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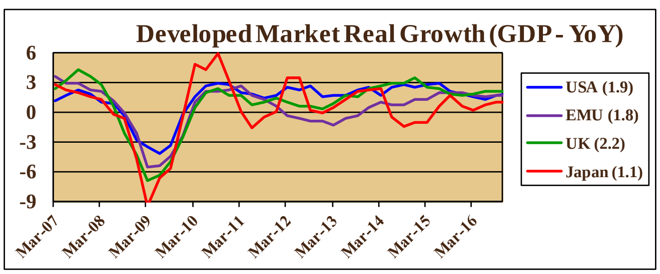
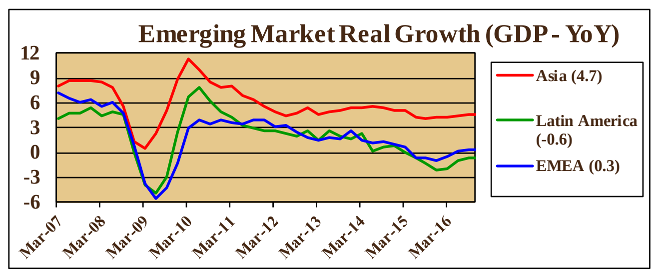
Fourth Quarter 2016

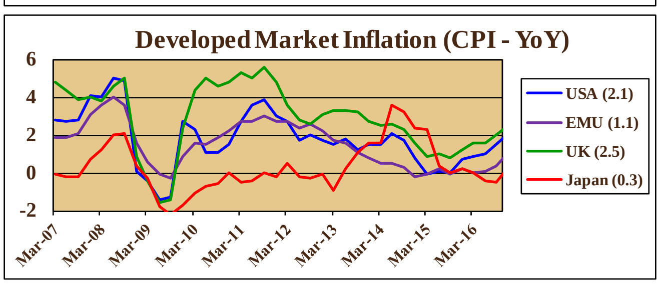
Global Market and Economic Perspective

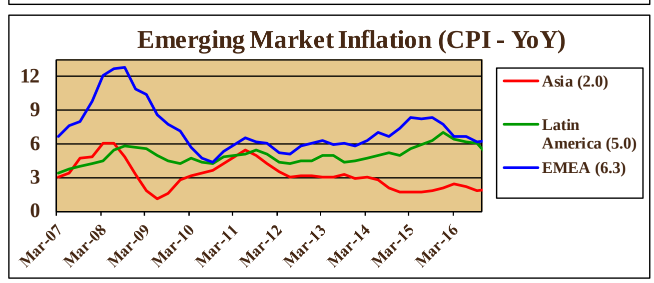
Global Economic Commentary

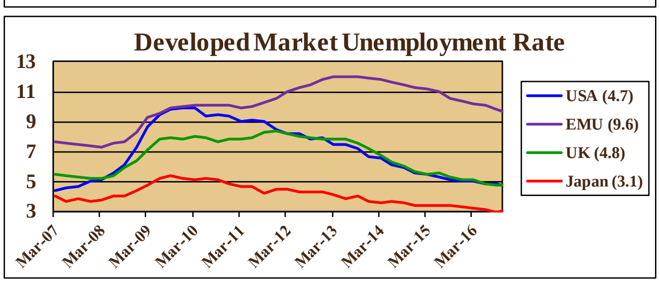
- **US Real GDP increased at a 1.9% annualized rate in the fourth quarter of 2016, matching the pace for the calendar year. Although many are disappointed at the pace of growth, 2016 marked the seventh consecutive year of positive real output growth in the United States. In continental Europe and the UK, real output growth accelerated in the latter half of the year, which defied more pessimistic post-Brexit predictions earlier in the year. A trend toward higher real growth rates also appears to be taking place in emerging economies, as much of Latin America and developing Europe work their way out of recession.**
- **The rate of inflation in most developed countries was positive and relatively stable in the fourth quarter. This development is good news for central banks, who continue to press towards a common long-term goal of 2%. The rate of inflation in most emerging market economies declined modestly in 2016. Despite turbulent politics and volatile currencies, global inflation was surprisingly well behaved in 2016.**

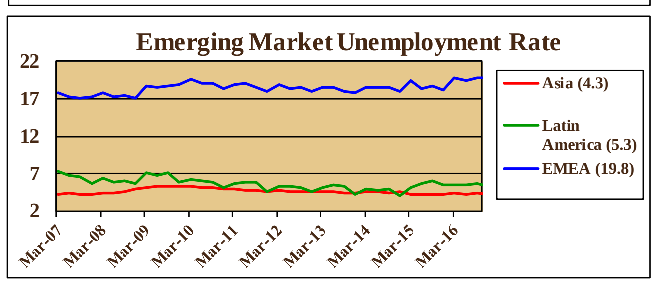












Notes: Emerging market economic statistics are estimated by region using eight countries, which represent roughly 80% of the MSCI Emerging Market Equity Index. Recent observations may be estimated where reporting lags make official data unavailable at the time of this report.

