

~ OCTOBER 2016 NEWSLETTER ~

Monthly Summary

October returns were a downer for a year otherwise proving quite favorable for investors. The key drivers behind losses in nearly every major asset class came in three flavors: growth, monetary policy, and politics.

Years of consistent, albeit tepid, economic growth have started to bring inflation back to life. Far from hyperinflation, or even central bank targets, just the hint of rising inflation caused investors to reassess asset valuations. Interest rate sensitive assets, such as real estate, were hammered. Developed market stocks declined worldwide, and it was the worst month for global bonds in six years.

Monetary policy was a headwind as well. Favorable U.S. growth and rising inflation expectations have increased the probability of the Federal Reserve raising rates by year-end. Higher interest rates are less supportive to investment valuations. As for international central banks, the limitations and risks of their policies are becoming more apparent. They are also increasingly willing to allow their economies to temporarily run “hot.” Policy limitations and the potential for higher inflation acted as a one-two punch on investors and their portfolios.

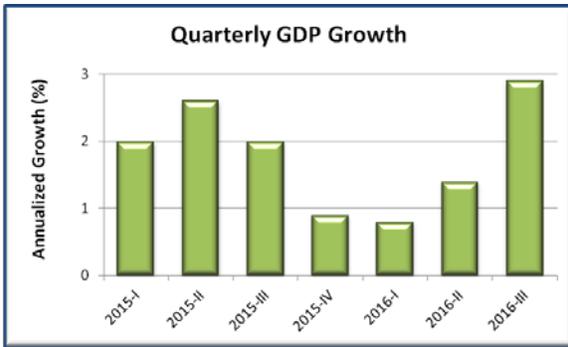
Lastly, new developments in the U.S. presidential race just days before the election were unsettling. As is often the case when the market is dealing with heightened uncertainty and negativity, volatility rose and asset prices declined.

Economic Data

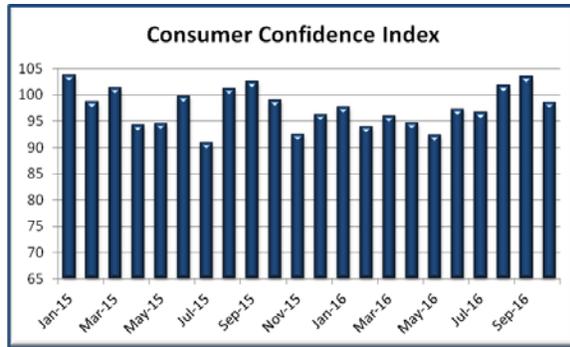
General	Prior	Current
GDP growth	1.4% (Q2)	2.9% (Q3)
Trade balance	-\$39.5B (Jul)	-\$40.7B (Aug)

Employment	Prior	Current
Initial jobless claims	261,000 (10/15)	258,000 (10/22)
Continuing claims	2.1MM (10/8)	2.0MM (10/15)
Change in nonfarm payrolls	167,000 (Aug)	156,000 (Sep)
Unemployment rate	4.9% (Aug)	5.0% (Sep)
Average weekly hours	34.3 (Aug)	34.4 (Sep)

Consumer	Prior	Current
Consumer confidence index (Conf. Board)	103.5 (Sep)	98.6 (Oct)
Retail sales growth (YoY)	3.3% (Aug)	3.4% (Sep)
Change in consumer credit	\$17.8B (Jul)	\$25.9B (Aug)



Data Source: U.S. Bureau of Labor Statistics

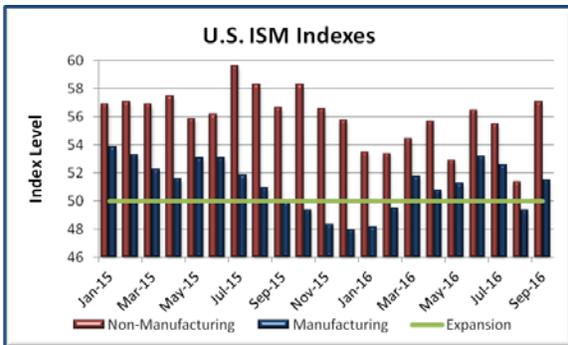


Data Source: The Conference Board

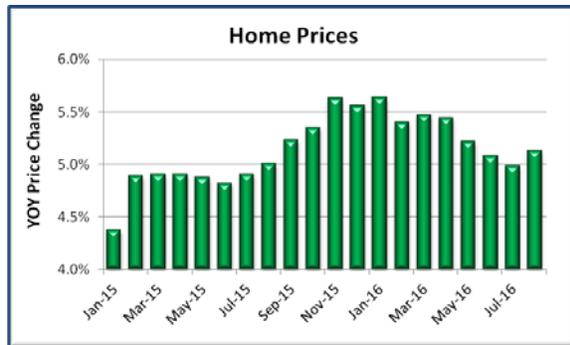
Manufacturing & Service	Prior	Current
ISM manufacturing index	49.4 (Aug)	51.5 (Sep)
ISM non-manufacturing index	51.4 (Aug)	57.1 (Sep)
Durable goods orders growth	0.3% (Aug)	0.1% (Sep)
Industrial production growth	-0.5% (Aug)	0.1% (Sep)
Capacity utilization	75.3% (Aug)	75.4% (Sep)

Real Estate	Prior	Current
New home sales	575,000 (Aug)	593,000 (Sep)
Existing home sales	5.3MM (Aug)	5.5MM (Sep)
S&P CoreLogic CS home price index (YoY)	5.0% (Jul)	5.3% (Aug)

Inflation	Prior	Current
Consumer price index/Core (YoY growth)	1.1%/2.3% (Aug)	1.5%/2.2% (Sep)
Producer price index/Core (YoY growth)	0.0%/1.0% (Aug)	0.7%/1.2% (Sep)



Data Source: Institute for Supply Management



Data Sources: S&P CoreLogic CS

Market Returns

	October 2016	YTD 2016
Fixed Income		
Barclays Aggregate Bond	-0.8%	5.0%
Barclays Municipal Bond	-1.0%	2.9%
Barclays Gbl Agg. ex. U.S.	-4.4%	8.2%
Alternatives		
Bloomberg Commodity	-0.5%	8.3%
DJ US Real Estate	-4.9%	5.5%

Data Source: Morningstar

	October 2016	YTD 2016
Domestic Equities		
Wilshire 5000	-2.0%	6.2%
S&P 500	-1.8%	5.9%
Russell 2000	-4.8%	6.2%
International Equities		
MSCI EAFE (Developed)	-2.0%	-0.4%
MSCI EM (Emerging)	0.2%	16.3%

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