ACCESS FINANCIAL SERVICES, INC.

Quarterly Review and Outlook *Second Quarter, 2017*

Table 1: Benchmark Returns as of June 30, 2017

INDEX	Last 3 Mo.	Last 6 Mo.	Last 12 Mo.
US STOCKS			
S&P 500 Index (large-cap stocks)	2.86	9.34	17.90
Russell 2000 Index (small-cap stocks)	2.73	4.99	24.60
FOREIGN STOCKS			
MSCI EAFE Net Total Return Index (US$)	5.61	13.81	20.27
MSCI Europe Net Total Return (US$) Index	7.37	15.36	21.11
MSCI Japan Net Total Return (US$) Index	5.19	9.92	19.18
MSCI Emerging Markets Net Total Return Index (US$)	5.06	18.43	23.75
COMMODITIES			
US Dollar Index (DXY)	(4.71)	(6.44)	(0.54)
Gold	(0.61)	8.20	(6.07)
Oil (WTI)	(9.01)	(14.30)	(4.74)
BONDS			
Bloom Barclays US Aggregate Bond (investment-grade bonds)	1.57	2.27	(0.31)
Bloomberg Barclays US Treasury 20+ Year	4.40	5.71	(7.44)
S&P National AMT-Free Municipal Bond Index	1.84	3.17	(0.71)
Markit iBoxx USD Liquid Investment Grade Idx (corporate bonds)	2.94	4.34	1.80
Bloom Barclays US Corp. High Yld Bond Index (high-yield bonds)	2.10	4.67	12.28
S&P/Citi Intern'l Treas Bond Ex-US (foreign bonds)	4.16	6.33	(3.28)

Source: iShares.com & Bloomberg

Global stocks posted their best second-quarter performance in three-years with the strongest returns coming from non-US equities. Foreign stock returns in US dollar terms were much stronger than in local currency terms (Table 2) as the US dollar defied almost everyone's forecast and declined significantly during 2017.

Table 2

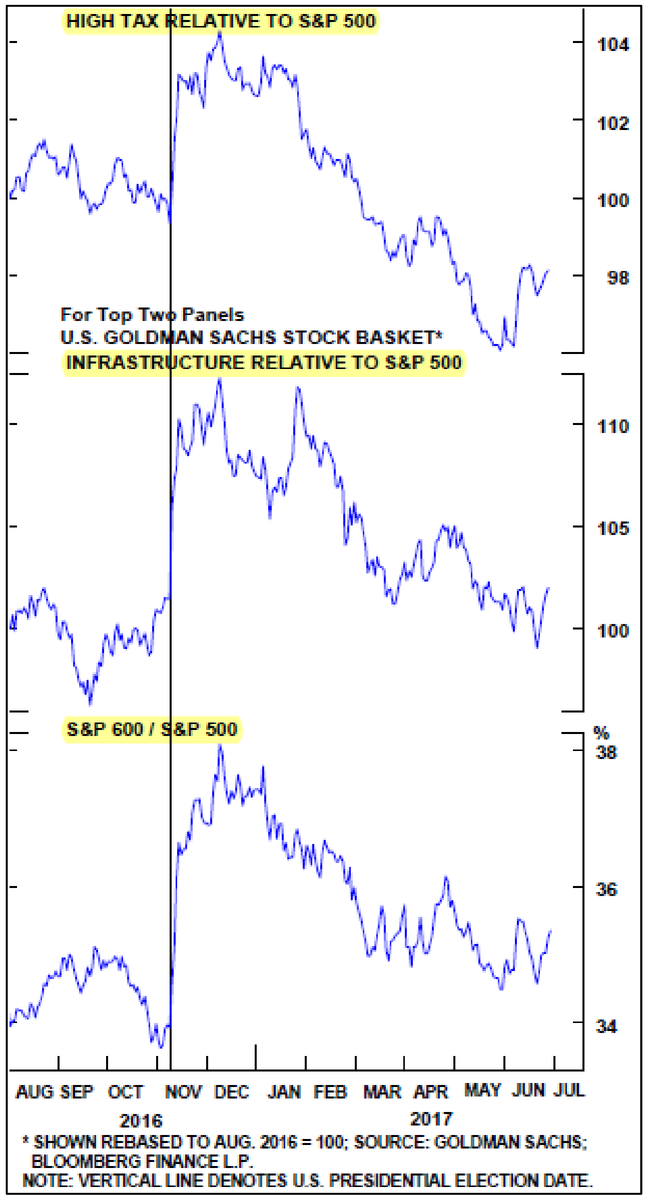
INDEX	Last 3 Mo.		Last 6 Mo.	
	US Dollar	Local Currency	US Dollar	Local Currency
FOREIGN STOCKS				
MSCI EAFE Net Total Return Index	5.61	2.71	13.81	7.55
MSCI Europe Net Total Return Index	7.37	0.68	15.36	6.68
MSCI Japan Net Total Return Index	5.19	6.07	9.92	5.89

