Goodman Financial
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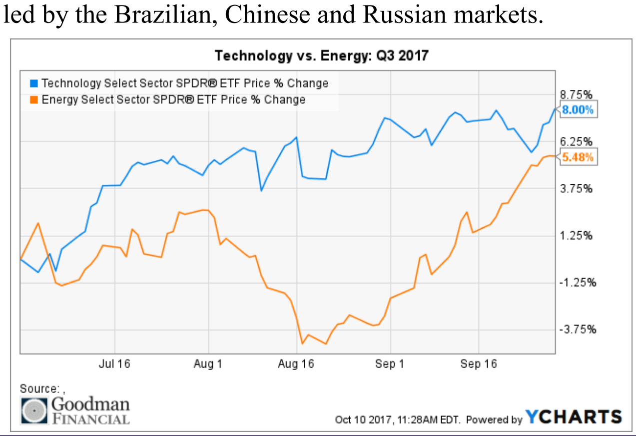
THIRD QUARTER 2017 MARKET & ECONOMIC REVIEW

Major Equity Market Indices

Index	Description	6/30/17	High	Low	9/30/17	QTD Return*
S&P 500	A market-capitalization weighted index of 500 large U.S. companies.	2,423.41	2,519.44	2,407.70	2,519.36	3.96%
DJIA	Dow Jones Industrial Average or "The Dow"; A price-weighted average of 30 major U.S. companies.	21,349.63	22,419.51	18,603.14	22,405.09	4.94%
Nasdaq Composite Index	A market-capitalization weighted index comprised of over 3,000 companies, mostly in the technology and biotech industries.	6,140.42	6,497.98	6,081.96	6,495.96	5.79%
NIKKEI 225	A price-weighted index comprised of Japan's top 225 most established companies.	20,033.43	20,481.27	19,239.52	20,356.28	1.61%
MSCI Emerging Markets	An index comprised of 23 MSCI indices from emerging economies including Brazil, China, India, Mexico, Russia, South Africa, and the UAE.	1,010.80	1,112.92	1,002.48	1,081.72	7.02%
Stoxx Europe 600	An index comprised of 600 companies based in one of 18 EU countries including Austria, Belgium, Denmark, France, Germany, Ireland, Spain, and the United Kingdom.	379.37	388.16	365.99	388.16	2.32%

* Excludes effects of dividends — Sources: YCharts, Wall Street Journal

- In September, President Trump and the Republican Congress unveiled their proposed tax plan, and the markets reacted positively to it. In fact, it caused a resurrection of the so called “Trump Trade” or “Reflation Trade,” similar to what happened shortly after the Presidential election. The sectors benefiting from this late-quarter “Trade” included financial services, energy and materials. Additionally, small-cap stocks benefited relative to large-caps as they generally have higher tax rates that would be lowered under the plan. The sectors hurt by the trade included the interest-rate-sensitive utilities and REIT’s as interest rates rose, along with the “defensive” consumer staples sector and over-extended technology services sector.
- For the quarter, we observed an unusual convergence of performance among sectors, market caps and styles, something we haven’t seen in a while. As seen in the graph below to the left, the small-cap Russell 2000 index outperformed the large-cap S&P 500 for the quarter, though it still lags on a YTD basis (not shown).
- Among S&P sectors, energy had a meaningful rebound (as seen in the chart on the right below), as oil prices rose during the quarter, but, on a YTD basis, energy is still the worst performer and down for the year. Technology had the best performance among sectors for the quarter, padding its lead as the best-performing sector for the year. The healthcare and materials sectors follow technology services on YTD performance.
- Equity markets world-wide did well in the quarter. The Italian, Austrian and Norwegian markets led Europe. The Japanese NIKKEI 225 index, while up for the quarter, lagged its world-wide peers.
- Emerging markets continued their torrid streak during the quarter, led by the Brazilian, Chinese and Russian markets.



