

Q1 2017 LOOK AHEAD

Disclaimer

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Wall Street Parlor Tricks

- ❑ Last year's predictions: Underestimated: Market Rally and Unemployment. Overestimated: GDP Growth and Interest Rates.

	S&P 500	S&P 500 Price Return (%)	GDP Growth	Unemployment	10-Year Treasury Rate
Avg. Est. (Jan 2016)	2218.75	8.34%	2.40%	4.40%	2.67%
Actual*	2268.88	11.01%	1.70%*	4.60%	2.55%

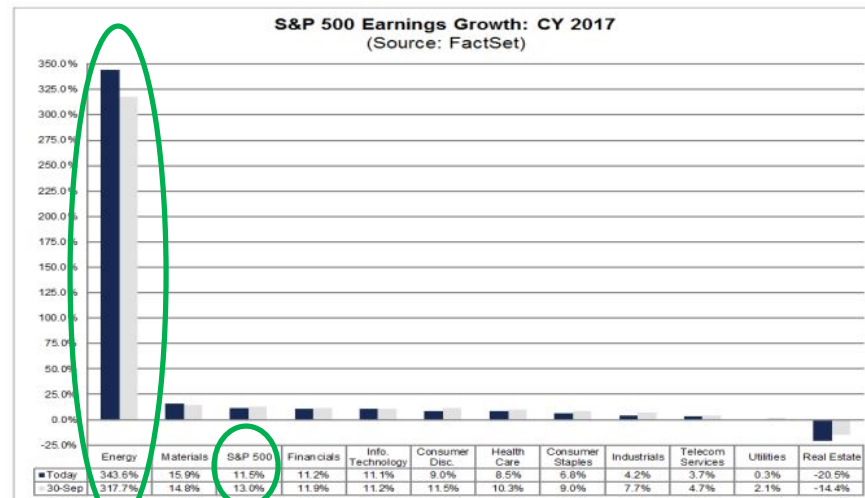
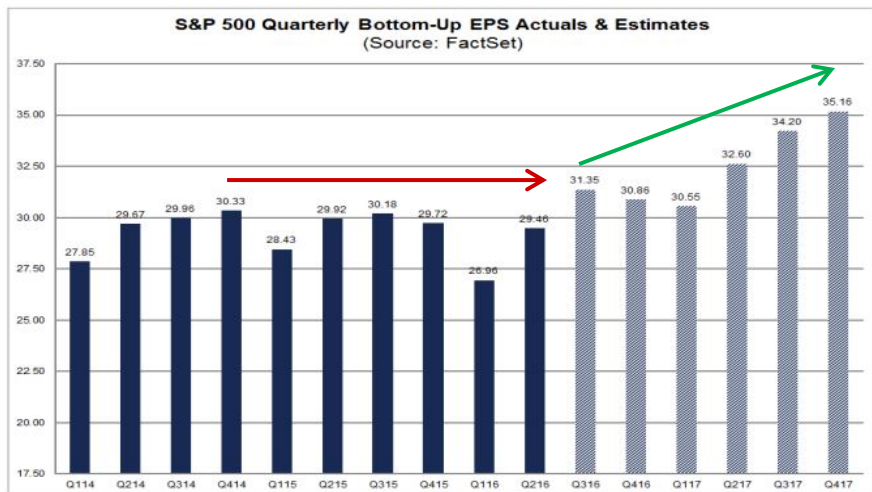
*Data is through close of market on 12/27/16. Year-over-year GDP Growth is calculated through Q3 2016. Unemployment rate as of November 2016.

2017 Predictions

Firm	Predicted S&P 500 Target	Predicted S&P 500 Price Return (%)*	Predicted GDP Growth	Predicted 10-year Treasury Rate
Federated Investors	2350	3.58%	3.00%	3.00%
JP Morgan Chase	2400	5.78%	2.10%	2.55%
Barclays Capital	2400	5.78%	2.20%	2.40%
Columbia Management	2450	7.98%	3.00%	2.90%
Morgan Stanley	2300	1.37%	2.00%	2.50%
BlackRock	2400	5.78%	2.40%	2.75%
Goldman Sachs	2300	1.37%	2.20%	2.75%
BofA Merrill Lynch	2300	1.37%	2.00%	2.65%
Citi Bank	2325	2.47%	1.80%	2.60%
Average	2358	3.94%	2.30%	2.68%

Agency	Global Growth	Developed Market	Emerging Market
World Bank	2.80%	1.90%	4.40%
IMF (As of 10-2016)	3.40%	1.80%	4.60%
Average	3.10%	1.85%	4.50%

The End of the Earnings Recession... For Now



❑ With positive earnings growth coming from Real Estate, Consumer Disc., Utilities, Health Care, Technology, Consumer Staples, and the Financials Sector, the S&P 500 delivered positive earnings growth for the full year 2016.

❑ The Energy Sector remained the leading detractor from earnings growth however, the sector is poised to be the leading contributor to earnings growth in 2017.



