

Q3 2016 CHART BOOK



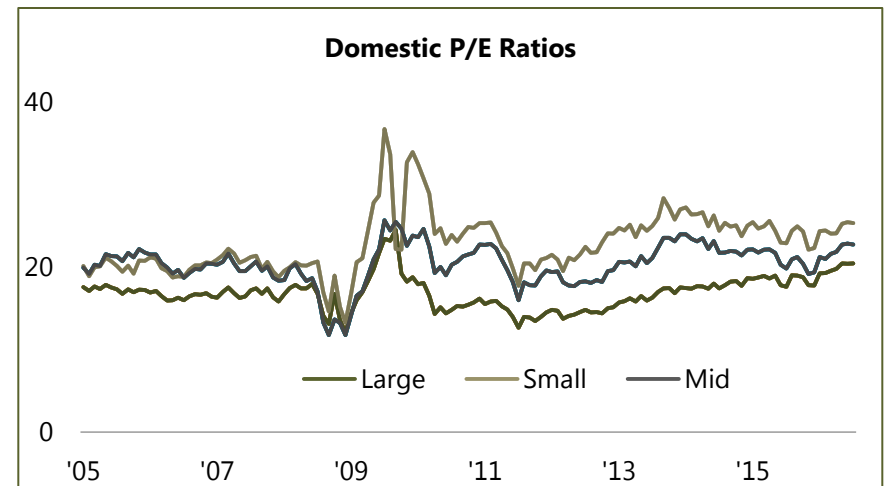
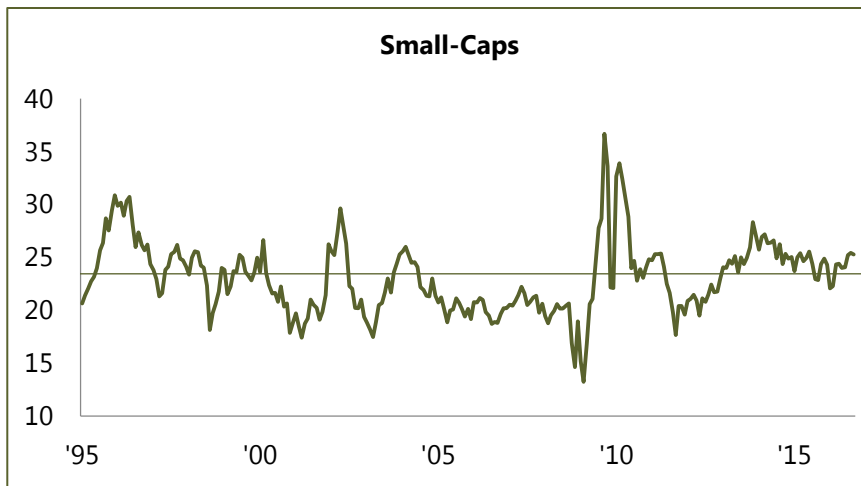
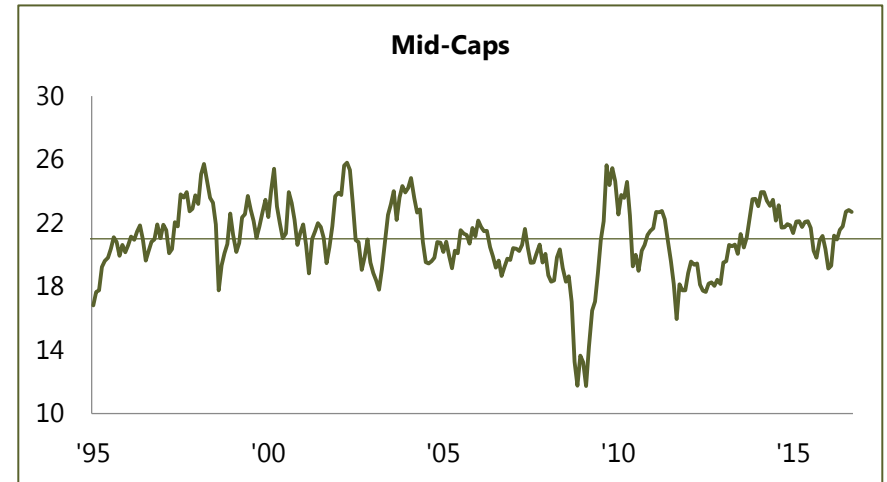
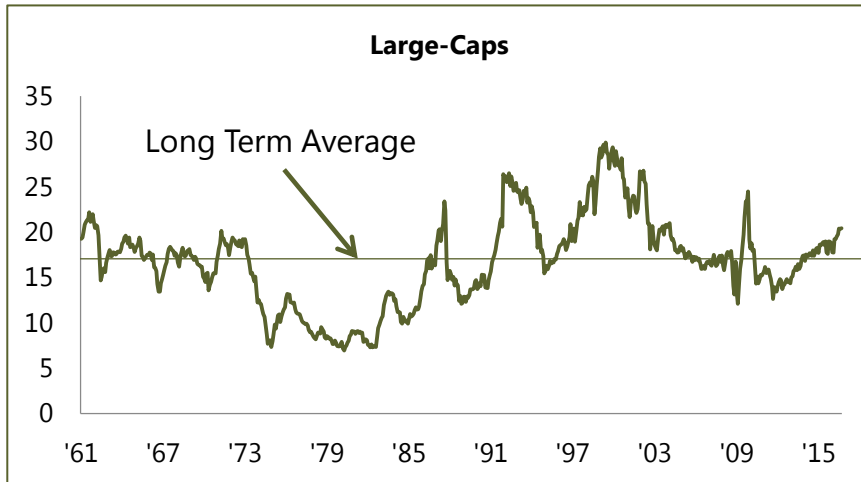
Buffalo, NY



North Palm Beach, FL

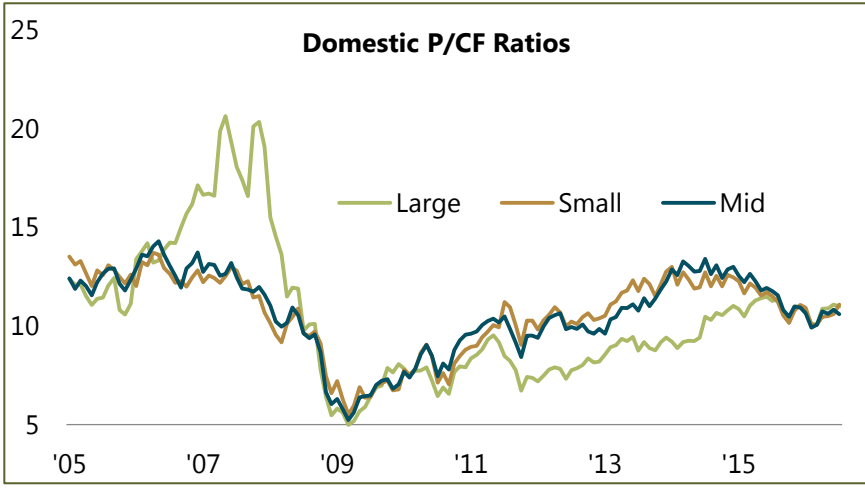
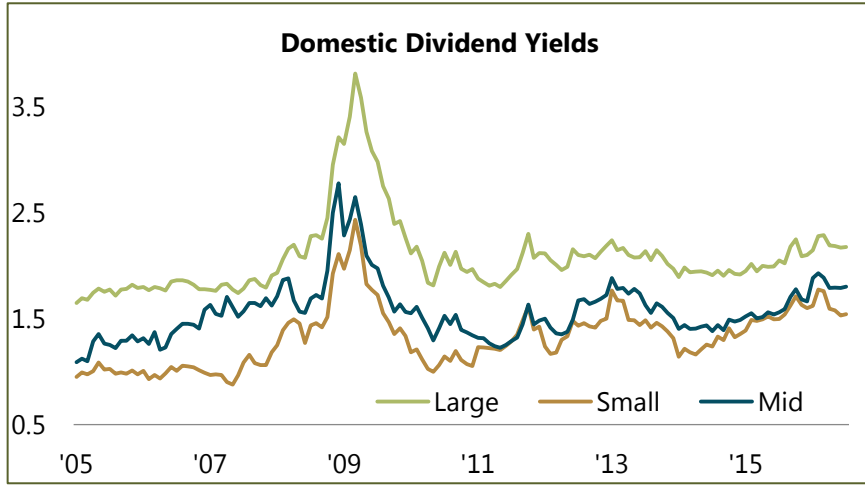
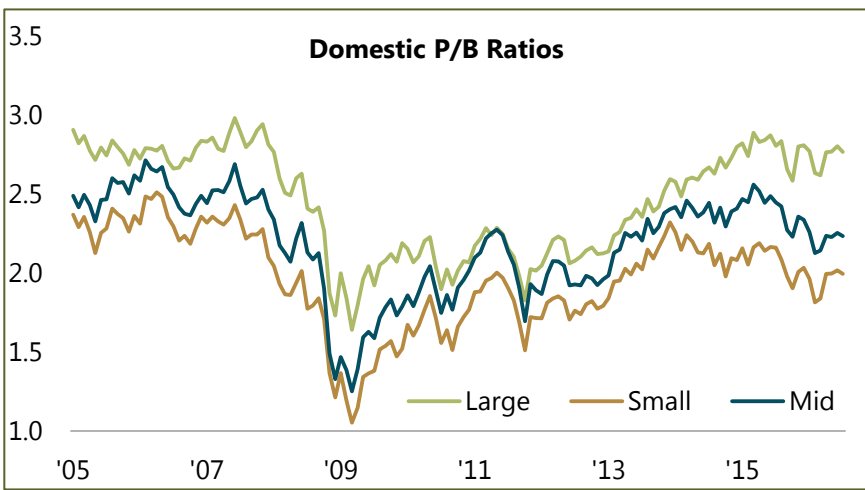
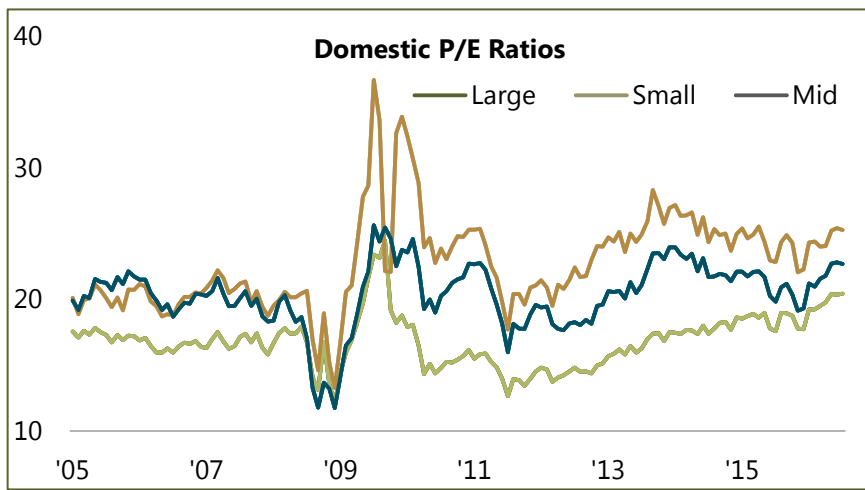
Domestic P/E's

Domestic Equities continue to trade richer than their long term averages, with earnings multiples expanding for Large-, Mid-, and Small-Cap equities.



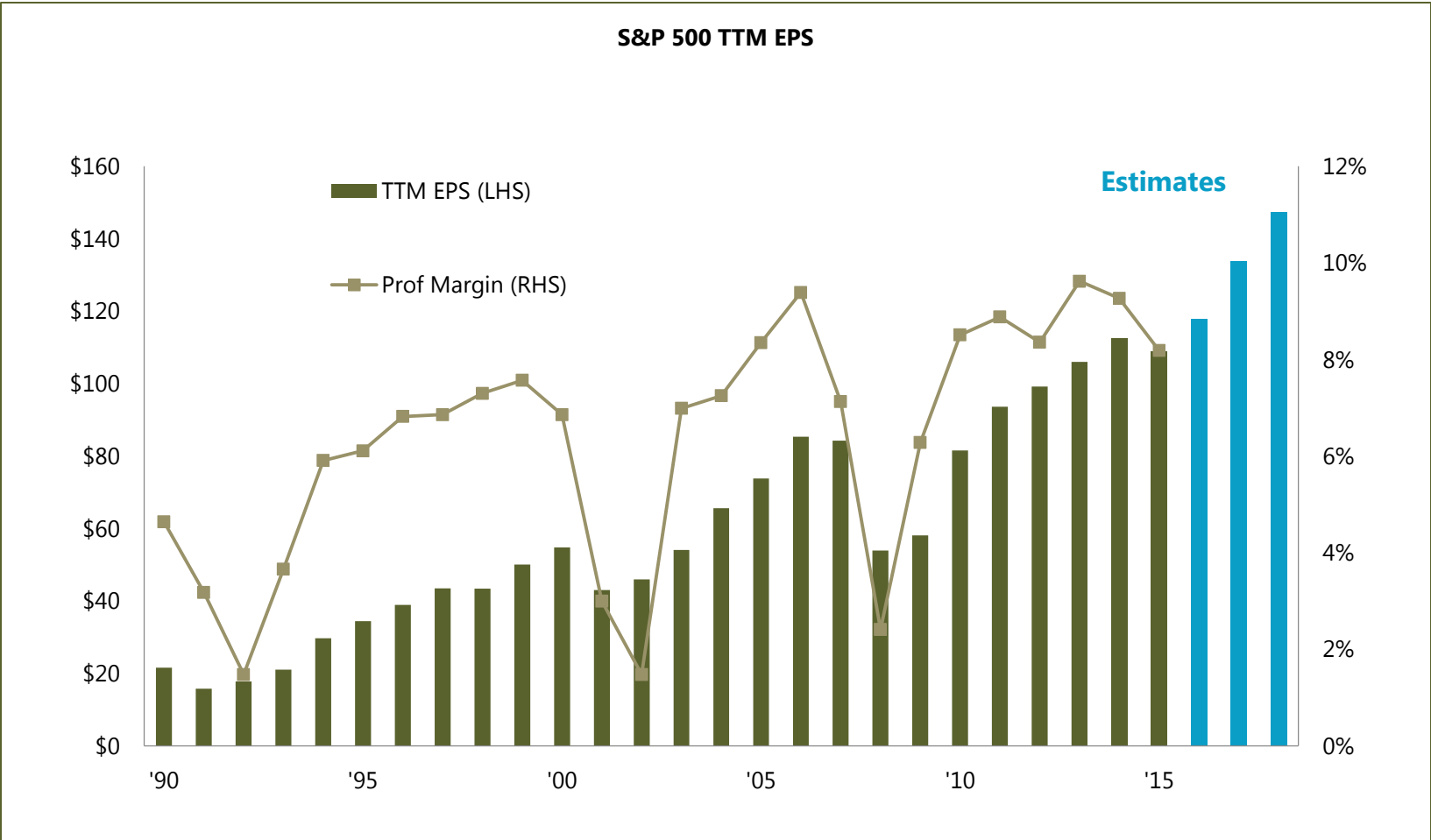
Domestic Valuation Ratios

Earnings, Cash Flow, and Book Value valuation multiples have marginally increased since 2Q16. Dividend Yields fell for Large- and Small-Cap equities, while Mid-Cap yields slightly rose.



S&P 500 EPS and Profit Margins

Depressed global growth and geopolitical risk have weighed heavily on 2016's earning's outlook. Profit margins continue to contract from 2013's high. FY16, FY17, & FY18 earnings have been revised slightly downward since last quarter's estimates.



Source: Bloomberg, estimates a/o 10/04/2016

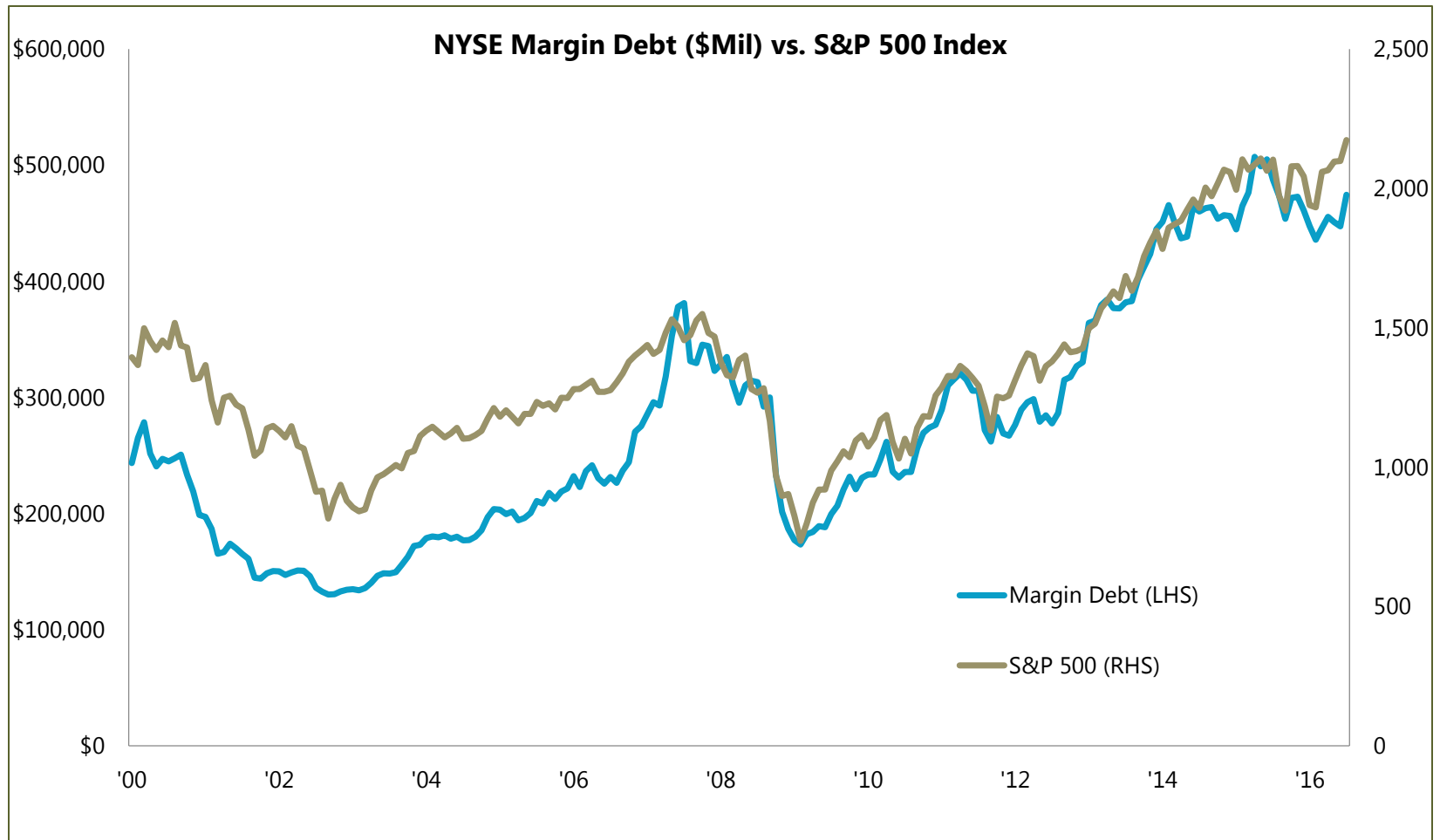
Current Sector Valuations

The S&P 500 and its corresponding sectors continue to look more expensive than last quarter, from both a P/E and P/B multiple basis. Tech's valuation multiples have increased the most since last quarter, while sectors like Telecoms and Financials are much cheaper than before. Energy's P/E multiple is elevated on lower earnings due to depressed energy prices.

