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Monthly Market Commentary
November 2016

ECONOMY: A Massive Election Day Surprise

YOU'RE HIRED!
Donald Trump emerged victorious in the 2016 U.S. Presidential Election. U.S. equities rallied and bonds fell as investors looked to digest the impacts of potential fiscal, trade, and regulatory policies on the global markets and economy.

THE CLEAN SWEEP
A Republican sweep of the Presidency, House and Senate, may signal an end to the last six years of political gridlock. Historically, this is a rare occurrence as there have been only 18 years since 1965 that a single party controlled the Presidency as well as both houses of Congress.

Q3 BETTER THAN EXPECTED…
The second estimate of Q3 U.S. GDP was revised upward to 3.2% from the previous estimate of 2.9%. The revision showed better than expected consumer and capital spending.

WAGES FALL SLIGHTLY
Despite declining 0.1% in November, average hourly earnings are still up 2.5% over the past year and add to the evidence of a tightening labor market. Wage gains remain widespread across industries and with the labor market at or near full employment, wage pressures could continue to increase in coming months.

CONSUMER CONFIDENCE JUMPS
The Conference Board ***Consumer Confidence Index***®, which had declined in October, increased significantly in November. *"Consumer confidence improved in November after a moderate decline in October, and is once again at pre-recession levels. A more favorable assessment of current conditions coupled with a more optimistic short-term outlook helped boost confidence. And while the majority of consumers were surveyed before the presidential election, it appears from the small sample of post-election responses that consumers' optimism was not impacted by the outcome. With the holiday season upon us, a more confident consumer should be welcome news for retailers."*

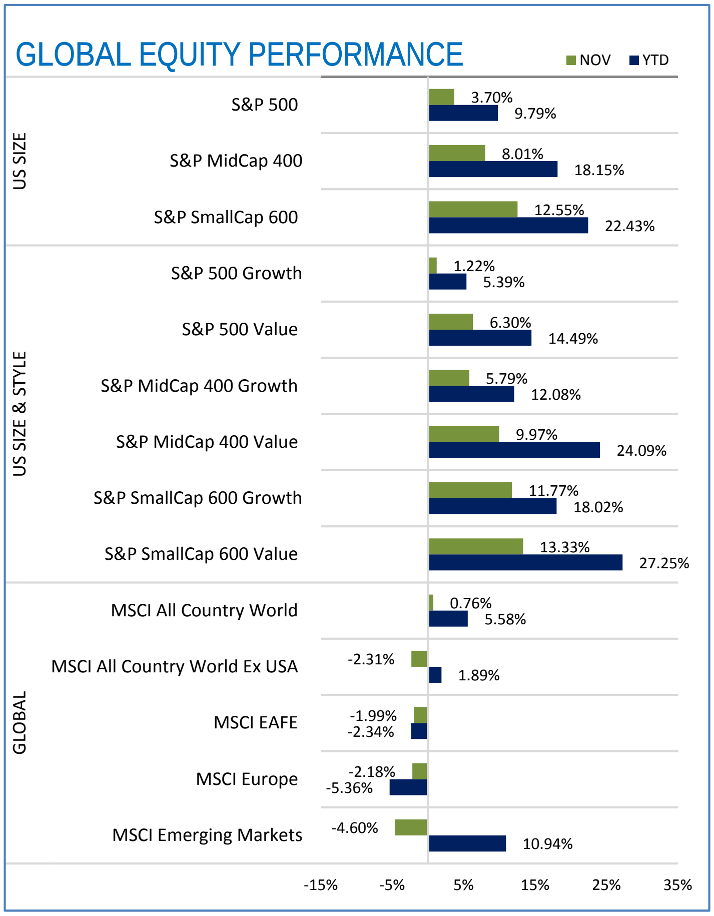
MORE EUROPEAN POLITICAL DISCORD
As the European Union continues to grapple with the fallout from the UK Brexit vote, Italians voted "no" in a referendum vote on constitutional reforms. Prime Minister Matteo Renzi submitted his resignation, setting up a potential EU exit for Italy in the future. November also brought a political surprise in France, where Francois Fillon was selected as the Republican candidate for next April's presidential election. Polling prior to the primary election had suggested that Fillon's rivals would emerge victorious. Mr. Fillon has promised to confront the U.S. regarding the European economy and free-trade, while Ms. Le Pen (his National Front opponent) wants a withdrawal from both the euro and EU.

