VIEW FROM THE TOP

OCT 16 2017

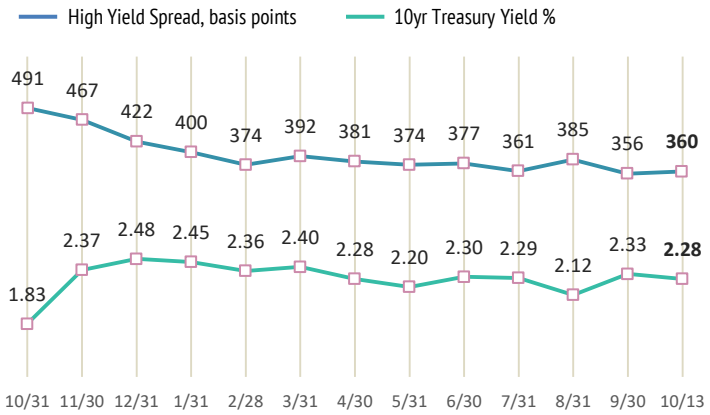
A weekly report from Quartz Partners Investment Management summarizing key data and highlights from the market week.

INDEX PERFORMANCE

Index	1wk	4wk	YTD
S&P 500	0.17	2.36	15.86
Nasdaq Composite	0.24	2.25	22.71
Dow Jones Industrials	0.43	3.31	17.92
Russell 2000	-0.49	5.46	11.85
Barclays US Agg Bond	0.48	0.11	3.48
Merrill Lynch HY Master II	0.02	0.75	7.21

Data as of 10/13/2017. 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.*

2.28% 10-year Treasury Yield

3.81% 30-year Fixed Mortgage Rate

$51.43 Oil Price Per Barrel

3.1% Latest (Q2) US GDP

The International Monetary Fund painted a rosy picture of the global economy in its latest World Economic Outlook published last week. The IMF expects the world economy to grow 3.6% this year and 3.7% in 2018, an acceleration from current growth rates. Combined with a forecast for low inflation (1.7% in 2018 for advanced economies), the prospects for the intermediate-term are looking up if these forecasts turn out to be accurate.

The IMF Forecast boosted Europe and Japan stocks, **with the MSCI Europe Index rising 1.40% last week and the Nikkei 225 Average jumping 2.24%,** as compared to the S&P 500's more modest 0.17% gain. There may be a tremendous amount of pent-up demand overseas after years of stagnation. The failed test of the Eurozone's ability to manage multiple national economies with one monetary system during a crisis dragged all members down. Now that policymakers have "figured it out" through massive government bond purchases, stability has paved the way for the growth spurt we are currently witnessing. In Japan, the government led by Prime Minister Abe has over the past few years committed to a plan to reflate the economy. "Abenomics" has helped the much maligned Japanese economy grow for six straight quarters. Abe faces an general election next week, and his key opponent, Tokyo Governor Yuriko Koike, has proposed a slow phase-out from monetary easing. However, it does seem as if Abe's economic policy wins and tough stance on North Korea will help him win another term in office.

As Congress returns to Capitol Hill after a week off, the Budget will be front and center, most notably the **tax plan** heralded by President Trump. Democrats, and even some Republicans, have lashed out at the $1.5 trillion tax cut, seeing it as a gift for the wealthy at the expense of both the middle class and national deficit. Trump has responded to critics by claiming that the plan will be a savior for the American worker as companies bring back jobs. His Council of Economic Advisors also released a report ("Corporate Tax Reform and Wages: Theory and Evidence") that predicts $4,000 in additional household income for the average household. Given the lack of details on the tax plan, one would have to take their word for it. Regardless, note that the benefits for the average American are focused on the hypothetical impact of lower *corporate* tax rates, which are purported here to flow down through higher wages. No one seems to be going as far as to say that the cuts are aimed at helping the middle class *directly*; rather, the actual cuts are primarily earmarked for corporations, other large businesses and the wealthy. Therefore, those that wish to extol the plan as a "win for all" must argue that supply side economics works.

COMING UP THIS WEEK: Q3 Earnings (All Week) • Industrial Production (Tues) • China GDP (Wed) • Mario Draghi Speech (Wed) • Janet Yellen Speech (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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