



December 31, 2016 Quarterly Report

We hope you enjoyed the holiday seasons and had a happy New Year!

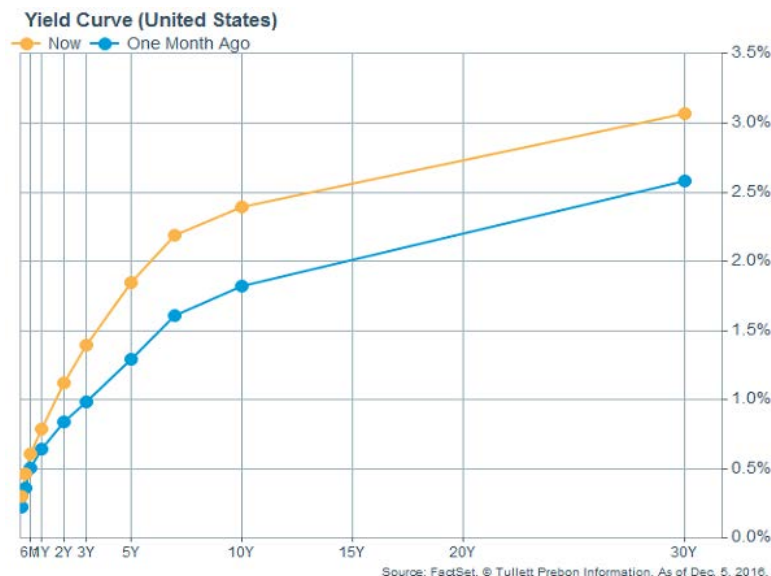
Election Surprise

November was quite a month. As markets waited with bated breath, the world watched as late election results were reported for the next president of the United States. As news trickled in pointing to a Trump victory, trading markets acted erratically. The Mexican peso plunged as much as 12%, the S&P 500 futures halted trading after dropping 5%, and gold at one point gained more than \$60 an ounce before falling back only 2% higher. We had gone to bed thinking that the morning would present itself with a number of opportunities to buy cheap assets. However, that morning markets not only corrected the overnight declines, but finished higher for the day.

Since the election, U.S. stocks have gained almost 6%. Major market indexes such as the Dow Jones, the S&P 500, and Nasdaq Composite all hit record highs in the month of December alone. It is hard to find one particular reason why the markets have moved progressively higher since the election, but the general consensus is that the new Administration will be moving towards tax cuts, regulatory reductions and fiscal stimulus that many believe will lead to continued economic growth throughout 2017 and 2018.

The Fed's Action

For the first time in 7 years, as many expected, the Fed decided on a rate hike for short-term rates. This reflected that while the continuing outlook on an easy monetary policy is still necessary to help the US economy recover from the financial crisis that occurred in 2008-2009, it is also necessary to recognize the improvements and tightening of the Labor Markets. With an increase of 25 basis points (to a range of 0.50%-0.75%), this decision was "calmly accepted" and ended an almost decade of near-zero interest rates. It is important to know that while US interest rates are very low relative to history, a slow and gradual shift toward higher interest rates in 2017 are anticipated.



The chart above shows just how much rates have risen over the last year. We are optimistic that the increase in rates will be a net positive for not only the financial institutions in the United States, but also for all the individual who have investible assets.

OPEC Deal

On November 30th, for the first time in 8 years, OPEC came to an agreement to cut production. Output is to be reduced by nearly 1.2 million barrels a day (32.5 million barrels) by January. This would fulfill a plan that was originally outlined in Algiers in September, which we reported on last quarter. The deal resolved disagreements between OPEC's largest producers Saudi Arabia, Iran, & Iraq. Though Nigeria and Libya were exempt, this gave Iraq its first quotas since the 1990's and is now allowed to raise output to almost 3.8 million barrels a day. Global head of commodities research Jeff Currie of Goldman Sachs considered the economics of the OPEC deal "incredibly appealing" and that the main focus for the cuts is to normalize inventory. This move has strengthened the price of a barrel of oil considerably and has improved the outlook for oil related companies.

European Bank Issues (Italy's Monte Paschi)

After failing to raise \$5.2 billion in the market, the Italian government was forced to step in and rescue the world's oldest & Italy's third largest lender, Banca Monte dei Paschi di Siena. This will be the country's largest bank nationalization since the 1930's. Prime Minister Paolo Gentiloni stated that the government has authorized a 20 billion euro (\$21 billion) fund to support the beleaguered banking division. Italian banks have been struggling under the weight of a now 360 billion-euro (\$381.9 billion) deficit, which has been driven by bad loans. Government rescue has long been resisted in Italy, which has concerned investors due to what some call a "slow-burn crisis" amongst the Italian banking sector. However, others feel that the bailout could be a positive swing for Italy. Presumably, these actions should help shore up the Italian banking sector.

Infrastructure Investment Exposure (Resource Equities)

As one year closes and a new year begins, we will begin reviewing more companies with an infrastructure focus & foundation. Infrastructure is the physical systems – roads, power, ports, transmission lines & towers, dams, buses, rail links, etc. – that are the building blocks to a country's economic, social, and financial development. US infrastructure makes up for 2.6% of the nation's GDP, comparative to the world average of 3.8%. Infrastructure upgrades have been of little importance on the lists of US national priorities. However, the new administration has repeatedly called for an increase in infrastructure spending, allowing potential high-quality infrastructure investment opportunities to materialize. Solid infrastructure projects can produce long-term productivity benefits and are ideal in enhancing employment on both the local & national level, thus, we have been focusing intently on investments that will benefit from a renewed interest in infrastructure.

Should you have any questions please feel free to call me directly at 314-726-5500 or email at bgrunzinger@chrysalisim.com.

Sincerely,



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