VIEW FROM THE TOP

NOV 21 2016

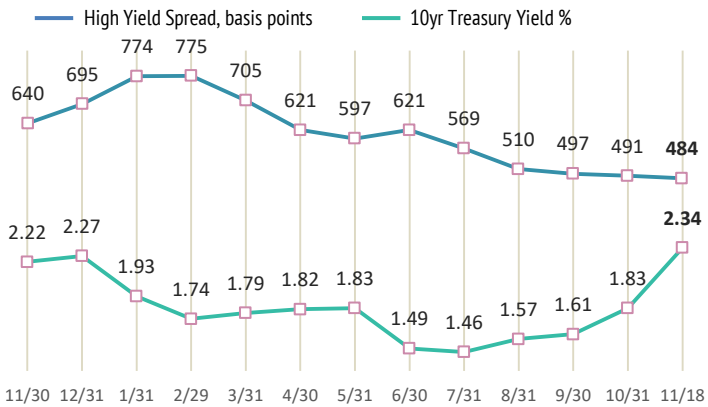
A weekly report from Quartz Partners Investment Management summarizing key data and highlights from the market week.

INDEX PERFORMANCE

Index	1wk	4wk	YTD
S&P 500	0.89	2.23	8.87
Nasdaq Composite	1.61	1.48	6.27
Dow Jones Industrials	0.26	4.29	10.98
Russell 2000	2.62	8.21	17.34
Barclays US Agg Bond	-1.02	-2.68	2.54
Merrill Lynch HY Master II	-0.35	-1.69	14.28

Data as of 11/18/2016. Please see next page for index descriptions and important disclosures.

HIGH YIELD SPREAD & INTEREST RATES



QUARTZ MARKET OUTLOOK

US Equities Outlook: *The corporate sector is showing signs of resilience as early 2016 disruptions are dissipating. It is still unclear whether the global economy can find marginal aggregate demand. We expect volatility to continue as the primary factors supporting the recent rally (weak dollar, strong oil and dovish Fed) are all at risk of reversing trend by the end of the year.* ***High Yield Bond Outlook:*** *Default rates are on the rise as energy issuers continue to come under fire. The oil rally is expected to reverse thru the fall unless a significant OPEC deal is reached. Our outlook continues to expect rising speculative grade default rates over the next 12 months, making current spreads expensive.* ***Global Monetary Policy Outlook:*** *While the absolute level of global policy stimulus is constructive, the pace of marginal stimulus is at risk in Japan, Europe, and the US. Central bankers and investors alike have begun to question the efficacy of monetary policy in the absence of a fiscal counterpart. Odds of a Fed rate hike in December is quite high.*

2.34% 10-year Treasury Yield

3.47% 30-year Fixed Mortgage Rate

$45.69 Oil Price Per Barrel

2.9% Latest (Q3) US GDP

The "Trump Rotation" continues almost two weeks after the Presidential Election, with traders aggressively buying sectors and asset classes that would presumably benefit from a Trump presidency and Republican-led Congress, while selling with equal vigor those that are expected to suffer from new leadership. The following table sets out the winners and losers of the surprise results on 11/8 from a US equity sector perspective (Representative ETFs were used to calculate performance, the respective ticker is listed):

Sector	1-month Return %
Financials XLF	↑ +13.70
Industrials XLI	↑ +7.17
Materials XLB	↑ +3.29
Consumer Staples XLP	↓ -3.40
Utilities XLU	↓ -4.40
Real Estate RWR	↓ -5.27

The dichotomy is apparent when looking at the winners and losers: the beneficiaries of the election are those sectors that either benefit from higher interest rates (financials) and/or "reflation," tax cuts or other policies aimed at increasing economic output (industrials, materials), while interest-rate sensitive sectors are most harmed. There are often rotations following major market events, e.g., Presidential elections, changes to monetary policy, yet two uniquely interesting aspects of November's market action are (1) the seemingly resolute conviction of traders concerning the future of fiscal and monetary policy, and (2) that the market is turning a blind eye to the surge in benchmark interest rates – a 100bp rise in 10-year yields since July would have been viewed through a different lens if the market wasn't so rejuvenated by hopes for a resurgent US economy.

As mentioned, **yields are surging on outstanding US fixed income instruments**, particularly those backed by the Federal or State governments. According to Morningstar, the average high-yield municipal bond fund has fallen 4.35% over the past three months, while long-term government bond funds have plunged 10.36% over the same period. The playbook is the same as for US equities: traders are heralding the Republican sweep as an inflection point for inflation, growth and Fed policy. Emerging markets debt is another victim of the Trump win and rising rates, down 3.72% since just last week. The divergent price action between low-rated US corporate debt, which has held up better than developing sovereign bonds, points to fears of aggressive foreign policy decisions over the next four years.

An output cut by OPEC has been a consistent tailwind for oil prices this years, despite a failure by the cartel to reach a deal up to this point. Optimism surrounding a deal has recently peaked ahead of **next week's OPEC meeting** in Austria. The Iranian oil minister has signaled that a deal will be reached – Iran has been the major antagonist during talks as it races to make up for lost oil revenues during its time under International sanctions. The talks next week will be an important event for the energy sector.

COMING UP THIS WEEK: Existing Home Sales (Tues) • Core Durable Goods Orders (Tues) • FOMC Minutes (Wed) • Market Closed: Thanksgiving (Thurs)

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Stock and bond values fluctuate in price so that the value of an investment can go down depending on market conditions. The two main risks related to fixed income investing are interest rate risk and credit risk. Typically, when interest rates rise, there is a corresponding decline in the market value of bonds. Credit risk refers to the possibility that the issuer of the bond will not be able to make principal and interest payments. There may be less information available on the financial condition of issuers of municipal securities than for public corporations.

Index Definitions:
S&P 500 Index: a market capitalization-weighted index of 500 widely held stocks often used as a proxy for the stock market. It is the most widely used benchmark for U.S. stock funds and portfolios.
Dow Jones Industrials Average ("Dow Jones:): Price-weighted average of 30 leading industrial stocks traded on the New York Stock Exchange, compiled by Dow Jones & Co.
Nasdaq Composite Index: A market-capitalization weighted index of the more than 3,000 common equities listed on the Nasdaq stock exchange.
Russell 2000 Index: The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.
BofA Merrill Lynch U.S. High Yield Master II Index ("High Yield Bonds") tracks the performance of below investment grade, but not in default, U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market, and includes issues with a credit rating of BBB or below, as rated by Moody's and S&P.
Barclays Capital U.S. Aggregate Bond Index ("Quality Bonds"): comprised of approximately 6,000 publicly traded bonds including U.S Government, mortgage-backed, corporate, and Yankee bonds with an approximate average maturity of 10 years.

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