



## Monthly Market Commentary

### April 2016

## ECONOMY: US Growth Slows as Europe Surprises

### 1ST QUARTER GDP

The initial estimate of Q1 GDP came in at 0.5% versus a consensus estimate of 0.7%. Consumer spending was soft, while the strong dollar undercut exports. Almost all sectors of the economy weakened in the first quarter, with the lone exception being housing.

### RATES STAY THE SAME

The Federal Reserve voted 9-1 to keep interest rates unchanged at its April meeting. The Fed's statement did remove a key phrase around concern with 'global risks' within the economy, alluding to the potential for a hike at the next meeting in June.

### JOB GROWTH REMAINS ROBUST

Initial claims for jobless benefits, a proxy for layoffs across the U.S. economy, touched a four-decade low of 248,000 in mid-April, the lowest level since 1973. April also marked the 61st consecutive week that initial claims were below 300,000, extending the longest streak since 1973 amid steady job creation.

### CONSUMER CONFIDENCE DECLINES

The Conference Board *Consumer Confidence Index*<sup>®</sup>, which had increased in March, declined moderately in April. *"Consumer confidence continued on its sideways path, posting a slight decline in April, following a modest gain in March. Consumers' assessment of current conditions improved, suggesting no slowing in economic growth. However, their expectations regarding the short-term have moderated, suggesting they do not foresee any pickup in momentum."*

### A REBOUND IN MANUFACTURING

The ISM manufacturing index remained above 50 for a second consecutive month at 50.8, indicating that the manufacturing sector may be beginning to recover from a strong dollar, low commodity prices and weak global demand. The ISM non-manufacturing index, which has been considerably stronger, advanced 55.7. (A reading above 50 signals growth.)

### STIMULUS WORKING ABROAD?

Eurostat said GDP in the Eurozone increased by 0.5% over Q1, equivalent to an annualized growth rate of 2.1%. While this is down 0.1% from last month's estimate, it represents a 0.3% increase from Q4 2015. This was led by strong growth in the German economy, while Portugal surprised to the downside, and Greece contracted.

### THE EFFECTS OF THE BREXIT

UK GDP growth slowed from 0.6% in Q4 2015 to 0.4% in Q1, and a further deceleration may be likely in Q2. Uncertainties related to the upcoming referendum on continued U.K. membership in the European Union may be behind the unfolding slowdown. The Bank of England has attributed some of the slowing to businesses postponing capital spending ahead of the referendum.

### CONTINUED TROUBLES FOR BRAZIL

Less than halfway through her elected term, Brazilian President Dilma Rousseff was stripped of her presidential duties for up to six months after the Senate voted to begin an impeachment trial. Senators voted 55 to 22 to suspend the Workers' party leader, citing economic problems, political paralysis and alleged fiscal irregularities. A final decision is likely due in September or October.

