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Monthly Economic & Capital Market Update

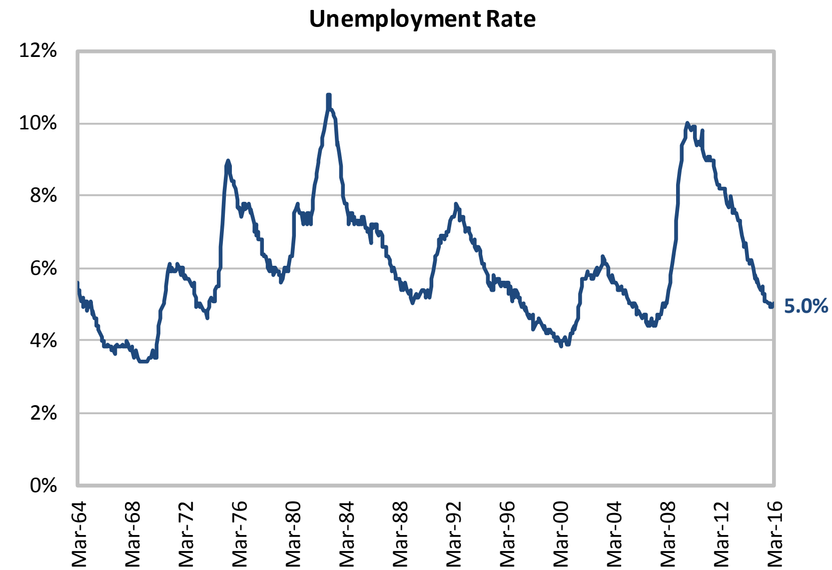
March 2016

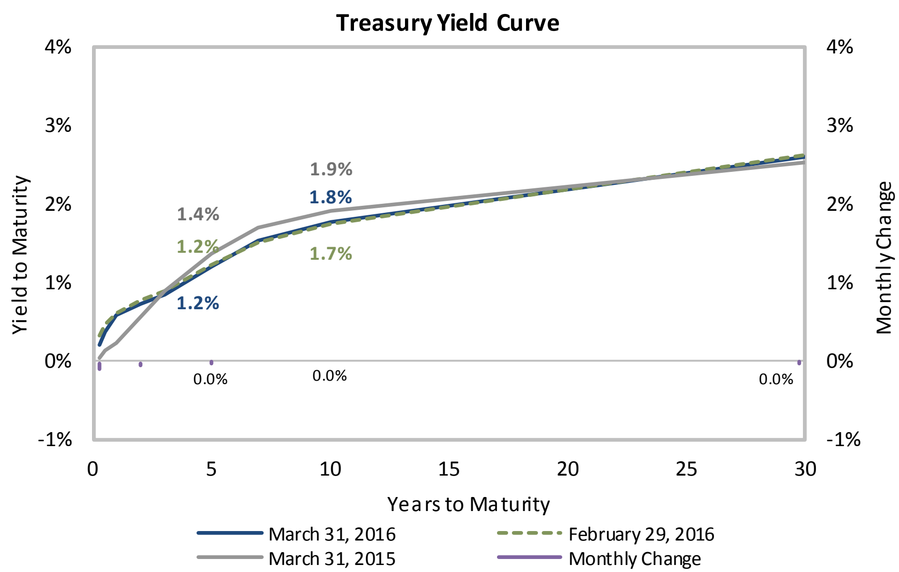
Economy

- March data showed that the US economy continues to grow at a slow to moderate pace. The labor market, which has contributed the most to the current expansion, added jobs for a record 66th consecutive month. Domestic demand has been strong as people have returned to work, while disappointing growth outside the US has flowed through to the export-driven manufacturing sector. However, the manufacturing sector expanded for the first time in six months in March, a sign that international conditions may be stabilizing. These positive economic reports helped fuel a market recovery following a sell-off of more than 10% at the beginning of 2016. In addition, the Federal Reserve chose to keep short term interest rates unchanged at its March meeting and vowed to be "cautious" regarding future interest rate hikes; this dovish tone was well-received by markets during March.
- The March employment report showed continued expansion in the US labor market. Employers added 215,000 jobs during the month, exceeding market expectations of 199,000 new jobs. The unemployment rate rose 10 bps to 5.0%, however, as more Americans rejoined the labor force. Revisions to figures from January and February resulted in 1,000 less jobs than previously reported for those months. Wage gains for employees slightly increased in March, and were up 2.3% over the past 12 months. In recent quarters wage gains have been stronger than earlier in the expansion, but remain subdued from a historical perspective.
- Real GDP growth for the fourth quarter of 2015 was revised up from 1.0% to 1.4%, according to the third and final estimate released by the Bureau of Economic Analysis. This final revision brings the growth rate to 2.4% for the 2015 calendar year. For the first quarter of 2016, the Atlanta Federal Reserve's GDPNow model is expecting 0.7% (annualized) growth, lower than previous forecasts of near 2%. A higher trade deficit and weaker consumer spending contributed to the low forecast.
