

# Investment Market Review

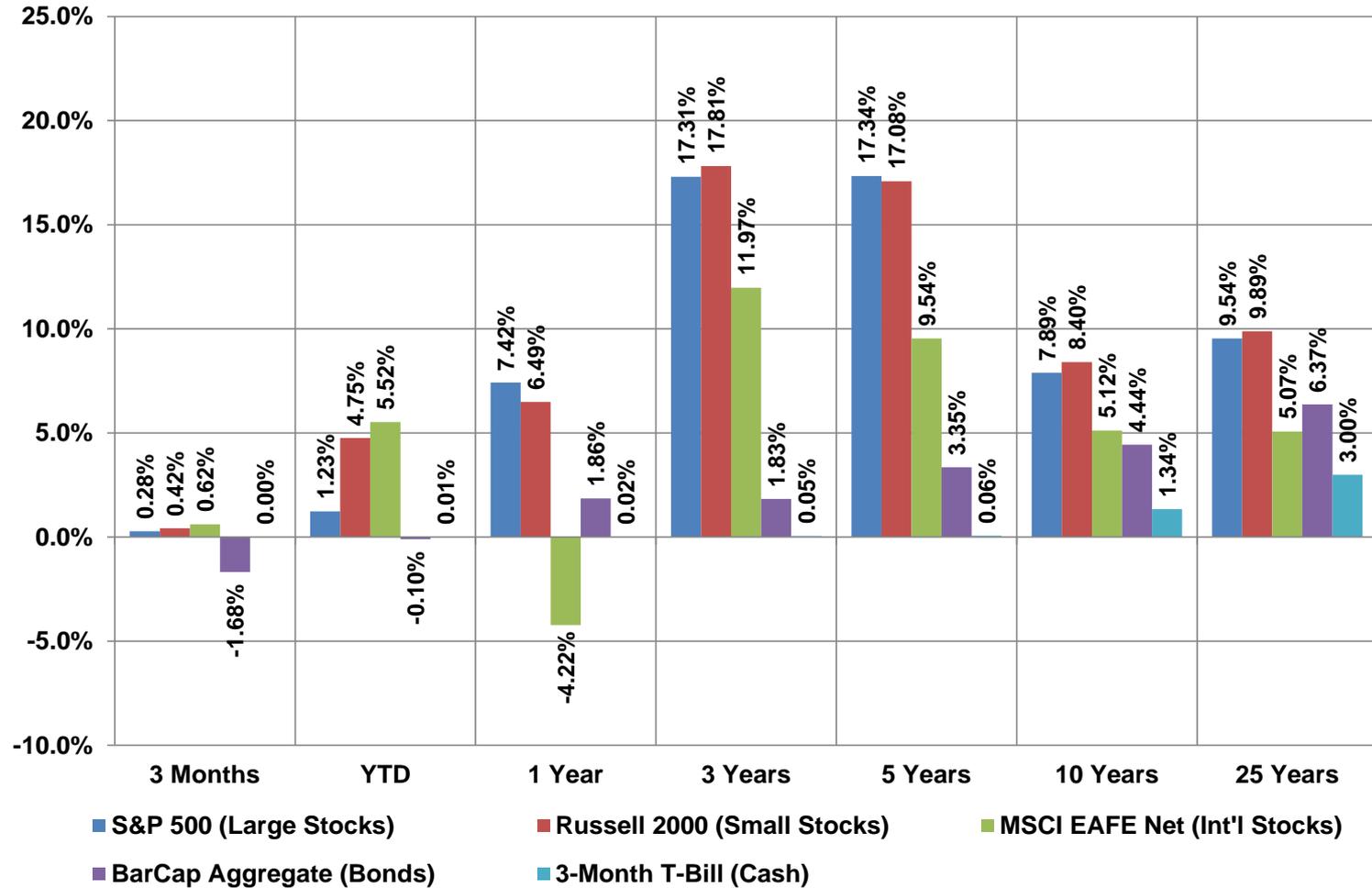
## Second Quarter 2015

# Capital Market Highlights

- U.S. stocks produced slightly positive returns during the second quarter with the S&P 500 index up 0.28%. U.S. bonds produced negative returns during the second quarter with the Barclay's Capital US Aggregate index down -1.68%.
- Returns on emerging markets stocks continued to move higher into positive territory during the second quarter with the MSCI Emerging Markets index returning 0.69%. Emerging markets debt posted negative returns during the second quarter with the JP Morgan Emerging Markets Bond index returning -0.29%. Investment managers and plans with emerging markets stock exposure tended to outperform peers with smaller allocations during the most recent quarter.
