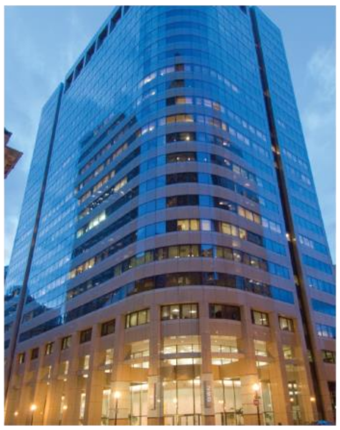
TFC FINANCIAL
The Financial Counselors

COMMENTARY | 1Q
April 2016

OUR VIEW



First Quarter Market Activity

Global equities ended the first quarter at nearly the same level as they started the year. The beginning and ending points, however, mask the roller coaster ride during the quarter. Market volatility was impossible to ignore--U.S. stocks moved by 1% or more in 37 of the 61 trading days during the quarter, the highest proportion of 1%+/- moves since 2009.

Fear dominated the first half of the quarter, centered on concerns about the economic slowdown in China, potential rate increases from the Fed and further collapsing oil prices. Equities declined against this fearful backdrop. Sentiment changed during the second half of the quarter, as many of the worst fears abated, at least temporarily.

In China, capital outflows slowed and its economic downturn appeared to bottom. Release of the "Panama Papers" illustrated that some of the capital outflows from China seeking "safe haven" came from within the Chinese elite. Trade figures released after quarter-end show that China's exports rose 11.5% in dollar terms last month, following a steep decline in February. The dollar value of imports was down 7.6% in March, a much smaller decline than the 13.8% drop in February. Distortions from the Chinese New Year make the March trade figures less than fully conclusive, but these figures add to growing evidence that the recent extreme gloom about the state of the Chinese domestic economy was misplaced.

Much ado about nothing?

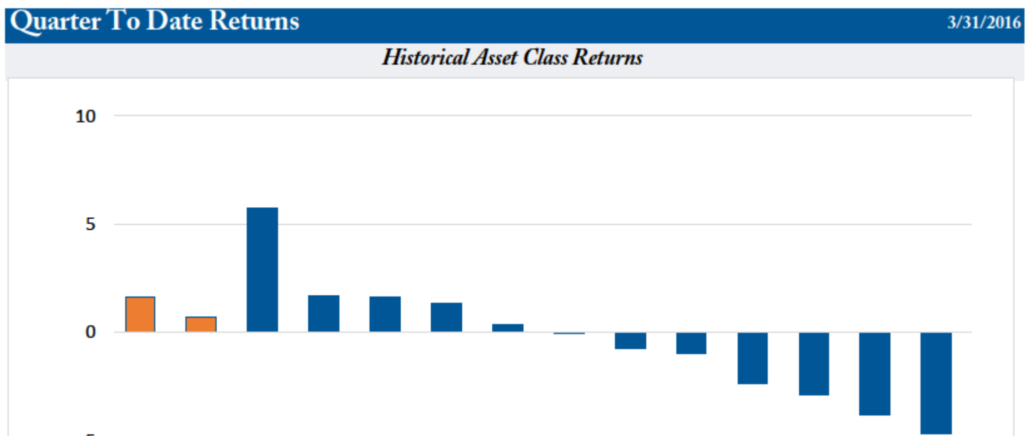
Janet Yellen's "dovish" statements caused a reset of expectations about Fed interest rate policy, while substantial accommodative monetary policy moves were introduced by the ECB. These included expansion of the negative interest rate regime, creation of a new long-term refinancing operation designed to encourage bank lending, and expanded quantitative easing measures that include purchases of corporate debt. Oil prices rebounded from their lows, in the hopes that supply cuts from U.S. shale producers and OPEC will reduce supply/demand imbalances by the latter part of 2016.

Performance: Emerging Market Equities Lead the Way

By the end of the quarter, leaders after the relief rally included some asset classes least loved by investors in recent times. After a disappointing 2015, Emerging Market equities were the best performing asset class in TFC portfolios. Value tilts in the U.S. also helped performance. Gold, called the "pet rock" of investing by Barron's, gained more than 16% for the quarter. High yield bonds and commodity-oriented stocks were also among the top performing asset classes, with short-covering certainly playing some role. Despite continuing speculation about rising interest rates, long-term Treasury Bonds also performed well.

