First Quarter 2017 Financial Market Commentary and Outlook

Economic Fundamentals and Corporate Earnings Trump Politics

First Quarter 2017 Recap – Performance Summary

- The first quarter began with a continuation of the "Trump Trade" as stock prices rose to all-time highs on investor hopes for tax reform, infrastructure spending, and deregulation. The S&P 500 Index had its biggest quarterly gain since the end of 2015. However, stocks in the U.S. and around the world ended a very strong first quarter with a whimper as investors wavered amid political and economic uncertainty. Stocks began to falter in late March as the President and Congress failed to enact health-care reform. The failure to replace the Affordable Care Act has given rise to doubts concerning the ability of Congress to pass other parts of President Trump's agenda.

- More specifically, stock investors began pulling back from companies that would benefit from changing U.S. policy such as banks and infrastructure companies once they realized ***the timing and extent to which the Trump administration will be able to follow through on some of his campaign promises such as infrastructure spending and tax cuts is still very much in question.***

- Technology stocks led the way higher during the quarter followed by the Consumer Discretionary and Healthcare sectors as investor focus turned toward companies and sectors that benefit from stronger economic growth **(See Page 3).**

- In terms of broad asset classes, Emerging Markets stocks led the way thanks to the weakening U.S. dollar strengthening their exchange rates and lowering the cost of U.S. goods and services. They were followed higher by International Developed market (Europe and Japan) stocks as perceptions of political risk have receded in Europe. Meanwhile, economic data and surveys in the Eurozone are looking their healthiest in a quite some time **(See Page 3**).

- Bond prices rose during the quarter led by Investment Grade Corporates, Municipals, and Mortgage-Backed Securities as traders become skeptical the Trump administration will boost the pace of U.S. growth and inflation. The rally in bonds corresponds with a modest pullback in stocks and the unwinding of market bets that the Trump administration's economic policy would boost the pace of U.S. growth **(See Page 4).**

First Quarter 2017 Recap – Performance Summary

Total Rate of Return % as of 3/31/2017

Security Name	U.S. Stocks	QTD Return %	YTD Return %	1 Year Return %
SPDR S&P 500 ETF TRUST	Large Cap Equities - S&P 500	5.90	5.90	17.05
ISHARES RUSSELL 1000 ETF	Large Cap Equities - Russell 1000	5.91	5.91	17.28
ISHARES CORE S&P MIDCAP ETF	U.S. Mid Cap	3.90	3.90	20.74
ISHARES CORE S&P SMALL-CAP E	U.S. Small Cap	0.91	0.91	24.50
ISHARES COHEN & STEERS REIT	Real Estate	0.91	0.91	0.48
ISHARES US PREFERRED STOCK E	Preferred Stock	5.05	5.05	4.91
SPDR BBG BARC HIGH YIELD BND	High Yield Debt	2.31	2.31	14.65
	U.S. Large Cap Sectors			
ENERGY SELECT SECTOR SPDR	Energy Sector	(6.64)	(6.64)	15.66
CONSUMER STAPLES SPDR	Consumer Staples Sector	6.11	6.11	5.46
UTILITIES SELECT SECTOR SPDR	Utilities Sector	6.44	6.44	6.94
HEALTH CARE SELECT SECTOR	Healthcare Sector	8.25	8.25	11.47
FINANCIAL SELECT SECTOR SPDR	Financial Sector	2.43	2.43	32.28
TECHNOLOGY SELECT SECT SPDR	Technology Sector	10.66	10.66	22.27
CONSUMER DISCRETIONARY SELT	Consumer Discretionary Sector	8.37	8.37	13.01
INDUSTRIAL SELECT SECT SPDR	Industrial Sector	5.05	5.05	19.87
MATERIALS SELECT SECTOR SPDR	Materials Sector	5.78	5.78	19.31
SPDR S&P TELECOM ETF	Telecom Sector	2.67	2.67	25.82
	International and EM Stocks			
VANGUARD FTSE DEVELOPED ETF	International Equities	7.96	7.96	12.94
ISHARES EUROPE ETF	Euro 350 (IEV)	7.83	7.83	10.32
ISHARES MSCI JAPAN ETF	Japanese Equities (EWJ)	5.40	5.40	15.07
VANGUARD FTSE EMERGING MARKE	Emerging Markets Equities	11.26	11.26	17.89

