Winthrop Partners
Wealth Planning & Investment Management

# 2017 Market and Economic Outlook

Doylestown, PA | Pittsburgh, PA | Buffalo, NY

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The Last Quarter Of 2016 Sets The Stage for 2017.

The Last Quarter of 2016 was quite eventful for the markets. The Democratic and Republican Candidates had opposing views on Regulation, Fiscal  Trade, Tax and Social Policies. The Fed was strongly hinting that a rise in the Fed Funds rate was forthcoming, the death of Justice Scalia left the Supreme Court evenly balanced and some Political Operatives thought that both houses of Congress could be in play.

Many investors withdrew large sums from the stock, bond and commodities markets and waited for the above captioned questions to be answered before they reinvested.  As the elections were decided, the Fed increased rates and hinted of further increases The stock (BLUE) and the bond market (RED) headed in opposing directions.  As of December 28 Trump's precise agenda and Congress and the Courts' support of his agenda is not quite clear, but there does appear to be increasing consumer confidence domestically and throughout the developed world.  Domestically, rising interest rates and perhaps the threat of higher inflation levels are driving bond prices lower.  Additionally  and it appears as though global deflation pressures are declining

# ECONOMIC THEMES FOR 2017

In 2017 We Saw Five Recurring “E” Themes Continually Impacting The Economy And The Market..

**Election** The election has decided the direction, but so far not the details of Regulation, Fiscal Trade, Tax and Social Policies. Never-the-less, the market has been reacting positively to perceived indications and will continue to do so until proven wrong.

**Economic Cycle** The Current economic expansion is 90 months old which is more than twice the average age of expansions since 1900. We are in the later stage of this expansion. Depending on the Federal Government’s fiscal policies and inflation, and consumers’ and the market’s reaction to both, a potential recession could be delayed until 2018 or may be here sooner.

**Enthusiasm of Investors** It appears that investors have finally shaken off their chronic despondency where they focused on all that could go wrong and are now focusing on what could go right in the global and domestic economies.

**Efficiency** Sovereign states, companies and individual business processes are driving towards maximum efficiency by harnessing new and developing technologies such as robotics, big data, 3d printing and artificial intelligence to gain productivity. Yet wage increases may initially overshadow technology improvements and dampen productivity in 2017 until new technologies gain a firm foothold.

**Emergence of Disruptive Technologies** Developing technologies such as robotics, big data, 3d printing and artificial intelligence, the very same building blocks used to create efficiencies in established entities are also being used by innovators who are attempting to revolutionize or overturn established business models and processes. Almost every sector from mining to medical is awash in transformative/ disruptive technologies.

Most Analysts believe that global economic conditions stabilized in 2016 and should create a more solid footing in 2017

## Global Economic Growth

Approximately 80% of the worlds largest countries' leading economic indicators are rising as opposed to 40% in 2015.

Manufacturing leads the way with 75% Purchasing Managers indexes increasing.  China's economic stimulus was a key contributor as were continued low interest rates .

## Decline in Deflationary Pressure

Globally commodity prices have risen 25%, their first sustained rise this decade.

OPECs production cuts have recently boosted oil prices.

Global markets now appear to be aligned towards growth as deflationary pressures and the accompanying investor mindset wane.

## Developed Markets Expanding

Commodity exporters like Australia and Canada have benefited from higher prices.

Japan has regained some export momentum.

Europe's housing and manufacturing sectors have done well and Brexit, to date, has not been a significant impediment.

## Emerging Markets Follow China

China's economic stimulus reignited a slowing economy and in the process benefited many emerging markets who exported commodities to China.

Asian economies closely tied to China are also reaping the benefits of Chinese expansion.

Some dark clouds exist for China: manufacturing overcapacity, lax credit, and US interest rate hikes could increase Chinese capital outflows.

December's market performance provides a clue as to how investors priced in policy changes ,but uncertainty reigns when it comes to which policies will come to fruition and in what form.

