

THE PRIVATE CLIENT GROUP

WEALTH MANAGEMENT

Economic & Market Review

~ FIRST QUARTER 2017 NEWSLETTER ~

EXECUTIVE SUMMARY

Buoyed by a groundswell of positive economic news, a rebound in corporate earnings and the promise of a new U.S. administration, global investment markets continued to rise during the quarter. That said, several investment trends which dominated 2016 reversed course during the quarter. For example, large cap growth stocks outperformed both value stocks and smaller companies. The broad decline of the U.S. dollar also paved the way for the outperformance of international stock markets. Oil prices fell while safe haven assets such as gold staged a comeback.

While the economic news in the U.S. continues to be positive, the pace of growth has slowed. Both consumers and businesses have failed to bump up spending despite high confidence levels and optimism that government policies implemented by the new administration would jumpstart spending and jobs. The high valuation of U.S. assets is dependent on earnings growth that is expected to benefit from policy changes including lower tax rates and a reduced regulatory burden. The emerging markets have experienced the most robust growth, both in terms of the overall economy and corporate earnings. An uptick in global manufacturing has also been a positive for Japan and Europe.

The U.S. Federal Reserve continues to chart out a path of interest rate hikes, raising rates for the third time and planning other ways to pull back monetary support. In a shift that few would have foreseen a year ago, negative interest rates appear to be a thing of the past in many countries. The inflation rate is now over 2% in the U.S. and “re-inflation” has emerged as an investment theme worldwide. There will be

winners and losers from rising interest rates. Investors and the banking sector should benefit from higher interest income and a steeper yield curve. The housing market and companies that have fueled growth with credit may face headwinds. High debt levels are a danger outside the U.S., notably in China, where the government has been tightening credit conditions.

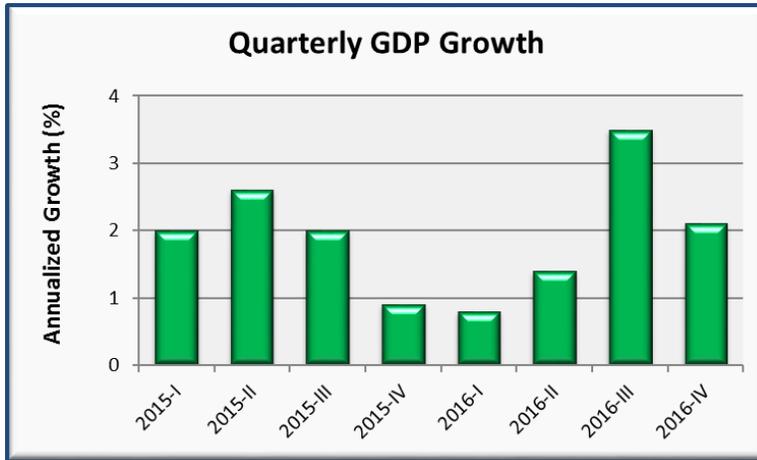
Bond markets had a positive quarter. Credit sensitive bonds continued to outperform. Municipal bonds rebounded from a post-election pullback when the likelihood of a lower tax regime and strong supply made the sector less appealing.

While bond markets, currencies and commodities such as gold and oil have experienced sharp moves over the past year, stock markets have seen unusually low levels of volatility. Stock market reaction to global political risk has so far been subdued. The potential risks that could upend economic growth range from the ongoing tensions between Russia and the U.S. over Syria and election meddling, the official start to BREXIT, the rise of populist governments fueled by anti-immigration and trade rhetoric and the steady expansion of China’s power and influence. A recent string of negative days in the stock market may indicate that investors are becoming more sensitive to these risks.

