

# ECONOMIC OUTLOOK & investment policy

Q1 2017

## Current Outlook

Economic Factors	
U.S. GDP Growth	We expect the U.S. economy to expand at about a 2.0% rate in 2017 against a backdrop of heightened policy uncertainty.
Federal Funds Rate	Citing the potential for inflationary pressures in 2017, the median projection from FOMC governors is for three quarter point rate hikes in 2017.
Inflation	Core PCE inflation was 1.6% year over year in November compared to 1.4% a year earlier; a strong dollar could continue to cap domestic prices.
Employment	Without growth in the labor participation rate in 2017, we expect the U.S. unemployment rate to remain between 4.5% and 5.0%.
Consumer Confidence	U.S. consumers' outlook reached multi-year highs in December; the positive sentiment could be contingent upon the implementation of pro-growth policies.
Oil	We expect the temporary deal between OPEC nations and Russia to result in oil price stabilization in the first half of 2017.
Housing	The housing recovery is likely to move slowly forward in 2017, as increased demand is offset by higher interest rates.
International Economies	The IMF sees subdued growth in the U.K. euro area and Japan driving subpar global GDP growth of 3.4% in 2017.

Underweight      Neutral      Overweight      Current Outlook

## Asset Allocation

Fixed Income		●		We have re-set our fixed income allocation to neutral weight and have further increased our bias towards core, investment grade U.S. bonds. Within equities, we maintain our neutral weighting following the post-election rally and against a backdrop of heightened U.S. policy uncertainty. Given our expectations for increased periods of both bond and equity volatility in 2017, we've moderately increased our overweight to alternative investments. More conservative investment objectives will include greater weights to alternative investment strategies that best complement fixed income allocations. Conversely, more growth-oriented investment objectives will include greater weights to alternative investment strategies that best complement equity allocations.
Equities		●		
Alternative Investments			●	

Underweight      Neutral      Overweight      Current Outlook

## Fixed Income

Core Bonds		●		We have increased our target allocation to core, investment grade bonds, but remain neutral due to our adoption of the BB BC Intermediate Government/Credit Index as our fixed income index. We recommend an underweight to below investment grade bonds amid a compression in spreads and an underweight to international bonds due to currency volatility risk. Finally, we recommend an overweight to TIPS in an effort to provide protection against rising interest rates in 2017.
TIPS			●	
Non-Investment Grade	●			
International	●			

Underweight      Neutral      Overweight      Current Outlook

## Equities

Large Cap		●		Our outlook for U.S. equities remains positive relative to international equities amid concerns surrounding post-Brexit economic weakness in the U.K. and euro zone. We expect corporate tax reform and further U.S. dollar strength will disproportionately benefit mid and small cap U.S. equities relative to their large cap peers. Our outlook for international developed market equities is constrained by uncertainty surrounding Brexit negotiations and key 2017 elections in the Netherlands, France and Germany.
Mid Cap			●	
Small Cap			●	
Developed International	●			
Emerging Markets		●		

The above weightings represent the current tactical position relative to MainStreet Advisors strategic weights.

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