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Monthly Economic & Capital Market Update

July 2017

Economy

- Many of the economic and market trends that have been in place throughout 2017 continued during the month of July. Broad-based improvements in growth and company earnings helped lift global equity market indices to all-time highs. In addition, persistently low inflation has allowed central banks to remain accommodative, further supporting the prices of higher-risk assets.

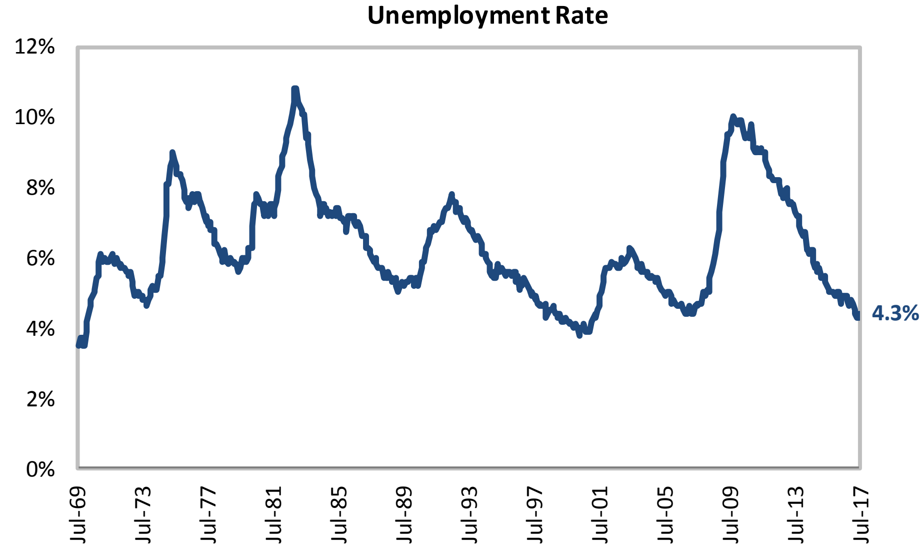
- The US economy experienced positive job growth for the 82nd consecutive month during July. Employers added 209,000 new payrolls, exceeding economists' expectations of 183,000 new jobs, and the unemployment rate decreased 10 bps to match a 16-year low of 4.3%. Wage growth, as measured by the change in average hourly earnings of private sector workers, was 2.5% over the 12 months ending in July, unchanged month-over-month. Payrolls from June were revised upward by 9,000 total jobs.

- Real GDP grew at a 2.6% annual rate during the second quarter of 2017 according to the advance estimate released by the Bureau of Economic Analysis. The estimate is based on source data that will be revised in coming weeks. 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.

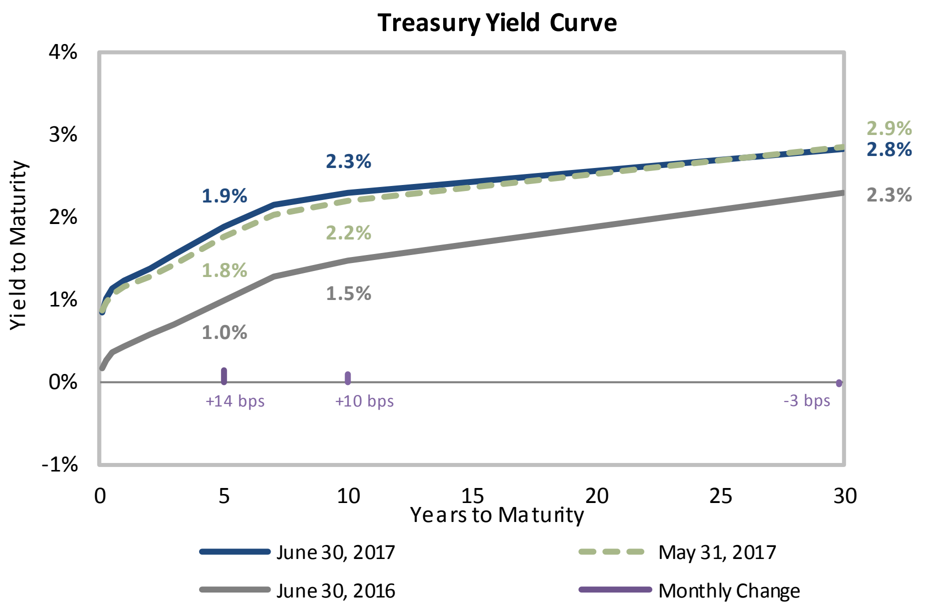
- Economic activity in both the manufacturing and services sectors continues to expand, as measured by purchasing managers indices (PMI). The US ISM Manufacturing PMI detracted 1.5 points in July to 56.3; an Index reading over 50 suggests expansion in the sector. Manufacturing has now been a boost to US growth for 11 consecutive months, 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 91 consecutive months.

