

**Quarterly
Investment Briefing
November 16, 2016**

INDIANA TRUST

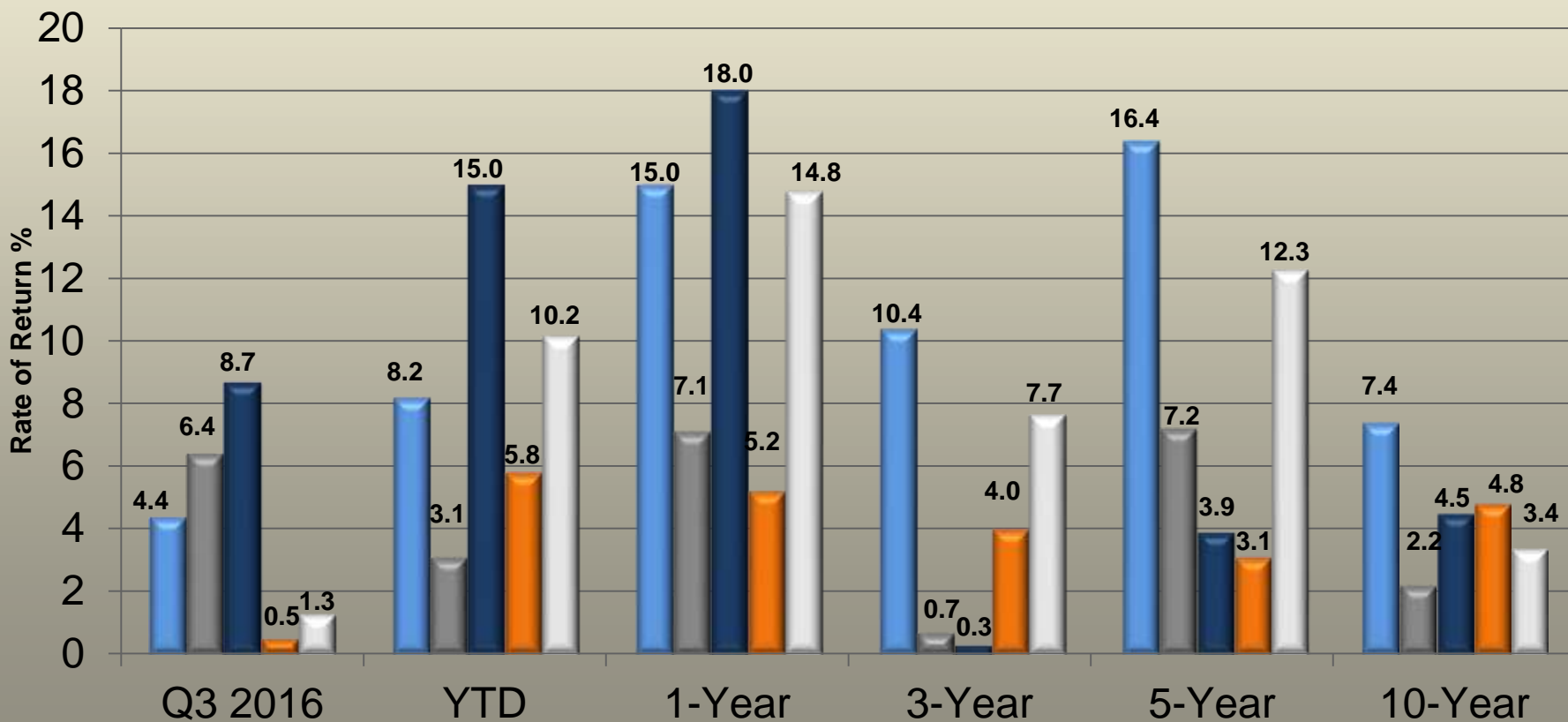
& Investment Management
COMPANY

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Capital Market Returns Current & Annualized Period Ending September 30, 2016

- U.S. Equities
- Non-U.S. Equities
- Emerging Market Equities
- Fixed Income
- Real Estate

