KEEL POINT MARKET COMMENTARY
APRIL 2017

We have a new President, a new Congress and a new Associate Justice of the Supreme Court. Washington is abuzz about the new people, policies and processes with pundits pontificating both positively and negatively. All of this is of interest especially as to its impact on economic and financial markets.

The principal drivers of equity market movement are confidence and corporate earnings. Both are up since the beginning of 2017. Consumer Confidence (index) is registering at 96.9 at the end of March, against a 10-year average of 78.2. Likewise, S&P 500 corporate earnings were positive in the fourth quarter of last year and early returns for January – March 2017 (21 companies reporting at April 7) are coming in above market expectations of 9.5% to 11.0% year over year.

The latest revision of Q-4 2016 growth was positive and the forecasts for Q-1 2017 US GDP growth is in this same range. Inflation has reached the Federal Reserve target of 2% per annum and the Fed has indicated that it will continue its program of raising the Federal Funds interest rate.

2017 Financial Market Recap

This optimism is reflected below in financial market returns for the first quarter of 2017 and the trailing twelve months *(Source: Bloomberg),* as well as Keel Point portfolio risk benchmarks.

	Jan-March 2017	Trailing 12 Months (as of 3/31/2017)
Equity Markets		
- MSCI All Country World Index	6.9%	15.0%
- U.S. S&P 500	6.1%	17.2%
- Russell 2000 (U.S Small Cap)	2.5%	26.2%
- International Developed	7.2%	11.7%
- Emerging Markets	11.4%	17.2%
Bond Markets		
- Barclays U.S. Aggregate Bond Index	0.8%	0.4%
- U.S. High Yield Bonds	2.3%	14.2%
- Emerging Market Bonds	4.0%	8.0%
Keel Point Portfolio Benchmarks		
- Aggressive (90% equity / 10% Bonds)	6.3%	13.6%
- Growth (75% equity / 25% Bonds)	5.4%	11.3%
- Balanced (55% equity / 45% bonds)	4.4%	8.3%
- Conservative (35% equity / 65% bonds)	2.9%	5.4%

As the schedule of returns shows, most major equity markets produced a disproportionate share of their last 12 months returns in the first quarter of 2017 – the notable exception being U.S. Small Cap stocks which had exceptional returns in 2016.

The U.S. 10-year Treasury yield declined from the beginning of the year to the end of March. This reflects confidence in the Federal Reserve being on track for containing any nascent inflation – of which there is none at this point – and a sense that the new President's budget is not increasing the Federal deficit materially. The Real Estate Investment Trust (REIT's), preferred equities and Alerian MLP indices all are positive year-to-date, while commodities and oil prices are down so far this year.

<u>Expectations for the Rest of 2017</u>

Financial markets have baked-in Mr. Trump's pro-growth policy initiatives: reforming the Affordable Care Act, lowering corporate and personal income tax rates, reducing regulation, infrastructure spending, and creating a more pro-America trade environment. If implemented effectively, we believe these initiatives can extend the bullish equity market cycle and will be supportive of continued U.S. dollar strength, as well as increased capital investment by U.S. corporations. The first one out of the gate – repeal and replace "Obama Care" -- stalled and revealed deep divisions among Congressional legislators and the White House.

While we continue to believe that 2017 S&P returns can be in the range of up 7% - 10%, with certain sectors, such as energy, financials and small caps, posting better returns, this depends heavily on successful adoption of the stated pro-growth policy initiatives listed above. As a result, we may see increased financial market volatility as the successes and failures of President Trump's policy initiatives are revealed.

<u>Keel Point Portfolio Positioning</u>

Below is a summary of Keel Point's current portfolio positioning:

- *Equity*: We remain overweight U.S. equities relative to non-U.S. equities generally and are maintaining our significant exposure to U.S. small cap stocks. We continue to diversify equity risk with allocations to energy and real estate sectors and, where appropriate, quantitative strategies, such as Keel Point's tactical strategy, quantitatively managed hedge funds and structured notes.

- *Fixed Income*: Keel Point's fixed income position has been structured with less interest rate sensitivity than the benchmark Barclays U.S. Aggregate Bond Index. Also, last July, we reduced traditional fixed income exposure in model portfolios and restructured the allocation to conservative alternative strategies – strategies with risk similar to bonds, but with less sensitivity to movements in interest rates than traditional fixed income investments.

We appreciate your trust and look forward to serving you in 2017.

Best Regards,

Steven Skancke (Chief Investment Strategist)
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