WASHINGTON CROSSING ADVISORS

VIEWPOINT2016
LONG RUN ASSUMPTIONS

STIFEL

LONG-RUN ASSUMPTIONS

EXECUTIVE SUMMARY

Our macro outlook is for slow growth and stubbornly low inflation. The start of policy normalization following years of zero interest rate policy in the United States comes at a time of weakening global growth and mixed signals from the domestic economy. We continue to view the United States economy as best positioned to weather the overall weak global environment that resurfaced in 2015.

KEY POINTS

- We see continued growth, low inflation, higher short-term rates, and moderate returns ahead.
- The end of the zero interest rate era in the United States creates a new set of challenges and opportunities.
- Modest growth and elevated valuations constrain returns. We increase focus on balance sheet strength and earnings consistency.

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EQUITY VS. BONDS

We are modestly underweight stocks versus bonds as we start 2016. Weak readings in the data throughout 2015 are largely a function of weaker global growth. Although we expect to see a pickup in the data during the year, we have yet to see compelling signs of a turn.

FOREIGN VS. DOMESTIC

We are turning more constructive on foreign assets. A long period of underperformance is improving valuations for non-U.S. Assets.

SHORT VS. LONG DURATION

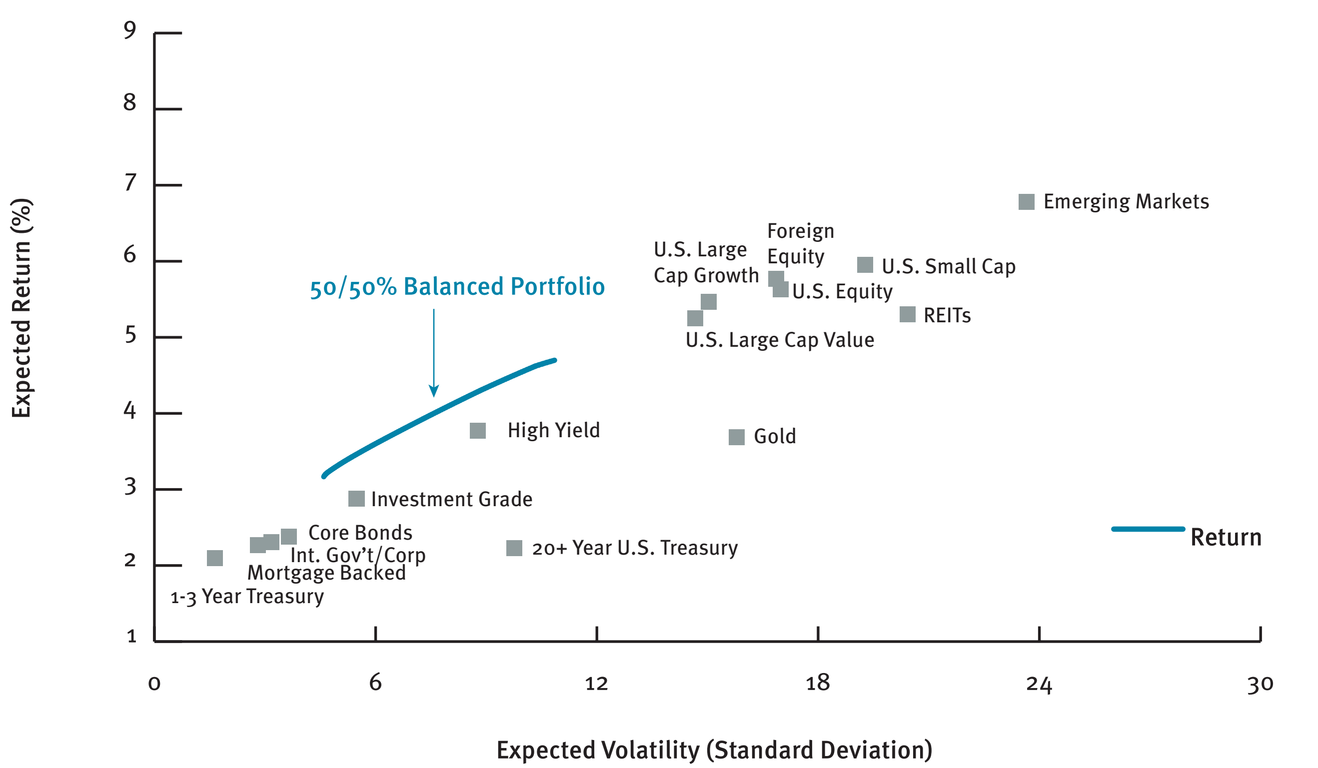
We begin 2016 with a small tilt toward longer-duration bonds. Starting yields on long-term bonds are low relative to history, but underlying growth and inflation are also tame.

CREDIT VS. FULL FAITH AND CREDIT

Corporate bond spreads widened relative to Treasuries throughout 2015. Yields appear to be attractive given low competing yields from sovereign issuers, and given our assumption for continued slow but steady economic growth.

The efficient frontier highlighted below represents a set of portfolios that offer maximum expected return for their level of risk. After several years of rising equity valuations and low starting yields, returns should be more modest than in the past, in our view. Still, it is important to view performance in terms of both risk and return. A diversified portfolio approach, built around well-reasoned expectations can help to achieve balance.

EFFICIENT FRONTIER



WASHINGTON CROSSING ADVISORS LONG-RUN EXPECTED RETURNS **10-15 YEAR HORIZON**

Asset Names	View Return* (10–15 Years)	Volatility	Under Weight	Neutral	Over Weight
Core Bonds	2.25%	3.6%			
1–3 Year Treasury	1.75%	1.6%			
Mortgage Bonds	2.25%	2.8%			
Intermediate Government/Credit	2.50%	3.2%			
Long-term U.S. Treasuries (20-yr)	2.25%	9.8%			
Investment Grade Corporate Bonds	3.00%	5.5%			
High Yield	3.25%	8.8%			
U.S. Equity	5.75%	15.0%			
Large Cap Growth	5.75%	17.0%			
Large Cap Value	6.00%	14.7%			
Small Cap	5.75%	19.3%			
Foreign Developed	5.25%	16.9%			
Emerging Developed	6.50%	23.7%			
REITs	4.25%	20.4%			
Gold	4.50%	15.8%			

** Combines long-run forecast with near-term observations of financial conditions.* *As of January 6, 2016.*

These views are provided by Washington Crossing Advisors. Assumptions are estimates based on historic performance and an evaluation of the current market environment. These are estimates only and not intended to represent future performance. References to future expected returns and performance do not constitute a promise of performance for any asset class or investment strategy. The forecasts contained herein are for illustrative purposes only and not to be relied on as advice or interpreted as a recommendation to engage in the purchase or sale of any security or financial product. These forecasts are based upon subjective estimates and assumptions about circumstances and events that may not have taken place and may never do so. In addition, Washington Crossing used historic index returns in evaluating past return relationships. This information was gathered from third-party sources we deem reliable, but no independent verification has been undertaken. Actual returns could be higher or lower than shown herein. Opinion subject to change without notice.

The Global Economy in 2016

We expect slow global growth in 2016. The global economy should grow near 3%, below the 5% average pace that existed before the '08–09 recession. We also expect a wide range of outcomes among countries. While the United States is doing well, several emerging economies are in recession, and emerging market growth is slowing compared to our own growth rate (see chart next page). Falling exports, commodity prices, and the end of a credit boom all contribute to emerging market troubles. As net producers of commodities, the falloff in prices and volumes represents a large negative shock to most emerging markets. Developed markets, on the other hand, tend to be net consumers of commodities, so the lower prices are a positive shock.

As growth rates diverge between countries and regions, policy responses are diverging as well. We expect this to raise uncertainty in currency and financial markets in 2016. Still, we expect to see forward progress for the global economy in the year ahead.

Europe

At the same time, the euro-area economy should expand as well. Ultra-accomodative monetary policy has driven interest rates into negative territory. The euro fell by 20% versus the dollar from 2014 into 2015. Still, a large output gap exists and the eurozone unemployment rate remains above 10%. We expect the economy to continue to make slow progress as austerity measures continue to ease. The combination of more accommodative fiscal and monetary policy should help maintain growth in the eurozone near 2%.

