MARKET UPDATE
SEPTEMBER 2017 REVIEW

CORPORATE OFFICE:

95 Glastonbury Blvd.
Suite 102
Glastonbury, CT 06033
(860) 652-3239

USI Consulting Group is the parent company of both USI Advisors, Inc. and USI Securities, Inc.

USI ADVISORS OFFICES:

350 Fifth Avenue
Suite 3700
New York, NY 10118

900 South Gay Street
Knoxville, TN 37902

312 Elm Street 24th Floor
Cincinnati, OH 45202

50 Cabot Street
Needham, MA 02492

2400 East Commercial Blvd
Suite 600
Fort Lauderdale, FL 33308

3190 Fairview Park Drive
Suite 400
Falls Church, VA 22042

6501 So Fiddlers Green Circle
Suite 100
Greenwood Village, CO 80111

2711 N. Haskell Ave
Suite 2000
Dallas, TX 75204

601 Union Street, Suite 1000,
Seattle, WA 98101

"Markets Close Third Quarter on a Positive Note"

Tensions between the U.S. and North Korea continued to escalate when the country fired a missile over Japan and threatened to test a nuclear bomb over the Pacific. In addition, three major hurricanes have hit the U.S. over the last few weeks which have caused billions of dollars in damages. Investors seem to have largely ignored the geopolitical risks and the blitz of natural disasters, as most equity markets finished the third quarter strong. While market pullbacks can happen at any time, the fundamental trends that fueled the steady increase in stocks this year still remain intact.

Heading into hurricane season, the U.S. economy had been growing at a decent rate, with second quarter GDP being recently revised up to 3.1%. After the recent natural disasters, domestic economic data will likely be revised down but at the same time the economy may get a temporary boost over the long term as hurricane damaged areas get rebuilt. Part of the reason why hurricanes are becoming more costly is the population growth in hurricane prone areas. Sunbelt states attract retirees and the Census Bureau forecasts that Texas and Florida will be two of the most populated states in the U.S. by 2030. Historically after costly natural disasters, the S&P 500 will sell off for a few months and rebound to pre-crisis levels in 6 months. However we have not experienced any post hurricane market weakness this time. On the contrary, the S&P 500 Index added 2.1% during September, bringing the year to date return to 14.2%. The Dow Jones also posted a 2.2% gain during the month, while the tech-heavy NASDAQ was up 1.1% and has gained over 20% year to date. In general, markets have been trending higher so far this year.

Even economic indicators continue their uninterrupted ascent. The Conference Board's Consumer Confidence Index is tracking its highest level since 2001 at 119.8 in September. The Philly Fed manufacturing index increased to 23.8 in September from 18.9 in August, indicating an improving economy. Inflation readings have been softer this year and CPI rose 0.4% in August, which supports the Fed's dovish stance in raising interest rates. In the most recent FOMC meeting on September 20th, Janet Yellen announced that the Fed would keep interest rates steady but they would start to gradually shrink the massive $4.5 trillion balance sheet. Investors' reaction to the news was muted. Furthermore, the debt ceiling drama that was anticipated at the end of the month was avoided when President Trump struck a deal with Democrats to raise the debt ceiling for three months and pass a short term budget, however these policies will be revisited again in December.

	September 2017	YTD
DJIA	2.16%	15.45%
S&P 500	2.06%	14.24%
NASDAQ	1.05%	20.67%
MSCI EAFE	2.49%	19.96%
MSCI Emerging Markets	-0.40%	27.78%
Barclays Aggregate	-0.48%	3.14%
Barclays Corp High Yield	0.90%	7.00%
	9/30/2017	8/31/2017
US 10-Year Treasury	2.33%	2.12%

International markets have been dominated by headlines pertaining to North Korea. Tensions increased when North Korea's prime minister announced that the country may test a hydrogen bomb over the Pacific. If they follow through, it would be the first nuclear weapon detonated in the atmosphere in decades which would further escalate an already volatile situation. These geopolitical risks have been reflected in declines in some international equity markets but global investors have, in general, been resilient. In Europe, a number of national elections have been held in recent months with the most recent one in Germany on September 24th. Angela Merkel won a fourth term as

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chancellor which was perceived as a positive by the markets. Europe is enjoying an increased pace of economic growth and a broader recovery. The MSCI EAFE Index was up 2.5% in September and has gained 20.0% year to date. Emerging markets, on the other hand, had a negative month, posting a 0.4% loss as measured by the MSCI Emerging Market Index. However emerging markets are still leading the pack with a gain of 27.8% since the start of the year.

