ClearPath Capital Partners

ECONOMIC AND CAPITAL MARKETS UPDATE

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As we reflect on 2016 and look to the year ahead, the team at ClearPath has assembled our thoughts on various economic and capital market topics. We believe that this information will influence capital markets and asset flows through the first quarter of 2017 and that investors should be mindful of the following topics in relation to portfolio positioning.

GDP Growth

The current economic expansion is 90 months old, but it's been said that bull markets don't die of old age, they die of fright. Our baseline forecast is for modest GDP growth; we see GDP growth expanding to the 2.5% range by yearend 2017. The potential positive impact of tax reform, infrastructure spending, and foreign earning repatriation may cause an upside surprise to this estimate.

Rates

Recently the Federal Open Market Committee (FOMC) set the target federal funds rate at 0.50%-0.75%. In its accompanying data the Fed has raised its expectations for both economic growth and inflation; and telegraphed three interest rate hikes next year. Interest rates have run up over 0.30% since the US Presidential election (from 1.83% on Nov. 7th to 2.55% on Dec. 21st). We see this as marking the bottom of a 20+ years secular falling interest rate environment. 2017 will see higher rates, albeit in an uneven manner. We see the US 10-yr. Treasury in the 2.60% to 2.75% range by the end of 2017.

Inflation

Inflation is finally rising; Nov. CPI data firmed up on rising oil prices: annualized rate CPI 1.7%. Other measures of inflation (i.e. Personal Consumption Expenditure - PCE) also showed strengthening inflation. We only see a modest rise in oil prices in the coming year as many participates in the oil complex have committed to controlling supply. This supports our perspective that inflation should remain subdued with the yr.-o-yr. % change averaging only 2.3% by the fourth quarter of 2017.

Jobs

The November employment report showed the US economy added 178,000 jobs and the unemployment rate dropping 0.3% to 4.6%. The jobs market will likely remain strong next year, with the unemployment rate staying in the 4.6% range for the full year. We see wages growing at a 2.8% annual rate. With growing wages, consumer spending will likely be an important engine of growth, helped by housing market strength, as would-be buyers jump off the fence to get ahead of higher interest and mortgage rates.

Corporate Profits

The 3Q16 earnings season saw overall earnings per share grow 13.8% yr.-over-yr. - the first positive growth in six quarters. In 2017 earning growth should be buoyed by favorable possible tax cuts and infrastructure spending. We may be underestimating the potential of the US earnings engine but are forecasting a 10+% rise in S&P 500 earnings for 2017.

Risks

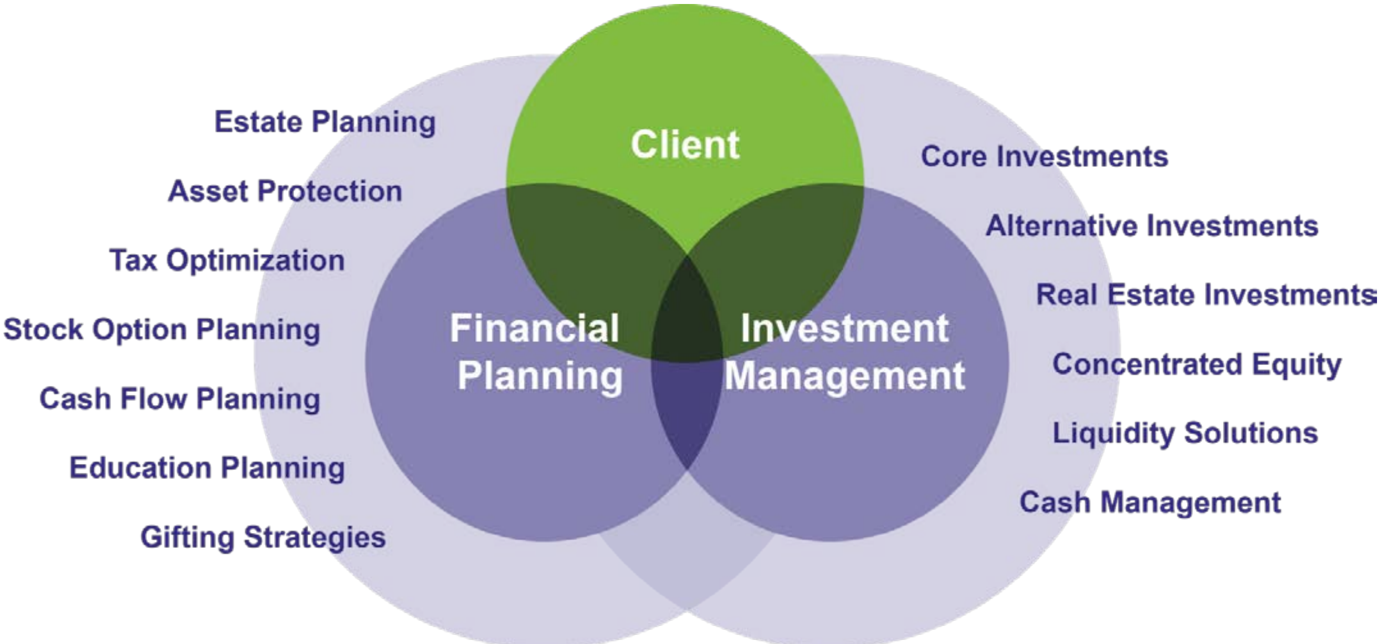
Many of the risks facing the capital markets are hard to define. From a historical perspective the first year of a Republican president's term is not a good one; since WWII, the S&P 500 fell an avg. of 2.7% during the first year of a new Republican president's first term. How some of the incoming administration initiatives are enacted will be key, as well as which are prioritized. Many of the other threats to the markets are outside the US; unsettledness in Europe and in the Middle East are concerns, what path the Chinese economy takes is important, as well as how the global populist moves unfolds in 2017.

Investment Themes

We are cautiously optimistic on the global equity markets; less so on the bond markets. We see four themes playing out in 2017: ◆ Modest global economic growth is a high probability with the possibility of an upside surprise in the US. This should support solid earnings gains which in turn will drive global stocks higher. ◆ US stocks are not cheap, time will tell if they are expensive. We forecast a positive year for the S&P in 2017 but expect heightened volatility as the new administration settles into place. ◆ Interest rates have bottomed after a 20+ year falling interest rates environment. Bond investors need to be ever vigilant in their exposures. ◆ Foreign stocks are a question mark. Uneven global economic growth makes taking broad exposure a risk. However, there is a "Reversion to the Mean" opportunity for international stocks.

We continue to recommend a global diverse, multi-asset class investment approach for clients.

Our wealth management process holistically integrates each of the elements of a client's financial and wealth management. As the most important financial resource for our clients, we deliver comprehensive wealth management advice and superior investment results.



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Founded in 1996, ClearPath Capital is a boutique Investment Advisory firm located in the heart of the SF Financial District. Through dedication, passion and intellectual curiosity, we craft innovative solutions for the unique wealth management needs of successful executives, entrepreneurs and high-net-worth clients.