ADVISORS CAPITAL MANAGEMENT

# Q4 2016 Review & Q1 2017 Outlook

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ACM is a registered investment advisory firm. Our ADV Part 2A and 2B are available upon request. For the purposes of this presentation ACM Private Account composite returns are presented net of all fees. ACM will not be presenting portfolio measurements for our Modeled Separate Account Composites. This information is available upon request. A copy of this presentation is also available upon request. Noted slides have been used with permission from Fidelity Research. Important disclosure pages follow this presentation and should be reviewed.

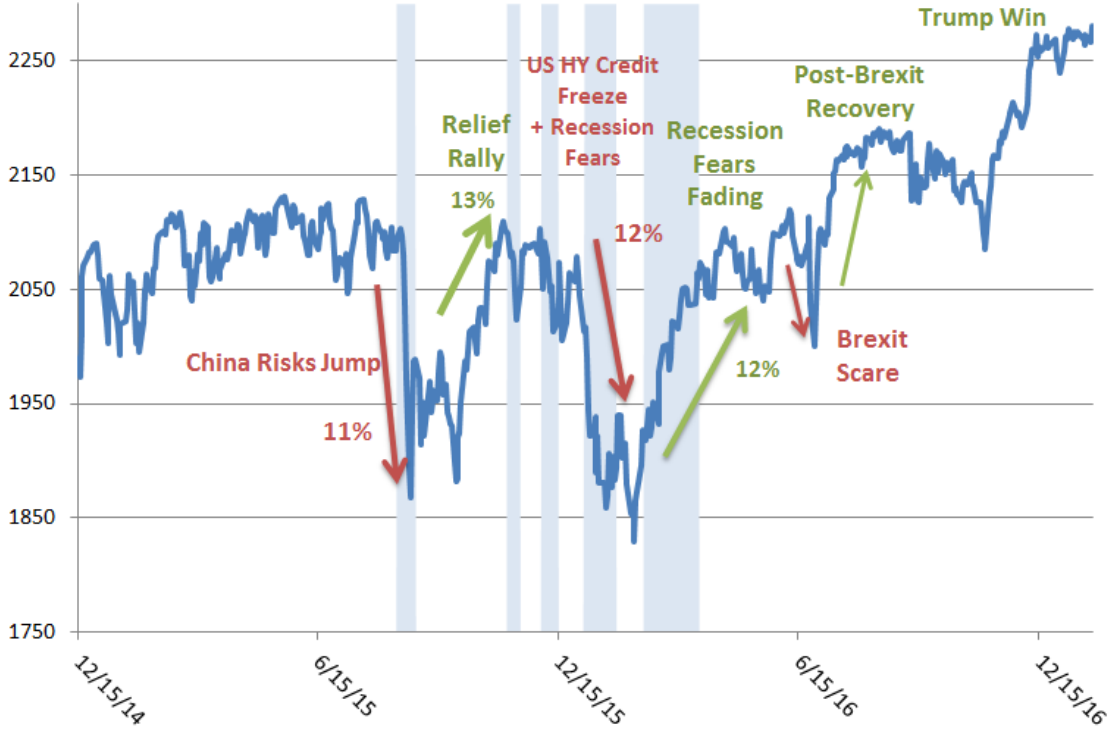
# Q4 ‘16 Investment Committee Meeting

With ACM Economic Advisor Dr. Alan Greenspan

# S&P 500 Approaches 2,300; Dow Tops 20,000: Now What?

Dr. JoAnne Feeney
Portfolio Manager

## S&P 500 Index




- S&P 500 climbs 7% since election
- Forward P/E ~17x
- Amplified political element to investing strategy

Source: S&P Dow Jones Indices LLC, S&P 500© [SP500], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/SP500, January 25, 2017.

# Now What? 2017 Cross Currents from Economics & Politics

Dr. JoAnne Feeney
Portfolio Manager

## US

- Fed Raising Rates How Many Times?
- US Wages and Inflation Moving Higher
- Infrastructure Spending
- Corporate Tax Reform
- Lowering of US Income Taxes
- Border Tax Adjustments
- Immigration Policy
- Deregulation Across Industries: Dodd-Frank, DOL, SIFI, etc
- Health Care Changes
- Deficit Increases
- War on Terror
- Defense Spending
- Dollar Appreciation
- New Fed Chair & FOMC members
- Fannie and Freddie

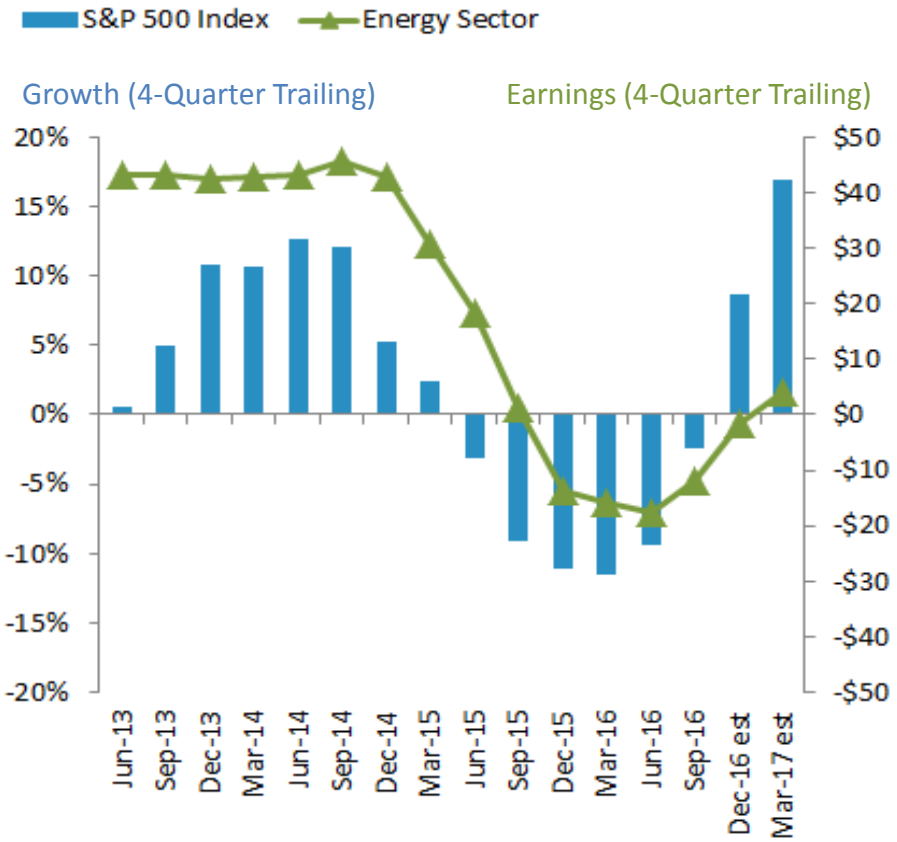
## World

- US/China Relations
- US/Russian Relations
- Dutch Elections
- German Elections
- French Elections
- Italian Elections
- Catalonia Independence Vote
- Brexit Developments
- Japanese Reform
- Chinese Debt and Economic Slowdown
- ECB Tapering
- Middle East Tensions
- OPEC Cooperation

