

# Market Observations – April 2017 Recap

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The market's resiliency proved itself during the month of April. The S&P 500 posted a 1.0% return during the month despite an abundance of geopolitical risks and some underwhelming economic data. Corporate earnings seemed to have provided ballast as results have come in better than expected. Information technology continues to be the top performing sector with a return of 2.5%. The sector now has a year-to-date return of 15.4% through the end of April. Alphabet, Microsoft, Facebook and Amazon were the top four contributing stocks for the month. The Telecom and Energy sectors weighed on the S&P 500's performance with returns of -3.3% and -2.9%, respectively. International and Emerging Market equities continued to outperform the U.S. in the month of April. Europe in particular benefited from the French election outcome which avoided the worst case scenario of a runoff election between the far left and far right candidates. Instead, a liberal centrist and a nationalist face each other in a run-off on May 7. Europe was also the beneficiary of good economic and corporate data. International developed market returns also benefited from appreciating currencies relative to the U.S. Dollar as the British Pound and the Euro appreciated 3.5% and 1.8%, respectively, while the Japanese Yen was virtually flat. Emerging markets, which were up 2.2% for the month, were driven primarily by good returns in the Eastern European region.

The bond market finished the month with the U.S. 10-year Treasury yielding 2.28% after beginning the month at 2.39%. It got as low as 2.17% on April 18<sup>th</sup>. The curve flattened during the month as the long end of the curve declined as it will most likely take longer than originally expected for inflationary fiscal policy to be enacted. This helped long duration Treasuries become the best performing bond segment for the month. U.S. high yield credit was the second best performing bond segment as spreads continued to tighten, despite weakness in the Energy and Metals/Mining sectors. Short maturity Treasuries was the weakest bond segment but still posted a modest positive return.

With the summer months looming, the market is trying to determine whether the recent weakness in economic data is a temporary soft-patch that will be followed by stronger growth, or if we are still stuck in the slow growth malaise as the current economic cycle extends.

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## US Equity Summary:

- The S&P 500 was up 1.0% for the month. Growth outperformed value across the market cap spectrum for the 4<sup>th</sup> consecutive month.
- Information Technology, Consumer Discretionary and Industrials were the top three performing sectors. The Telecom, Energy, and Real Estate sectors were down for the month.
- Large-cap and small-cap stocks performed neck and neck for the month while mid-cap underperformed.
- Alphabet, Microsoft, Facebook and Amazon were the top contributing stocks within the S&P 500. Information Technology as a sector contributed over half of the index's return, which came primarily from software and services companies.
- Based on JPMorgan factors Momentum and Size were the dominant factors while Value was the weakest performing factor.

## Developed and Emerging Market Equity Summary:

- The MSCI EAFE Index was up 2.5% for the month, while the MSCI EM Index returned 2.2%. Small-cap stocks outperformed large-cap stocks in developed markets while large-cap outperformed small-cap within emerging markets.
- Factor performance in developed markets was dominated by the Quality factor with Value being the weakest. Within emerging markets Quality and Value were the strongest performing factors while Yield was the weakest.
- The European region was the best performing region within the developed markets, followed by the Far East. The Pacific region was the weakest developed market region. Emerging Europe was the best performing region within emerging markets, while Latin America was the weakest. Frontier markets underperformed the broad emerging markets for the month, as the MSCI Frontier Emerging Markets index posted an April return of 1.7%.
- Industrials, Technology and Consumer Discretionary were strong performing sectors within developed markets while Energy, Telecom and Utilities were the weakest. Information Technology, Consumer Discretionary and Financials were top performing sectors within emerging markets. Utilities and Materials posted negative returns.

## Fixed Income Summary:

- All major bond segments were up for the month. Long-dated Treasuries and high yield credit were the best performing segments with the Barclays US Treasury 20+ index returning 1.6% and BofA ML US High Yield index returning 1.1% for the month.
- The Treasury curve flattened modestly at the long end during the month resulting in longer duration outperforming shorter duration.
- The municipal bond market continued to recover some of what had been lost in a difficult fourth quarter of 2016 with the Barclays Muni Bond index up 0.7%. The Barclays High Yield Municipal Bond index was also up 0.7% for the month.
- Developed market bonds, specifically European debt, rallied strongly in the quarter – outpacing all U.S. market segments. The JPMorgan New EMU Index returned 2.4% in April, due to narrowing credit spreads and foreign currency appreciation. Meanwhile, emerging market sovereign debt lagged slightly due to weakness in select commodity currencies. The JPMorgan EMBI Global Diversified returned 1.5% for the month.

## Disclosures

*Indices are unmanaged and presented for comparison purposes only. Please note that the returns displayed for indices do not take into account any of the costs associated with buying and selling individual securities. Individuals cannot invest directly in an index.*

**Bloomberg Barclays US Corporate High Yield TR USD:** Bloomberg Barclays US Corporate High Yield TR USD

**Bloomberg Barclays US Treasury 1-3 Yr TR USD:** The Bloomberg Barclays Capital US Treasury Bond 1-3yr term index measures the performance of short-term government bonds issued by the US Treasury.

**Bloomberg Barclays US Treasury 10 Yr USD:** The index measures the performance of government bonds issued by the US Treasury.

