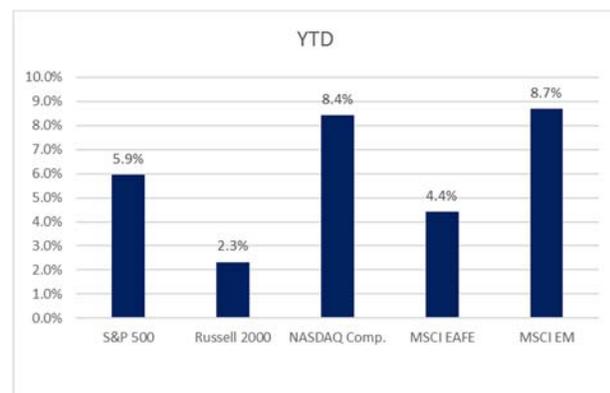
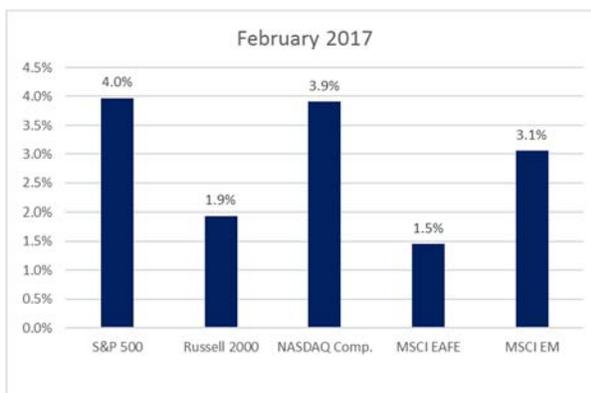


## EXECUTIVE SUMMARY



### Equity Markets

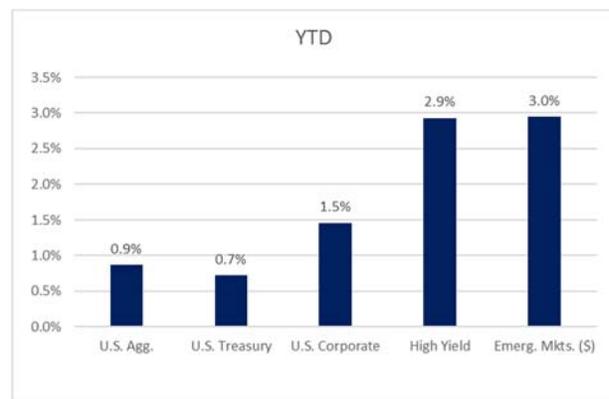
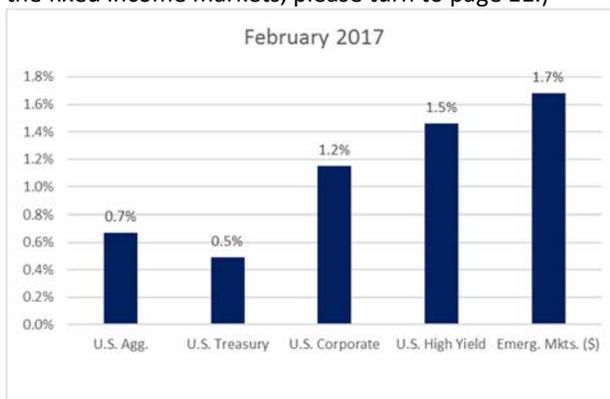
U.S. equity markets enjoyed robust gains in February, which added to already positive results from January. Small-cap stocks, as measured by the Russell 2000 Index, have been the clear laggard so far in 2017, but that comes off a year when they were the clear leader in 2016. Rebalancing of portfolios might be one factor that has led to large cap outperformance through the first two months of 2017. Nevertheless, these four major U.S. equity indices hit new all-time highs in February. Developed international equity results, while positive, have lagged the broader U.S. equity markets in early 2017. Coming off a strong year in 2016, emerging market equities have continued to turn in solid gains through the first two months of the new year. Overall, global equity markets have started the new year on a strong note. (For more details on the equity markets, please turn to page 9.)



Source: Bloomberg as of 2/28/17.

### Fixed Income

After a tough fourth quarter that saw yields spike higher and most fixed income sectors turn in negative results, the new year has started on better footing for bonds. Yields have shown some volatility during the first two months of 2017, but for the most part, they have remained rather range bound. This environment has allowed most fixed income sectors to begin 2017 with positive gains. Similar to 2016, high-yield bonds and emerging market debt have been the clear leaders in fixed income in early 2017, but gains have been enjoyed across the board for most bond sectors. (For more details on the fixed income markets, please turn to page 11.)

