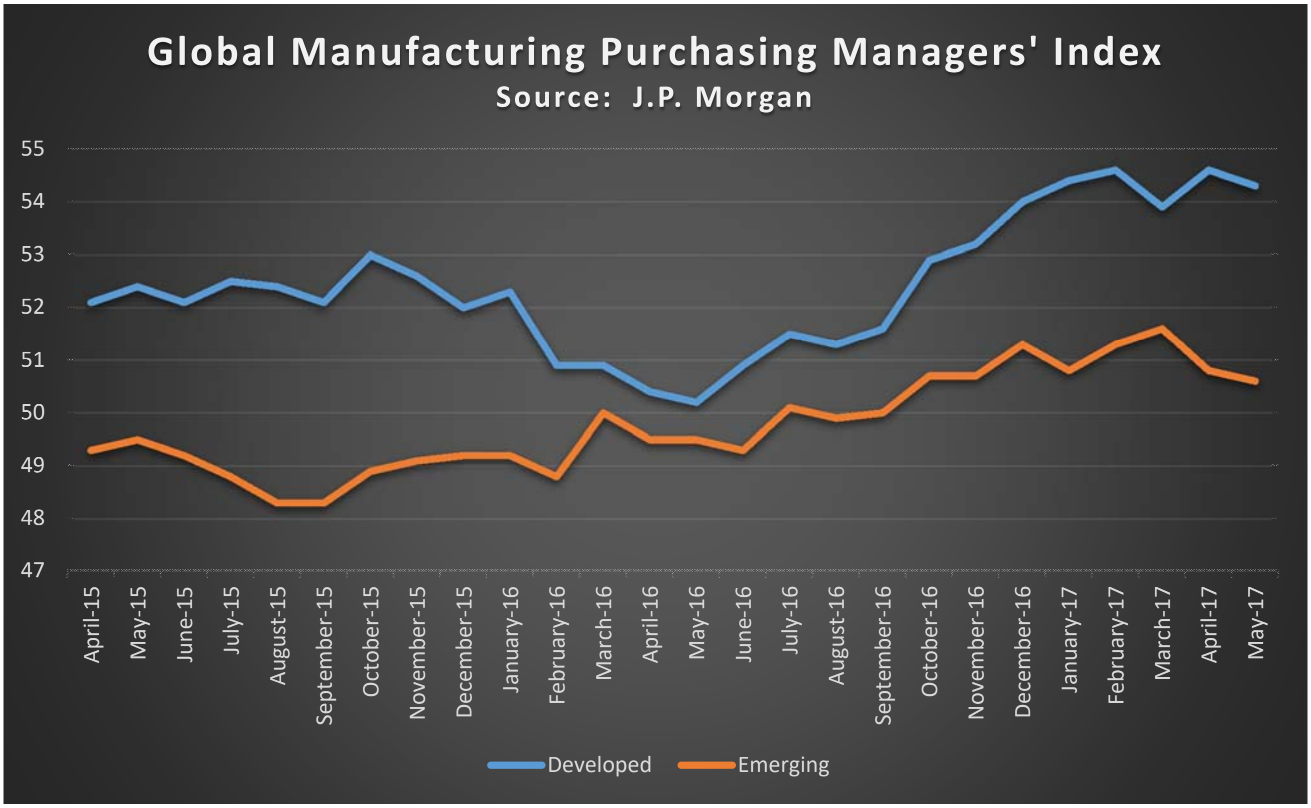
State of the Markets in 4 Charts

By: Eric Neufeld, CFA – Portfolio Manager

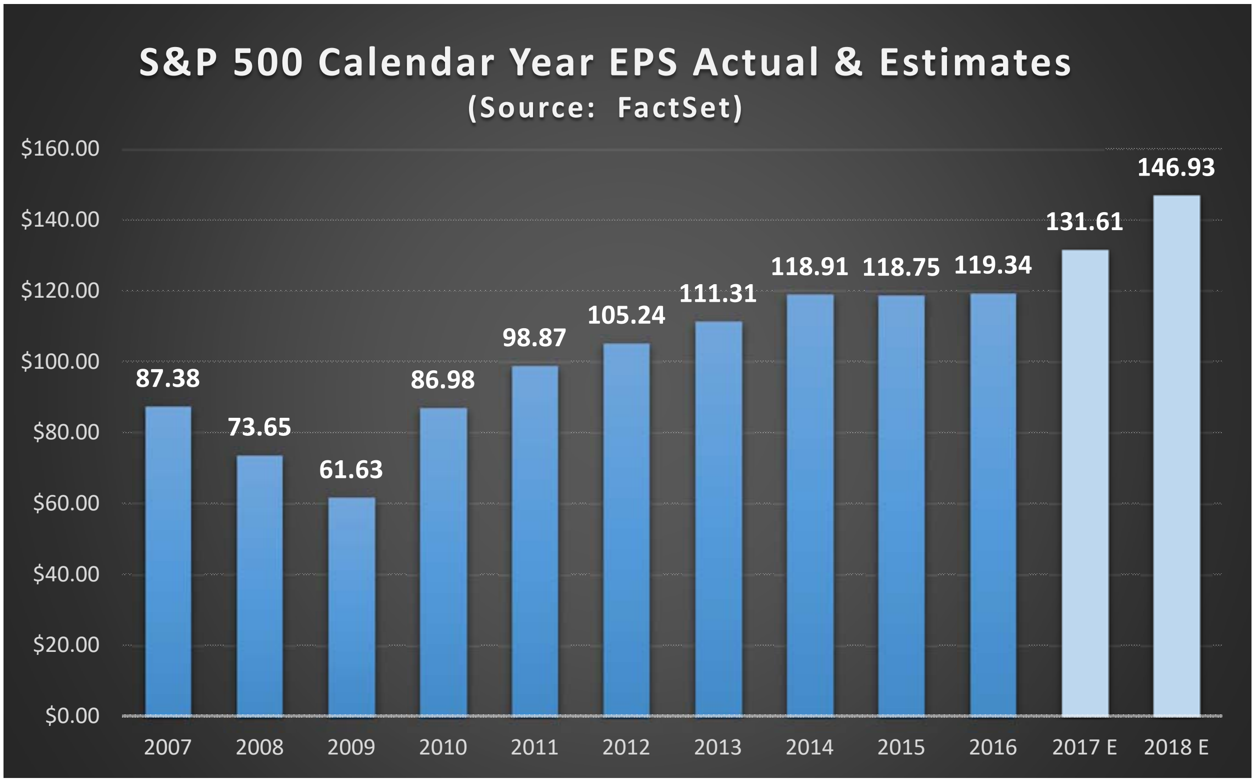
1 - Global Growth on the Upswing



Economic indicators have been trending higher since mid-2016. This chart reflects the strength in the Purchasing Manager's Index, a survey based measurement of the manufacturing sector, for both developed and emerging economies. A reading above 50 indicates expansion of the manufacturing sector. Most economic indicators, including trade volume, employment and sentiment, have all improved over the last year.

<u>**Portfolio Impact**</u> – We remain fully invested across our strategies with a preference for risk assets.