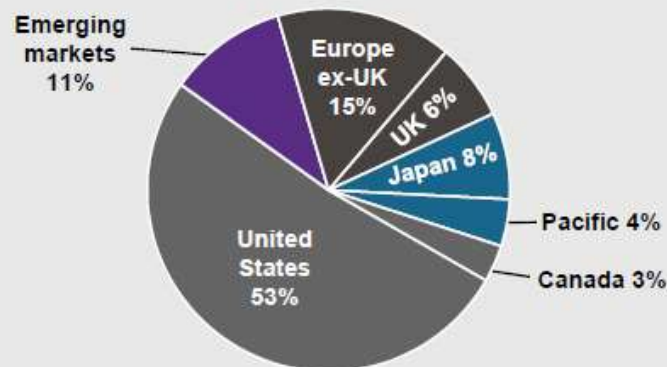


Emerging Markets Leading The Way In 2016

A rebound in oil prices and political change in Brazil have helped emerging markets this year, as has a broadly weaker U.S. dollar.

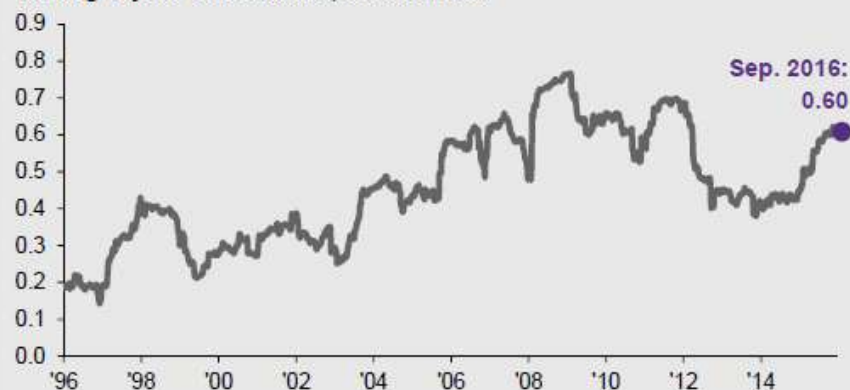
Country / Region	2016 YTD		2015	
	Local	USD	Local	USD
Regions / Broad Indexes				
All Country World	5.2	7.1	1.8	-1.8
U.S. (S&P 500)	-	7.8	-	1.4
EAFE	-1.1	2.2	5.8	-0.4
Europe ex-UK	-2.6	0.5	9.1	0.1
Pacific ex-Japan	7.1	11.0	-0.8	-8.4
Emerging Markets	11.6	16.4	-5.4	-14.6
MSCI: Selected Countries				
United Kingdom	14.4	0.9	-2.2	-7.5
France	-0.5	2.9	12.3	0.8
Germany	-1.4	2.0	10.0	-1.3
Japan	-13.4	2.9	10.3	9.9
China	8.9	8.8	-7.7	-7.6
India	7.8	7.1	-1.6	-6.1
Brazil	34.0	63.2	-12.5	-41.2
Russia	16.7	31.3	22.9	5.0

Weights in MSCI All Country World Index
% global market capitalization, float adjusted



