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Monthly Market Commentary
September 2016

ECONOMY: Global Confidence Increasing

UPWARD REVISION TO Q2 GDP
Real gross domestic product (GDP) increased at an annual rate of 1.4% in Q2 2016, according to the "third" estimate released by the Bureau of Economic Analysis. The most notable change from the second to third estimate is that nonresidential fixed investment increased in the Q2.

FED HOLDS AGAIN
After being divided in their July meeting, Fed officials voted 7 to 3 to hold off on raising rates in their September meeting. Fed officials noted the strengthening case for hiking rates, but will wait on more data to confirm the move.

NET WORTH ALL-TIME HIGH
Household net worth rose by $1.1 trillion in Q2 2016 according to the Federal Reserve's Flow of Funds report. Aggregate household net worth stands at $89.1 trillion, more than $20 trillion above its pre-recession peak, and the third consecutive quarter in which an all-time high has been set.

CONSUMER CONFIDENCE REBOUNDS
The Conference Board ***Consumer Confidence Index***®, which had increased in August, strengthened further in September. *"Consumer confidence increased in September for a second consecutive month and is now at its highest level since the recession. Consumers' assessment of present-day conditions improved, primarily the result of a more positive view of the labor market. Looking ahead, consumers are more upbeat about the short-term employment outlook, but somewhat neutral about business conditions and income prospects. Overall, consumers continue to rate current conditions favorably and foresee moderate economic expansion in the months ahead."*

INSTITUTE FOR SUPPLY MANAGEMENT-REPORTS ON BUSINESS
Economic activity in the non-manufacturing sector grew in September for the 80th consecutive month, while the manufacturing sector also expanded in September following a one month contraction in August. The overall economy grew for the 88th consecutive month.

SHUTDOWN AVOIDED
Congress passed a bill to fund the government through December 9th, avoiding a potentially embarrassing government shutdown just weeks before the election. The House and Senate approved the bill just two days before federal agencies were set to run out of money. Congress will return on Nov. 14 to try to hammer out a longer-term budget deal to keep the government funded beyond Dec. 9.

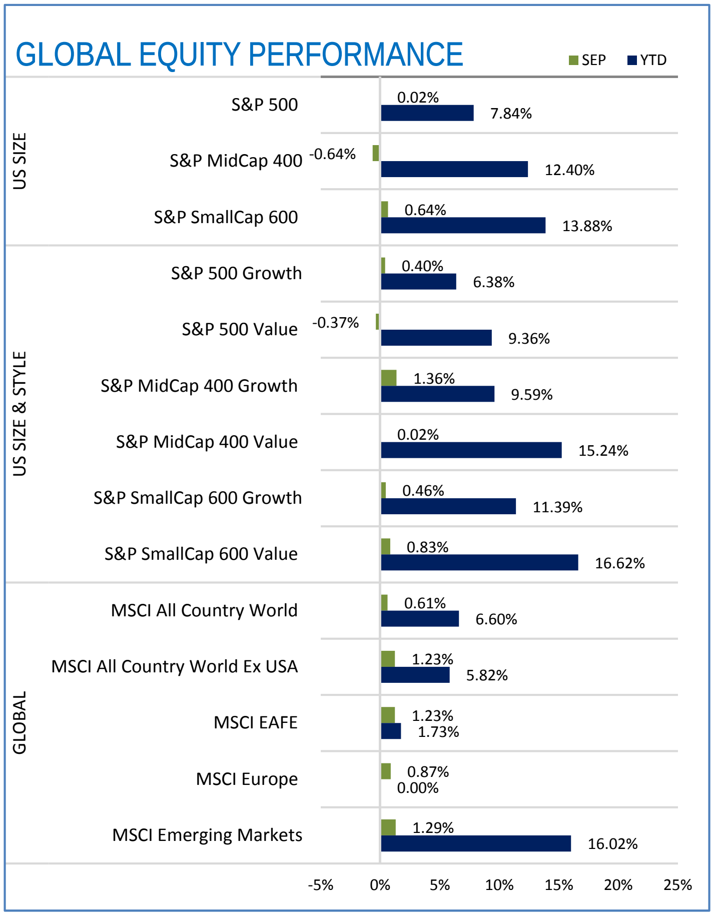
IMF ADDS YUAN
The yuan's officially in the International Monetary Fund's (IMF)s basket of reserve currencies. The Chinese currency was added to the IMF's special drawing rights (SDR) basket, joining the U.S. dollar, euro, yen, and British pound. It was announced last year that the currency would be added to the basket, and is the first inclusion since the euro in 1999.