- The service sector continues to drive US growth. The Institute for Supply Management's non-manufacturing purchasing managers' index (PMI) came in at 54.5 for March, its 74th consecutive month of expansion; an index level over 50 implies growth in the sector.

Yield Curve

- The spread between 2-year and 30-year Treasuries increased 5 bps to 189 bps in March. 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

March 31, 2016

Public Equities

- After a volatile February, global equity markets ended March on a positive note. Boosted by a rebound in oil prices and a fall in the dollar, the S&P 500 ended the month with a 6.8% gain. Small cap stocks, as measured by the Russell 2000, outperformed large cap by 120 bps. International assets also posted strong gains, with large cap developed markets up 6.5% and emerging markets outpacing their developed market peers, posting gains of 13.2% during the month.
- MLPs returned 8.3% during the month, led by smaller-cap securities and riskier sub-sectors which had traded down to a greater degree earlier in the year. MLPs continue to exhibit abnormally high correlations to crude oil prices, which continued to influence pricing in March. Crude oil gained 14% during the month and broadly all MLP sub-sectors had positive returns. Of energy infrastructure MLPs, gathering & processing MLPs gained 14% while MLP pipeline sub-sectors modestly underperformed the index.

Public Debt

- High yield spreads tightened dramatically in March, leading to a 4.4% return. The rally was led by the energy sector (+16%), which traded in line with oil.
- Local currency EM debt turned in an excellent March, returning 9.1%. Oil price strength and USD weakness provided a tailwind to commodity-linked countries such as Columbia, Russia, and Brazil. Also, hopes for market-friendly political change in Brazil increased.

Private Equity

- The easy availability of credit and record levels of dry powder have driven purchase price multiples to record high levels, according to S&P Leveraged Commentary and Data. Market participants noted a widening bid/ask spread as lenders began to tighten, and public market volatility combined with peak earnings has given some buyers pause. However, the aggregate deal value in 2015 rose 16% YoY and the average deal size reached its highest level since 2007.