Asia

China faces a difficult set of challenges as we enter 2016. For China to succeed longer term, the country must embrace a raft of necessary reforms to better integrate with the global economy. In the medium term, they must rebalance away from an export and investment heavy mix to a more sustainable mix emphasizing consumption. In the meantime, contraction in investment and exports means the economy is more exposed to highly unpleasant downside risk. The 7% growth floor seems unsustainable for a country of China's size, and we expect the pace to move closer to the rest of the developed world over time. China's leadership will, however, face a strong temptation to intervene. We expect more rate cuts, an expanded fiscal deficit, and further yuan depreciation from China in 2016.

Japan heads toward 2016 with the economy wavering between recession and expansion. Inflation remains near zero. A bright spot is the household sector, where labor markets are good and wages are firm. A looming national election improves the odds of more stimulus ahead, which could provide at least a near-term boost. Prime Minister Shinzo Abe hopes to see Japan's economy grow to $4.9 trillion by 2020. To be successful, he needs the economy to grow 3% per year including inflation. Growth across the rest of Southeast Asia may improve in 2016. Nevertheless, China's economic rebalancing will continue to weigh on Asian economies.

Latin America

Countries here include troubled economies, such as Argentina, Venezuela, and Brazil. These countries are all heavily exposed to swings in commodity prices and demand from China and elsewhere. The fall in commodity prices over the last year hit profits and government revenue hard, and several currencies have been absorbing the adjustment (Brazil's real is down 60% versus the U.S. dollar, for example).

For more than a decade, strong demand for commodities, rising commodity prices, and heady credit expansion fueled much of Latin America's growth. Demand is now falling, and commodity prices have crashed. Sovereign finances are under stress, resulting in sharp declines in currencies and falling reserves. Left in place are considerable debts. The overhang of a major credit cycle is now depressing growth and increasing downside risks.

Political risk is also on the rise. Brazil is engulfed in a series of political crises, and Argentina was recently forced to implement capital controls. Political risk is raising the cost of business on top of a poorly performing economy. Brazil and Chile are both raising interest rates and could be hurt by the Fed's effort to raise rates. A confluence of negative events are all conspiring to hobble growth in Latin America. Investor sentiment here is badly damaged, but we think it will recover as the dust settles. We are reminded that several Latin American economies possess a young demographic mix, growing middle class, and a large endowment of natural resources. Therefore, we remain optimistic about longer-term growth prospects for Latin America.

United States

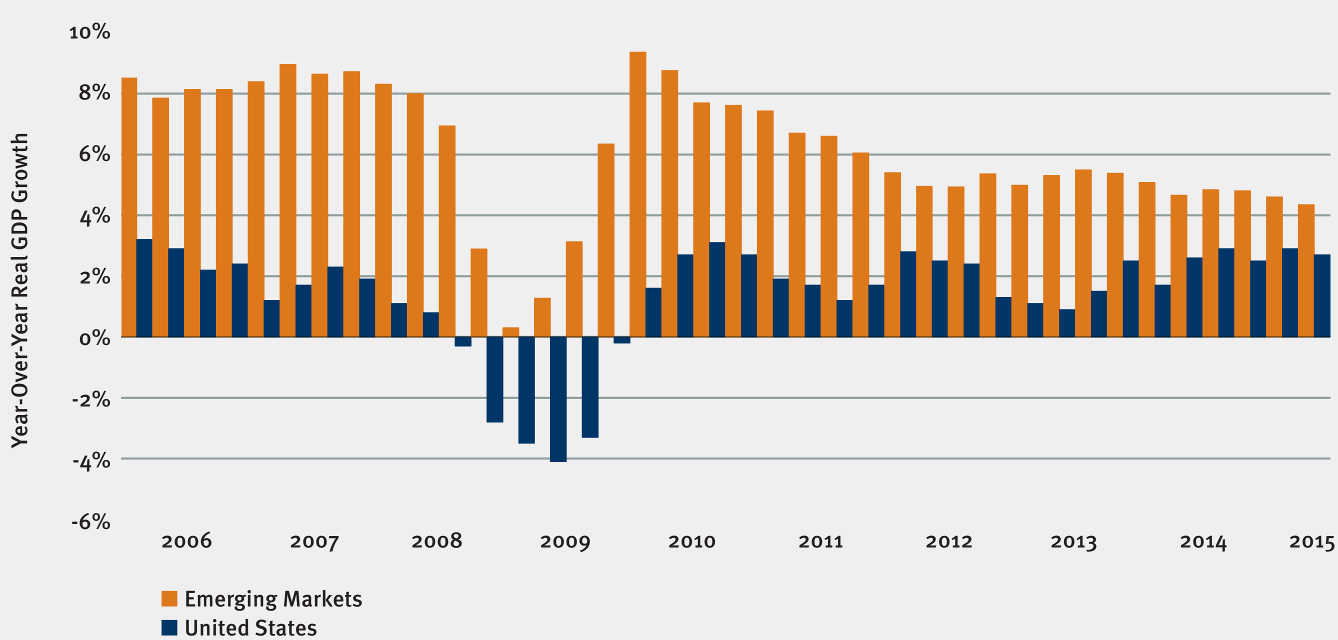
We expect the U.S. economy to grow again in the year ahead. Still, we see somewhat higher risk of a recession than a year ago. In a normal year, we assume about a one-in-ten odds of recession. This is about the normal ratio of good to bad years based on the last several decades. The weaker data we are seeing, mostly from outside our borders, is making us a bit more cautious. Our current assumption is closer to a one-in-five probability given the data. This is not an exceptionally high or worrisome figure, but one that needs to be monitored.

In a more likely scenario, we see further expansion throughout the year. We expect employment to remain strong and advance further, bringing the unemployment rate down toward 4.5%. If this happens, expect confidence to strengthen and the roots of the expansion to deepen. Of course, politics will shape sentiment and dominate the media's focus throughout the year. The economy's performance will take on additional meaning and prove to be a meaningful factor in the outcome of the election this fall.

What Inflation?

Notably absent from the picture is any appreciable sign of inflation. Currently, the bond market is pricing in roughly a 1½% inflation rate over the next decade. The headline consumer price index is up just 0.2% from a year ago through October, but this includes the impact of falling energy prices. The Dallas Federal Reserve's "trimmed mean" personal consumption expenditure inflation measure, however, is holding steady near 1.7%. Whatever the "right" measure is, the underlying story is the same. We are not yet seeing an appreciable acceleration of inflationary pressure despite several years of extraordinary policy actions and continued progress reducing slack in the economy. From an investor's standpoint, this absence of inflation gives the central bank room to be accommodative and lessens the risk of a disruptive and sharp rise in short-term interest rates.

EMERGING MARKETS' GROWTH ADVANTAGE IS FADING



Monetary and Fiscal Policy

Monetary policy is becoming less accommodative. Even though short-term rates are still below the rate of inflation, core inflation remains below the Fed's target. Despite this, the Fed chose to raise interest rates in December for the first time in over a decade, and it is widely expected further increases are to follow. In comparison to other major central banks, including the European Central Bank and Bank of Japan, our Fed looks relatively hawkish.

Fiscal policy, on the other hand, is turning slightly more accommodative as we enter 2016. Net government spending increased about 5% in 2015, and tax receipts rose 8%. Spending stands near 20.7% of GDP, still above the 20.2% 50-year average. Taxes are 17.6% of GDP. This is the highest level since 2001 and greater than the 17.4% 50-year average. In our view, this combination of spending and taxation represents a fairly neutral posture. Government spending should add modestly to GDP in 2016.

Longer Run Growth

We think the U.S. economy can sustain a 2.5-3% growth pace longer term. This rate is below the 25-year historic average. In the past, we had greater growth in the number of people working, capital employed (machines, computers, etc.), and the degree of efficiency with which goods and services were produced. Consequently, the economy grew faster. Today, we see lower increases in labor, capital, and productivity. Not surprisingly, the economy is growing more slowly.

GROWTH FACTOR

	1990s	Since 2009
Real Output (GDP)	3.9%	1.6%
Productivity	1.6%	1.1%
Capital	7.3%	1.6%
Labor	1.9%	0.5%

Source: OECD, Bureau of Economic Analysis

The Congressional Budget Office maintains estimates of potential long-run real growth. Sustainable growth has come down over the decades as the economy matured. In the 1950s and 1960s, potential growth estimates were near 4%. This rate gradually declined over the years to today's 2% level. **Our long-run real GDP growth expectation is currently near 2.5% (+/- ½%), reflecting some fading of cyclical influences relating to the last recession.**

Near-Term Growth

Last year was the weakest since the recession from the point of view of our WCA Fundamental Conditions Barometer (top chart next page). This barometer measures a wide variety of indicators we track broken into three broad categories: investor risk appetite, indicators of domestic economic vibrancy, and foreign indicators. The weakest category of data was data from overseas. But what about the domestic economy in 2016? Is the data signaling recession or expansion?

