

---

# Market Outlook

## Q2 2017

---

Morningstar, Inc.

### Talking Points

---

#### Contents

- 1 Talking Points
- 2 Stock Market Outlook:  
Equity Valuations Look Lofty
- 4 Second Quarter in U.S. Stock Funds:  
Growth on Fire
- 6 International-Stock Funds Continue to  
Prosper
- 8 Bonds In The Second Quarter: The  
Flattening
- 10 Index Returns
- 11 Fund Category Returns

- ▶ The S&P 500 gained 3.09% during the second quarter.
- ▶ Healthcare, financial services and industrials stocks outperformed during the quarter.
- ▶ Energy and communication services stocks finished the quarter in the red.
- ▶ The market-cap-weighted price/fair value estimate ratio for our equity analysts' coverage universe is 1.05, suggesting that the market overall is slightly overvalued.
- ▶ Energy is currently the most undervalued sector, with a price/fair value estimate ratio of 0.96. Basic materials remains the most overvalued sector, with a price/fair value estimate of 1.24.
- ▶ The large growth category led the pack this quarter among style-based fund categories, while small value lagged.
- ▶ Most international-equity Morningstar Categories enjoyed strong gains during the quarter, with the exception of Latin America stock funds.
- ▶ Long government funds led the fixed-income pack during the quarter.

## Stock Market Outlook: Equity Valuations Look Lofty

It's getting harder to find undervalued stocks with so much optimism factored into stock prices.

By Elizabeth Collins, CFA  
Published 6/28/17

- ▶ The Morningstar Global Markets Index has returned more than 11.72% year to date and 18.68% over the past year.
- ▶ The market-cap-weighted price/fair value estimate ratio for our equity analysts' coverage universe is 1.05.
- ▶ Energy is currently the most undervalued sector, with a price/fair value estimate ratio of 0.96. Basic materials remains the most overvalued sector, with a price/fair value estimate ratio of 1.24.

In April Morningstar equity analysts began incorporating expected U.S. tax reform into valuation model assumptions. We currently believe that U.S. corporate tax reform is more likely than not to occur during the Trump administration, despite continued delays to the administration's agenda on other legislative items such as repeal of the Affordable Care Act.

The assumptions that we will use in our valuation models are based on Trump's and the House Republican plans but modified for what we believe are reasonable compromises needed for tax reform to occur. Most importantly, we are only incorporating a U.S. federal corporate tax cut down to 25% instead of 20% or 15%. As a reminder, the Trump administration's proposal calls for a 15% tax rate.

Our more shallow tax cut assumption when combined with our other policy assumptions make the reform package close to budget-neutral on a dynamic basis. Largely offsetting the federal revenue loss from the headline tax cut is the elimination of corporate tax credits (excluding research and development), a one-time tax revenue gain from a tax on cash held overseas, and additional tax revenue from near-term economic growth stimulated by tax reform.

Healthcare reform in the U.S. has dominated popular headlines. Our equity analysts' view is that should the Senate's healthcare bill become law, it should be a net positive for pharmaceutical and device firms and a mixed impact for hospitals and managed care firms. Pharmaceutical and device firms currently face various fees and taxes that would be eliminated under the proposed American Health Care Act, while hospitals and managed care firms could suffer from volume declines that would be offset by the eliminations of regulations and fees.

That said, there are challenges still to translating the House's and Senate's healthcare bill into law. The Senate Republicans' bill shares many similarities with the House GOP's, including the elimination of mandates, the option for states to redefine essential benefits, and a move toward capping Medicaid spending. Republicans control 52 seats in the Senate as well as the vice president's tie-breaking vote,

but Republican senators from states that have expanded Medicaid face negative reactions from both constituents as well as governors that would oppose capping Medicaid. While Republican leaders want a vote on the bill as soon as possible, many individual senators are seeking delays so that they have time to assess the wisest move forward for their political careers.

In late May, OPEC and certain other countries agreed to extend their oil production cuts by nine months. The cuts makes sense, given that stocks within OECD countries are still 13% above the top of the 2010-14 range. Although the production cuts could help meet the objective of bringing inventories into the targeted range, the cartel might pay a steep long-term price for any near-term benefit.