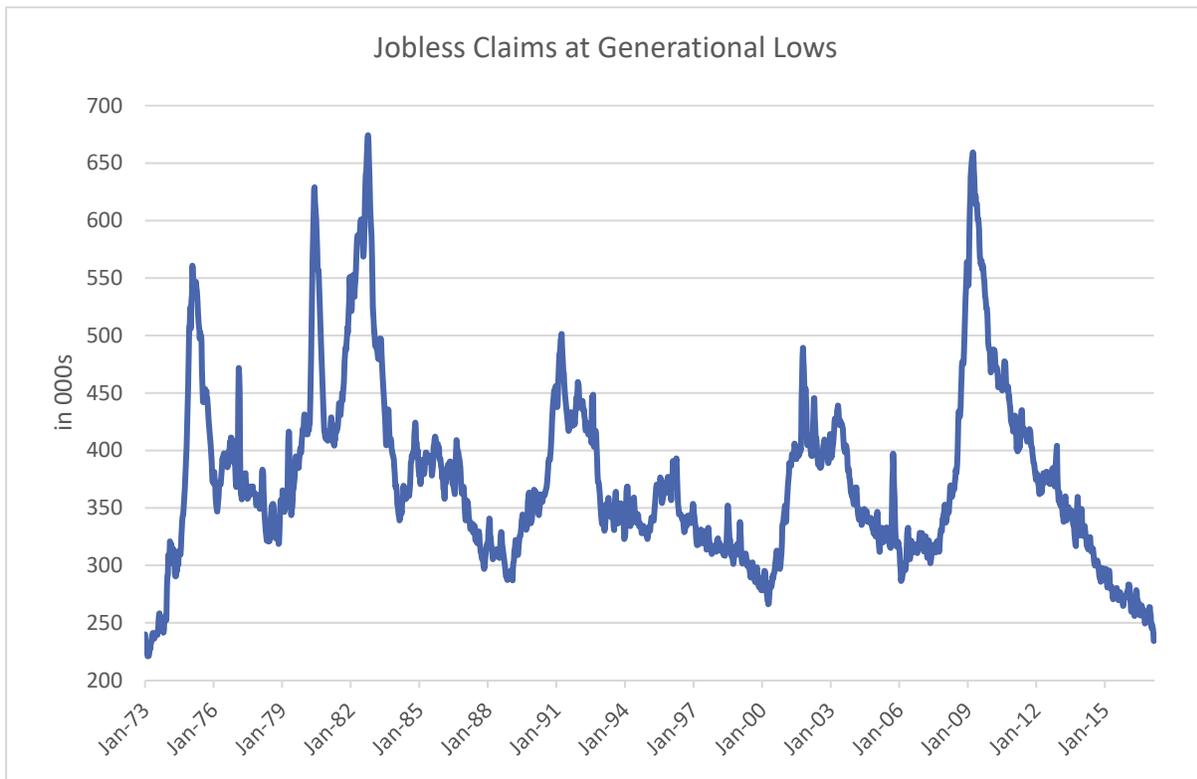


Source: Bloomberg Barclays Indices via Bloomberg as of 2/28/17.



## Key Economic Item

The strength of the job market is of critical importance to the U.S. economy due to the central role that consumer spending plays in economic growth. Providing another piece of evidence of a strong job market in February was the four-week moving average of weekly initial jobless claims. This reading, which tracks the number of people filing for unemployment benefits for the first time, dropped to its lowest (best) level since 1973. Weekly jobless claims do not look at the hiring side of the equation, but they provide information showing that businesses seem to be holding on to their workers at this point in the economic cycle with jobless claims so low. (For more details on the economy, please turn to page 4.)



Source: Bloomberg as of 2/24/17. U.S. initial jobless claims 4-week moving average, seasonally adjusted, in 000s.

## FULL REPORT

### Introduction

Another month has passed in 2017 and more record highs were reached for U.S. equity markets. The S&P 500 Index enjoyed strong gains in February with multiple new all-time highs achieved during the month. The post-inauguration stock market momentum continued in February as equities responded positively to the ideas of less regulation, lower taxes and more infrastructure spending. At the same time, yields fell during the month and most fixed income sectors turned in positive results as well. Overall, most asset classes enjoyed a solid month of gains in February.

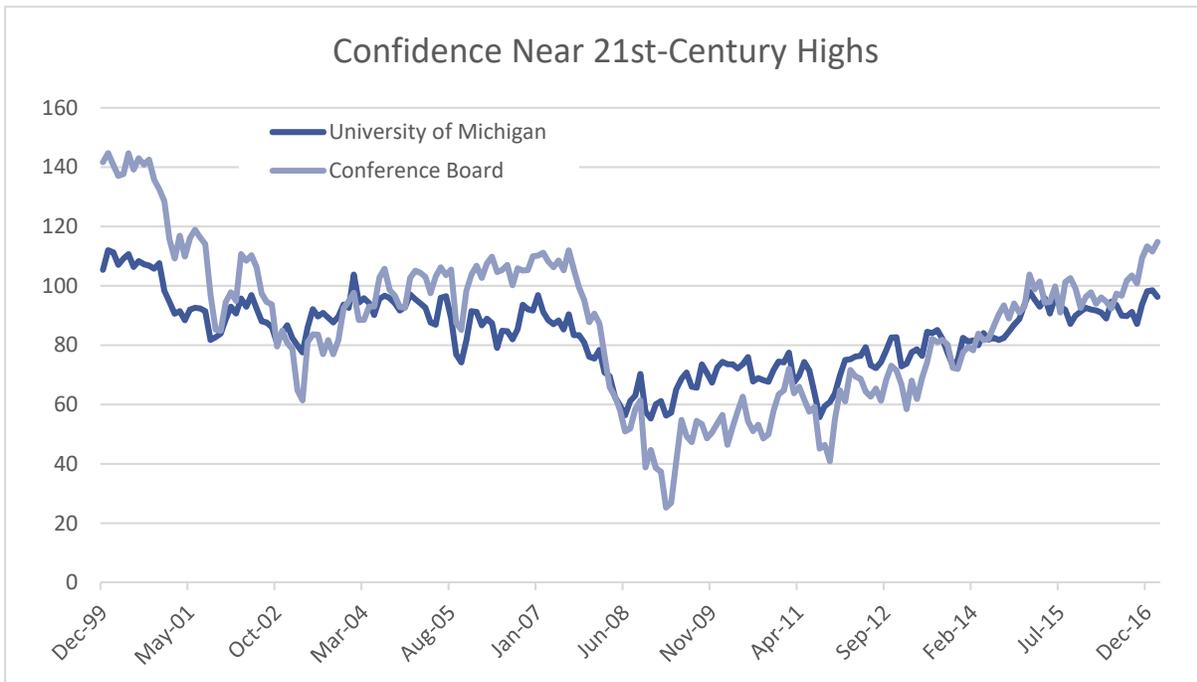
Beyond expectations of a more business-friendly public policy environment upcoming in 2017, economic data continued to look solid in February. The positive U.S. economic momentum enjoyed during that latter part of 2016 seems to have carried over into the early part of 2017. Employment readings continued to reflect solid improvements taking place in the job market. Due in part to a strong job market, consumer confidence and ultimately consumer spending have been solid as well. Broad readings from the manufacturing and service sectors of the U.S. economy also showed recent strength.

