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Portfolio Comments
For the Quarter Ending March 31, 2017

As President Donald Trump was inaugurated on January 20th 2017, the vocal rhetoric over what had transpired and what is to come continued to be heard in full force from opposing factions expressing jubilation and consternation. Arguably, never has an American election produced such a tidal wave of commentary and emotion, which is why, perhaps, straightforward statements from those charged with making decisions, not just opining on them, stand out. In this spirit, Janet Yellen, the Chairperson of the Federal Reserve commented in the wake of the March interest rate hike that, “The simple message is that the economy is doing well.” And, in the aftermath of the Republicans being forced to pull their healthcare act repeal vote, House speaker, Paul Ryan, conceded “doing big things is hard.” Meanwhile, U.S. equity markets did just fine this quarter.

The S&P 500 ended the first quarter of 2017 at 2,363, delivering a positive return of 6.07% for the year to date. Similarly, the Dow Jones Industrial Average (DJIA) ended March at 20,663 for a first quarter return of 5.19%. Both indices peaked on the first day of March with the S&P 500 and the DJIA registering record closing highs 2,396 and 21,116 respectively, with the psychologically significant 20,000 DJIA milestone having been breached for the first time ever on January 25th. The final month of the quarter brought more choppy territory that some labeled as an inevitable pullback in the wake of post-election exuberance. Whether the markets are experiencing a brief dip or a longer period of more cautious valuations remains to be seen.

On March 15th, to no-one’s surprise, the Federal Reserve raised its benchmark interest rate to a range of 0.75-1.00%, its third quarter point raise since the financial crisis. It was also reconfirmed through the anonymous forecasts of the Federal Open Market Committee (FOMC) members that if key indicators continue to align with the Fed’s economic outlook, we can expect a total of three rate hikes this year and a further three in 2018. Inflation, as measured by headline consumer prices, rose to 2.7% year-on-year to the end of February, and excluding volatile energy and food prices, the rise was 2.2%. The Fed uses a slightly different core inflation measure and that stands at 1.75%, still below its 2% target. However, inflation targets, although not ignored, have always taken second importance for Ms. Yellen behind her focus on employment numbers. With unemployment now at just 4.7%, we are likely to see follow-through this time with the

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forecasted consecutive rate rises with setters anticipating a stabilization at 3% by the end of 2019.

Other factors are also at play which favor a ramp-up in rates. The financial markets have enjoyed a boom period, especially since the Presidential election, which has boosted the economy and negated the need to keep interest rates at rock-bottom. In addition, a fiscal stimulus in the form of tax cuts is on the horizon, which could total close to 3% of GDP if Trump campaign promises are realized. Ms. Yellen's current term expires in February 2018, making her one of five of the seven members of the Board of Governors of the Federal Reserve System that Mr. Trump has the option to replace within his first eighteen months in office. Although the President has previously criticized the Fed Chair for keeping interest rates low, if Ms. Yellen continues to achieve her goals, including tightening monetary policy without triggering a recession, Mr. Trump's stance on her may soften into a reappointment.

The first months of the forty-fifth President of the U.S.A. have not been without their challenges for the new administration as it gets to work implementing the raft of promised changes that propelled Donald Trump to office. He is rapidly discovering, not unlike many of his predecessors, that the country's political system incorporates weighty institutional obstacles, including the courts, state government and Congress. A major function of these institutions is to question, slow down, and sometimes block sweeping, large-scale change.

Just days into his presidency, Mr. Trump issued executive orders barring travelers, with some exceptions, from seven majority-Muslim countries from entering the United States. A judge in Washington state, upheld by a three-judge panel at the Ninth Circuit Court of Appeals, swiftly blocked the President's plan under the Fourteenth Amendment's due-process rights. An amended temporary travel ban, which reduced the number of countries to six by removing Iraq from the list, and lifted restrictions on permanent residents and visa holders, was hours from going into effect on March 16 when it was again shot down, this time by a federal district court in Hawaii. The judge's objection centered on the First Amendment rule that prevents the government from discriminating against certain faiths. The administration's insistence that there was no religious prejudice underlying the order was dismissed out of hand. Next stop might be back to the Ninth Circuit Court of Appeals, who are unlikely to reverse their stance, and then possibly onto the Supreme Court, which by mid-April may comprise of a 5-4 majority of Republican nominated justices, possibly favoring Mr. Trump as he seeks vindication that his executive power wields practical weight.

The President's second significant setback was delivered, in part, by members of Mr. Trump's own party. One of the pillars of Mr. Trump's campaign was the promise to swiftly repeal much of Obamacare, or the Affordable Care Act (ACA), which Republicans had spent seven years railing against. The repeal bill was fast-tracked through committees and readied for a Congress vote on March 24th only to be pulled at the last minute as House Speaker Paul Ryan unhappily conceded that too many of the Republican majority were opposed to the bill as it stood. Hardline conservatives from the Freedom Caucus complained that the bill didn't go far enough, still leaving too-large a role for government and room for insurance subsidies (in the form of tax credits). A number of moderate Republicans were concerned by calculations by the Congressional Budget Office that the plan replacing the ACA would leave an additional 24 million citizens without health insurance by 2026, while benefiting the young and healthy and penalizing the old and those in rural areas. The next step is unclear, since it is hard to envision a negotiated bipartisan agreement that will also sway the hardliners on the right into voting the party line.

To add to the President's challenges the FBI is investigating whether the Trump campaign worked with the Russian government on the back of the National Security Agency's (NSA) suspicions that the Russians attempted to influence last year's election in favor of the President. Conversely, the FBI and NSA found no evidence to support the current President's claim that his phone was wiretapped by his predecessor.

