Summit Strategies Group
8182 Maryland Avenue, 6th Floor
St. Louis, Missouri 63105
314.727.7211

# Monthly Economic & Capital Market Update

*August 2017*

## Economy

- Economic data released during August reflected continued positive growth momentum throughout the world. Global GDP is estimated to have grown 3.8% during the second quarter of 2017, the fastest growth rate for any quarter since 2010, and expectations are for 3% global growth for the remainder of the year.[1] Equity prices continue to move higher and reflect this increased activity; MSCI ACWI IMI gained 0.4% during August and is now up 14.8% year-to-date.

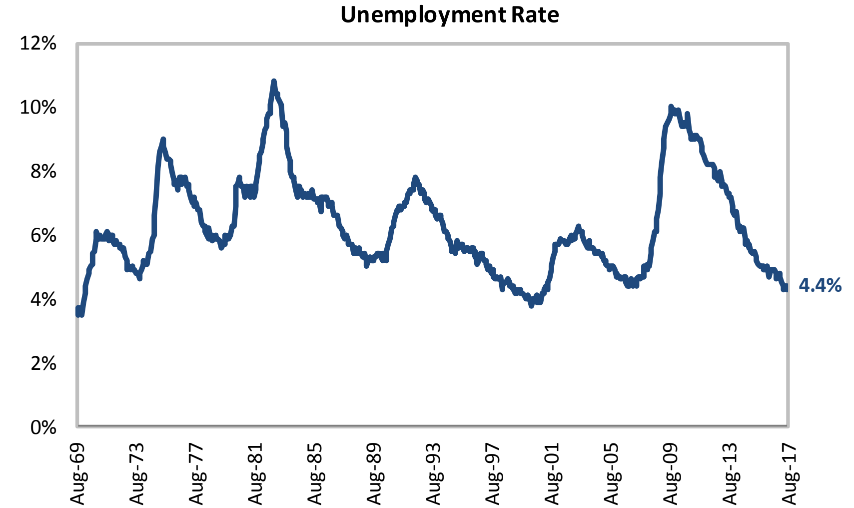
- The US economy experienced positive job growth for the 83rd consecutive month during August. Employers added 156,000 new payrolls, slightly missing economists' expectations of 180,000 new jobs, and the unemployment rate increased 10 bps to 4.4%. Wage growth, as measured by the change in average hourly earnings of private sector workers, was 2.5% over the 12 months ending in August, unchanged for a fifth consecutive month. Payrolls from July were revised downward by 20,000 total jobs.

- Real GDP grew at a 3.0% annual rate during the second quarter of 2017 according to the second estimate released by the Bureau of Economic Analysis. The estimate is based on more complete source data than that available for last July's advance estimate. The increase in real GDP from 1.2% in the first quarter 2017 reflected positive changes in consumer and government spending, business investment, and exports.

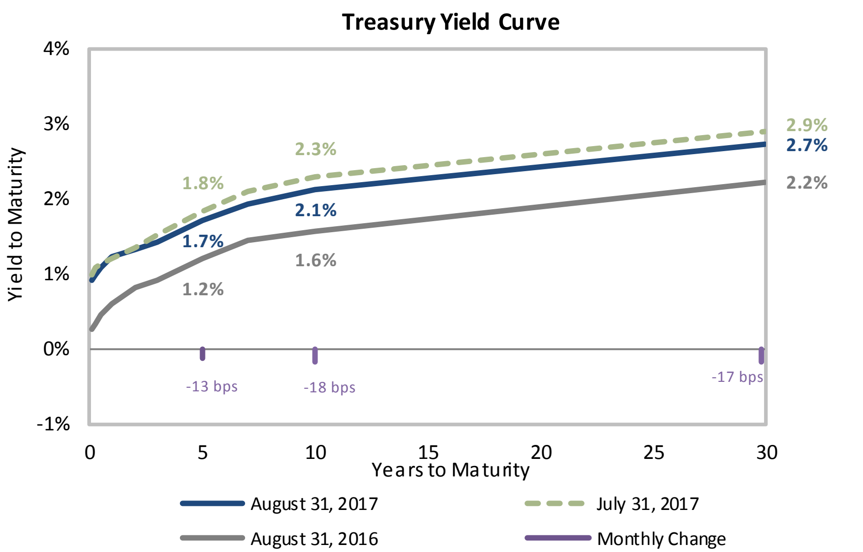
- Economic activity in both the manufacturing and services sectors continues to expand, as measured by purchasing managers indices (PMI). The US ISM Manufacturing PMI increased 2.5 points in August to 58.8, its highest level since June 2011; an Index reading over 50 suggests expansion in the sector. Manufacturing has now been a boost to US growth for a year, following a period during which muted trading partner growth and a strong US dollar weighed on US manufacturing. The Non-Manufacturing (or services) PMI also continues to reflect strength, led by strong consumer spending. US services have expanded 92 consecutive months.