<u>S&P Sectors</u>	<u>ETF</u>	<u>P/E</u>	<u>P/B</u>	<u>Cheap on P/E?</u>	<u>Cheap on P/B?</u>	<u>Div Yield</u>
Energy	XLE	71.7	2.0	EXPENSIVE	Fairly Valued	2.9%
Consumer Staples	XLP	22.3	5.4	Fairly Valued	Fairly Valued	2.6%
Tech	XLK	21.9	4.5	Fairly Valued	Fairly Valued	1.5%
Health Care	XLV	20.5	3.7	Fairly Valued	Fairly Valued	1.7%
Consumer Discretionary	XLY	19.5	4.7	Fairly Valued	Getting Exp	1.6%
Materials	XLB	19.3	3.5	Fairly Valued	Getting Exp	2.2%
Utilities	XLU	18.1	1.9	Getting Exp	Fairly Valued	3.5%
Industrials	XLI	18.0	4.2	Fairly Valued	Getting Exp	2.3%
Telecoms	VOX	15.9	2.9	Fairly Valued	Fairly Valued	4.6%
Financials	XLF	13.9	1.1	Fairly Valued	Fairly Valued	1.9%

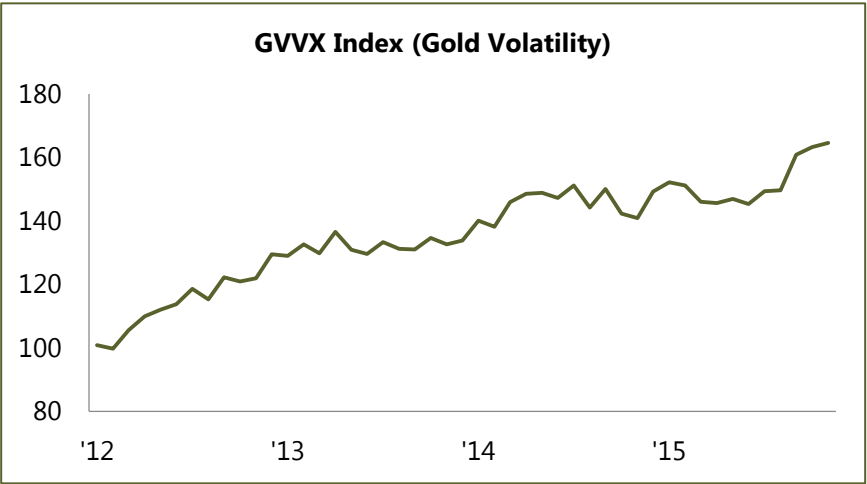
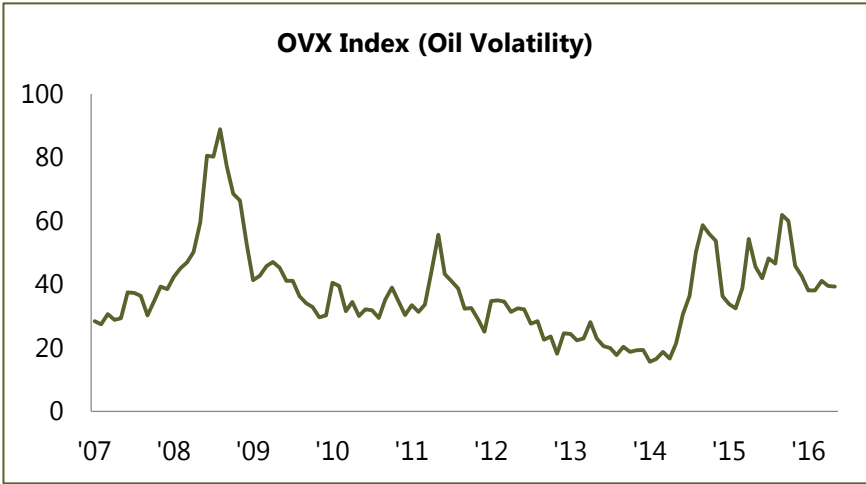
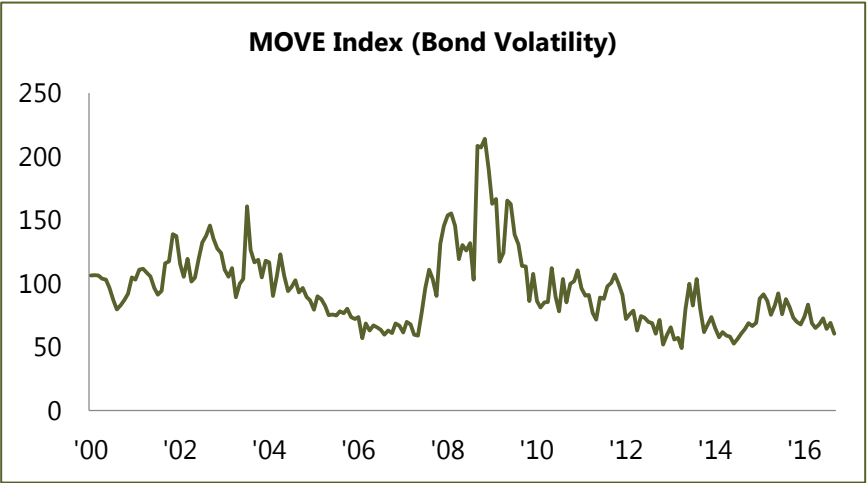
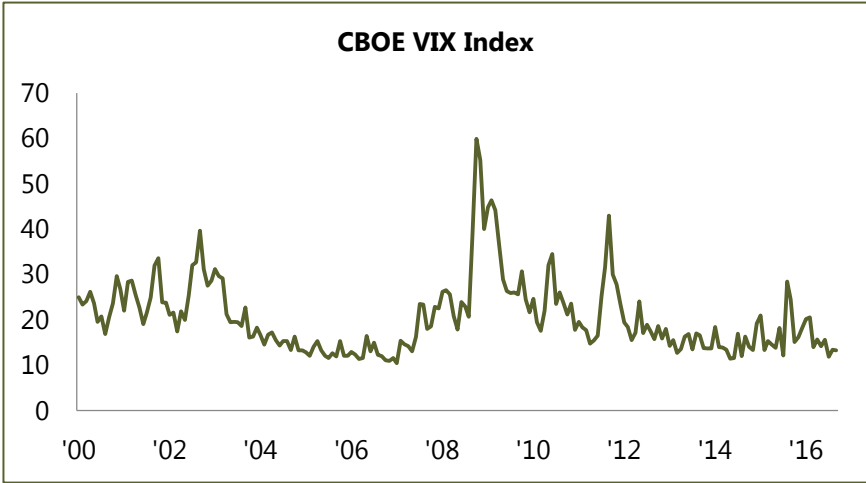
Equity Margin Debt

Although investors added margin debt over the past quarter, overall levels of debt have declined since the high last observed in August of 2015. The correlation of Margin Debt to the performance of the S&P 500 continues to be high.



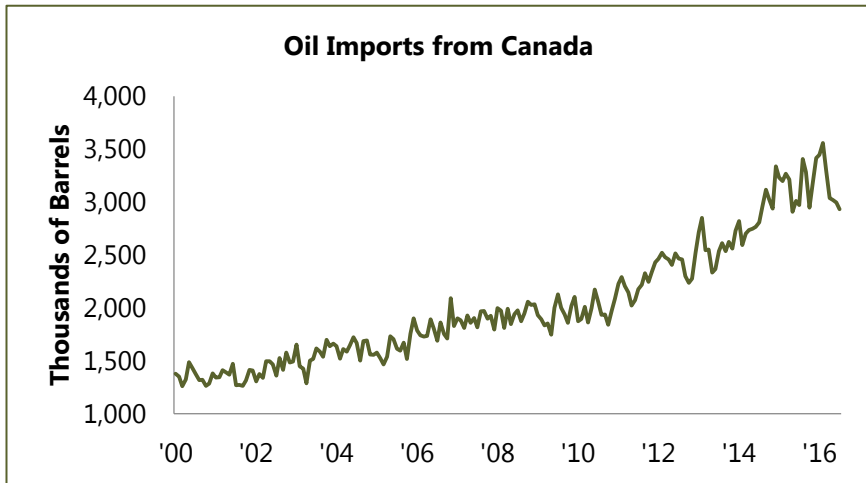
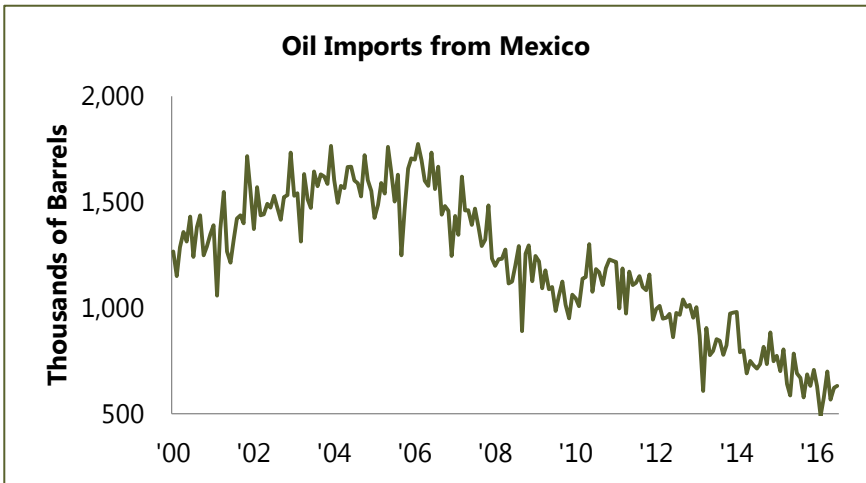
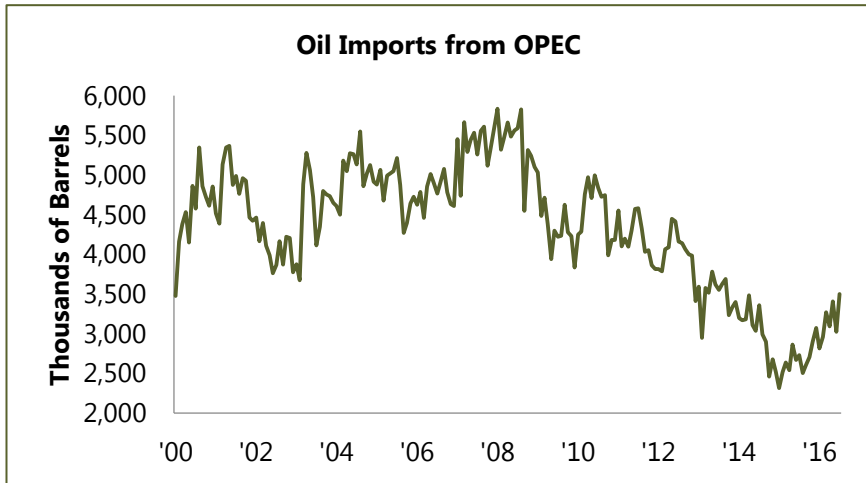
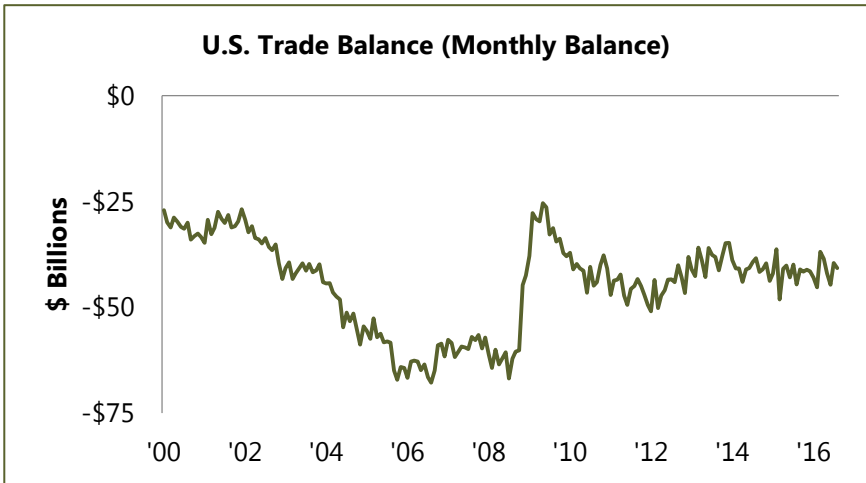
Volatility Monitor

Equity, Bond, and Oil Volatility cooled over the summer, while Gold volatility continued to climb.



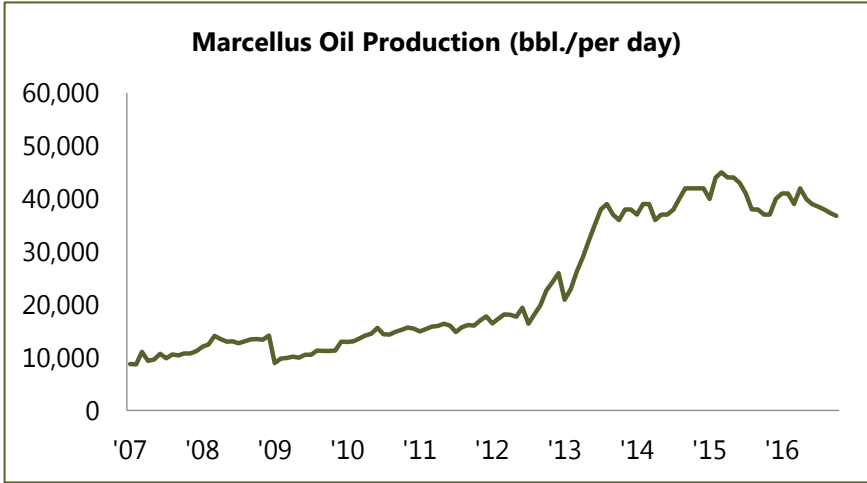
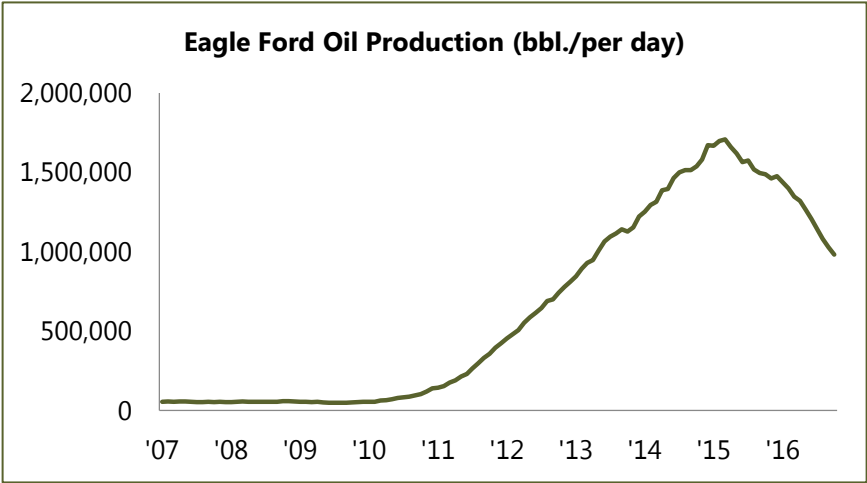
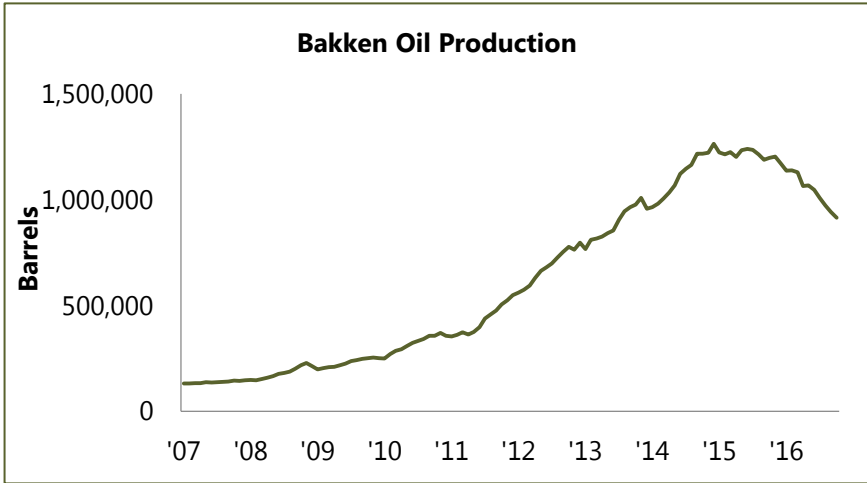
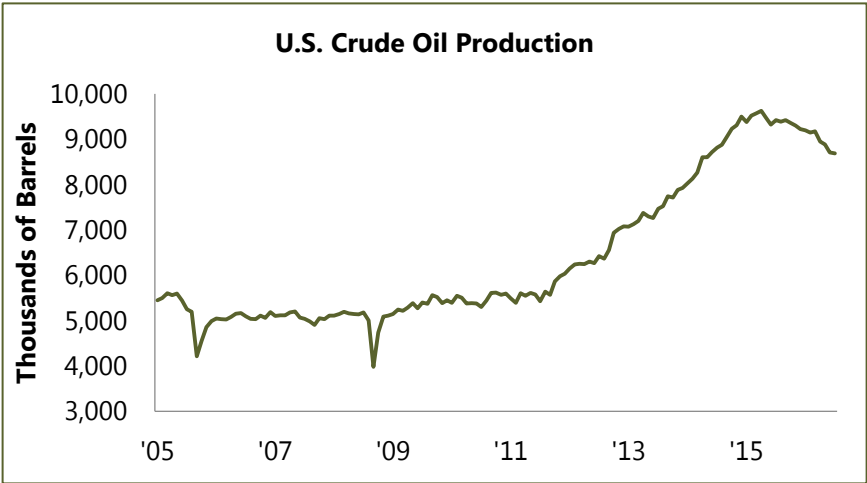
U.S. Oil Imports & Trade Balance

The U.S. Trade Balance widened from last quarter, while imports of oil rose from the countries where oil is the cheapest to marginally produce. Oil Demand continues to rise, albeit slower than foreign supply.



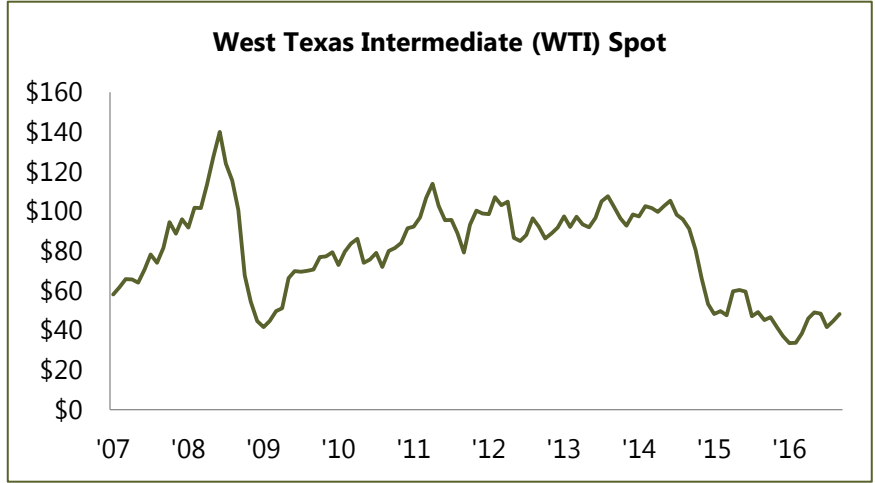
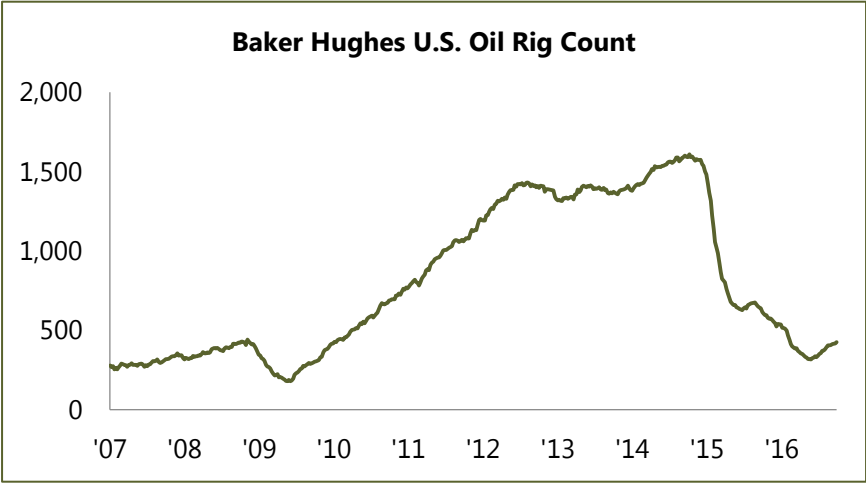
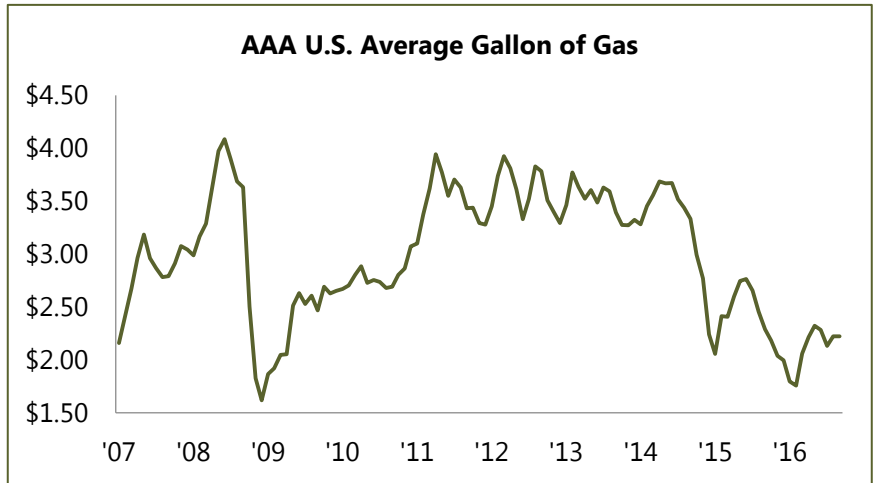
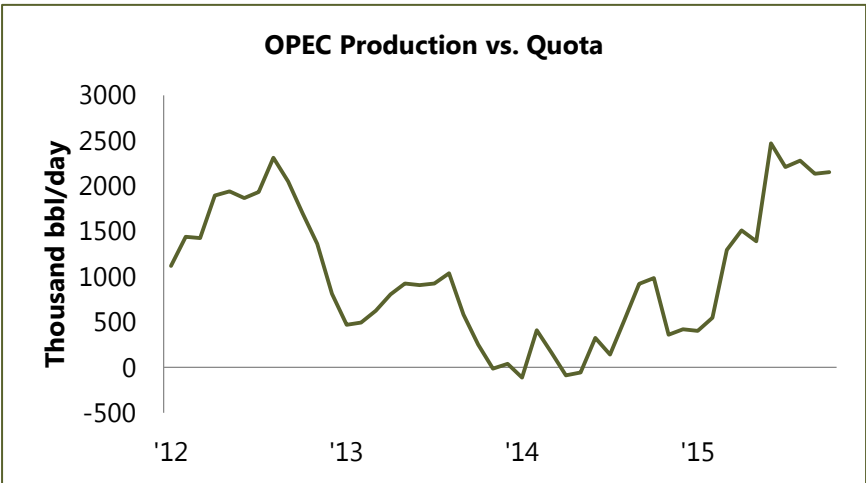
Domestic Daily Oil Production

U.S. Oil Production has fallen almost -10% since April 2015's high of 9.6 million barrels per day. High-cost producers continue to scale back drilling operations over fears of a sustained low-price environment.



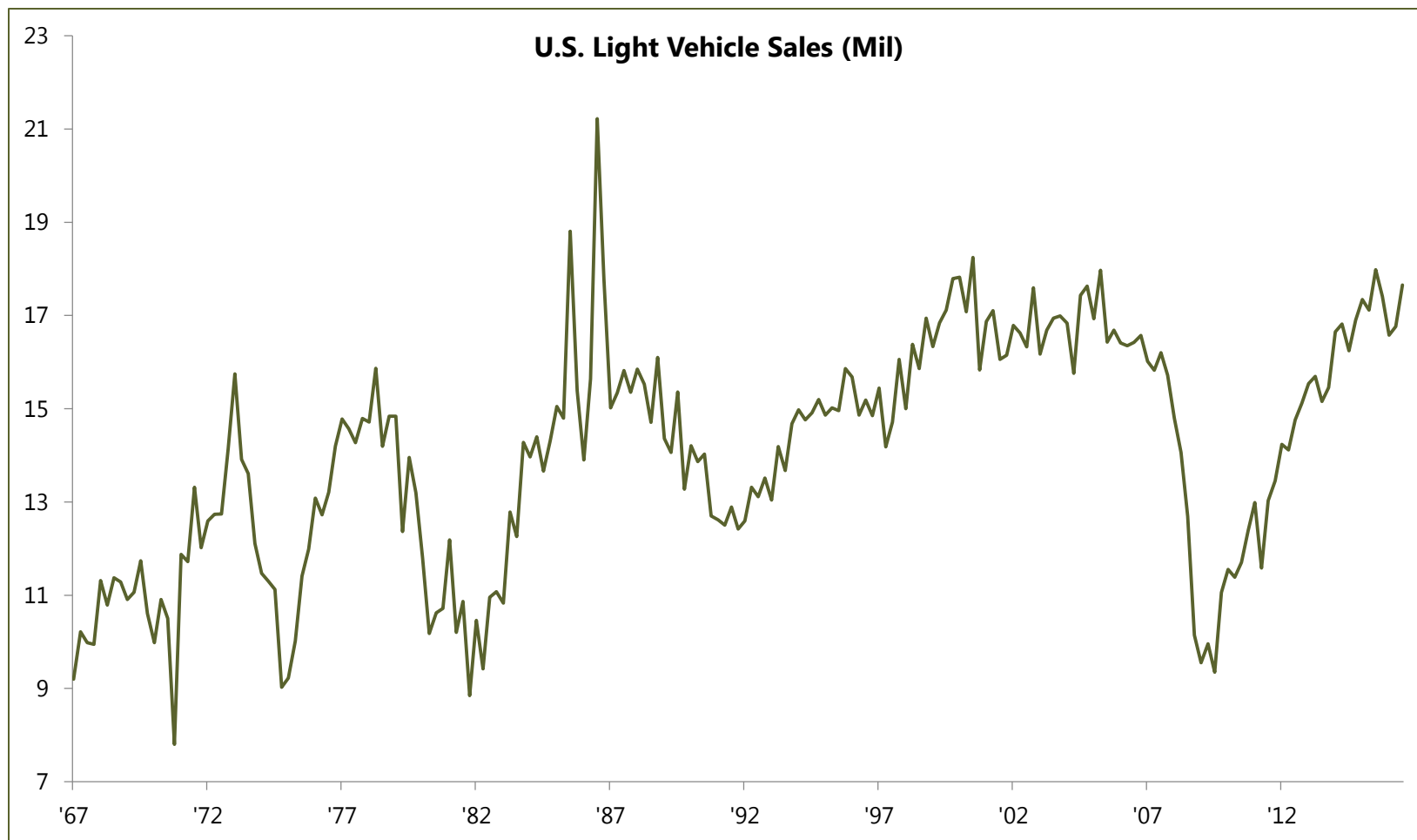
Oil Prices vs. Rig Counts

Gas prices slightly fell towards the end of the quarter as oil prices were stagnant. The U.S. Rig Count rose by +25% Q/Q to 425 Rigs, as producers quickly responded to oil price increases.



