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Executive Summary:

2058.9 and 2.17%.

If you guessed the above to be the closing prices and yields for the S&P 500 and the 10-year Treasury Notes this past December 31st, you would not be and could not be dismissed as a market novice. As a matter of fact, the S&P 500 Index closed 2015 at 2043.94 and the 10-year Treasury Note finished off the year at a yield of 2.27%. The figures on top represent the closing prices and yields on last trading day of 2014! To top it off the Consumer Price Index (CPI), representing the broadest measure of what individual investors experience on a day to day basis with fluctuations in prices is likely to end 2015 barely above where it finished off 2014 as well (up ~ 0.75%). So, in a year that started off with another potential financial crisis coming from Greece, ended the Summer with the bursting of China's equity bubble, and ended the year with the first interest rate hikes in over 9 years in the United States, the broadest measures of the future assessment of economic activity were essentially unchanged. In the meantime, underlying volatility in both equity and bond markets were above those of 2014 and in some instances the highest since the financial crises, diminishing risk adjusted returns significantly. The good news is that 2015 is over. The bad news is 2016 will likely not be much different for the majority of developed economies and their financial markets. Asset allocation mix will be the key "alpha" generating contributor to portfolios in 2016 and likely 2017 as well. On a risk, inflation, and global purchasing power (FX) adjusted basis, 2016 will likely see fixed income outperform equities in general, emerging markets debt and equities outperforming developed ones, and investment grade debt outperforming lower grade debt in developed markets, with the exception of emerging markets.

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The Global Business Cycle and Economy, 2015 into 2016:

The global economy experienced some significant divergences in 2015. Russia, Brazil, Japan, Canada and of course Greece either entered recession territory or continued to remain in one as the year started. While the drop in energy prices played a role in some of the contractions (i.e. Russia and Canada), individual country factors dominated in many of the other instances (i.e. Greece, Brazil, and Japan). China, the leader in the global expansion since '09 experienced its weakest growth since the financial crises, and while "real" growth continued to expand, the overall economic environment was and remains quite recessionary from our perspective. Commodity prices as a result continued the drop throughout the year and finished 2015 at half of their levels of 2011.

Western Europe remained one of the bright spots in 2015, partly out of the courtesy of negative interest rates from the ECB which can be credited with weakening the Euro. While Germany's growth rate remained unchanged relative to 2014, France, Netherlands, and even Italy and Spain saw pickups in growth. Italy is likely to have its first positive growth year since 2011.

The U.S. continued to plow ahead in the age of the "new normal" and with the strengthening of the Dollar contributed the most to global growth than in any year of this cycle. With the strengthening of the Dollar, the performance of U.S. based financial assets were also one of the bright spots of 2015.

While we expect the divergences of 2015 to continue into 2016 and likely 2017, we also expect the performance of the U.S. and Chinese economies to play a more dominating role in regional and overall performances in 2016 than in 2015.

The U.S. economy enters 2016 with a business cycle that just completed its 78th month of expansion. This cycle is now 5 months longer than the prior cycle and is the third longest cycle since the end of WWII. With the labor markets at near full employment levels, we expect wage pressures to continue building up as the year progresses. Continued jobs growth particularly in the services sector should push the unemployment rate to below 5.0% and force the Federal Reserve to continue raising interest rates. While we believe the "new normal" has lowered the bar for neutral Fed Funds to only around 2% from the previous 4%, we don't believe the markets have sufficiently priced in rate hikes for 2016 and expect the Fed to raise rates to above 1% during 2016 and close to 2% in the first half of 2017. And though it has been a long eleven years (July 2004 to be exact) since the last rate hike cycle began, and the yield curve somewhat flatter than back then, we expect the outcome to remain the same and for the yield curve to continue to flatten and eventually invert as a result. With the U.S. in rate hike mode and much of the rest of the developed economies (i.e. the U.K., Eurozone., Canada, and Japan) in wait and see mode if not with a slight bias to lower policy rates, we expect the US Dollar to continue strengthening against the Euro, Pound, and Yen. With wage inflation pressures picking up and commodity prices recovering (see below for explanation), corporate profits share of GDP has likely peaked for this cycle. We therefore believe that the present top-down estimates for growth in earnings to be slightly too optimistic with downside potential in Q1 and Q2.

