



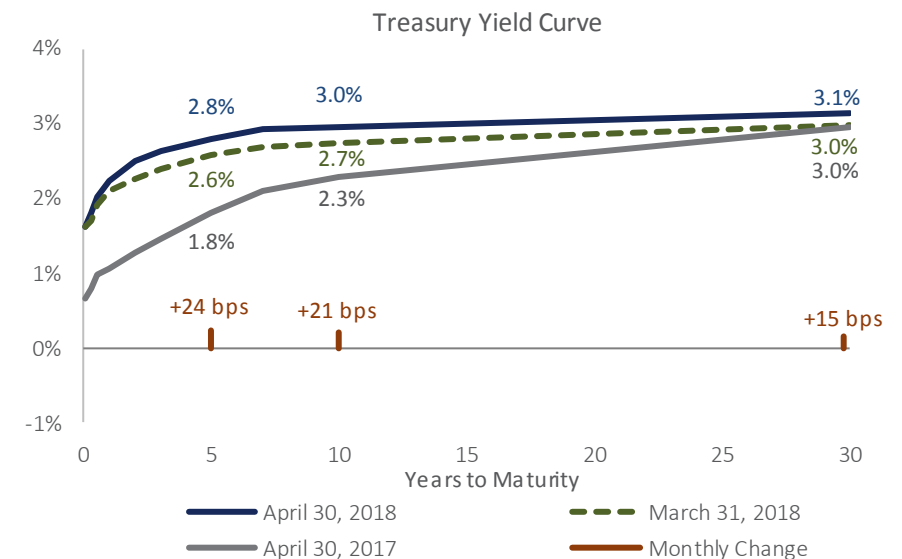
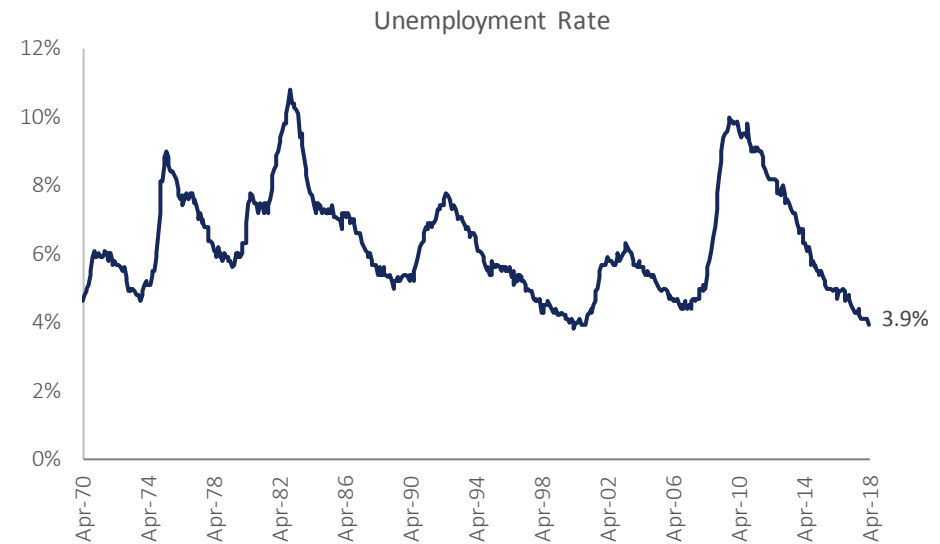
Summit Strategies Group