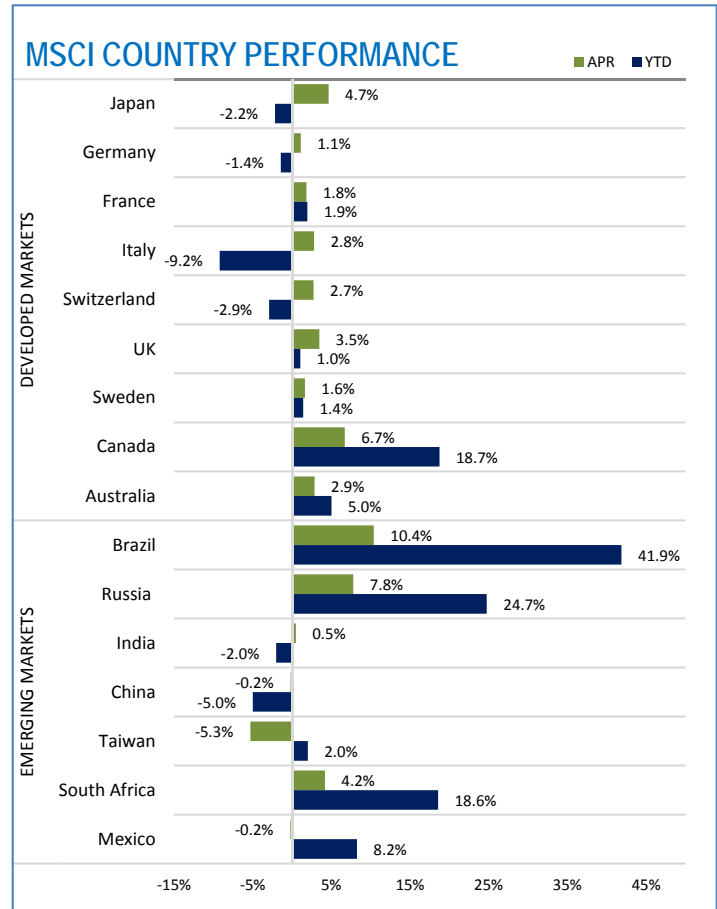
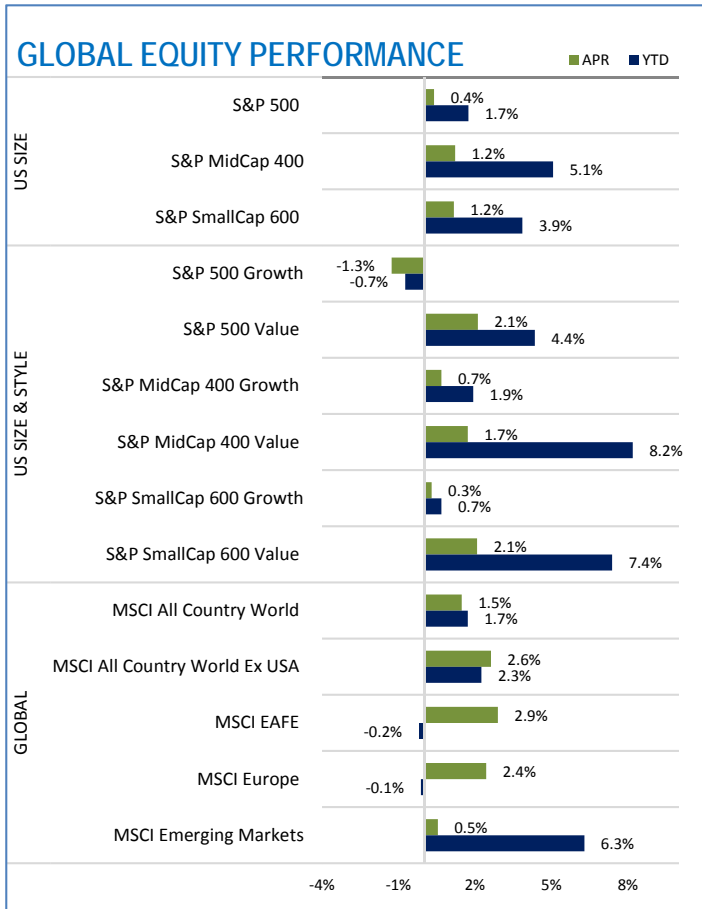
### JAPAN HOLDS TIGHT

At its scheduled April meeting, the Bank of Japan (BOJ) opted to leave its various interest rates unchanged while also keeping the pace of its asset purchases unchanged at ¥80 trillion annually.

### FIRE TO DAMPEN CANADA'S ECONOMY

A new report by the Conference Board of Canada says the temporary shutdown of oil sands operations in Fort McMurray reduced production by more than 1 million barrels per day. In the first two weeks the province has lost roughly \$985 million dollars in real GDP. That is 0.33% of Alberta's projected GDP for 2016 and 0.6% for the whole country.