The Federal Open Market Committee (FOMC) concluded its first meeting of 2017 in early February. As expected, no change in policy rates was made, but speculation has started to increase that the March FOMC meeting might be in play as a potential rate-hike meeting. Combined with strong employment data, inflation readings have picked up and moved closer to the Federal Reserve's (Fed's) objective of 2%. Thus, both parts of the Fed's dual mandate, full employment and price stability, are getting closer to being met and those improvements would justify policy rates moving higher this year.

This Monthly Market Review for February will review key economic and capital market events that occurred last month as we move through March, the final month of the first quarter of 2017.

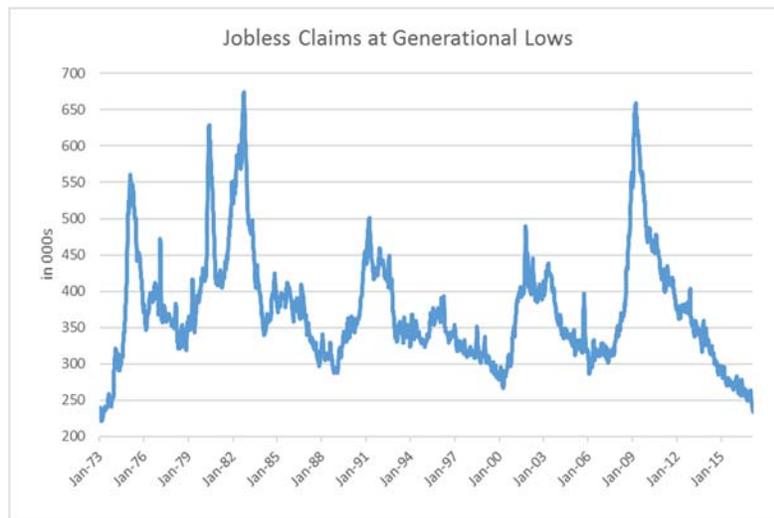
## U.S. Economy – Consumers, Once Again, Show Strength

Consumers remained confident at the outset of 2017. One has to look no further than consumer sentiment readings to see that consumers are about as confident as they have been since the calendar turned to the 21<sup>st</sup> century. The Conference Board consumer confidence index rose in February to 114.8, its highest level since the year 2001. Although the University of Michigan consumer sentiment index slipped slightly lower in February, the January mark was at its second-best level since the year 2000. Clearly, a lot of factors impact the confidence of consumers, but conditions were in place at the beginning of 2017 for consumers to feel about as positive as they have been since the early 2000s.



Source: Bloomberg as of 2/28/17. Conference Board Consumer Confidence Index, seasonally adjusted & University of Michigan Consumer Sentiment Index, non-seasonally adjusted.

The weekly initial jobless claims reading tracks the number of people who seek unemployment benefits for the first time. While this number can be volatile week to week, the four-week moving average gives a better sense of how jobless claims are trending. In February, the four-week moving average of jobless claims fell to its best (lowest) level since 1973. Clearly, this indicator reflects ongoing improvements taking place in the labor market and the strong job market is likely a key driver to consumer confidence achieving such elevated recent levels.