Source: iShares.com & Bloomberg

What have become known as the "Trump trades" continued to unwind as shown in Chart 1 (panel 1: high tax paying companies; panel 2: infrastructure companies; panel 3: small cap stocks). However, they appear to be stabilizing around pre-election levels. We are watching these trades closely as the market seems to have priced out a boost in infrastructure spending and the potential for lower corporate tax rates.

We expect global growth to remain firm over the next twelve-months. Financial conditions in most countries have eased substantially since the beginning of the year thanks to rising stock prices, lower bond yields (longer-term interest rates – Chart 2), and narrower credit spreads (the difference in interest rates of low quality bonds vs. high quality bonds). Easier financial conditions tend to lift economic growth with a lag of 6-to-9 months which looks good for activity during the remainder of this year and into 2018. Global monetary conditions generally remain favorable and excess liquidity is also still well above the zero line, a threshold that has warned of a downturn in stock prices in the past.

Chart 1: Election Enthusiasm Has Faded

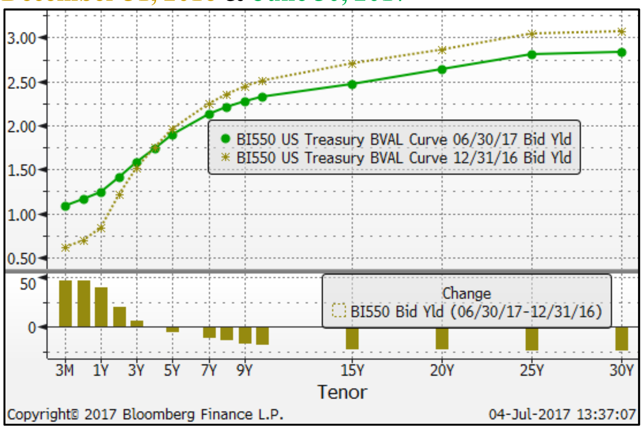


Source: BCA Research

A number of positive feedback loops should increase the effects of easier financial conditions. In the US, a tight labor market will lead to faster wage growth, helping to spur consumption. Rising household spending, in turn, will lead to lower unemployment and even faster wage growth.

Strong consumption growth will also motivate firms to expand capacity, translating into more investment spending. Current survey data (US Business Roundtable CEO Survey, Fed capex intentions surveys and NIFB change in capital expenditure plans) show that the share of US firms planning to increase capital expenditures (capex) has risen to a post-recession high.

Chart 2: Term Structure of Interest Rates
December 31, 2016 & June 30, 2017

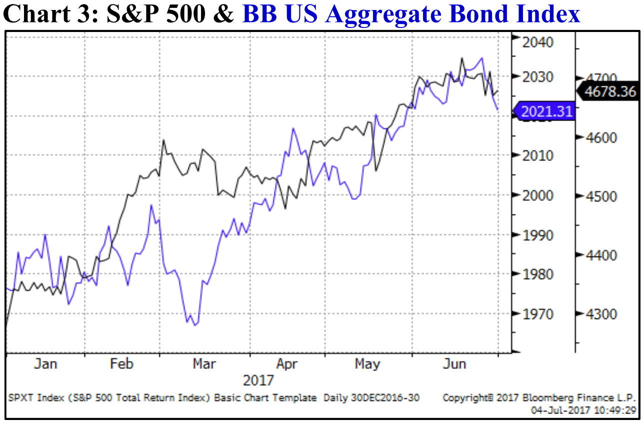


Source: Bloomberg

Corporate earnings growth has become the main driver of the global equity bull market since mid-2016. Strong global growth should continue to boost corporate earnings over the next 12-months. Consensus bottom-up estimates call for global earnings per share to expand by 14% in 2017 and an additional 11% in 2018. The global earnings revision ratio (upgrades minus downgrades) moved into positive territory earlier this year for the first time in six years.

So far this year, both stocks and bonds have rallied (Chart 3) which is sending somewhat contradictory signals as bonds tend to generate stronger relative returns in a low growth environment and stocks tend to generate stronger returns in a high growth environment.

