

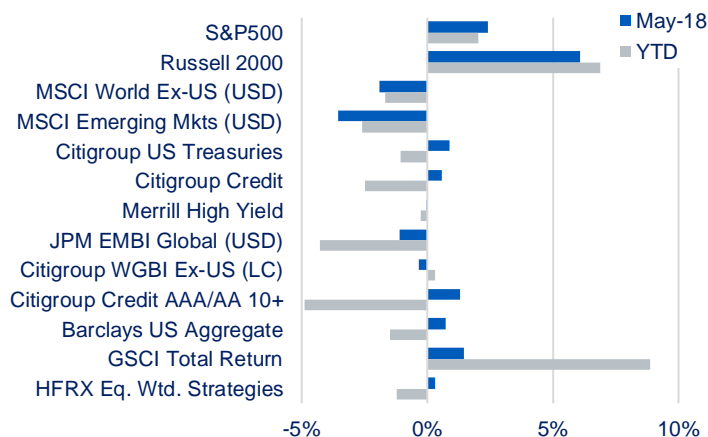
Global Market Review

Macro Summary

Domestic equities rose in May while non-U.S. markets turned negative for the month amidst political turmoil in Italy, potentially spelling crisis in the Eurozone, and escalating global trade tensions. Both U.S. Treasuries and the dollar gained ground as investors sought safe haven assets in light of uncertainty overseas. The U.S. economic outlook remained positive as wages and consumer spending continued to rise. Eurozone inflation beat expectations, while the news from Italy suggests the ECB will likely remain dovish. Commodities notched higher, despite global trade concerns dragging on oil prices.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.

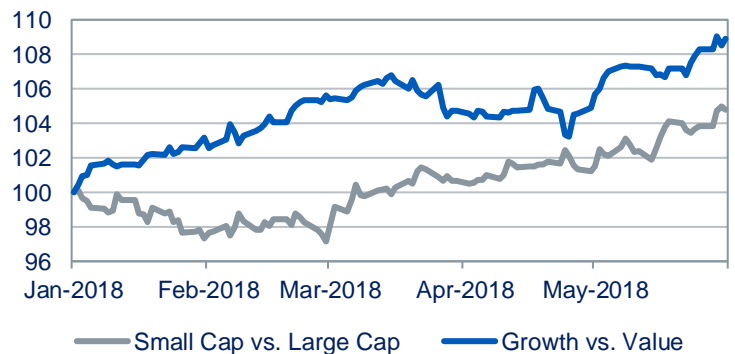


U.S. Equities Are Looking Up

U.S. Equities turned positive for 2018 this month, with the S&P 500 adding 2.4% and the Russell 3000 returning 2.8%, bringing their year-to-date returns to 2.0% and 2.5%, respectively. Small cap stocks outperformed large and growth stocks outpaced value, continuing their 2017 trend (Exhibit below). Technology shares led cross-sector performance, rising by 7%, while stocks in the telecom, consumer staples, utilities, and financial sectors all lagged.

Small Cap and Growth Equities Outperform

Source: Bloomberg. Indexed to January 1, 2018.



Strong Q1 earnings and a supportive economic environment contributed to May's strong returns. With 97% reporting, 78% of S&P 500 companies posted above estimate earnings in the first quarter, the highest percentage since 2008. The year-on-year earnings growth rate jumped to nearly 25% at the end of May, compared to 17.1% in March. This month also saw positive economic news. Consumer spending gained momentum, the unemployment rate ticked down to an 18-year low, and incomes continued to rise.

Non-U.S. Equities Stumble

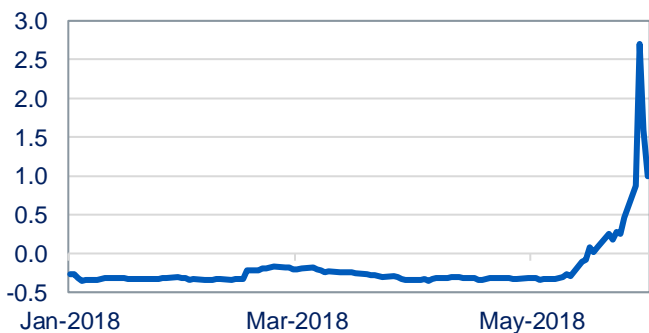
Both developed non-U.S. and emerging market stocks were down in May amid growing trade war concerns and political turmoil in Italy. The dollar also continued to appreciate this month, further exacerbating the losses in international stocks. The MSCI World ex-U.S. Index posted a 1.9% loss while the MSCI Emerging Markets Index fell 3.5% in U.S. dollar terms. European equities fared worse than Japan, falling 3.2% versus 1.9%. Within emerging markets, Latin American shares tumbled nearly 14% this month, as Mexico prepared to battle

with the U.S. on trade, trucker strikes rattled Brazilian stocks, and Argentina sought IMF bailout support. Turkey also lost ground as the lira fell and inflation rose against the backdrop of high debt levels, a chronic current account deficit and policy concerns.

Perhaps the biggest global economic news in May came from Europe, as concerns of anti-establishment parties taking power in Italy stoked fears of the country potentially leaving the euro. The possibility (viewed by most as remote) of “Quitally” shook global markets towards the end of the month, driving intra-day losses in global equity markets and causing an unprecedented +1.84% one-day move in the Italian 2-year government bond yield (Exhibit below).