Economic and Capital Market Update

April 2018

Economic Perspective

- The strong pace of the global economic expansion over the past year has translated into the highest rate of corporate earnings growth since immediately following the financial crisis. With the majority of companies having reported for the first quarter, earnings growth for S&P 500 companies is 24% year-over-year; this would mark the fastest growth rate since Q3 2010, according to FactSet. Earnings growth has been a result of strong revenue growth and expanding profit margins as costs remain relatively low. Equity markets saw modest gains during April (MSCI ACWI IMI, +0.9%) despite consistently strong earnings reports, suggesting that markets had broadly been anticipating earnings strength.
- US non-farm payrolls increased by 164,000 during April, below consensus estimates of 193,000 new jobs. The unemployment rate declined 20 bps to 3.9%, its lowest level since December 2000. The US economy has now experienced positive job growth for 91 consecutive months, the longest streak since labor market data collection began in the 1940s. By many measures the labor market is the tightest it has been in several decades. In March the ratio of unemployed workers to job openings declined to its lowest level in history at 1.0, meaning there was one job available for every unemployed worker; this ratio reached as high as 6.6 unemployed workers for every available job in 2009. Wage growth, however, remains relatively muted despite the continued progress in the labor market; wages grew 2.6% over the 12 months ending April, down 10 bps from the previous month.
- Real GDP in the US grew at a 2.3% annualized rate during the first quarter of 2018, according to the initial estimate released by the Bureau of Economic Analysis. Compared to the fourth quarter of 2017, when the economy grew at a 2.9% annualized rate, the decline in consumer spending more than offset the increase in business investment. Overall, GDP growth was 2.6% for 2017 and 1.8% for 2016.