## Yield Curve

- The spread between 2-year and 30-year Treasuries tightened 15 bps to 140 bps in August. Over the past two years, the 2-30 spread has tightened by 82 bps, with the long end of the curve mostly unchanged 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 191 bps.



Source: Bloomberg.




[1] per JP Morgan.

### Public Equities

- Equity markets were higher throughout the world during August despite mid-month concerns surrounding escalating tensions between North Korea and the rest of the world. As the US dollar continued its 2017 decline, non-US markets further benefited from currency gains. For the month, the S&P 500 rose 0.3% and outperformed US small cap stocks. Outside the US, emerging markets outperformed their developed peers, rising 2.2%.
- Master limited partnerships (MLPs) returned -4.9% for the month, driven by poor performance in the crude oil pipelines sector. Year-to-date, the Alerian MLP Index has returned -6.3% and the distribution yield has increased 46 bps to 7.7%.

### Public Debt

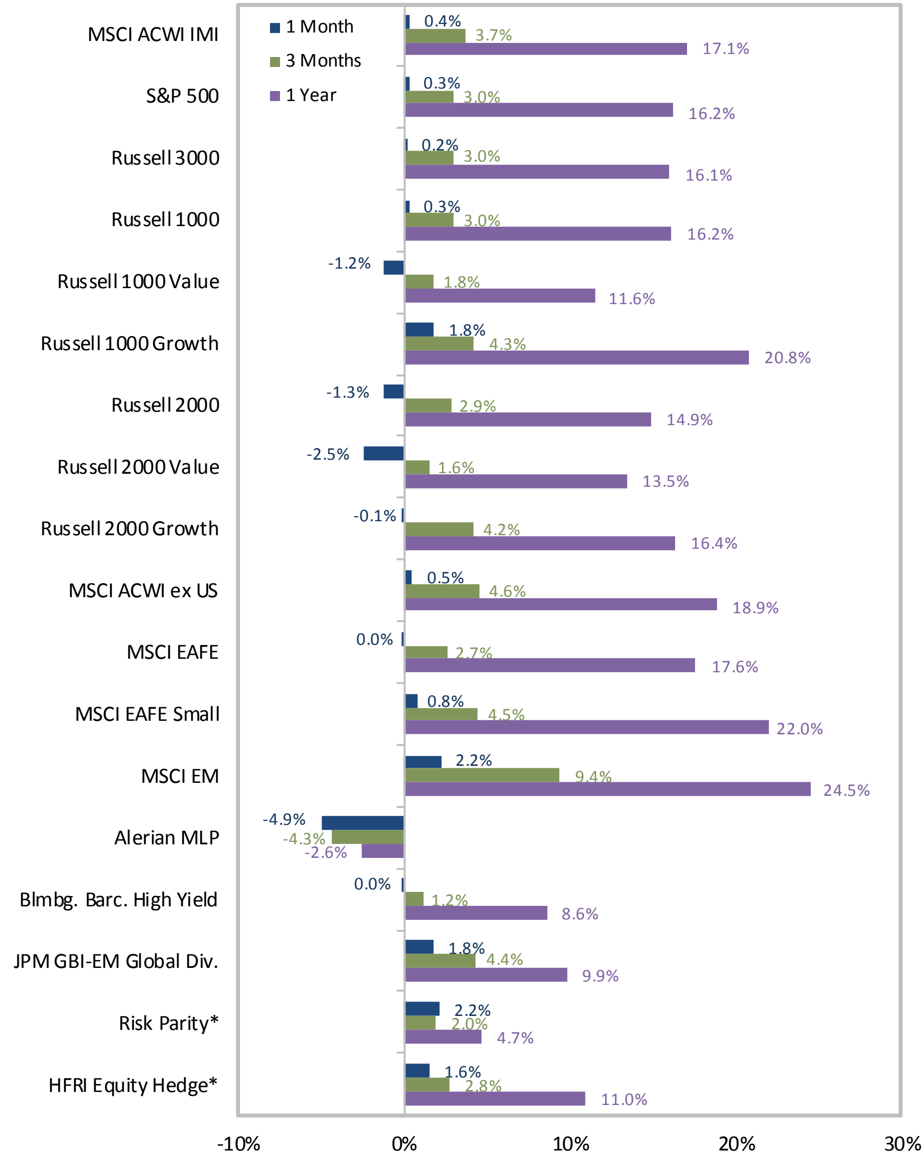
- The Bloomberg Barclays US High Yield Index was unchanged for August. Rising yields offset coupon payments, with spreads widening from their lowest levels since May 2014.
- Local currency-denominated emerging market debt returned 1.8%, as both currency and principal added 0.9% of returns. Emerging market local bonds ended August yielding 6.0% with duration of 5.1 years.

