MONTHLY
MARKET REVIEW

04 2019

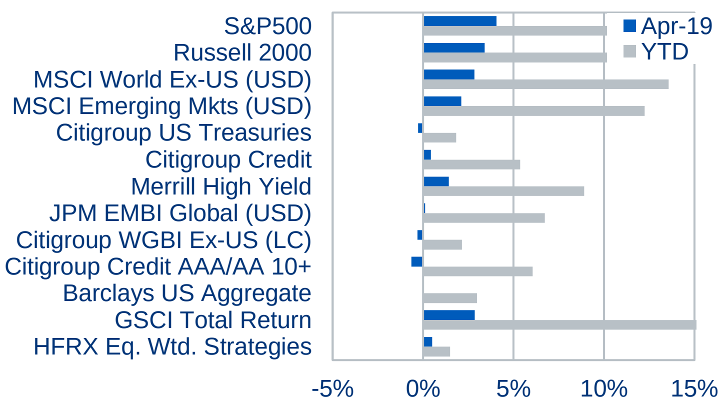
Global Market Review

Macro Summary

Continued solid growth in the U.S., the ongoing recovery in Europe and China, a slight uptick in global trade, muted inflationary pressure, the prospect of prolonged global monetary accommodation, and low bond yields provided a favorable backdrop for global equity and credit markets in April. U.S. equities touched new highs and led other developed and emerging markets. U.S. Treasury yields rose at the long end but were little changed at shorter maturities as markets anticipated that the Fed would remain on hold indefinitely. The dollar and oil prices rose further, the latter sharply on supply concerns.

Performance of Major Market Indices

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



Global equity and credit markets continued the V-shaped rebound from the rout of Q4 2018.

U.S. Stocks Reach New Highs

U.S. equity indices climbed to fresh highs in April. Strong preliminary earnings results and an upside surprise for first quarter U.S. GDP growth drove the S&P 500 Index 4.0% higher. After weathering the longest government shutdown in U.S. history, ongoing trade tensions, and persistent concerns over global economic health, the U.S. economy exceeded all expectations, growing at an annualized pace of 3.2% in the first quarter, albeit with a hefty contribution from inventory accumulation.

Within the U.S. market, gains were fairly even across market capitalizations, but mixed across sectors and styles. Financials led, rising nearly 9%, followed by the tech and telecommunications industries, which gained around 6% each. Healthcare stocks took a beating in April, however, falling nearly 3% amid calls for tighter regulations on drug pricing and other potential policy shifts. The sector has persistently underperformed the broader market this year, and its return is now 15-percentage points below that of the Russell 3000. Growth stocks outperformed value in April, widening the gap between the two styles to over 5-percentage points for the year.

Global Stocks Also Gain

Non-U.S. equity markets lagged the U.S. in April, but continued to build on their strong start to the year. Developed markets modestly outperformed EM, where positive developments in China were dampened by political turmoil in Turkey and Latin America. The MSCI World ex-U.S. Index rose 2.8%, while the MSCI EM Index gained 2.1%.

Chinese markets, representing the largest allocation in the emerging markets index by a commanding margin, rose further. A stronger-than-anticipated GDP reading for the world's second largest economy coupled with continued reform to improve foreign access to domestic capital markets and a fiscal stimulus package focused on the private sector have helped propel the MSCI China Index up 20.3% year-to-date.

The picture was less rosy in other emerging economies, where political uncertainty, continued strength in the dollar, and rampant inflation roiled currencies and unsettled equity markets (Exhibit below). The Turkish lira weakened further on slowing growth, political uncertainty, wide fiscal and current account deficits, and economic policy missteps. The fall in the

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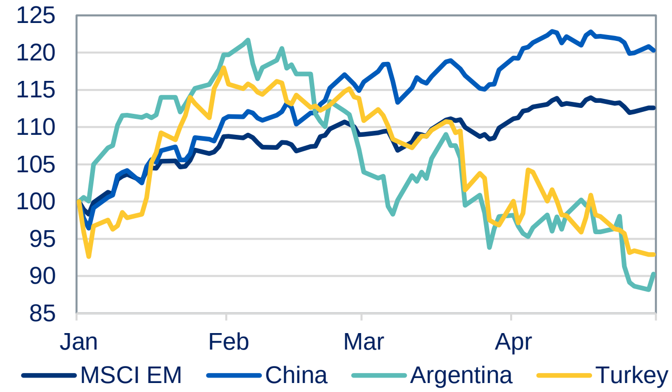
lira heightened risks to Turkey's large foreign currency debt. Elsewhere, investors stampeded out of Argentinian assets amid fears that a deep recession and inflation at over 55% will pave the way for a return to populism in October's presidential elections. The threat of a political coup in Venezuela amid hyperinflation and economic paralysis added to concerns for the Latin American region.