Global equity market correlations

Rolling 1-year correlations, 30 countries



U.S. Market Valuations Elevated, On Some Metrics

S&P 500 Index: Forward P/E ratio



Sources: FactSet, FRB, Robert Shiller, Standard & Poor's, J.P. Morgan

Relative Equity Valuations By Region

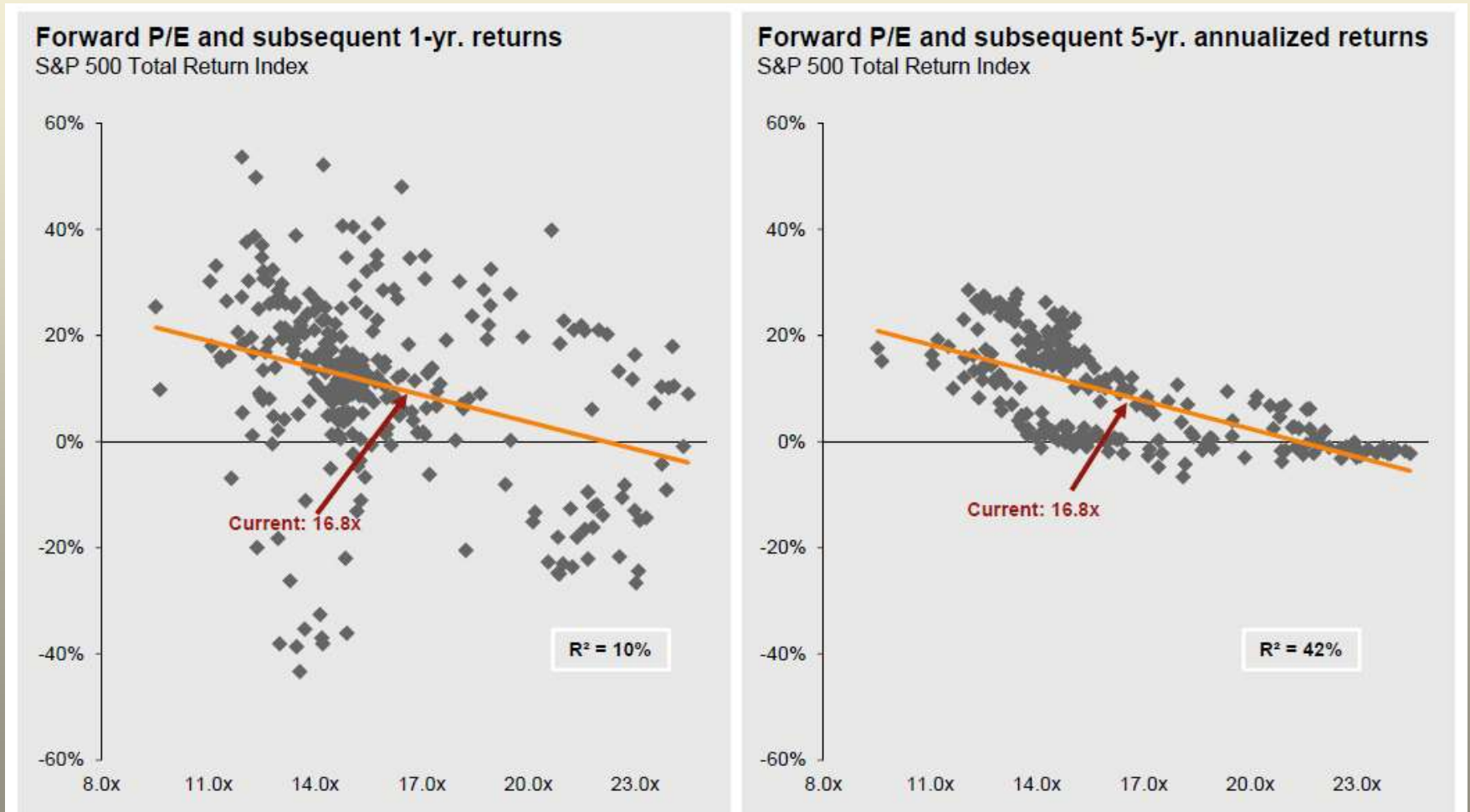
September 2016

U.S. vs Europe x-UK	U.S / Europe Current Level	U.S / Europe Average Level 1996-3Q16	U.S. vs Pacific Basin	U.S / Pacific Current Level	U.S / Pacific Average Level 1996-3Q16	U.S. vs Emerg Mrkts	U.S / EM Current Level	U.S / EM Average Level 1996-3Q16
Price to Earnings	1.17	1.15	Price to Earnings	1.38	1.00	Price to Earnings	1.32	1.40
Price to Book	1.60	1.41	Price to Book	2.09	1.66	Price to Book	1.74	1.39
Price to Sales	1.81	1.54	Price to Sales	2.11	1.77	Price to Sales	1.49	1.22

- **Multiple factors to assess relative valuations across equity markets**
 - **Three chosen: P/E, P/B, PS, others can be considered, and often are**
- **Historical relationships between measures provides perspective on today's comparisons**
- **These measures suggest that the U.S. is relatively expensive compared to other markets at this time**

