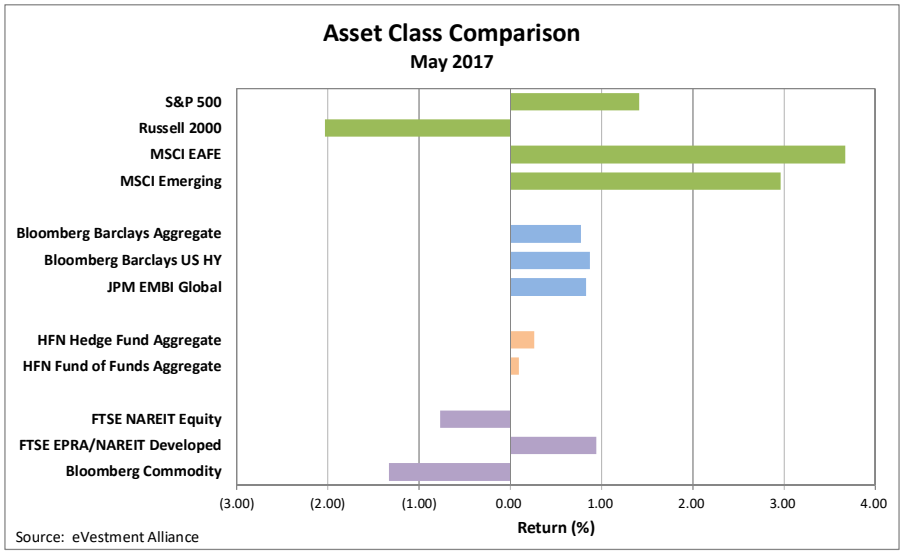
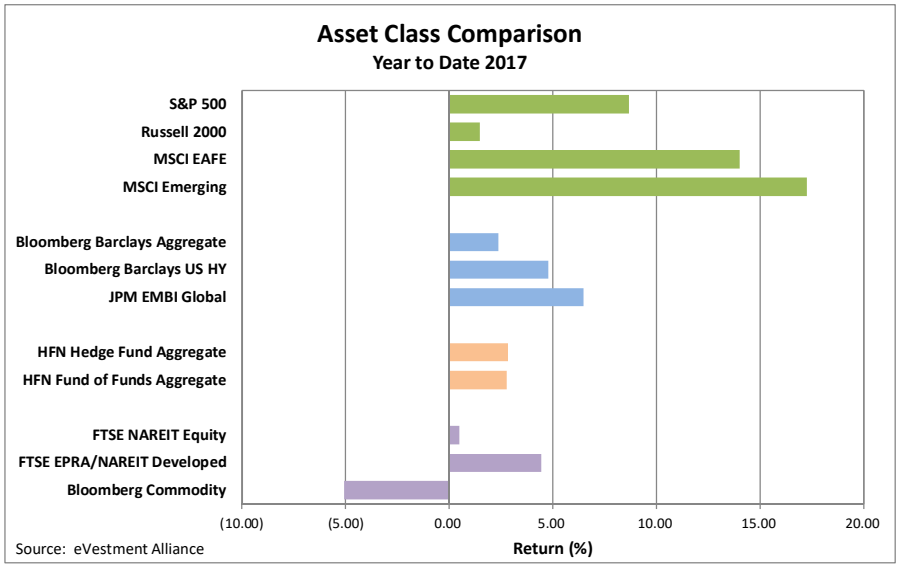
MESA: Monthly Market Flash

May 2017





Market Overview

- Global equity markets were mostly higher in May, with several of the U.S. indices hitting all-time highs during the month. The equity markets were supported by decent economic data and strong corporate earnings. From an economic perspective, payroll data rebounded from a poor March, while consumer sentiment and retail sales were also quite strong. The stronger economic backdrop seemed to be confirmed by the 1st quarter earnings cycle, which saw earnings for the S&P 500 companies higher by 14% year-over-year, the best gain in over six years.

- The U.S. Federal Reverse Open Market Committee left policy interest rates unchanged at their early May meeting, with the minutes released later in the month showing no change to the committee's expectation for future rate hikes, including two more in 2017. This was largely anticipated by market participants. Market volatility did spike in the middle of the month, as did a general flight to quality, when President Trump fired FBI Director James Comey. This resulted in the biggest one day sell off for markets since September last year. The elevated concern was short-lived, however, as the equity markets climbed to new highs later in the month, while volatility, as measured by the CBOE VIX index, collapsed to levels not seen over the past two decades.

