



Q3

Quarterly Market Review
Third Quarter 2016

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This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the performance of globally diversified portfolios and features a quarterly topic.

Overview:

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Real Estate Investment Trusts (REITs)







Commodities

Fixed Income

Global Diversification

Market Summary

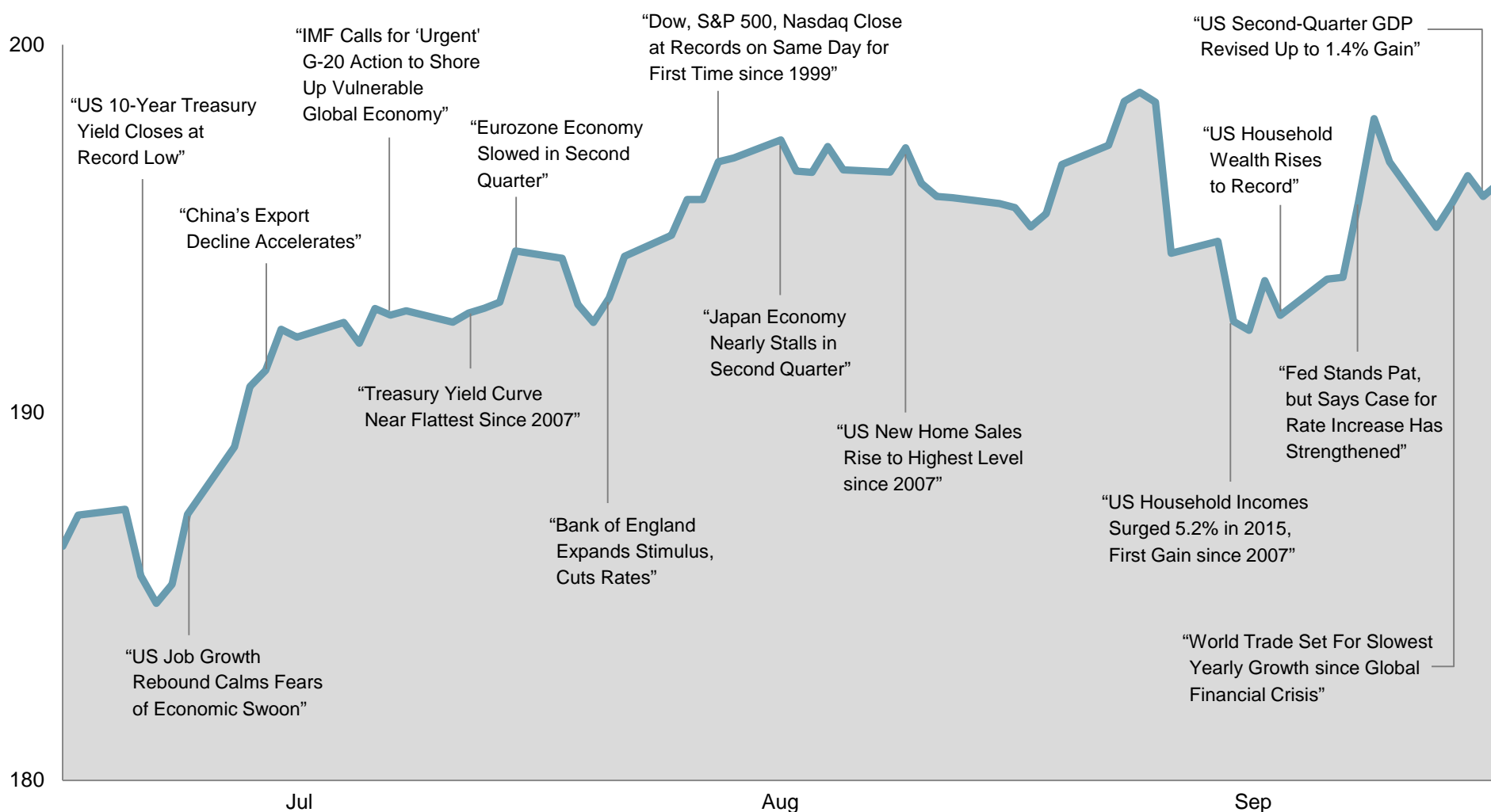
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
3Q 2016	STOCKS				BONDS	
	4.40% 	6.29% 	9.03% 	-0.23% 	0.46% 	0.10% 
Since Jan. 2001						
Avg. Quarterly Return	1.8%	1.4%	3.0%	2.8%	1.3%	1.2%
Best Quarter	16.8% Q2 2009	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009	4.6% Q3 2001	5.5% Q4 2008
Worst Quarter	-22.8% Q4 2008	-21.2% Q4 2008	-27.6% Q4 2008	-36.1% Q4 2008	-2.4% Q2 2004	-3.2% Q2 2015

