

QUARTERLY MARKET COMMENTARY

2nd Quarter 2017

The U.S. Equity Market

The U.S. stock market, represented by the Wilshire 5000 Total Market IndexSM, was up 2.95% for the second quarter of 2017. Economic releases during the second quarter were solid, with growth in both the economy and the labor markets. The Federal Open Market Committee raised the Fed Funds rate in June by 0.25%, the second such increase this year.

U.S. Equity

	MTD (%)	QTD (%)	YTD (%)	1 Year (%)
Wilshire 5000 Total Market Index SM	0.87	2.95	8.73	18.54
Standard & Poor's 500 Index	0.62	3.09	9.34	17.90
Standard & Poor's TSX Index (CAD)	3.22	0.90	4.15	11.24
Wilshire 4500 Completion Index SM	2.19	2.89	7.14	22.14

U.S. Equity by Size/Style

	MTD (%)	QTD (%)	YTD (%)	1 Year (%)
Wilshire U.S. Large Cap Index SM	0.66	3.08	9.27	18.26
Wilshire U.S. Large Cap Growth Index SM	0.66	4.79	13.32	25.07
Wilshire U.S. Large Cap Value Index SM	0.67	1.41	5.43	12.02
Wilshire U.S. Small Cap Index SM	2.87	1.65	3.95	21.21
Wilshire U.S. Small Cap Growth Index SM	3.59	3.81	7.60	26.63
Wilshire U.S. Small Cap Value Index SM	2.11	-0.55	0.26	15.93
Wilshire U.S. Micro Cap Index SM	3.78	3.53	5.50	28.34

ECONOMIC HIGHLIGHTS

GDP: Real GDP growth slowed to 1.40% annualized during the first quarter of 2017. This was not much lower than the 1.60% pace set in 2016. Both consumer and business spending contributed to growth. In an encouraging sign, nonresidential fixed investment was up a little more than 10%, thanks in part to increased spending on gas and oil well drilling. A shrinking trade deficit contributed to growth as well, with a contraction in government spending representing the only detractor.

Source: Department of Commerce (BEA)

Interest Rates: The Treasury curve flattened during the quarter, with yields for maturities three years and lower moving higher and longer term rates falling. The 10 year Treasury was down just nine basis points, finishing at 2.31%. The shift in short-term rates was driven by the Federal Reserve's decision to increase the Fed Funds rate by 0.25% during their June meeting, their second increase this year.

Source: U.S. Treasury

Inflation: Consumer price increases have moderated during much of 2017. The Consumer Price Index was down -0.2% for the three months ending in May, and up 1.9% for the one year period. The 10 year breakeven inflation rate closed the second quarter at 1.73%, down from 1.97% at the end of March. Inflation expectations are still up, however, from a year ago.

Source: Department of Labor (BLS), U.S. Treasury

Employment: Jobs growth has been solid for 2017, with total nonfarm employment increasing by an average of 121,000 jobs per month during the three months ending in May. The unemployment rate remains below 5%, registering at 4.3% in May, a level not seen since pre-crisis 2007.

Source: Department of Labor (BLS)

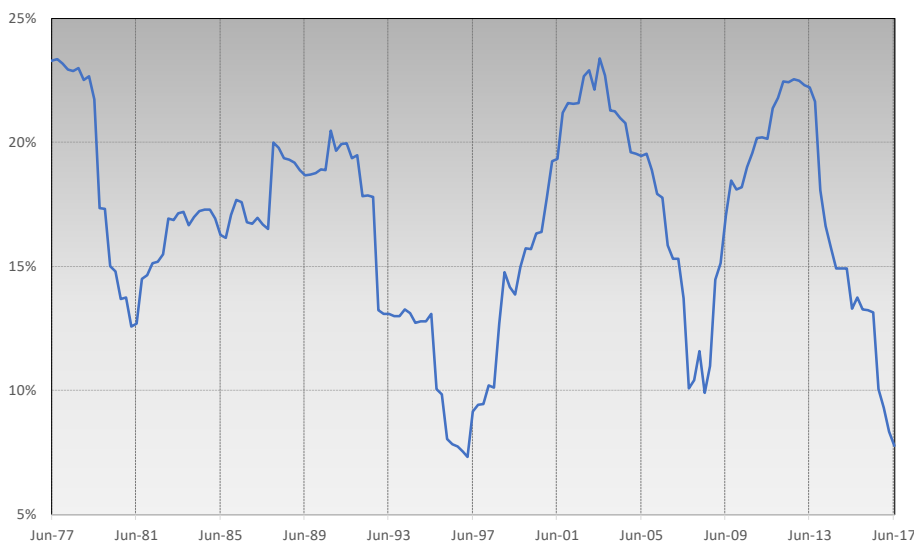
Housing: Home prices continue to move higher, with the S&P Case-Shiller 20-city Home Price Index up 1.5% for the three months ending April 2017. For the past 12 months, the Index is up 5.6%.

Source: Standard & Poor's

Large capitalization stocks outperformed their smaller capitalization counterparts, with the Wilshire U.S. Large Cap IndexSM up 3.08% versus a gain of 1.65% for the Wilshire U.S. Small Cap IndexSM. The Wilshire U.S. Micro Cap IndexSM was up 3.53% for the quarter and 28.34% for the one year. Growth stocks led value stocks during the second quarter in both the large and small cap spaces.

Sector performance was varied during the quarter. The best performing sector was Health Care (+7.3%), with Information Technology (+4.3%) and Industrials (+4.2%) close behind. Two sectors were in negative territory, Energy (-7.3%) and Telecom Services (-6.7%).

