Quarterly
Investment Briefing
February 2, 2017

INDIANA TRUST
& Investment Management
COMPANY

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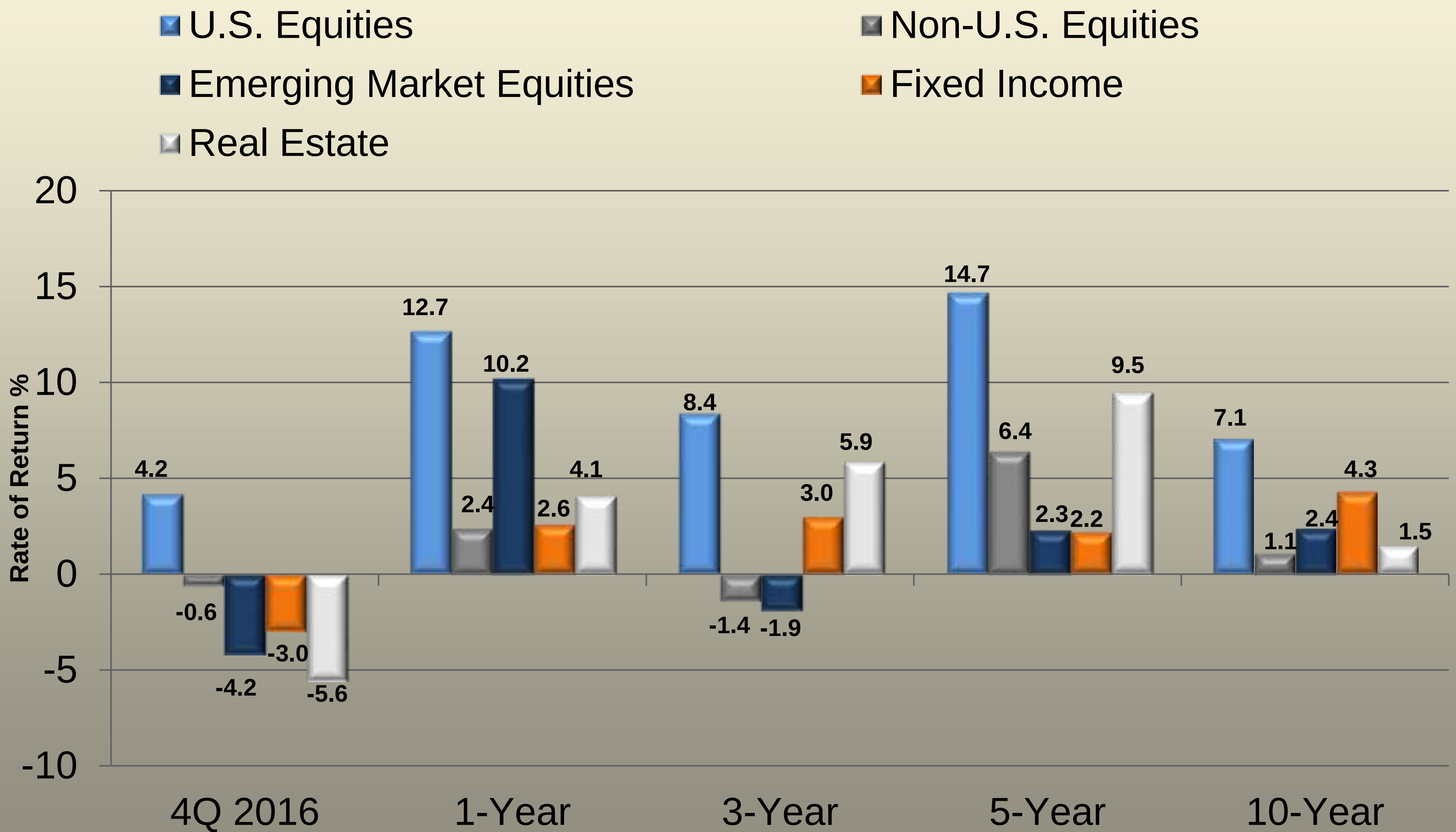
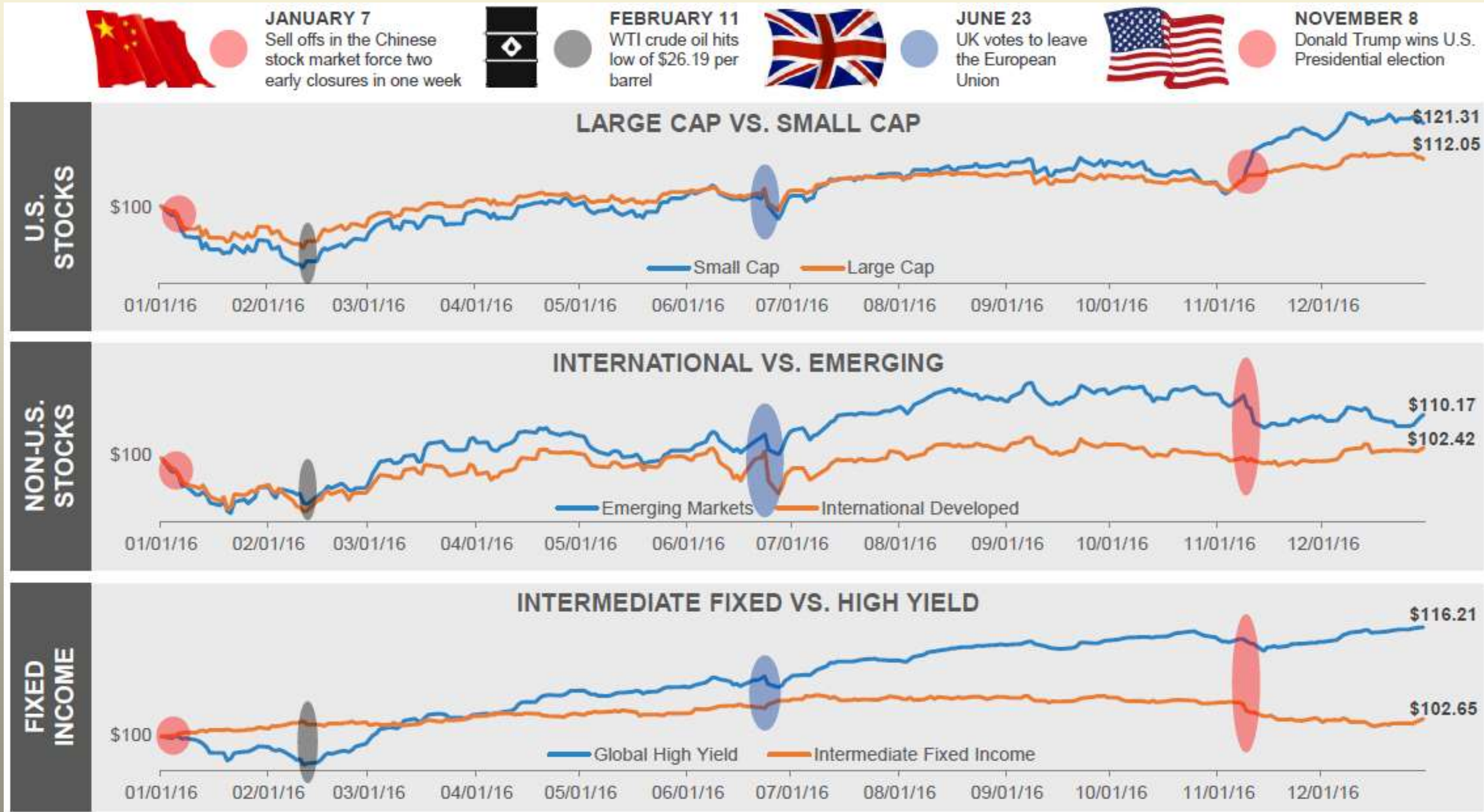
Capital Market Returns Current & Annualized
Period Ending December 31, 2016



