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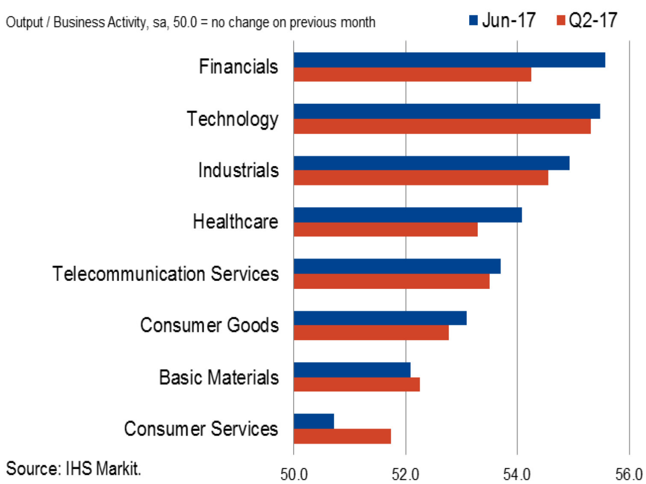
Second Quarter 2017: Broadening Global Economic Growth Amid Challenging Externalities

Global growth remained solid and stable in the second quarter of 2017; furthermore, it has broadened geographically. Technology was the fastest growing sector for 2Q2017 based on Markit's Global Sector Purchasing Managers Index (PMI) shown below*. The financial sector led as well, held back to some extent by muted real estate expansion.



*PMI data greater than 50 indicates expansionary conditions.

With an expansionary economic backdrop, financial assets continued to fare well in the second quarter, and foreign markets, in particular, benefitted from lower comparative valuation levels relative to the United States. Thank you again to Eaton Vance's Monthly Monitor for the numbers that follow:

U.S. stock indices continued to increase from first quarter levels, with the S&P 500 returning 3.1% and the Russell 2000 returning 2.5% for 2Q2017. Within the S&P 500 Index, the only declining sectors were energy and telecom services, both down mid-single digit. Healthcare was the top performer as the fear of political intervention moderated coincident with strong 2017 second-quarter sector earnings growth. Meanwhile, bond indices returned positive results as a whole with only the **BofAML US Inflation-Linked Treasury Index** down for the quarter -0.4%. The **Barclays U.S. Aggregate** returned 1.5% for 2Q2017, the **U.S. Corporate Investment Grade** up 2.5% as spreads to comparable Treasuries narrowed yet further from last quarter end, and the **BofAML High Yield Index** up 2.1% to further narrow the spread to quality.

The **U.S. Dollar** continued to slide as economic growth and financial asset flows broadened. Year to date the dollar has declined 7.5% against the Euro (spot basis). Commodities as a group continued to decline with the **Bloomberg Commodity Index** down 5.3% year to date. The full picture is very different however. Brent Crude, for example, declined 17.1% year to date to June 30, while gold increased 7.4%.

The developed markets **MSCI EAFE Index** has continued its first quarter stellar performance. Year to date to June 30 the Index has gained 13.8% and 6.1% for 2Q2017. The **MSCI Emerging Markets Index** added another 6.3% for the quarter to bring the year-to-date return to 18.4%. Lastly, foreign bonds turned in another solid gain, with the **Bloomberg Barclays Global Aggregate (Ex-U.S.)** up 3.6% for the quarter and 6.1% year to date.

Year to date, financial assets overall have responded favorably to continued steady, stable economic growth coincident with stubbornly low interest rates. Valuation levels for stocks have moved generally above average across the globe compared with the last 10 years, although an extended period of low interest rates lends durability to higher-than-average valuation levels. As we head into the second half of 2017, key areas of interest for us in looking at the direction for financial asset valuations will be earnings growth, public and private debt levels, and the continuing impact of protracted demographic trends.