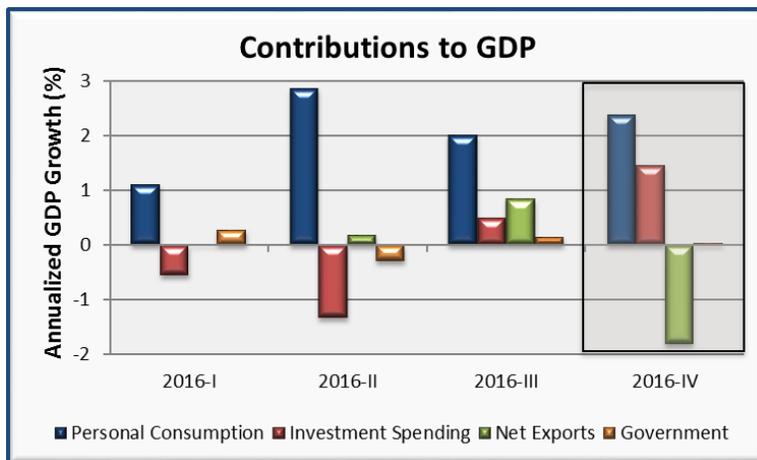
Elevated risks across multiple fronts, lofty valuations in U.S. assets and an increase in return dispersion highlight the benefit of a globally diversified portfolio.

ECONOMIC REVIEW AND OUTLOOK

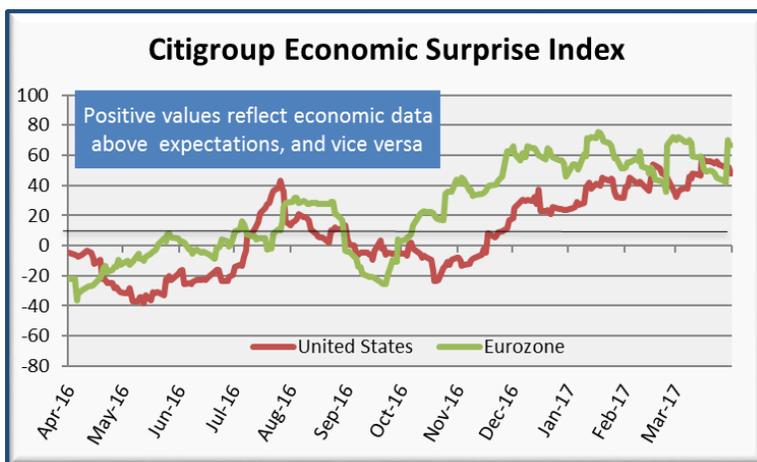
Key Economic Fundamentals



Data Source: U.S. Department of Commerce



Data Source: U.S. Department of Commerce

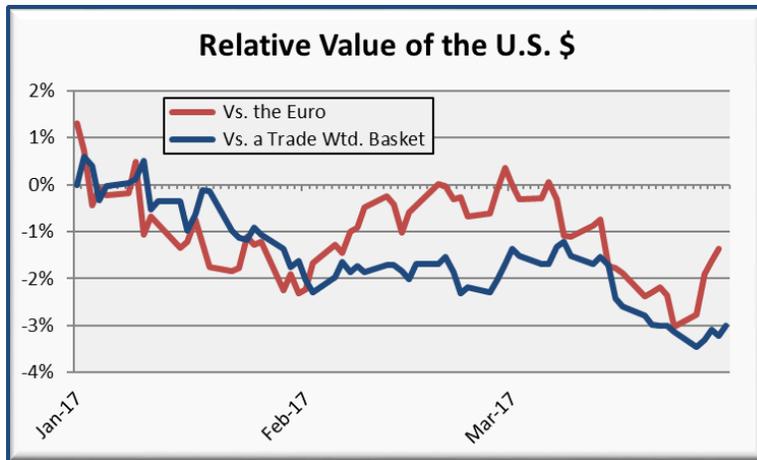


Data Source: Citigroup

The U.S. registered economic growth of 1.6% in 2016. Though by no means robust, this pace was only modestly below the average seen during the current expansion. With growth hovering around 2% since 2010, President Trump's stated target of 4% growth is seemingly optimistic. Growth for both 2017 and 2018 is expected to accelerate to 2.2%

