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ECONOMY: Data Improving Globally

Q4 SLOWDOWN?

GDP growth in the U.S. slowed to end the year, registering a 1.9% annualized growth rate in Q4. Full-year GDP growth was 1.6% in 2016, matching 2011 for the slowest year of growth in the recovery. The sources of growth were rather unbalanced, with a solid consumer but weak business spending.

JOBS OFF TO GOOD START

January's jobs report handily beat expectations as employers added 227,000 jobs on the month, much stronger than the consensus estimate of 180,000. The job market also pulled more Americans in from the sidelines, as the labor force participation rate rose 0.2% to 62.9%. Average hourly wage growth was softer than expected, rising 2.5% versus expectations of 2.7%

CREDIT REMAINS STABLE

Credit conditions across the country remained stable or strengthened, according to the Fed's January *Beige Book* report. Bankers reported unchanging credit standards across all loan categories and lower delinquency rates for commercial mortgages and C&I loans. Firms across the country were said to be optimistic about growth in 2017.

NEARING THE DUAL MANDATE

In a recent speech, Janet Yellen noted that the Fed is close to meeting its dual mandate, declaring the economy is near full employment and inflation is moving toward the Fed's 2% target.

CEO'S MORE CONFIDENT

The Conference Board ***Measure of CEO Confidence™***, which had declined slightly in Q3 2016, increased sharply in Q4. "*CEO Confidence surged in the final quarter of 2016, reaching its highest level in nearly six years. CEOs were considerably more optimistic about short-term growth prospects in the U.S. than in the third quarter, and to a lesser degree about prospects in developed and emerging markets. Regarding prices in 2017, chief executives expect to hike prices by less than 1.5 percent on average.*"

WHO CONTROLS BREXIT?

The question of who could invoke article 50 of the Lisbon Treaty has been debated since the UK voted to exit the EU last June. Is it a decision for the Prime Minister, or is Parliament's approval required? The U.K. Supreme Court weighed in, and by a margin of 8-3 said that Parliament would need to give its approval to trigger Article 50.

EUROZONE GROWTH CONTINUES

GDP in the Eurozone grew at an annualized rate of 2.0 % in Q4, ahead of the 1.8% growth in Q3. If the expansion in the Eurozone becomes more and more self-sustaining, we could see an end to the ECB's QE program later this year.

CHINESE GROWTH STABILIZES

GDP in China rose 1.7% in Q4 2016, which was enough to lift the year-over-year GDP growth rate to 6.8%. While the economic growth rate in China has stabilized after trending lower since 2010, some data suggests the Chinese economy will likely not achieve double-digit growth rates on a sustained basis. The sharp slowdown in investment spending that has occurred this decade is the underlying cause for the deceleration in the Chinese economy.

