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Hartland is an independent institutional and wealth advisory firm that seeks to meet clients' investment objectives with appropriate risk and in a low-cost manner. Once this has been achieved, we seek superior returns compared to client-specific, market-based and peer group benchmarks. We believe broad diversification reduces portfolio volatility and enhances the opportunity for superior risk-adjusted returns.

2017 ended with a brutal cold stretch blanketed across much of the U.S., with citizens perhaps warmed by the hopes of the positive financial impacts from the sweeping tax reform. The bill calls for new corporate and individual tax rates along with modifications to many deductions. Time will tell how much the tax reform accelerates GDP growth and impacts America's deficit.

Final third quarter U.S. GDP growth was revised down by 0.1% to 3.2%¹ which marks the second straight quarter of growth surpassing 3%. The U.S. economy continues to be led by personal consumption and business investment which is a harbinger of future productivity.

As widely expected, the Federal Reserve hiked rates by another quarter-point, setting the federal funds rate target at 1.25%-1.50%². The Fed continues to seek a balance between responding to positive news regarding economic growth and employment that encourage gradual tightening, while signaling caution due to weak inflation readings that have puzzled policy makers.

Purchasing Managers' surveys remain supportive of a broad-based pickup in global economic activity. The IHS Markit's Eurozone Manufacturing Purchasing Managers' Index (PMI) increased to 60.6 in December from November's 60.1³ its best level since the survey began in 1997. The data show a broad-based expansion led by a solid core of Austria, Germany and the Netherlands.

U.S. EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
DJIA	1.9	28.1	28.1	14.4
S&P 500	1.1	21.8	21.8	11.4
Russell 2000	-0.4	14.6	14.6	10.0
Russell 1000 Growth	0.8	30.2	30.2	13.8
Russell 1000 Value	1.5	13.7	13.7	8.7
FTSE NAREIT U.S.	-0.1	9.3	9.3	6.9
Bloomberg Commodity	3.0	1.7	1.7	-5.0

U.S. equity markets extended their relentless march upward in 2017 with the S&P 500 returning 1.1% for December, while small caps as measured by the Russell 2000 declined 0.4%. Energy and Telecommunications led the way with returns of 4.9% and 5.8%, respectively, for December. The Technology sector led the way by a wide margin in 2017 with a 38.8% return, with a 15% lead over the second-best performing sector, Materials. Technology's sizeable outperformance for the year contributed to growth styles outpacing value.

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
MSCI ACWI ex USA	2.2	27.2	27.2	7.8
MSCI EAFE	1.6	25.0	25.0	7.8
MSCI Emerging Markets	3.6	37.3	37.3	9.1
MSCI EAFE Small Cap	2.7	33.5	33.5	14.6

Emerging Market equities were a clear winner for 2017, returning 37.3%. The MSCI Emerging Markets Index closed out the year by tacking on another 3.6% return for December. Foreign developed equity markets, as represented by the MSCI EAFE Index, also continued their advance, gaining 1.6% in December, led by the FTSE 100 return of 5.0%. The MSCI EAFE Index generated a 25.0% return for 2017 in US\$, aided by currency movements.

FIXED INCOME MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
BarCap US Aggregate	0.5	3.5	3.5	2.2
BarCap Global Aggregate	0.3	7.4	7.4	2.0
BarCap US High Yield	0.3	7.5	7.5	6.4
JPM Emerging Market Bond +	0.6	8.3	8.3	6.5
BarCap Muni	1.0	5.4	5.4	3.0

The Fed raised rates three times in 2017, meeting most economists' forecasts. The focus now shifts to March with markets anticipating an additional quarter-point hike⁴. The Bloomberg Barclay's Aggregate Index total return for December was +0.5% and +3.5% for 2017.

The U.S. Treasury yield curve flattened during December as the short-end moved up while the long-end moved down. The 2-year Treasury yield rose 11 basis points to 1.89% while the 30-year Treasury yield fell 9 basis points to 2.74%⁴. The 10-year U.S. Treasury yield closed the year at 2.41%, unchanged from November and about where it started the year, 2.45%⁴.

Healthy fundamentals and the economic environment supported corporate investment grade spreads which tightened through the month. High yield's total return for December was +0.3% bringing its 2017 return to +7.50. The JPM Emerging Market Bond+ Index returned +0.6% in December and was a bright spot in 2017, generating an 8.3% return.

Sources:

- 1 Bureau of Economic Analysis – U.S. Department of Commerce, 12/21/17
- 2 Federal Reserve, 12/13/17
- 3 IHS Markit, 1/2/18
- 4 Bloomberg

Definitions:

Markit Eurozone Manufacturing Purchasing Managers' Index: The Eurozone PMI is based on original survey data collected from a representative panel of around 3,000 manufacturing firms.

Disclosures

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