Economic and Market

Overview

Not-So-Fab-Five

First Quarter 2016

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UMB Investment Management appreciates this opportunity to present our information to you.

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Economic and Market Overview

March means college basketball and March Madness. You may remember the 1991 University of Michigan basketball team called the "Fab Five." In that spirit, we put together a list of economic and market drivers we labeled the "Not-So-Fab-Five": 1) Recession, 2) China, 3) Oil, 4) Federal Reserve, 5) Politics.

Recession

We don't think a recession is on the horizon and we have maintained that posture for some time. In Q4, the economy grew at a 1.4% pace; the preliminary estimate was 0.7%. Real GDP grew 2.4% in 2015, matching 2014 growth. We expect Q1 growth at 0.75% and growth for the year at 1.9%.

The robust labor market supports our belief that the U.S. will avoid a recession, at least in the short run. In Q1, an average of 209,000 jobs per month were created, which is in line with our forecasted average of 200,000 new jobs per month in 2016. We do think this is creating a tight labor market and we expect to see some wage inflation. The housing market was also a tailwind, with housing starts on the rise due to an increase in household formations, an improving labor market and low interest rates.

China

China's economy is clearly slowing, with the Chinese government forecasting that economic growth will fall to 6.5% this year. We think the actual growth rate is something lower than the official forecast. Chinese economic conditions appear to be stabilizing, with generally weak January and February data followed by stronger readings in March. Both manufacturing and services improved, and housing prices firmed. With China's fiscal/monetary push for growth, a growth rebound is more likely than a further slowdown. A "sky-is-falling" scenario does not appear to be developing. This is positive for global economic growth. and positive for the equity markets around the world.

Oil

Oil appeared to have bottomed in February and rebounded at the end of the quarter to $38/barrel. We believe a genuine bottoming process is in place. Rig count is down significantly, and OPEC countries are talking about production cuts, or at least pretending to talk. Additionally, we see bankruptcies and acquisitions on the rise in the Energy sector, which is one of our triggers for a stabilization of stock prices in this area. Over the last several months, oil prices became highly correlated with stock prices. Therefore if energy prices increase, we think it will be a positive for stocks.

Federal Reserve

In December 2015, the Fed began the process of normalizing interest rates. In her recent remarks, FOMC Chair Janet Yellen stated that the Fed will proceed with caution. We expect a “lower for longer” scenario, with Fed Funds reaching 1.0% at best by the end of the year. This should be positive for risk based assets. In addition, this is positive for the U.S. dollar. As rates rise in the U.S. while other foreign countries push rates lower (even into negative territory in some cases), the divergence in monetary policy will continue to put upward pressure on the U.S. dollar. This is not ideal for commodity prices and companies that have a significant export business.

Politics

The election will not change the fundamentals of the economy — at least not in the next two years. However, during election years it is quite common for the stock market to suffer a volatile first half of the year as numerous candidates speak aggressively about specific sectors or even companies. This is generally followed by a more robust second half as candidates exit the race (reducing uncertainty) and the nominees moderate their messages in an attempt to win a general election. So far in the first quarter the market action appears to jive with the historical pattern.

The table below summarizes our 2016 forecasts:

	2016 Year-End Target
U.S. Real GDP Growth Rate	1.8% – 2.2%
Global Real GDP Growth Rate	3.3%
S&P 500 Price Target	2050
S&P 500 Operating EPS Growth	3.00%
Projected 10-Year Treasury Rate	2.50%

Equity Markets

Despite one of the worst starts to the year in stock market history, the S&P 500 managed to increase 1.4% in 1Q thanks to a strong second half. The market continues to be plagued by several lingering issues, including Fed policy, the oil markets, China, and economic growth. The upcoming Presidential election creates additional uncertainty. China began the year devaluing their currency to combat a slowing economy, which led to a global growth scare. This happened shortly after the Fed raised the Fed funds rate for the first time in nearly a decade. As a result, the market began to think the Fed could make a policy error by raising rates in the face of a global economic slowdown and tightening financial conditions as seen by the rise in high yield spreads. Moreover, the oil market was in a tailspin, losing nearly a quarter of its value in the first part of the quarter due to oversupply and demand concerns. However, oil prices bottomed mid-quarter as key oil producing nations began talking about how to stabilize prices. Rhetoric regarding Chinese stimulus to support economic growth and a reduction in the amount of Fed rate hikes in 2016 began to pick up as the quarter progressed, as well. These factors helped instigate a sharp rally off the low levels seen earlier in the quarter.

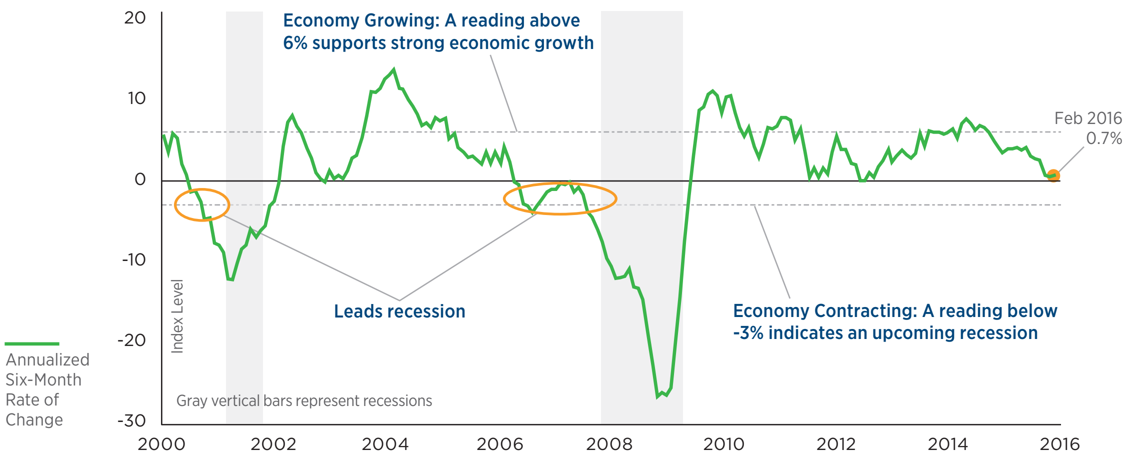
For 2016, we think earnings will grow approximately 4% based on GDP growth of around 1.9%. The recent weakening of the dollar and rise in oil prices could be tailwinds for earnings growth in 2016. Our theme for 2016 is that 1900 is too low, and 2100 is too high on the S&P 500. Our official 2016 S&P 500 forecast is 17.1 x 120 in earnings for 2016 = 2050.

