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Monthly Economic & Capital Market Update

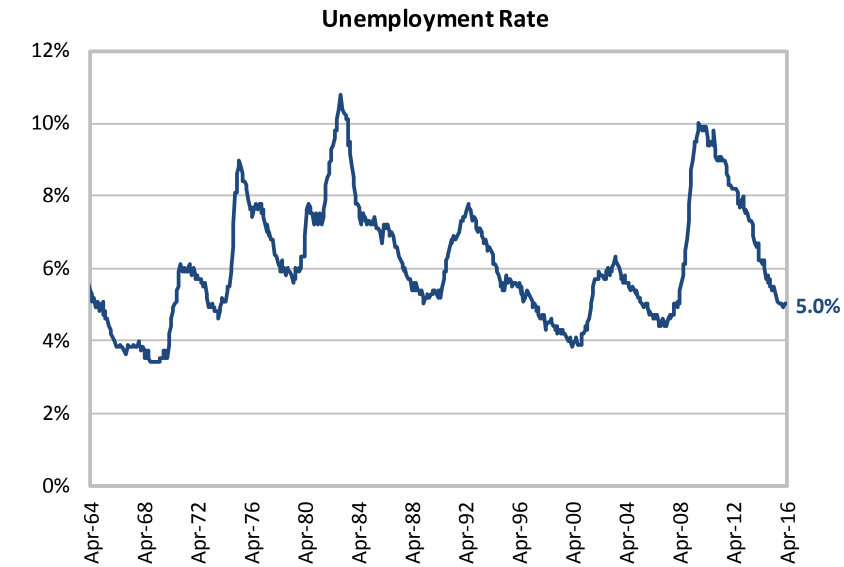
April 2016

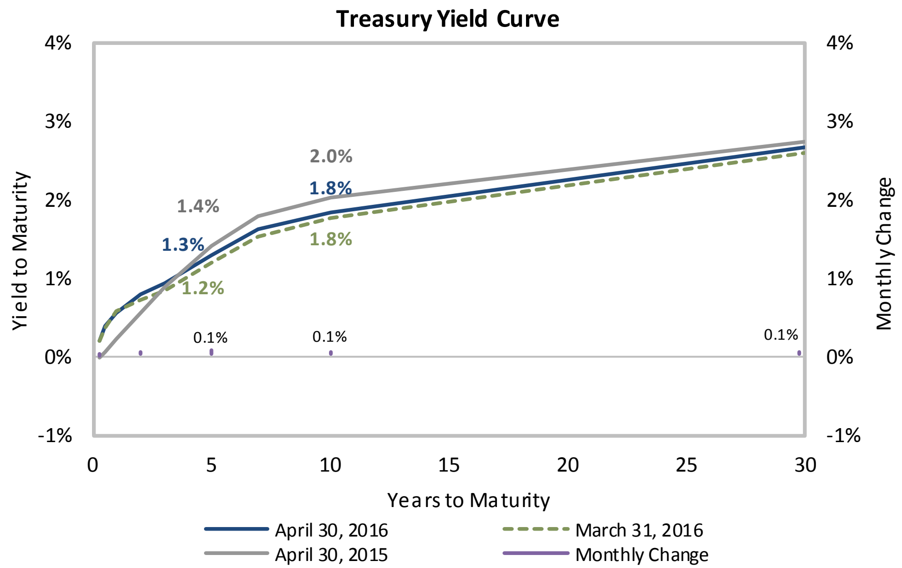
Economy

- April was relatively calm compared to the prior months of 2016 in terms of market-moving headlines and economic developments. The US economy continued to add jobs, although fewer than expected and at a slower pace, and the positive but slow growth trend appears to remain intact. The manufacturing sector, which had been contracting due to reduced foreign demand, expanded for the second straight month in April, a sign that international conditions may be stabilizing. The IMF downgraded its 2016 global growth forecast from 3.6% to 3.2% during the month, but markets were mostly unchanged on the release of the report; 2016 is the sixth straight year the IMF has reduced its growth expectations. The Federal Reserve kept short-term interest rates unchanged at its April meeting, consistent with its vow from March to be patient when raising interest rates going forward.
- The April employment report showed continued progress in the US labor market. Employers added 160,000 jobs during the month, below market expectations of 200,000 new jobs, and the unemployment rate was unchanged at 5.0%. Revisions to figures from February and March resulted in 19,000 fewer jobs than previously reported for those months. Wage gains for employees came in above expectations, rising 2.5% over the previous 12 months. In recent quarters wage gains have been stronger than earlier in the expansion, but remain subdued from a historical perspective.
- Real GDP grew at a 0.5% annualized rate during the first quarter of 2016, lower than fourth quarter's real GDP increase of 1.4%, according to the first estimate released by the Bureau of Economic Analysis. Increased consumer spending on services contributed to growth, while an increased trade deficit and decline in government spending detracted from the headline figure. For the second quarter of 2016, the Atlanta Federal Reserve's GDPNow model is forecasting 1.7% growth, although this number is subject to change throughout the final two months of the quarter.
- The service sector continues to drive US growth. The Institute for Supply Management's non-manufacturing purchasing managers' index (PMI) came in at 55.7 for April, its 75th consecutive month of expansion; an index level over 50 implies growth in services, which account for the majority of US growth.