Italian 2-year Government Bond Yield Spikes

Source: Bloomberg.



In other overseas news, Eurozone inflation beat expectations, achieving the ECB’s target for the first time in a year.

Consumer prices in euro area countries rose 1.9% year-over-year. However, rising energy prices contributed heavily to this jump so, taken together with the turmoil in Italy, most expect the ECB to remain dovish.

Treasuries Gain from Overseas Woes

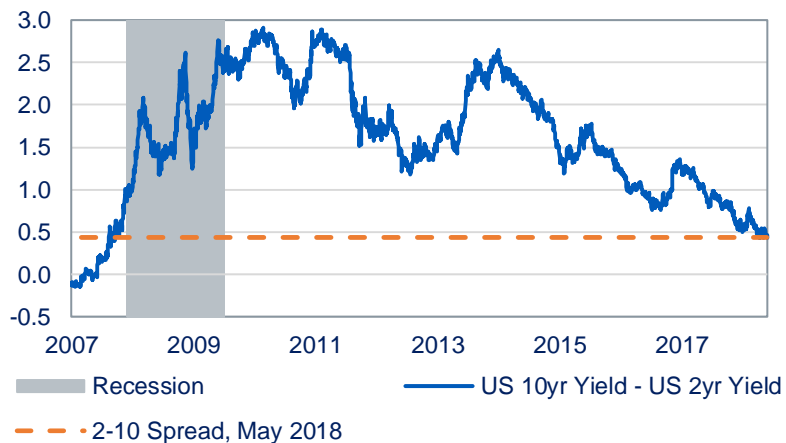
After touching the 3% mark in April and climbing even higher earlier this month, the 10-year U.S. Treasury yield fell to 2.8% by the end of May as investors sought out Treasuries as safe haven in the wake of the Italian bond rout.

The U.S. yield curve flattened further. The spread between the two- and 10-year Treasury yields continues to hover at lows not seen since 2007 as investors balanced the positive current economic environment with uncertain prospects for longer-term growth (Exhibit below). The minutes from the Fed’s May meeting eased concerns over inflation, which came in flat this month at their 2% target. The central bank pointed to a willingness to allow inflation to slightly overshoot their target, indicating they will be in no hurry to deviate from their “gradualist” approach to raising rates. Within credit, high yield bonds were flat, while investment grade bonds posted positive returns, particularly longer dated maturities, with 10+ year credits gaining 1.3% in May.

Italy dragged on European bonds and the WGBI Europe Index dropped 4.1%, while the broader WGBI ex-U.S. fared better, falling 2.3%. The JP Morgan EMBI Index of EM sovereign debt fell 1.1%.

U.S. Term Spreads at Pre-Recession Lows

Source: Bloomberg.



Hedge Funds Remain Mixed

The HFRX Equal Weighted Index added 0.3% in May, bringing the year-to-date return to -0.9%. Returns across strategies were again mixed this month, with merger arbitrage leading, rising 0.9%, while macro strategies lagged, losing 0.5%. The macro index saw an especially volatile month given the recent tumult across global economies. Most other strategies were up, posting returns between 0.1% and 0.5%. Equity-focused and relative value strategies still lead gains so far in 2018.

Commodities Gain Despite Oil Pull Back

Oil oscillated over the course of the month, rising in the wake of the U.S. pulling out of the Iran deal but ending down for the month amidst escalating global trade tensions. The GSCI All Crude Index fell 2.2%, but the main GSCI marched forward with a gain of 1.45%. This month brought the All Crude Index to 3.2% for the year-to-date versus 6.6% for the GSCI, despite oil having led commodities gains for the last several months.

Performance of Major Market Indices through 05-31-2018

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	2.4%	2.8%	2.0%	14.4%	11.0%	13.0%
Russell 2000	6.1%	7.0%	6.9%	20.8%	11.0%	12.2%
MSCI World Ex-US (USD)	-1.9%	0.4%	-1.7%	8.3%	4.2%	5.7%
MSCI Emerging Mkts (USD)	-3.5%	-4.0%	-2.6%	14.0%	6.2%	4.5%
Citigroup US Treasuries	0.9%	0.1%	-1.1%	-0.8%	0.7%	1.2%
Citigroup Credit	0.6%	-0.4%	-2.5%	0.0%	2.5%	3.0%
Merrill High Yield	0.0%	0.6%	-0.3%	2.3%	4.9%	4.9%
JPM EMBI Global (USD)	-1.1%	-2.5%	-4.3%	-1.7%	4.1%	3.6%
Citigroup WGBI Ex-US (LC)	-0.3%	-0.7%	0.3%	0.7%	1.9%	3.3%
Citigroup Credit AAA/AA 10+	1.3%	-0.7%	-4.9%	1.0%	4.3%	5.1%
Barclays US Aggregate	0.7%	0.0%	-1.5%	-0.4%	1.4%	2.0%
GSCI Total Return	1.4%	6.6%	8.9%	25.8%	-4.8%	-9.6%
HFRX Eq. Wtd. Strategies	0.3%	0.4%	-0.9%	1.8%	1.2%	1.5%