# Earnings Growth Turning Positive

Dr. JoAnne Feeney
Portfolio Manager

## Large-Cap Earnings per Share

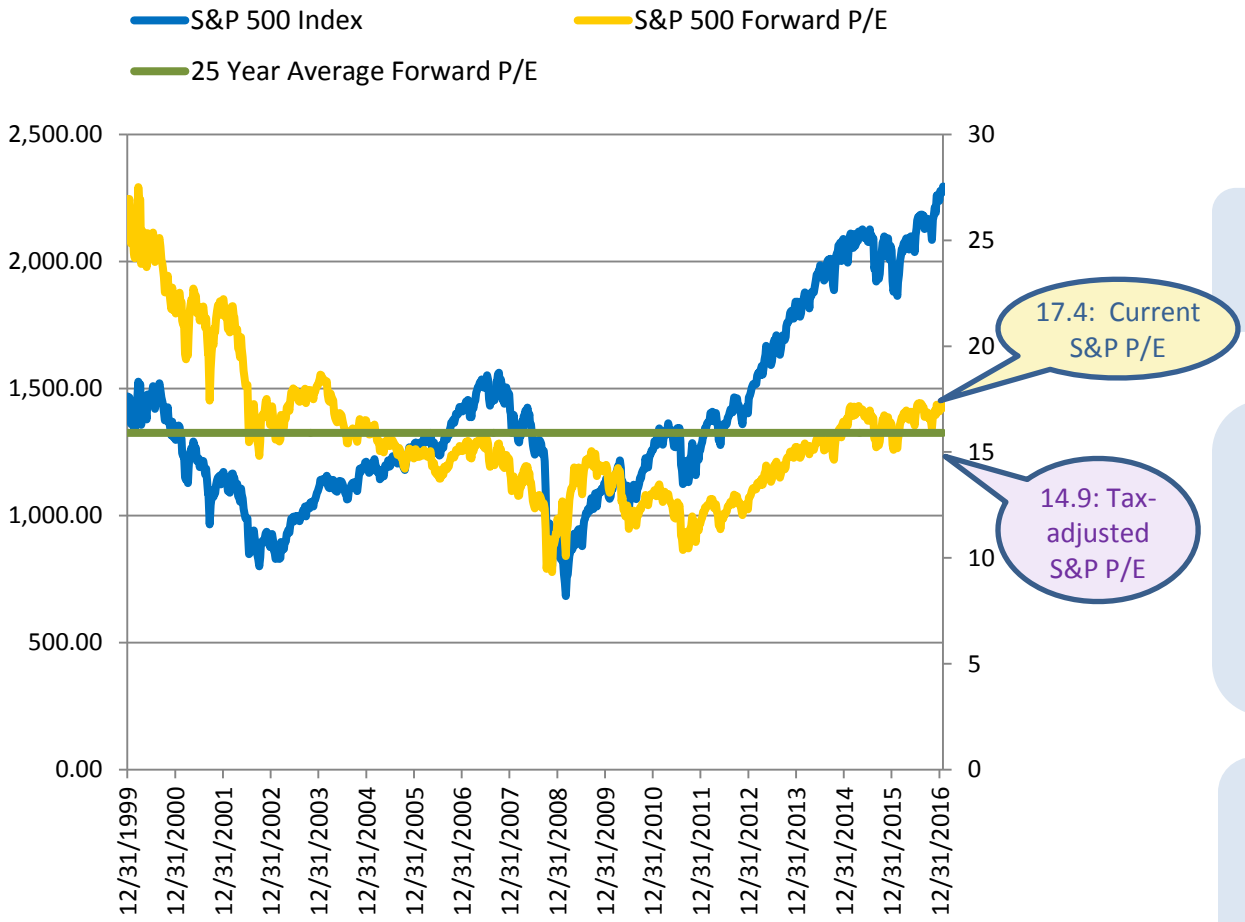



- Consensus S&P 500 EPS Growth in 2017: 11.4%
- Revenue drivers: mostly positive
- Margin drivers: cross currents from economics and politics

Source: Standard & Poor's, FactSet, Fidelity Investments (AART), as of 12/31/16.

# Stocks Are Less Expensive Than They Look

Dr. JoAnne Feeney
Portfolio Manager




Lower Corporate Tax Rate Implies a Lower S&P P/E

A 15% corporate tax rate raises EPS →
S&P 500 P/E becomes 14.9 vs. current 17.4

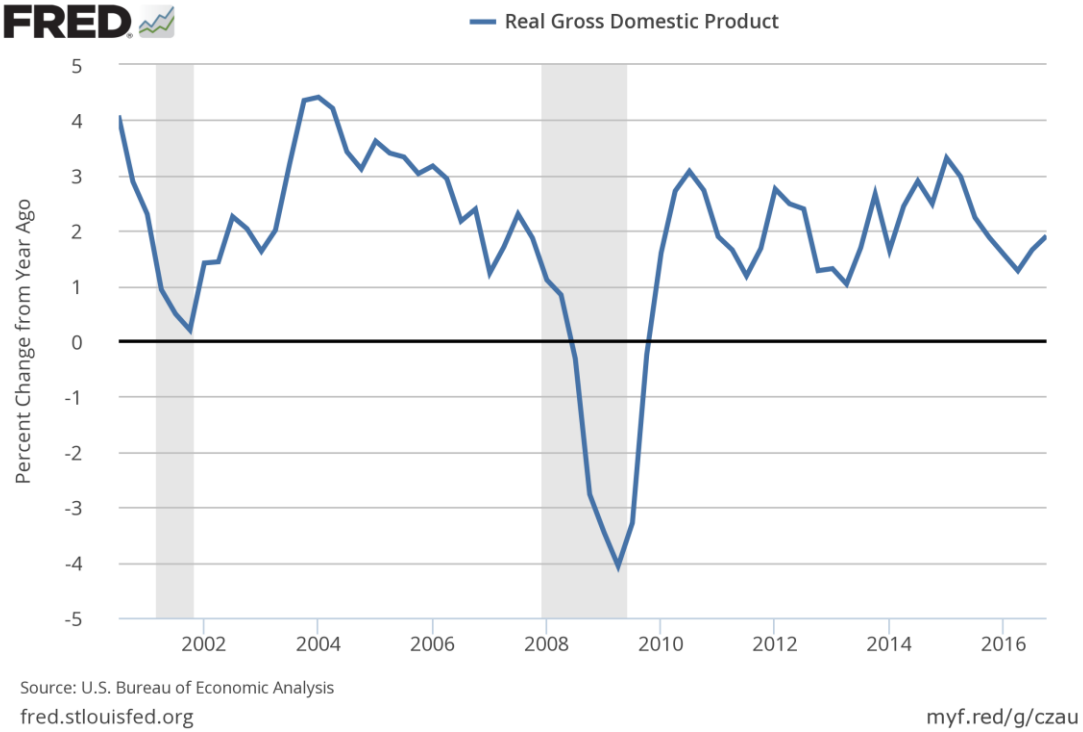
Companies with highest tax rates could benefit the most.

* Potential appreciation: if none of the tax cut is currently reflected in share price, and if current multiples remain in place, shares would appreciate by this amount. Obviously, we are likely seeing some of the potential tax cut in current valuations, and furthermore, we may see multiples trend back toward historical levels. But this exercise shows the upper bound on appreciation from this one tax policy change.

Source: Standard & Poor's, FactSet, Fidelity Investments (AART), as of 1/26/17.

# US Macro Update: All Things in Moderation

Dr. Charles Lieberman
Portfolio Manager




GDP growth ticks higher

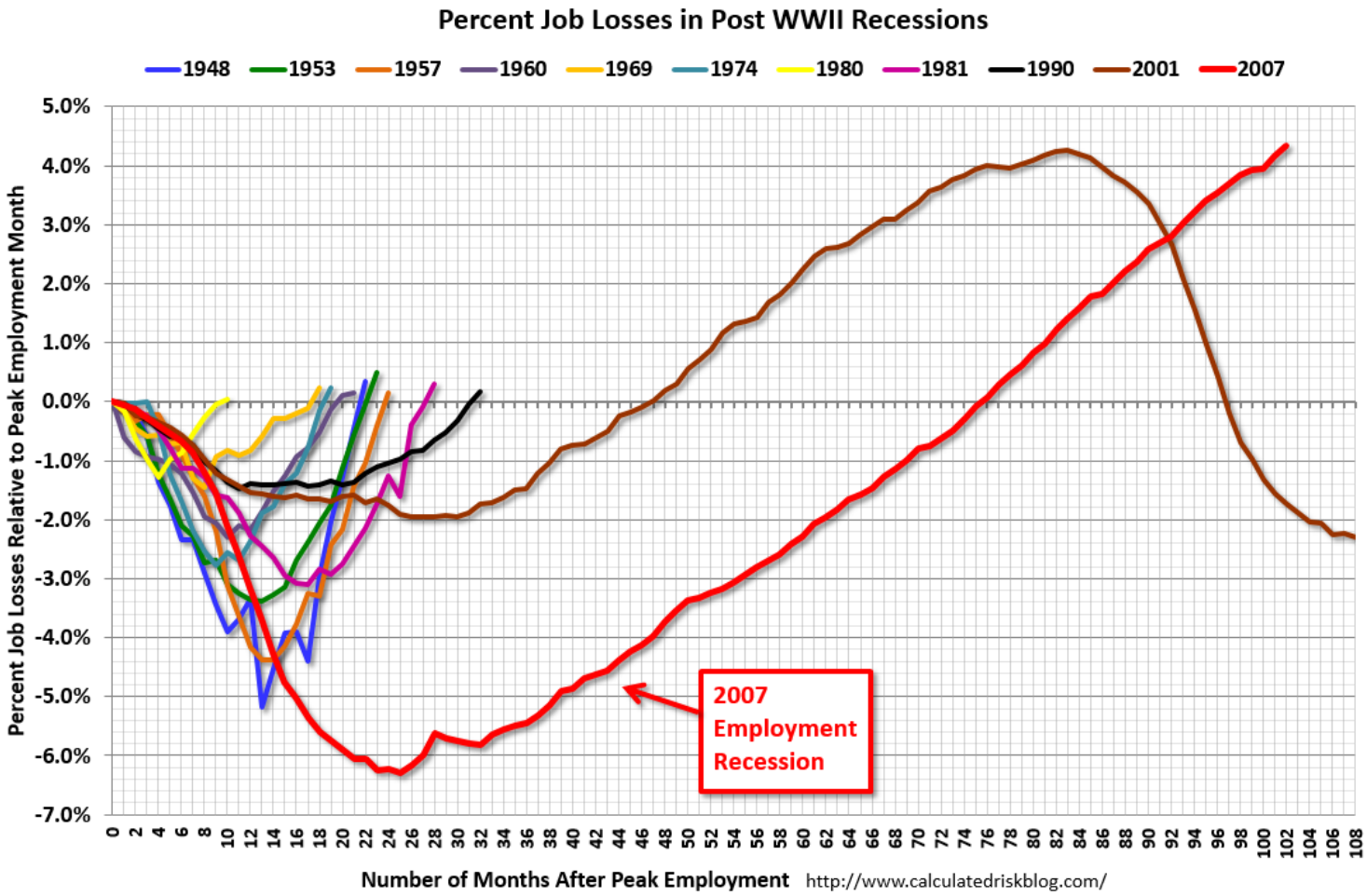
Moderate recovery continuing

2017 GDP Growth Outlook: 2.3% (OECD)

Source: U.S. Bureau of Economic Analysis, Real Gross Domestic Product [GDPC1], retrieved from FRED, February 1, 2017.