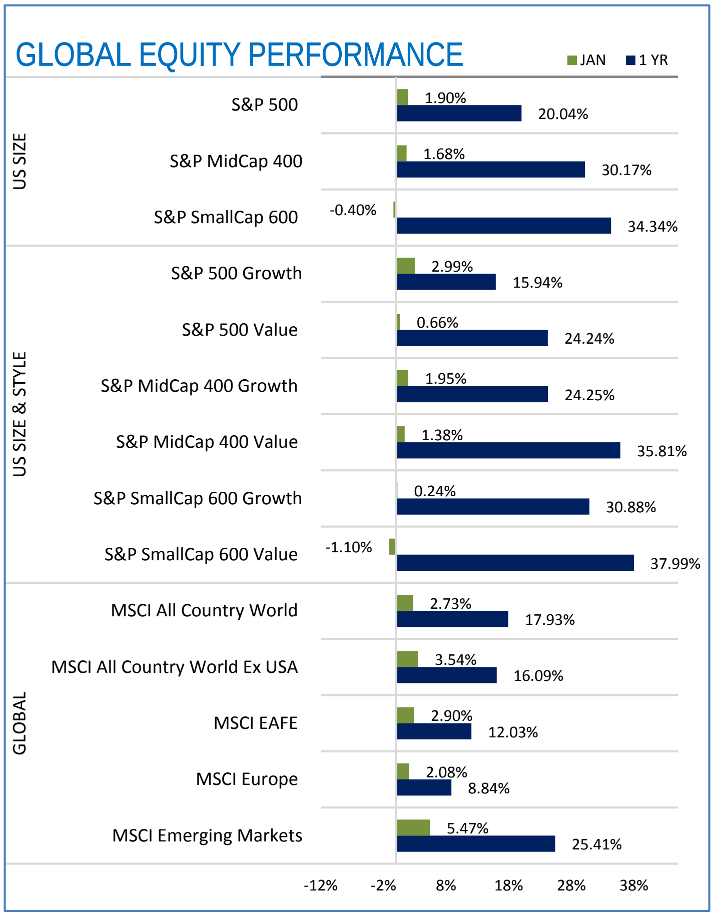
BOJ RAISES GROWTH FORECASTS

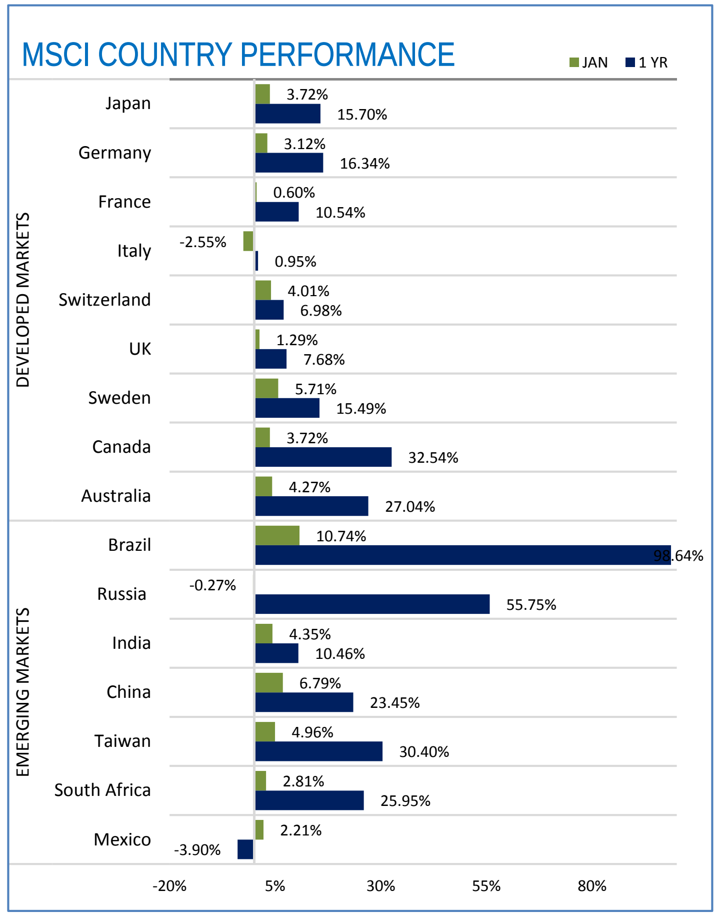
Prospects for the Japanese economy have brightened at the start of 2017. Business conditions in Japan continued to improve following a pick-up late last year, adding justification to upgraded growth forecasts from the Bank of Japan (BOJ) which increased GDP growth in 2017 to 1.5% from 1.3%.

MOMENTUM FOR GLOBAL ECONOMY

The global economy started 2017 with growth gaining momentum, according to PMI survey data. The JPMorgan Global PMI, compiled by Markit from its various national surveys, rose for a fifth successive month in January, up from 53.6 in December to a 22-month high of 53.9. The latest data are consistent with global GDP rising at an annual rate of 2.5% at the start of the first quarter.