Yield Curve

- The spread between 2-year and 30-year Treasuries widened 10 bps to 155 bps in July. Over the past two years, the 2-30 spread has tightened by 70 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.



Public Equities

- Equity markets were higher throughout the world during July, with international markets outperforming domestic. As the US dollar continued its 2017 decline, non-US markets further benefited from currency gains. For the month, the S&P 500 rose 2.1% and outperformed US small cap stocks. Outside the US, emerging markets outperformed their developed peers, rising 6.0%.
- Master limited partnerships (MLPs) returned 1.3% for the month, led by strong performance in the shipping sector. Year-to-date, the Alerian MLP Index has returned -1.4% and the distribution yield has increased 4 bps to 7.2%.

Public Debt

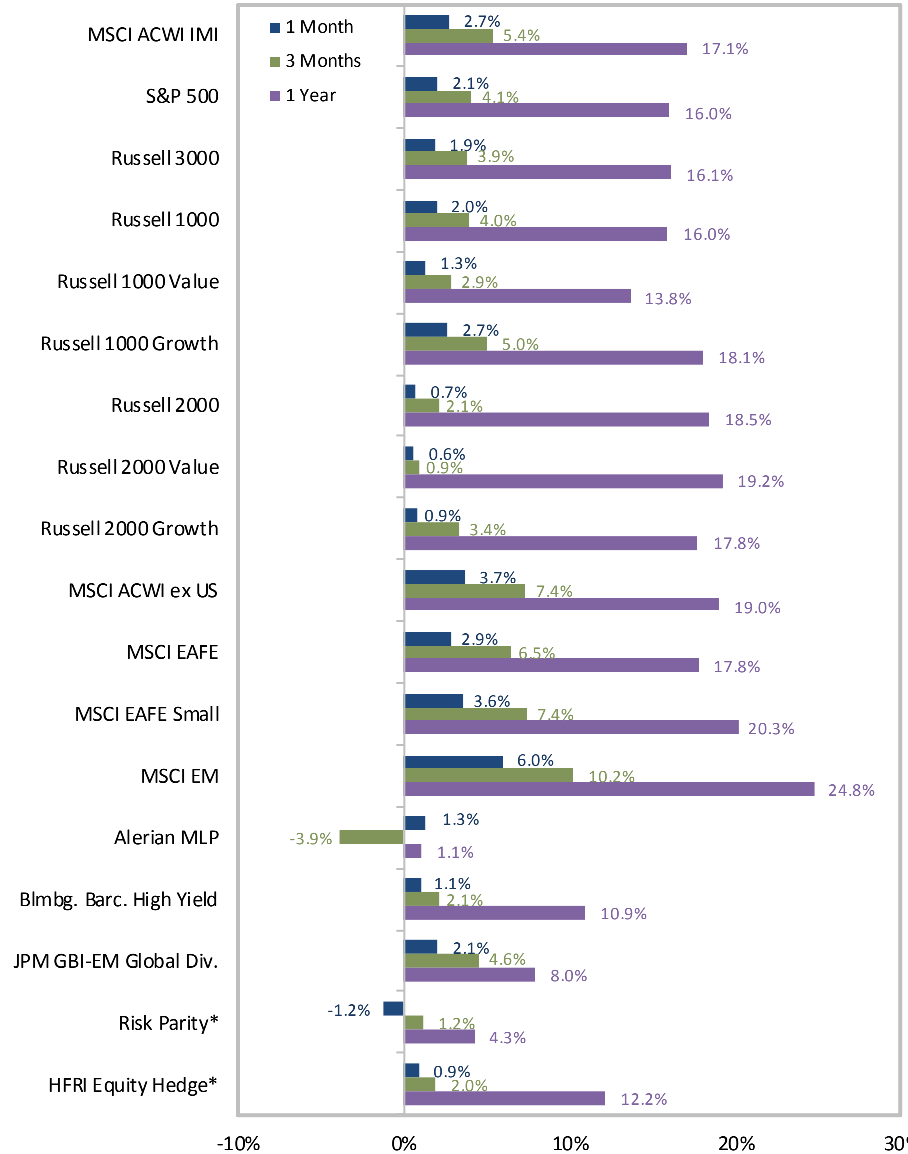
- The Bloomberg Barclays High Yield Index returned 1.1% for July as commodity-sensitive industries were the top-performing sectors and lower-quality issues continued to outperform higher-quality. Spreads tightened to 351 basis points, the lowest observed level for the Index since May 2014.
- Local currency-denominated emerging market debt returned 2.1%, with currency providing 1.6% of returns while principal added 0.5%. Emerging market local bonds ended July yielding 6.1% 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. Purchase price multiples for middle-market LBOs, as measured by S&P Leveraged Commentary and Data (S&P LCD), have remained relatively stable from 2016 at 9.5x year-to-date.
- 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 funds declined in June, as equity gains were more than offset by losses from nominal rate, real rate, and commodity exposures.
- Growth hedge funds gained during June. Equity long/short and activist strategies led performance, while merger arbitrage and distressed/restructuring 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

