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Monthly Market Commentary
December 2016

ECONOMY: Economic Growth Accelerating

BEST IN 2 YEARS!!
The final reading of Q3 U.S. GDP was revised upward to 3.5% from the previous estimate of 3.2%. Gains in consumer spending, business fixed investment, inventories and exports were modestly offset by a decline in residential fixed investment and an increase in imports. The biggest shift in this report was a surge in exports, which grew by 10%, boosting the overall estimate of GDP growth by about one percentage point. This was the economy's strongest quarter since Q3 2014.

EMPLOYMENT WEAKENS SLIGHTLY
The December employment report came in below expectations, with the U.S. economy adding 156,000 jobs and the unemployment rate rising to 4.7%. The wage picture was encouraging, however, with wages rising 0.3% in the month to 2.5% annually.

INFLATION ON THE RISE
November consumer prices continued to increase due primarily to rising energy and shelter costs - headline CPI grew by 1.7%, while the core measure grew at 2.1%. The Federal Reserve's preferred measure of inflation, the Personal Consumption Expenditure (PCE) deflator, showed the core estimate growing 1.6% for November.

CONSUMER CONFIDENCE UP AGAIN
The Conference Board ***Consumer Confidence Index***®, which had surged in November, posted another gain in December. *"Consumer Confidence improved further in December, due solely to increasing Expectations which hit a 13-year high (Dec. 2003, 107.4). The post-election surge in optimism for the economy, jobs and income prospects, as well as for stock prices which reached a 13-year high, was most pronounced among older consumers. Consumers' assessment of current conditions, which declined, still suggests that economic growth continued through the final months of 2016. Looking ahead to 2017, consumers' continued optimism will depend on whether or not their expectations are realized."*

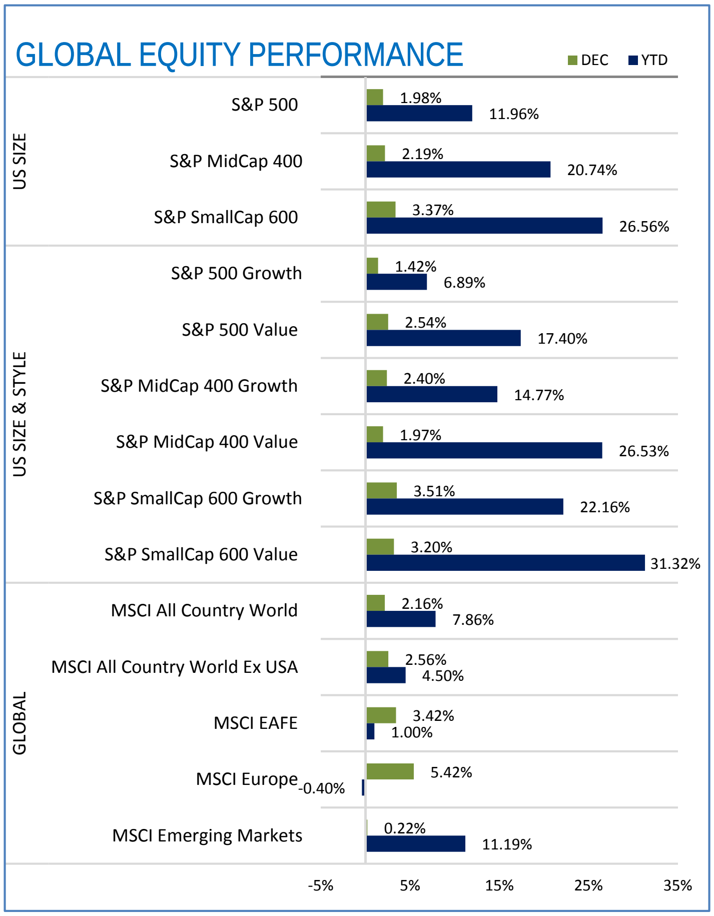
FED HIKES RATES
As was widely expected, the Federal Reserve hiked interest rates 25 basis points at its December meeting. In the accompanying statement, the Fed noted the increases in inflation and declines in unemployment. The median forecast from members of the committee responsible for setting interest rates increased, with three 25 basis points hikes now expected in 2017. This increase marked the first upward revision since 2012 and came despite the forecasts for growth, unemployment and inflation being little changed.