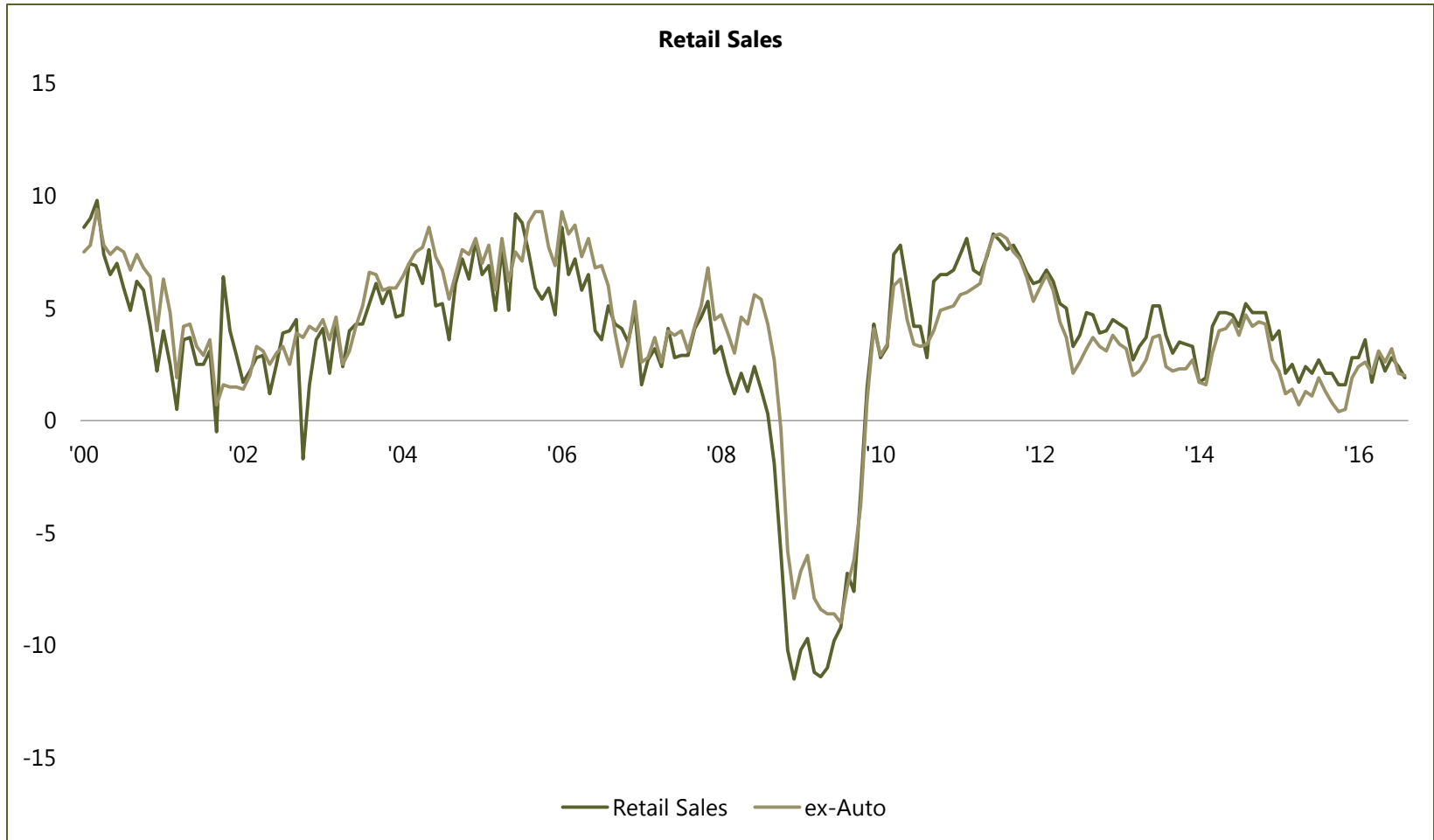
Auto Sales

Auto Sales rose again this quarter to a seasonally adjusted 17.7 million annualized rate, showing continued strength in the auto market.



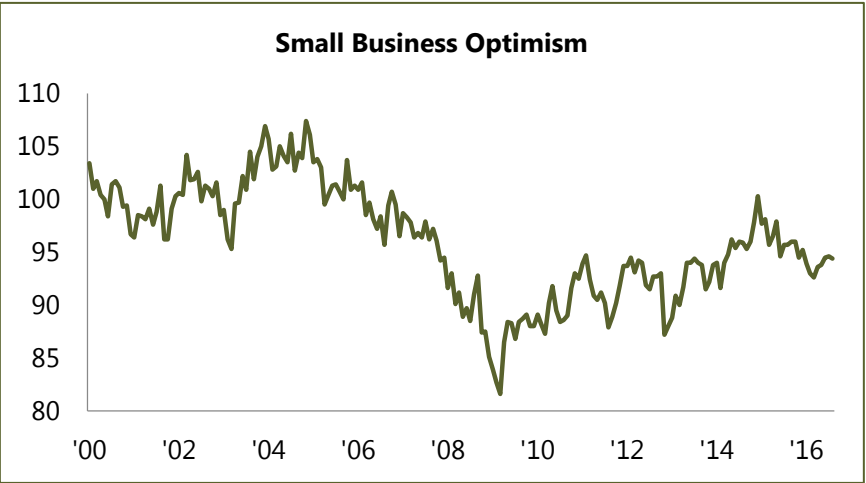
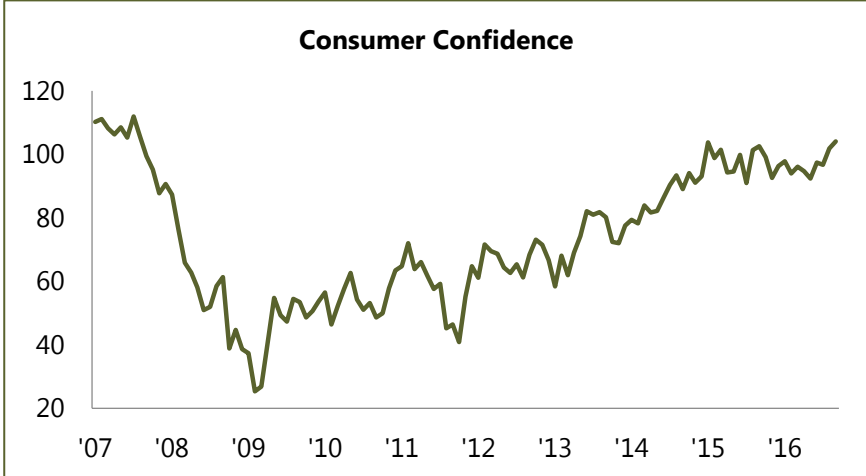
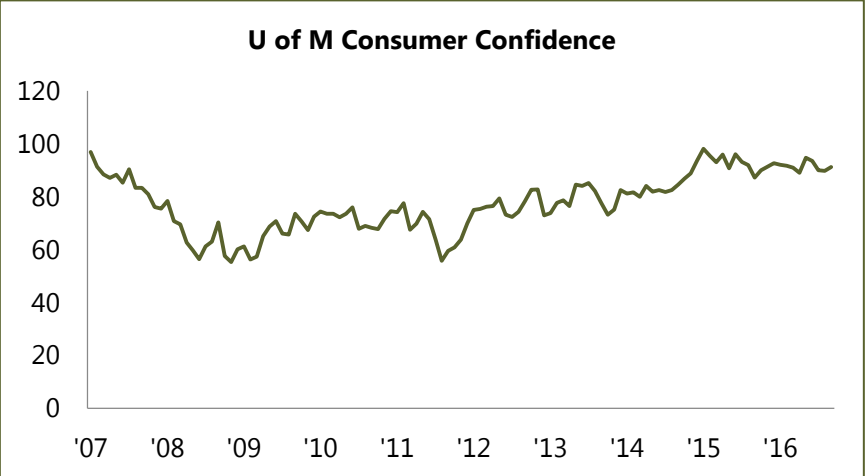
Retail Sales

Retail Sales growth slowed this quarter, with strength in autos, nonstore retailers, food service & drinking places. However, department stores, miscellaneous store retailers, and electronics stores experienced declines in retail sales.



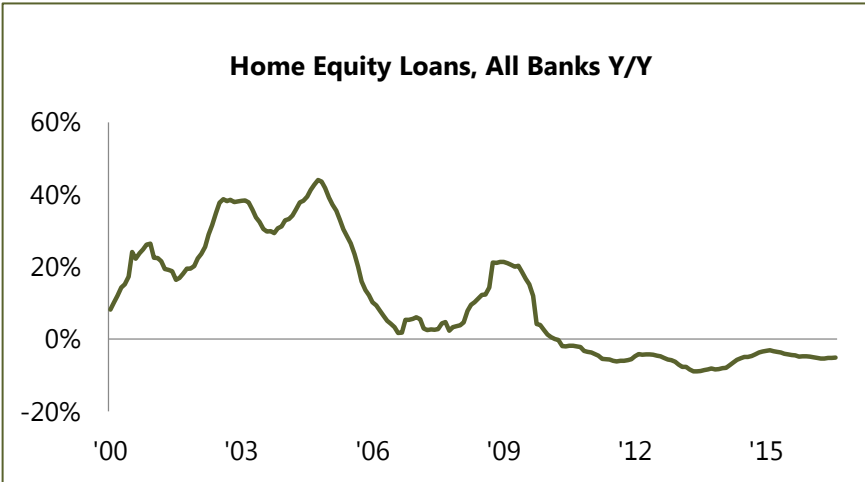
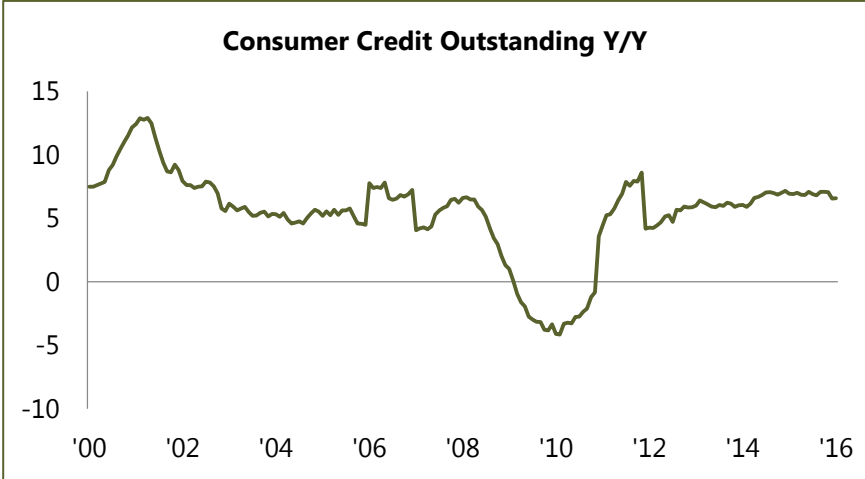
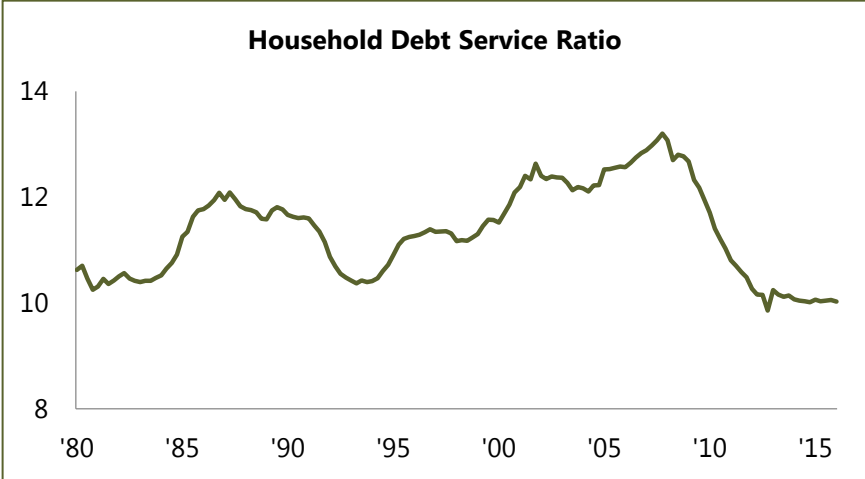
Measures of Confidence

Confidence Surveys were mixed last quarter, with the University of Michigan Consumer Confidence Index falling, while Small Business Optimism and the CEO Confidence Index rose. The Conference Board's Consumer Confidence Index is at its highest level since 2007.



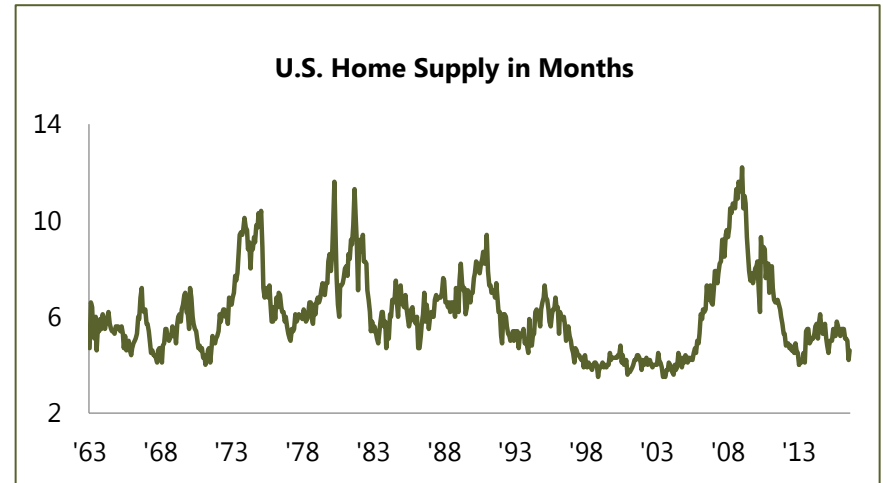
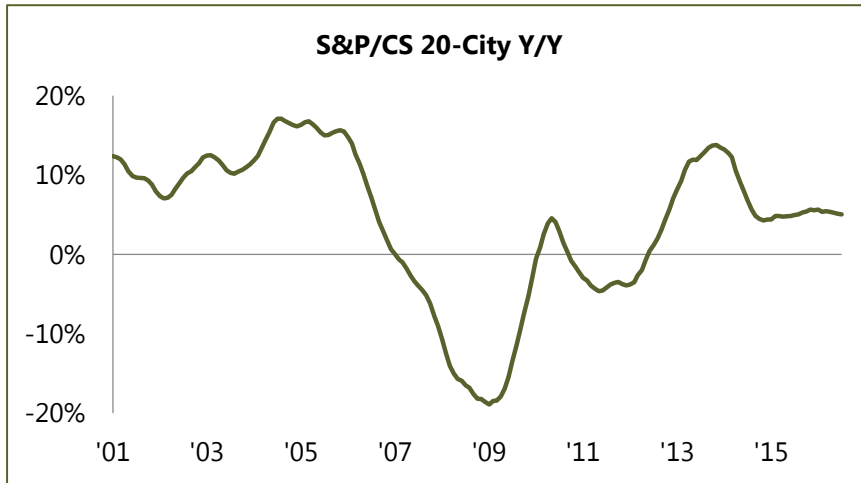
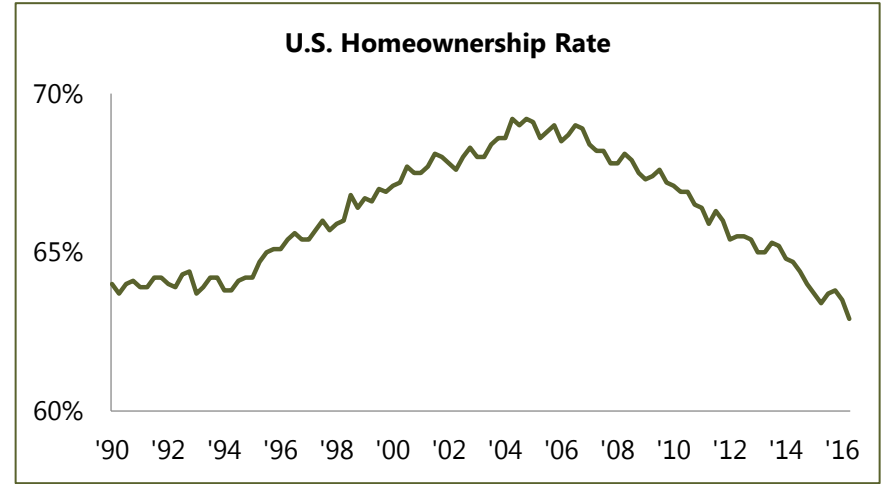
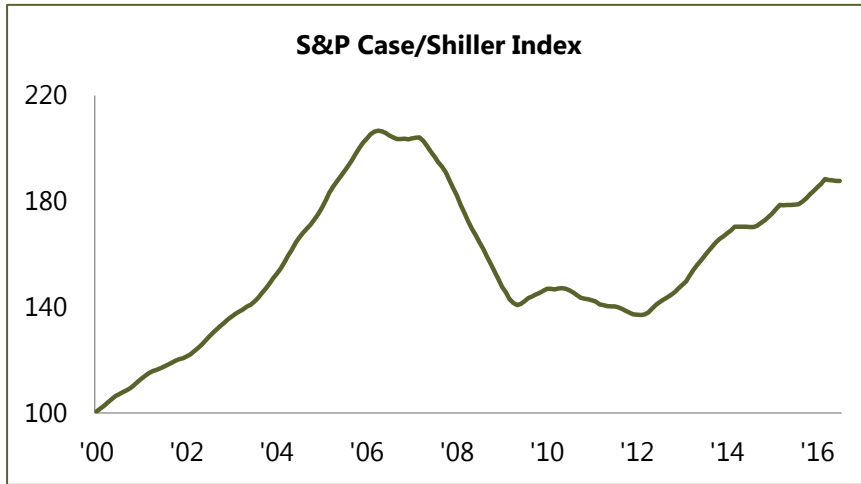
Consumer's Balance Sheets

Consumers continue to de-lever and increase personal savings rates, using savings from lower gas prices to shore up personal finances. Home Equity loans continue to fall, resuming the trend that has been in place since shortly after the last recession.



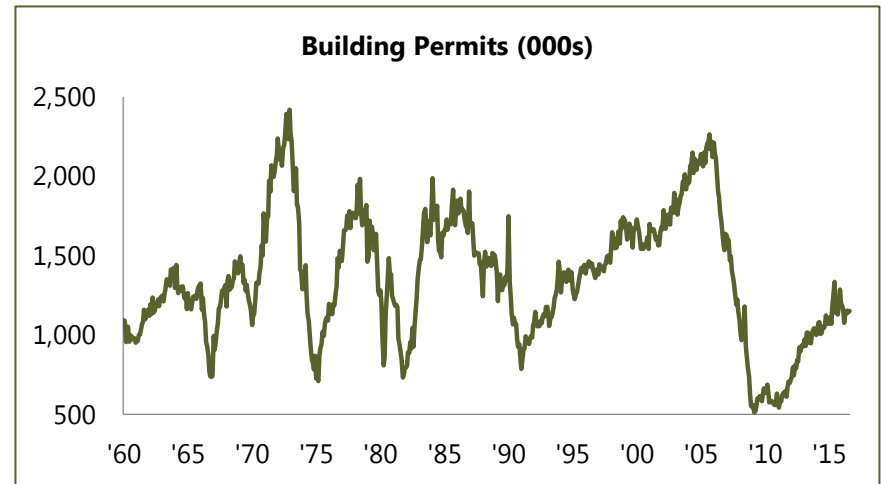
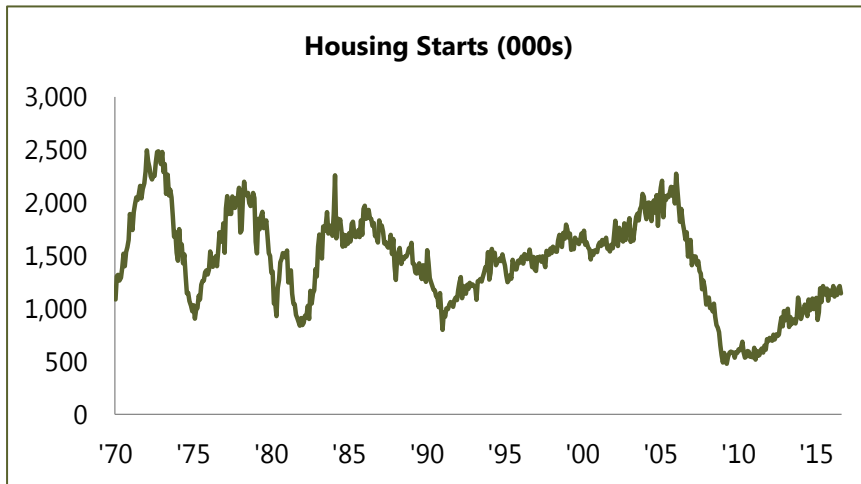
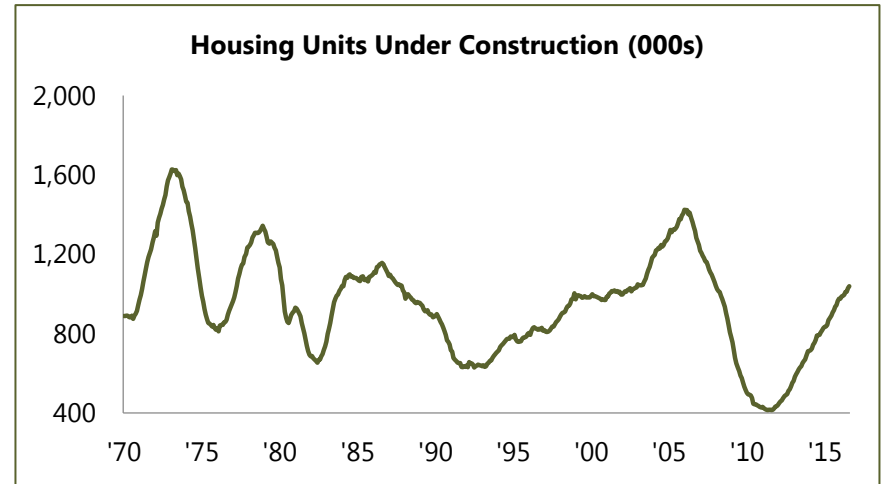
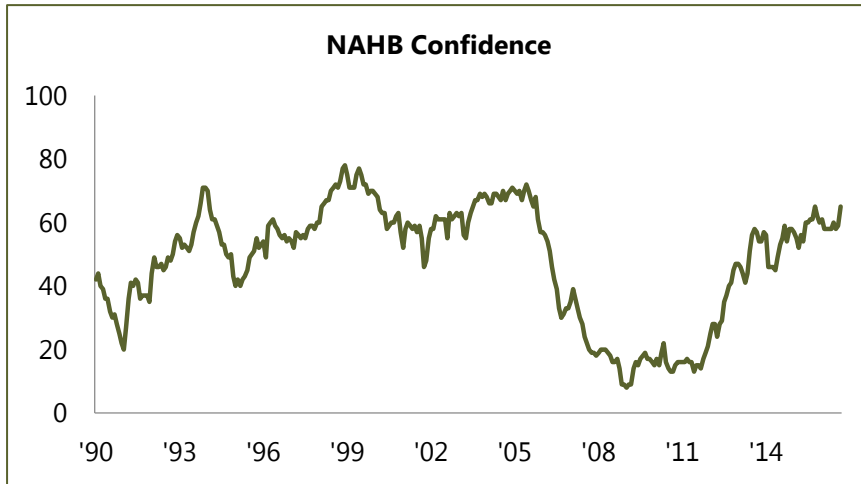
Housing

As consumers continue to move from rural to urban areas, housing prices in cities continue to climb, raising the Case/Shiller Index. The U.S. Homeownership Rate fell slightly, and home supply continues to trend downward. U.S. home supply is at its lowest since 2013, which puts upward pressure on prices as demand remains robust.



