Summit Strategies Group

Economic and Capital Market Update

November 2017

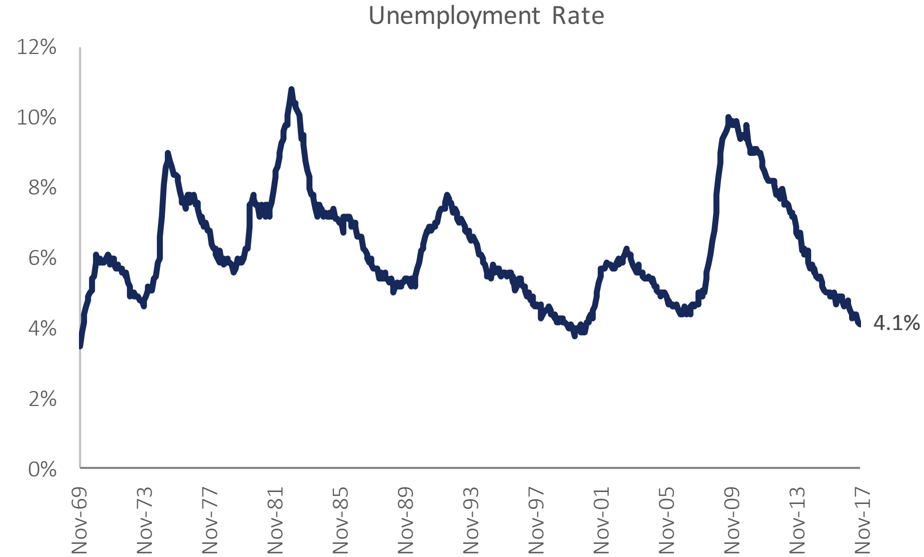
Economic Perspective

Economy

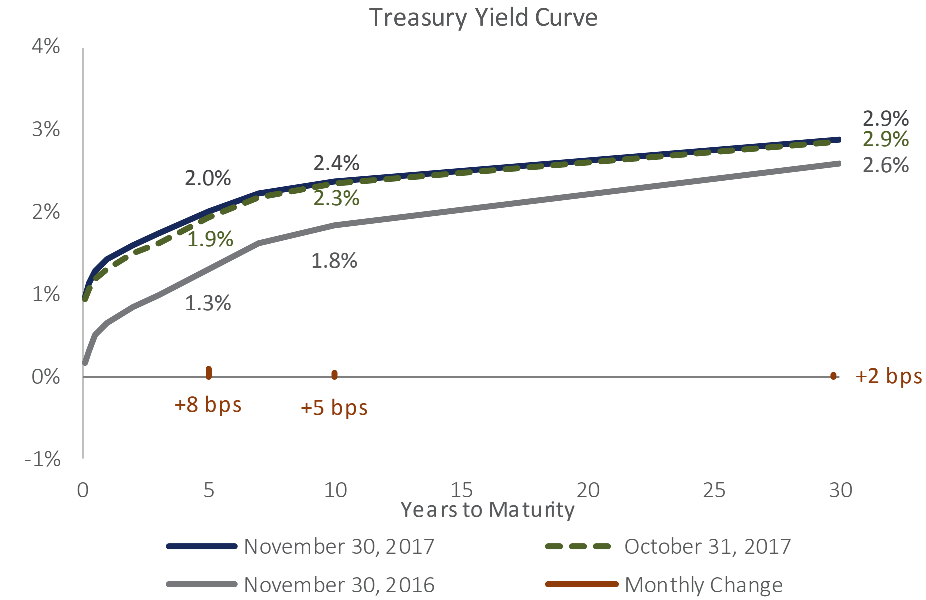
- Global economic data released during November continued to reflect strength across all major regions. As a result, the International Monetary Fund recently increased its global growth forecasts for 2017 and 2018 by 10 bps to 3.6% and 3.7%, respectively. While the revisions are modest, they mark a notable increase from 2016's 3.2% growth rate. Equity markets have reacted to strong 2017 earnings and rising global growth forecasts; MSCI ACWI IMI gained 2.0% in November and is up 22.0% year-to-date.
- US employers added 228,000 jobs in November and the unemployment rate was unchanged at 4.1%, matching its lowest level since December 2000. The US economy has experienced positive job growth for 86 consecutive months, the longest streak since labor market data collection began in the 1940s. Wage growth, as measured by the change in employees' average hourly earnings, was 2.5% over the 12 months ending in November compared to 2.4% in October.
- Real GDP in the US grew at a 3.3% annualized rate during the third quarter of 2017, according to the second estimate released by the Bureau of Economic Analysis. If the BEA's upcoming final estimate of third quarter GDP remains above 3%, it would mark back-to-back quarters of 3% growth for the first time since 2014. Continued strong household demand, rising business investment, and increased exports stemming from strong global growth have contributed to the rise in GDP in recent quarters.
- Purchasing Managers Indices (PMI) remain at high levels, suggesting increased activity in both the service and manufacturing sectors of the US and global economy. The US ISM Manufacturing PMI decreased 0.5 points in November to 58.2; an Index reading over 50 indicates expansion in the sector. Manufacturing has now been a boost to US growth for 15 consecutive months. The Non-Manufacturing (or services) PMI also continues to reflect strength, declining 2.7 points in November to 57.4 from its nine-year high in October. US services have expanded 95 consecutive months. Global PMI levels have also been consistently high in 2017, reflecting the broad-based pickup in global economic activity.

