ROUND TABLE
WEALTH MANAGEMENT

QUARTERLY REVIEW – FIRST QUARTER 2017

The "Trump Rally" continued through the first quarter with most asset classes, both domestic and international, generating strong, risk-adjusted returns. The rally's underlying support is in part due to investors "pricing-in" near certain approval of Trump's stated policy initiatives (healthcare, tax, foreign profits, infrastructure and military). But the rally also appears to be supported by favorable underlying fundamentals, both here in the U.S. and abroad, that provide investors the confidence to remain allocated to risk assets. Market volatility measures such as the CBOE Volatility Index remained low throughout the quarter, further evidence of investors' confident outlook.

We remain cautiously optimistic regarding equities and other riskier asset classes. Earnings and cash flow growth appear to be stable. Valuations, however, are elevated on trailing twelve month (TTM) and forward-looking measures. We are also vigilant on the Federal Reserve's decision to raise its Target Rate in March and its expectation to increase the rate two more times in 2017.

Annualized Benchmark Returns through March 2017*

	1 Quarter	1 Year	2 Years	3 Years	5 Years	10 Years
S&P 500	6.1%	17.2%	9.2%	10.4%	13.3%	7.5%
Russell 2000	2.5%	26.2%	6.7%	7.2%	12.4%	7.1%
MSCI World Ex. US Index	7.0%	12.5%	1.7%	0.8%	5.9%	1.6%
MSCI Emerging Markets	11.5%	17.7%	1.9%	1.5%	1.2%	3.1%
Bloomberg Barclays U.S. Aggregate	0.8%	0.4%	1.2%	2.7%	2.3%	4.3%
Bloomberg Barclays Municipal Bond	1.6%	0.2%	2.0%	3.5%	3.2%	4.3%
Bloomberg Barclays U.S. High Yield	2.7%	16.4%	5.9%	4.6%	6.8%	7.5%
FTSE Nareit All REITs	3.0%	6.3%	5.2%	10.5%	10.4%	4.8%
Alerian MLP	3.9%	28.3%	-6.5%	-5.2%	2.6%	7.2%

Source: Bloomberg **Quarter return is not annualized.*

The Big Picture (for additional information click HERE)

Several data points support the view that the U.S. economy can continue its current trajectory. U.S. real Gross Domestic Product growth was 2.1% in the fourth quarter of 2016, down from the third quarter 2016 GDP growth of 3.5%. The Philadelphia Federal Reserve's "Survey of Professional Forecasters" estimates the U.S. economy to grow 2.3% in 2017. The U.S. consumer is generally feeling good as demonstrated by a March 2017 Consumer Confidence reading that was the highest since December 2000. Personal income is also improving and families are saving about 6% of disposable income. About 70% of the U.S. economy is based on consumer spending.

Inflation is increasing but not at a pace that is worrisome. Yield differentials between nominal yield Treasury bonds and Treasury inflation protected securities (TIPS) imply an average inflation level of about 2% over the next decade. This is in line with the Federal Reserve's targeted rate of inflation.

The "Trump Rally," as the market surge since November 2016 has been dubbed, is premised upon the administration's ability to ultimately accomplish all its policy initiatives. JP Morgan suggests that if that were to occur, the market impact could be an incremental $9.30/share to S&P earnings. In that scenario, the equity market's valuation would remain high, but much more palatable. Investors need to be cognizant that Trump will not necessary get everything he wants and the resulting policies may be quite different than those expected by the market.

The U.K. pulled the "Trigger" on Brexit. We are referring to Prime Minister May's triggering of Article 50 of the Lisbon Treaty that begins the two-year negotiation for the U.K. to leave the European Union. Equity markets didn't react too much to the news, implying that the event was largely factored into market prices. In developed markets, fundamentals appear to be on the uptrend. In the fourth quarter of 2016, Europe and Japan grew quarterly year-over-year earnings at +11% and +13% percent, which were well above analyst estimates and that of the U.S. (+5%).[1] Along with the strong rebound in earnings, economic activity is picking up in developed markets as the Eurozone Composite PMI[2] just hit a 6-year high, while Eurozone GDP growth has kept up with the U.S. for five consecutive quarters. These data points surmise that the region is no longer a laggard economy.

Emerging markets enjoyed another quarter of strong performance. The positive currency effect was even more pronounced in emerging markets as the U.S. Dollar-denominated return was 3.7% in excess of the local currency return. Emerging market currencies, particularly the Mexican Peso, bounced back after being indiscriminately sold off in the fourth quarter of 2016 when Donald Trump was elected as President. Emerging market equities were also the recipient of large-scale inflows during the first quarter.

