GUIDANCE

POINT OF VIEW

GREAT LAKES ADVISORS

A WINTRUST WEALTH MANAGEMENT COMPANY

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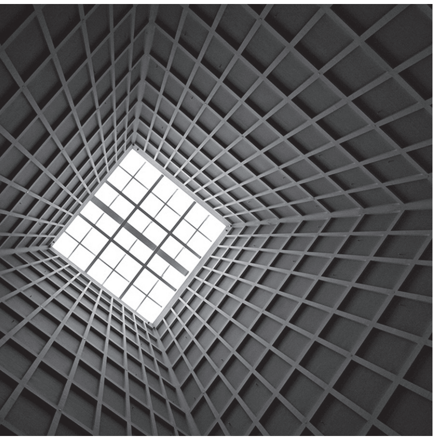

Americans awoke the morning of November 9, 2016 having elected Donald Trump as the 45th President of the United States. This unexpected outcome set off a series of market responses around the world that led generally to higher asset prices, higher interest rates, and broadly higher expectations for future economic growth. The broad large company S&P 500 Index closed the quarter 3.8% higher, and gained 12% for the full year. Most major U.S. equity indices are now trading at or very near all-time record levels. Globally, Brazil's Bovespa index vaulted 61% higher, reversing a five-year period in which it had lost almost 70% in value (both in U.S. dollar terms). Laggards included Italy, Spain, and the UK (down 12%, 6% and 5%, respectively) as EU financial concerns resurfaced and Brexit fears lingered. China was down slightly, while Japan and Germany each gained about 1%. Emerging equity markets rebounded, gaining about 9%, led by Latin America's 30% advance.

Crude oil closed the quarter 7% higher at about $53/barrel, representing a 6% gain for the year. Metals, including palladium, copper, and silver closed the year 15-20% higher, while gold gained 8%, despite falling 13% in the fourth quarter. The U.S. dollar reversed course in Q4 (again, much of it post-election), climbing 7% which allowed it to post a 3% gain for the full year. The Euro lost 4% of its value in 2016 after declining 6% in the fourth quarter.

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Perhaps most importantly, the yield on the 10-year Treasury note rose 88 basis points in the fourth quarter to finish the year at 2.48%, its highest level in over two years and double the post-Brexit low of 1.27% just six months earlier. Nearly all bond prices dropped to start the quarter and end the year. Losses in the first two weeks of December reached around the world and exceeded 2%. During December losses on long Treasuries hit 3% before staging a two-point comeback in the final two weeks of the year. After mid-December, fixed income experienced a small boost from a dovish central bank in Europe, but a bigger push from the loss of momentum in global equities into the close of the year. December's opening sell-off was a reaction to expectations of stronger growth, a rebound in equity prices and an expected rate increase in Federal Funds on December 14. The late month rebound in prices was a technical bounce rather than a clear reversal of the quarter's decline.

For the quarter, the shape of the yield curve changed dramatically, with the most telling steepness measured in two-year to ten-year bonds. In a well telegraphed move, the Federal Reserve raised the Federal Funds rate by 25 basis points and signaled the potential for further rate hikes in 2017.

Outlook

Investors are beginning to view a Trump Presidency as a potential game changer. U.S. equity markets finished 2016 strong, interest rates rose across the yield curve, and commodity prices generally rose into the final days of the year. In mid-December, we commented on market conditions, and much of what we wrote still applies. We wrote:

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Investors have poured into U.S. equities in the last five weeks, believing that a Trump Administration will be unabashedly positive for the U.S. economy and U.S. companies. Several reasons supporting this belief are frequently cited:

- *Trump is likely to support increased government spending programs (such as an infrastructure program) to jumpstart economic growth.*
- *U.S. tax policies are likely to be modified. Frequently cited changes include reductions in both individual and corporate tax rates, amnesty for multinational companies allowing repatriation of billions of dollars of foreign profits, and allowing more generous tax deductibility of capital investments.*
- *Deregulation, especially in areas such as environmental law, energy production and banking and*

