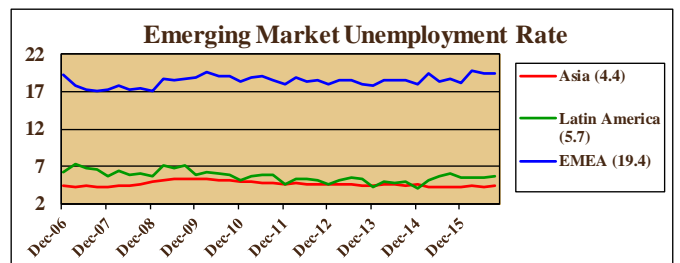
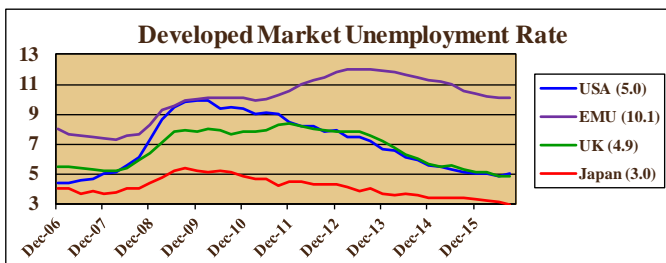
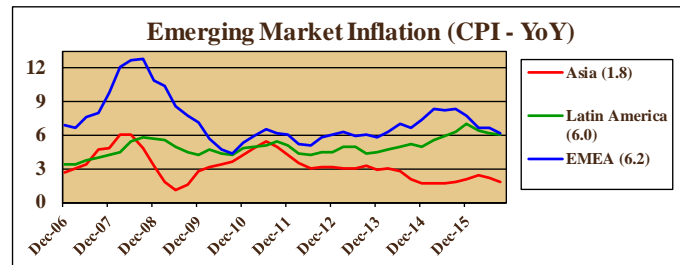
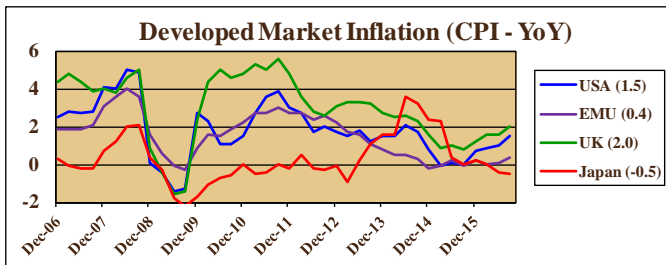
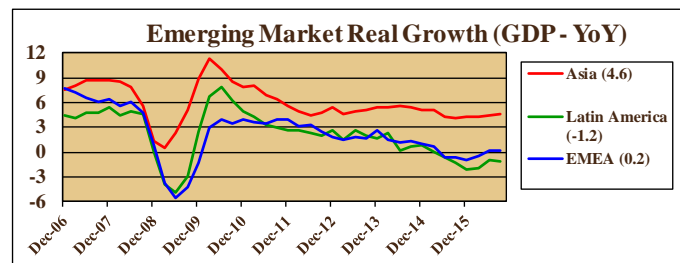
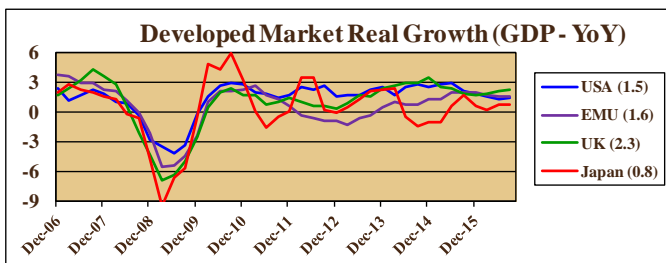


Third Quarter 2016

Global Market and Economic Perspective

Global Economic Commentary

- ❖ US Real GDP increased at a 2.9% annualized rate in the third quarter of 2016. Although real economic growth in both the US and developed Europe continue to improve, they are still lower than what has been observed at this point in previous economic expansions. The UK has actually seen the largest improvement, which may be a secondary effect of their Brexit induced currency depreciation. Economic growth in Emerging Asia has also been steadily improving.
- ❖ The rate of inflation in most developed countries has increased, as central banks continue to press towards their common long-term goal of 2%. The exception to the general increase has been Japan, where year-over-year inflation has fallen back below zero, partially due to a rapid appreciation of the Yen.
- ❖ The global employment picture has been stable in recent quarters, with the US and the UK tracking closely with what policy makers might consider full employment. Emerging Europe continues to struggle.



Notes: Emerging market economic statistics are estimated by region using eight countries, which represent roughly 80% of the MSCI Emerging Market Equity Index. Recent observations may be estimated where reporting lags make official data unavailable at the time of this report.