Treasury Yield Curve

An inverted yield curve, defined as a 3-month Treasury yield above the 10-year Treasury yield, can indicate the central bank is raising rates aggressively to slow the economy. The curve was inverted before each of the last seven recessions. This is not the case at this time — a positive sign for 2016.

New Manufacturing Orders

The demand for manufactured product is generally a strong predictor of activity in the months ahead and can foreshadow changes in earnings growth. The November new orders component of the Institute for Supply Management's manufacturing survey registered its first sub-50 reading since 2012 — a cautionary sign.

Credit Spreads

Wider spreads between corporate bonds and Treasury bonds can indicate rising default risk, which has historically been associated with a worsening economy. These spreads have been rising throughout 2014 and 2015, largely as the result of troubles in the commodity and energy arena. This needs to be watched.

Leading Economic Indicators

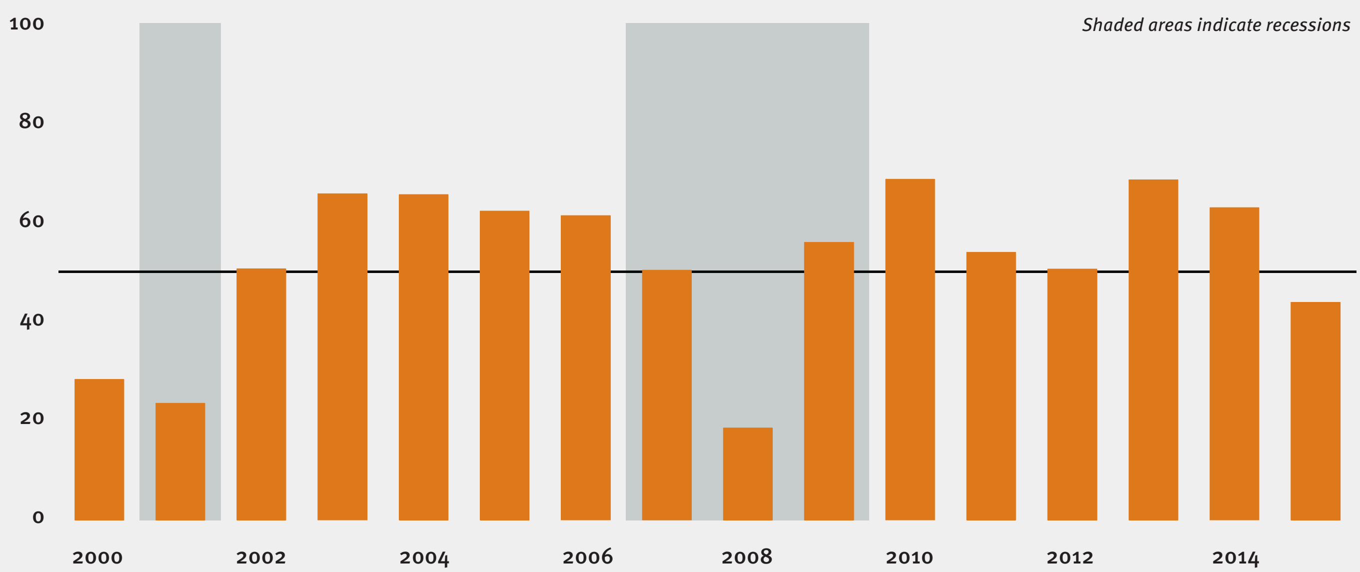
The year-over-year change in the Conference Board's Leading Economic Index (LEI) is still positive (up 3.4% through November). This index is a weighted measure of changes in leading indicators that the Conference Board deems predictive with regard to where the economy is headed. Negative year-over-year changes generally precede recessions by about a year. It successfully identified each of the last seven recessions (one false positive). **The WCA Fundamental Conditions Barometer (bottom, next page) recognizes these and other inputs in assessing the near-term outlook and contributes to our return forecasting and tactical allocation process.**

KEY ASSUMPTIONS

				Anticipated Long-Run Range		
	2014	2015	2016	High	Low	Mid
Real GDP	2.40%	2.20%	2.25%	3.00%	2.00%	2.50%
Inflation	1.40%	1.30%	1.50%	2.00%	1.00%	1.50%
Unemployment	5.70%	5.10%	4.80%	5.10%	4.30%	4.80%
Productivity	0.60%	0.40%	0.50%	0.75%	0.50%	0.37%
Labor Hours	1.70%	1.90%	1.00%	0.75%	0.50%	0.37%
Capital Investment	4.10%	2.30%	2.00%	3.00%	2.00%	2.50%

Source: Washington Crossing Advisors as of December 2015

WCA FUNDAMENTAL CONDITIONS BAROMETER (LONG RUN PERSPECTIVE)



WCA Barometer: *Although there is no simple formula, model, or approach that will allow anyone to precisely forecast markets, we believe that, in the long run, markets tend to converge to a "fair value" determined by logical economic relationships. In the short to medium term, however, other factors, including a broad range of human behaviors, shape the path to longer-run equilibrium. One of the most basic economic relationships is that of economic growth and market performance. The WCA Fundamental Conditions Barometer is one tool that we use in evaluating changes in economic conditions.*


NEW YORK STOCK EXCH

FIXED INCOME OUTLOOK

Years of ultra easy monetary conditions ended in December when the Federal Reserve took the historic step of ending an unprecedented era of zero interest rate policy. Policy rates around the world are moving in different directions as the United States exits seven years of zero interest rates. This is a major shift in direction for monetary policy and is running counter to continued easing in the Eurozone and Japan.

Yet we expect the progress toward rate normalization to be slow and uneven. Our view is based largely on the consistent undershooting of inflation targets despite years of extraordinary efforts to get inflation back above target. We remain in a low yield world, and fixed income investors are still challenged to find an attractive yield.

Overall, we expect a very long and shallow climb out of this era of low rates. We suspect that the market is overestimating the speed of policy normalization, and the Fed's own long-run targets for rates seem aggressive to us given weak inflation.

Opportunities are being created, however. Cracks emerged in some areas of the corporate bond market, especially in energy and high yield. Wider spreads are providing better compensation for potential losses, although few signs of a fundamental turn are yet evident in the energy and commodity space.

We expect better long-run returns in the high-grade corporate area following relative underperformance.

The end of the zero interest rate era in the United States creates a new set of challenges and opportunities.

Short Rates

We are underweight shorter-duration bonds as the Fed initiates rate increases. The lack of inflation and slow growth should keep short-term rates relatively low. A long-running disinflationary process is still with us even as the economy returns to full employment. Focused on a falling unemployment rate, the Fed seems intent upon rate increases, despite below-target inflation. Given the entrenched disinflationary climate, we do not expect short-term rates to reach the Fed's long-run forecast range of 3–4% for some time to come. **Consequently, our baseline long-run expected return on cash should be near 1.7%.**

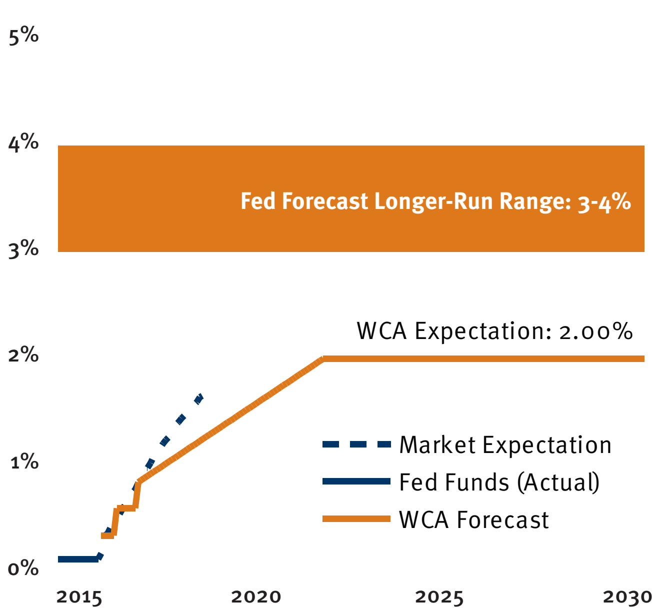
One unique challenge in the year ahead relates to Fed communication with markets following the initial rate increase. The focus now shifts from "when" increases will start to "how" fast. Given relatively weak trends in global data, we currently anticipate a slow climb out with just two rate hikes in 2016.

