ECONOMIC OUTLOOK
& investment policy

Q1 2016

Economic Factors	Current Outlook
U.S. GDP Growth	Expect 2016 to be another year of 2-2.5% real GDP growth.
Federal Funds Rate	Fed will remain data-dependent, with potential for additional rate hikes in 2016.
Inflation	U.S. inflation continues to be contained, at or below Fed target rate of 2%; modest wage inflation possible due to tightening labor markets.
Employment	Though pace of job additions may taper off, unemployment rate will likely remain near 5%.
Consumer Confidence	Steady job market and stronger home prices support solid confidence readings, bolstering auto and other retail sales.
Oil	Downward pressure on prices as supply glut remains; major producers refusing to curtail production.
Housing	Expect improvement in homebulding and housing prices driven by rising household formation. Mortgage rates will remain affordable despite Fed rate hikes.
International Economies	Monetary policy is aiding developed economies' sluggish growth. Emerging markets' conditions vary widely, but overall weak.

Asset Allocation	Underweight	Neutral	Overweight	Current Outlook
Fixed Income	●			We remain underweight fixed income with an emphasis on low duration and higher quality issues. We are neutral weight in equities based on expectations for lower returns and increased global uncertainty. Our overweight to alternative investments is focused on hedging strategies which historically have fared better in volatile markets.
Equities		●		
Alternative Investments			●	

Fixed Income	Underweight	Neutral	Overweight	Current Outlook
Core Bonds			●	In core bond allocations, we favor high quality credit and munis over treasuries, and short over longer duration strategies. Within non-investment grade, we're shifting our preference to senior floating rate loans relative to high yield (HY) as falling commodity prices and slow global growth will likely continue to impact near-term HY performance. Meanwhile, senior floating rate loans appear defensively positioned against a rising rate environment. We continue to view TIPS as an inflation hedge and remain underweight foreign bonds considering valuation and expected USD strength.
TIPS		●		
Non-Investment Grade	●			
International	●			

Equities	Underweight	Neutral	Overweight	Current Outlook
Large Cap			●	We continue to maintain a home country bias with an overweight position in large and mid cap relative to other equity asset classes. Recent market sell off has boosted dividend yields to compelling levels. International developed stocks are reflecting the uneven progress in jumpstarting growth and combating deflation. China's slowdown is worsening an already tenuous economic outlook in emerging economies, especially in Latin America.
Mid Cap			●	
Small Cap		●		
Developed International	●			
Emerging Markets	●			

Alternative Investments	Underweight	Neutral	Overweight	Current Outlook
Real Estate		●		We're neutral on REITs despite the possibility of additional Fed rate hikes. Commodity prices remain under pressure based on the slowdown in China and other emerging economies. We maintain an overweight to hedging strategies to reduce volatility through non-correlated asset classes.
Commodities	●			
Hedging Strategies			●	

Independence Trust Company