- The Federal Reserve dropped the word "patient" from its statements during the March meeting, and following the June meeting signaled it was on track to begin raising rates. With inflationary pressure low, foreign economies slowing, concerns over the future of Greece in the Eurozone, China's crashing stock market, and lower than expected GDP growth, the Fed may not feel pressure to raise rates as early as they anticipated. The previous consensus for rate increases was the second half of 2015, but this consensus keeps moving further out and with recent events there may not be an increase until 2016.

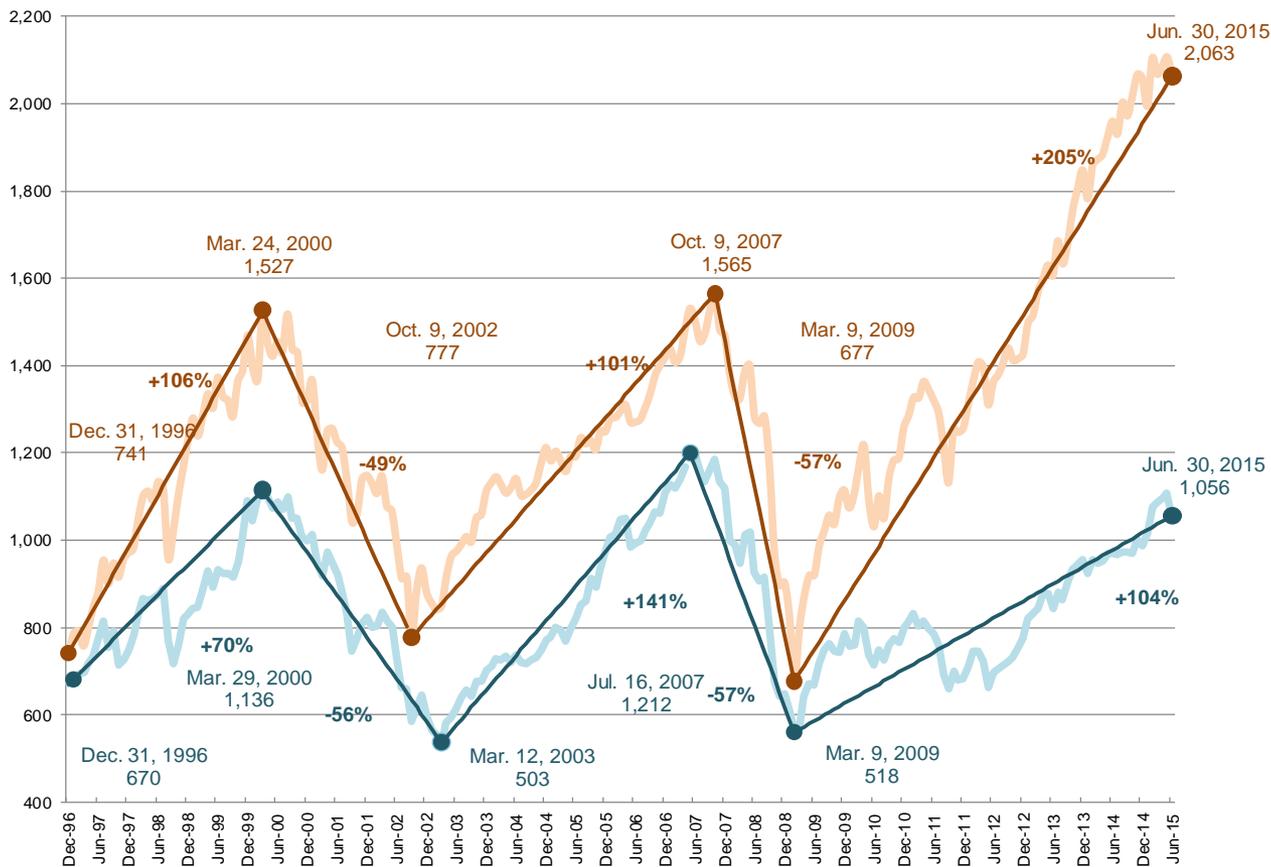
# Capital Market Highlights

## Capital Market Performance as of March 31, 2015



# Capital Market Highlights

## S&P 500 and MSCI EAFE at Inflection Points



S&P 500	P/E (fwd)
Dec. 31, 1996	16.0
Mar. 24, 2000	25.6
Oct. 9, 2002	14.1
Oct. 9, 2007	15.2
Mar. 9, 2009	10.3
Jun. 30, 2015	19.0

