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Q3 underscores another quarter of the risk asset rally, as broad-based, favorable financial conditions create a supportive backdrop for equities. Emerging market equities led performance, exceeding the US and developed international markets during the quarter, with their returns in US dollar terms further boosted by a weaker dollar. Breaking the trend from Q2, US small cap stocks outperformed large caps, with the Russell 2000 returning 5.7% and the S&P 500 returning 4.5%, respectively.

The end of Q3 stood out as one of the calmest closures of a quarter in history. September is typically the worst performing month of the year. Since 1950, the S&P 500 has averaged a 0.5% decline. This time around, the S&P 500 was up 2.1% for the month, boosted by robust corporate earnings and accelerating global growth.

In the fixed income markets, weak inflation in the US caused increasing investor skepticism about the Fed's desire to hike interest rates, resulting in a small gain in the Barclays Aggregate Corporate Bond Index. 10-year US treasury yields stabilized at 2.33%.

Crude oil prices, which tumbled into a bear market in June, climbed back at the end of September. A drumbeat of bullish data has lifted prices. Global crude oil prices recovered as OPEC looks likely to extend its production cuts, and the International Energy Agency raised its demand outlook this year. US oil production has also rebounded as refineries resumed their output in the wake of Hurricane Harvey. We expect global crude oil prices to remain range-bound through the end of 2017, as higher prices would only spur producers to start pumping out more crude, subsequently pressuring prices.

Turning to currencies, as outlined previously, the US dollar was under renewed pressure, as the dollar index reached its lowest level since December 2014. US legislative complications such as the debt ceiling timeline and government funding negotiations between the Democrats and Republicans, have furthered triggering market skepticism, pressuring the dollar.

US Economic growth accelerated to an annualized rate of 3.0% in 2Q17, revised up to its quickest pace in over two years. In spite of the recent growth momentum, throughout this economic expansion cycle, growth has been disappointing. On the fiscal front, there are revived hopes for US tax reform. Under the recently unveiled plan, the US corporate tax rate will fall to 20% from 35%, which would bring the US below the industrialized-world's 22.5% average, thus making US businesses more competitive around the

2017 Third Quarter Market Watch

	Date	2nd Quarter		YTD		1 Yr ago
	9/30/2017	6/30/2017	% chg	12/31/2016	% chg	Return*
DJIA	22,405.09	21,349.63	5.6%	22,405.09	15.5%	25.5%
S&P 500	2,519.36	2,423.41	4.5%	2,519.36	14.2%	18.6%
NASDAQ Composite	6,495.96	6,140.42	6.1%	6,495.96	21.7%	23.7%
Russell 2000	3,705.17	3,517.52	5.7%	3,705.17	10.9%	20.7%

	Date	2nd Quarter		YTD		1 Yr ago
	9/30/2017	6/30/2017	% chg	12/31/2016	% chg	Return*
MSCI Japan	20,356.28	20,033.43	1.4%	20,356.28	10.3%	10.6%
MSCI EM (Emerging Markets)	1,081.72	1,010.80	8.0%	57,792.54	28.1%	22.9%
MSCI EAFE	1,973.81	1,883.19	5.5%	1,973.81	20.5%	19.7%
MSCI AC World	486.88	465.09	5.3%	486.88	17.8%	19.3%
FTSE 100	6,207.92	6,096.93	5.2%	6,207.92	5.2%	17.2%
SSE Composite Index	3,348.94	3,192.43	7.1%	3,348.94	7.1%	11.9%

US Equity Sector Performance

	Q3	YTD	1-year
Consumer Discretionary	0.8%	11.9%	14.9%
Consumer Staples	-1.3%	6.6%	6.2%
Energy	6.8%	-6.6%	0.2%
Financials	5.2%	12.5%	34.0%
Health Care	3.7%	20.3%	15.8%
Industrials	4.2%	14.1%	24.1%
Information Tech	8.6%	27.4%	29.0%
Materials	6.0%	15.8%	23.5%
Telecom	6.8%	-4.7%	2.7%
Utilities	2.9%	11.9%	16.5%