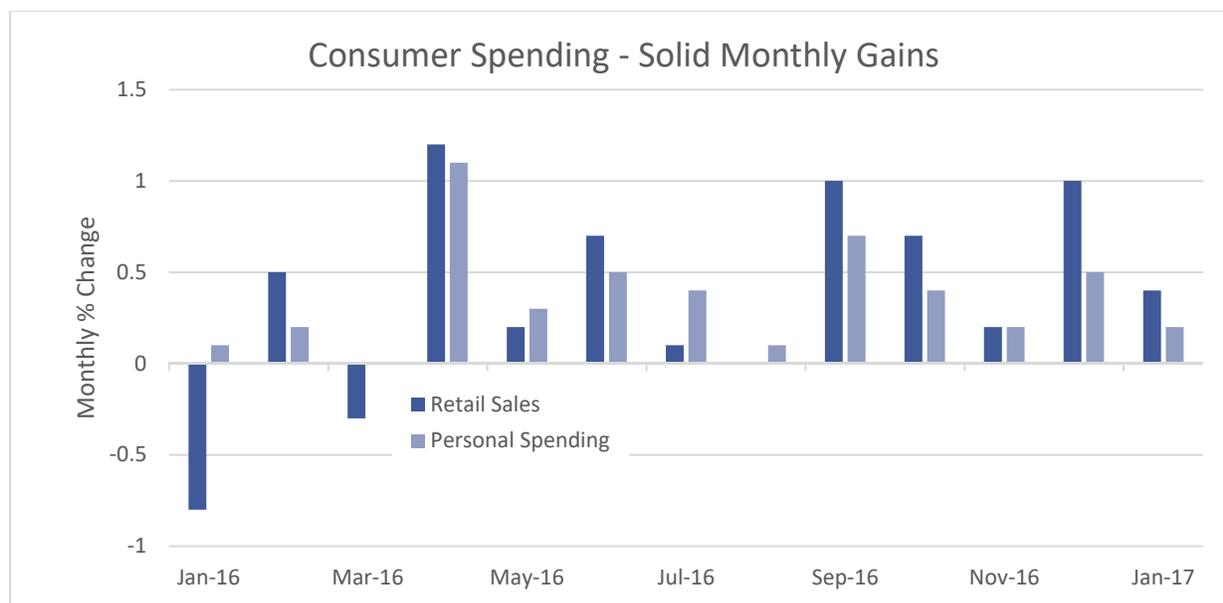


Source: Bloomberg as of 2/24/17. U.S. initial jobless claims 4-week moving average, seasonally adjusted, in 000s.

## U.S. Economy – Consumers, Once Again, Show Strength (*continued*)

Has the solid job market and resulting elevated consumer confidence led to increased spending? The answer appears to be “yes”. When retail sales were reported for January (this occurred on 2/15 per Bloomberg), the headline reading showed a better-than-anticipated monthly gain and December sales were revised higher to show a stronger end to the year than previously reported. With the exception of August 2016, which was flat, retail sales have shown month-over-month increases every month since April 2016.

Another indicator of consumer spending, personal consumption expenditures, has also been on a steady streak of monthly improvements. Since January 2016, every month has shown a gain except for March 2016, which was flat, compared to the prior month. These two readings show that consumers have continued to have an appetite to spend over most of the last year. (An important note, these readings are on a nominal basis and are not adjusted for price level changes.)



Source: Bloomberg as of 1/31/17. U.S. personal consumption expenditures nominal dollars & adjusted retail & food services sales, both seasonally adjusted monthly % change.

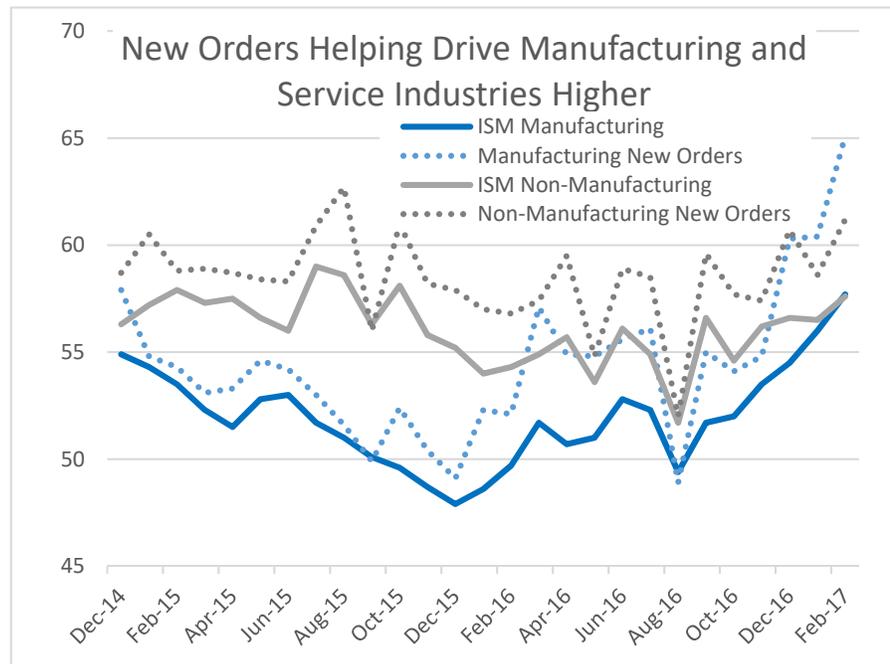
## U.S. Economy – Manufacturing Activity Strong; Service Sector Gains as Well

Manufacturing was another highlight in February. For the sixth consecutive month, the Institute for Supply Management’s (ISM’s) manufacturing index increased reflecting progressively stronger rates of growth for this manufacturing reading. The increase of this index to 57.7 in February pushed this manufacturing reading to its best level since August 2014. Accelerating new orders, a subcomponent of this index, contributed to the improvement in manufacturing.

## U.S. Economy – Manufacturing Activity Strong; Services Gain as Well (continued)

Service industries, which account for a much larger part of the U.S. economy, improved in February as well. The ISM non-manufacturing index declined modestly in January from December, but this reading reaccelerated in February and hit its best level since October 2015. Similar to the manufacturing index, gains in new orders were also one factor that helped drive the broader service industries reading higher. Recall that for ISM indices, readings above 50 indicate expansion and those below 50 signal contraction.

The U.S. economy seems to be making strides on many fronts. The job market continues to be strong, which is helping consumers be as confident as they have been in years, thereby supporting consumer spending. Manufacturing has shown strong recent momentum coupled with an administration that has made supporting the manufacturing sector a policy priority. A broad look at the economy through the services industries shows improving growth as well. Overall, several economic indicators seem to be reflecting a U.S. economy that has started the year with strong momentum.



