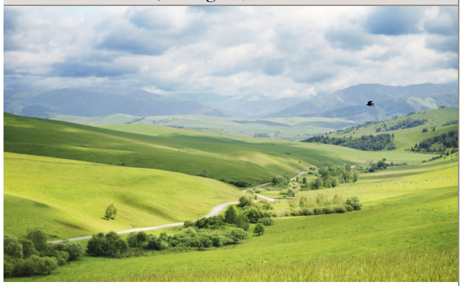
RAYMOND JAMES®

market update

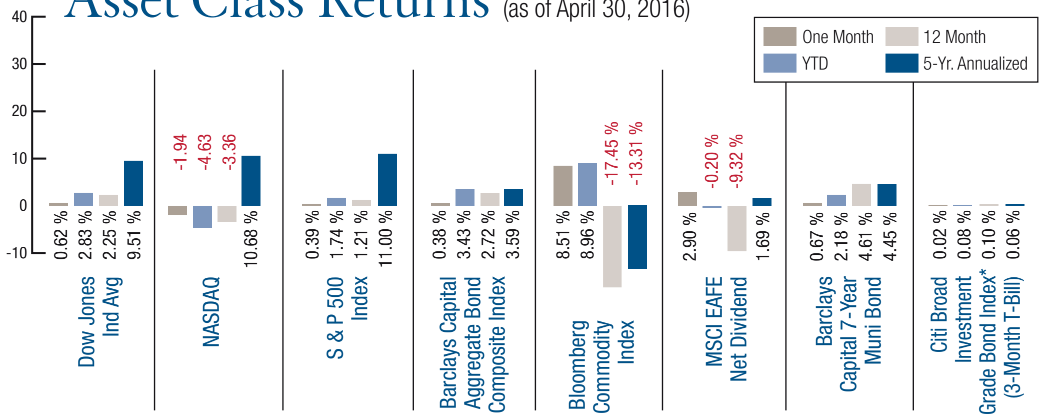
From the Office of:
Jeff Sgroi, CFP®



"May you live in interesting times"

Chinese proverb

Asset Class Returns (as of April 30, 2016)



Material prepared by Raymond James for use by its Financial Advisors

Market/Economic Synopsis

- Commodity markets gain, as bellwethers gold and oil prices reach recent highs.
- Treasury yields continue to drop, tracking other nation's sovereign debt values.
- S&P 500 rebounds into positive territory after double digit dip to begin 2016.
- Wildfires in the tar sands region of Fort McMurray, Canada knock out one third of the country's oil production.
- June 23 vote in U.K. set to determine if the nation stays in or exits the European Union.
- Puerto Rican debt problems continue, as the nation misses a $422M bond payment and expectations for a taxpayer funded bailout rise.
- Economic and employment figures in the United States continue to show weak, stagnant (albeit positive) expansion.
- U.S. dollar trades off of recent highs, as Japanese yen and Eurodollar strength baffles economists.
- Apple dethrones ExxonMobil as the world's largest dividend payer, in dollar terms.
- With most S&P 500 companies having reported 1Q 2016 financial results, over half beat on revenues and ¾ beat on EPS.

Takeaways from Nashville

Nashville, Tennessee hosted the Raymond James National Conference the final week of April. Every conference I attend offers new ideas, speakers and insight into our financial market's status. With that being said, there are themes that often weave from one conference to the next and year over year. Part of the commonality is a group of speakers for whom I have the utmost respect and try to visit every opportunity I can. I was fortunate to see four of these speakers while in Nashville. Below is a synopsis of their presentations and key points (paraphrased, of course) that I find relevant to our asset management strategies and your goals.

ANDY FRIEDMAN – "The Washington Update"

Having practiced law in the Washington beltway for over 30 years, Andy is "one of the nation's most sought-after speakers on all things political" according to CNBC. I have had the pleasure to see him speak on a number of occasions to groups both large and small, and appreciate his ability to translate often complex issues into simple, unbiased terms. He focused on two main issues – the November elections and U.S. fiscal policy. Although many of his points are commonly held beliefs, it was good hearing affirmation from someone imbedded in the Washington scene.

Regarding the November elections:

- Both Houses are up for election. Republicans will likely keep the House of Representatives, while Democrats have a good chance at gaining a majority in the Senate.
- Hillary is the clear Democratic presidential nominee, unless indicted in the FBI investigation.
- Since Andy's presentation, Trump has cleared the brokered convention hurdle and will likely be the Republican presidential nominee, as Andy expected.
- In respect to business and investments, Clinton is more pragmatic on Wall Street regulation. If elected, expect continued gridlock in Washington, no entitlement reform, higher taxes and more spending on domestic programs. If Trump is elected, there will be a higher level of unpredictability, lower taxes, increased military spending, no change to entitlement programs and concerns about tariff/trade protectionism.

Regarding fiscal policy:

- 65% of the $3.9 trillion "budget" is dedicated to mandatory/entitlement programs.
- There are some potential tax loophole closures on the horizon, such as the curtailing of stretch IRAs & 401ks and the treatment of S-Corp dividends.
- Taxes for the highest income earners are at the highest level in 35 years. Tax efficient investments and accounts should be strongly considered, including municipal bonds, tax efficient funds and IRAs/Roth IRAs.
- Nothing gets done in Washington unless there is a forcing event (i.e. the debt limit is hit).