Our equity analysts believe the cartel is underestimating the ability of shale producers in the U.S. to rapidly increase volumes in a \$50-\$55/bbl environment (West Texas Intermediate). Our energy sector team's 2018 and midcycle forecasts for WTI are still \$45/bbl and \$55/bbl, respectively, compared with spot prices around \$44 per barrel these days.

Meanwhile, investor demand continues to prop up gold prices at \$1,200 to \$1,300 per ounce, with ETF gold holdings largely recovered to levels last seen before the December 2016 rate hike. But as the Federal Reserve continues to pursue rate increases, prices look primed to fall. Additional rate hikes by the Fed would further discourage investor flows into gold and have the potential to unleash accumulated ETF holdings back into the market, pressuring prices. Longer term, we're more optimistic, as we expect rising Chinese and Indian jewelry demand to fill the gap of shrinking investor demand for the yellow metal. ■■■

## First Quarter U.S. Equity Funds: Growth Dominates Value

Growth funds and technology dominated, while value and energy struggled.

---

By Katie Rushkewicz Reichart  
Published 6/29/17

As the second quarter winds to a close, the market still favors U.S. equity funds. Eight of the nine Morningstar Style Box categories have posted solid gains for the quarter to date through June 27, with small value's slightly negative quarter-to-date category return the outlier.

U.S. growth equity funds have continued to dominate value offerings in 2017, reversing the pattern seen in 2016. Large-growth was the top-performing diversified U.S. equity Morningstar Category for both the quarter and year to date as of late June, with mid- and small-growth not far behind. Strong performance in growth-oriented sectors, including technology, fueled big rewards for many funds, though tech stocks pulled back a bit toward quarter-end.

The energy sector, a value haven and market darling in 2016, changed course in 2017 as oil prices slid during the quarter. Commodity-related stocks, such as precious metals and natural resources, also were losers in this short span. Financials stocks, which had a big tailwind in late 2016 on optimism about the potential for less regulation under the Trump administration, also cooled off.

### Winners

Morgan Stanley Institutional Growth [MSEQX](#), which holds nearly half of its assets in technology stocks, was up almost 11% for the quarter through June 27, landing at the top of the large-growth category—quite different from its 2016 showing, when it posted a loss. Top position Tesla [TSLA](#) continued its ascent, and about half of its holdings posted double-digit gains for the quarter.

Fidelity OTC [FOCPX](#) gained 9.4% for the quarter to date, more than doubling its Nasdaq Composite benchmark as the Nasdaq-traded stocks it favors rallied.

T. Rowe Price Blue Chip Growth [TRBCX](#) and T. Rowe Price Institutional Large Cap Growth [TRLGX](#) landed in the large-growth category's top decile, getting an extra boost from out-of-benchmark Chinese Internet names Tencent [TCEHY](#) and Alibaba [BABA](#).

Fidelity Growth Company [FDGRX](#) benefited from a huge position in Nvidia [NVDA](#)—a holding since 2008—as well as a mix of smaller growth plays, including Wayfair [W](#).

Baron Partners [BPTRX](#), a mid-growth fund, was up more than 14% for the quarter to date through June 27. Beyond a huge position in Tesla (18% of assets as of March), it also benefited from Zillow Group [ZG](#) and Panera Bread [PNRA](#), which surged after agreeing to a buyout with JAB Holdings during the quarter.

Alger Small Cap Focus AOFIX was among the top small-cap finishers for the quarter, buoyed by Metadata Solutions MDSO and Universal Display Corp OLED.

### **Losers**

Among the funds that had a rougher go, Fairholme FAIRX lost more than 6% for the quarter to date through June 27, as its Sears-related holdings continued to bleed.

Large-value fund Poplar Forest Partners IPFPX cooled off after a strong finish in 2016. A few holdings, including MSC Industrial Direct MSM and Mattel MAT, posted double-digit losses for the quarter.

It's unsurprising to see deep-value fund Hotchkis & Wiley Mid-Cap Value HWMIX land near the bottom of its category for the quarter. Beyond its value leanings, it also held nearly 20% in energy, a clear headwind for the period. ■■■

## International-Stock Funds Continue to Prosper

Growth beats value overseas as it has in the United States.

---

By William Samuel Rocco  
Published 7/3/17

International-stock funds encountered generally favorable conditions in the second quarter of 2017, just as they did in the first quarter of the year.