# Deep Recession Followed by an Extended Recovery

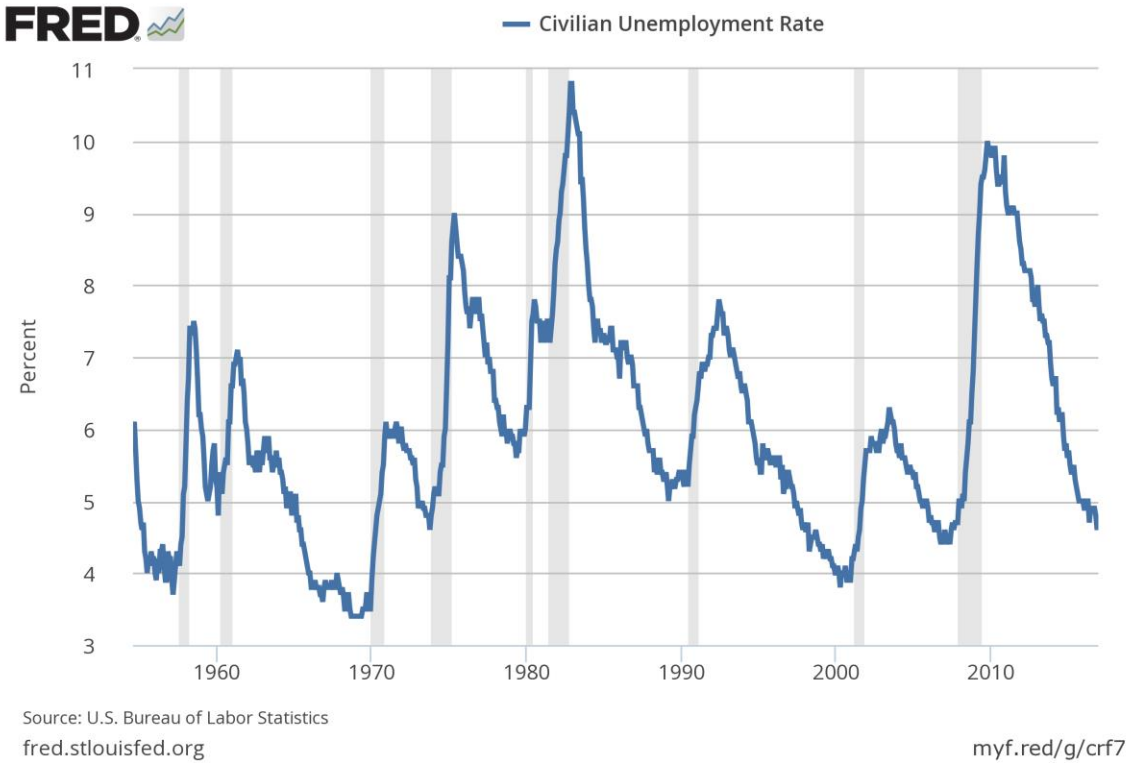
Dr. Charles Lieberman
Portfolio Manager




Source: Calculated Risk Blog , accessed 1/27/17 at http://www.calcuatedriskblog.com/2016/08/update-scariest-jobs-chart-ever.html.

# Unemployment Rate – Better Than 70% of History Since 1960

Dr. Charles Lieberman
Portfolio Manager

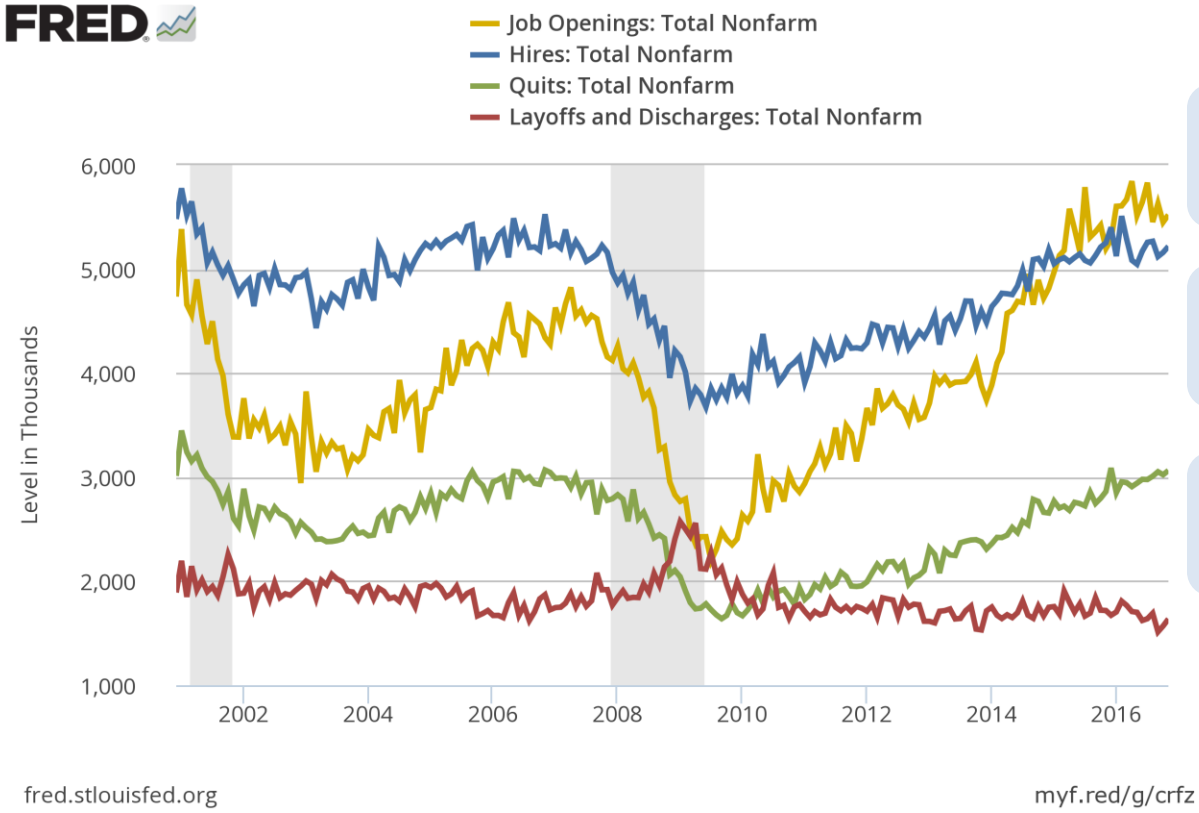



- Unemployment Rate: 4.7%
- Participation rate steady
- New Unemployment claims continue to shrink

Source: US. Bureau of Labor Statistics, retrieved from FRED, January 25, 2017.

# Job Openings, Quits, and Hires – The Labor Market Remains Strong

Dr. Charles Lieberman
Portfolio Manager




Openings still exceed hires; flattening trend

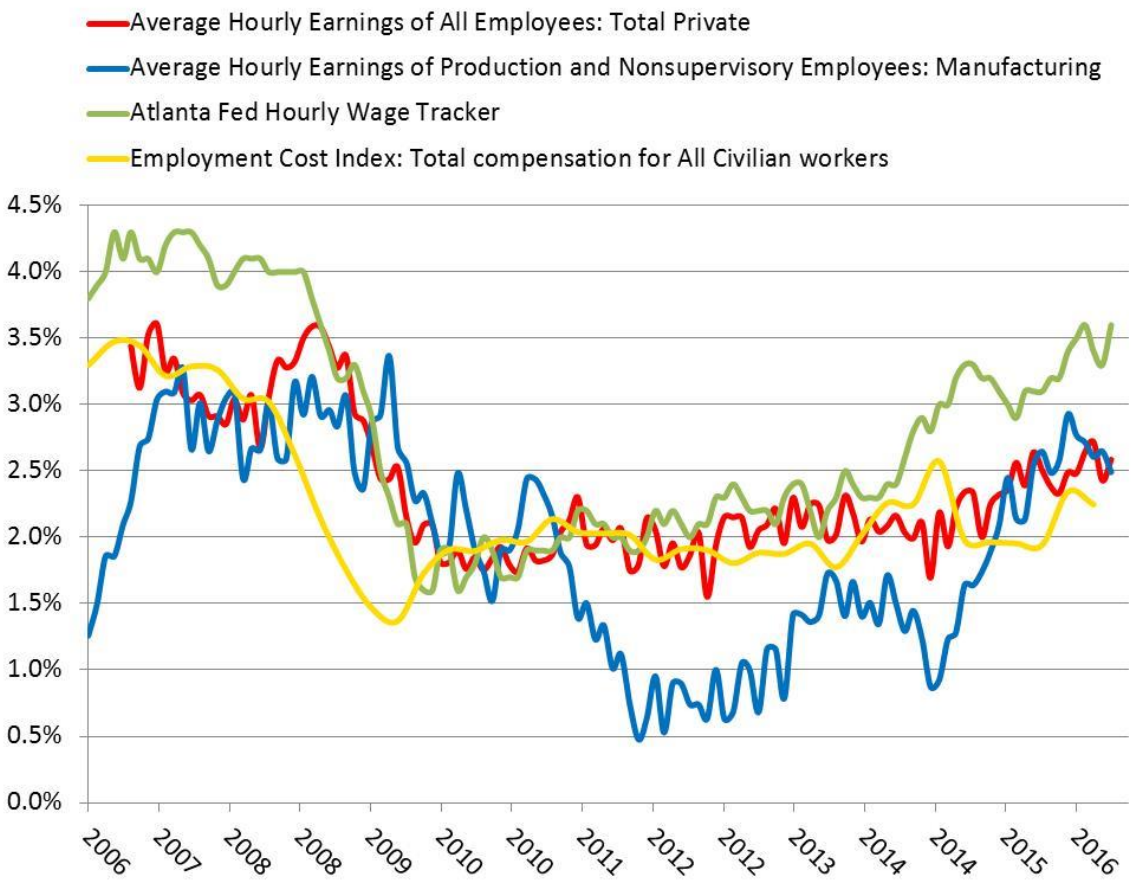
Quit Rate continues to climb, now at pre-recession level

Layoffs remain low

Source: US. Bureau of Labor Statistics, retrieved from FRED, January 25, 2017.