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1-30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2016, all rights reserved. Bloomberg Barclays data provided by Bloomberg. Citigroup bond indices © 2016 by Citigroup.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q3 2016



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

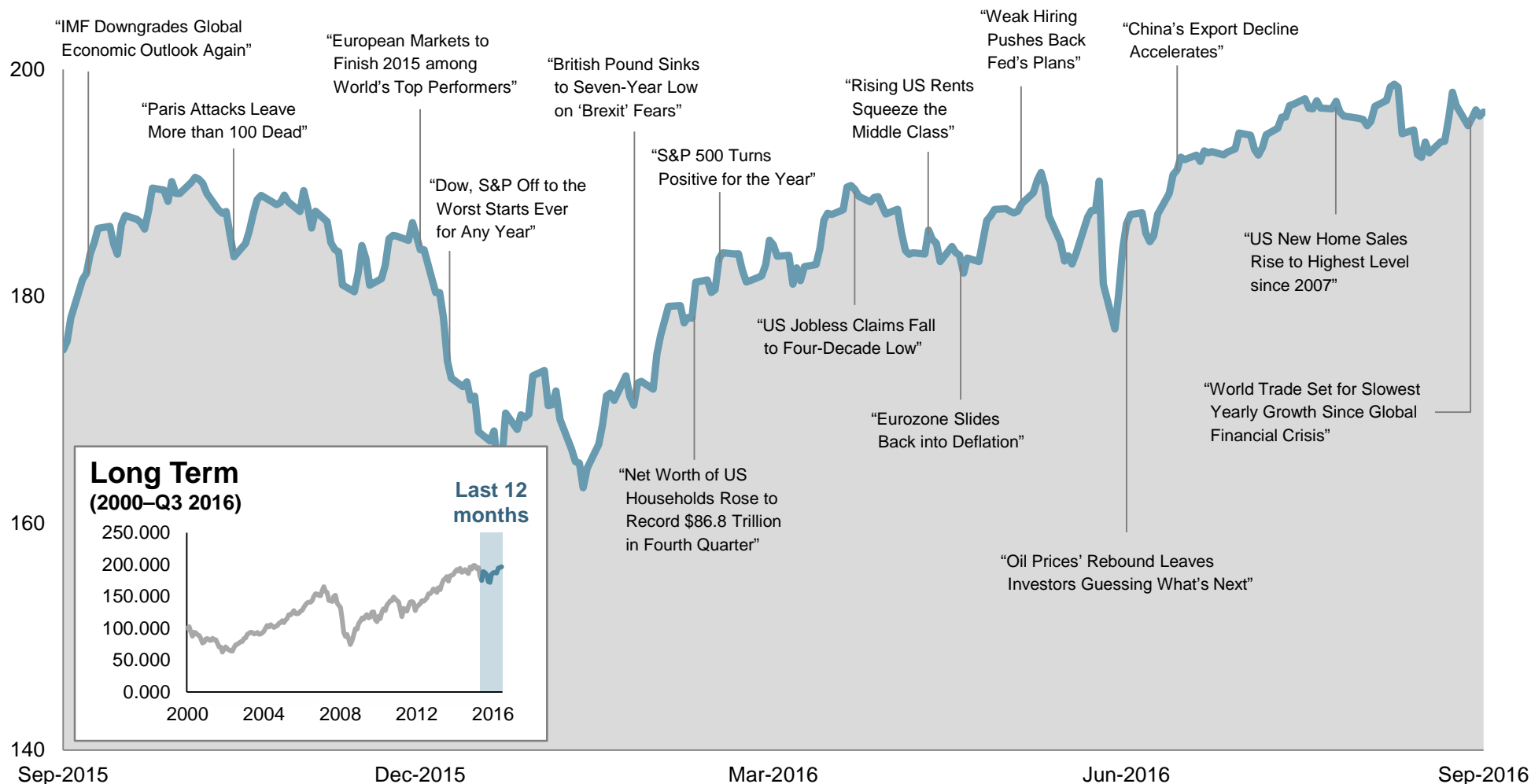
Graph Source: MSCI ACWI Index. MSCI data © MSCI 2016, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months

Short Term (Q4 2015–Q3 2016)