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First Quarter 2017 Recap – Performance Summary

Total Rate of Return % as of 3/31/2017

Security Name	Fixed Income	QTD Return %	YTD Return %	1 Year Return %
ISHARES CORE U.S. AGGREGATE	Core Fixed Income	0.82	0.82	0.22
ISHARES 3-7 YEAR TREASURY BO	Treasuries	0.66	0.66	(1.04)
ISHARES AGENCY BOND ETF	Agency Debt	0.62	0.62	(0.09)
ISHARES INTERMEDIATE CREDIT	Corporate Debt	1.14	1.14	1.77
ISHARES MBS ETF	Mortgage-Backed Securities	0.58	0.58	(0.15)
SPDR DOUBLELINE TR TACT ETF	Mortgage-Backed Securities	1.52	1.52	2.20
ISHARES NATIONAL MUNI BOND E	Municipal Bonds	1.11	1.11	(0.29)
	Commodities			
POWERSHARES DB COMMODITY IND	Commodities	(3.98)	(3.98)	14.45
UNITED STATES OIL FUND LP	Oil	(9.22)	(9.22)	9.69
ISHARES GOLD TRUST	Gold	8.39	8.39	1.09
	Benchmark Indices			
MSCI AC World Daily TR N	Global Stocks	7.35	7.35	15.52
US Intermediate Gov/Cred	U.S. Intermediate Term Taxable Bonds	0.68	0.68	0.32
Muni 1-10Y Blend Idx Val	Municipal Bonds (1-10 year)	1.56	1.56	0.22

Sources: Bloomberg and Bank of America/Merrill Lynch

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First Quarter 2017 Recap – Performance Summary

- Contributors to performance during the quarter included our overweight to international developed market stocks, investment grade corporate bonds, and mortgage-backed securities as well as our ½ year longer bond duration than the benchmark index.

- Detractors to performance during the quarter included an equal-weight to U.S. Mid Cap and U.S. Small Cap stocks and our outside-of-benchmark index allocation to REITs and High Yield bonds.

- Perhaps stocks closed the first quarter in the midst of what may be a much needed and long overdue correction. Pullbacks of 10% or less help to reduce speculation, deflate excesses, and provide buying opportunities. They serve an important function in a healthy market cycle as long periods without a correction can end in more dramatic and disruptive declines.

- While many sentiment and valuation indicators have warned of a looming correction in stock prices, we believe that any correction will be short-term in nature because accelerating global growth, a rebound in corporate earnings, and improving global leading economic indicators suggest that the positive cyclical trend in stock prices will continue. In addition, the catalysts for a systemic shock and prolonged sell-off in risk assets such as a policy mistake by the Fed, a sovereign debt crisis, or a sharp oil price decline are not likely to arise.

- We believe the primary reasons for most risk-based assets moving higher in price since last Fall include improving economic fundamentals in the U.S. and abroad as well as strong corporate earnings. While optimism and speculation regarding Trump's very pro-business agenda is nice, ***we do not believe that geopolitical events such as his surprising election victory and campaign promises are long-term determinants of economic growth and financial market returns.***

First Quarter 2017 Recap and Outlook

- In January of this year the Citi Economic Surprise Index, which measures economic data surprises relative to market expectations, reached its highest positive reading in the past 6 years as economic data releases have been stronger than expected.

- Beginning in the fourth quarter of last year, corporate earnings started to accelerate thanks to faster economic growth. Evidence that companies will make good on forecasts for 10% growth in the first quarter is mounting. Despite slumping oil prices and recent doubts concerning Trump's growth agenda, Wall Street analysts have been standing firm on forecasts that represent almost twice the profit growth seen in 2013 when the S&P 500 Index rose 30%.

