



Economic data softened somewhat during April but remained expansionary. Survey measures of economic activity remained strong particularly for services. The Federal Reserve held rates steady at their May meeting. Equity markets and fixed income were positive for the month as expectations for global growth picked up despite a slowing of U.S. data.

Key Economic Staldtistics*	Period	Level	Vs. Prior
Manufacturing Economy Strength	April	54.8	Weaker
Service Economy Strength	April	57.5	Stronger
Monthly Jobs Report	April	211k	Stronger
National Unemployment Rate	April	4.4%	Lower
Annualized Quarterly GDP Growth	Q1 – 1 st	0.7%	Weaker
Personal Consumption (Spending)	Q1– 1 st	0.4%	Weaker
Inflation–CPI ex.Food/Energy	April	2.0%	Lower

* See disclosure for underlying economic indicator definition. FactSet

*Onward and
Upward*

Key Index Performance*	1 Mo	3 Mo	YTD	1 Yr	3 Yr	5 Yr	10 Yr
Equities							
Large Domestic Companies S&P 500 Total Return Index	1.03	5.16	7.16	17.92	10.47	13.68	7.15
Small Domestic Companies Russell 2000 Total Return Index	1.10	3.18	3.59	25.63	9.03	12.95	7.05
International Developed Companies MSCI EAFE Index	2.54	6.87	9.97	11.29	0.86	6.78	0.87
Emerging Market Companies MSCI EM Index	2.19	7.98	13.88	19.13	1.79	1.49	2.47
Taxable Fixed Income							
Short Term Bonds Barclays U.S. 1-3 Year Aggregate Index	0.18	0.41	0.59	0.78	0.99	0.94	2.40
Intermediate Term Bonds Barclays U.S. Aggregate Bond Index	0.77	1.40	1.59	0.83	2.66	2.27	4.3
High Yield Bonds Barclays U.S. Corporate High Yield Index	1.15	2.40	3.89	13.30	4.74	6.84	7.44
International Government Bonds Citigroup World Government Bond Index	1.30	1.84	2.87	-3.61	-1.13	-0.62	3.05
Tax Exempt Fixed Income							
Short Term Municipals Barclays Municipal 1-3 Year Index	0.20	0.60	1.08	0.67	0.81	0.88	2.12
Intermediate Term Municipals Barclays Municipal 5-10 Year Intermediate Index	0.92	1.92	2.85	0.12	2.84	2.71	4.55
High Yield Municipals Barclays High Yield Municipal Index	0.68	3.31	4.76	4.38	5.29	5.31	4.30
Real Assets							
Commodities Bloomberg Commodity Index	-1.51	-3.93	-3.80	-1.32	-15.03	-9.74	-6.47
Global Real Estate Dow Jones Global Select REIT Index	0.42	1.57	1.08	1.42	6.83	8.43	2.75

* All data as of 04/30/2017. See disclosures for underlying index definitions. Periods longer than one year represent annualized performance.

Economic Update

Economic indicators continued to indicate a growing economy despite a slight softening in some of the reports. The service economy continued to expand and this expansion outpaced the manufacturing economy during April with a 57.5 versus a 54.8 reading for the manufacturing ISM. Values above 55 are considered strong growth for the ISM indices. The Conference Board's Leading Indicator Index, which is combination of economic data series that tend to change direction ahead of shifts in the business cycle, expanded during March.

The first quarter's GDP report showed the economy expanded at a 0.7% rate which came in below economists' expectations for a 1.2% growth rate. Economists have attributed lower first quarter growth to a weather induced slowdown in consumer spending because consumer confidence remains high and tightness in the labor market is still present. Consumer spending grew at a 0.4% rate in the first quarter which was a sharp reduction from the fourth quarter's 3.5% rate and has been blamed on a mild winter which reduced demand for heating and utilities.¹ The slowdown in consumer spending is inconsistent with recent employment data as well as the consumer confidence readings. Despite the reduction in growth, there were bright spots in the GDP report as business investment, spending on non-residential structures, and investment in homebuilding all improved compared to the fourth quarter of 2016.

April's Non-farm Payrolls report beat expectations as the economy added 211,000 jobs. Consensus estimates for April expected 185,000 jobs to be added. The unemployment rate declined to 4.4% from 4.5% during March, which is the lowest level of unemployment during post-financial crisis recovery. Hourly earnings continued to increase with a 0.3% monthly increase and a 2.5% year over year increase. Despite the job gains and a decline in the unemployment rate, wage gains seem to be small despite considerable tightness in the labor market. The average workweek slightly increased to 34.4 hours.

The Federal Reserve left the Federal Funds Rate unchanged at their May meeting as expected. In their post-meeting statement, Fed officials indicated that they feel the slowing growth is transitory and they expect the economy to continue to expand at a moderate pace and for the labor market to continue to tighten. Fed officials noted that inflation has remained below their target but on a 12 month basis, it is running close to their longer-run objective. These conditions lead officials to conclude that gradual increases in the Federal Funds Rate will be warranted going forward. Despite talk of reductions in the size of the Federal Reserve's balance sheet, which would be a tightening of monetary policy, Fed officials indicated that they will continue to reinvest principal payments from its agency debt and its agency mortgage backed securities positions into agency mortgage backed securities and of rolling of Treasury securities at auction. The Federal Reserve anticipates continuing this practice until the Federal Funds Rate has been normalized.

¹ "US first-quarter growth weakest in three years, as consumer spending falters" CNBC, April 28, 2017

Capital Markets Update

Equities and fixed income both rallied during April. Domestic and international equity markets slowly declined through mid-April and then rallied to finish the month with gains. International markets continued to outperform domestic markets as expectations for global growth have increased. Small companies continued to lag larger companies while emerging markets continued their recent outperformance over their developed market counterparts.