## Investor Confidence

Beginning in October there has been a steady rise in investor sentiment. As 2017 approaches, investors, economists and policy makers are starting to focus more on what could go right with the global economy rather than just worrying about all the things that might go wrong. Sentiment appears to be rising as investors believe that a combination of easier fiscal policies, bigger wage gains and stepped-up business investment will break the world free of the slow-growth trap it has been caught in for the last five years. While not all of these factors may prove to be true, investors' confidence is certainly on the upswing.

**LABOR**

In 2016 US corporate hiring continued at a solid pace further reducing the pool of eligible workers.

As a result of corporate hiring the official unemployment rate fell below 5% and wages increased to 3.9% in 2016 after increasing 3.1% in 2015.

The above factors influenced consumers' positive perception of the labor market and helped to drive an increase in consumer consumption.

In 2017 labor markets are expected to continue to tighten , but wages  and consumer spending may slow in the second half if inflation and Fed rate hikes push the economy towards a recession.

WAGE GROWTH


Source Atlanta Fed

## Corporate Headwinds

For Most of 2016 we were in a Goldilocks' economy with corporate fundamentals being just about right across the board, but as 2016 lapses and we enter 2017, we believe that Late Economic Cycle phenomena will increasingly dominate the landscape.

We believe corporate profit margins may be impacted by increased wages and stalled productivity until the next wave of technological innovation gains acceptance. Of additional concern are bank's tightening of their lending standards.

Potentially mitigating these headwinds are the possible tax cuts and deregulation which could prolong the current leg of the economic cycle.

## Inflation

Remember that word?

Although it is back, inflation appears to be presently under control. Driving inflation is the rebound in commodity prices and wage growth. The Consumer Price Index rose from 0.1% to 1.6% during the last 12 months ending in October.

Rising oil prices, labor costs and other commodity prices could quickly increase inflation, with many economists projecting that we could see core inflation rising to 3% in the first quarter.

A 3% inflation rate might spur the Fed to act quicker with additional rate increases particularly if government fiscal policy becomes ”too” accommodative under Trump with increases in infrastructure and military spending. The Fed's actions could ultimately send the economy into a recession towards the year end.

# WORLD MARKET EPS FORECAST

The points of view expressed herein are for illustrative purposes only and are not the only economic forecasts used by Winthrop Partners

Attached are the earnings and dividend yield forecasts prepared by CFRA (the successor firm of the former S&P Global Market Intelligence's Equity and Fund Research business).

There is no assurance that CFRA's assumptions are correct or that markets will not be influenced by factors that were not contemplated when this analysis was completed. Accordingly Winthrop Partners does not endorse or represent that this or any other economic forecast is accurate.

**GLOBAL EPS GROWTH PROSPECTS, VALUATIONS, AND YIELDS**

| | | EPS % CHG. | | P/E RATIOS | | DIV. |
|---|---|---|---|---|---|---|
| GLOBAL MARKET | INDEX | 2016E | 2017E | 2016E | 2017E | YIELD |
| S&P 500 | SPX | (0.0) | 11.8 | 19.3 | 17.2 | 2.0% |
| S&P MidCap 400 | MID | 2.7 | 12.0 | 22.5 | 20.1 | 1.5% |
| S&P SmallCap 600 | SML | 5.3 | 19.1 | 25.4 | 21.3 | 1.1% |
| Developed Int'l. | MXEA | 30.0 | 10.9 | 16.0 | 14.4 | 3.3% |
| Emerging Markets | MXEF | 23.0 | 14.6 | 13.8 | 12.0 | 2.5% |
| Frontier Markets | MXFM | (18.8) | 17.3 | 12.3 | 10.5 | 4.2% |
| Int'l Small Caps. | MXEASC | 74.4 | 15.4 | 17.4 | 15.0 | 2.5% |

Source: CFRA, powered by data from S&P Global, DJ Indices, Bloomberg. Data as of 12/9/16.

The points of view expressed herein are for illustrative purposes only and are not the only economic forecasts used by Winthrop Partners

The attached economic growth projections are prepared by Action Economics, LLC, a real time commentary service for financial professionals and whose reports are routinely used in the financial press.

Although the results are congruent with other economic forecasters at this point in time, there is no assurance that their assumptions are correct or that markets will not be influenced by factors that were not contemplated when this analysis was completed. Accordingly Winthrop Partners does endorse or represent that this or any other economic forecast is accurate.