The currency climate always plays a major role in the performance of funds that invest in foreign equities. The vast majority of such funds normally hedge little or none of their exposure to foreign currencies, so their returns suffer whenever the euro, British pound, Swiss franc, Japanese yen, and other currencies depreciate versus the U.S. dollar.

But the inverse is also true, which helped boost returns for U.S.-based funds investing abroad. The euro and the other major European currencies appreciated versus the U.S. dollar in the second quarter, and stocks in most of the larger markets in the region posted modest to moderate gains amid improving or positive macroeconomic and geopolitical developments, including the decisive and encouraging election results in France. As a result, the typical Europe-stock fund returned 8.4% for the quarter through June 28.

The Japanese yen did decline a little versus the U.S. dollar during the period, but that country's stocks posted solid returns as the labor market improved and domestic demand and consumption strengthened. The average Japan-stock offering, therefore, gained 6.5% in the quarter. The Chinese renminbi has been fairly flat versus the U.S. dollar, and the other emerging-Asia currencies have posted mixed results versus the greenback, while the equities in those markets have generally earned nice gains. Thus, the typical China-region, Pacific/Asia ex-Japan, and diversified Pacific/Asia funds returned 8.6%, 8.1%, and 7.3%, respectively, for the quarter through June 28.

The currencies of many non-Asian markets in the developing world did not appreciate or depreciate very markedly versus the U.S. dollar, and the stocks in those countries fared pretty well overall because of generally good micro and macro conditions. Consequently, the typical diversified emerging-markets fund returned 6.2% this quarter. Brazil was a notable exception, though, as its currency and stocks have struggled because of political and other concerns. Consequently, the average Latin America fund, which has nearly 60% of its assets in Brazilian equities, lost 2.6% for the quarter through June 28, which was the worst performance of any international-stock Morningstar Category.

Foreign small/mid-cap and foreign large-cap funds—which invest approximately 45% to 60% of their assets in Europe, 15% to 25% in Japan, and 5% to 15% in emerging markets—also posted pretty good gains in the second quarter. Growth stocks handily outgained value stocks overseas during the period—as was the case in the United States—while smaller caps returned somewhat more than large caps. Thus, the average foreign small/mid-growth fund, which gained 9.4%, fared the best among these six

categories of foreign-stock offerings, and the average foreign large-value fund, which returned 5.8%, did the worst.

A number of prominent international-stock funds performed considerably better than their average peers during the quarter. For example, Matthews Asia Growth [MPACX](#), which has a Morningstar Analyst Rating of Silver, benefited from its growth bias and its exposure to smaller caps as well as its managers' stock selection, and it gained 2.9 percentage points more than the diversified Pacific/Asia norm of 7.3% for the quarter through June 28. Bronze-rated Fidelity Emerging Markets [FEMKX](#) outpaced the diversified emerging-markets average by more than 4 percentage points, because its growth-oriented strategy and several of its technology holdings have paid off. And while the typical foreign large-growth fund returned 9.1%, Silver-rated Artisan International [ARTIX](#) gained 11%, thanks to the strong performance of many of its German and other European names.

Finally, several well-known foreign-stock funds lagged far behind their typical rivals for the quarter through June 28. Bronze-rated Templeton Foreign [TEMF](#) has been slowed by its large weightings and stock selection in the weak energy and basic-materials sectors; it returned 3.7% whereas the average foreign large-value gained 5.8%. Silver-rated Lazard Emerging Markets Equity [LZEMX](#) returned 3.7 percentage points less than the diversified emerging-markets norm of 6.2%, as several of its Russian and other holdings have struggled. And although the typical foreign large-blend fund gained 7.2%, Gold-rated Dodge & Cox International Stock [DODFX](#) returned 6.0%, hurt by the fact that it is more value-oriented than most of its rivals, as well as by some of its Brazilian and other names. ■■

## Bonds in the Second Quarter: The Flattening

Despite a Fed rate hike, most Morningstar bond categories showed gains.

---

By Cara Esser, CFA  
Published 7/6/17

---

Nearly every taxable-bond Morningstar Category posted a positive return for the three months ended June 30 as credit spreads tightened and the yield curve flattened.

