JAMES ALPHA GLOBAL REAL ESTATE INVESTMENTS FUND

Market Commentary Newsletter
Provided by Ascent Investment Advisors, LLC
November 2015

Performance Review:

In November, global REITs initially reversed their positive momentum from the strong rebound the previous month, but ended the month supported by increasing expectations of additional easing measures from the European Central Bank (ECB) in December while resilient global economic data contributed to improved confidence that a hard landing in China and a general slowdown in the global economy would be avoided. Increasing expectations that the U.S. Fed would raise interest rates in December on the back of the continued improvement in the U.S. economy also led to greater comfort among investors that the U.S. and global economies were well underpinned, thus supporting commercial real estate.

The probability of an interest rate rise by the Fed in December rose from 50% at the beginning of November to 75% by month end. Better U.S. economic data, in particular the back-to-back strong non-farm payrolls releases for October and November, combined with commentary from a number of Fed members indicating general agreement on an imminent rate rise all contributed to the increased expectations that U.S. rates would be raised at the December meeting. The increased confidence at the Fed in terms of the underlying strength of the U.S. economy and its ability to absorb a rate rise led to increased confidence among investors regarding the economic backdrop and also boosted equity markets. Emphasis that the rate tightening cycle would be gradual and policy would remain relatively accommodative post any rate rise also helped to cap U.S. Treasury yields.

On the macro front, while overall data was somewhat mixed, key releases such as the strong labor market data in the U.S., evidence of improved U.S. investment spend, the rise in the Eurozone composite Purchasing Managers Index (PMI) to a four-year high, rising industrial production and consumption in Japan and improvement in Chinese retail sales and PMI readings all continued to ease concerns which had been evident through August and September regarding the growth outlook for the Chinese and global economy.

The Eurozone economy continued its slow and steady march forward as the region grew by 1.6% year-over-year (y/y) in the third quarter of 2015, the fastest rate of growth since 2011. Eurozone economic confidence also reached its highest level in over four years this month, suggesting the outlook for the region is improving. The best-performing market by geography was Germany as investors' worries about the domestic economy as well as its exposure to emerging economies began to recede slightly. Eurozone REITs registered positive returns in November, supported by the prospect of more easing measures from the ECB in December. Geopolitical concerns came to the forefront following the terrorist attacks in Paris. As a result, security concerns moved up the political agenda although the impact on financial markets overall was limited. Economic data remained largely encouraging but did little to dent the market's expectation of further action from the ECB. Movements in bond markets over the month reflected this expected divergence; the yield on two-year Treasury bonds rose 20 basis points in November, while the German government was able to sell two-year debt at a record low yield of -0.4%. The flash Eurozone composite purchasing managers' index for November reached 54.4, up from 53.9 in October and a 54-month high. The German Ifo business climate index rose to 109.0 in November from 108.2 in October. In the wake of the Paris attacks, travel and lodging REITs came under pressure, as did REITs that own shopping centers.

The possibility of tighter monetary policy in the near future disturbed U.S. equity markets, which had a rocky month. At one point, the U.S. REIT index was down nearly 5% on the month, but managed to recover to finish the month just under its non-U.S. counterparts. As the month came to a close with the Thanksgiving weekend, all eyes were on how the start to the holiday shopping season had gone. Retail sales were indeed disappointing during November, following news they had risen less than expected in October as well. The sector was also in focus after a notable profit warning from department store owner Macy's, a major tenant for mall REIT owners, which came under pressure as a result. Despite concerns over the impact of the resurgent dollar on the manufacturing sector, data revealed strong durable goods orders, which are seen as a proxy for the corporate sector's investment intentions and therefore business sentiment more widely, which bodes well for demand for office and industrial space.

Japan slipped into a technical recession, as the economy contracted by 0.2% quarter-over-quarter in the third quarter of 2015. Investors are beginning to question the effectiveness of the government's Abenomics program. The latest recession is the fourth in just five years and highlights the need for further structural and fiscal reforms to complement the massive monetary stimulus for the economy that the Bank of Japan has already provided.

Fears over a Chinese slowdown look to have receded slightly in November, despite manufacturing PMIs declining for the third consecutive month. However, China's Premier assured investors that China was on track to reach its 7% growth target for 2016 and that the economy was simply going through adjustments to make the transition from an investment-led economy to a consumption-driven economy.

Market Outlook:

Looking ahead, we retain our broadly constructive outlook for global real estate fundamentals and listed REIT returns, but we also remain mindful of the risks. The emerging markets slowdown is constraining global growth, momentum in the U.S. and Europe is moderating and Japan faces stronger headwinds. The risks of policy missteps in China have manifested, raising the prospect of further volatility. The following themes guide our investment strategy through year-end:

- A combination of global macro risks, weak inflation and tighter financial conditions leaves monetary policy more dovish.

- Inflation has so far proven fairly unresponsive to economic recovery, and even to massive stimulus, highlighting the limits of quantitative easing (QE) in the Eurozone and Japan and the implications for these economies.
- China's recent actions related to its stock market and currency have contributed to policy uncertainty and global market volatility.

As we approach the year-end holiday period the outlook for central bank policy on both sides of the Atlantic remains at the forefront of investors' minds. Speeches and statements from key figures at both the ECB and U.S. Fed have been followed closely for hints of future movements in monetary policy. Taking all these signals together, it seems increasingly likely that we will see monetary policy diverge in the coming weeks, with the Fed poised to raise the policy rate for the first time in nearly a decade at its December meeting and the ECB expected to loosen policy even further. Historically, the year-end holiday period is usually a good time for equity market performance. However, the potential for additional QE in Europe as well as for the Fed to raise rates could well cause volatility in the relatively illiquid December markets.

