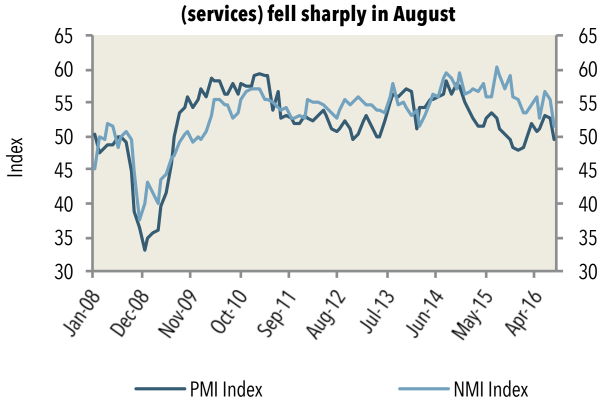
GLOBAL ECONOMIC REVIEW

- The shock of Brexit faded quickly in the third quarter, and so far the global economic fallout from the "leave" decision seems to have been relatively minimal. As the US presidential election draws near, investors have turned their focus to the two candidates' economic policies (fully formed or otherwise), as well as the ever-important policies of central banks.
- Until recently, annual GDP growth in the US has consistently disappointed. The most recent print, however, showed the US growing at 2.9%, a strong reading and potentially a justification for the Fed to raise interest rates more quickly than markets have anticipated. In the European Union, forecasts have been relatively stable and are now even with the US at 1.5% (although forecasts for the US are likely to rise after the latest GDP figure). Still, we expect continued support for asset prices in both markets: the Fed seems unlikely to alter course sharply, and we see no case for an ECB rate hike.

PMI (manufacturing) in contraction territory...and NMI (services) fell sharply in August



GDP forecasts have dropped...EM leading by far

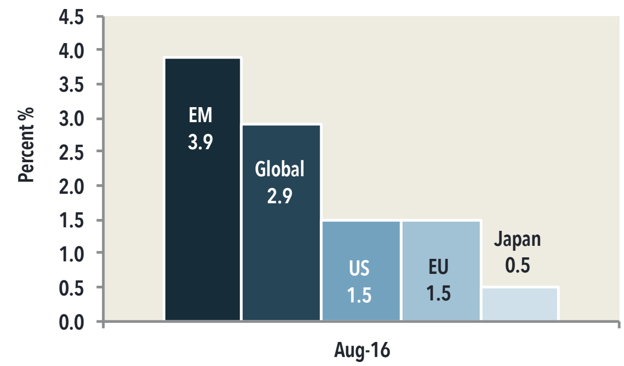
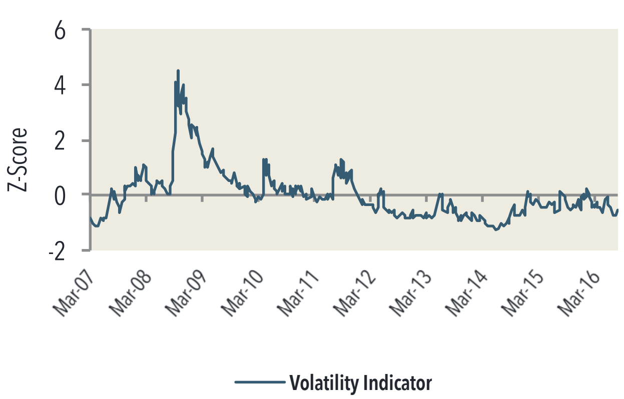


Chart Data Source: Quandl, Bloomberg.

- US manufacturing, as measured by the PMI index, fell into contraction (reading below 50) in Q3. While manufacturing is a shrinking proportion of the economy, services, which are increasing in proportion, also fell sharply towards the end of Q3 and have been on a downward trend since mid-2015. It remains to be seen whether this trend will continue.
- Meanwhile, volatility remains extremely low. Across equities, currencies and bonds, realized standard deviations are at, or near their lows of this most recent economic cycle. This state of calm has some investors worried, although monetary policy from the world's largest central banks continues to push down volatility in markets and there have been few significant shocks to the financial system in the last year.
- Even across emerging markets, where volatility spiked in 2015 and again at the beginning of 2016, markets have entered a state of relative calm.

Volatility across assets is low...