EM projected to have greater earnings growth in 2017

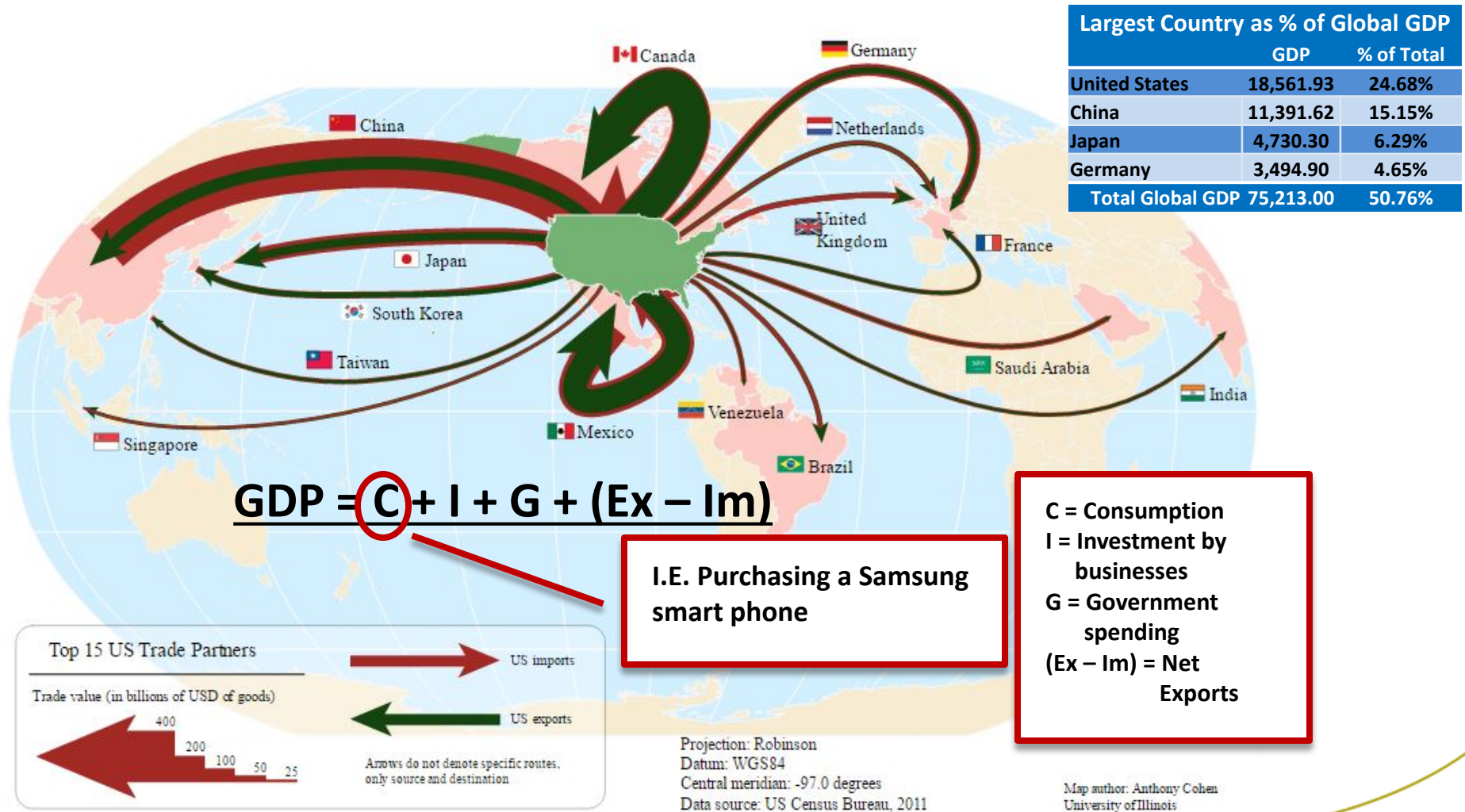
Sources:

Phillips & Company. (Jan 2016). Q1 2016 Look Ahead.

http://insight.factset.com/hubfs/Earnings%20Insight/EarningsInsight_122316.pdf

<http://phillipsandco.com/files/3814/8294/2935/em-earnings-beginning-to-emerge.pdf>