As we head into 2016, all eyes are on the Fed as it takes its first step toward policy normalization since the financial crisis. Meanwhile, concerns about China's slowdown suggest that episodes such as the risk-off sell-off that we saw in August could recur. These headwinds, however, do not imply a retreat from global REITs in the near term. The early stages of U.S. tightening have not derailed property stocks in the past. Moreover, the REIT market's eventual resilience following the Fed's decision to cease QE in October 2014 provides recent evidence of the market's relatively relaxed approach to the withdrawal of extremely loose monetary conditions. With valuations somewhat below their long-term average, the key to the outlook for global REITs rests with earnings. Regionally, we expect the strongest earnings growth to come in Europe, while the early stages of the Fed tightening cycle should favor non-U.S. REITs, as well as a market driven more by value than by growth.

China's growth will remain at or below the 7% target, as China passes the turning point of its transition from an industry-led to a services-driven economy. Following recent volatility we think policymakers will prioritize stability in the near term. The services sector is strengthening but not yet offsetting the slowdown in investment and manufacturing. The property market's stabilization is encouraging. Looking ahead, we expect further targeted stimulus by the People's Bank of China (PBoC) as financial conditions remain tight and recent interventions are just covering capital outflows.

Eurozone growth momentum has leveled out. The refugee crisis has replaced Greek exit risk as the dominant policy challenge. The ECB is likely to expand QE in early 2016, and we see European property stocks outperforming the U.S. Our Eurozone growth outlook stands at 1.4% in 2015 and 1.2% in 2016.

Japan faces a possible relapse into recession, and we think the Bank of Japan (BoJ) is likely to ease again in the next six months. We see Japan's growth at 0.5% this year and 1.1% in 2016. Consumption is still soft, and weak Asian demand is weighing on exports. Wage growth has been disappointing and yen depreciation has stalled.

With global central bankers still willing to provide support until job creation broadens and growth becomes self-sustaining, we believe the bull case for global REITs remains intact. We repeat our mantra that we continue to see commercial real estate, and by extension global REITs, as in the middle stages of a long-term bull market predicated on the "goldilocks scenario." Despite the length of the current bull market, we remain focused on the truism that bull markets don't die of old age, they die of excesses. For real estate, that means excess new supply from development, which continues to be muted and below the rate of demolition of old, obsolete space. Gains will be tougher to come by which means that selectivity and stock-picking have become increasingly important.

We also note that the only scenario wherein the Fed would begin to actually tighten is a scenario of sustainable economic growth, which is also inherently bullish for commercial real estate fundamentals, thus offsetting much of the negative impact of higher interest rates. We expect there will be occasional corrections as equities adjust to higher rates, but we intend to use those pullbacks to add to growth-oriented REITs, particularly in Europe and Asia-Pac.

DEFINITIONS

Abenomics: nickname for the multi-pronged economic program of Japanese Prime Minister Shinzō Abe. The program seeks to remedy two decades of stagnation by increasing the nations' money supply, boosting government spending and enacting reforms to make the economy more competitive.

Bank of Japan (BoJ): The Bank of Japan is the Japanese central bank. The bank is responsible for issuing and handling currency and treasury securities, implementing monetary policy, maintaining the stability of the Japanese financial system, and providing settling and clearing services.

European Central Bank (ECB): The central bank of the euro and administers monetary policy of the Eurozone, which consists of 19 EU member states and is one of the largest currency areas in the world.

German Ifo: A key monthly survey that measures the business climate in Germany. It is widely followed as an early indicator of the state of the German economy.

People's Bank of China (PBoC): The central bank of the People's Republic of China with the power to control monetary policy and regulate financial institutions in mainland China. The PBoC has more financial assets than any single public institution, and is second only to the Federal Reserve System of the United States in terms of overall central bank assets.

Purchasing Managers Index (PMI): An indicator of the economic health of the manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment.

Quantitative Easing (QE): An unconventional monetary policy in which a central bank purchases government securities or other securities from the market in order to lower interest rates and increase money supply.

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Andrew Duffy is the President of Ascent Investment Advisors, LLC and the Senior Portfolio Manager of the Global Real Estate Investments Fund (JAREX / JACRX / JARIX), a mutual fund that invests in publicly traded global REIT securities. Mr. Duffy has more than 20 years of global real estate securities investment experience.

Prior to joining Ascent Investment Advisors, Mr. Duffy was a Managing Director with Citigroup Principal Strategies, where he managed a long/short portfolio of global real estate securities. From February 2005 until January 2008 he was with Hunter Global Investors, L.P. where he was the Co-Portfolio Manager of the Hunter Global Real Estate Fund, LP. Before that he was a portfolio manager at TIAA-CREF for over six years, during which time he was directly responsible for managing over $3 billion in global real estate equity and debt securities. Between 1993 and 1999, Mr. Duffy was a Senior Research Analyst at Eagle Asset Management, where he launched and managed a dedicated real estate securities investment program.

Prior to his career in investments, Mr. Duffy served for five years as an officer in the United States Army, where his assignments included serving in the 7th Special Forces Group and the 82nd Airborne Division. Mr. Duffy received a B.S. from the United States Military Academy at West Point in 1979 as a Distinguished Graduate (top 5% of class) and an M.B.A. from Harvard Business School in 1986. He earned the Chartered Financial Analyst designation in 1996.

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As with any investment, there are multiple risks associated with REITs. Risks include declines from deteriorating economic conditions, changes in the value of the underlying property, and defaults by borrowers, to name a few. Please see the prospectus for a full disclosure of all risks and fees.

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ML15-003126