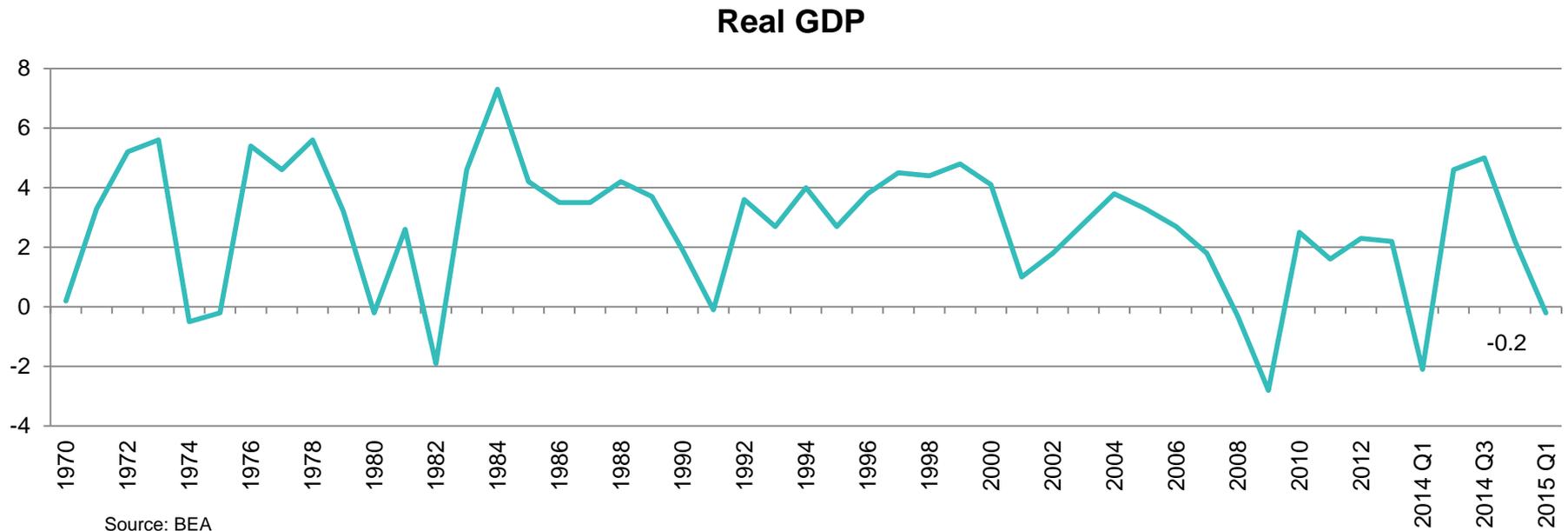
MSCI EAFE	P/E (fwd)
Dec. 31, 1996	19.5
Mar. 29, 2000	28.7
Mar. 12, 2003	13.2
Jul. 16, 2007	14.5
Mar. 9, 2009	10.2
Jun. 30, 2015	16.9

Source: Standard & Poor's,  
Morgan Stanley Capital International,  
J.P. Morgan Asset Management

Returns based on S&P 500 Index Price Movement and  
MSCI EAFE Local Currency Index Price Movement