## U.S. ECONOMIC GROWTH PROJECTIONS

| | | 2017 | | | | |
|---|---|---|---|---|---|---|
| ECONOMIC INDICATOR | 2016E | Q1A | Q2E | Q3E | Q4E | YEAR |
| Real GDP | 1.6 | 2.3 | 2.5 | 2.5 | 2.4 | 2.3 |
| Personal consumption | 2.6 | 2.6 | 2.7 | 2.6 | 2.5 | 2.7 |
| Fixed investment | 0.6 | 4.4 | 3.4 | 3.3 | 3.2 | 3.2 |
| Core CPI | 2.2 | 2.0 | 2.1 | 2.2 | 2.3 | 2.3 |
| Unemployment rate (%) | 4.9 | 4.7 | 4.7 | 4.7 | 4.7 | 4.7 |
| Housing starts (mil.) | 1.181 | 1.217 | 1.236 | 1.215 | 1.217 | 1.245 |
| WTI oil prices | 43.07 | 51.28 | 51.38 | 51.27 | 51.64 | 51.35 |
| Trade-weighted U.S. dollar | 91.6 | 94.8 | 94.6 | 94.7 | 94.8 | 94.8 |
| Fed funds target midpoint | 0.33 | 0.63 | 0.88 | 1.13 | 1.13 | 0.85 |
| 10-year T-note yield (%) | 1.82 | 2.45 | 2.45 | 2.45 | 2.45 | 2.45 |

Source: Action Economics. As of 12/9/16.

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2016's Bond Market Had Three Distinct Phases

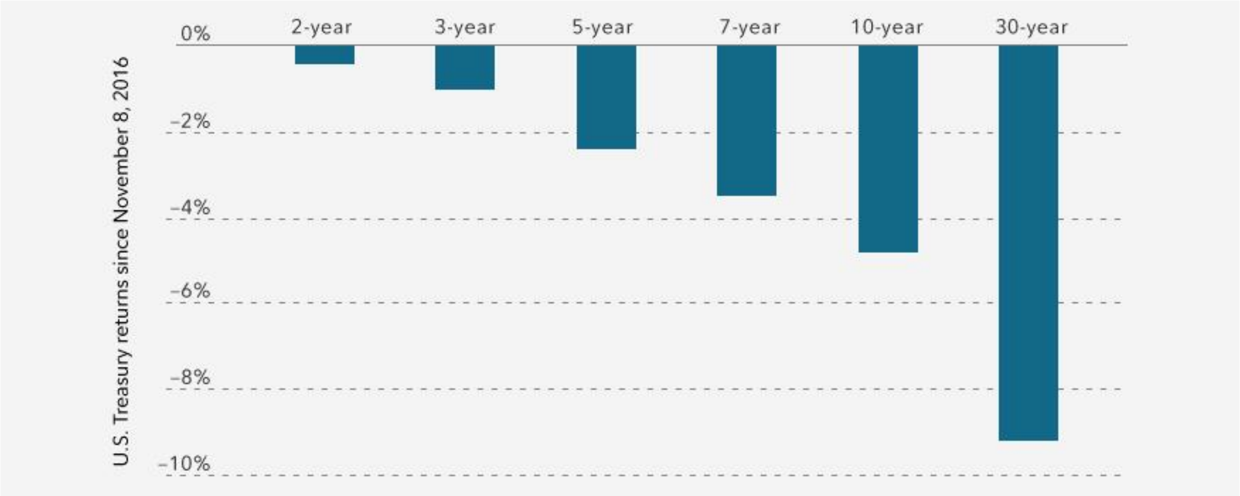
2016 was an eventful year. During the Spring Brexit vote bond yields plunged to all time lows. However bond proxies such as Utilities and REITS rose as investors searched for higher yielding assets.

Beginning in the summer and carrying into November the 10 year Treasury Bond yield rose 50 basis points as economic expectations improved.

However the most dramatic increase in yields occurred post election when yields on the 10-Year Treasuries rose 50 basis points as expectations for the economy and for inflation heightened.