# GLOBAL EQUITIES: Markets Respond to Local Data



## MODEST GAINS FOR U.S. STOCKS

Most of the major U.S. stock market indices generated slight gains for April. The S&P 500 finished up 0.4%, while the S&P Mid Cap 400 and S&P Small Cap 600 were both up about 1.2%. Notably, the S&P 500 Growth Index fell 1.3% in April due to disappointing earnings from the technology sector which was down about 5%.

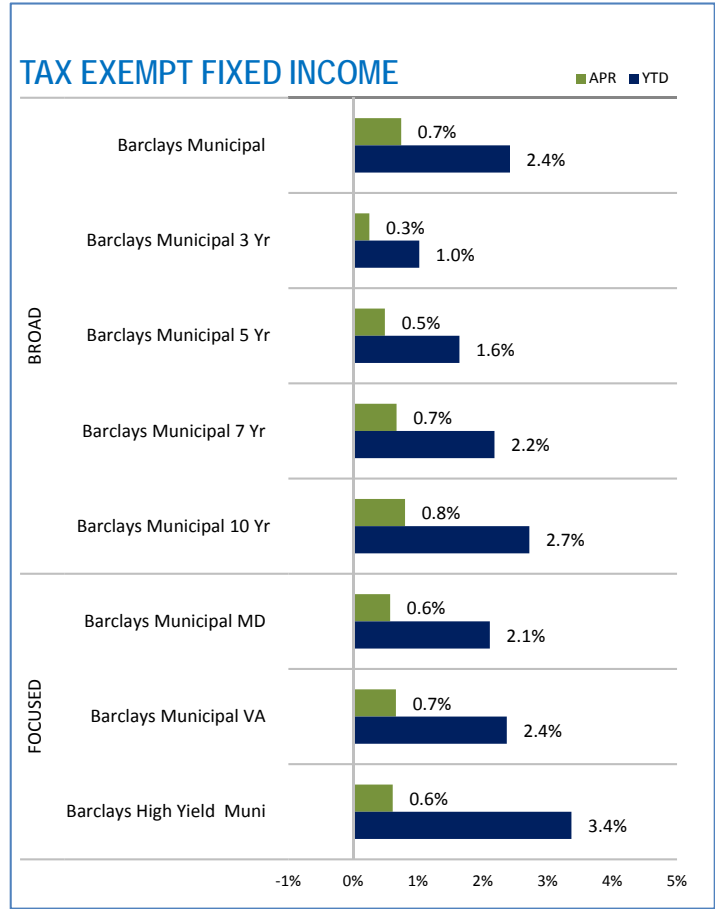
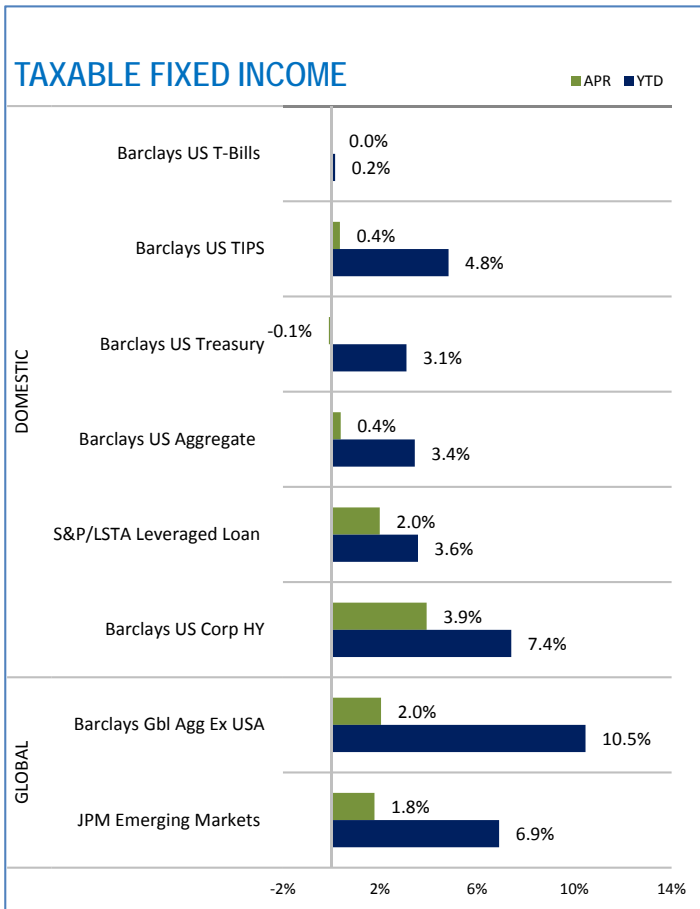
## EUROPE OUTPERFORMS