Central to the Fed's communication challenge will be the inherent contradiction between the "slow pace" and "data dependent" mantras. We see these two stances as contradictory. If, on the one hand, the Fed is "data dependent," then they cannot forecast accurately the pace of increases. On the other hand, if they assume a "slow" pace of increases, then they are not truly data dependent. This contradiction makes for a more muddled message to the markets than in the past.

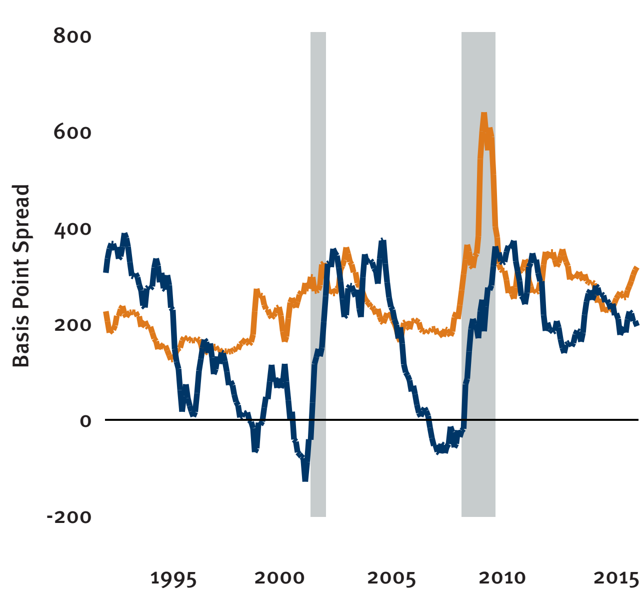
Long-Term Rates

We are somewhat overweight longer-duration bonds. Tepid growth coupled with low inflation suggests that longer-term yields rise slowly. Longer term, yields on 10-year Treasury bonds should align with nominal growth in the economy. As discussed earlier, we expect inflation and nominal growth to remain positive. **Consequently, we expect returns on Treasuries to be near 2.25% in our base case.**

WCA CASH RATE EXPECTATIONS



MATURITY AND CREDIT SPREADS



Credit Spread (Moody's Baa Corp/10yr) Maturity Spreads (10yr/Fed Funds)

Investment-Grade Corporate Bonds

We are neutral investment-grade corporates. Spreads on Baa corporate bonds over 10-year U.S. Treasuries stand near 230 basis points (2.3%). This is in line with average spreads during prior expansions dating back to 1992 (see table below). Investors are being reasonably compensated for credit risk so long as the economy remains on solid footing.

However, energy and commodity-related areas are under significant stress as the result of much lower commodity prices. This, coupled with a large amount of debt issuance in recent quarters, contributed to corporate spread widening in 2015. We believe the issues confronting commodity producers are not indicative of a broader trend across all sectors. It would take further deterioration in overall economic conditions before we would raise serious concerns about credit quality or lower our long-run return expectations.

High Yield Corporate Bonds

We maintain a small allocation to this sector of the bond market, below our strategic allocation. The yield to worst on the Barclay's U.S. Corporate High Yield Index rose to 8.9% near the end of 2015. It stood at 6.6% at the start of the year. The backup in yield reflects stress in the market, resulting from distress in the energy sector. The higher yield provides greater compensation for risk of loss.

According to Moody's, annual loss rates for speculative-grade bonds averaged 2.7% between 1982–2014. This is based on issuer-weighted average default rates and issuer-weighted senior unsecured bond recovery rates. Using that average, it would appear that the elevated yield likely compensates investors for losses. At least there is better potential for higher risk-adjusted returns than a year ago.

Like other commodity-sensitive areas, we have yet to find a bottom. High yield continues to underperform. Accordingly, we are maintaining a neutral position.

INTEREST RATE LEVELS AND SPREADS

	Recessions (1992–2015)	Expansions (1992–2015)	Current Level or Spread	Longer-Term Expected Equilibrium Spread
Real Risk Free Rate	0.50%	1.10%	-0.80%	0.50%
+ Inflation (Core PCE)	1.80%	1.80%	1.30%	1.50%
Treasury Bill Rate (3-Month)	2.30%	2.90%	0.50%	2.00%
+ Maturity / Illiquidity Premium	1.70%	1.70%	1.70%	2.00%
Treasury Bond (10-Year)	4.00%	4.60%	2.20%	4.00%
+ Credit Spread	3.90%	2.30%	3.20%	1.50%
Corporate Bond Rate (Baa)	7.90%	6.90%	5.40%	5.50%

Source: Washington Crossing Advisors as of December 2015

EQUITY MARKET OUTLOOK

We shaved our expectations for equity returns to 5.75% from 6.4% this year. Higher valuations, reduced net share repurchases, and weaker performance from the global economy are weighing on return prospects. Compared to last year, we increased slightly our long-run growth forecast given continued progress in the economy and labor markets. We also recognize the very high degree of profitability enjoyed by the S&P 500 companies and the positive impact this profitability is having on balance sheet strength.

At $23 trillion in size, the United States equity market now sits at a generous valuation. We come into 2016 with S&P 500 earnings forecasts near $127 — nearly flat with a year ago. Economy-wide corporate profits are down slightly from a year ago and largely flat in recent years. Net share repurchases and cash dividends could amount to over $90, however. In lieu of faster growth or multiple expansion, cash return is playing a bigger role in driving equity returns.

Modest growth and elevated valuations constrain returns. We increase focus on balance sheet strength and earnings consistency.

More Modest Returns

We look for more modest returns ahead. **Our long-run forecast equity return stands near 5.75% in our base case compared with 6.4% last year.** The primary changes over last year include a higher starting multiple, an expected reduction of net share repurchases, and a slower contribution to earnings growth from overseas. On the plus side, we expect to see better performance in terms of real economic growth, slightly higher dividend contribution, and less of a drag from margin normalization.

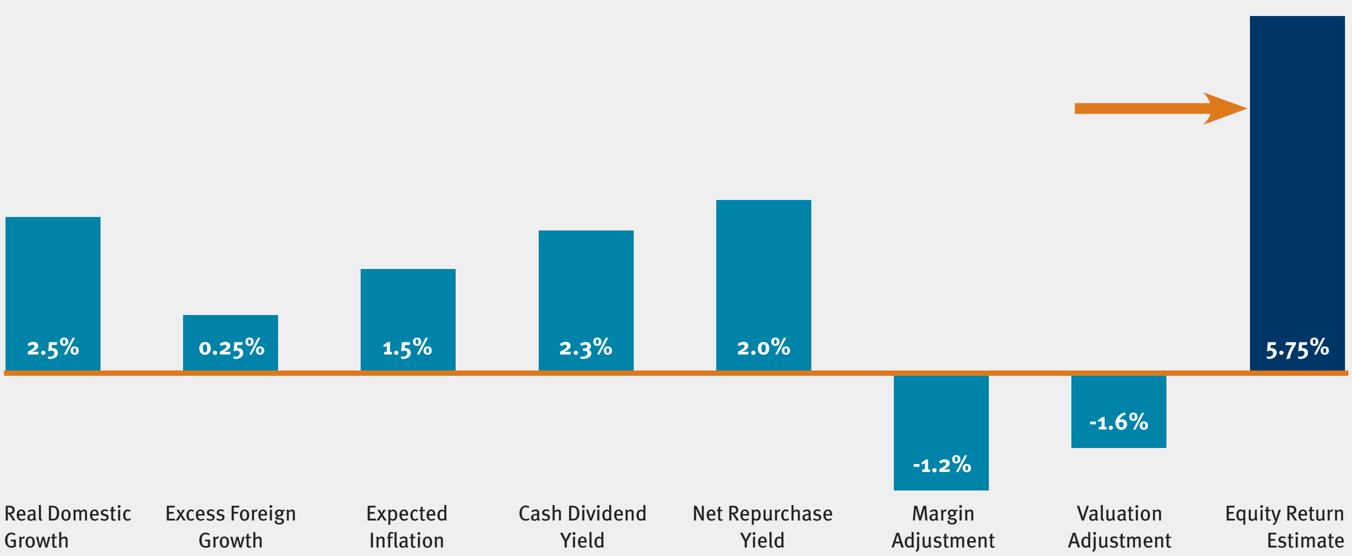
According to FactSet, analysts expect S&P 500 companies to earn $126 over the next 12 months (chart next page, top left). The same figure stood at $127 at this time last year. Net profit margins are expected to come in at a record 10.7% compared to a 10-year average of 9.6% (chart next page, bottom left). Valuations based on a simple price to earnings ratio are also above average. The S&P 500 trades at 16.3 times forward earnings expectations versus a 10-year average multiple of 14 times earnings.

