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ECONOMY: Recession Talk Fades

4TH QUARTER GDP

The second estimate of 4th quarter GDP was revised higher to 1% from 0.7%. **Thus far**, data remains consistent with a modest, broad-based economic expansion rather than the onset of a recession.

HOUSING IS A POSITIVE

Housing investment continues to grow at a robust pace due to favorable labor market conditions, relatively low housing inventories, and the low global interest rate environment. While housing activity would be susceptible to a significant increase in mortgage rates, such a development looks unlikely in the near term. The housing sector should continue contributing to overall economic growth for the year, provided employment remains positive.

THE FED

Fed policy rate expectations have been significantly reduced this year due to financial market turmoil, declining energy prices and uncertainty regarding the economic growth and the future path of inflation. Unemployment has continued to decline and inflation measures are beginning to firm, but financial conditions have shown modest deterioration and some leading economic indicators have weakened. Most expect the Fed to hold rates steady at the March meeting.

CONSUMER CONFIDENCE WEAKENS

The Conference Board ***Consumer Confidence Index®***, which had increased moderately in January, declined in February. *"Consumer confidence decreased in February, after posting a modest gain in January. Consumers' assessment of current conditions weakened, primarily due to a less favorable assessment of business conditions. Consumers' short-term outlook grew more pessimistic, with consumers expressing greater apprehension about business conditions, their personal financial situation, and to a lesser degree, labor market prospects. Continued turmoil in the financial markets may be rattling consumers, but their assessment of current conditions suggests the economy will continue to expand at a moderate pace in the near-term."*

ISM DATA MIXED

Economic activity in the manufacturing sector contracted in February for the 5th consecutive month, while the non-manufacturing sector grew in February for the 73rd consecutive month.

DEAL OR NO DEAL

Rumors of a potential agreement between Saudi Arabia, Russia, Qatar and Venezuela to freeze oil production at current levels faded, but negotiators left the door open for a deal later in the year. Lower oil prices continue to plague many emerging economies as well as U.S. shale producers.

ECB CONTINUES EASING

Weak European economic data has increased the pressure on the European Central Bank (ECB) to bolster their monetary policy easing. After the ECB's January meeting, ECB president Mario Draghi assured markets that additional monetary policy action was imminent. (The ECB subsequently reduced deposit rates, lowered refinancing rates, and increased its level of asset purchases in early March.)

BREXIT?

In Europe, political headwinds increased as the U.K. announced a referendum on the country's membership of the European Union (EU). The polls imply that the vote will be close and this has contributed to volatility in U.K. asset prices.