European stocks outperformed U.S. stocks in April for the first time since July 2015. Thirteen of the 15 countries in the MSCI Europe Index posted gains in April.

## SURPRISING RALLY FOR LATIN AMERICA

After rallying 13.2% in March, the MSCI Emerging Markets Index gained only 0.5% in April. Emerging markets in Latin America and Europe outperformed those in Asia and the Far East. Despite the ongoing impeachment process of President Dilma Rousseff, Brazil rallied 10.4%,

# FIXED INCOME: Riskier Assets Rally



## NO NEW NEWS ON RATES

At its April policy meeting, the Federal Reserve left interest rates unchanged. The central bank noted that labor conditions have continued to improve, but economic growth has slowed. The Barclays U.S. Aggregate Bond Index ended the month up just 0.4%.

## RISK ASSETS RALLY

The more risky areas of the bond market generated strong returns in April. High yield bonds and leveraged loans rallied 3.9% and 2.0% respectively. Emerging Markets fixed income also followed the trend, ending the month up 1.8%.

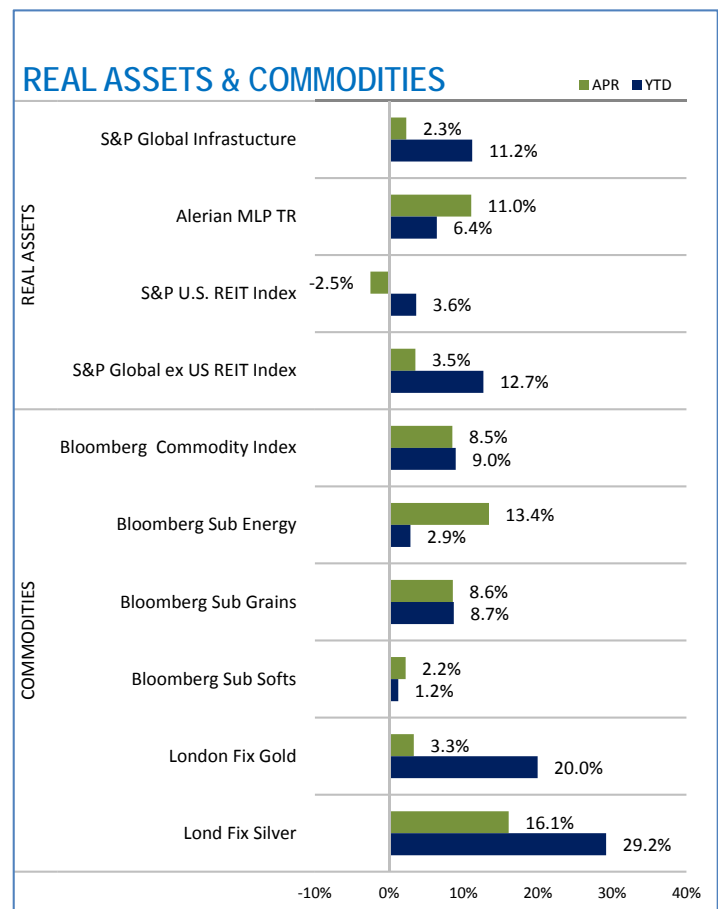
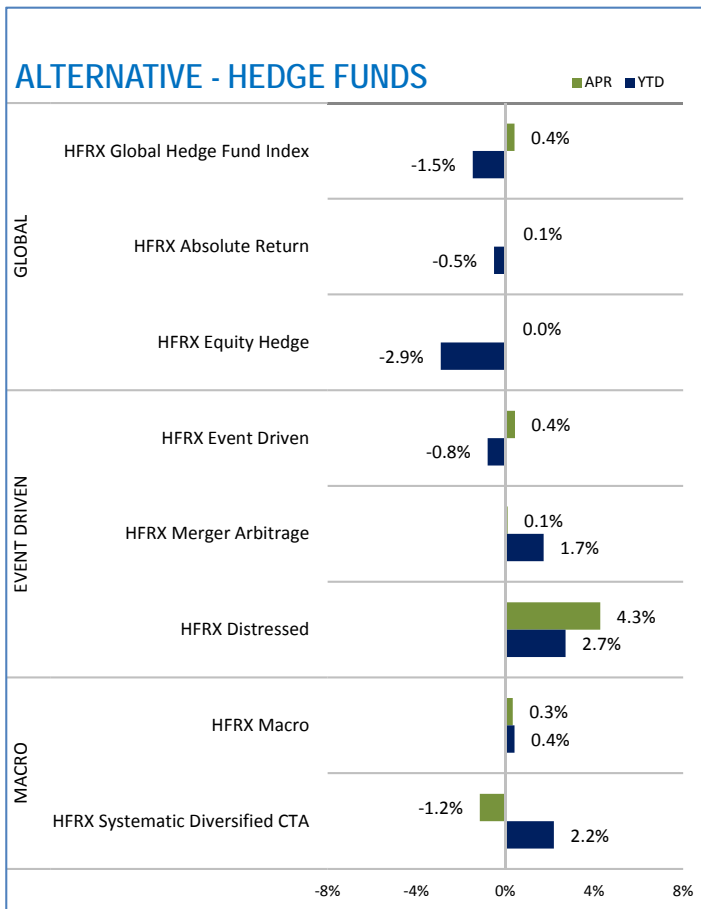
## ARGENTINA ENTERS THE BOND MARKET

Argentina sold \$16.5 billion of new sovereign bonds in the largest ever issue of emerging markets bonds. Argentina had not issued bonds in almost 15 years and had spent much of that time battling with holdout creditors following its default on over \$80 billion in debt in 2001.