***Volatility indicator comprised of VIX, CVIX, and MOVE**

...including in EM

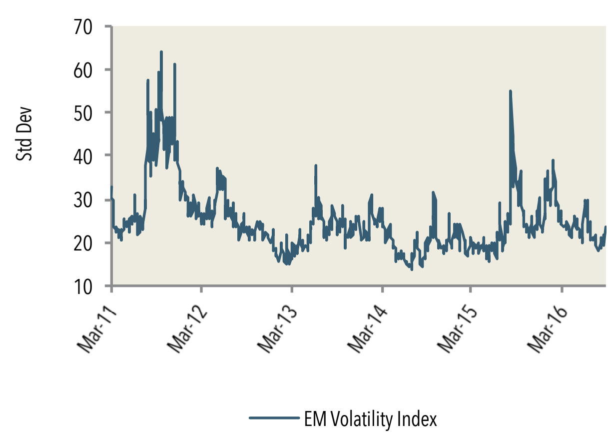


Chart Data Source: Quandl, Bloomberg.

GLOBAL FIXED INCOME REVIEW

- While the Barclays Global Aggregate generated positive performance of 0.82% in Q3, the riskiest segments of the global debt markets performed best.
- US high yield returned 5.55% as oil prices stabilized later in Q3 and as it became clear that the Fed would not raise interest rates at the September meeting.
- Emerging market hard and local currency bonds returned 3.32% and 3.12%, respectively, driven by the Fed, oil and a range-bound US dollar.

Fixed income sector performance: QTD (as of 9/30/16)

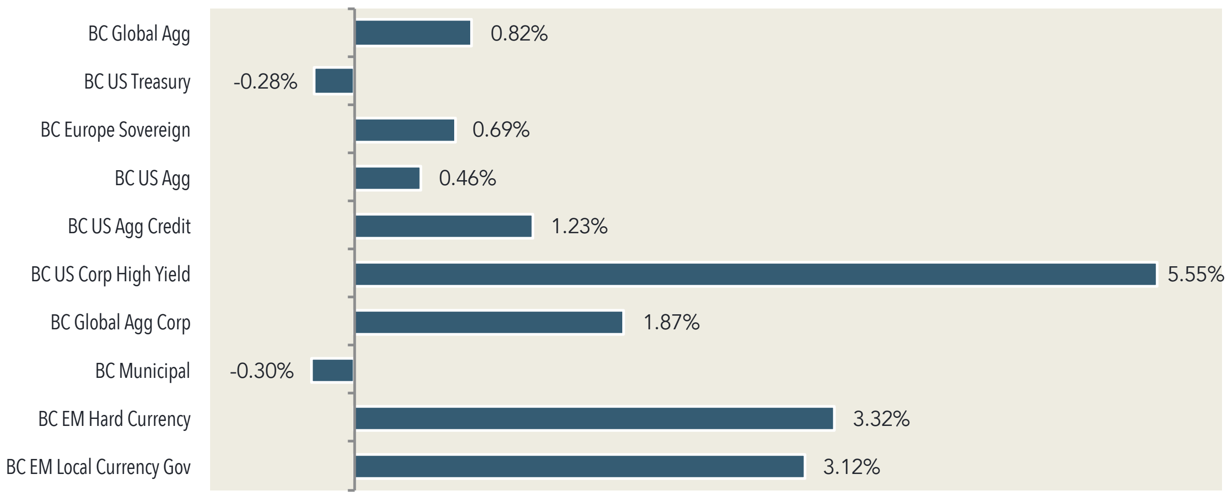


Chart Data Source: Bloomberg.
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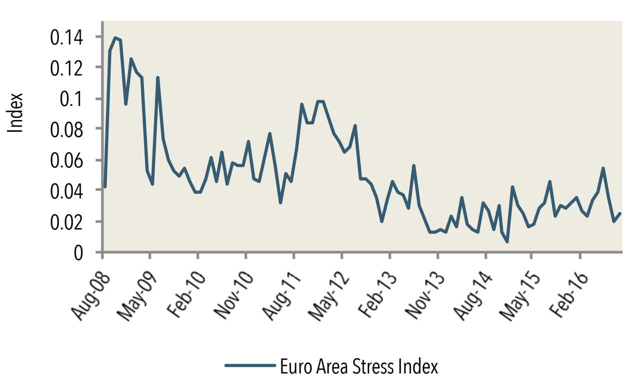
- One of the most important themes from the third quarter was that markets remained stable, which allowed riskier bond markets to perform well. The risk aversion indicators below demonstrate that, despite bumps in the road (e.g. Brexit), investors are still willing to accept risk in order to achieve their goals.
- Nevertheless, there are risks to this scenario. For example, if the Fed decides to raise interest rates more quickly than markets currently expect, it could lead to a sharply strengthening dollar, which could have significant and negative effects on risk assets. While we do not expect such a scenario, we are mindful that extended periods of calm can lull investors into a false sense of security.