Fixed Income Markets

The volatility that rocked the markets in late 2015 spilled over into the new year, with interest rates moving wildly in response to each economic update and subsequent jaw-boning from various FOMC members. As we moved through March, the Fed began to back down from its hawkish tone and send a clearer message about its intention to move rates upward at a VERY slow pace. This stance helped mitigate the volatility that erupted early in the quarter, driving interest rates and spreads lower into the quarter end.

We continue to believe the Fed wishes to further normalize rates with small upward adjustments to Fed funds throughout 2016. A renewed downturn in China or Europe would derail this forecast, but we do not foresee that happening at this time. Now that it appears we have achieved some stability in both China and the energy markets, it appears the Fed should have room to make one or two further upward shifts in overnight rates before year end. This modestly more stable environment has ushered in a partial recovery in the High Yield and Investment Grade Credit sectors. If these conditions hold steady, we believe that as the political environment becomes slightly more clear during the early summer months, we will likely have an opportunity to re-initiate a High Yield position.

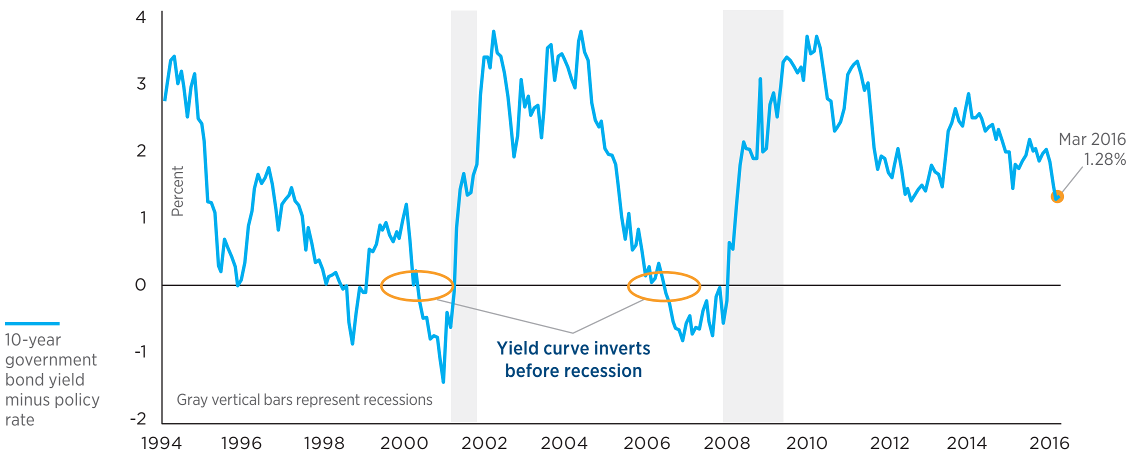
The Index of Leading Economic Indicators



Source: Thomson Reuters Datastream; UMB Investment Management

- The Index of Leading Economic Indicators (LEI) is made up of 10 components, 7 of which are non-financial and 3 of which are financial.
- The indicator's six-month annualized growth rate is 0.7%, which is consistent with a moderate- to slow-growing economy.
- A -3% rate of change is normally a good precursor to an upcoming recession, which is clearly not on the horizon based on this indicator.
- The current LEI reading supports our 2016 real GDP forecast of a moderately-growing economy of around 2.0% in the U.S.