P/E Is Better At Predicting Long Term Returns

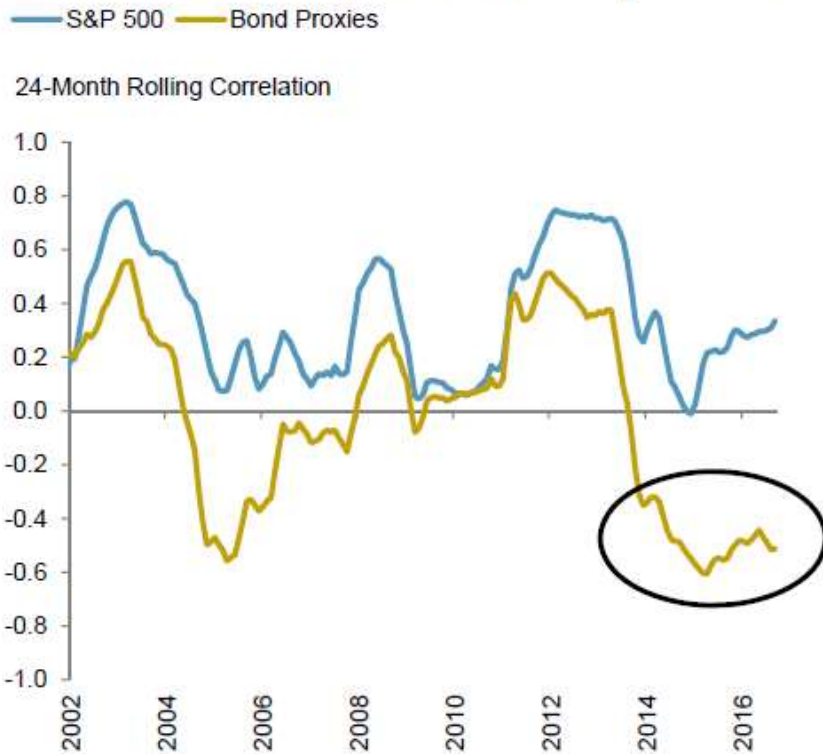
Market timers often cite an elevated P/E ratio as the trigger for an impending market pullback. In the short term, the P/E is not a good predictor of subsequent returns and is a better gauge of longer term returns.



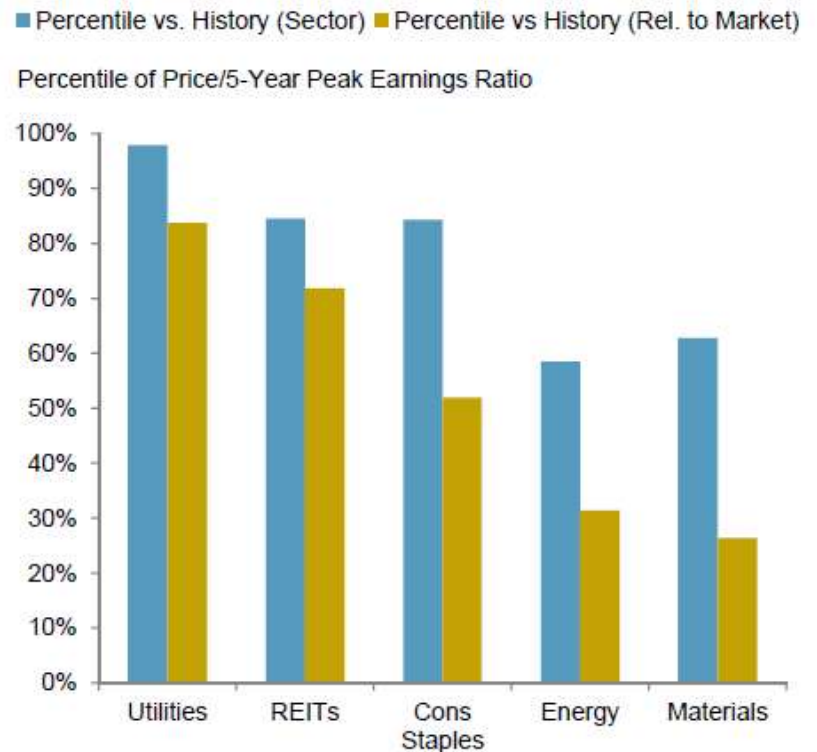
Bond-Proxy Sectors Closely Tied To Yield Movements

Asset prices have been particularly sensitive to changes in bond yields over the past year, especially the performance of bond-proxy equity sectors such as utilities, REITs, and some consumer staples. Benefiting from their attractiveness in a low-yield environment, the relative valuations of these high-dividend payers have reached extreme levels on a historical basis.