Euro Area in state of calm



Global risk aversion also remains low

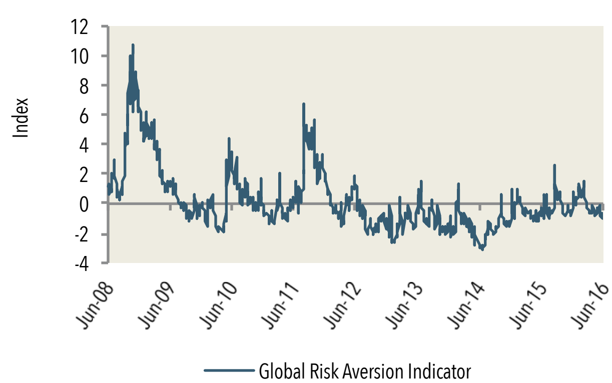


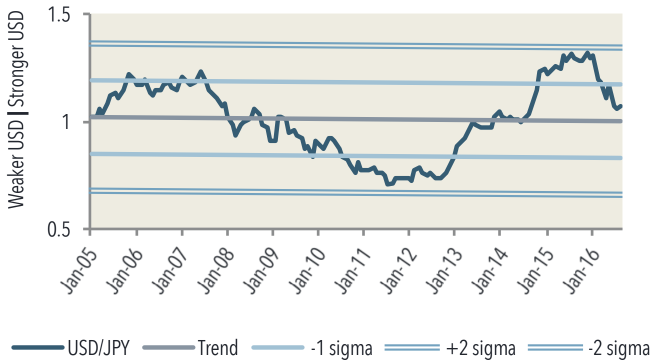
Chart Data Source: Quandl, ECB.

GLOBAL FIXED INCOME REVIEW

» In the first half of 2016, long-term Japanese Government Bonds (JGBs) returned a shocking 37.25%. In Q3, however, sentiment shifted and long-term JGBs sold off sharply. Yields on the 30-year JGB went from a mind-boggling level of 0.05% at the beginning of Q3 to 0.45% by the end. Although the change in absolute terms may appear small, the magnitude of the loss for an investor holding a 30-year JGB would have been significant (potentially over 10%) because of the long duration of the bonds. With such low yields, it will be difficult for investors to make up these losses.

» Meanwhile, Japanese yen strength has added to the difficulties facing the Japanese economy. The government wants a weaker currency and fiscal stimulus, but must balance its desire with those of Japanese consumers.

Relative growth of Bloomberg USD index to DB JPY Trade Weighted Index



JGBs the best performing asset through Q2...but yields rose sharply in Q3, causing losses

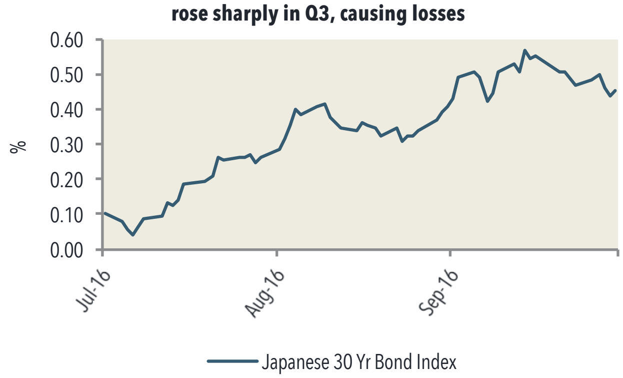


Chart Data Source: DoubleLine Capital, Sonen calculations.
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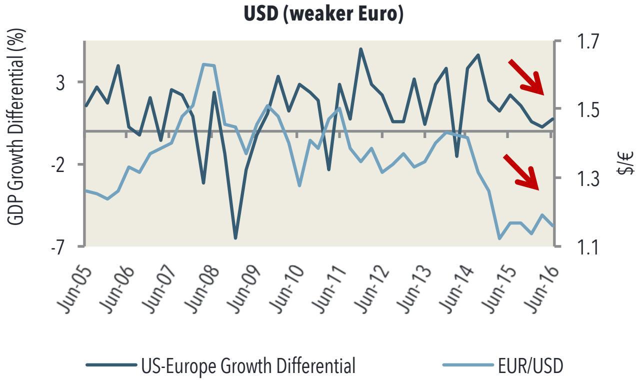
» Meanwhile, the recovery in Europe seems to have gained steam, especially when viewed next to that of the US. Part of the effect comes from a weaker Euro (which has supported exports). However, we are also seeing improvement in economic indicators across the EU, and GDP growth there suggests that economic conditions may be improving.

