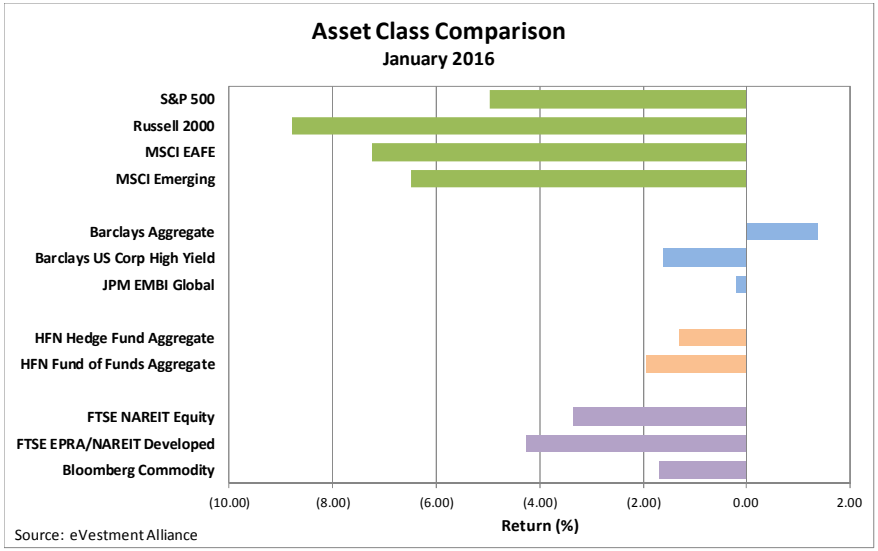
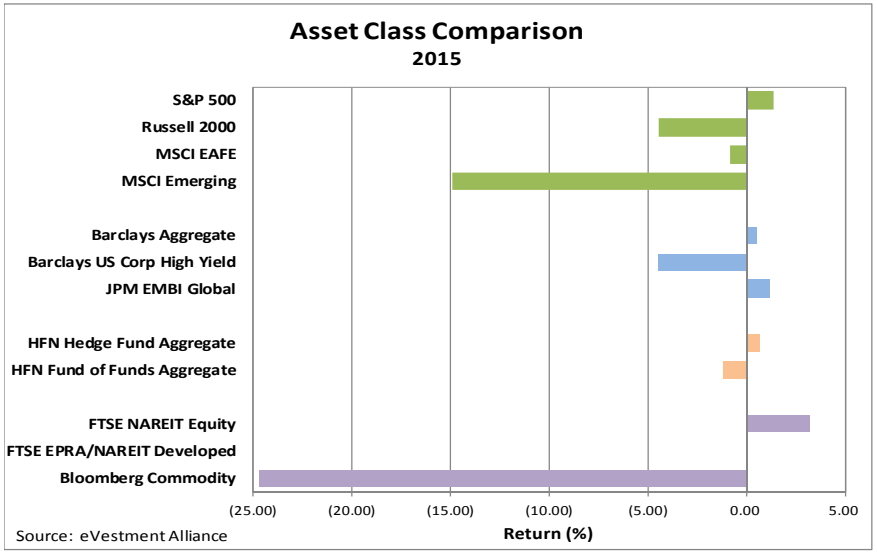
MESA: Monthly Market Flash

January 2016





Market Overview

- 2016 got off to a rocky start in January with sharp declines in global equity markets sparked by growing uncertainty over growth, most notably out of China, and the impact of precipitously falling oil prices on investor sentiment. Selling early in the month coincided with the release of poor Chinese manufacturing data, but adding to the uncertainty was the implementation of new market circuit breakers, which were suspended just four trading days later after investors moved aggressively to pull capital from the market. By month end the Chinese market had fallen 13% with losses double that for the A-shares available to local investors. China later reported the economy grew at 6.9% in 2015, the slowest pace in 25 years. Selling pressure spilled over into other major equity markets, pushing equity indices in the U.S. into correction territory; down at least 10% from recent highs. Oil hit $26 during the month resulting in sharp declines in energy related shares and other commodity/material stocks. As a result of the widespread selling in equities, investors sought the relative safety of developed market sovereign bonds, especially in the U.S., while inflows increased for other perceived safe havens such as utility stocks and gold.
- On the U.S. economic front a variety of weaker than expected releases, including construction data, 4th quarter GDP (+0.7%) and December retail sales (-0.1%), put additional selling pressure on local shares. These poor results boosted confidence that the Federal Reserve would be less likely to continue with rate hikes on the pace suggested just a month earlier. On the positive side, the December non-farm payroll number was much higher than expectations at 292,000 jobs added, helping to calm fears about the state of the economy from an employment perspective.
- On the last day of the month the Bank of Japan moved to negative policy rates, boosting equity markets on expectations that additional accommodative measures would be forthcoming from other key policy makers such as the ECB. In the U.S., Treasury yields moved lower across the curve, with the 10-year falling from 2.27% to 1.94%. High yield and other speculative grade credits continued to be challenged by ongoing concerns over oil price declines. While the dollar continued to move higher relative to most other currencies, the magnitude of that strength was minimal relative to both the yen and the euro.