Developed international markets lagged during the quarter, with the refugee crisis in Europe presenting European policy makers with serious challenges. U.S. small value company stocks also helped performance but small growth stocks lagged across the globe. Actively-managed U.S. large company stock mutual funds continued to struggle to beat their benchmarks; according to Bank of America Merrill Lynch only 19% of large cap funds beat the S&P 500 Index.

Historical Asset Class Returns



	Short Term Bonds	Short Term Muni Bonds	Em. Markets	US Small Value	US Large Value	S&P 500	Global Stocks	Intl. Small Value	Frontier Markets	Intl. Small Growth	Europe Stocks	Intl. Large Core	Intl. Value	US Small Growth
QTD	1.6	0.7	5.8	1.7	1.6	1.3	0.4	0.0	-0.8	-1.0	-2.4	-2.9	-3.8	-4.7
1 Year	1.6	1.5	-11.7	-7.7	-1.5	1.8	-3.8	0.2	-12.1	6.8	-8.0	-7.9	-12.4	-11.8
Full Cycle*	3.0	2.8	0.5	4.6	4.4	5.9	3.0	3.7	-2.2	4.0	1.4	0.7	-0.4	5.8

TFC Chart
Source: FactSet Data
* Full Cycle is the annualized return from October 2007 peak to present.

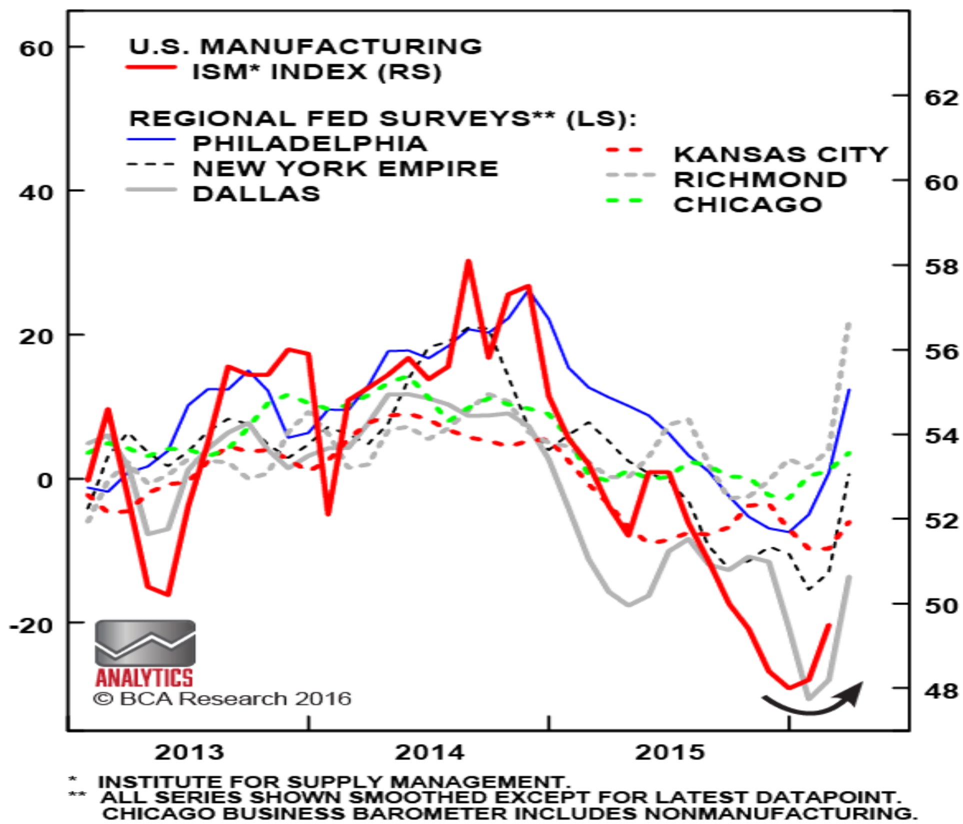
Market focus on geopolitics and central banks

The euro and yen gained some ground against the dollar, at least a temporary pause in the relentless recent upward march for the dollar. Yen appreciation came as a surprise to Japanese policymakers, who expected yen softness after the Japanese adoption of a negative interest rate policy. Japan's demographic profile continues as one of the most difficult challenges among the world's developed economies.

Economic Outlook: Market Focus on Geopolitics and Central Banks

The global economy continues to be stuck in slow growth mode, with consumption growth offsetting weakness in corporate investment. There are some signs of a recovery in manufacturing, as demonstrated by the improving ISM Manufacturing index, a widely used measure of the health of the manufacturing sector. The global Purchasing Managers' index is showing similar improvement and time will tell whether the manufacturing upturn is sustainable.