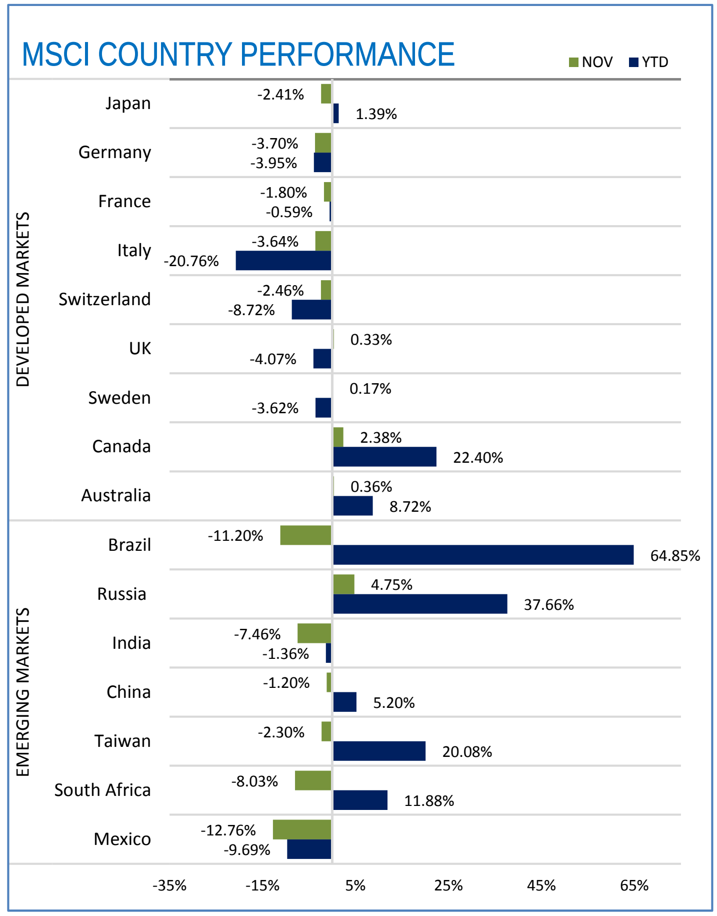
ECB CONTINUES EASING
It was widely expected that the European Central Bank (ECB) would continue their monetary easing policies. In early December, the ECB announced that it will continue the plan for longer than expected, but with smaller purchases. The ECB now expects to make monthly purchases of approximately €60 billion, down from previous purchases of €80 billion.

OPEC TO REDUCE PRODUCTION
With prices still at less than half the levels of two years ago, the Organization of the Petroleum Exporting Countries (OPEC) agreed to lower collective production, although it did not finalize how to spread the cuts among the member countries. OPEC decided to cut production next year by about 4.5%, or 1.2 million barrels a day. This is the organization's first cut in production in eight years.

GLOBAL GROWTH SOLID IN NOVEMBER
November saw the rate of global economic expansion match October's 11-month high, with firmer growth of new orders and faster job creation. The JP Morgan Global All-Industry Output Index was unchanged at 53.3 in November, to extend the current spell of unbroken output growth to 50 months. Solid rates of expansion were registered for both manufacturing production and service sector business activity.

GLOBAL EQUITIES: US Equites Surge





U.S. Markets Soar Post Election

U.S. equities surged in November in response to the surprise victory by Donald Trump and the Republicans in the U.S. Presidential election. Despite seeing futures fall nearly 5% on election night, the S&P 500 ended the month up 3.70%. However, small caps led the way as the S&P Small Cap 600 gained 12.55% - the index's strongest monthly gain since October 2011. Over 60% (365 issues) of the S&P Small Cap 600 gained more than 10% in the month, while 14% (86 issues) gained 25% or more.

