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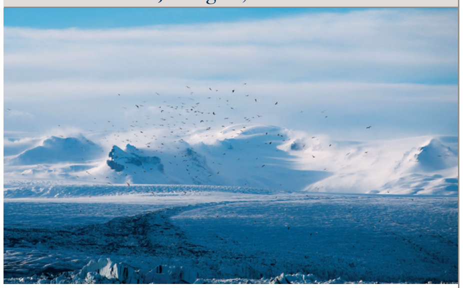
market update

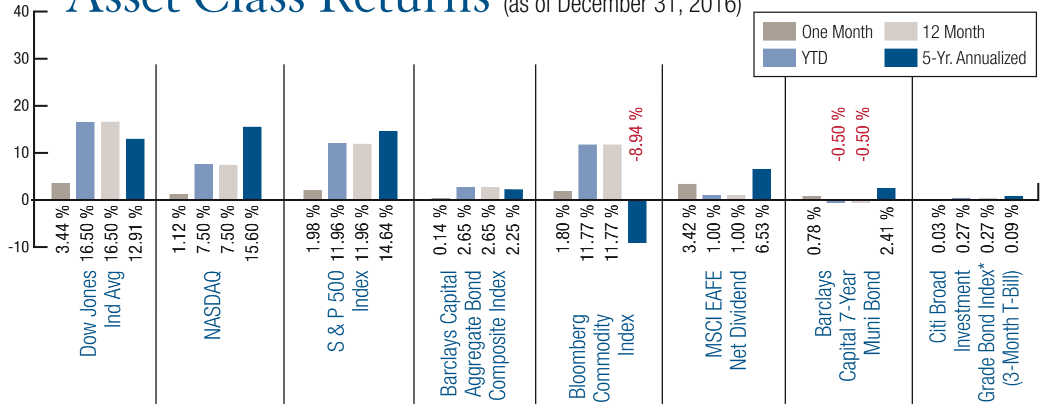
From the Office of:
Jeff Sgroi, CFP®



"The harder I work, the luckier I get."

– Samuel Goldwyn

Asset Class Returns (as of December 31, 2016)



Material prepared by Raymond James for use by its Financial Advisors

Market/Economic Synopsis

- U.S. equity markets finish 2016 on a strong note
- Fixed income yields rise on heels of November election results and Fed bumping Fed Funds Rate 25 basis points in December
- World Bank, in its latest Global Economics Prospects report, expects world economy to expand by 2.7% in 2017
- Oil prices settle around low/mid $50's per barrel, as OPEC and other major producers have recently pledged to cut production
- President-elect Trump busy structuring Cabinet and nominees work through confirmation hearings; President Obama works to cement legacy on final days in office
- Broad consensus among economists that the U.S. dollar will hit parity with Euro in 2017
- American automakers show commitment to manufacturing within U.S. borders as Ford and Fiat Chrysler pledge substantial investments in Michigan and Ohio

Market Outlook

With the turn of the calendar, we look ahead to a fresh year in the markets. Importantly, though, momentum often carries through from the end of one year into the next, as we have seen in the first few trading sessions of 2017.

Below are key considerations that we expect to have significant influence on domestic and global markets through the year. These ideas are central to Raymond James economists, analysts, asset managers and other professionals, whose opinions and outlook I share.

ECONOMY

- "While there are a number of uncertainties in the economic outlook, the largest risk is in global trade," said Raymond James Chief Economist Scott Brown. "A trade war would boost inflation through higher import costs and dis¬rupt supply chains in U.S. manufacturing. Cooler heads should prevail, but a trade war would undermine economic growth at a time when global trade is already slowing."
- "The pre-election outlook held that slowing population growth – resulting in slower labor input and economic growth – was the 'new normal,'" Brown said. "Post-election sentiment suggests that we are going to get some fiscal stimulus, but that likely will be ineffective in boosting growth on a long-term basis due to demographic constraints."

EQUITIES

- We believe the equity markets are transitioning from an interest rate-driven secular bull market to an earnings-driven secular bull market, which should become increasingly evident in 2017, according to Jeff Saut, Raymond James Chief Investment Strategist, Equity Research. Any weakness should be viewed with a long-term perspective and seen as a potential buying opportunity, depending on your personal goals and objectives.
- With the S&P 500 at above-average valuations, according to some metrics, earnings growth will likely have to resume higher in order to justify appreciably higher prices for this market over the next 12 to 18 months. For now, it appears that economic activity and earnings should pick up in 2017. If this comes to fruition, the current bull market could continue into 2017.

