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4707 Executive Drive
San Diego, CA 92121-3091

75 State Street, 22nd Floor
Boston, MA 02109-1827

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Dear Valued Investor:

The consensus view heading into the presidential election was that a Donald Trump victory would result in an equity market sell-off and a flight to the safety of U.S. Treasuries and other high-quality bonds. Many were surprised to see the opposite result—bond prices moved lower, whereas equity markets rallied.

Sharp increases in interest rates can be painful for fixed income investors, as bond prices fall in order to adjust to higher prevailing yields. Generally, growth and inflation expectations have the greatest impact on long-term interest rates, while the Federal Reserve (Fed) is a more important driver of short-term rates. The bond market seems to be pricing in stronger economic activity, so any significant further moves in long-term rates seem unlikely until we have greater clarity on the president-elect's policies. The market has also largely priced in a Fed rate hike, with fed fund futures, a market that represents rate expectations, pricing in a 98% chance of an increase at the Fed's December 13–14, 2016 meeting.

A number of factors have been pushing down on interest rates this year, including: low economic growth, deflationary pressures overseas, and low to negative rate policies from several major central banks. Elements that could push bond prices higher (and yields lower) from current levels include issues with the Trump transition, a policy mistake by a government or central bank, uncertainty regarding the future of the European Union (EU) as a result of the U.K.'s planned separation from the EU (e.g., Brexit) or from upcoming European elections.

Historically, large interest rate moves in one direction, such as we've seen, tend to lead to a reversal in the near term. This could happen even in the absence of stock market negative events; given that the significant yield advantage that U.S. bonds hold relative to many other developed nations could lead to more foreign demand for Treasuries.

As a result, we believe that rates are likely to be range bound for the near-term, though volatility is possible as new policy details emerge from the incoming Trump administration and the Fed continues to move toward normalizing interest rates. It is important to keep pullbacks in perspective

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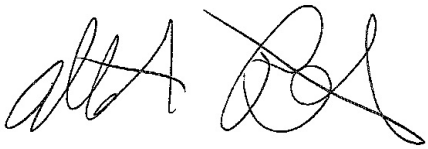
by remembering that the majority of a bond's return comes from interest income, and that the diversifying effect of bonds may help limit portfolio losses in the event of a stock market pullback.

As always if you have any questions, I encourage you to contact me.

Sincerely,



Matthew E. Peterson

SVP, Chief Wealth Strategist

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Economic forecasts set forth may not develop as predicted.

Investing in stock includes numerous specific risks including: the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.

Investing in specialty market and sectors carries additional risks such as economic, political, or regulatory developments that may affect many or all issuers in that sector.