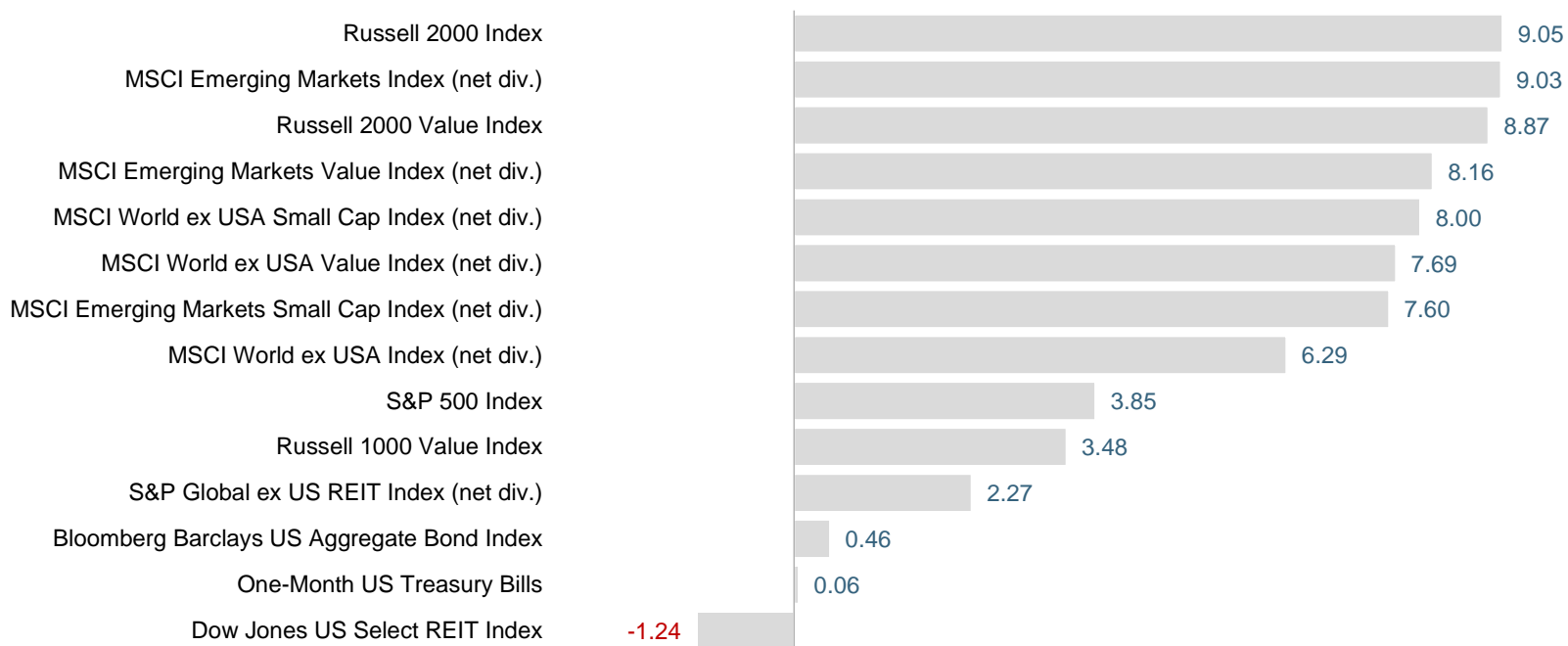
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 Graph Source: MSCI ACWI Index. MSCI data © MSCI 2016, all rights reserved.
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World Asset Classes

Third Quarter 2016 Index Returns (%)

Looking at broad market indices, emerging markets outperformed all other equity markets during the quarter. The US equity market lagged developed markets outside the US. US real estate investment trusts (REITs) recorded negative absolute returns and lagged the US equity market.

The value effect was negative in the US and emerging markets but positive in developed markets outside the US. Small caps outperformed large caps in the US and in developed markets outside the US but underperformed in emerging markets



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US Stocks

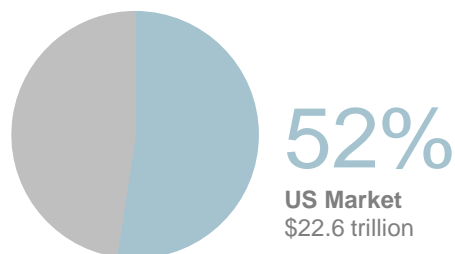
Third Quarter 2016 Index Returns

The broad US equity market recorded positive absolute performance for the quarter.