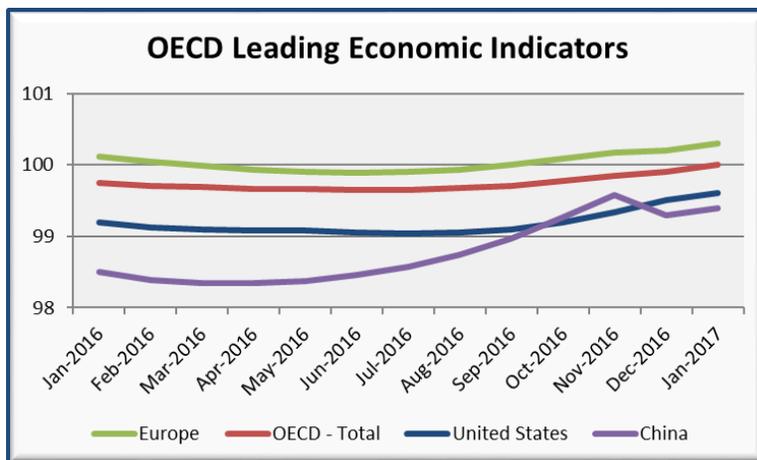
As was the case for the prior 13 quarters, the main driver of Q4 growth was the consumer. Ostensibly strong investment spending was attributable to a transitory build in inventories. Also transient was the large negative impact from net exports in Q4, which was simply a reversal of an anomalous soybean-related jump in exports seen in Q3.

Economic data exceeded expectations in the first quarter by a wide margin in both the U.S. and Eurozone. While the magnitude of positive surprises did not change materially in the Eurozone in recent months, the upward trend that began in October 2016 in the United States continued.



Data Source: U.S. Federal Reserve

On day two of Q1, the dollar reached a multi-decade high, nearly touching its previous 2002 zenith. This rally quickly reversed, with the dollar ending Q1 down 3%. Emerging markets were arguably the biggest beneficiaries. Dollar weakness was also a boon to U.S. multinational companies and U.S. dollar-based globally diversified investors.



Data Source: U.S. Department of Commerce

Through January, leading economic indicators have shown neutral to positive trends in major economies. China's uptrend seems to have stalled out. Not shown, Brazil and Russia have experienced rapid improvement while Greece, Mexico, Spain, Sweden, and select Eastern European nations have shown marked weakness.

Global Growth Rates¹ (%)

	Q4 2016	Q1 2017	Q2 2017	2016	2017	2018
Advanced	1.9	2.0	2.1	1.7	2.0	1.9
Euro²	1.6	1.9	1.4	1.7	1.6	1.4
U.S.²	2.1	1.4	2.5	1.6	2.2	2.2
Japan²	1.2	1.5	2.1	1.0	1.4	1.1
U.K.²	2.7	1.9	1.1	1.8	1.7	1.1
Canada²	1.6	2.1	1.8	1.1	1.8	2.0
Emerging	4.7	4.7	5.0	4.6	5.0	5.4
China	6.8	6.8	6.7	6.7	6.6	6.3
India	7.0	7.1	7.3	7.5	7.3	7.8
Russia	1.0	1.6	2.7	-0.2	2.6	3.0
Brazil	-2.5	-1.4	-0.3	-3.6	0.6	2.6
World	3.4	3.4	3.6	3.2	3.6	3.7

Data Source: Goldman Sachs, Central Intelligence Agency

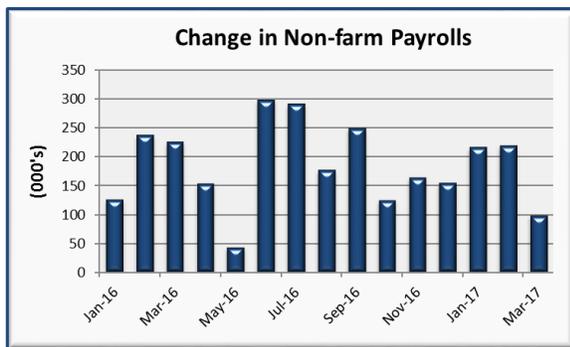
¹Q4 2016 and 2016 are actual, all others are forecasts

²Quarterly numbers are sequential annualized, others are year-over-year

Speaking to the four largest economies, 2017 growth is expected to accelerate nicely in the U.S. and Japan, while a slight decrease is forecasted for China and the Eurozone. All told, estimates call for acceleration in both advanced economies and emerging nations. Strong rebounds in Russia and Brazil are expected to drive growth in emerging markets.