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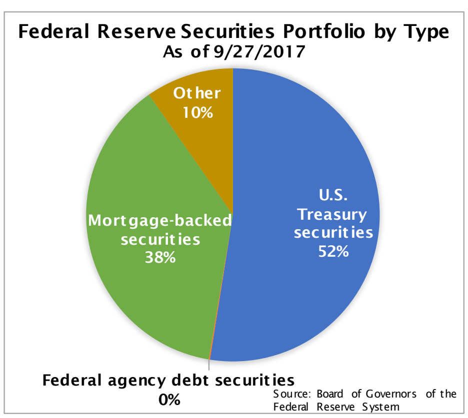
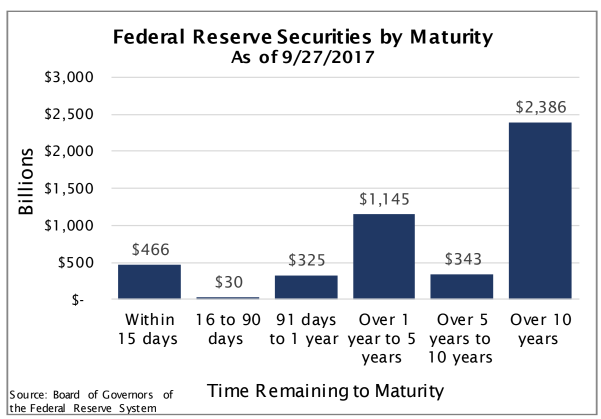
Fixed Income

Description	6/30/17	9/30/17	QTD Change in Basis Points*	Description	9/30/17	52-Week Range Low	52-Week Range High
90 Day Treasury Bill	1.03%	1.06%	3	Federal Funds Rate Target	1.00%-1.25%	0.25%-0.50%	1.00%-1.25%
10 Yr. Treasury Note	2.31%	2.33%	2	Prime Rate (U.S.)	4.25%	3.50%	4.25%
30 Yr. Treasury Bond	2.84%	2.86%	2	LIBOR (3-Month)	1.33%	0.85%	1.34%
15 Yr. Mortgage Rate	3.21%	3.16%	-5	5-Year CD	1.44%	1.19%	1.47%
30 Yr. Mortgage Rate	4.02%	3.90%	-12	HELOC ($30,000)	4.74%	4.57%	5.22%

* One basis point is equal to 1/100th of 1%, or 0.01% Sources: YCharts, Wall Street Journal

- During the quarter, the Federal Open Markets Committee (FOMC) of the Federal Reserve (The Fed) met twice, choosing both times to maintain the Federal Funds Rate. Importantly, during the September meeting, the FOMC voted to alter open markets policy beginning in October. This means that the Fed will begin to unwind its approximately $4.5 trillion balance sheet. To unwind the balance sheet, the Fed will not reinvest all of the proceeds from maturing bonds. This will have the effect of shrinking the supply of money, causing rates to increase, in turn assuming that the demand for money remains the same. The process will be slow and take a number of years as to not shock the bond market.
- Under the plan unveiled in June, the unwinding process will begin by allowing up to $6 billion of Treasury securities to mature each month without reinvestment and up to $4 billion combined of federal government agency debt and mortgage-backed securities to mature each month without reinvestment. At three-month intervals, the monthly amount of Treasury securities allowed to mature without reinvestment will increase by $6 billion until it reaches $30 billion per month, at which point the amount will not increase further. Similarly, the monthly amount of federal agency debt and mortgage-backed securities allowed to mature without reinvestment will increase by $4 billion until it reaches $20 billion.
- The exact timeline for unwinding depends on whether or not the Fed maintains the stated policy, the precise make-up of the portfolio, and if the Fed wants to maintain some amount of a securities portfolio. Below are graphs showing what is in the portfolio and the maturity profile of the portfolio in broad terms.





- The Fed's decision is good news for banks, who have been squeezed by paying increasing rates on savings (see the 5-Year CD rate) but accepting decreasing rates on mortgages. Continued economic growth, as illustrated on the next page, should serve to increase the population of borrowers and the amount borrowed. Combined, these factors provide a positive outlook for banks.
- Given the Fed's moves on monetary policy and a positive economic outlook, GFC has decided to continue its policy of thoughtful, disciplined bond buying, choosing at times to be patient to avoid locking clients into bonds with unattractively low yields.

