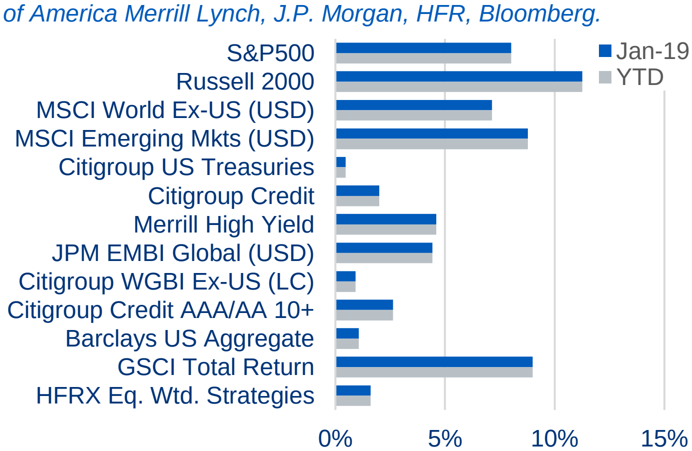
Global Market Review

Macro Summary

Global markets came roaring back in January following a punishing fourth quarter. Equities posted strong performance across both developed and emerging markets, overcoming a long list of economic woes. Amid signs of contagion spreading from a slowing Chinese economy to Europe and another reduction of global growth forecasts by the IMF, the Federal Reserve vowed to exercise “patience.” Investors’ concerns were eased by the prospect of a slowdown of monetary tightening, leading to gains across asset classes. Oil had a record January as oversupply concerns abated.

Performance of Major Market Indices

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



Strong start to the year.

U.S. Equities Ring in the New Year

U.S. stocks quickly shook off their hangover from 2018’s tumultuous fourth quarter and delivered their best January in 30 years. The S&P 500 rose 8.0% and the Russell 2000 gained 11.2% as smaller stocks led the charge. Sectors that were most battered in December’s rout led January’s gains. Energy and industrials added over 11%, with consumer discretionary, financials, and telecom not far behind. Defensive industries like utilities and consumer staples lagged, rising no more than 5% after being the best performing sectors of the fourth quarter.

Notwithstanding the backdrop of the longest government shutdown in U.S. history, the equity resurgence came in the wake of several bullish signs for the U.S. market. The Fed continues to point toward a more dovish stance, the U.S. labor market remains robust, and early fourth quarter earnings results have been positive. With nearly 50% of S&P 500 companies reporting, 70% have beaten profit expectations. Investors were particularly soothed by better than expected results from Apple, who had previously lowered guidance, pointing to the potential impact on sales from the economic slowdown in China.

Global Economies Waver, but Stocks Surge

Non-U.S. equities also delivered strong performance this month, but economic news in Europe and China did not paint such a rosy picture. The MSCI World ex-U.S. Index gained 7.1%. Emerging markets led global equities, rising nearly 9%. Developed markets lagged their emerging counterparts, as the MSCI Europe Index added 6.6% and the MSCI Japan Index rose 6.1%.

The impact of the recent slowdown in global trade, largely stemming from China, is becoming tangible in developed economies. The Eurozone experienced a 1.7% monthly drop in industrial production in November, the sharpest decline in nearly 3 years. Germany, often both Europe’s and the world’s economic bellwether, bore the brunt of the damage as the country in the region with the strongest trade ties to the cooling Chinese economy. These early signs of contagion from the massive Asian market have fueled concerns of an accelerating global growth slowdown. Just a week after these reports from Europe, the IMF again lowered its growth forecast for 2019, continuing a recent trend (Exhibit below).

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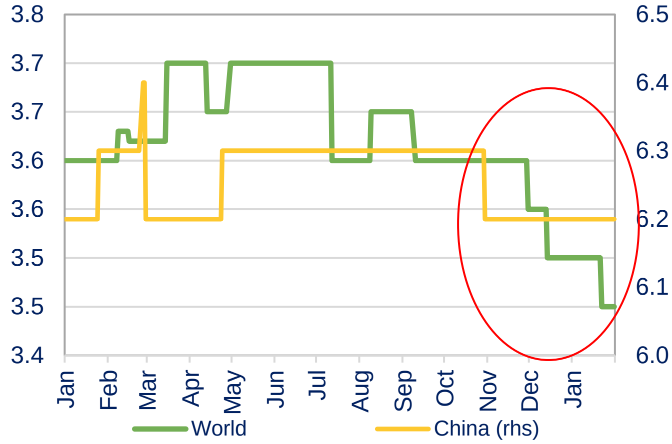
Global Growth Forecasts for 2019 Trending Lower

Source: Bloomberg. 2019 GDP growth forecasts.



China reported GDP growth of 6.6% in 2018, its slowest annual pace since 1990. This coincided with an uptick in unemployment and continued tension surrounding trade talks with the U.S. Some Chinese companies have had to delay investment and hiring due to the ongoing uncertainty. Chinese equities, however, still managed to outpace most markets in January. The MSCI China Index gained 11.1%, led only by Latin American stocks, which rose nearly 15%. Despite pervasive economic woes, global markets were bolstered by a dovish shift for the U.S. Federal Reserve and, particularly in emerging markets, a resurgent month for oil.