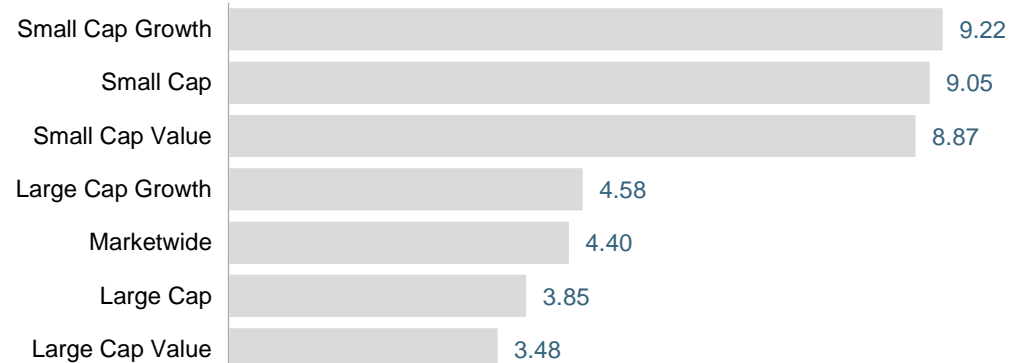
Value indices underperformed growth indices across all size ranges.

Small caps outperformed large caps.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	8.18	14.96	10.44	16.36	7.37
Large Cap	7.84	15.43	11.16	16.37	7.24
Large Cap Value	10.00	16.20	9.70	16.15	5.85
Large Cap Growth	6.00	13.76	11.83	16.60	8.85
Small Cap	11.46	15.47	6.71	15.82	7.07
Small Cap Value	15.49	18.81	6.77	15.45	5.78
Small Cap Growth	7.48	12.12	6.58	16.15	8.29

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International Developed Stocks

Third Quarter 2016 Index Returns

In US dollar terms, developed markets outside the US outperformed the US equity market but underperformed emerging markets indices during the quarter.

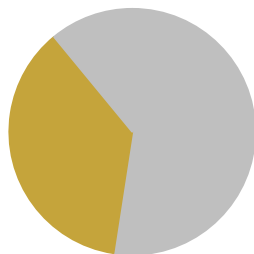
Small caps outperformed large caps in non-US developed markets.

Looking at broad market indices across all size ranges, the value effect was positive in non-US developed markets.

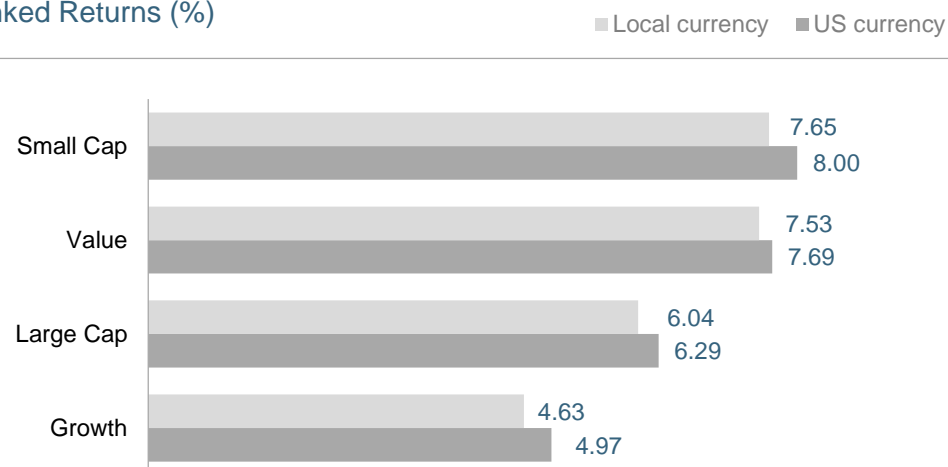
World Market Capitalization—International Developed

37%

International
Developed
Market
\$15.8 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Large Cap	3.12	7.16	0.33	6.89	1.88
Small Cap	7.26	13.50	4.15	9.72	4.11
Value	2.64	4.87	-1.69	5.64	0.66
Growth	3.61	9.42	2.30	8.08	3.04

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Emerging Markets Stocks

Third Quarter 2016 Index Returns

In US dollar terms, emerging markets indices outperformed both the US market and developed markets outside the US.

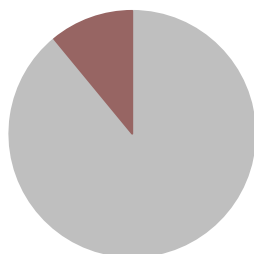
Using broad market indices as proxies, the value effect was negative in emerging markets. Large cap value indices underperformed large cap growth indices. The opposite was true among small caps; small cap value indices outperformed small cap growth indices.

Large cap indices outperformed small cap indices.