### The Fed and the Flattening Yield Curve

Long-term bonds did well last quarter as the yield curve flattened. The short end of the curve shifted up as the Federal Reserve raised interest rates in June for the second time this year, but investor appetite for Treasury bonds pushed the longer end of the curve down. The Fed also announced plans to reduce the size of its balance sheet—meaning it would stop reinvesting coupon payments and eventually begin selling bonds—but the market largely shrugged at the news. The yield on the 10-year finished the quarter at 2.31%, down 9 basis points from the end of March. This dynamic was especially helpful for funds with super long durations, such as Vanguard Long-Term Investment-Grade [VWESX](#) and PIMCO Long Duration Total Return [PLRIX](#), whose 13- and 14-year durations, respectively, pushed both funds' returns up 5.0% and 4.7% for the quarter. Those funds' long durations, however, are not the norm for their categories and can cause wide performance swings.

The flattening curve also aided the Bloomberg Barclays U.S. Aggregate Bond Index, which gained 1.5% for the quarter, in line with the second-quarter return for the average intermediate-bond fund. One of the biggest winners in the intermediate-bond category was Western Asset Core Plus Bond [WACPX](#), which gained nearly 2.7%, as a longer-than-average duration, a sizable position in the Mexican peso, and a short position on the Japanese yen paid off.

The worst-performing category was the inflation-protected bond group, which suffered a 0.5% loss on average for the quarter. Ultrashort-bond and short-term government funds were also laggards but still managed to post modest gains in the face of rising yields.

### Spread Compression Continues

Credit spreads continued to tighten modestly this quarter following the Fed's June rate hike. Through June 23 the yield spread on the investment-grade Morningstar Corporate Bond Index had tightened 12 basis points from the start of 2017 to 116 basis points over a comparable Treasury bond, which is tighter than its long-term average of 167 basis points. Most of that tightening (8 basis points) took place in the second quarter, helping the average fund in the corporate-bond category to a gain of 2.3%. The average fund in the corporate-bond category has a longer duration than the Aggregate Index, so the flattening yield curve also played a role in the strong returns for the category. Funds in this category hold mostly investment-grade corporates, but some hold sizable stakes in junk-rated corporates. Last quarter, AAA and BBB rated bonds outperformed middle-quality investment-grade bonds and higher-quality junk bonds fared better than lower quality junk bonds--again, largely because of the yield-curve dynamics as higher-rated bonds are more interest-rate sensitive. MFS Corporate Bond [MFBFX](#) benefited from this

dynamic as its managers focus primarily on BBB and BB rated bonds. The fund's 2.6% gain ranked just outside the category's best quartile for the quarter.

The average high-yield bond fund gained just 1.7% for the quarter. Funds that skewed higher quality and had lower energy allocations tended to fare better, as higher-rated junk bonds outperformed lower-quality offerings and as spreads on energy-related bonds widened after oil prices slid to a low of \$43 per barrel in June. The option-adjusted spread on the BofA Merrill Lynch U.S. High Yield Index widened in June but managed to close the quarter lower than where it started (377 basis points over Treasuries as of June 30 versus 392 basis points at the end of March). Vanguard High-Yield Corporate VVHEX landed near the top of the high-yield peer group in the second quarter thanks to its more-conservative profile and an overweighting in healthcare, which benefited from a strong quarter for pharmaceutical firms.

### **Continued Strength in Emerging Markets**

Emerging-markets local-currency bonds were among the best-performing funds this quarter, with the average fund in the category up 2.9%. Emerging-markets currencies have been on a tear this year, with most posting positive returns for the year to date. The Mexican peso, up 7% for the quarter, gained nearly 22% for the year to date. Other strong-performing currencies included the Polish zloty, Turkish lira, and Czech koruna, each up more than 7% for the quarter. T. Rowe Price Emerging Markets Bond PREMIX gained 2.1% for the quarter, thanks in part to large allocations to both the Mexican peso and Turkish lira.

The Fed's interest rate hike sent the U.S. dollar higher against some developed-markets currencies, most notably the yen. Against the U.S. dollar, the euro strengthened significantly during the quarter. Within the world-bond category, funds with larger allocations to emerging-markets currencies, and those with small or no allocation to the yen, did particularly well, including Legg Mason Brandywine Global Opportunities Bond GOBSX and Prudential Global Total Return GTRAX. They were each up more than 4.0% for the quarter, better than the world-bond average of 2.1%.