Chart 3: S&P 500 & BB US Aggregate Bond Index



Source: Bloomberg

While there are many factors that drive high quality bond returns (generally measured by the Bloomberg Barclays US Aggregate Bond Index), two of the primary drivers are the "real" component which relates to expectations for economic growth and the "inflation expectations" component (lower inflation expectations are associated with lower interest rates and vice versa).

This year's strength in the bond market (decline in interest rates for bonds with medium- to long-term maturities as illustrated in chart 2) has been almost entirely due to falling inflation expectations (Chart 4). Real yields have remained reasonably steady, suggesting that growth worries are not at the forefront of investors' concerns. The fact that consensus global growth estimates for 2017 and 2018 have continued to move higher is consistent with this observation. This explains a lot about the broader financial environment. Stable growth and low inflation create a fertile breeding ground for risk assets.

Chart 4: Inflation Expectations as Measured by the Fed's 5-year Forward Breakeven Inflation Rate & US 10-Breakeven Inflation Rate*

** Calculated by subtracting the real yield of the inflation linked Treasury from the yield of the closest nominal Treasury maturity. The result is the implied inflation rate.*
Source: Bloomberg

Overall, the bond market appears to be expecting a bigger drop in inflation over the next couple of years than both the Fed and the Bloomberg consensus of economic forecasters (Table 3).

Table 3: Consensus Expectations

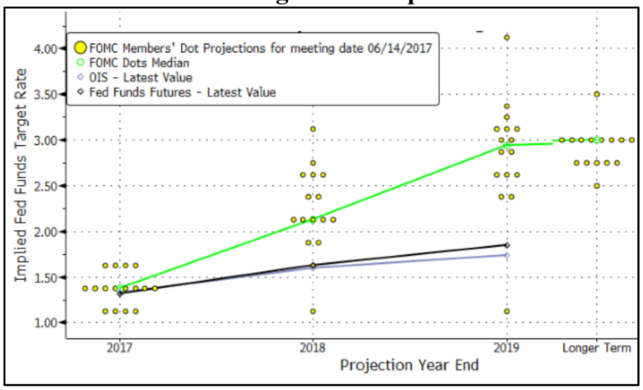
	2017	2018
Real GDP	2.2%	2.3%
Inflation	1.9%	2.1%

Source: Bloomberg

Currently, the fed funds target rate (the short-term interest rate set by the Federal Open Market Committee – i.e. the "Fed") is between 1.00% and 1.25% (1.125% mid-point). The yellow dots on Chart 5 illustrate where each member of the Fed expects the fed funds target rate to be in the future. The black and purple lines illustrate two measures (the overnight index swap rate and fed funds futures) of where the market thinks the fed funds rate will be. According to the median fed dot (the chart is known as the "Fed dot plot"), the Fed expects short-term interest rates to be at 2.125% by the end of 2018 (1% higher, or four 0.25%

hikes) and at 2.93% by year-end 2019 (1.8% higher, or approximately seven 0.25% hikes) whereas the overnight index swap market sees rates at 1.60% (two 0.25% hikes) and 1.75% (between two and three 0.25% rate hikes), respectively.

Chart 5: Fed Funds Target Rate Expectations



Source: Bloomberg

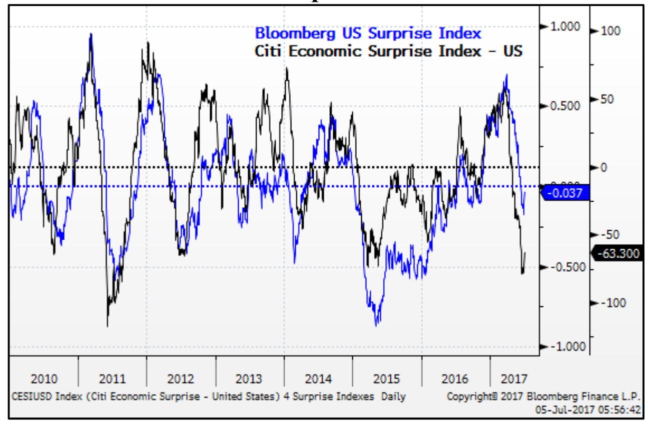
What explains the drop in inflation expectations? One reason is that they had simply overshot the fair value implied by other financial instruments toward the end of 2016. A financial model based on the price of oil, exchange rates and the stock-to-bond total return ratio shows that the ten-year breakeven inflation rate was around 0.20% too high earlier this year. It is now almost exactly in line with the model's fair value.