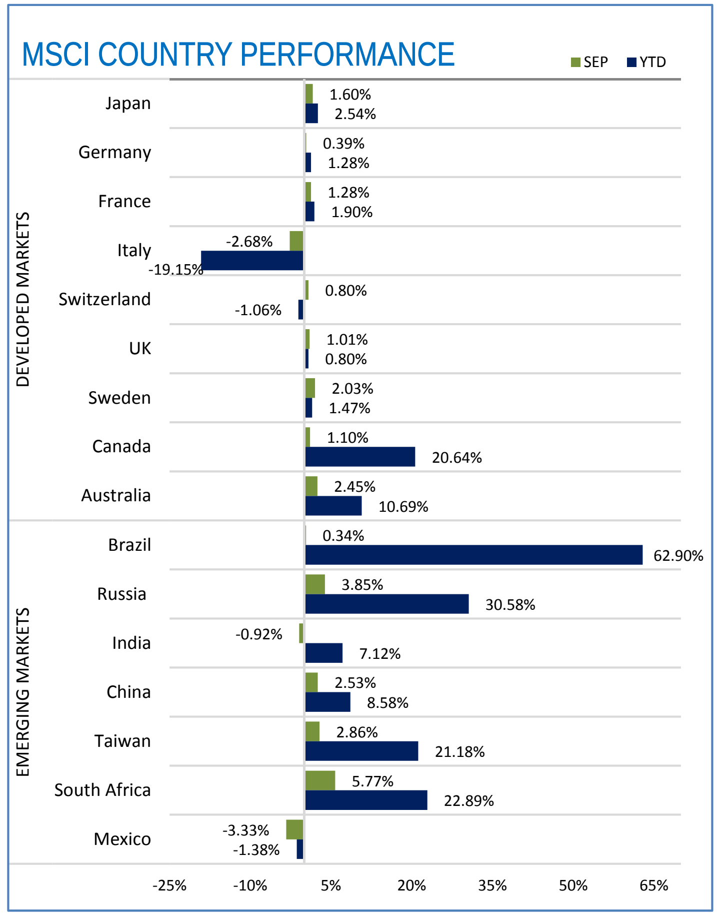
WHAT BREXIT?
Any issues from the UK exit of the EU have yet to materialize. While there may be longer term ramifications, Europe continues to rebound. UK manufacturing is up, as is business & consumer confidence. In fact, economic sentiment across Europe (France, Germany & Italy) have all been on the rise.

CONCERN OVER DEUTSCHE BANK
The news that the U.S. Justice Department was fining Deutsche Bank (DB) $14 billion to settle fraud claims related to the financial crisis, put the markets in panic. Global markets were concerned that DB, Europe's fourth-largest bank by assets, cannot absorb a fine that large. The German government said that it would not bail out the bank, leading some to speculate DB could face a Lehman Brothers-style collapse and set off another global financial crisis.

DEFLATION PERSISTS IN JAPAN
The Bank of Japan will continue to target a 0% yield on its 10 year government bonds. The BOJ's review of recent monetary polices concluded that several outside influences, including falling oil prices, weak demand, and slower global growth have hindered their ability to stimulate growth and inflation.

GLOBAL EQUITIES: A Quiet Month For Equities





Slow Month For S&P 500

The S&P 500 posted its seventh consecutive monthly gain in September. The index closed up 0.02% in September following an equally small gain of just 0.14% in August. Year-to-date, the S&P 500 is up 7.84%. Market breadth took a step back in September, but remained positive for the year - 341 issues were up and 162 issues were down. Looking forward, volatility may pick up in October, as over 70% of the S&P 500 will declare their third quarter earnings, give updates for the fourth quarter, and outline their plans and profitability for 2017.