# U.S. Wage Growth Continues

Dr. Charles Lieberman
Portfolio Manager




Wage growth approaching 3%

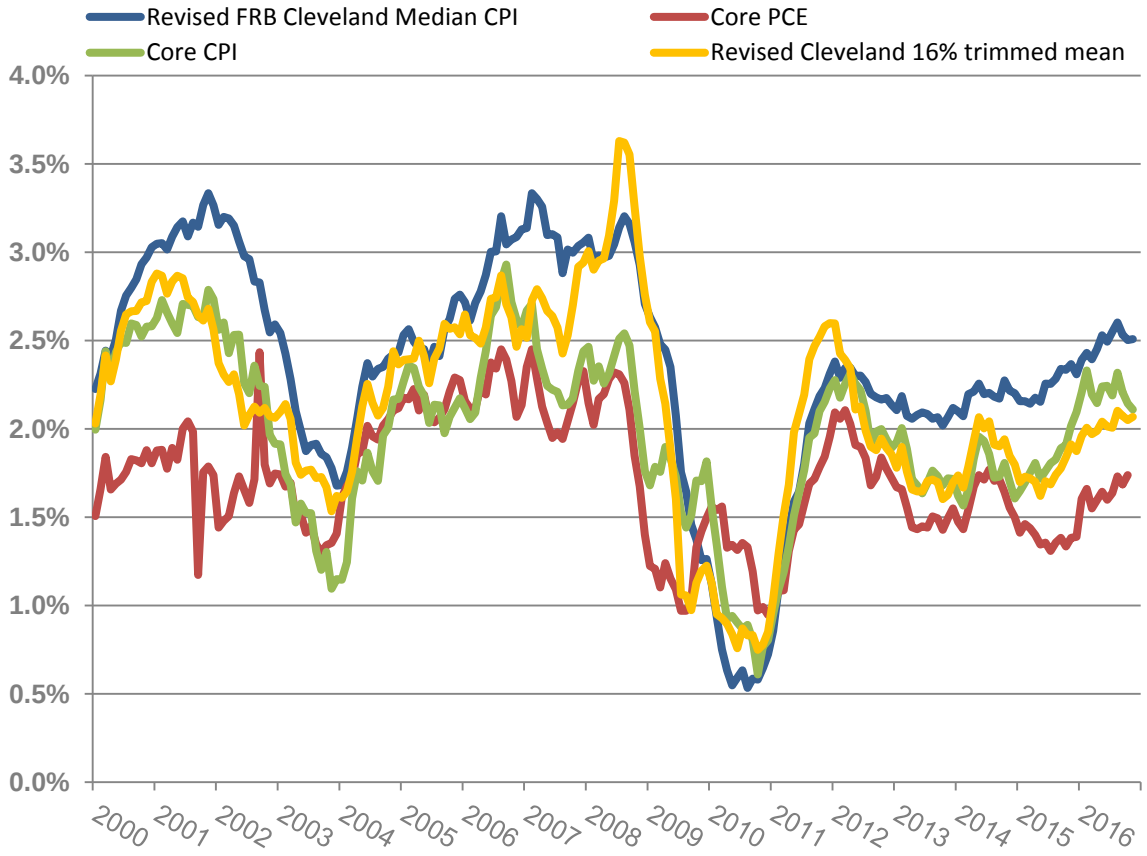
Atlanta Fed view: Faster growth

Labor costs drive 55-60% of incremental production costs

Sources: US. Bureau of Labor Statistics, retrieved from FRED, January 25, 2017; Current Population Survey, Bureau of Labor Statistics, and Federal Reserve Bank of Atlanta.

# Wage Growth Propelling Inflation …and "Safe" Assets Suffering

David Lieberman
Portfolio Manager




Rising Wages Driving Inflation Higher

Core CPI: Above 2% Since Nov. 2015

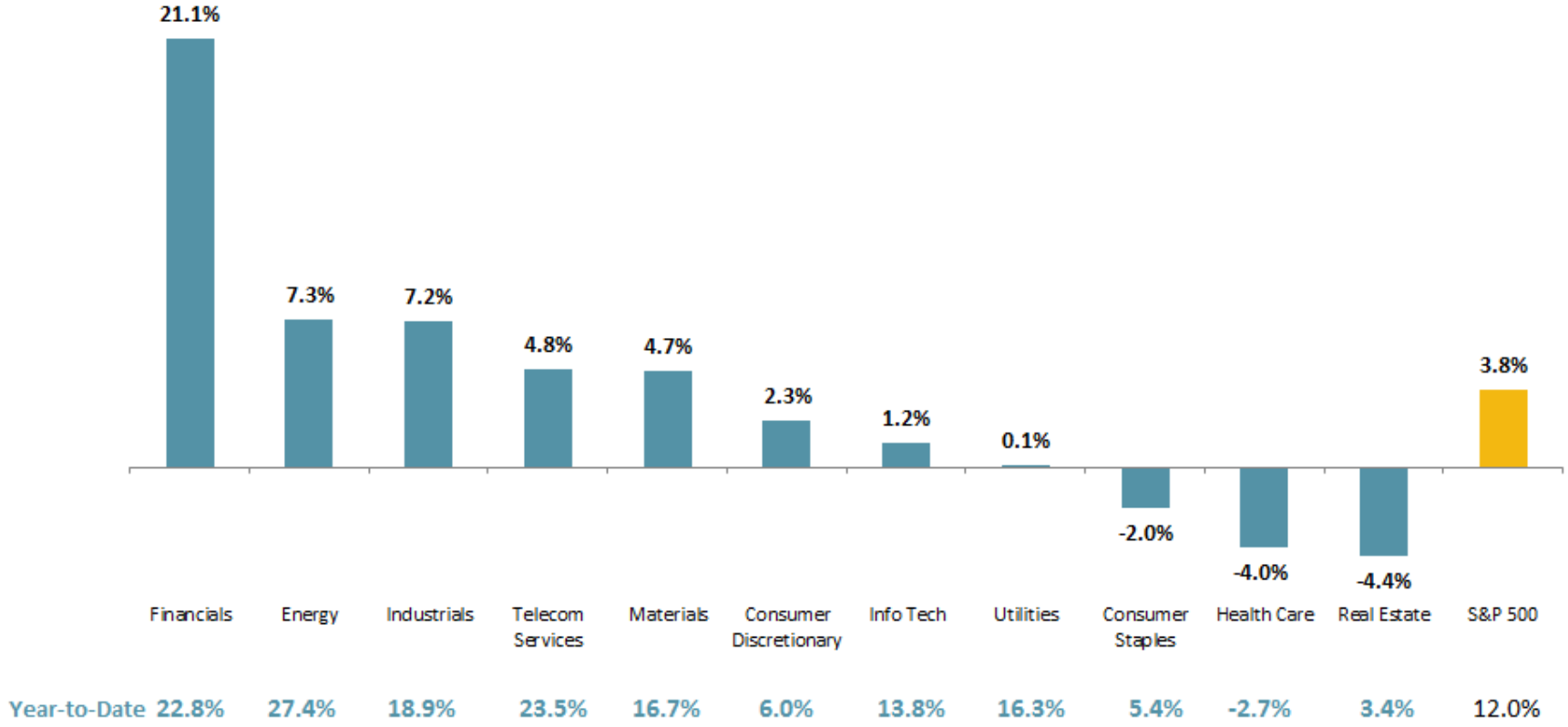
Core PCE: ~1.7%, close to Fed's 2% target.

Sources: US. Bureau of Labor Statistics , US. Bureau of Economic Analysis, and Federal Reserve Bank of Cleveland retrieved from FRED, January 25, 2017.

