GUIDANCE

POINT OF VIEW

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

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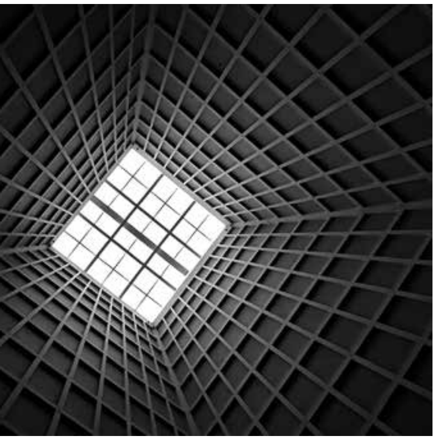

U.S. equities moved solidly higher across the board during the third quarter, despite considerable noise on the domestic and geopolitical fronts. September saw a nice bounce, driven by hope of a reformed tax structure. The broader equity market, represented by the S&P 500, gained 4.5% and closed at an all-time high; it is now up 14.2% year-to-date.

Global equity markets were led in the third quarter by Brazil (+22%), Russia (+16%), and Italy (+12%). In fact, most global equity indices gained ground in the quarter, and also remain at or near all-time high levels. Thus far in 2017, most European markets have gained more than 25%, as have China and Brazil.

Oil prices jumped nearly 10% in the quarter, leading to an almost 7% gain in the Energy sector. Natural gas prices, however, declined. The broad fixed income market posted gains for the third quarter, with the Investment Grade Corporate, High Yield, and Municipal sectors performing the best. The yield on 10-year U.S. Treasury Notes was 2.33%, up only slightly from the end of the second quarter, but well off its early September lows of 2.04%. September saw a significant reversal in the treasury markets with the losses across the curve mostly attributed to the Republicans releasing a business-friendly tax plan, and the Fed re-confirming its commitment to raising rates in December and reducing the balance sheet in October. The Bloomberg Barclays Aggregate Index returned 0.85% for the quarter. Finally, the U.S. dollar weakened about 5% against the Euro and is now off more than 12% in 2017.

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Market Outlook

While U.S. equity markets are not inexpensive by any measure, it is also true that the economy is in a unique position of solid growth (with indications for increased growth ahead) and contained inflation. While valuation will serve as a regulator, there is no reason to believe that late-cycle stock price appreciation cannot persist in the near term.

Equity markets sailed through the third quarter seemingly unfazed by the words and actions of "Little Rocket Man," the "Dotard," or Mother Nature. Perhaps Janet Yellen's voice trumps them all, as the Federal Reserve's clear signaling of future monetary policy, bolstered by several indicators suggesting economic activity is picking up, was well received by investors around the globe.

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It is more than a little disconcerting when two world leaders in possession of nuclear weapons threaten to settle a juvenile name-calling spat by obliterating each other's existence. Perhaps equity prices should not move materially in such an event, as the likelihood of either of these reckless men taking such action is (we sure hope!) quite remote. However, how do we explain the apathetic response of the "fear gauge," or VIX, which supposedly measures short-term expected equity market volatility? The index briefly touched 15, which we consider to be its long-term average, before dropping back below 10 by month end. It seems clear to us that equity investors have placed enormous faith in the Federal Reserve's ability to reduce volatility and "manage" asset prices with monetary policy in almost any circumstance.

Hurricanes Harvey, Irma, and Maria wrought extensive damage in southeast Texas, Florida, and Puerto Rico, respectively. Estimates of damages run in the hundreds of billions, while insured losses could reach $200 billion. The storms left large swaths of human suffering in their wake, and it will take many years for those affected to rebuild. The storms will distort some economic indicators in the short run, and we may likewise see short-term surges in other areas (autos, transportation, construction activity) as recovery continues.

The Trump Administration has thus far failed to bring any meaningful legislative changes to bear in the United States. Having failed several times at repealing and replacing the Affordable Care Act, they now move on to the subject of taxes. The administration's proposals at this time remain somewhat vague, but their stated objectives are to reduce the corporate tax burden, close loopholes, and provide tax relief to American taxpayers. These are all noble objectives, but early indications suggest that their cost

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($2-5 trillion depending on the source) may simply be unsustainable in a country already carrying more than $20 trillion in debt. We will watch these developments closely, as "winners" and "losers" in this battle will see the value of their businesses affected.

As mentioned, economic activity in the U.S. does appear to have picked up as summer came to a close. The notable exception, however, is wage growth, which continues to be stuck near 2% per year. The unemployment rate hovers between 4-5%, which suggests wages should be improving, and small businesses in particular appear to be having a hard time filling skilled positions. Construction costs may face pressure as hurricane-stricken areas begin the arduous process of rebuilding. Interest rates have ticked back up, and the Fed has made it clear that there is likely one more rate increase coming in December, and that they will begin to slowly peel off some of the $4 trillion in fixed income securities they have purchased since the great recession.

With signs of economic activity perking up, investors seem to have taken renewed interest recently in "value" strategies. Nonetheless, thus far in 2017 "growth" strategies across all market capitalization ranges have outperformed their "value" counterparts by more than 12%. We have lamented the fact that investors have been reaching for returns, increasingly buying into stories of high revenue growth regardless of the likelihood that such stories will ever result in returns on investment that exceed the cost of capital, or ultimately provide a cash return to owners of the business. A shift back to a focus on buying good businesses at a fair price would certainly benefit our portfolios, and provide the cornerstone for solid long-term investment returns for our clients.