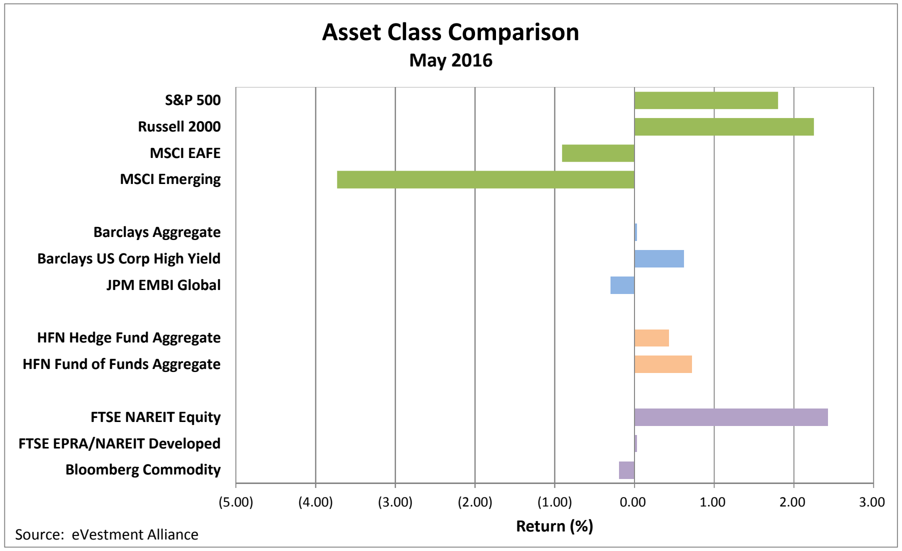
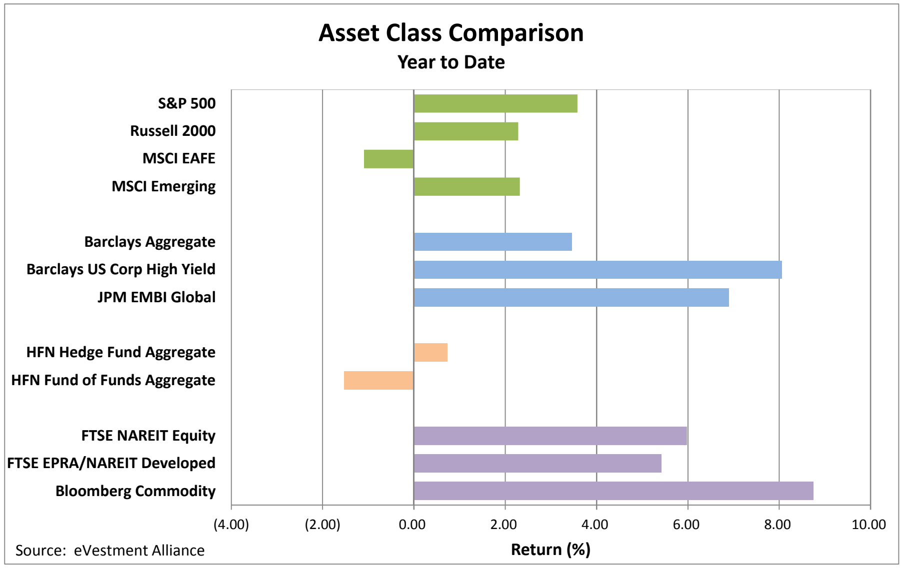
MESA: Monthly Market Flash

May 2016





Market Overview

- In many ways May was a continuation of April, with gains seen from equity markets in local currency terms, oil prices moving higher and speculative credit spreads narrowing as global interest rate policies remained highly accommodative. A notable change though was a reversal in the U.S. dollar, which moved higher versus most major currencies after declining the past two months, producing losses for foreign equity markets when translated back to U.S. dollars. In addition, politics became the focal point for investors with the ongoing presidential race in the U.S., the June U.K. referendum vote regarding ongoing EU membership, and leadership changes in Brazil and Turkey dominated the headlines.

- Minutes from the Federal Reserve April meeting released in mid-May showed an increase in committee members talking of raising policy rates given continued strength in jobs data and higher inflation readings. The language in the minutes raised some concerns that a rate rise could occur as soon as the June meeting, helping to push short-term rates higher in May. There were no major adjustments to monetary policy elsewhere in the world with both the EU and Japan maintaining their extremely accommodative policies.

- Foreign equity markets posted losses in dollar terms as the dollar strengthened by 3% versus the euro and 3.5% versus the yen in May. Similarly, the U.K. was down 0.5% in dollar terms, but was up 0.4% locally. That market was supported by polls suggesting that a majority of voters favored the U.K. remaining part of the EU. Economic data was mixed for Europe, with solid readings from Germany offset by a Euro-zone jobless rate that remains above 10%. Additionally, several periphery countries were negatively impacted by weak returns in the banking sector as debt concerns weighed on results. In the emerging markets there were few bright spots, with better-than-expected growth in India one of the month's highlights. Elsewhere, extreme currency weakness, coupled with political uncertainty, pushed several markets down more than 10% in dollar terms.

