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INVESTMENT SUMMARY

4th Quarter 2016

From a market perspective, the 4th quarter of 2016 was quite volatile, only to conclude with very rewarding returns - particularly for equity investors. It was a strong finish to a year that began with a less than auspicious start. In the first half of 2016, investor sentiment was low, weighed down by depressed oil prices, a stumbling Chinese economy, and unimpressive growth in the U.S. The year finished with healthy gains in most stock indexes, with the small cap index leading the way, up 21% in 2016, and the Dow Jones registering an impressive 16% gain. All eyes were on the 20,000 level for the Dow, which couldn't quite be reached on the final day of the year.

For the full year just completed, U.S. GDP growth is expected to register a modest increase of around 1.6%, which is a full percent lower than forecasters predicted. This underachievement by the U.S. economy is becoming a pattern, as growth in 2015 was also below expectations. Looking ahead, expectations are for GDP to grow by 2.4% in 2017, which again may be difficult to achieve. There is great optimism building post the Trump victory, with investors banking on company-friendly policies, including lower taxes, less regulation, and ramped up infrastructure spending. The surging stock markets are pricing in these pro-business initiatives as foregone conclusions, although we believe some tempering of expectations is warranted. Policy changes of this magnitude take time, and require cooperation among politicians who have historically been steadfast in their views and unwilling to compromise. Even with the Presidency and Congress in the hands of the Republican Party, there is still much negotiation and horse trading in Washington to be done.

In this time of transition for Corporate America, we will be focused on whether fiscal policy initiatives such as infrastructure spending can become the engine of growth, in lieu of easy monetary policy (i.e., super-low interest rates) which has been in place since 2009. The Fed is hopeful it can play less of a supporting role for markets going forward, while allowing the fundamentals of the economy to carry the day; those fundamentals include a strong job market, higher wages, and bullish earnings reports from companies. As the Federal Reserve plans to tighten monetary policy, with at least two interest rate hikes planned for 2017, Fed Chair Yellen will be closely monitoring the strong dollar and rising inflation. She knows that the U.S. economic expansion is not only vulnerable to local surprises, but also reliant on the economic and social stability of our major trading partners in Europe and Asia.