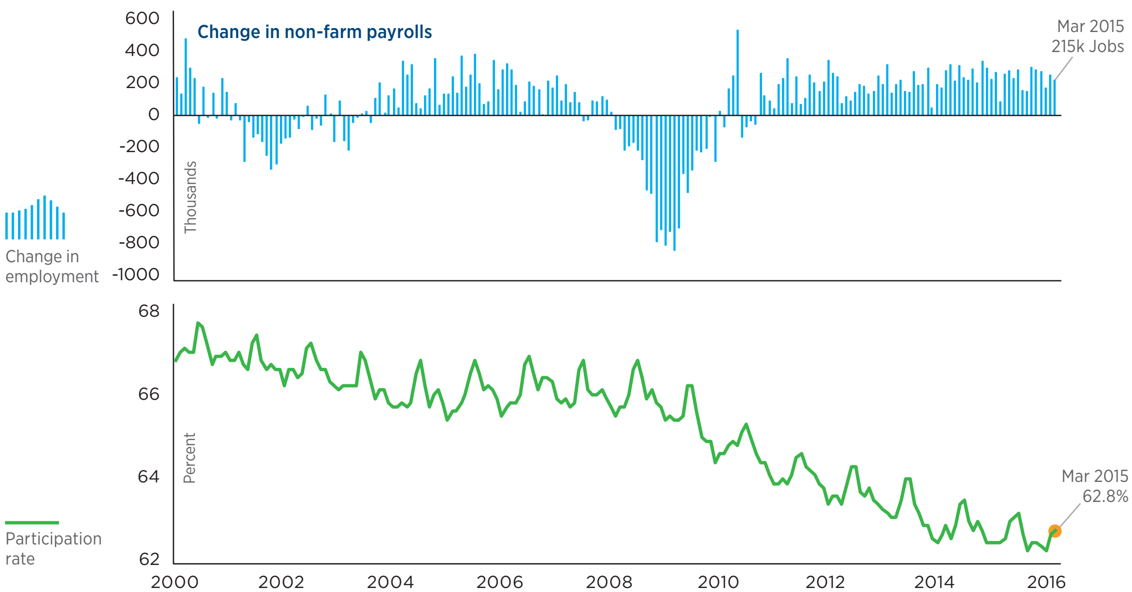
U.S. Yield Curve



Source: Thomson Reuters Datastream/Fathon Consulting

- The shape (slope) of the yield curve gives us clues to the health of the U.S. economy. A positively shaped curve indicates economic growth and a flat or negative slope signals an oncoming recession.
- Today the curve has a positive slope. The difference between 2-year Treasuries and 10-year Treasuries is 105 basis points, suggesting a moderately growing economy.
- Quantitative Easing might be artificially impacting the slope of the curve, which is a risk. The efficacy of this recession indicator may be hindered.

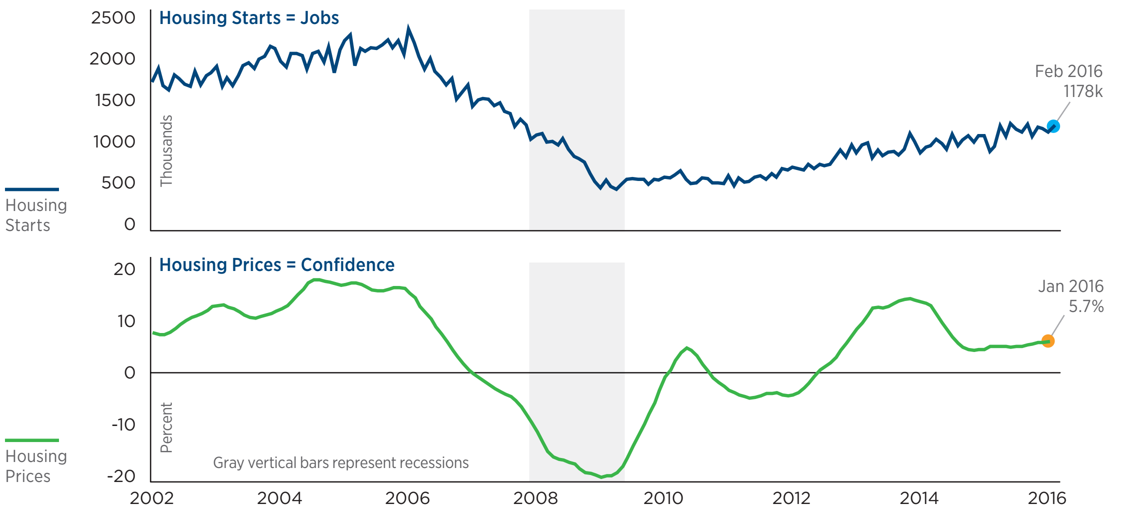
Labor Markets



Source: Thomson Reuters Datastream; UMB Investment Management

- The unemployment rate stands at 5.0%. In addition to solid job gains, the historically-low participation rate is contributing to low unemployment rates.
- Payroll growth has averaged 209,000 jobs per month in Q1. Historically, job growth of this magnitude indicated GDP growth higher than 2.5%.
- We expect payroll growth will average 200,000 jobs per month in 2016. This is a healthy level. Job gains since WWII have averaged approximately 120,000 per month.
- Our forecast indicates an unemployment rate of 4.8% by the end of 2016, driven by continued job gains and a slightly improving participation rate.
- The improved employment landscape will support consumer confidence and in turn, consumer spending.

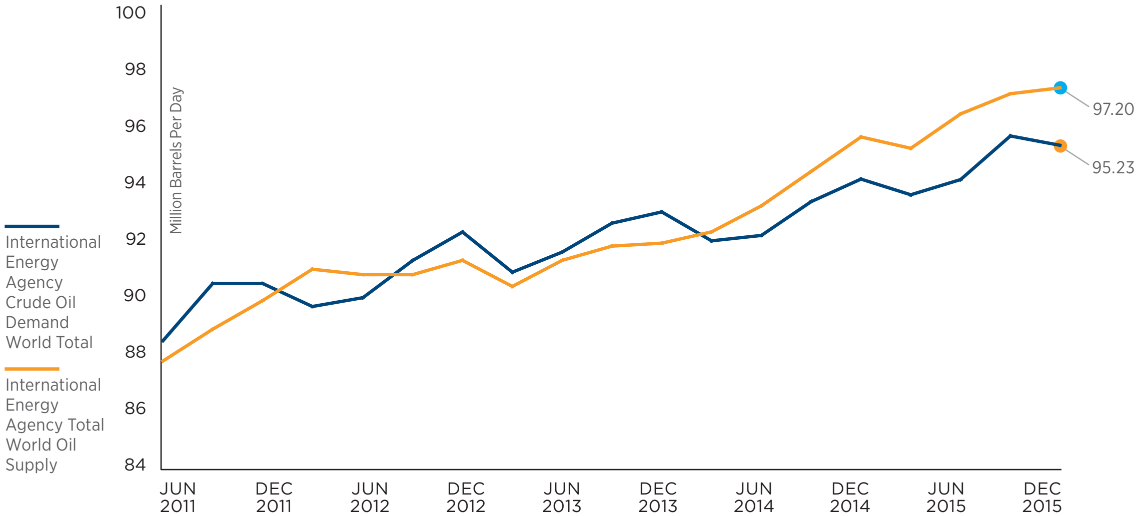
Housing is in Recovery Mode



Source: Thomson Reuters Datastream; UMB Investment Management

- The housing market continues to improve, giving no indication of an oncoming recession.
- Housing starts remain below normal levels of approximately 1.4 million per year. We estimate 1.2 million starts this year.
- Housing starts are being driven by an increase in household formations as a result of the strong labor market and increasing wages.
- Home prices continue to increase at a moderate pace, which supports the wealth effect.
- We believe the state of the housing market continues to support a moderate growth economy.