The most likely explanation for the overshoot is that markets started to discount a much more stimulative fiscal policy in the immediate aftermath of the election. The potential for large tax cuts at a time of already tight labor markets caused investors' inflation expectations to ramp up. While tax cuts are still likely, it now appears as though they will occur much later and be smaller in scale than was originally thought.

A second explanation for this year's drop in the inflation component of bond yields is that core inflation data have disappointed during the past few of months. After reaching 1.8% in February of this year, twelve-month trailing core PCE inflation (the Fed's preferred measure of inflation) has deviated sharply from the uptrend that had been in place since mid-2015. As of May, it had fallen back to 1.4%.

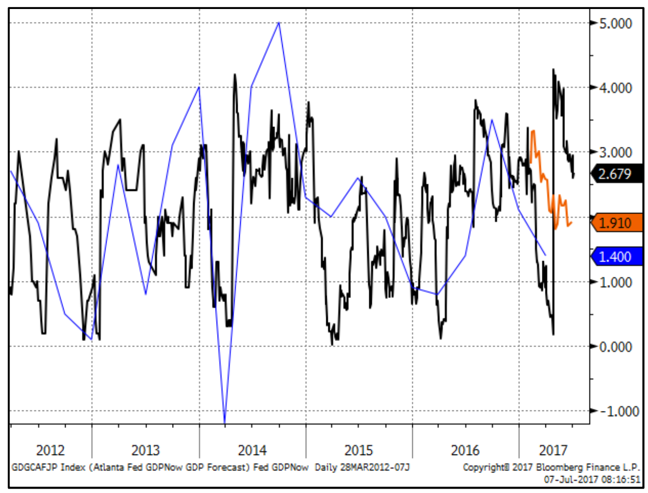
Economic data relative to expectations also turned sharply lower during the second-quarter after rising steadily since the beginning of 2016 (Chart 6). We believe this is temporary and consistent with the weak first-quarter GDP print. Looking ahead, growth for the second-quarter should be 2% or higher. This is consistent with both the Atlanta Fed's and the New York Fed's GDP forecasting models which are at 2.68% and 1.91%, respectively (Chart 7).

Chart 6: US Economic Surprise Indices



Source: Bloomberg

Chart 7: Atlanta Fed GDPNow Forecast, New York Fed Nowcast GDP Model & Real GDP



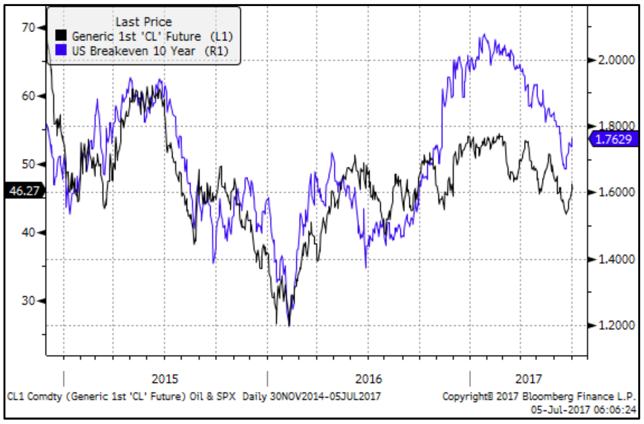
Source: Bloomberg

The pullback in global energy prices since March has also played a role in softer headline inflation and inflation expectations (Chart 8). The decline has been part of a broader move lower in commodity prices. However, we expect oil to recover over the remainder of the year due to:

- Stronger demand: Export and import volumes in the emerging economies accelerated sharply in the first quarter of 2017 and there is a strong correlation between trade volumes and oil demand in the emerging markets.
- Supply constraints due to production cutbacks by OPEC 2.0 led by Saudi Arabia and Russia.

A move in oil prices back to higher levels would help arrest the downturn in overall commodity price indices, and help stabilize inflation in the latter half of 2017. This should help boost inflation expectations, and eventually bond yields, as the downturn in energy prices has shown very little pass-through into non-energy inflation.