World Dominance - The U.S. Consumer

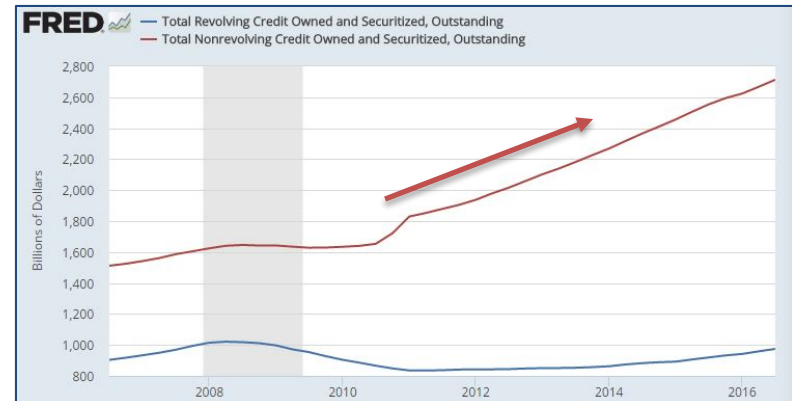


The U.S. Consumer Strength

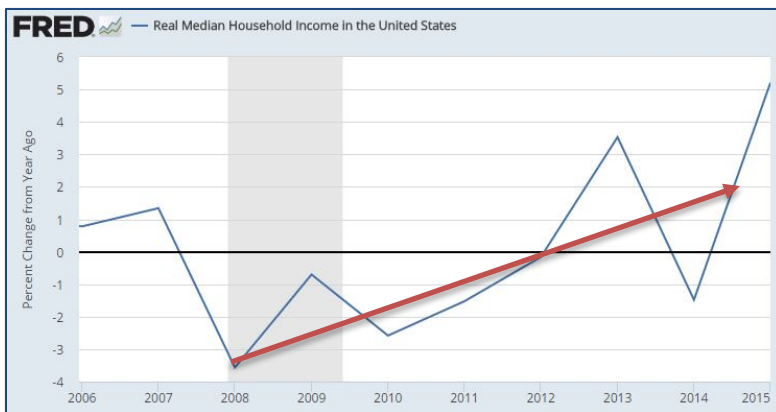
Average Hourly Earnings



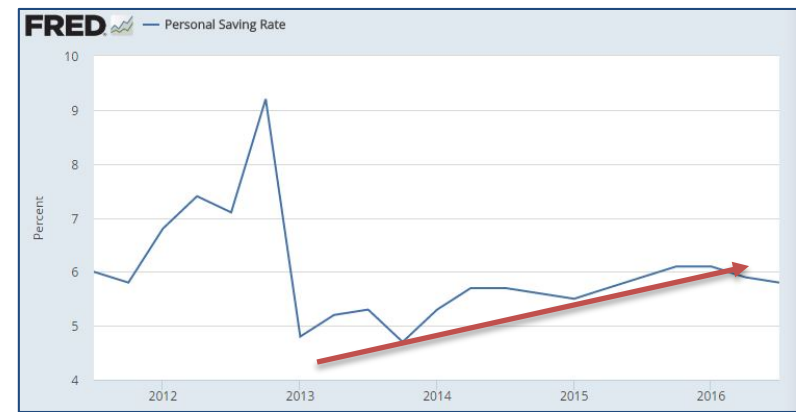
Credit



Median Household Income



Personal Savings Rate

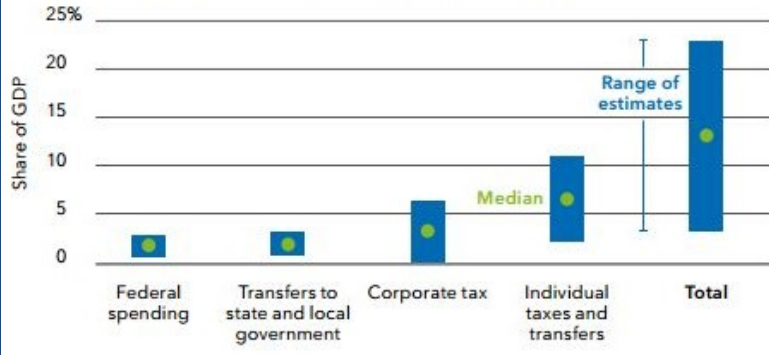


❑ Consumers have more to spend due to higher wages, increased credit, and increased personal savings

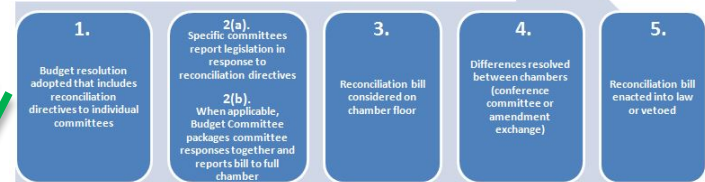
"Trumponomics" = Potential Market Disappointment

Trumponomics

Estimated 10-year impact on U.S. GDP of Trump's potential policies



Major Stages of Reconciliation Process



Source: Congressional Research Service

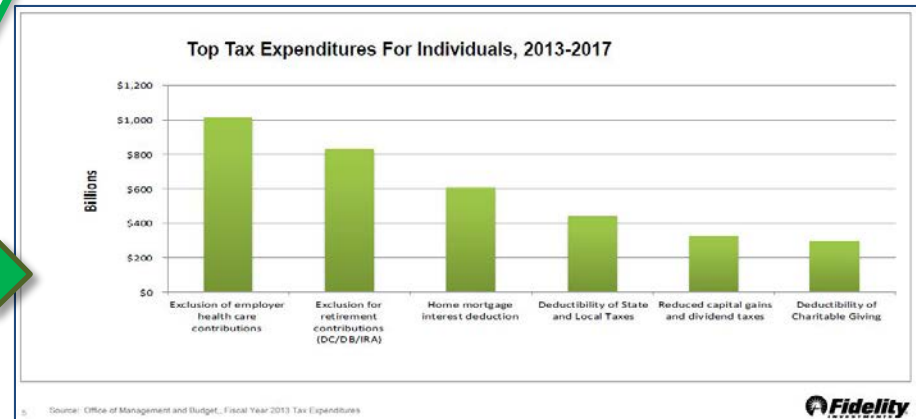
- Budget Reconciliation is a multi-stage procedure enacted under the Congressional Budget and Impoundment Control Act of 1974.
 - Can only be used once per budget cycle.