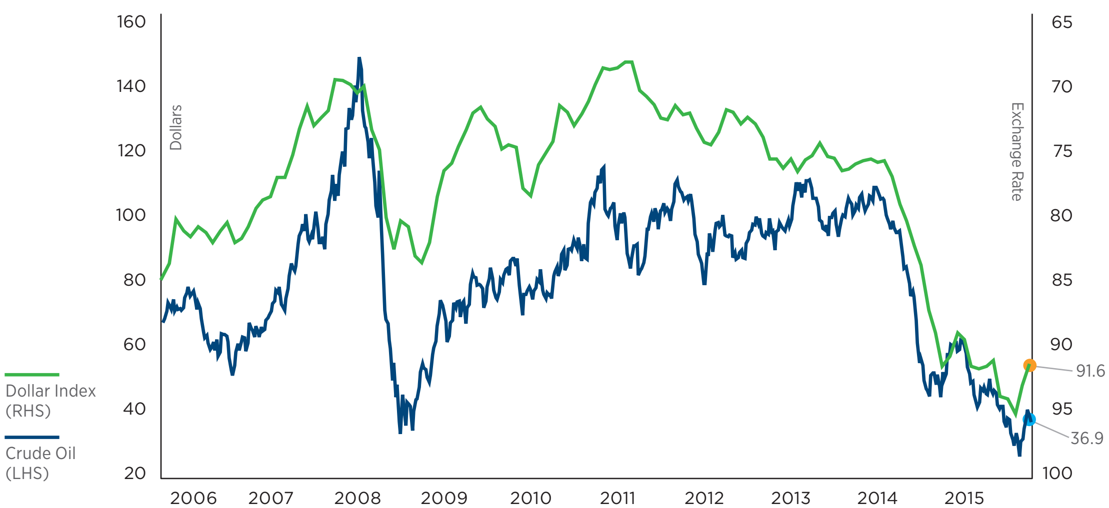
Oil Demand & Supply



Source: Bloomberg

- Oil markets continue to exhibit significant volatility.
- Supply is outstripping demand, which has resulted in a glut of oil around the world and kept prices suppressed.
- Rig count, exploration and production spending have been reduced significantly, which has reduced future production growth.
- Oil prices have rebounded since the low in mid February. This will reduce the earnings headwind in the energy sector in 2016.

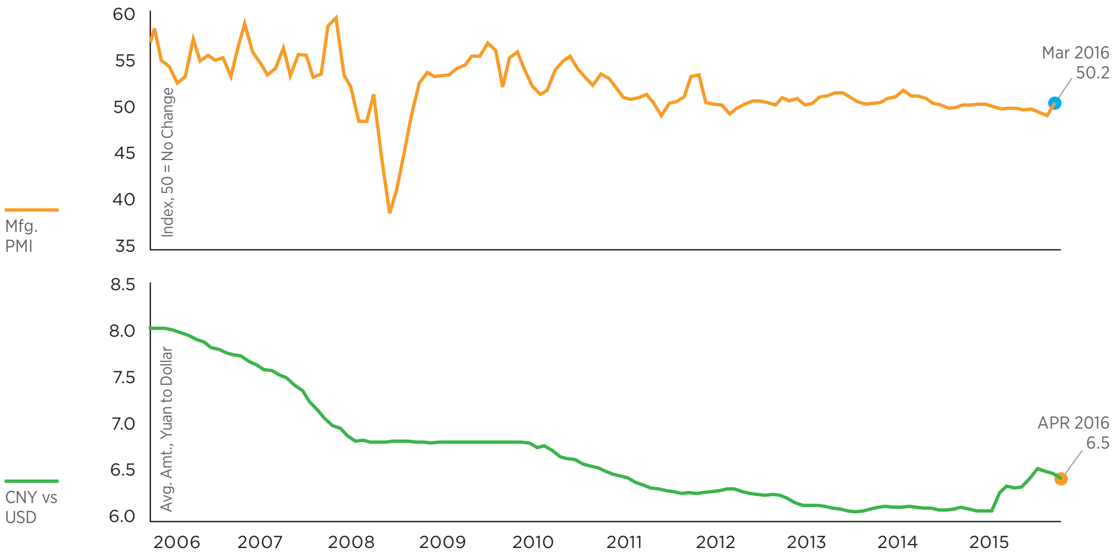
Oil & the Dollar



Source: Thomson Reuters Datastream; UMB Investment Management

- The direction of the dollar is inversely correlated with the price of oil.
- The dollar has weakened as the Fed has become more dovish, and U.S. growth has slowed somewhat.
- The weakening dollar has assisted in crude's recent rebound.
- Important dates that will impact oil: **Oil Summit, April 17th and OPEC meeting, June 2nd.**
- Speculation on potential production cuts at the aforementioned meeting dates have helped drive the recent rally in crude oil.
- We expect oil markets to begin stabilizing.