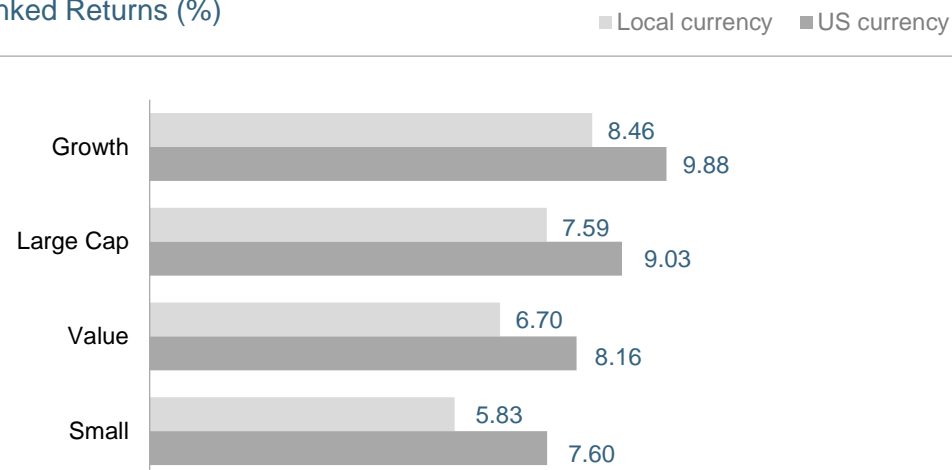
World Market Capitalization—Emerging Markets

11%

Emerging Markets
\$4.7 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Large Cap	16.02	16.78	-0.56	3.03	3.95
Small Cap	9.08	12.65	1.29	4.72	5.97
Value	16.18	14.50	-3.00	0.79	3.77
Growth	15.84	18.92	1.81	5.19	4.03

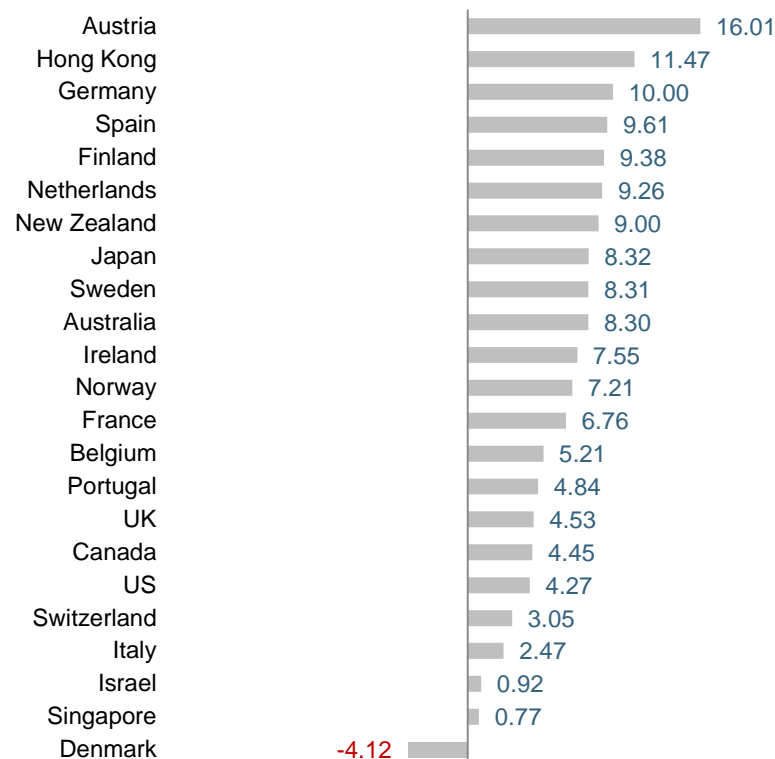
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Select Country Performance