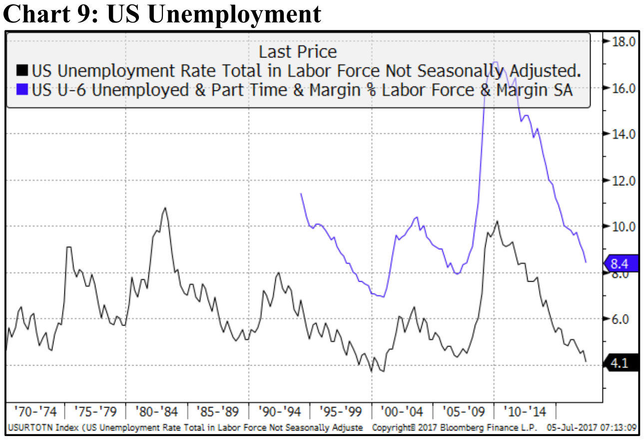
Chart 8: Oil & US 10-Breakeven Inflation Rate



Source: Bloomberg

With the headline US unemployment rate now at a cyclical low of 4.1%, and with the broader U-6 measure (includes discouraged workers and all other marginally attached workers along with those workers who are part-time purely for economic reasons), now down to a decade low of 8.4% (Chart 9), it is likely that wage gains will pressure inflation higher.

Chart 9: US Unemployment



Source: Bloomberg

While we don't usually dedicate this much attention to the inflation outlook, it is an area we've been focused on recently. We think both the bond market and the energy markets are mispricing the upside potential for interest rates, inflation, oil prices and the degree to which the Fed will lift short-term interest rates (the fed funds target rate).

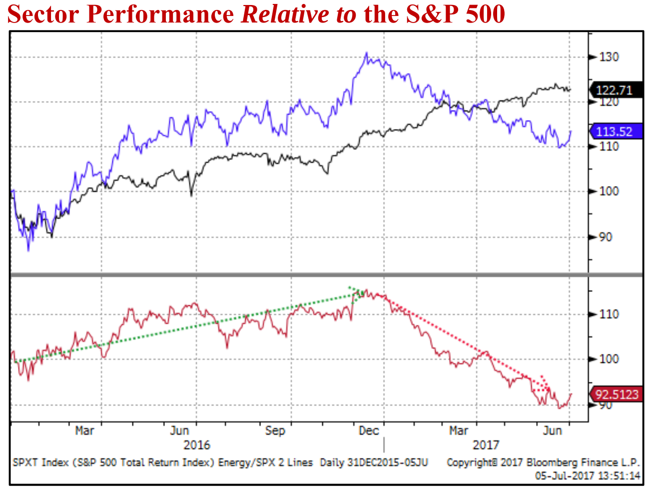
Global leading economic indicators are still pointing to faster growth over the latter half of the year. With most major economies either at full employment (US, UK, Japan, Australia) or approaching full employment (Euro Area, Canada), accelerating growth should ensure that the recent downtick in inflation will not persist for long – especially if oil prices begin to move higher again as we expect.

While it is always a bit risky to lean into consensus expectations, we are acting on our outlook in the following ways:

Reducing "core" fixed income exposure and adding Treasury Inflation Protected Securities (TIPS) and shorter-term corporate bonds. TIPS should outperform the aggregate bond market if inflation expectations move higher and short-term corporate bonds should outperform if intermediate- and long-term interest rates rise while generating close to the level of income.

Maintaining our overweight allocation to energy stocks. After making a positive contribution to portfolio performance in 2016, energy shares have been a significant drag this year (Chart 10). However, as noted earlier (and in previous letters), we believe the potential for high \$50s to low \$60s oil prices over the next six- to twelve-months (current price: \$45) is high. Additionally, energy shares have by far the lowest correlation with the overall stock market (over the last ten-years). While we don't expect a significant pullback in the stock market in the near term, energy shares could help dampen the downside should one occur.

Chart 10: S&P 500, S&P 500 Energy Sector, Energy Sector Performance *Relative to* the S&P 500



Source: Bloomberg

-Brant Kairies
952-885-2732

The views expressed are those of Access Financial Services, Inc., and should not be construed directly or indirectly, as an offer to buy or sell any securities mentioned herein. Due to volatility within the markets mentioned, opinions are subject to change without notice.

Information throughout this letter is obtained from sources which we believe to be reliable, but we do not warrant or guarantee the timeliness or accuracy of this information. Nothing on this publication should be interpreted to state or imply that past results are an indication of future performance. Neither we nor our information providers shall be liable for any errors or inaccuracies, regardless of cause, or the lack of timeliness of, or for any delay or interruption in the transmission thereof to the user. There are no warranties, expressed or implied, as to the accuracy, completeness, or results obtained from any information written in this letter.

Investing is subject to risks including loss of principal invested. Past performance does not guarantee future results.