ECONOMIC OUTLOOK
& investment policy

Q2 2016

Economic Factors	Current Outlook
U.S. GDP Growth	Expect 2016 to be another year of 2-2.5% real GDP growth despite indications of a slow start in Q1.
Federal Funds Rate	Fed will remain data-dependent, with potential for 1-2 rate hikes in 2016.
Inflation	Core PCE inflation (1.7% YoY, February 2016) is nearing Fed target of 2%; inflation pressure possible from tightening labor markets.
Employment	Though pace of job additions may taper off later in 2016, unemployment rate will likely remain below 5% absent growth in labor participation.
Consumer Confidence	Steady job market and stronger home prices support solid confidence readings, market volatility may hinder sentiment.
Oil	Market panic over oil has subsided; downside risk to oil price remains until supply and demand are in balance.
Housing	The housing recovery is likley to remain slow-to-moderate, with rising prices a headwind.
International Economies	Monetary policy is contributing to developed economies' sluggish growth. Dovish Fed and dollar weakness have improved emerging markets' outlook.

Asset Allocation	Underweight	Neutral	Overweight
Fixed Income	●		
Equities		●	
Alternative Investments			●

Current Outlook: We remain underweight fixed income with an emphasis on higher quality issues. We have kept our equity weighting to neutral based on expectations for lower returns and increased volatility. Due to the challenging backdrop with equities and our lowered forecast we remain overweight to alternative asset classes with an emphasis towards hedging strategies.

Fixed Income	Underweight	Neutral	Overweight
Core Bonds			●
TIPS		●	
Non-Investment Grade	●		
International	●		

Current Outlook: The central bank policies around the world will have to remain accommodative in order to support sub-par growth, which on balance should be positive for risk assets. Slower global growth is presumably reflected in the slope of the U.S. Treasury curve, which has flattened, but not to levels implying a near term recession. We expect a slow pace of rate tightening in the U.S. with both domestic and global factors continuing to weigh on the FOMC. We continue to recommend a diversified approach to fixed income allocation with an overweight to core bonds.

Equities	Underweight	Neutral	Overweight
Large Cap			●
Mid Cap			●
Small Cap		●	
Developed International	●		
Emerging Markets	●		

Current Outlook: We remain overweight large and mid cap domestic equities relative to other asset classes. Corporate earnings growth forecasts continue to be impacted by weakness overseas, but improving PMIs at home indicate an upside to equities from these levels. While seeing some improvement in both developed and emerging market economies, we continue to underweight international equities until we see more signs of stability.

Alternative Investments	Underweight	Neutral	Overweight
Real Estate		●	
Commodities	●		
Hedging Strategies			●

Current Outlook: We are neutral on REITs despite the possibility of additional Fed rate hikes. Despite recent rebound, commodity prices remain under pressure due to a slower global growth outlook and supply overhangs. We maintain an overweight to hedging strategies to reduce volatility through less-correlated asset classes.

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