

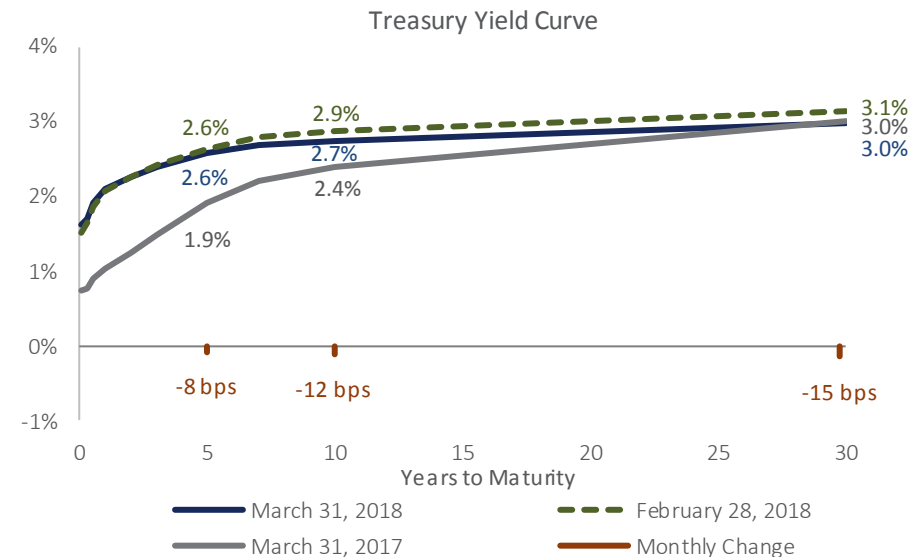
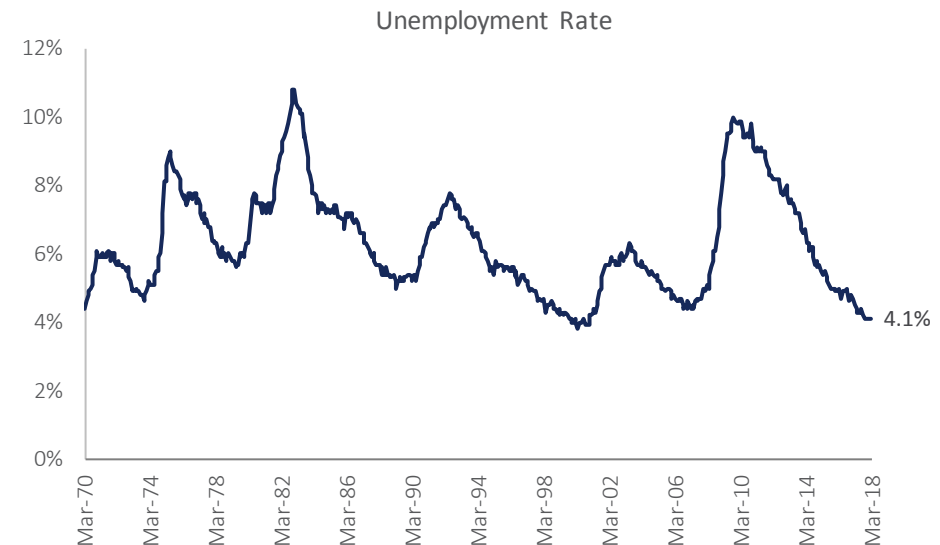
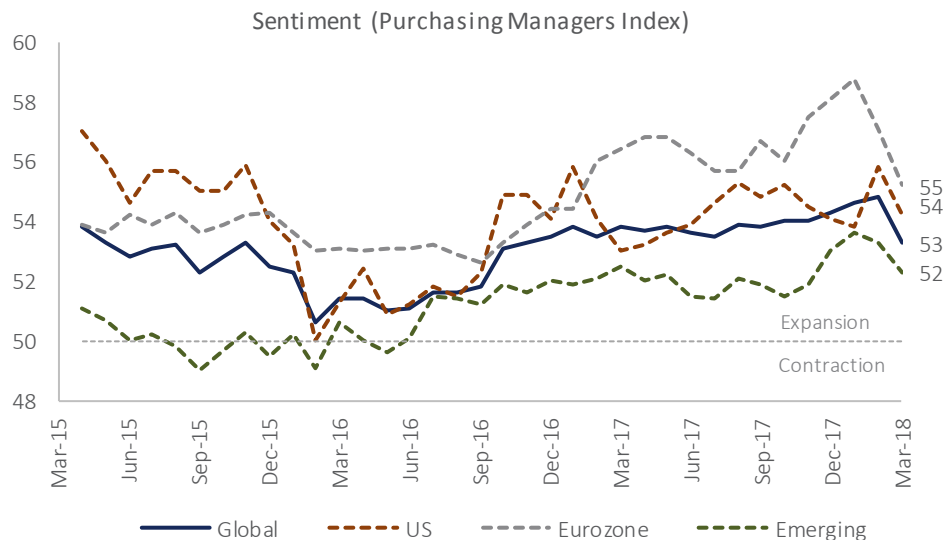