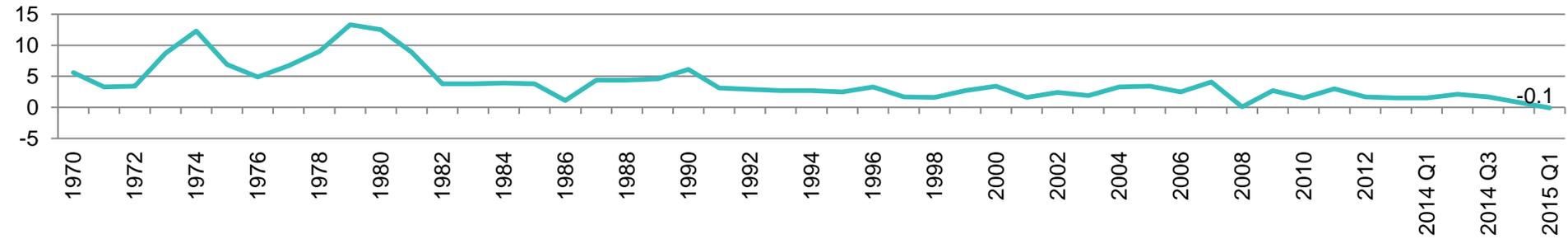
# US Economy

- The U.S. economy continues to move along, although a sharp slowdown was realized in the first quarter. GDP growth was just 0.2% during the first quarter of 2015, down from 2.2% in the fourth quarter. Personal consumption expenditures and private inventory investment were among the largest contributors to first quarter GDP. Detractors included exports and state and local government spending.
- First quarter estimates pointed to GDP growth just above 1%, far from the slightly negative growth experienced. Economists expect second quarter GDP growth to exceed 2% and 2015 GDP to be in the range of 2% to 3%. Second quarter GDP numbers have not been released.