Yield Curve

- The spread between 2-year and 30-year Treasuries remained unchanged at 189 bps in April. Over the past 30 years the 2-year/30-year spread has averaged 165 bps, but in recent years the spread has been wide as continued easy monetary policy by the Federal Reserve has kept short-term rates low.





Growth Assets

April 30, 2016

Public Equities

- During a month where the Federal Reserve kept rates on hold, global equity markets ended April with gains but off intra-month highs. The S&P 500 ended the month up 0.4% but underperformed small cap US stocks for the second consecutive month. International markets continued to react positively to a declining dollar, with the MSCI EAFE Index gaining 2.9% and emerging markets ending April 0.5% higher.
- MLPs returned 11.0% in April, continuing their recovery that began in mid-February. The asset class broadly continued to sustain or grow distribution levels over the quarter and MLPs made progress in addressing exploration and production counterparty issues. As crude oil and natural gas commodity prices rose significantly during the month, gathering and processing MLPs rebounded 26% on the prospects of a more muted decline in drilling and associated gathering volumes. Both natural gas pipeline (+10%) and crude oil pipeline (+12%) MLPs performed well during the month.

Public Debt

- High yield spreads tightened 79 bps to 577 bps, contributing to a strong 3.9% gain during the month. Credit markets have been among the best performers in 2016.
- Local currency emerging market debt continued its strong performance in April, returning 2.6%. Dollar weakness was a driver of performance, with further likelihood of political reform in Brazil contributing as well.

Private Equity

- Purchase price multiples, as measured by S&P Leveraged Commentary and Data (LCD), for deals less than $50m in EBITDA moderated somewhat in the first quarter while the multiples for deals at the larger end of the market hit a record high of 11.2x; the volume of dry powder within the asset class continues to grow as many large institutional investors increase their allocation to the space, likely contributing to the high multiples that the larger end of the market is experiencing.

