JJ BURNS

2017: 3rd Quarter Summary

"My luck was so good I could do no wrong" Jerry Reed, *When You're Hot You're Hot*

Much like guitar-picker and singer Jerry Reed, we're running out of superlatives to describe the markets' returns thus far this year. All major assets had strong positive returns during the 3rd quarter, and U.S. equity markets reached new highs. Good Q-2 earnings (especially in the U.S.) and signs of synchronized global economic growth pushed stocks higher, led by emerging-markets equities. Stock prices primarily follow earnings growth, and growing GDP, declining unemployment and little sign of inflation or sharply rising interest rates also offer support. Low inflation led to moderated expectations for central-bank rate hikes, and helped both bonds (a 'lower for longer' redux) and risk assets, which look more attractive in this environment. Investors continue to ignore geopolitical events and murky policy, so stocks and bonds are currently poised to trend higher. Here's a summary of Q3 results:

Index Returns
as of 9/30/2017

Index	YTD 9/30/17	Q3 2017	1st HALF 2017	SINCE ELECTION
FIXED INCOME				
BbgBarclays US HY 2% Issuer Cap	7.00%	1.98%	4.92%	8.87%
BbgBarclays Municipal	4.66%	1.06%	3.57%	1.75%
BbgBarclays Global Aggregate	2.22%	0.78%	1.43%	0.87%
BbgBarclays US Agg Bond	3.14%	0.85%	2.27%	0.97%
U.S. STOCKS				
Russell 1000 [Large-cap Stocks]	14.17%	4.48%	9.27%	20.07%
Russell 2000 [Small-cap Stocks]	10.94%	5.67%	4.99%	26.32%
S&P 500	14.24%	4.48%	9.34%	19.93%
INTERNATIONAL STOCKS				
MSCI ACWI Ex USA NR [All Stocks]	21.13%	6.16%	14.10%	22.07%
MSCI EAFE NR [Developed Markets]	19.96%	5.40%	13.81%	22.49%
MSCI EM NR [Emerging Markets]	27.78%	7.89%	18.43%	22.50%
REAL ASSETS				
U.S. Dollar	<8.94%>	<2.69%>	<6.42%>	<4.89%>
Morningstar US Real Asset Index	0.16%	1.53%	<1.36%>	0.99%
Bloomberg Commodity	<2.87%>	2.52%	<5.26%>	1.53%
S&P GSCI Crude Oil Spot	<3.82%>	12.23%	<14.30%>	14.23%
S&P United States REIT TR USD	2.93%	0.84%	2.07%	7.62%
S&P Global Ex US REIT TR USD	9.41%	2.42%	6.83%	7.39%

Source: Morningstar, Inc. USD data with dividends and interest; YTD data through 9/30/17

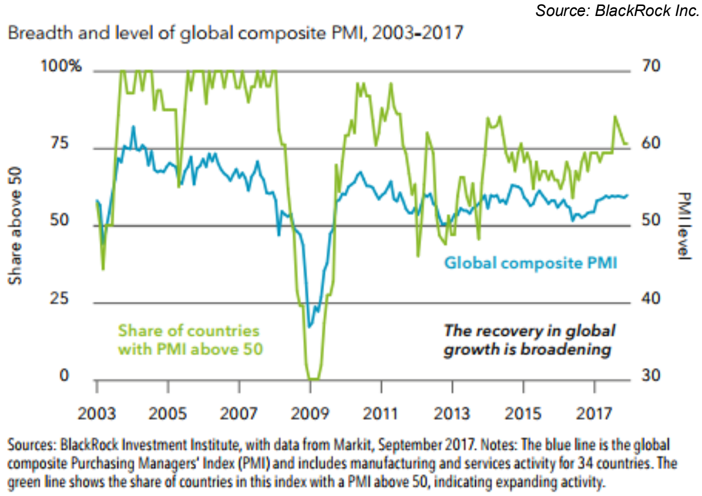
Since Election data from 11/09/16 through 9/30/17