### **A Quiet Quarter for Munis**

Extending the rally that began in early 2017, municipal bonds posted modest gains during the second quarter against a backdrop of limited supply. Despite negative headlines out of Connecticut, Puerto Rico, and Illinois, as well as uncertainty around tax reform and infrastructure spending, the average intermediate-term muni fund gained 1.7% during the second quarter. Muni bonds across the quality spectrum, across sectors, and in most states posted positive returns for the three months ended June 30. Longer-duration funds generally outperformed those with shorter durations because of the flattening yield curve. High-yield muni-bond funds also performed well, up 2.2% for the quarter. Those that held smaller allocations to troubled Puerto Rico performed even better, including American High-Income Municipal Bond AMHIX, MFS Municipal High Income MMHYX, and BlackRock High Yield Municipal MAYHX, each up 2.5% or more for the quarter. ■■■

---

**Index Returns**

Category	Name	Q2 2017	YTD	1 Year	3 Year	5 Year	10 Year	
<b>Broad U.S. Market</b>	Morningstar US Market TR USD	3.07	9.16	18.35	9.20	14.57	7.38	
	DJ Industrial Average TR USD	3.95	9.35	22.12	11.01	13.45	7.57	
	S&P 500 TR USD	3.09	9.34	17.90	9.61	14.63	7.18	
	NASDAQ Composite TR USD	4.16	14.71	28.30	13.02	17.36	10.15	
<b>U.S. Style</b>	Morningstar US Large Cap TR USD	3.42	9.89	18.42	9.73	14.49	7.18	
	Morningstar US Large Core TR USD	3.84	11.59	21.92	11.29	16.12	8.79	
	Morningstar US Large Growth TR USD	6.07	15.78	20.18	10.60	14.96	8.54	
	Morningstar US Large Value TR USD	0.46	2.98	13.43	7.32	12.50	4.14	
	Morningstar US Mid Cap TR USD	2.32	8.14	17.43	8.10	15.16	7.80	
	Morningstar US Mid Core TR USD	1.63	8.03	15.27	8.13	14.90	8.18	
	Morningstar US Mid Growth TR USD	5.23	13.13	17.68	7.53	13.44	7.35	
	Morningstar US Mid Value TR USD	0.19	3.46	19.52	8.58	17.20	7.71	
	Morningstar US Small Cap TR USD	1.68	4.88	20.34	6.77	13.70	7.67	
	Morningstar US Small Core TR USD	1.42	3.77	20.59	7.04	14.15	7.06	
	Morningstar US Small Growth TR USD	5.55	11.64	21.28	7.15	13.30	7.78	
	Morningstar US Small Value TR USD	-1.95	-0.52	18.74	6.02	13.56	7.97	
<b>U.S. Stock Sector</b>	Morningstar US Basic Materials TR USD	2.13	9.72	20.34	5.08	10.72	4.89	
	Morningstar US Communication Svc TR USD	-1.35	1.33	8.09	9.05	14.13	7.64	
	Morningstar US Consumer Cyclical TR USD	3.44	11.83	19.03	10.81	16.81	9.85	
	Morningstar US Consumer Dfnsve TR USD	1.23	6.77	2.86	10.17	12.84	10.21	
	Morningstar US Energy TR USD	-7.66	-13.68	-4.12	-12.05	1.32	2.10	
	Morningstar US Financial Svc TR USD	4.17	7.00	36.60	12.08	18.48	1.30	
	Morningstar US Healthcare TR USD	7.34	16.61	13.37	11.09	18.13	11.12	
	Morningstar US Industrials TR USD	4.27	9.16	22.05	9.68	16.08	7.58	
	Morningstar US Real Estate TR USD	2.21	4.17	0.29	7.76	9.08	5.05	
	Morningstar US Technology TR USD	3.96	16.94	33.92	14.53	16.54	10.42	
	Morningstar US Utilities TR USD	2.27	8.65	2.92	9.23	11.53	7.08	
	<b>Economic Moat</b>	Morningstar Wide Moat Focus TR USD	5.43	13.86	23.55	11.18	16.55	11.52
	<b>Foreign Markets</b>	MSCI ACWI Ex USA NR USD	5.78	14.10	20.45	0.80	7.22	1.13
		MSCI EAFE NR USD	6.12	13.81	20.27	1.15	8.69	1.03
<b>Bond: Broad Market</b>	Morningstar Intermediate Core TR	1.10	1.78	-0.07	2.58	2.41	4.77	
	Morningstar Long-Term Core TR	3.55	5.14	-1.10	4.69	3.82	7.17	
	Morningstar Short-Term Core TR	0.46	0.96	0.32	1.15	1.14	2.65	
	Morningstar US Core Bd TR USD	1.53	2.39	-0.23	2.70	2.38	4.72	
	Bloomberg Barclays US Agg Bond TR USD	1.45	2.27	-0.31	2.48	2.21	4.48	
<b>Bond: Corporate</b>	Morningstar Inter-Term Corp TR	1.77	3.23	2.05	3.18	3.87	5.84	
	Morningstar Long-Term Corp TR	4.02	5.76	3.08	4.86	5.25	7.50	
	Morningstar Short-Term Corp TR	0.78	1.68	1.51	1.79	2.28	3.40	
	Morningstar US Corp Bd TR USD	2.49	3.91	2.36	3.55	4.01	5.77	
<b>Bond: Government</b>	Morningstar Intermediate US Govt TR	0.94	1.68	-1.84	2.00	1.32	4.53	
	Morningstar Long-Term US Govt TR	3.01	4.43	-5.68	4.69	2.49	6.68	
	Morningstar Short-Term US Govt TR	0.30	0.61	-0.25	0.84	0.73	2.34	
	Morningstar US Govt TR	1.23	1.97	-2.24	2.04	1.31	4.06	
<b>Bond: Other</b>	Morningstar Mortgage TR	1.00	1.47	0.15	2.64	2.53	4.71	
	Morningstar TIPS TR USD	-0.43	0.94	-0.61	0.67	0.33	4.33	