### Private Assets

- The strong fundraising environment for private equity continued into the second quarter. Capital commitments have now exceeded $100b in five of the last seven quarters, with Preqin estimating that Q2 fundraising totaled $121b. The amount of capital raised has been relatively concentrated, with approximately 63% of the $121b raised being secured by the top 10 funds closed during the quarter.
- Momentum in private debt fundraising slowed during the first half of 2017 compared to record highs at the end of 2016. Twenty-eight funds, totaling $16b in capital, closed during the second quarter, down from $26b in Q1. The second quarter marked the first time in three years in which private debt fundraising did not surpass $20b.

### Hedge Funds

- Risk parity strategies contributed gains in July. Gains were spread across asset classes, with commodities and nominal bonds providing the largest contributions.
- Growth hedge funds were positive during July, with long/short equity strategies driving returns. Event-driven strategies also gained, including distressed, merger arbitrage, and activist strategies.




* 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

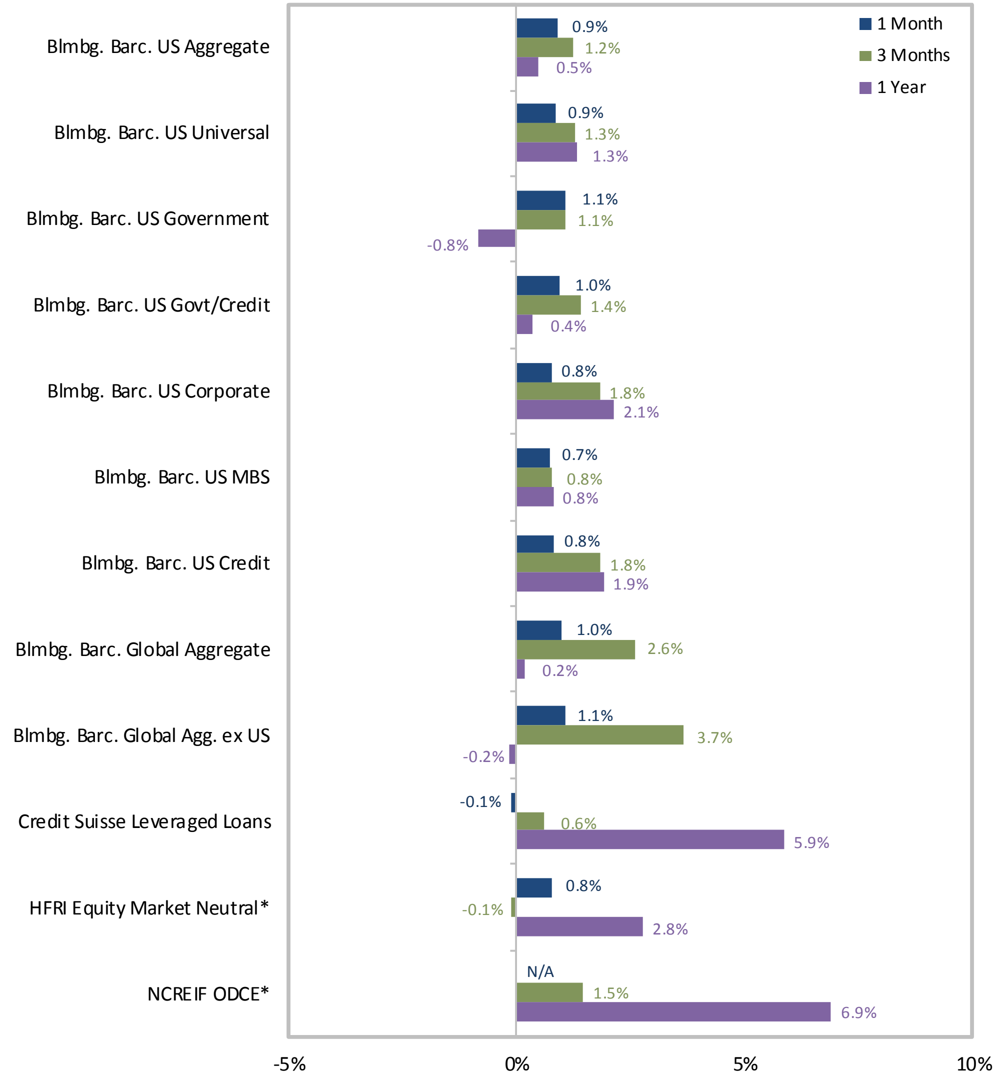
- The yield curve flattened during August after a brief steepening during July. Short-end rates remained stable while long-end rates fell due to lower inflation expectations and real rates.
- The 10-year US Treasury yield ended August at 2.1%, down 18 basis points from July to its lowest month-end rate in 2017. Heightened geopolitical risk causing expectations of a slower path of rate hikes contributed to the decline in yields for the month.
- The Bloomberg Barclays US Aggregate returned 0.9% in August, bringing year-to-date returns to 3.6%. Treasuries were the top-performing sector in the Index, as market participants preferred safe-haven securities. Spreads widened in both the MBS and corporate sectors.
- The Bloomberg Barclays Global Aggregate returned 1.0%. Principal was the primary driver of performance, contributing 0.6%, while currency and coupon added 0.4%.
- Public bank loans, as measured by the Credit Suisse Leveraged Loan Index, returned -0.1%. Three year discount margins increased by 13 bps, ending the month at 436 bps. Neither BB-, B- or CCC-rated issues generated positive returns for the month.