# Q4 Reinforces Vulnerability of “Safe” Assets

David Lieberman
Portfolio Manager

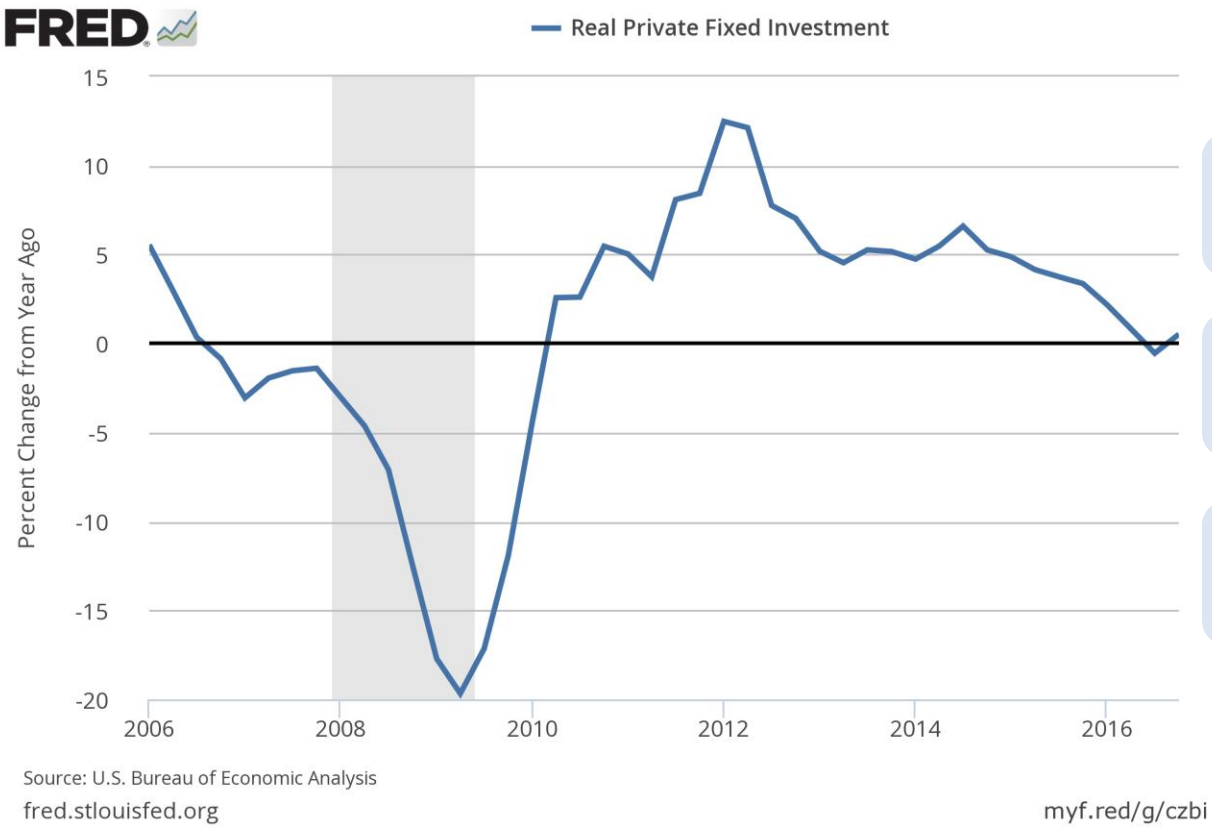
## Q4 2016 Returns by Sector




Source: Past performance is no guarantee of future results. It is not possible to invest directly in an index. All indices are unmanaged. Please see appendix for important index information. Sector investing involves risk. Because of its narrow focus, sector investing may be more volatile than investing in more diversified baskets of securities. Sector returns represented by S&P 500 sectors. Sources: FactSet, Fidelity Investments (AART), as of 12/30/16.

# Corporations are Done Waiting

David Lieberman
Portfolio Manager

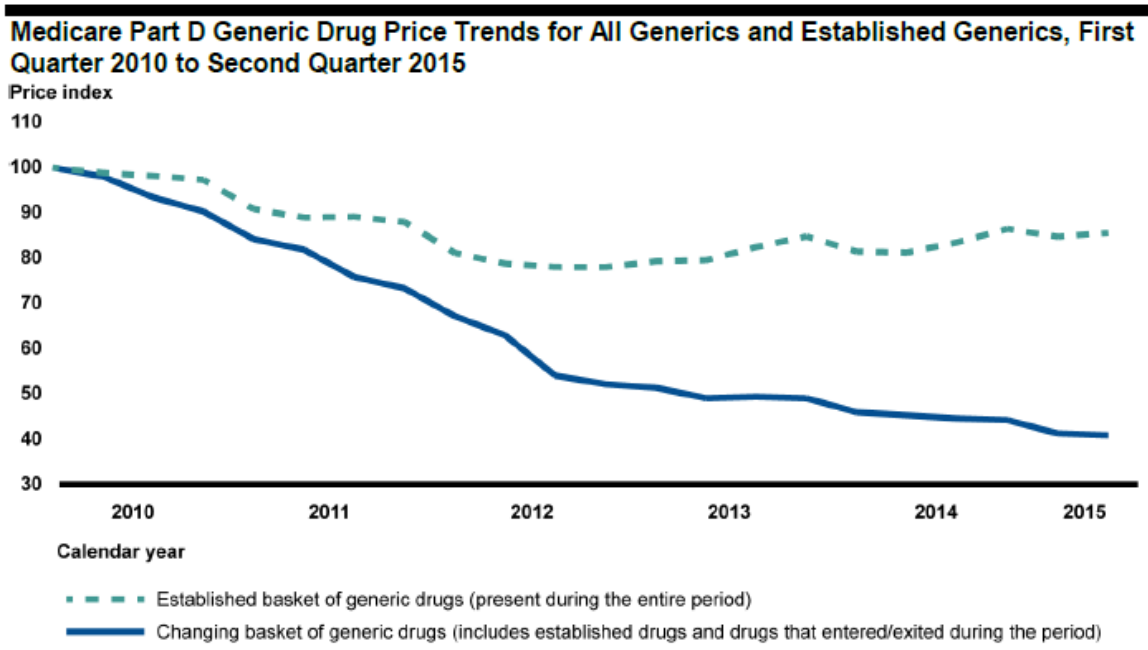



- Post-election shift back to positive growth begins
- Firms anticipate lower taxes, fewer regulations
- Corporate investments rise

Source: FRED and U.S. Bureau of Economic Analysis, Real Private Fixed Investment [FPIC1], February 1, 2017.

# Health Care Opportunity? The Drug Price Misconception

David Lieberman
Portfolio Manager




Source: GAO analysis of Medicare Part D prescription drug event data. | GAO-16-706

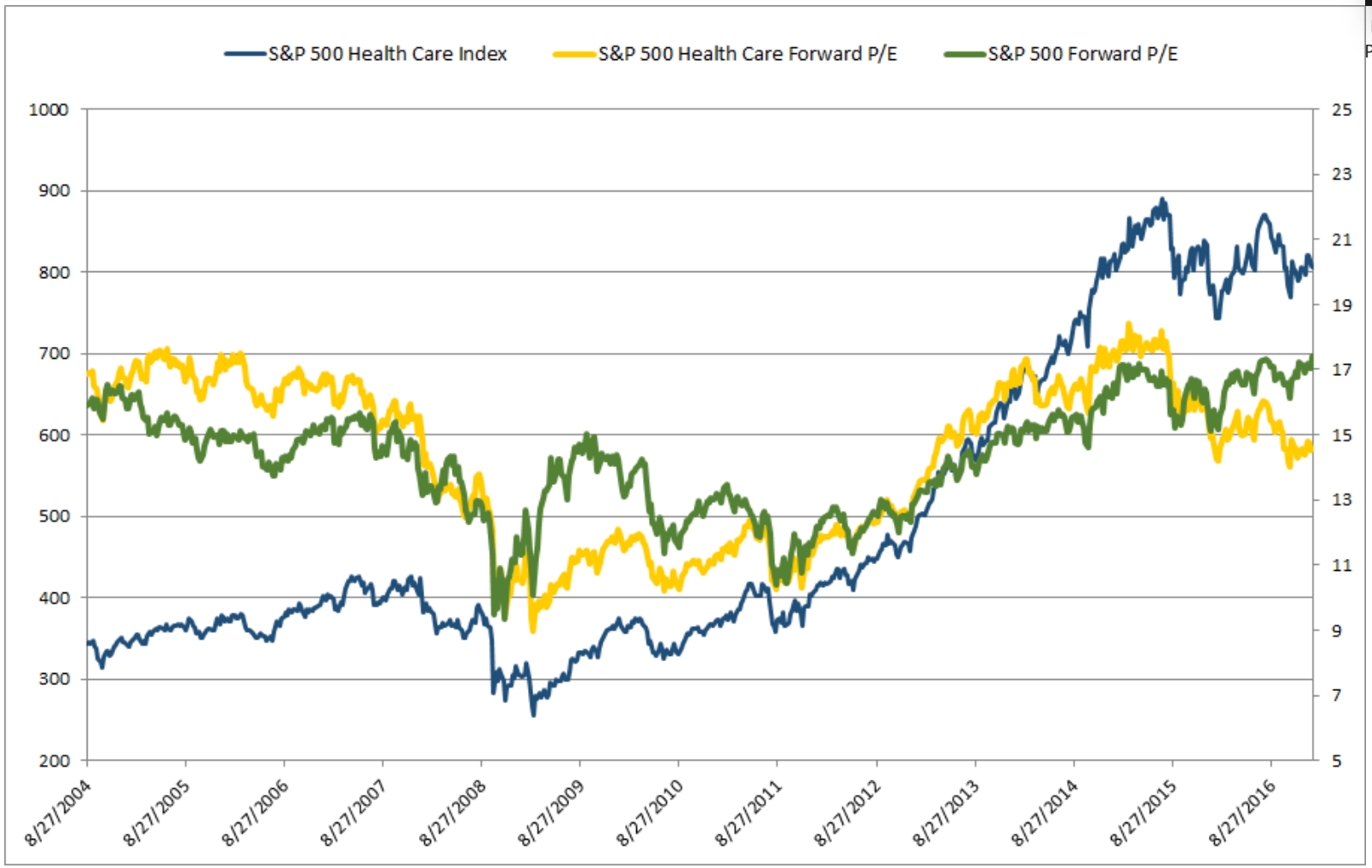
Generic Drug Prices trend lower over time; unlikely to remain political target.