DATA AS OF END OF PREVIOUS BUSINESS DAY - 12/28/2016

**Fixed Income Price Performance Market Data**

What might we expect for next year for the bond market

# Excerpts from an interview with Bill Irving

(Fidelity Government Income Fund Manager )

With the new administration, we may get a welcome pivot from monetary policy to fiscal policy. Fiscal policy has the potential to break us out of the rut of low growth and low interest rates. There is still a lot of uncertainty, but fiscal policies that increase productivity would in turn increase the potential growth rate of the economy challenges

Some experts believe that the 2016 rate increases could have some momentum for the next few months. In early December, the 10-year Treasury yielded about 2.4%, and the market was pricing a 10-year yield of around 2.7% by this time next year. There is the possibility that the 10-year yield could rise as high as 3%, but is very unlikely to reach 4% over the next year.

The election has generated expectations that the new administration can deliver a mix of tax, spending, and regulatory policy changes that will help foster more growth. And the likely tilt of trade and immigration policies raises the prospect for higher inflation. Whether these higher rates will stick in the longer run, and how much higher they go, will depend on a lot of things that we don't know yet. What policies will we actually get from the new administration, and how effective will Trump be working with Congress? How will the economy respond to those policies? How will the Fed respond? How strong will the dollar get? Having said all that, my best guess is that the rate rise we have seen so far sticks

Irving's base case for next year is two or three rate hikes from the Fed. But it's hard to see much beyond six months from now because there is so much that is unknown about President-elect Trump's policies. One thing we do know is that the President-elect will have considerable sway over the composition of the Federal Reserve, including filling two spots on the board of governors. Furthermore, Chair Yellen and Vice Chairman Fischer will likely leave the Fed in 2018, which will give Trump at least two more slots to fill.

The Fed has taken a cautious approach to raising rates because they don't want to derail the economic recovery. If inflation continues to rise, the Fed may choose to let the economy run hot to keep from raising rates and hurting economic growth. On the other hand, if we see big jumps in infrastructure spending or substantial corporate and individual tax cuts, the Fed may be forced to quicken its pace of rate hikes.

Though interest rates have risen sharply since the election, that bounce is off all-time low rates. Interest rates are still pretty low, and I think many of the secular forces that pushed rates low are still in place. Aging demographics, slow productivity growth, mountains of debt, and extreme over-capacity in China are all forces that I think will continue to support low interest rates. I think it is premature to call the end of the three-decade bull market for bonds.

In this environment where there's more uncertainty and higher interest-rate volatility, investors may want to de-emphasize mortgage-backed securities (MBS). These bonds have done very well, thanks to low interest rate volatility and the Fed's efforts to take bad bonds out of the market through quantitative easing efforts. Spreads between MBS and Treasuries are fairly tight, and MBS are being priced for an environment with low volatility and benign prepayment risk. But that environment might be changing, which would ratchet up the risk on these bonds.

# INVESTMENT THEMES IMPACT ON THE S&P SECTORS

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## Reviewing The Historical Relationship Of The Business Cycle And S&P Equity Sectors

Winthrop Partners does not base its investment decisions on the perceived phase of the business cycle which is only accurately identified in retrospect, but given the exceptionally elongated current business cycle and the perceived impact of upcoming fiscal tax and Fed policies can have on the business cycle, it is worth reviewing the historical impact the phases of the business cycle has had on the various sectors of the S&P.

SECTOR PEFORMANCE OVER BUSINESS CYCLE PHASE

| Sector | Early | Mid | Late | Recession |
|---|---|---|---|---|
| Consumer Discretionary | + + | | - - | |
| Consumer Staples | - | | + | + + |
| Energy | - - | | + + | |
| Financials | + | | | |
| Health Care | - | | + + | + + |
| Industrials | + + | + | | - |
| Info Technology | + + | + | - - | - - |
| Materials | | - - | + + | - |
| Real Estate | + + | | | - - |
| Telecom | - - | | | + + |
| Utilities | - - | - | + | + + |

++ Consistently Overperform
+ Overperform
No Clear Pattern
-- Consistently Underperform
– Underperform

Source: Fidelity Investments

Note: This analysis is sourced from Fidelity Investments and Should be used in Historical context only. We do not affirm its prospective accuracy.