Private Debt

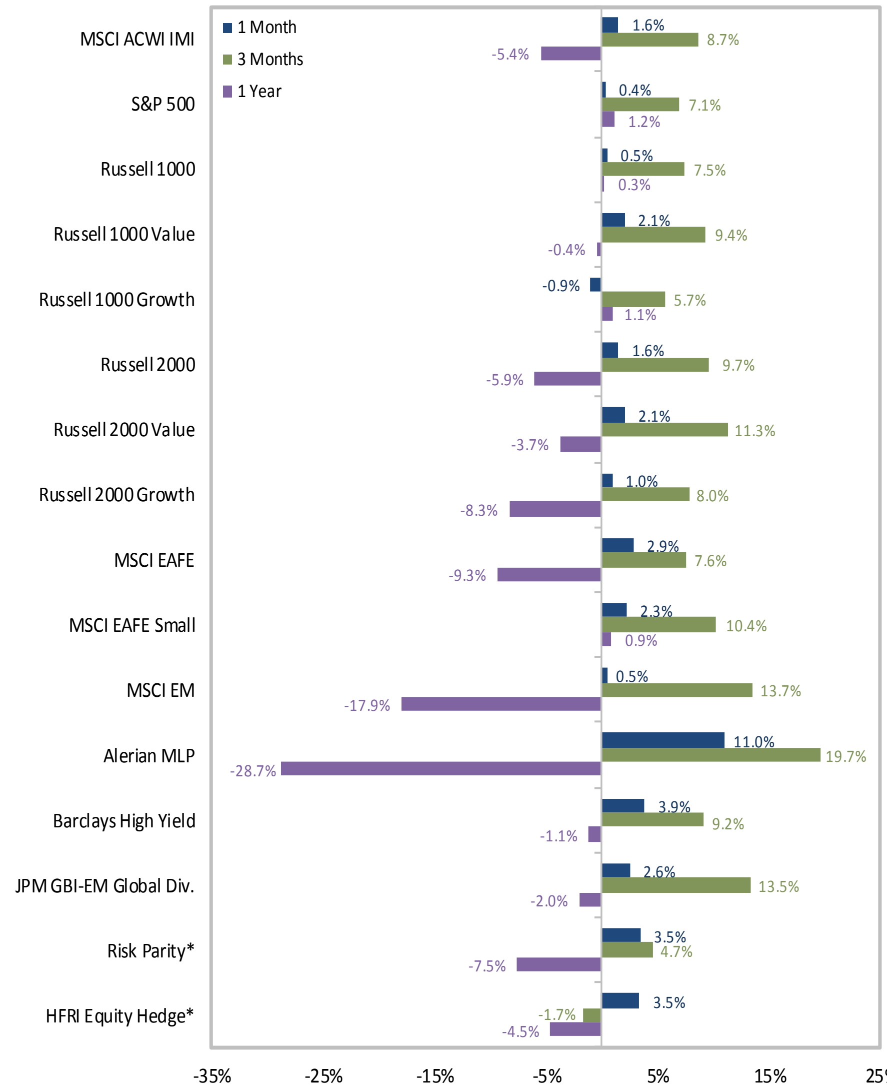
- Debt ratios were also bifurcated between deals less than $50m in EBITDA and deals greater than $50m in EBITDA – the average debt/EBITDA ratio for deals on the smaller end of the market dropped to 4.4x, the lowest multiple since 2011, while larger deals stayed constant with 2015 levels of 5.7x. Manager sentiment and deals completed within the first quarter also indicate that the market has repriced the risk premium over LIBOR for lending in sponsor-backed deals, suggesting these investments should garner a higher spread going forward than what was experienced for most of 2015.

Risk Parity

- Risk parity strategies performed well in March. Equity and credit allocations provided the largest contributions, while bonds and commodities also contributed modestly.

Growth Hedge Funds

- Growth hedge funds were positive in March, following losses in January and February. The largest gains came from long/short equity as equity markets reversed prior year-to-date losses. Event-driven strategies also contributed.



* Data was not available at time of publication – returns are previous month's.
Note: Risk Parity returns are based on an internally comprised benchmark.
All returns are USD.

Public Debt

- Yields rose essentially in parallel across the curve during April. 2- and 10-year Treasuries both increased 6 bps and the 30-year Treasury increased 7 bps to yield 2.7%. The 30-year Treasury began 2016 yielding 3.0% with the market expecting two Federal Reserve rate hikes; at the end of April the market was discounting approximately a 60% probability of one or more rate increases for the rest of 2016. Rates have moved lower this year as investors and members of the Federal Reserve have pushed the rate hike cycle further into the future than previously expected.
- Investment grade credit continued its bull run with spreads tightening 15 bps to end the month at 139 bps, significantly lower than the 200 bps seen earlier in the year. From a quality perspective, lower-rated issues led the rally despite no significant improvement in broad issuer fundamentals. The credit portion of the US Aggregate was the best-performing sector during the month, returning 1.2% while the total index returned 0.4%. The credit sector outperformed the Barclays Aggregate by 2.5% over March and April, the highest two-month outperformance since August 2009.
- Securitized assets performed in line with the Aggregate during the month; CMBS led securitized performance with a return of 0.4%.
- International bonds gained 2.0% in April as the European Central Bank expanded its monetary stimulus operations and the dollar declined.

