



JANUARY 2017

INVESTMENT MANAGEMENT

ECONOMIC & MARKET REVIEW

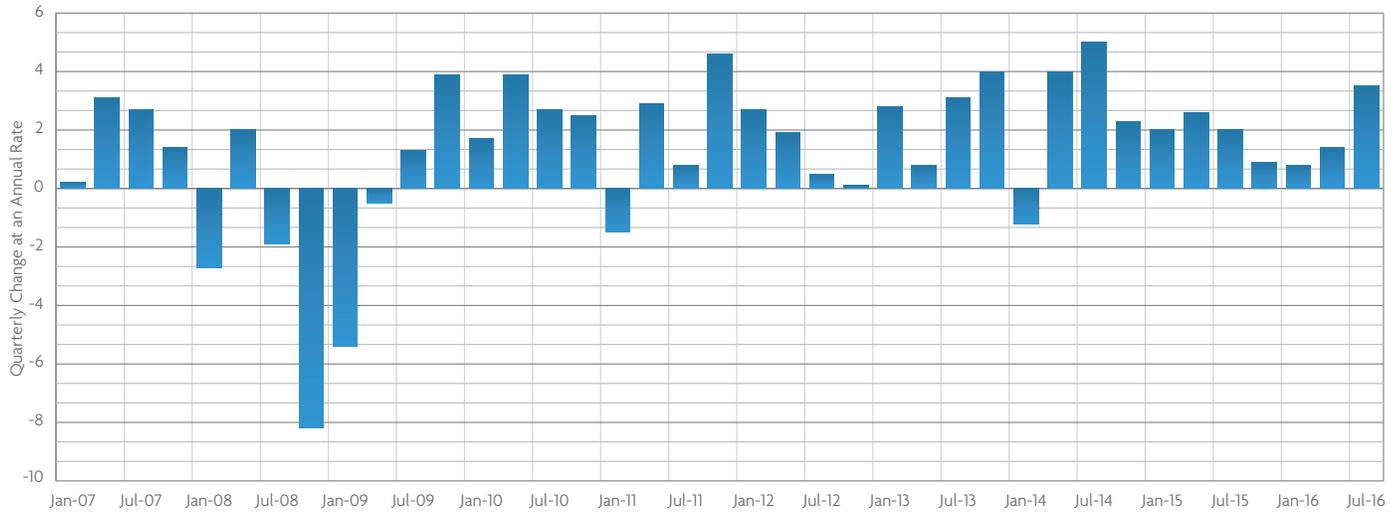
FOURTH QUARTER 2016



UNITED CAPITAL
FINANCIAL LIFE MANAGEMENT™

ECONOMY

GROSS DOMESTIC PRODUCT (GDP)

