2017 First Quarter

Welcome to the first TLA quarterly summary and economic update of 2017. We are reminded how grateful we are to partner with and advise many individuals, families and organizations on their investment and financial journeys. The first quarter of 2017 has certainly proven to be an unusual and unexpected three month journey.

The newly sworn in President of the United States has brought the tumultuous nature of his presidential campaign to Washington D.C. His campaign promises of swift change have proven elusive, however, in spite of the Republican controlled Senate and House of Representatives. The chasms which existed between Republicans and Democrats, as well as within the Republican Party, have so far stalled what the President had hoped would be rapidly passed policy changes. We are again reminded that Washington moves slowly, even though these last three months have felt anything but slow.

Internationally, we witnessed the mechanics of Brexit move forward, as the United Kingdom formally began the process of exiting the European Union at the end of March. The implications of this unprecedented decision will take time to play out as those locally and globally come to terms with a European Union without the U.K. Near term, the volatility of the British pound – US dollar relationship spiked, given this uncertainty.

While the political environment seems anything but settled, we have experienced low volatility in the market, which has marched decidedly and steadily higher during the first three months of 2017. Market performance is reflecting expectations of fiscal stimulus measures, as President Trump continues to champion lower corporate and personal tax structures, regulatory reform, and infrastructure spending. While we await more clarity on how and when these policy changes may be passed, we continue to see positive data points from a slow growing though, resilient economy.

Over the course of the quarter, unemployment and inflation firmed, with unemployment at "full employment levels" and inflation creeping over the 2% Federal Reserve (Fed) target level. With these key data points at target, the Fed raised interest rates by 0.25%, in a well telegraphed and unsurprising move. Janet Yellen remains tempered and even keeled as chairperson of the Federal Open Market Committee (FOMC). We can expect further increases over the course of 2017, which she has communicated to the market, being cautious in her commentary that any Fed action remains data dependent.

We continue to expect modest growth worldwide in 2017 driven by the tailwinds of loose monetary policies. Domestic markets are still enjoying a relatively low interest rate environment, even in the midst of deliberate small increases by the Fed, and earnings growth which is healthy. Europe should benefit from quantitative easing (QE) policies, which lagged those pursued domestically. The impact of QE overseas, earnings recovery, and relatively inexpensive valuations in developed markets could provide attractive investment opportunities.

First Quarter 2017 Market results:

- S&P 500 index* +6.07%
- MSCI International EAFE Index* +7.25%
- MSCI Emerging Markets Index* +11.44%
- Barclays Capital Aggregate Bond Index* +0.82%

2017 Q1 Economic & Geo-Political Highlights

- **Domestically**
  - 0.25% increase in Fed Funds Rate to a target of 0.75%-1.00%
  - Equity markets continued to move higher on positive earnings results, strong macro-economic data, and fiscal stimulus expectations
  - Headline CPI for February posts at 2.8%, with Core CPI at 2.2%
  - Non-Manufacturing and Manufacturing Purchasing Manager's Index (PMI) remain mid 50s level
  - Dollar levels off with concerns the U.S. administration will struggle to pass fiscal stimulus
  - Donald Trump's presidency in its early stages looks and feels similar to his campaign

- **Internationally**
    - European Central Bank (ECB) QE monetary policy is expected to extend through 2017
    - Eurozone is growing at a healthy clip, with PMI rising in March to 56.2
    - Brexit is in motion, formally ending the participation of the U.K. in the European Union
    - U.K. exports are helped by the drop in the British pound
    - Commodity price stabilization helps Canada and Australia
    - China's stimulative policies are helping global growth

Domestic Commentary

Markets & the Economy

U.S. equity markets (S&P 500) advanced a welcome and healthy 6.1% in the first quarter. The U.S. bond market (Barclays AGG) rose slightly less than 1%, over the same time period, shaking off the Fed rate increase in March.

