Central Trust Company
THE CENTRAL VIEW

CENTRAL TRUST COMPANY IS PROUD TO PROVIDE YOU THE FOLLOWING MARKET COMMENTARY.

SECOND QUARTER 2016

CAUTION INVESTORS! DON'T CONFUSE VOLATILITY WITH RISK....

A year ago, client conversations often led to questions about whether the risks of equity ownership after 2009 had been overstated and if we should increase equity exposures. After all, the S&P 500 had not had a correction of 10% or more for nearly four years and had delivered nine consecutive positive return quarters. This was a much better risk-adjusted return experience than fixed income, alternative investments or cash.

We expect the U.S. economy to continue to grow at a moderate rate driven by a strong consumer, job growth, an accommodating Federal Reserve, and a resurgence in manufacturing and corporate profits.

There were concerns and issues that might have changed this pattern but most worries were about issues that were well worn and presented little risk of upsetting the markets in the near future. Most concerns were associated with the ability of the U.S. to sustain what was already a very long recovery by historical standards. The soft spots in the economic reports were pretty much limited to soft manufacturing data, which was easy enough to justify in light of the strong dollar and melt-down of activity in the oil fields, and widening of yield spreads between high and low quality debt instruments. Worldwide, the Central Banks were not only continuing down the path of accommodative easing but, in the case of several of the largest, including the European Central Bank (ECB), stepping up those activities.

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What has transpired since? On the surface very little seems to have changed. The timing of a peak in equity valuations is no more certain but no more stretched. Manufacturing data trended downward only slightly for the remainder of 2015 and has shown signs of turning back up in the first quarter of 2016. Yield spreads, likewise, continued to widen slightly, peaking towards the end of the year, but have since settled down. The ECB announced an expansion of its QE program as well as a further reduction of interest rates, adding fuel to the hope that the economies of the European Union will find some traction and grow towards potential. Oil and natural gas prices have continued to trend lower.

However, what has changed is the previous gentle upward pace of the equity markets, which has turned into quite a bumpy ride. Beginning in Mid-July of last year, the S&P 500 rolled over from a peak of 2128 to a trough of 1867 on August 25th constituting the first of what has proven so far to be a series of three tests of new lows, the final one of which occurred on February 11th of this year. Over that span of time the S&P 500 traveled some 300 points. Investors who bought at the peak have not been back to even and on February 11th would have been down some 14%. With that, there are far fewer talks about adding equities (although we have worked our way back to even for the year); the perception of "risk" has changed.

A good definition of risk is simply the chance for an unexpected, and usually unpleasant, outcome.

A good definition of risk is simply the chance for an unexpected, and usually unpleasant, outcome. When chart patterns become erratic, investors lose confidence that their investment outcomes will be as positive as expected, or at least within a range of experiences they can tolerate. They have seen recent examples of prices going down more than they are comfortable with. It is important to separate this fear of volatility, however, from the probability of suffering a sustained loss of capital.

We can avoid the unpleasant outcomes that are driven by volatility simply by remembering that markets are driven by emotion in the short term and today's modern high speed computer-driven trading exaggerates these movements even further. To be successful, we cannot act on these movements. They must be ignored. On the other hand, we should not ignore what is happening to the overall economy from a longer term trend perspective. These trends are meaningful and control the worth of our corporate equity holding. If the economy is not growing, neither are most of the companies represented in our diversified equity portfolio.

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As we view the markets and the economic fundamentals over the last few quarters, there seems to be a persistent distrust that the fundamentals are telling the whole story. Aside from the yellow flags being hoisted around manufacturing and junk bond yields, the other so-called "leading indicators" have remained healthy. Not to say that any component of the leading indicators is busting out on the upside. That is not the case. But, most are suggesting an economic climate that is capable of sustaining moderate growth.

A reason often given to explain why the markets cannot break through to higher ground is that valuation levels are too high. It is true that valuation levels may be stretched but it depends on your point of reference. Certainly, today's prices, relative to reported earnings, are not reason enough to limit a market advance. There are plenty of historical examples of markets at similar P/Es expanding much further. In vogue recently has been to hold up the Shiller CAPE Ratio as proof

positive that the tendency of the market going forward will be to revert back to a lower level. The rationale for that is being challenged as well. It seems GAAP earnings, on which the historical earnings of this ratio are based, have gone through several standards changes, enough that the earnings from ten years ago are not wholly comparable to recent earnings. When alternative earnings measurements are used that have not changed over this ten year period, the current CAPE ratio is not so far above its mean and can reasonably go higher. While the starting P/E level going into a reaccelerating economy may give some hint of the potential of a market rise, there are no examples in recent memory of a market that did not rise in the face of an improving economy regardless of the P/E level.