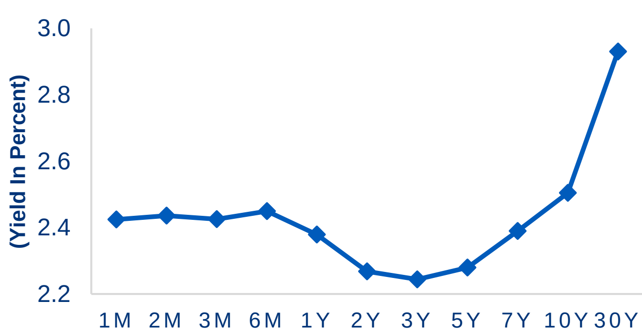
China Drives EM Rebound, but Doesn't Tell Whole Story
Source: Bloomberg, Index January 2019 = 100.



High Yield Extends Rally

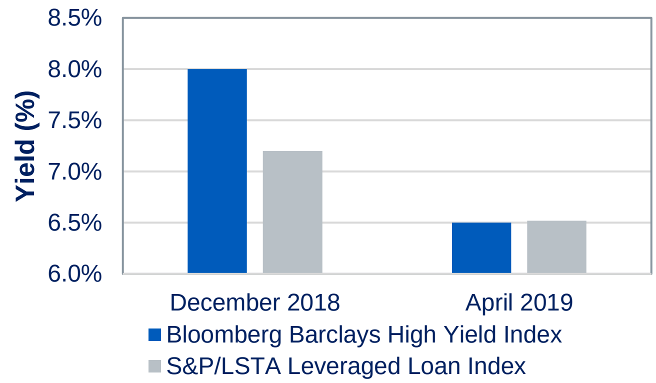
Following a dovish policy shift in March, the U.S. Treasury yield curve is signaling that the Fed will remain on hold for the indefinite future (Exhibit below). U.S. Treasury yields remained little changed at the short end of the maturity spectrum but rose slightly at the long end. U.S. Treasuries and the Citigroup WGBI Index of developed government bonds both lost about 30bps in April. Emerging sovereign foreign currency debt rose slightly, extending its gains for the year.

Treasury Yield Curve Signals Continued Monetary Ease
Source: Bloomberg.



Within the U.S. corporate sector, high yield bonds continued to lead investment grade debt, and are now up nearly 9% for the year, compared to 5.4% for the investment grade sector. However, the typical yield relationship between high yield bonds and leveraged loans has flipped. High yield bonds are less senior in the capital structure and thus typically require a higher yield than comparably rated but more senior leveraged loans. This relationship was reversed in April as high yield bond yields fell slightly below those of leveraged loans (Exhibit below). The Fed's policy pivot has made the floating coupons on those loans less attractive for investors, leading to the inversion. The last prolonged period of inversion was in 2007, also a time when the Fed was shifting policy.

Yields on Corporate Bonds and Loans Flip
Source: WSJ, Bloomberg, S&P/LSTA.



Macro Leads amid Global Economic Tumult

Global macro strategies led hedge funds in April, gaining 1.1% while the HFRX Equal Weighted Strategies Index rose a modest 0.5%. Violent moves in EM currencies, the aftermath of the policy shift by central banks last month, and the market's reaction to diverging global growth proved a fruitful environment for macro managers. Directional equity strategies continued to trend upwards for the year, gaining another 0.7%, while market neutral equity funds lost 0.5%.

Oil Surges on Geopolitical Risks

Oil prices climbed once again in April as the U.S. raised the prospect of ending sanction waivers to countries importing Iranian crude oil. In response, Brent crude jumped to over $70 per barrel for the first time since November 2018. The GSCI All Crude Index added another 6.3% for the month, and is now up over 40% for the year. The broad GSCI commodities index also rose 2.8% in April, largely reflecting the boost provided by oil prices.

Performance of Major Market Indices through 4-30-2019
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	4.0%	4.0%	18.2%	13.5%	14.9%	11.6%
Russell 2000	3.4%	3.4%	18.5%	4.6%	13.6%	8.6%
MSCI World Ex-US (USD)	2.8%	2.8%	13.6%	-2.6%	7.2%	2.5%
MSCI Emerging Mkts (USD)	2.1%	2.1%	12.2%	-5.0%	11.3%	4.0%
Citigroup US Treasuries	-0.3%	-0.3%	1.8%	4.7%	1.0%	2.0%
Citigroup Credit	0.4%	0.4%	5.4%	6.4%	3.2%	3.5%
Merrill High Yield	1.4%	1.4%	8.9%	6.7%	7.8%	4.8%
JPM EMBI Global (USD)	0.1%	0.1%	6.7%	5.2%	4.6%	4.5%
Citigroup WGBI Ex-US (LC)	-0.3%	-0.3%	2.1%	2.7%	1.4%	3.2%
Citigroup Credit AAA/AA 10+	-0.6%	-0.6%	6.1%	8.4%	3.7%	5.6%
Barclays US Aggregate	0.0%	0.0%	3.0%	5.3%	1.9%	2.6%
GSCI Total Return	2.8%	2.8%	18.2%	-5.1%	3.8%	-12.3%
HFRX Eq. Wtd. Strategies	0.5%	0.5%	1.5%	-2.8%	1.7%	0.3%