The U.S. economy experienced mixed growth in 4Q2016. The fourth quarter final estimate of annual gross domestic product (GDP) came in at 2.0%, down from 2.5% in 3Q. First quarter GDP estimates are forecasting a slowdown to 1.0%-1.5%, followed by 2.0-2.5% growth in 2017. This estimated growth rate is down 0.5% from previous expectations for the full year.

Annual inflation, as measured by headline CPI, rose to 2.8% (February data), above the Federal Reserve's 2% target. The FOMC met in March and raised interest rates by 0.25%, and telegraphed the intention to continue to incrementally raise rates over 2017. With the pickup in inflation and drop in unemployment to below 5.0%, two key indicators the Fed monitors closely, the rate increases should come as no surprise.

The ISM Non-Manufacturing PMI Index came in at 55.2 for March. The figure for ISM Manufacturing PMI Index was 57.2 in the same month. A reading over 50 generally indicates an expanding economy.

Finally, U.S. corporate earnings showed evidence of growth in the fourth quarter corporate results reports.

Politics

While many welcomed closure on last November's presidential election, with hope to the end of the divisive and polarizing tone, we soon became accustomed to frequent social media comments from the president. The Republican Congress has alternated between the offensive and defensive, with proposed policies that have little hope of being passed without compromise. The Administration may be forced to change its tone with regard to fostering that compromise both with Democratic elected officials as well as those within its own Republican party.

What remains unchanged is the slow moving nature of enacting policy change in Washington. Fiscal policy stimulus may take longer to push through marred channels of compromise. However, with unemployment at full levels and the pace of inflation ticking up, fiscal stimulus may lead to higher interest rates and even higher inflation, and may be unnecessary after monetary policy has recently been so accommodative.

International Thoughts

Markets & the Economy

International equity markets outperformed the U.S. equity markets in the first quarter. The Eurozone experienced strong industrial activity, expanding at a six-year high in the month of March. With the pickup in industrial activity, inflationary pressures are being watched closely as busy suppliers work to keep pace with demand. Job growth also improved. Led by Germany, the upturn is broad based with the exception of Greece.

The economic stabilization of China contributed positively to global growth. China's deliberate fiscal and monetary policy stimulus had a positive spillover effect on other emerging market economies. The challenge China faces is removing the reliance on government spending, which has been an important driver of expansionary activity.

Investment Committee Update

In the course of TLAs regular semi-annual rebalancing process, we rebalanced accounts in February to adjust for market performance and realign portfolios to model 'weight.' This strategy allows us to capitalize on reallocating assets from strong performing investments which are more fully valued to other opportunities which now look more attractive from a risk/reward perspective.**

Summary

The U.S. economy continues to expand at a slow pace. Inflationary trends and tight employment levels have resulted in rates moving, also slowly, higher. Further rate hikes may be necessary should the economy begin to show signs of overheating. Corporate earnings growth is supportive of current valuations, though the market may pause, as fiscal stimulus measures, and the chances of those measures being enacted, become clear. Growth abroad is picking up, and Eurozone companies are expected to see positive earnings growth. Central bank monetary policy remains accommodative for the region, further supporting the overseas markets.

As wealth advisors, we are focused on the long term and remain disciplined on your behalf. Our goal is to achieve the best risk adjusted return given a clear understanding of your financial picture and risk profile. Only then can the asset allocation decision be made, providing diversification and mitigation of risk at the same time. Through regular monitoring and following a deliberate rebalancing process, we avoid timing the market and focus instead on staying true to asset allocation model weight.

We look forward to continuing to partner with you in helping you reach and achieve your financial goals.

TLA Wealth Advisory Group

*Indices mentioned are unmanaged and cannot be invested in directly. Past performance is not a guarantee of future results.

** As a reminder, our firm's Investment Committee meets twice monthly to monitor economic indicators as well as review and assess our investment models. Our monthly economic review meeting has us follow approximately 90 data points for the US and global economies. At our monthly portfolio meeting the Investment Committee reviews and assesses our investment models and their underlying holdings.