- Purchasing managers indices (PMI), which provide a timely measure of sentiment and growth, remain elevated but below 2017 levels. The JP Morgan Global Manufacturing PMI rose 0.2 to 53.5 during April; an index level over 50 implies expansion in the sector. Global manufacturing reached a 6-year high of 54.5 at the end of 2017. Service sector metrics also increased during April, with the JP Morgan Services PMI increasing 0.6 to 53.8. While this is below January's 3-year high of 54.8, it suggests activity in the services sector remains well in expansion territory.



Source: Bureau of Labor Statistics for Unemployment Rate, Bloomberg for Yield Curve.

Growth Assets

Public Equities

- Global equity markets rebounded during April following declines in March, bringing the year-to-date return for MSCI ACWI IMI to 0.0%. Positive earnings reports throughout the world were somewhat offset by continued uncertainty surrounding trade tensions between the US and China and rising interest rates. From a regional perspective, international markets outperformed domestic as the dollar declined against developed foreign currencies.
- Master limited partnerships gained 8.1% for the month, recovering from consecutive monthly losses in February and March. With a record amount of short-selling activity in the MLP universe occurring during March, short covering and encouraging earnings reports from MLPs contributed to strong gains during April. The trailing 12-month distribution yield for the Alerian MLP Index declined 64 bps to 8.1% throughout the month.

Public Debt

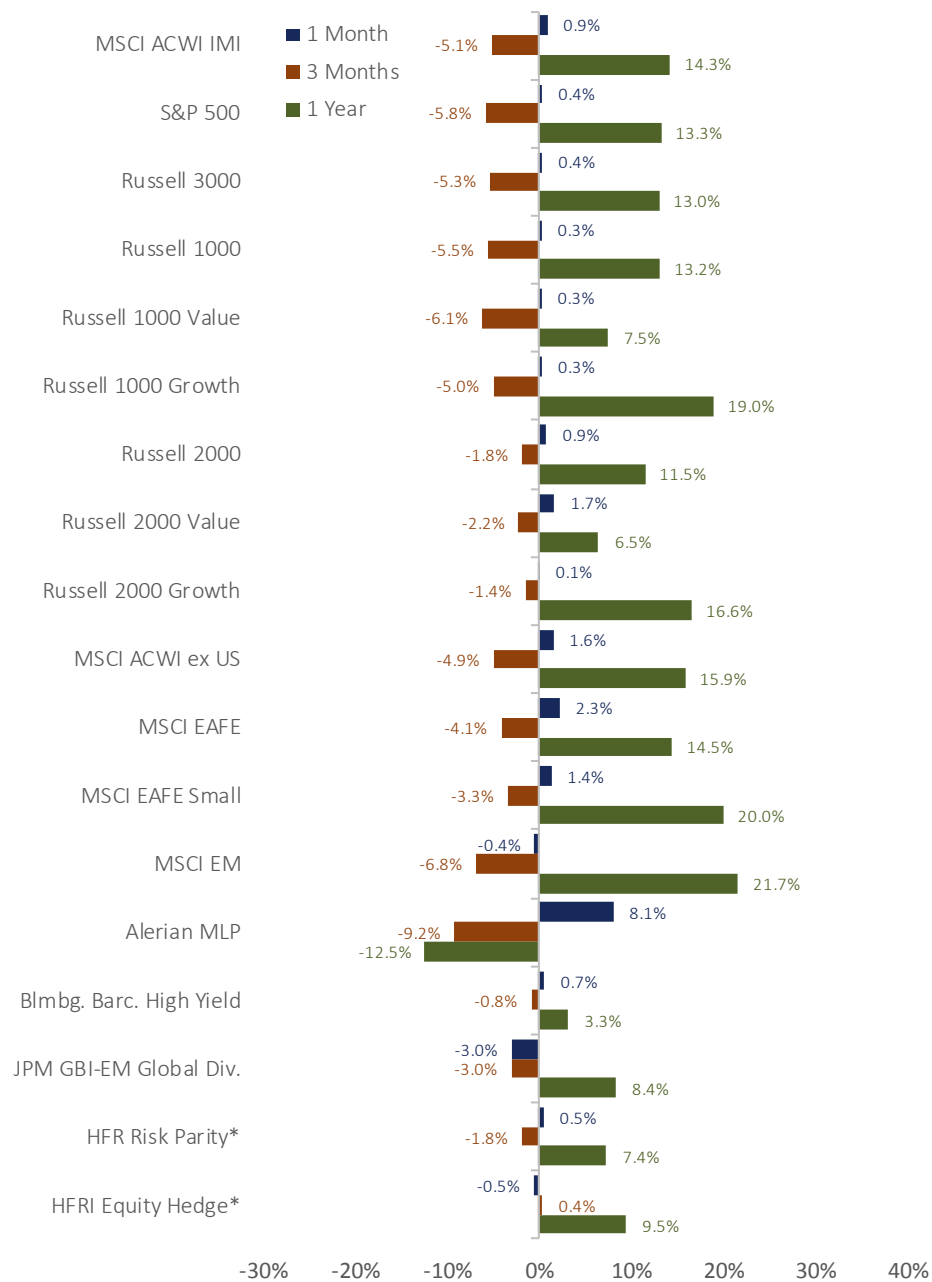
- High yield bond yields rose 7 bps to 6.3%, their highest level since immediately following the US election in November 2016.
- Local currency-denominated emerging market bond yields rose 8 bps to 6.1%, while currency declines versus the dollar contributed -2.7% of the -3.0% return for the month.