Sector earnings grew 6.4% and revenues grew 8.1%

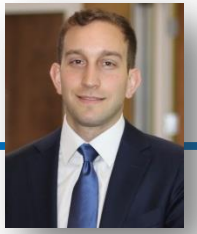
Sector declined 2.7% in 2016

# Health Care Opportunity? Attractive Valuation

David Lieberman
Portfolio Manager



# Bonds Retreat Globally: Quarterly comparison



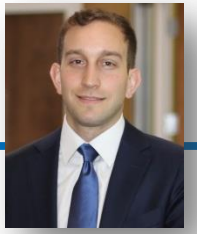
Stephen Zurilla, CFA
Co-Portfolio Manager

October 2016

| G-10 Nations | 2yr | 5yr | 10yr | 30yr |
|---|---|---|---|---|
| Switzerland | -1.25% | -0.87% | -0.54% | 0.00% |
| Sweden | -0.69% | -0.33% | 0.24% | |
| Germany | -0.68% | -0.50% | 0.03% | 0.65% |
| Netherlands | -0.67% | -0.42% | 0.13% | 0.70% |
| France | -0.66% | -0.38% | 0.30% | 1.12% |
| Belgium | -0.64% | -0.42% | 0.26% | 1.21% |
| Japan | -0.28% | -0.22% | -0.07% | 0.49% |
| Italy | -0.08% | 0.36% | 1.38% | 2.49% |
| United Kingdom | 0.21% | 0.46% | 1.08% | 1.74% |
| Canada | 0.57% | 0.71% | 1.19% | 1.84% |
| United States | 0.80% | 1.22% | 1.74% | 2.51% |

Source: Bloomberg LP, as of 10/19/16

# Bonds Retreat Globally: Quarterly comparison



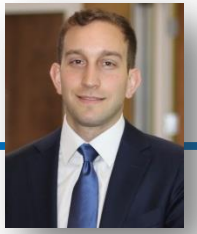
Stephen Zurilla, CFA
Co-Portfolio Manager

January 2017

| G-10 Nations | 2yr | 5yr | 10yr | 30yr |
|---|---|---|---|---|
| Switzerland | -1.03% | -0.86% | -0.13% | 0.35% |
| Sweden | -0.57% | 0.05% | 0.72% | |
| Germany | -0.68% | -0.37% | 0.46% | 1.18% |
| Netherlands | -0.64% | -0.18% | 0.59% | 1.29% |
| France | -0.50% | -0.30% | 1.03% | 2.00% |
| Belgium | -0.42% | 0.02% | 1.01% | 1.98% |
| Japan | -0.21% | -0.10% | 0.07% | 0.83% |
| Italy | -0.02% | 0.86% | 2.22% | 3.29% |
| United Kingdom | 0.14% | 0.62% | 1.47% | 2.10% |
| Canada | 0.80% | 1.15% | 1.79% | 2.44% |
| United States | 1.22% | 1.95% | 2.49% | 3.07% |

Source: Bloomberg LP, as of 1/27/16

# Bonds Retreat Globally: Quarterly comparison



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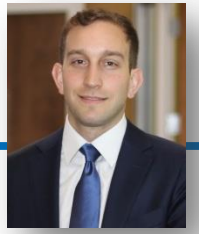
Co-Portfolio Manager

Change in Rates

| G-10 Nations | 2yr | 5yr | 10yr | 30yr |
|---|---|---|---|---|
| Switzerland | 0.23% | 0.01% | 0.41% | 0.35% |
| Sweden | 0.12% | 0.38% | 0.48% | |
| Germany | 0.00% | 0.13% | 0.43% | 0.53% |
| Netherlands | 0.03% | 0.25% | 0.46% | 0.59% |
| France | 0.16% | 0.08% | 0.73% | 0.88% |
| Belgium | 0.22% | 0.44% | 0.75% | 0.77% |
| Japan | 0.07% | 0.12% | 0.14% | 0.34% |
| Italy | 0.06% | 0.50% | 0.84% | 0.80% |
| United Kingdom | -0.07% | 0.16% | 0.39% | 0.36% |
| Canada | 0.23% | 0.44% | 0.60% | 0.60% |
| United States | 0.42% | 0.73% | 0.75% | 0.56% |

Source: Bloomberg LP, as of 10/19/16 and 1/27/16

# “Safe” Assets Lose Value



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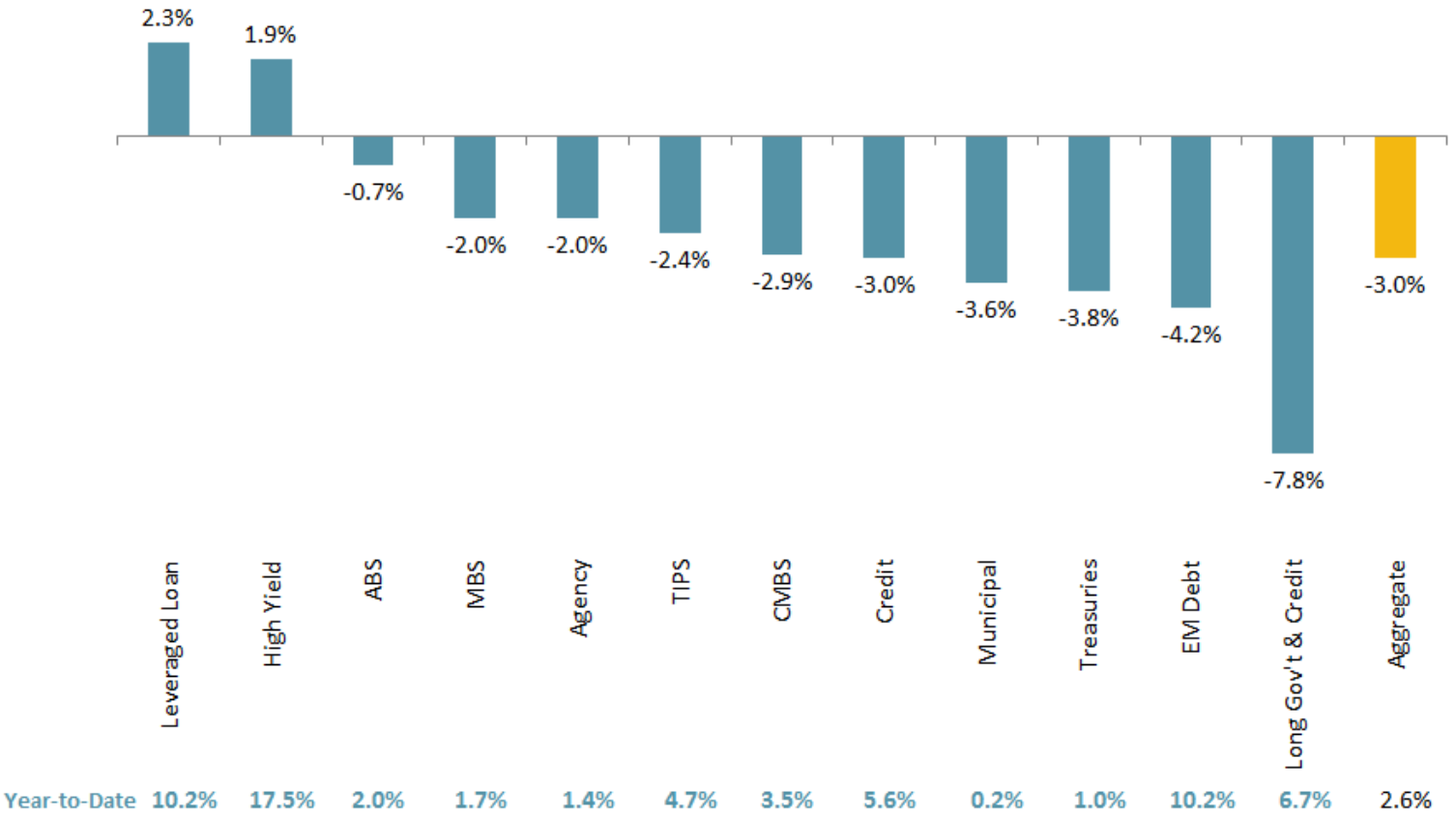
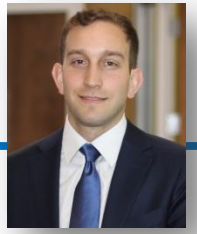
Co-Portfolio Manager

## **Q4 2016 Total Return:** Weak Yields Persist – Unless Investors Take on Risks




Past performance is no guarantee of future results. You cannot invest directly in an index. Please see appendix for important index information. All indices are unmanaged. Index returns represented by: ABS (Asset-Backed Securities) – Barclays ABS Index; Agency – Barclays U.S. Agency Index; Aggregate – Barclays U.S. Aggregate Bond Index; CMBS (Commercial Mortgage-Backed Securities) – Barclays Investment-Grade CMBS Index; Credit – Barclays U.S. Credit Bond Index; EM Debt (Emerging-Market Debt) – JP Morgan EMBI Global Index; High Yield – BofA ML U.S. High Yield Index; Leveraged Loan – S&P/LSTA Leveraged Loan Index; Long Government & Credit (Investment-Grade) – Barclays Long Government & Credit Index; MBS (Mortgage-Backed Securities) – Barclays MBS Index; Municipal – Barclays Municipal Bond Index; TIPS (Treasury Inflation-Protected Securities) – Barclays U.S. TIPS Index; Treasuries – Barclays U.S. Treasury Index. Source: FactSet, Fidelity Investments (AART), as of 12/31/16.