---

Source: Morningstar Direct. Data as of 6-30-17. 3-, 5-, and 10-year returns annualized.

---

**Fund Category Returns**

Category	Name	Q2 2017	YTD	1 Year	3 Year	5 Year	10 Year
<b>U.S. Equity</b>	Large Blend	2.92	8.65	17.17	7.60	13.35	6.21
	Large Growth	5.01	14.14	20.02	8.80	13.87	7.51
	Large Value	1.78	5.55	16.49	6.40	12.64	5.18
	Mid-Cap Blend	1.93	6.23	17.37	5.51	12.98	6.12
	Mid-Cap Growth	4.68	12.37	18.58	6.86	12.72	6.81
	Mid-Cap Value	1.03	4.58	17.26	5.74	13.37	6.17
	Small Blend	1.53	3.24	20.96	5.70	12.75	6.12
	Small Growth	4.33	10.15	23.12	6.67	12.81	7.05
	Small Value	0.26	0.52	21.15	5.18	12.47	5.97
<b>Allocation</b>	Allocation—15% to 30% Equity	1.40	3.51	4.75	2.11	3.71	3.89
	Allocation—30% to 50% Equity	1.84	4.90	7.22	2.85	5.73	4.26
	Allocation—50% to 70% Equity	2.35	6.30	10.67	4.00	7.97	4.89
	Allocation—70% to 85% Equity	2.79	7.78	13.44	4.20	9.27	4.37
	Allocation—85%+ Equity	3.45	9.36	16.95	5.12	10.94	4.50
	Convertibles	2.40	7.02	14.40	2.88	8.76	5.00
	Tactical Allocation	1.80	5.19	7.88	1.38	4.68	3.32
	Target Date 2000-2010	2.04	5.19	7.24	3.26	5.88	3.84
	Target Date 2015	2.18	5.66	8.24	3.38	6.61	4.07
	Target Date 2020	2.34	5.99	8.77	3.50	6.57	3.80
	Target Date 2025	2.82	7.20	11.04	4.07	7.89	4.17
	Target Date 2030	3.02	7.91	12.45	4.36	8.39	4.04
	Target Date 2035	3.46	8.99	14.62	4.81	9.41	4.47
	Target Date 2040	3.47	9.23	15.09	4.88	9.50	4.26
	Target Date 2045	3.76	9.84	16.30	5.15	10.11	4.61
	Target Date 2050	3.63	9.66	15.93	5.10	9.94	4.33
	Target-Date 2055	3.84	10.07	16.67	5.34	10.49	5.71
	Target-Date 2060+	3.83	10.14	16.90	5.43	11.17	—
	Target-Date Retirement	1.80	4.44	5.70	2.65	4.36	3.66
	World Allocation	2.83	7.27	10.10	1.84	5.96	3.76
<b>International Equity</b>	China Region	8.59	21.87	26.26	6.82	8.74	3.47
	Diversified Emerging Mkts	5.87	18.14	20.48	0.48	4.07	1.48
	Diversified Pacific/Asia	6.78	16.73	19.15	5.29	9.32	3.18
	Europe Stock	7.10	14.85	19.95	0.96	9.28	1.07
	Foreign Large Blend	6.25	14.45	19.13	1.18	7.81	0.96
	Foreign Large Growth	7.98	17.93	17.80	2.58	8.65	1.93
	Foreign Large Value	5.10	12.50	19.94	-0.26	7.34	-0.02
	Foreign Small/Mid Blend	8.28	17.98	23.65	3.99	11.31	3.17
	Foreign Small/Mid Growth	8.94	18.78	18.92	3.98	10.98	3.59
	Foreign Small/Mid Value	6.15	14.75	21.05	1.73	9.93	0.86
	India Equity	4.63	25.76	23.64	9.37	12.63	3.88
	Japan Stock	6.09	11.37	21.16	7.73	11.35	3.27
	Latin America Stock	-2.27	11.19	13.65	-7.76	-4.90	-2.11
	Pacific/Asia ex-Japan Stk	7.88	21.86	22.08	4.95	7.79	4.44
	World Large Stock	5.10	12.88	18.02	4.53	10.57	3.77
	World Small/Mid Stock	5.84	13.38	22.45	4.63	12.06	4.21

