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KeyBank

INVESTMENT REVIEW

The equity markets continued to advance during the quarter with all of the major market indexes recording gains. Domestic equities, as represented by the Russell 3000® Index, recorded their eighth consecutive quarter of positive returns advancing 4.6% during the quarter. Large-cap stocks outperformed mid-cap stocks but small-caps were the strongest of the major domestic indexes. Year-to-date returns are very solid, with the Russell 3000® Index advancing 13.9%.

International markets were also up sharply. The advance was led by emerging market equities which returned 7.89% during the quarter. Developed Market equities were also strong advancing 5.40%. It was the third consecutive quarter of positive returns for the broad international indexes. Year-to-date, international returns have been even stronger than those in the U.S. The MSCI EAFE, the foreign developed market index, was up 19.96% year-to-date while the foreign emerging markets index advanced 27.78%.

As expected, the Federal Open Market Committee left the Federal Funds rate unchanged at its September meeting but did announce its intentions to shrink its $4.5 trillion balance sheet beginning in 2018. Partially as a result, interest rates rose modestly during the quarter with the 10-year Treasury yield rising 22 basis points to 2.33% and the yield on the 2-year note increasing 14 basis points to 1.48%. Despite the increase in rates, fixed income returns were positive in the quarter. The Bloomberg Barclays US Aggregate Index returned 0.85% while the shorter US Intermediate Government/Credit Index was up 0.60%.

The markets sharp advance reflects a continuation of the gradual improvement in global economic growth with little or no indication of a near term recession. The weak U.S. dollar also added to international market performance as it enhanced the return on foreign securities for dollar-based investors. Both domestically and abroad, earnings growth has been better than expected, job growth is solid, consumer confidence is high, inflation is subdued and interest rates remain low. Moreover, domestically, the renewed talk of tax reform from Washington is further stoking investor appetite for equities.

ECONOMIC OVERVIEW

In the U.S., economic growth accelerated in the second quarter as GDP grew 3.1%, up from 1.2% in the first quarter. Other higher frequency measures of economic activity, including consumer confidence, job growth, durable goods orders and the Purchasing Managers index (PMI,) have confirmed the acceleration in growth. While we expect the economy to continue growing modestly, economic reports will be impacted by the U.S. hurricanes. Growth in the third quarter and early fourth quarter is likely to be negatively impacted by the events, but at some point in the fourth quarter the economy should strengthen as areas of the county devastated by floods, hurricanes and wild fires begin rebuilding. Lastly, tax reform could also provide a meaningful catalyst to future U.S. economic growth.

International economic growth has also been strengthening and strategists are again talking about a period of synchronized global growth. Foreign countries appear to be much earlier in their economic cycles suggesting that U.S. economic growth could stay stronger for longer. We remain positive on the economy and believe that modest growth will continue well into 2018.

INVESTMENT OUTLOOK

We continue to find stocks attractive relative to fixed income securities and are keeping equity weightings modestly higher than long-term targets. Valuations are above long-term averages but are attractive when interest rate levels are taken into consideration. Our positive outlook on the economy further fuels our appetite for equities. While_growth in the U. S. continues to be relatively modest, growth in many overseas markets has accelerated. This,_coupled with the possibility of continued weakness in the U.S. dollar, has led us to shift toward a modest overweight_in international equities. We also remain overweight large cap domestic stocks as we believe that continued growth_in payrolls and acceleration in wage growth will lead to higher consumer spending. Mid- and small- cap stocks_remain at a disadvantage due to their limited exposure to international economies, although a cut in corporate taxes_would favor this group given their higher tax rate. We expect volatility in the fixed income markets to continue as_participants adjust to a less accommodative Federal Reserve.

<u>THE PRINCIPLE OF SAVING</u>

In previous issues, we reviewed major life purchases and spending wisely to avoid consumer debt. Now we'll look at the opposite of spending: SAVING. Spending is easy—there is always something that you want to buy. Saving is much more difficult—there are not immediate rewards nor tangible goods that you can see.

Saving money is difficult because it requires for you to purposely set aside funds for a later use. It often means that you would go without buying something that you want right now. Understanding the reasons to save—and how to do it—will increase your motivation and make it easier.

It is easier to save money when you know what that money will be buying. When kids are asked to save money in a piggy bank, they may be told, "Save your money to get that new bike that you've always wanted." But now, as you're approaching adulthood, you may be wondering, "Why am I supposed to save money?"

Here are some of the reasons to save money:

- Future large purchases, such as a car or home
- School and education costs
- Waiting for bargains or sales on something you need
- Create extra investment income
- Future needs and emergencies
- Pay off debt
- Peace of mind – knowing you have a reserve

Once you have decided that you want to save money, you want to make sure that your savings are safe. You want to avoid scenarios of "cash under the mattress," which includes having large amounts of money in a wallet, purse, or stashed anywhere at your home. Cash can be lost, stolen, or spent too easily. Most people choose to save their money in a checking or savings account at a bank.

When opening a bank account, you will want to be thoughtful of whose name – or names – appear on the account. Any person whose name is on the account is authorized to withdraw all of the money in that account. For example, if you open a joint account with a family member or a significant other, that person has access to withdraw all of the money in the account. It is recommended to have your **<u>own</u>** bank account before receiving money from your minors trust. It is also recommended to receive money by direct deposit, which is the most secure way to transfer money.

Deciding to save money will become much easier once you establish your own reasons to save and develop ways to save to reach your financial goals. If you need any assistance with your trust, please contact Providence First Trust Company at 602-952-2300 or toll-free at 1-800-350-0208.