» One area that remains troubling is the banking system in Europe, and particularly in Italy. We expect further volatility among European banks as the European Union determines how to manage the banks' portfolios of non-performing loans.

» While the price of oil has stabilized recently, inventories remain excessive and should cap price appreciation. A stable oil price could continue to foster a supportive environment for both high yield and emerging market bonds.

US-Europe growth differential has fallen with stronger USD (weaker Euro)



US crude inventories still far above long-term average

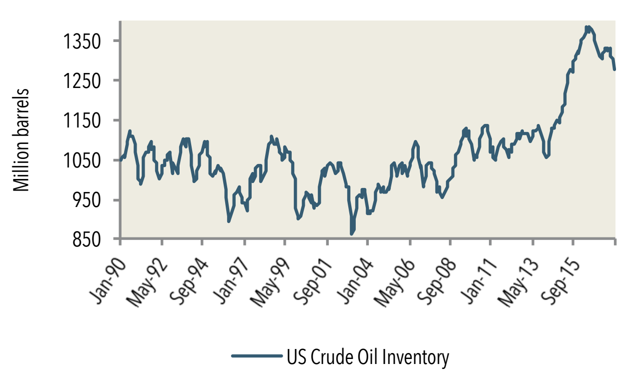


Chart Data Source: FRED.
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GLOBAL EQUITY REVIEW

» Global equities, as measured by the MSCI ACWI, returned 5.57% in Q3, bringing the 2016 return to 7%. The MSCI European Monetary Union index outperformed the global market, returning 7.78%, while the MSCI UK underperformed, returning 3.98%. Despite the UK's relative underperformance, it is remarkable that the equity market there generated positive performance in the quarter following Brexit. These positive returns support the belief that the economic effects of Brexit may be limited.

» The MSCI Pacific index returned 8.46% in a strong quarter. The entire region performed well as the Bank of Japan began targeting a new long-term interest rate and as the government of Japan introduced new stimulus measures designed to bolster the economy.

» As we have discussed in previous commentaries, valuations are high globally, but perhaps not overly stretched given the level of interest rates. We believe there are opportunities to capture value in select markets and companies.

Global Equity: Valuation Measures (as of 9/30/16)

Period	Latest				10-yr average			
Valuation Measure	P/E	Dividend Yield	P/B	P/CF	P/E	Dividend Yield	P/B	P/CF
MSCI ACWI	21.29	2.57	2.08	8.51	16.96	2.66	1.96	9.10
MSCI Europe	28.51	3.64	1.73	6.18	19.10	3.69	1.73	8.43
Nikkei 225	21.10	1.85	1.59	7.98	21.56	1.71	1.50	9.17
Shanghai Composite	17.46	1.94	1.69	5.48	18.93	1.84	2.42	14.27
MSCI Emerging Markets	15.51	2.52	1.56	6.82	13.49	2.66	1.76	7.94

Data Source: Bloomberg.