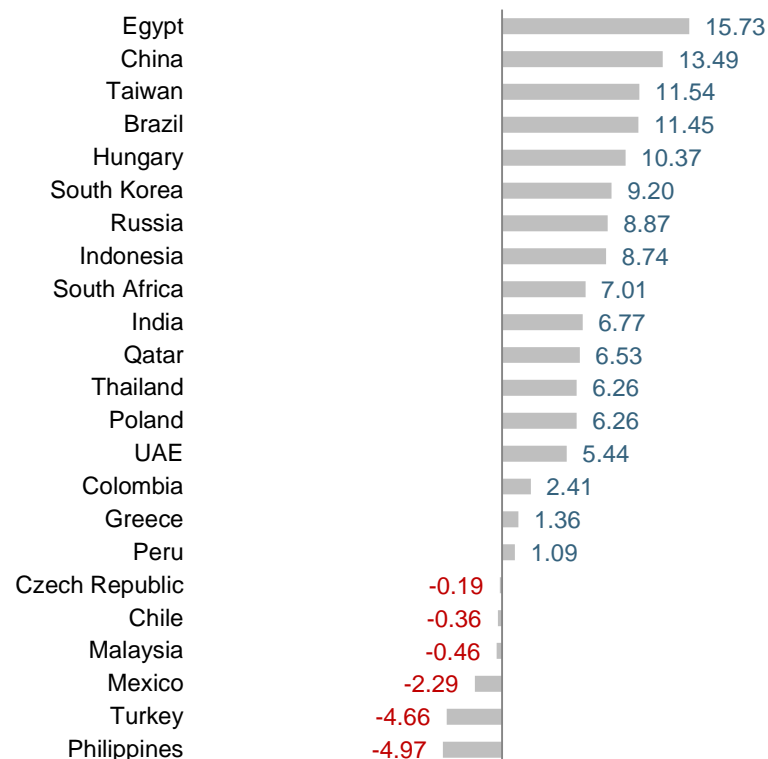
Third Quarter 2016 Index Returns

Austria and Hong Kong recorded the highest country performance in developed markets, while Singapore and Denmark posted the lowest performance for the quarter. In emerging markets, Egypt and China were the top performers, while Turkey and the Philippines recorded the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



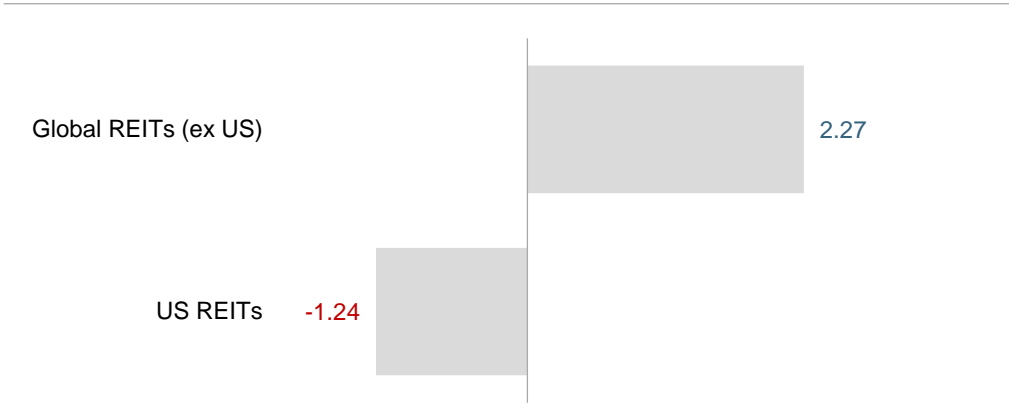
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), Russell 3000 Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. MSCI data © MSCI 2016, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Real Estate Investment Trusts (REITs)

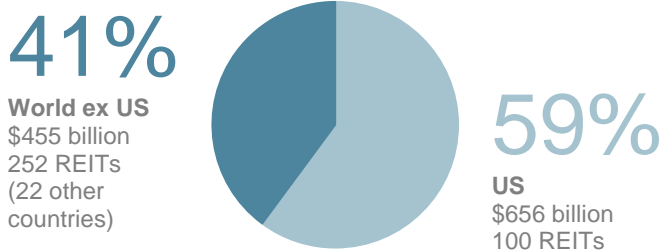
Third Quarter 2016 Index Returns

US REITs posted negative absolute performance for the quarter, lagging the broad equity market. REITs in developed markets recorded positive absolute returns but underperformed broad developed markets equity indices.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITs	9.45	17.70	14.29	15.60	5.80
Global REITs (ex US)	12.52	14.61	6.03	10.46	2.55

* Annualized

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's Index Services Group © 2016.

Commodities

Third Quarter 2016 Index Returns

Commodities were mixed for the third quarter but remained positive for the year-to-date period ending September 30, 2016. The Bloomberg Commodity Index Total Return posted a -3.86% return during the quarter.

The softs complex led the index: Sugar gained 9.76%, cotton climbed 6.09%, and coffee was up 1.42%. Industrial metals also recorded gains, with zinc returning 12.55% and nickel 11.46%.