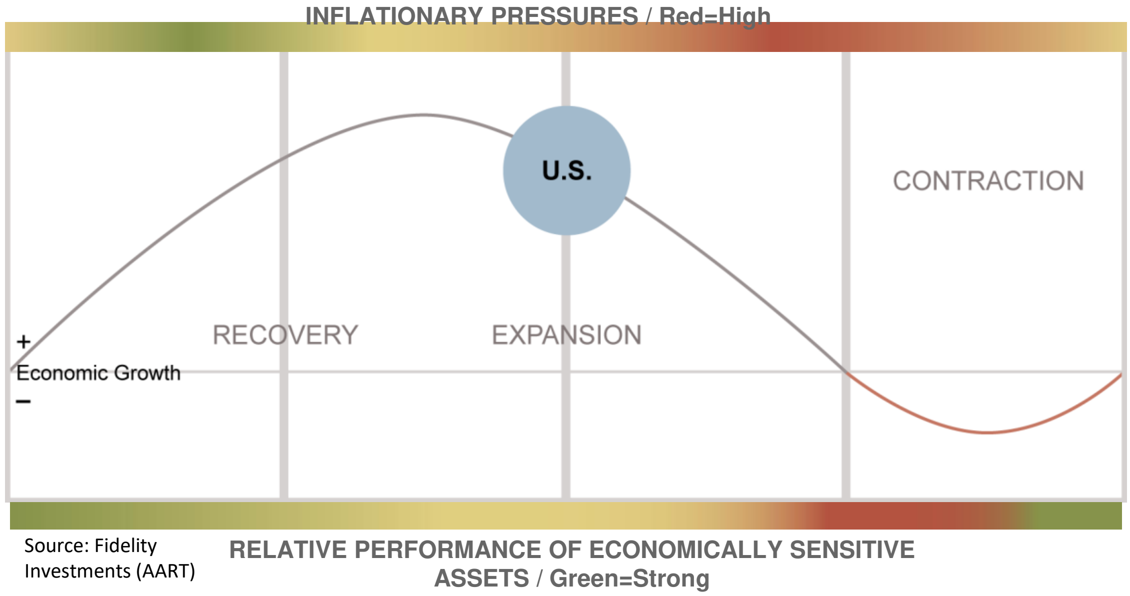
**Fidelity Note**: This is a hypothetical illustration of a typical business cycle. There is not always a chronological progression in this order, and there have been cycles when the economy has skipped a phase or retraced an earlier one. Economically sensitive assets include stocks and high-yield corporate bonds, while less economically sensitive assets include Treasury bonds and cash.

EARLY
Activity rebounds (GDP, IP, employment, incomes)
Credit begins to grow
Profits grow rapidly
Policy still stimulative
Inventories low; sales improve

MID
Growth peaking
Credit growth strong
Profit growth peaks
Policy neutral
Inventories, sales grow; equilibrium reached

LATE
Growth moderate
Credit tightens
Earnings under pressure
Policy contractionary
Inventories grow; sales growth falls

RECESSION
Falling activity
Credit dries up
Profits decline
Policy eases
Inventories, sales fall




Source: Fidelity Investments (AART)

The points of view expressed herein are for illustrative purposes only and are not ~~be~~ the only economic forecasts used by Winthrop Partners

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Attached are the year-over-year earnings per share growth forecasts for the various sectors of the S&P 500 prepared by CFRA (the successor firm of the former S&P Global Market Intelligence's Equity and Fund Research business).

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## S&P 500 Y/Y OPERATING EPS GROWTH ESTIMATES FOR 2017

