

{Equity Market Outlook}

Quarterly Update

3-Year Analysis

S&P 500 Comp-LTD

Level	2362.72	31-Mar-17
EPS [^]	111.34	31-Mar-17
Sales [^]	1170.38	31-Mar-17
Dividend Yield*	1.98%	31-Mar-17
Current PE	21.22	
Profit Margin	9.51%	

Bond Yields

3-Year U.S. Treasury Yield	1.57%	31-Mar-17
3-Year BBB Bond Yield	2.49%	31-Mar-17
3-Year BB Bond Yield	3.81%	31-Mar-17

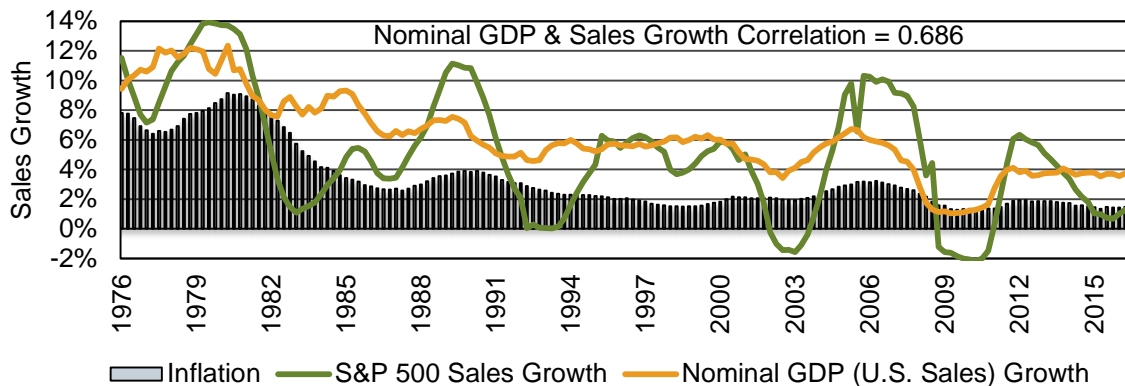
ESTIMATED ANNUALIZED TOTAL RETURNS FOR 3 YEARS ENDING 03/31/2020												
3-Year Annualized S&P 500 Sales Growth	Ending P/E Ratio: 15				Ending P/E Ratio: 21				Ending P/E Ratio: 28			
	S&P 500 Profit Margin				S&P 500 Profit Margin				S&P 500 Profit Margin			
	4.0%	6.0%	8.0%	10.0%	4.0%	6.0%	8.0%	10.0%	4.0%	6.0%	8.0%	10.0%
-2.0%	-32.6%	-23.2%	-15.6%	-9.3%	-24.9%	-14.3%	-5.8%	1.3%	-17.5%	-5.8%	3.4%	11.3%
0.0%	-31.3%	-21.6%	-13.9%	-7.4%	-23.4%	-12.6%	-4.0%	3.3%	-15.8%	-4.0%	5.5%	13.5%
2.0%	-29.9%	-20.1%	-12.3%	-5.6%	-21.9%	-10.8%	-2.1%	5.3%	-14.2%	-2.1%	7.6%	15.7%
4.0%	-28.6%	-18.6%	-10.6%	-3.8%	-20.4%	-9.1%	-0.2%	7.4%	-12.6%	-0.2%	9.7%	18.0%
6.0%	-27.3%	-17.0%	-8.9%	-2.0%	-18.9%	-7.4%	1.7%	9.4%	-10.9%	1.7%	11.7%	20.2%
8.0%	-25.9%	-15.5%	-7.2%	-0.2%	-17.4%	-5.7%	3.6%	11.4%	-9.3%	3.6%	13.8%	22.4%
10.0%	-24.6%	-14.0%	-5.5%	1.6%	-15.9%	-4.0%	5.5%	13.4%	-7.6%	5.5%	15.9%	24.7%

*Dividend yield does not include share buyback yield

[^]EPS and sales for Q1 2017 are consensus estimates based on 64% of companies reporting (data as of 4/28/2017)

Source: PMFA, Standard & Poor's, Federal Reserve

Nominal GDP & Sales Growth (3-Year Annualized)

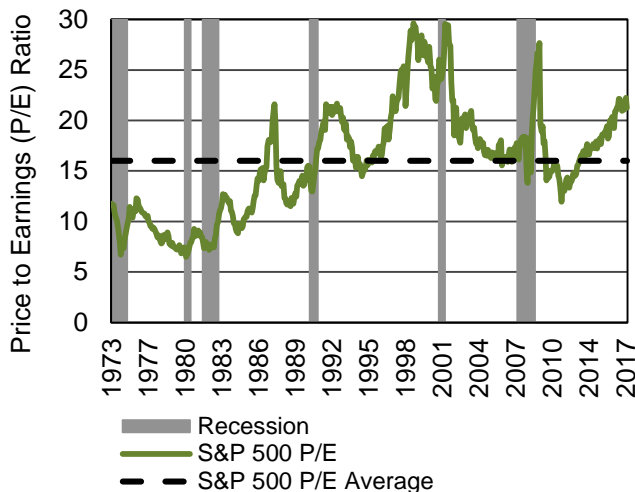


Source: PMFA, Standard & Poor's

S&P 500 TOTAL RETURN (ENDED MARCH 31, 2017)