### Relative Value Hedge Funds

- Relative value hedge funds performed well in July, led by equity market neutral strategies. Relative value credit, convertible arbitrage, and volatility arbitrage all also contributed.

### Core Real Estate

- Core real estate returns for the second quarter of 2017 were 1.7% gross and 1.5% net, bringing the one-year gain for core funds to 6.9%. 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.




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

### Inflation

- TIPS provided a positive return during the month as real rate declines surpassed the decline in inflation expectations. Principal contributed almost all of the return during the month with 0.0% coming from coupon, giving total return of 1.1% for the month.

### Deflation

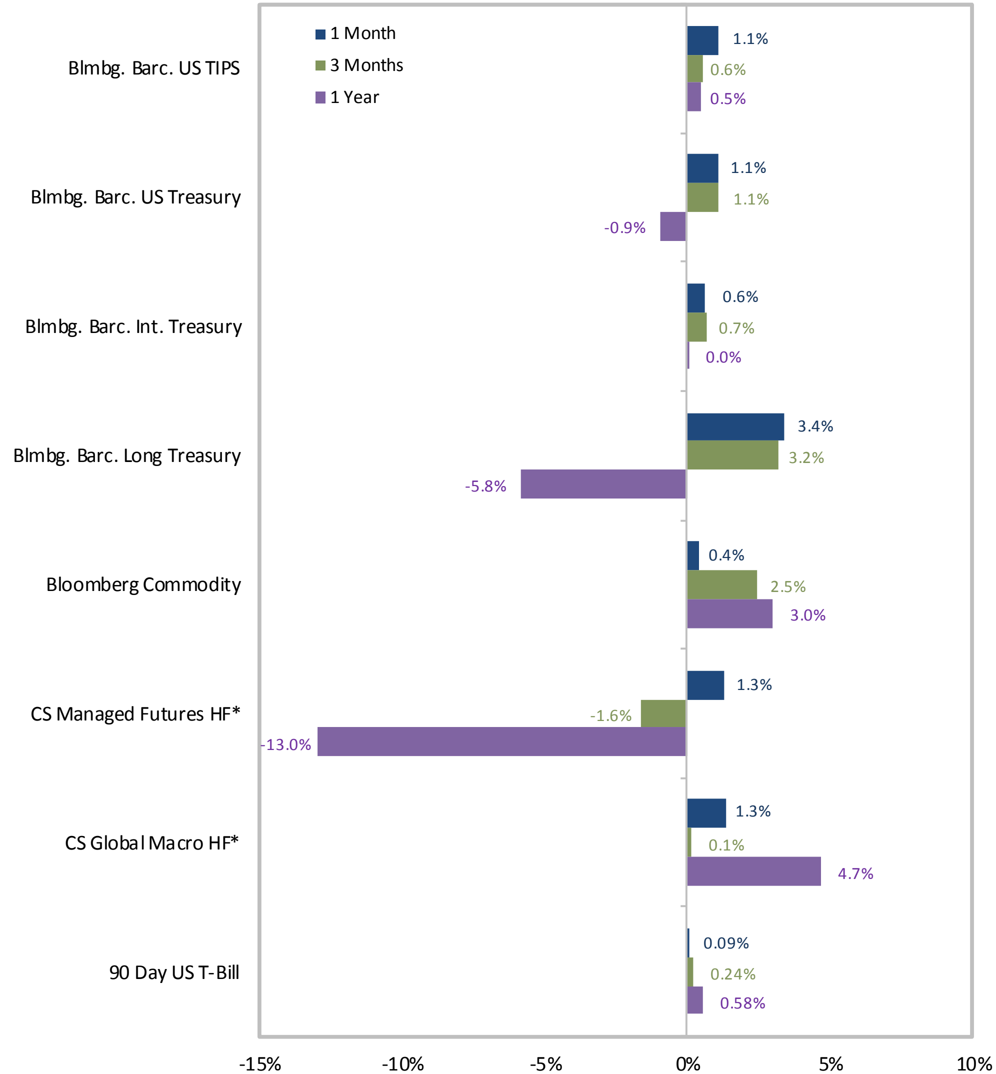
- The Bloomberg Barclays Long Treasury Index returned 3.4%, with 3.2% being related to price return, as long-end rates fell during the month. Yields for the Index ended at 2.6% compared to 2.8% at the end of July.

### Commodities

- The Bloomberg Commodity Index returned 0.4%, as strong performance by industrial metals and energy was offset by poor performance by livestock and grains. The Bloomberg Commodity Index returned 3.0% for the trailing year, driven by energy and industrial metals.

### Tactical Trading

- Tactical trading hedge funds contributed gains in July. Gains were led by trend-followers, ending a recent losing streak. Discretionary global macro also contributed.




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

## DISCLOSURES

Summit has prepared this presentation for the exclusive use of its intended audience. Any information contained in this report is for information purposes only and should not be construed to be an offer to buy or sell any securities, investment consulting, or