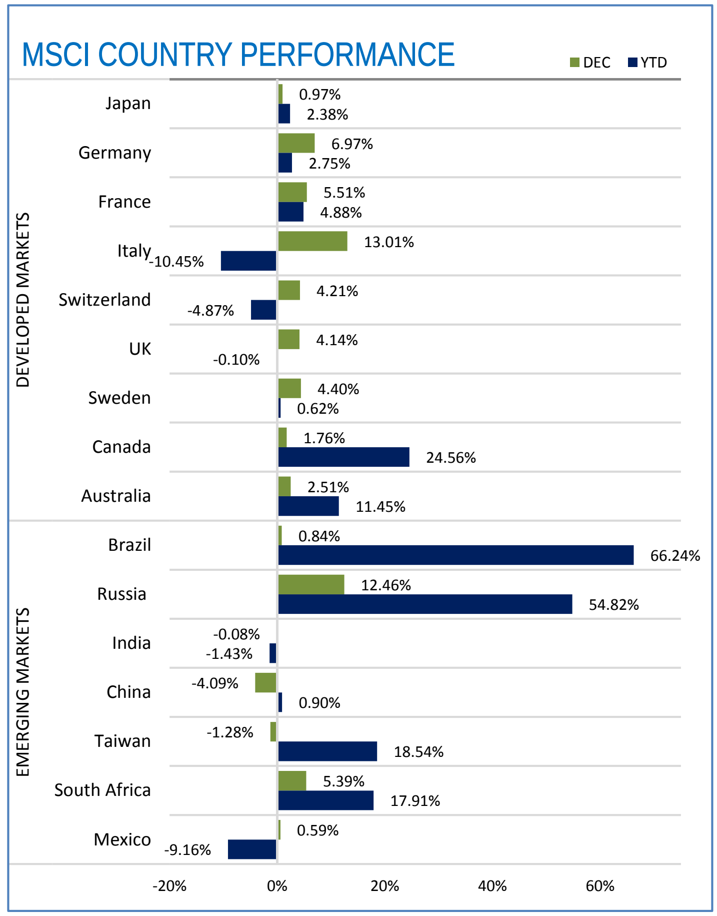
MANUFACTURING STRENGTH CONTINUES
The Institute of Supply Management's manufacturing Purchasing Managers Index (PMI) rose to 54.7 in December (a reading above 50 signals expansion) and saw the biggest increase in new orders in more than seven years. U.S. manufacturers reported stronger hiring and higher prices for raw materials, which support other signs of labor market strength and higher inflation. A significant focus of the next presidential administration will be improving U.S. manufacturing.

U.S. AUTO SALES HIT RECORD
Low gas prices, rising employment and low interest rates kept buyers coming to car dealerships in 2016. U.S. vehicle sales totaled 17.55 million, beating the previous year's record of 17.47 million, according to Autodata Corp. It was the seventh consecutive year of annual sales gains.

PENDING HOME SALES FALL
Contracts for existing home sales decreased in November according to figures released from the National Association of Realtors. The drop in contract signings was the first in three months and shows the impact of higher borrowing costs that began following the U.S. presidential election. While home-buying activity has benefited from a strengthening labor-market and wage gains, the industry also has been challenged by limited inventory. Further increases in mortgage costs could negatively impact home affordability.

GLOBAL EQUITIES: Strong Close For Global Equities





U.S. Markets A Winner

The S&P 500 closed up 1.98% in December and 11.96% for 2016. The year featured one of the worst opening weeks in history – down 5.91% - but also counted 18 new closing highs. Despite closing down 1.08% for the last week of the year, the so called "Trump Rally" sparked a 5.43% increase in the S&P 500 post election. U.S. mid and small cap stocks did even better in 2016, returning 20.74% and 26.56% respectively.