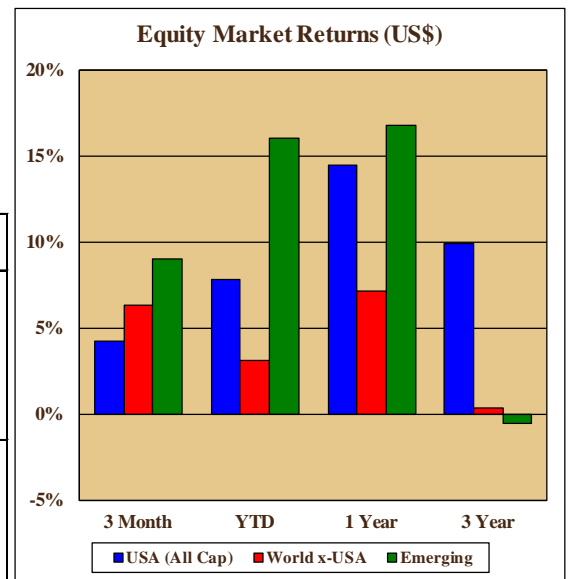
Global Market and Economic Perspective – Q3 2016

Global Equity and Currency Commentary

- ❖ Domestic equity markets had solid growth in the third quarter. Although earnings were somewhat disappointing, the Fed’s policy guidance was positive for US investments. Generally speaking, lower interest rates are supportive of higher equity valuations. Although the long-term link between politics and equity valuations is weak at best, there has been a positive correlation between Hillary Clinton’s poll numbers and US equities. Within the US market, small cap stocks performed better than large cap stocks.
- ❖ Emerging market equity returns continued to outpace both domestic and foreign developed markets in the third quarter. Although these returns have been impressive over the past 12 months, they have still lagged the US market over the past 3 years. Emerging Asian equities had the best return for the quarter, although Latin America has had better returns this year due to a significant recovery in the value of the Brazilian Real versus the US Dollar. Like US equities, the Mexican Peso has also been correlated with US Presidential polls. The Peso has been negatively correlated with Donald Trump’s political standings.
- ❖ Developed foreign equity market returns were positive in the third quarter. Local market returns in the UK were very strong, but a depreciating currency offset most of the benefit to foreign investors.

Global Equity Market Returns (MSCI)

	Returns (US\$)				Returns (Local)			
	3 Month	YTD	1 Year	3 Year	3 Month	YTD	1 Year	3 Year
United States								
USA (All Cap)	4.3%	7.8%	14.4%	9.9%				
USA Growth	4.6%	5.3%	12.6%	11.4%				
USA Value	3.2%	9.2%	16.2%	9.1%				
USA SC Growth	7.2%	9.8%	13.2%	7.2%				
USA SC Value	6.2%	13.4%	16.8%	8.0%				
Foreign Developed								
World x-USA	6.3%	3.1%	7.2%	0.3%	6.0%	-0.4%	5.2%	5.4%
Europe	5.4%	0.0%	2.5%	-0.6%	5.7%	1.7%	7.0%	5.8%
Far East	8.6%	3.8%	12.8%	3.4%	7.5%	-10.3%	-2.1%	4.3%
Australia	7.9%	10.7%	21.7%	-1.5%	5.0%	5.2%	11.7%	5.3%
Canada	4.8%	20.6%	14.5%	-1.2%	6.1%	14.1%	12.2%	7.3%
Emerging Markets								
Emerging	9.0%	16.0%	16.8%	-0.6%	7.6%	11.3%	13.0%	4.3%
Asia	10.5%	13.0%	16.9%	3.5%	8.8%	10.2%	13.4%	5.0%
Latin America	5.4%	32.2%	28.6%	-7.9%	7.5%	22.8%	20.2%	4.0%
EMEA	5.7%	17.8%	8.1%	-7.2%	2.4%	8.3%	6.6%	3.5%

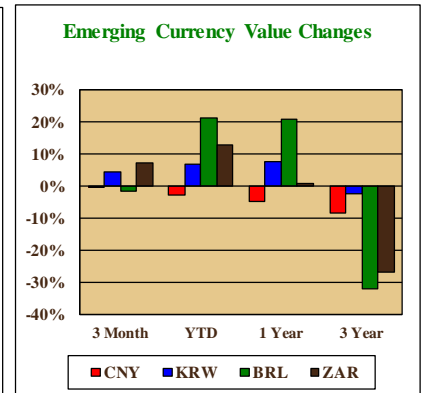
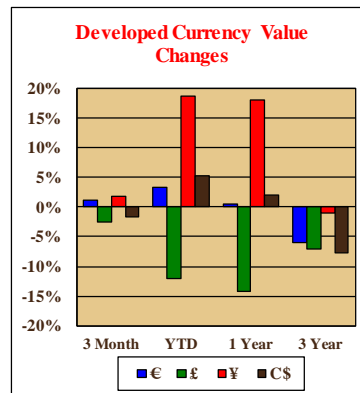


