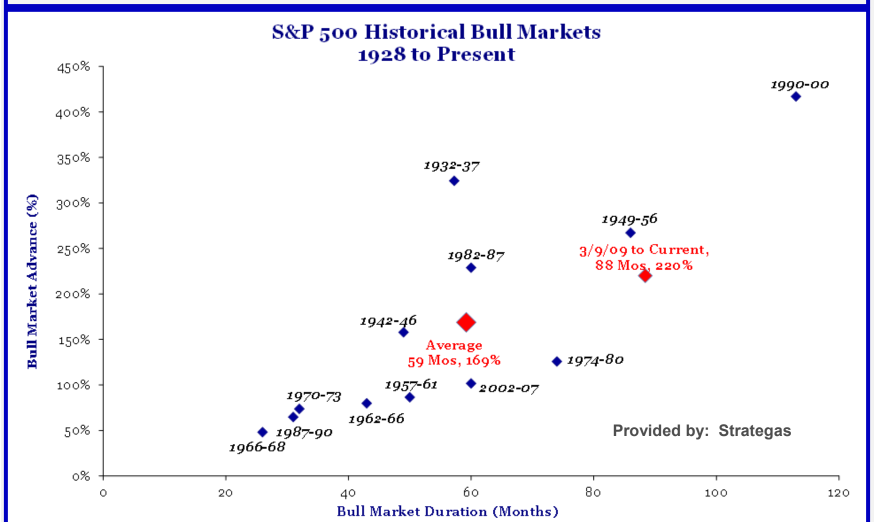
SECOND QUARTER COMMENTARY **JULY 2016**

The S & P 500 closed the second quarter of 2016 up 2.5% for the quarter on a total return basis. Value bested growth for the second quarter in a row and small and mid-cap outperformed large cap. The S & P 400 mid-cap and 600 small-cap returned 4.0% and 3.5% respectively for the quarter versus 2.3% for the S & P 100 mega-cap. Drilling down into the sector performance, energy continued its rebound from last year's dismal return and ended the second quarter as the top performer, up 11.6%, followed by Telecom, up 7.1%. Flipping from last year's winning sectors to the two underperforming sectors were technology, down 2.8%, and consumer discretionary, down 0.9%. What can you say about fixed income returns that hasn't already been said? The ten-year US Treasury note was up 1.49% total return for the quarter after being up 1.79% in the first quarter. Even more impressive has been the returns of the US Treasury 30-year bond at 2.30% for the quarter after a 2.62% positive return for the first quarter. In spite of the surprise Brexit vote in the UK, the FTSE 100 index was up 4.2% for the quarter, out-pacing its EU counterparts, the French CAC 40 and German DAX, down 3.4% and 5.4% respectively.

BULL MARKET LONG IN THE TOOTH—EXHIBIT A



As bull markets go, this one is a little "long-in-the-tooth." (See Exhibit A.) It began in March of 2009 and it's been 88 months-and-counting since we have experienced a correction of at least 20%. The only bull market since 1928 with a longer duration was the 1990-2000 bull. However, looking at it in magnitude, it has only been slightly better than average, at up 206% versus an average duration of 59 months and magnitude of 168%. It has been said many times that bull markets don't die of old age and reviewing bear markets since 1929, all but one was either precipitated by or accompanied with a tightening by the Federal Reserve. At this time, it would appear unlikely that we will see any significant tightening by the Fed. In fact, the move by many central banks around the world has been to lower interest rates or move them into negative territory. (See Exhibit B.) With approximately 1/3 of global government debt with a yield below zero, we might reasonably expect global growth and inflation to be higher than is currently the case. Unfortunately, rather than stimulating capital investment it seems to have forced individuals to increase savings. According to JP Morgan, US money supply is now over twelve trillion dollars. (See Exhibit C.) M2, as a percent of nominal GDP is 68.9% versus an average since 1980 of 53.4%. In 2006, $100,000 invested in a six-month CD would have generated $5,240 in income, in 2015 that had fallen to $370. Interest rates are likely to stay lower for longer and the quest for yield to continue. In Japan, where 10-year JGB yields are negative, the sale of safes and large denomination Yen notes are up. It appears they prefer to stash their cash in currency rather than put it in the bank and be guaranteed to get less back than they deposited.

