

# Market Update

Stoker Ostler

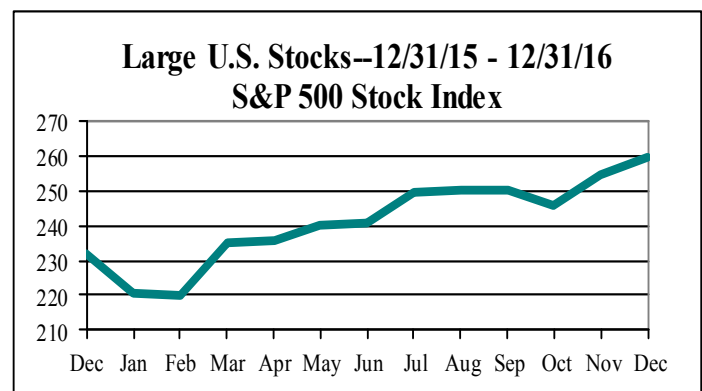
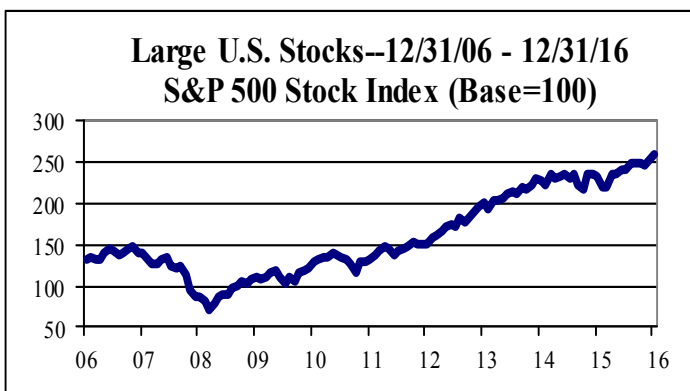
BMO  | A part of BMO Financial Group

December 2016

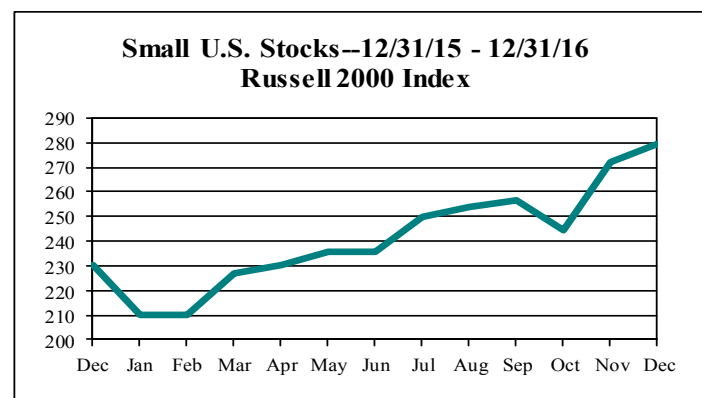
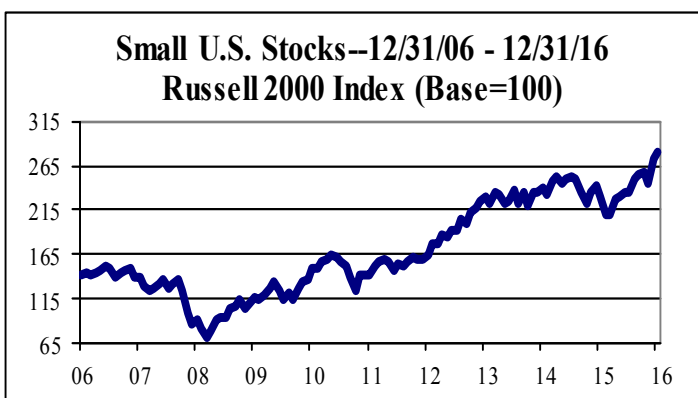
## U.S. Markets

The U.S. stock market finished 2016 with a bang as the Dow Jones, S&P 500, and NASDAQ all reached record highs. Strong quarterly returns capped off a largely positive year for domestic large-cap equities as the S&P finished the year up 12.0%. Domestic small-cap stocks fared even better with the Russell 2000 surging 8.8%, contributing to an impressive annual return of 21.3%. U.S. small-cap stocks were one of the strongest performing asset classes of the year.

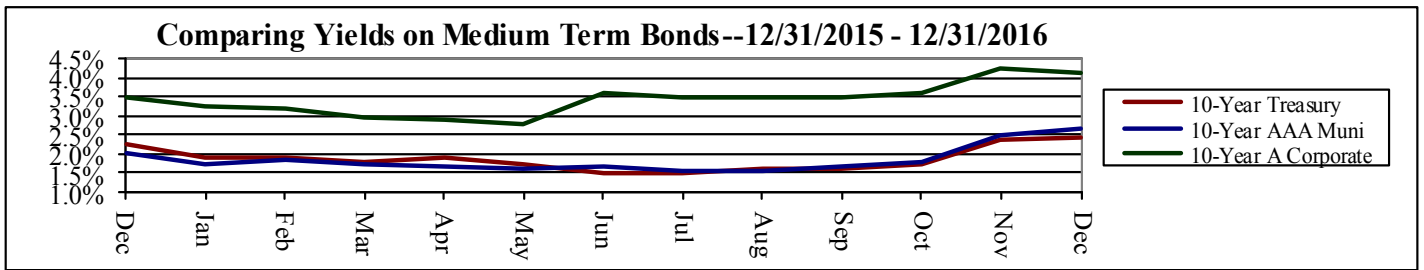
Positive economic data proved to be a tailwind for equity returns throughout the quarter. Consumer confidence increased dramatically to the highest levels seen since 2001. The unemployment rate moved slightly, ending the year at 4.7%, while wage growth saw a solid increase of 1.7%. These positive economic indicators led the Federal Reserve to increase the Federal Funds rate to 0.50%. Additionally, the Federal Reserve indicated their intent to raise rates several more times during 2017. Rising interest rates during the final quarter of the year were a headwind for domestic bonds. The Barclays U.S. Aggregate Index fell 3.0%, however, year-to-date returns were still positive at 2.7%.