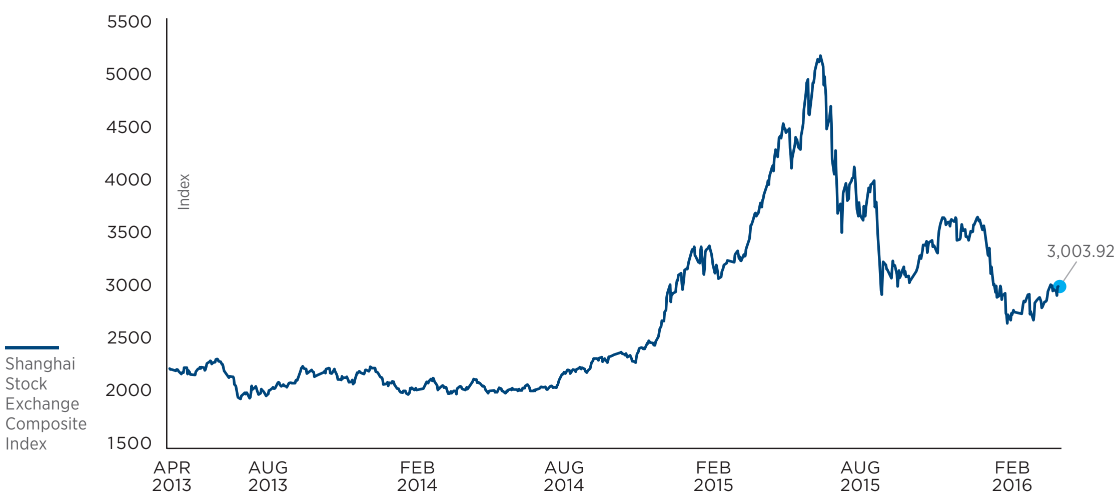
China Manufacturing and Currency



Source: Thomson Reuters Datastream; UMB Investment Management

- China's economy and markets continue to be in focus for global markets.
- Recent monetary stimulus appears to be stabilizing China's economy as the manufacturing index expanded for the first time in over two quarters in March.
- China's currency (Yuan) devaluation over the last 12 months has caused many to fear a more rapid devaluation in the months ahead, which could lead to destabilizing currency wars.
- The recent strength in the Yuan has eased market fears of an imminent devaluation.
- China's currency bears monitoring and remains a risk to the market if it significantly devalues.

China Stock Market

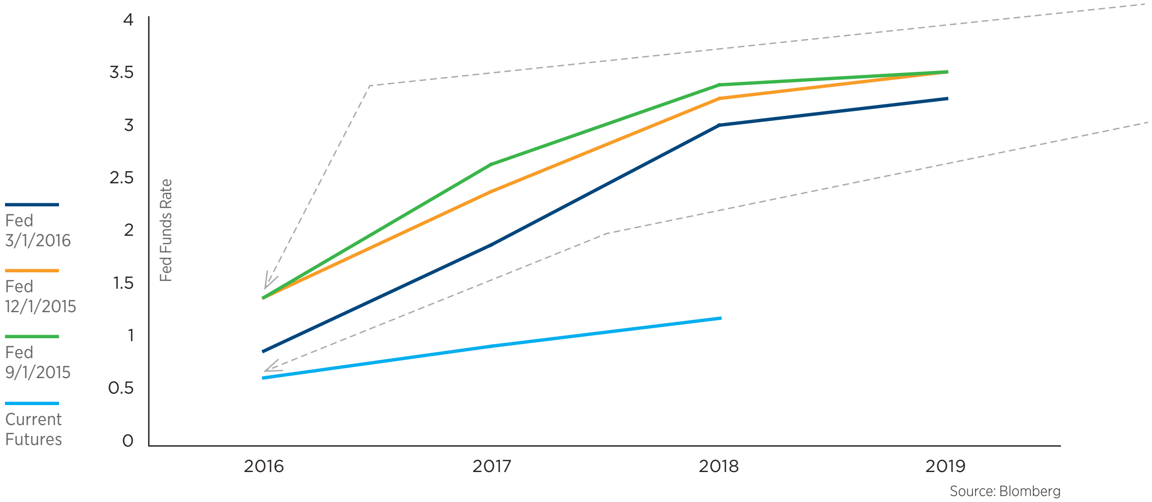


Source: Bloomberg

- China's stock market continues to exhibit significant volatility.
- We do not think the stock market is a reflection of China's economic growth (even though the economic backdrop has slowed).
- China's stock market is highly dependent upon policy support and overall confidence in the Chinese government.
- We believe the risks related to China are manageable.

