GUIDANCE

POINT OF VIEW

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

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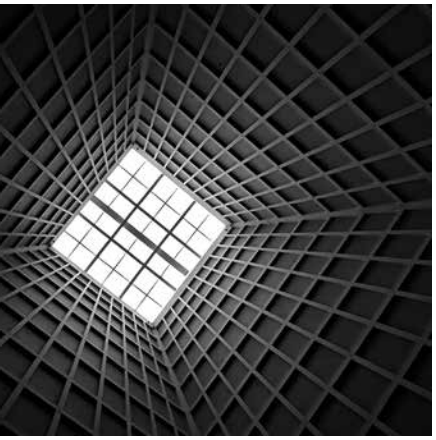

Presidential politics are squarely in investors' sights, as analysts and pundits alike try to forecast the impact each candidate may have on economic conditions. All eyes also remain focused on the Federal Reserve, which chose not to increase the Federal Funds rate at its September meeting, but has signaled that it may do so before year end.

U.S. equities recorded solid performance during the third quarter, despite lagging corporate profits. The bulk of the equity gains were recorded in early July in the immediate aftermath of the U.K.'s surprise Brexit referendum result. Consumer confidence within the U.S. remains solid, the housing market is strong and stable (but shows early signs of slowing), inflation is muted, and the economy continues it long, slow expansion.

The Bond Market rallied and yields dropped to 1.37% on the 10-year Treasury bond as the quarter opened following the Brexit vote. The remainder of the quarter resulted in high volatility in yields due to mixed economic news and the fact that the yield on the 10-year Treasury rose back to 1.58% as of September 30.

Oil prices were unchanged in the quarter at about $48/barrel, though they did dip below $40 briefly in August before rebounding. Other commodity prices declined, most notably soybean, wheat, and corn, where upward revisions to crop yield estimates led to price deterioration of between 9% and 13%. The British Pound lost almost 3% of its value on the heels of the Brexit vote and continues to drift lower, while emerging markets exhibited particular strength, gaining almost 9%.

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The third quarter revealed a continued healthy appetite for risk. Small cap stocks performed best during the quarter, with the Russell 2000 Index adding 9.05%, followed by the Russell Midcap 800 Index's 4.52% advance. Performance degraded further up the capitalization spectrum, leveling out at the large cap universe as the large cap S&P 500 Index returned 3.85% and the Russell Top 200 Index recorded a 3.84% gain.

Counter-cyclicals had paced performance within the S&P 500 Index during the first two quarters, but faded hard during the third quarter, giving way to cyclical stocks, whose outlook is directly affected by the strength of the economy. Technology stocks led the advance, followed–albeit not very closely–by Financials, Materials and Industrials. The Energy sector paused to consolidate recent gains while the high-yielding Staples, Telecom, and Utilities sectors lagged the market significantly.

Great Lakes Advisors' strategies followed suit with strong out-performance in Large Cap Value and Fixed Income, while the other strategies–Small Cap, LargeCap Core, SMidCap, and AllCap–all met their benchmarks[1].

Outlook

Last year at this time we reviewed the IMF's World Economic Outlook, which suggested that downside risks to global economic growth had become more "pronounced." We opined that renewed weakness in commodity prices, credit markets, productivity, capital investment, and aggregate demand all supported this observation. Perhaps the 8-10% downdraft in equity markets that had just occurred also helped the IMF reach this conclusion.

One year later, commodity prices remain weak, credit markets are jittery, productivity has declined year-over-year in the U.S., and capital investment remains quite sluggish, growing at about 1% in the first half of 2016. The ten-year rate of interest (as represented by the 10-year U.S. Treasury Note) has declined more than 50 basis points from 2.12% last year, and more than one-third of all government debt (much of it Japanese and European) trades with negative yields. It is safe to say that the IMF was at least directionally correct; the global economy has weakened in the last twelve months.

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As we head into the last few months of the year, we remain impressed with the resiliency of U.S. corporate earnings in light of all that has happened over the last 10 years. It appears that earnings will remain flat for the full year and as the rapid decline in energy prices moves further into the past, we expect to see modest growth in 2017.

While modest growth would be reasonably good news, the future path of interest rates will have a substantial impact on equity prices. If corporate earnings cause rates to rise, creating inflationary expectations, perhaps equities will be stable. If rates rise for other reasons–most likely wage pressures–and corporate earnings do not grow in tandem (for example, because companies cannot pass on these higher costs in the form of higher prices), equity markets may have a bit of a rough ride.

The relationship between corporate earnings and interest rates presents a bit of a conundrum. While we continue to expect interest rates to likely increase, we remain focused on identifying the drivers of change which will inform if rate increases will support or impede earnings. Equity market direction will likely be dependent on those drivers. We continue to monitor these signs and believe our portfolios are well positioned to generate satisfying long-term returns for our investors.

1. Great Lakes Advisors, LLC claims compliance with the Global Investment Performance Standards (GIPS®). A complete list of firm composites and performance results, and the policies for valuing portfolios, calculating performance, and preparing GIPS compliant presentations are available upon request. To receive a complete presentation that complies with the requirements of GIPS standards and/or a complete list and description of all the firm's composites, contact the firm at (312) 553-3700 or write Great Lakes Advisors, LLC, 231 South LaSalle Street, 4th Floor, Chicago, Illinois 60604.