Economic and Capital Market Update

March 2018

Economic Perspective

- Timely readings of economic data suggest the global expansion remains intact, although it appears to have moderated somewhat from the elevated pace of 2017. Global purchasing managers indices (PMI), which have historically been a reliable gauge of sentiment and future demand, fell during March following several consecutive months of increases. PMIs remain well above 50 throughout major economies, however, suggesting demand expectations are relatively strong.
- US non-farm payrolls increased by 103,000 during March, coming in below consensus estimates of 185,000 new jobs. The unemployment rate was unchanged at 4.1%, matching its lowest level since December 2000. The US economy has now experienced positive job growth for 90 consecutive months, the longest streak since labor market data collection began in the 1940s. Wages grew 2.7% over the 12 months ending March, up 10 bps from February's level.
- Real GDP in the US grew at a 2.9% annualized rate during the fourth quarter of 2017, according to the final estimate released by the Bureau of Economic Analysis. Overall, the growth rate for the US in 2017 was 2.3% compared to 1.5% growth in 2016; the year-over-year increase can mainly be attributed to higher consumer spending rates resulting from continued strong job growth and consumer confidence. Current expectations for Q1 2018 growth, according to the Atlanta Federal Reserve's GDPNow, are 2.3% annualized.



Source: Bureau of Labor Statistics for Unemployment Rate, Markit for PMIs, Bloomberg for Yield Curve.

Growth Assets

Public Equities

- Global equity market volatility remained elevated during March. Concerns over escalating trade tensions between the US and the rest of the world, particularly China, drove risk premiums higher and prices lower. MSCI ACWI IMI declined for the second consecutive month, as international markets modestly outperformed domestic and US small caps outperformed large caps.
- Master limited partnerships returned -6.9%, with a ruling from the Federal Energy Regulatory Commission (FERC) negatively impacting sentiment for the asset class. While the FERC ruling will affect a relatively small subset of the universe, MLPs broadly declined for the month. As a result, the trailing 12-month distribution yield for the Alerian MLP Index, as published by Alerian, rose 54 bps to 8.8%.