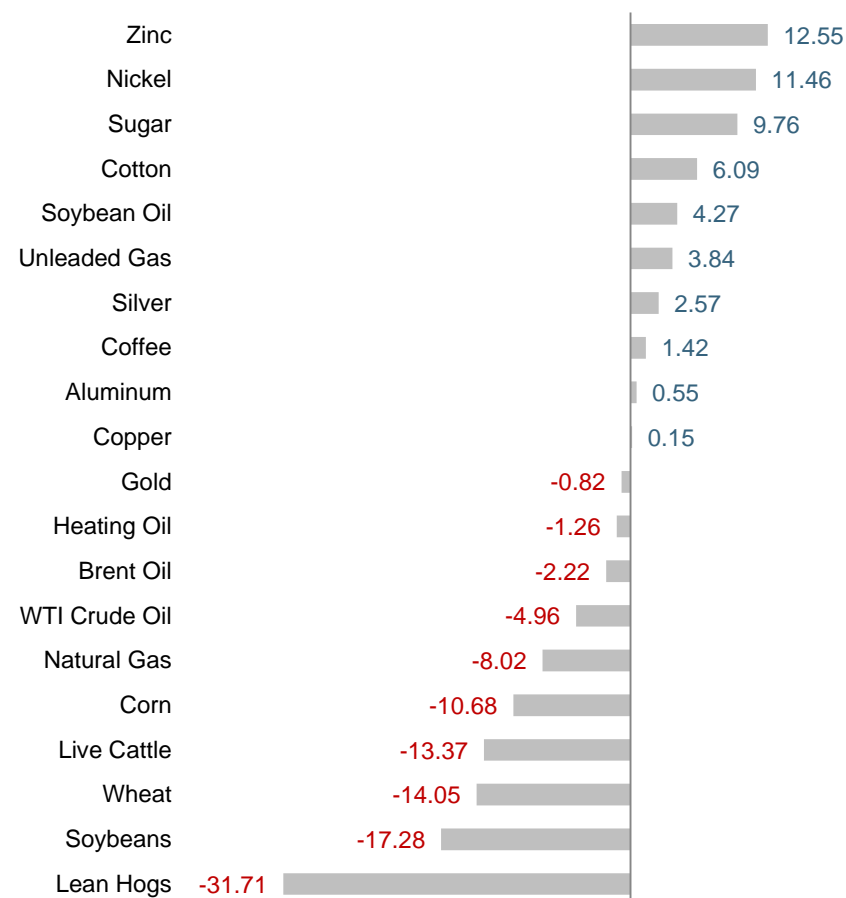
Energy fell, with natural gas declining 8.02%, Brent crude oil down 2.22%, and WTI crude oil falling 4.96%. Lean hogs underperformed the most, returning -31.71%. Gold declined 0.82%.

Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	8.87	-2.58	-12.34	-9.37	-5.33

Ranked Returns for Individual Commodities (%)



Fixed Income

Third Quarter 2016 Index Returns

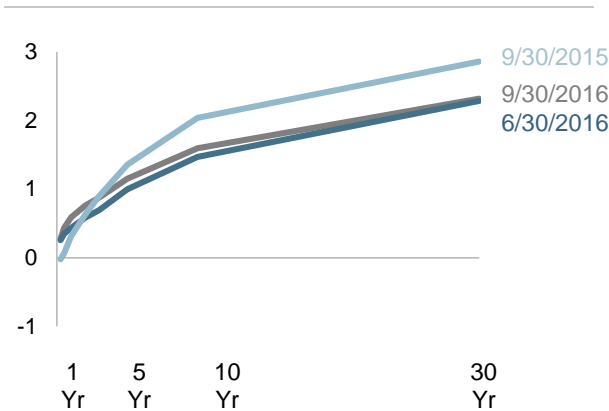
Interest rates across the US fixed income markets generally increased in the third quarter. The yield on the 5-year Treasury note rose 13 basis points (bps) to 1.14%. The yield on the 10-year Treasury note rose 11 bps to 1.60%. The 30-year Treasury bond increased 2 bps to finish with a yield of 2.32%.

The 1-year Treasury bill yield rose 14 bps to 0.59%, and the 2-year Treasury note yield increased 19 bps to 0.77%. The yield on the 3-month Treasury bill rose 3 bps to 0.29%, while the 6-month Treasury bill was up 9 bps to 0.45%.