Yield Curve

- The spread between 2-year and 30-year Treasuries tightened 24 bps to 104 bps in November, declining to its lowest level since October 2007. Over the past two years, the 2-30 spread has tightened by 92 bps; long-term yields have declined despite stronger US growth, while short-term yields have been lifted by Federal Reserve rate hikes. The 20-year average spread between 2-year and 30-year Treasuries is 192 bps.



Source: Bloomberg.



Growth Assets

Public Equities

- Global equity markets gained once again in November, led by the US on rising optimism surrounding tax reform. MSCI ACWI IMI extended its streak of consecutive monthly gains to 13, the longest since the inception of the Index in 1994. As the growth style has continued to outperform value, growth performance and valuations relative to value are now at levels last seen prior to the Tech Bubble in the early 2000s.
- Master limited partnerships (MLPs) declined modestly, due in part to outflows from year-end tax-loss selling. Distributions have remained strong in 2017, contributing over 7% to total returns, but have not been able to offset price declines. Year-to-date, distribution yields have increased 100 bps to 8.1%.

Public Debt

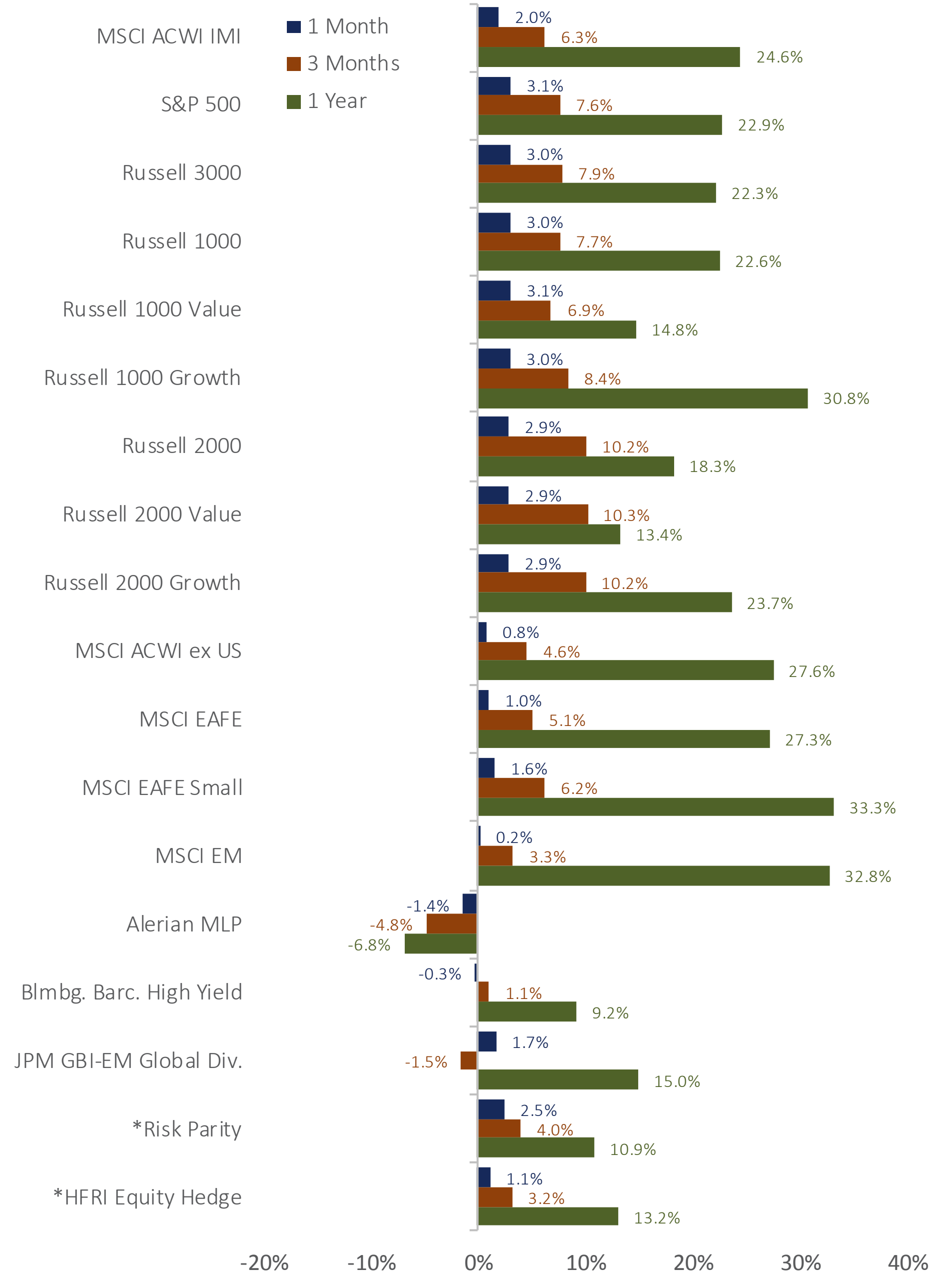
- High yield bond spreads widened by 6 bps during the month, ending at 344 bps. Despite widening during the month, spreads for the broader high yield index have tightened by 65 bps year-to-date and remain near post-crisis lows.
- Local currency-denominated emerging market debt returned 1.7% in November, with currency serving as a tailwind of 1.4% and rates contributing 0.3%. EM local currency-denominated bonds ended November yielding 6.2%.