“When you’re hot, you’re hot…” Jerry Reed, *When You’re Hot You’re Hot*

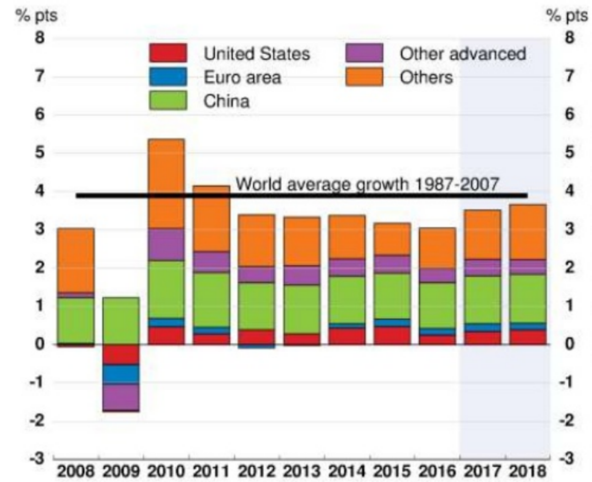
Here are some ‘hot’ and ‘not so hot’ areas we’re reviewing:

Global growth: For the first time since the rebound from the Global Financial Crisis (GFC), the world’s economies seem to be moving in sync. The left-hand graph shows global composite PMI slowly but firmly trending upwards in expansionary readings (over 50 on the scale). The right-hand graph, from the OECD, indicates their highest reading on global real GDP growth since the rebound years following the GFC. Their estimates have recently been revised upward, and are approaching their pre-GFC average despite China’s slowing growth trend. While these are estimates, positive sentiment and corporate expansion of capital expenditures and employment trends may follow.

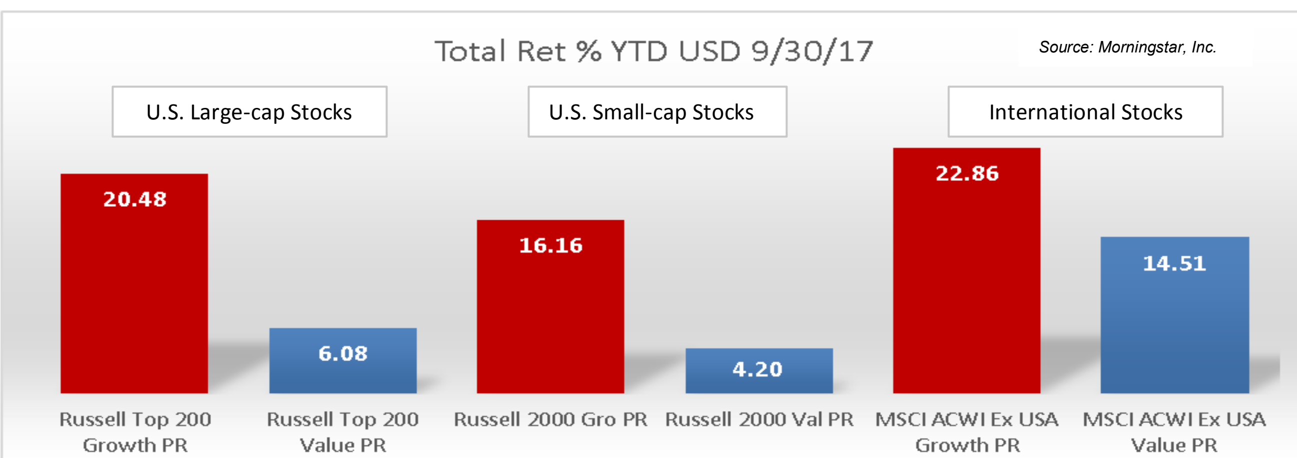
Source: BlackRock Inc.



Source: OECD



Growth stocks: In a strong YTD run following last year’s underperformance to value stocks, growth stocks have had a robust start to 2017. In the U.S., a focus on large-cap tech names has led a rotation away from value stocks, which were better performers last year partly due to a strong post-election run. This year, as policy uncertainty has befallen Washington, value favorites such as the banking sector have lagged technology and health care stocks. The value-growth spread is less pronounced with international stocks, but is also being partly driven by a focus on tech stocks, particularly in China. While earnings and valuations haven’t yet broken down, optimism is running high for these risk assets in a low-interest-rate environment.