Correlation with 10-Year Treasury Yields



Equity Sector Valuations, 1976-2016



Reset Button – The New Normal

- **Federal funds rate has averaged 2% since 2000 vs. 5% since 1955**
- **Annual inflation (CPI) has averaged 2.1% since 2000 vs. 4.2% since 1960**
- **GDP growth increasingly dependent on consumer spending**
- **Donald Trump elected POTUS**
- **Chicago Cubs win World Series for first time since 1908 and “wait until next year” has a whole new meaning**

Many Reasons Yields So Low, Some May Not Last Forever

Several fundamental factors (slow global growth, subdued inflation, easy monetary policies) and technical trends (reduced supply and higher demand for government bonds) have sent bond yields lower. With yield levels implying expectations of a global recession followed by secular stagnation, a modest alternative surprise could put upward pressure on yields.

	Why rates are low	What might push them up
	Fundamentals	
<i>Cyclical and secular</i>	Slow growth	Better than expected growth
	Low inflation	Higher than expected inflation
	Monetary easing	Less easy monetary policies
	Technicals	
<i>Reduced supply</i>	Quantitative easing	Less QE than expected
	Fiscal tightening	Fiscal easing
<i>Increased demand</i>	Regulatory backdrop	(Very low probability of change)
	Demographics	(Very low probability of change)

Rate Rises: The Fed Only Impacts Short-Term Rates

LONGER-TERM RATES FACE ADDITIONAL MARKET INFLUENCES

- › 7 Fed Fund rate hike cycles since 1980
- › On average the Fed Funds rate has risen 3.25% per cycle
- › The 10-year Treasury rate rose 1.3% on average per cycle

MEDIAN TREASURY YIELD CURVE INCREASES %
During rate hike cycles



AVERAGE MARKET AND PORTFOLIO RETURNS

Periods post initial Fed rate hike
Returns Annualized (%)



- › Interest rate moves are not in lock-step across maturities
- › The September 30 bond market's average maturity is 7.8 years
- › Market returns have generally been solid during these cycles

How The World Shops

- **By 2025 4.2 billion people will be part of the consuming class**
- **2 billion millennials (born between 1980-2000) worldwide about to reach prime working and spending years**
- **In U.S., rotation from goods towards services, especially travel & leisure**
- **Chinese consumption expected to grow 10%/year through 2020 – spending money on-line, on lifestyle and on experiences**
- **Consumption in India in early stages and favors consumer durables such as refrigerators and TV's**

Five Ways President-Elect Donald Trump May Move Markets

- **Infrastructure**
- **Lower Tax Rates**
- **Trade**
- **Health Care – ACA**
- **Defense Spending**

Presidents, Politics, Surnames, And Stocks

STOP TRYING TO PREDICT PERFORMANCE WITH POLITICS

RELATIONSHIP VS. STOCK MARKET	EXPLANATORY POWER	DIRECTION	IMPACT
Political party of the U.S. president*	2.2%	Double digit returns for both parties	Low LT impact
Number of letters in president's surname*	3.4%	Longer surnames are stronger	Not meaningful
President height, weight & eye color*	3.8%	Tall, trim and blue eyes are best	Not meaningful
10 year interest rates	8.5%	Falling helps	Meaningful
Corporate earnings	21.7%	Growth is good	Meaningful
Valuations	39.5%	Mean-reverting	Meaningful

- › The president's political party explains only 2.2%** of variation in annual stock market returns (that is really low)
- › Market and economic fundamentals matter more
- › Don't let elections influence your long-term investments

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