We do not see a significant slowdown in growth in the U.S. or the other international developed economies in the near future.

Meaningful market set-backs, those "Bear Markets" that do result in sustained losses for a period of several years, rarely occur when there is not a recession in the making. We do not see a significant slowdown in growth in the U.S. or the other international developed economies in the near future. We expect the U.S. economy to continue to grow at a moderate rate driven by a strong consumer, job growth, an accommodating Federal Reserve, and a resurgence in manufacturing and corporate profits. The first quarter of 2016 proved to be a turning point for manufacturing, productivity and possibly corporate profits (we will find out as the reports pour in this month). On top of that we may finally be seeing a turn in the impact of low oil prices from a negative as it relates to declining activity in the oil fields to a positive as the gasoline "dividend" continues to support healthy consumer spending.

The international developed economies have been a mild disappointment as growth continues to lag that of the U.S. That growth has been more stable in 2016 and the Central Banks continue to learn from the practices our Federal Reserve implemented with success and are taking measures to mirror those successes. Once the banking system, particularly in Europe, improves its capital positions so that there is an adequate supply of available funds to meet demand created by the Central Bank activities, the capital markets and economic activity are likely to improve.

Do not let the noise of the political campaigns or the ebbs and flows of data describing individual components of the economy impact your long term goals.

Taking everything into consideration, we understand volatility may continue to scare some investors away from the equity markets. The uncertainties that have been responsible for this volatility are likely to persist. However, the probability is low that we will be dealing with an economic recession in the near future. So low, too, is the risk of incurring sustained losses. Do not let the noise of the political campaigns or the ebbs and flows of data describing individual components of the economy impact your long term goals. We advise staying committed to the strategic investment targets that have been established by you and your Central Trust team of advisors.

MARKET RECAP FOR THE FIRST QUARTER 2016

Global markets rebounded to end the first quarter on a strong note after a rocky start to 2016. The major stock market averages ended close to where they started the year. The quarter was volatile as investor concerns about falling oil prices, interest rate increases, China and a possible recession sparked a retreat in risk assets. The S&P 500 index reached a low on February 11 and then rallied into the end of the quarter driven by higher oil prices, the Fed backing away from increasing interest rates four times this year, and the European Central Bank (ECB) expanding its quantitative easing program. The U.S. domestic stock market outperformed international developed markets. Bonds outperformed stocks as interest rates moved sharply lower across the globe to record low yields, with many countries now having negative interest rates. Real assets were led by gains in real estate and gold. Alternative investments posted modest gains. Overall, balanced investment portfolios eked out slight gains for the quarter.

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Equities

Global equity markets were led by U.S. equities as the S&P 500 gained 1.3% with dividends, and the MSCI All Country World Index advanced 0.3%. International developed equity markets lagged the U.S. with a decline of 2.0%, while emerging markets bounced 5.7% from depressed levels. The U.S. market has tripled the level of the lows reached in 2009 and ended back near all-time highs at quarter-end. For the quarter, the U.S. sector leadership was in the defensive Telecom, Utilities, and Consumer Staples sectors. Health Care and Financials posted negative returns. Mid-cap stocks outperformed large-caps and small-caps during the quarter. Growth stocks outperformed value stocks in the large cap segment by a small margin.

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Exhibit 1: Equity *Trailing Performance (Annualized when > 1 year)*

Asset Class	Index	MTD	QTD	1Y	3Y	5Y	10Y
Global	MSCI All Country World IMI	7.6%	0.3%	-4.4%	5.6%	5.2%	4.3%
Large Cap	S&P 500	6.8%	1.3%	1.8%	11.8%	11.6%	7.0%
	Russell 1000	7.0%	1.2%	0.5%	11.5%	11.4%	7.1%
Styles	R1000 Growth	6.7%	0.7%	2.5%	13.6%	12.4%	8.3%
	R1000 Value	7.2%	1.6%	-1.6%	9.4%	10.2%	5.7%
Large Cap L/S	S&P 500 / LIBOR plus 3	3.5%	1.1%	2.5%	7.5%	7.4%	5.7%
Small/Mid Cap	Russell 2500	8.3%	0.4%	-7.3%	8.2%	8.6%	6.5%
Mid Cap	Russell Mid Cap	8.2%	2.2%	-4.1%	10.5%	10.3%	7.4%
Small Cap	Russell Small Cap	8.0%	-1.5%	-9.8%	6.8%	7.2%	5.2%
International	MSCI World Ex US (net)	6.8%	-2.0%	-8.4%	1.7%	1.6%	1.8%
Emerging Markets	MSCI Emerging Markets (net)	13.2%	5.7%	-12.0%	-4.5%	-4.1%	3.0%