- For the month, Non-U.S. equity markets performed better than the U.S. as economic data, valuations and U.S. $ weakness versus euro, yen, pound and most emerging market currencies proved helpful. The European markets led the way within the developed markets, helped by strong economic statistics out of Germany as well as the final election results in France resulting in a victory for Emmanuel Macron. In addition, ECB President Mario Draghi remained committed to highly accommodative policies given stubbornly high unemployment across the European Union and a benign inflationary environment. Japan continued to demonstrate economic expansion, albeit at low levels.

- The emerging markets posted a gain in aggregate, but were hurt on a relative basis by weaker energy prices. Also performing poorly was Brazil, as political scandals continue to be front page news even with the country's new administration. Brazil was down 5%, offsetting strong results from several of the smaller Latin American markets.

Equity Markets

- Global equity markets continued their upward push in May. The S&P 500 was up 1.41%, the 7th straight monthly gain and the 14th positive month out of the past 15. Not all indices in the U.S. were higher, though, as the Russell 2000 index of smaller cap companies was down 2.03%. Growth stocks continued to lead the markets with technology stocks up another 4.4% in May, taking year to date gains to 20.5%. On the flip side, energy shares remained under pressure in sympathy with falling oil prices. The energy sector was down 3.4% and is down 12.5% so far in 2017. U.S. dollar weakness versus most developed and emerging currencies help foreign stocks outperform during the period, with significant weakness (-3%) experienced versus the euro. As a result, the MSCI EAFE ($) index gained 3.64% for the month, with solid performance seen from a number of the European countries, including the U.K which was up 4.6% despite ongoing uncertainty regarding the evolving Brexit process. The emerging markets, which were up 2.96% in May, lagged developed foreign markets as weakness in Latin America and energy-dominated markets, including Russia (-6.3%), offset solid results out of Asia.

Fixed Income Markets

- The U.S. yield curve flattened again in April, continuing a trend that has been in place since the Federal Reserve raised rates in December of last year. Yields on the short end of the curve were higher, with the 3-month and 6-month segments higher by 18 bps and 9 bps, respectively, while the 2-year was unchanged. The longer end of the curve saw yields decline, influenced partly by flight-to-safety flows following political uncertainty during the month. The yield on the 10-year declined by 8 bps to end the period with a yield of 2.21%, while the 30-year saw yields decline by 9 bps. Spreads for both investment grade and speculative grade credits tightened slightly during the month, helping both segments produce gains. The Bloomberg Barclays Aggregate index gained 0.77% in May.

Alternative Strategies

- Hedge fund strategies produced mixed results in May, although the hedge fund aggregate index finished the period with a 0.3% gain, the benchmark's 7th straight monthly gain. As has been the case for much of the year, the month's best strategies were event driven and long-short equity, which were helped by the positive backdrop for equity returns and credit spreads globally. Market neutral equity was a laggard, as the value factor, a common bias in these strategies, lagged dramatically in May.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	1.41	8.68
Russell 2000	(2.03)	1.48
MSCI EAFE ($)	3.67	14.00
MSCI Europe ($)	4.85	16.64
MSCI UK ($)	4.62	12.18
MSCI Japan ($)	3.01	8.77
MSCI Pacific ex Japan ($)	(0.97)	11.19

Source: eVestment Alliance, MSCI

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM ($)	2.96	17.25
MSCI EM Asia ($)	4.54	21.10
MSCI EM EMEA ($)	0.18	7.36
MSCI EM Latin America ($)	(2.37)	9.41

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

	Month	Year to Date
Bloomberg Barclays Aggregate	0.77	2.38
Bloomberg Barclays Government	0.64	2.01
Bloomberg Barclays U.S. TIPS	(0.04)	1.82
Bloomberg Barclays U.S. Inv. Grade Corp	1.15	3.49
Bloomberg Barclays U.S. Mort. Backed	0.62	1.76
Bloomberg Barclays U.S. High Yield	0.87	4.79
Credit Suisse Leveraged Loan	0.38	2.04

Source: eVestment Alliance, Bloomberg Barclays, Credit Suisse

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

	Month	Year to Date
Citigroup Non-U.S. WGBI Hedged	0.45	0.74
Citigroup Non-U.S. WGBI Unhedged	2.28	6.04
JP Morgan EMBI Global	0.83	6.48

Source: eVestment Alliance, Citigroup, JP Morgan