Improvement in Manufacturing



Can this recovery recover?

Financial markets are fixated on central bank policies and the U.S. presidential election, parsing statements from central bankers and political candidates for clues about the path of interest rates and potential post-election policy changes. Expectations of Fed rate increases have been lowered, with 1-2 more rate rises considered possible in 2016, potentially as early as the June meeting. Raising rates may be awkward in June, however, as the June Fed meeting is scheduled for shortly before the UK vote on whether to leave the European Union ("Brexit").

The feedback loop between Fed policy and financial conditions is acting as a constraint, in that the more that policy in the U.S. diverges from the rest of the world, the more the dollar rises. A rising dollar tightens U.S. economic conditions, which in turn makes it more likely for the Fed to delay rate increases. A cautious Fed and the unfavorable U.S. trade balance may signal the end of the rapid rise in the dollar relative to the euro and yen.

Market Outlook: Sentiment Remains Fragile

TFC's market outlook hasn't changed dramatically from our previous communication. U.S. stock market valuations are high in comparison to Europe, Japan and Emerging Markets, and may be vulnerable given historically corporate high profit margins, slowing profit growth for non-energy companies, and increasingly crisis-like conditions for many energy companies. Although the U.S. stock market sometimes benefits as a "safe haven" during troubled times, investment opportunities outside the U.S. are compelling.

Valuations in Europe reflect earnings growth and profit margins that have room to rise in the recovery from the severe downturn following the European debt crisis. Europe's struggles in the first quarter were in part because of the growing refugee crisis and related fears of terrorism. Continued positive corporate earnings momentum could make European equities relative outperformers in 2016, though we are carefully watching developments on the refugee front and with the dollar.

The highest profile risks present considerable uncertainty.

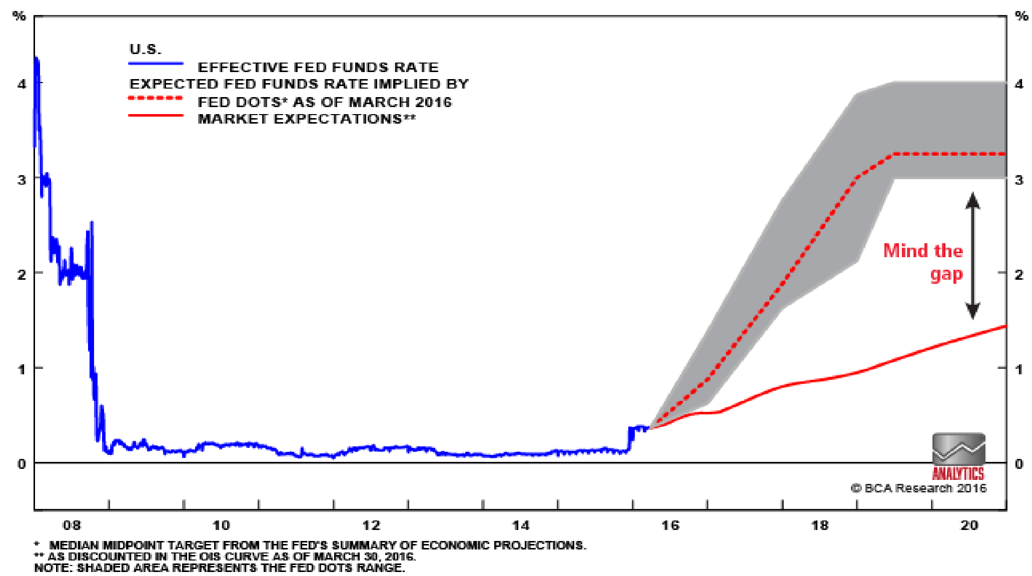
Although the Japanese market is also relatively inexpensive, economic momentum is even less inspiring than the U.S. and Europe. In addition, Japan arguably has the worst demographics in the world and extreme fiscal challenges. Consequently, TFC is less enthusiastic about Japanese equities than about other parts of the world. We are watching policy trends in Japan carefully, however, as the odds are rising for Prime Minister Abe to attempt a "game-changing" policy move to end the country's deflationary mindset.

Our outlook for Emerging Markets is nuanced, given dramatic differences at the country and sector level, particularly in the divide between commodity producers and consumers. Despite caution about near-term prospects for emerging and frontier markets, we're optimistic about the long-term outlook given favorable demographics, stock valuations and growth prospects.