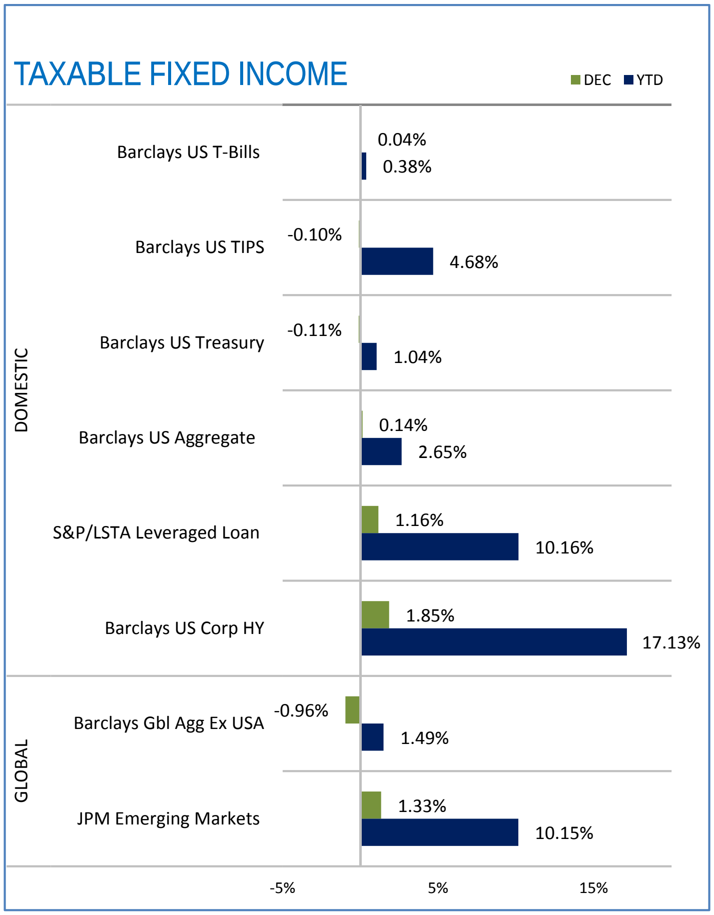
Europe Closes Strong

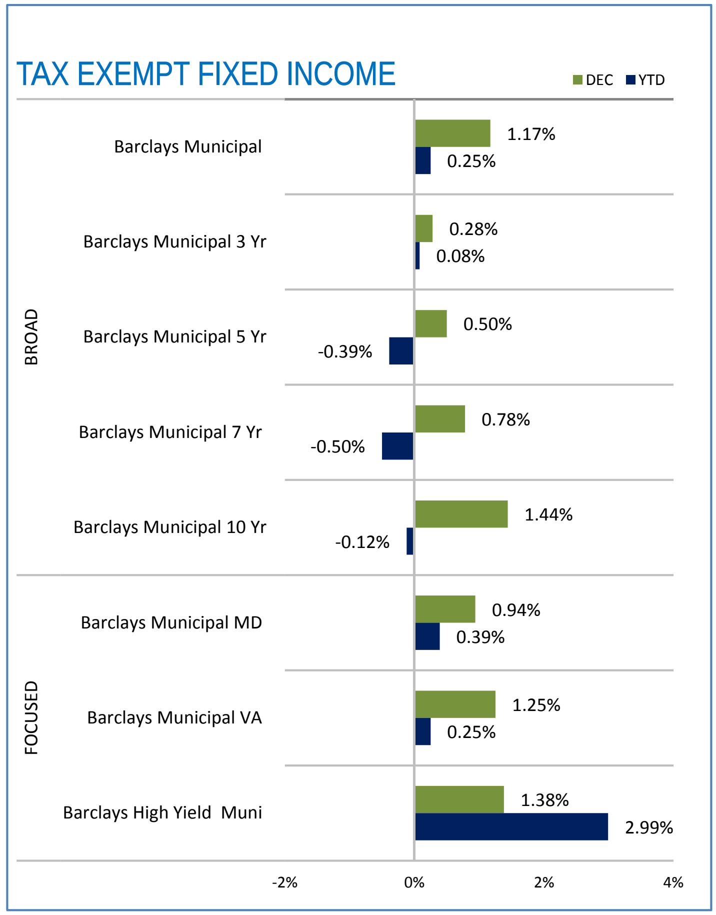
European equity markets rallied in December as the MSCI Europe Index posted one its the best monthly performances in 2016. Markets gained in the aftermath of the Italian referendum, a political event which had been significantly weighing on sentiment over the last few months. The MSCI Italy index closed December up 13.01%. With the vote out of the way, market participants regained confidence amid increased talks of global fiscal stimulus and economic growth.