Public Debt

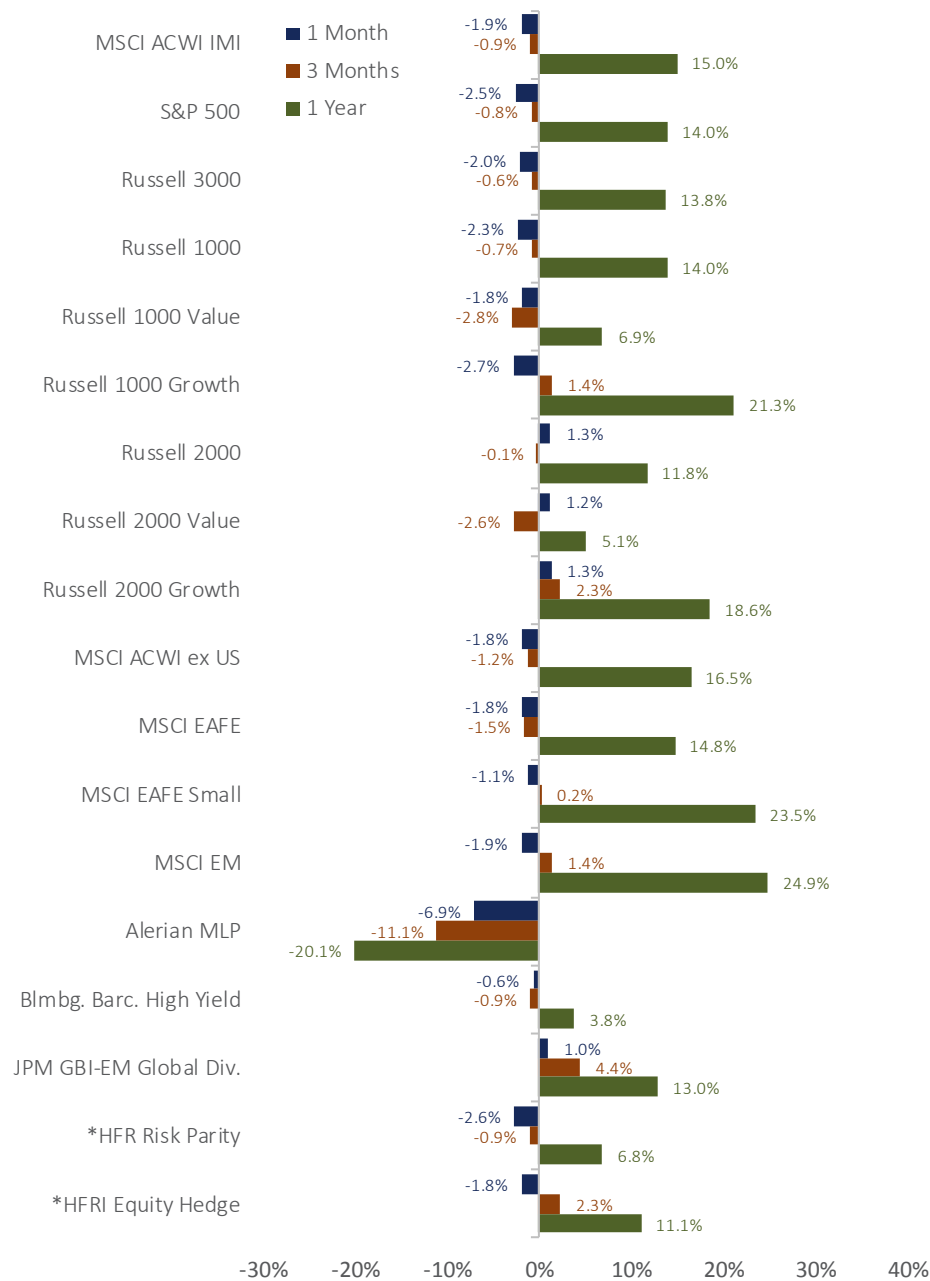
- High yield bonds declined alongside most other risk assets for the month. The Bloomberg Barclays High Yield Index yield rose 5 bps to 6.19%, its highest level since November 2016.
- Local currency-denominated emerging market bond yields declined 8 bps to 6.0% as demand for emerging market bonds remained robust. Over the trailing year local currency EMD has returned 13.0%, benefiting considerably from the economic improvements that have occurred in emerging markets.