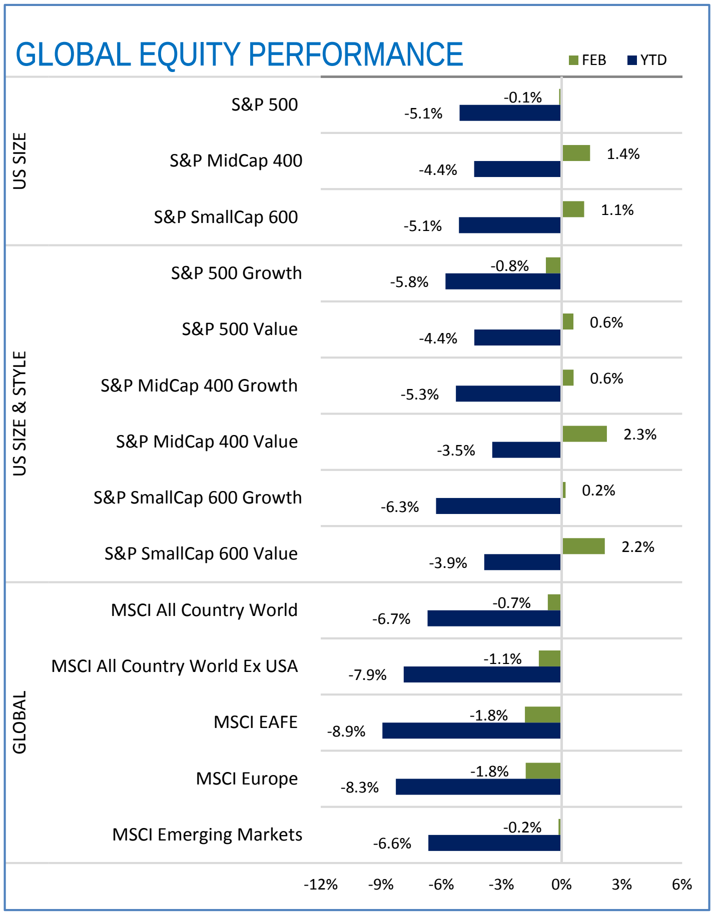
CHINESE DEVALUATION OVERBLOWN

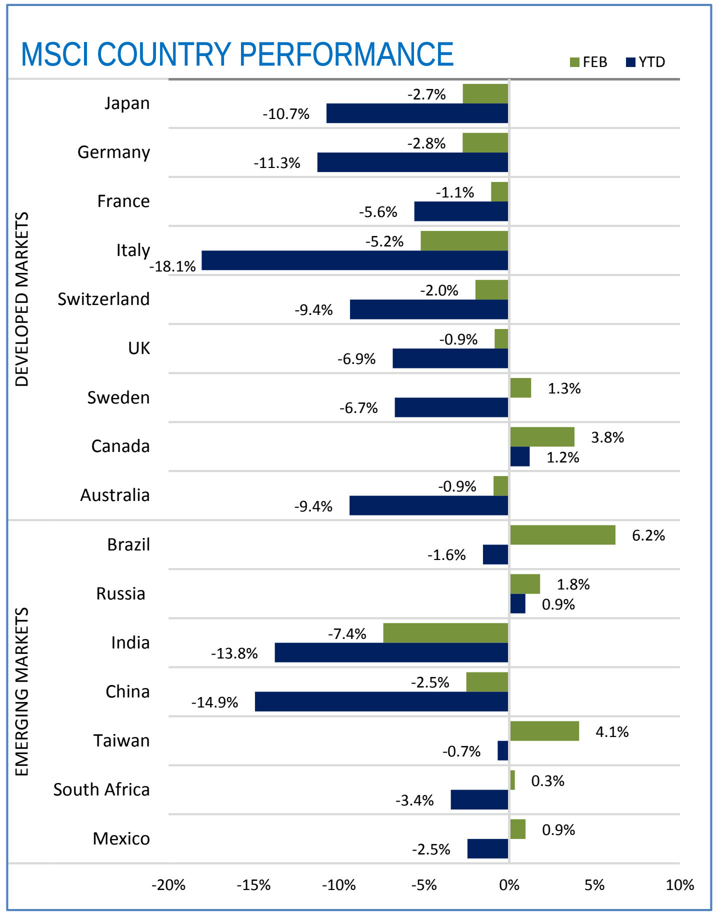
Zhou Xiaochuan, Governor of the People's Bank of China PBOC), the country's central bank, gave a speech noting that there was no need for a large devaluation and adding that monetary policy would stay "prudent," and that fiscal policy would be "proactive."

A NEGATIVE FOR NEGATIVE RATES

The Bank of Japan's surprise adoption of negative interest rates in late January has not gotten the reaction that policy makers desired. The Yen has risen and equities sold off, while both lending and inflation expectations have dropped.

GLOBAL EQUITIES: Equities Rally to End February





A Tale of Two Months

February turned into the tale of two months for U.S. equity investors. Through February 11th, the S&P was down 5.7% for the month and 10.5% YTD. However, a strong rally in the second half of the month saw the S&P 500 close down just 0.1% in February and 5.1% YTD. The market remained volatile in February as the market gained or fell by 1% on half of the month's trading days.