Private Debt

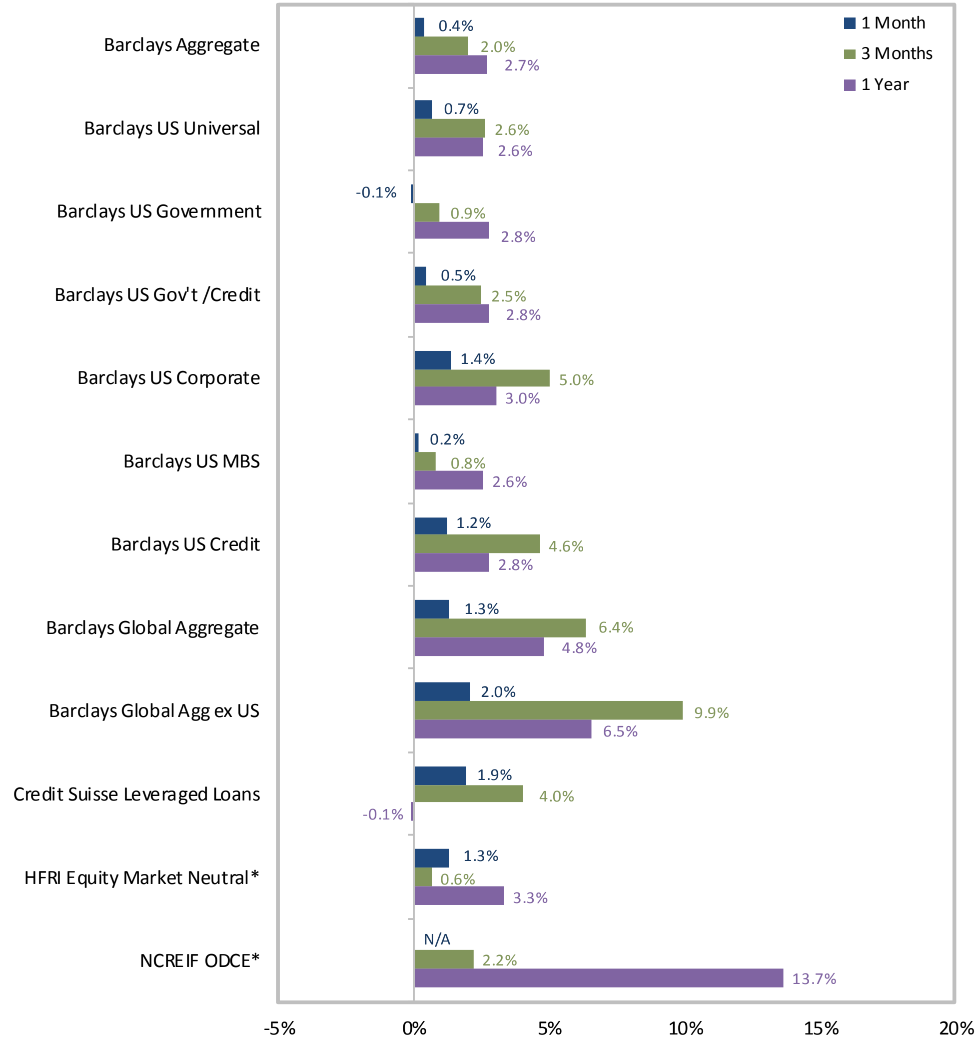
- Bank loans performed well again in April after breaking a streak of seven straight negative months in March. The Credit Suisse Leveraged Loan Index yield fell to 6.6% from 7.0% during the month and is now down a full 100 bps from the 7.6% level reached in mid-February.

Relative Value Hedge Funds

- Income hedge funds returned 1.3% in March, with the largest gains coming from credit strategies. Relative value volatility and equity market neutral strategies also contributed.

Core Real Estate

- The preliminary return for the NCREIF ODCE Index for first quarter 2016 is 2.2%, with 1.1% from income and from 1.1% appreciation. While first quarter gains were lower than the 3.3% of Q4 2015, they fall into what Summit views as more "normalized" returns for this part of the cycle. Uncertainty in the pricing of CMBS bonds was among factors contributing to the lower quarter-over-quarter return.



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Inflation

- TIPS returned 0.3% in April as real rates remained flat to nominal Treasuries. Despite the static real rate, 10-Year breakeven inflation expectations increased by 6 bps during the month which led to the positive return. As of the end of April, the breakeven inflation rate for the 10-Year TIPS was 1.7%.

