

LORING  WARD

# Market Commentary

Q3 2017 in Perspective

Loring Ward's Asset Class Investing portfolios are strategically invested with a focus on long-term performance objectives. Portfolio allocations and investments are not adjusted in response to market news or economic events; however, we evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in proper context.

Global stock markets delivered robust gains in the third quarter 2017 as volatility fell in the U.S. and the dollar depreciated, supercharging International returns. Emerging Market stocks led the way with MSCI Emerging Markets up 7.9%. Non-U.S. developed markets, as measured by MSCI World Ex US, were up 5.6%, while the S&P 500 rose 4.5%.

Interest rates were flat for the quarter as a whole, ending at 2.33% on the 10-Year Treasury, though they did have a significant drop to 2.05% in early September before ramping back up in the final weeks of the quarter. Shorter term three-year rates ticked up a few basis points.

The U.S. Dollar Index, a measure of the value of the United States dollar relative to a basket of foreign currencies, fell again in the third quarter, with the U.S. dollar depreciating by 2.7% compared to foreign currencies.

## U.S. Economic Review

Domestic economic data continued to plug along at a healthy, if not exciting, pace. Second quarter GDP increased at a 3.1% annual rate helped by exports, government spending and private inventory investment. The unemployment rate in August held steady for the quarter at 4.4%. Despite the unemployment rate at or below 5% for the last two years,

wage growth has been relatively tepid, ticking up to just 3.4% in August. The Fed's preferred gauge of overall inflation, the core Personal Consumption Expenditures (PCE) index, rose just 1.3% in August from the prior year.

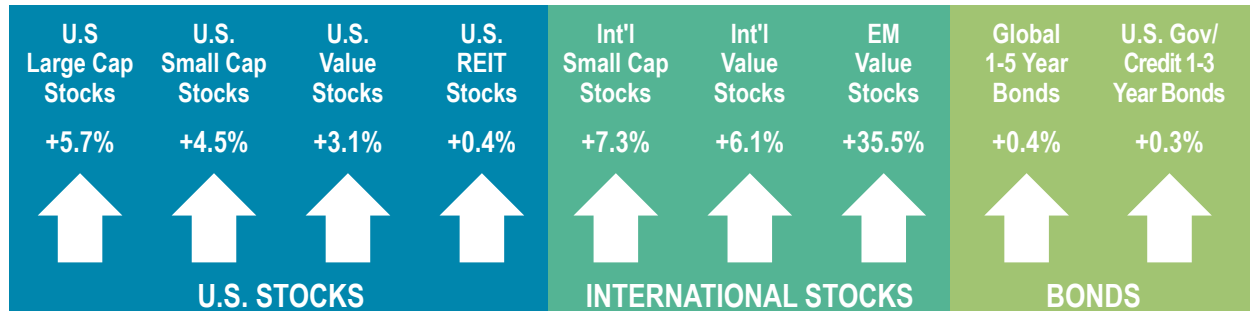
Survey-based measures, such as the Institute for Supply Management (ISM) manufacturing index, rose to 60.8% providing encouraging signs of the overall health of the U.S. economy, while reporting that the overall economy grew for the 100th consecutive month.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Bloomberg Economic Calendar, U.S. Department of the Treasury, Institute for Supply Management, Morningstar Direct 2017.

## Financial Markets Review

U.S. stock indexes rose to new highs while volatility all but vanished from the stock markets. International stocks in the Developed Value and Small areas, as well as Emerging Markets, saw even stronger gains. Bond prices saw volatility during the quarter, but finished near where they started. The Barclays U.S. Aggregate Bond Index advanced by 0.85% for the quarter.

In the U.S., Growth stocks led the way in performance during Q3. Large Value stocks were positive, though trailing their Large Growth



Source: Morningstar 2017. Market segment (Index representation) as follows: U.S. Large Cap Stocks (S&P 500 Index); U.S. Small Cap Stocks (Russell 2000 Index), U.S. REIT Stocks (Dow Jones U.S. Select REIT Index), U.S. Value Stocks (Russell 1000 Value Index). International Small Cap Stocks (MSCI World Ex USA Small Index (net div.)), International Value Stocks (MSCI World Ex USA Value Index (net div.)), Emerging Markets Value Stocks (MSCI Emerging Markets Value Index (net div.)), Global 1-5 Year Bonds (Citi WGBI 1-5 Yr Hdq U.S.D), U.S. Gov/Credit 1-3 Year Bonds (BofA ML Corp&Govt 1-3 Yr TR).

counterparts. Small stocks outperformed across the board, with the Small Core segment outperforming Large Core by 1.2%. This Small cap performance occurred completely in the final month of the quarter, with the Russell 2000 gaining 6.24% in September.

**U.S. Stocks — Quarter 3, 2017**

	Value	Core	Growth
Large	3.1%	4.5%	5.9%
Mid	2.1%	3.5%	5.3%
Small	5.1%	5.7%	6.2%

Source: Morningstar Direct 2017. US markets represented by respective Russell indexes for each category (Large: Russell 1000, Value, and Growth, Mid: Russell Mid Cap, Value and Growth, Small: Russell 2000, Value and Growth).

Internationally, returns were strong across the board, with Small Growth leading the way at 7.5% for the quarter. The Large Value and Small premiums both showed up in Q3 with

Large Value outperforming Large Growth by 1.6% and Small Core outperforming Large Core by 1.8%.

**International Stocks — Quarter 3, 2017**

	Value	Core	Growth
Large	6.2%	5.5%	4.6%
Mid	5.7%	6.1%	6.4%
Small	7.0%	7.3%	7.5%

Source: Morningstar Direct 2017. International markets represented by respective MSCI World EX USA index series (Large: MSCI World EX USA Large, Value and Growth, Mid: MSCI World Ex USA Mid, Value and Growth, Small: MSCI World Ex USA Small, Value and Growth).

More aggressive models saw greater performance than more conservative models because of the higher returns in stocks compared to bonds. A diversified index mix of 65% stocks and 35% bonds would have returned 3.4% during the third quarter.

65/35 Index Mix: 2% Cash, 16% ST US Fixed Income, 17% Global Bonds, 15% US Large, 12% US Value, 8% US Small, 4% US REITs, 14% Intl Large Value, 7% Intl Small, 5% Emerging Markets Value

Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting. Emerging markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign taxes, and different methods of accounting and financial reporting. All investments involve risk, including the loss of principal and cannot be guaranteed against loss by a bank, custodian, or any other financial institution.

LWI Financial Inc. ("Loring Ward") is an investment adviser registered with the Securities and Exchange Commission. Securities transactions are offered through its affiliate, Loring Ward Securities Inc., member FINRA/SIPC. R 17-291 (Exp 10/19)