Summary of Allocation Recommendations

Asset Class	**Recommendation**	**Comment**	**Asset Class Summary Link**
U.S. Large Cap	Neutral/Overweight	Trump policy priced in yet growth prospects remain compelling, remain vigilant of valuations	*U.S. Large Cap Review*
U.S. Small & Mid Cap	Overweight	Premium valuation with high prospective growth, domestic focus, M&A activity looks promising	*U.S. Small Cap Review*
Non-U.S. Developed	Neutral	Attractive relative valuations and improving macro and corporate fundamentals	*International Equity Review*
Emerging Markets	Underweight/ Neutral	Currency concerns and commodity risks, attractive valuations	*International Equity Review*
Fixed Income	Neutral	Maintain safe haven assets for volatility and floating rate loans to alleviate interest rate risk	*Fixed Income Market Review*
Tactical	Neutral	Master limited partnerships, financials, aerospace/defense, pharmaceuticals	*Tactical Investments Review*
Alternative	Hedge Funds & Private Equity	For appropriate allocations	Contact your Wealth Advisor

The Outlook

We revise our 1Q 2017 large cap recommended allocation to neutral/overweight from overweight due to valuation. The S&P is currently traded at 21.8x TTM earnings, about 27.5% above the five-year average and 32.1% above the ten-year average. On a forward-looking P/E basis, the market is selling at a 17.3%

[1] JP Morgan. "Global Equity Strategy: Earnings Tracker." March 2, 2017.
[2] PMI stands for the Purchasing Manager's Index and is used as a leading economic indicator to track business conditions. The index tracks variables such as output, new orders, employment and prices across key sectors.

premium to its five-year average and 26.6% above its ten-year average. Earnings are projected to grow 9.8% in 2017, yet the first quarter projection is expected to be 9.1% earnings growth. There remains a strong investment case for investing in U.S. equities, however, a few of the underpinnings, such as Presidential policy, make future returns a bit more precarious than market volatility levels imply.

We recommend an overweight allocation to small and mid cap equities. While valuations are elevated compared to historical averages, strong realized and expected earnings growth make the allocation compelling. Mergers and acquisitions of small cap companies could continue to be a strong market catalyst in 2017. According to KPMG's survey of U.S. companies, 84% of survey participants stated they will conduct at least one deal this year, with 78% saying deals sizes will be less than $500 million.

We raise our recommended allocation to developed markets to neutral. Our developed market outlook improved based on macroeconomic and corporate fundamentals demonstrating a modest return to growth. Valuations in developed markets are at a discount to U.S. markets, which combined with low interest rates suggest favorable returns over the near term.

We continue to recommend a slight underweight to emerging markets. The asset class was one of the best performers for the quarter based in part on local currency appreciation relative to the U.S. Dollar and a recovery of underlying values rebounding from post-U.S. Presidential election negative speculation. Mexico was one of the best performers with the Peso rallying 10.7%. Other regions such as Asia were buoyed by a rebound in India after that country's demonetization. Commodities continue to play a role as demonstrated by the decline in Russia's equity market influenced by the decline in global oil prices.

We continue to recommend a neutral allocation to fixed income. The Federal Reserve increased its Fed Funds Rate to 0.75% in March, an increase of 0.25%. The Fed is managing to what is expected to be two additional rate increases in 2017. High grade fixed income will continue to play the role of a "safe haven" asset within client portfolios. We are supplementing allocations with floating rate loans as a means to limit the impact of rising rates. These loans carry higher credit risk, but in an environment where the Fed is increasing rates, it is reasonable to assume that such action is coincident with improving economic and corporate fundamentals and therefore alleviating credit risk.

We continue to recommend master limited partnerships (MLPs) and specific sector ETFs for tactical exposure. As stated in last quarter's letter, MLP yields are favorable, and President-elect Trump's policies are widely expected to favor the energy industry. The financial sector is expected to continue to benefit from Federal Reserve interest rate hikes. The sector had a setback due to the administration's failure to pass its healthcare initiative, which cast uncertainty on the President's ability to pass other policy initiatives such as reducing regulation of the financial services industry. We continue to favor aerospace/defense ETFs, which should receive support from Trump's policies and most recently from military action directed toward Syria. Pharmaceutical companies provide a compelling investment opportunity from both a valuation and earnings growth perspective. We eliminated broad real estate exposure from portfolios due to the impact rising U.S. interest rates can have on the sector.

Tax and Financial Planning News

A retirement cash flow forecast is a tool used by advisors that can help you assess your plans for retirement and to determine whether adjustments are needed to help you achieve your goals. The idea behind the analysis is to attempt to project the impact of several components that will materially affect your retirement. These components would include: an estimated rate of return on your portfolio, an estimate of your annual living expenses, sources of income (like social security, pensions, and deferred wages), and any possible capital expenses. Understanding the assumptions that go into this forecast can improve your understanding of the results and their value to you. For additional information on this please see our recent blog post here or contact your Wealth Advisor.

Firm News

Please join us in welcoming Joan Ferguson to Round Table! Joan will provide marketing and executive assistant services at the firm.

Respectfully submitted,
Round Table Wealth Management