Global Equity Indices - 36 Month Rolling Annualized Return, %

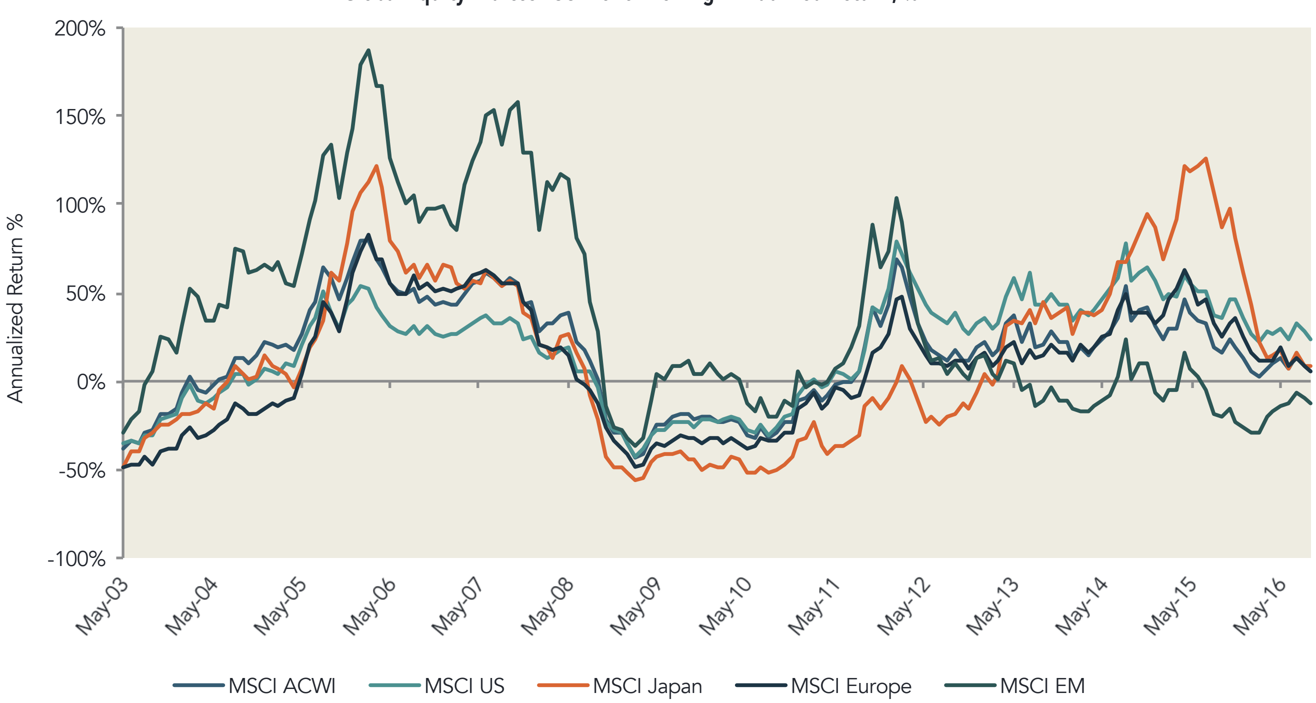

Chart Data Sources: Bloomberg
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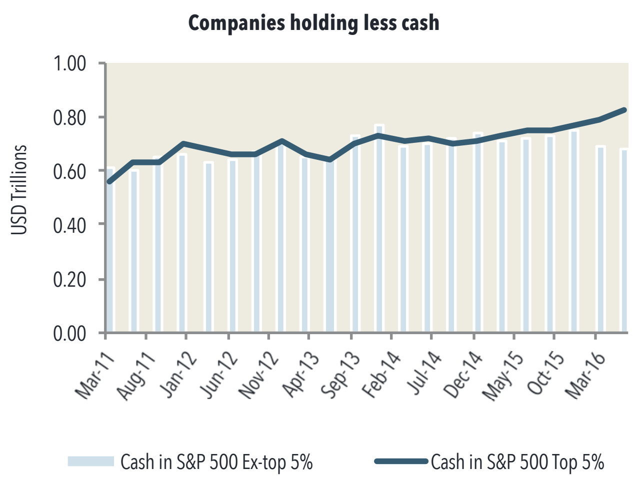
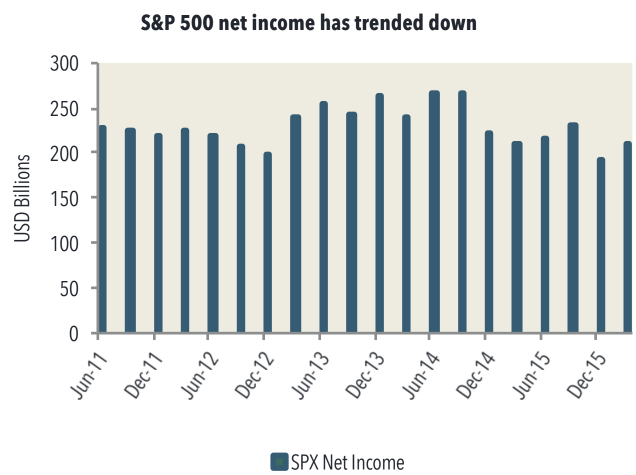
GLOBAL EQUITY REVIEW

» US corporates are hoarding cash, or at least it seems that way when reading many of the headlines in financial news. While this is true for the largest companies (those in the top 5% of the S&P 500), cash holdings have actually been falling for the smaller S&P 500 companies. Falling cash may be a positive indicator, meaning that companies are spending money on R&D, wage increases or other items that can help to boost growth. Or it may be a negative indicator, suggesting that corporate balance sheets are deteriorating. At this point it is not entirely clear which is the case, or whether it is even possible to generalize across the S&P 500.

» One thing that is clear, however, is that net income has been falling amongst the largest US corporations. Falling profits do not bode well for companies in general, and certainly not those with large debt piles to service over the coming years.





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» US equities underperformed the global market, returning 3.91% as uncertainty about the election and the path of interest rate increases left markets somewhat unsettled. Year-to-date, however, the MSCI US index has returned 7.27%, and the index has returned 14.38% over the trailing year.