Source: Russell, Barclays, Bloomberg and FTSE NAREIT

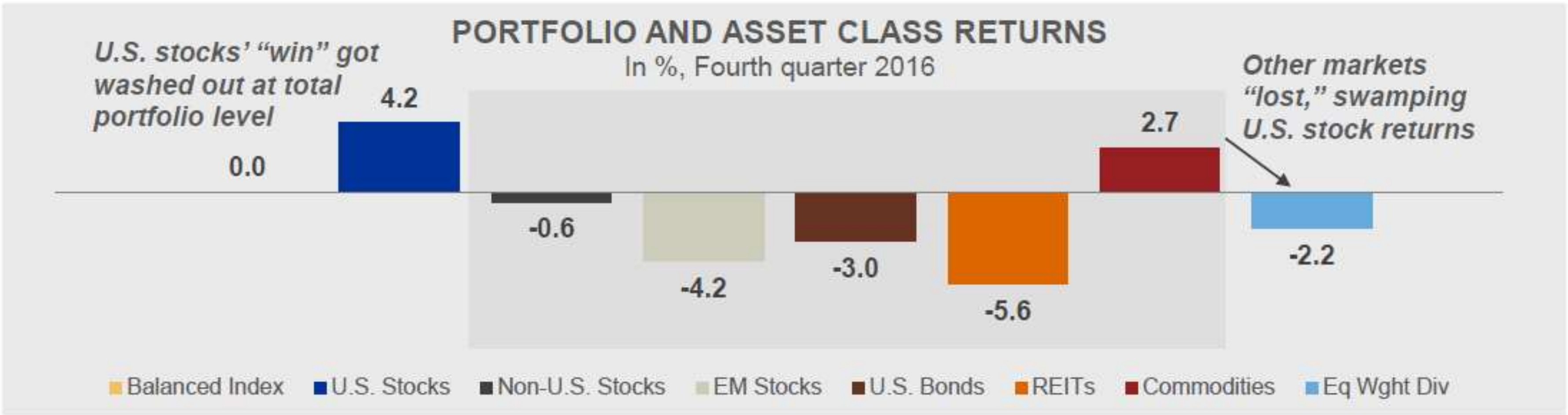
How did we get here?
EVENTS THAT SHAPED MARKETS IN 2016

