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To: Clients and Friends of Front Barnett Associates LLC

Subject: Year-End Talking Points

As we near year-end, it has become apparent that policy changes stemming from the recent election are likely to be substantial, particularly those that effect business and the financial area. Reversals in regulations of all types are coming. The architecture of the financial world is going to change materially creating the possibility, for the first time in a generation, that GDP will overshoot muted expectations. The stronger economy will make the US a more friendly destination for foreign capital, supporting the US dollar. And the accelerated growth we expect will not be limited to financial institutions but also extend to the economy as a whole. In short, the "animal spirits," of which we have written for years are being unleashed.

Clearly, major changes, such as those we expect, invite risks and glitches, possibly leading to unintended adverse consequences and cause heightened short-term financial market volatility. Many among us will remain opposed to these changes and some protest them, as is their right in a democratic society. Only time will tell how well these changes will work.

Following are Year-End Talking Points to which we have been referring in conversations with clients. We hope you will find these interesting and we invite your comments.

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YEAR-END TALKING POINTS

A. THE ECONOMIC OUTLOOK REMAINS FAVORABLE

1. Fourth quarter GDP growth is tracking at the 3.0% rate we previously forecast

2. New factory orders rose 2.7% in October, the largest increase in over a year

3. Job growth has been and remains the bright spot in the US economy; wage gains are improving and unemployment is down to 4.6% of the labor force

4. Autos, housing and consumer spending remain solid

5. The strong US dollar has been a serious headwind for exporters but may soon plateau

6. Fed policy will remain highly accommodative although an additional step toward "normalization" prior to year-end is almost a certainty, with further increases coming next year

7. Growth in China has slowed to a 6.25% - 6.50% GDP rate while the Eurozone recovery remains tepid

8. Both the FBA Economic Model (attached) and the Leading Economic Indicators (LEI) are signaling expansion

9. *However*, a number of secular trends including limited *productivity gains* and an *aging population* are constraining the economy from growing more rapidly than the 2.0% rate of recent years

B. MAJOR POLICY CHANGES ARE ON THE WAY

1. Following the election there is likely to be a broad agenda of sweeping policy initiatives including

- deregulation (ACA, Dodd-Frank, etc)
- individual and corporate tax reform
- repatriation of cash held by US corporations abroad
- infrastructure spending
- immigration reform
- trade deal adjustments
- the end of military spending sequestration

2. Federal Reserve Board appointment decisions loom as two vacancies need to be filled soon and Chair Janet Yellen's term expires in early 2018

C. THE STOCK MARKET HAS RECORDED NEW HIGHS FOLLOWING THE US ELECTION

1. After a volatile first half, the US Stock market indexes have now risen to new all-time highs

Index	Total Return Y/T/D*
S&P 500	+ 9.41%
DJIA	+13.03%
NASDAQ	+ 6.21%
DJ Transportation Average	+22.31%
Russell 1000	+ 9.57%
S&P Small Cap	+21.88%

2. Markets abroad have been mixed, but are well off their lows

	Total Return Y/T/D*
Emerging Market (EEM)	+9.83%
Developed Market (EFA)	-1.68%

*through 12/1/16

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3. Meanwhile, it appears the nearly 20 year bull market in bonds has finally ended. Bond funds are experiencing significant redemptions

	Yield (Trough)	Current Yield
2 year UST	0.55% (7/05/16)	1.12%
10 year UST	1.36% (7/08/16)	2.38%
30 year UST	2.00% (7/08/16)	3.05%

4. Investors' new-found attraction to equities is based upon the view the new administration's fiscal policies, combined with regulation reduction, will lead to a more robust economy. Expect:

- a pick-up in economic growth
- bear markets for bonds will continue
- higher interest rates and a steep yield curve
- growing government deficits
- rising inflation

5. The *timing* of changes in the corporate tax code, earnings repatriation, changes in individual rates and death taxes is highly uncertain.

6. Infrastructure programs, tax cuts and increases in military spending are likely to swell the deficit, heightening inflation expectations and serve as ammunition for further Fed rate hikes, possibly sooner than currently expected

D. FINANCIAL MARKET OUTLOOK

1. US equities currently remain fairly valued at about 16 times forward earnings; other metrics we follow confirm this view

2. Demand for US equities is likely to come from several sources:

- investors abandoning large cash positions
- corporations repurchasing their own shares
- diminished IPO’s
- foreigners investing in the US
- investors switching from bonds to equities

3. Shares of energy (oil and oil services), financials (banks), cyclicals and technology remain attractive and represent well over 50% (at market) of clients’ stock holdings

4. Foreign developed and emerging market shares are statistically cheap but more volatile when compared with their US counterparts

5. Clients’ bond portfolios remain conservatively invested as protection of principal remains a high priority in the gradually rising rate environment we anticipate; equity portfolios remain fully invested and broadly diversified among both domestic and foreign domiciled companies

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Finally, we wish you and yours Happy Holidays and a healthy New Year.