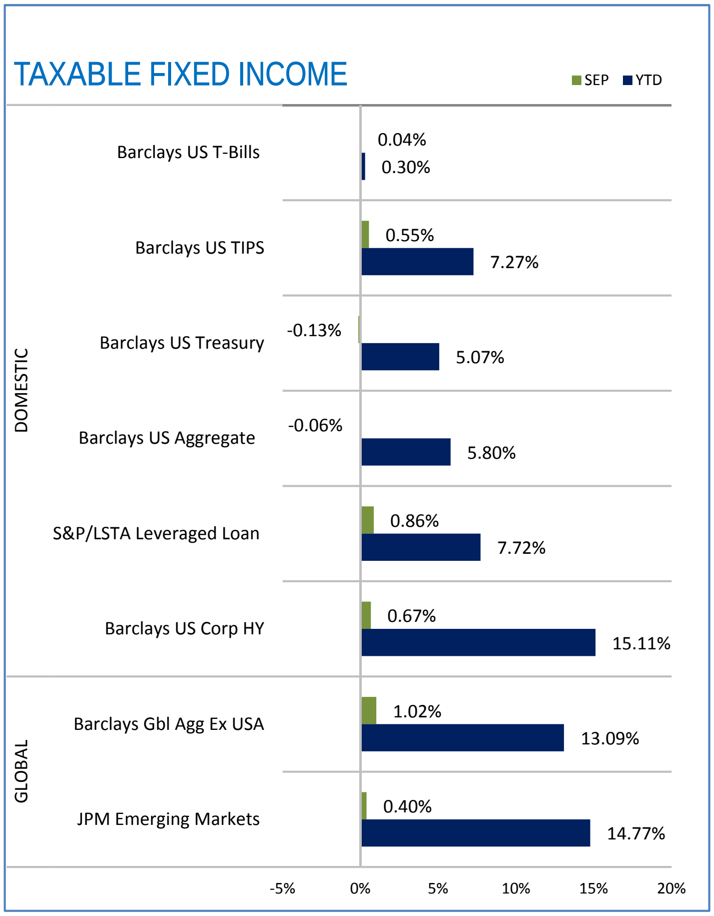
Focus on European Financials

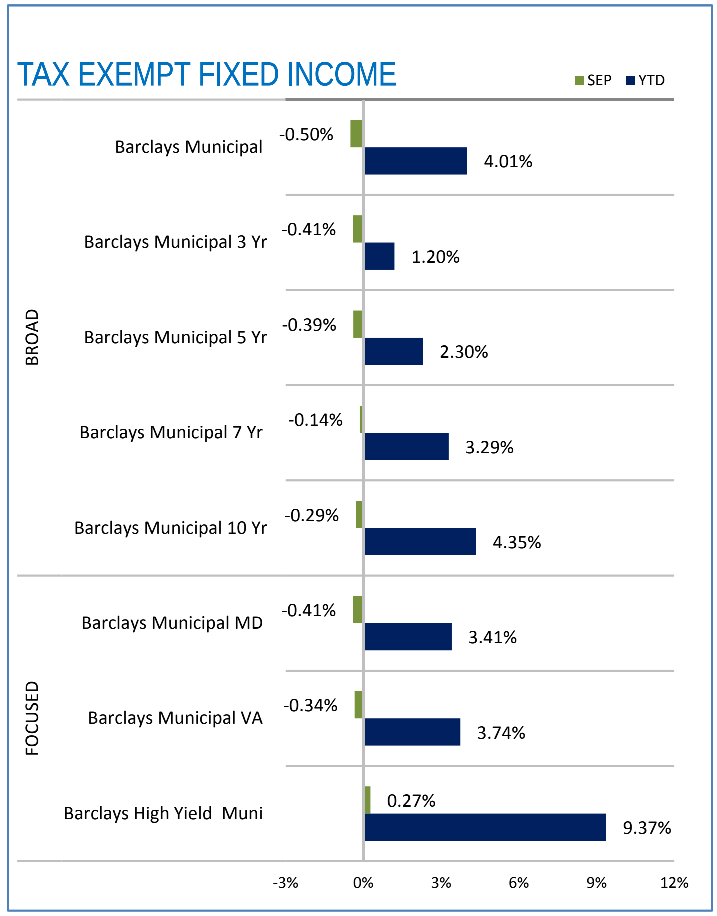
News of the U.S. Justice Departments $14 billion fine of Deutsche Bank for fraud relating to mortgage banked securities prior to the financial crisis spooked the market in September, and highlighted the underperforming European financial sector. The Euro Stoxx Bank Index is down 22.4% YTD. One of the big criticisms of Europe's banking system has been that they were slower to react to the financial crisis. Additionally, European banks are suffering because of the macroeconomic conditions of Europe. The lack of growth, and low or negative rates significantly pressures profitability.