This rally appears to be driven by earnings recently as policy proposals from the current administration were light during April. Earnings season has continued to produce positive results. As of April 28th, 58% of the S&P 500 had reported earnings. FactSet's blended earnings growth rate for the S&P 500, a combination of companies who have reported and estimates for companies that haven't reported yet, for the first quarter is 12.5%. If earnings continue to meet or beat estimates, this would be the highest earnings growth rate for the S&P 500 since the third quarter of 2011. Revenue growth appears to be the dominant factor, as opposed to margin expansion, as the only sector expected to see a year over year decline in revenue is Telecom Services and we continue to see strong consumer confidence and employment data. Analysts are projecting earnings growth of 10.1% and revenue growth of 5.3% for all of 2017 at this point.

This does not necessarily mean market expectations should follow as valuations are arguably rich at just over 20X trailing earnings. However, barring surprises the earnings dynamic may provide a floor to any shocks. Despite stronger recent performance, international and emerging valuations continue to look attractive relative to domestic securities.

Within fixed income, markets were positive through April and broadly positive over the last 3 months as interest rates declined slightly and credit spreads generally narrowed.

We have previously commented on the uneasy balance between lofty expectations and increasing uncertainty that those expectations will be met. April continued to do little to change that balance as President Trump's tax proposal was issued as a set of guidelines as opposed to specific legislative language. Following the Trump election, tax reform seemed to be a certainty in addition to the repeal of the ACA. Given the contentious of the political environment, some of the guidelines look to be untenable from a political stand point. This illustrates the need to remain diversified and not place a speculative bet on specific policy related outcomes.

We continue to believe a diversified portfolio of stocks and bonds is a reasonable approach to the uncertainty of the future market environment. However, as always, if recent market events have you concerned, we suggest contacting your HD Vest Advisory Representative.

Asset allocation and diversification do not assure or guarantee better performance and cannot eliminate the risk of investment losses. Your individual allocation may be different than the HDVAS sample strategic model due to your unique individual circumstances.

Disclosures:

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Large domestic companies measured by the S&P 500, which is an index of 500 major U.S. large cap corporation.

Small domestic companies measured by the Russell 2000 Index which measures the performance of small-cap segment of the U.S. equity universe. Small domestic companies also measured by the S&P Small Cap 600 index.

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International developed companies measured by the MSCI EAFE Index, which is an unmanaged market capitalization-weighted index of equity securities of companies domiciled in various countries. The Index is designed to represent the performance of developed stock markets outside the United States and Canada and excludes certain market segments unavailable to U.S. based investors.

The Euro Stoxx index measures the performance of a subset of 12 Eurozone countries within the Stoxx Europe 600 index.

Emerging market companies measured by the MSCI Emerging Markets Index, which is a free float-adjusted market capitalization index that is designed to measure equity market performance of emerging markets.

Short-term taxable bonds measured by the Barclays U.S. 1-3 Year Aggregate, which is a subset of the Barclays U.S. Aggregate index, representing securities with 1 to 3 years remaining until maturity.

Intermediate-term bonds measured by the Barclays U.S. Aggregate Bond index, which measures the performance of investment-grade bonds in the U.S. fixed-income universe. It includes U.S Treasury issues, agency issues, corporate bond issues and mortgage-backed issues. It is unmanaged, includes reinvestment of dividends, does not reflect the impact of transaction, manager or performance fees and is unavailable for investment.

High-yield bonds measured by the Barclays US Corporate High Yield Index, which tracks the performance of domestic non-investment grade corporate bonds.

International government bonds measured by the Citi World Government Bond Index (WGBI), which measures the performance of 23 government bonds markets including Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Malaysia, Mexico, the Netherlands, Norway, Poland, Portugal, Singapore, Spain, Switzerland, Sweden, the United Kingdom and the U.S.

Short-term municipals measured by the Barclays Municipal 1-3 Yr index, which measures the performance of investment-grade municipal securities with 1 to 3 years remaining until maturity.

Intermediate term municipals measured by the Barclays Municipal Intermediate 5-10 Year index, which measures the performance of investment grade municipal securities with 5 to 10 years remaining until maturity.

High-yield municipals measured by the Barclays High Yield Municipal index, which measures the performance of below investment-grade municipal securities with at least 1 year remaining until maturity.

Commodities measured by the Bloomberg Commodity index, which is comprised of future contracts on physical commodities which trade here in the U.S. and certain foreign markets. It measures the performance of investment in a broad basket of commodity futures contracts.

Real estate measured by the Dow Jones Global Select REIT index, which represents equity real estate investment trusts (REITs) and REIT like securities traded globally.

Manufacturing economy strength measured by the Institute for Supply Management Manufacturing Index. A measure above 50 indicates expansion while a measure below 50 indicates contraction.

Service economy strength measured by the Institute for Supply Management Non-Manufacturing Index. A measure above 50 indicates expansion while a measure below 50 indicates contraction.

Monthly jobs report measured by the Bureau of Labor Statistics' US Employees on Non-Farm Payrolls Month over Month net change.

National unemployment rate measured by Bureau of Labor Statistics.

Annualized Quarterly GDP Growth measured by Bureau of Economic Analysis and is released as preliminary (1st estimate), revised (2nd estimate) and final over the course of a quarter.

Personal Consumption growth measured by the Bureau of Economic Analysis and represents final market value of all goods and services produced in the U.S.

Annual Inflation Rate measured by the Bureau of Labor Statistics Consumer Price Index (CPI). Value reflects year over year change in the CPI ex-Food and Energy index.

An investment cannot be made directly into an index.

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