CERITY PARTNERS

Outlook as of June 2017

WORLD ECONOMY

- Continued steady, albeit slow, economic growth in most global economies is keeping inflationary pressures in check, allowing central banks to remain generally supportive for the foreseeable future.
- After a disappointing start to the year, US consumers are finally spending in reaction to higher job and wage growth. With business spending also picking up, US economic growth should recover some of the lost momentum and revert to a 2.0% to 2.5% growth rate for the balance of the year.
- Most European economies are experiencing improved economic growth from the combined impact of last year's currency weakness and the continued aggressive monetary easing by their central banks. Germany and the UK have seen domestic spending rise, which can help sustain economic strength, despite the appreciation in their currencies this year.
- The demographics of an aging society and weak growth of the working age population have made Japan more sensitive to the impact of currency changes on their very important export sector. Currency strength year to date may slow Japanese GDP growth more than it does in other developed international economies.
- It will be hard for the Chinese authorities to continue the deleveraging process and work down excess inventories, as these are liable to cause economic growth to slow and unemployment to rise during an important transition year.

MONETARY POLICY & CURRENCIES

- Lower energy prices have reduced any burgeoning inflation threat. This will allow the Federal Reserve to slowly and methodically reduce its balance sheet, swollen by the extreme monetary easing put in place during the financial crisis. We expect two further rate hikes this year, with a plan to start reducing the intermediate maturity government securities accumulated on its balance sheet over the last decade.
- The European Central Bank acknowledges the improved economic environment, but is quick to point out that growth remains uneven across the EU and its upside inflationary targets have yet to be met. Given all of the uncertainties around the ultimate impact of Brexit, the Bank of England is unlikely to be in a rush to start tightening rates too quickly.
- Continued appreciation of the yen, and its negative effect on exports, will inhibit the Bank of Japan from moving away from monetary easing policy at least into 2018.
- The Chinese renminbi is beginning to appreciate in line with other foreign currencies. This is partly due to dollar weakness and partly to the tighter interest rate policy being engineered by the People's Bank of China.
- Some prognosticators are calling for an end to the nearly six-year dollar bull market. We believe continuing economic improvement and the Federal Reserve's resolve to normalize rates into next year should boost the dollar through the remainder of the year.

BOND MARKETS

- US intermediate and long term yields declined in response to slower than anticipated Q1 growth. The pickup in economic growth this quarter should push rates higher, mirroring the expected changes by the Fed at the short end of the yield curve.
- Improving economic growth should lead to better credit conditions in most sectors, although low oil prices may negatively impact the high yield sector and cause spreads over Treasury rates to widen over the coming months.
- Default rates on municipal bonds remain low overall, although investors should be aware of regional and security-specific opportunities/risks within the asset class.
- We expect central banks of the developed economies to maintain their bond purchase programs for the near term. However, current yields are too low to adequately offset the risk of higher rates as economic growth continues to improve.
- Emerging market debt remains vulnerable to a greater-than-expected slowdown in China and its effect on commodity prices. Strong performance over the last year has brought the asset class to a fair valuation, while retaining the attractive yield advantage to investment grade bonds.

CERITY PARTNERS

Outlook as of June 2017

EQUITY MARKETS

- Positive earnings growth at a mid to high single digit rate, with only a gradual increase in the overall level of interest rates, will help to expand the multiple investors will pay on earnings. However, we may not see the expected multiple expansion if the Trump administration's proposed tax cuts are derailed by the growing dissonance in DC.
- Outperformance of European equities over US equities this year has closed some of the valuation gap. While debt bailouts in Greece are back in the news, declining populist sentiment through the rest of Europe and continued monetary easing should provide further support to stock prices over the summer.
- Japanese equities have lagged other developed equity markets this year; hence, the valuation advantage has grown even larger. If the yen remains strong, exports and domestic earnings will be hurt, and investors may find it hard to profit from the favorable valuations.
- Questions around the magnitude of the economic slowdown in China and the recent decline in commodity prices can become headwinds to emerging markets equities, which have performed very strongly since the February 2016 lows. The lower level of protectionist rhetoric from the US administration has been helpful, but the threat continues to exist.

ALTERNATIVES & COMMODITIES

- OPEC has extended production cuts into next year, which should provide a downside floor to oil prices, provided that the cartel members maintain discipline and adhere to their individual quotas. US shale producers continue to gain production efficiencies, allowing them to maintain output even as prices drop. Thus, oil prices are expected to stay range-bound, and unlikely to spike higher from current levels.
- Low inflation and the Fed's tightening bias will prevent gold prices from rising beyond the upper end of a $1,200-$1,300 trading range, while geopolitical risks emanating from the Mideast and North Korea should provide a floor for prices at the lower end of the range.
- Industrial metals do not suffer from the excess inventory levels seen in the energy sector, but they are much more susceptible to lower demand growth from China. The proposed US infrastructure program could boost demand and prices, but the issue is politically charged and the legislation may be delayed into next year.
- Persistently low market volatility has stymied many hedge fund managers since the financial crisis. Moves toward policy normalization by central banks should create a more favorable environment for investors seeking to mitigate risks arising from unstable markets or policy/geopolitical uncertainty.
- High asset valuations make it difficult for private equity managers to buy assets at reasonable prices. We maintain our focus on seasoned, disciplined managers and continue to seek value in dislocated markets and those experiencing disruption from technological or regulatory change.

Ben Pace is the Chief Investment Officer and a member of the Investment Committee. Prior to joining Cerity Partners, Benjamin Pace was Chief Investment Officer and Head of Global Investment Solutions for Deutsche Bank Private Wealth Management in the U.S. Ben has more than 25 years of experience in investment management. Prior to joining Deutsche Bank in 1994, he managed equity income funds for two investment organizations.

Cerity Partners LLC ("Cerity Partners") is an SEC registered investment adviser with offices in New York, Illinois, Ohio, Michigan and California. This commentary is limited to general information about Cerity Partners' services and its financial market outlook, which may not be suitable for everyone. The information contained herein should not be construed as personalized investment advice. Past performance is no guarantee of future results. There is no guarantee that the views and opinions expressed in this brochure will come to pass. Investing in the financial markets involves risk, including the risk of loss of the principal amount invested; and may not be appropriate for everyone. The information presented is subject to change without notice and should not be considered as an offer to sell or a solicitation of an offer to buy any security. All information is deemed reliable but is not guaranteed. For information pertaining to the registration status of Cerity Partners, please contact us or refer to the Investment Adviser Public Disclosure web site (www.adviserinfo.sec.gov). For additional information about Cerity Partners, including fees and services, send for our disclosure statement as set forth on Form ADV Part 2A using the contact information herein. Please read the disclosure statement carefully before you invest or send money.