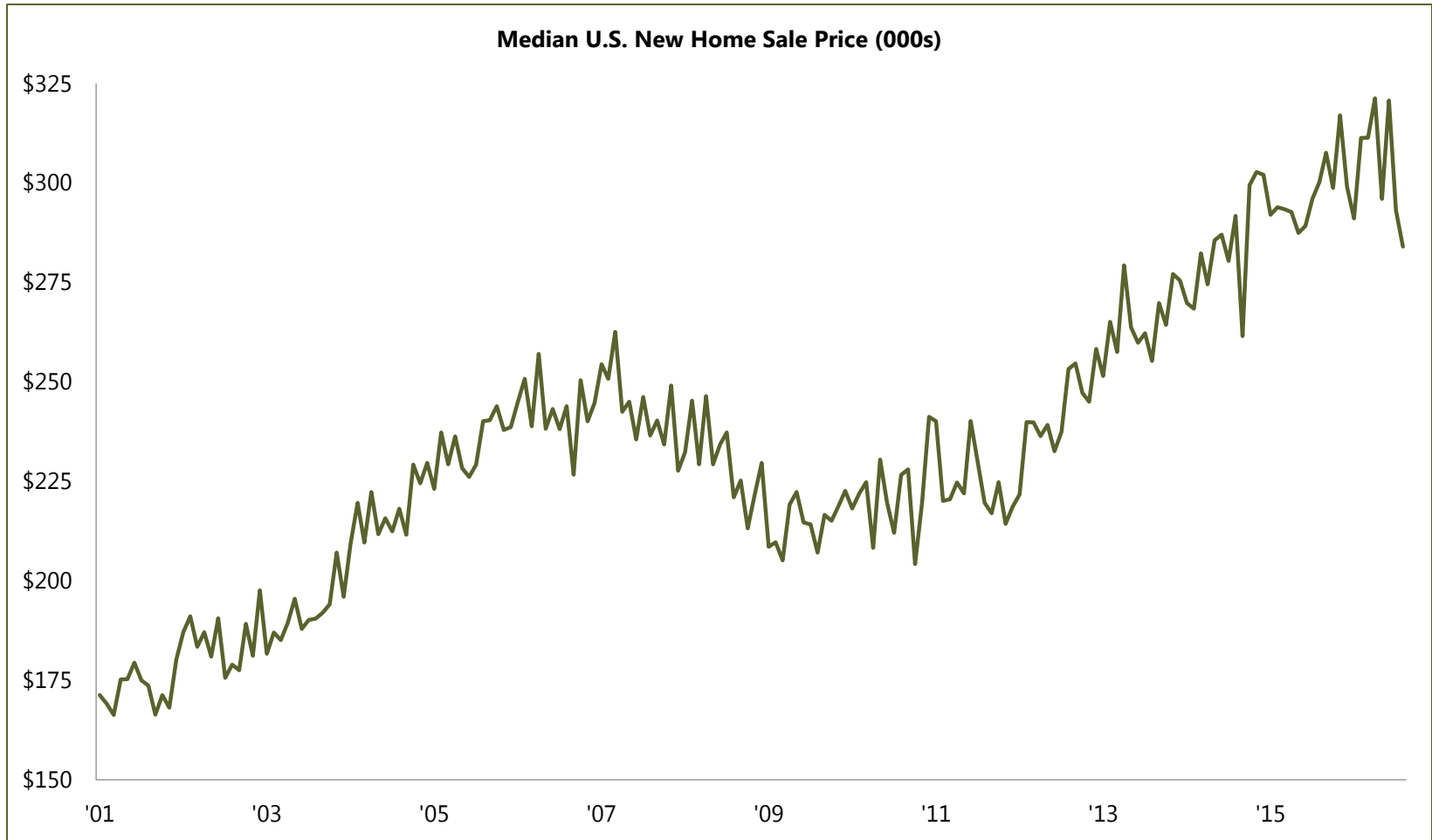
Housing

Homebuilder Confidence rose from 60 to 65 over the quarter, concurrent with increases in housing units under construction, starts, and building permits. Readings over 50 signal homebuilder confidence is strong.



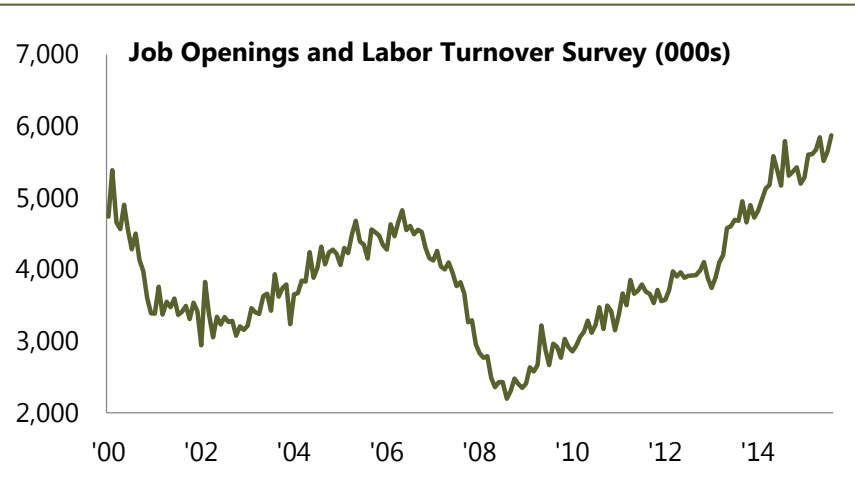
Housing

Home prices are \$37,300 lower than April's Median Prices. Although median home prices have grown almost +50% since October of 2010, the most recent data indicates that prices are at their lowest since September 2014.



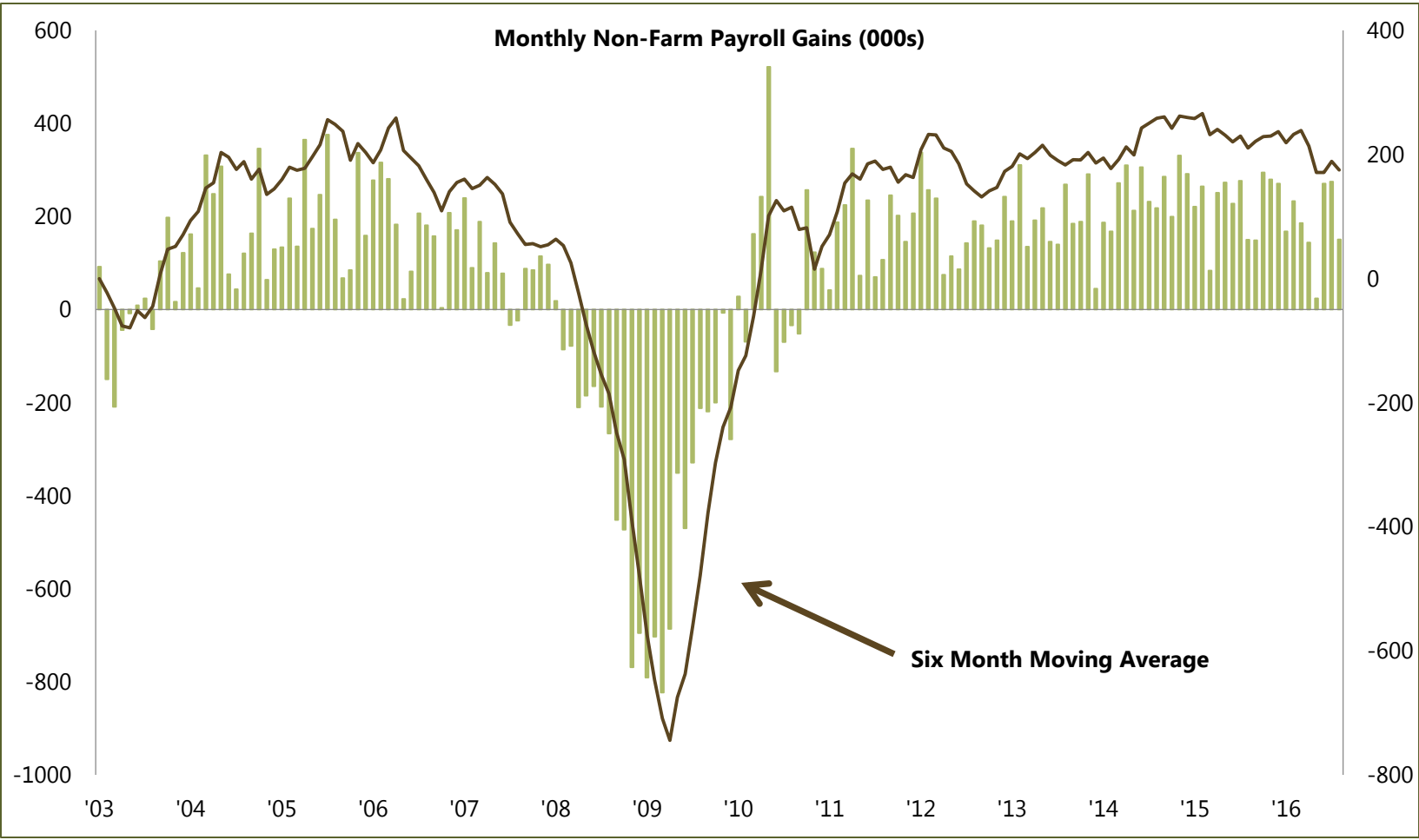
Labor Market Conditions

Unemployment, Job Openings and Labor Turnover Survey (JOLTS), and weekly Initial Claims all point to a market heading towards full employment. The Unemployment Rate is at its lowest level since the second quarter of 2008.



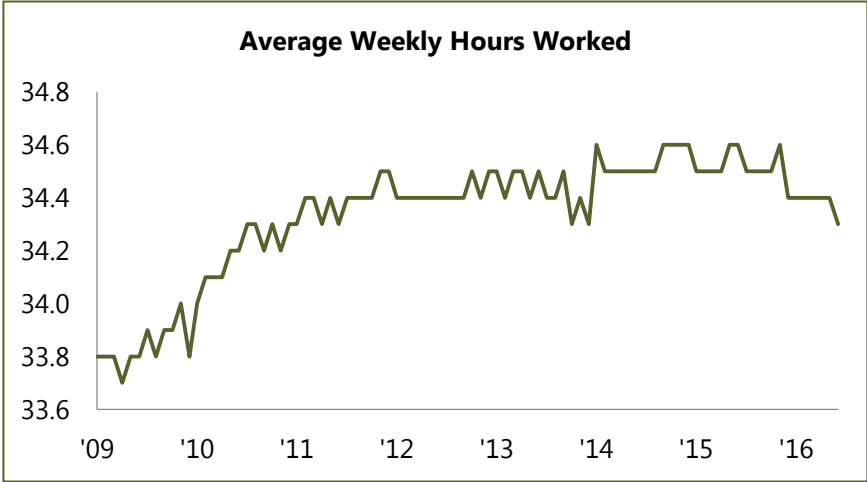
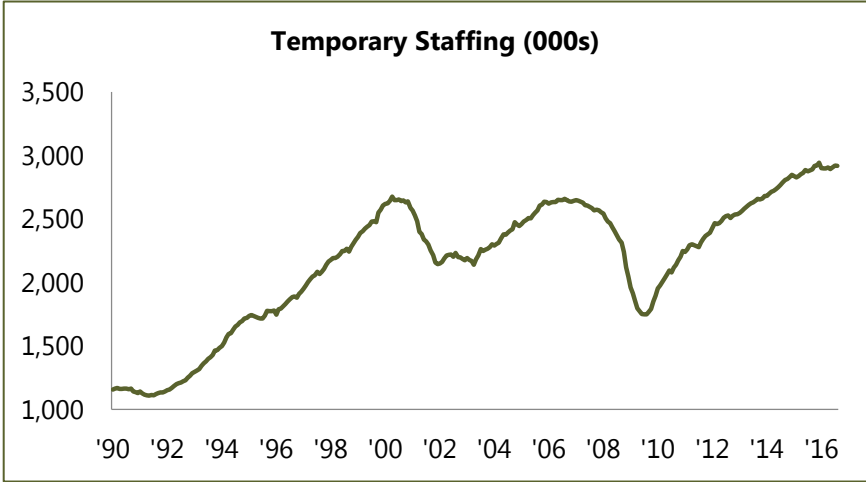
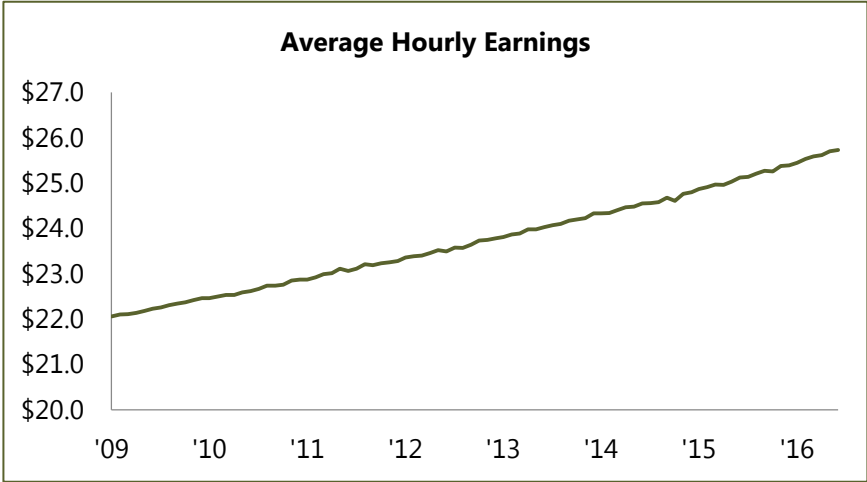
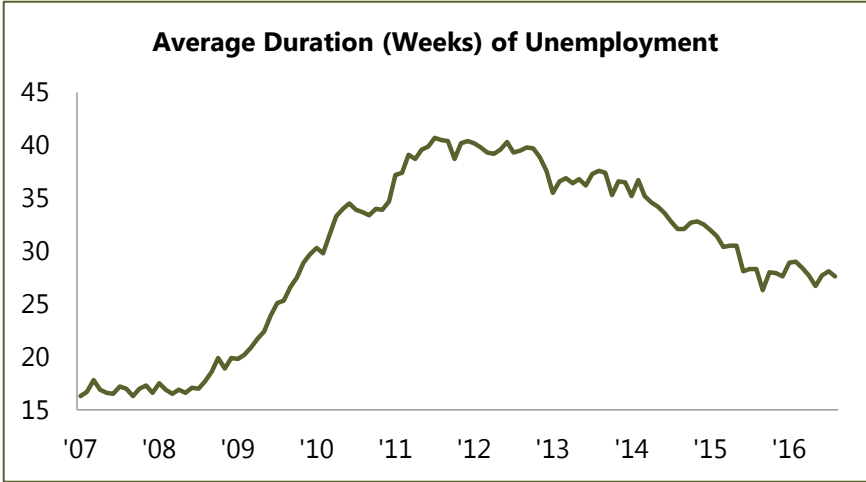
Labor Market Conditions

Additions to Non-Farm Payrolls have fallen over the past quarter, with the 6 month moving average standing at +175k. Most Fed officials see 75K-125K as trend growth, highlighting a U.S. economy that is adding jobs at an above trend rate.



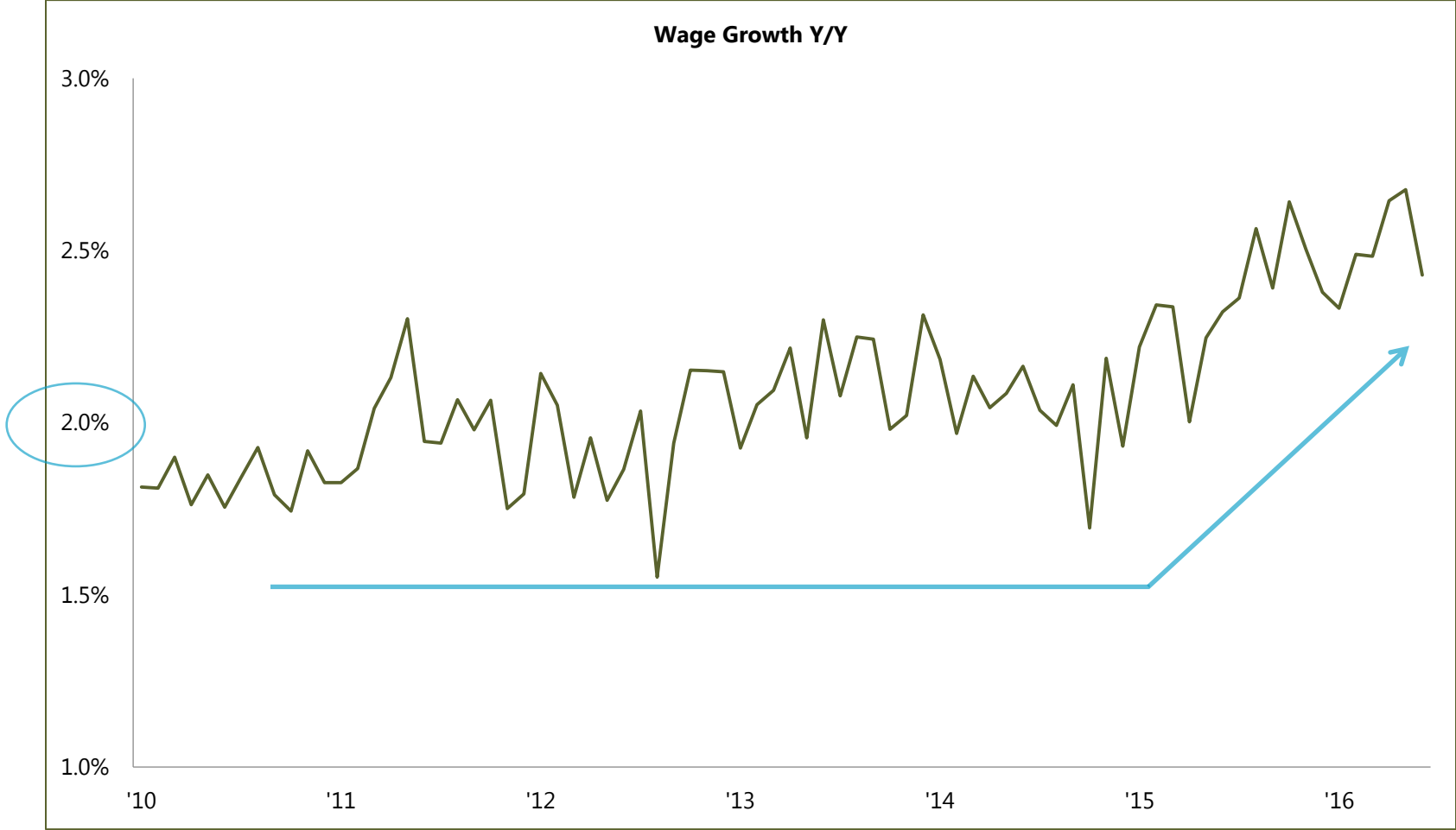
Labor Market Conditions

Labor market metrics continue to point to an improving employment picture in the U.S. However, Average Weekly Hours Worked have fallen since the beginning of 2016, and points to lower productivity in the economy.



