



Market Commentary

3RD QUARTER 2016

The Stock Market

The S&P 500 posted its third and strongest positive quarter of the year, up 3.85%. Year to date, the Index was up 7.84%. During the first half of 2016, beneficiaries of low interest rates and defensive stocks performed best. In the third quarter, leadership rotated to economically sensitive stocks in the technology, industrial and financial sectors. The market apparently anticipates a better economy and a return to positive earnings growth after five quarters of declining corporate profits. Based on numerous economic indicators, we also expect rising profits in the fourth quarter and continuing growth through 2017. Notwithstanding the market's positive returns, investors remain skeptical, as evidenced by \$115 billion of net withdrawals from equity mutual funds and ETFs over the last year. Another indication of investor anxiety: the average personal savings rate is 5.9%, near a twenty-year high, even though short-term interest rates hover near zero. (CHART 2)

The Bond Market

The third quarter may have marked an important low in global bond yields. The ten-year U.S. Treasury yield rose from under 1.5% at mid-year to 1.79% as of this writing. Notably, Japanese and German bond yields rose from negative territory on signs of modest economic improvement in Europe, China and the U.S. Indications from the Federal Reserve of a possible rate hike in December also contributed. Rebounding energy prices, improving U.S. wages, larger projected

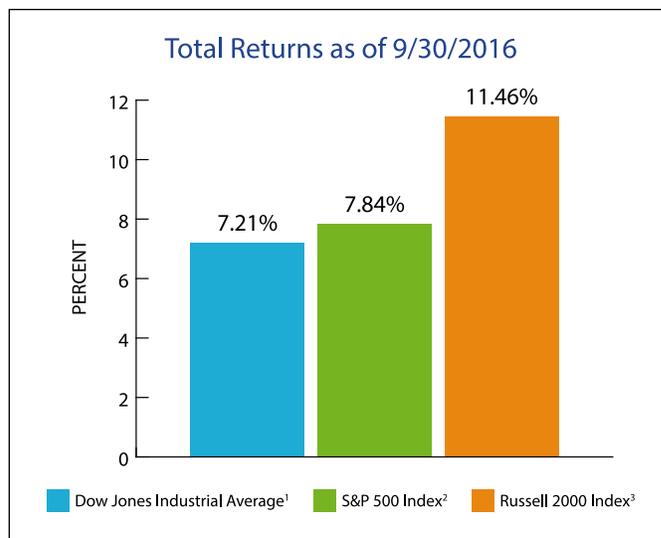


Chart 1

SOURCE: MORNINGSTAR DIRECT

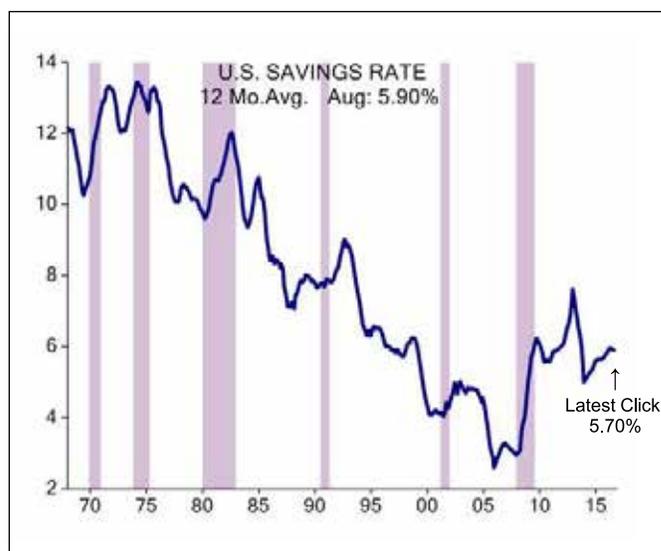


Chart 2

SOURCE: EVERCORE ISI

"DAILY ECONOMIC REPORT" – OCTOBER 11, 2016

Past performance does not guarantee future results. You cannot invest directly in an index.

¹ The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

² The S&P 500® Index is a capitalization weighted unmanaged index of 500 widely traded stocks, created by Standard & Poor's. The index is considered to represent the performance of the stock market in general.

³ The Russell 2000® Index is an unmanaged index of the smallest 2,000 stocks in the Russell 3000® Index.

The Bond Market (CONTINUED)

Federal deficits and accelerating money supply are raising inflation expectations. If these trends continue, upward pressure on interest rates will persist. Over the last year, \$171 billion of retail money flowed into bond mutual funds and ETF's. Long-maturity bonds are overbought and in our opinion, vulnerable to a substantial selloff in price.

The Economy

Slow and steady seems to be the best description of the U.S. economy. Burdened by excessive debt and government regulation, this has been one of the slowest recoveries on record. Job creation and income growth have lagged, new housing starts remain subdued (CHART 3), and corporations have been reluctant to invest. The silver lining in all this is that after six years of modest recovery, there are few signs of the excesses which usually signal a pending recession. A prime example can be seen in U.S. average hourly earnings, which have just begun to rise even as unemployment claims dip to a forty-year low. (CHARTS 4 & 5) We expect gradual acceleration in the economy into 2017, bolstered by higher corporate profits and government fiscal stimulus.



Chart 3

SOURCE: EVERCORE ISI
"CHARTS OF THE MONTH" – OCTOBER 10, 2016

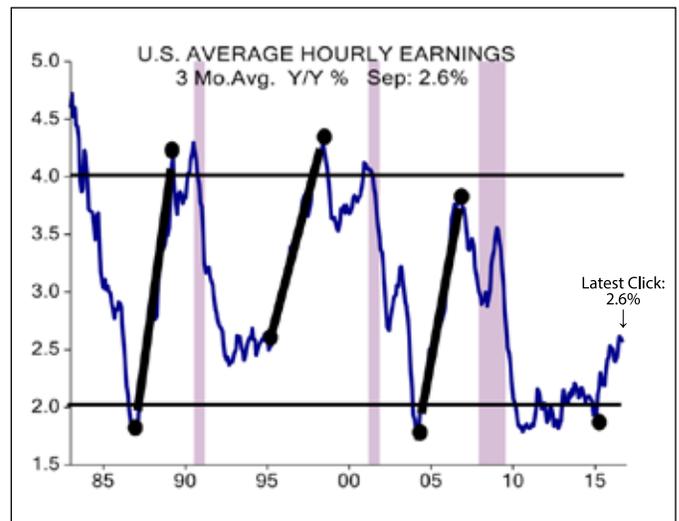


Chart 4

SOURCE: EVERCORE ISI
"WEEKLY ECONOMIC REPORT" – OCTOBER 10, 2016

Past performance does not guarantee future results.

Politics

America's November presidential election looms. With two of the most disliked candidates in history, it is unfortunate that one of them will become President. Polls currently point to a probable Clinton victory. The Democrats may retake the Senate too. However, even a fractured Republican Party should retain control of the House, as it would take a net 30 seat increase to give Democrats a majority. Currently, only about 36 Republican seats are considered competitive. Hopefully, this will suffice to block Hillary's big government initiatives for the next four years. Divided control in government is often positive for the stock market.



Chart 5

SOURCE: EVERCORE ISI

"DAILY ECONOMIC REPORT" – OCTOBER 13, 2016

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