- Since the start of 2017, bonds have traded sideways even as stocks have risen. Yields on long maturity bonds are still near their historic lows. Yields on 30-year Treasuries finished the quarter at 3% compared with 3.07% on 12/31/16. Demand for long-dated government bonds may continue due to regulatory and liquidity requirements for banks and liability management needs of insurers and pension funds.

- As for the near-term direction of interest rates and bond yields, ***we believe that structural challenges such as aging demographics, high debt levels, budget deficits, and the abundance of global savings will significantly limit the pace and magnitude of interest rate increases over the next few years***. It is our view that Fed interest rate increases will be very gradual and limited because of low inflation, economic weakness in Europe, Japan, and China, reduced investment demand relative to desired savings, a strong U.S. dollar, and our belief that the U.S. and global economies can not withstand a successive series of interest rate increases over the next year or two.

- In late January we sold the entire position of XLE (Energy Select Sector SPDR ETF). Proceeds from the sale were invested in cash (money market sweep fund). History shows that the Energy sector cannot sustainably outperform without a bull market in underlying commodity prices, as sideways or trading range price movements are insufficient to boost cash flows. Commodity prices are likely to struggle this year due to a strengthening U.S. dollar supported by market expectations for the Fed to raise interest rates two more times this year. In addition, given that the Energy sector was trading at a 30.7 forward P/E ratio versus the historical mean of 16.5 and a 12 month forward earnings growth expectation of 278.9%, we decided that it was prudent to take profits and close our tactical position in the sector. Our concerns were justified as the Energy sector finished down for the quarter and was the worst performing sector in the S&P 500 Index **(See Page 3).**

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First Quarter 2017 Recap and Outlook

- In mid-March we bought more VEA (Vanguard FTSE Developed ETF) raising our allocation from equal weight to overweight (approx. 2%) the strategic target for International Developed Market stocks across all asset allocation strategies. In particular, Eurozone companies are cheaper relative to their profits than U.S. companies and businesses in the Eurozone reported their strongest economic conditions in six years in the March purchasing managers index.

- The Federal Open Market Committee (FOMC) raised the overnight Fed Funds rate by 25 basis points to a range of 0.75%-1.00% at its March 15th meeting and continued to project two more interest rate increases this year. This move was widely expected by the financial markets. The Fed reassured the public and the investment community that it would maintain its "go slow" approach to raising rates. The FOMC indicated that they have not fallen behind in their efforts to keep inflation under control.

- For now we believe the risk that the Fed turns out to be too hawkish – that it raises rates so much that the economy begins to roll over - is not an issue over the next year. Since interest rates are still very low in absolute terms, an excessively hawkish Fed may be more of a risk for late 2018 or 2019. Therefore, after a short pullback from the steady rise since last year's Presidential election, we believe that stocks will continue to outperform bonds and cash this year. We particularly like international developed markets stocks led by Europe and Japan. Both markets are still considerably cheaper than the U.S. and their respective monetary policymakers are unlikely to raise interest rates anytime soon.

Summary

In summary, we believe that after a brief correction, stocks should move higher over the next 12 months and continue to outperform bonds and cash based upon improving global economic conditions and corporate earnings. The Federal Reserve should maintain its "go slow" approach and raise the overnight fed funds rate two more times this year. Structural forces and strong global demand for U.S. government bonds will keep yields in a tight trading range for the next year. We will continue to favor a pro-growth investment stance overweighting international developed market stocks and corporate bonds.

Andrew Zimmerman – Chief Investment Strategist

April 3, 2017

Notes: The DT Investment Partners' Commentary and Outlook discusses general developments, financial events in the news and broad investment principles. It is provided for information purposes only. The material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. I nvestments in various asset classes entail different investment risks. For example, small cap stocks tend to be more volatile than large or mid-cap stocks. International and emerging markets stocks have exposure to currency fluctuations, foreign taxes, political instability and the possibility for illiquid markets. Fixed income investments involve interest rate and credit risks among others. Real estate investing includes risks such as declines in value of real estate, changing economic conditions, tax laws or property taxes. Commodities' investing is highly volatile and subject to changing economic conditions and the vagaries of speculators among other risks. One cannot invest directly in an index. Past performance does not guarantee future results.

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