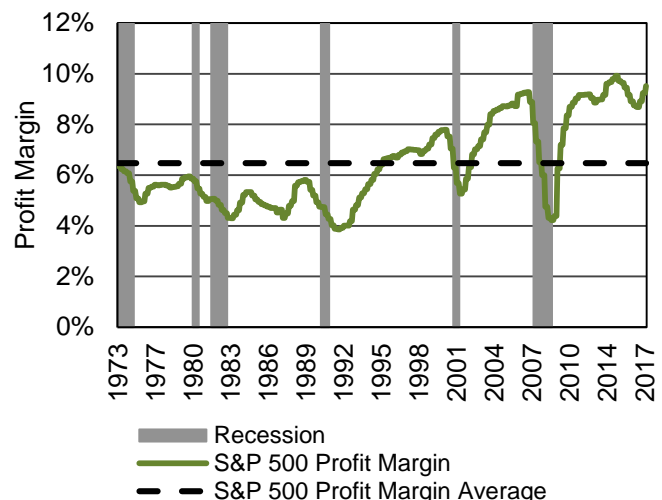
	1 Year	3 Year
Average Dividend Yield	2.10%	2.09%
Annualized Earnings Growth (M) x (S)	12.91%	0.75%
Change in Profit Margin (M)	8.82%	-0.54%
Change in Sales (S)	3.76%	1.30%
Annualized P/E Expansion (Contraction)	1.59%	7.25%
Other	0.36%	0.22%
Annualized Total Return	17.17%	10.37%

S&P 500 Price to Earnings (P/E) Ratio



Source: PMFA, Standard & Poor's

S&P 500 Profit Margin



Source: PMFA, Standard & Poor's

- The S&P 500 returned 17.17% over the past year and 10.37% over the past 3 years, on an annualized basis. P/E ratio expansion was the main driver of total returns over the past 3 years, while positive earnings growth contributed meaningfully to total returns over the past year. Over very long-term periods, dividend yield and sales growth account for a majority of total return, while expansion or contraction in both the P/E ratio and profit margins have a more limited impact. Yet, over shorter periods of time, changes in P/E ratios and profit margins can have a substantial effect on the return of equity markets.
- Earnings growth is affected by both sales growth and overall profit margins. Sales growth has historically positively correlated with nominal growth of gross domestic product (GDP) on a 3-year annualized basis, although significant differences have occurred at times. Corporate profit margins, which are crucial to equity returns in the short-term to intermediate-term, are affected by the business cycle, interest rates, labor costs, productivity, and commodity price shocks. S&P 500 net profit margins rose slightly on a quarter-over-quarter basis and still remain well above their post-1973 average of 6.47%.
- Based on earnings of \$111.34, the S&P 500's P/E ratio on March 31, 2017 was 21.22, above its long-term average of 16.01. Future P/E ratios may be affected by many factors, including anticipated growth rates, inflation and interest rates.
- As of March 31, 2017, the price level of the S&P 500 was approximately 2363. In order for the S&P 500 to generate returns in excess of 10%, profit margins or P/E ratios or both would need to be supported at levels above their long-term averages. If the next 3 years produce sales growth, profit margins and P/E ratios that are similar to long-term averages, then it is reasonable to expect that the total return for the S&P 500 could be well below average. However, in the absence of a recession, profit margins and P/E multiples could remain elevated or even move higher.

Past performance does not guarantee future results.

All investments include risk and have the potential for loss as well as gain.

Data sources for peer group comparisons, returns, and standard statistical data are provided by the sources referenced and are based on data obtained from recognized statistical services or other sources believed to be reliable. However, some or all information has not been verified prior to the analysis, and we do not make any representations as to its accuracy or completeness. Any analysis non-factual in nature constitutes only current opinions, which are subject to change. Benchmarks or indices are included for information purposes only to reflect the current market environment; no index is a directly tradable investment. There may be instances when consultant opinions regarding any fundamental or quantitative analysis may not agree.

The "Estimated Earnings" and "Estimated 3-Year Annualized Total Returns for the S&P 500" charts indicate expected levels based on estimated various sales growth, profit margins, and price/earnings ratio combinations. Also incorporated is the estimated dividend yield based on the current dividend yield. To calculate current dividend yield, actual monthly dividends for the most recent quarter were annualized and taken as a percentage of the level of the S&P 500 Index for the most recent quarter end. The estimated dividend yield assumes that current dividend rates will remain unchanged during the 3-year period. No guarantee is made or should be implied that such levels and returns can be achieved. The expected returns are hypothetical.

As such, any performance results have many inherent limitations. No representation is being made that any account will or is likely to achieve performance similar to those shown. In fact, there are frequently sharp differences between hypothetical performance results and the actual results subsequently achieved. One of the limitations of hypothetical performance results is that they are generally prepared with the benefit of hindsight. In addition, hypothetical performance does not involve financial risk, and no hypothetical calculation can completely account for the impact of financial risk in actual trading. For example, the ability to withstand losses (and incur account draw downs) or to adhere to a particular investment position in spite of trading losses are important issues which can also adversely affect actual results. There are numerous other factors related to the markets in general or to the implementation of any specific trading program, method, or system, which cannot be completely taken into consideration with hypothetical performance results.

The average dividend yield was calculated using actual monthly dividend yields for the time periods specified. "Other" includes the affect of reinvestment of dividends and compounding of this reinvestment.

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