» The upcoming US election has added a new source of volatility to markets. In the majority of past US elections, the prospect of a Republican victory has been viewed favorably by markets, but the 2016 election represents a break from tradition: a Democratic presidency is being discounted more positively[1].

US Equity: Valuation Measures (as of 9/30/16)			Historical Averages			
Valuation Measure	Description	Latest	1 yr ago	5-yr avg.	10-yr avg.	25-yr avg.
P/E	Price to Earnings	20.37	17.59	16.81	16.81	19.71
CAPE	Shiller P/E	26.82	25.69	26.00	25.41	22.33
Div. Yield	Dividend Yield	2.13	2.25	2.08	2.13	2.02
P/B	Price to Book	2.77	2.82	2.40	2.41	2.86
P/CF	Price to Cash Flow	10.66	10.85	9.19	10.33	10.93
EY Spread	EY-Baa Yield	1.35	1.89	2.33	1.09	-0.97

Index: S&P 500

Data Source: Bloomberg, Multpl.com.
[1]Brookings Institution

THEMATIC IMPACT REVIEW

- Property Assessed Clean Energy, or PACE, is an important financing mechanism for homeowners to install solar or make other energy efficiency improvements to their homes.
- While PACE has faced regulatory challenges in the past, the big issues seem to be subsiding, potentially paving the way for homeowners to access attractive renewable energy financing programs.

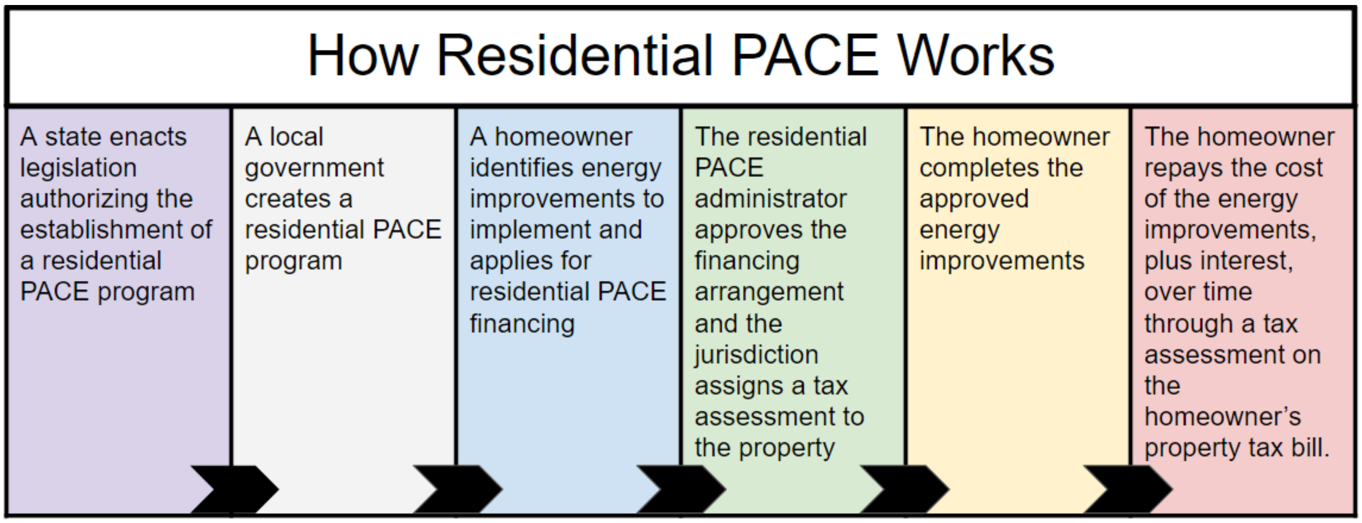

Chart Source: Renewable Energy World.

- As a result of dramatic cost reductions, wind energy installations took off in the early 2000s. Now, wind energy constitutes approximately 5% of US energy generation, and is expected to surpass hydroelectric power as the US' largest source of renewable energy.