Source: Central Trust Company

Fixed Income

Interest rates plunged in the first quarter on concerns of slowing growth, which drove the yield on the 10-Year U.S. Treasury down to a low of 1.61%. The decline in yields propelled the Barclays Aggregate Index to a gain of 3.0% year-to-date. TIPs (Treasury Inflation Protected Securities) performed best in the investment grade area with a gain of 4.7%. The credit segment reversed earlier declines to close up for the quarter as spreads tightened with high yield gaining 3.4%, floating rate loans up 1.5%, and emerging market debt advancing 5.2%. Municipals gained 1.6%. Interest rates are now negative for 29% of the global government bond market.

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Exhibit 2: Fixed Income *Trailing Performance (Annualized when > 1 year)*

Asset Class	Index	MTD	QTD	1Y	3Y	5Y	10Y
Global	Citi World Broad Investment Grade	2.6%	5.8%	4.7%	1.1%	1.9%	4.4%
U.S. Aggregate	Barclays US Aggregate	0.9%	3.0%	2.0%	2.5%	3.8%	4.9%
Money Market	Citigroup 1-month T-Bill	0.0%	0.0%	0.0%	0.0%	0.0%	1.0%
U.S. Government	Bloomberg Bond Index US Govt (ST)	0.2%	0.9%	1.0%	0.8%	0.9%	2.5%
	Bloomberg Bond Index US Govt (IT)	0.3%	2.5%	2.6%	1.7%	2.7%	4.4%
	Bloomberg Bond Index US Govt (LT)	0.1%	8.1%	3.0%	6.1%	9.6%	8.0%
U.S. TIPS	Citi U.S. Inflation Linked Securities	1.8%	4.7%	1.3%	-0.6%	3.1%	4.7%
Tax Exempt	S&P Municipal Bond Index	0.4%	1.6%	3.9%	3.6%	5.8%	4.8%
U.S. Corporate	Barclays iShares Intermediate Corp	1.5%	2.7%	1.6%	2.1%	3.8%	0.9%
U.S. Corp High Yield	Barclays U.S. Corporate High Yield	4.4%	3.4%	-3.7%	1.8%	4.9%	7.0%
U.S. Floating Rate	S&P/LSTA Leveraged Loan	2.8%	1.5%	-1.3%	1.9%	3.2%	4.3%
International	Citi Non USD WGBI	3.9%	9.1%	7.7%	-0.2%	0.2%	4.0%
Emerging Markets	JPM Emerging Markets	3.3%	5.2%	4.4%	2.4%	6.0%	7.1%

Source: Central Trust Company

Real Assets

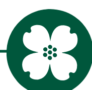
For the quarter, real estate recovered with REITs gaining 7.0% as interest rates moved lower and fears of a recession receded. Commodities gained 0.4% as the dollar strength subsided and oil prices advanced. Oil prices after falling 70% from mid-2014, made a low mid-quarter and jumped 40% to $38 per barrel at the end of March. Gold was the best performing asset class in the first quarter gaining 16%.

Gold was the best performing asset class in the first quarter.

Exhibit 3: Real Assets *Trailing Performance (Annualized when > 1 year)*

Asset Class	Index	MTD	QTD	1Y	3Y	5Y	10Y
Commodities	Bloomberg Commodities	6.7%	3.7%	-7.7%	-4.2%	-2.4%	-1.9%
Real Estate	S&P Developed REIT	3.8%	0.4%	-19.6%	-16.9%	-14.1%	-6.2%
Real Estate (US)	MSCI US REIT	9.5%	7.0%	4.2%	8.5%	9.3%	2.5%
Gold	Spot Gold	0.0%	16.1%	4.1%	-8.2%	-2.9%	7.7%
Inflation	*Consumer Price Index*	0.0%	-0.1%	0.8%	0.7%	1.3%	1.8%

Source: Central Trust Company



Complementary Strategies

Complementary strategies provide additional stability to portfolios by enhancing diversification and reducing volatility due to low correlations with other asset classes. Complementary strategies are an attractive alternative to traditional fixed income in a rising interest rate environment.