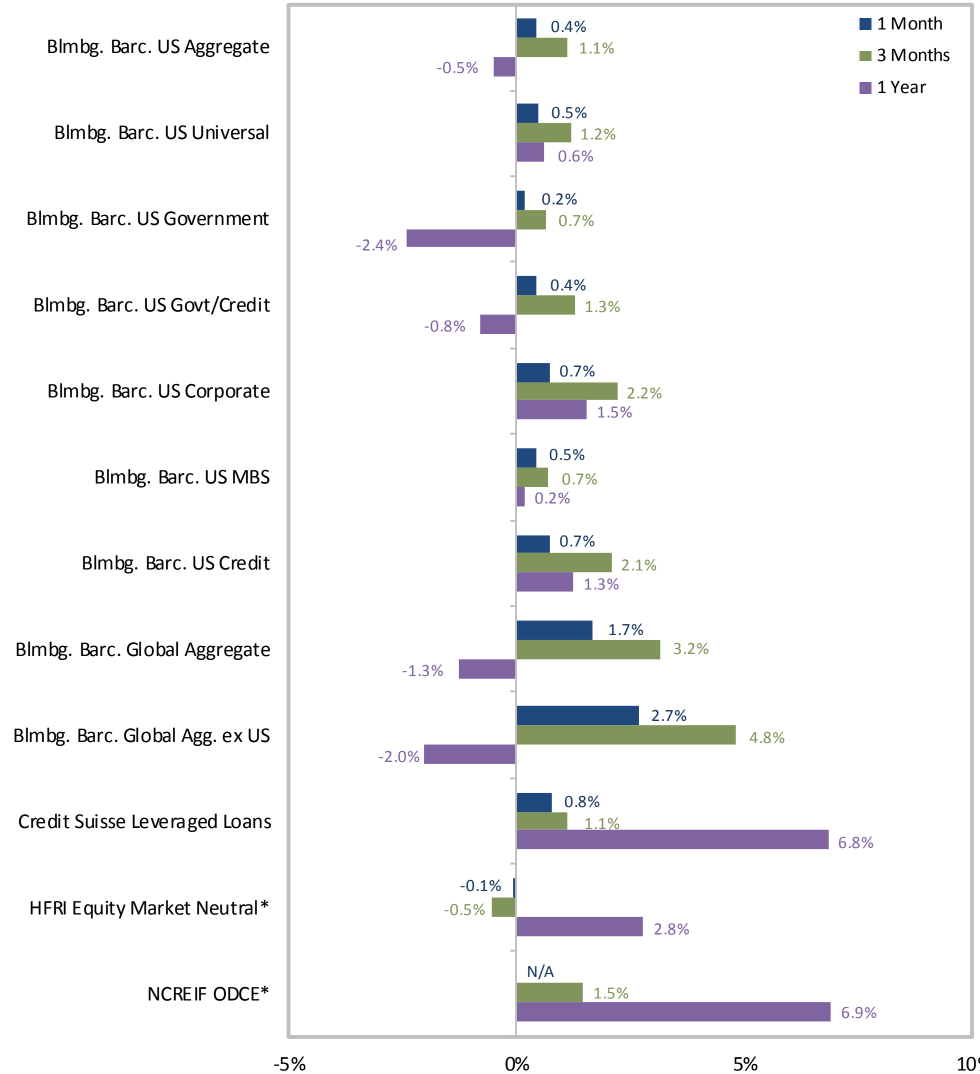
- The yield curve steepened modestly during July, reversing the extended flattening that had been occurring. Short-end rates remained stable while long-end rates rose due to uncertainty regarding future Federal Reserve rate hikes.
- The 10-year US Treasury yield ended July at 2.3%, down one basis point from June. Rate volatility was muted during the month, as yields traded within a range of 13 basis points. For context, each month prior to June saw rates move in excess of 20 basis points.
- The Bloomberg Barclays US Aggregate returned 0.4% in July, bringing year-to-date returns to 2.7%. Corporates were the top-performing sector, as the credit profile of the Index continued to improve and spreads tightened by seven basis points.
- The Bloomberg Barclays Global Aggregate returned 1.7%. Currency was the primary driver of performance, contributing 1.4%, while price and coupon added 0.3%.
- Public bank loans, as measured by the Credit Suisse Leveraged Loan Index, returned 0.8%. Principal returns were positive for the first month since April as the refinancing and repricing wave did not continue to the extent that was seen at the beginning of the year. B-rated issues were the top performer in the Index due to the higher yield provided.