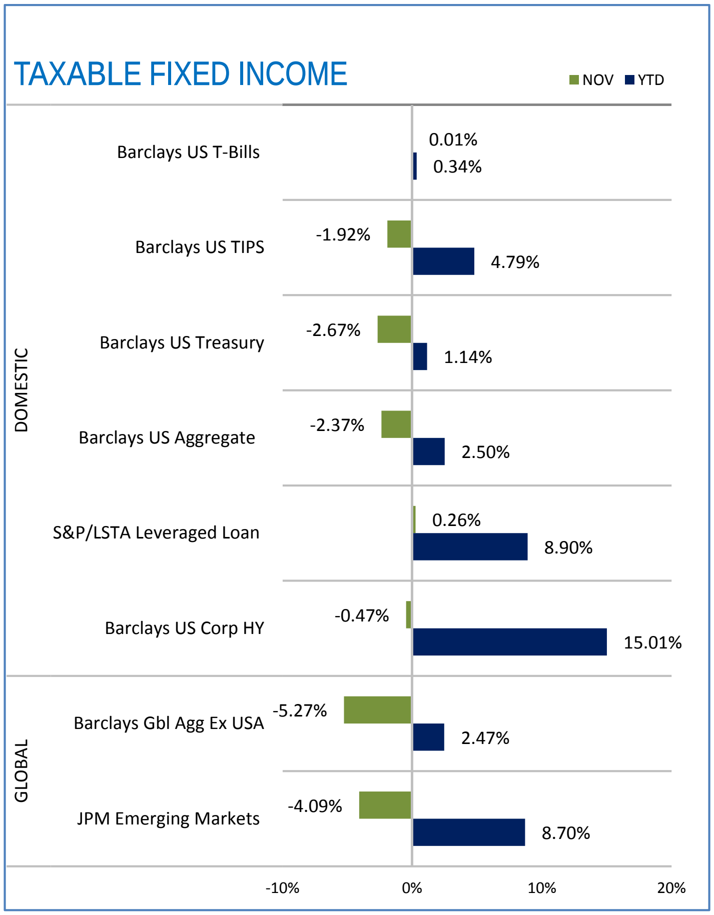
Gains Not Shared Globally

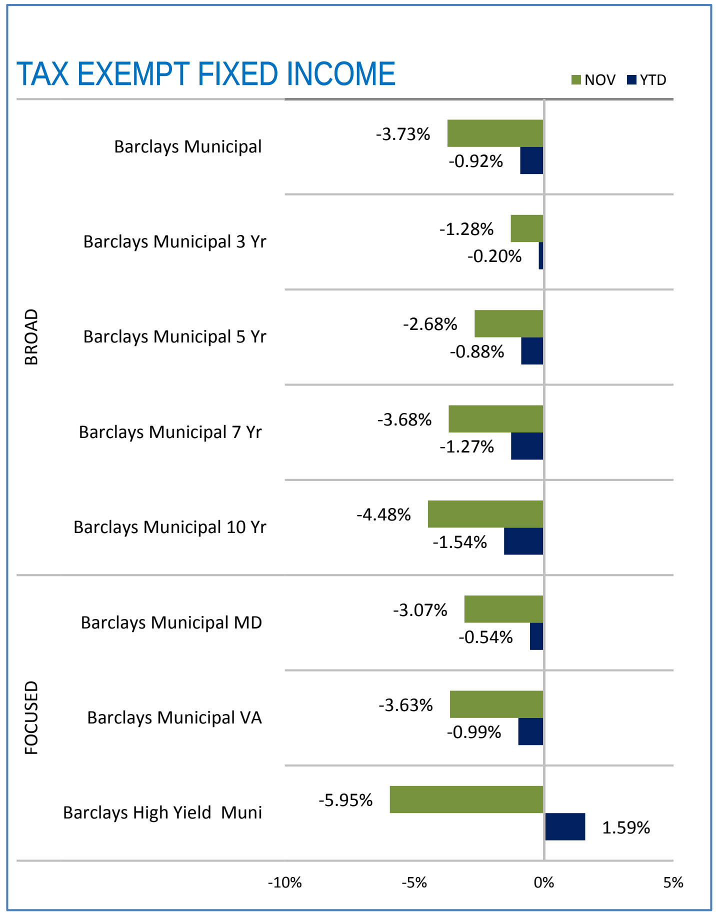
The unexpected U.S. election results ignited U.S. equities as investors expect new fiscal and regulatory policies to stimulate the U.S. economy. However, what was good for the U.S. was not seen as good for most markets outside the U.S., as concern over trade policy, immigration, and a more nationalistic tone saw foreign markets fall. The MSCI EAFE fell 1.99%, the MSCI Europe Index fell 2.18%, and the MSCI Emerging Markets index was down 4.60%