Private Debt

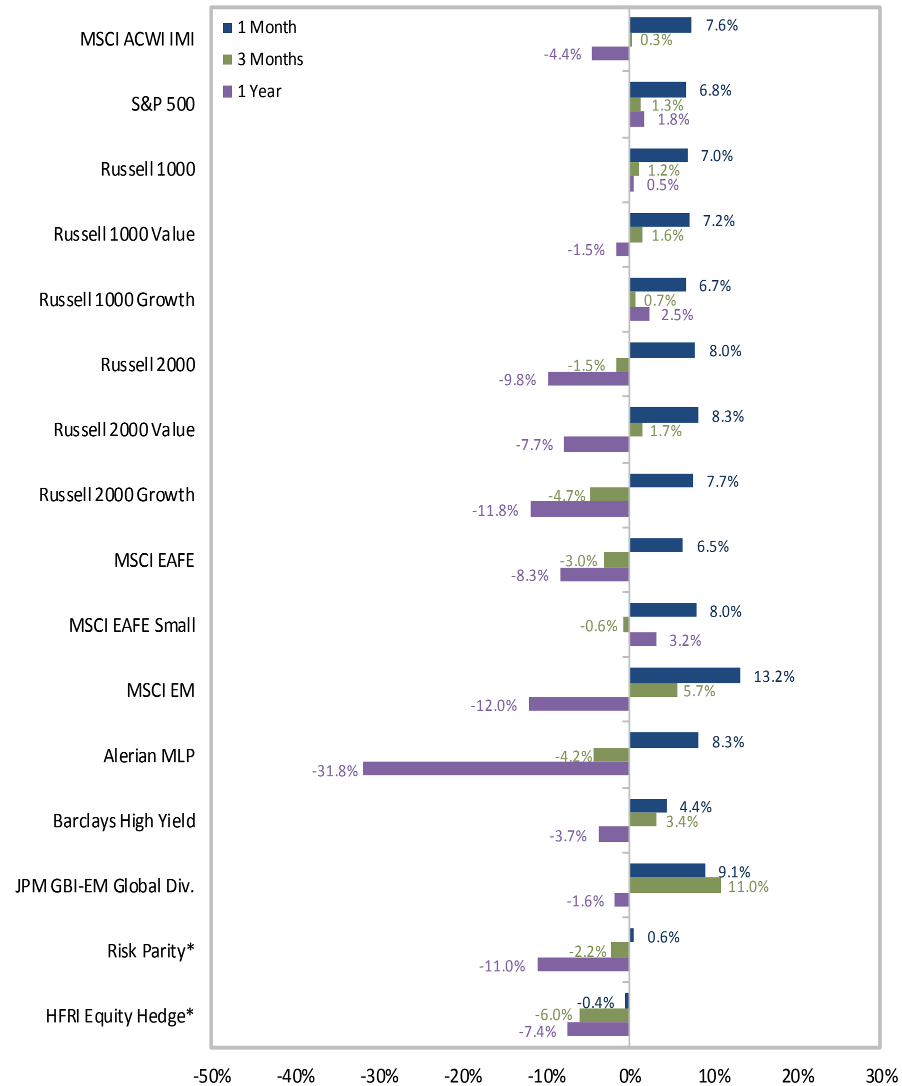
- Following five years of expanding leverage multiples, 2015 saw a slight cooling in the sponsored loan market. Increased attention to regulatory lending guidelines, as well as some natural trepidation with overall credit statistics, led to the slowdown. For deals that are getting done, market participants noted a reduction in unitranche lending in favor of more traditional debt structures.

Risk Parity

- Risk parity strategies were generally positive in February. Equity contributions were mostly flat, varying with regional weighting schemas.

Growth Hedge Funds

- Growth hedge funds declined in February. In long/short equity, technology/healthcare oriented-funds detracted while funds with higher energy and basic materials exposure contributed. Distressed debt and activist funds were also detractors.



* 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

- For the month, the yield curve steepened modestly with the 2-year Treasury down 5 bps, the 10-year up 5 bps, and the 30-year unchanged. Alongside a steep rally in risk assets and oil prices, rates rose sharply mid-month with the 10-year rising 23 bps before a dovish statement by the Fed served as a catalyst for falling rates the rest of the month. The Fed noted growth would fall short of its December estimates which led to expectations for just two rate hikes in 2016. For the quarter, rates were lower across the curve with the 10-year down 50 bps following growth concerns and risk asset sell-offs in January and February.
- Investment grade credit spread rebounded strongly in March with 30 bps of tightening, recovering all of its recent three-month widening. The move was the sharpest since October 2011's 31 bps in tightening. Although overall fundamentals changed little between February and March, "recession-like" valuations helped sustain renewed interest by investors month-over-month. Returns for the month and quarter ended up 2.8% and 4.0%, respectively, the latter representing the strongest first quarter since the first quarter of 2000.
- Securitized asset performance was much more disparate in March and lagged credit with CMBS producing a 1.3% return, while agency MBS and ABS were up only 0.3% and 0.1%. Like credit, the CMBS sector experienced a sharp tightening in spreads by 22 bps. For the quarter, while MBS and ABS returns lagged credit by over 150 bps, CMBS actually topped credit by four bps.
- International bonds gained 4.1% in March as a dovish FOMC led to weakness in the USD and yields again fell in the Euro-zone and Japan.

