VIEW FROM THE TOP

OCT 30 2017

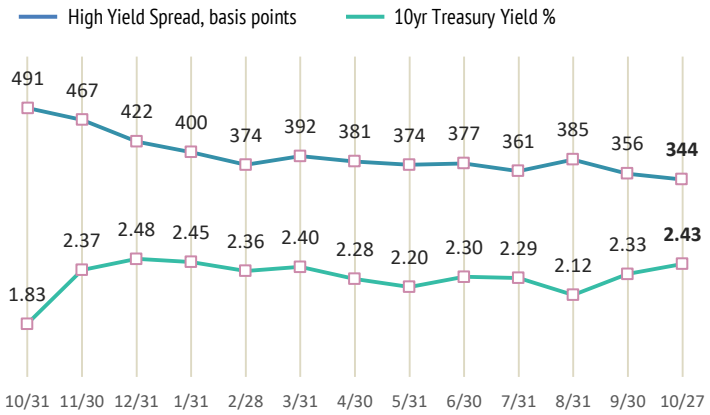
A weekly report from Quartz Partners Investment Management summarizing key data and highlights from the market week.

INDEX PERFORMANCE

Index	1wk	4wk	YTD
S&P 500	0.23	3.08	17.16
Nasdaq Composite	1.09	3.84	24.49
Dow Jones Industrials	0.45	5.00	20.87
Russell 2000	-0.06	1.69	12.29
Barclays US Agg Bond	-0.10	-0.16	2.91
Merrill Lynch HY Master II	-0.13	0.46	7.37

Data as of 10/27/2017. Please see next page for index descriptions and important disclosures.

HIGH YIELD SPREAD & INTEREST RATES



QUARTZ MARKET OUTLOOK

US Equities Outlook: *Corporate earnings and GDP are conducive to stock market rallies and could benefit further if consumer optimism continues to return. International equities are attractive as they emerge from a 4+ year stagnation.*

High Yield Bond Outlook: *One-off defaults, concentrated in the retail sector, have not spilled over into the broad high yield sector. Oil has stabilized in the $40-$50 range, a strong positive. The 10-year Note at a yield much lower than it started the year (a major surprise heading into 2017) is another key tailwind.*

Global Fiscal & 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. Trump's tax plan is highly bullish for US equities, especially small caps, and is providing a fresh tailwind for stock prices.*

2.43% 10-year Treasury Yield

3.81% 30-year Fixed Mortgage Rate

$53.92 Oil Price Per Barrel

3.0% Latest (Q3) US GDP

Good news for Europe stocks was delivered by the European Central Bank on Thursday when it announced that the ECB will reduce its monthly bond purchases but extend the term of the program**.** The seminal quantitative easing program was launched in March 2015 at a pace of 60billion euros per month, raised to €80billion in April 2016, and returned to €60billion in April of this year. This latest move halves the rate to €30billion per month; however, instead of ending the program at the end of this year, as intended, **the ECB announced that it will continue to purchase regional bonds until at least September 2018**. The "Expanded Asset Purchase Programme" was conceived by Mario Draghi's ECB in the wake of surging sovereign yields in Spain, Portugal, Italy, Ireland and Greece. The strategy resembled (and was likely inspired by) the historic balance sheet expansion engineered by Ben Bernanke and the Federal Reserve. Over the past 2+ years, the European plan has worked wonders for the Eurozone economy and has driven government bond yields across the region down, with the German 10-year bond currently offering a meager 0.36% yield. Even Italy and Spain, two economies that faced severe constraints from 2010 thru 2014, now have access to funding at 1.35% long-term borrowing rates – less than comparable rates for the US Treasury. Over the past 12 months, the recovery has picked up steam, with inflation expectations and employment rising sharply higher. This, in turn, has brought the euro up from 1.05 per USD to a recent high of just over 1.20 in September. A weak currency is a key component of a regional economic reflation as it supports the export economy and typically helps avoid the type of deflation the Eurozone does not wish to revisit any time soon. So, much like in the US, policymakers are proceeding with extreme caution as to not unwind the progress it helped achieve. This dynamic could provide a key tailwind for Europe stocks, as it has in the US since 2009.

The US economy grew at a 3.0% rate in the third quarter, according to the latest report from the Commerce Department. This beat expectations for a 2.6% annualized growth rate, a solid showing led by a sharp (+8.6%) increase in business equipment investment. Personal consumption expenditures rose 2.4%, a bit of a disappointment despite a September (post-Hurricanes) surge. Overall, the rise in business investment is the key trend change to watch: after several quarters of muted business spending, likely due to the energy sector downturn and wait-and-see approach to the Presidential election, companies are starting to make up for lost time.

Tech stocks surged last week on **big earnings beats from industry titans Google (Alphabet) and Netflix**. At $9.57 per share, Google earnings rose 32% from the same period a year ago. Revenue beat estimates, coming in at $22.27 billion vs. the $21.92 billion expectation. Netflix, meanwhile, continued its dominance in the third quarter, adding 5.3 million net subscribers and earning 37 cents per share, far exceeding analyst estimates (32 cents).

COMING UP THIS WEEK: Personal Income & Spending (Mon) • BoJ policy decision (Tues) • ISM Index (Wed) • FOMC policy decision (Wed) • BoE policy decision (Thurs) • Jobs Report (Fri)

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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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