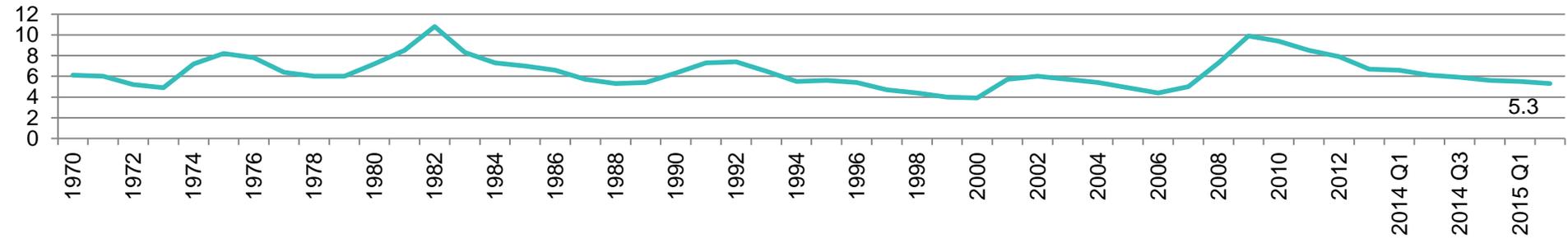


# US Economy

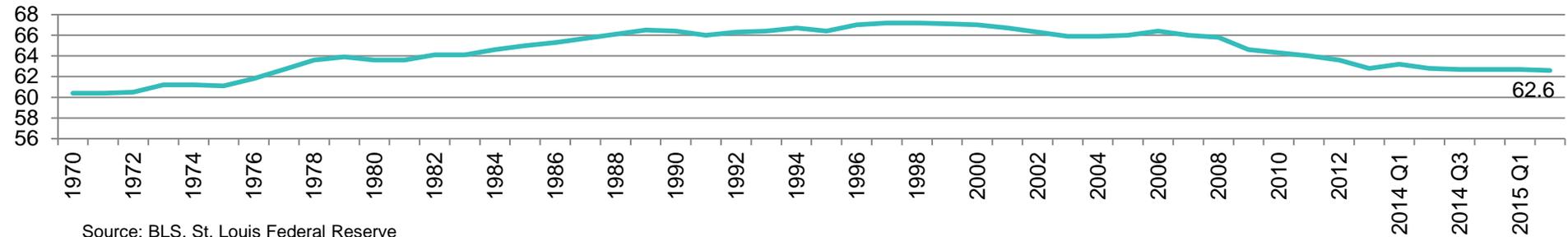
## Headline CPI



## Unemployment



## Labor Force Participation Rate

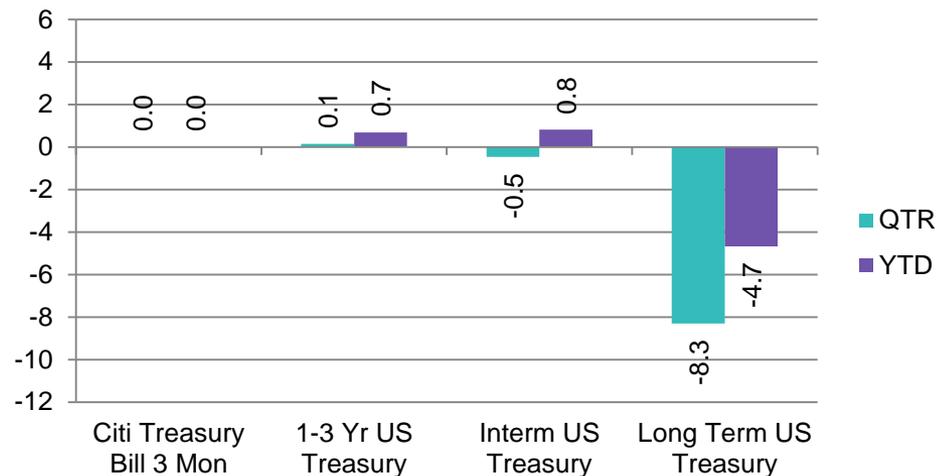


Source: BLS, St. Louis Federal Reserve

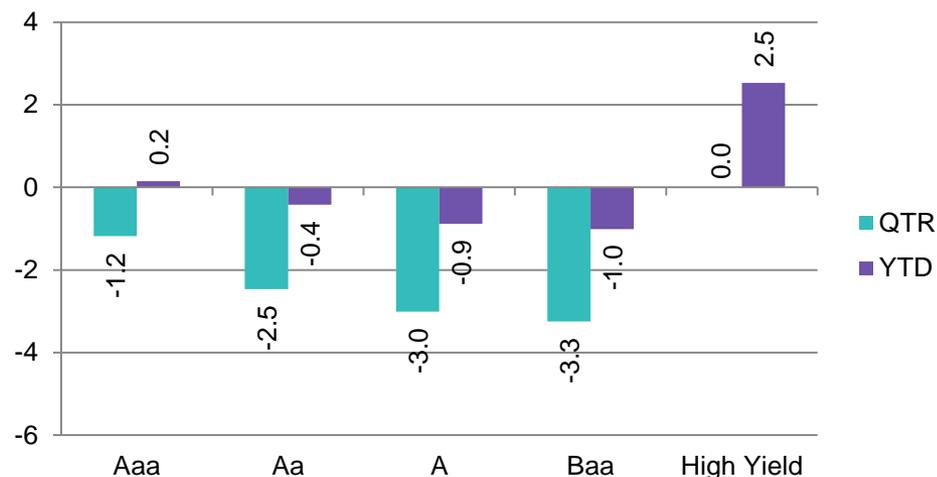
# Fixed Income

- The Federal Reserve dropped the word “patient” from its statements during the March meeting, and following the June meeting signaled it was on track to begin raising rates. Since 2009 the Federal Reserve has added more than \$3.5 trillion to its balance sheet. With inflationary pressure low, foreign economies slowing, concerns over the future of Greece in the Eurozone, China’s crashing stock market, and lower than expected GDP growth, the Fed may not feel pressure to raise rates as early as they anticipated. The previous consensus for rate increases was the second half of 2015, but this consensus keeps moving further out and with recent events there may not be an increase until 2016.
- **High Yield** was unable to post a gain for the quarter, but outperformed the negative returns posted by investment grade fixed income. The pick up in employment and the potential for the Fed to end its near zero rates may put pressure on rates. After bottoming in early February, the yield on 10 Year Treasury Notes has since rebounded, reaching almost 2.5% in early June.