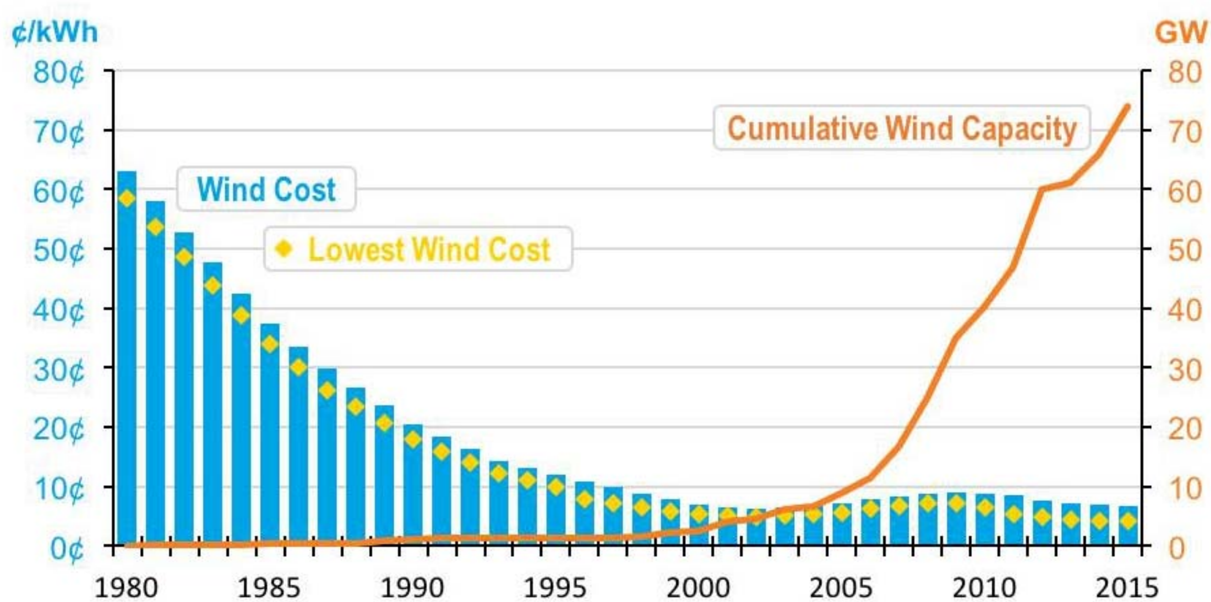

Chart Source: Renewable Energy World.

ASSET CLASS RETURNS

2007	2008	2009	2010	2011	2012	2013	2014	2015	YTD	3Q16
S&P Gbl Clean Energy 78.36	BC Agg 5.24	MSCI EME 79.02	MSCI EME 19.20	BC US Corp IG 8.15	MSCI EME 18.63	S&P Gbl Clean Energy 48.42	S&P 500 13.69	S&P Gbl Clean Energy 1.85	EM Debt 17.07	MSCI EME 9.15
MSCI EME 39.78	BC Global Agg 4.79	MSCI EAFE 32.46	DJ UBS Cmdty 16.83	BC Agg 7.84	MSCI ACWI ex Fsl Fuels 18.00	S&P 500 32.39	BC US Corp IG 7.46	S&P 500 1.38	MSCI EME 16.36	MSCI EAFE 6.50
EM Debt 18.11	BC US Corp IG -4.94	S&P 500 26.46	EM Debt 15.68	BC Global Agg 5.64	MSCI EAFE 17.90	MSCI ACWI ex Fsl Fuels 24.36	MSCI ACWI ex Fsl Fuels 6.05	BC Agg 0.55	BC Global Agg 9.85	MSCI ACWI ex Fsl Fuels 5.48
DJ UBS Cmdty 16.23	EM Debt -5.22	EM Debt 21.98	S&P 500 15.06	S&P 500 2.11	EM Debt 16.76	MSCI EAFE 23.29	BC Agg 5.97	MSCI EAFE -0.39	BC US Corp IG 9.20	S&P 500 3.85
MSCI EAFE 11.63	DJ UBS Cmdty -35.65	DJ UBS Cmdty 18.91	BC US Corp IG 9.00	EM Debt -1.75	S&P 500 16.00	BC US Corp IG -1.53	BC Global Agg 0.59	MSCI ACWI ex Fsl Fuels -0.49	DJ UBS Cmdty 8.88	S&P Gbl Clean Energy 3.53
BC Global Agg 9.48	S&P 500 -37.00	BC US Corp IG 18.68	MSCI EAFE 8.21	MSCI ACWI ex Fsl Fuels -7.50	BC US Corp IG 9.82	BC Agg -2.02	MSCI EME -1.82	BC US Corp IG -0.68	S&P 500 7.84	EM Debt 2.68
BC Agg 6.97	MSCI EAFE -43.06	S&P Gbl Clean Energy 7.35	BC Agg 6.54	MSCI EAFE -11.73	BC Global Agg 4.32	MSCI EME -2.27	MSCI EAFE -4.48	BC Global Agg -3.15	BC Agg 5.80	BC US Corp IG 1.41
S&P 500 5.49	MSCI EME -53.18	BC Global Agg 6.93	BC Global Agg 5.54	DJ UBS Cmdty -13.32	BC Agg 4.22	BC Global Agg -2.60	S&P Gbl Clean Energy -4.63	MSCI EME -14.60	MSCI ACWI ex Fsl Fuels 5.75	BC Global Agg 0.82
BC US Corp IG 4.56	S&P Gbl Clean Energy -65.28	BC Agg 5.93	S&P Gbl Clean Energy -27.63	MSCI EME -18.17	DJ UBS Cmdty -1.06	EM Debt -8.98	EM Debt -5.72	EM Debt -14.92	MSCI EAFE 2.20	BC Agg 0.46
MSCI ACWI ex Fsl Fuels NA	MSCI ACWI ex Fsl Fuels NA	MSCI ACWI ex Fsl Fuels NA	MSCI ACWI ex Fsl Fuels NA	S&P Gbl Clean Energy -44.47	S&P Gbl Clean Energy -16.15	DJ UBS Cmdty -9.52	DJ UBS Cmdty -17.01	DJ UBS Cmdty -24.66	S&P Gbl Clean Energy -6.26	DJ UBS Cmdty -3.86