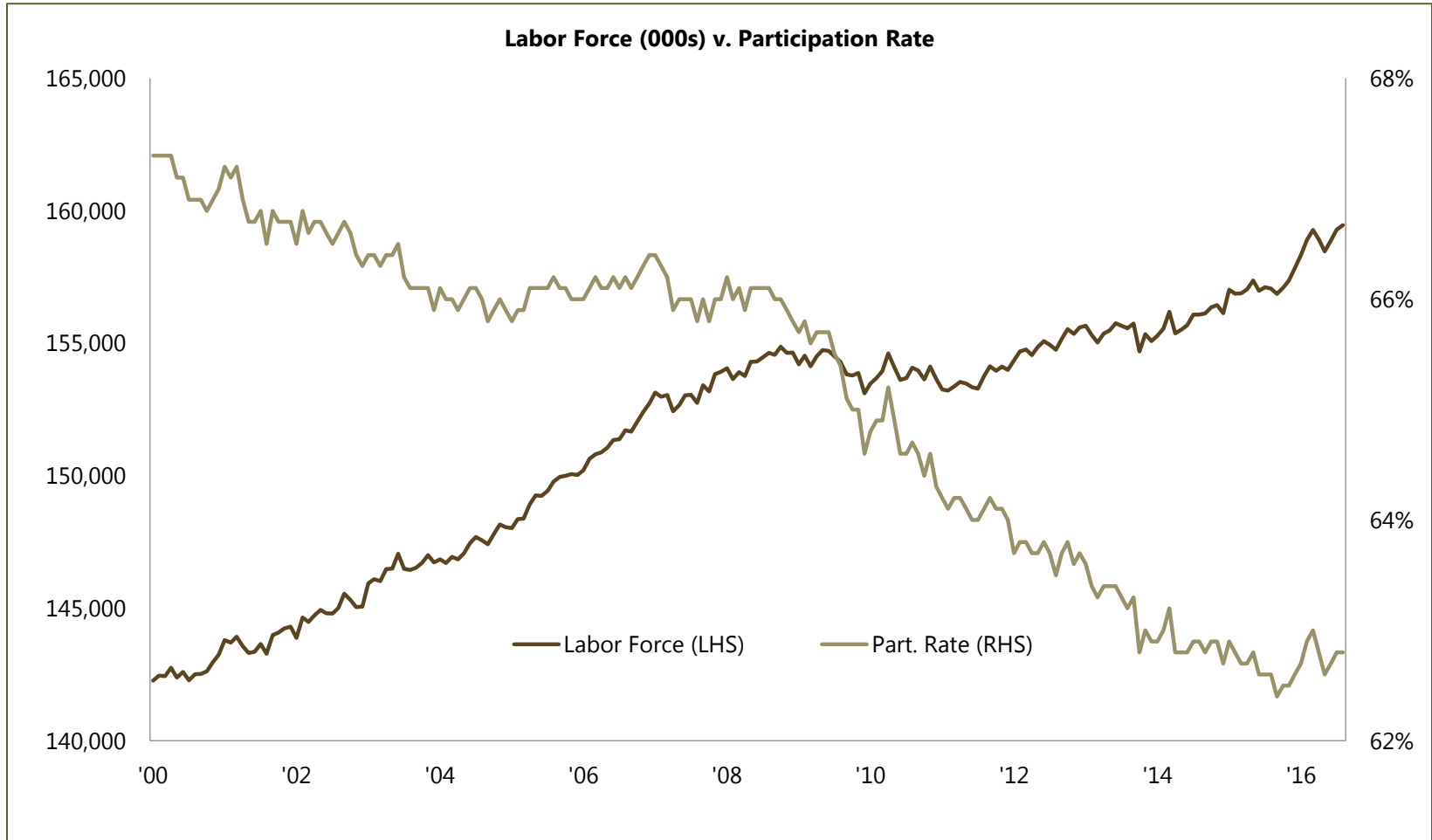
Labor Market Conditions

Accelerating wage growth bolsters the argument that the labor market is nearing full employment. Wage growth decelerated last quarter, 2.4% Y/Y in August, but the overall trend is still improving from the beginning of 2015.



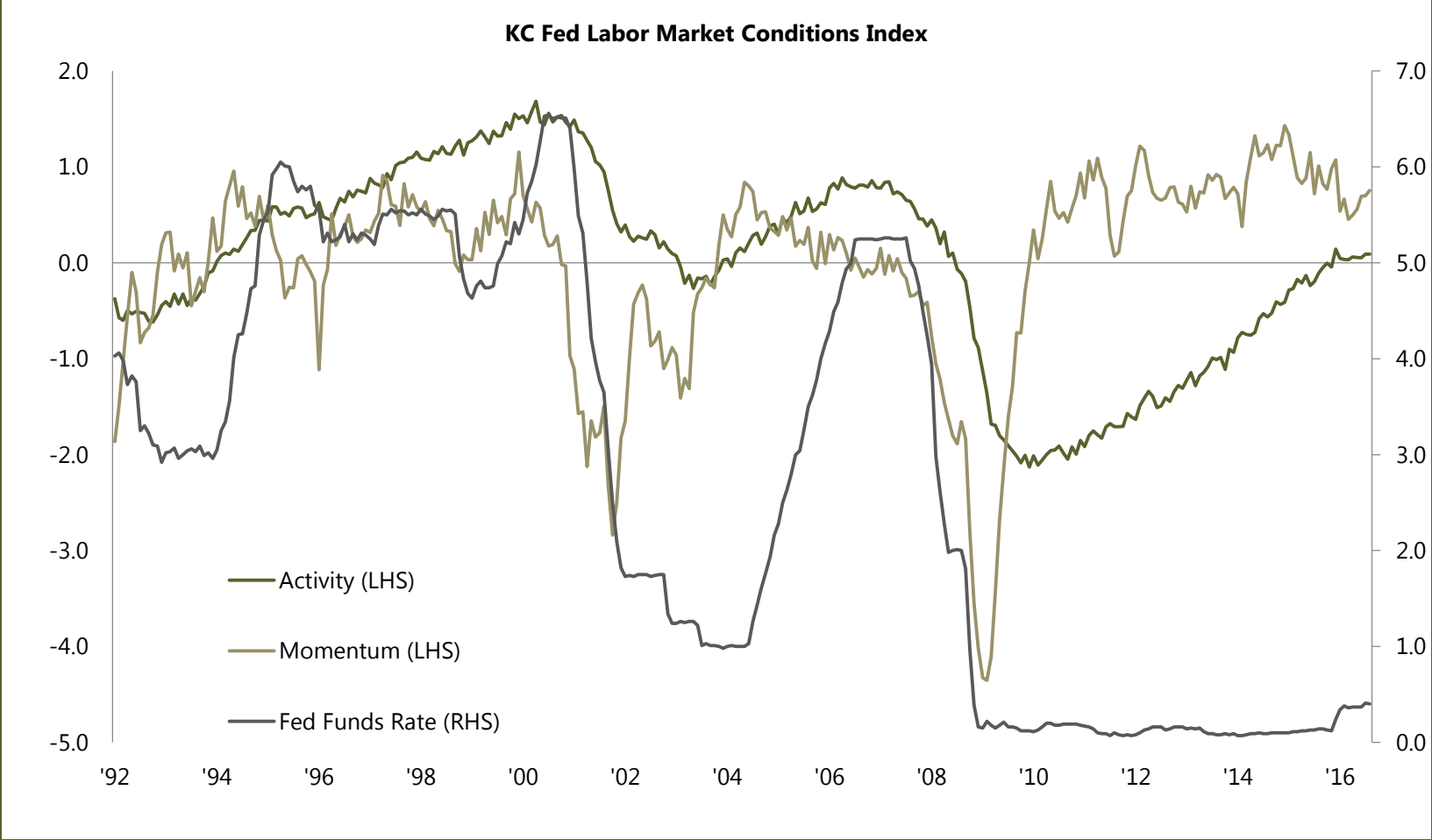
Labor Market Conditions

The Labor Force continues to grow in size, while the Participation Rate has increased off its lows. Greater participation likely points to a tightening labor market, but an aging population and discouraged workers can hold down the Participation Rate in the long run.



Kansas City Fed Labor Market Conditions Index

Labor market activity and momentum rose last quarter as the U.S. Labor Force moved towards full employment. The largest contribution to the move in activity came from an increase in job leavers, while the largest contributor to momentum was initial claims.



Fed Funds Futures - Lower For Longer

The FOMC decided to postpone increasing the Federal Funds Rate at their September meeting. Looking ahead, the market expects a more than 50% chance that the Fed will increase rates at their December meeting.

a/o 10/4/2016	Probability of Hike	Probability of Cut	0.25-0.5	0.5-0.75	0.75-1	1-1.25	1.25-1.5	1.5-1.75
11/2/2016	21.4%	0.0%	78.6%	21.4%	--	--	--	--
12/14/2016	61.2%	0.0%	38.8%	50.3%	10.8%	--	--	--
2/1/2017	64.4%	0.0%	35.6%	49.4%	14.1%	0.9%	--	--
3/15/2017	69.3%	0.0%	30.7%	47.5%	18.9%	2.7%	0.1%	--
5/3/2017	71.3%	0.0%	28.7%	46.4%	20.8%	3.8%	0.3%	--
6/14/2014	76.3%	0.0%	23.7%	43.3%	25.3%	6.8%	0.9%	0.1%
7/26/2017	76.3%	0.0%	23.7%	43.2%	25.3%	6.8%	0.9%	0.1%
9/20/2017	79.1%	0.0%	20.9%	40.9%	27.4%	9.0%	1.6%	0.2%
11/1/2017	79.5%	0.0%	20.4%	40.5%	27.7%	9.4%	1.8%	0.2%
12/13/2017	82.8%	0.0%	17.2%	37.3%	29.8%	12.3%	3.0%	0.4%

Source: Bloomberg, as of 10/4/2016

GDP Forecasts

Economic Institutions lowered their GDP outlook for the U.S. in the medium and near term, while some institutions increased their outlook for the Eurozone for the rest of 2016. The BRIC countries saw their outlook rise for 2016 & 2017, while China remains mostly unchanged from last quarter.

		2016		2017		2018	
USA	2015 (A)	Previous	Current	Previous	Current	Previous	Current
IMF	2.6%	2.4%	1.6%	2.5%	2.2%	2.4%	2.4%
FED	2.6%	2.0%	1.8%	2.0%	2.0%	2.0%	2.0%
OECD	2.6%	1.8%	1.4%	2.2%	2.1%	-	-
WOB	2.6%	1.9%	1.9%	2.2%	2.2%	2.1%	2.1%
EC	2.6%	2.3%	2.3%	2.2%	2.2%	-	-

		2016		2017		2018	
Eurozone	2015 (A)	Previous	Current	Previous	Current	Previous	Current
ECB	2.0%	1.6%	1.7%	1.7%	1.6%	1.7%	1.6%
EC	2.0%	1.6%	1.6%	1.8%	1.8%	-	-
OECD	2.0%	1.6%	1.5%	1.7%	1.4%	-	-
IMF	2.0%	1.5%	1.7%	1.6%	1.5%	1.6%	1.6%

		2016		2017		2018	
China	2015 (A)	Previous	Current	Previous	Current	Previous	Current
NPC	6.9%	-	-	-	-	-	-
ADB	6.9%	6.5%	6.5%	6.3%	6.3%	-	-
OECD	6.9%	6.5%	6.5%	6.2%	6.2%	-	-
IMF	6.9%	6.5%	6.6%	6.2%	6.2%	6.1%	6.1%
WOB	6.9%	6.7%	6.7%	6.5%	6.5%	6.3%	6.3%

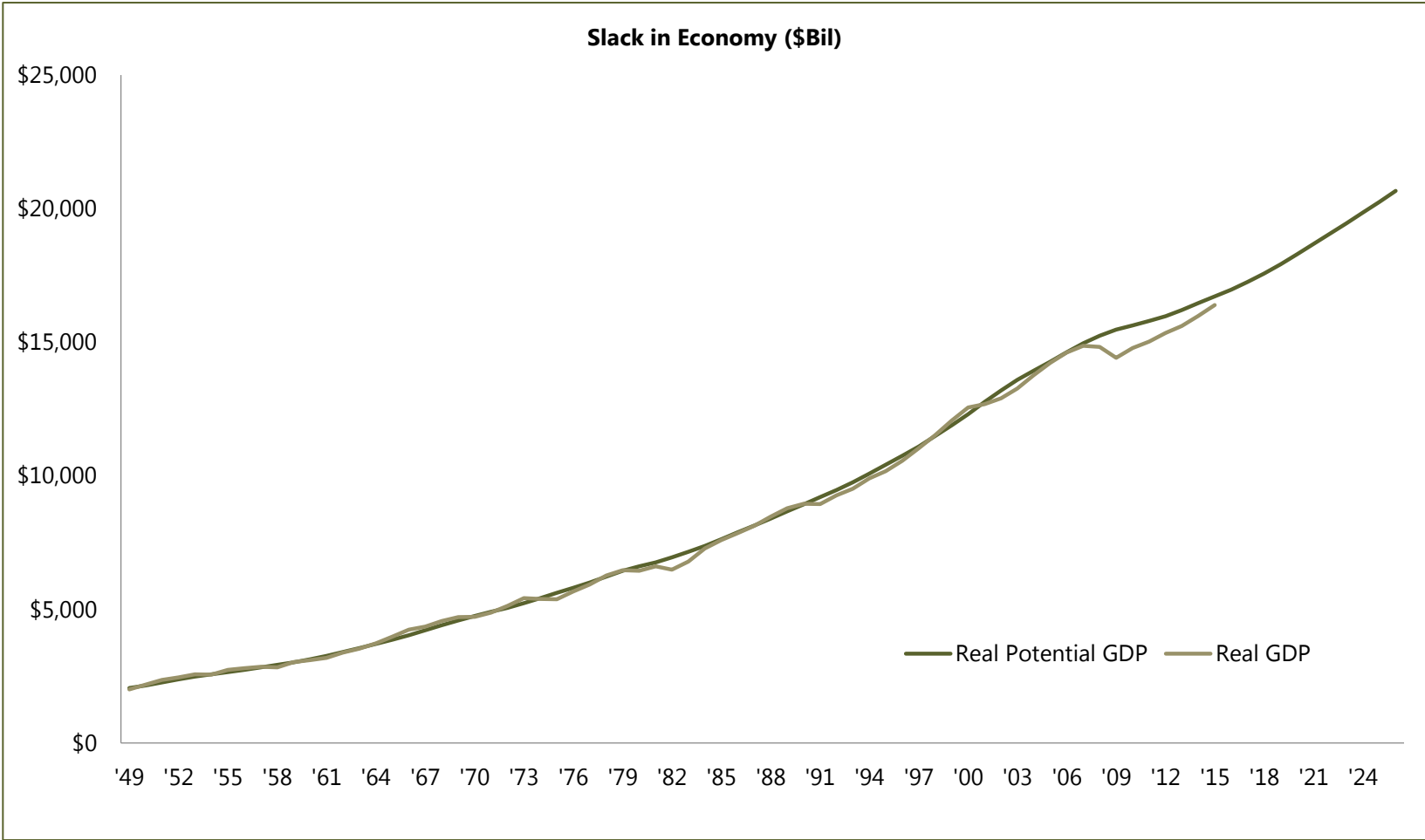
		2016		2017		2018	
Emerg Mkts	2015 (A)	Previous	Current	Previous	Current	Previous	Current
CC	4.3%	4.0%	3.9%	4.9%	4.9%	5.2%	5.0%

		2016		2017		2018	
BRIC	2015 (A)	Previous	Current	Previous	Current	Previous	Current
CC	4.8%	4.7%	4.9%	5.5%	5.6%	5.7%	5.6%

Source: Bloomberg, as of 10/4/2016. IMF = International Monetary Fund, FED = U.S. Federal Reserve, OECD = Organisation for Economic Co-operation and Development, WOB = World Bank, EC = European Commission, ECB = European Central Bank, NPC = National Peoples Congress (China), ADB = Asian Development Bank, CC = Bloomberg Contributor Aggregate Estimates

Slack in Economy?

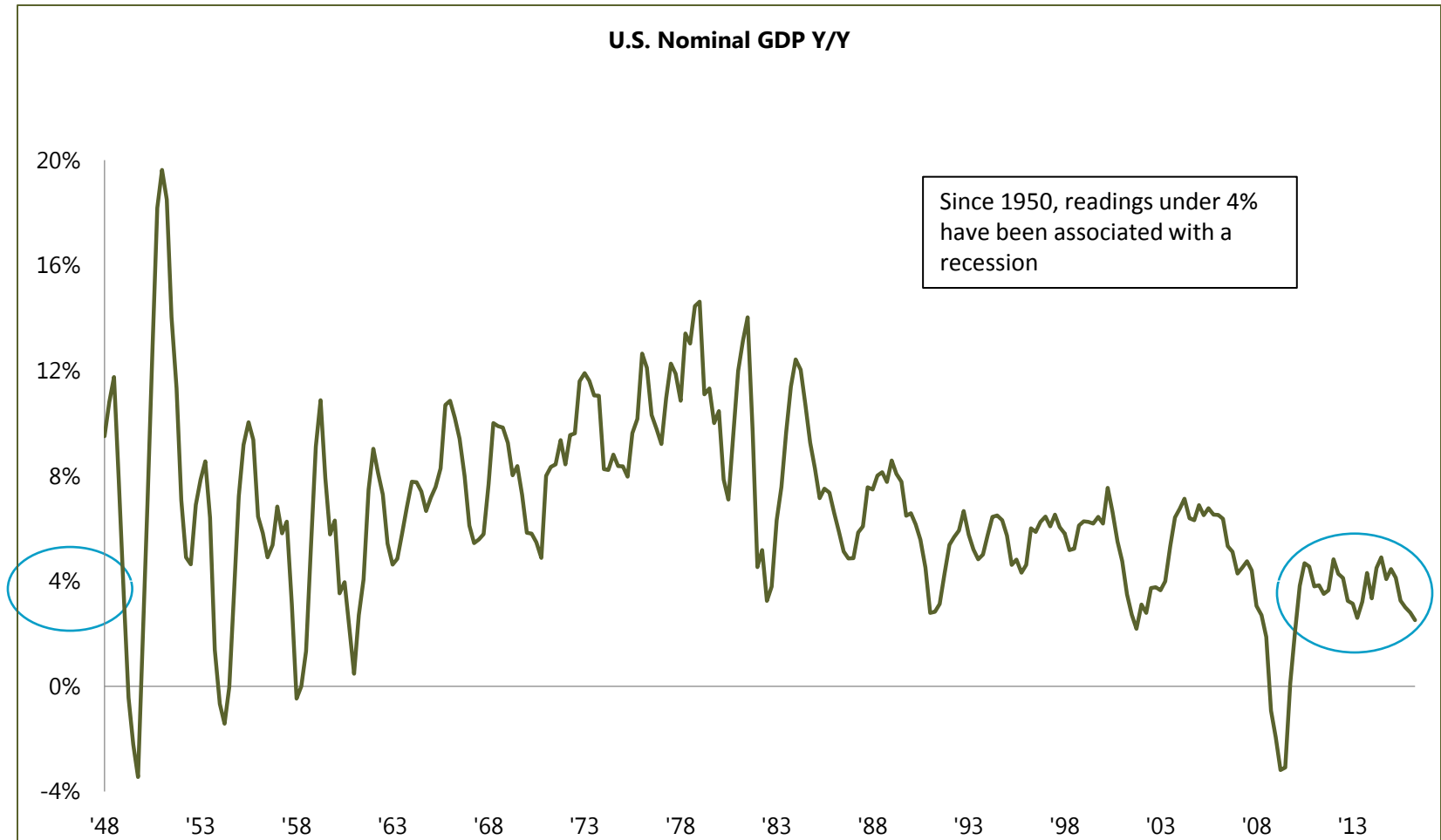
The perceived “slack” in the economy has contracted substantially over the past few years, falling from around \$1 Trillion in 2009 to only \$366 Billion in 2015. The FOMC will continue to use this indicator for possible interest rate hikes.



Source: Bloomberg, Data is released annually

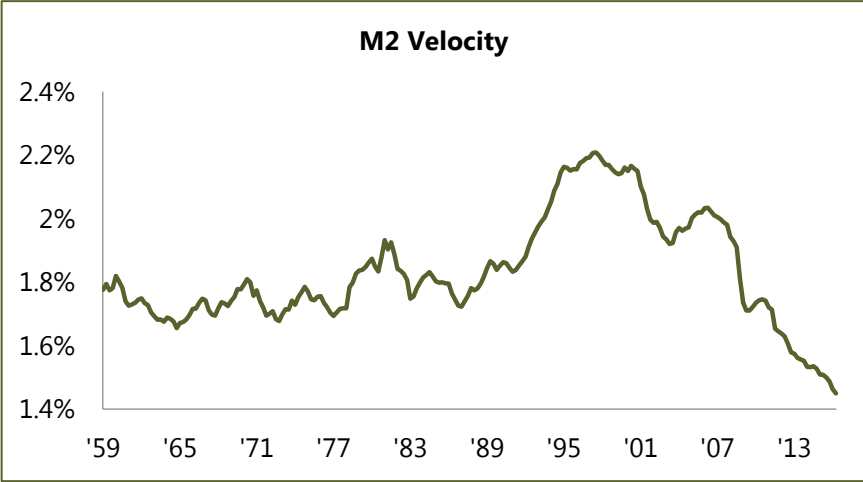
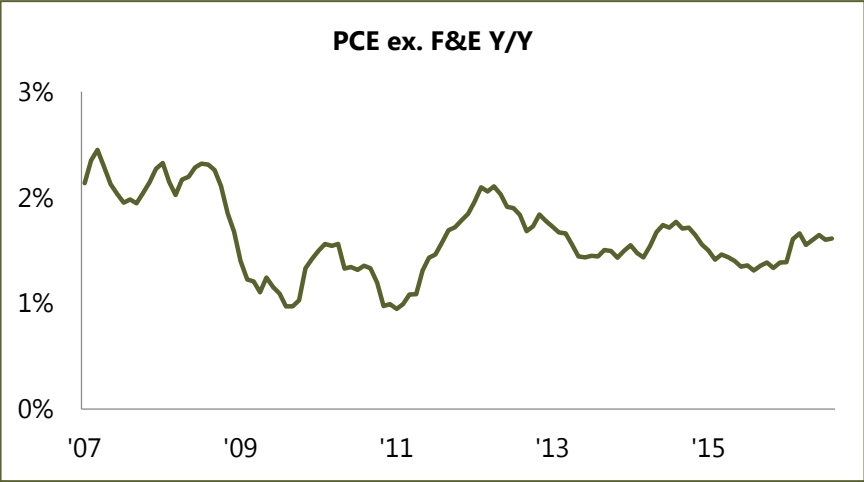
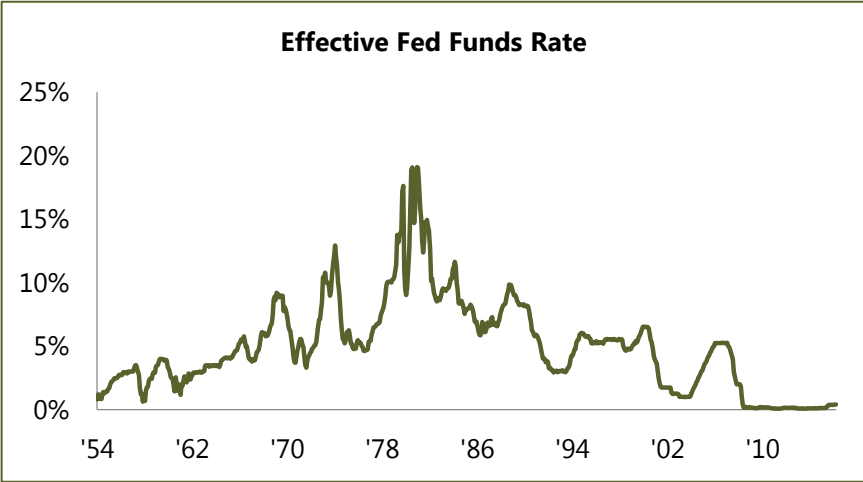
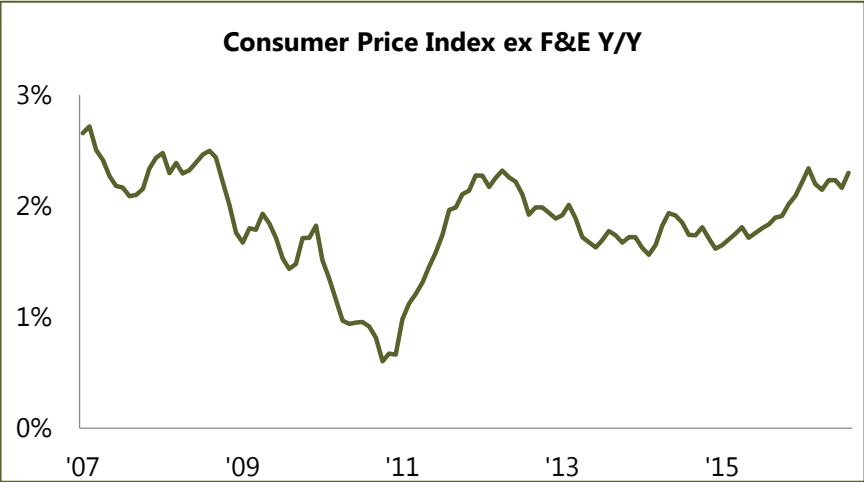
Nominal GDP Remains Weak

U.S. Nominal GDP growth remains subdued, hovering around +2.5% Y/Y. Nominal GDP growth has not been above 4% since the 1st quarter of 2015.