Equity Markets

- Global equity markets started the year with considerable weakness, and accelerated as the month progressed. Over the first three weeks of the month the U.S. equity market declined into correction territory, only to rebound late in the month as Federal Reserve commentary suggested they would be sensitive to challenging economic conditions when considering future policy changes. As has been the case for some time, smaller cap stocks lagged large cap names. The Russell 2000 index fell 8.79%, resulting in the largest monthly performance gap between the small cap index and the S&P 500 (-4.96%) since July 2014. The comparatively defensive telecom and utilities sectors were both up, while materials, financials and healthcare were the month's largest declining segments. Foreign developed markets represented by the MSCI EAFE index significantly underperformed the U.S. market as both Germany and Japan both declined by more than 8% in U.S. dollar terms. The emerging markets (-6.49%) outperformed the international developed markets (MSCI EAFE: -7.23%) thanks to better returns from Latin America and Eastern Europe.

Fixed Income Markets

- The relative safety of U.S. Treasuries and other developed market sovereign debt was highly sought after in January, resulting in a fall in global interest rates for the month. The U.S. 10-Year Treasury yield fell 33 bps to 1.94%, the lowest monthly close since April 2015. As a result of the strong demand for U.S. fixed income securities deemed to be less risky (Treasuries, Mortgages, Municipals & Asset Backed) the Barclays Aggregate gained 1.38% for the month. Weakness in the economy and corporate earnings, though, kept pressure on credit spreads, resulting in losses for noninvestment grade categories like high yield (-1.61%) and bank loans (-0.73%), both down seven of the past eight months.

Alternative Strategies

- Hedge fund strategies found January's market environment to be difficult to navigate, resulting in the Hedge Fund Aggregate Index falling 1.65% for the month. As would be expected, directional strategies with net long equity market exposure paced the decline, but long-biased credit strategies such as distressed were also negatively impacted. Solid results came from managed futures (+1.94%) managers that were able to take advantage of price trends in both equities and rates.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	(4.96)	1.41
Russell 2000	(8.79)	(4.42)
MSCI EAFE ($)	(7.23)	(7.23)
MSCI Europe ($)	(6.59)	(6.59)
MSCI UK ($)	(6.03)	(6.03)
MSCI Japan ($)	(8.23)	(8.23)
MSCI Pacific ex Japan ($)	(8.79)	(8.79)

Source: eVestment Alliance, MSCI

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	(6.49)	(6.49)
MSCI EM Asia ($)	(7.30)	(7.30)
MSCI EM EMEA ($)	(4.20)	(4.20)
MSCI EM Latin America ($)	(4.60)	(4.60)

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

	Month	Year to Date
Barclays Aggregate	1.38	1.38
Barclays Government	2.08	2.08
Barclays U.S. TIPS	1.49	1.49
Barclays U.S. Inv. Grade Corp.	0.35	0.35
Barclays U.S. Mortgaged Backed	1.30	1.30
Barclays U.S. High Yield	(1.61)	(1.61)
Credit Suisse Leveraged Loan	(0.73)	(0.73)

Source: eVestment Alliance, Barclays, Credit Suisse

Non-U.S. Fixed Income Returns (%)

	Month	Year to Date
Citigroup Non-U.S. WGBI Hedged	1.99	1.99
Citigroup Non-U.S. WGBI Unhedged	1.00	1.00
JP Morgan EMBI Global	(0.20)	(0.20)

Source: eVestment Alliance, Citigroup, JP Morgan