1. Repeal/Replace ObamaCare:

- Recent surveys show surprisingly that voters are generally more concerned about health care than tax policy:
 - ✓ Bloomberg National Poll: Health care: 26% vs. Taxes: 4%
 - ✓ Washington Post Poll: Health care: 13% vs. Taxes: 5%
 - ✓ Quinnipiac University: Health care: 13% vs. Taxes: 3%

2. Tax Reform:

- Personal tax rates cut from current level of 39.6% down to 33%
- Corporate tax rates cut from current level of 35% down to 15%
- Standard deduction raised from current level of \$12.6K to \$30K

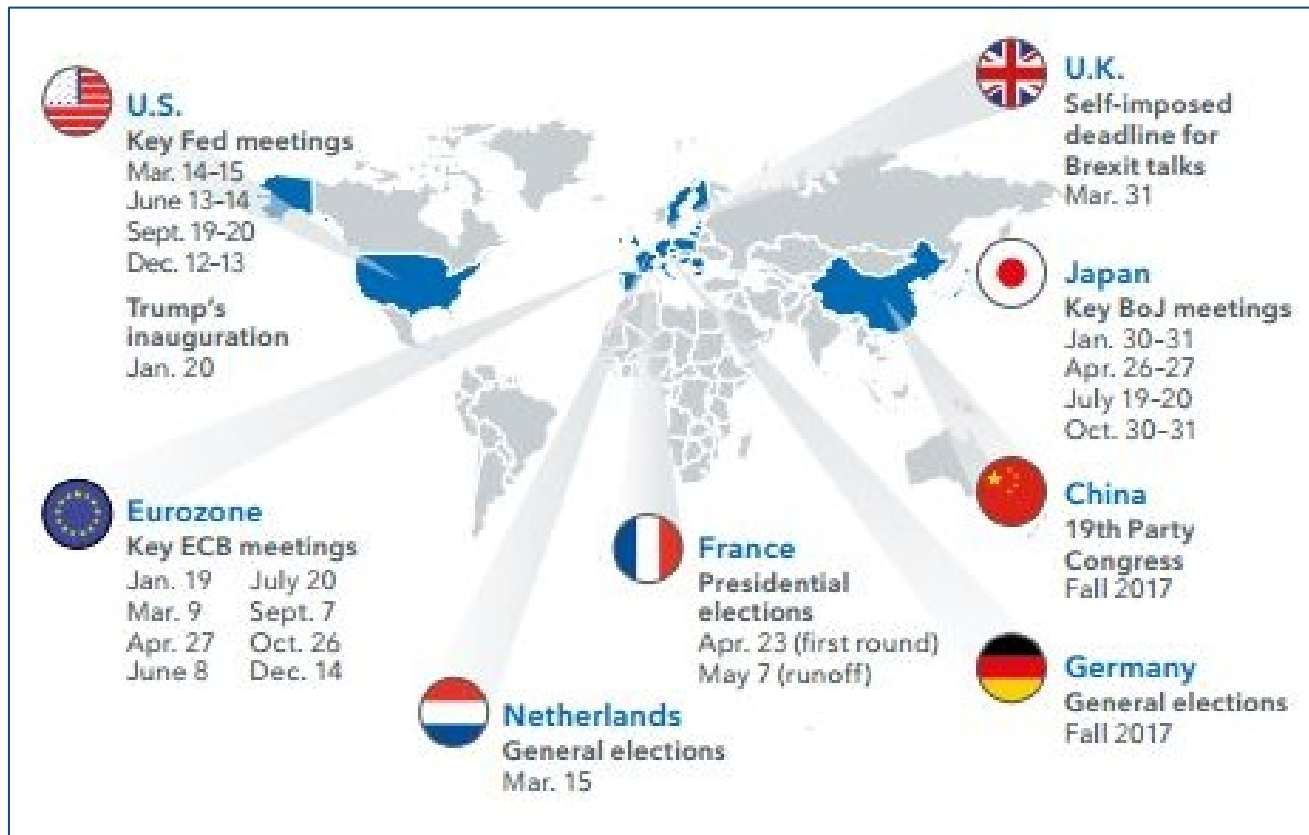


- The narrative doesn't suggest but, something will likely get cut.