Annualized if greater than one year

Foreign Exchange Rate History (Bloomberg)

	Current Level	Change (Foreign Currency versus \$)			
		3 Month	YTD	1 Year	3 Year
Developed					
Euro (€)	1.12	1.2%	3.4%	0.5%	-6.0%
British Pound (£)	1.30	-2.5%	-12.0%	-14.3%	-7.1%
Japanese Yen (¥)	101	1.8%	18.6%	18.1%	-1.0%
Canadian Dollar (C\$)	1.31	-1.5%	5.3%	2.1%	-7.8%
Emerging					
Chinese Renminbi (CNY)	6.67	-0.4%	-2.7%	-4.7%	-8.3%
Korean Won (KRW)	1101	4.6%	6.7%	7.7%	-2.4%
Brazilian Real (BRL)	3.26	-1.5%	21.4%	21.0%	-32.0%
South African Rand (ZAR)	13.72	7.3%	12.8%	1.0%	-26.8%

Annualized if greater than one year



Global Market and Economic Perspective – Q3 2016

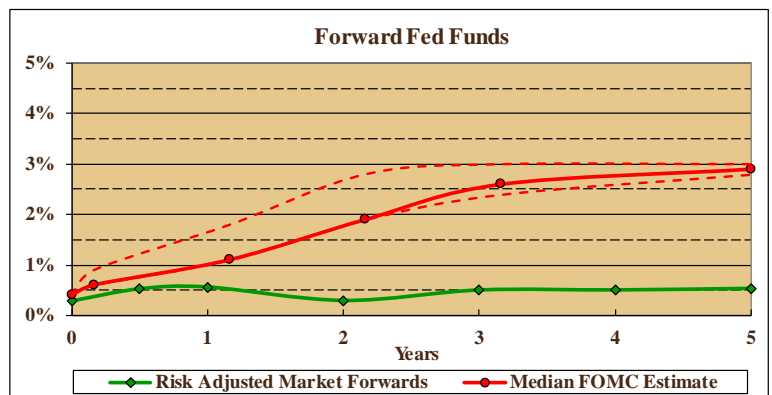
US Fixed Income and Fed Commentary

- ❖ Although US Treasury rates are still lower than they were at the beginning of the year, they did increase modestly in the third quarter. Most of the increase in market rates was seen at the front end of the yield curve. Because the Fed continues to lower their *longer-term* rate guidance, long-dated Treasury yields have remained low. The current 2.9% longer-term projection is the lowest rate that the FOMC has put forward since they started publishing their forecasts in January of 2012. At that time the FOMC estimated the longer-term Fed Funds Rate to be 4 ¼%.
- ❖ Municipal bond yields also increased in the third quarter, although longer maturity bonds did not benefit from the relative stability of long Treasury yields. The reason for long municipal bonds' poor performance in the third quarter was most likely payback for their better relative performance in the first half of the year.
- ❖ Yields declined in the high yield bond market, leading to strong returns for the quarter and for the first three quarters of 2016. In addition to an accommodative Fed and a buoyant equity market, high yield bonds have also benefitted from market participants' hunger for income as high quality bond yields and cash continue to offer little or no yield.

FOMC Fed Funds Rate Projections as of September 2016 Meeting						
	Current	Dec-16	Dec-17	Dec-18	Dec-19	Long Run
Upper	0.40%	0.60%	1.10%	1.90%	2.40%	2.80%
Median	0.40%	0.60%	1.10%	1.90%	2.60%	2.90%
Lower	0.40%	0.90%	1.80%	2.80%	3.00%	3.00%

Market Implied Fed Funds Rate as of Oct 03, 2016						
Current	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
0.29%	0.53%	0.56%	0.30%	0.50%	0.50%	0.53%

Notes
 Upper and lower bands show central tendency for FOMC projections.
 Market implied Fed Funds rates are risk adjusted.



US Bond Yield and Spread History (Barclays)

	Current Level	Change Through September 2016			
		3 Month	YTD	1 Year	3 Year
US Treasury					
Short	0.91%	0.18%	-0.38%	0.05%	0.32%
Intermediate	1.41%	0.14%	-0.65%	-0.33%	-0.57%
Long	2.22%	0.06%	-0.67%	-0.54%	-1.30%
US High Yield					
Yield	6.17%	-1.10%	-2.57%	-1.87%	0.01%
Spread	4.80%	-1.14%	-1.80%	-1.50%	0.25%
Tax-Exempt Muni					
Short	1.02%	0.20%	-0.08%	0.07%	0.13%
Intermediate	1.52%	0.18%	-0.29%	-0.35%	-0.70%
Long	2.15%	0.24%	-0.47%	-0.69%	-1.65%

