PARTNERVEST

Fourth Quarter 2016 Market Update

David Young, CFA
Chief Investment Officer

Market Commentary

- The S&P 500 and the Russell 2000 indices surged by 3.83% and 8.83% respectively in the fourth quarter, building on similar gains in the previous three-month period.

- The yield on the 10-year Treasury leapt from 1.6 percent in the third quarter to 2.45 percent by the end of December, kindling speculation of a 3.0-percent yield for the first time since December 2013.

- Bond prices, meanwhile, sank from a gain of 0.47 percent to -2.98 as measured by the Barclay US Aggregate Bond Index. As the average yield across the fixed-income spectrum remains depressed, the overall focus is on high-yield products.

- The dollar strengthened, metals and emerging markets weakened and crude oil stabilized after an OPEC production-cut agreement appeared to hold despite concerns that aggressive drilling by US companies may undermine it.

- Encouraged by the prospects of significantly reduced corporate taxes, investors piled into share markets that before the election were thought to be overheated.

- Among the most conspicuous transactions were share buy-backs by listed companies. According to The Wall Street Journal, Goldman Sachs projects that S&P 500 companies will spend about $780 billion on share buybacks in 2017, a 30% rise from 2016, buoyed by corporate tax reform and the repatriation of cash held overseas.

- According to a report from Swiss Bank Corp., pension funds that rebalance on a monthly and quarterly basis are poised to sell US shares in the value of some $38 billion to reset previous allocation levels.

MARKETS		
	Q4	**2016**
S&P	3.83%	11.98%
Russell 2000	8.83%	20.12%
10-year Treasury yield	2.45%	1.62%
Gold	$1150	$1075 (6.9%)
Silver	$15.99	$13.89 (15%)
Oil	$53.72	$36.76 (46%)
Dollar Index	102.29	98.97 (3.35%)

Dollar/Yen	116.89	12.33 (-2.85%)
Dollar/Sterling	1.23	1.47 (-16%)
Dollar/Euro	1.05	1.08 (-3.17%)
Barclays US Aggregate Bond Index	-2.98%	2.66%
MSCI EAFE Index	-0.68%	-1.87%
Volatility Index	14.04	20.70 (-22%)
MSCI Emerging Market Index	-4.08%	8.58%
Sources: Morningstar, Investing.com, MSCI		

Market Outlook

- We believe President-Elect Trump will usher in a fourth golden era of US economics and with it social advancement.

- The World Bank forecast 2017 GDP growth at 2.7% following an estimated post-2008 low of 2.3% in 2016.

- Non-farm payrolls in December grew by 156,000, well below the 204,000 created in November and surprisingly low given the season.

- In what has become a grim yuletide passage for the brick-and-mortar retail industry, JC Penny, Kohl's and Macy's all reported disappointing holiday sales amid rumors that Macy's and Sears may soon declare bankruptcy.

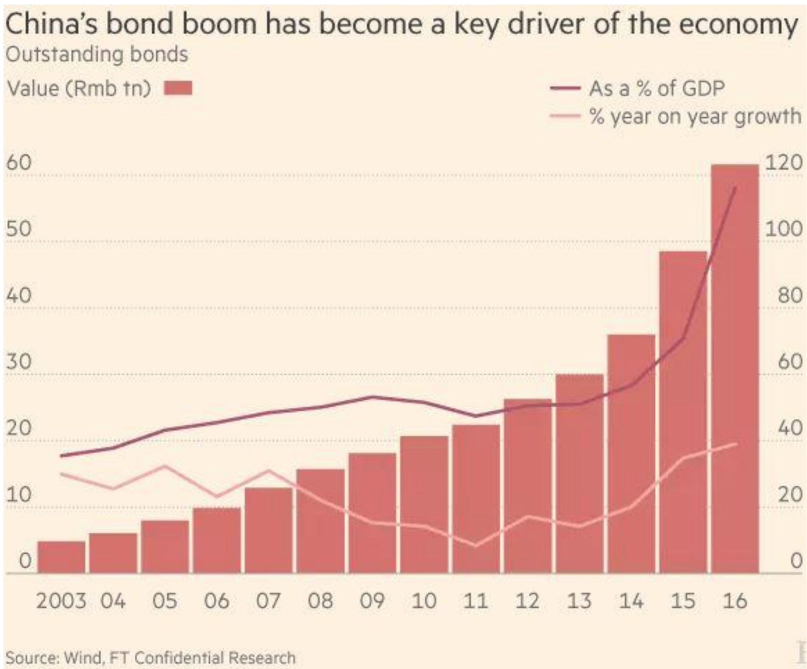
- Meanwhile, Amazon continued to dominate online holiday sales with a 38 percent share, followed by Best Buy's 4 percent and Target's 3 percent. The Seattle-based Amazon accounted for half of all online orders placed the Monday before Christmas Day, according to Slice Intelligence.

US ECONOMY		
	Q4	**2016**
Core Inflation	2.1%	2.1% (Jan16)
Non-farm Payroll Report	156k	168k (Jan16)
Unemployment	4.7%	4.9% (Jan16)
Personal Spending	0.2%	0.1% (Jan16)
Household Savings rates	N/A	5.99%(2015)
Institute for Supply Management Index	54.70	48.2 (13.5%)
Housing Starts	1090 (000's)	1160 (-6%)
Factory Orders	-2.4%	-2.4% (Jan16)
Sources: World Bank, Investing.com, TradingEconomics		

International

- Capital flight out of China, estimated by *Bloomberg* at $690 billion in the year to October, prompted Beijing to sell some $403 billion in US government paper from its foreign currency reserves to defend the renminbi.

- The cost of servicing China's outstanding debt, valued at 120 percent of GDP and nearly all of which is denominated in renminbi, is expected to rise given the likelihood of rising interest rates.



- Despite uncertainty ahead of several national elections the Eurozone is showing sights of revival, including an uptick in the composite Purchasing Managers' Index to 54.4 in December, up from November's 53.9 and aligned with its highest level since May 2011.

- Euro parity with the dollar can only strengthen export receipts, a fact reflected in surveys featured this month by Gavekal Capital. Confidence levels within the European Union not only beat expectations in December, they rose to levels not seen since 2007.

- The above mentioned surveys regarding Euro parity to the dollar were released by Gavekal Capital just days after Reuters reported that several German economists called on the European Central Bank to raise interest rates after Eurozone inflation accelerated at a faster rate than expected in December. In addition, sales are up among Europe's top-five auto manufacturers.

Political Risk: *The Weight of History*

The highly respected and deeply established Eurasia Group released a report this month that declared 2017 would be the "most volatile" year for political risk since World War II. In addition to Chinese and Russian adventurism the report cites the threat of ongoing jihadi violence and fissures in the Eurozone that threaten mortal ruptures.