From a net cash to shareholder perspective, the S&P 500 companies are expected to pay cash dividends of $46.50, according to Bloomberg estimates. This implies a forward cash dividend yield of 2.3% — somewhat higher than last year. According to data from S&P Capital IQ, net share repurchases fell to $49 in 2015 from $53 last year. We estimate this trend will continue into 2016 and look for $45 of net repurchases (2.2% net buyback yield).

Stronger Balance Sheets

Much better balance sheets are part of the story for U.S. equities, and not fully captured in the discussion above. Since 2009, net debt for the S&P 500 companies is down nearly 30%, book value is up 60%, and net income is up 50%, pointing to strong balance sheets for most companies. However, debt issuance over the past two years has increased. S&P 500 net debt per share bottomed in 2013 before rising 7% in 2014 and 45% in 2015. Net debt per share is just three times net income for the S&P 500 as a whole. Since 1992, the median multiple was near eight times.

FACTORS CONTRIBUTING TO LONG-RUN (10–15 YEARS) EQUITY MARKET RETURN EXPECTATIONS



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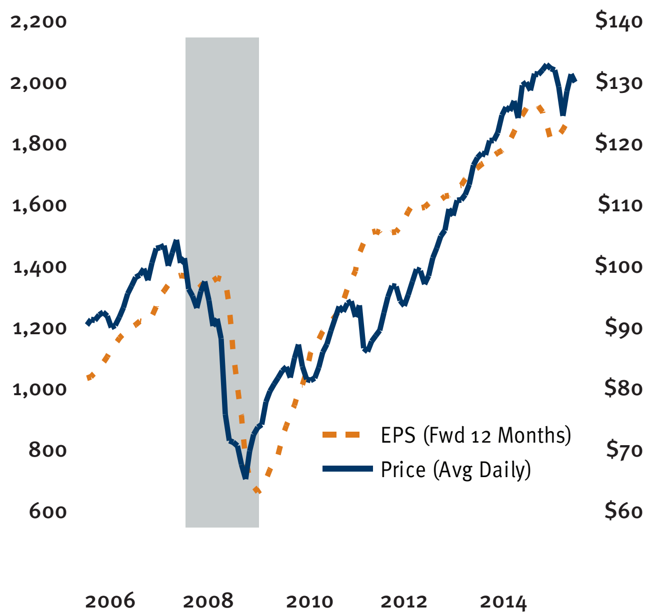
CHANGE IN FORWARD 12-MONTH EPS VS. CHANGE IN PRICE



Equity Category Views

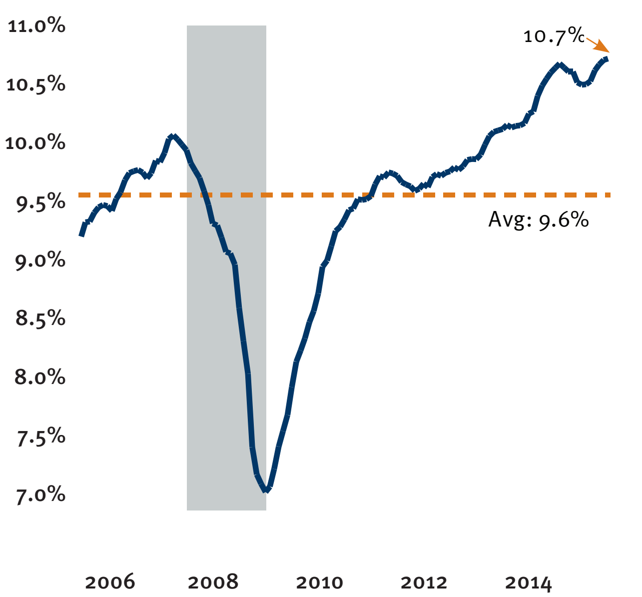
Foreign vs. Domestic: A 20% rise in the dollar since 2014 reduces our expected return on dollar assets versus foreign. Still, the Fed's decision to raise rates is providing some continued lift to dollar assets. **We are underweight foreign.**

Growth vs. Value: **We are neutral value versus growth.** Underperformance by value leaves future returns looking better, but relative performance is not yet in value's favor.

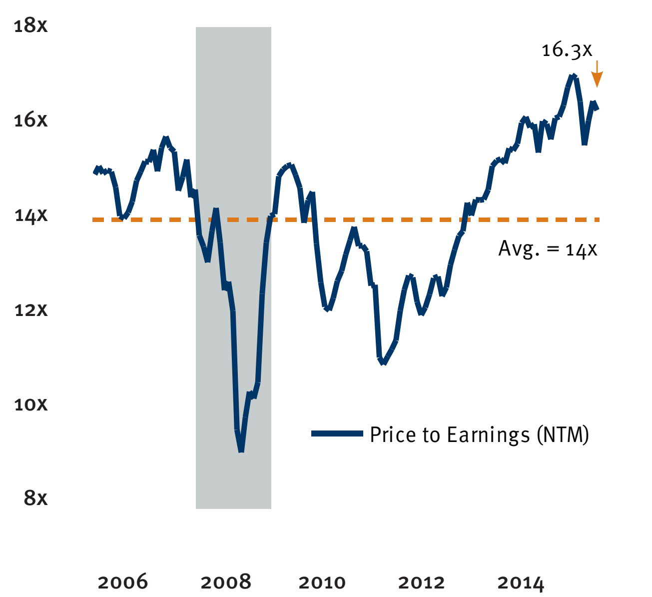
Large vs. Small: We expect returns for small caps to be in line with large caps, but carry extra risk. **We are neutral on size.**

Emerging vs. Developed: After several years of disappointing performance, better valuations and currency realignment improve the forward view. Still, a large debt buildup post-2000 is only now starting to be worked off, creating additional near-term downside risk. **We need to see further signs of fundamental improvement before increasing emerging exposure.**

FORWARD 12-MONTH MARGIN



FORWARD 12-MONTH P/E RATIO



HEALTHCARE

We are overweight the Healthcare sector. According to the Centers for Medicare & Medicaid Services, for 2014–24, health spending is projected to grow at an average rate of 5.8 percent per year (4.9 percent on a per capita basis). Health spending is projected to grow 1.1 percent faster than GDP per year over this period.

UTILITIES

We are overweight the Utilities sector. Within the sector, the electricity industry dominates. According to the U.S. Energy Information Administration's *Annual Energy Outlook 2015*, total electricity use, including both purchases from electric power producers and on-site generation, grows by an average of 0.8 percent per year, from 3,836 billion kilowatt hours in 2013 to 4,797 billion kilowatt hours in 2040.

CONSUMER STAPLES

We are neutrally weighted on the Consumer Staples sector. Profit margins should receive a boost over the next couple of quarters from the ongoing rout in commodity prices. Companies in the traditionally defensive sector might garner interest if domestic manufacturing data comes in relatively weak and potentially bleed into the service side of the economy.

CONSUMER DISCRETIONARY

We are overweight the Consumer Discretionary sector. Consumers have paid down their debt, the job market is still improving, and there are indications of wage growth. Commodity costs have fallen, which increases the amount consumers have to spend. Even with the Fed's December interest rate hike, consumers will continue to be supported by historically low interest rates.

TECHNOLOGY

We are overweight the Information Technology sector. Companies in the sector are supported by two major domestic consumers: businesses and individuals. Uncertain macroeconomic conditions have led companies to under invest in technological improvements during the past several years while, at the same time, adding to their payrolls due to low relative labor costs. This can only occur for so long in this ultra-competitive global environment, and companies are now at the point where they need to upgrade equipment.

MATERIALS

We are underweight the Materials sector. The chemical industry, which makes up just over 75 percent of the sector, has experienced significant headwinds that should persist well into 2016: the European economy continues to sputter, the dramatic drop in oil prices, pricing and currency pressures, and, most importantly, the slowdown of economic growth in China. China's GDP grew 6.9 percent in third quarter 2015, the weakest pace in the last six years. A sluggish Chinese economy may weigh on demand for chemicals in this important market.