Sources:

<http://phillipsandco.com/blog/the-100-day-miracle/>
http://phillipsandco.com/files/5714/8295/2421/2016_US_Election_Results_-_Goldman_Sachs.pdf
<https://www.blackrock.com/investing/literature/whitepaper/bii-2017-investment-outlook-us.pdf>; Pg. 4, (BlackRock Global Investment Outlook 2017) BlackRock Investment Institute, Congressional Budget Office and Committee for a Responsible Federal Budget, November 2016. Notes: The chart shows estimates of the impact of President-elect Donald Trump's policies on U.S. GDP over the next 10 years, measured as a percentage of 2015 GDP. The estimates are derived by applying Congressional Budget Office estimates of fiscal multipliers of different tax and spending policies to estimates of the fiscal impact of the President-elect Donald Trump's policies produced by the Committee for a Responsible Federal Budget. The bars represent the range of estimates, which are driven by different fiscal multipliers.

Developed Markets Populist Disruptions



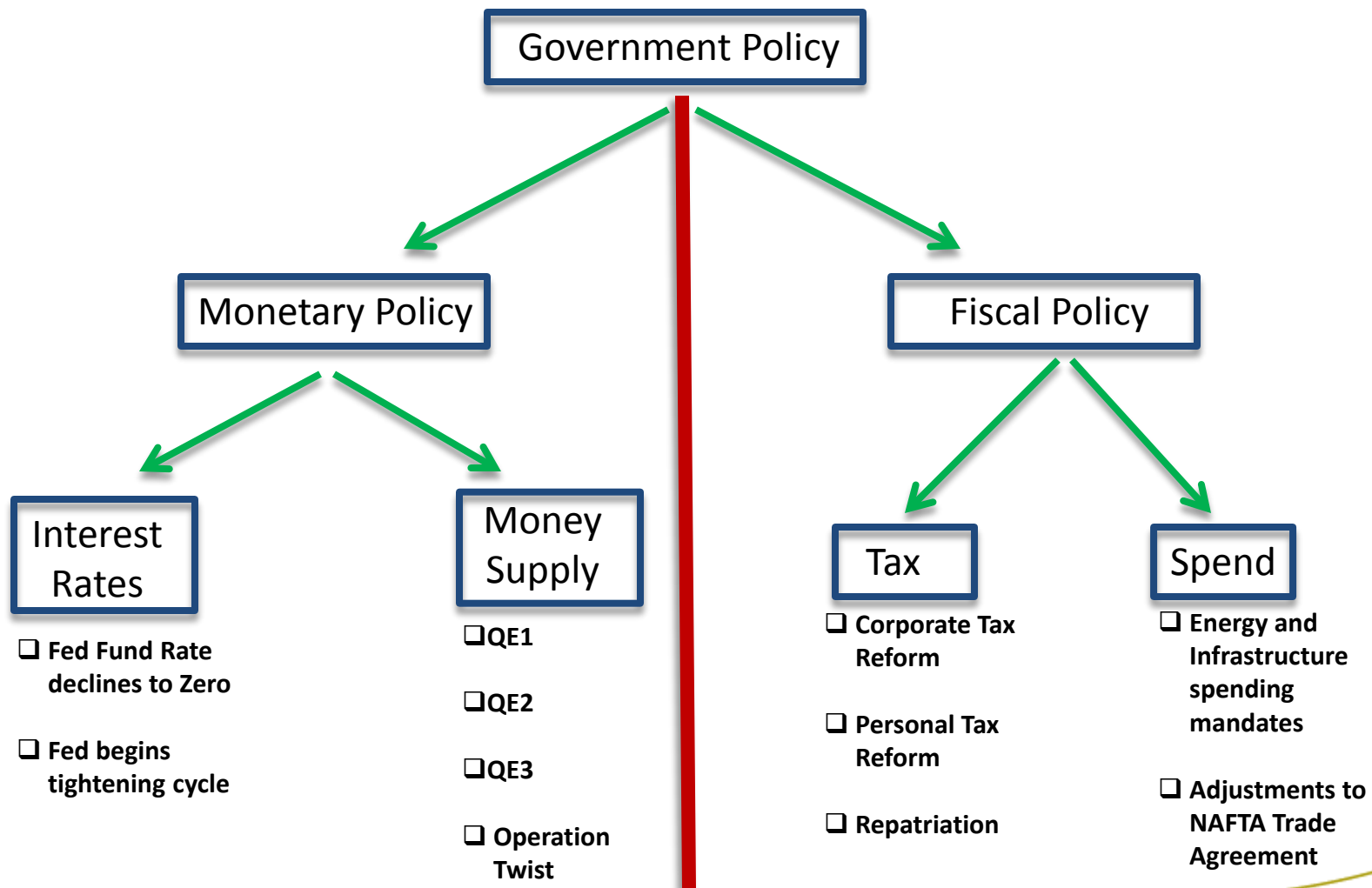
- ❑ Elections in the Netherlands, France and Germany will show to what extent populist forces hostile to the EU and euro are gaining sway.