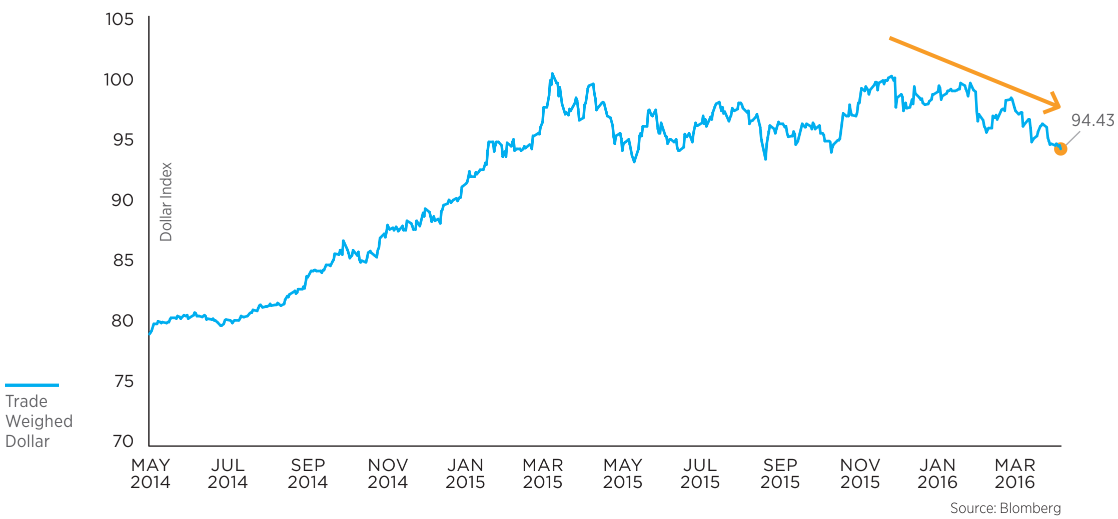
The FOMC — More Dovish Rate Projections

Fed Funds Rate Expectations



- The Fed has lowered its projections for Fed funds as global market volatility has increased and the economic data in the U.S. has softened.
- FOMC near-term projections for overnight rates are now more closely aligned with market expectations (futures).
- The theme continues to be Fed funds "lower for longer".

US Dollar



- The dollar has finally weakened significantly, due to a more benign interest rate outlook from the FOMC.
- A flat/weaker dollar should improve trade conditions for exporters. This is positive for the industrial sector.
- A weaker dollar is also supports commodity prices, a benefit to the material sector.

S&P 500 Presidential Cycle Return Averages, 1928–Present

	1st Year	2nd Year	3rd Year	4th Year (Election Year)
Average Return per Year	5.1%	4.8%	12.8%	**7.0%**
Median Return per Year	5.0%	6.2%	16.8%	**10.4%**
Percent Positive Return Years	55%	59%	77%	**73%**

Source: Bloomberg

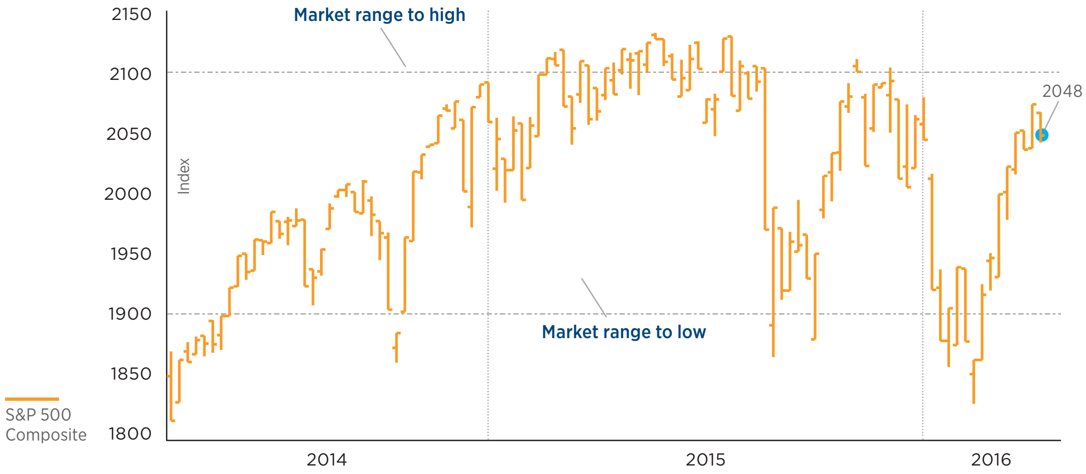
- In an election year, the market tends to be a tale of two halves.
- The first half of the year tends to be highly volatile due to uncertainty around the presidential candidates.
- As of the field of candidates thins and more certainty is gained, the market tends to rally.
- In the second half of an election year, the equity markets typically improve due to dissipating uncertainty.
- We expect similar market behavior in the 2016 election year.

Allergan Stock Price

Source: Thomson Reuters Datastream; UMB Investment Management

- Political risk has wide ranging implications for the markets.
- While the broad markets have not historically been influenced by politics, certain industries can be impacted.
- In late 2015, Pfizer announced its intent to acquire Allergan, in part due to tax benefits.
- In April of 2016, the Treasury announced new rules that negatively impacted this deal.
- As a result, Pfizer walked away from Allergan.

S&P 500



Source: Thomson Reuters Datastream; UMB Investment Management

- The stock market has been volatile, driven by oil, recession risk, the Fed, politics, and China.
- Earnings growth has been challenged over the past few quarters (negative growth), which is historically associated with recessions.
- However, earnings growth has been under pressure due to low oil prices in the energy sector and foreign exchange effects from the higher dollar.
- The rise in oil and the weakening dollar will help alleviate some concerns related to earnings growth.
- We expect the market to be range-bound. We believe 1900 is too low and 2100 is too high.

S&P 500 Valuation

Source: Thomson Reuters Datastream; UMB Investment Management

- The market is fairly valued in our view. This is one of the main reasons the market is having a hard time breaking into new highs.
- Given the aforementioned risks, we need to see an acceleration in the global economy and earnings to drive the valuation of the market higher.
- As the market is trading towards the higher end of our forecast for 2016, we would look to be tactically bullish on market pullbacks or a reacceleration of the global economy.