Source: Bloomberg as of 2/28/17. Institute for Supply Management (ISM) manufacturing index & report on business new orders, seasonally adjusted; ISM non-manufacturing index, non-seasonally adjusted & report on business new orders, seasonally adjusted.

## Federal Reserve – More Rate Hikes Looming in 2017

On the heels of improving economic data and rising expectations of increasing government spending, the Fed seems likely to ramp up rate hikes in 2017 compared to the prior two years. After raising rates once in December 2015 and once in December 2016, we expect a more rapid series of rate hikes in 2017.

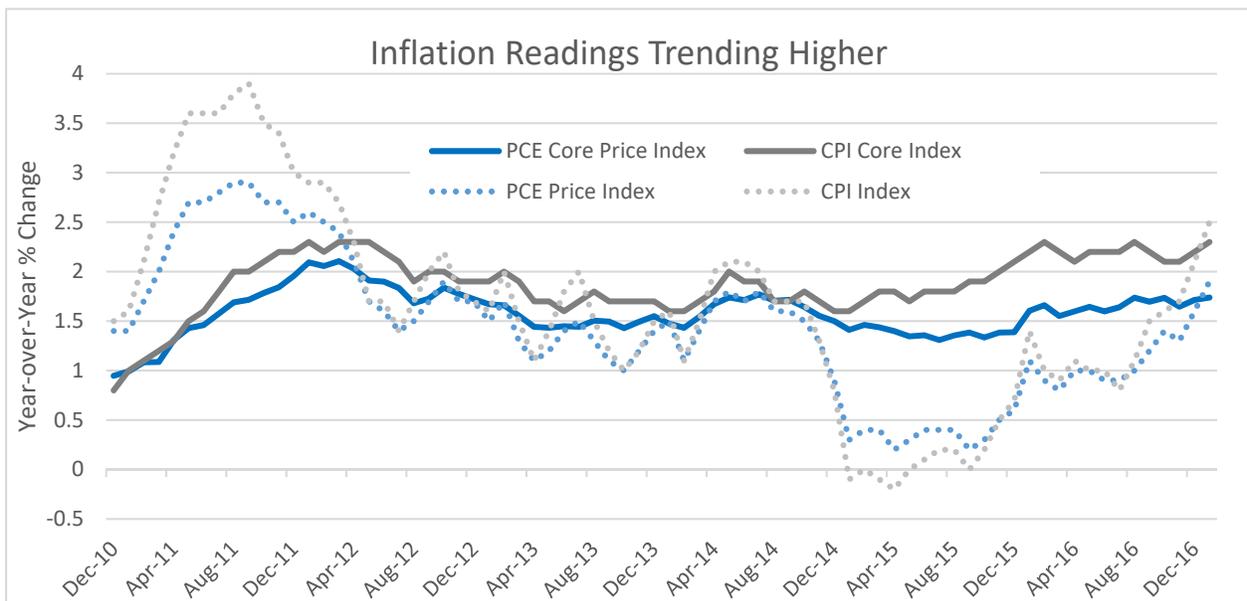
The Fed operates under a dual mandate of price stability and full employment, and both seem to be getting closer to the objectives of the central bank. We know that the job market has improved and, although we do not have a clear definition of what “full employment” is, it is safe to say we have gotten closer to this objective in recent years following the credit crisis.



Source: Bloomberg as of 2/28/17. Federal Funds Target Rate - Upper Bound, %.

**Federal Reserve – More Rate Hikes Looming in 2017 (continued)**

The Fed has a target inflation rate of 2% and the U.S. has been below that objective for most of the last few years. However, inflation readings have started to pick up and, with the anticipation of more government spending that could lead to more debt, inflation could potentially pick up in the months and years ahead. The Fed’s preferred measure of inflation is the personal consumption expenditures (PCE) price index and while this has remained below the 2% mark, it has increased in recent months. The more commonly known measure of consumer prices, the consumer price index (CPI), has moved above the 2% level on both a headline and core basis and reflects a pick-up in inflation.



Source: Bloomberg as of 1/31/17. U.S. personal consumption expenditures (PCE) core price index and PCE chain type price index, seasonally adjusted, year-over-year % change. U.S. consumer price index (CPI) urban consumers and U.S. CPI urban consumers less food & energy, non-seasonally adjusted, year-over-year % change.