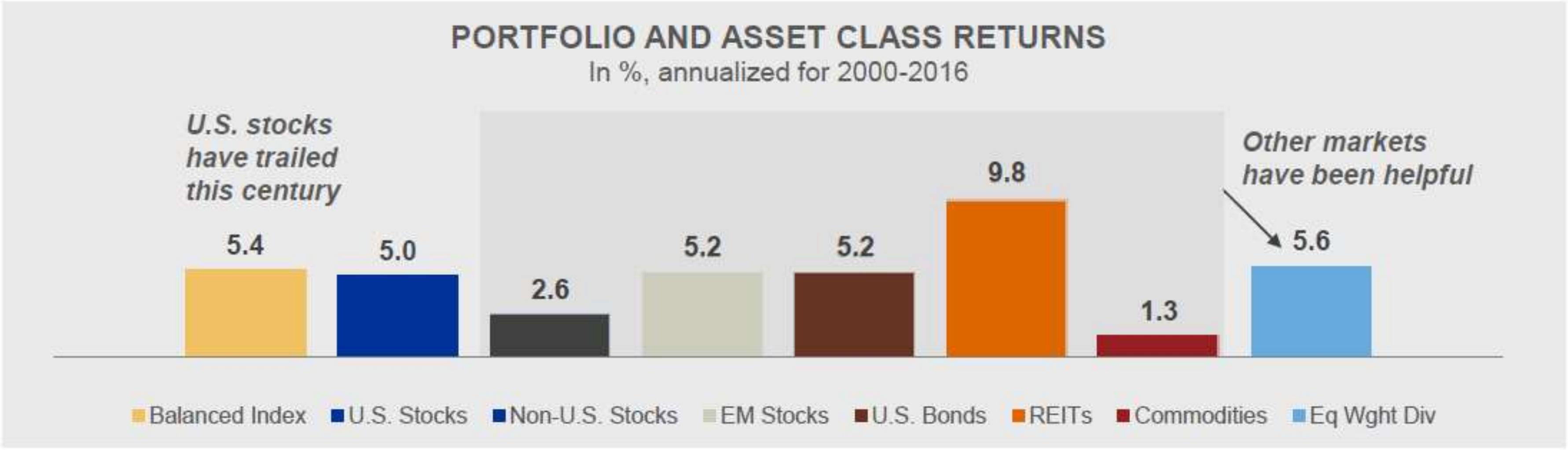


Source: Russell

Why did a diversified portfolio not keep pace?