| | YEAR-OVER-YEAR % CHANGES | | | | |
|---|---|---|---|---|---|
| S&P 500 SECTOR | Q1E | Q2E | Q3E | Q4E | YEAR |
| Cons. Disc. | 3.6 | 4.8 | 8.6 | 14.8 | 8.0 |
| Cons. Staples | 8.4 | 7.4 | 6.6 | 9.5 | 8.0 |
| Energy | NM | 446.8 | 191.6 | 118.6 | 301.4 |
| Financials | 17.4 | 10.2 | 6.0 | 13.0 | 11.4 |
| Health Care | 4.8 | 5.1 | 8.0 | 12.0 | 7.5 |
| Industrials | 3.3 | (2.6) | 2.7 | 12.6 | 3.8 |
| Info. Tech. | 16.2 | 12.1 | 8.8 | 10.3 | 11.7 |
| Materials | 21.3 | 13.4 | 11.1 | 20.9 | 16.4 |
| Real Estate | 8.7 | 1.9 | 9.4 | 16.2 | 9.0 |
| Telecom Svcs. | (1.4) | 6.8 | 2.6 | 6.7 | 3.5 |
| Utilities | 0.5 | (5.8) | (4.4) | 5.4 | (1.6) |
| S&P 500 | 13.8 | 10.2 | 9.4 | 14.1 | 11.8 |

Source: CFRA, powered by data from S&P Global. Data as of 12/9/16.

# INVESTMENT THEMES IMPACT ON THE S&P SECTORS

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Historical Performance of the S&P 500 and its Component Sectors.

| SECTOR Sector Name10:34 AM ET 12/28/2016 | 1Day | 5 Day | 1 Month | 3 Month | YTD | 1 Year | 3 Year | 5 Year | 10 Year 12/27/2016 |
|---|---|---|---|---|---|---|---|---|---|
| Telecommunication Services(.GSPL) | -0.11% | 1.20% | 6.79% | 3.09% | 18.32% | 17.20% | 14.01% | 37.62% | 16.28% |
| Health Care (.GSPA) | 0.13% | 0.43% | 0.44% | -3.68% | -3.40% | -3.99% | 25.31% | 99.38% | 107.49% |
| Financials (.GSPF) | 0.12% | 0.87% | 5.53% | 23.87% | 22.00% | 20.96% | 33.44% | 121.08% | -20.86% |
| Energy (.GSPE) | 0.24% | 0.44% | 5.67% | 13.71% | 25.52% | 22.72% | -13.11% | 7.32% | 24.06% |
| Consumer Discretionary(.GSPD) | 0.35% | -0.18% | 0.07% | 5.27% | 6.12% | 5.72% | 24.85% | 112.52% | 117.90% |
| Utilities (.GSPU) | 0.00% | 0.07% | 3.85% | -4.22% | 12.41% | 11.84% | 28.90% | 35.59% | 32.22% |
| Consumer Staples (.GSPS) | 0.02% | -0.27% | 2.09% | -1.37% | 3.28% | 2.52% | 21.57% | 58.90% | 99.36% |
| Industrials (.GSPI) | 0.16% | 0.21% | 1.04% | 9.75% | 17.76% | 16.94% | 21.04% | 84.93% | 68.59% |
| Materials (.GSPM) | 0.46% | 0.29% | 2.30% | 7.41% | 16.09% | 14.15% | 9.49% | 48.23% | 46.71% |
| Information Technology (.GSPT) | 0.45% | 0.35% | 2.35% | 4.22% | 14.14% | 13.20% | 41.23% | 100.00% | 131.76% |
| Real Estate (.GSPRE) | 0.27% | -1.04% | 2.60% | -7.98% | -- | -- | -- | -- | -- |
| S&P 500 ® Index (.SPX) | 0.22% | 0.28% | 2.51% | 5.72% | 11.01% | 10.09% | 23.17% | 79.31% | 60.13% |

Major investment themes impact on sectors

| SECTOR | Consumer Staples |
|---|---|
| ELECTION | No Impact |
| ECONOMIC CYCLE | Tends to be cycle resistant.  High US Dollar impacting global brands' profits. During recessions generic and private label products gain market share from branded products. |
| ENTHUSIASM OF INVESTORS | YTD Consumer Staples have lagged the S&P 500 (Consumer Staples: -2.65% vs S&P 500: +10.08%) |
| EFFICIENCY | No Efficiency plays.  Advertising is emphasizing local consumer brands over International Brands that represent  processed food in the eyes of the consumer. |
| EMERGENCE OF DISRUPTIVE TECHNOLOGIES | Natural and organic foods gaining market share. Blue Apron and other packaged whole food distributors making inroads. |