Marshall

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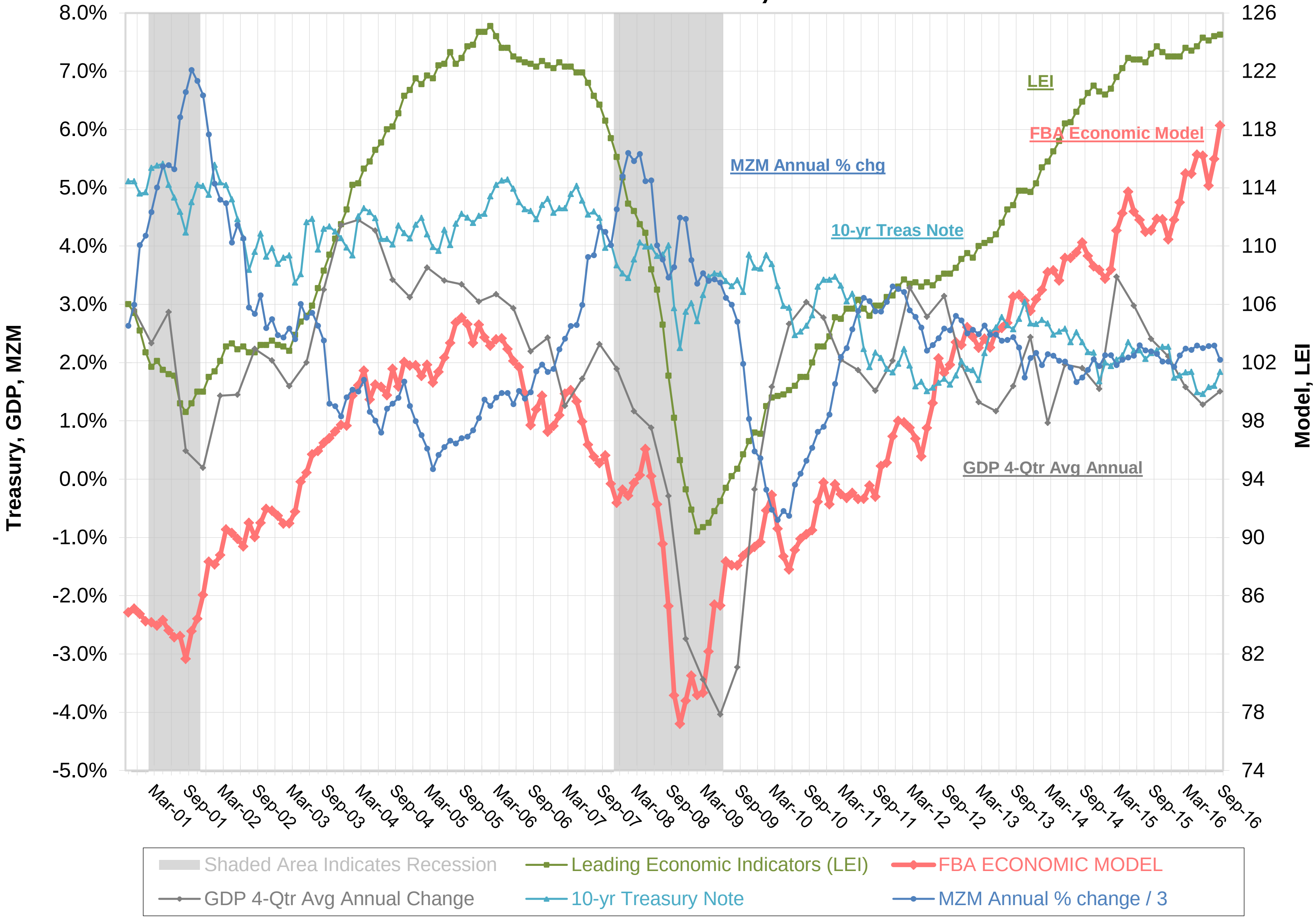
Front Barnett Associates LLC
Economic Model
November 30, 2016



Last updated 11/30/2016

There are inherent limitations in economic modeling. There can therefore be no assurance that our Economic Model will accurately predict future directional movements in the U.S. economy.