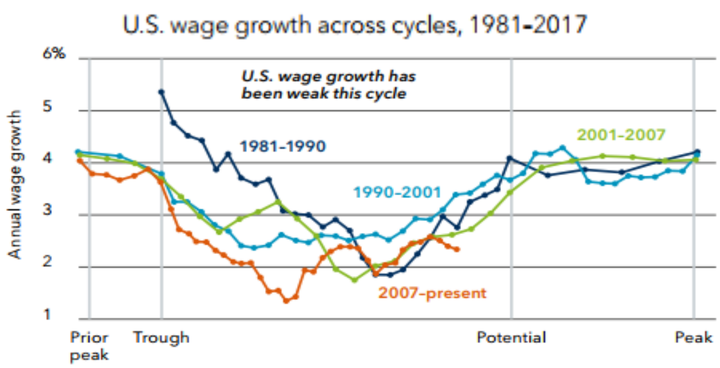


“And when you’re not, you’re not” Jerry Reed, *When You’re Hot You’re Hot*

Yields: Simply put, yields are too low this late in a recovery. The ‘normalization’ process the Fed is undertaking will take some time, as it reverses years of supporting the U.S. economic recovery by raising short-term rates and reducing its huge balance sheet. Over-communicating these changes and a deliberate schedule of hikes and asset roll-offs have helped investors remain calm, but the fact remains that there is a great deal of debt still supporting risk-asset prices as well as credit yields (e.g. high-yield bonds). As the graph demonstrates, bond holders are not being compensated for holding longer-term bonds. How the Fed and the other key central banks manage the roll-off, and how the market absorbs future supply in the mortgage and Treasury markets, are important indicators of support for stocks and growth.

Source: Goldman Sachs

Wages: Much like yields, wage growth has not been as robust as expected or desired during the U.S. and international recoveries. This metric is carefully followed by the Fed and has an impact on corporate earnings. Despite cyclically low unemployment numbers, wages have not grown as quickly as in the past and, when adjusted for inflation, have been virtually stagnant for years. Some faster wage growth may help in a variety of economic areas and sentiment, but headwinds to wage growth seem rather persistent.



Source: BlackRock Inc.

“Put all the money in and let's roll 'em again” Jerry Reed, *When You’re Hot You’re Hot*

Global bond and stock markets are ‘hot.’ While we see no flashing stop lights on the immediate road ahead (12 to 18 months), investors’ continuing blasé reactions to geopolitical risk and historically low volatility give us some pause. We are placing our faith in a sensible rotational among assets and valuation levels, and central bankers’ ability to manage a slow and steady economic reflation. After all, bull markets rise on optimism, not pessimism.

As always, we welcome your comments and questions.
-Your Wealth Management Team at JJ Burns & Company

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Unless otherwise stated, performance numbers refer to indexes, which cannot be invested in directly and have no fees or trading expenses associated with them. All index data provided by Morningstar, Inc.

 Indices are not available for direct investment; their performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is no guarantee of future results. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities.

Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates. Fixed-income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The Barclays US Corporate High Yield 2% Issuer Capped Bond Index is an issuer-constrained version of the flagship US Corporate High Yield Index, which measures the USD-denominated, high yield, fixed-rate corporate bond market. The index follows the same rules as the uncapped version, but limits the exposure of each issuer to 2% of the total market value and redistributes any excess market value indexwide on a pro rata basis. The Barclays U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Barclays US Municipal Bond Index is a broad-based benchmark that measures the investment grade, US dollar-denominated, fixed tax exempt bond market. The index includes state and local general obligation, revenue, insured, and pre-refunded bonds. The Barclays Global Aggregate Index is a flagship measure of global investment grade debt from twenty-four local currency markets. This multi-currency benchmark includes treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. Returns hedged to various currencies are published for multi-currency indices.

The Morningstar® US Real Asset Index is a diversified portfolio of four different asset classes that have historically displayed high sensitivity to inflation. Real assets are defined as TIPS, commodity futures-based strategies, real estate investment trusts, and inflation-sensitive equities such as upstream commodity stocks and master limited partnerships

The S&P U.S. REIT Index defines and measures the investable universe of publicly traded real estate investment trusts domiciled in the United States. The S&P Global ex US REIT index is a comprehensive benchmark of publicly traded equity REITs listed in both developed and emerging markets, excluding the United States. The S&P 500® index includes 500 leading companies and captures approximately 80% coverage of available market capitalization. The S&P GSCI is designed as a benchmark for investment in the commodity markets and as a measure of commodity market performance over time. It is also designed as a tradable index that is readily accessible to market participants.

The MSCI ACWI ex USA Index captures large and mid-cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 23 Emerging Markets (EM) countries. The MSCI EAFE Index is an equity index which captures large and mid-cap representation across Developed Markets countries around the world, excluding the US and Canada. The MSCI Emerging Markets Index captures large and mid-cap representation across 23 Emerging Markets (EM) countries.

The Bloomberg Commodity Total Return index is composed of futures contracts and reflects the returns on a fully collateralized investment in the BCOM. The index currently represents 20 commodities, which are weighted to account for economic significance and market liquidity.