April Update | As of March 31, 2016

MARCH 2016 IN REVIEW

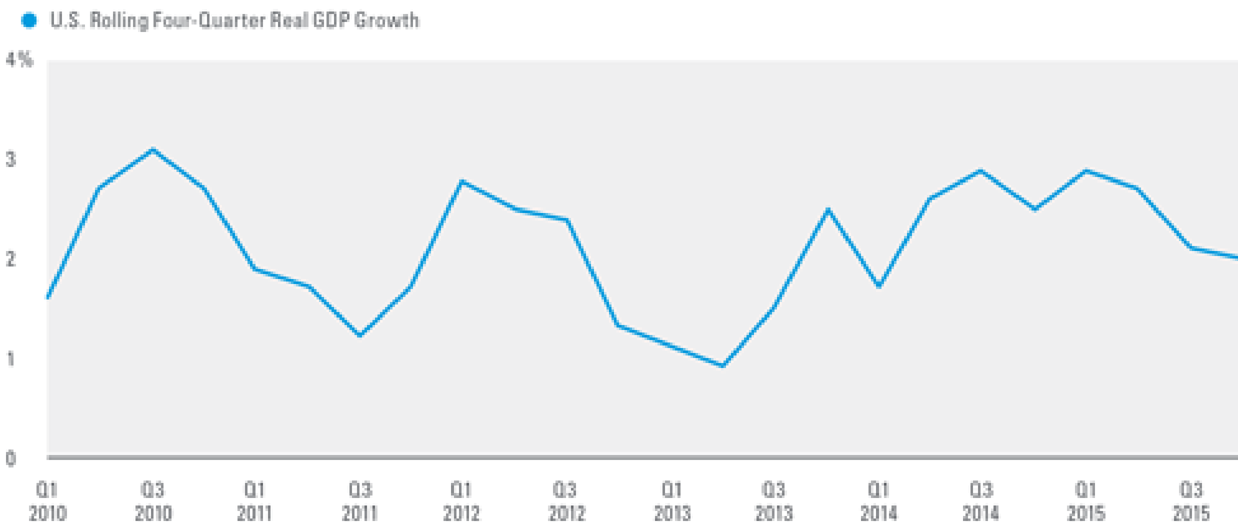
ECONOMY:
SLOW BUT STEADY U.S. ECONOMIC GROWTH

Economic Data

U.S. economic data released in March, which largely capture economic activity in February, pointed to fairly steady but below-trend economic growth in the U.S. Nevertheless, the overall picture of the economy strengthened based on substantial improvement in market-based indicators of economic risk such as high-yield bond spreads and the level of the VIX Index (a measure of market volatility). These improvements were, in part, driven by a strong rebound in oil prices and a market-friendly outcome of the Federal Reserve's (Fed) March policy meeting, as well as a better export environment due to a stabilizing U.S. dollar. While economic surprises tilted positive overall compared to consensus expectations, the margin was not large.

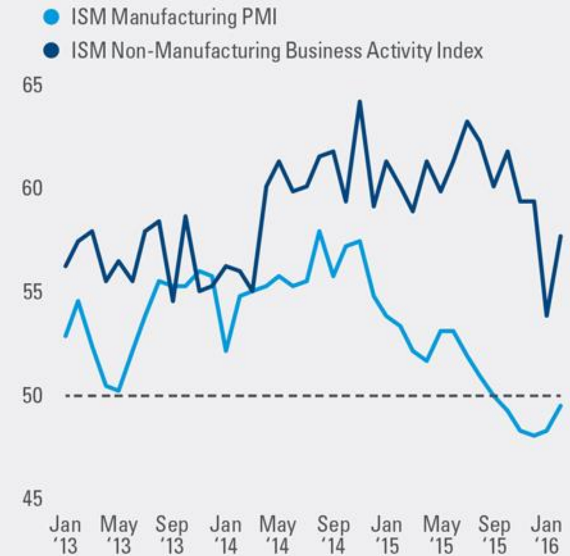
Healthy consumer- and services-based segments of the economy continue to outpace manufacturing- and exports-based segments, although several measures of manufacturing activity did show improvement in February from modestly depressed levels. U.S. real gross domestic product (GDP) growth for the fourth quarter of 2015 was revised upward in March to an annualized 1.4% from a prior estimate of 0.7%, driven mostly by upward revisions for consumer spending and exports.

Labor markets continue to provide a positive backdrop for consumers. The economy created 242,000 jobs in February, handily topping expectations. The only negative in a very strong overall report was a slight decline in average hourly earnings. Advance monthly retail sales data for February fell but still came in above consensus, although strong downward revisions to January's data gave the report a negative slant. Personal income and outlays data reinforced the impression from hourly earnings and retail sales, coming in largely in-line with somewhat weak expectations. Slower growth in consumer spending is reflected in a three-year high in the February savings rate, as consumers continue to use



an improved labor market and low gas prices to firm up balance sheets.