EM Rally Continues

Emerging markets continued to do better than developed markets, as they were up 1.29% in September and over 16% YTD. Overall, 11 of the 23 emerging markets closed up for the month. South Africa posted the largest gain at 5.77% , while the Philippines did the worst, declining 5.63%. While there were no large individual country gains or losses, the performance was again driven by the BRIC (Brazil, Russia, India & China) nations. The MSCI BRIC Index returned 1.64%.

FIXED INCOME: No Hike For September





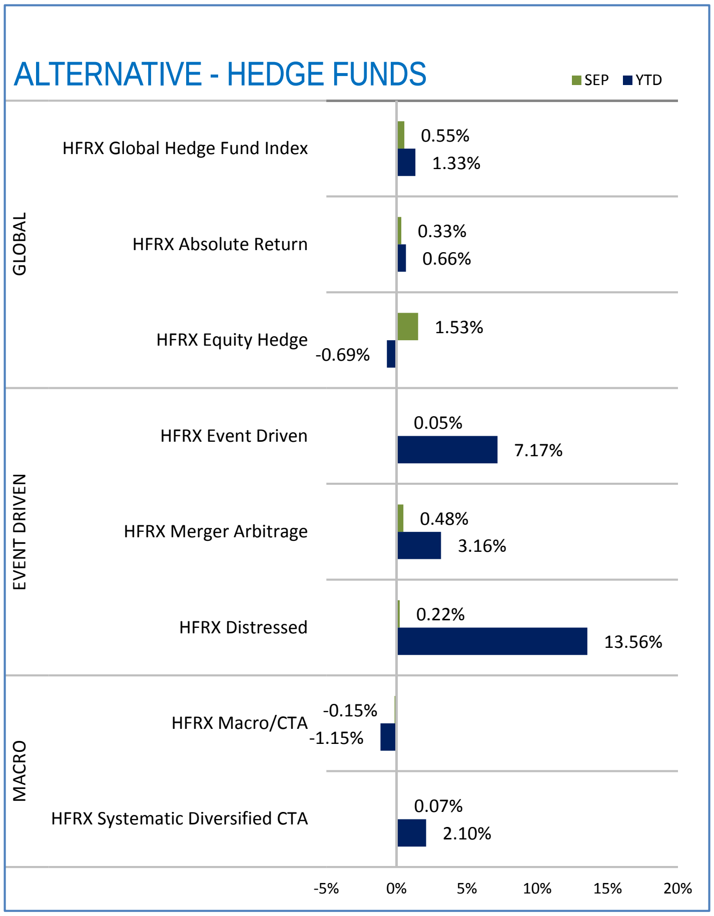
September Off The Table

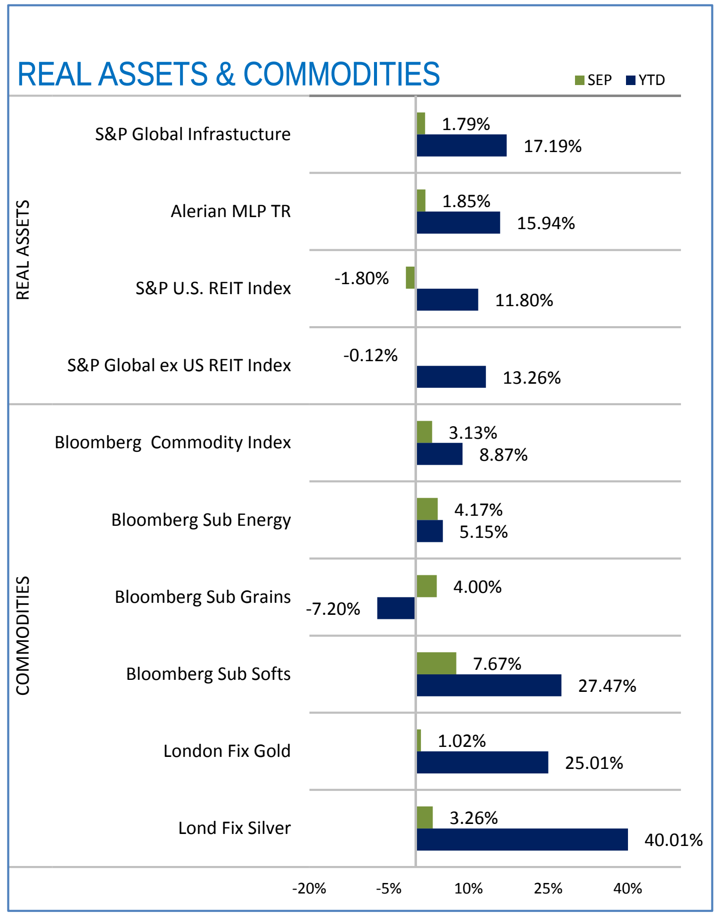
There was wide speculation that the Federal Reserve would hike interest rates again in September. Ultimately, they decided to hold rates steady and wait for additional data. Attention now moves to meetings in November and December. With U.S. elections taking place approximately one week after the November FOMC meeting, December is looking considerably more likely for any future actions. The 10-year U.S. Treasury Bond closed at 1.60%, up from last month's 1.58% (year-end 2015 was 2.27% and year-end 2014 was 2.17%).

High Yield vs Investment Grade

Credit spreads in the corporate bond market refer to the difference in yield between a U.S. Treasury bond and a corporate bond with a similar maturity. Because corporate bonds tend to be riskier, investors require additional compensation and the size of the spread is a measure of how much extra compensation investors require. Normally, the higher the risk, the wider the spread. For investment-grade corporate bonds, the spread is roughly in line with the long-term average, with the average spread of the Barclay's U.S. Corporate Bond Index now at 1.4%. That means that