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2017 Second Quarter Market Watch

Global stock markets posted their best first half in years, with most of the major equity indices rising in the year to date. The opening first half performance of 2017 has been unmatched since 2009. The breadth of the current rally was partly attributed to strengthening corporate earnings and improving economies from continued supportive central bank policies.

Within US equities, the tech-heavy Nasdaq composite surged 14%, its best first half since 2003. The Dow Jones Industrial Average and S&P 500 each rose 8%.

International companies, after an era of slow growth, have entered into a period of more sustainable recovery. The MSCI EAFE ex-Japan index, has returned 14.2% in the year-to-date, and a strong 20.8% return over the past 12 months. Emerging market equities delivered a robust 18.6% return YTD and a 24.2% gain over the past year. Still, equity prices of both regions are well below their previous peaks. Economic and consumer sentiment are clearly improving, along with better GDP's. Looking ahead, we expect the next phase of global growth to be determined by the pace of corporate investment growth. So far, investment has accelerated across international economies, in both the developed- and developing regions.

Despite the policy and political uncertainty seen in the US under the new administration, and in the UK and Brazil, world equity markets have been unusually calm in the first half of the year. Volatility has remained near a multiyear low not only in the US, but also in Europe and Asia. Looking ahead, the question for investors is whether the strong first six months heralds a choppier second half of 2017, or the start of a multiyear upswing.

In spite of the continued market rally, the US economy has been uninspiring this year. In the first quarter, GDP growth, although revised up, remained at an anemic 1.4% rate. However, businesses' willingness to invest in capital equipment and new plants has been a bright spot. The US labor market remains healthy. The US Unemployment rate was at 4.4% in June and nonfarm payroll growth was stronger than expected. Although wage growth remains weak at 2.3% year-over-year, the US labor market shows little slack going forward and wage pressure is likely to build up in the coming quarters.

	Date	2nd Quarter		YTD		1 Yr ago
	6/30/2017	3/31/2017	% chg	12/31/2016	% chg	Return*
DJIA	21,349.63	20,663.22	4.0%	21,349.63	9.3%	22.1%
S&P 500	2,423.41	2,362.72	3.1%	2,423.41	9.3%	17.9%
NASDAQ Composite	6,140.42	5,911.74	4.2%	6,140.42	14.7%	28.3%
Russell 2000	3,517.52	3,444.36	2.5%	3,517.52	5.0%	24.6%

	Date	2nd Quarter		YTD		1 Yr ago
	6/30/2017	3/31/2017	% chg	12/31/2015	% chg	Return*
Japan Nikkei 225	20,033.43	18,909.26	5.1%	20,033.43	8.8%	10.3%
MSCI EM (Emerging Markets)	1,010.80	958.37	6.4%	54,162.85	18.6%	24.2%
MSCI EAFE	1,883.19	1,792.98	6.4%	1,883.19	14.2%	20.8%
MSCI AC World	465.09	448.87	4.5%	465.09	11.8%	19.4%
FTSE 100 (TR)	6,096.93	6,036.73	4.9%	6,096.93	4.9%	10.6%
SSE Composite Index	3,192.43	3,222.51	0.7%	3,192.43	0.7%	5.2%

US Sector Performance

	Q2	YTD	1-year
Consumer Discretionary	2.4%	11.0%	11.8%
Consumer Staples	1.6%	8.0%	3.8%
Energy	-6.4%	-12.6%	-2.3%
Financials	4.2%	6.9%	30.7%
Health Care	7.1%	16.1%	7.2%
Industrials	4.7%	9.5%	18.2%
Information Tech	4.1%	17.2%	24.1%
Materials	3.2%	9.2%	12.8%
Telecom	-7.0%	-10.7%	-12.6%
Utilities	2.2%	8.8%	3.2%

Exchange Rates

	Jun-17	Dec-16	1-Yr Ago
Euro per U.S. Dollar	0.877	0.948	0.878
British Pounds per U.S. Dollar	0.770	0.809	0.696
Swiss Franc per U.S. Dollar	0.958	1.016	0.958
China Renminbi per U.S. Dollar	6.780	6.950	6.468
Indian Rupee per U.S. Dollar	64.638	67.870	66.223

Economic Sentiment

	Jun-17	1 Yr. Ago
Unemployment Rate	4.40	4.90
Avg Single Family Home	305,500	291,300
Capacity Utilization	76.57	75.80

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After a 20% correction from February highs, crude oil re-entered a bear market territory in late June. Shortly after, oil rallied 10% over eight straight sessions, its longest winning streak in half a decade. Behind the short-term ups and downs of crude oil prices, little has changed. While our investment team here at the 1911 Trust Company does not expect a sustained oil price recovery to above $60 per barrel before year-end 2017, we believe that the slower pace of US onshore production growth, coupled with the continued recovery of the global economy, should prevent a sharp downfall seen in early 2016.

US corporations have just entered the depths of their second quarter earnings reporting season. Financials have launched the start of the latest US earnings season mid-July, followed by the so called "FAANG" stocks, an alias for Facebook, Apple, Amazon, Netflix and Google, which have announced a week after. Earnings results have historically served as catalysts for equity price movements. So far into this earnings season, corporate profit growth remains robust, although at a diminished pace vs. the first quarter.

In early July, investors tasted the greater uncertainty that lies ahead, when the top European Central Bank officials offered mixed messages on the future of its bond-buying program. Heads of central banks in the UK and Canada also indicated they were pondering when to raise interest rates. Stocks and currencies gyrated on the concerns of less central bank accommodation, moves reminiscent of the 2013 taper tantrum in the US, touched off when the Fed signaled a reduction in asset purchases.

Bond Markets

	Jun -17	Dec-16	1 Yr. Ago
Treasury Bill, 90 Day	1.02	0.50	0.26
Treasury Note, 2 Year	1.38	1.20	0.58
Treasury Note, 5 Year	1.88	1.92	1.00
Treasury Bond, 10 Year	2.30	2.44	1.47
Treasury Bond, 30 Year	2.83	3.07	2.28

US Bond Sector Performance

	Q2	YTD	1-Year Return
BAR CAP Govt. Interm. TR	0.7%	1.2%	-1.3%

Commodities (In US dollars)

	Jun-17	Dec-16	1 Yr. Ago
Gold	1,242.30	1,151.70	1,320.60
Crude Oil	46.04	53.72	48.33
CRB Index	95.42	102.29	96.20

Interest Rates

	Jun-17	Dec-16	1 Yr. Ago
PRIME RATE	4.25	3.75	3.50
FEDERAL FUNDS RATE	1.16	0.66	0.38
LIBOR RATE 30 DAY	0.16	0.16	0.16
LIBOR RATE 3 MONTHS	0.23	0.23	0.23
30YR FIXED MORTGAGE	3.88	4.32	3.48

Investment stakes have escalated, along with the aforementioned positive returns. In the US, the Dow, S&P 500 and Nasdaq Composite have set numerous record highs in the ninth year of a bull market. Globally, nearly half of the top stock indices are at or near all-time highs. Our investment professionals here at the 1911 Trust Company remain disciplined in balancing our investment exposures across asset classes, and vigilant in manager selection and monitoring process, seeking to make the optimal long-term investment decisions for our clients.

Kevin Kavanaugh
Chief Investment Officer

Lei Qin, CFA, FRM, CAIA
Director of Equity Research

*Performance for world indices represents total returns (including dividends) for the DJIA, S&P 500, NASDAQ, Russell 2000, MSCI EM and MSCI EAFE. For the NYSE, SSE, and Nikkei, due to data availability, price returns (excluding dividends) are used.