Private Assets

- Fundraising slowed in Q3 2017, as Preqin estimated total commitments of $96M versus $137M the quarter prior. However, of note is that Apollo Global Management raised the largest private equity fund in history at $25 billion in total commitments, indicative of the ongoing frothy environment for private equity. This increase in capital has caused LBO purchase price multiples to rise above 10x EBITDA, following a slight decline in 2016.
- Leverage multiples have increased to over 5.5x EBITDA in 2017, following a decline in 2016. We continue to see robust demand for private debt funds, as momentum increased in Q3 2017. This ongoing demand from investors has helped support higher leverage levels and kept a ceiling in place for average loan spreads.

Hedge Funds

- Risk parity gains in October were driven by equities and commodities. No asset classes were major detractors.
- The largest gains across the growth hedge fund universe continue to come from long/short equity, which has been supported by a rising equity market. During October growth hedge funds in aggregate gained 1.1%.



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

Income Assets

Public Debt

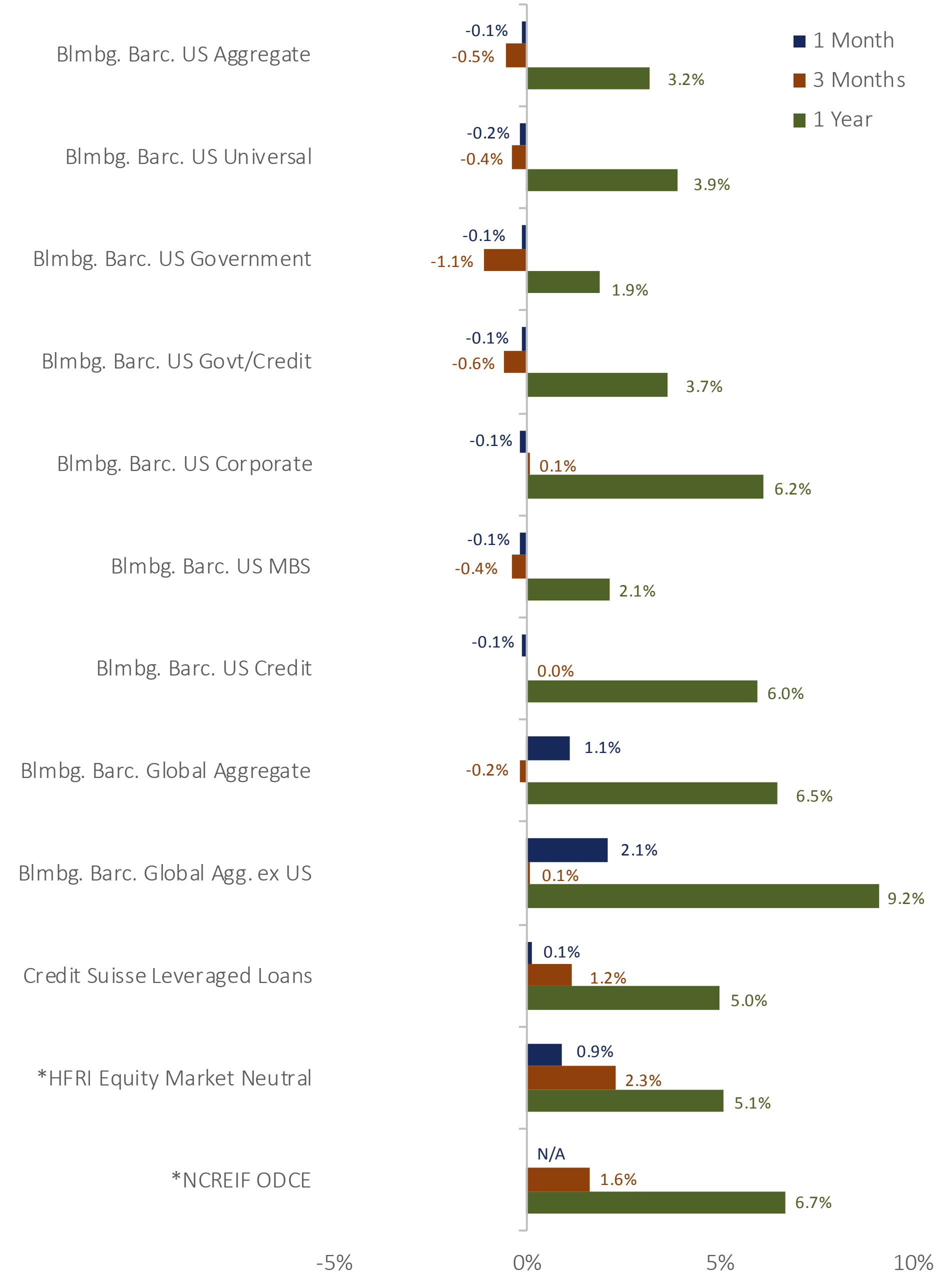
- The yield curve continued to flatten during November, with the 2's-10's curve flattening by a further 15 bps and ending the month at 63 bps. There was further flattening along the longer end of the curve, with the 30-year key rate being the only key rate to decrease in yield during the month.
- The 10-year US Treasury yield ended November at 2.4%, up 3 basis points from October. At the end of November, the fed fund futures market implied a 96% probability of a rate hike by the Federal Reserve at its upcoming December meeting.