they appear to be fairly valued. However, since topping out at 8.4% in February, high yield spreads have narrowed significantly. The average spread of the Barclays U.S. Corporate High-Yield Bond Index is approximately 5%, below the long term average of 5.5%. The apparently high valuations of high-yield corporate bonds are just one potential concern, while credit quality is another.

ALTERNATIVES: REIT Rout Continues





HEDGE FUNDS LOSING ASSETS

A new report from data provider Hedge Fund Intelligence showed that assets at the largest hedge funds have dropped sharply. Over the trailing one year through July 2016, the largest U.S. based hedge funds lost nearly $132 billion (7%) of their assets under management. In aggregate, the 302 funds included in the report managed approximately $1.84 trillion – approximately two-thirds of the estimated $3 trillion hedge fund industry. The data highlights the struggles within the hedge fund industry amidst lackluster returns and high fees.

REITS RETREAT…AGAIN

REITs underperformed the equity markets in September, after falling 3.78% in August. The S&P U.S. REIT Index fell 1.8% in September as a combination of concerns, including interest rate movements, valuations and new supply, appeared to spook investors. However, through three quarters of the year, the sector continues to outpace the S&P 500 by a significant margin – 5.42%.

SUPPLY TALKS MOVE OIL

Oil and energy issues surged in late September, on reports that OPEC (which produces 40% of the world's oil) would reduce output. The agreement, however, was to find a way to support prices at the November OPEC meeting. By then, Saudi Arabia and Iran would need to negotiate a production level.

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