### Bond Performance by Maturity



### Bond Performance by Quality

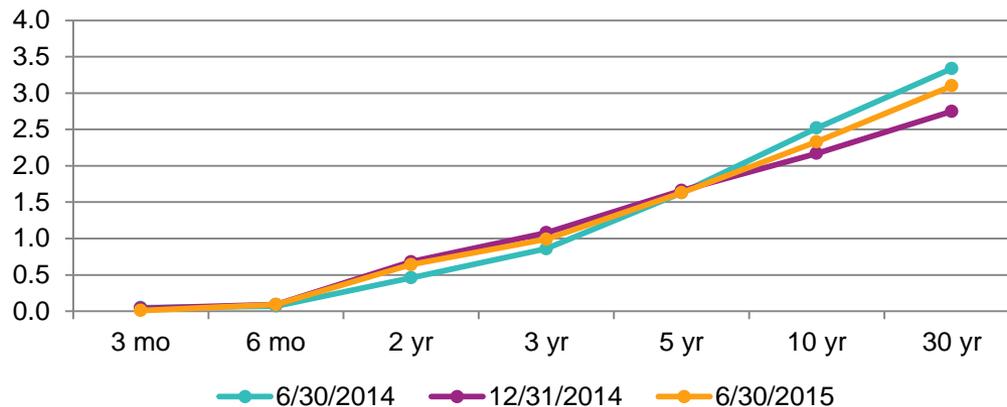


Source: Morningstar, Barclays Capital US Credit Indices

# Fixed Income

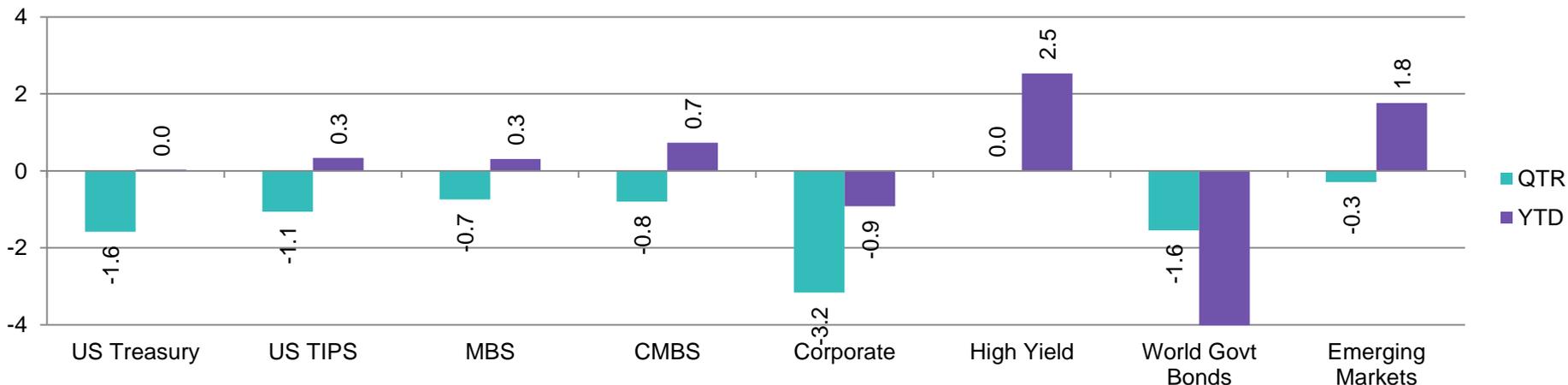
- The **Barclays Aggregate Index** returned -1.68% for the quarter. Treasuries held steady around 2% through April, and rose through the rest of the quarter.
- Long duration sectors generated the weakest returns, restrained by rising rates and a steepening yield curve. **Long Gov/Credit** and **Long Treasuries** returned -7.57% and -8.30% for the quarter, respectively.