---

Source: Morningstar Direct. Data as of 6-30-17. 3-, 5-, and 10-year returns annualized.

**Fund Category Returns (Continued)**

Category	Name	Q2 2017	YTD	1 Year	3 Year	5 Year	10 Year
<b>Taxable Bond</b>	Bank Loan	0.60	1.61	6.65	2.62	3.85	3.15
	Corporate Bond	2.24	3.68	2.99	3.21	3.94	5.50
	Emerging Markets Bond	2.04	6.48	7.55	2.52	3.74	6.05
	Emerging-Markets Local-Currency Bond	2.90	9.61	6.07	-3.06	-0.94	3.84
	High Yield Bond	1.74	4.09	10.78	3.02	5.70	6.04
	Inflation-Protected Bond	-0.49	0.69	0.10	-0.01	-0.17	3.35
	Intermediate Government	0.72	1.18	-1.24	1.33	1.04	3.57
	Intermediate-Term Bond	1.49	2.57	0.94	2.21	2.45	4.30
	Long Government	4.19	5.86	-7.26	5.65	2.50	7.41
	Long-Term Bond	3.94	6.27	1.05	5.15	4.89	7.41
	Multisector Bond	1.69	3.81	6.09	2.52	4.18	5.52
	Nontraditional Bond	1.27	2.85	5.92	1.96	2.69	3.60
	Preferred Stock	3.20	7.15	9.12	5.61	7.08	6.14
	Short Government	0.24	0.51	-0.36	0.51	0.38	2.02
	Short-Term Bond	0.56	1.20	1.23	1.08	1.31	2.46
	Ultrashort Bond	0.37	0.77	1.46	0.79	0.88	1.25
	World Bond	2.08	4.42	1.89	0.31	1.72	4.02
<b>Municipal Bond</b>	High Yield Muni	2.22	4.69	-0.18	4.76	4.48	3.65
	Muni California Intermediate	1.86	3.37	-1.12	2.70	2.80	3.83
	Muni California Long	2.25	3.90	-1.21	3.94	3.96	4.38
	Muni Massachusetts	1.68	2.84	-1.24	2.76	2.36	3.57
	Muni Minnesota	1.69	2.76	-0.95	2.69	2.60	3.76
	Muni National Interm	1.70	3.06	-0.82	2.53	2.54	3.67
	Muni National Long	2.00	3.37	-1.23	3.33	3.21	4.01
	Muni National Short	0.61	1.50	0.09	0.79	0.93	2.06
	Muni New Jersey	1.68	2.79	-1.27	2.88	2.56	3.69
	Muni New York Intermediate	1.74	3.02	-1.01	2.72	2.50	3.63
	Muni New York Long	1.95	3.40	-0.78	3.57	3.04	3.82
	Muni Ohio	1.50	2.58	-1.23	2.74	2.49	3.45
	Muni Pennsylvania	1.87	3.07	-0.71	3.29	2.87	3.72
	Muni Single State Interm	1.47	2.49	-1.15	2.24	2.09	3.44
	Muni Single State Long	1.40	2.42	-1.12	2.87	2.38	3.45
	Muni Single State Short	0.77	1.66	-0.52	1.17	1.11	2.47
	<b>Alternatives</b>	Bear Market	-5.15	-14.18	-27.45	-16.92	-21.78
Long/Short Credit		1.17	2.22	5.35	0.99	2.20	3.56
Long/Short Equity		1.39	4.49	8.87	2.26	6.29	3.87
Managed Futures		-2.79	-2.59	-7.37	1.68	1.02	-2.09
Market Neutral		0.02	0.66	2.71	0.35	0.88	0.72
Multialternative		0.63	2.31	3.37	0.57	2.93	1.17
Multicurrency		0.14	3.33	3.52	1.14	0.29	0.60
Option Writing		1.55	3.80	7.56	2.80	5.71	1.43
<b>Commodities</b>	Commodities Broad Basket	-4.08	-6.04	-6.71	-15.11	-9.33	-7.09
	Commodities Precious Metals	-2.53	6.06	-4.83	-4.24	-6.29	4.15