GLOBAL EQUITIES: Global Equity Rally Continues





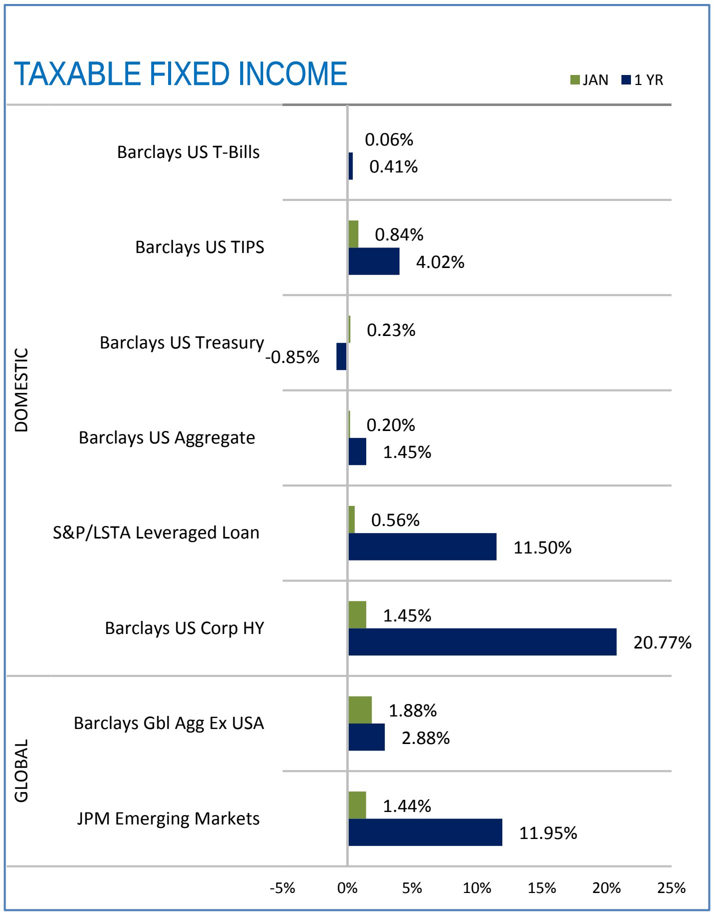
U.S. Rally Slows, But Continues

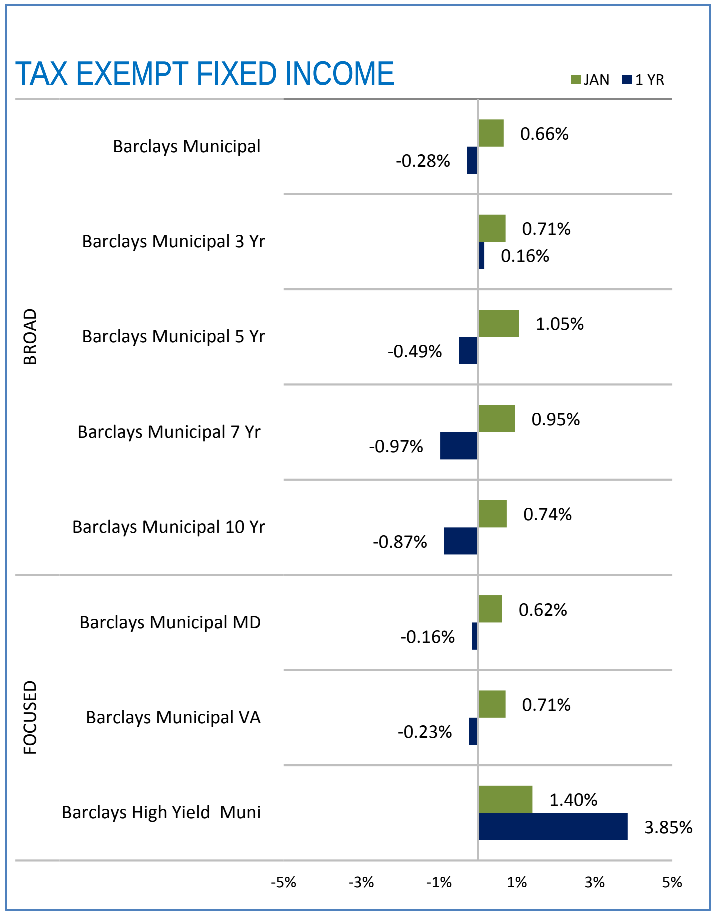
After a strong start to 2017, the post-US election stock rally cooled off towards the end of January as investors paused to reassess the wider impact of President Trump's extensive policy proposals. The proposal to reduce taxes and regulations was widely welcomed by the market, but the potential impact of increased tariffs and stronger immigration policies concerned investors. Nevertheless, the S&P 500 index managed to extend its run of positive monthly gains, returning 1.90% in January.