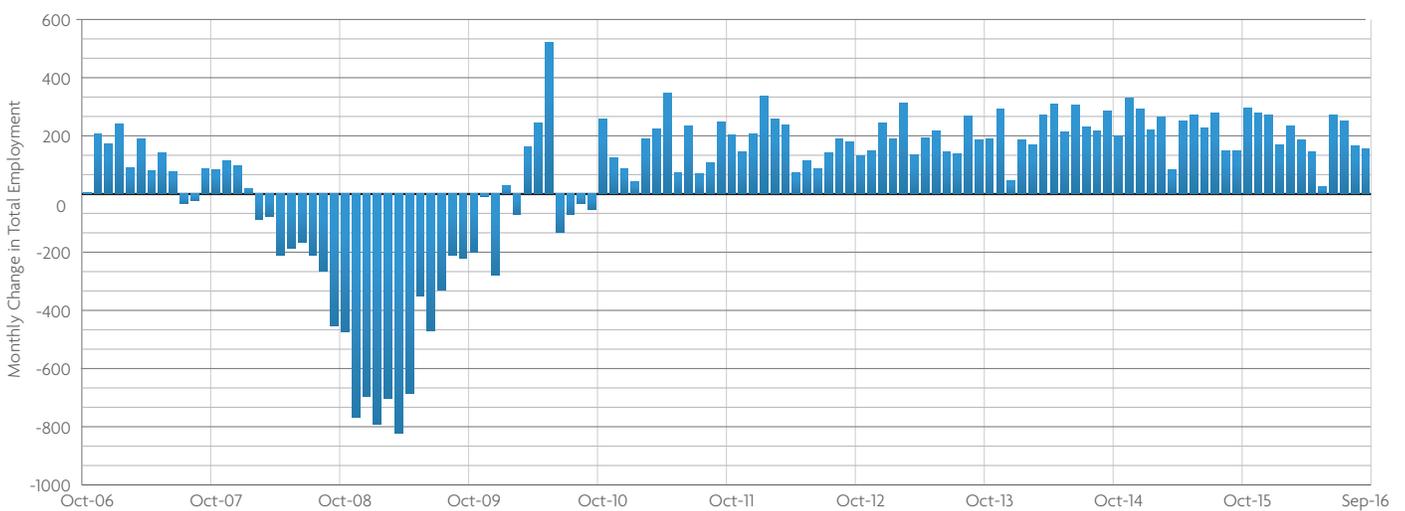


Source: U.S. Department of Commerce: Bureau of Economic Analysis

GDP came in at a 3.5% pace for the third quarter following a more tepid 1.4% annual rate in the second quarter. Housing construction was among the negatives in the quarter, but consumer spending, exports, government spending, and business investment were among the positives. The slow growth of the economy in recent years has been a

disappointment, but it partly reflects an aging population and slow productivity gains that help limit growth potential. Going forward, Fed officials believe the long run rate of economic growth to be about 2% or so in their economic projections, so at 3.5%, this is above trend.

NONFARM PAYROLLS



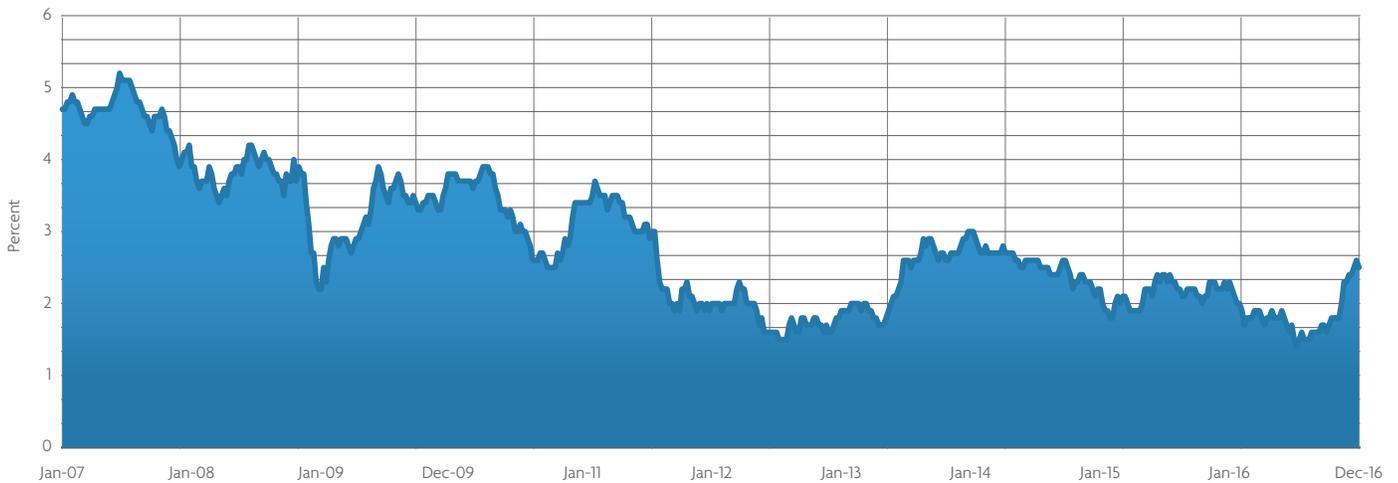
Source: U.S. Department of Labor: Bureau of Labor Statistics

Job gains in the past quarter have been moderate but steady, and the unemployment rate ticked down a bit over the quarter, even as more people entered the labor force to start (or restart) their job search. Average hourly earnings – a key metric for bolstering consumer spending – edged higher to 2.9% from

a year ago. While this may seem on the low side, inflation has also been extremely low, so real (net of inflation) hourly earnings growth has actually been above much of this series' history. Job gains have been spread across occupations with a variety of pay scales, including higher income jobs as well.

BONDS

TEN YEAR U.S. TREASURY YIELD



Source: Board of Governors of the Federal Reserve System

Signs of a stronger economy (such as in the aforementioned GDP report) and hints of rising inflation (as seen in the data on average hourly earnings) already meant that investors were prepping to reduce bond holdings (sending yields higher). This is particularly the case as the Fed continues in its rate

normalization process. However, a big impetus towards higher yields came with the election of Donald Trump to President, with his campaign pledges to boost growth, which may require more borrowing to finance spending, along with higher inflation, both of which may send yields higher.