Private Debt

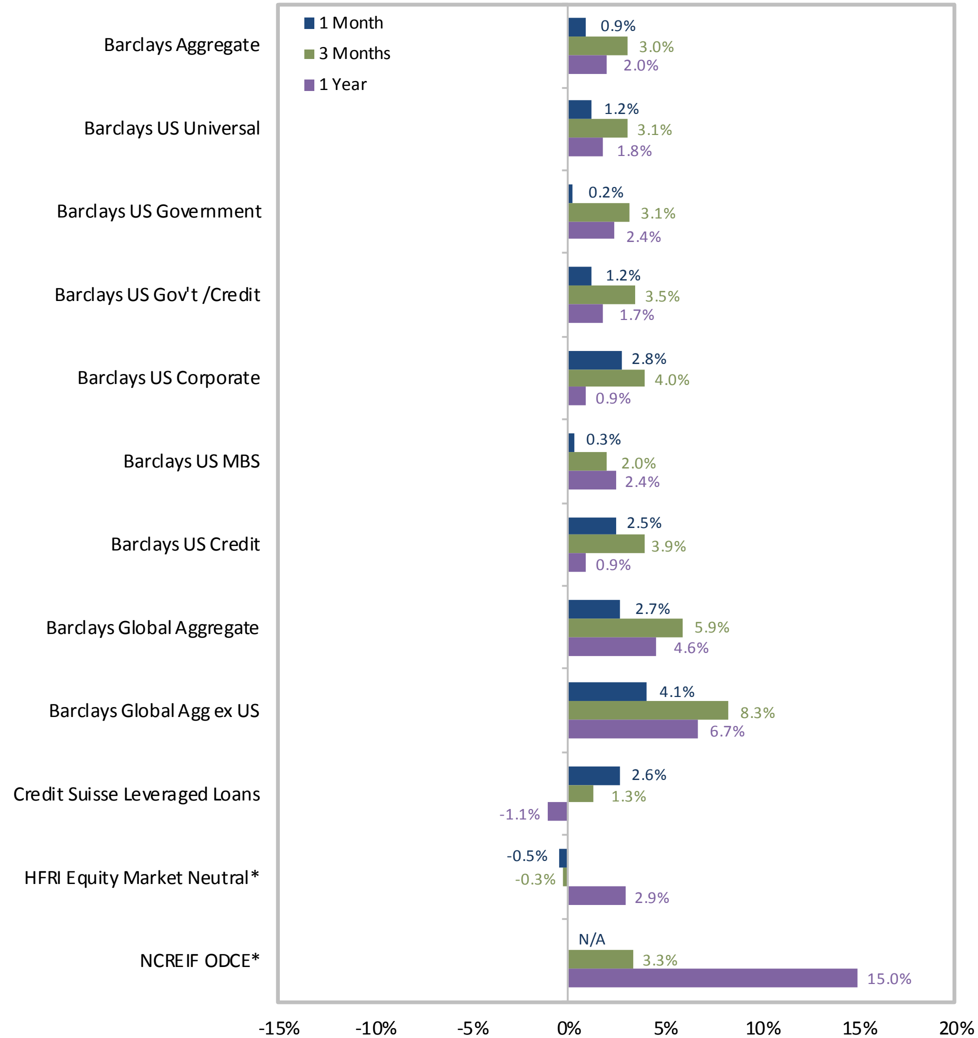
- Bank loans broke their streak of seven straight negative months, rising 2.6% in March for its highest monthly return since December 2009. Yields (3-year life) fell 66 bps while average prices rose $1.98 to $91.40. A reversal in retail outflows and an uptick in CLO issuance aided loans in March.

Relative Value Hedge Funds

- Income hedge funds detracted, with losses in equity market neutral as well as credit oriented funds in February.

Core Real Estate

- Core real estate continued to perform well with a total return of 3.3% for the fourth quarter of 2015, as measured by the NCREIF ODCE Index. As a result, the 2015 calendar year return for the Index was 15.0%, the strongest year since the financial crisis for real estate. Supportive supply and demand fundamentals and continued economic growth have fueled strong returns in recent years.



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Diversification Assets

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Inflation

- TIPS returned 1.8% in March as real rates fell along with nominal US Treasuries. Furthermore, breakeven inflation expectations expanded with the increase in the price of oil. As of the end of March, the breakeven inflation rate for the 10-year TIPS was 1.6%, up 20 bps for the month.