Thru 12/31/16	Year to Date	1 Year	5 Years	10 Years
S&P 500	+12.0%	+12.0%	+14.7%	+7.0%



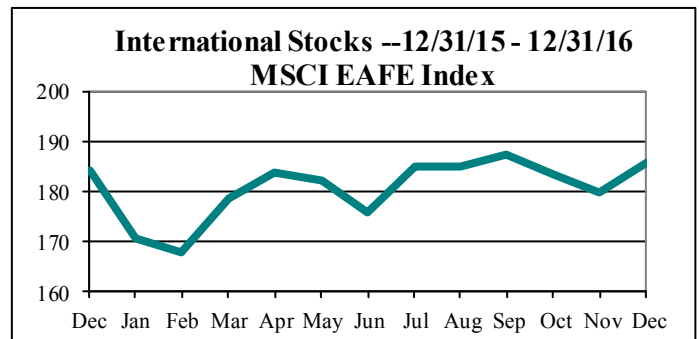
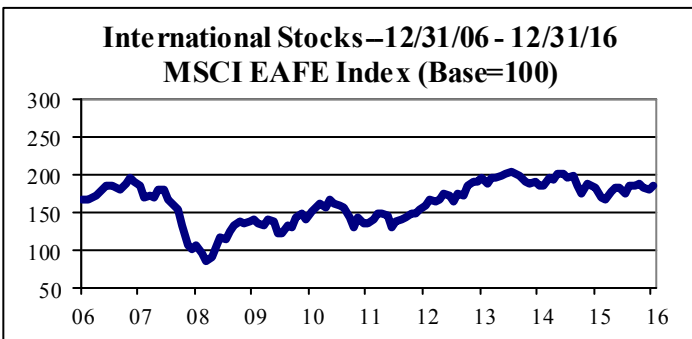
Thru 12/31/16	Year to Date	1 Year	5 Years	10 Years
Russell 2000	+21.3%	+21.3%	+14.5%	+7.1%



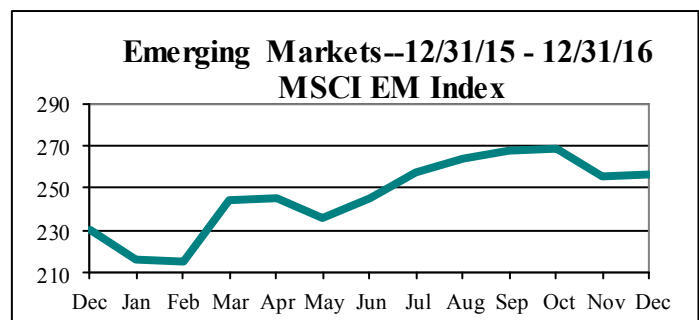
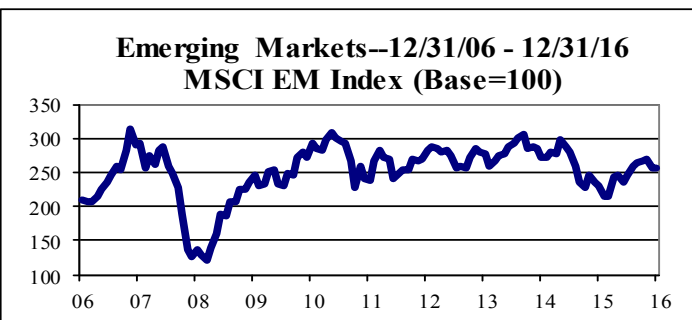
## International Markets

The bullish sentiment for U.S. stocks was not shared internationally. Developed international large-cap stocks (MSCI EAFE Index) fell by 0.7% during the final quarter, leaving a paltry year-to-date return of 1.0%. Developed international small-cap stocks fell by 2.9% during the quarter with an annual return of 2.2%. Despite the lower returns, the economic picture in Europe continues to brighten. GDP growth has nudged up in key European Union countries, particularly Germany. In addition, the Eurozone saw its highest inflation rate since 2014 during the final quarter of the year – a positive sign for future growth.

Emerging Markets (MSCI Emerging Markets Index) fared poorly this quarter, falling 4.2% on growing nationalist sentiment and uncertainty surrounding President-Elect Trump’s trade policies. Even with the weak quarterly return, emerging markets offered an attractive year-to-date return of 11.2%. Oil prices shot up over 50% during 2016, the largest annual gain since the financial crisis. Global suppliers continued to shrink their output in response to persistent issues of oversupply, triggering the price increase. Oil finished the year at \$52.62. This strong recovery in oil prices has been a boon to commodity-driven emerging market countries like Brazil and Russia.



Thru 12/31/16	Year to Date	1 Year	5 Years	10 Years
MSCI EAFE	+1.0%	+1.0%	+6.7%	+1.1%



Thru 12/31/16	Year to Date	1 Year	5 Years	10 Years
MSCI EM	+11.2%	+11.2%	+1.4%	+2.1%

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