FINANCIALS

We are overweight the Financials sector. Even with the Fed raising rates in December, financial services companies are still able to borrow money at low rates and lend out at higher ones. Also, balance sheets of consumers and companies appear to be improving. This has allowed banks to reduce the reserves on their balance sheets for loan losses, although they're still higher than they were before the financial crisis.

INDUSTRIALS

We are neutrally weighted on the Industrials sector. After flirting with the breakeven line since September, the Institute for Supply Management's manufacturing index came in below 50 in November for the lowest reading since June 2009. The decline includes a significant dip for new orders. Transportation equipment, getting a boost from aircraft and motor vehicles, headlines the plus column, while petroleum, machinery, primary metals, and fabricated metals populate the negative column.

ENERGY

We are underweight the Energy sector. Recently, despite falling oil prices and a glut in supply, members of the Organization of the Petroleum Exporting Countries (OPEC) have decided to increase oil production amid ongoing disagreement among members over the strategy. OPEC, which provides one-third of global oil, recently decided to increase its output to 31.5 million barrels per day, despite crude oil prices dropping to a seven-year-low, now below $40 a barrel.

S&P 500 TACTICAL SECTOR WEIGHTS

	Under Weight	Neutral	Over Weight	
Healthcare			■	Good volume growth prospects given healthcare reform Estimate revisions trending higher
Utilities			■	Underperformance in recent years improves relative valuation Concerns over rising rates likely priced in already
Consumer Staples		■		High-quality cash flow and balance sheets Valuations appear full
Consumer Durables			■	Better outlook given improving employment outlook Relatively attractive valuation
Technology			■	Good price momentum Challenging global business environment
Materials	■			Commodity prices remain under pressure Weak global demand
Financials			■	Relatively attractive valuation Improved balance sheets
Industrials		■		Weak orders for capital goods Valuations appear reasonable
Energy	■			Attractive valuations offset by clouded outlook for oil Supply imbalance not yet showing signs of reversal

Opinions subject to change without notice.

The Inflation Outlook

Growth rates and inflation continue a long process of moderation as we look across our forecast horizon. The developed world has largely undergone a transition from an industrial to consumption-driven economy. Populations are aging in many developed countries, and productivity is rising at a much slower pace. Globalization is much further along, and growth in total trade is much slower now than in the 1980s and 1990s. Unsustainable deficits between the United States and China are in need of rebalancing. Importantly, a multi-decade-long process of disinflation following the great inflation of the 1970s is well entrenched. All of this leads us to where we are today — a global economy growing at a far slower pace than we were accustomed to in the past.

Exacerbating the more gradual process of moderation, the deep recession and financial crisis of 2008–2009 created additional challenges we are still working through today. Still, slow-but-steady progress continues toward full recovery. The chart on the next page shows the International Monetary Funds' assessment of the "output gap" for the group of seven countries (G7) and the United States. The output gap measures the extent to which resources are under utilized. The slack that emerged during the recession is fading, and is expected to fade further. Still, we need to consider the possibility that this process does not proceed as planned. Here we lay out our base case expectation, along with two other less desirable outcomes.

Base Case

The rebalancing process continues with relative success. China and other emerging market economies move along the development continuum toward maturation with larger consumer bases and further their integration with the rest of the world. Although setbacks are inevitable, progress along these lines would be generally supportive of slow-but-steady world growth. Inflation remains moderate under this scenario as central banks successfully navigate the fine line between inflation and deflation. This slow growth scenario is what we consider the most likely outcome over the long haul.

Deflation

This outcome comes about if central banks are unable to coordinate activities for political or other reasons. A significant worsening of the contraction of credit in emerging markets could lead to higher risk premia, rising risk aversion, more aggressive deleveraging, and development of a deflationary mindset. In such an event, levered investments would perform relatively poorly and cash and longer-term Treasury investments would outperform.

Deflation can impose a great burden on indebted households and firms, as debts need to be repaid with dollars of increased real value. The distress of levered borrowers can, in turn, increase the fragility of the financial system (i.e., Japan or 1930s depression). Former Fed Chairman Bernanke espoused a view in a 2002 speech on the subject. He said that "under a fiat money system, a government should always be able to generate increased nominal spending and inflation." If he is right, and governments remain willing to generate spending when needed, then the likelihood of deflation is reduced. Increasing spending on behalf of government and increasing the money supply (or threatening to do so) has historically not been hard to do.

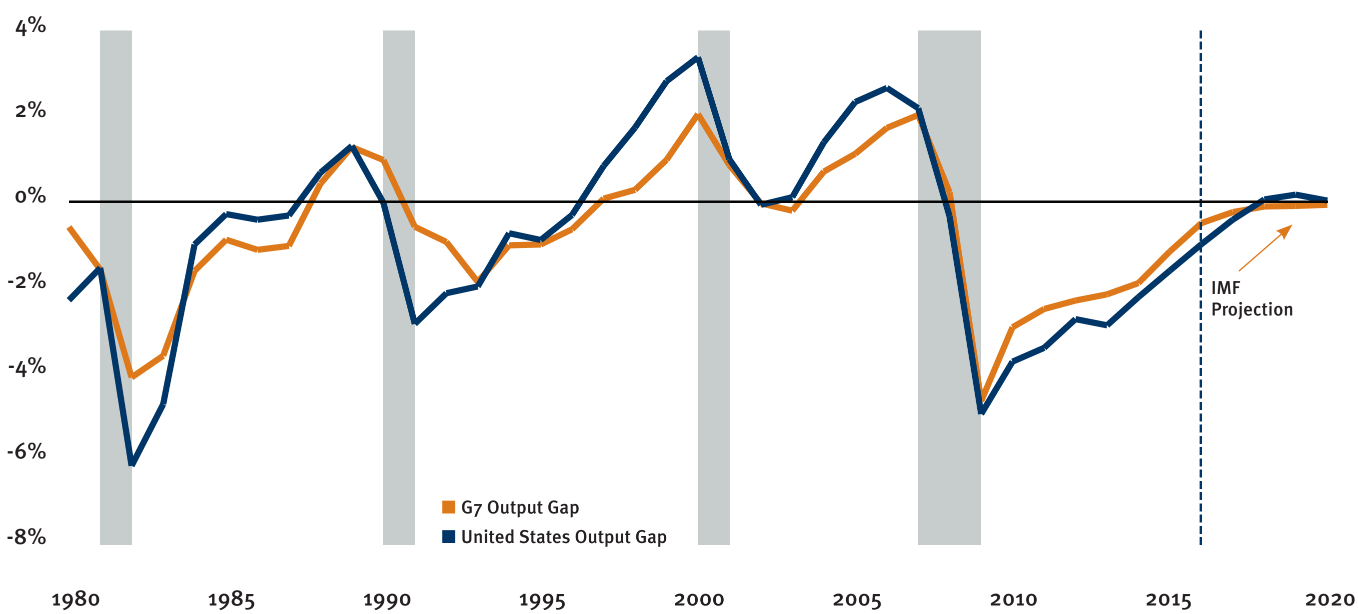
Inflation

Loss of fiscal discipline by governments, a breakdown in cooperation in addressing global imbalances, or a loss of faith in currencies could produce a currently unanticipated increase in inflation. In such a scenario, real assets such as precious metals would likely be the best hedge.

