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Wealth Management

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MARKET RETURNS: Global stocks continued their climb this last quarter, extending gains made in the year's first three months as economic data supported improved prospects for global growth. U.S. stocks saw positive returns as investors shrugged off concerns over interest rate increases, stock valuations, and the political noise from Washington. Non-U.S. stocks outpaced U.S. stocks for a 2nd straight quarter, supported by continued economic improvements as well as political developments likely supportive of global growth, such as the outcome of the French presidential election. In spite of a 3rd straight quarterly Fed increase in short-term interest rates, U.S. bonds generated positive returns last quarter, although returns over the last 12 months were slightly negative as noted below. Short-term interest rate increases have continued to improve cash returns, although they were still modest over the last year.

Asset Class	Index	2nd Qtr 2017	Trailing 12 Months as of 6/30/17
US Large Cap Equities	S&P 500 Index	3.09%	17.90%
Int'l Developed Equities	MSCI EAFE Index	6.12%	20.27%
Emerging Market Equities	MSCI Emerging Equities Index	6.27%	23.75%
Fixed Income	Barclays Aggregate Bond Index	1.45%	-0.31%
Cash	US Treasury Bill 1-month	0.20%	0.49%

LOOKING FORWARD:

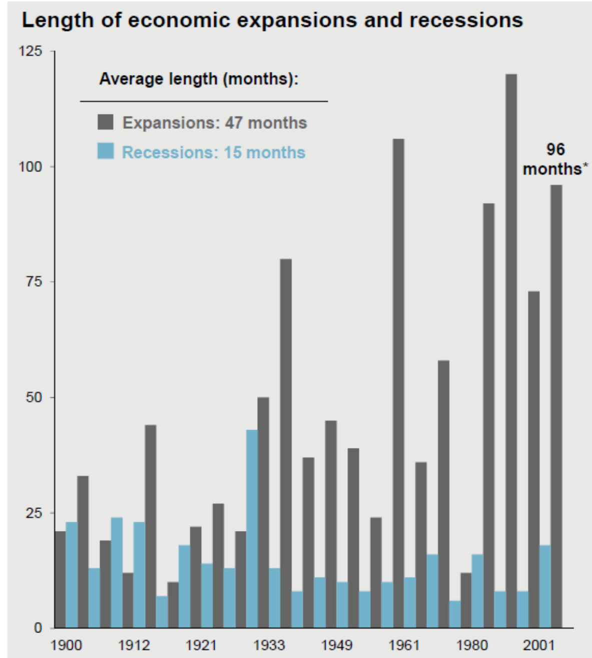
U.S. Stock Returns: The U.S. stock market has generated very strong returns over the past several years as the market recovered from the global financial crisis of 2008. This, in combination with recently historically low stock price volatility may lead investors to believe that there is still plenty of "punch" in the proverbial U.S. stock performance "punchbowl". While we are not suggesting that the U.S. stock market is poised to revisit the bad ol' days of 2008, we do believe that future returns in U.S. stocks should be lower than what they have been since 2009, along with the possibility for higher stock price volatility. The length of the current U.S. economic expansion (now at 96 months at noted in the graph) is now quite long from a historical perspective with the average length of U.S. economic expansions since 1900 lasting 47 months. Our current expansion is now the 3rd longest in history. While many economists suggest that the current environment, which is characterized by low unemployment and positive but low economic growth, can sustain and extend the life of the current expansion, an uptick in earnings growth would help to better support the current valuations in U.S. stocks.

Based on several measures, current U.S. stock valuations are above historical averages. As the exhibit below shows, U.S. stocks across market capitalization (company size) and style (i.e. “value” and “growth”) are all trading above their 15-year average valuations based on price-to-earnings ratios. For context, the forward price-to-earnings ratio for the S&P 500 Index hit 27 times in March 2000 just before the bursting of the dot com bubble in stocks and a 49% slide in the index over the next 2.5 years. The current forward price-to-earnings ratio is 17.5 times, far lower than the level set back in 2000. So, while U.S. stocks are slightly overvalued from a historical context, they are not at the extreme levels set just before the 2000-2002 large drawdown in the stock market.

Current P/E as % of 15-year avg. P/E*

	Value	Blend	Growth
Large	119.3%	120.9%	122.9%
Mid	115.6%	114.8%	116.2%
Small	112.8%	121.7%	134.6%

Source: *Guide to the Markets – U.S.* Data are as of June 30, 2017; FactSet, Russell Investment Group, Standard & Poor’s, J.P. Morgan Asset Management.*Timeframe of average valuation decreased from 20 to 15 years because of a discontinued data series. The new data series is bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months, and is provided by FactSet Market Aggregates.



Source: *Guide to the Markets – U.S.* Data are as of June 30, 2017; BEA, NBER, J.P. Morgan Asset Management. *Chart assumes current expansion started in July 2009 and continued through June 2017, lasting 96 months so far. Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). These data can be found at www.nber.org/cycles/ and reflect information through June 2017.

Conclusion: The takeaway is to not fall into the trap of extrapolating very good past returns as indicative of future returns for U.S. stocks. Our approach of staying globally diversified across stocks (currently non-U.S. stock valuations are more attractive than for U.S. stocks) and allocating to alternative investments (which provide good returns while helping enhance portfolio diversification) are both some of the ways in which we help you achieve your longer term financial goals while mitigating risk. Combining the appropriate risk level in your portfolio, our planning and financial decision advice, and your actions in life, all work together to turn out the future you’re looking for.

We value our relationship with you and thank you for your trust in us. Enjoy the rest of your summer!