IT INCLUDES MORE THAN JUST U.S. STOCKS

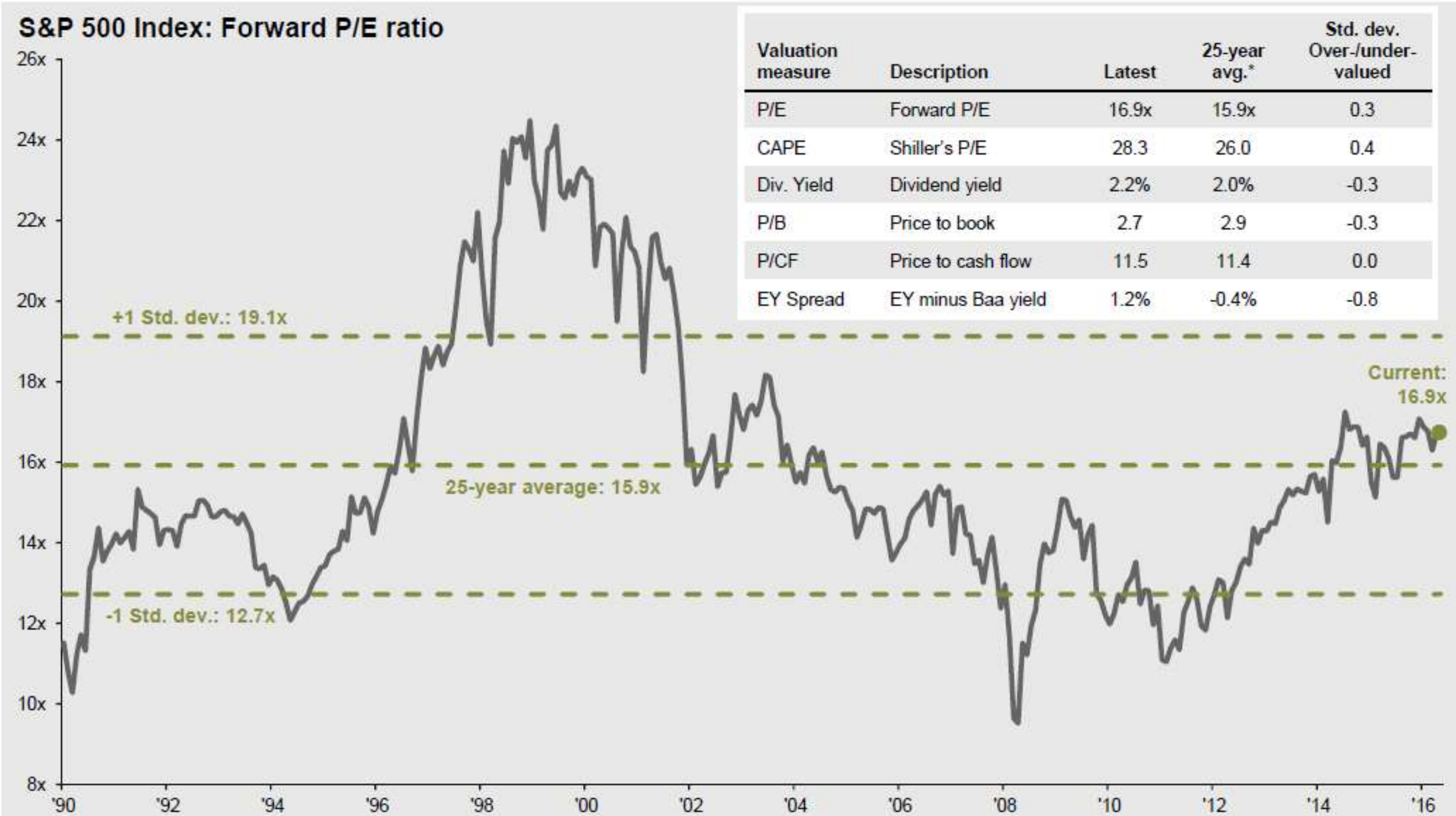




Source: Russell

Earnings-based valuations of U.S. stocks are elevated

RAISES THE POSSIBILITY OF BELOW-AVERAGE FUTURE RETURNS

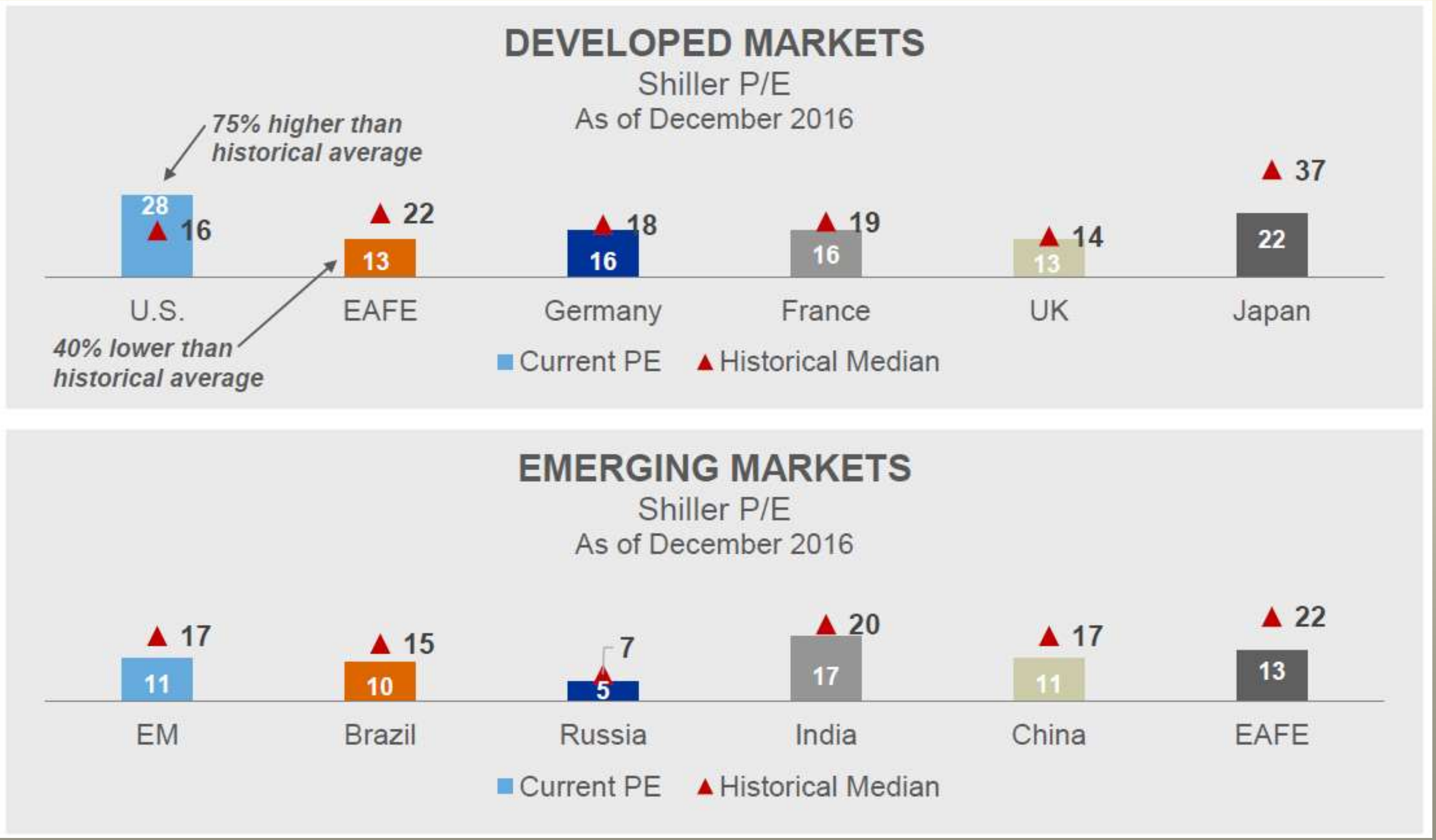


Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-valued
P/E	Forward P/E	16.9x	15.9x	0.3
CAPE	Shiller's P/E	28.3	26.0	0.4
Div. Yield	Dividend yield	2.2%	2.0%	-0.3
P/B	Price to book	2.7	2.9	-0.3
P/CF	Price to cash flow	11.5	11.4	0.0
EY Spread	EY minus Baa yield	1.2%	-0.4%	-0.8

Source: FactSet, FRB, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management

Are stocks globally as expensive as the U.S.?

NO, OTHER MARKET VALUATIONS BELOW HISTORICAL NORMS

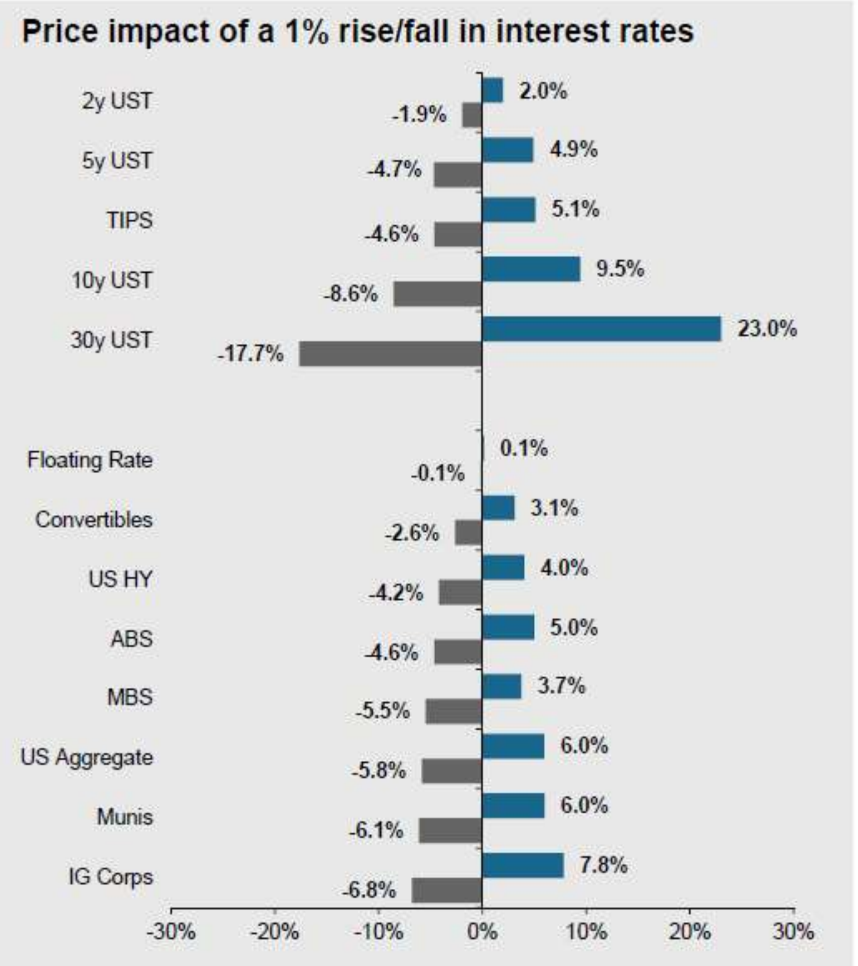


Source: Shiller P/E data from Robert Shiller website and Research Affiliates website

The benefits of fixed income sector diversification

CREDIT EXPOSURE WAS A MAJOR CONTRIBUTOR IN 2016

			Yield		Return
U.S. Treasuries	Correlation to 10-year	Avg. Maturity	12/30/2016	9/30/2016	2016