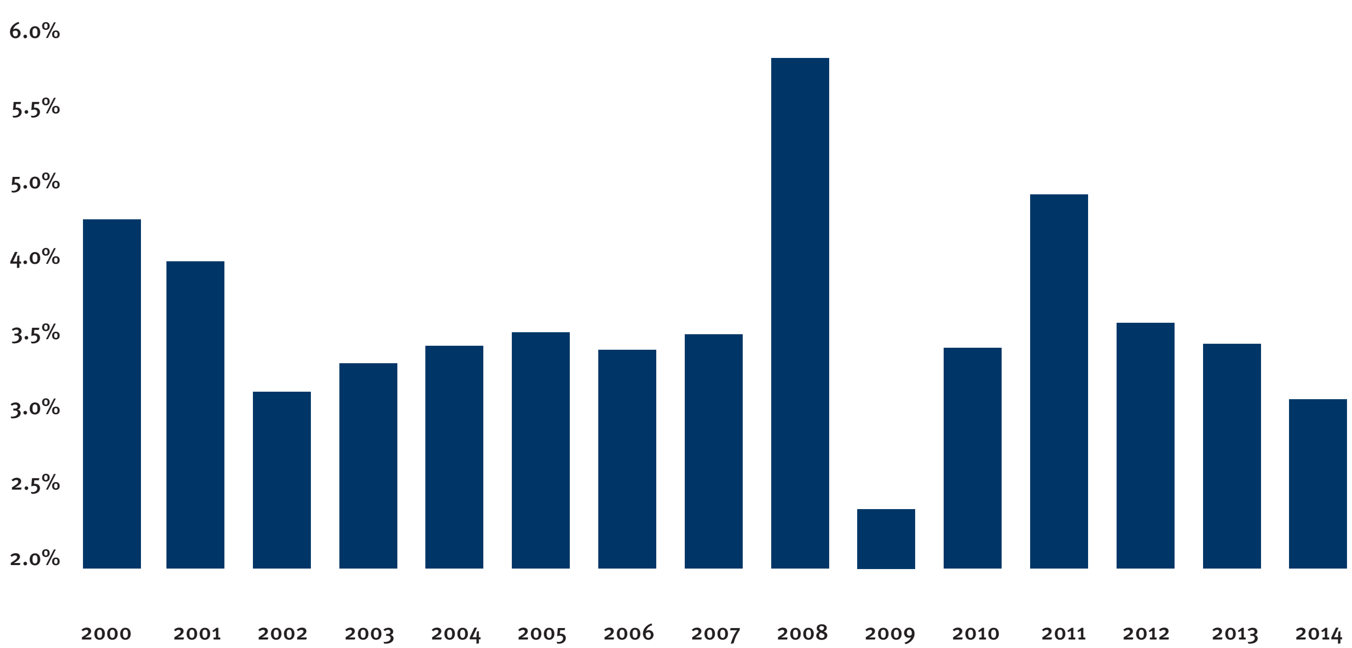
As we head into a new year, we are pleased to see progress along most of the lines consistent with our long-run base case view. In recent years, most governments have demonstrated some willingness to reign in the large deficits run during the last downturn. Central banks have maintained some moderate inflation through the use of unconventional policy tools. Unusually large trade deficits between China and emerging markets on the one hand, and developed markets on the other, are reversing. Private sector deleveraging was allowed to proceed, albeit at the expense of additional sovereign leverage.

OUTPUT GAP AS A PERCENT OF POTENTIAL GDP

G7 countries include the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom



WORLD INFLATION ANNUAL CHANGE



Lower Correlation

Alternatives are portfolio investments with lower correlation to the overall market. They are often used to provide diversification, thereby improving a portfolio's risk-adjusted return. Given the lower return environment that existed post-2000, alternatives have played a more prominent role in portfolios.

A recent report by Towers and Watson estimates that pension funds allocate 25% to alternatives compared to 5% in 1995. Here, we are discussing only a small segment of the alternatives universe. This list is by no means intended to be exhaustive. We conclude that alternative assets do provide some diversification benefit, but that benefit appears to be smaller than it used to be.

Modest Positive for Performance

While there is some evidence diversification benefits exist, we generally find that these benefits are declining as interest in the area is increasing. An analysis of the 15-year risk-adjusted return on a 40% stock / 40% bond / 20% alternatives portfolio declined from 0.89 between 1990 and 2005 to 0.64 from 2005 to 2015.

Over the full period, the risk-adjusted return was 0.43 for the 100% stock portfolio, 0.66 for a simple 50% stock / 50% bond portfolio, and 0.70 for a diversified stock / bond / alternatives portfolio (see table on next page).

Examples of Alternatives

REITs

Publicly traded equities representing pools of money invested in real estate properties and/or real estate debt. For our purposes, we use the Dow Jones U.S. Select REIT Index as a proxy in reviewing performance.

Commodity Funds

Commodities are often used as a means of providing an inflation hedge. For this reason, we are primarily focused on metals and use the S&P GSCI Precious Metals and Industrial Metals indices as proxies for commodity performance.

High Yield Bonds

A range of categories exist for non-investment-grade corporate debt. The range extends from nearly investment grade to distressed debt. We focus here on the more liquid end of the non-investment-grade spectrum. Our proxy for this category is the Barclays U.S. Corporate High Yield index.

Merger Arbitrage Funds

These funds look to capture the spread between current prices and the expected value of a firm following a corporate action, such as a merger, acquisition, or spin-off. Our reference index for this category is the HFRI Merger Arbitrage Index.

Hedge Funds

Historically, a pooled investment vehicle that may implement a wide variety of investment strategies, including long-short strategies. Our proxy is the broadly constructed HFRI Fund of Funds Diversified Index.

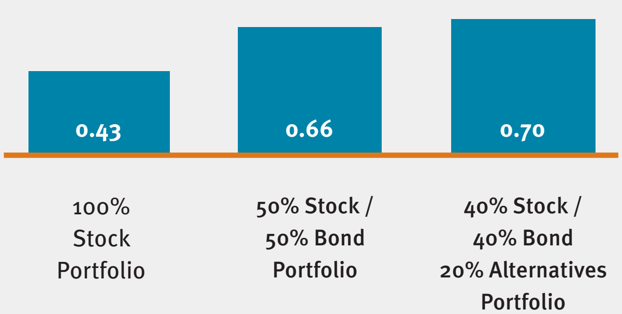
HISTORIC PERFORMANCE (JANUARY 1990–OCTOBER 2015)

Asset Mix	Return (%)	Risk-Adjusted Return*	Maximum Drawdown	Alpha vs. S&P 500	Beta vs. S&P 500
S&P 500	9.4%	0.43	-51%	0.00%	1.00
50% Stock / 50% Bond	8.2%	0.66	-27%	3.01%	0.51
40% Stock / 40% Bond / 20% Diversified Alternatives**	8.2%	0.70	-28%	3.34%	0.48
40% Stock / 40% Bond / 20% REITs	8.8%	0.64	-36%	3.30%	0.55
40% Stock / 40% Bond / 20% Precious Metals	7.6%	0.64	-20%	3.49%	0.42
40% Stock / 40% Bond / 20% Industrial Metals	7.5%	0.53	-34%	2.49%	0.51
40% Stock / 40% Bond / 20% High Yield Corporate Bonds	8.3%	0.70	-27%	3.40%	0.48
40% Stock / 40% Bond / 20% Merger Arbitrage	8.2%	0.77	-23%	3.70%	0.44
40% Stock / 40% Bond / 20% Diversified Hedge Funds	7.9%	0.71	-26%	3.33%	0.45

Source: Zephyr Associates, Inc.

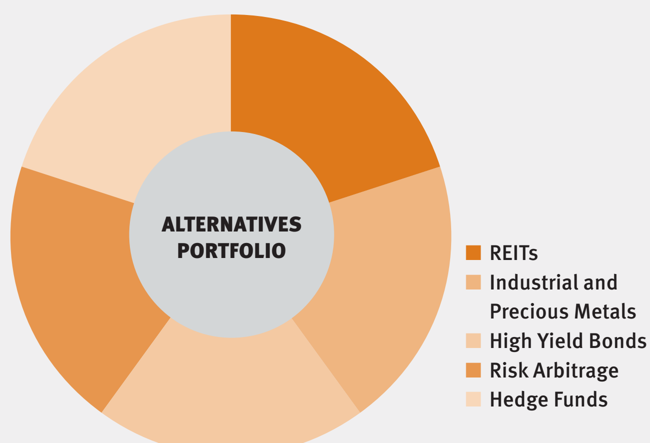
RISK-ADJUSTED RETURN* (JANUARY 1990–OCTOBER 2015)

Stocks: S&P 500 total return
Bonds: Barclays Aggregate Bond index total return
Alternatives: Diversified mix of alternative assets (Exhibit A)



Souce: Zephyr Associates, Inc.

EXHIBIT A: DIVERSIFIED ALTERNATIVES MIX



** Risk-adjusted return is calculated as the Sharpe Ratio. The Sharpe Ratio is a measure of risk-adjusted performance that compares excess returns to the total risk of the investment, where total risk is measured by the investment's standard deviation of returns. ** Alternatives represent a mix of assets with lower correlation with the market (shown in exhibit A). Alpha is the excess risk-adjusted return of the mix versus the S&P 500. Beta is a measure of the mix's sensitivity to the S&P 500.*

Washington Crossing Advisors is an investment advisory program offered through Stifel. WCA helps supervise and manage over $850 million in discretionary assets for individuals and institutions.