Wilshire 5000 Index: Rolling 5 Year Risk



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The U.S. equity market has delivered a 14.60% annualized return during the past five years, with only one negative quarter. The chart above shows the rolling five year risk of the Wilshire 5000 Index. The five year risk (as defined by standard deviation) of 7.80% as of June 30 is approaching a historic low for the Index. Observed risk last hit this level just as the U.S. was entering the “dot com” bubble in 1997. What makes the current five year window so intriguing is that it encompasses the period after the market completely recovered from the global debt crisis sell-off. While this is no indication that a correction is imminent, the path of future returns is not likely to be so smooth.

The Non-U.S. Equity Market

Developed and emerging non-U.S. equity markets produced strong returns during the second quarter of 2017. The U.S. dollar continued to weaken during the quarter, providing an additional boost for U.S. investors holding foreign currencies. While economic releases out of Europe continue to improve, Britain is showing signs of struggling with Brexit, although stocks in the U.K. are still producing positive returns. Japanese equities lifted the MSCI Pacific Index higher as the labor market in Japan improved during the quarter, as did domestic demand and consumption. Emerging markets are up most significantly in 2017 among the three major global equity market segments. Returns have been broad based, with 21 of the 24 countries in the index (representing more than 95% of the market value) producing gains.

Non-U.S. Equity

	USD (%)				Local Currency (%)			
	MTD	QTD	YTD	1 Year	MTD	QTD	YTD	1 Year
MSCI AC World ex U.S.	0.31	5.78	14.10	20.45	-0.22	3.29	8.67	21.32
MSCI EAFE	-0.18	6.12	13.81	20.27	-0.78	2.71	7.55	22.10
MSCI Europe	-1.09	7.37	15.36	21.11	-2.26	1.79	7.91	20.22
MSCI Pacific	1.39	3.92	11.11	19.26	1.85	4.37	7.01	26.10
MSCI Japan	1.06	5.19	9.92	19.18	2.68	6.07	5.89	30.53
MSCI EM (Emerging Markets)	1.01	6.27	18.43	23.75	1.64	6.56	14.84	21.77
MSCI ACWI ex U.S. Small Cap	0.42	6.24	15.56	20.32	-0.05	3.94	10.02	21.76

The Fixed Income Market

The U.S. Treasury yield curve continued to flatten during the quarter, with the one year yield up 21 basis points and the thirty year down 18 basis points. The bellwether 10 year Treasury yield ended the quarter at 2.31%, down slightly but still much higher than a year ago (1.49%). The Federal Open Market Committee decided to increase their overnight rate by 0.25% at their June meeting, their fourth increase since 2008. Credit spreads continued to move lower during the quarter in both investment grade and high yield bonds. High yield spreads, which have averaged 6% during the past decade, were below 4% during the quarter and stood at 3.6% as of June 30.

U.S. Fixed Income

	MTD	QTD	YTD	1 Year
Bloomberg Barclays U.S. Aggregate	-0.10	1.45	2.27	-0.31
Bloomberg Barclays Long Govt./Credit	0.76	4.39	6.03	-1.07
Bloomberg Barclays Long Term Treasury	0.40	3.96	5.41	-7.22
Bloomberg Barclays U.S. TIPS	-0.95	-0.40	0.85	-0.63
Bloomberg Barclays U.S. Credit	0.26	2.35	3.68	1.84
Bloomberg Barclays U.S. Corporate High Yield	0.14	2.17	4.93	12.70

The Federal Open Market Committee decided to increase their overnight rate by 0.25% at their June meeting, their fourth increase since 2008.

Non-U.S. Fixed Income

	MTD	QTD	YTD	1 Year
Bloomberg Barclays Global Aggregate	-0.09	2.60	4.41	-2.18
Bloomberg Barclays Global Aggregate (Hedged)	-0.28	0.98	1.43	-0.41
Bloomberg Barclays Global EM Local Currency Government Universal	0.73	1.83	6.43	3.36
Bloomberg Barclays Global EM Local Currency Gov't Universe (Hedged)	0.76	0.45	0.70	-0.16
Citigroup World Government Bond Index ex-U.S.	-0.12	3.81	5.91	-5.01
Citigroup World Government Bond Index ex-U.S. (Hedged)	-0.49	0.60	0.24	-1.87

Real Estate / Commodity

	MTD	QTD	YTD	1 Year
Wilshire U.S. RESI SM	2.12	1.91	2.42	-1.23
Wilshire Global ex U.S. RESI SM	-1.01	4.89	10.78	5.85
Wilshire Global RESI SM	1.02	2.92	5.18	1.13
Dow Jones UBS Commodity Index	-0.19	-3.00	-5.26	-6.50
S&P GSCI Commodity	-1.92	-5.46	-10.24	-9.01
Alerian MLP Index	-0.65	-6.35	-2.66	0.40

The Real Estate and Commodity Markets

In the second quarter real estate securities were up in the U.S. and globally, the latter due in part to a weakening U.S. dollar. Commodities were down for the quarter as crude oil fell -9.0% to \$46.04 per barrel. Oil is down -14.3% for the first six months of 2017. Natural gas prices were down as well, posting a loss of -4.9% to end the quarter at \$3.04 per million BTUs. MLP returns were negative for the quarter and roughly flat for the past 12 months. Gold prices fell, finishing the quarter at approximately \$1,242 per troy ounce, down -0.7% from last quarter.

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