BofA MERRILL LYNCH US CORP AA TOTAL RETURN INDEX VALUE



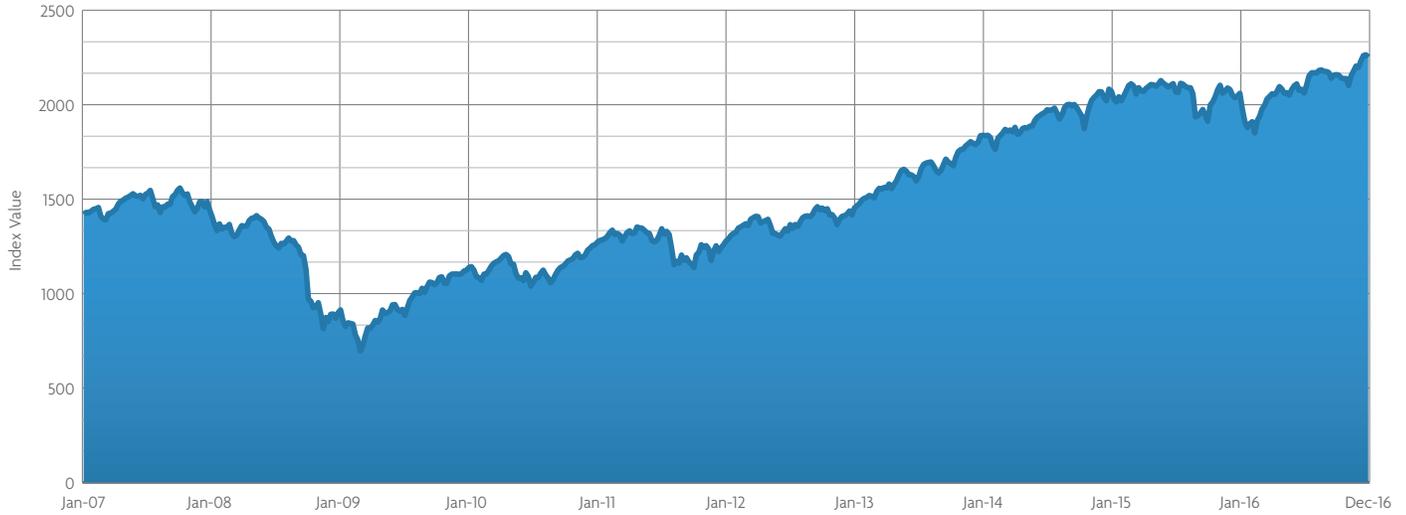
Source: BofA Merrill Lynch

Rising bond yields means falling bond prices. Longer term bonds are generally more sensitive to changes in interest rates than are shorter term bonds, with prices decreasing more when rates rise. Corporate bonds don't always respond in lockstep with Treasuries, however, as economic worries may affect investors'

views on credit quality. The converse is also true, however, as investment sentiment towards corporate bonds can, at times, move in tandem with investors' views on stocks and improve when risk-taking sentiment rises, making for an imperfect correlation with Treasuries.