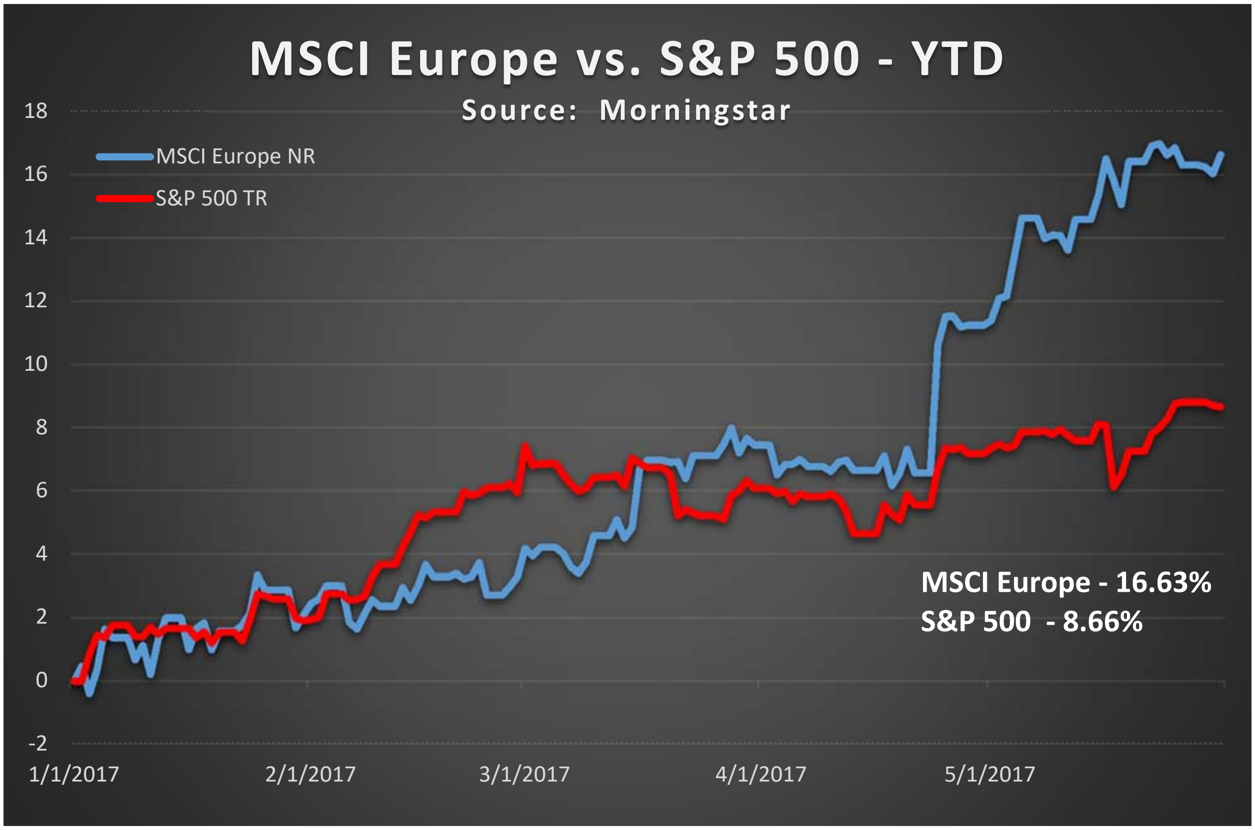
2 – Earnings Growth Resumes in 2017



Earnings growth was relatively flat in 2015 and 2016 due to a strong dollar and collapse in oil prices. However, earnings rebounded in Q1 2017 with the S&P 500 showing growth of 14%, led by Financials, Tech and Materials. Overall, earnings are forecasted to grow by 10% for the full year.

Portfolio Impact – In our Equity strategy we remain committed to a multi-cap allocation, as mid and small cap stocks typically outperform in higher growth environments. We also maintain a slight overweight to Technology stocks due to earnings momentum. In our Balanced strategy we currently have an overweight to equities, as we expect earnings growth to propel stocks over bonds.

3. Europe Showing Strength



Earnings growth has also begun to pick up in Europe while geopolitical risk has receded, driving stock prices higher. In addition, the European Central Bank continues to provide monetary stimulus through policy rates and asset purchase programs. The MSCI Europe Index has almost double the return of the S&P 500 so far this year.

<u>Portfolio Impact</u> – We recently increased our exposure to European equities in our Global strategy. We believe the earnings growth and cheaper valuations, relative to the U.S., provide support for higher exposure.