Brazil & Russia Rule EM

Emerging markets returns in 2016 were highly dependent on where you were. Returns were dominated by the 66.24% gain in Brazil and the 54.82% gain in Russia. The difference between the best emerging market (Brazil +66.24%) and the worst (Greece - 12.13%) was almost 80%. The MSCI Emerging Markets Index closed the year up 11.19%, which is even more remarkable when you consider it fell 13.28% in the first three weeks of the year.

FIXED INCOME: Policy Divergence, Hikes & Credit…





The Year Of Policy Divergence

Central bank monetary action divergence continued as the ECB, BOJ and BOE expanded asset purchases, while the U.S. Federal Reserve raised interest rates for only the second time in ten years. This policy divergence led to record yield differentials between the U.S. and both Europe and Japan. The “relative” attractiveness of U.S. yields fueled overseas investors to buy U.S. bonds in record amounts. In fact, foreign ownership of U.S. corporate bonds increased by $400 billion (thru September) according to Treasury International Capital data. At approximately. $3.2 trillion, foreign ownership now accounts for about 29% of the $11 trillion U.S. corporate bond market.

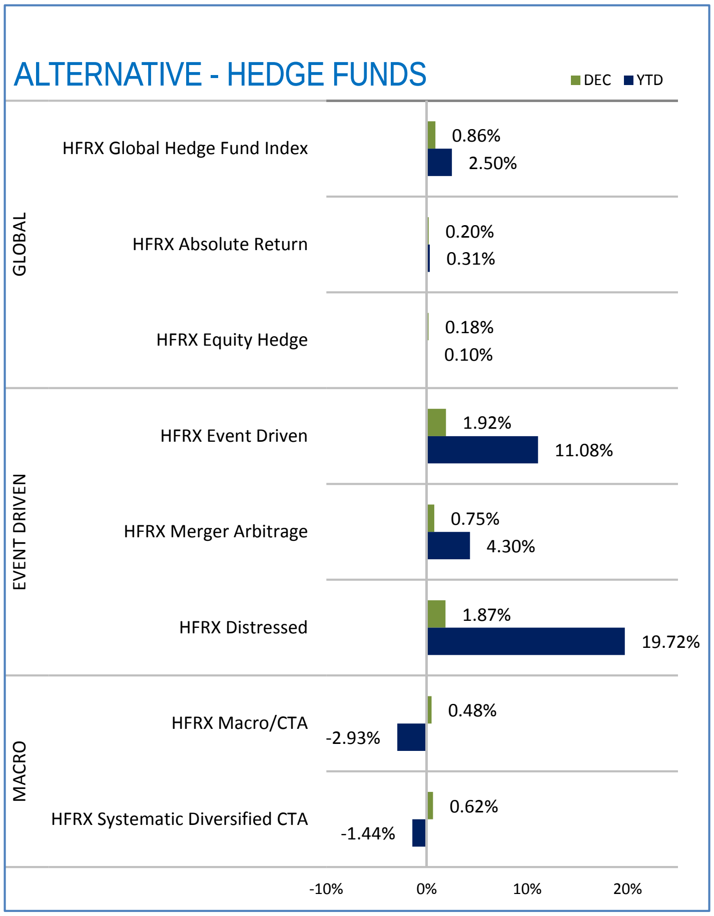
Fed Hikes – Round 2

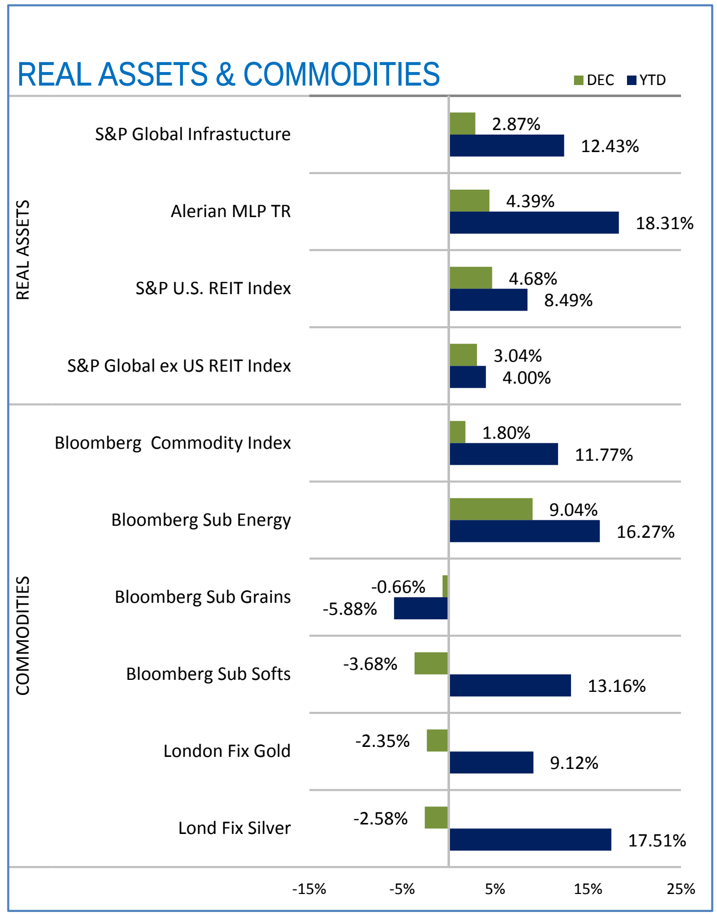
The Federal Reserve decided to tighten policy at their own December meeting, raising the Fed Funds rate 0.25% This move did not come as much of a surprise and the Fed’s statement delivered an even keel assessment of the U.S. economy. However, the Fed did upgrade its policy-tightening forecast for 2017, with three potential increases in 2017, despite relatively unchanged economic forecasts. The Fed expects slightly better growth next year: 2.1% versus its prior forecast of 2.0%.