Private Assets

- Fundraising recovered in Q4 2017, as Preqin estimated total commitments of \$162B versus \$96B in Q3. 2017 represented a record year for private equity fundraising, as 1,420 funds secured a combined \$754B in commitments, surpassing the 2016 record of \$728B raised by 1,860 funds.
- Leverage multiples increased to over 5.7x EBITDA in 2017, following a decline in 2016. Continued strong demand for private debt funds has supported higher leverage levels and kept a ceiling in place for loan spreads.

Hedge Funds

- Risk parity strategies declined in February, as equities, nominal and inflation-linked bonds, and commodities saw losses for the month.
- Growth hedge funds returned -1.8% in February, outperforming the 4.2% and 3.7% declines for MSCI ACWI IMI and the Russell 3000, respectively.



*Data was not available at time of publication – returns are previous month's. All returns are USD.

Income Assets

Public Debt

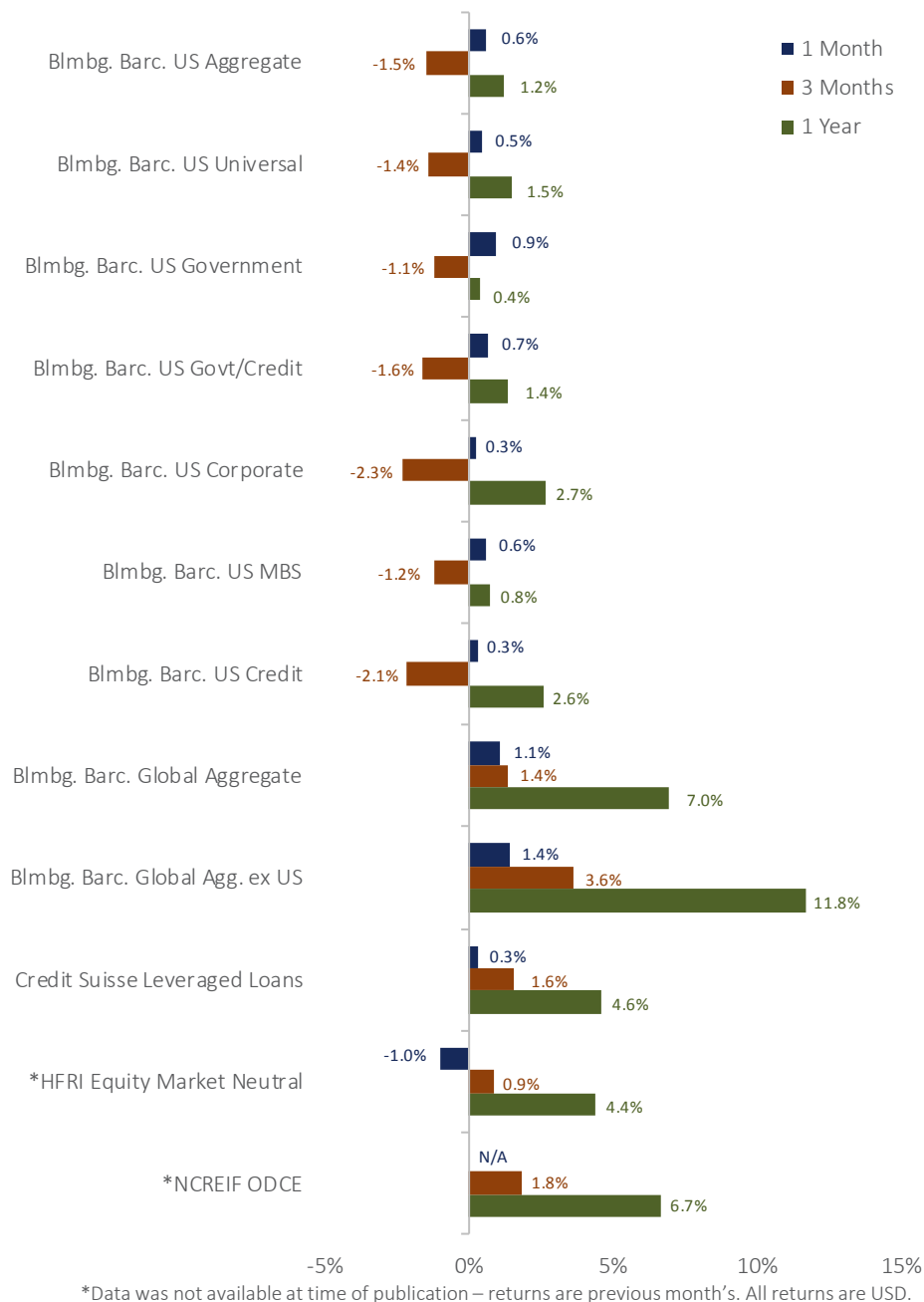
- Fixed income markets recouped some of their year-to-date losses, as yields declined modestly during March. The yield on the 10-year Treasury fell 12 bps to 2.7%, with both real yields and inflation expectations declining. After reaching its highest level since 2013 last month, the 10-year yield has fallen; concerns over rising inflation and Federal Reserve rate increases following the release of January's unemployment report have subsided in recent weeks.
- The Bloomberg Barclays US Aggregate gained 0.6% for the month. Within the Index, credit underperformed treasury allocations as credit spreads widened; the option-adjusted spread for corporate bonds over treasuries widened by 13 bps to 109 bps. While spreads widened modestly, they remain near their lowest levels of the current cycle.
- The Bloomberg Barclays Global Aggregate ex US outperformed the US Aggregate by 80 bps, as foreign currency appreciation versus the dollar contributed to excess returns. Over the past year the Global Agg ex US has outperformed the US Agg by 10.6%, primarily as a result of a weaker dollar.
- Public bank loans, as measured by the Credit Suisse Leveraged Loan Index, gained 0.3%. Investor demand for floating-rate debt during the year-to-date rise in yields has resulted in outperformance of bank loans over core fixed income and most other fixed income assets.