EM Leads The Way

Emerging equity markets enjoyed a positive start to the year, drawing support from a wide range of economic indicators that pointed towards a pick-up in growth rates. Latin America was the strongest performing region, aided by a 10.74% return in Brazil and a 9.13% return in Peru. Equity markets in emerging Asia also enjoyed a healthy start to 2017, with Korea up 7.71% and China up 6.79%. The MSCI Emerging Markets Index closed January with a 5.47% gain.

FIXED INCOME: A Record In Bond Issuance





Fed Holds Rates

The Federal Reserve made no changes to monetary policy in their first meeting of the year and kept rates at a range of 0.50%-0.75%. The Fed affirmed that economic activity continues to expand and the labor market has made further gains, while they also specifically acknowledged improving measures of consumer and business sentiment. Despite the strong gains in market-based inflation measures, the Fed continued to characterize them as low and expressed greater confidence in achieving its 2% inflation goal. The Barclays U.S. Aggregate Bond Index closed up 0.20% for January.

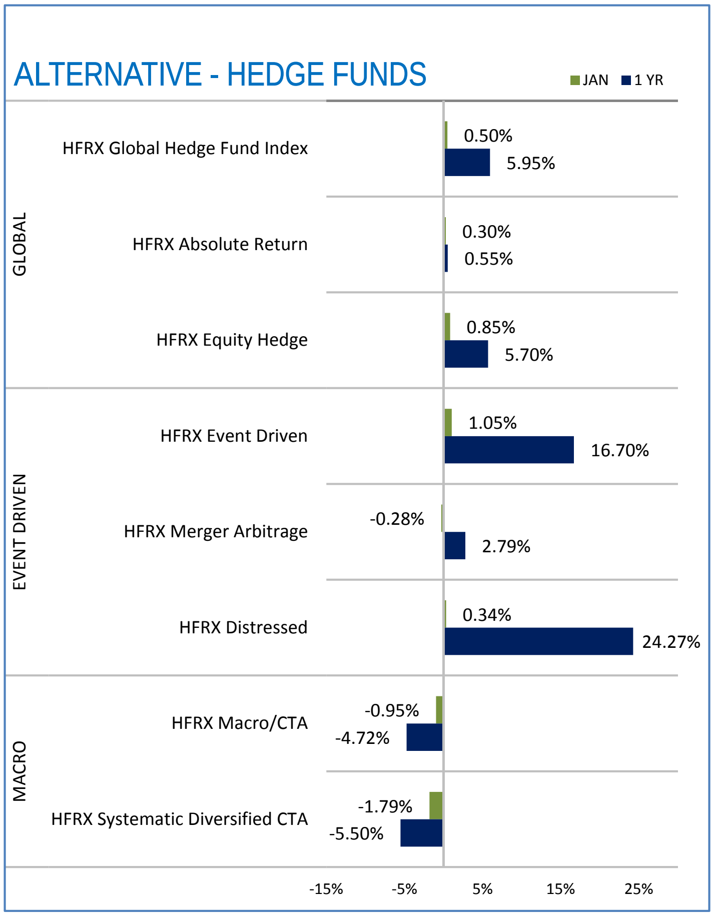
Bond Issuance Record

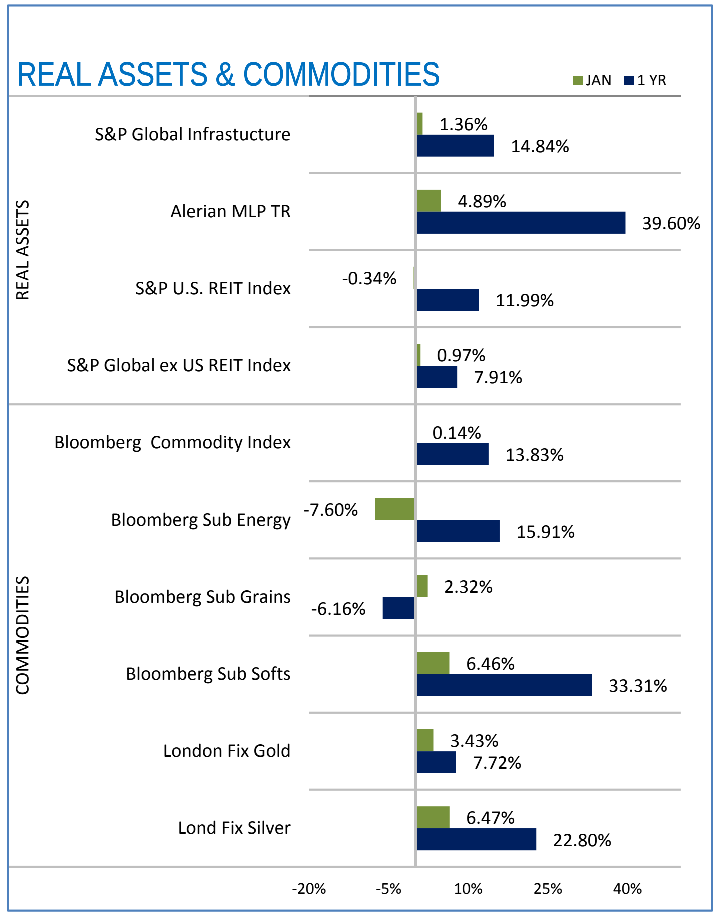
Investment grade bond issuance hit a new monthly record of $176 billion in January, comprised of $93 billion in financials issuance and $82 billion in non-financials. Despite the talk of a potential tax repatriation holiday, which may impact future corporate debt issuance, companies have decided to proceed with their capital allocation plans regardless of what policies may be enacted by the new administration.

Potential Paradigm Shift

