Hughes Investment Advisory Services LLC

April 6, 2017

Dear Clients and Investors,

The calendar says that it's spring, but the weather has not yet been cooperating, at least not here in New England. Thankfully, the equity markets did cooperate during the first quarter with the S&P 500 returning 5.5%, its sixth straight quarter of gains. The post-election rally has remained in tact despite the month of March ending modestly in the red. The Trump rally paused when it became apparent that Congress would not be repealing the ACA and enacting new health care legislation. The markets interpreted this to mean that the new administration may also find it difficult to pass a comprehensive pro-growth tax-reform package this year.

I do not believe that Health Care re-form is dead and that the Congress may soon re-introduce a new plan that will stand a better chance of passage. I do not find flaw in this process since Health Care represents such a large percentage of US GDP and is so critical to every American. Better for Congress to be deliberate and try to bring the conflicting party's together for a better and more acceptable solution.

As I look to Q2 and beyond, I remain optimistic and think that double-digit percentage returns for the full year remain very achievable. Despite my optimism, we have to be realistic in our expectations, especially as the U.S. markets have not suffered much in the way of a correction since the Election. Historically, 10% corrections have occurred every 11 months on average in the last 90 years. In fact, I do believe that the number of triggers for a 10% +/- correction is growing. What are these potential triggers?

Geopolitical: 1. Tensions on the Korean Peninsula are real. North Korea seems to be doing everything they can to generate a response from either the new Trump administration, South Korea, Japan or China. Hopefully the current summit between Presidents Trump and Xi will help to calm the situation. 2. Syria and the recent chemical attacks there are deplorable and will also test the new administration, how the US responds will be critical to the Middle East and in turn the markets. Given the current "real" tensions described above, I put the odds of a military event at 50/50. Tensions are high.

But maybe the current rally has less to do with Trump and more to do with the fact that global economic data has been consistently strong. Last week, the final reading of fourth-quarter gross domestic product showed growth of 2.1%, above forecast. The Conference Board's measure of consumer confidence surged to its highest level since 2000. Globally, 85% of countries have been showing expanding manufacturing activity, the best level in 3 years. A solid, synchronized global recovery appears to now be in place.

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From an economic standpoint, what should go right for the balance of 2017 and keep the rally on track? Let's get back to the basics!

Corporate earnings are on track to show solid growth in 2017. S&P 500 earnings should achieve $130.00 per share (a record) and register the first year on year growth since 2014. Add lower corporate taxes, repatriation of overseas earnings, buybacks and restructurings and you have all the ingredients for a solid year for companies and their shareholders.

Interest rates should continue to rise with two more interest rate hikes by the Federal Reserve in the cards for 2017. These higher rates have already been mostly discounted and despite these increases, consumer interest rates remain historically low. Just this week the Federal Reserve has starting hinting at a reduction in their massive, post crisis balance sheet. It's too difficult to go into all the details of what a balance sheet reduction by the Fed means but in a nutshell, they would be undoing the "Quantitative Easing" that they undertook in the years after the crisis in 2008 and which I so often wrote about in these quarterly letters. This unwinding is a positive event for the country as it means that the economy is now growing on its own without the life support of free money from the Fed.

In summary, I believe that, absent a geo-political crisis, we are looking at a continuation of what got us to record levels on the S&P 500. A continuation of Trumps three pro growth initiatives, - less regulation, lower taxes and eventually infrastructure spending – plus a very positive and improving economic backdrop with strong and growing corporate earnings, improving GDP growth with a 3% target YOY and importantly a growing manufacturing base. I must also add that the US is well on its way to achieving the energy independence that I so often write about and the positive economic and security related benefits that occur with this independence.

At this time I continue to favor large-cap, dividend paying, international corporations with strong balance sheets. Emerging markets, with an emphasis on Asia. Risk/reward continues to favor equities over fixed income. Select MLP's, REIT's convertible bonds and preferred stocks continue to look good as income producers.

Sincerely,

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