Exchange Rates

	Sep-17	Dec-16	1-Yr Ago
Euro per USD	0.846	0.948	0.900
British Pounds per USD	0.745	0.809	0.748
Swiss Franc per USD	0.968	1.016	0.974
China Renminbi per USD	6.643	6.950	6.644
Japanese Yen per USD	65.320	67.870	67.495

Economic Sentiment

	Sep-17	1 Yr. Ago
Unemployment Rate	4.20	4.90
Average Single Family Home	296,100	291,300
Capacity Utilization	76.12	75.80

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globe. The proposed tax framework also moves to incentivize large US corporations to repatriate $2.5 trillion in balance sheet cash parked overseas, back to the US at a lower tax rate, hence further boosting the economy.

Meanwhile, fiscal spending plans remain under scrutiny, further complicating the picture for financial markets.

In a long-anticipated move, the US Federal Reserve reaffirmed its plans to slowly unwind its $4.5 trillion balance sheet at its September FOMC meeting. However, the central bank has also decided to raise rates starting October. This is sooner than expected, especially given still subdued inflation, the lingering devastation Hurricane Harvey brought to Houston, further destruction by Hurricane Irma, and the potentially more costly damages brought by Hurricane Maria to Puerto Rico.

2017 YTD is shaping up to be the best start since 2011 in terms of global growth. This has been spurred by a surge in economic momentum in Europe and Japan, and solid corporate earnings globally, supported handsome gains from developed international equities. Emerging market equities have seen a remarkable gain YTD. Now with the US Federal Reserve reaffirming its plans for raising rates, emerging markets have been keenly watched among investors due to their substantial USD debt reliance.

Based on the afore-mentioned macro-economic factors, we consider an imminent recession unlikely. Still, among the potential risks we are closely monitoring, are higher equity valuations, and the risks of a sooner-than-expected gradual ending of central bank balance sheet expansion over the next few years.

Finally, we compare the price returns of two primary, traditional asset classes: stocks and bonds. Bonds do well when interest rates fall and inflation is low during economic uncertainty, while stocks perform well during economic growth, so stocks and bonds typically cushion each other. Yet in 2017, and for much of the post-crisis period, bonds and stocks have been going in the same direction. Explanations for the break-down of the stock-bond correlation abound, with many attributing it to a break-down of the historic growth/inflation relationship. Recently, the respected Federal Reserve governor Lael Brainard expressed the view that low inflation will likely persist into the future.

In closing, we'd highlight that over the past nine years, global central banks have enacted unprecedented forms of monetary stimulus. During this period, risk markets thrived and volatility remained historically low. Consequently, traditional diversification among asset classes has been ineffective, as many different asset classes have been correlated. Now, as global economic growth becomes more self-sustaining and financial conditions are increasingly constructive, monetary policy will fade as the main driver of market returns. This is likely to result in the re-emergence of volatility, and a resumption in asset class variation. We believe this expected market transition calls for greater scrutiny of portfolio allocations and balancing, to ensure optimal exposure to more historic return/risk patterns.

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Bond Yields

	Sep -17	Dec-16	1 Yr. Ago
Treasury Bill, 90 Day	1.06	0.50	0.27
Treasury Note, 2 Year	1.47	1.20	0.76
Treasury Note, 5 Year	1.92	1.92	1.15
Treasury Bond, 10 Year	2.33	2.44	1.60
Treasury Bond, 30 Year	2.86	3.07	2.32

US Bond Sector Performance

	Q3	YTD	1-Year Return
BAR CAP Govt. Interm. TR	0.3%	1.5%	-0.8%

Commodities (In US dollars)

	Sep-17	Dec-16	1 Yr. Ago
Gold	1,284.80	1,151.70	1,317.10
Crude Oil	51.67	53.72	48.24
CRB Index	84.46	87.51	85.34

Interest Rates

	Sep-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	1.23	0.77	0.53
LIBOR RATE 3 MONTHS	1.33	0.99	0.85
30YR FIXED MORTGAGE	3.83	4.32	3.42

*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