investment management. The information herein was obtained from various sources, which Summit believes to be reliable. Summit cannot assure the accuracy of any third-party-generated numbers. Past performance is no guarantee of future results, and no graph, chart, or formula can, in and of itself, be used to determine which managers or investments to buy or sell. Any forward-looking projection contained herein is based on assumptions that Summit believes is reasonable, but which are subject to a wide range of risks, uncertainties, and the possibility of loss. Actual results and performance will differ from those expressed or implied by such forward-looking projections.

This report may contain opinions developed by Summit. Summit does not guarantee the accuracy or completeness of the information contained in this report. The opinions, market commentary, portfolio holdings, and characteristics are as of the date(s) shown and subject to change.

Private investments and hedge funds are subject to less regulation than other types of pooled vehicles. Alternative investments may involve a substantial degree of additional risk, including the risk of total loss of an investor's capital and lack of liquidity, and therefore may not be appropriate for all investors. Clients should review the Offering Memorandum, the Subscription Agreement, and any other applicable documents prior to investing. Summit does not provide legal or accounting advice. Clients should consult with their own legal advisor and/or accountant on these opportunities, including the review of any Subscription Document, Offering Memorandum, or Partnership Agreement.

Summary statistical data such as standard deviation (risk), Sharpe ratio, and tracking error is calculated using industry-standard methodology. Details regarding these calculations are available upon request.