Relative Value Hedge Funds

- Relative value hedge funds declined in February, performing in line with core fixed income (Bloomberg Barclays US Aggregate, -0.9%) and outperforming credit-oriented fixed income indices.

Core Real Estate

- Core real estate returns for the fourth quarter of 2017 were 2.1% gross and 1.8% net, bringing the one-year gain for core funds to 6.7% net. While still positive, core real estate gains in 2017 were the lowest since 2009. Declining but still positive returns in the commercial real estate market have been supported by the US economic expansion; continued labor market growth has been a tailwind for demand while supply remains limited.



Diversification Assets

Inflation

- TIPS returned 1.1% during March, with declining real yields contributing to gains for the asset class. At the end of March, 10-year breakeven inflation expectations were 2.1%, down 6 bps points from the end of February. Despite the decline, market inflation expectations remain near their highest levels since 2014.

Deflation

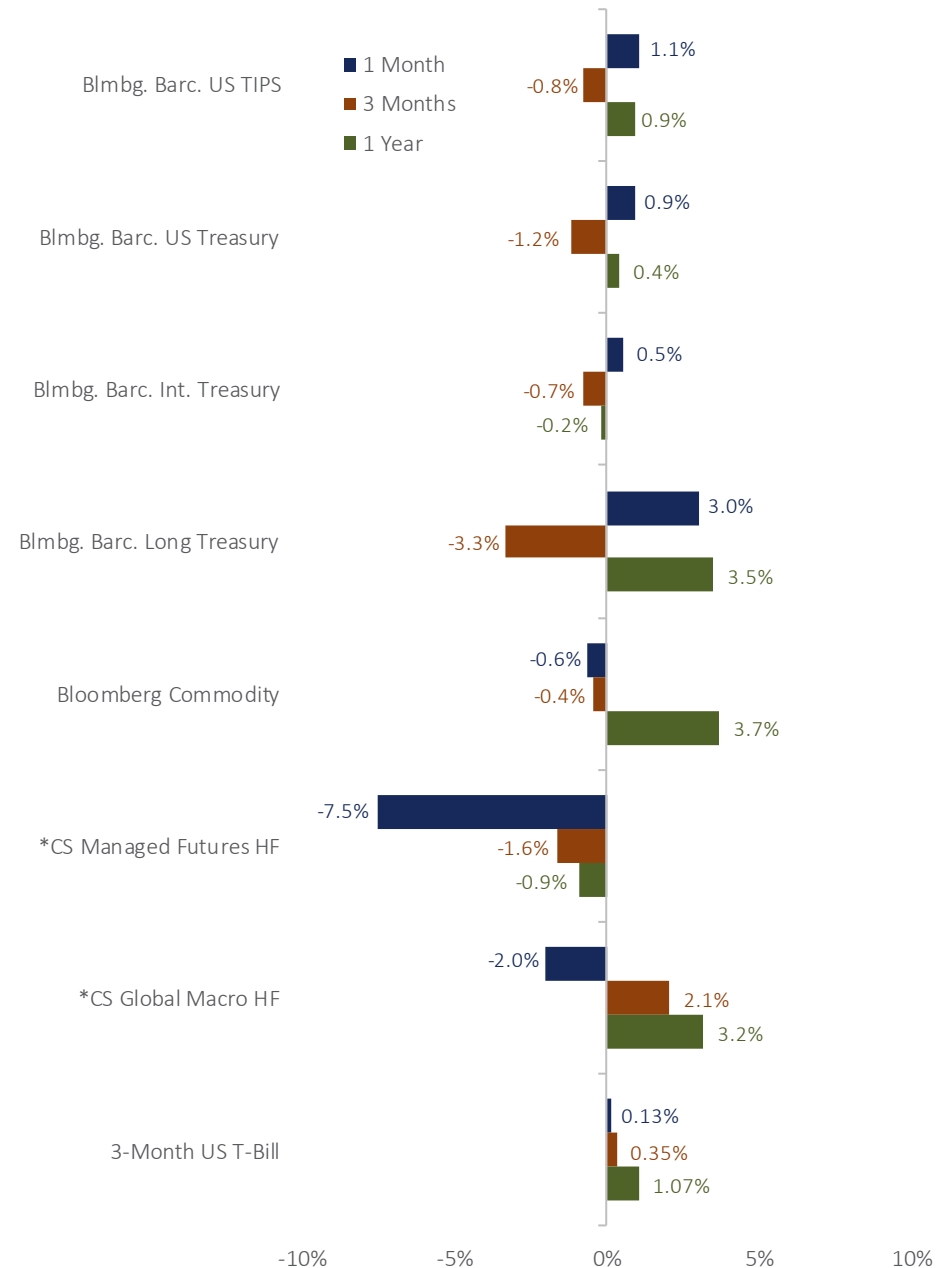
- The Bloomberg Barclays Long Treasury Index returned 3.0%, with the 30-year Treasury yield falling 16 bps to 3.0%. Over the past year, 30-year yields have declined 4 bps while yields on all other treasury maturities have risen. Anchored long-term treasury yields suggest the bond market's pricing of long-term growth and inflation have not changed significantly over the past year. Continued strong demand for the perceived safety of US bonds from global investors has also capped yields at the long-end of the curve.

Commodities

- The Bloomberg Commodity Index declined 0.6% despite oil prices increasing 5.4%. Over the trailing 12 months, the Bloomberg Commodity Index has returned 3.7%; industrial metals and energy were the largest contributors to commodity gains over the trailing year.

Tactical Trading

- Tactical trading strategies declined in February, with the Credit Suisse Managed Futures Index suffering its worst month since November 2001. Quickly-shifting trends across broad asset classes contributed to declines for the month.



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