Private Assets

- At the end of Q1 2018, Preqin estimates there were 2,575 funds in market targeting a collective \$844B in capital commitments. This robust fundraising and a competitive deal landscape has pushed dry powder levels to \$1.09T. The industry typically sees a slowdown in fundraising activity at the beginning of each year as many funds aim to close prior to year-end. However, the private equity market witnessed its fewest fund closures during the first quarter of 2018 in the last five years.

Hedge Funds

- Risk parity strategies gained in March, as gains for nominal and inflation-linked bonds outpaced declines from equities and commodities.
- Growth hedge funds returned -0.5% in March, outperforming the 1.9% and 2.0% declines for MSCI ACWI IMI and the Russell 3000, respectively.



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

Income Assets

Public Debt

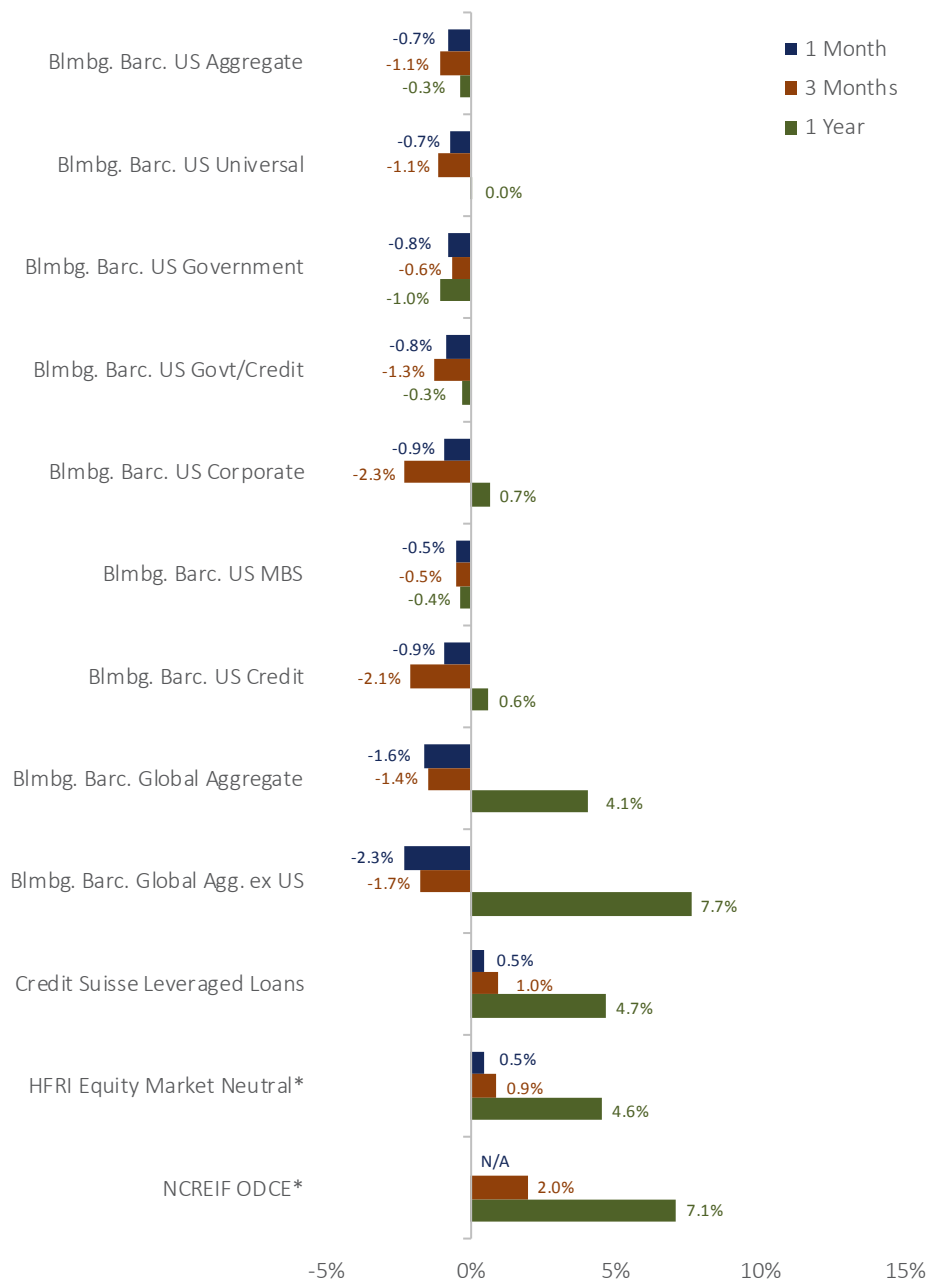
- Fixed income markets declined during April as yields rose for the third time in the first four months of 2018. Rising yields have been a result of both increasing inflation expectations as well as the market pricing in further Federal Reserve rate hikes. The 10-year Treasury yield reached 3% for the first time since 2014 during the month.
- The Bloomberg Barclays US Aggregate returned -0.7% for the month. Within the Index, credit modestly underperformed treasury allocations as credit spreads were mostly unchanged; the option-adjusted spread for corporate bonds over treasuries tightened by 1 bp to 108 bps. Credit spreads remain near their lowest levels since 2007.
- The Bloomberg Barclays Global Aggregate ex US underperformed the US Aggregate by 160 bps, as foreign currency declines versus the dollar contributed to underperformance. Over the past year, however, the Global Agg ex US has outperformed the US Agg by 8.0%, primarily as a result of a weaker dollar.
- Public bank loans, as measured by the Credit Suisse Leveraged Loan Index, gained 0.5% and once again outperformed core fixed income. Investor demand for floating-rate debt during the year-to-date rise in yields has resulted in outperformance of bank loans over core fixed income and most other fixed income assets.

Relative Value Hedge Funds

- Relative value hedge funds gained in March, performing in line with core fixed income (Bloomberg Barclays US Aggregate, 0.6%) and outperforming credit-oriented fixed income indices.

Core Real Estate

- Core real estate returns for the first quarter were 2.2% gross and 2.0% net, bringing the one-year gain for core funds to 7.1% net. Core real estate gains have moderated from the 11%+ annualized returns of 2013-2015, but limited supply increases and continued strong demand have acted as tailwinds for the market.



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Diversification Assets

Inflation

- TIPS returned -0.1% during April, with rising real yields offsetting higher inflation for the month. At the end of April, 10-year breakeven inflation expectations were 2.2%, up 12 bps points from the end of March. 10-year real yields were 0.8% at the end of April and have doubled after beginning 2018 at 0.4%.