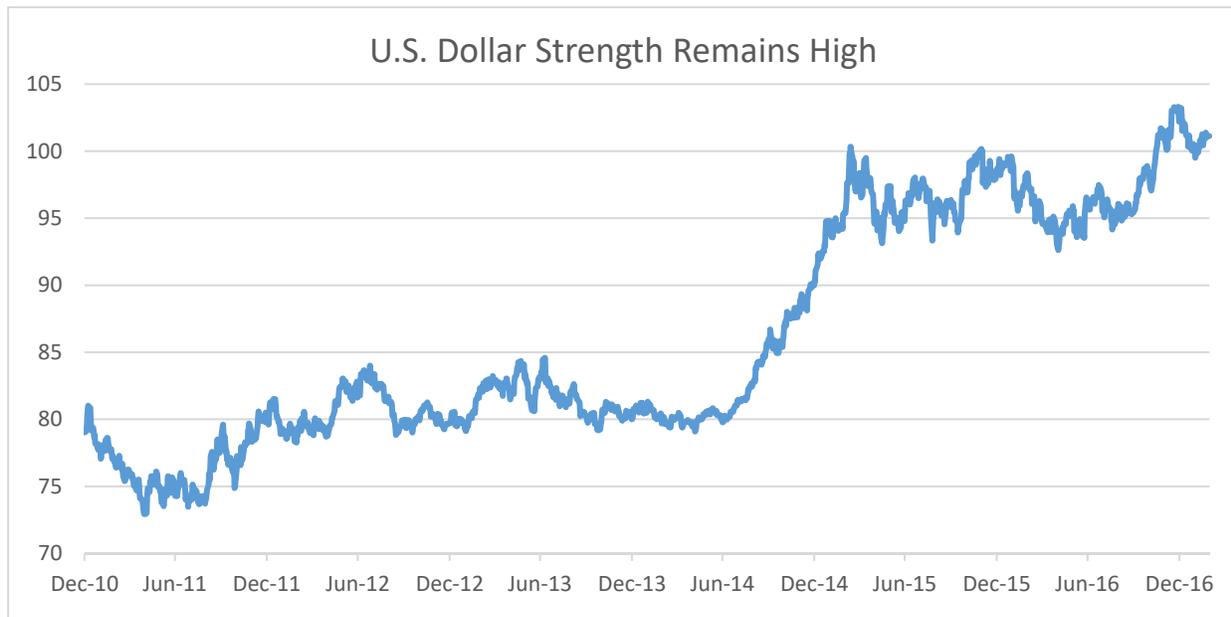
Another interesting point stands out when looking at this graph. The two solid lines represent “core” inflation readings, which exclude changes in food and energy prices. Although many observers often object to the removal of those critical items when looking at inflation – spending money on food and energy is critically important for most consumers – one can at least better understand why policymakers might do this. This graph shows how the headline inflation readings are much more volatile than the core readings. That volatility might whipsaw monetary policy changes too dramatically if the Fed focused on those headline inflation indicators. The core readings are clearly less volatile and it stands to reason why policymakers would focus on those indicators when making public policy decisions.



## Federal Reserve – More Rate Hikes Looming in 2017 *(continued)*

The FOMC meets in the middle of March and this meeting is taking on more focus as a potential time for the Fed to raise rates. The Fed’s ongoing mantra of being data dependent seems likely to lead to a year of more rate hikes if the economy continues to improve. Moving into 2017, we expected the Fed would engage in more rate hikes this year and, based on economic data through the first two months of 2017, this expectation looks likely to occur. Compared to the one rate increase in each year in 2015 and 2016, more rate hikes are expected in 2017. We will continue to monitor economic data and how it might impact the timing and number of rate hikes throughout the course of 2017.

This heightened expectation of a pending rate hike in the near term has helped lead to a rebound in the strength of the U.S. dollar compared to other developed market currencies. At a time when most of the rest of the world is engaged in monetary expansion, the move to higher policy rates in the U.S. has led to dollar strength over the last couple of years. Furthermore, the U.S. dollar rose sharply to multi-year highs following the presidential election in November and a Fed rate hike in December. After sliding lower in January, the U.S. dollar recovered somewhat in February.



Source: Bloomberg as of 2/28/17. U.S. Dollar Index.

## Equity Markets – January’s Pattern Continued with More Gains in February

The outperformance of large-cap U.S. stocks in January continued in February, as they outpaced their small-cap counterparts during the month. Gains for the S&P 500 Index, NASDAQ Composite and Dow Jones Industrial Average were all at least twice the February returns of the Russell 2000 Index, a measure of small-cap stocks. This might still be the result of some rebalancing taking place in the market following the significant outperformance of small caps in 2016.

U.S. Equity Index Returns	Feb '17	YTD
S&P 500	4.0%	5.9%
Russell 2000	1.9%	2.3%
NASDAQ Comp.	3.9%	8.4%
Dow Jones	5.2%	5.8%
Russell 3K Growth	4.0%	7.4%
Russell 3K Value	3.4%	4.0%

Source: Bloomberg as of 2/28/17. Total return.

Nevertheless, all four of these major U.S. equity indices achieved new all-time highs in February. Growth continued to outpace value in February as was the case in January. This again was likely due in part to some rebalancing following a year in 2016 when value dominated growth.

S&P 500 Sectors	Feb '17	YTD
Health Care	6.4%	8.8%
Utilities	5.3%	6.6%
Financials	5.2%	5.5%
Info. Technology	5.1%	9.8%
Cons. Staples	5.0%	6.7%
Real Estate	4.7%	4.6%
Industrials	3.8%	5.3%
Cons. Discretionary	2.0%	6.3%
Materials	0.7%	5.4%
Telecom Services	-0.4%	-2.9%
Energy	-2.2%	-5.7%
<b>S&amp;P 500 Index</b>	<b>4.0%</b>	<b>5.9%</b>

Source: Bloomberg as of 2/28/17. Total return.

From a sector perspective, telecom services and energy stayed at the bottom of the table in February with negative results after they were the two top sectors in 2016. Real estate was fractionally lower in January, but it rebounded with solid returns in February. Health care turned in the strongest returns for the month, which added to gains in January to put this sector into the second-best position looking at year-to-date returns. Health care was the only sector that recorded negative results in 2016. Information technology backed up solid gains in January with more gains in February to lead the 11 S&P 500 sectors through the first two months of 2017.