Inflation a Non-Issue

Both CPI and PCE ex Food & Energy rose marginally over the quarter, similar to 2Q16. However, the divergence between CPI (+2.3% Y/Y) and PCE (+1.6% Y/Y) is noteworthy, especially as the Fed uses PCE as its preferred gauge of inflation.



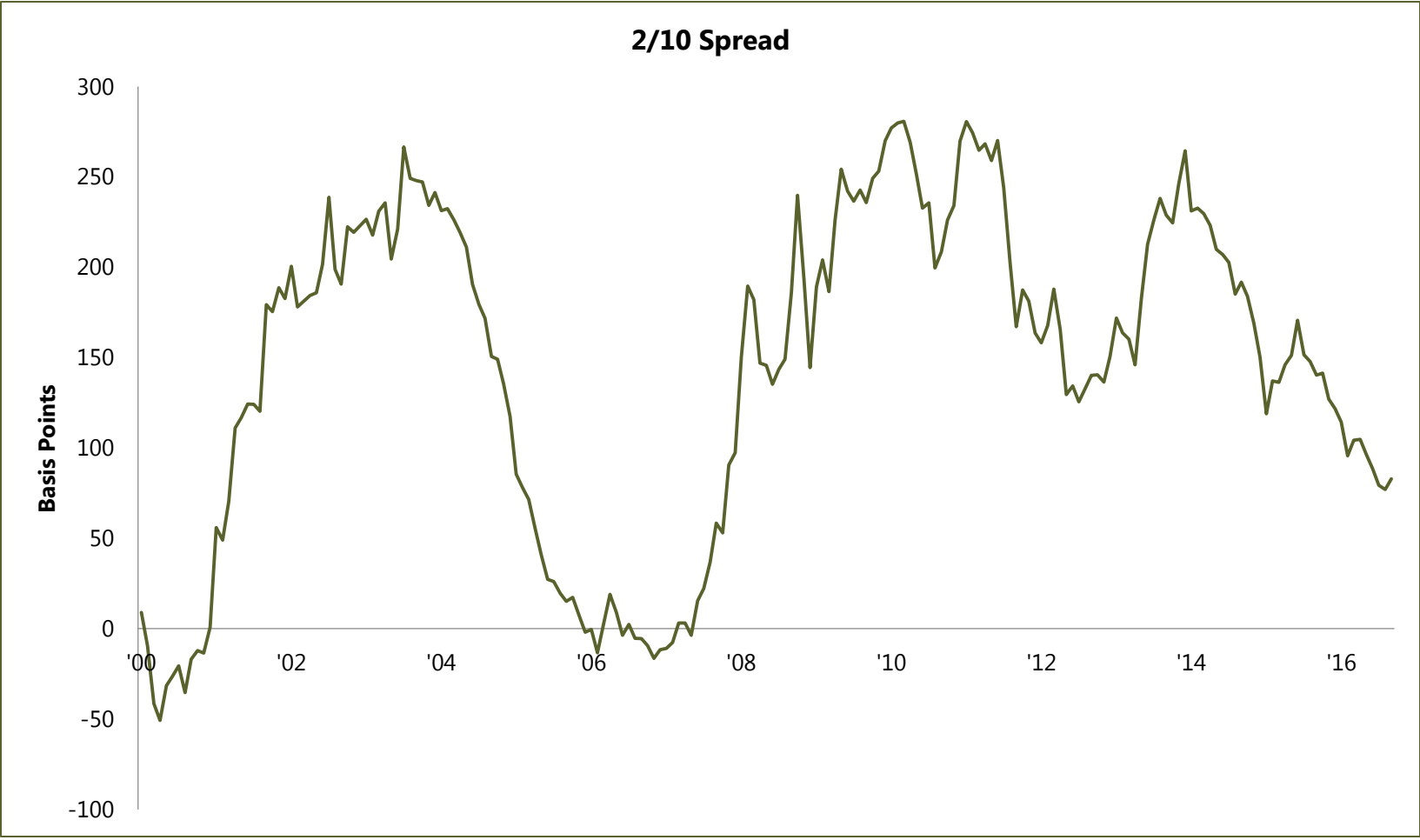
Forward Breakeven Inflation Expectations

The 5yr, 5yr Forward Breakeven Inflation Rate illustrates what the market predicts the average 5 year inflation rate will be starting 5 years from now. Inflation expectations for both the U.S. and the Eurozone rose over the past quarter to 1.78% and 1.36%, respectively.



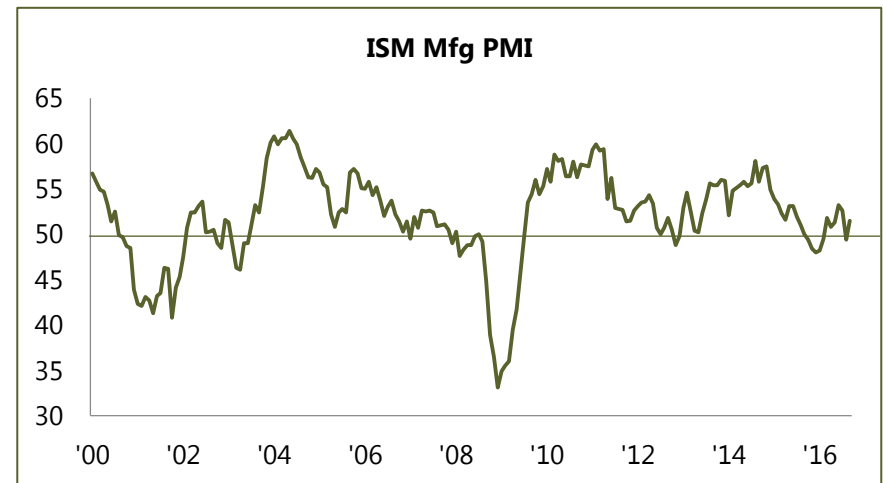
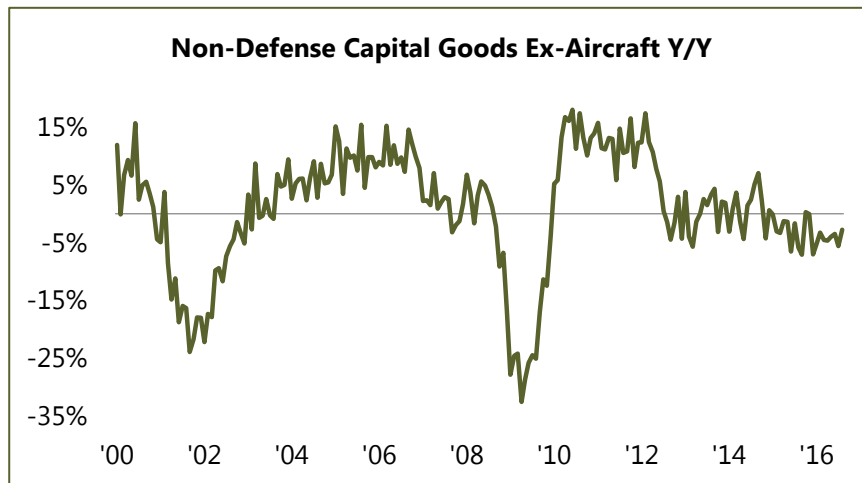
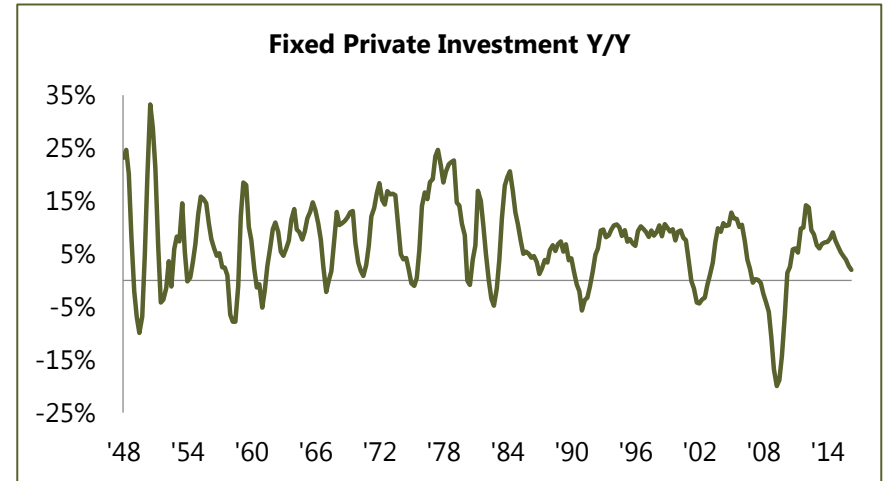
2/10 Spread

The spread between the U.S. Government 10 year yield and 2 year yield fell from 89 basis points at the end of the 2nd quarter to 83 basis points at the end of the 3rd quarter.



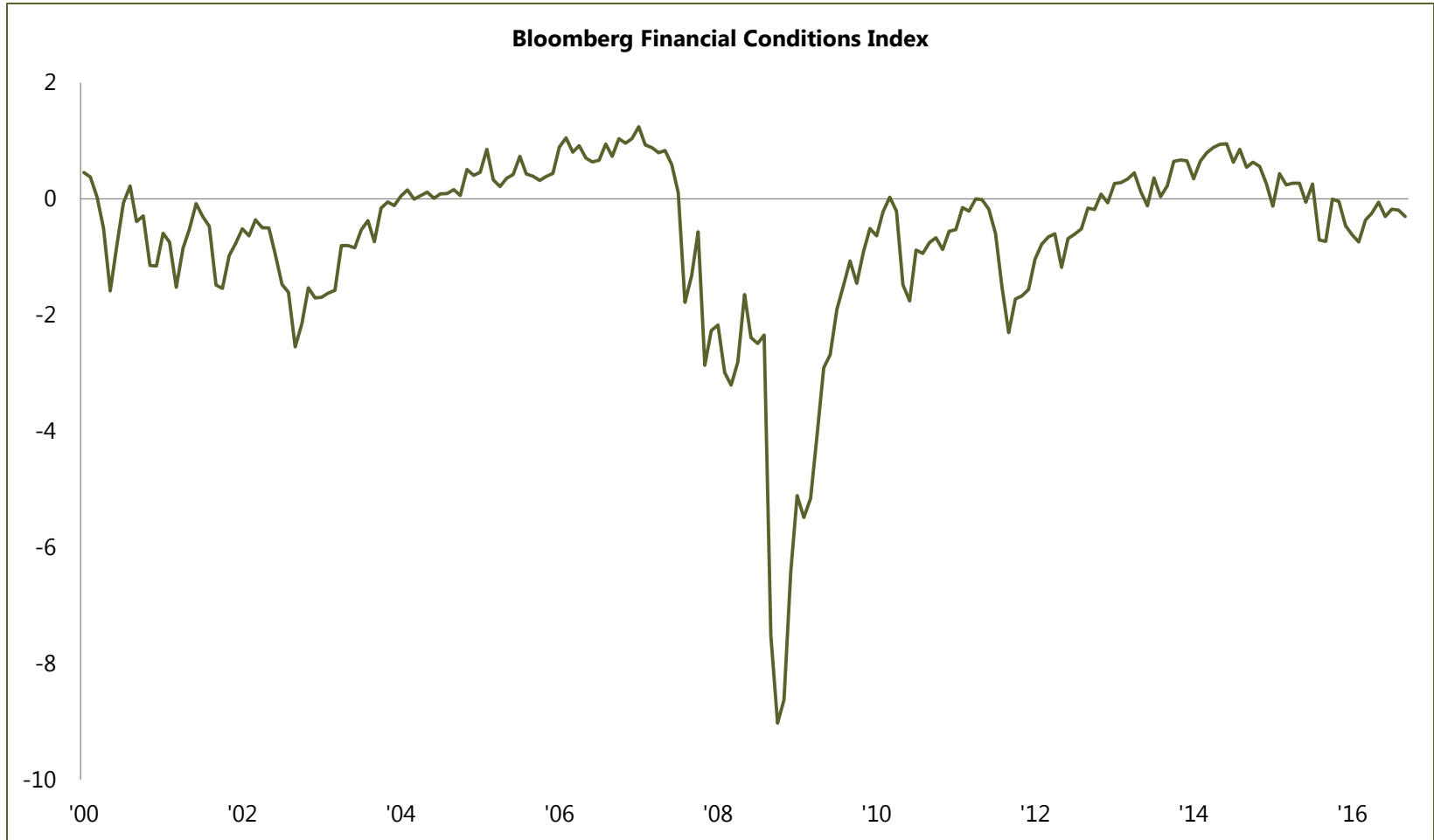
Key Economic Indicators

Manufacturing PMI's fell below 50 during the third quarter, but have since risen to 51.5, while Commercial and Industrial Loan growth has slowed meaningfully since the middle of 2012. Non-Defense Capital Goods Ex-Aircraft (a proxy for CAPEX) continued to contract in the 3rd quarter as companies held back on capital spending.



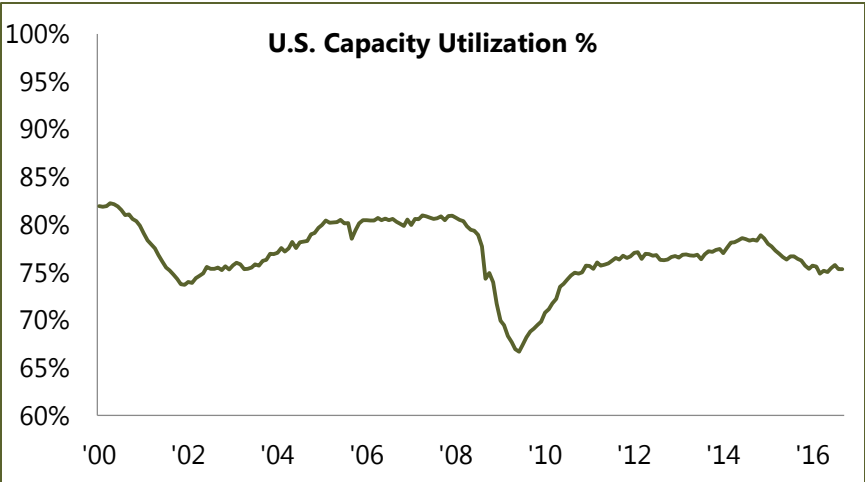
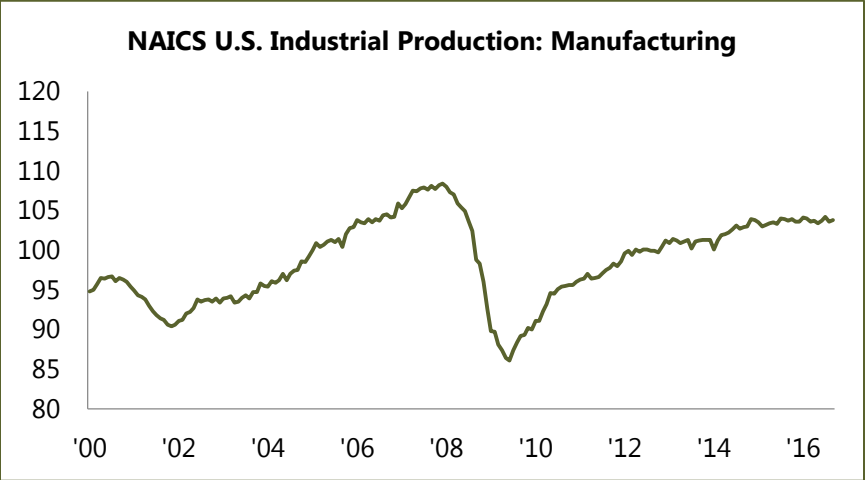
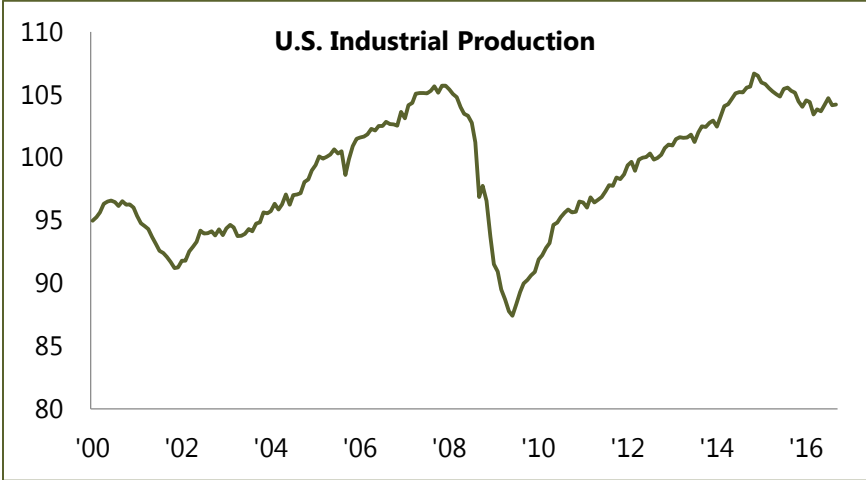
Key Economic Indicators

The overall availability and cost of credit in the 3rd quarter was relatively unchanged, but still tighter than before 2008. A positive value indicates accommodative financial conditions, while a negative value indicates tighter financial conditions relative to pre-crisis norms (1994-2008).



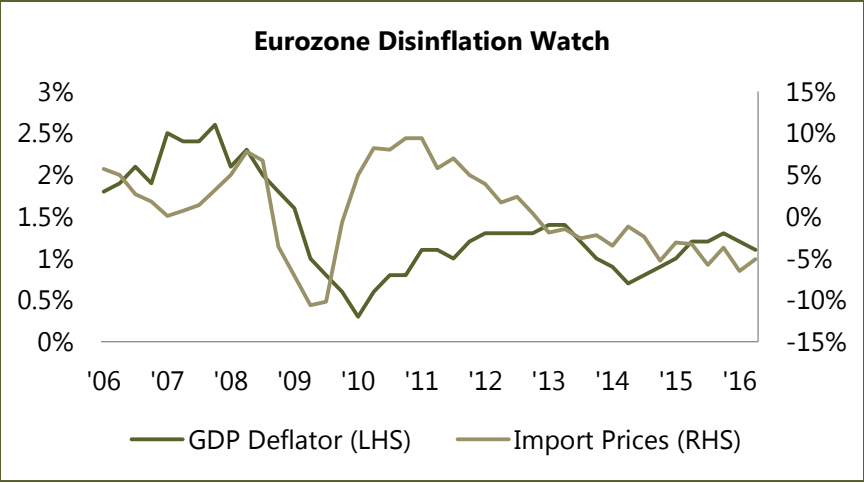
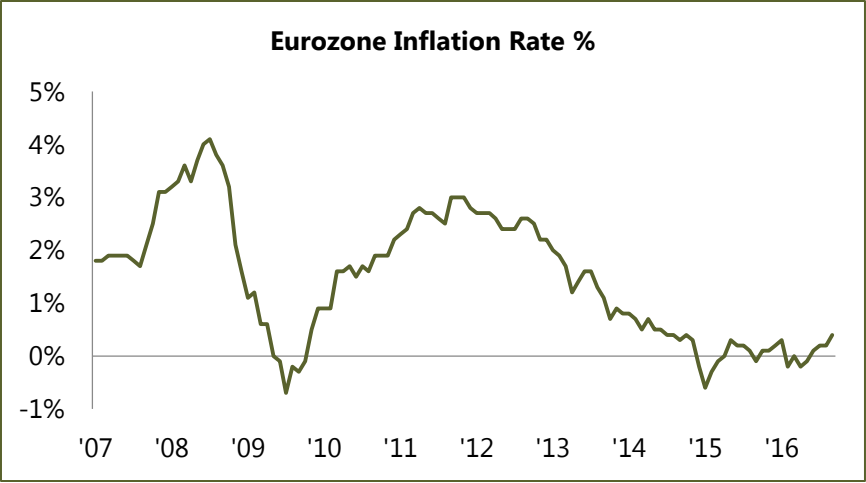
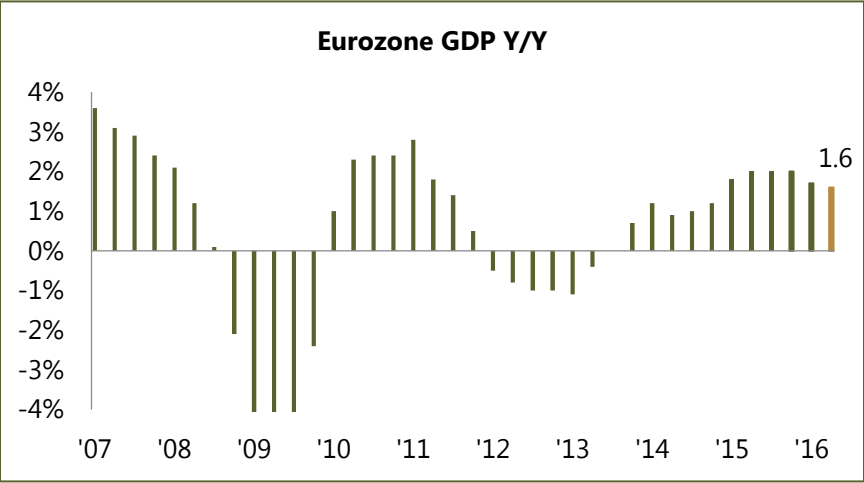
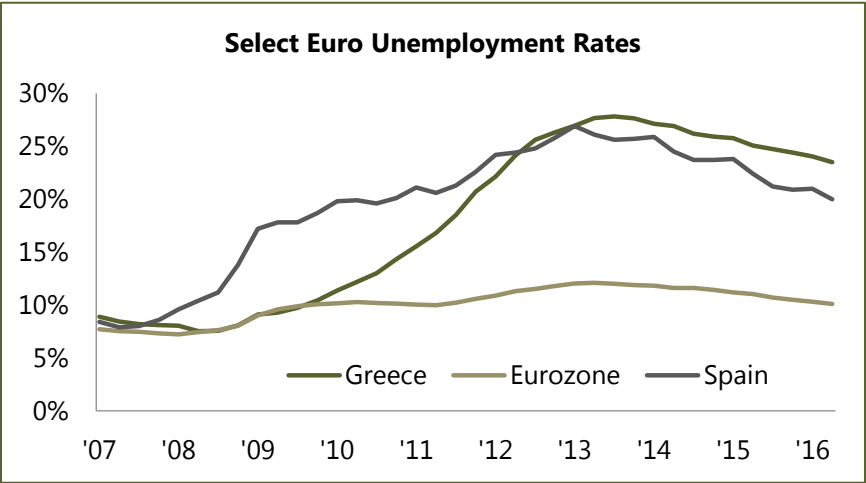
U.S. Industrial Production

Both Industrial Production and Capacity Utilization were relatively flat in the 3rd quarter, halting the positive growth trend seen earlier in the year.