The settling-in pains of the new administration have been mainly political so far, as things on the economic front appear positive. Indeed, the good news appears to be global for once for almost the first time since the financial crisis of almost a decade ago. In America, Asia, Europe and the emerging markets there are signs of simultaneous growth spurts, with the strongest signals coming from manufacturing and other cyclical parts of the global economy with business spending on equipment and machinery quickening pace. At the end of 2015 and going into 2016, markets tumbled as fears over China's economy came to the forefront helping to push raw-material prices down to levels not seen since 2009 and oil briefly skirted below the $30 a barrel mark. In response to the domestic crisis China spent $300 billion of foreign capital to stabilize the yuan and tightened capital control to stem the outflow of money abroad. The controls and stimuli were effective and investment, especially in property and construction, took off spearheading a revival in commodity prices and warding off global economic malaise. Two of the largest emerging economies, Russia and Brazil, are even showing concrete signs of turnarounds. Inflation in Russia fell to 4.6% in February, a far cry from its 16.9% peak two years ago, and with inflation coming under control in Brazil, the central bank has cut rates to 12.25%, with more on the way.

At home, the anticipated cuts in tax and regulation, coupled with infrastructure spending and the return of the approximate $1 trillion of untaxed profits held abroad, are fanning confidence that business investment is about to get a big boost. Still, the 4% GDP growth promised by Mr. Trump will not materialize overnight, with current forecasts anticipating around 2% for this year and probably for each of the next two years as the country approaches full employment. And headwinds still exist, with oil prices falling 10% in the week to March 15th over resurgent oversupply fears, China's debt levels still a point of concern and rich world productivity remaining sluggish.

The reports of global recovery have been tempered by the more stormy political backdrops. The clouds of years of tepid growth, accompanied by the disenfranchisement felt by the working and middle classes have burgeoned into a widespread populist backlash expressed by votes. Brexit and the change of regime in America were largely unpredicted and have led commentators and pundits to be more cautious in calling upcoming results as nationalism and protectionism are on the rise. The Dutch elections on March 15th came under unusual international scrutiny as the showing of Geert Wilders and his far-right Freedom Party (PVV) was considered a barometer of how later elections in Europe might fall. As it transpired, Mr. Wilders came a distant second, winning 13% of the votes behind Prime Minister Mark Rutte with 21% of the votes. The defeat of this xenophobic Eurosceptic was met with a sigh of relief by all but the populist extremists, although its predictive power when it comes to the results of the upcoming significant French presidential elections is debatable.

When the French go to the polls for the first round of the presidential ballot on April 23rd, current surveys show two insurgents as clear front-runners: the charismatic head of the National Front, Marine LePen, and energetic leader of the rising liberal movement En Marche! (On the Move!), Emmanuel Macron, who previously served as a Socialist economy minister. The historic lines of the demarcation between left and right are blurring, giving way to a tug-of-war between movements towards open and closed systems and societies. The current Socialist president, François Hollande is so out of favor that he isn't even running and the Republican party's hopes floundered when it was revealed that their candidate, François Fillon, paid public money to family members for fictitious jobs. France's economic malaise, with its expensive and overbearing state institutions, heavy taxes and high youth unemployment, coupled with recent terrorist attacks, have created a pessimistic and angry populace clamoring for change.

Ms. LePen wants the country to turn inward to reverse its problems, proposing barriers to foreign trade, more social welfare, a staunch rejection of radical Islam, a curtailment of immigration, a rejection of the euro for the franc again, and a referendum on quitting the EU. Diametrically opposite, Mr. Marcan is pro-EU, pro-trade, pro-immigration and believes competition and openness is the path to a stronger France. Neither agendas, both stacked with far-reaching ideals, have clear paths to enactment; the National Front won't win a majority in the National Assembly in June voting and En Marche! is barely a party. Meanwhile, the shaking up of French politics and the ensuing uncertainty has pushed French yield spreads versus German bunds to their widest level since the 2008 financial crisis.

Over the English Channel, British Prime Minister Theresa May set Wednesday March 29th as the date to trigger Article 50, which formally sets in motion the country's exit from the European Union by the end of March 2019 at the latest. This will be, without doubt, one of the most complicated series of negotiations in political history and will occur concurrently with the nation's objective to secure a future trading relationship with the other 27 countries. Britain was also in the news in recent weeks, sadly, for being the location of another presumed terrorist attack, as a lone perpetrator with Islamist ties caused four deaths near the Houses of Parliament in London before being killed by law enforcers.

It was certainly a quarter for some major political news stories on the world stage with more lined up in the coming months, but the unknowns and upheavals didn't translate into economic setbacks, emphasizing that this time around growth is occurring from a more solid foundation than we have seen in close to a decade. As always, we are not broad market predictors but continue to evaluate and seek undervalued investment opportunities with a view to returns over the longer term. That the remainder of the year will bring more change is inevitable and your trust in us as your investment advisor through these changing landscapes and markets is very much appreciated.

The S&P 500 is an unmanaged index of 500 widely held companies and over 80% of the U.S. equities market. The Dow Jones Industrial Average (DJIA), commonly known as "The Dow", is an index representing 30 companies maintained and reviewed by the editors of the Wall Street Journal. The information contained in this report does not purport to be a complete description of the securities, markets or developments referred to in this material. The information has been obtained from sources considered to be reliable, but we do not guarantee that the foregoing material is accurate or complete. Any opinions are those of the investment adviser representatives of Stolper Asset Management and not necessarily those of RJFS or Raymond James. Expressions of opinion are as of this date and are subject to change without notice. Investing involves risk and you can lose principal. There is no assurance any strategy will be successful. There is no guarantee that any forecasts made will come to pass. Past performance may not be indicative of future results. This information is not intended as a solicitation or an offer to buy or sell any security referred to herein. Dividends are not guaranteed and must be authorized by the company's board of directors.