Deflation

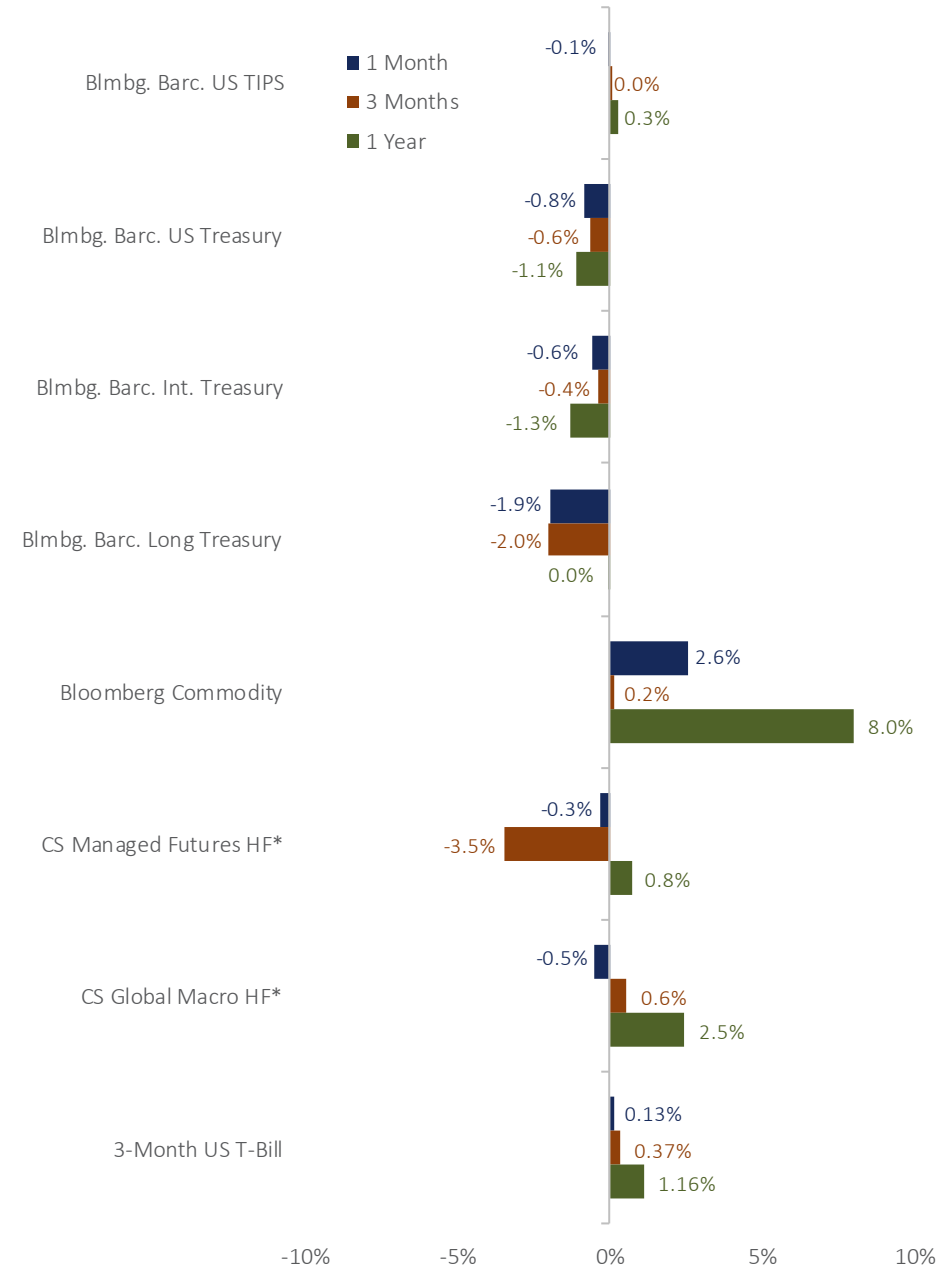
- The Bloomberg Barclays Long Treasury Index returned -1.9%, with the 30-year Treasury yield rising 15 bps to 3.1%. Over the past year, 30-year yields have risen 17 bps while yields on all other treasury maturities have risen by significantly more. Anchored long-term treasury yields suggest the bond market's pricing of long-term growth and inflation have not changed significantly over the past year. Continued strong demand for the perceived safety of US bonds from global investors has also capped yields at the long end of the curve.

Commodities

- The Bloomberg Commodity Index gained 2.6% during April, making commodities one of the best-performing asset classes for the month. Oil price gains of 5.6% for the month and 39.0% over the past year have contributed significantly to commodity index gains; oil demand has increased while inventories have continued to decline following the significant inventory build leading up to 2015. Over the trailing 12 months, the Bloomberg Commodity Index has returned 8.0%.

Tactical Trading

- Tactical trading strategies declined modestly in March, with managed futures declining 0.3% in aggregate and global macro funds losing 0.5%. Shifting trends across asset classes have challenged managed futures funds, which have returned 0.8% over the past year.



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