Relative Value Hedge Funds

- Relative value hedge funds were mostly unchanged during June. Volatility strategies were the largest contributors, while credit strategies also gained, most notably in the asset-backed strategies. Equity market neutral strategies detracted.

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.



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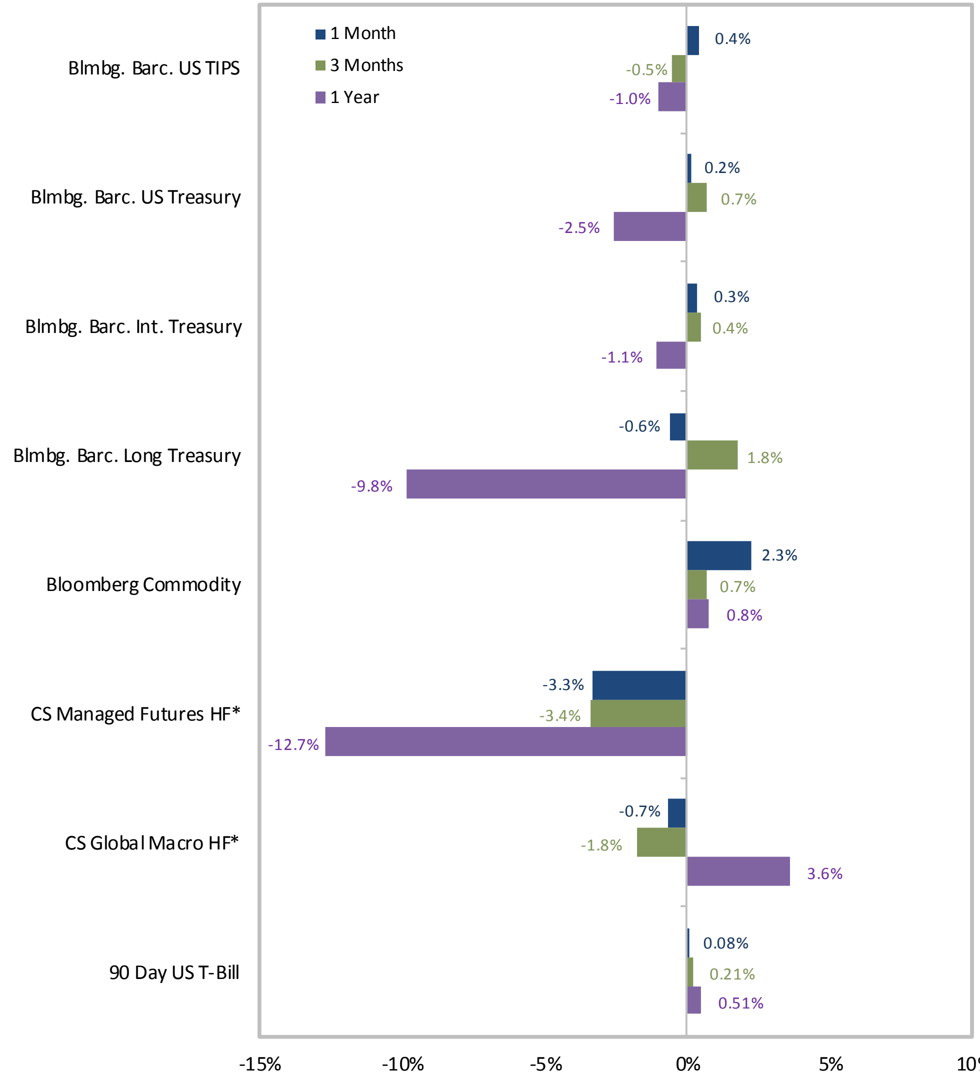
Inflation
- TIPS provided a positive return during the month as breakeven inflation expectations rose by nine basis points to 1.8%. As a result, principal returned 0.3% while coupon added 0.1% to bring the total return to 0.4%.

Deflation
- The Bloomberg Barclays Long Treasury Index returned -0.6%, as long-end rates rose during the month. Yields for the Index rose to 2.8%, which marked the first month-over-month rise in yields since March.

Commodities
- The Bloomberg Commodity Index returned 2.3%, with the largest drivers being energy and industrial metals. Livestock was the weakest performer for the month. The Bloomberg Commodity Index returned 0.8% for the trailing year, as energy's strong performance was offset by the poor performance of soft commodities and precious metals.

Tactical Trading
- Tactical trading hedge funds detracted in aggregate during June as trend-following strategies continued to decline. Global macro funds have posted gains over the past year, but were slightly negative for the month.



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