The market dynamics of 2017 may be somewhat different than years past. Unlike recent years, investors are now forced to consider how the potential for lower personal and corporate taxes, less regulation and more fiscal spending will impact the financial markets and economy. This may be the year that global monetary policy starts to give up some ground to potential fiscal policy initiatives.

ALTERNATIVES: A Slow Start All Around





Event Driven Maintains Momentum

Hedge funds posted small gains in January with the HFRX Global Hedge Fund Index gaining 0.50% for the month. Event driven strategies maintained their 2016 momentum as the HFRX Event Driven Index rose 1.05%. The HFRX Macro/CTA Index posted a decline of 0.95% for January due to systematic trend-following managers as the U.S. dollar declined against all major currencies.

REIT Investors Look To Policy

REITs posted modest loses in January, as investors continued to size up potential changes to the macroeconomic environment. The S&P U.S. REIT Index fell 0.34% for the month as investors wait to learn how a number of policy issues under the new Trump administration, including possible changes to tax policy and financial services regulation and spending on infrastructure and defense, will impact the sector.

Commodities Start Flat

The Bloomberg Commodity Index (BCOM) increased 0.14% on the month. A mild North American winter pressured natural gas (energy) which was offset by gains in agriculture, softs and industrial and precious metals. Precious and industrial metals rallied in tandem in January, ending some of the post election disparity between the two sectors.