U.S. Equity Sector Performance

S&P 500 Year-to-Date Return

Index/Sector	Total Return % as of 3/31/16 1 Month	YTD	1 Year	3 Year	5 Year
S&P 500	6.78	1.35	1.77	11.80	11.56
Telecommunication	6.36	16.61	18.74	8.13	10.65
Utilities	8.03	15.56	15.97	12.41	13.66
Consumer Staples	4.75	5.57	11.43	12.83	15.17
Industrials	7.11	4.99	3.18	12.59	10.72
Energy	9.31	4.02	-15.54	-4.94	-2.37
Materials	7.68	3.61	-6.00	6.74	4.81
Technology	9.15	2.60	8.06	17.01	13.74
Consumer Discretionary	6.67	1.60	6.75	16.10	17.11
Financials	7.32	-5.06	-4.58	9.41	8.62
Health Care	2.77	-5.50	-5.18	15.62	17.62

Source: Bloomberg

- The S&P 500 rose 1.35% in a highly volatile Q1.
- The first month of the quarter, the market had a risk off tone. The defensive sectors led the market during this time.
- However, towards the latter half of the quarter, sectors more dependent upon the economy performed well. Specifically, energy, materials and finance led the market.
- We do not believe the strong returns seen in the telecommunications and utilities sectors are sustainable

Commodity and Currency Returns

	YTD Returns	1 Year Return
Gold	16.20%	4.20%
Oil	3.50%	-19.50%
Natural Gas	-16.20%	-25.80%
Dollar	-4.10%	-3.80%
Yuan	-0.60%	4.10%

Source: Bloomberg

- Commodity and currency markets have been extremely volatile.
- Gold rallied in Q1 due to safe haven demand.
- Oil appears to be stabilizing for the time being.
- Natural gas markets remain weak due to oversupply and a warmer-than-average winter season.

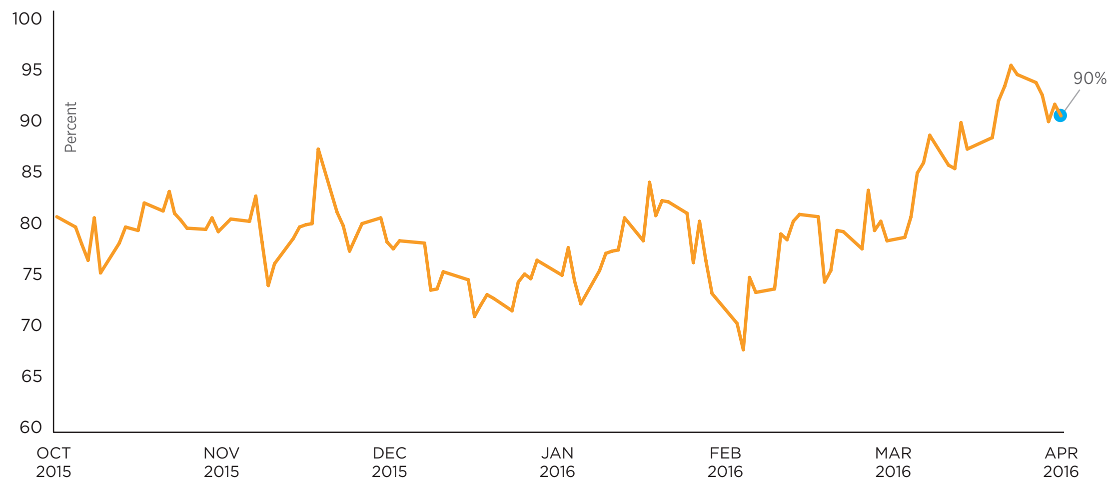
High Yield Stabilizes While Munis Become More Attractive

High Yield Spread (OAS)

Source: Bloomberg

- The violent sell-off in High Yield (wider spreads) abated at quarter end.
- Stability in the energy sector helped feed the modest recovery in the High Yield market.
- Clarity in the political environment, paired with continued stability in the energy sector and China, should help set the stage for a reentry point into the High Yield sector. We believe this will occur in early summer.

Muni to Treasury Ratio 5 YR



Source: Bloomberg

- Municipal bonds continue to display lower volatility than the taxable markets.
- When rates plummeted late in the quarter, muni rates remained elevated, boosting the muni-to-Treasury ratio and driving better value into munis.
- With the ratio now at 90, munis are above their long-term average valuation level. Higher tax brackets result in taxable-equivalent yields that are very attractive, relative to taxable bonds.

