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## Relative Market Performance

| | 1Q | 1YR | 3YR |
|---|---|---|---|
| Dow Jones Industrial Average (U.S. Large Stocks) | 5.19 | 19.91 | 10.61 |
| Standard & Poor's 500 (U.S. Large Stocks) | 6.07 | 17.17 | 10.37 |
| Wilshire 5000 (U.S. Stocks) | 5.61 | 18.35 | 10.01 |
| MSCI EAFE (Foreign Stocks) | 7.25 | 11.67 | 0.50 |
| MSCI EM (Emerging Market Stocks) | 11.45 | 17.22 | 1.18 |
| MSCI ACWI (World Stocks) | 6.91 | 15.04 | 5.08 |
| Barclays Capital U.S. Agg. Index (U.S. Bonds) | 0.82 | 0.44 | 2.68 |

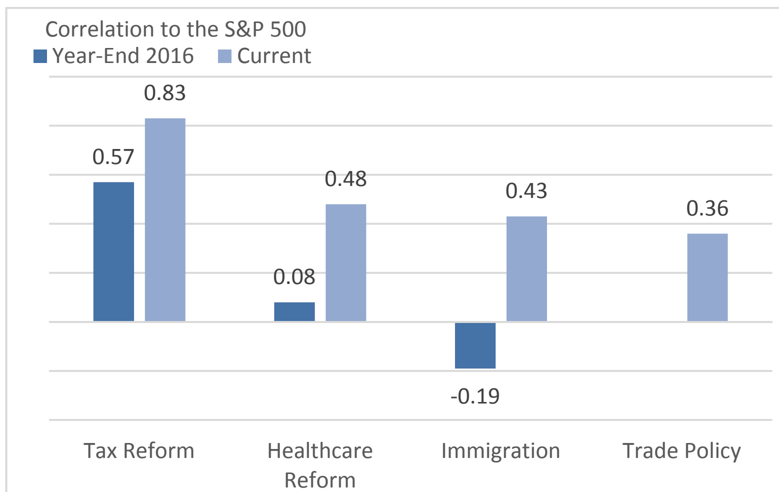
Source: Morningstar

### Key Points

- Correlation of U.S. equities to politics and policy has been on the rise.
- The path to a normalization of interest rates in the U.S. has been set.
- Look for continued outperformance of international equities as optimism improves.

## Equity Market Recap

The S&P 500 increased 11.8% post-election through quarter-end, but momentum stalled in the last few weeks as investors looked to digest a number of political and policy developments. With the failure of Congress to repeal and replace the Affordable Care Act, there has been a change of perception amongst investors. Future return expectations have been tempered as the ability of Congress to successfully complete the promised reform has been questioned. Going forward, expect U.S. equities to be more tied to politics and policy as correlations between the two have been on the rise over the most recent quarter.




Source: Goldman Sachs Asset Management

Equities outside the U.S. have looked attractive from a valuation perspective over the last few years, but have lacked a catalyst. While valuations can be predictive of long-term outperformance, viewing them in isolation can leave you waiting on an investment to play out for longer than desired. More recently, European and emerging market (EM) equities have been driving gains relative to the U.S. Expected earnings growth across both regions has been on the rise after years of lackluster performance. An environment of global reflation mixed with encouraging economic data bodes well for non-U.S. equities. This contrasts with the U.S. which has seen post-election performance driven predominantly by multiple expansion, and has been motivated by the potential for a more business-friendly environment under the Trump administration. The amount of future earnings growth currently priced into the market is of concern as it may be more than many expect. While optimism is improving and fundamentals support an allocation overseas, that hopefulness must be balanced by that fact that a policy error or a destabilizing political event could derail recovery efforts.

## Interest Rates

The mandate of the Federal Reserve is to promote full employment, stable prices and moderate long-term interest rates. With respect to this mandate, one could argue that the Fed has achieved its goal with unemployment at 4.5% and inflation near 2.0%. A normalization of interest rates would round out its objectives. The Fed is on pace for another two or three 0.25% rate hikes this year, barring any unforeseen event. With the approach of 2018, the Fed may begin to address a reduction of its $4.5 Trillion balance sheet.

As interest rates rise, it is important to study how prior rate cycles have impacted markets. Long-term rates, as measured by the 10-year Treasury, typically move less than short-term rates, which are represented by the 2-year Treasury. A flattening of the yield curve is common. A scenario in which long-term rates move below short-term results in an inverted yield curve, historically an indication of future recession, but not an event estimated in the foreseeable future. From an equity perspective, the S&P 500 has generated a positive return in the majority of rate hike cycles. Intuitively this makes sense as the Fed would look to increase rates in an environment of economic strength. Finally, the U.S. dollar does not necessarily rise with that of interest rates. For these reasons, a diversified portfolio remains important.

**Market during previous rate hiking cycles**

| | May 1983 - July 1984 | March 1988 - February 1989 | February 1994 - February 1995 | June 1999 - May 2000 | June 2004 - June 2006 | Average of past five rate hiking cycles | Cycle beginning December 2015 |
|---|---|---|---|---|---|---|---|
| **Yield change (bps)** | | | | | | | |
| **Federal funds rate** | 313 | 325 | 300 | 175 | 425 | 308 | 75 |
| **2-year Treasury** | 311 | 227 | 305 | 121 | 238 | 240 | 25 |
| **10-year Treasury** | 274 | 91 | 185 | 50 | 52 | 130 | 10 |
| **S&P 500 return** | -9.6% | 6.8% | -2.1% | 8.5% | 12.0% | 3.1% | 14.0% |
| **U.S. dollar** | 10.4% | 1.7% | -4.7% | 3.4% | -5.8% | 1.0% | -0.3% |

Source: J.P. Morgan Asset Management

## Global Growth Prospects

Global growth is broadening as the eurozone has witnessed some of its strongest economic data in years. A positive trend in employment and increasing demand for credit are indicators of budding optimism across the region. The growth differential between the U.S. is also moving in favor of emerging markets (EM). A positive inflection in the spread between EM and developed markets could provide continued support to EM earnings which have seen a positive trend more recently. Furthermore, demographics continue to support EM strength relative to the U.S.

The outlook for growth in the U.S. remains a moderate 2.0%. While this is historically low for a recovery period, it is understandable given the challenges of an aging U.S. population and slowing productivity growth. There is potential upside to the outlook evidenced by opportunistic economic survey data buoyed by talk of pro-business legislative initiatives and fiscal stimulus. The realization of this potential is obviously contingent on leaders in Washington working together, which is uncertain at best.

*In volatile markets investors should remain focused on their long-term objectives. Asset allocation strategies developed for a portfolio provide a roadmap to follow in times of duress. Steps may need to be taken to ensure capital preservation, but must be weighed against their potential impact on long-term performance. Implementing a disciplined, strategic approach with portfolio allocation across varying asset classes is an important element of a successful investment strategy. That's why at TrustCore, we believe in creating a customized, well-diversified portfolio to help you meet your long-term financial goals.*