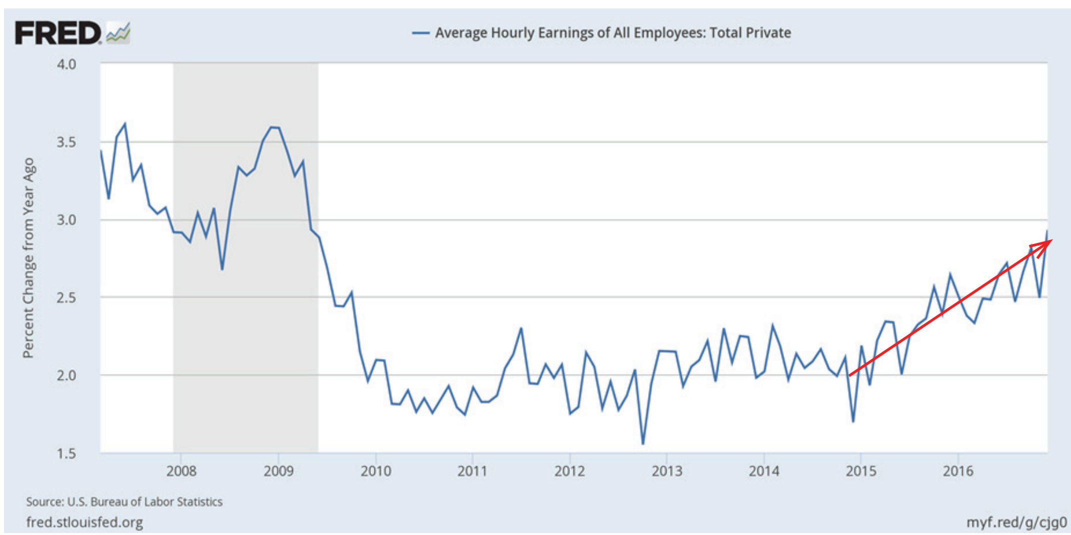
finance could also be a factor.

The rapid response by investors to these possibilities has been somewhat remarkable. We are mildly concerned that several potential negative factors have been largely ignored. First, increased government spending in tandem with lower tax rates is likely to result in upward pressure on materials and wages, and hence inflation. This additional spending is also likely to require an increase in government borrowing, potentially at a higher rate of interest. Indeed, the ten-year Treasury yield has increased by 65 basis points since Election Day, and now stands at about 2.50%.

Second, President-Elect Trump has been quite vocal about U.S. trade policy and how disadvantageous it is to U.S. workers and consumers. Many multinational companies could suffer to the extent that trade agreements are renegotiated or tariffs on imports are introduced. We estimate that the constituents of the S&P 500 derive about one-half of their revenue outside the U.S., which could be at some risk if trade barriers grow. Indeed, one reason smaller company stocks may be outperforming is that they derive a much larger percentage of their revenue - perhaps as much as 80%—from within the U.S.

On January 6 the Bureau of Labor Statistics reported that average hourly earnings rose by 2.9% in December, another positive data point as we strive to return to 3%+ wage growth we enjoyed prior to the 2008-2009 recession.

We continue to evaluate this political and economic environment and other potential policy changes to determine how they may affect U.S. equity values. In the meantime, the U.S. economy continues to drive global economic growth. Job creation continues apace and inflation appears to be in check. On January 6 the Bureau of Labor Statistics reported that average hourly earnings rose by 2.9% in December, another positive data point as we strive to return to 3%+ wage growth we enjoyed prior to the 2008-2009 recession.



Another positive sign emerged on January 10 when the National Federation of Independent Businesses (NFIB) released the results of its December Small Business Economic Trends survey. In it the NFIB stated "The December Survey confirmed the euphoria observed in the post-election survey...if this optimism continues, it will translate into spending plans...and ultimately into reports of actual hiring, inventory spending and capital outlays." The report, one of the strongest from NFIB that we have seen, also noted that job creation plans reached a nine-year high level. Creating well-paying jobs and boosting wage growth above the elusive 3% threshold was a central tenet of President-elect Trump's campaign, and through all the rhetoric (of which there is certainly no shortage) we suspect that yardstick will be among the most important by which his Presidency shall be measured.

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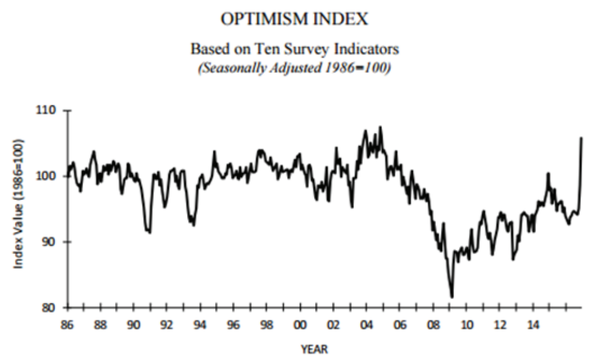
As we wrote last month, it stands to reason that we may experience periods of above-average short term volatility as the new Administration's plans unfold. In any event, 2017 promises to be another exciting year for investors around the globe. We expect more Fed tightening over the next year, with two to three rate hikes possible. We continue to turn over every rock in search of good value, and are confident our active approach to investing will continue to produce satisfying results over the longer term.

Overview - Small Business Optimism



Source: NFIB Small Business Economic Trends, Dec 2016.