

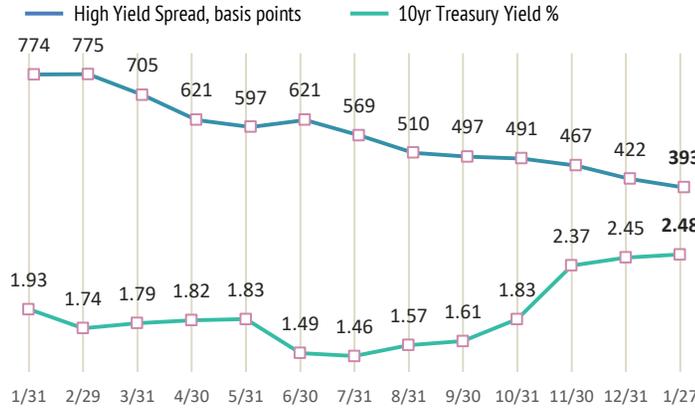


INDEX PERFORMANCE

Index	1wk	4wk	YTD
S&P 500	1.04	1.27	2.60
Nasdaq Composite	1.90	3.16	5.16
Dow Jones Industrials	1.34	0.85	1.78
Russell 2000	1.40	-0.39	1.05
Barclays US Agg Bond	0.04	0.82	0.06
Merrill Lynch HY Master II	0.49	1.60	1.43

Data as of 1/27/2017. Please see next page for index descriptions and important disclosures.

HIGH YIELD SPREAD & INTEREST RATES



QUARTZ MARKET OUTLOOK

US Equities Outlook: Corporate earnings have staged a recovery from the H1 2016 declines and could benefit further if consumer optimism continues to return. It is still unclear whether the global economy can find marginal aggregate demand. It is likely that the "Trump rally" has discounted a significant amount of future earnings and may have pulled forward gains. The odds of a significant correction in the first quarter are high. **High Yield Bond Outlook:** Default rates are on the rise as energy issuers continue to come under fire. With oil prices over \$50 per barrel, the key source of risk shifts to interest rates for now. 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. We expect volatility surrounding Federal Reserve meetings to be a headline in 2017.



2.48%

10-year Treasury Yield



4.20%

30-year Fixed Mortgage Rate



\$53.18

Oil Price Per Barrel



1.9%

Latest (Q4) US GDP

One of President Trump's first acts upon entering office was an executive order prohibiting citizens of seven countries, selected for their purported ties to terrorism and threat of increased immigration due to deteriorating conditions, from entering the United States for a period of 90 days. Over that time, the President is ordering the Department of Homeland Security, in concert with the State Department, to conduct a review based on information to be provided by the 7 countries (Syria, Iraq, Iran, Sudan, Libya, Somalia and Yemen). The review will note any countries that do not adequately participate in the review and provide the requested information. Trump's executive order caused market volatility in Monday trading as US CEOs, especially in the immigrant-heavy technology sector, expressed displeasure and/or uncertainty as to the ramifications of Trump's aggressive new policy. While Trump's platforms of lower regulations and taxes are viewed as net positives for the US stock market, the consensus is that global trade protectionism, a potential result of immigration reform, is a wildcard that could have a negative impact on inflation and

trade. We expect higher than normal levels of volatility in the first half of 2017 as traders attempt to position themselves amidst rapidly changing exogenous [political] forces.

New home sales in December fell short of expectations, up an annualized 536,000 vs. 585,000 expected. The figure represented a 10-month low, although it is a notoriously volatile metric – the monthly miss did not break the overall positive trend since 2012. Factors including rising consumer optimism and expectations for higher rates, which can induce buyers to lock in fixed rates now, could help the housing market this spring.

A report out Monday from the Commerce Department showed the **highest rise in consumer spending in three months**, based on December data. The key factors that typically support a healthy consumer, wages, job growth, borrowing costs and sentiment are all currently pointing up.

The US economy grew at a 1.9% pace, according to an

advanced reading from the Commerce Department. What is interesting about the reading, along with Q3's strong 3.5% reading, is that both have been dramatically affected by the soybean trade. Shortfalls in South American supply led to outsize exports in Q3, which may have added a full 1% to GDP, according to the Wall Street Journal.* The normalization of soybean exports subsequently dragged down the trade component of Q4 GDP. Smoothing out the Q3 and Q4 figures reveals a healthy overall US economy in terms of GDP at about 2.5%+ annualized.

FactSet reports that, as of January 27, **65% of S&P 500 companies are beating their EPS estimates**, with 34% of the index constituents having reported. This is below the 5-year average; earnings will need to pick up steam in 2017 to match the level of expectations presumed by the Trump rally of November 2016.

*Soybeans Are Fueling U.S. Economic Growth (But Not for Long). WSJ, 9/29/2016.

COMING UP THIS WEEK:

Bank of Japan Meeting (Mon-Tues) • FOMC Policy Statement (Wed) • US ISM Index (Wed) • Caixin Manufacturing PMI (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 Industrial 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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