# Trump trade: Reflation



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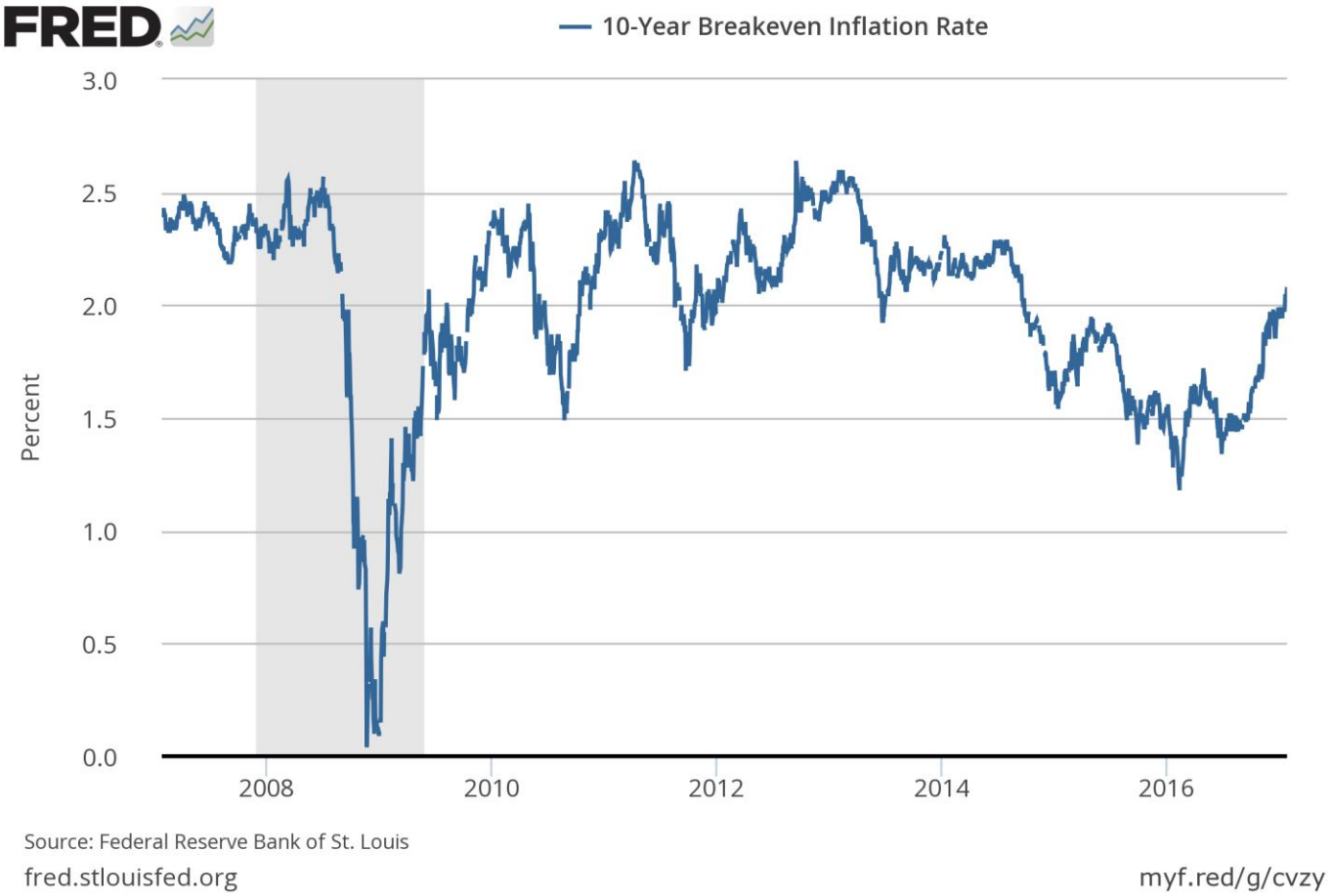
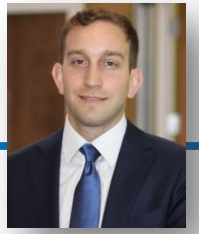



Source: Federal Reserve Bank of St. Louis, 10-Year Breakeven Inflation Rate [T10YIE], retrieved from FRED, January 31, 2017.

# Tax Policy: Negative Implications for Munis



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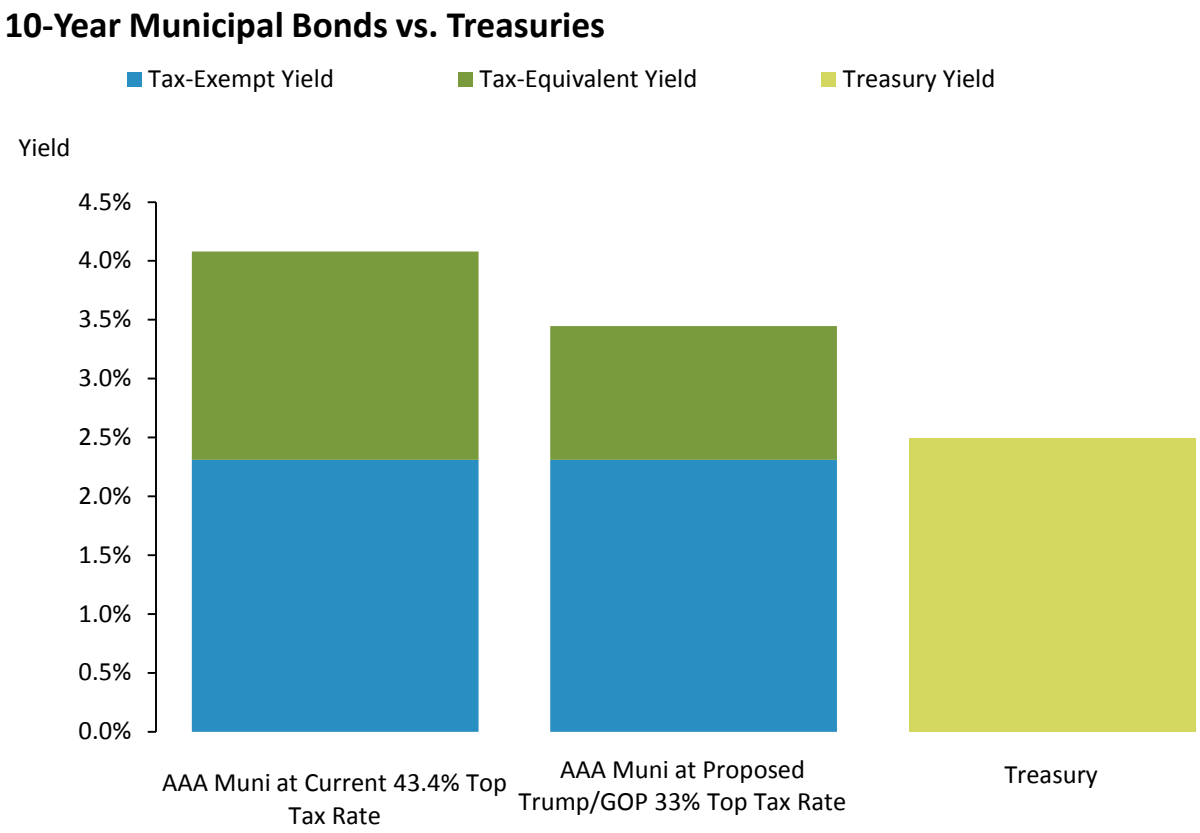


Source: Past performance is no guarantee of future results. It is not possible to invest directly in an index. After-tax yields assume the highest tax bracket calculated using top federal income tax rate for 2015 (39.6%) and Medicare contribution tax (3.8%). Muni pre-tax yied data uses the Thompson Municipal Market Data (MMD) AAA Curve. Bloomberg Finance L.P., Thomson Reuters, Fidelity Investments (AART), as of 12/30/16.

