



In other years, the most significant news coming out of 3rd Quarter may have been corporate earnings turning higher for the first time since 1st Quarter 2015. This year was different. And while the conclusion to the presidential election brought an end to one element of the uncertainty that prevailed during the long campaign season, the election of a political outsider naturally introduces to investors a new set of uncertainties, as there is no prior record from which to confidently project many aspects of policy or the manner in which the new administration will interact with Congress.

After a violent overnight reaction in the futures markets as the unexpected election outcome became clear, the initial bias of the broad U.S. equity market has been clearly to the upside, as a platform of fiscal spending, tax reductions, a stronger military, and lighter regulation of business has generated an expectation of enhanced economic growth.

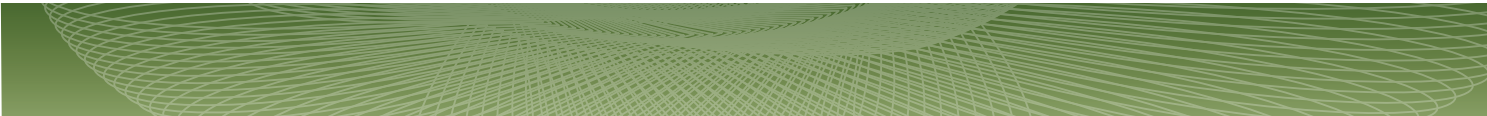
But the picture is only beginning to unfold - how will proposals made during the campaign be modified as a specific presidential agenda is developed; which components of that agenda will actually gain the approval of the Republican majorities in Congress; what influence will be successfully exerted by a strengthened Democratic minority in the Senate; and how will the ultimate changes affect markets as things unfold in the real economy.

In broad outline, the stated policy initiatives would appear to favor small business, banks, basic materials, conventional energy, defense, and elements of health care, among others, and there have been significant winners and losers as markets have begun reshuffling the deck.

There are also material concerns - what will be the economic impact of higher interest rates, a stronger dollar, restrictions to immigration, potential restrictions to foreign trade, and changing international relationships in general?

In these circumstances, trailing economic news seems of lesser importance than the effort to peer into the future. However, the existing economy remains the foundation on which the new administration will seek to build, so to take a quick look back ...

- The turn higher for corporate earnings is a welcome and badly needed change in trend after a grinding five quarters of declines due primarily to weakness in energy and manufacturing.
- The labor market has continued to strengthen, with unemployment claims near historically low levels and indications that average hourly earnings are beginning to accelerate.
- Retail sales have bounced following a period of mid-summer weakness.
- Manufacturing, which has struggled to sustain a very modest expansion during 2016, has shown positive growth in new orders heading into the end of the year.

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- The much more substantial non-manufacturing segment of the economy, where the previously solid rate of growth had slowed during mid-summer, has been resurgent heading into 4th Quarter.
 - New home construction remains on a strong year-long uptrend, boosted of late by growing participation from millennials, who as long awaited first time home buyers seem inclined to skip the traditional “starter” homes and buy directly into the heart of the housing market.

Not all is positive – without a genuine surge in economic growth, equity valuations remain stretched; all-important business investment continues to lag; and the overall debt load on the economy remains enormous – a potentially significant concern should interest rates continue to trend materially higher.

But the dialogue currently driving markets is about the anticipated path ahead following a profound break in the political status quo. With change comes opportunity; yet it is also true that market perspectives can change quickly. Ultimately, with so many things in flux, it is premature to make overly definitive judgments about broad market effects in the intermediate to longer term.

With that said, we have quickly made a number of reasoned shorter term adjustments. In doing so, it has been our general inclination to exert even greater care in conservative strategies while making opportunistic adjustments in more aggressive strategies. Moving forward, there will be plenty to consider as we work to insightfully adjust to developing conditions .

This material contains forward looking statements; there is no guarantee these outcomes will be achieved. All investing involves risk of loss, and there is no guarantee that strategies which may have been successful in the past will be similarly successful in the future.