Major investment themes impact on sectors

| SECTOR | Consumer Discretionary |
| --- | --- |
| ELECTION | Impact remains to be seen in holiday shopping figures |
| ECONOMIC CYCLE | Discretionary sales could be impacted by inflation and by a general economic downturn. |
| ENTHUSIASM OF INVESTORS | YTD Consumer Discretionary have Lagged the S&P 500 (Discretionary: +5.45% vs S&P 500 +10.08%) |
| EFFICIENCY | Branded products seek to build a moat to control distribution outlets to protect brands and margins (e.g. Nike, Victoria Secret) |
| EMERGENCE OF DISRUPTIVE TECHNOLOGIES | Proliferation of mobile shopping and the ability to instantly compare prices is promoting easy substitution of goods, as a result, conventional retailers are suffering. |

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Major investment themes impact on sectors

| SECTOR | ENERGY |
| --- | --- |
| ELECTION | Big positive for energy. EPA scaled back and regulation looking to be reduced. Coal may have new lease on life. |
| ECONOMIC CYCLE | OPEC agreement could increase prices. Ongoing balancing act between increasing crude prices and competition with higher cost producers (US shale) and alternative energy sources. |
| ENTHUSIASM OF INVESTORS | YTD Energy surged past the S&P 500 (Energy: +24.9% vs S&P 500: +10.08%) |
| EFFICIENCY | Drilling efficiency and geographic placement (Permian Basin) were the two largest factors in domestic success. Refiners using new geo-technologies to increase exploration efficiency. |
| EMERGENCE OF DISRUPTIVE TECHNOLOGIES | New drilling and fracking technologies are emerging, new pipelines are being built, improved geologic technology increasing exploration efficiency and many new alternative energy technologies coming online. |

Major investment themes impact on sectors

| SECTOR | Financials |
|---|---|
| ELECTION | Big Positive for Financials. Large banks expect significant reduction in regulation and the role of regulators. Small banks could see exemption from recent regulations. |
| ECONOMIC CYCLE | Rising interest rates and a positive yield curve will create $Billions of additional profits. However a recessions will increase bank loan loss provision and reduce profits. |
| ENTHUSIASM OF INVESTORS | YTD Financials surged past the S&P 500 (Financials: +19.86% vs S&P 500: +10.08%) |
| EFFICIENCY | Banks have focused on efficiency since 2008. Primarily converting from branch model to mobile and online delivery. |
| EMERGENCE OF DISRUPTIVE TECHNOLOGIES | Fintech including non-bank lenders disrupting the baking market e.g. mortgage lenders, robo-advisors, electronic and peer-to-peer payments, transactional data mining. |

Major investment themes impact on sectors

| SECTOR | Health Care |
| --- | --- |
| ELECTION | The Health care industry is in the sights of the new administration: Obama care, drug pricing, delivery of service and even the VA could experience shake ups. |
| ECONOMIC CYCLE | Healthcare stocks usually do well in late stage expansions and recession, but political headwinds may offset the impact of the economic cycle. |
| ENTHUSIASM OF INVESTORS | YTD Health care lost ground while the S&P 500 increased. (Health care: -4.01% vs S&P 500: +10.08%) |
| EFFICIENCY | Consumer driven demand for efficiency and lower costs (Value) is impacting the entire health care spectrum. |
| EMERGENCE OF DISRUPTIVE TECHNOLOGIES | Urgent care centers, ambulatory surgery centers, less invasive procedures, telemedicine, new medical devices and biotechnology are reshaping traditional healthcare. |

Major investment themes impact on sectors

| SECTOR | INDUSTRIALS |
|---|---|
| ELECTION | Industrials, particularly companies that are exposed to infrastructure construction and defense benefit by the election. All industrials will potentially benefit by lower regulation and lower energy costs. |
| ECONOMIC CYCLE | Traditionally Industrials have spotty performance in the latter stages of the business cycle, but fiscal policy could be an offset. |
| ENTHUSIASM OF INVESTORS | YTD Industrials outperformed the S&P 500 . (Industrials: +16.56% vs S&P 500: +10.08%) |
| EFFICIENCY | Efficiency initiatives in the form of robotics, automated controls and the internet of things are changing industrial processes. |
| EMERGENCE OF DISRUPTIVE TECHNOLOGIES | Additive manufacturing and robotics are the leading disruptors. |