Nothing New…At Least Recently

The divergent returns of U.S. equities over other global markets is nothing new in recent history. Over the past three years, the MSCI All Country World Index has a cumulative return of 9.23%. Once the 26.83% return for the MSCI USA Index is stripped out, the MSCI All Country World ex USA Index has returned -6.78% over that period. The U.S. recovery and expansion has continued to outpace the global markets.

FIXED INCOME: Election Results Punish Bonds





Election Sparks Yield Rally & Bond Declines

An improving global economy coupled with a surprise election win and the prospects of future fiscal stimulus pushed rates higher in November. Market expectations quickly shifted towards the expectations of deregulation, tax cuts, corporate tax reform and fiscal stimulus. While the exact degree to which these policies may be enacted is unclear, the market reaction was to push the yield on the 10yr U.S. Treasury up to 2.38% (+0.55 basis points) and the 30yr U.S. Treasury up to 3.03% (+0.45 basis points). Since yields move in the opposite direction of bond prices, most major bond indices posted losses in November. The Barclays U.S. Aggregate Bond Index fell 2.37%.

Euro Yields Rise

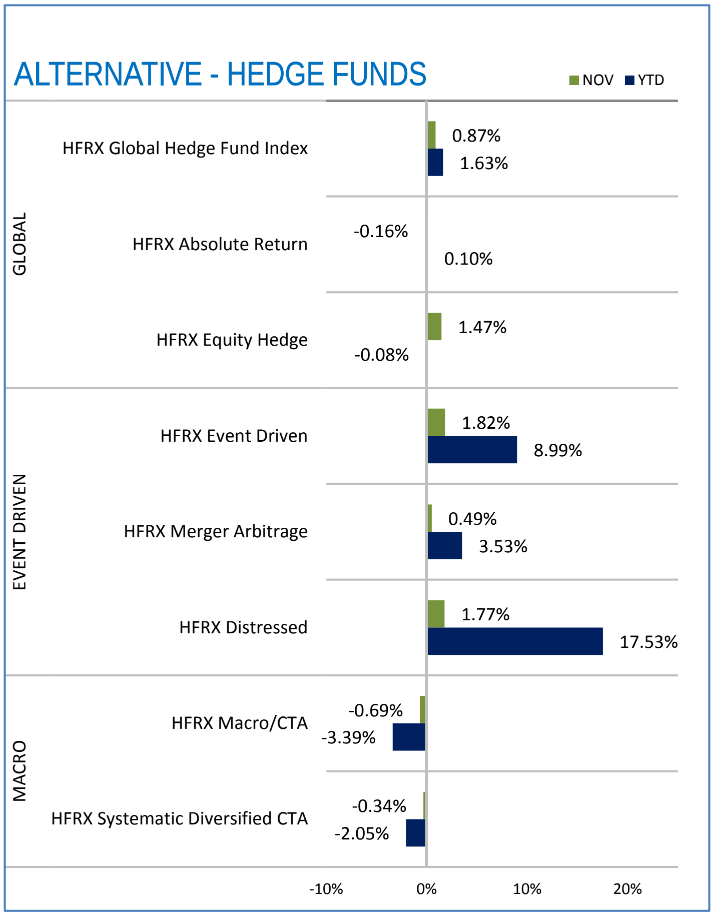
The combination of a stronger global economic outlook, the potential for more fiscal support and increasing inflationary pressures pushed up yields across the Eurozone in November. The German 10-year Bund yield reached 0.16% in November, its highest level since April 2016. The percentage of Eurozone government bonds trading with a negative yield fell from a high of 52% in September to below 33% in November.