2-Year	0.63	2 years	1.20%	0.77%	0.64%
5-Year	0.91	5	1.93%	1.14%	0.48%
10-Year	1.00	10	2.45%	1.60%	-0.16%
30-Year	0.93	30	3.06%	2.32%	0.88%
TIPS	0.58	10	0.50%	0.00%	4.68%
Sector					
Broad Market	0.86	8.1 years	2.61%	1.96%	2.65%
MBS	0.81	6.9	2.85%	2.06%	1.67%
Municipals	0.48	10.0	2.64%	1.72%	-0.12%
Corporates	0.45	10.7	3.37%	2.84%	6.11%
High Yield	-0.24	6.3	6.12%	6.17%	17.13%
Floating Rate	-0.20	2.2	1.76%	1.75%	2.79%
Convertibles	-0.31	-	1.05%	1.00%	11.03%
ABS	0.17	5.4	2.58%	1.97%	3.01%



Source: Barclays, U.S. Treasury, FactSet, J.P. Morgan Asset Management

Overview: Improved Global Economy Sets Tone for 2017

The recovery from a global industrial recession during 2016 set the stage for rising bond yields and inflation expectations in the second half of the year, which accelerated after the U.S. election results boosted hopes for a pro-growth change in U.S. economic policy. There remain a wide distribution of potential policy outcomes in 2017 that may inject volatility, but the solid U.S. and global expansions provide a positive context to start the year.