Exhibit 4: Complementary Strategies *Trailing Performance (Annualized when > 1 year)*

Asset Class	Index	MTD	QTD	1Y	3Y	5Y	10Y
ALTERNATIVES	LIBOR + 3	0.3%	0.9%	3.3%	3.2%	3.2%	4.4%
Conservative	Hedge Fund Reseach HFRI FOF	0.0%	-2.2%	-3.6%	2.3%	1.6%	1.4%
Multi-Strategy	HFRI Multi Strategy	0.0%	-1.5%	-2.8%	2.7%	2.8%	3.6%
Global Macro	Credit Suisse Global Macro Ind	0.0%	-2.1%	-6.1%	1.4%	3.1%	6.0%
Managed Futures	Credit Suisse Managed Futures	0.0%	7.4%	-0.9%	6.4%	2.9%	4.5%

Source: Central Trust Company

PORTFOLIO MANAGEMENT IMPLICATIONS

The implications to your portfolio may vary depending on your particular individual situation. Please consult with your Central Trust financial advisor. We build portfolios by utilizing five major asset classes. They are: equities, fixed income, real assets, complementary strategies and cash.

Asset Allocation

We expect continued slow, positive growth in global and U.S. GDP with limited risk of recession at this time. Corporate earnings in the U.S. are expected to be relatively flat this year weighed down by weakness in the energy sector and slow global growth. With little earnings growth and valuations being above average, we expect modest returns. Key factors effecting investment markets this year are global central bank policy, the trend in global growth, and the direction of the dollar. Overall, our asset allocation continues to be moderately overweight equities, market weight fixed income, below weight on real assets and market weight on complementary strategies.

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Equities

Looking out twelve to eighteen months, we have a positive outlook for stocks based on the expectations of higher corporate earnings as oil prices stabilize, a favorable consumer backdrop (employment and lower energy costs), and stocks attractive relative valuation to bonds. After the recent advance, equities may pause due to the Fed tightening interest rates at a time of slowing global growth and above average valuation levels. While we continue to favor equities, we reiterate our view that volatility will increase in global equity markets from the artificially suppressed levels of the last few years due to quantitative easing. We continue to favor domestic equities and developed international markets, while avoiding emerging markets that are exposed to China and soft commodities prices. We favor high quality, large cap equities.

Fixed Income

With interest rates now being in negative territory overseas, we favor U.S. fixed income that has higher real yields and lower currency risk compared to international bonds. Bonds play a core role in providing deflation protection in portfolios. While the fixed income sector remains challenging due to the absolute low levels of interest rates across the globe, they continue to provide income and hedge against growth sectors of the portfolio that have higher risk (equities, real assets). Over the last five years, we have diversified our sources of income for investors. In the last year, we increased our exposure to U.S. investment grade bonds that act as a diversifier and provide deflation protection for portfolios in slower growth and recessionary periods. Domestic credit was reduced to lessen portfolio sensitivity to credit spreads and the economy. International fixed income was minimized due to the low levels of, and in many cases negative, interest rates overseas that don't adequately compensate for the perceived foreign currency risk.

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Real Assets

We are below weight on real assets at this time. In this asset class, we are invested in real estate with no exposure to commodities. REITs generally provide above-average yield and appeal to investors seeking income. Real estate benefits from rising rents and economic growth in the U.S. Our underweight has been in the commodity sector where pricing continues to reflect disinflationary trends, rising supplies and slowing growth in China.

Complementary Strategies

The strategies we utilize in building portfolios are designed to lower portfolio volatility and improve portfolio efficiency due to low correlations with other asset classes. Complementary Strategies act as a hedge in volatile markets and provide better performance in a rising interest rate environment.

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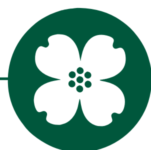
Cash

Portfolios will typically have a small amount of cash due to interest income and dividends being generated. At times, higher allocations of cash are beneficial to decrease portfolio volatility and provide a source of funds for purchases of attractive opportunities.



You can be confident that we are staying abreast of current events. Our outlook for the global markets is under continual review and will be adjusted as needed to reflect real fundamental changes, but we will stay firmly positioned when the "news" is deemed to simply be noise or distraction without relevance to investment results over the long term.

Sign up to receive The Central View via e-mail by visiting our website at www.centraltrust.net.

Please consult with your Central Trust Company advisor for more guidance on how Central Trust can tailor solutions for your particular needs based on these evolving economic and market conditions.

With approximately $5.0 billion in combined client assets, Central Trust Company provides investment management, trust, fiduciary and retirement plan services to individuals, charities, and businesses. With offices in St. Louis, Kansas City, Columbia, Jefferson City, Springfield, and Lake Ozark, Central Trust Company employs more than 100 professionals, with more than 23 years of average experience, serving high net worth individuals and families. For more information, visit Central Trust Company online at www.centraltrust.net.

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