Market & Economic Commentary:

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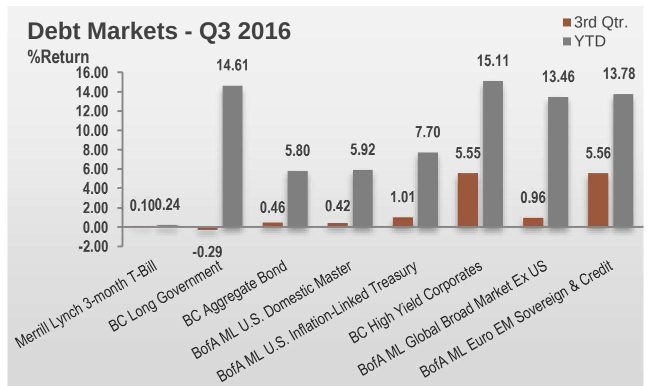
Presidential Election 2016

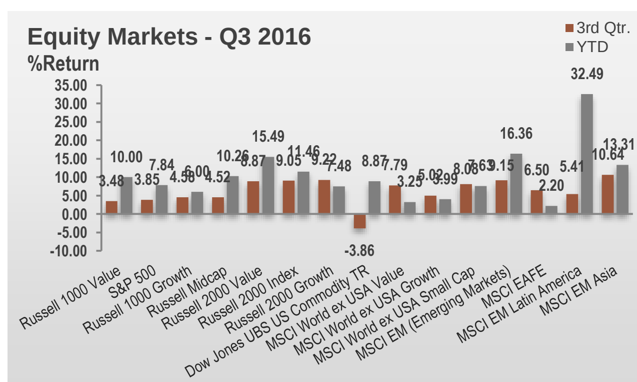
The most shocking election in modern U.S. history is now behind us. From the unconventional and rancorous primary battles and general election to the surprising outcome, this will go down as the most emotionally exhausting election of modern time. We are now left to sort through the unknowns of the coming four years such as trade, immigration and taxes. The one thing we do know is that the downward pressure central banks have been putting on interest rates is likely to draw to a close. As we mentioned in last quarter's commentary, The Fed and ECB certainly viewed the prospects of a Trump presidency as a major risk to global economic stability—as these organizations are, by design, engineered to maintain that stability. We believe that they leaned on interest rates this year to prop up the global economy and financial markets as much as they could to support the pseudo-incumbent Clinton's chances. Now that the election is behind us, interest rates are likely to rise (in fact they have already begun to do so).

How the Markets Fared

The first few days of the 3rd quarter saw a continuation of the sharp decline in Treasury yields that began as the fallout from the shocking Brexit vote played out. The 10-Year Note declined from 1.49% at the start of the quarter, to 1.36% just a few days later. As Trump's chances faded, interest rates climbed back up to 1.61% at the close of Q3; and now have eclipsed the 2% mark. With yields holding relatively steady for the quarter, high quality fixed income saw only fractional returns. The more esoteric areas of fixed income performed much better, as continued healing in the high yield space and emerging markets drove returns in excess of 5%. With evidence that inflation is waking up from its dormancy, the Fed is likely to tighten interest rates as soon as the election is secured for Clinton. This expectation led to buying in the TIPS market, which also saw gains. North Pier believes that the coming shift in Fed monetary policy will create a meaningful headwind for interest rate sensitive vehicles like Treasuries, REITs and high dividend stocks as 2017 unfolds.



With a lack of negative news on the economic front and generally upbeat corporate earnings reports during Q3, equities rose throughout the globe. U.S. large caps saw modest gains of a few percentage points. That paled in comparison to the returns had by smaller capitalization companies, which rallied nearly ten percent after having sold off earlier in Q1. International stocks followed a similar pattern with indexes gaining five to nine points both in developed and emerging markets. The gains in emerging markets was counterintuitive, as commodities, (which had rallied strong in the first half of 2016) retreated a bit during the quarter. This would have logically challenged resource-sensitive markets in the developing world.



PIER*ing* Ahead

Steadily growing real estate values, strong labor markets, and robust service sectors should continue to support growth in the U.S. economy for the foreseeable future. Internationally, most regions appear stable or strong with the exception of Brazil. The wild card effects of the Trump victory may weigh on the clarity of global markets in the near-term until we know the direction and tone his presidency will take. After that, we will need to reevaluate. In the meantime, if inflationary pressures continue to build and interest rates rise quickly, fear about the resilience of U.S. economic growth is likely to raise its head again, leading to more volatility. Though the election is now over, the real wild ride may just be beginning. The question is... heading in which direction?