STOCK MARKET

S&P 500

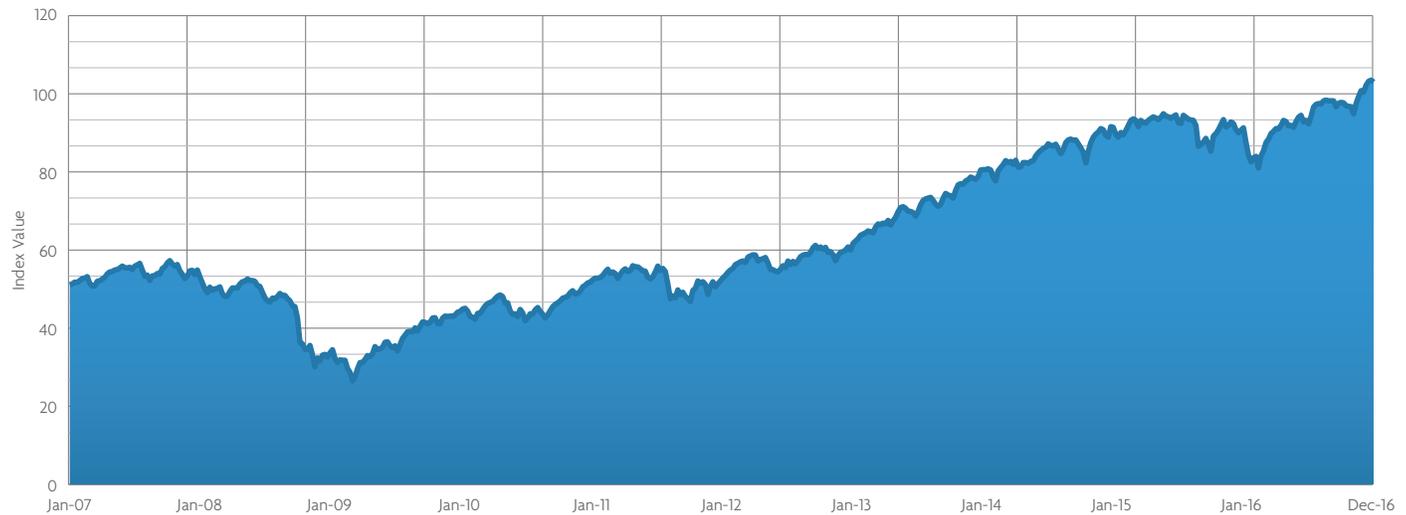


Source: U.S. Department of Commerce: Bureau of Economic Analysis

Despite a sharp drop at the beginning of the year, stocks rebounded since mid-February to reach record highs after the conclusion of the fourth quarter. During the fourth quarter, though, investors have been cheered by President-elect Donald Trump's campaign promises, which some see as increasing economic activity, perhaps benefiting

corporate earnings. However, not all companies may benefit equally, and some companies may be hindered, such as, for example, health care companies, which suffered after Trump's comments on drug prices. The markets will pay close attention to specific policy proposals.

WILSHIRE 5000 TOTAL MARKET FULL CAP INDEX



Source: Wilshire Associates Incorporated

The Wilshire 5000 represents the broad U.S. equity market, including many smaller and mid-size companies. Larger companies have underperformed smaller companies given Trump's views on trade policies, as many multinationals are importers of materials or parts, and some import end products

(think retail). However, many smaller companies are arguably less exposed to overseas markets than are large multinationals. That has led to a relatively larger run-up for stock valuations that are now higher on average for smaller companies than they are for larger companies, according to Bloomberg data.

SUMMARY

POSITIVES



THE ECONOMY CONTINUED TO EXPAND, ALBEIT AT A MODEST PACE, BUT WORRIES ABOUT A RECESSION HAVE ABATED, LEADING TO RELATIVELY STABLE ASSET PRICES.

INTEREST RATES REMAIN LOW, AND THE FED INDICATED IT WILL PROCEED AT A SLOW PACE WITH RATE HIKES AS INFLATION HAS YET TO EMERGE.

PAYROLL GAINS REMAIN SUFFICIENTLY STRONG TO ENCOURAGE EMPLOYERS TO OFFER WORKERS HIGHER WAGES, WHICH MAY SUPPORT CONSUMER SPENDING.

NEGATIVES



SOME OVERSEAS MARKETS CONTINUE TO BE NOTABLY WEAK, AND THAT CAN DEPRESS EXPORTS FROM THE U.S., CRIMPING U.S. MANUFACTURING.

WHILE THE HEADLINE UNEMPLOYMENT RATE IS LOW, LARGE NUMBERS OF PEOPLE HAVE DROPPED OUT OF THE LABOR FORCE OR ARE INVOLUNTARILY WORKING PART TIME.

THE MARKET IS TRADING AT RELATIVELY EXPENSIVE LEVELS AND, WITHOUT LARGE INCREASES IN CORPORATE PROFITS, MAY STRUGGLE TO MOVE SUBSTANTIALLY HIGHER.

SOURCES

All data in this document is obtained from the St. Louis FRED database, including data originally reported by the Bureau of Economic Analysis at the U.S. Department of Commerce, the Bureau of Labor Statistics, S&P Dow Jones Indices, Wilshire Associates, the U.S. Board of Governors of the Federal Reserve and BofA Merrill Lynch.

DEFINITIONS

The S&P 500 is regarded as a gauge of the large cap U.S. equities market. The index includes 500 leading companies in leading industries of the U.S. economy, which are publicly held on either the NYSE or NASDAQ, and covers 75% of U.S. equities. Since this is a price index and not a total return index, the S&P 500 index here does not contain dividends.

The Wilshire 5000 measures the performance of almost all U.S. common equity securities, and so serves as an index of all stock trades in the United States. The returns we publish for the index are total returns, which include reinvestment of dividends.

The BofA Merrill Lynch US Corporate AA Index value, a subset of the BofA Merrill Lynch US Corporate Master Index, tracks the performance of US dollar denominated investment grade rated corporate debt publically issued in the US domestic market. This subset includes all securities with a given investment grade rating AA.

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