JAMES CAMP – Managing Director of Fixed Income, Eagle Asset Management, Raymond James

To provide perspective and balance to an agenda heavily focused on equities, I make it a point to visit with James Camp at our conferences. A few of his astute observations follow:

- Central Banks are in control. The European Central Bank (ECB) is buying bonds aggressively and the Federal Reserve is on a much more dovish trajectory than when 2016 started (and possibly one and done – i.e. the December 2015 rate hike may be it for some time).
- Municipal bonds are in short supply, and this is likely to continue. In 2015 they were the best bond asset.
- Corporate credit is deteriorating. Defaults will increase, primarily in the energy sector.

- Merger and acquisition activity and buybacks are increasing. Corporate dollars are not going into capital expansion.
- The world is chasing bond yields to the bottom during this slow growth economic environment. Credit is becoming tighter.
- Asset allocation has not worked recently, but it will prove to be a successful strategy again.

PHIL ORLANDO – Chief Equity Strategist, Federated

Phil Orlando is another strategist I enjoy immensely. The content he covers in 60 minutes is phenomenal. He had six primary talking points to a room full of my colleagues:

- The Federal Reserve. The Fed was going to raise rates four times in 2016 at 25 basis points per move, but the equity markets scared off, dropping 11% to start 2016. The Fed pulled back from raising rates in 2016 and the equity markets have since rebounded. Expect to see rates raised twice at the back end of 2016. In 2017, Yellen wants to start to unwind the Fed's $4.5T balance sheet, and she may be a one term Fed President and leave at the end of 2017.
- Energy prices. The Iran deal brought a lot of supply online. We have seen the bottom of oil at $26/bbl (twice earlier in 2016). We have not seen the "energy dividend" (i.e. higher consumer discretionary spending) from lower energy prices because fuel cost savings have been spent on healthcare, savings and repairing personal balance sheets. Lower energy prices have hurt S&P 500 earnings.
- U.S. dollar strength. The dollar has peaked. This is better for multinational U.S. company's earnings. There is a global economic rebound expected in the second half of 2016.
- Manufacturing recession. Inventory levels were high last year, but have since dropped. We need to see inventories continue to drop. The restocking cycle will begin in the second half of 2016.
- China. Expect continued lower growth, but no hard landing for China's economy. Consumer spending is on the rise in China, and >50% of GDP. The Chinese Central Bank still has some tools to support the economy via monetary policy.
- Political landscape. The "Zarnowitz Rule" dates recessions and demonstrates the worse the recession, the stronger the economic rebound SHOULD be. The economic rebound since the last recession (~2008) has been uncharacteristically weak – higher taxes, the Affordable Healthcare Act and government sequester all slowed the economic rebound. The Fed has done what they can, but fiscal policy is a problem.

JEFF SAUT – Chief Investment Strategist, Raymond James

For those of you who read my market letter regularly, you know that I consistently refer to Jeff Saut's opinion and market take. Once again, he closed the four day conference with his perspective. He started his session off by noting what a difficult market we have been in for the past 15 months, offering six primary reasons for the market struggles, and why he is not overly concerned about any of them.

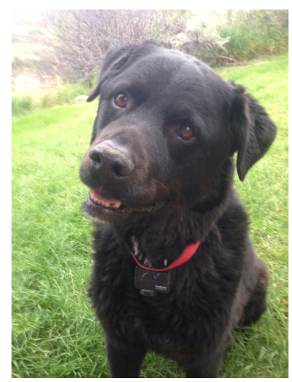
- China. It is still growing at 6% annually. The alleged revaluation of the renminbi is simply a reset.
- Policymakers are frozen. Our policymakers will begin to cooperate more (he has been suggesting this for some time now…..)
- Equity market jitters. Despite trading and pricing issues on August 24th & 25th last year, equity markets are not broken.
- European banks. Angela Merkel will NOT let a German bank go bankrupt.
- Fed fears. The right question to ask is "at what RATE does the Fed move?" The Fed is political and will not move until after the election.
- Fear of recession. We had a low GDP figure on Thursday, April 28th, but still maintain positive growth.

The opinions and observations I have shared with you are a sample of a much larger group of analysts, strategists, directors, managers and others with whom I visited and spoke. Interestingly, one key observation from this conference is that market experts are far from a consensus regarding market outlook in the foreseeable future. Some believe that not all is rosy for our equity markets. Others believe oil will be at $60 by the end of 2016. In the meantime, we will continue to look for opportunities for you and your portfolios. If you would like to discuss any of the viewpoints above, and how they affect your financial goals, I welcome the conversation.

From the Homefront

The Sgroi family had a great spring, with travels to Palm Springs, California for Stella's spring break in March, and Nashville (just Tracy and I) for the annual Raymond James National Conference. Candidly, having never been to Nashville (or anywhere within 300 miles), I did not have any great expectations. After all, my roots are in Massachusetts and the ocean and mountains outside of Boston. However, I was amazed at the culture, history, friendliness and overall good vibe in "Music City, USA". We stayed for the weekend after the conference wrapped up and enjoyed museums, a plantation tour (at Belle Meade, home to the champion thoroughbred Iroquois), incredible fried chicken (I'll never eat another Chicken McNugget) and a few well-known (and some not-so-well-known) honky tonks. I encourage you to visit if you have not done so yet!

Sadly, our dog Elvis passed away in March. I rescued him when he was four months old - nearly ten years ago. Every year around October, I hear from many of you insisting we include a picture of him on our Christmas card, so I thought one more photo of him was fitting. This one was taken last summer in our yard in Snowmass, where he spent most of his days. He looked nearly the same then as the day I took him home. I still look for him in the morning, being careful I don't trip over him in the dark. Thanks for 10 great years and we will miss you, big boy!



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