Employment

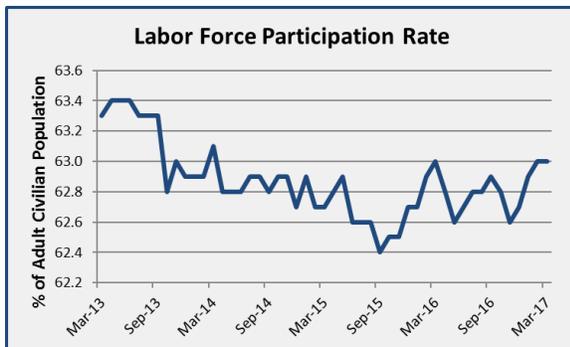
Labor market strength continued in 2016. Payroll growth slowed from 2015 but still averaged a healthy 187,000 jobs per month, and as of quarter end initial jobless claims stayed below 300,000 for the 108th sequential week — a record dating back to 1970! The labor force participation rate rebounded in Q1, matching the highest level in almost three years. The unemployment rate continued to decline in 2016 and reached a post-recession low of 4.5% in March. Importantly, unemployment now sits well below the Fed’s target for full employment, while inflation has crossed the 2% threshold. Accordingly, the Fed’s focus is shifting from supporting growth to staving off inflation. Interestingly, while wage growth continued to trend higher in 2016 and Q1, employees are not experiencing the benefit of increased purchasing power, as inflation-adjusted wage growth has trended lower and currently stands near zero.



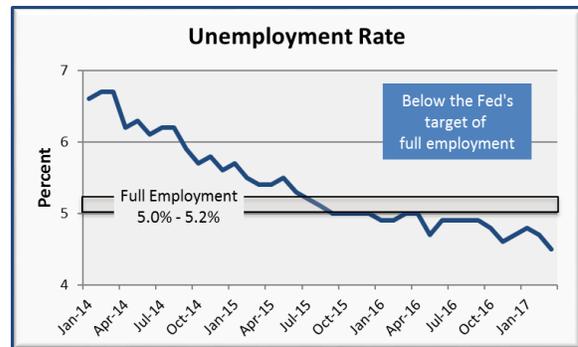
Data Source: U.S. Department of Labor



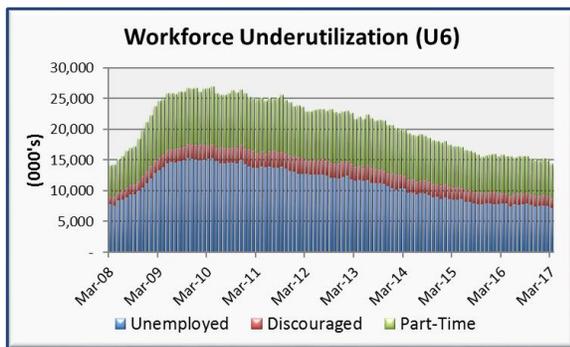
Data Source: U.S. Department of Labor



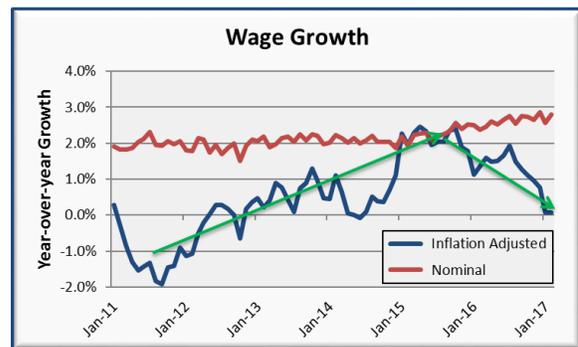
Data Source: U.S. Department of Labor



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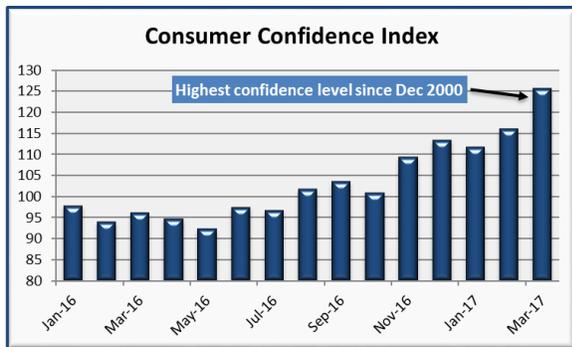
Data Source: U.S. Department of Labor