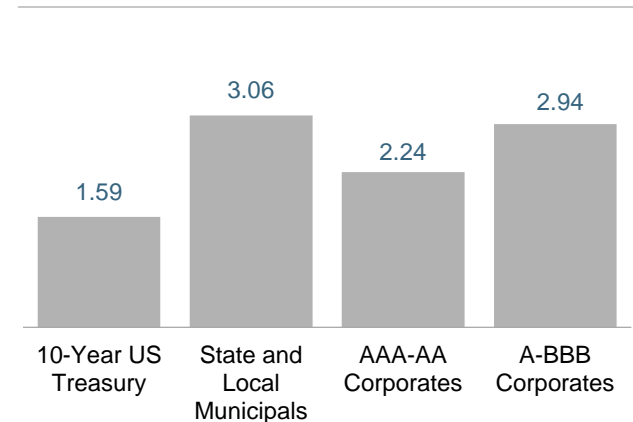
Short-term corporate bonds gained 0.32%. Intermediate-term corporates rose 0.89%, while long-term corporate bonds gained 2.56%.¹

Short-term municipal bonds returned -0.21%, while intermediate-term municipal bonds were unchanged. Revenue bonds slightly outperformed general obligation bonds.²

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch 1-Year US Treasury Note Index	0.71	0.54	0.35	0.33	1.53
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.24	0.27	0.12	0.10	0.92
Citigroup WGBI 1-5 Years (hedged to USD)	1.98	1.89	1.70	1.60	2.78
Bloomberg Barclays Long US Government Bond Index	14.61	13.02	11.07	5.48	7.97
Bloomberg Barclays Municipal Bond Index	4.01	5.58	5.54	4.48	4.75
Bloomberg Barclays US Aggregate Bond Index	5.80	5.19	4.03	3.08	4.79
Bloomberg Barclays US Corporate High Yield Index	15.11	12.73	5.28	8.34	7.71
Bloomberg Barclays US TIPS Index	7.27	6.58	2.40	1.93	4.48

* Annualized

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1. Bloomberg Barclays US Corporate Bond Index. 2. Bloomberg Barclays Municipal Bond Index. Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citigroup bond indices © 2016 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2016 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation.

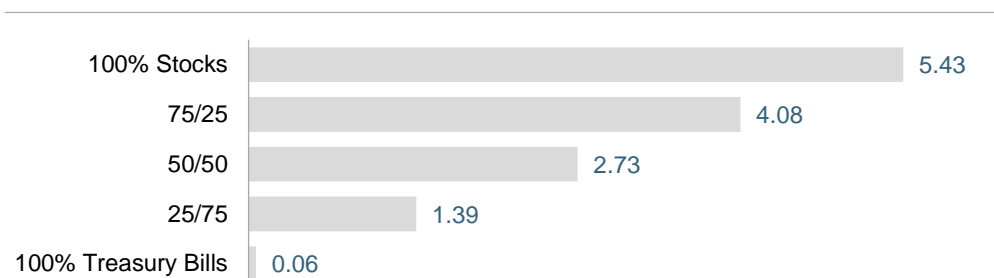
Global Diversification

Third Quarter 2016 Index Returns

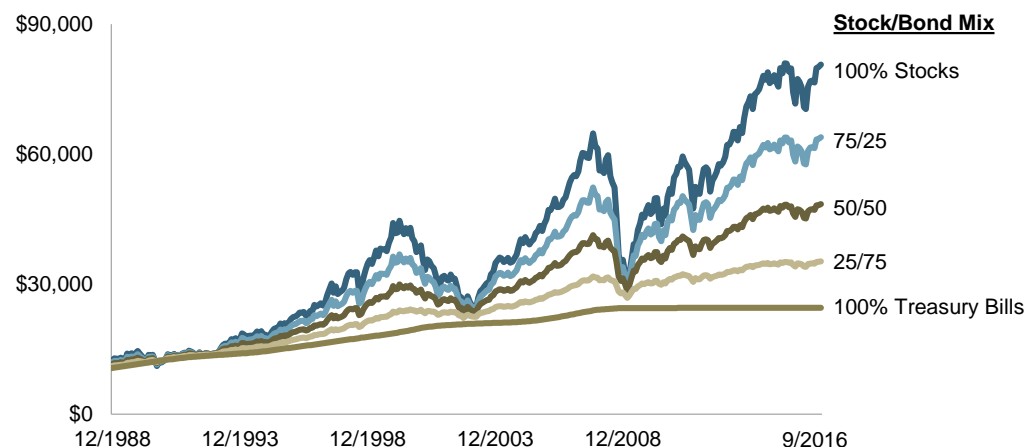
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Period Returns (%)		* Annualized				
Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	
100% Stocks	7.09	12.60	5.74	11.23	4.90	
75/25	5.42	9.53	4.41	8.48	4.15	
50/50	3.70	6.43	3.02	5.70	3.21	
25/75	1.94	3.30	1.57	2.89	2.09	
100% Treasury Bills	0.14	0.16	0.06	0.05	0.79	

Ranked Returns (%)



Growth of Wealth: The Relationship between Risk and Return



Diversification does not eliminate the risk of market loss. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio. Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2016, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).