	Q4 2016 TRENDS	OUTLOOK 2017
MACRO	• **Acceleration in global economic activity** – China exited growth recession – Global industrial activity improved, deflationary pressures abated – U.S. expansion a mix of mid and late cycle • **U.S. elections sparked abrupt change in economic policy expectations** – Hopes for business-friendly, pro-growth tilt – Inflation expectations also rose • **Global monetary policy still accommodative but incrementally less easing** – Fed hiked for second time; ECB tapered but extended	• **Global expansion to persist** – Advanced economies in maturing cycle phases – China's outlook uncertain, but EM economies generally OK amid rising commodity prices • **Wide distribution of policy outcomes** – Potential policy changes make higher U.S. growth possible, inflation upside probable – Uncertainty: European elections risk, anti-globalization pressures, monetary responses • **U.S. in solid expansion, likely will move toward late cycle as year progresses** – Tighter labor markets raise inflation pressures – Overheating boom a possible scenario
MARKETS	• Bond yields rose sharply; dollar strengthened • Performance shift to U.S. domestic-oriented cyclicals, away from bond proxies	• Policy uncertainty likely to boost market volatility • Favor global equities but smaller allocation tilts • Inflation-resistant assets may offer protection against an upside surprise

Source: Fidelity

Possible impacts of Trump Administration

POTENTIAL TAILWINDS:

- Possible reductions to top individual and corporate tax rates
- Reduced regulation increases risk-taking
- Pro-business view may support corporate profits and growth

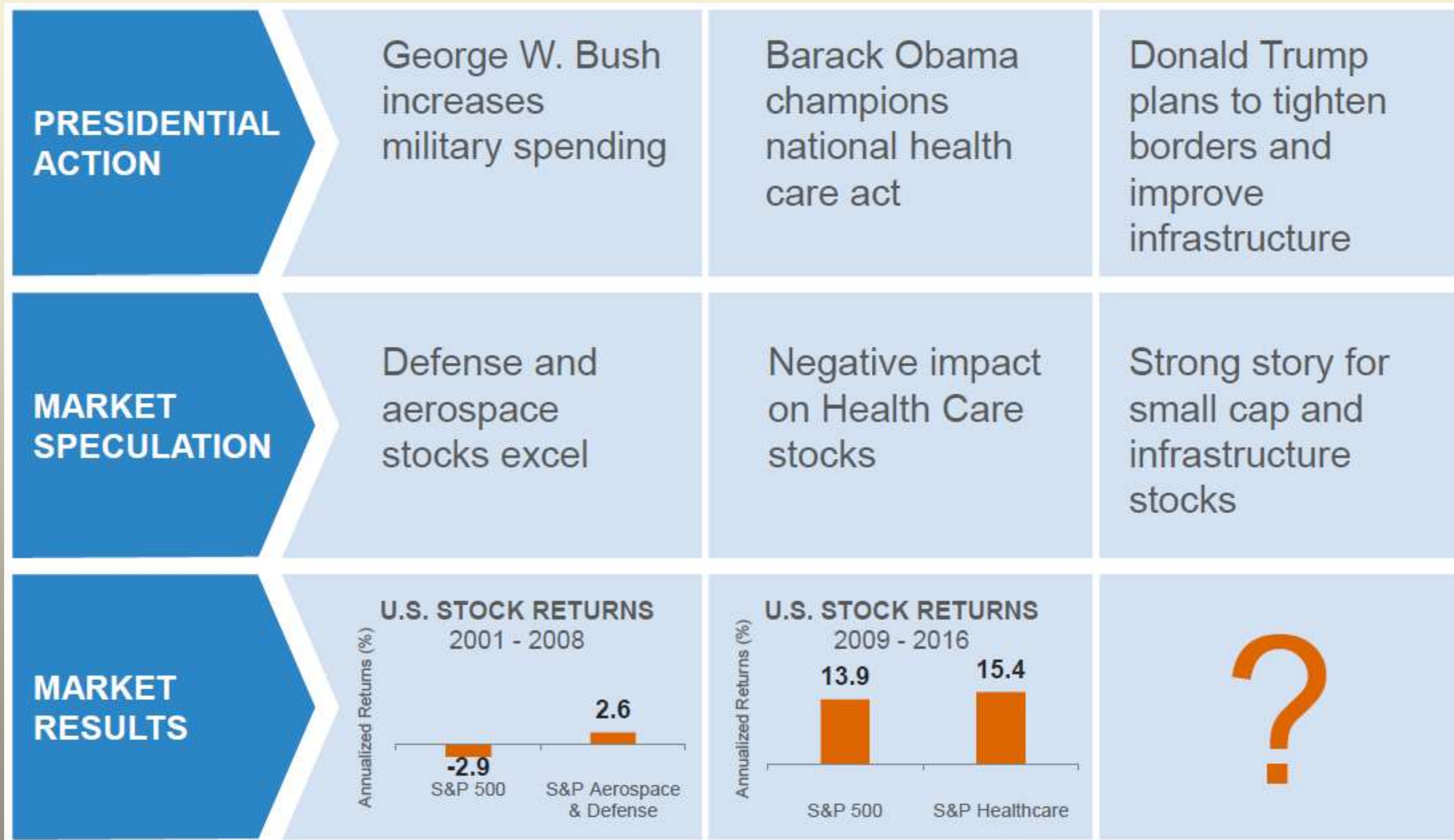
POTENTIAL HEADWINDS:

- Possible tariff increases on global trade
- Strong dollar may hinder multinational companies
- Unanticipated increases to interest rates/inflation
- Unpredicable geopolitical events

In our view, diversification remains an excellent response to market and economic uncertainties.

Potential market impact of presidential priorities?

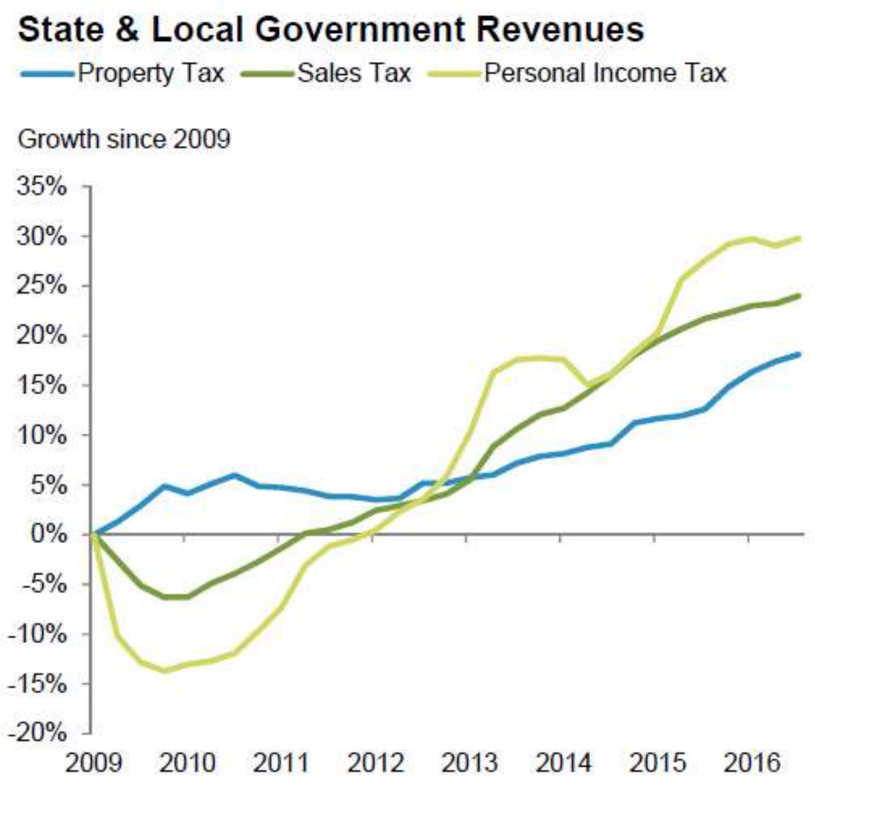
MARKET SPECULATION HAS A QUESTIONABLE TRACK RECORD

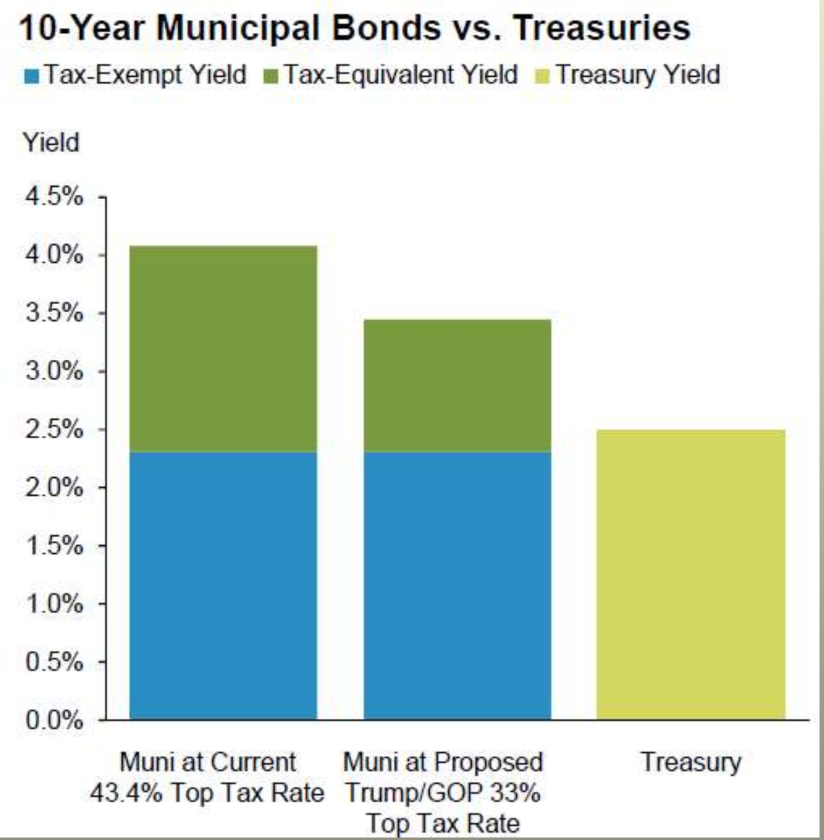


Source: S&P Indexes

Muni Tax Benefit Still Significant under Proposed Tax Cuts