Risks: The Highest Profile Risks Present Considerable Uncertainty

Fed policy: Given the tightening conditions from a potential rising dollar, we expect the Fed to move slowly, keeping rates "lower for longer." Our expectation provides a constructive backdrop for both equities and fixed income investments, though the delay in interest rate "normalization" makes it tough for income-oriented investors. The primary risk to our point of view is an acceleration of inflation. Wages are slowly drifting higher, but are far from levels that would force Fed action.

The Market Expects a Different Rate Path than Signaled by the Fed



Recession: Improvement in manufacturing indicators and generally constructive employment, consumer and housing momentum reduce the likelihood of steep recession in the U.S.

China: China has taken tentative steps to help banks that are burdened by non-performing loans. Chinese leadership is also beginning to signal a restructuring of some state-owned enterprises, with plans for long-term social payments to help displaced employees. Chinese policy moves are getting a mixed reaction from analysts, but have moderated some of the fear of a crisis exported from China to the rest of the world.

Oil prices: Despite the recent rebound in oil prices, the energy sector is likely to remain under siege until inventories are reduced and supply is constrained. We expect more energy companies to fail, creating ripple effects for oil prices, stocks and credit markets.

Political risk: Normally, the political election cycle amounts to headline noise regarding investing. However, the world seems somewhat upside down when we see Argentina's new president offer market-friendly, economically sound policies while American politicians advocate anti-trade, anti-capitalist economic policies. In the UK, the Brexit vote may be too close to call, with implications of a "Go" vote on the pound, trade, immigration, and rotation of the center of finance for Europe away from London.

Concluding Thoughts: Our View

Despite the aforementioned risks, we remain cautiously optimistic. In the 1970s and early 1980s, high inflation forced the Fed to raise rates despite rising unemployment. In the late 1980s, the savings and loan crisis and an oil shock following the Iraqi invasion of Kuwait led to the 1990-91 recession. Later in the decade the dot-com boom and bust happened, followed in 2008-09 by the worst recession since the Depression in the aftermath of the housing boom and bust. We think the pessimistic mood in the market is influenced by the recent memories of that Great Recession and by a mental adjustment to a lower return and slower growth world.

Although we realize how difficult it is to forecast a steep market downturn, we don't see the sort of imbalances that would signal a recession or an extreme bear market. Bank balance sheets are stronger in the U.S., household balance sheets are burdened with less leverage and personal finances considerably improved, and the housing sector is reasonably healthy. The imbalances we see--excessive exuberance in auto loans, student loans, and energy company borrowing levels aren't at a level to create systemic risk.

Availability of Updated Form ADV Part 2A Brochure and Part 2B Brochure Supplement

Annually, at this time of year, Registered Investment Advisors (RIAs) like TFC are required to update our SEC disclosure reports. Please refer to page 8—"Notice of Availability of Updated Form ADV Part 2A Brochure and Form ADV Part 2B Brochure Supplement." The firm takes these compliance requirements and our fiduciary responsibilities seriously. If you have any questions about these reports, please don't hesitate to contact us directly.

As always, we welcome your comments and questions.

Sincerely,

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Notice of Availability of Updated Form ADV Part 2A Brochure and Form ADV Part 2B Brochure Supplement

As an SEC-registered investment adviser, we are required to update annually in the first quarter of each calendar year our Form ADV, which includes our Form ADV Part 2A Brochure and Form ADV Part 2B Brochure Supplement. If, in connection with our annual update, we make material changes to our Brochure or Brochure Supplement since the date of our last annual update, we are required to provide (or offer to provide) our clients with copies of them.

In connection with the just completed annual update of our Form ADV, there were no material changes to our Brochure or Brochure Supplement.

By this notice, we are offering to provide you, without charge, a copy of our Brochure and Brochure Supplement, both dated March 17, 2016. You may obtain copies by sending an e-mail to Michelle Volpe, Senior Client Service & Compliance Administrator, at mvolpe@tfcfinancial.com, or by calling Ms. Volpe at 617-210-6700. Our updated Brochure and Brochure Supplement are also available on our website: www.tfcfinancial.com.

You can also find our Brochure and Brochure Supplement, as well as other information about us, through the SEC's Investment Adviser Public Disclosure (IAPD) portal: www.adv.adviserinfo.sec.gov. You can search this site by a unique identifying number, known as a CRD number. Our firm CRD number is 105062.

Please do not hesitate to call us if you have any questions.

Notice dated April 15, 2016