

ECONOMIC FACTORS	CURRENT OUTLOOK
U.S. GDP Growth	The median forecast for U.S. GDP growth in 2017 is 2.2%, as pro-growth policies may be slow to materialize.
Federal Funds Rate	The expectations for three quarter-point rate hikes in 2017 could be tempered if the Fed begins to unwind its balance sheet late this year.
Inflation	The Fed's preferred inflation measure (core PCE) hit their target level in February, climbing 2.1% YOY and clearing the way for additional rate hiks
Employment	Growth in both the labor participation rate and in wages should keep the unemployment rate near post-recession lows.
Consumer Confidence	Sustained optimism for the implementation of pro-growth policies has consumer confidence at a 16-year high, likely buoying risk asset prices.
Oil	OPEC's decision to cut output and rebalance the oil market should keep prices stable in 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 India and China driving global GDP growth in 2017.



CURRENT OUTLOOK

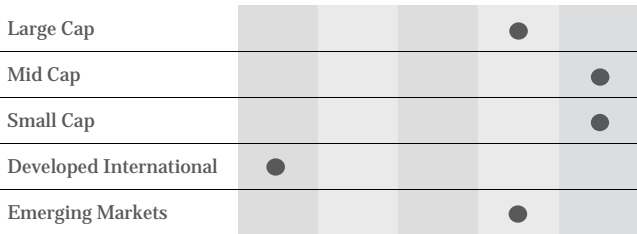


We suggest a neutral allocation to core, investment grade bonds. We recommend an underweight to below investment grade bonds, as their spreads still appear compressed even as credit concerns have dissipated. International bonds currently have no place in our fixed income portfolios, especially developed international, where German 10-year rates are more than 2% lower than U.S. rates. Finally, we advise an overweight to TIPS in an effort to provide protection against rising interest rates that will likely be driven by an escalation in inflation expectations.

Benchmark: *BB BC Intermediate Government/Credit Index*



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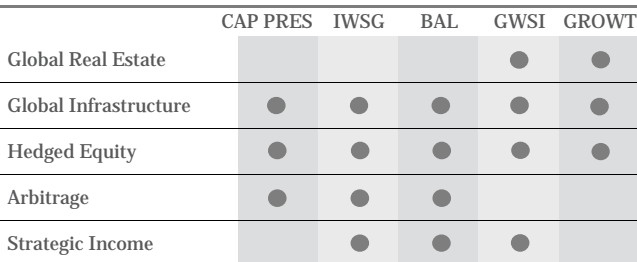


We believe an overweight to U.S. equities relative to our benchmark remains appropriate given underlying domestic economic strength, the likelihood that U.S. multinationals will be able to repatriate overseas profits at favorable tax rates, and potential economic and market volatility in the U.K. and euro zone in coming quarters. Within our U.S. allocation, we view mid and small cap companies as better positioned to benefit from corporate tax reform and a stronger dollar than their large cap peers. We continue to favor emerging market equities over developed market international equities against a backdrop of improving emerging market economic fundamentals and potential political disruptions related to upcoming elections in France and Germany.

Benchmark: *MSCI All Country World Index (ACWI)*



CURRENT OUTLOOK



Given our expectation for increased periods of both equity and fixed income volatility in 2017, we have moderately increased our weighting to alternative investments. It is our view that both equities and fixed income are approaching full valuation, and the early policy implementation challenges for the Trump administration may have appreciably increased the likelihood of downside volatility. In response, we have constructed diversified alternatives portfolios meant to decrease the risk profile of their respective recommended total AI portfolios, which are listed to the left (CAP PRES, IWSG, BAL, GWSI, GROWTH).

The above underweight/neutral/overweight calls represent the MainStreet Advisors current positions relative to market weights.

\*Cap Pres: Capital Preservation, IWSG: Income with some growth, Bal: Balanced, GWSI: Growth with some income

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