Global Market and Economic Perspective – Q4 2016

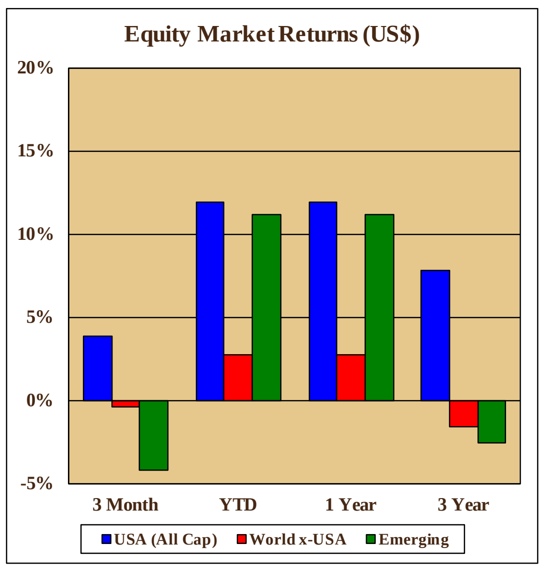
Global Equity and Currency Commentary

- **The US equity market produced positive returns in the fourth quarter. The surprise victory of Donald Trump in November led to an even more surprising rally for domestic companies. The idea that the new administration will enact business friendly policies including lower taxes, infrastructure spending and higher barriers for foreign goods fueled the market's optimism. Small-cap and value-oriented companies had the best returns for the quarter, since they tend to have less exposure to foreign markets.**
- **Emerging market equity returns were negative in the fourth quarter, but the 2016 returns nearly matched the strong results seen in domestic markets. Unlike prior quarters, currencies were not a major factor in emerging market returns at the end of 2016. Unfortunately, the post-election narrative for emerging market companies was the mirror image of the US story. The anticipated policies of President Trump which might help domestic companies, would likely do so at the expense of foreign companies.**
- **Fourth quarter developed foreign equity market returns were modestly negative in US Dollar terms. Local market returns in most countries actually outpaced US equities, but a strong dollar meant that depreciating currencies completely offset the benefit to US 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)	**3.8%**	**12.0%**	**12.0%**	**7.8%**				
USA Growth	0.7%	6.1%	6.1%	8.0%				
USA Value	6.1%	15.8%	15.8%	7.8%				
USA SC Growth	3.6%	13.7%	13.7%	5.3%				
USA SC Value	10.1%	24.8%	24.8%	8.6%				
Foreign Developed								
World x-USA	**-0.4%**	**2.7%**	**2.7%**	**-1.6%**	**6.9%**	**6.4%**	**6.4%**	**5.6%**
Europe	-0.4%	-0.4%	-0.4%	-3.2%	5.4%	7.2%	7.2%	5.6%
Far East	-1.4%	2.3%	2.3%	2.1%	11.3%	-0.2%	-0.2%	5.2%
Australia	0.7%	11.4%	11.4%	-1.0%	6.4%	12.0%	12.0%	6.2%
Canada	3.3%	24.6%	24.6%	-1.4%	5.4%	20.3%	20.3%	6.6%
Emerging Markets								
Emerging	**-4.2%**	**11.2%**	**11.2%**	**-2.6%**	**-1.4%**	**9.7%**	**9.7%**	**2.8%**
Asia	-6.1%	6.1%	6.1%	0.1%	-3.1%	6.9%	6.9%	2.7%
Latin America	-0.9%	31.0%	31.0%	-7.5%	1.2%	24.3%	24.3%	4.0%
EMEA	1.8%	19.9%	19.9%	-6.7%	3.7%	12.2%	12.2%	4.0%

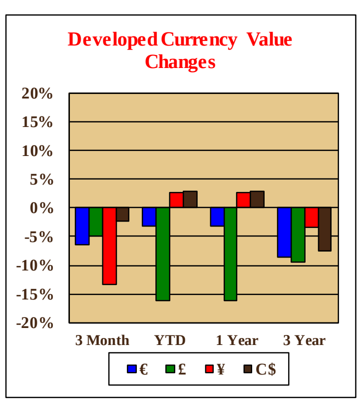
Annualized if greater than one year

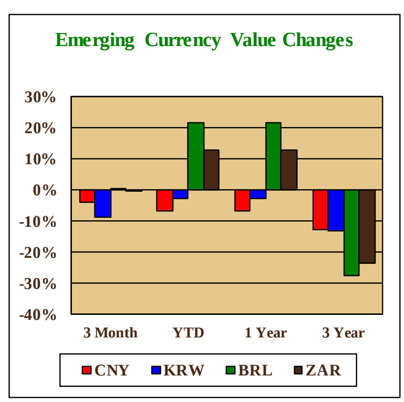


Foreign Exchange Rate History (Bloomberg)