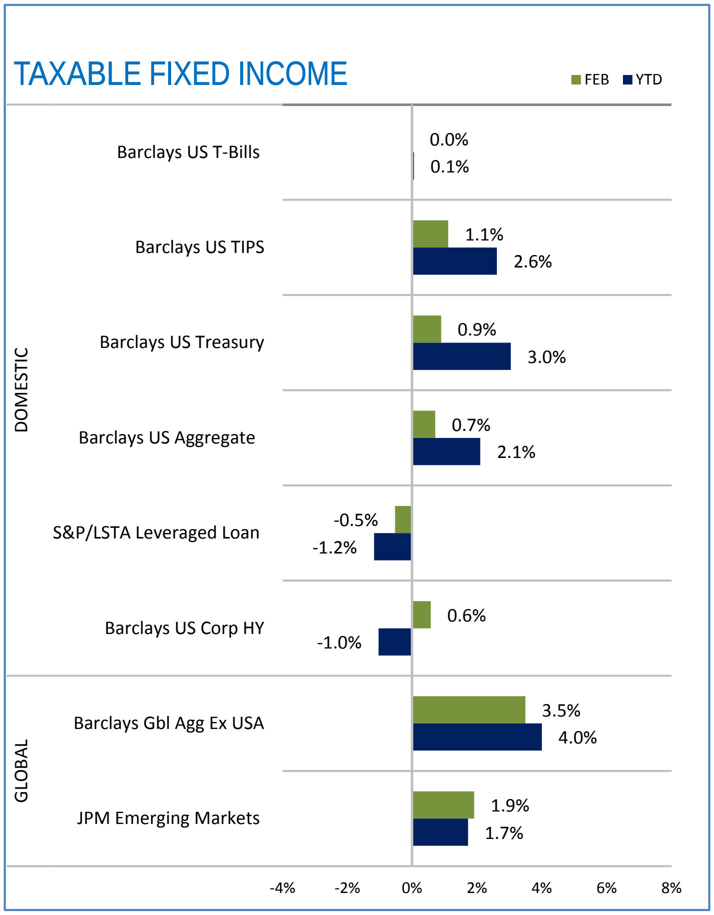
Europe Falls

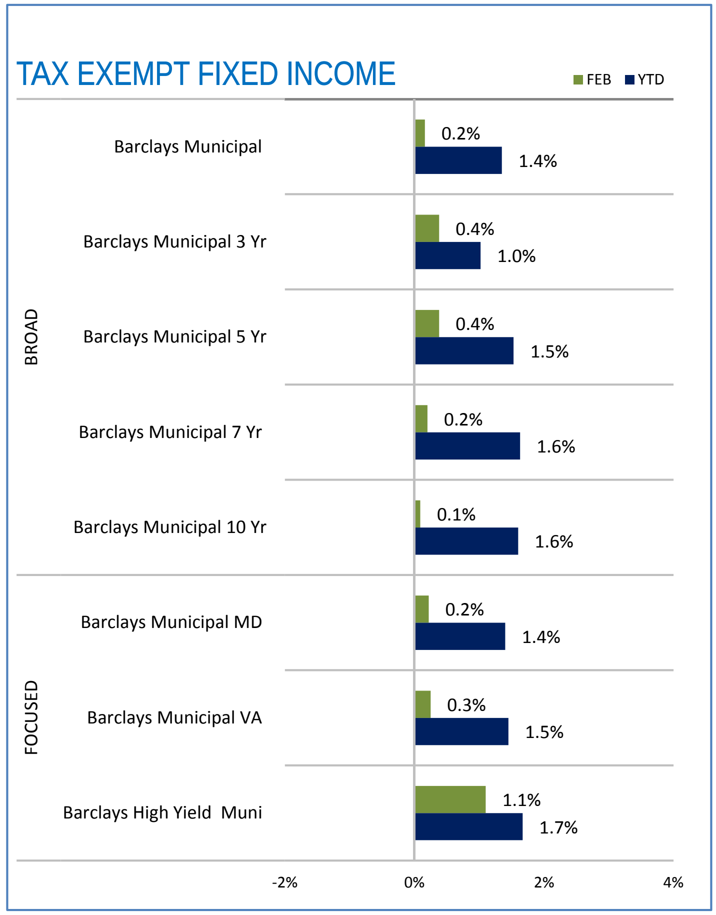
Market volatility, rising political headwinds and concerns over bank balance sheets have taken their toll on consumers and businesses across Europe. The MSCI Europe Index fell 1.8% as markets in Italy, Portugal, Finland, and Belgium all fell more than 5%.

China Focus Fades

Chinese A shares, measured by the CSI 300, fell only 1.8% in February while the MSCI China index fell nearly 2.5% for the month. While weakness in Chinese equity markets was the culprit for much of the volatility that global equities experienced in January, market sensitivity to moves in Chinese equities seemed to decline in February. Overall, the MSCI Emerging Markets index closed the month down only 0.2%.

FIXED INCOME: Treasuries Yields Remain Depressed





Treasuries Yields Remain Depressed

January's rally in Treasuries continued for the first half of February fueled by weak global economic data. The yield on the 10-year Treasury note fell to 1.63% which matched the lows of January 2015 and May 2013. The yield rose a bit during the second half of the month on better economic data and a more "risk-on" environment for investors.