Give Credit Where Credit is Due

Despite the turbulent year regarding monetary policy and interest rates, bonds generated positive overall returns. The Barclays U.S. Aggregate Bond Index closed 2016 up 2.65%. More risk/credit sensitive assets outperformed in 2016. High yield bonds were up 17.13%, Bank Loans closed up 10.16% and Emerging Markets Bonds ended the year up 10.15%.

ALTERNATIVES: Commodities Finally Recover





Event Driven Outperforms For The Year

In relative terms, hedge funds mostly disappointed in 2016. Only Event Driven and Distressed strategies generated strong returns for the year. These strategies both generated their best annual returns since 2003. Global Macro strategies were the one category that ended with losses.

REITs Reverse Course

REIT returns reversed a four-month downward trend in December as concerns about rising interest rates eased. The S&P U.S. REIT Index was up 4.68% in December, while the S&P 500 index returned 1.98%. For the year, the S&P U.S. REIT Index was up 8.49%

Commodities End 5 Year Slide

Commodities finally recovered in 2016, with the Bloomberg Commodities Index returning 1.80% in December and closing the year up 11.77%. The recovery may be indicative of global economic and inflation normalization. While inflation and rising rates and bond yields have historically favored commodities, some mean reversion appears to have benefitted commodities as well in 2016. Indicating potential longer-term bottoms, energy recovered well before OPEC in November, agriculture rallied despite a record harvest and industrials led metals.