Sources:

<https://www.blackrock.com/investing/literature/whitepaper/bii-2017-investment-outlook-us.pdf> ; Pg. 11, (BlackRock Global Investment Outlook 2017)

BlackRock Investment Institute, November 2016. Notes: The Fed and ECB meetings are those accompanied by press conferences. The BoJ events shown are followed by the publication of the central bank's outlook report

Monetary Policy Gives Way to Fiscal Policy

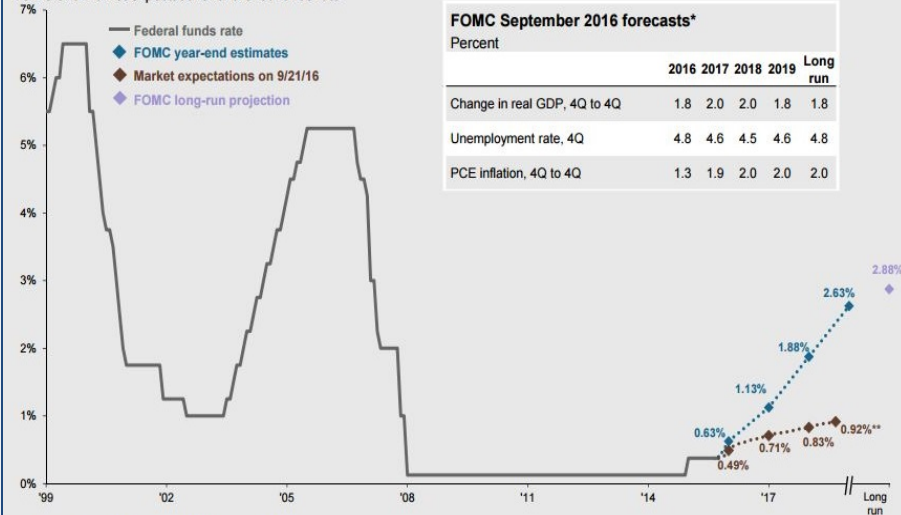


Interest Rates Forecasts

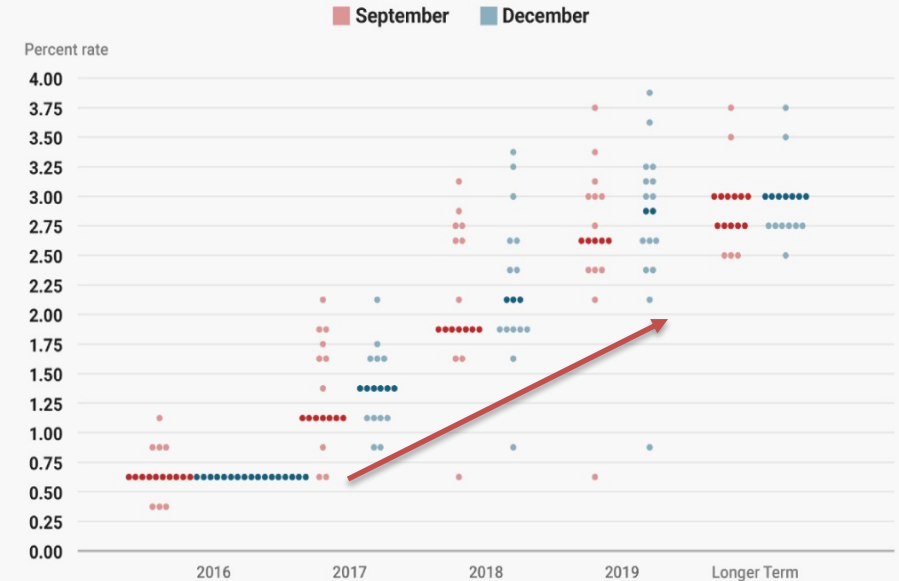
Market vs.
FOMC
Projection

FOMC Participants'
Assessments of
Appropriate
Monetary Policy

Federal funds rate expectations
FOMC and market expectations for the fed funds rate



FED DOT PLOT



SOURCE: Federal Open Market Committee

BUSINESS INSIDER

Source: Bloomberg, LP, FactSet, Federal Reserve, J.P. Morgan Asset Management. Market expectations are the federal funds rates priced into the fed futures market as of the date of the September 2016 FOMC meeting. *Forecasts of 17 Federal Open Market Committee (FOMC) participants are median estimates. <https://www.federalreserve.gov/monetarypolicy/files/fomcprojtabl20161214.pdf>; <https://www.federalreserve.gov/monetarypolicy/fomcprojtabl20160921.htm>. Guide to the Markets – U.S. Data are as of November 30, 2016. http://phillipsandco.com/files/5614/8097/7801/MI-GTM_4Q16_December.pdf; JP Morgan Asset Management. (December 28, 2016). "Q4 2016 Guide to the Markets," Pg. 35; <http://static4.businessinsider.com/image/5851b3baa1a45e60398b58db-1200>