## US Treasury Yield Curve



Source: Barclays

## Bond Performance by Sectors

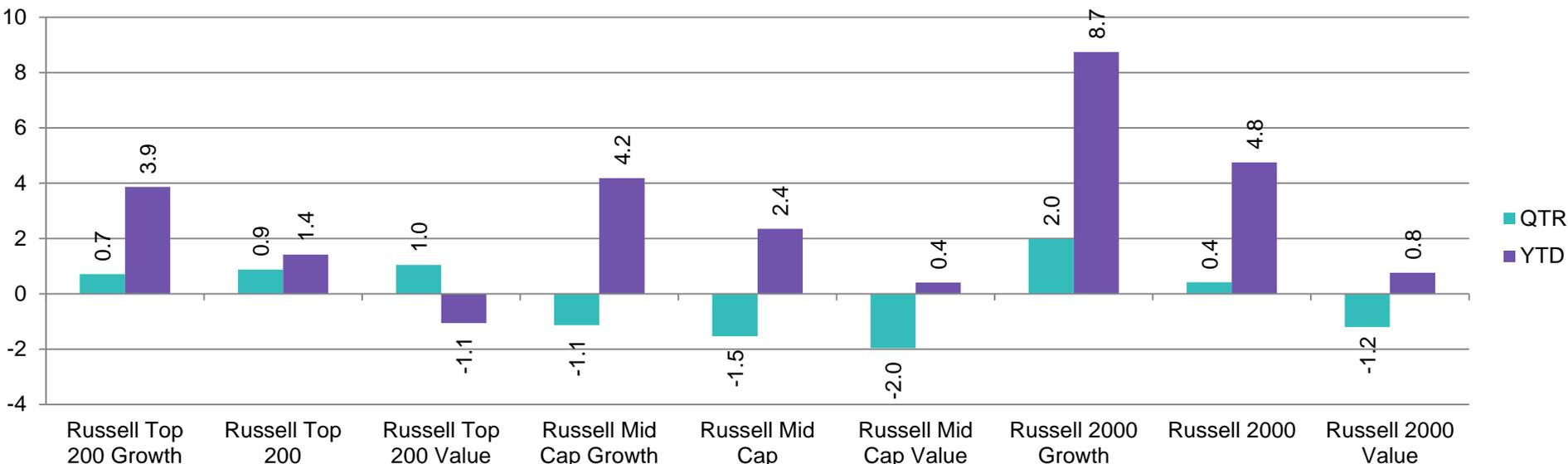


Source: Morningstar

# Equities

- US Equities were up for the quarter, with the **S&P 500** returning 0.28%.
- In terms of market capitalization, large stocks (**Russell Top 200**) performed the best, returning 0.87% for the quarter. In comparison, mid- and small-cap returned -1.54% and 0.42%, respectively, as measured by the **Russell Mid Cap** and the **Russell 2000**.
- The ongoing easy money policies have helped US equities, and inflation concerns remain low allowing for continued aggressive monetary policies. Although inflation increased slightly in the first half of 2014, it has fallen closer to 0% since then. Inflation remains below the Fed's target rate of 2%. First quarter inflation came in at -0.1% down from 0.8% in the fourth quarter.

### US Stocks by Capitalization/Style

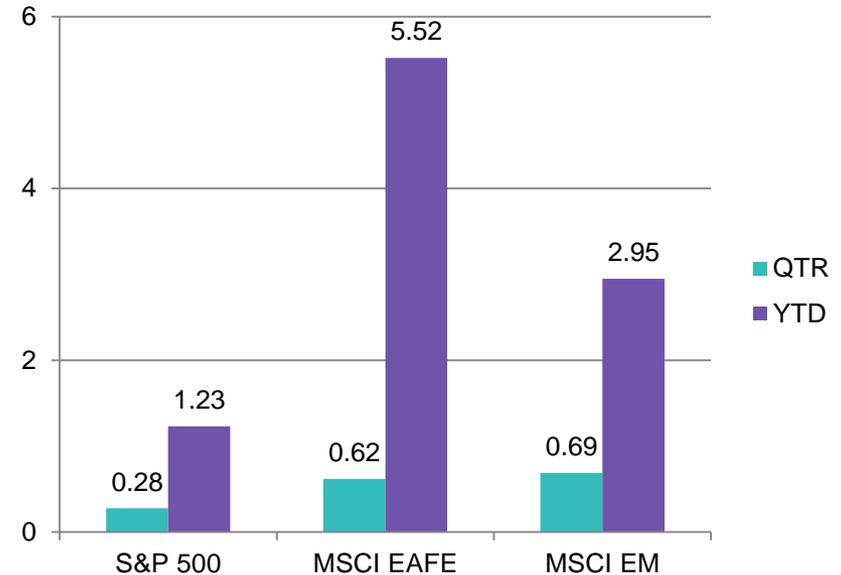


Source: Morningstar

# Equities

- Returns in **International Equities** were positive over the quarter with developed market equities returning 0.62% for the second quarter.
- **Emerging Market Equities** closely tracked their developed counterparts. The asset class was up 0.69% in the second quarter.
- In the second quarter, European equities returned mixed performance. French equities gained 0.31% while German equities lost -5.59%. Portugal returned 2.00%. Japan continued to be one of the better performing developed markets with a 3.09% return for the quarter.
- **European (ex UK) Equities** performed inline with Europe as a whole and returned -0.79% for the second quarter. The ECB continues to struggle with the threat of deflation.