## AND THE MUNI MARKET...

Municipal debt outperformed Treasuries but underperformed riskier segments of the bond market. Puerto Rico's financial struggles continues to make headlines. Puerto Rico Governor Alejandro Garcia Padilla said that the territory won't make a roughly \$800 million payment on general-obligation bonds due July 1<sup>st</sup>. In Washington, a U.S. House committee held hearings on a bill designed to address the island's fiscal crisis by establishing an oversight board to audit Puerto Rico's government and facilitate negotiations with its creditors.

# ALTERNATIVES: Good Time To Be Distressed



## HEDGE FUNDS FOLLOW RALLY

Hedge funds generally posted positive gains in April. The momentum continued for the HFRX Distressed Index which gained 4.3% in April after rallying 4.4% in March. Event Driven strategies posted a small gain, 0.4%, due to increased merger activity, partly offset by the ongoing regulatory pressure regarding tax inversions.

## THE BOTTOM FOR MLPs?

The Alerian MLP (Master Limited Partnership) Index returned 11% in April and is now up 48% from its low on February 11<sup>th</sup>. However, index provider Alerian questions whether MLPs are becoming a “mature” asset class. Over the past several years, distribution growth, an important metric for MLP investors, has significantly slowed. In 2015, distribution growth slowed to 5.1%, well below the 11% growth in 2008 and the 10 year average of 6.8%.