ECONOMIC OUTLOOK
& investment policy

Q4 2016

Economic Factors	Current Outlook
U.S. GDP Growth	We expect 2016 to be another year of 2.0% real GDP growth despite a slow start in Q1 and Q2.
Federal Funds Rate	Improving economic data in recent months has led to an increased probability of a December 2016 rate hike.
Inflation	Core PCE inflation was 1.7% year over year in August; a strong dollar should continue to cap domestic prices.
Employment	The headline unemployment rate will likely remain near 5.0% absent growth in the labor participation rate.
Consumer Confidence	U.S. consumers' outlook improved in the third quarter, which may bode well for consumer spending heading into the holiday season.
Oil	A tentative deal between OPEC and Russia could support oil prices heading into 2017.
Housing	The housing recovery is likely to remain slow to moderate, with rising prices a headwind.
International Economies	The IMF sees subdued growth in the U.K. euro zone, and Japan driving subpar global GDP growth of only 3.1% in 2016.

Asset Allocation	Underweight	Neutral	Overweight	Current Outlook
Fixed Income	●			We remain moderately underweight fixed income and have increased our bias towards high quality bonds. Within equities, we continue with a neutral weighting as volatility continues to be driven by macro events such as central bank policy, global growth concerns and the U.S. presidential election. Given the likelihood of heightened volatility in coming quarters, we remain overweight to alternative investments with an emphasis towards hedging strategies.
Equities		●		
Alternative Investments			●	

Fixed Income	Underweight	Neutral	Overweight	Current Outlook
Core Bonds			●	At the end of 3Q16, market participants place approximately a 60% chance of a Fed rate hike by the 12/14/16 FOMC meeting, up from about 40% in the first weeks of August. If a December Fed hike causes the dollar to strengthen and the Treasury curve to flatten further, the risk of a recession will rise. However, the more likely scenario following a December rate hike, is an extended and longer period of lower growth. In the near term, satellite fixed income provides attractive levels of income, but as uncertainty mounts core bonds remain the best complement to equities.
TIPS		●		
Non-Investment Grade	●			
International	●			

Equities	Underweight	Neutral	Overweight	Current Outlook
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. According to Bloomberg consensus estimates, S&P 500 Index year over year earnings per share are expected to record a very slight increase of 0.4% in 3Q16 following six consecutive quarters of declines. U.S. companies with lower exposure to sales outside the U.S should benefit if a December rate hike results in a stronger dollar. The outlook for emerging market equitiies is still hampered by a deceleration in Chinese economic growth and recessions in Brazil and Russia.
Mid Cap			●	
Small Cap		●		
Developed International	●			
Emerging Markets	●			

Alternative Investments	Underweight	Neutral	Overweight	Current Outlook
Real Estate		●		Relatively higher current yields make REITs attractive, yet the threat of a U.S. rate hike in December has been a headwind. As such, we maintain our neutral position in REITs. Divergence in economic growth prospects and central bank policies world wide continue to create headwinds for commodity prices and we remain underweight. Due to recent equity volatility, we remain overweight on hedging strategies.
Commodities	●			
Hedging Strategies			●	

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