Deflation

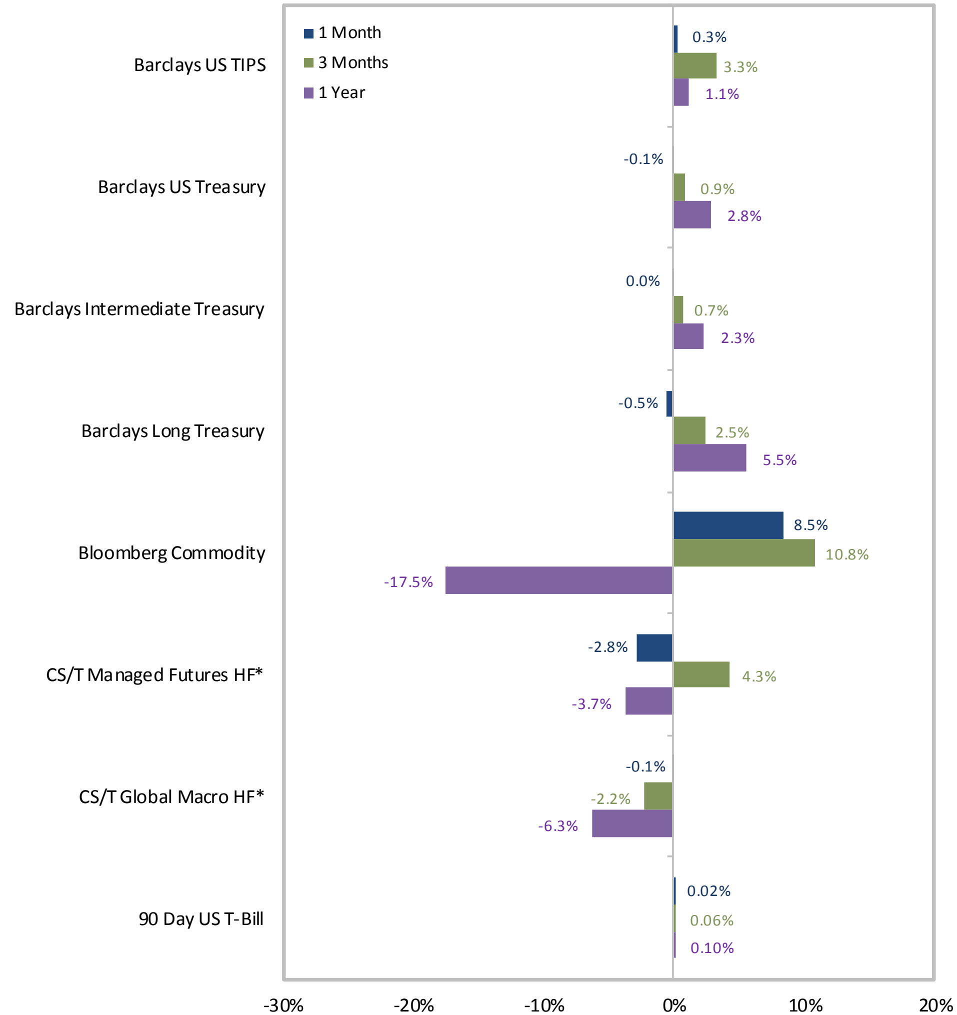
- The Barclays Long Treasury Index returned -0.5% as yields rose modestly along the long end of the curve. The 30-year Treasury ended April yielding 2.7%, 7 bps higher than at the end of March. Consistent with the current low growth and inflation environment, long-term bond yields remain near all-time lows.
- Cash continues to offer low returns, with 90-day T-Bills adding 10 basis points over the past year.

Commodities

- Industrial metals all traded higher during the month with nickel (+11%) leading as prices rebounded from recent lows; nickel had been trading below the marginal cost of production for a majority of supply sources. Precious metals also continued to advance with silver returning 15% during April. In addition, all energy commodities traded higher with WTI crude oil gaining 20% and natural gas rising 11%. Crude oil continued its advance as non-OPEC sources of supply have entered into production decline. These declines are being offset by higher production from Iran and Iraq, keeping global inventory levels elevated; meaningful and sustained inventory drawdowns have not yet occurred. Agriculture commodities were generally all higher as well; the only declining agriculture commodities were wheat (-1%), soybean oil (-4%), and live cattle (-14%).

Tactical Trading

- Diversification hedge funds were generally negative in March. CTAs detracted after a strong start to the year, while discretionary global macro strategies were down slightly in aggregate.



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