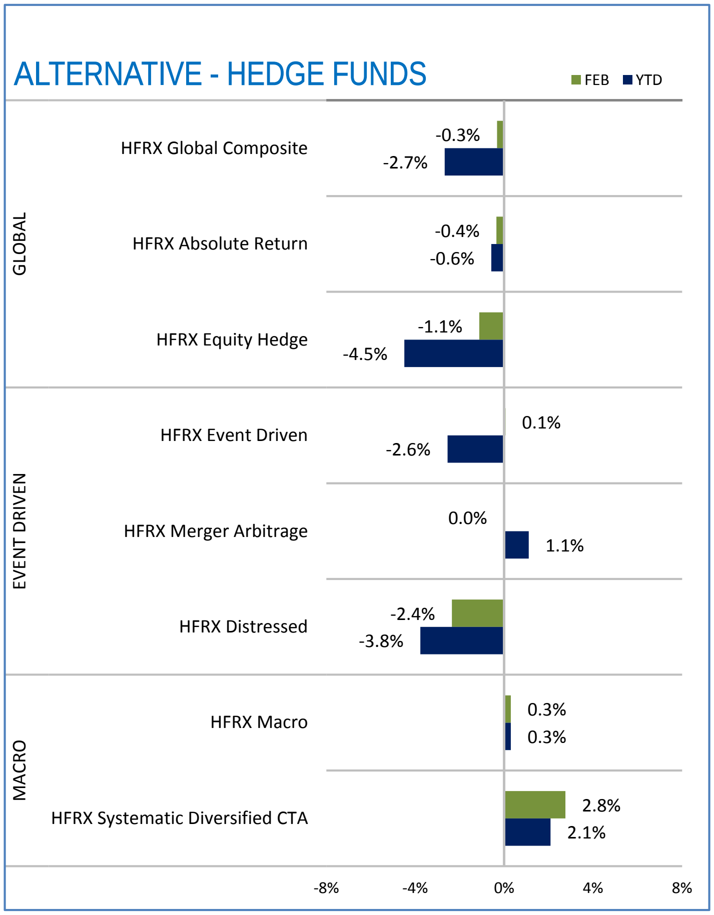
Oils Impact on Muni's

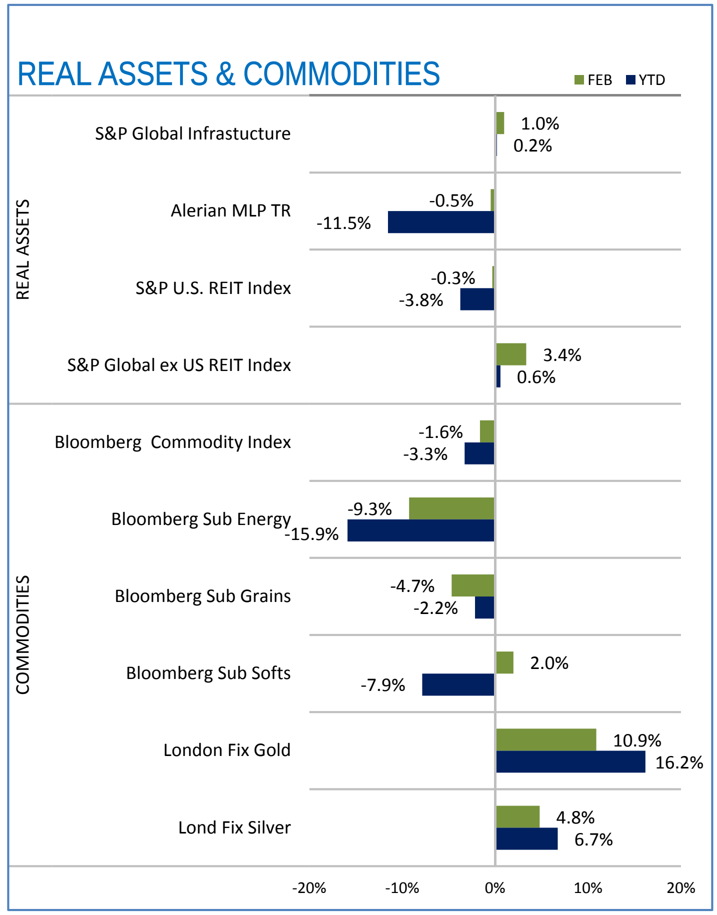
Oil prices have fallen 75% from a recent peak of $107 per barrel in June 2014 to less than $27 in February 2016. Energy rich states with high oil and gas exposure are experiencing significant fiscal headwinds. States at highest risk will likely be those with above-average exposure to declining oil- and gas-related severance tax collections such as Alaska, Texas, and North Dakota. Declining tax collections will likely cause varying levels of fiscal stress to energy-rich states, and could lead to credit rating downgrades and volatility within these markets.

High Yield Recovers

High Yield bond prices advanced in 9 of the last 11 trading sessions in February to end the month up 0.6%. Through mid February losses at one point reached in excess of 5% but ended down only 1% YTD. As the high yield market continues to track the price of oil closely, it will likely remain volatile as energy markets continue to search for balance and equilibrium.

ALTERNATIVES: CTAs Catch The Trend Again





Hedge Funds Mixed

Hedge funds posted mixed performance in February as Macro and Commodity Trading Advisors (CTAs) gains again offset losses in directional strategies. The HRFX Systematic Diversified CTA Index returned 2.8%, its strongest performance in a year, as energy and gold both posted strong gains for the month. On the other end of the spectrum the HRFX Equity Hedge Index (long/short) fell 1.1% with losses from the volatility in the financial, technology, and biotech sectors.

Oil & The Global Economy

For the last 75 years, almost every economic crisis has been preceded by an oil price spike. The worry now is that low energy prices are pushing the global economy into a panic as a growing share of the world's consumers and investors are in the very places suffering by the collapse in oil. The problem is that the world's economy relies far more today on emerging countries than 15 or 25 years ago - the last periods of ultra-low oil prices. And with the exception of China and India, most large emerging economies are oil and commodity dependent. Such economies now account for about 40% of global GDP, about double their share in 1990, according to IMF.