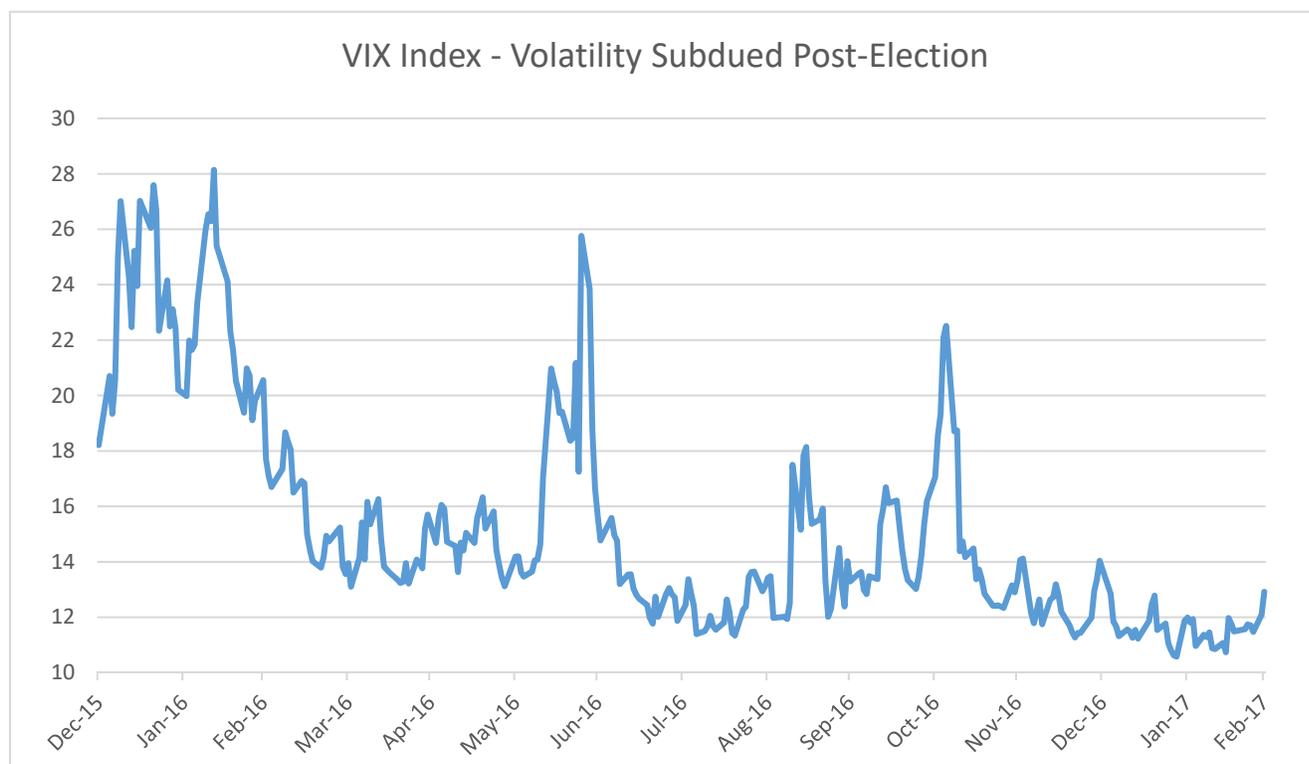
International equity results were a little more muted compared to the U.S. in February. Emerging markets shined once again, as they did for all of 2016, by turning in more than twice the gains of international developed market equities in February. That same pattern holds true for year-to-date results with emerging market equities enjoying almost twice the amount of gains of international developed market equities so far in 2017.

International Equity Markets	Feb '17	YTD
MSCI EAFE	1.5%	4.4%
MSCI Emerg. Mkts.	3.1%	8.7%

Source: Bloomberg as of 2/28/17. Total return.

## Equity Markets – January’s Pattern Continued with More Gains in February (continued)

One of the themes we noted moving into 2017 was our expectation of more capital market volatility during the year. Due in part to diverging global central bank policies, we believed asset classes would show more divergent returns and markets would experience a more volatile year as well. We believed higher volatility would be further exacerbated by a new U.S. presidential administration coming into office and pending elections in France and Germany in 2017. However, volatility has remained rather subdued based on the VIX Index for most of the post-election period including early 2017. While acknowledging that volatility is still at a very subdued level, the VIX Index did pick up modestly as the month of February ended.



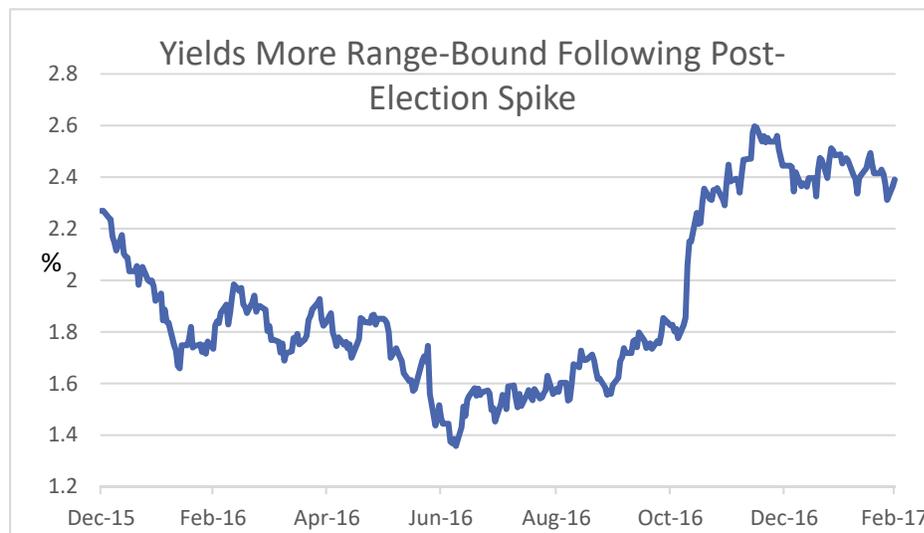
Source: Bloomberg as of 2/28/17. Chicago Board Options Exchange SPX Volatility Index (known as the VIX Index).