# Performance Disclosure

Advisors Capital Management, LLC (ACM) claims compliance with the Global Investment Performance Standards (GIPS®). All composites contain fully discretionary accounts and include accounts no longer with the firm. ACM's Mutual Fund/ETF, Model and Private Composites contain fully discretionary accounts. Below is a list of all ACM portfolio composites and their comparable primary Index/Benchmark:

**S&P500 Index**
Model Growth
Private Growth

**Blended S&P 500/Barclays Aggr. Bond**
Model Core Dividend[1]
Private Core Dividend[1]
Model Income with Growth[2]
Private Income with Growth[2]
Model Balanced[3]
Private Balanced[4]

**Barclays Aggregate Bond Index**
Private Fixed Income

**MSCI World Index USD**
Global Balanced ETF

**Blended Index Allocations**

85% S&P 500 Index and 15% Barclays Capital Aggregate Bond Index [1]
80% S&P 500 Index and 20% Barclays Capital Aggregate Bond Index [2]
70% S&P 500 Index and 30% Barclays Capital Aggregate Bond Index [3, 4]
30% S&P 500 Index and 70% Barclays Capital Aggregate Bond Index [3]
50% S&P 500 Index and 50% Barclays Capital Aggregate Bond Index [3]

The U.S. Dollar is the currency used. Gross return provided for advisor use only. Net returns available and are reduced by all fees and transaction costs incurred. Accounts pay a fee based on a percentage of assets under management. This fee includes portfolio monitoring, consulting services, and in some cases, custodial services. In some situations, custodians may impose additional trading fees. The annual composite dispersion presented is an asset-weighted standard deviation calculated for the accounts in the composite the entire year. Performance results of the ACM Private composites presented prior to July 1, 2006 consists of both Private and Model accounts. Since July 1, 2006 the Model and Private composites have been reviewed separately. Private Income with Growth, Growth with Income, and Growth composites were created July 1, 2006. Model Balanced composite was created April 2005. The Private Balanced composite was created September 1, 2006. The Private Fixed Income Composite was created December 10, 2007. The Global Balanced ETF Composite was created June 2008.

For comparison purposes, the Core Dividend Model and Private composites are measured against an 85/15 blend of the S&P 500 and Barclays Aggregate Bond indices. This blend is for general industry-wide comparative purposes only and may reflect up to 15% higher or lower asset allocations than the composite, as composite allocations and the portfolio allocation ranges within the composite will vary over time. In presentations shown prior to March 31, 20011, the S&P 500 indices was presented as the benchmarks for this composite.

The Income with Growth Model and Private composites are measured against an 80/20 blend of the S&P 500 and Barclays Aggregate Bond indices. This blend is for general industry-wide comparative purposes only and may reflect up to 15% higher or lower asset allocations than the composite, as composite allocations and the portfolio allocation ranges within the composite will vary over time. In presentations shown prior to March 31, 20011, the Russell 3000 indices was presented as the benchmarks for this composite.

Compliance with GIPS® has been verified firm-wide by Ashland Partners & Company LLP through December 31, 2015. A portion of the private composite performance presented prior to January 1, 2005 occurred while the portfolio manager (PM) was affiliated with another firm and was the only individual responsible for selecting the securities to buy and sell. Additional information concerning the transitions of the PM is available upon request. Performance numbers for this report are cumulative results through December 31, 2016. Past performance is not indicative of future results. The comparable index used may not be appropriate for all portfolios.

Index/Benchmark Definitions:

**The S&P 500 Index** is an unmanaged capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. **The Barclays Capital Aggregate Bond Index** is an index comprised of approximately 6,000 publicly traded bonds including US Government, mortgage-backed, corporate, and Yankee bonds with an approximate average maturity of 10 years. The 70/30 blend of the S&P 500 and Barclays Capital Aggregate Bond Index is a blend is for general industry-wide comparative purposes only and may reflect up to 20% higher or lower asset allocations than the composite. Dividends are reinvested in the above benchmarks. **The MSCI World Index** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed markets. As of June 2007 the MSCI World Index consisted of the following 23 developed market country indices: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. The value of the MSCI World Index is denominated and calculated in U.S. Dollars.

Advisors Capital Management, LLC (ACM) is an investment advisory firm. A complete list and description of composites, a presentation that adheres to GIPS® standards, calculation method of returns, program fees and breakpoints and the firm's ADV Part 2A and 2B are available upon request. ACM is located at 10 Wilsey Square, Ridgewood, NJ 07450 Telephone: 201-447-3400 Fax: 201-857-4099 Web: www.advisorscenter.com.

# Disclosure

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All indices are unmanaged, and performance of the indices includes reinvestment of dividends and interest income and, unless otherwise noted, is not illustrative of any particular investment. An investment cannot be made in any index. Although bonds generally present less short-term risk and volatility than stocks, bonds do contain interest rate risk (as interest rates rise, bond prices usually fall, and vice versa) and the risk of default, or the risk that an issuer will be unable to make income or principal payments. Additionally, bonds and short-term investments entail greater inflation risk—or the risk that the return of an investment will not keep up with increases in the prices of goods and services—than stocks. Increases in real interest rates can cause the price of inflation-protected debt securities to decrease.

Stock markets, especially non-U.S. markets, are volatile and can decline significantly in response to adverse issuer, political, regulatory, market, or economic developments. Foreign securities are subject to interest rate, currency exchange rate, economic, and political risks, all of which are magnified in emerging markets. The securities of smaller, less well-known companies can be more volatile than those of larger companies.

Growth stocks can perform differently from the market as a whole and from other types of stocks, and can be more volatile than other types of stocks. Value stocks can perform differently from other types of stocks and can continue to be undervalued by the market for long periods of time.

Lower-quality debt securities generally offer higher yields but also involve greater risk of default or price changes due to potential changes in the credit quality of the issuer. Any fixed income security sold or redeemed prior to maturity may be subject to loss. Floating rate loans generally are subject to restrictions on resale and sometimes trade infrequently in the secondary market; as a result, they may be more difficult to value, buy, or sell. A floating rate loan may not be fully collateralized and therefore may decline significantly in value. The municipal market can be affected by adverse tax, legislative, or political changes, and by the financial condition of the issuers of municipal securities. Interest income generated by municipal bonds is generally expected to be exempt from federal income taxes and, if the bonds are held by an investor resident in the state of issuance, from state and local income taxes. Such interest income may be subject to federal and/or state alternative minimum taxes. Investing in municipal bonds for the purpose of generating tax-exempt income may not be appropriate for investors in all tax brackets. Generally, tax-exempt municipal securities are not appropriate holdings for tax-advantaged accounts such as IRAs and 401(k)s.

The commodities industry can be significantly affected by commodity prices, world events, import controls, worldwide competition, government regulations, and economic conditions. The gold industry can be significantly affected by international monetary and political developments, such as currency devaluations or revaluations, central bank movements, economic and social conditions within a country, trade imbalances, or trade or currency restrictions between countries.

Changes in real estate values or economic downturns can have a significant negative effect on issuers in the real estate industry. Leverage can magnify the impact that adverse issuer, political, regulatory, market, or economic developments have on a company. In the event of bankruptcy, a company's creditors take precedence over the company's stockholders.

# Additional Definitions

**Price-Earnings Ratio-** P/E Ratio: A valuation ratio of a company's current share price compared to its per-share earnings. Calculated as: Market Value per Share divided by Earnings per Share (EPS)

**EBITDA/EV Multiple-** A financial ratio that measures a company's return on investment. The bond credit rating represents the credit worthiness of corporate or government bonds. A bond is considered investment grade or IG if its credit rating is BBB- or higher by Standard & Poor's or Baa3 or higher by Moody's. Generally they are bonds that are judged by the rating agency as likely enough to meet payment obligations that banks are allowed to invest in them. Bonds that are not rated as investment-grade bonds are known as high yield bonds or more derisively as junk bonds.

**Bond Duration-** A measure of the sensitivity of the price (the value of principal) of a fixed-income investment to a change in interest rates. Duration is expressed as a number of years. Rising interest rates mean falling bond prices, while declining interest rates mean rising bond prices.

**Floating-Rate Bond/Note-** A debt instrument with a variable interest rate. Also known as a “floater” or “FRN," a floating rate note’s interest rate is tied to a benchmark such as the U.S. Treasury bill rate, LIBOR, the fed funds or the prime rate. Floaters are mainly issued by financial institutions and governments, and they typically have a two- to five-year term to maturity.

**Fixed Rate Bond-** A type of debt instrument bond with a fixed coupon (interest) rate, as opposed to a floating rate note. A fixed rate bond is a long term debt paper that carries a predetermined interest rate. The interest rate is known as coupon rate and interest is payable at specified dates before bond maturity. Due to the fixed coupon, the market value of a fixed-rate bond is susceptible to fluctuations in interest rates, and therefore has a significant amount of interest rate risk.

**Convertible Bond-** A bond that can be converted into a predetermined amount of the company's equity at certain times during its life, usually at the discretion of the bondholder.

**Preferred Stock-** A class of ownership in a corporation that has a higher claim on the assets and earnings than common stock. Preferred stock generally has a dividend that must be paid out before dividends to common stockholders and the shares usually do not have voting rights.

**Large Cap-** Refers to companies with a market capitalization value of more than $10 billion. Which is calculated by multiplying the number of a company's shares outstanding by its stock price.

**Mid Cap-** A company with a market capitalization between $2 and $10 billion, which is calculated by multiplying the number of a company's shares outstanding by its stock price.
**Small Cap-** Refers to stocks with a relatively small market capitalization. The definition of small cap can vary among brokerages, but generally it is a company with a market capitalization of between $300 million and $2 billion.

**Value Stock-** A stock that tends to trade at a lower price relative to its fundamentals (i.e. dividends, earnings, sales, etc.) and thus considered undervalued by a value investor. Common characteristics of such stocks include a high dividend yield, low price-to-book ratio and/or low price-to-earnings ratio.

**Growth Stock-** Shares in a company whose earnings are expected to grow at an above-average rate relative to the market.