Deflation

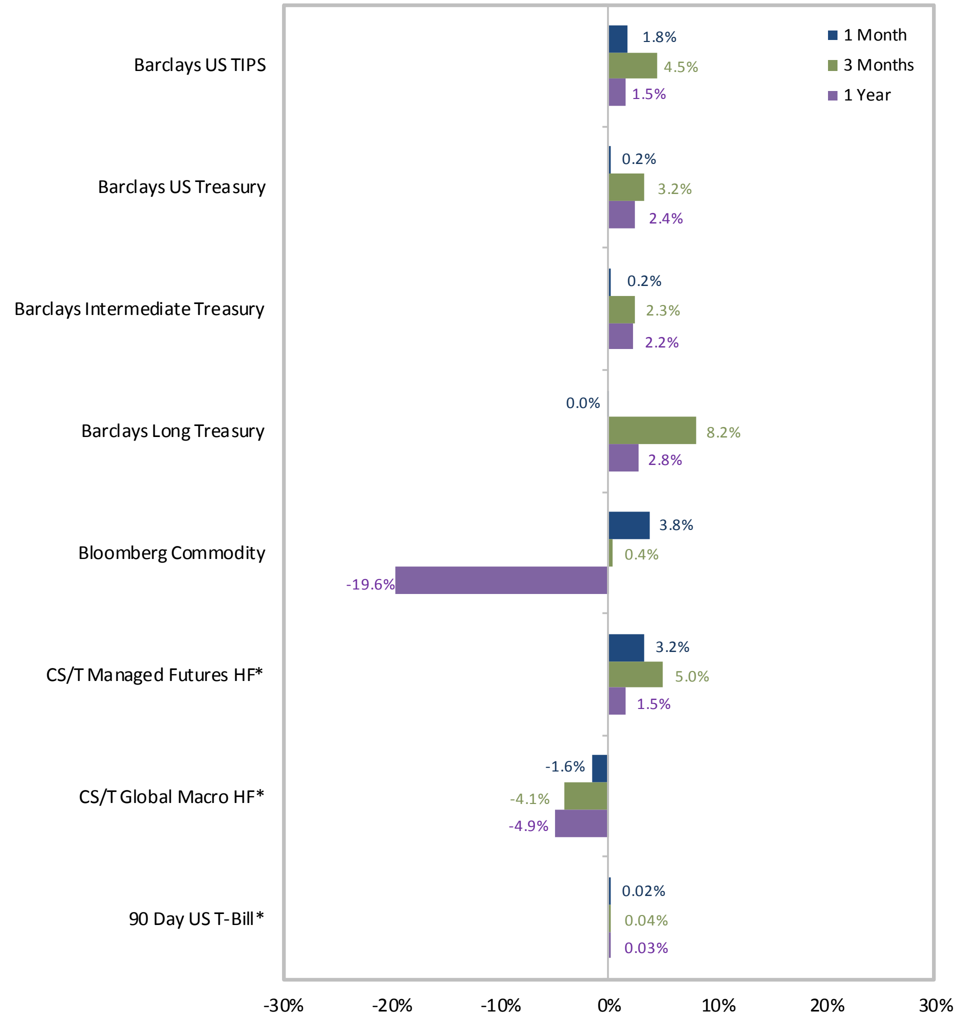
- Unlike previous months, long Treasuries were a laggard and ended the month unchanged; coupon income was offset by marginally higher rates. The quarter proved a strong one, however, with rates falling 40 bps for the 30-year and pushing returns up over the 8% mark for Barclays Long Treasury Index.
- Cash continues to offer low returns, with 90-day T-Bills adding just 3 basis points over the past year.

Commodities

- Commodities returned 3.8% during the month, driven by positive returns in energy, agriculture, and precious metals sectors and supported by a weaker dollar. Livestock and select industrial metals (aluminum and nickel) declined modestly in March. Crude oil continued to rebound from its mid-February low advancing 14% during the month, although global inventories remain elevated without significant drawdowns to date and certain OPEC nations continue to add production. Gold was flat during the month after advancing throughout the first quarter (+16% year to date). Coffee futures spiked +13% during March as crop estimates from major planting regions in South America fell due to weather conditions and declining inventories. Copper rose 2% during the month even though consumption growth trends continued to decelerate.

Tactical Trading

- Diversification hedge funds performed well in February, driven by CTA gains in trend-following strategies. Discretionary global macro detracted.



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