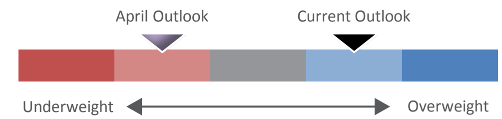
Tactical Asset Class Outlook

(July 2015)

Each quarter PMC's Global Macro Committee evaluates market trends and considers where to best position client's portfolios relative to baseline asset allocation weights. The team considers a variety of economic, valuation, and market signposts and bases their views on a six month time horizon.



Asset Class	Outlook	Overview
U.S. EQUITY		
U.S. Equity – Large Cap		– Significant overweight given June pullback, accelerating earnings relative to expectations, and relative attractiveness of US equities and markets for global investors – Global QE likely to continue to act as a ballast
U.S. Equity – Small Cap		– Overweight both small and midcap based on improving economic fundamentals and acceptable, albeit high, valuations relative to growth potential
INTERNATIONAL EQUITY		
Developed		– Very strong start to the year offset somewhat by significant declines and volatility in June; dual concerns of China and Greece not likely to impact fundamentals barring major contagion – Continued easing by central banks ranging from ECB, to China, to Bank of Japan suggest further gains
Emerging Markets		– Neutral weight overall given continued commodity weakness, uneven global growth, and stalled reforms in many countries – Good opportunities for active managers who position themselves selectively in more attractive markets
U.S. FIXED INCOME		
Corporate		– Rates remain either in flux or low and hence not as relatively attractive as other potential investments – Modest rate increases on tap from the Federal Reserve may create price volatility, especially for longer-dated corporate bonds
Treasuries / Government		– Underweight as rates would appear to remain low even with a modest rate increase from the Federal Reserve – Tendency of global investors to rush into U.S. Treasuries as a safety trade also pushes rates lower
Municipals		– Overhang of more than $80 billion of outstanding Puerto Rican debt likely to weigh on many municipal portfolios – Overall credit of most issues appears stable

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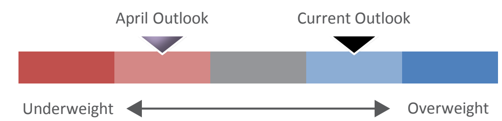

Asset Class	Outlook	Overview
High Yield		– Overweight as recent global volatility has only minimally impacted the space – Risks in the space are relatively high, as are rewards in terms of yield. Investors should be cautious about liquidity
GLOBAL FIXED INCOME		
Global Developed		– Situation has stabilized even with recent challenges of Greece – ECB committed to supporting Eurozone bonds, but yields remain very low
Global Emerging Markets		– While commodities are in a deep trough, prices have adjusted and yields remain quite decent relatively – Liquidity is a risk especially in times of volatility but the space appears more stable than at times in the recent past
OTHER		
Commodities		– No sign of a rebound of demand globally for any major commodity, ranging from base metals to oil – Prices may have bottomed, but little indication that they will go sustainably higher
Alternatives		– Certain funds can provide some offset to market volatility – However, many are likely to lag a market rebound

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Global Macro Indicators
(July 2015)

Despite the slight contraction in U.S. economic growth, economists generally are upbeat about the economy's prospects heading into the second half of this year and into 2016. The lackluster economic data may have been a result of various temporary effects, and recent reports suggest more robust growth lies ahead, with some economists estimating underlying real GDP growth closer to 3%. Continued improvement in employment will help, and employers are on pace to add approximately 2.5 million jobs to their payrolls this year, putting the economy on track to reach full employment sometime in 2016.

Although inflation will become more of a concern going forward as the tightening labor market results in wage gains, it should not be an issue for several quarters. Consumers have been a key growth driver in the past, and although they have contributed to recent gains, future growth depends on their accelerated spending. Lower oil prices have not yet translated to increased consumer spending, but economists are looking for it in the second half of the year.

Global economies are beginning to firm and produce meaningful recoveries, and Europe appears to lead the way. Weaker currencies and lower energy prices are important potential catalysts for further gains.

From a market perspective, fixed-income securities now may be encountering the long-awaited end of the secular bull market, but only time will tell. Even though equities are in the midst of a seventh consecutive year of gains, valuations do not appear excessive, and could potentially benefit from any asset allocation rebalancing that occurs.

Indicator Trend Line

Indicator	Trend	Comment
U.S. GDP	⟷	After a weak first quarter, second quarter activity looks to have accelerated modestly. Growth is stable, but not much more than that.
China GDP	⟷	The headline number continues to decline, and China stock market volatility is a concern. But the mix of activity away from infrastructure, exports and state spending and towards domestic consumption is promising.
E.U. GDP	⟷	While European GDP has shown steady improvement, continued challenges such as Greece and the ambivalence of the UK act as headwinds, and the lack of significant structural reforms in Italy, Spain and elsewhere remain problems.
U.S. Interest Rates	↓	The Fed has signaled a likely slight increase at some point in the fall. Longer term rates have increased in anticipation but barring inflation or labor market and wage pressures, it is difficult to see much further increase for now
Global Interest Rates	⟷	With US interest rates leveling and German rates above their near zero levels, global rates remain low. Central bank easy money throughout the world and only modest economic expansion look to keep rates from rising substantially.
U.S. Employment	⟷	The headline unemployment rate is declining to nearly 5%, but labor force participation has barely risen.
U.S. Inflation	⟷	Inflation remains the dog that hasn't barked. If anything, the trend is biased lower, with the only possible upward pressure related to possible Federal Reserve tightening and some wage increases.
Housing	↓	After a strong rebound in 2014 and into early 2015, housing prices and housing construction and sales have cooled. That may be challenging for many home markets, but it should also allay concerns of any nascent national bubble.
Wages and Income	⟷	While there may be a slight trend upward in wages, the overall wage and income picture remains flat. Health care costs have for the most part declined, though for how long is unclear. Some large companies have raised the minimum wage, but for the economy as a whole, wage pressures are muted at best.

↑ = Improving ⟷ = Unchanged ↓ = Degrading

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