2016 Fourth Quarter and Year Review:

Happy New Year and all our best as we celebrate the closing of 2016 and welcome in 2017. Our team feels truly blessed and privileged to serve so many wonderful clients. We enter the New Year, closing the door on a volatile 2016 and enter 2017 with anticipation, anxiety, and even hope. There is, without question, expected change coming in 2017 and our focus will remain on the impact these changes may have on the economy.

After a tumultuous presidential campaign, Donald Trump claimed victory as the 45th President of the United States to the surprise of most political analysts and pollsters. Republicans also claimed victories in both houses setting up a pro Republican mandate.

President-elect Trump supports policies which could be positive for the economy from a fiscal stimulus perspective. Tax reform, infrastructure spending, and regulatory reform are among the proposed initiatives. Investors have reacted favorably to this discussion, as U.S. equity markets have surged since Election Day.

Janet Yellen has communicated in kind recognizing how recent ease of monetary policy has been favorable to stimulating the economy and markets. As the Chairperson of the Federal Open Market Committee (FOMC), she is also prepared to act as a brake if the economy heats up too fast, wary of inflation. Separately, rising interest rates are an indicator of a healthy economy, which can support growth unilaterally.

We expect tempered growth worldwide in 2017. Domestic markets should be supported by modest earnings growth and a relatively low interest rate environment. The European community continues to repair economic and political discord, with equity markets characterized by low earnings growth and relatively cheap valuations.

Fourth Quarter 2016 Market results:

- S&P 500 index* +3.82%
- MSCI International EAFE Index* -0.71%
- MSCI Emerging Markets Index* -4.16%.
- Barclays Cap. Aggr. Bond Index* -2.98%

2016 Market results:

- S&P 500 index* +11.96%
- MSCI International EAFE Index* +1.00%
- MSCI Emerging Markets Index* +11.19%.
- Barclays Cap. Aggr. Bond Index* +2.65%

2016 Q4 Economic & Geo-Political Highlights:

- **Domestically**:
  - 0.25% increase in Fed Funds Rate to a target of 0.50%-0.75%
  - Equity markets – favorable reaction post-election results
  - Unemployment rate remains low, at full employment levels
  - Purchasing Manager’s Index (PMI) remains healthy and above the key “50” level
  - Dollar strengthened over the course of the year
  - Donald Trump is the U.S. President-elect

- **Internationally**:
  - Speculation remains on the future of the European Central Bank (ECB) monetary policy, which has followed behind the U.S.’s quantitative easing efforts
  - Rates in major markets generally followed the U.S. upward after the FOMC rate decision – except, Japan, keeping its 10-year Japanese Government Bond (JGB) near zero
  - Brexit is moving forward, and while still to be determined on how that will look, the British pound has depreciated meaningfully, which should stimulate exports
  - Chinese yuan fell 7%, the largest drop on record

Domestic Commentary

Markets & the Economy

U.S. equity markets (S&P 500) advanced 3.82% in the fourth quarter. The U.S. bond market (Barclays AGG) fell -2.89%, over the same time period, in response to consumer prices firming and inflation expectations rising.

The U.S. economy experienced an acceleration of growth in 3Q. Third quarter final estimate of annual gross domestic product (GDP) came in at 3.5%, up from 1.4% in 2Q. Fourth quarter GDP estimates are forecasting a slowdown to 1%-1.5%, followed by 2.5%-3% growth in 2017.

Annual inflation, as measured by headline CPI, rose to 1.7% (November data), which is closing in on the Federal Reserve's 2% target. The FOMC met in December and raised interest rates by 0.25%, and indicated the likelihood that we should expect further increases in the New Year, and possibly an increase in each quarter. The U.S. added 156,000 jobs in December, which is the 75th straight month of job growth, the longest period of job growth since 1939. Wages grew 2.9% year over year, the strongest increase in seven years. If we begin to see an increase in inflationary pressure, we would expect the FOMC to hasten the rate of increases accordingly.

Finally, the ISM Non-Manufacturing PMI Index came in at a high of 57.2. The ISM Manufacturing PMI Index rose to a strong 54.3 in December. A reading over 50 generally indicates an expanding economy.

Politics

The presidential election is over to the relief of many, as it proved to be divisive, contentious, and fraught with heightened emotions on all sides. We expect continued volatility as the new President-elect is sworn in to office. This volatility is in part fueled by speculation and a tendency towards theatrics in certain media forums.

We are reminded that moving policy proposals forward in Washington is often slow going. While the President-elect has a long menu of policy initiatives, the impact of his Presidential agenda is likely to be muted, both for the good, and bad.

Overseas Thoughts

Markets and the Economy

International equity markets underperformed the U.S. equity markets in the fourth quarter. Focus has revolved around the implications of final Brexit negotiations and implementation, as well as the outcome of upcoming European elections (Germany and France). These elections should provide clarity on the risks of further departures from the European Union.

The European Central Bank (ECB) is likely to continue its accommodative monetary policy in efforts to stimulate sluggish economies. Headline inflation remains under 1%, below the ECB's 2% target. Market valuations are attractive, and should the region see a pickup in economic activity, this area could perform well over the next year.

China is expected to experience a continued slowdown in the pace of economic growth to 6-7%. This is partially a function of the law of large numbers and a transition from a manufacturing based economy to a services and consumption economy over time. The yuan experienced significant pressure, as China unsuccessfully attempted to defend its currency amidst concerns over its financial system. China has been slow moving to allow its currency to free float, preferring intermediary steps including pegging the yuan to a basket of currencies.

Investment Committee Update:

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.

Over the course of the first quarter of 2017, we anticipate rebalancing accounts 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 is growing at a measured pace. U.S. interest rates have ended their long trajectory toward near zero levels. Rates have moved up after the FOMC's December rate decision. Rising interest rates at current levels may not necessarily be viewed as "tightening" per se, though more as an end of monetary accommodation. Further rate increases are expected over the course of the year, the pace of which is likely to be a function of inflation, and tighter labor markets.

To the degree that fiscal policy, via tax cuts and/or infrastructure spending, is eased, we may experience a quicker uptick in inflation. However, we know that pushing policy changes through takes time. In the near term, companies will begin reporting results and we will get a better understanding of earnings growth trends.

As we continue to remind ourselves, maintaining a long-term investment approach is important, especially during times of heightened market volatility and uncertainty. We will continue adhering to the steps that truly generate successful financial planning; those of following a rigorous process regarding asset allocation and rebalancing, communicating clearly with you, and continually and thoroughly monitoring your financial situation to ensure together, we are getting you ever closer to your financial objectives.

We look forward to speaking with you soon.

TLA Wealth Advisory Group

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