- The Bloomberg Barclays US Aggregate returned -0.1% in November, bringing year-to-date returns to 3.1%. Corporates were the best-performing sector in the Index, with long-duration issues outperforming the short-duration sector as rates fell along the long end of the curve.
- The Bloomberg Barclays Global Aggregate returned 1.1% for the month of November. Currency was the primary driver of performance, adding 1.0%, while principal detracted 0.1% and coupon payments added 0.2%.
- Public bank loans, as measured by the Credit Suisse Leveraged Loan Index, returned 0.1%. Three-year discount margins increased by 4 bps, ending the month at 421 bps.

Relative Value Hedge Funds

- Relative value hedge funds gained in October, led by equity market neutral strategies. Convertible arbitrage also contributed, while volatility arbitrage was flat. There were no detractors at the strategy level for the quarter.

Core Real Estate

- Core real estate returns for the third quarter of 2017 were 1.9% gross and 1.6% net, bringing the one-year gain for core funds to 6.7%. Strong but declining gains in the commercial real estate market have been supported by the US cyclical expansion, with strong labor market growth fueling demand while supply remains limited. In recent quarters price appreciation has slowed compared to prior in the expansion, with a larger percentage of real estate gains now being generated through income.



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Diversification Assets

Inflation

- TIPS showed modest gains during November, returning 0.1%. Ten-year inflation expectations remained flat during the month, and have declined 9 bps since the beginning of 2017 to 1.9%. Despite increasing economic growth and continued tightening in the labor market, financial markets are implying that the Federal Reserve will be unable to reach its 2.0% inflation target over the next ten years.