The Chinese economy enters 2016 quite weak. Excess capacity and overinvestment slack remain, though not as bad as a year ago. While 2015 was dominated by monetary policy easing, the accommodation has done little to raise demand domestically. The devaluation of the currency was inevitable in our opinion and frankly

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quite timely. And while the slowdown in growth remains in place, the pace has improved. Chinese policymaking continues to vary from that of its western counterparts, and it is more micro targeted and continues to focus on investment rather than consumption. While many in the west are critical of this approach, we believe that this focus will not change in the near term and though the Chinese are increasing their focus on transitioning the economy to a more consumer orientation, business investment will remain the primary driver of growth in the coming years. We expect more policy actions for 2016 and do not discount devaluations in excess of markets expectations (though not forecasting it). And while we expect growth to remain weak into the first half, we believe the accumulated policy accommodations to eventually increase confidence and allow the economy to bottom and the new cycle to be in place by the second half.

The Chinese recovery in the latter half of 2016 should help overall global growth but with a lag. The impacts of the slowdown are being felt and will continue to do so in the rest of Asia, and Latin America, but with the exception of specific industries, it has yet to be felt in the western hemisphere. We expect this negative impact to be offset somewhat by domestic demand but nevertheless be impactful on the western hemisphere economies. We don’t expect the positive impacts of China to be felt until much later in 2016 within Asia and Latin America and well into the second half of 2017 for developed economies. In the meantime, the commodity markets will be forward looking and begin to price in the Chinese recovery early in 2016. Though energy may have some downside, it will be limited. Industrial metals may have already bottomed.

With the emerging markets of Asia and Latin America we expect stronger currencies in general and in particular from the ASEAN economies and in Latin America specifically from Brazil during 2016. Brazil is one economy that we find particularly interesting as the depth and sharpness of the recession of 2015 and its spillover into 2016 are being over estimated by the financial markets in general and currency markets in particular. While growth will remain recessionary in 2016 we believe forecasts of contractions in excess of 3.0% to be too pessimistic. To make things even more complicated, policymakers are in a particular bind as they fight inflation and growth contraction. But as political uncertainty declines, Chinese recovery takes hold and commodity prices rebound, we believe the light at the end of the tunnel will become increasingly clear for Brazil as 2016 progresses.

Tactical Portfolio Opportunities for 2016:

From our perspective 2016 is shaping up to be the year of emerging markets. The cyclical recovery discussed above will provide the catalyst/momentum to drive outperformance, and historically cheap valuations in financial assets including FX will not only limit the downside, but could provide additional upside to overall performance. We are therefore recommending over-weight positions in both the equity and higher yielding fixed income markets of Asia ex-China/Japan, and Latin America. While this is a contrarian perspective, we believe investors will be well rewarded with this positioning in 2016 and into 2017. With regards to China, while we see a cyclical recovery taking hold beginning in the second half of 2016, valuations are not as attractive as elsewhere and we recommend neutral weightings for the time being.

Benchmarked against the MSCI GDP-weighted All Country World Index (ACWI) for equities and PIMCO Global Advantaged Bond Index (GLADI) for fixed income, we recommend being under-weight developed economy equity and high yield bonds and neutral to slightly over-weight investment grade corporate credit. The maturing economic cycle, over-valuation, coming higher short-term interest rates (for

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the U.S. and later in 2016 for the U.K.), and higher commodity prices will continue to pressure corporate margins and profits and limit the upside to equity and equity like markets in the developed economies along with continued volatility. Within these markets however, we would be over-weight Australia and Canada as beneficiaries of the coming commodity recoveries, and under-weight Germany, the U.K. and the U.S. due to valuation and economic cycle maturity. Germany and the U.K. will have the added negative impacts of currency depreciation against the USD to content with as well. We also recommend slight over-weight to Japan due to their coming cyclical recovery, but are mindful of the negative offsets coming from the Yens underperformance against the USD.

While we are neutral on fixed income in absolute, we have a very slight bias relative to equities on a risk adjusted basis. Within fixed income, we have a bias to higher grade corporate credit within developed economies (and recommend over-weight the U.S.) and neutral on government securities, and a bias to higher yielding emerging market corporate and governments.

From a sector selection basis, we believe global Energy, Metals, and other commodity plays are very attractive from a valuation perspective and recommend being over-weight those sectors. We especially like the commodity sector in Latin America, Asia (including Australia), and Canada. We also recommend over-weight Healthcare and Pharmaceuticals in developed economies. We recommend being under-weight Consumer Cyclicals in developed economies and over-weight in EM. We are generally neutral on Consumer Staples, Financials, Technology and Utilities.

From a style perspective, we favor value and high dividend yielding equities over growth in developed markets and favor growth in emerging markets.

IMPORTANT CONSIDERATIONS

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