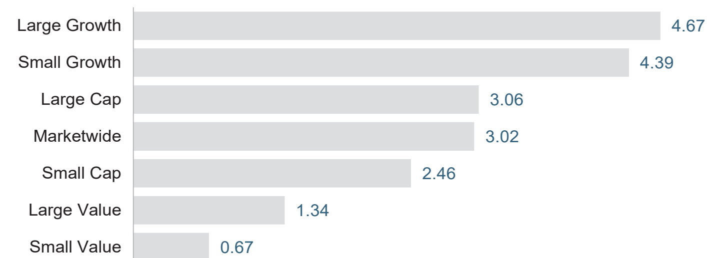
U.S. Equities: Aging Bull

Since their nadir in March, 2009, equity prices in the U.S. have been grinding higher with only the occasional interruption (China currency devaluation, oil price collapse, Brexit). Growth and value styles have both come into and out of favor during that time. So far this year, growth has outperformed value across all size ranges (large, medium and small companies).

Ranked Returns for the Quarter (%) ("Source: Dimensional Fund Advisors")



Period Returns (%) *Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	8.93	18.51	9.10	14.58	7.26
Large Cap	9.27	18.03	9.26	14.67	7.29
Large Value	4.66	15.53	7.36	13.94	5.57
Large Growth	13.99	20.42	11.11	15.30	8.91
Small Cap	4.99	24.60	7.36	13.70	6.92
Small Value	0.54	24.86	7.02	13.39	5.92
Small Growth	9.97	24.40	7.64	13.98	7.82

Trees do not grow to the sky, however, and stress fractures are starting to appear in the financial markets. Consumers have loaded up on debt, as evidenced by a surge in household borrowings: Americans are now indebted for a record $12.7 trillion, and the percentage of debt that is overdue has risen for two consecutive quarters. Some credit card companies, like Capital One Financial Corp., are setting aside more reserves to cover bad loans. And consumer spending registered its weakest first quarter gain since 2009. Even if that's a temporary blip, the fact that debt delinquencies are increasing is a real concern.

Another cautionary signal is the financial markets' overwrought sense of calm. The Chicago Board Options Exchange Volatility Index (VIX) shows the stock market's expectation of 30-day volatility. It is trading at unprecedented low levels. Other measures of implied volatility, which additionally include bonds, currencies and gold, are also at or near historical lows. Does this really make sense when business borrowing is approaching record territory (as a percentage of GDP)? Does it make sense when the labor market is at full employment and asset prices are near all-time highs… especially in the face of tightening monetary policy? We do not believe so, and the pervasive sense of calm in the markets is an indication that risk premiums are starting to be undervalued. We are monitoring these factors carefully.

In the meantime, we continue to diversify portfolios to minimize risk and raise cash where appropriate. Thank you for the confidence you have placed in us as your advisor. We would welcome, of course, the opportunity to speak with you to discuss meaningful changes in your situation or investment goals.

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SECOND QUARTER | 2017

Thrive

Global Equity Surge
Economy
Bottom Line
U.S. Equities: Aging Bull

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L to R: Kristen Corbin, Peter LaBella, Scott Ehrig, John Klobusicky, Jessica Mauck and Donna Miltenberger

Welcome to *Thrive*, FMA Advisory's quarterly newsletter, packed with investment insights to help you navigate your financial journey. In every service delivery, we're dedicated to **Compounding the future of You.** ℠

Global Equity Surge

For the first time since 2009, twenty-six of the top 30 equity markets from around the world rose during the first half of the year. The statistics, compiled by The Wall Street Journal, also showed that in the past 20 years, only four first-half rallies have been stronger or more widespread. Fueled by improving economic conditions, strengthening corporate earnings and accommodative monetary policy from central banks, stock prices reflected a synchronized global upturn. Large technology companies, both domestically and abroad, led the charge.

Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q2 2017	STOCKS				BONDS	
	3.02% ↑	5.63% ↑	6.27% ↑	1.67% ↑	1.45% ↑	0.60% ↑
Since Jan. 2001						
Avg. Quarterly Return	1.9%	1.5%	3.1%	2.7%	1.2%	1.1%
Best Quarter	16.8% Q2 2009	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009	4.6% Q3 2001	5.5% Q4 2008
Worst Quarter	-22.8% Q4 2008	-21.2% Q4 2008	-27.6% Q4 2008	-36.1% Q4 2008	-3.0% Q4 2016	-3.2% Q2 2015

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citi WGBI ex USA 1−30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2017, all rights reserved. Bloomberg Barclays data provided by Bloomberg. Citi fixed income indices copyright 2017 by Citigroup.