We continue to expect a more volatile year for capital markets in 2017. However, as equity markets have continued to hit new highs, volatility has, for the most part, been largely absent this year. Clearly, equity markets have enjoyed positive momentum following the surprise election victory of President Trump. The expectations of lower taxes, less regulation and more government spending have been drivers of this positive momentum leading to all-time equity market highs. However, as the idea of these initiatives moves into the implementation phase, there could be some risks for policy disappointments along the way. With market valuations elevated, any disruptions to this positive momentum could lead to higher capital market volatility. Furthermore, as French elections approach over the next few months, international developments could be more uncertain as well.

We believe the U.S. economy continues to look strong and that fundamentals drive the long term, but the short term could be more volatile as policy initiatives enter the quagmire of political debate and the international environment deals with pending elections in France and Germany in 2017. Despite its relative absence so far in 2017, we still anticipate higher levels of overall capital market volatility in the coming year.

## Fixed Income – Modest Gains in January Followed by More Gains in February

Similar to January, most fixed income sectors were able to turn in positive gains in February. The yield on the 10-year U.S. Treasury was rather choppy during the month, but overall, it slipped modestly lower from the end of January through February's close. This environment allowed most bond sectors to record positive returns for the month of February.



Source: Bloomberg as of 2/28/17. U.S. generic gov't 10-year yield, %.

Overall, modest gains in January were followed by more robust gains in February with emerging market debt and high-yield bonds leading the way once again. These two pockets of fixed income led the bond markets through the first two months of the year, but gains were enjoyed across the board in most fixed income sectors.

Fed actions regarding policy rate hikes will have an important influence on fixed income results in 2017. The next FOMC meeting is scheduled to conclude in the middle of March and any policy actions or indications by policymakers to upcoming rate hike decisions will be important to monitor.

Fixed Income Markets	Feb '17	YTD
Bloomberg Barclays U.S. Agg.	0.7%	0.9%
Bloomberg Barclays U.S. Treasury	0.5%	0.7%
Bloomberg Barclays U.S. Corporate	1.2%	1.5%
Bloomberg Barclays U.S. High Yield	1.5%	2.9%
Bloomberg Barclays EM USD Agg.	1.7%	3.0%

Source: Bloomberg as of 2/28/17. Total return.

## SUMMARY & OUTLOOK

The positive momentum for the economy and capital markets continued in February. Many parts of the U.S. economy continued to excel. In February, a manufacturing reading achieved its highest level in over two years and a companion service sector index reached its best level in over a year as well. The job market remained strong as the four-week moving average of initial jobless claims fell to its best (lowest) level since 1973. Consumer confidence readings were at or near their strongest points since the early 2000s. Clearly, economic momentum has been solid at the outset of the new year. We continue to expect the U.S. economy to grow in 2017 and think the likelihood of a recession remains very low this year.

With the economy humming along, the Fed seems poised to raise policy rates at a faster clip in 2017 than the singular rate increases in 2015 and 2016. The U.S. economy has had crisis-level policy rates in place for years following the credit crisis and there seems to be a desire by policymakers to move back to more “normal” levels of interest rates. However, the Fed will be measured in raising policy rates because it does not want to arrest economic activity, which has still remained rather subdued in recent years. Ultimately, rates are still very low and it will take some time for the Fed to increase rates to more normal, historical levels. The Fed raising policy rates in 2017 should be interpreted as policymakers becoming more confident in the economy and their belief that the U.S. is in a strong enough position to handle higher interest rates.

Continuing with the theme of positive economic momentum, capital markets have started the year on a strong note as well. U.S. and international equity markets almost across the board have started the year with positive gains. At the same time, the yield on the 10-year U.S. Treasury stabilized in January and February after spiking sharply higher in the fourth quarter of 2016. This has allowed fixed income indices to turn in positive gains as well to start the new year.

Equity markets are still riding some of the presidential election momentum with the expectations of lower taxes, less regulation, more infrastructure spending and a generally more business-friendly public policy environment likely coming under the new administration. As these policy ideas move down the road to the implementation phase, we think it is important to recognize that some bumps might occur along the way. Although long-term fundamentals look solid right now, the short term could become choppy if the “politics” of moving these policy initiatives into actions complicate matters with equity markets near all-time highs and valuations elevated.

March started out strongly following President Trump’s speech to Congress with more all-time highs achieved for the major U.S. equity indices, but the days that followed saw equities slip from those highs. Market volatility might pick up as the mid-March FOMC meeting looms with another rate increase widely expected. Overall, we remain constructive on the U.S. economy and equity markets as we begin the new year, but believe capital market volatility could pick up moving through 2017.

## DISCLOSURES

*This commentary is not intended as investment advice or an investment recommendation. It is solely the opinion of our investment management team at the time of writing. Nothing in the commentary should be construed as a solicitation to buy or sell securities. Past performance is no indication of future performance. The author has taken reasonable care to ensure that the information is accurate. Global Financial Private Capital is an SEC Registered Investment Adviser. Registration does not imply a certain level of skill or training.*

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