



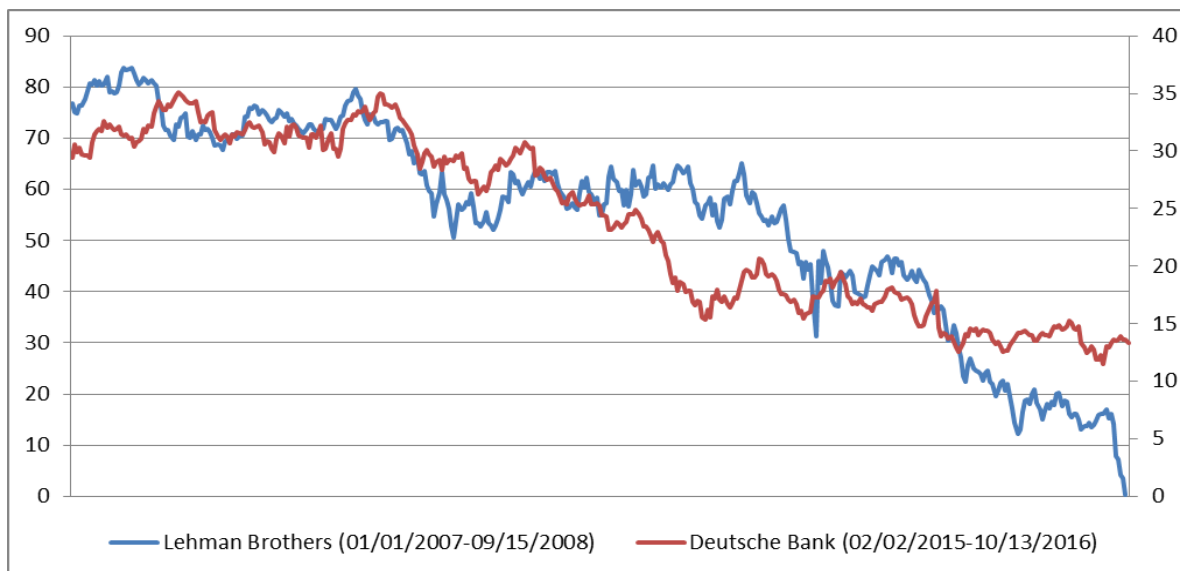
MANAGED ASSET PORTFOLIOS

MAP VIEWS Fourth Quarter 2016

Stock prices moved higher during the third quarter, as investors were willing to assume more risk despite a less-than-rosy macroeconomic environment. During the quarter, the S&P 500 rallied 3.3%, bringing its year-to-date return to 6.08%. The MSCI All Country World Index (ACWI) gained 4.8% for the quarter, approximately what it has gained year-to-date.

After shunning riskier (higher beta) stocks during the first half of the year, investors began assuming additional risk during the third quarter. As an example, technology and financial stocks were among the best performers during the quarter, while more defensive sectors, such as utilities, telecom and consumer staples lagged. Interestingly, it was the more defensive sectors that paced performance during the first half of the year.

As it pertains to the financials, we find it baffling that investors bid up the price of these names. Granted, speculation is growing that the Fed will raise rates again in the not too distant future; however, we view buying these stocks as analogous to picking up pennies on the railroad tracks. First, we believe the Fed will take a cautious approach to raising rates, and thus only anticipate one hike in the next twelve months. Secondly, European banks continue to struggle. Unlike their US counterparts, European banks failed to clean up the bad loans from their balance sheets after the financial crisis. We are particularly watching events unfold in Germany. Deutsche Bank, the largest bank in Germany, is in significant trouble year-to-date, its shares are off over 40%; and, as the chart below depicts, has a stock price that is eerily following a similar trajectory as Lehman Brothers during its collapse in 2008.



Keep in mind, Deutsche is the world's largest derivatives trader with a book of nearly **\$60 trillion**, yet its market capitalization (just under \$19 billion) is similar to that of American Airlines. Eventually we see the German government stepping up to the plate and bailing out its largest financial institution. However, we believe that Angela Merkel will be slow to do so as such actions would be politically unpopular. As a reminder, Congress was slow to pass the TARP funds to bail out the US banks, though eventually did so as the global markets began to melt down. As the old saying goes, "There is nothing like a crisis to get politicians to work together".

Looking across the pond, most recently, analysts at Standard & Poor's estimated that due to rising levels of non-performing loans, Chinese banks may need to raise \$1.7 trillion of additional capital; even under a best case scenario, \$500 billion would need to be raised before 2020. Therefore, we continue to be significantly underweight financial stocks in all of our portfolios and do not hold any traditional banks or insurance companies in the US or abroad.

Switching gears, fortunately for our collective sanity, the U.S. Presidential election will soon be over. It appears as though Hillary Clinton will win the election. While markets typically prefer a candidate that is more likely to lower taxes than raise them; as well as one that favors less government versus more, we believe the outcome of this election has already been properly discounted. There is a strong likelihood that the GOP maintains control of the House while the Senate is too close to call. This result will hinder Clinton's ability to freely push through her agenda. As such, we do not anticipate any real surprises in the stock or bond markets in November. We furthermore do not anticipate material changes in Washington over the next four years. Unfortunately, we cannot say the same about the EU, whereby approximately 40% of the countries, including France and Germany, have major elections in 2017. As such, we believe election rhetoric will not be leaving the airwaves anytime soon.

Once the November election passes, all eyes will focus on the December Fed meeting. Recall it was a year ago December that the Fed raised rates by 25 basis points, the first hike in nearly 10 years. At that time, speculation was that the Fed would raise rates three to four times during the course of 2016. As markets got off to a rough opening and projected economic growth failed to materialize, the Fed held off on further rate hikes. As mentioned previously, it is our belief the Fed will raise rates one more time during the next twelve months. Exactly when is debatable. Timing, however, in our opinion is a moot point. Our thoughts are pretty much in line with St. Louis Fed President, James Bullard, who stated in a speech this past summer that the Fed would likely raise rates once between now and 2018. With 35% of countries having negative interest rates, the U.S. is not in a position to materially raise rates without pushing the dollar significantly higher. Recall last year, 350 companies from the S&P 500 cited the strong dollar as a headwind for their revenues and earnings. We do not believe the Fed can take a chance of undertaking a series of rate hikes and snuffing out our fragile recovery.

In summary, given the current interest rate and inflation environment, we view stock valuations as fair. Selection will be key and, more importantly, what you do **not** own is perhaps more important than what you do own. Thank you for allowing us to serve your investment needs.

October 20, 2016

Managed Asset Portfolios' Investment Team

Michael S. Dzialo, Karen M. Culver, Peter J. Swan, John F. Dalton and Zachary S. Fellows

The information contained herein represents our views as of the date above and does not represent a recommendation by us to buy or sell any security or securities mentioned. Past performance is no guarantee of future results.