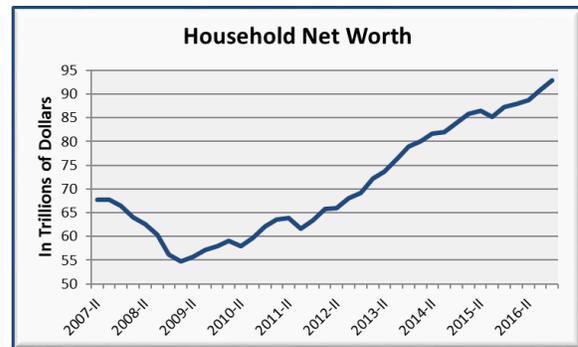
Data Source: U.S. Department of Labor

Consumer

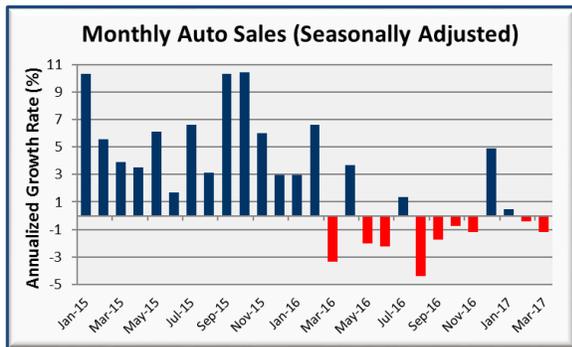
President Trump’s stimulative fiscal policy plans, continued strength in the housing and labor markets, historically low interest rates, and a stock market hovering around record highs have all contributed to the U.S. consumer remaining resilient and confident. In fact, March’s consumer confidence reading was the highest it has been in over 16 years. Behind this astounding figure was a particularly rosy short-term outlook for business, jobs, and personal income. Household net worth hit a new high at the end of 2016, rising 6.3% on the year. While some may worry about the record level of consumer debt reached in Q4, debt as a percentage of GDP, a more meaningful metric, remains at a 14-year low. Curiously, on the heels of the aforementioned record consumer confidence, the personal savings rate (not shown) has ticked higher in recent months. Also, some may be alarmed by recent declines in auto sales, which have exhibited negative year over year growth for nine of the last 13 months. However, sales remain at historically robust levels, and it is likely they have simply plateaued.



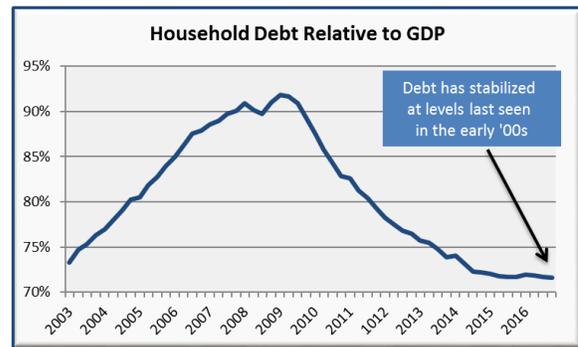
Data Source: The Conference Board



Data Source: U.S. Federal Reserve



Data Sources: Bloomberg



Data Sources: U.S. Bureau of Econ. Analysis/U.S. Federal Reserve

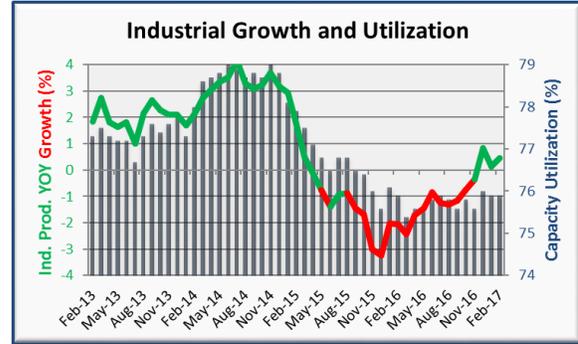
Business Activity

As shown by the ISM graph on the following page, business activity remains buoyant. The service economy continues to be strong and the manufacturing sector experienced a stellar quarter – its best since Q4 2010. The sector has benefitted from a reprieve in the dollar’s seemingly endless uptrend. Also positive, industrial production has experienced three consecutive quarters of year over year growth after a 20-month streak of declines. The mining sector is strong, and were it not for unseasonably warm winter weather, which held down