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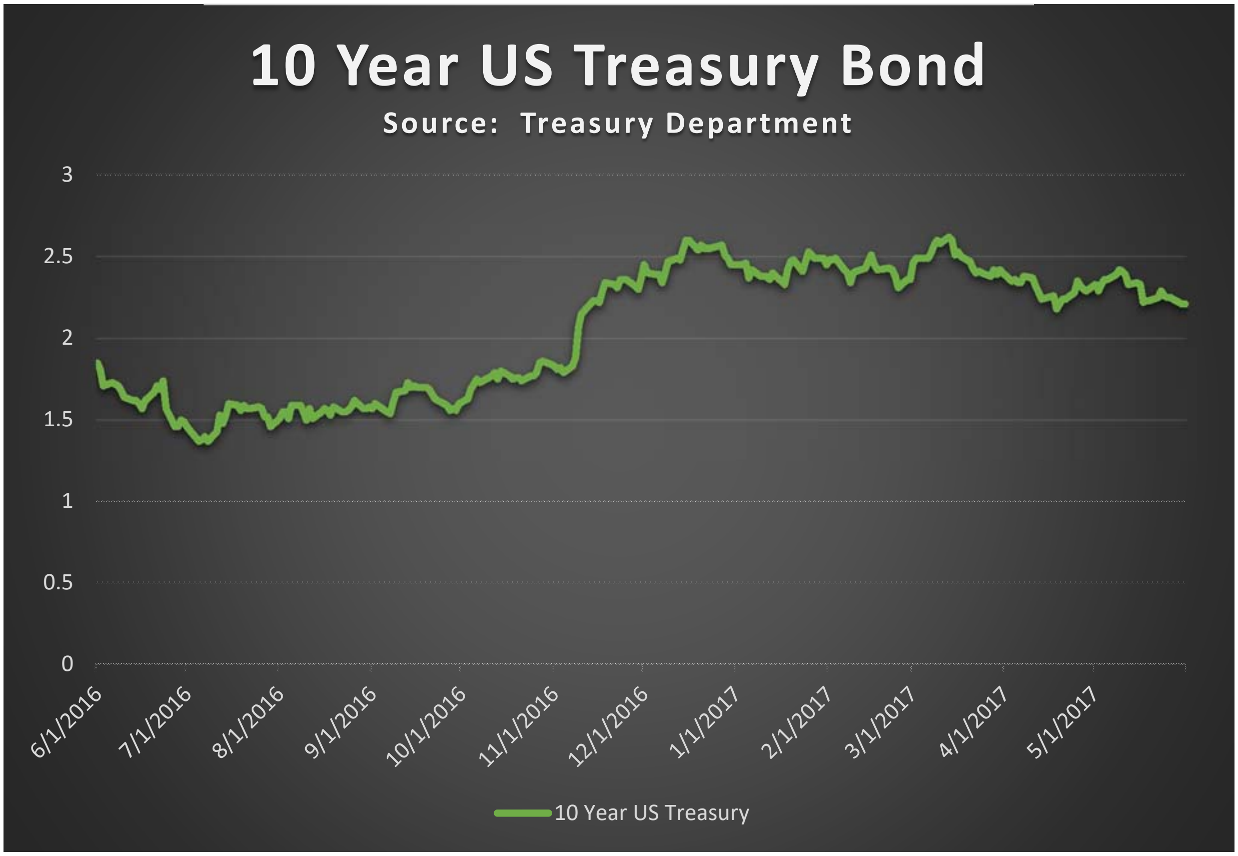
4. Yields Grind Lower



Treasury yields have been moving lower since posting a 1 year high in March. Moderate inflation and strong yields, relative to other global sovereign bonds, have pulled yields lower. Corporate bonds have rallied also, with spreads close to cycle lows. The Federal Reserve hiked interest rates for the fourth time in June, contributing to the flattening of the yield curve. The Fed will be hard pressed to hike again this year if inflation data continues to be moderate.

Portfolio Impact – In an environment with low yields and tight spreads, we are focused on relative yield and alternative asset classes. Our Income strategy maintains an allocation to Non-agency MBS, which offer strong risk adjusted yields with improving credit quality. In alternative asset classes, exposure to Preferred Securities and Market Neutral strategies have contributed to performance.

777 – 108th Avenue NE | Suite 2100 | Bellevue, WA 98004 | 425-451-7722 | 800-735-7199 | 425-451-7731 fax | www.tpfg.com

Source: U.S. Department of the Treasury, Morningstar, J.P. Morgan & FactSet
All data through 5/31/2017

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