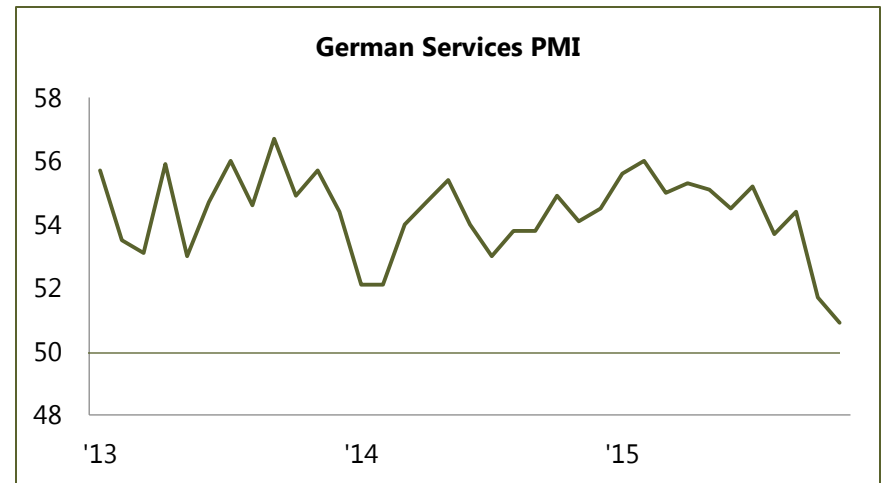
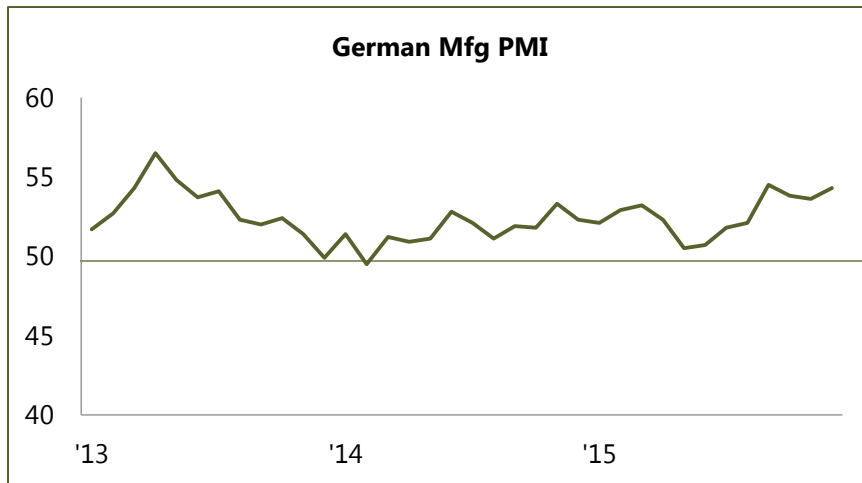
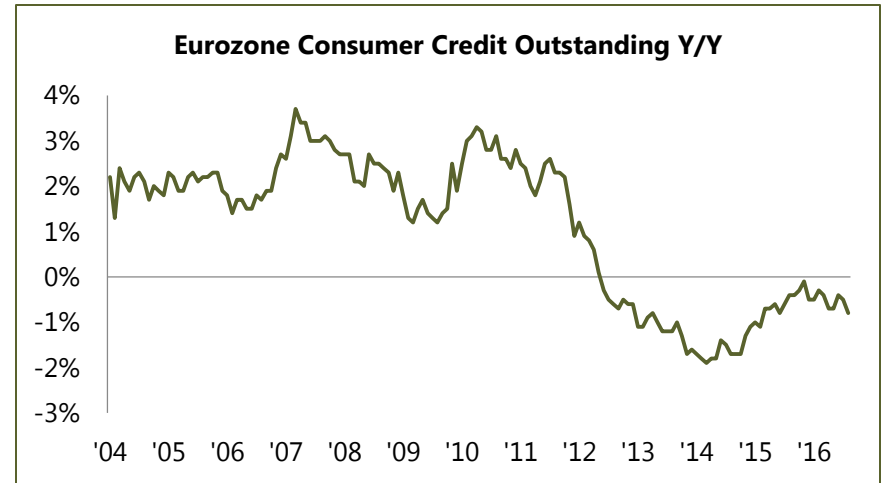
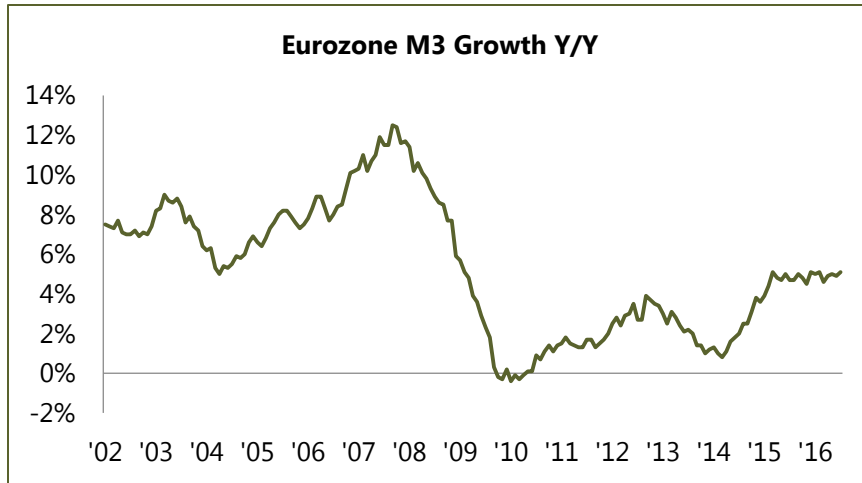
Eurozone

Unemployment rates continued to fall, while inflation moved slightly positive by the end of the 3rd quarter. However, Eurozone's GDP Deflator and Import Prices point toward falling prices.



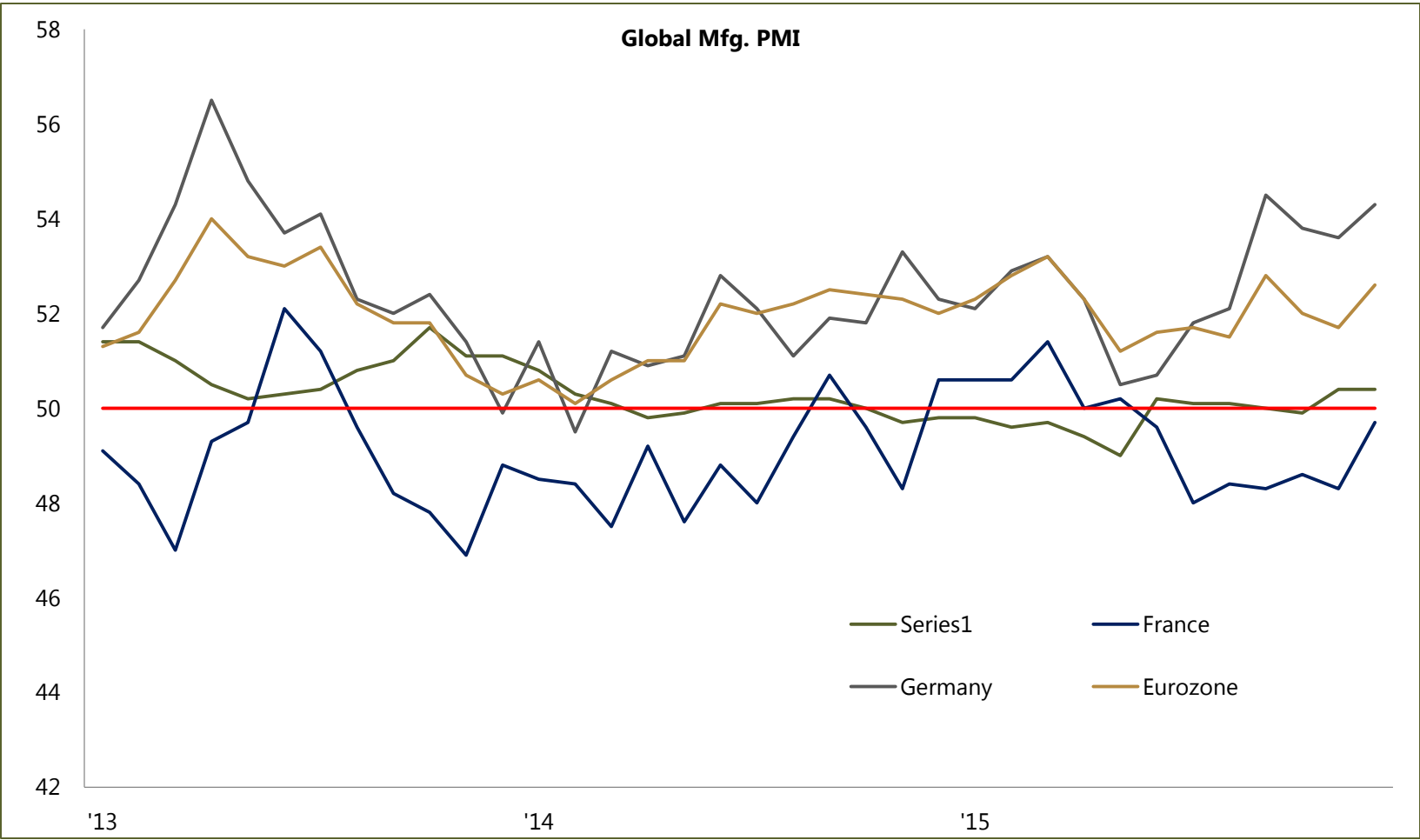
Eurozone

Both German PMI's continue to trend above 50, signaling expansions in both the manufacturing and services sectors. However, Manufacturing and Services PMI's continue to diverge. The trend in Eurozone consumer credit reversed, and continues to hold back economic growth, while Eurozone M3 growth has remained flat.



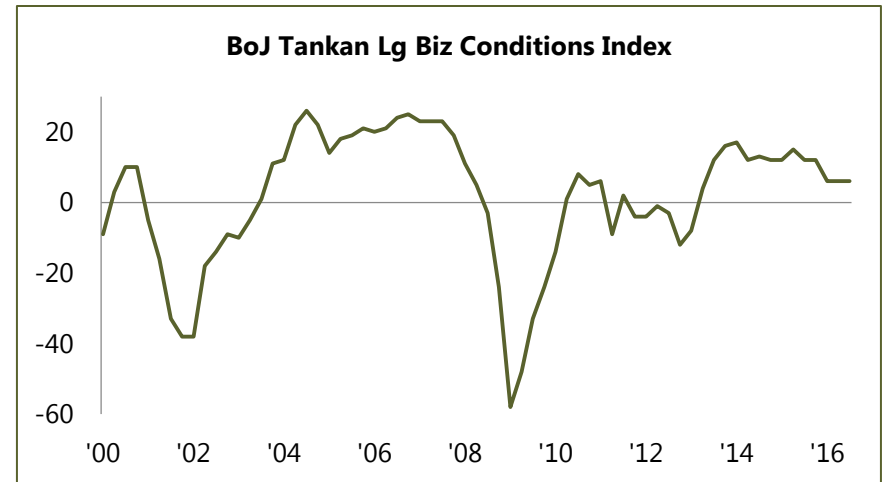
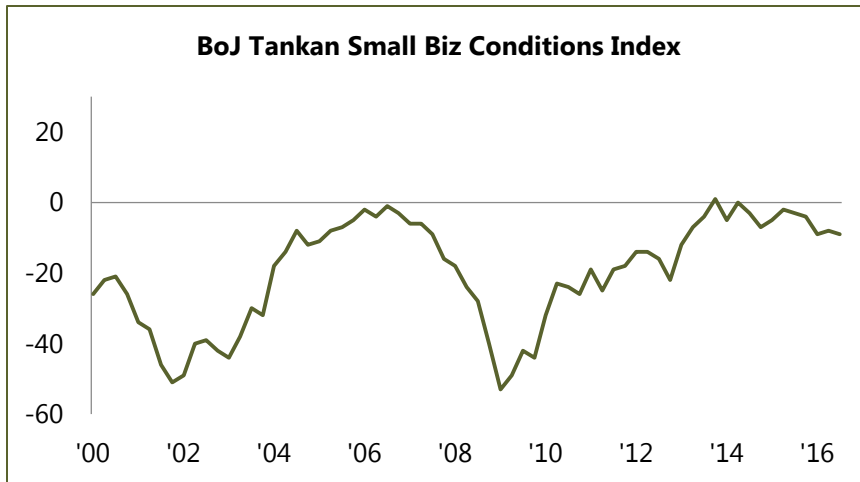
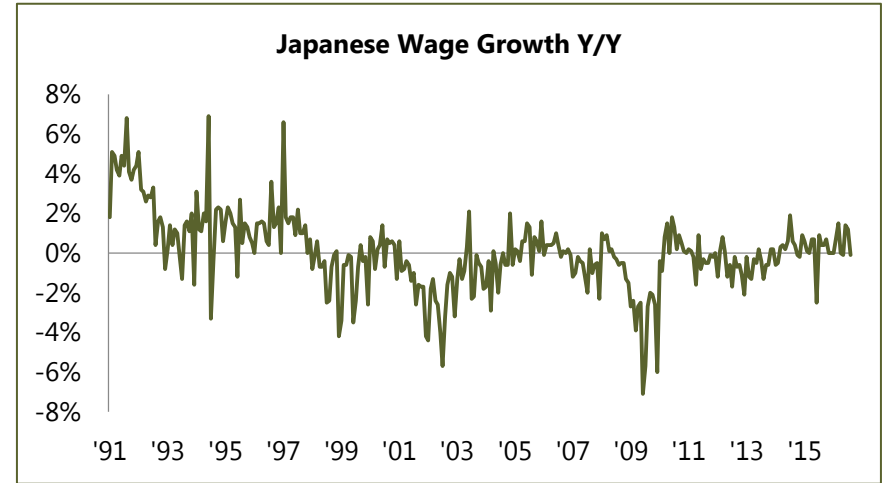
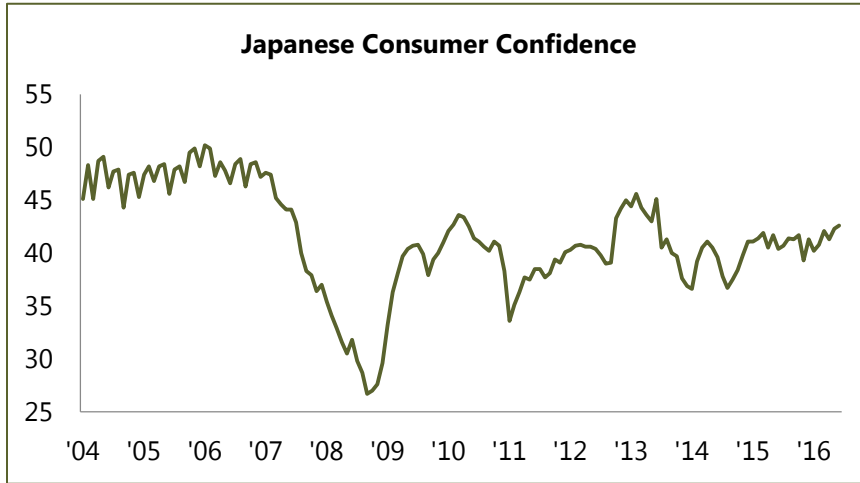
Global Mfg. PMI

China, Germany, and France realized improved PMI values over the past quarter, while the Eurozone was largely unchanged. France's PMI of 49.7 is slightly below the value of 50, which is the value that indicates an expansion in the Manufacturing Sector.



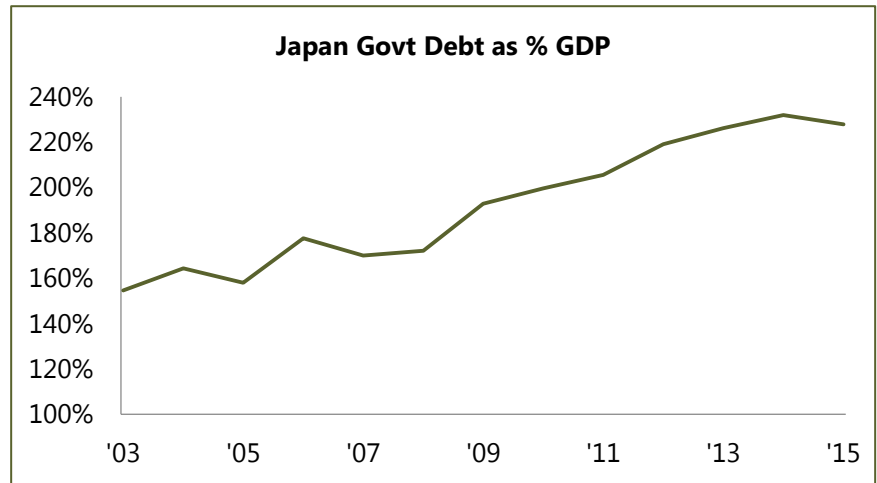
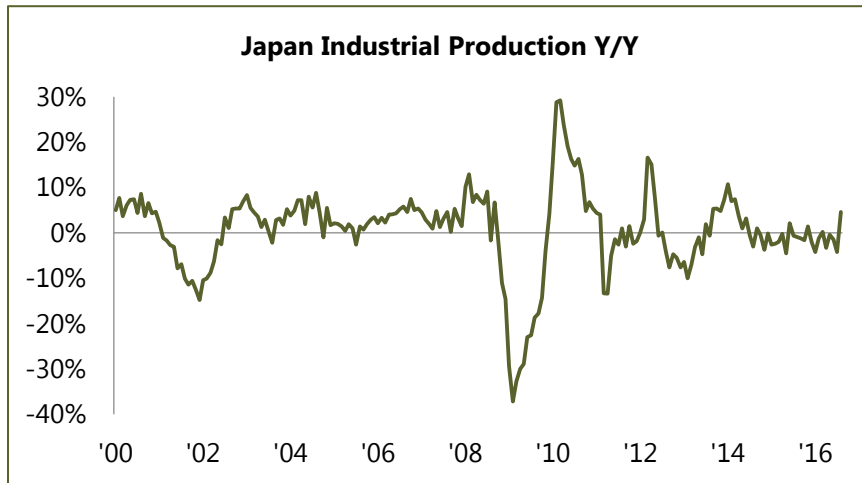
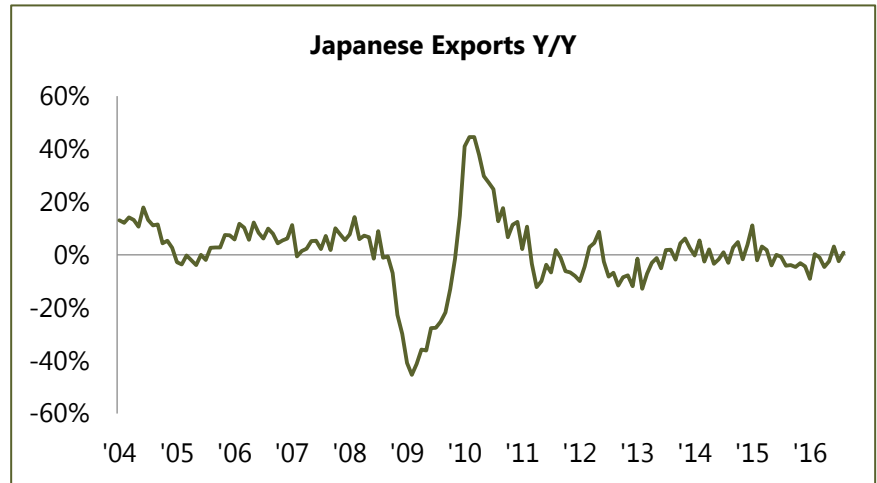
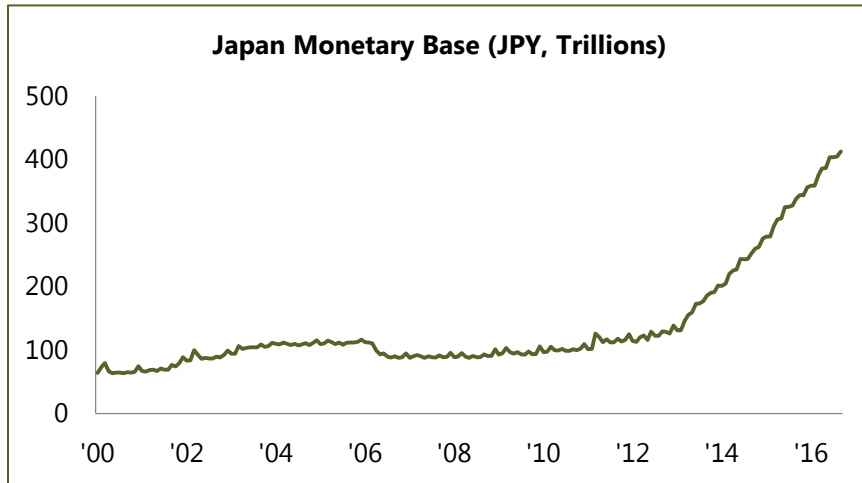
Tracking Abenomics

The lack of wage growth remains a headwind to Abenomics and overall Japanese GDP growth, even as Consumer Confidence continues to climb. Large business conditions remain favorable, but unchanged during the quarter, while small business conditions became more unfavorable.



