of 06.30.2017; Source: Online Data Robert Shiller "US Stock Markets 1871-Present and CAPE Ratio"

Revenue to Firm Value



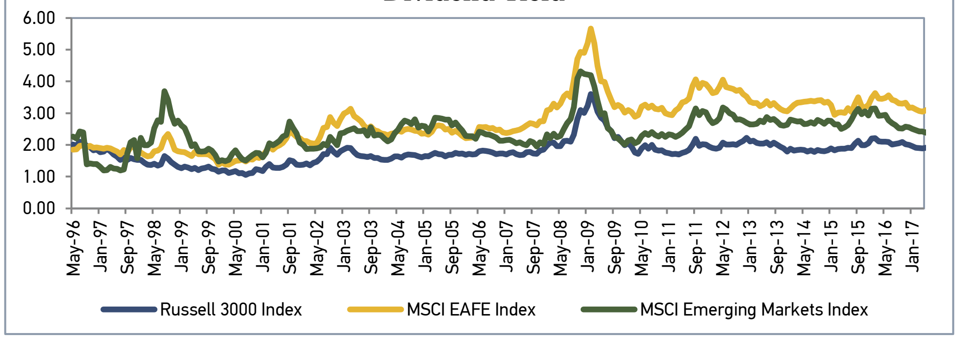
Data as of 06.30.2017; Source: Russell, MSCI

U.S. 3yr Real Revenue Growth – Russell 3000 Non-Financials



Data as of 06.30.2017; Source: FactSet, Russell, Bureau of Labor Statistics, Sterling Capital Analytics

Dividend Yield



Data as of 06.30.2017; Source: Russell, MSCI

- The U.S. cyclically adjusted earnings yield continues to slowly decline and is well below long-term averages. Sales growth has picked up recently, but long-term real growth remains low.
- Revenue to firm value in the U.S. is lower than international developed markets. The emerging markets' ratio is only slightly higher than international 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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