DJ UBS Cmdty = Dow Jones-UBS Commodity Index
MSCI EAFE = MSCI EAFE Index
MSCI EME = MSCI EM Equity Index
S&P 500 = S&P 500 Index
S&P Gbl Clean Energy = S&P Global Clean Energy Index

EM Debt = JP Morgan GBI EM Global Diversified Unhdged
BC Agg = Barclays Capital US Aggregate Bond Index
MSCI ACWI ex Fsl Fuels = MSCI ACWI ex Fossil Fuels Index
BC Global Agg = Barclays Capital Global Aggregate Bond Index
BC US Corp IG = Barclays Capital US Corporate Bond Index

Chart Data Source: Morningstar, MPI.
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APPENDIX

BC EM Hard Currency: Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index
BC EM Local Currency Gov: Bloomberg Barclays Emerging Markets Local Currency Diversified Total Return Index
BC Europe Sovereign: Bloomberg Barclays Europe Sovereign Index
BC Global Agg Corp: Bloomberg Barclays Global Aggregate Corporate Bond Index
BC Global Agg: Bloomberg Barclays Global Aggregate Bond Index
BC Municipal: Bloomberg Barclays US Municipal Bond Index
BC US Agg Credit: Bloomberg Barclays United States Aggregate Credit Total Return Index
BC US Agg: Bloomberg Barclays US Aggregate Bond Index
BC US Corporate High Yield: Bloomberg Barclays United States Corporate High Yield Total Return Index
BC US Treasury: Bloomberg Barclays United States Treasury Total Return Index
CAPE: Shiller P/E (Cyclically Adjusted PE) from Robert Shiller's website http://www.multpl.com/shiller-pe/
CPI: US Consumer Price Index
CVIX: Deutsche Bank FX Volatility Index
Div. Yield: Dividend Yield
EM Volatility Index: CBOE Emerging Markets ETF Volatility Index
Euro Area Stress Index: Realized volatility of spread between short-term European interest rates
EY Spread: EY-Baa Yield derived by subtracting the Barclays Capital Baa US Credit YTW from the S&P 500 (SPX) Earnings Yield (the inverse of the P/E ratio)
FRED: Federal Reserve Bank of St. Louis
GDP: Gross Domestic Product (1 year forecast)
Global Risk Aversion Indicator: ECB financial market liquidity indicator: global risk aversion indicator
MOVE: Merrill Lynch Option Volatility Estimate Index (attempts to estimate Treasury bond volatility)
MSCI ACWI: MSCI All Country World Index

APPENDIX CONTINUED

MSCI Emerging Markets (EM): MSCI Emerging Markets Index
MSCI Europe: MSCI All Country Europe Index
MSCI Growth: MSCI World Growth Index
MSCI Japan: MSCI Japan Index
MSCI US: MSCI United States Index
MSCI Value: MSCI World Value Index
Nikkei 225: Nikkei 225 Stock Average
NMI Index: Non-Manufacturing ISM Index
P/B: Trailing 12 months price to book ratio
P/CF: Trailing 12 months price to cash flow ratio
P/E: Trailing 12 months price to earning ratio
PMI Index: ISM Purchasing Managers' Index
Shanghai Composite: Shanghai Stock Exchange Composite Index
US HY: Bloomberg Barclays US High Yield Bond index
US-Europe Growth Differential: Difference between US and European GDP growth
VIX: CBOE Volatility Index
Volatility Indicator: Comprised of VIX, CVIX and MOVE

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