BEAR MARKETS IN IN THE TOOTH—EXHIBIT A

Provided by: Strategas

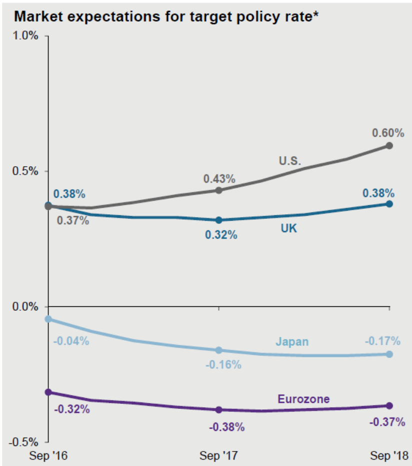
S&P 500 Bear Markets

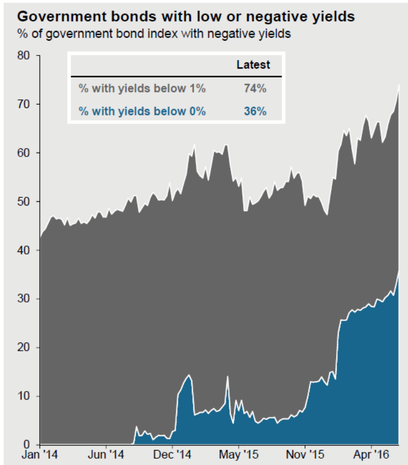
Market Correction	Start Date	Start Price	End Date	End Price	Duration (Months)	Percent Change	Recession?	Fed Tightening?*
1929 Market Crash	9/16/1929	31.9	6/1/1932	4.4	32	-86.2%	X	X
"New Deal" Policy Errors	3/10/1937	18.7	4/28/1942	7.5	62	-60.0%	X	X
Post WWII Crash	5/29/1946	19.3	6/13/1949	13.6	37	-29.6%	X	**
Recession	8/2/1956	49.7	10/22/1957	39	15	-21.6%	X	X
Kennedy vs. U.S. Steel	12/12/1961	72.6	6/26/1962	52.3	6	-28.0%		X
Hanoi Bombed, Taxes, Fed	2/9/1966	94.1	10/7/1966	73.2	8	-22.2%		X
"Go-Go" Bull Ends	11/29/1968	108.4	5/26/1970	69.3	18	-36.1%	X	X
Stagflation	1/11/1973	120.2	10/3/1974	62.3	21	-48.2%	X	X
Volcker Breaks Inflation	11/28/1980	140.5	8/12/1982	102.4	20	-27.1%	X	X
1987 Crash	8/25/1987	336.8	12/4/1987	223.9	3	-33.5%		X
Gulf War I	7/16/1990	369	10/11/1990	295.5	3	-19.9%	X	X
Tech Bubble Bursts	3/24/2000	1527.5	10/9/2002	776.8	31	-49.1%	X	X
Global Financial Crisis	10/9/2007	1565.2	3/9/2009	676.5	17	-56.8%	X	X
			Average		21	-39.9%		

* Fed tightening around or before incidence of bear market.
**Inflation started to rise in this period after war-time price controls. The Fed did start to decrease the size of its balance sheet but was reluctant to increase rates until 1948.

SECOND QUARTER COMMENTARY JULY 2016

Developed market fixed income dynamics — Exhibit B

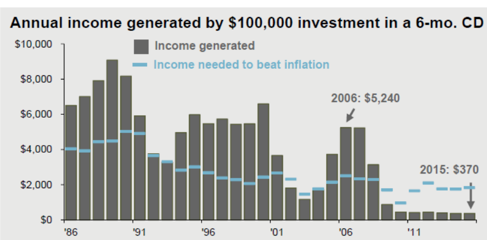


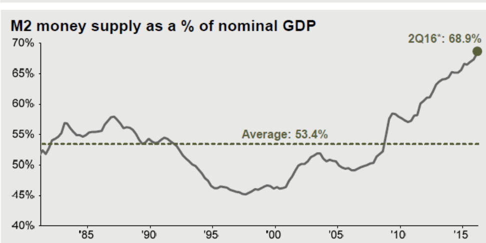


Source: Bloomberg, J.P. Morgan Asset Management; (Right) BofA/Merrill Lynch.
*Target policy rates for Japan are estimated using EuroYen 3m futures contracts less a risk premium of 6bps. Government bond index is the BofAML Global Government Bond Index, which includes investment-grade sovereign debt denominated in the issuer's own domestic currency. The index includes all Euro members, the U.S., Japan, the UK, Canada, Australia, New Zealand, Switzerland, Norway and Sweden.
Guide to the Markets – U.S. Data are as of June 30, 2016.

J.P.Morgan Asset Management

Cash accounts — Exhibit C





Money supply component	USD billions	Weight in money supply
M2-M1	$9,496	79.1%
Retail MMMFs	$705	5.9%
Savings deposits	$8,398	70.0%
Small time deposits	$392	3.3%
Institutional MMMFs	$1,819	15.2%
Cash in IRA & Keogh accounts	$688	5.7%
Total	$12,002	100.0%

Source: FactSet, J.P. Morgan Asset Management; (Top left) Bankrate.com; (Bottom left and right) BEA, Federal Reserve, St. Louis Fed.
All cash measures obtained from the Federal Reserve are latest available seasonally adjusted month averages. All numbers are in billions of U.S. dollars. Small-denomination time deposits are those issued in amounts of less than $100,000. All IRA and Keogh account balances at commercial banks and thrift institutions are subtracted from small time deposits. Annual income is for illustrative purposes and is calculated based on the 6-month CD yield on average during each year and $100,000 invested. IRA and Keogh account balances at money market mutual funds are subtracted from retail money funds. Past performance is not indicative of comparable future results. *2Q16 M2 as a % of GDP is a J.P. Morgan Asset Management estimate.
Guide to the Markets – U.S. Data are as of June 30, 2016.

J.P.Morgan Asset Management

With the Fed and other central banks running out of ammunition it would seem something else is necessary to stimulate growth. Fiscal stimulus, or the additional spending by government is being touted as the missing link to greater economic growth. The most talked-about action is some kind of infrastructure spending program. As we discovered in 2009-10, there really are not an abundance of shovel-ready projects, and with a new administration not taking office until January 2017, a spending time-lag is almost assured. If fiscal spending is, in fact, the Holy Grail for additional economic growth, can the US economy continue to limp along until we get through the presidential election uncertainty and a new budget program enacted before growth turns negative? If we are to enter into a recession sometime in 2017, it would likely be mild by historical standards, since we never really got to an overheated stage.

We favor companies with solid balance sheets, the ability to squeeze out earnings growth and increase dividends. We understand we are not alone in this search and remain alert for valuation extremes in the most popular sectors like consumer staples and utilities. From a purely valuation perspective, international equity markets have an attraction. Emerging market stocks have not been a top performer since 2009. If the recovery in commodity prices has staying power and the US dollar remains relatively stable, emerging market economies could see some of their best returns since the financial crisis.