Deflation

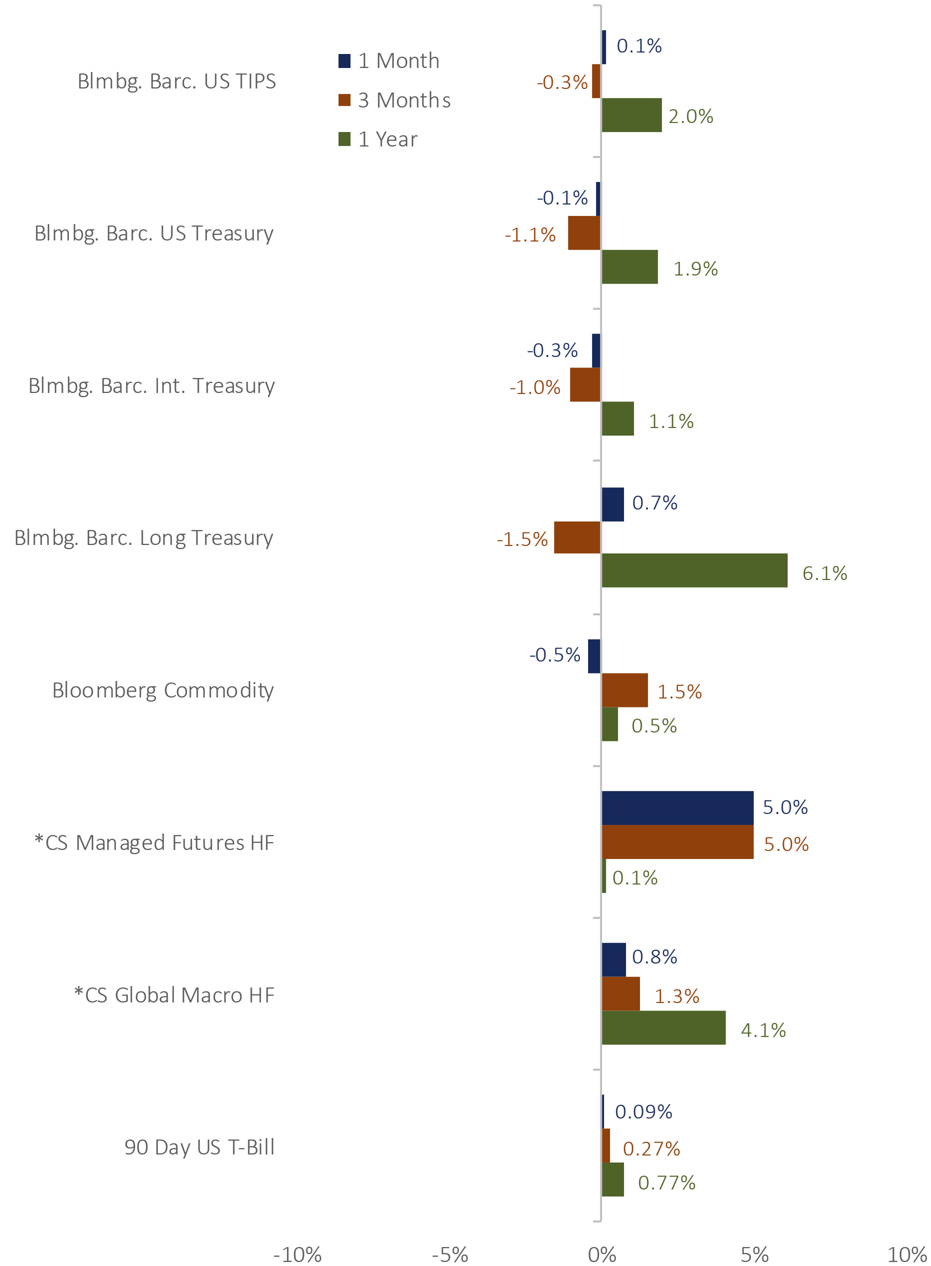
- The Bloomberg Barclays Long Treasury Index returned 0.7%, with both the coupon and principal contributing to returns during the month. Rates at the long end of the curve fell, with the 30-year Treasury yield declining 5 bps to end the month yielding 2.8%.

Commodities

- The Bloomberg Commodity Index returned -0.5% despite strong performance from energy and soft commodities. Oil prices rose 5.6% for the month, due in part to OPEC's agreement to extend production cuts from March 2018 to December 2018. Copper and other industrial metals were the main detractors for the month, declining on concerns of Chinese demand in 2018. Over the trailing twelve months, the Bloomberg Commodity Index has returned 0.5%; industrial metals and precious metals have been the largest contributors to commodity gains over the trailing year, in addition to oil's 16.1% increase.

Tactical Trading

- Tactical trading hedge funds gained in October, led by strong gains in trend following CTA strategies. Discretionary global macro also contributed.



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