Fed Preaches Patience

Investors were jubilant late in January following the Federal Reserve's announcement that they would be "patient" in their approach to future rate hikes and flexible regarding the reduction of the Fed's balance sheet. This statement was a slightly more explicit shift toward the dovish stance that the Fed had been signaling and came at the end of a month-long parade of disconcerting global economic news.

In addition to weakness in Germany and China, Italy slipped into a recession as its economy shrank by 0.2% in the fourth quarter of 2018 after a 0.1% drop in the third. In the midst of a regime change, Venezuela was in turmoil in January as the U.S. declared its support of opposition leader Juan Guaidó and a mass uprising appeared to be gathering strength. These developments left bondholders of the country's debt sovereign optimistic that it could mean a restructuring is on the horizon. The news helped prop up the JP Morgan EMBI Global Index, which gained 4.4% this month.

In the U.S. corporate sector, high yield bonds rode the coattails of their equity counterparts to a 4.7% gain for the month, driving U.S. credit 2% higher overall.

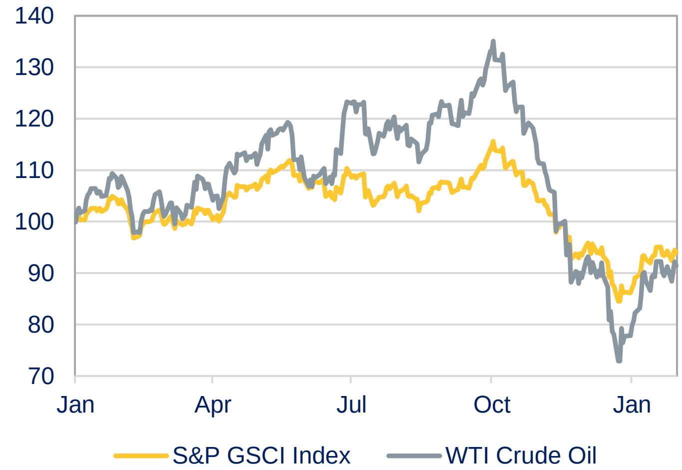
Hedge Funds Regain Footing, Macro Lags

All strategies except global macro were up in January, rebounding somewhat from a disappointing 2018. Equity long/short funds led the pack, gaining nearly 4%, while market neutral strategies were flat for the month.

Distressed funds added 2.5% in line with strong performance for the U.S. high yield sector. Macro strategies fell nearly 2% in the midst of tumultuous economic developments and related currency fluctuations for markets across the globe. Overall, hedge funds regained some composure to start 2019 and the HFRX Global Index rose 2.1% in January.

Oil Makes Up Some of Q4's Lost Ground

Source: Bloomberg. Indexed to January 1, 2018.



Oil Comes Up for Air

Oil bounced back in January after plummeting in the fourth quarter. U.S. oil prices had their best January on record as the WTI index soared over 18%, driving the S&P GSCI Index 9.0% higher (Exhibit above). This slingshot performance came on the back of production cuts by OPEC and Russia, while U.S. sanctions on Venezuela's state-owned oil producer, PDVSA, put further pressure on global supply. While traders kept a keen eye on Chinese growth as an indicator of future demand for oil and other key commodities, optimism over trade negotiations with the U.S. supported January's run-up.

Performance of Major Market Indices through 1-31-2019

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	8.0%	8.0%	8.0%	-2.3%	14.0%	11.0%
Russell 2000	11.2%	11.2%	11.2%	-3.5%	14.7%	7.3%
MSCI World Ex-US (USD)	7.1%	7.1%	7.1%	-12.1%	8.0%	2.6%
MSCI Emerging Mkts (USD)	8.8%	8.8%	8.8%	-14.2%	14.9%	4.8%
Citigroup US Treasuries	0.5%	0.5%	0.5%	2.7%	0.8%	1.8%
Citigroup Credit	2.0%	2.0%	2.0%	0.8%	3.8%	3.3%
Merrill High Yield	4.6%	4.6%	4.6%	1.6%	9.5%	4.6%
JPM EMBI Global (USD)	4.4%	4.4%	4.4%	-0.2%	6.3%	5.3%
Citigroup WGBI Ex-US (LC)	0.9%	0.9%	0.9%	2.6%	1.6%	3.2%
Citigroup Credit AAA/AA 10+	2.6%	2.6%	2.6%	0.9%	5.3%	5.8%
Barclays US Aggregate	1.1%	1.1%	1.1%	2.3%	2.0%	2.4%
GSCI Total Return	9.0%	9.0%	9.0%	-9.2%	5.3%	-12.8%
HFRX Eq. Wtd. Strategies	1.6%	1.6%	1.6%	-5.4%	2.1%	0.5%