**Bloomberg Barclays US Treasury 20+ Yr TR USD:** The Index is market capitalization weighted and includes all of the securities that meet the Index criteria. The index includes all publicly issued, U.S. Treasury securities that have a remaining maturity greater than 20 years, are non-convertible, are denominated in U.S. dollars, are rated investment grade (Baa3 or better) by Moody's Investors Service, are fixed rate, and have more than \$150 million par outstanding. Excluded from the Index are certain special issues, such as flower bonds, targeted investor notes (TINs) and state and local government series bonds (SLGs), and coupon issues that have been stripped from assets already included.

**Bloomberg Barclays US Aggregate Bond Index:** The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass throughs), ABS, and CMBS sectors. The U.S. Aggregate Index is a component of the U.S. Universal Index in its entirety.

**MSCI EM Index:** The MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country

**MSCI EAFE Index:** The MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia and the Far East.

**S&P 500 Index:** The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The Index is one of the most widely used benchmarks of US Equity Large Cap performance.

**Alerian MLP Index:** The Alerian MLP Index is the leading gauge of energy Master Limited Partnerships (MLPs). The float-adjusted, capitalization-weighted index, whose constituents represent approximately 85% of total float-adjusted market capitalization, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

### **J.P. Morgan Factor Definitions**

**Yield:** Stocks are ranked by trailing 12 month dividend yield. Positive factor performance indicates that the highest yielding stocks outperformed the lowest yielding stocks (as well as those stocks that did not pay any dividends) in the universe.

**Size:** Stocks are ranked by their month end market cap. A negative Size factor return would indicate that smaller cap stocks generally outperformed larger cap stocks.

**Quality:** Combines ROE and Earnings Risk (inverted such that stocks with tightest forecasts are rewarded with a higher score).

**Price Momentum:** The 12 Month Price Momentum factor is calculated by ranking stocks by their total return over the previous 12 months.

**Earnings Momentum:** This factor ranks stocks by their forward earnings momentum (1Mth + 3 Mth). For each stock, the change in FY1 earnings over the last month and the last 3 months, and the change in FY2 earnings over the last month and the last 3 months are calculated. A 3-month revision number and a 1-month revision number is calculated by taking the average of the change in FY1 and FY2. A composite value as the average of the 1 month and 3 month values is then calculated.

**Book-to-Price:** Stocks are ranked by their 12 month trailing Book/Market ratio with the cheapest stocks exhibiting the lowest ratio. A positive factor return indicates that stocks with a lower book-to-price ratio outperformed higher book-to-price stocks in the universe.

**Beta:** Beta for the stock relative to its local benchmark index. Note this is a fundamental beta not a calculated Beta.

USD: United States Dollar.

EURO: The official currency of the Eurozone.

CAD: The official currency of Canada.

AUD: The official currency of Australia.

BRL: The official currency of Brazil.

CHF: The official currency of Switzerland.

JPY: The official currency of Japan.

INR: The official currency of India.

**West Texas Intermediate (WTI):** West Texas Intermediate (WTI) crude oil is the underlying commodity of the New York Mercantile Exchange's oil futures contracts. The success of an investment program may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of a portfolio's investments. Unexpected volatility or illiquidity could result in losses.

Investing in securities is speculative and entails risk. There can be no assurance that one's investment objectives will be achieved or that an investment strategy will be successful. Significant losses could result if a strategy involves the use leverage, short sales and derivative transactions, investment in foreign or illiquid securities, and potentially limited diversification.

The opinions expressed herein can change anytime without notice.

Any forward looking statements are not guaranteed and can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements

#### **Special Risks of Foreign Securities**

Investments in foreign securities are affected by risk factors generally not thought to be present in the US. The factors include, but are not limited to, the following: less public information about issuers of foreign securities and less governmental regulation and supervision over the issuance and trading of securities.

#### **Special Risks of Master Limited Partnerships**

Master limited partnerships (MLPs) are publicly listed securities that trade much like a stock, but they are taxed as partnerships. MLPs are typically concentrated investments in assets such as oil, timber, gold and real estate. The risks of MLPs include concentration risk, illiquidity, and exposure to potential volatility, tax reporting complexity, fiscal policy and market risk. MLPs are not suitable for all investors.

#### **Special Risks of Small Market Capitalization Securities**

Investments in companies with smaller market capitalization are generally riskier than investments in larger, well-established companies. Smaller companies often are more recently formed than larger companies and may have limited product lines, distribution channels and financial and managerial resources. These companies may not be well known to the investing public, may not have significant institutional ownership and may have cyclical, static or moderate growth prospects. There is often less publicly available information about these companies than there is for larger, more established issuers, making it more difficult for the Investment Manager to analyze that value of the company. The equity securities of small and mid capitalization companies are often traded over-the-counter or on regional exchanges and may not be traded in the volume typical for securities that are traded on a national securities exchange. Consequently, the Investment Manager may be required to sell these securities over a longer period of time (and potentially at less favorable prices) than would be the case for securities of larger companies. In addition, the prices of the securities of small and mid capitalization companies may be more volatile than those of larger companies.

#### **Special Risks of Fixed Income Securities**

For fixed income securities, there is a risk that the price of these securities will go down as interest rates rise. Another risk of fixed income securities is credit risk, which is the risk that an issuer of a bond will not be able to make principal and interest payments on time.

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