Source: Morningstar Direct. Data as of 6-30-17. 3-, 5-, and 10-year returns annualized.

**Fund Category Returns** (Continued)

Category	Name	Q2 2017	YTD	1 Year	3 Year	5 Year	10 Year
<b>Sector Equity</b>	Communications	1.02	4.12	7.06	4.66	9.70	2.80
	Consumer Cyclical	2.93	9.58	16.09	7.01	13.44	7.60
	Consumer Defensive	1.67	7.45	3.67	8.44	11.98	9.31
	Energy Limited Partnership	-7.17	-4.95	3.91	-10.36	1.24	9.02
	Equity Energy	-11.85	-16.93	-5.96	-18.31	-3.52	-2.99
	Equity Precious Metals	-3.49	5.89	-16.41	-4.69	-9.76	-2.83
	Financial	3.55	5.67	32.34	8.67	14.68	2.61
	Global Real Estate	3.62	6.70	2.50	2.98	7.28	1.49
	Health	6.94	18.41	17.06	9.07	17.39	11.46
	Industrials	4.00	8.51	22.70	7.18	15.25	7.45
	Infrastructure	3.81	11.78	8.35	2.18	9.76	3.34
	Natural Resources	-4.06	-2.82	7.37	-7.99	0.40	-1.12
	Real Estate	1.85	2.89	-0.61	7.25	8.49	5.19
	Technology	6.00	18.98	33.86	13.45	16.87	9.33
	Utilities	2.16	8.73	3.41	4.51	9.68	5.20

Source: Morningstar Direct. Data as of 6-30-17. 3-, 5-, and 10-year returns annualized.

**About Morningstar**

Morningstar, Inc. is a leading provider of independent investment research in North America, Europe, Australia, and Asia. The company offers an extensive line of products and services for individual investors, financial advisors, asset managers, and retirement plan providers and sponsors.

[www.morningstar.com](http://www.morningstar.com)



22 West Washington Street  
Chicago, IL 60602 USA

©2017 Morningstar. All Rights Reserved. Morningstar's Market Outlook is produced and offered by Morningstar, Inc., which is not registered with the U.S. Securities and Exchange Commission as a Nationally Recognized Statistical Rating Organization ("NRSRO"). Unless otherwise provided in a separate agreement, you may use this report only in the country in which its original distributor is based. The information, data, analyses and opinions presented herein do not constitute investment advice; are provided solely for informational purposes and therefore are not an offer to buy or sell a security; and are not warranted to be correct, complete or accurate. The opinions expressed are as of the date written and are subject to change without notice. Except as otherwise required by law, Morningstar shall not be responsible for any trading decisions, damages or other losses resulting from, or related to, the information, data, analyses or opinions or their use. The information contained herein is the proprietary property of Morningstar and may not be reproduced, in whole or in part, or used in any manner, without the prior written consent of Morningstar. To order reprints, call +1 312-696-6100. To license the research, call +1 312-696-6869.