TRUSTCORE®

Market Commentary
Fourth Quarter 2016

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Relative Market Performance

	4Q	1YR	3YR
Dow Jones Industrial Average (U.S. Large Stocks)	8.66	16.50	8.71
Standard & Poor's 500 (U.S. Large Stocks)	3.82	11.96	8.87
Wilshire 5000 (U.S. Stocks)	4.54	13.37	8.76
MSCI EAFE (Foreign Stocks)	(0.71)	1.00	(1.60)
MSCI EM (Emerging Market Stocks)	(4.16)	11.19	(2.55)
MSCI ACWI (World Stocks)	1.19	7.86	3.13
Barclays Capital U.S. Agg. Index (U.S. Bonds)	(2.98)	2.65	3.03

Source: Morningstar

Key Points

- U.S. equity markets seem hopeful pro-growth policies will pan out.
- We expect the year will be dominated by global political uncertainty.
- Economic and sentiment indicators have hit multi-year highs amidst favorable

Post-Election

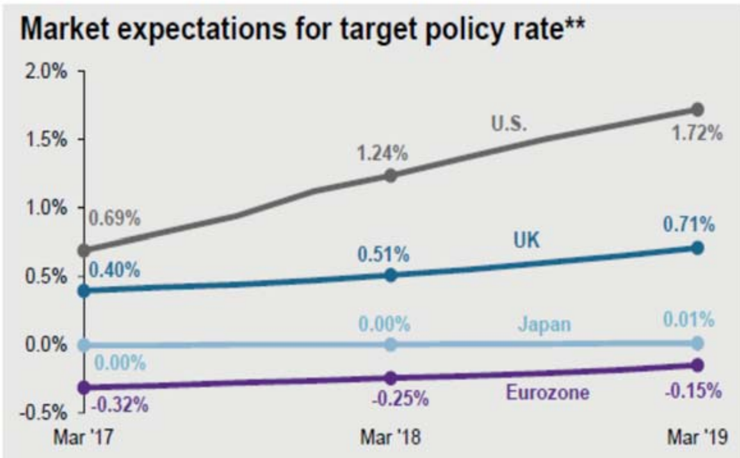
The euphoria in U.S. equity markets post-election was unexpected by many. Stocks rallied into year-end, hopeful that the pro-growth policies proposed by the Trump administration would extend and possibly accelerate the current recovery. Contrary to equities, broad fixed income assets were negatively impacted. Interest rates increased in anticipation of higher inflation that may arise as part of a late-cycle fiscal stimulus agenda. Early beneficiaries of this market rotation have been financial stocks. Higher interest rates have historically provided banks with the ability to earn increased margins. Prospects of future deregulation have also aided financials.

More broadly, tax-reform proposals have boosted optimism among consumers and businesses alike. The obvious effect on the consumer is more available spending power. From the perspective of a small business, the impact would be just as meaningful if not more. Small businesses account for the majority of jobs in America. A reduction in taxes would benefit the bottom line for many, allowing for investment in their business and employees. In recent weeks, small business sentiment has reached levels not seen in decades as their collective economic outlook improves.

Questions regarding trade policies and potential tariffs under a Trump administration still remain. Many currencies have retreated relative the the U.S. dollar in recent weeks amidst anti-trade rhetoric. While an outright trade war is unlikely, volatility is possible around trade-related headlines. Those countries that have been targeted by Trump could be more negatively impacted than others. While broad foreign equity returns have been more mixed in the short-term, valuations support an allocation over the long-term.

With the change in leadership in Washington DC, there are definite pro-growth policies that have the potential to positively impact the U.S. economy. Concerning are policies that could prohibit free trade and negatively affect global growth. Overarching all of this is how future policy may contribute to an ever increasing federal deficit. Despite a Republican sweep, policy initiatives will likley be tempered relative to their initial design.

Interest Rates



Source: J.P. Morgan Asset Management

The post-election reality is that the Federal Reserve may be pressured to take more action in 2017. With the U.S. economy at or near full employment and a potential late-cycle fiscal stimulus on the agenda, inflation may increase at a higher rate. This could force the Fed to raise short-term rates more quickly than desired. While there has been only one rate hike per year for the last two years, many expect two to four small rate hikes over the course of 2017. As Fed policy diverges with that of Europe and Japan both countries could see rates pressured to move higher despite their central banks stance of easing.

Global Growth Prospects

The global outlook has improved as economic and sentiment indicators are hitting multi-year highs alongside healthy fundamentals. Despite this backdrop, a fair amount of uncertainty remains. The U.S. economy could benefit from many of the pro-growth policies under the new administration, but much uncertainty surrounds the implementation. Furthermore, years could pass before we witness concrete economic results. From an earnings perspective, we have seen the 2017 U.S. profit outlook improve by double digits relative to last year, highlighting the optimism many see in the coming year.

Within Europe, the biggest risk to economic growth is geopolitical. Britain is set to announce their official withdrawal from the European Union (E.U.) as early as March of this year in what may be a hard exit. This would mean Britain would give up full access to the E.U. privileges that it previously enjoyed. Meanwhile, there are a number of key elections, particularly in France, that could further the anti-establishment mentality across Europe and negatively impact markets.

Fundamentals are improving across broad emerging markets, but trade rhetoric could further currency headwinds in the near-term. Many currencies already stand at multi-year lows relative to the U.S. dollar. Furthermore, sentiment toward China will likely continue to generate negative headlines. The incoming administration has labeled China a currency manipulator and has promised trade restrictions. In the end actions are unlikely to be as bad as headlines may predict. Broadly taxing global growth by attacking trade would not be beneficial long-term.

Overall, fundamentals favor a globally diversified equity allocation. The timing and identification of a particular catalyst that drives relative outperformance is not always certain. The most prudent allocation is many times the most difficult to make.

In volatile markets investors should remain focused on their long-term objectives. Asset allocation strategies developed for a portfolio provide a roadmap to follow in times of duress. Steps may need to be taken to ensure capital preservation, but must be weighed against their potential impact on long-term performance. Implementing a disciplined, strategic approach with portfolio allocation across varying asset classes is an important element of a successful investment strategy. That's why at TrustCore, we believe in creating a customized, well-diversified portfolio to help you meet your long-term financial goals.