Underlying fundamentals remain solid for municipal bonds, as state and local revenues continue to rise. Even if personal income taxes for the top bracket are reduced to the 33% level suggested in the Trump and GOP plans, munis would retain a significant tax-equivalent advantage over comparable Treasuries.

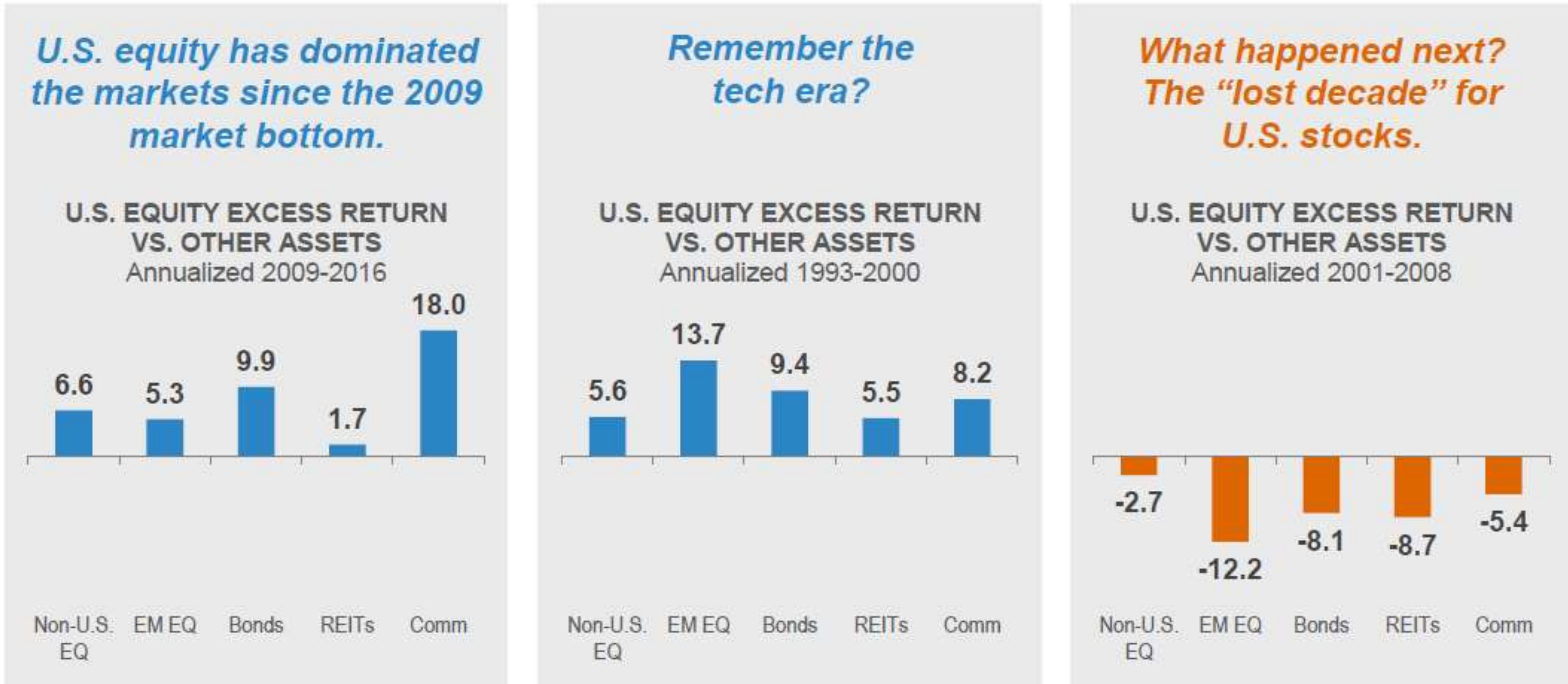




Source: Fidelity

Have we seen U.S./International equities performance divergence before?

YES, WE HAVE



- U.S. equity dominance can cause investors to question the role of diversification
- Unfortunately, giving up on diversification can be painful

Source: Russell