Effects on Emerging Markets

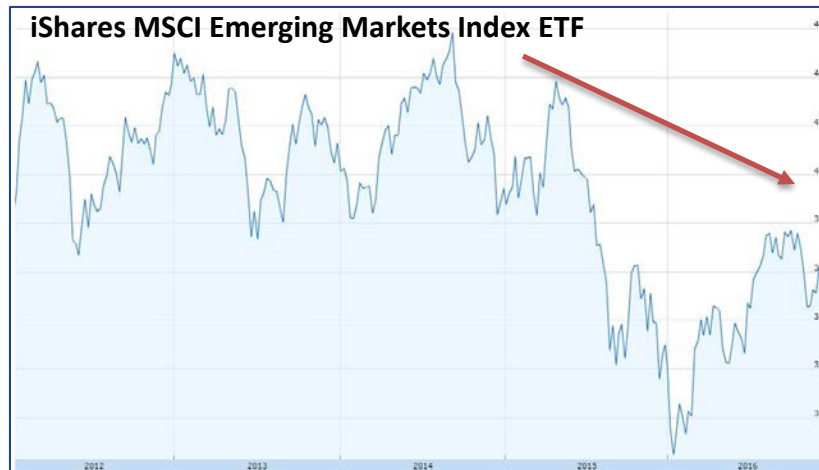
Interest Rates



U.S. Dollar Index



Emerging Markets



Combined Relationship



Emerging Markets 20yr Treasury Price* U.S. Dollar Index

*Price of bonds move inversely to interest rates

Sources:

Phillips & Company

http://phillipsandco.com/files/5614/8097/7801/MI-GTM_4Q16_December.pdf; JP Morgan Asset Management. (December 28, 2016). "Q4 2016 Guide to the Markets," Pg. 31. Federal Reserve, FactSet. Currencies in the Trade Weighted U.S. Dollar Major Currencies Index are: British pound, euro, Swedish kroner, Australian dollar, Canadian dollar, Japanese yen and Swiss franc. Guide to the Markets – U.S. Data are as of November 30, 2016.

FRED – St. Louis Fed.

Google Finance

Mean Reversion Dashboard

Style Current P/E as a % of 20yr Avg. P/E

	Value	Blend	Growth
Large	116.40%	109.20%	102.20%
Mid	115.50%	110.50%	102.40%
Small	115.90%	115.80%	113.30%

Regional Fwd P/E as a % of 10yr Avg. Fwd P/E

ACWI	EAFE Index	EM Index	United States	Germany	U.K.	China	Brazil	India	Russia
123.39%	115.81%	112.48%	124.26%	100.68%	169.83%	64.00%	512.56%	106.13%	143.36%

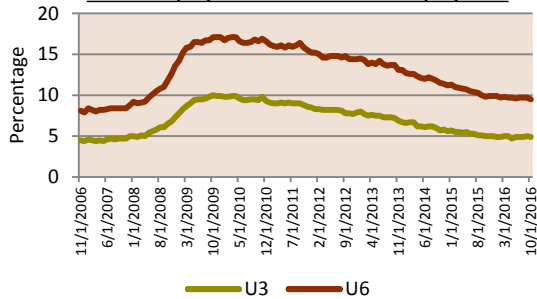
Sector Trailing P/E as a % of 20yr Avg. P/E

Financials	Technology	Health Care	Industrials	Energy	Cons. Discr.	Cons. Staples	Telecom	Utilities	Materials
97.48%	80.62%	87.50%	104.00%	186.23%	104.12%	106.64%	71.78%	129.49%	104.17%

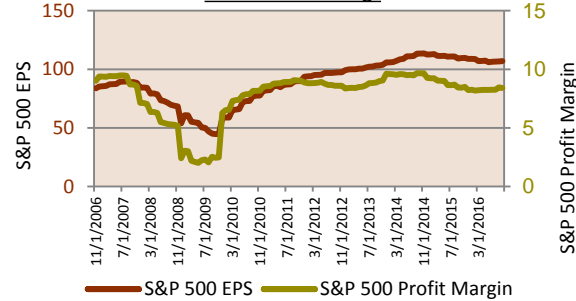
Source: Bloomberg, LP. JP Morgan Asset Management. (December 28, 2016). "Q4 2016 Guide to the Markets", p. 9-10. JP Morgan sources data from MSCI, FactSet, Standard & Poor's, Russell Investment Group, and J.P. Morgan Asset Management. Trailing P/E ratios are bottom-up values defined as month-end price divided by the last 12 months of available reported earnings. Historical data can change as new information becomes available. Past performance is not indicative of future returns.

