Strategic Investment Group®

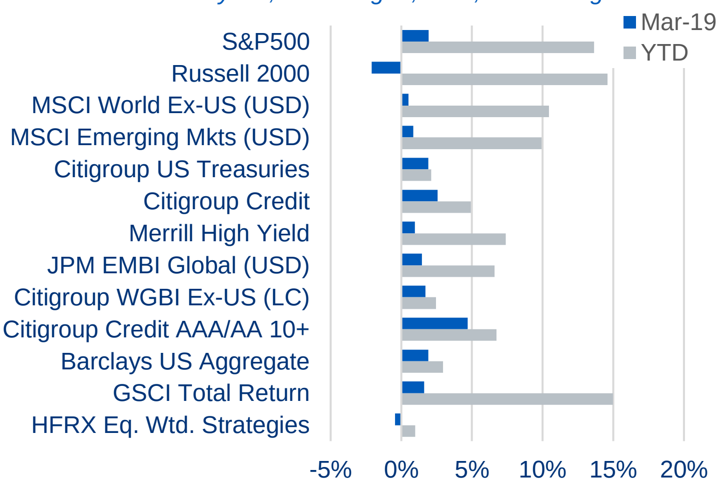
Global Market Review

Macro Summary

Global equities sustained a solid rebound from last year's rout, adding a third month of gains in March. Investors weighed a pair of dovish policy shifts by the U.S. and European central banks against a souring outlook for global growth. German 10-year yields turned negative and the U.S. yield curve inverted briefly, stoking recession fears. Despite concerns over global economic prospects, the Fed's pause and relatively low volatility buoyed risk assets, including corporate credit. In commodities, U.S. lean hog prices posted record monthly gains and oil continued to rise.

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 Round Out a Strong Q1

U.S. equities completed their third straight month of gains to round out the first quarter of 2019, nearly erasing all of Q4's losses. The S&P 500 Index returned another 1.9% in March and is now up 13.6% for the year to date. After rising somewhat in tandem through the first two months of the year, small and large cap stocks diverged in March. The Russell 1000 Index gained 1.7%, outperforming its small cap counterpart by nearly 400bps, while growth continued to outpace value. Largely in response to the yield curve's brief inversion following the Fed's March meeting, the financial sector significant lagged the rest of U.S. equity market, falling 2.8%. Most other industries rose 2-4% in March.

Domestic equities ended March higher, but not without some indigestion throughout the month. Immediately following a dovish pivot from the Fed, stocks were buoyant as monetary policy across developed economies appeared to point toward easing for at least the remainder of the year. However, sentiment quickly soured after the U.S. yield curve inverted with the 10-year Treasury yield falling below that of the 3-month T-bill, rekindling latent fears of a recession. Adding to concerns over the health of the economy, U.S. job growth slowed sharply in February as a meager 20,000 jobs were added.

Global Equities Rise, Lag U.S.

Non-U.S. equity markets managed modest gains in March amid another fractious chapter in the Brexit saga, signs of weakening in European manufacturing, and continued strength in Chinese equities. Against this backdrop, the MSCI World ex-US Index gained 0.5% and the MSCI Emerging Markets index edged 0.8% higher.

By the end of the month, Theresa May's Brexit proposal had been rejected by Parliament for a third time, despite her efforts to placate MP's with a promise to resign if the deal went through. Parliament also voted to seize control of the Brexit process from the Prime Minister – marking the first time in over a century that MPs have taken over the parliamentary timetable and setting the stage for a deeper dive into uncharted waters. The government secured a short extension to the withdrawal deadline – now April 12 – but a crash out without an agreement remains a risk given the continued deadlock in the House of Commons.

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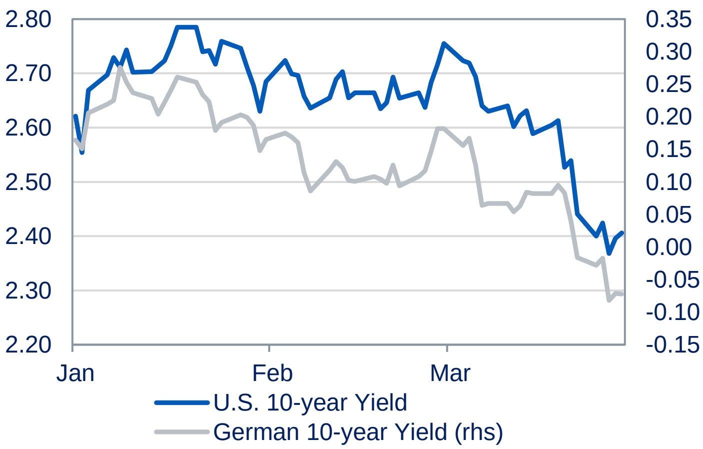
In emerging markets, strength in China and India countered heightened political uncertainty in Turkey. The MSCI China Index continued its rally, earning 2.4% on the back of domestic retail investor enthusiasm, record foreign investment, and MSCI's move to increase the domestic A-shares weighting in the Emerging Markets index. Elsewhere, positive investor sentiment in India surrounding upcoming elections and continued robust levels foreign fund inflows drove the MSCI India Index 9.2% higher. However, the political environment was less constructive in Turkey, where President Erdogan's ruling coalition lost ground in a series of elections. The lira fell over 5.2%, dragging the MSCI Turkey Index over 14% lower for the month.