Fixed income sectors posted mixed results in September with the Blomberg Barclays Aggregate Bond Index losing 0.5% and the credit focused Bloomberg Barclays U.S. High Yield Index posting a 0.9% gain. However both indexes remain in positive territory so far this year.

This year has been marked by low volatility and there is no significant catalyst that would point to a surge in volatility, except for further escalation of tensions with North Korea that could lead to military action. During a normal market environment, we experience two to three 5-10% corrections a year but we have yet to witness one this year. As we enter the fourth quarter, investors will pay close attention to geopolitical risks, budget battles, the all-important holiday shopping season and Federal Reserve action. It remains to be seen if any of these events will trigger a correction by the end of the year.

For previous market commentaries please click here.

An index is a measure of value changes in a representative grouping of stocks, bonds, or other securities. Indexes are used primarily for comparative performance measurement and as a gauge of movements in financial markets. You can not invest directly in an index and, for comparative purposes; they do not reflect the effect of the various fees inherent in actual investment vehicles.

The S&P 500 Index is a market value weighted index showing the change in the aggregate market value of 500 U.S. stocks. It is a commonly used measure of stock market total return performance.

The Dow Jones Industrial Average is a price weighted index comprised of 30 actively traded blue chip stocks; primarily industrial companies, but including some service oriented firms.

The NASDAQ Composite Index is a market-value weighted index that measures all domestic and non-U.S. based securities listed on the NASDAQ Stock Market.

Gross Domestic Product (GDP) is the market value of the goods and services produced by labor and property in the U.S. It is comprised of consumer and government purchases, net exports of goods and services, and private domestic investments. The Commerce Department releases figures for GDP on a quarterly basis. Inflation adjusted GDP (or real GDP) is used to measure growth of the U.S. economy.

The MSCI Europe and Australasia, Far East Equity Index (EAFE) is a market capitalization weighted unmanaged index developed by Morgan Stanley Capital International to measure approximately 1,100 securities in 21 major overseas stock markets. It is a commonly used measure for foreign stock market performance.

The Barclays Capital U.S. Aggregate Index covers the U.S. Dollar denominated investment grade, fixed-rate, taxable bond market of SEC-registered securities.

The Barclays Capital U.S. Corporate High Yield Index covers the U.S. Dollar denominated, non-investment grade, fixed income, taxable corporate bond market. Securities are classified as high-yield if the middle rating of Moody's Fitch, and S&P is Ba1/BB+/BB+ or below.

The MSCI Emerging Markets Index (EM) is a free-float-adjusted market-capitalization index developed by Morgan Stanley Capital International. It is designed to measure the equity market performance of 26 emerging market countries.

The 10 Year Treasury Yield is the interest rate the U.S. government pays to borrow money for a 10-year period. In addition to influencing how much the government pays to borrow over this timeframe, the 10-year Treasury Yields also determines how much investors earn by investing in this debt and it is a good indicator of investor sentiment. The higher the yield, the better the economic outlook.

The S&P Case Shiller Index is a group of indexes that tracks home prices in the U.S.. It seeks to measures the value of residential real estate in 20 major U.S. cities.

Michigan Consumer Sentiment Index is a survey of consumer confidence conducted by the University of Michigan. The Michigan Consumer Sentiment Index (MCSI) uses telephone surveys to gather information on consumer expectations regarding the overall economy.

Conference Board's Consumer Confidence Index an index by the Conference Board that measures how optimistic or pessimistic consumers are with respect to the economy in the near future.

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