MONETARY POLICY

- As expected, the Federal Open Market Committee (FOMC) raised the federal funds target range by 25 basis points, to 0.50-0.75%, while the Fed's Board of Governors approved a similar increase in the discount rate to 1.25% from 1.00%.
- While nominal hourly earnings have been trending moderately higher – reflecting a tighter job market – growth in inflation-adjusted earnings slowed over the past year.

GLOBAL

- Concerns continue to circulate over a surprise devaluation by China, which could threaten emerging market stability and commodity demand levels. While the nation's ongoing credit and debt bubble poses a potential risk to the outlook, we foresee no near-term catalyst for a crisis, according to Paul Berg, CFA, Cougar Global Investments*.
- Exchange rates remained uppermost in the minds of international investors outside the United States as the dollar remained generally firm against major international currencies.
- Generally, international markets trade at a discount to those in the United States. This reflects a greater level of event uncertainty but also means that returns have the potential to be higher if realities turn out to be less problematic than expected.

FIXED INCOME

- "Near-term, risk markets have more room to run with eco¬nomic and fiscal policy optimism," said James Camp, CFA, Managing Director of Fixed Income, Eagle Asset Management*. "Through Q1 of 2017, the market is going to do well. The curve is steep. There's a term premium.

Let's not forget that we opened 2016 with a big downdraft. This is a retracement from Brexit low yields and not particularly concerning."

- There are numerous headwinds tempering interest rate swings: global market influences such as interest-rate disparity, central bank immersion, demographics, U.S. dollar strength and corporate earnings.
- "Asset allocation is important and, from a strategic stand¬point, we are staying the course," said Doug Drabik, Raymond James Senior Strategist, Fixed Income. "Rising interest rates and the widening of municipal market spreads further empha¬size decent opportunities for fixed income."

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BOTTOM LINE

- U.S. equity experienced a downturn in the beginning of 2016, but enjoyed a prolonged rally as well as a surge following the U.S. presidential election.
- As the dollar holds firm against major international currencies, China and Europe are bracing for major political and economic decisions in 2017, which could impact market stability and commodity demand levels.
- Though each of the major U.S. indices hit record highs following a post-election rally in November, it is well-advised to keep a long-term perspective when it comes to diversification and your financial goals.
- We will continue to monitor political developments or economic shifts both domestically and abroad, carefully assessing how they may affect your financial plan.
- When reviewing market activity and investment performance, it is important to have a long-term perspective and keep in mind your personal asset allocation and the role a well-diversified portfolio plays in helping you reach your objectives.

On the heels of a healthy market in 2016, I am optimistic for what lies ahead in 2017. Please let me know if you have any questions about market events or how to position your portfolio for the upcoming year.

From the Homefront

Ski season is officially in full swing, and we have all three girls in lessons this year (for the first time)! This is Stella's third year on skis. Thankfully I can still keep up with her - although it remains to be seen how much longer I can do so! Lily and Hannah eagerly started their ski programs the first Saturday in January. They were exhausted at the end of the day but are excited for their next lesson! Tracy and I quickly discovered that ski school is a significantly preferable alternative to a babysitter, and we skied together for the first time in years.

Here is our obligatory selfie on the Elk Camp chair in Snowmass!

In the spirit of exposing our girls to all the winter sports possible, we put them on skates (generously handed down by our next door neighbor's girls) during Christmas break. Stella has been skating as long as she has been skiing, and is quite confident. Not surprisingly, Lily skated with incredible vigor on just her first time out. Hannah was a bit more reserved, but still able to get around.

We enjoyed a relatively "quiet" Christmas week with friends (aka our local family) this year. Tracy outdid herself cooking for dozens. We surprised our girls on Christmas morning with news of a Disney trip planned for April, which conveniently coincides with the RJ National Conference in Orlando this year. Their reaction was somewhat muted; no doubt it will all sink in once we step into the Magic Kingdom, though!

Here's to wishing you and your loved ones a happy, healthy and prosperous 2017. The Sgroi family thanks you for your friendship throughout the year!

If you prefer to receive this newsletter via email, please notify us at jeff.sgroi@raymondjames.com.