activity at utilities, industrial production would have exhibited stronger gains. Curiously, capacity utilization, not shown, remains depressed and well below 80, the level indicative of potential inflationary bottlenecks. Were this metric to trend higher, it may cause the Fed to consider a faster pace of interest rate hikes.



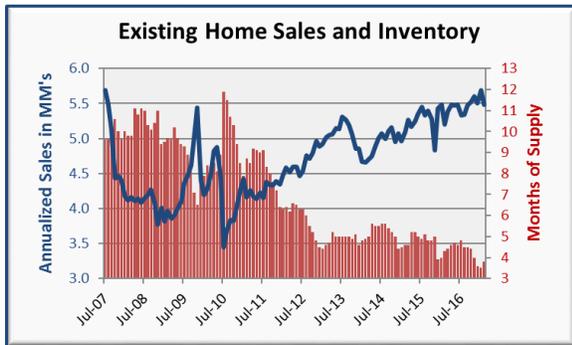
Data Source: Institute for Supply Management



Data Source: U.S. Federal Reserve

Real Estate

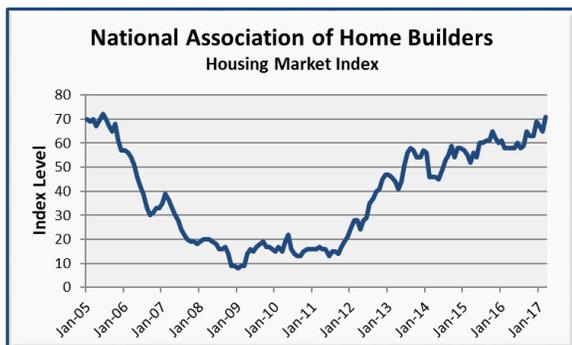
The housing market got off to a fast start in 2017. Existing home sales hit a 10-year high in January while supply plumbed a 10-year low. Housing starts and new home sales both notched their second highest reading since the Great Recession in February. This all occurred despite a sharp increase in mortgage rates in late 2016. Meanwhile, homebuilder sentiment surged in March to its highest level since June 2005. Annual home price gains have accelerated in recent months. If these trends persist, housing will continue to be a pillar of U.S. economic strength.



Data Source: National Association of Realtors



Data Source: U.S. Bureau of the Census



Data Source: National Association of Homebuilders



Data Source: S&P/Case-Shiller

CAPITAL MARKETS REVIEW

Returns

1 st Quarter 2017	
Cash and Fixed Income	
U.S. Treasury Bills	0.1%
Barclays U.S. Aggregate Bond	0.8%
Barclays Municipal Bond	1.6%
Barclays Global Agg. ex. U.S.	2.5%
Hedge Funds and Alternatives	
Bloomberg Commodity	-2.3%
DJ US Real Estate	3.2%
HFRI FOF Composite	2.0%

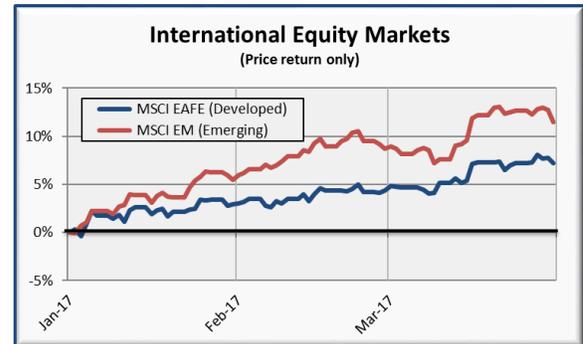
1 st Quarter 2017	
Domestic Equities	
Wilshire 5000	5.6%
S&P 500	6.1%
Russell 2000	2.5%
International Equities	
MSCI ACWI ex. U.S.	8.0%
MSCI EAFE (Developed)	7.2%
MSCI EM (Emerging)	11.4%

Data Sources: Morningstar & Hedge Fund Research, Inc.