Powell Pivots, ECB Follows Suit

Global fixed income markets were top of mind in March following dovish shifts by both the U.S. Federal Reserve and the European Central Bank. Fed Chief Jerome Powell announced an end to rate hikes for the rest of 2019, pointing to weak inflationary pressures and emerging threats to U.S. economic growth. The central bank will also moderate the pace of the reduction of its $4 trillion balance sheet. This pair of policy moves saw the 10-year Treasury yield drop below the three-month for the first time since 2007, having knock-on effects in equity markets and stoking recession fears.

Across the Atlantic, the ECB also pivoted towards easier monetary policy, announcing another round of stimulus while lowering its growth expectations for the Eurozone. As the U.S. yield curve inverted, the 10-year yield on German bunds turned negative for the first time in over two years. The concerns over global growth that undergirded these successive policy shifts also spurred investors to pile into government debt, sending yields lower across developed markets (Exhibit below).

Yields Fall on Growth Worries and Dovish Policy Pivot
Source: Bloomberg.



U.S. Treasuries rose nearly 2% overall in March, with gains favoring longer maturity bonds. Non-U.S. debt followed suit as the WGBI ex-U.S. rose 0.9% and the JP Morgan EMBI climbed 1.5%. Despite persistent concerns over the health of the global economy going forward, dovish central banks and relatively robust recent growth have supported risk assets, including U.S. corporate credit. Both investment grade and high yield markets have enjoyed strong rebounds so far in 2019, with gains of 3% and 7.4%, respectively, for the year to date.

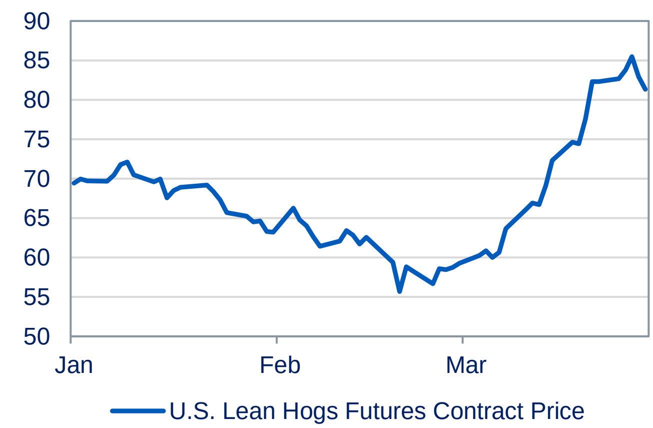
Equity Strategies Lone Bright Spot for HFs

Hedge fund indices again receded from their strong start to the year in January. The HFRX Equal Weighted Strategies Index fell 0.4%, as losses in distressed credit and event driven strategies outweighed gains in both market neutral and beta-driven equity strategies. Macro managers were able to benefit marginally from the moves in yields in March, gaining a modest 0.3%. Long/short equity funds lead other strategies by a commanding margin for the year to date, up 6%.

Pork Prices Hog Headlines

Oil shared headlines with another commodity in March: hogs. U.S. hog futures skyrocketed nearly 50% in the wake of a swine flu outbreak that has decimated Chinese pig herds. The disease has dampened Chinese hog production to levels 30% lower than last year, a big hit considering China is the world's largest producer and consumer of pork. China has had to turn to American pork supply to supplement the shortfall, driving prices higher. Meanwhile, oil continued its rebound, rising another 5%. The GSCI Index rose 1.6% in March.

Chinese Supply Shock Sends Hog Prices Skyward
Source: Bloomberg.



Performance of Major Market Indices through 3-31-2019
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	1.9%	13.6%	13.6%	9.5%	13.5%	10.9%
Russell 2000	-2.1%	14.6%	14.6%	2.0%	12.9%	7.1%
MSCI World Ex-US (USD)	0.5%	10.4%	10.4%	-3.1%	7.3%	2.2%
MSCI Emerging Mkts (USD)	0.8%	9.9%	9.9%	-7.4%	10.7%	3.7%
Citigroup US Treasuries	1.9%	2.1%	2.1%	4.2%	1.0%	2.1%
Citigroup Credit	2.6%	4.9%	4.9%	4.9%	3.6%	3.7%
Merrill High Yield	1.0%	7.4%	7.4%	5.9%	8.7%	4.7%
JPM EMBI Global (USD)	1.5%	6.6%	6.6%	3.5%	5.2%	4.8%
Citigroup WGBI Ex-US (LC)	1.7%	2.5%	2.5%	2.6%	1.4%	3.4%
Citigroup Credit AAA/AA 10+	4.7%	6.7%	6.7%	6.9%	4.4%	6.1%
Barclays US Aggregate	1.9%	2.9%	2.9%	4.5%	2.0%	2.7%
GSCI Total Return	1.6%	15.0%	15.0%	-3.0%	6.2%	-12.6%
HFRX Eq. Wtd. Strategies	-0.4%	1.0%	1.0%	-3.2%	1.8%	0.1%