	Current	Change (Foreign Currency versus $)			
	Level	3 Month	YTD	1 Year	3 Year
Developed					
Euro (€)	**1.05**	-6.4%	-3.2%	-3.2%	-8.6%
British Pound (£)	**1.23**	-4.9%	-16.2%	-16.2%	-9.4%
Japanese Yen (¥)	**117**	-13.3%	2.8%	2.8%	-3.5%
Canadian Dollar (C$)	**1.34**	-2.3%	2.9%	2.9%	-7.5%
Emerging					
Chinese Renminbi (CNY)	**6.95**	-3.9%	-6.5%	-6.5%	-12.8%
Korean Won (KRW)	**1206**	-8.7%	-2.6%	-2.6%	-12.9%
Brazilian Real (BRL)	**3.26**	0.2%	21.7%	21.7%	-27.4%
South African Rand (ZAR)	**13.74**	-0.1%	12.7%	12.7%	-23.4%

Annualized if greater than one year





Global Market and Economic Perspective – Q4 2016

US Fixed Income and Fed Commentary

- **US Treasury rates increased dramatically in the fourth quarter. Most of the rise can be explained by the domestic optimism, which led investors out of bonds and into the equity market. Fundamentally, most of the anticipated policies of the new administration would likely boost domestic inflation. The hiring needed for infrastructure projects and increased domestic factory production would increase pressure on wages, since labor markets do not appear to have considerable slack. Reducing the amount of cheap imported merchandise available to US consumers would also lead to higher overall prices. Another major factor influencing domestic bond markets in the fourth quarter was the Fed's December rate increase. Although the increase was expected, the market has become accustomed to expectations routinely being pushed back for any number of political, economic or market events.**
- **Municipal bond yields followed Treasury rates higher in the fourth quarter. Although municipal bond yields increased during the course of 2016, returns were still modestly positive for investors.**
- **High yield bond markets were stable in the fourth quarter, as the negative impact of rising Treasury rates was offset by the positive impact of buoyant equity markets. For the year, high yield bond yields decreased dramatically, producing very strong returns for investors.**

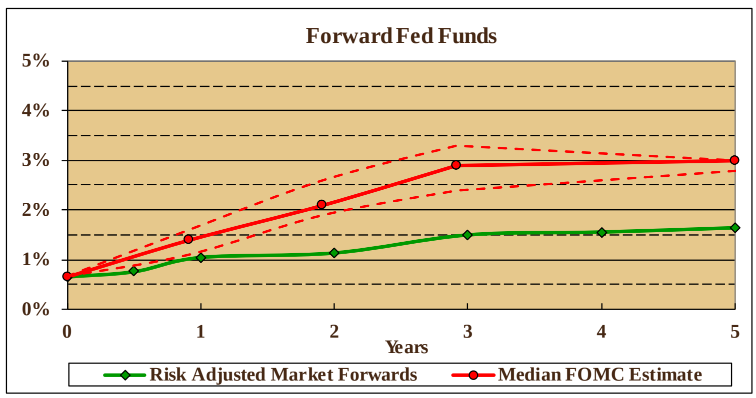
FOMC Fed Funds Rate Projections as of December 2016 Meeting

	Current	Dec-17	Dec-18	Dec-19	Dec-19	Long Run
Upper	0.66%	1.10%	1.90%	2.40%	2.40%	2.80%
Median	**0.66%**	**1.40%**	**2.10%**	**2.90%**	**2.90%**	**3.00%**
Lower	0.66%	1.60%	2.60%	3.30%	3.30%	3.00%

Market Implied Fed Funds Rate as of Jan 02, 2017

Current	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
0.66%	**0.76%**	**1.05%**	**1.13%**	**1.49%**	**1.55%**	**1.63%**

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 December 2016			
		3 Month	YTD	1 Year	3 Year
US Treasury					
Short	**1.44%**	0.53%	0.15%	0.15%	0.73%
Intermediate	**2.23%**	0.82%	0.17%	0.17%	-0.13%
Long	**2.98%**	0.77%	0.10%	0.10%	-0.81%
US High Yield					
Yield	**6.12%**	-0.05%	-2.62%	-2.62%	0.45%
Spread	*4.09%*	*-0.71%*	*-2.51%*	*-2.51%*	*0.25%*
Tax-Exempt Muni.					
Short	**1.63%**	0.61%	0.54%	0.54%	0.83%
Intermediate	**2.34%**	0.81%	0.53%	0.53%	0.05%
Long	**3.07%**	0.92%	0.45%	0.45%	-0.87%