Economic Dashboard

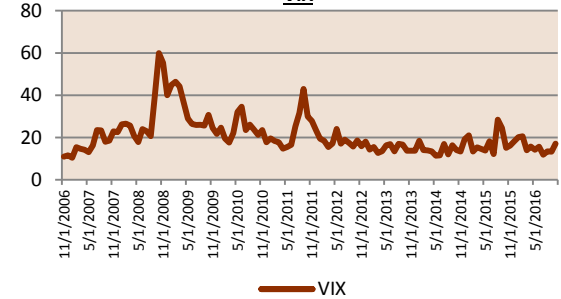
U-3 Unemployment and U-6 Underemployment



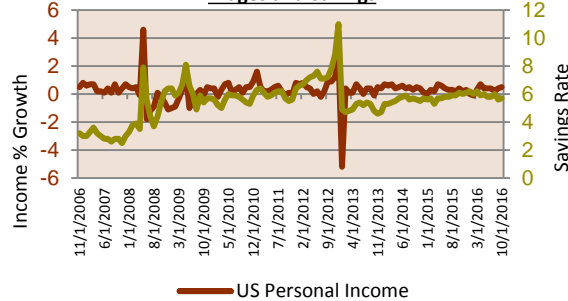
Profits and Earnings



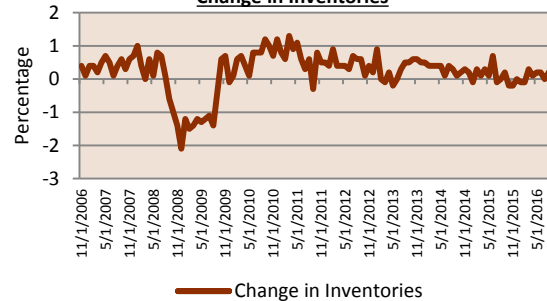
VIX



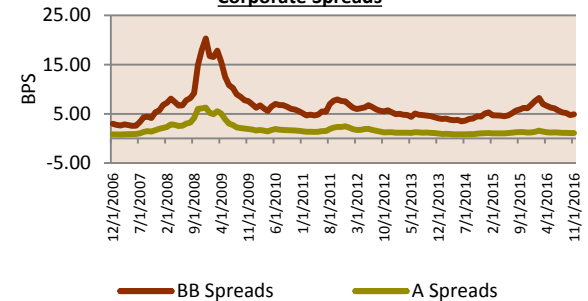
Wages and Savings



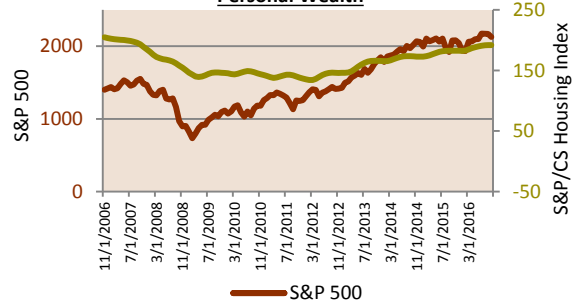
Change in Inventories



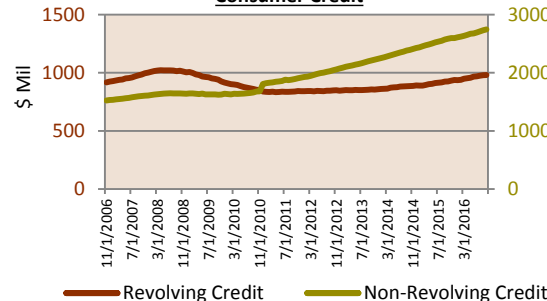
Corporate Spreads



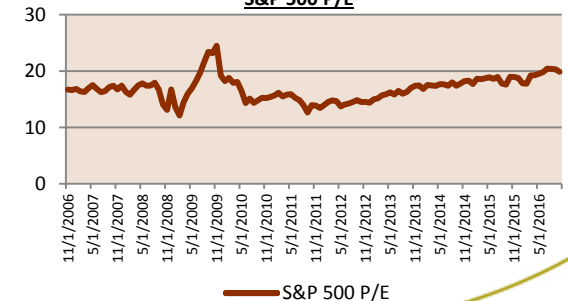
Personal Wealth



Consumer Credit



S&P 500 P/E



Source: Bloomberg LP and Federal Reserve. Data is from sources deemed to be reliable. No representation or warranties either expressed or implied are made as to the accuracy of the information presented. Data retrieved on 12/28/16.

Conclusion & Recommendations

Summary:

- ☐ We do not expect a recession in 2017.
- ☐ We expect a shift in narrative from central bank controlled outcomes to fiscal outcomes. We anticipate this shift will take many years and will be accompanied by continued support from central banks throughout the world, excluding the U.S.
- ☐ The U.S. Bull Market will likely continue, driven by earnings through Q2. We remain cautious in the second half of the year as the impact of the strong dollar may continue to create headwinds.

Recommendations:

- ☐ Focus Equities on U.S. Large Cap and Emerging Markets.
- ☐ Focus Fixed Income on sectors that have positive correlations to the rise in interest rates:
 - ☐ T.I.P.S
 - ☐ Bank Loans
 - ☐ Floating Rate Funds
 - ☐ M.B.S
 - ☐ Short Duration Treasuries
- ☐ Be cautious of the EU as significant concerns over the EU breakup, as well as populist candidates, take center stage and create uncertainty.
- ☐ Expect BREXIT to be drawn out.

THANK YOU