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Economic Indicators

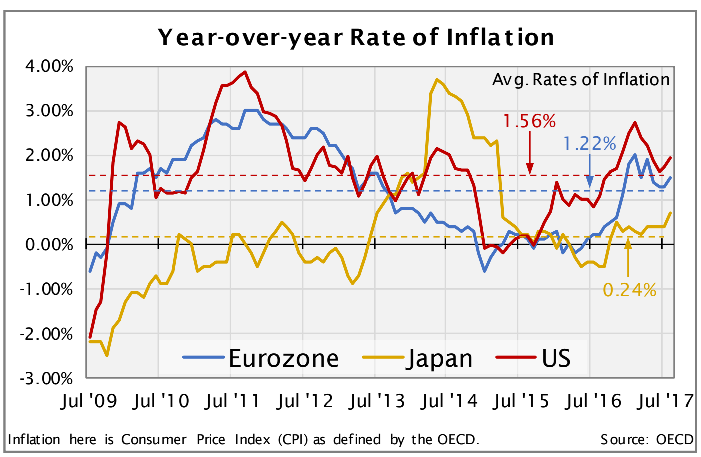
Unemployment Rate	Description	6/30/17	9/30/17	QTD Change
Average Weekly Initial Claims for Unemployment Insurance	The number of new filings for unemployment insurance benefits. **Claims increased due to impact of hurricanes, according to the Dept. of Labor.** *Most economists believe claims below 300,000 indicate a healthy labor market environment.*	250,000	260,000	4.0%
Unemployment Rate	The percentage of total labor force that is unemployed but actively seeking employment. **The unemployment rate remains below 5% and is the lowest since early 2001.** *The U.S. Federal Reserve targets a long-run unemployment rate of between 4.5% and 5%.*	4.4%	4.2%	-20 bps
Average Weekly Earnings	The average weekly salary earned by private, nonfarm employees. **Wages increased during the quarter, likely as a result of a tightening labor market. This suggests more disposable income for consumers.**	$906.32	$913.32	0.77%
Index of Consumer Sentiment	This index reflects consumer attitudes towards the state of the economy. **Consumer confidence was unchanged, remaining near its post-recession high of 98.5.**	95.10	95.10	unch.
Manufacturers' New Orders for Consumer Goods and Materials (Millions) *	The number of new orders placed for consumer goods. **New orders increased, indicating higher demand for U.S.-produced consumer goods and validating high consumer confidence and lower unemployment.**	$194,589	$197,291	1.39%
Manufacturers' New Orders for Nondefense Capital Goods, Excluding Aircraft (Millions) *	This index is the producer's counterpart of new orders of consumer goods and materials. **New orders for nondefense capital goods increased during the quarter, suggesting increased business confidence in the economy.**	$63,464	$64,991	2.41%
US Capacity Utilization: Manufacturing *	The ratio of production capacity being used to produce finished products compared to the total capacity available. **Capacity utilization decreased mostly due to the impact of hurricanes on the Gulf Coast.**	76.0%	75.8%	-26 bps

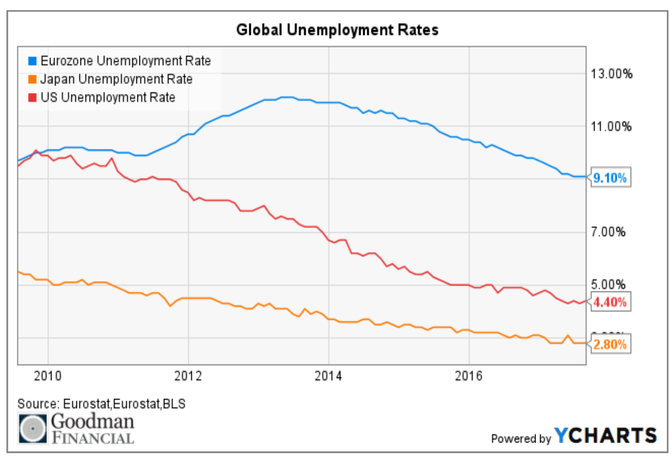
*These items are as of 8/31/17, the date of the most recently published statistics

Sources: YCharts, Federal Reserve Bank of St. Louis, The University of Michigan, U.S. Census Bureau, U.S Department of Labor

Global Economic Health

For all of the political and social drama that dominates the news, the underlying U.S. economy is actually doing quite well. Employment and manufacturing statistics above—impacts of a busy hurricane season aside—illustrate the strength of the economy, and high consumer sentiment affirms the assertion. But since the U.S. does not exist in a bubble, what about the rest of the world, specifically our major trade partners? Below, the charts look at two of them and the U.S. since the Great Recession ended in June 2009.





Keeping an eye on Europe and Japan is important given the strategic political and commercial ties between them and the U.S. Considering those relationships, the charts above yield two key takeaways. The first is that the U.S. has benefitted from an earlier, more robust recovery, as shown by higher average inflation and a faster rate of decline in unemployment. This conclusion is not surprising when one considers Europe's series of crises (e.g., sovereign debt and Syrian refugee) and Japan's struggles with an aging population. The second takeaway focuses on the last 12 months of the graphs, where Europe's unemployment rate is finally below recession levels and Japan's inflation rate is positive and climbing steadily. The takeaway is that Japan and Europe appear to have found their footing alongside the U.S. and may present enhanced opportunities for investors and multinational companies.