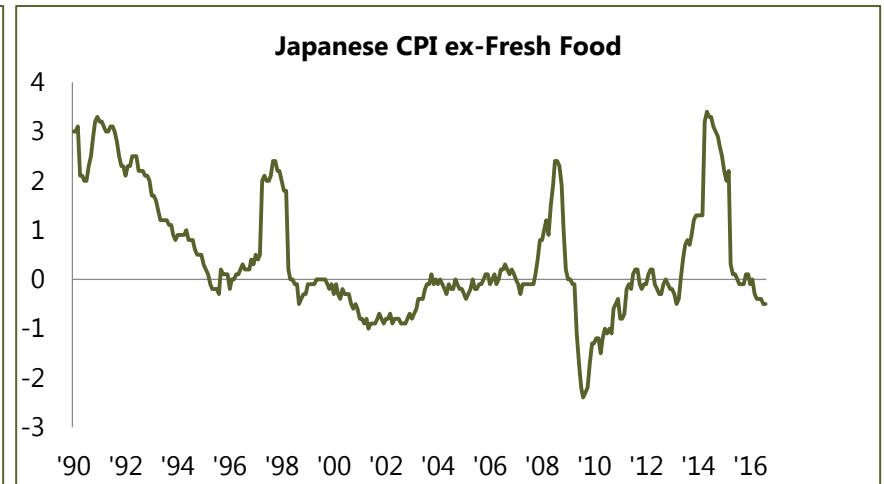
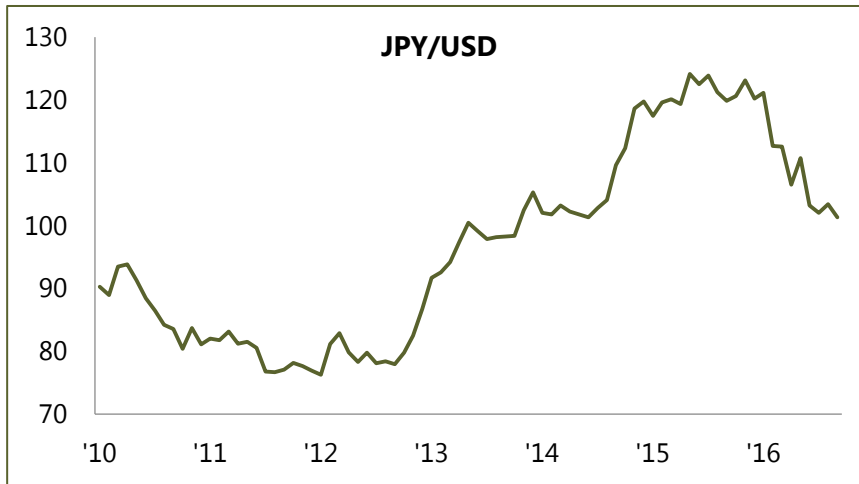
Japan

In their meeting at the end of September, the Bank of Japan stated it would adjust the volume and direction of their asset purchases to focus more on controlling interest rates rather than increasing the money supply. Japan's Monetary Base has increased 30% annualized over the last three years.



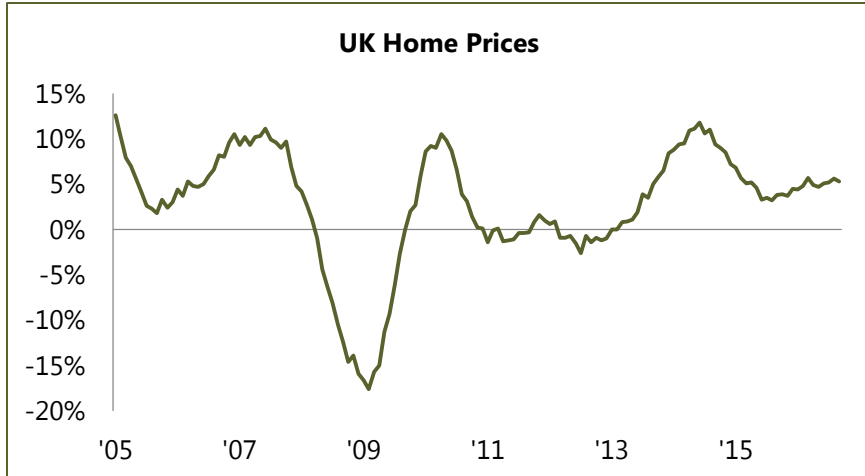
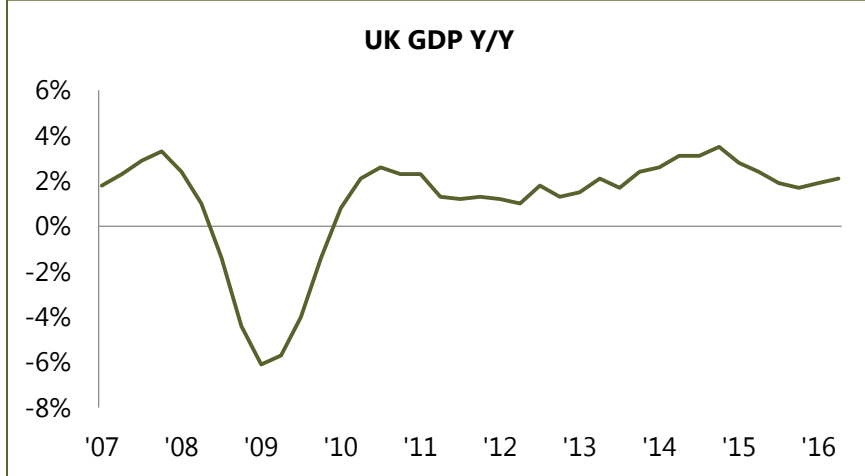
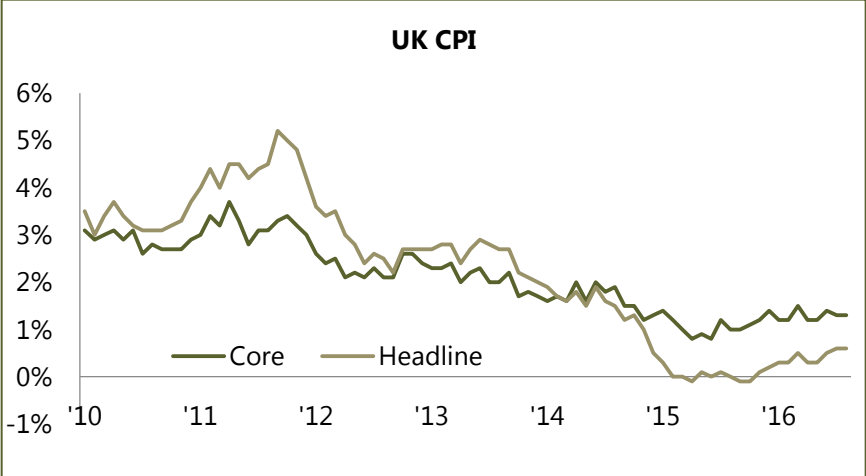
Yen Continues to Strengthen

Strength in the Yen remains a headwind for exporters and risks undermining Abenomics as a whole. The yen is at a 20 month high vs. USD, while Japanese CPI ex-Fresh Food continues to fan fears of widespread deflation.



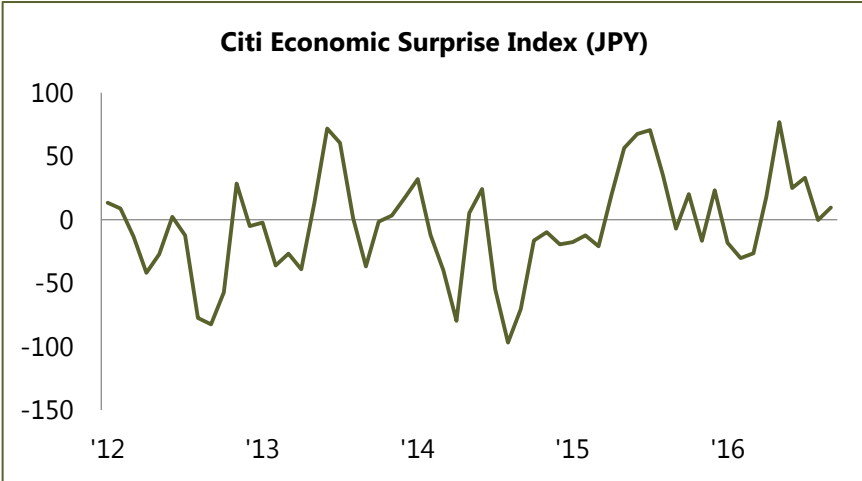
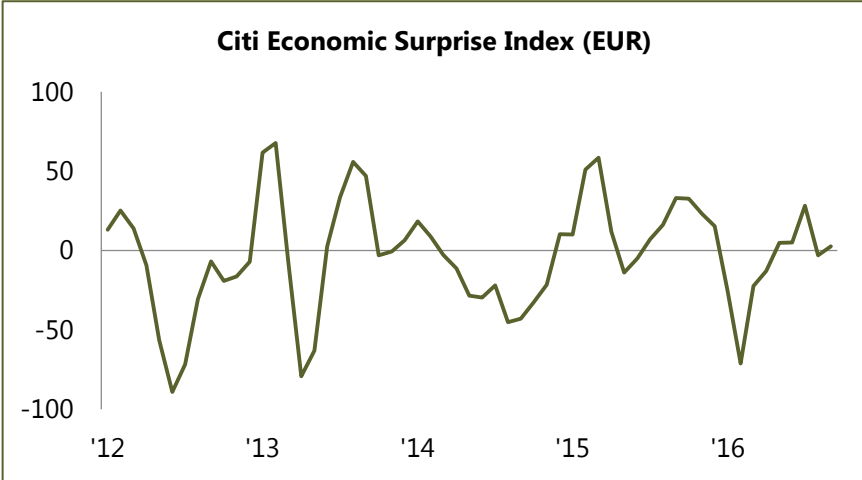
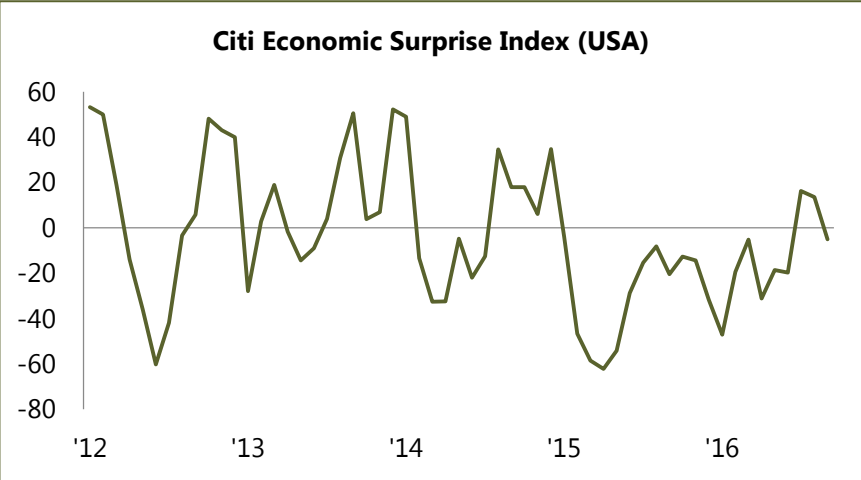
United Kingdom

Following the 'Brexit' referendum, many economic data points in the U.K. have surprisingly beat expectations. While the implications of the U.K. leaving the European Union have yet to be seen, investors are correct to monitor the situation closely. The British Pound is now trading at it's lowest level against the U.S. dollar in over 3 decades.



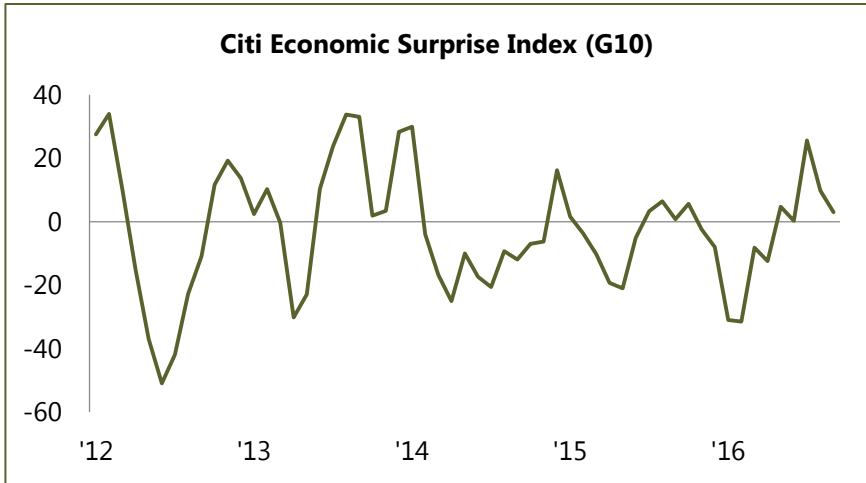
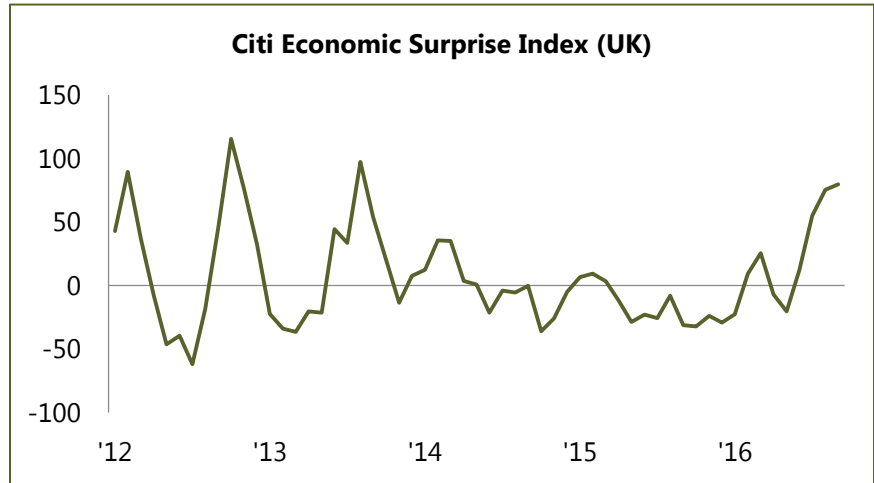
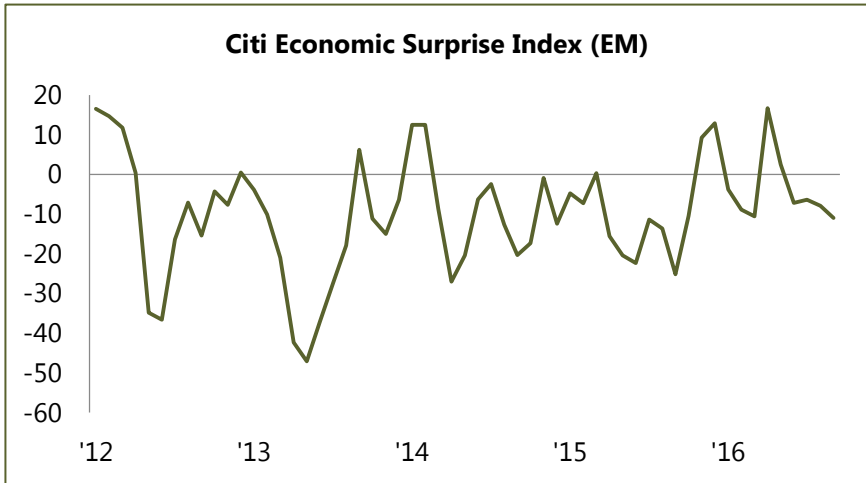
Economic Surprise Indices

U.S. Economic data missed expectations in September, while Chinese, Eurozone, and Japanese data all beat expectations.



Economic Surprise Indices

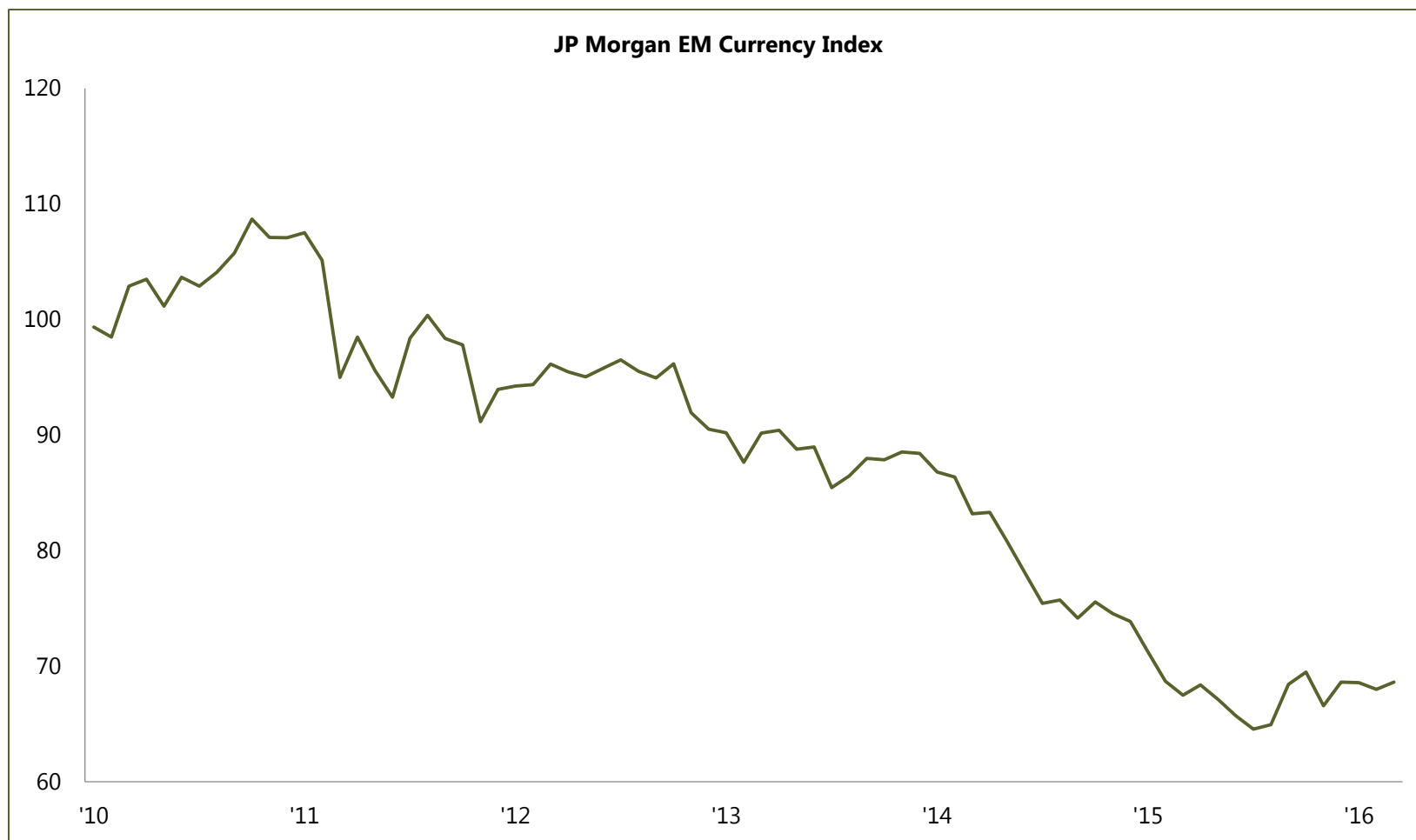
Emerging Markets missed estimates in 3Q by a wider margin than in 2Q. Resilient data in the U.K. following the ‘Brexit’ referendum helped the U.K. thoroughly beat market estimates.



An Economic Surprise Index reading that is **positive** signals that key economic data releases have **exceeded** market expectations.

Emerging Markets Currencies Bounce Back

Strength in commodity prices during the beginning of the year have given a bid to Emerging Market currencies. However, The JP Morgan EM Currency Index has been mostly flat since the end of the 1st quarter.



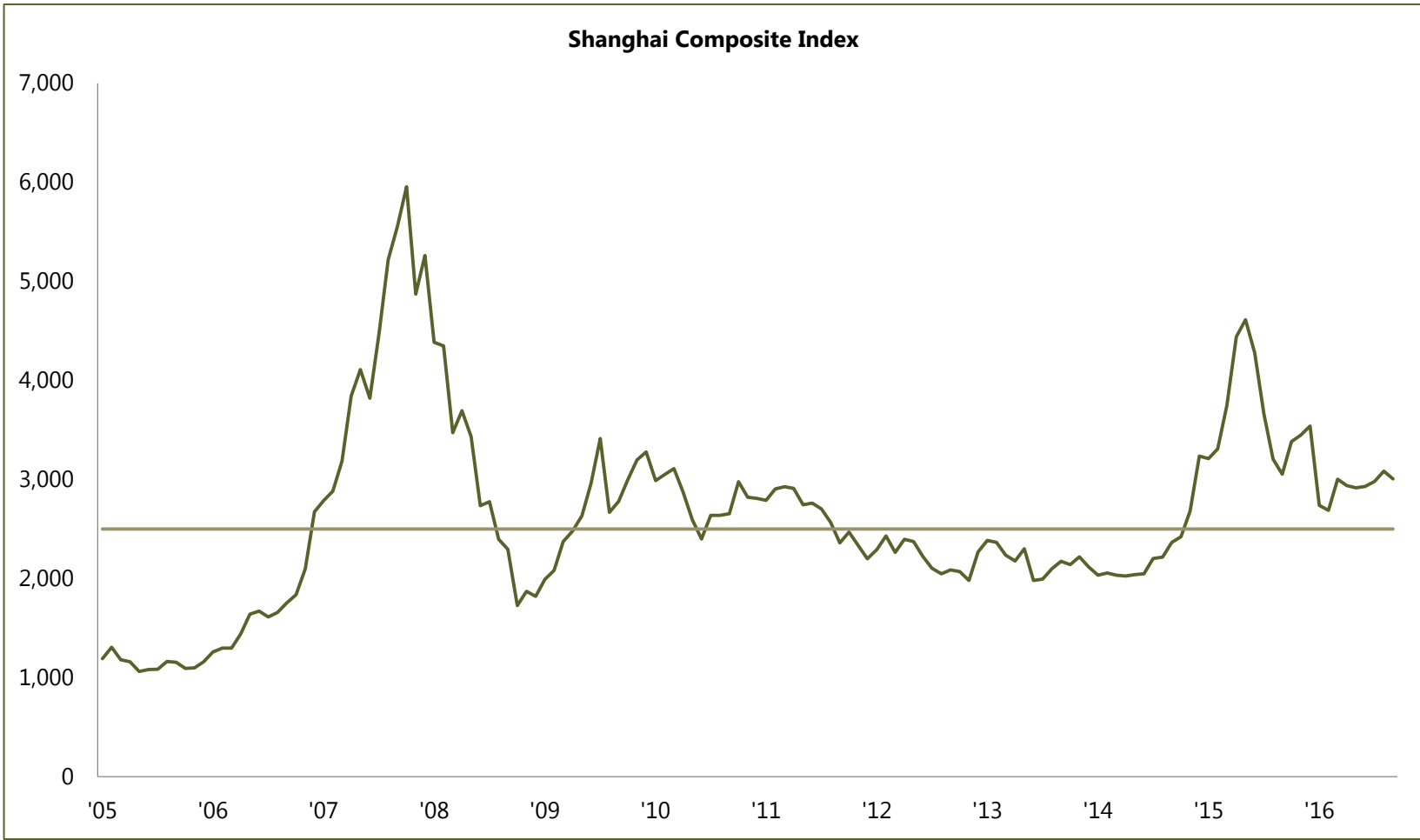
China

Recent trade data from China indicated imports were positive for the first time since October of 2014, while Exports continue to decline. Exports, inflation, industrial production and retail sales will be closely watched as China's massive economy continues to pivot from manufacturing to consumption based.



Shanghai Composite Bubble Bursting?

The Shanghai Composite rose +3.76% during the 3rd quarter to an index value of 3,004. The index has fallen almost -35% since its May 2015 high. Valuations are still rich for this index, and could become reasonably cheaper before becoming attractive.



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All data sources: St. Louis FRED database, Bloomberg, Nottingham Advisors, unless otherwise noted.