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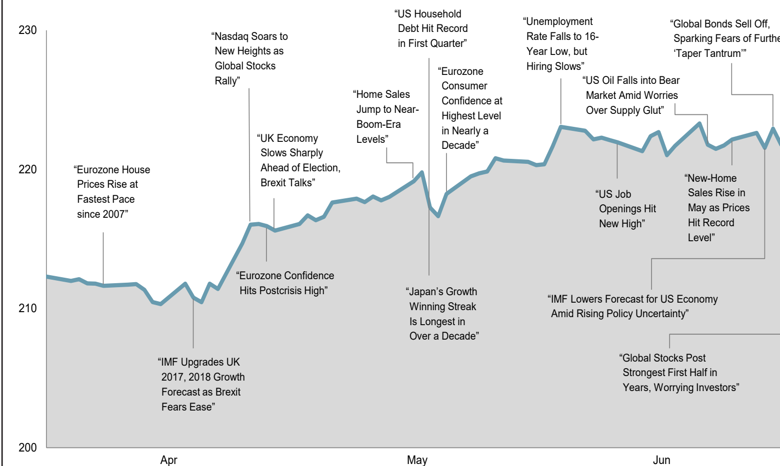
World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2017



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2017, all rights reserved.
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results**.

2

Economy

The domestic economy is entering its ninth year of growth, which makes it the **third longest expansion in U.S. history.** The average is 3 ½ years. Beyond studying the high-level statistics (which yield clues as to where we are in the business cycle), we also consider management comments from the individual companies we follow. This allows us to confirm trends that we are seeing at the macro level.

Despite the favorable backdrop, and industrial production nudging up to 2.2% in May, the U.S. economy continues to muddle along at ~ 2.1 % growth rate (GDP). Our recession indicator checklist continues to remain positive, with some deterioration in the yield curve, particularly in the 2-10 year span, and overly tight credit spreads.

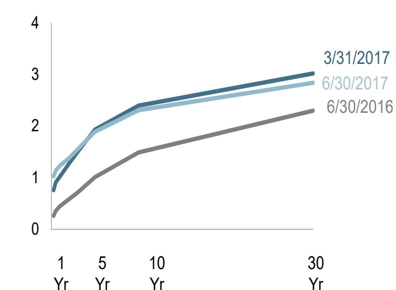
Economic Indicator	Current Status	Recession Risk Indication
Yield Curve Shape	Flattening	Moderate Risk
Leading Economic Indicators(LEI)	Strong	Low Risk
Corporate Bond Spreads	Tight – credit risk is underappreciated	Moderate Risk
Residential Housing	Demand remains strong	Low Risk
Inflation	Low – below the Fed's target	Low Risk
ISM-Manufacturing Activity	Strengthening to near term high	Low Risk
Consumer Sentiment	Very Strong	Low Risk

Bottom Line

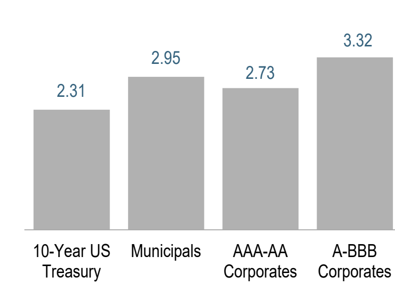
None of the aforementioned indicators is flashing red to signal an impending recession, so we are left to conclude that the business cycle will continue to expand for several months, albeit at a lackluster pace. Subpar growth is likely to be a consistent refrain if the Trump administration is unable to pass corporate tax reform… lower regulatory hurdles are likely to be insufficient on their own to stoke animal spirits. Campaign promises of 4% GDP growth seem like a distant memory, and even 3% will be very difficult to achieve without boosting the number of people in the workforce or their collective productivity.

Loose monetary policy from The Federal Reserve has not broadly encouraged corporate executives to make the massive investments necessary to drive capital formation and productivity gains. Inflation remains well below the central bank's official target of 2%. Chair Yellen and her cohorts have successfully pushed the unemployment rate down to 4.4%, but annual wage gains remain stubbornly low at less than 2.5% Despite tepid inflation, the Fed is on track to raise interest rates a third time this year while concurrently beginning to draw down its bloated balance sheet. There is chatter in the markets about potential overshoot on the part of policy makers, reflecting concerns that the Fed might raise rates too far, too fast… thereby tipping the economy into recession.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Long US Government Bond Index	5.44	-6.96	5.54	2.82	7.27
Bloomberg Barclays Municipal Bond Index	3.57	-0.49	3.33	3.26	4.60
Bloomberg Barclays US Aggregate Bond Index	2.27	-0.31	2.48	2.21	4.48
Bloomberg Barclays US Corporate High Yield Index	4.93	12.70	4.48	6.89	7.67
Bloomberg Barclays US TIPS Index	0.85	-0.63	0.63	0.27	4.27
BofA Merrill Lynch 1-Year US Treasury Note Index	0.30	0.40	0.41	0.37	1.21
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.31	0.49	0.23	0.17	0.58
Citi World Government Bond Index 1-5 Years (hedged to USD)	0.65	0.28	1.30	1.37	2.52

One basis point equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). Citi fixed income indices copyright 2017 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2017 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation. The S&P data are provided by Standard & Poor's Index Services Group.