WELLESLEY INVESTMENT PARTNERS
WEALTH MANAGEMENT
A SUBSIDIARY OF WELLESLEY BANK

Third Quarter 2016

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Times Change

Source: People.com/Maring Photography

Performance of Notable Indices[a]	Q3 2016	YTD (1/1/16 – 9/30/16)
S&P 500 Index	3.9%	7.8%
U.S. Midcap Equities	4.1%	12.4%
U.S. Small Cap Equities	9.0%	11.4%
International Developed Market Equities	6.5%	2.2%
Emerging Market Equities	9.2%	16.3%
U.S. Core Bonds	0.5%	5.8%
Global Bonds	0.7%	9.4%
Gold, $/troy oz	-0.5%	24.0%

Total return indices unless otherwise stated

A lot can change in 11 years. Back in 2005, Bill and Hillary Clinton were guests at Donald and Melania Trump's wedding. It looks like they had a good time. Who would have guessed the two on the left would be squaring off to become the next President of the United States.

As we come into the home stretch of the current campaign season, it's a good reminder 'this too shall pass'.

The long-term impact of a Clinton or Trump presidency likely matters less to overall investment markets than many think. The markets in the shorter term typically prefer continuity; so, a Clinton win could be met with a relief rally and a Trump victory with a decline based on policy uncertainty.

Longer term, we suspect political gridlock will continue and election year promises (from either candidate) face long odds of becoming law. That said, some sectors such as Energy and Health Care might be impacted based on regulatory changes driven by Presidential-led policy.

Elections that may have broader global market significance lie overseas. Italy faces a constitutional referendum on December 4th with many viewing it as important as the Brexit vote in determining the future path of the European Union. The Netherlands, France and Germany all face contentious elections next year that may also impact political support for the European Union. Finally, late next year China's 19th National Congress will be held and will alter the top leadership of the Communist Party.

We expect market volatility to wax and wane around each political event, but factors such as inflation, interest rates and global growth are likely more important drivers of market returns for long-term investors. A brief look at each:

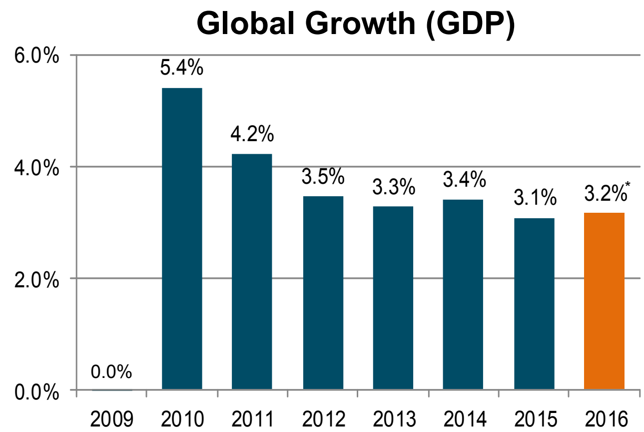
Inflation – Despite U.S., European and Japanese central bank efforts to spur lasting inflation above 2%, inflation globally has stayed stubbornly low since the 2008 financial crisis. Energy prices have rebounded from their lows and there are some signs of wage growth. However, other deflationary forces such as technological progress and population aging act as inflationary headwinds and suggest that inflation will stay low for quite some time.

Interest Rates – Global interest rates are at their lowest levels in recorded history[a]. The Bank of Japan recently updated its guidance to target 10-year bonds at 0%. German 10-year bonds have a negative interest rate and U.S. Treasuries hover around 1.6%[a]. While the Federal Reserve has held off on raising rates so far in 2016, we expect it will raise rates an additional 0.25% at its December meeting. While many at the Federal Reserve would like to more aggressively raise rates, modest GDP growth and inflation is expected to keep them on track to continue a very slow and gradual path of raising rates.

With persistently low inflation and central banks broadly committed to holding interest rates down, the 'lower for longer' outlook we've held has become the mainstream view.

a. Bank of America Merrill Lynch
b. Bloomberg

Global Growth – Over the last few years, global growth has hovered around 3% per year which has been broadly supportive for equities as it is seen as a goldilocks balance ('not too hot, not too cold').



Source: International Monetary Fund, 2016 Forecast

The downside of this modest growth is that any growth scare – such as the concern around China at the beginning of 2016 – has a higher perceived chance of triggering the next downturn. That said, the indicators we review suggest a low chance of U.S. recession within the next twelve months.

We currently see the global risks as balanced. For our Global Asset Allocation strategies, we are at our 'neutral' weightings. We continue to favor dividend paying companies (which has helped performance this year) and shorter term corporate bonds over longer-term government bonds (which has detracted from performance this year).

In our Dividend Growth strategy, the fifty stocks we hold generate an average 3.0% yield with the goal of doubling income generated by the strategy over the upcoming decade. With a focus on growing the dividend, the strategy is broadly diversified and not overly reliant on Utilities and Consumer Staples sectors – we have avoided many of the companies in these sectors as they are trading at generationally high valuations.

We hope everyone has the opportunity to enjoy the wonders of a New England Fall season. As always, please reach out to us with any questions or thoughts about the investment landscape in general or your portfolio in particular. We want to make sure you know what you own and that it fits with your long-term needs.

Regards,

Richard Sipley, CFA
Wellesley Investment Partners

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8. Notable indices shown for illustrative purposes include the S&P 500 Total Return Index, the S&P Midcap 400 Total Return Index (U.S. Midcap Equities), the Russell 2000 Total Return Index (U.S. Smallcap Equities), the MSCI EAFE Total Return Index (International Developed Market Equities), the MSCI Emerging Markets Total Return Index (Emerging Market Equities), the Barclays U.S. Aggregate Total Return Bond Index (U.S. Core Bonds), Gold spot price/troy ounce in U.S. dollars, and the JP Morgan Global Aggregate Total Return Bond Index (International Core Bonds). Data source: Bloomberg.
9. This report is for the quarter ending September 30, 2016.