Equity Markets



Data Source: S&P Dow Jones Indices LLC

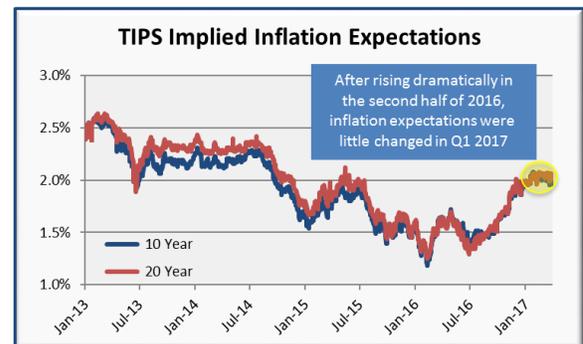


Data Source: Morningstar

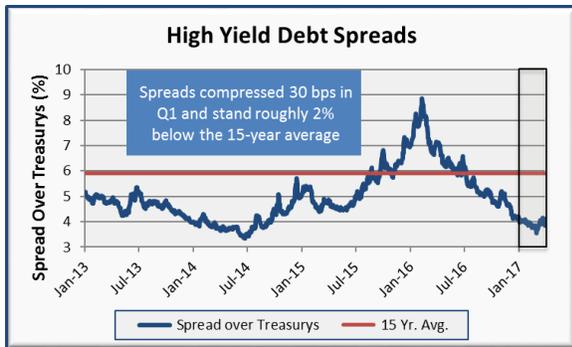
Fixed Income Markets



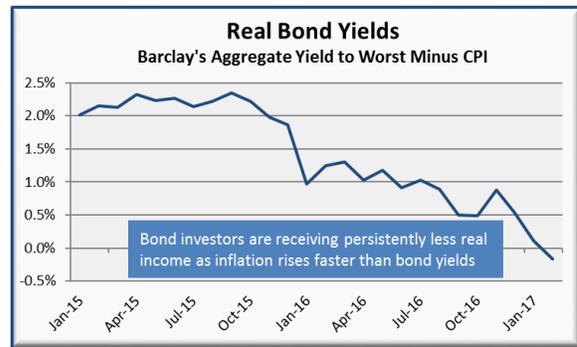
Data Source: U.S. Department of the Treasury



Data Source: U.S. Department of the Treasury

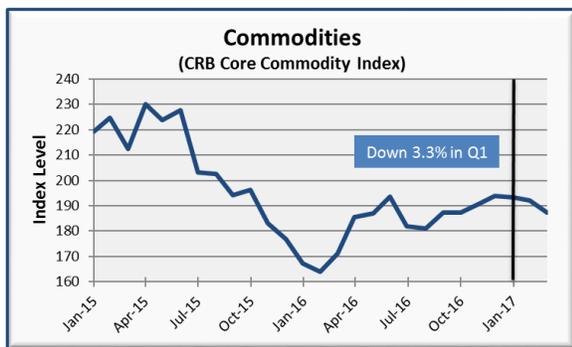


Data Source: BofA Merrill Lynch

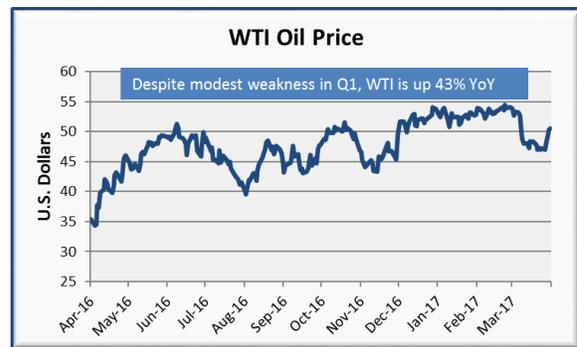


Data Sources: Bloomberg and U.S. Bureau of Labor Statistics

Alternatives



Data Source: Thomson Reuters



Data Source: US. Energy Information Administration

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