Brief Market Commentary
November 9, 2016

In light of last night's election results, we are reaching out with some brief commentary. Obviously we aren't political commentators and only scratching the surface here, but in an effort to be helpful, we wanted to share our initial takeaways.

- The conventional wisdom among political pundits and pollsters was just plain wrong, again. The election results suggest that polls may have wildly underestimated the number of "hidden" Trump voters. Similar to the United Kingdom's "Brexit" vote, it seems there was also a serious underestimation of public discontent, dissatisfaction with the status quo, and desire for change (particularly among the middle class).

- Donald Trump's election victory initially sent U.S. stock futures plunging and perceived safe-havens such as gold and the Japanese yen soaring overnight. At one point, futures markets pointed to a 5% fall in U.S. equities. However, the sharp early sell-off in stock, bond, and currency markets largely reversed this morning with both US and European posting solid gains so far today. Longer-term bond yields have also moved higher (prices have correspondingly fallen) with the US 10-year treasury yield approaching 2.05%. Investors are perhaps weighing the potential for tax cuts and spending that could stimulate growth or inflation. Though the situation can certainly change, it seems fair to say that Donald Trump's victory has, so far, had less impact on financial markets than most anticipated.

- The election results clearly remove an element of uncertainty—there's no longer any doubt who will become the next president. However, we don't know exactly what type of president Trump will be. With the Republicans holding the Senate and the House, there is a greater chance that some or all of his fiscal plan will be enacted, but his trade policy is perhaps more of a wildcard. In addition, neither Trump nor many of his inner circle have any experience in government—this was admittedly part of the appeal to a large swath of his supporters. These factors suggest that uncertainty and the potential for volatility could remain elevated. The focus of financial markets will likely shift towards who Trump will appoint to head up his new administration.

- We wouldn't place too much emphasis on a single communication, but do acknowledge that Trump's acceptance speech definitely struck a conciliatory tone. Rather than criticize Hillary Clinton, he praised her for her public service. He also went on to say "it is time for American to bind the wounds of division" and "it is time for us to come together as one united people." On trade, he pledged that "while we will always put America's interests first, we will deal fairly with everyone" and "seek common ground, not hostility, partnership, not conflict."

- The election results and polices that follow could well change the longer-term fundamental outlook for the U.S. and world economy—but the economic consequences of a Trump presidency will not be clear for a long time yet. As such, we will carefully reassess our views over time.

- In terms of the nearer-term economic outlook and macro backdrop, there's no real change at this point. We think the post-financial crisis slow economic recovery is likely to continue against a backdrop of generally low interest rates and accommodative central bank policy. These factors should continue to support equity markets, though returns will be constrained by a lack of multiple expansion.

Portfolio Strategy Summary

Given the current macro backdrop, we recommend staying broadly diversified while maintaining slight underweight positions in traditional stocks and bonds (given current valuations) in favor of an elevated cash position. Within the equity component of portfolios, we continue to emphasize large cap, high quality stocks. We also continue to seek to identify certain flexible/alternative strategies that might provide uncorrelated returns.

Should financial markets present what we believe to be a tactical investment opportunity, we'll modify our portfolio positioning recommendations accordingly. The table below summarizes our current tactical asset allocation views.

Asset Category Tactical Views	Strong Underweight	Underweight	Neutral	Overweight	Strong Overweight
Cash					
Cash & Equivalents				■	
Fixed Income					
US Government Bonds	■				
Corporate Bonds		■			
Tax-Free Municipal Bonds			■		
High Yield Corporate Bonds		■			
Equities (Public & Private)					
US Large Cap Stocks			■		
US Small Cap Stocks		■			
Non-US Developed Markets Stocks			■		
Emerging Markets Stocks			■		
Private Equity					
US Large Buyout	■				
US Mid-Market Buyout		■			
Real Assets (Public & Private)					
Commodities			■		
Public Real Estate (Core)	■				
Private Real Estate (Opportunistic)		■			
Flexible/Alternative Strategies					
Less-Directional Hedge				■	
Directional Hedge			■		

Note: Based on research and opinion provided by Greycourt & Co. as of September 30, 2016. Tactical views reflect a three-year investment horizon. Suggested asset class weights are influenced by Greycourt's detailed quarterly tactical analysis and are used as a starting point in assessing client portfolio weights against strategic targets which typically reflect a ten-year investing horizon.

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