The team is managed by Kevin R. Caron and Chad A. Morganlander, who were among the first founding members of Washington Crossing Advisors.

Washington Crossing Advisors views on investing and markets are regularly sought by national media outlets, including *CNBC*, *Bloomberg*, *Fox Business News*, *The Wall Street Journal*, *Forbes*, and *Reuters*.

Philosophy and Process

We believe that investments should be selected only after clear and quantified measures of value, risk, and potential reward have been made. Our investment approach combines top-down analysis of the macro economy with fundamentally rooted, bottom-up security analysis.

Asset Allocation Strategies

Conquest Portfolios

Asset allocation portfolios seek to balance risk and reward by apportioning portfolio assets according to the investor's goals, risk tolerance, and investment horizon. Portfolios seek strong returns relative to underlying inflation and are constructed with a forward-looking view of financial markets.

Dynamic Strategy Portfolios

Portfolios include stocks, bonds, and alternative investments and are managed relative to our 3–5 year outlook for asset class performance. The portfolios are offered as passive portfolios (greater tax efficiency) or active portfolios (greater flexibility).

Quarterly reports that highlight key macro economic insights and market observations can be found here:

www.washingtoncrossingadvisors.com/insights

FORECASTS AND ASSUMPTIONS

	2013	2014	2015	2016	2015 Growth	2016 Growth
Real Gross Domestic Product ($ Bil)	15,583	15,962	16,350	16,718	2.4%	2.25%
Gross Domestic Product ($ Bil)	16,663	17,348	17,949	18,580	3.5%	3.5%
Consumption ($ Bil)	11,392	11,866	12,265	12,633	3.4%	3.0%
% GDP	68%	68%	68%	68%	—	—
Investment ($ Bil)	2,665	2,860	3,030	3,158	5.9%	4.2%
% GDP	16%	17%	17%	16%	—	—
Government Spending ($ Bil)	3,114	3,152	3,190	3,344	1.2%	4.8%
% GDP	19%	18%	18%	18%	—	—
Exports ($ Bil)	2,263	2,342	2,275	2,229	-2.9%	-2.0%
% GDP	14%	14%	13%	12%	—	—
Imports ($ Bil)	-2,772	-2,872	-2,811	-2,787	-2.1%	-0.9
% GDP	17%	17%	16%	15%	—	—
Government Revenue ($ Bil)	2,561	2,713	2,732	2,878	0.7%	5.3%
% GDP	15%	16%	15%	16%	—	—
Private Saving ($ Bil)	2,710	2,769	2,952	3,158	6.6%	7.0%
% GDP	16%	16%	16%	17%	—	—
Household Savings ($ Bil)	1,017	1,075	1,156	1,300	-1.8%	12.5%
% GDP	6%	6%	6%	7%	—	—
Business Profits ($ Bil, After Tax)	1,693	1,694	1,795	1,858	6.0%	3.5%
% GDP	10%	10%	10%	10%	—	—
Employment (Non-Farm Payroll)	137,476	140,592	142,900	145,000	2.0%	1.5%
Employment (Private Sector)	115,648	118,690	121,000	123,400	2.5%	2.0%
S&P 500 Earnings Per Share	$108.47	$116.77	$117.00	$123.50	8.3%	5.5%

Source: Washington Crossing Advisors as of December 2015

Description of Indices and Terms: All performance calculations of indices are calculated on a total return basis (reflecting reinvestment of dividends and other earnings). Indices are unmanaged, are not available for direct investment, and have no associated management fees.

Barclays Aggregate Bond Index: A composite of the Barclays Gov't/Corp Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, including securities that are investment grade or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

S&P 500 Index: Capitalization-weighted composite of 500 stocks traded on the NYSE, AMEX, and NASDAQ; not the largest 500 stocks in U.S., but rather a blend of leading companies in leading industries in the U.S. economy; index comprised of 10 broad industrial sectors.

Dow Jones U.S. Select REIT: The Dow Jones U.S. Select REIT Index intends to measure the performance of publicly traded REITs and REIT-like securities. The index is a subset of the Dow Jones U.S. Select Real Estate Securities Index (RESI), which represents equity real estate investment trusts (REITs) and real estate operating companies (REOCs) traded in the U.S.

GSCI Commodity Index: The S&P GSCI indices are designed to be a "tradable" index, providing investors with a reliable and publicly available benchmark for investment performance in the commodity markets. The index comprises the principal physical commodities that are traded in active, liquid futures markets. The S&P GSCI Precious Metals and Industrial Metals indices are subcomponent indices of the broader GSCI Commodity Index.

Barclays U.S. Corporate High Yield: The Barclays U.S. Corporate High Yield Bond Index measures the U.S. dollar-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below. Bonds from issuers with an emerging markets country of risk, based on Barclays EM country definition, are excluded. The U.S. Corporate High Yield Index is a component of the U.S. Universal and Global High Yield Indices.

HFRI Merger Arbitrage Index: Merger Arbitrage strategies which employ an investment process primarily focused on opportunities in equity and equity related instruments of companies which are currently engaged in a corporate transaction.

HFRI Fund of Funds Diversified Index: Fund of Funds invest with multiple managers through funds or managed accounts. The strategy designs a diversified portfolio of managers with the objective of significantly lowering the risk (volatility) of investing with an individual manager. A manager may allocate funds to numerous managers within a single strategy, or with numerous managers in multiple strategies. The investor has the advantage of diversification among managers and styles with significantly less capital than investing with separate managers.

40/40/20 Alternative Mix: A static weighted blend consisting of a 40% allocation to the S&P 500 Index, a 40% allocation to the Barclays Aggregate Bond Index, and a 20% allocation to the a diversified mix of alternative assets, including REITs, commodities, high yield bonds, merger arbitrage funds, and hedge funds.

Disclosures: Alternative investment strategies may include individual securities, commodities, real estate investment trusts (REITs), and hedged investment strategies. These strategies may include the use of derivatives, the use of leverage, and/or short positions in securities. Specific asset class and securities disclosures follow.

Asset Allocation—Asset allocation does not ensure a profit or protect against loss.

International and Emerging Markets Investing—There are special considerations associated with international investing, including the risk of currency fluctuations and political and economic events. Investing in emerging markets may involve greater risk and volatility than investing in more developed countries.

Bonds and High Yield Bonds—When investing in bonds, it is important to note that as interest rates rise, bond prices will fall. High yield bonds have greater credit risk than higher quality bonds.

Commodities and Futures—The risk of loss in trading commodities and futures can be substantial. You should therefore carefully consider whether such trading is suitable for you in light of your financial condition. The high degree of leverage that is often obtainable in commodity trading can work against you as well as for you. The use of leverage can lead to large losses as well as gains.

Real Estate—When investing in real estate companies, property values can fall due to environmental, economic, or other reasons, and changes in interest rates can negatively impact the performance.

Managed Futures—There are significant risks associated with managed futures, and they are not suitable for all investors. You could lose all or a substantial amount of your investment. Risk of loss is due to the speculative and leveraged aspects of trading, fluctuating prices, and the unpredictability of market direction. Exchange rules limiting price fluctuations and setting speculative position limits may also increase risk.

Hedge Funds—Investors should be aware that hedge funds often engage in leverage, short-selling, arbitrage, hedging, derivatives, and other speculative investment practices that may increase investment loss. Hedge funds can be highly illiquid, are not required to provide periodic pricing or valuation information to investors, and often charge high fees that can erode performance. Additionally, they may involve complex tax structures and delays in distributing tax information. While hedge funds may appear similar to mutual funds, they are not necessarily subject to the same regulatory requirements as mutual funds.

Score Disclosure: The Washington Crossing Advisors Stifel VICTORY Portfolio requires a $50,000 minimum investment. Strategies in the Stifel Score Program are proprietary products developed by Stifel. More information on the Score Program is included in the Stifel Consulting Services Disclosure Brochure and Part II of the Manager's Form ADV, which may be obtained from your Financial Advisor and which further outlines the fees, services, exclusions, and disclosures associated with this program. The information contained herein is believed to be reliable and representative of the portfolios available through Stifel; however, the accuracy of this information cannot be guaranteed. Investors should consider all terms and conditions before deciding whether the Score Program is appropriate for their needs.

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