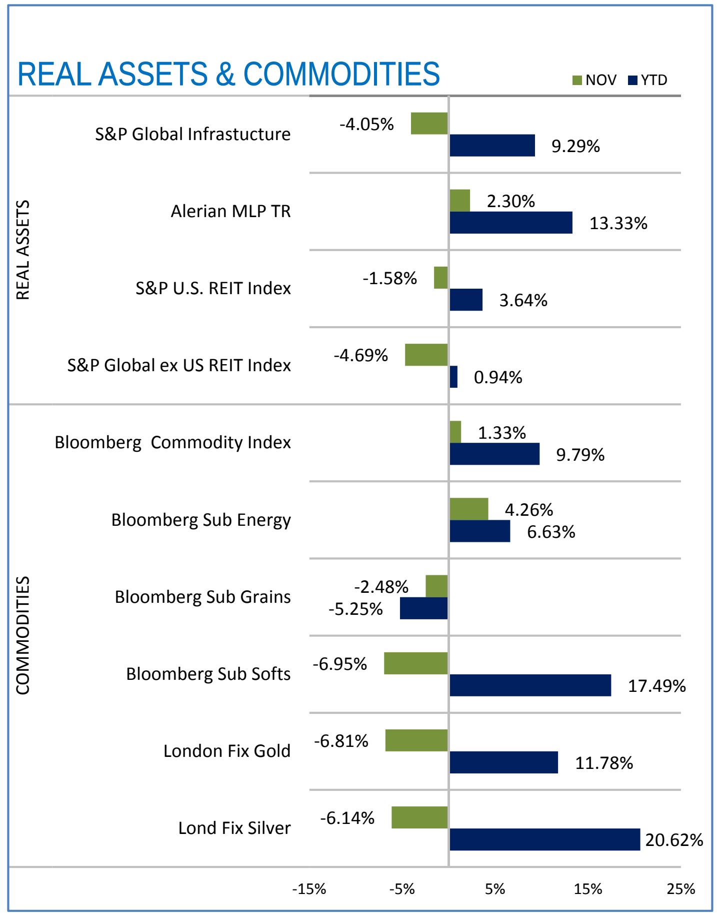
Post Election Muni Concerns

The muni market may face some near-term obstacles as yields have risen and prices have dropped since the election. The market is beginning to incorporate the impact of potential policy changes:

- One of the most attractive features of municipal bonds is their exemption from federal, state, and local taxes. As the top tax rate on investment income has increased, demand for municipal bonds has been strong. Potentially lower tax rates would make muni's less attractive and reduce demand.
- While Treasury and corporate issuance has been on the rise, municipal bond supply has not. Demand has also remained stable in the face of rising tax rates. Increased infrastructure spending could boost municipal supply. According to capital markets data provider Ipreo, voters approved $60.2 billion in municipal spending during the recent elections.

ALTERNATIVES: The Not So Precious Metals





Event Driven Strategies Perform

Hedge funds posted modest gains overall in November. The HFRX Distressed Index continued its momentum, closing up 1.77% and booking gains in the energy, materials and financial sectors. Global Macro strategies continued to struggle due to a volatile energy market and losses in precious metals and currencies.

A Decline for Infrastructure?

Despite the Trump administration's proposed policy initiatives to increase infrastructure spending, the S&P Global Infrastructure Index fell 4.05% in November. The index is comprised of three global infrastructure sectors in industrial transportation, energy, and utilities. The index performance was negatively impacted by the performance of the global industrial transportation and utilities sectors in November.

Industrial vs. Precious Metals

The Bloomberg Commodities index rose 1.33% in November and is now up 9.79% YTD. The industrial metals sector increased 10.3%, its best performance since 2012, amidst optimism for higher economic growth under the Trump administration. There was a significant divergence here with precious metals which fell 8% during the month. The 18% performance difference between industrial and precious metals was the highest since 1991.