### Global Stocks by Region



Source: Morningstar

# Market Indices

## Annual Returns

	2005 Return	2006 Return	2007 Return	2008 Return	2009 Return	2010 Return	2011 Return	2012 Return	2013 Return	2014 Return
S&P 500 Index	4.91	15.79	5.49	-37.00	26.46	15.06	2.11	16.00	32.39	13.69
NASDAQ	1.37	9.90	10.55	-40.03	45.32	18.02	-0.83	17.45	40.12	14.75
MSCI EAFE Index	14.02	26.86	11.63	-43.06	32.46	8.21	-11.73	17.90	23.29	-4.48
MSCI Emerging Markets Index	34.54	32.55	39.82	-53.18	79.02	19.20	-18.17	18.63	-2.27	-1.82
MSCI All Country World ex USA	17.11	27.16	17.12	-45.24	42.14	11.60	-13.33	17.39	15.78	-3.44
Russell 1000 Index	6.27	15.46	5.77	-37.60	28.43	16.10	1.50	16.42	33.11	13.24
Russell Midcap Index	12.65	15.26	5.60	-41.46	40.48	25.48	-1.55	17.28	34.76	13.22
Russell 2000 Index	4.55	18.37	-1.57	-33.79	27.17	26.85	-4.18	16.35	38.82	4.89
Russell 3000 Index	6.12	15.72	5.14	-37.31	28.34	16.93	1.03	16.42	33.55	12.56
Russell 1000 Growth Index	5.26	9.07	11.81	-38.44	37.21	16.71	2.64	15.26	33.48	13.05
Russell 1000 Value Index	7.05	22.25	-0.17	-36.85	19.69	15.51	0.39	17.51	32.53	13.45
Russell Midcap Growth Index	12.10	10.66	11.43	-44.32	46.29	26.38	-1.65	15.81	35.74	11.90
Russell Midcap Value Index	12.65	20.22	-1.42	-38.44	34.21	24.75	-1.38	18.51	33.46	14.75
Russell 2000 Growth Index	4.15	13.35	7.05	-38.54	34.47	29.09	-2.91	14.59	43.30	5.60
Russell 2000 Value Index	4.71	23.48	-9.78	-28.92	20.58	24.50	-5.50	18.05	34.52	4.22
NAREIT Equity REITs	12.16	35.06	-15.69	-37.73	27.99	27.96	8.29	18.06	2.47	30.14
Barclays Capital Intermediate G/C Bond Index	1.58	4.08	7.39	5.08	5.24	5.89	5.80	3.89	-0.86	3.13
Barclays Capital Long Term G/C Bond Index	5.33	2.71	6.60	8.44	1.92	10.16	22.49	8.78	-8.83	19.31
Barclays Capital Aggregate Bond Index	2.43	4.33	6.97	5.24	5.93	6.54	7.84	4.21	-2.02	5.97
Barclays Capital U.S. TIPS	2.84	0.41	11.64	-2.35	11.41	6.31	13.56	6.98	-8.61	3.64
Barclays Capital U.S. Government	2.65	3.48	8.66	12.39	-2.20	5.52	9.02	2.02	-2.60	4.92
Barclays Capital U.S. Corporate Inv Grade	1.68	4.30	4.56	-4.94	18.68	9.00	8.15	9.82	-1.53	7.46
Barclays Capital U.S. Corporate High Yield	2.74	11.85	1.87	-26.16	58.21	15.12	4.98	15.81	7.44	2.45
Citigroup Non-US WGBI USD	-9.20	6.94	11.45	10.11	4.39	5.21	5.17	1.51	-4.56	-2.68
JP Morgan EMBI Global Diversified USD	10.25	9.86	6.16	-12.03	29.82	12.24	7.35	17.44	-5.25	7.43
JP Morgan GBI EM Global Diversified USD	6.27	15.22	18.11	-5.22	21.98	15.68	-1.75	16.76	-8.98	-5.72
Citigroup 90-Day Treasury Bills	3.00	4.76	4.74	1.80	0.16	0.13	0.08	0.07	0.05	0.03
Citigroup Pension Liability Index	7.86	0.25	-2.89	17.57	4.61	13.76	28.33	11.66	-10.55	25.44