- Real assets were mixed, with U.S. REITs following the U.S. equity market higher, while commodities posted a small loss despite oil touching $50/barrel for the first time since late last year. Inflation has been creeping higher with the May CPI reading of 0.4% the 3rd consecutive reading at 0.4% or higher.

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Equity Markets

- Global equity market results were mixed in May, with positive returns seen from the U.S. large cap and small cap markets, while mostly losses were sustained outside the U.S. in both developed and emerging markets. While positive economic data raised concerns that the Federal Reserve may shift their stance on monetary policy as early as June, solid payroll gains and improvements in consumer data helped U.S. equities gain 1.8% for the month. Small caps outperformed with a 2.3% climb. Solid results from the technology sector, coupled with weakness in materials and industrials, helped growth stocks outperform across both large cap and small cap stocks. Outside the U.S. the MSCI EAFE Index lost 0.9% in U.S. dollar terms, as strength in the dollar offset a 2.0% gain in local currency terms. Political turmoil in Brazil and Turkey resulted in both those markets falling significantly in May, -14% and -13%, respectively, pushing the MSCI EM index down 3.7% for the period. India was a notable exception as GDP growth bested expectations with a 7.9% year-over-year 1st quarter increase.

Fixed Income Markets

- While short term rates in the U.S. were higher, longer-term rates were minimally changed. The yield for the 3-month Treasury increased 8 bps to 0.29%, while the 10-year Treasury rate was 2 bps higher at 1.85%. This flattening of the U.S. yield curve, coupled with minor spread widening in investment grade corporate credits on record issuance, resulted in a 0.03% gain for the Barclays Aggregate index. Agency and mortgages continued to outperform. High yield and bank loans both performed well, helped by stronger oil prices, although the pace of spread compression was notably lower than the past several months.

Alternative Strategies

- Hedge fund strategies were mostly positive in May, helping the HFN Hedge fund Aggregate index to gain 0.4% for the month, the 3rd consecutive monthly gain. With U.S. equity markets higher, the equity-biased strategies were the month's strongest performers. Also performing well were event driven strategies, especially distressed, as credit spreads of speculative grade credits tightened. Macro managers were roughly flat on the month, while managed futures traders suffered a 1.4% decline as a reversal in the dollar negatively impacted results. Given their underweight to managed futures, funds of funds outperformed in May.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	1.80	3.58
Russell 2000	2.25	2.29
MSCI EAFE ($)	(0.91)	(1.09)
MSCI Europe ($)	(0.59)	(0.71)
MSCI UK ($)	(0.48)	0.56
MSCI Japan ($)	(1.04)	(3.19)
MSCI Pacific ex Japan ($)	(2.17)	1.64

Source: eVestment Alliance, MSCI

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	(3.73)	2.32
MSCI EM Asia ($)	(1.20)	(0.53)
MSCI EM EMEA ($)	(7.94)	7.87
MSCI EM Latin America ($)	(10.82)	12.58

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

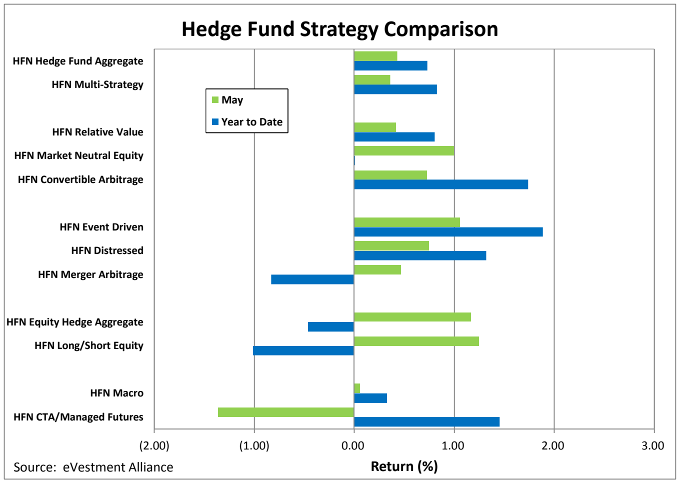
	Month	Year to Date
Barclays Aggregate	0.03	3.46
Barclays Government	0.00	3.02
Barclays U.S. TIPS	(0.71)	4.08
Barclays U.S. Inv. Grade Corp.	(0.08)	5.31
Barclays U.S. Mortgaged Backed	0.13	2.28
Barclays U.S. High Yield	0.62	8.06
Credit Suisse Leveraged Loan	0.91	4.18

Source: eVestment Alliance, Barclays, Credit Suisse

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

	Month	Year to Date
Citigroup Non-U.S. WGBI Hedged	0.88	4.85
Citigroup Non-U.S. WGBI Unhedged	(2.23)	8.70
JP Morgan EMBI Global	(0.30)	6.90

Source: eVestment Alliance, Citigroup, JP Morgan



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