U.S. Performance and New Lows in Europe – March 2016

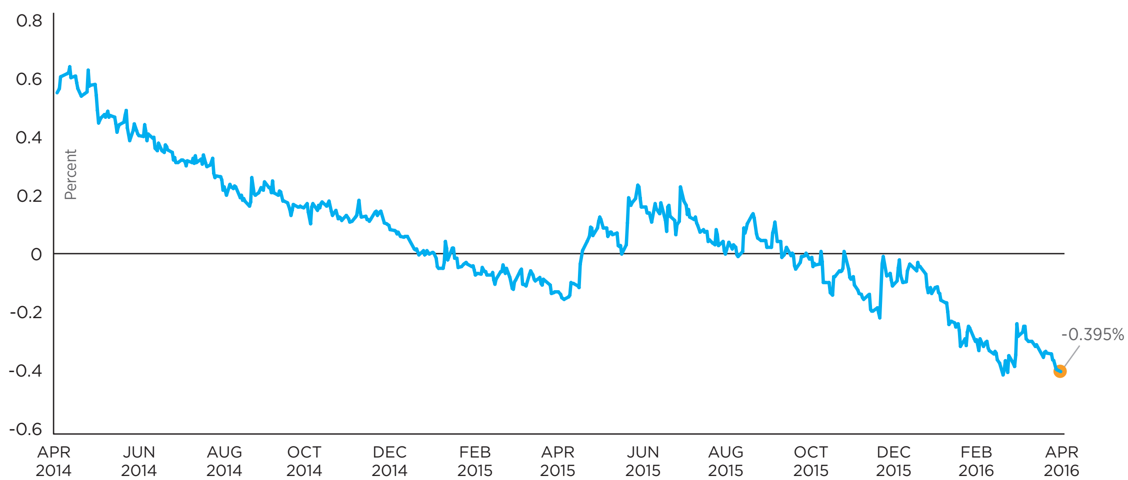
Performance

Index	MTD Return	3 Month (YTD) Return
Treasury Long	0.00	8.15
US Gov Cred Long	2.84	7.30
Corporate Long	5.16	6.83
Baa	3.65	4.32
A	2.02	3.86
U.S. Gov/Credit	1.17	3.47
Aa	1.23	3.26
U.S. Aggregate	0.92	3.03
Aaa	0.25	2.66
US Gov Cred Intermediate	0.72	2.45
Agg Intermediate	0.58	2.31
Financial Institutions	1.72	2.26
Securitized	0.35	2.06
U.S. Agency	0.20	2.04
U.S. MBS	0.30	1.98
Agency Intermediate	0.22	1.51
GNMA 15 Year	0.24	1.47
Aaa Only	0.10	1.39

Source: Thomson Reuters Datastream; UMB Investment Management

- Long rates plunged 50 basis points during the quarter, driving very strong performance numbers into the long-dated indices.
- Credit staged a modest rally at quarter end, helping to push returns on lower-rated sectors ahead of higher-grade buckets.
- After initial turbulence from the December rate increase, the markets finally began to price in a very slow pace of rate normalization.

German 5yr Tsy Yield

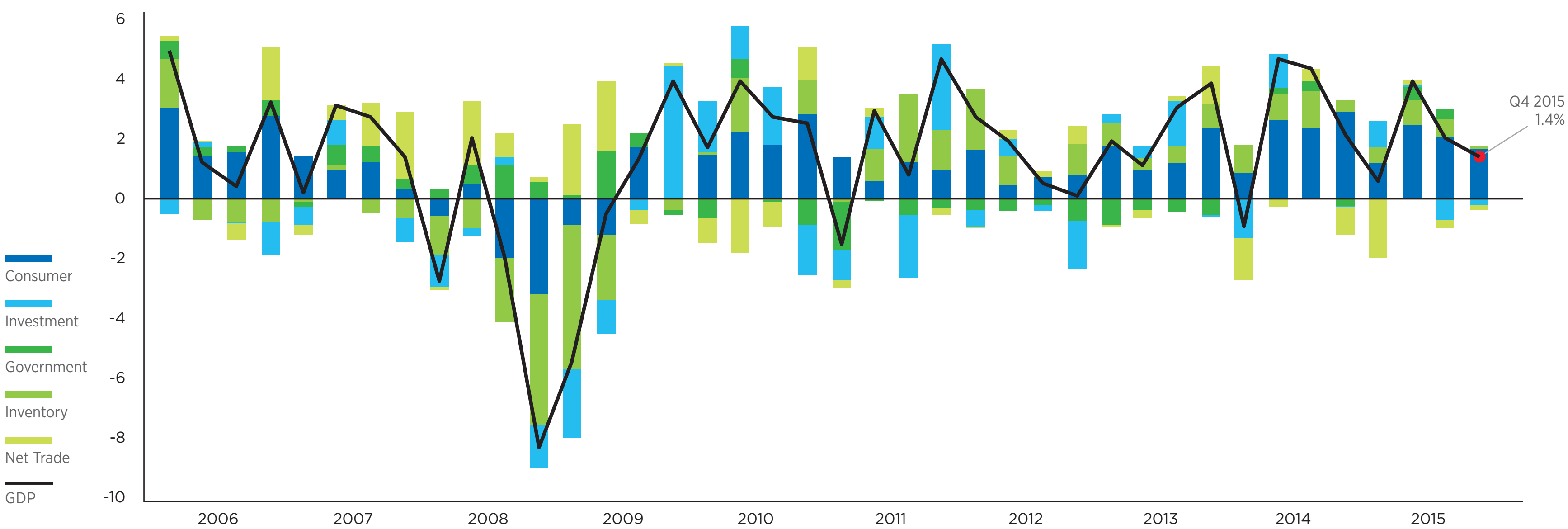


Source: Bloomberg

- The ECB's pledge for ongoing QE and isolated moves towards negative overnight rates helped push government bond yields deeply into negative territory throughout the Eurozone, with most countries hitting all-time lows.
- The divergence between falling rates in Europe and modestly rising rates in the U.S. will keep upward pressure on the dollar.

Real Gross Domestic Product (GDP)

Contributions to GDP Growth



Source: Thomson Reuters Datastream; UMB Investment Management

% Contribution to GDP by Quarter

Component	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15
Consumption	2.9	1.2	2.4	2.1	1.7
Investment	0.4	1.3	0.9	-0.1	-0.2
Net Exports	-0.9	-1.9	0.2	-0.3	-0.1
Government	-0.3	0.0	0.4	0.3	0.0
Total	**2.1**	**0.6**	**3.9**	**2.0**	**1.4**

Source: Thomson Reuters Datastream; UMB Investment Management

UMB GDP Forecast

Year	Q1	Q2	Q3	Q4	Year
2013	2.7 (A)	1.8 (A)	4.5 (A)	3.5 (A)	2.2 (A)
2014	-2.1 (A)	4.6 (A)	5.0 (A)	2.1 (A)	2.4 (A)
2015	0.6 (A)	3.9 (A)	2.0 (A)	1.4 (A)	2.4 (A)
2016	0.8 (E)	2.5 (E)	2.4 (E)	2.5 (E)	1.9 (E)

(A) = Actual, (E) = Estimate

Source: UMB Investment Management

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