Major investment themes impact on sectors

| SECTOR | Information Technology ("IT") |
|---|---|
| ELECTION | Silicon Valley and Seattle Execs weren't Trump supporters, but they appear to have made amends since the election. |
| ECONOMIC CYCLE | Traditionally IT has spotty performance in the latter stages of the business cycle, but fiscal policy and the plethora of new technologies could be an offset. |
| ENTHUSIASM OF INVESTORS | YTD IT edged past the S&P 500.<br>(IT: +13.10% vs S&P 500: +10.08%) |
| EFFICIENCY | IT is at the bleeding edge of energy, HR, manufacturing and process efficiencies. |
| EMERGENCE OF DISRUPTIVE TECHNOLOGIES | Technology typically cannibalizes itself every 4-5 years. Big Data, SaaS, The Internet of Things and Artificial Intelligence are the big disruptors IT is unleashing across industries. |

Major investment themes impact on sectors

| SECTOR | Materials |
| --- | --- |
| ELECTION | The election has been favorable to the Materials sector as infrastructure projects are expected to be a boon to the sector. Commodities are up 25% worldwide at FYE16. |
| ECONOMIC CYCLE | Traditionally the economic cycle sets the sector's pace, but fiscal infrastructure spending ($61B in '17)could provide a lift. |
| ENTHUSIASM OF INVESTORS | YTD Materials slightly outperformed the S&P 500 . (Materials: +14.9 vs S&P 500: +10.08%) |
| EFFICIENCY | Newer mining technologies, more efficient equipment and lower energy prices are improving efficiencies. |
| EMERGENCE OF DISRUPTIVE TECHNOLOGIES | Technology will likely not disrupt this sector, but M&A will. |

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Major investment themes impact on sectors

| SECTOR | Real Estate |
|---|---|
| ELECTION | Trump's Industry --and one he sees as being vital to the resurgence of America. |
| ECONOMIC CYCLE | Traditionally late phases in the economic cycle negatively impact real estate returns. |
| ENTHUSIASM OF INVESTORS | YTD Real Estate significantly lagged the S&P 500 . (Real Estate: -4.83 vs S&P 500: +10.08%) |
| EFFICIENCY | No large scale efficiency initiatives are impacting the industry, but advances in materials and prefabrication are ongoing. |
| EMERGENCE OF DISRUPTIVE TECHNOLOGIES | In the commercial sector online shopping and big data have driven the construction of data distribution and technology centers. |

Major investment themes impact on sectors

| SECTOR | Telecommunications ("TC") |
|---|---|
| ELECTION | Not impacted. |
| ECONOMIC CYCLE | Telecommunication companies traditionally performs well in late stage expansions and in recessions. |
| ENTHUSIASM OF INVESTORS | YTD Telecommunication outperformed the S&P 500 . (TC: +18.39 vs S&P 500: +10.08%) |
| EFFICIENCY | TC Efficiency is the ability to provide greater amounts of data transmission capacity through limited spectrum and transmission lines. Wireless is at the forefront. |
| EMERGENCE OF DISRUPTIVE TECHNOLOGIES | Video over the internet, cord cutting, high speed internet and wireless connectivity are upending the industry. |

Major investment themes impact on sectors

| SECTOR | Utilities |
|---|---|
| ELECTION | Positively impacted by the new administration's perceived energy policies and reduced regulatory environment. |
| ECONOMIC CYCLE | Utilities traditionally perform well in late stage expansions and in recessions. |
| ENTHUSIASM OF INVESTORS | YTD Utilities slightly outperformed the S&P 500. (Utilities: +12.74 vs S&P 500: +10.08%) |
| EFFICIENCY | Efficiency is being gained through the adoption of renewables and the conversion of coal to gas plants. |
| EMERGENCE OF DISRUPTIVE TECHNOLOGIES | Renewable energy (hydro, wind, solar, trash) currently produces 118 Megawatts of power or 13% of electricity in the US. By 2020 Renewables are projected to produce 165 megawatts a 40% increase. The electrical grid will be modernized to adapt to renewables . |