While manufacturing activity, as measured by the Institute for Supply Management's (ISM) manufacturing Purchasing Managers' Index (PMI), continued to contract in February, the pace of contraction slowed for the second consecutive month and the headline number solidly topped consensus expectations to the upside. The report's new orders index, an important leading sub-component of the PMI, showed expansion for the second consecutive month. Although ISM's broad non-manufacturing index composite, which reflects the services sector, has weakened, it remains solidly in expansionary territory. Strength in the Business Activity Index, a proxy for output, rose 4 points to 57.8, reflecting the importance of the "know-how" economy to U.S. economic growth.



Central Banks

As the March meeting of the Fed's policy arm, the Federal Open Market Committee (FOMC), approached, the main question for market participants was whether the gap between market expectations of two more 25 basis point (0.25%) rate hikes over the course of 2016 and the Fed's expectation of four hikes expressed at its December 2015 meeting would close. In what could be considered a mildly accommodative move, Fed expectations fell in-line with the market's expectations of two rate hikes. In addition, long-run "neutral" fed funds expectations were reduced by 25 basis points (0.25%). In the FOMC's policy statement, the committee cited global economic weakness and tighter financial conditions as the justification for maintaining a slower, but still data dependent, rate hike path, while still talking up the U.S. economy. In her comments at the press conference following the conclusion of the meeting, Fed Chair Janet Yellen further elaborated that every FOMC meeting this year will be a live meeting and that the FOMC is not considering negative rates.

The European Central Bank (ECB) also made a splash in March following its March 10 policy meeting, cutting all three of its key interest rates and moving the deposit rate 10 basis points (0.1%) lower to -0.4%. It also announced it would increase its quantitative easing program from 60 billion euros per month to 80 billion and would expand the assets eligible for purchase to include corporate bonds. The ECB did not, as some had expected, expand the time frame of the program, which is slated to end a year from now in March 2017.

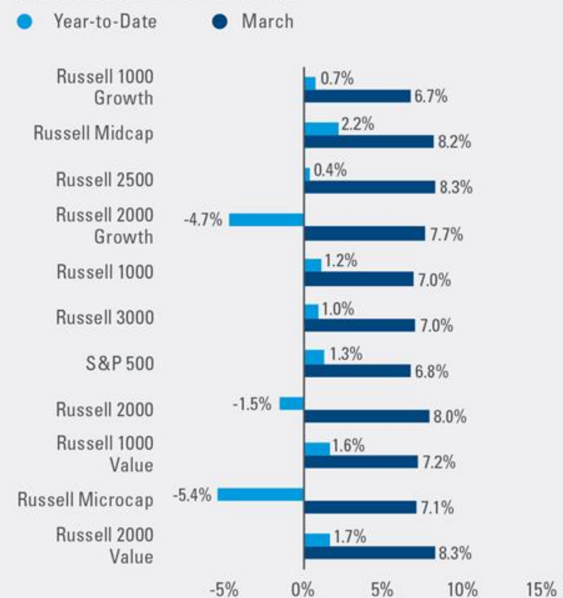
Global Equities:

U.S. EQUITIES SUSTAIN RALLY, REGAIN POSITIVE TERRITORY FOR 2016

U.S.

Domestic equity markets posted their first positive month of 2016, breaking a streak of three consecutive months of negative total returns. On the month, the S&P 500 posted a total return of 6.8%, bringing year-to-date total return into positive territory at 1.3%. The rally was driven by continued stability in the commodity complex and an improvement in investor sentiment, which was complemented by continued economic improvements, particularly in the labor market. Additionally, the Fed reiterated its commitment to erring on the side of policy stability in the face of potential global headwinds. This dovish posture helped to alleviate fears the Fed may move too quickly toward rate normalization and extinguish the continued, albeit tepid recovery of the U.S. economy.

Sector performance continued to be somewhat confounding, as traditionally defensive sectors such as telecom and utilities were strong performers at 6.4% and 8.0%, respectively. The recovery in commodity prices and lack of appreciation in the U.S. dollar continued to support industrials (7.1%), materials (7.7%), and energy (9.3%). While economic activity—particularly for the U.S. consumer—remained robust, the performance of other sectors was a bit mixed as technology (9.2%) and financials (7.3%) outperformed the market, while consumer discretionary (6.7%), consumer staples (4.8%), and healthcare (2.8%) lagged.



Source: LPL Research, FactSet 03/31/16

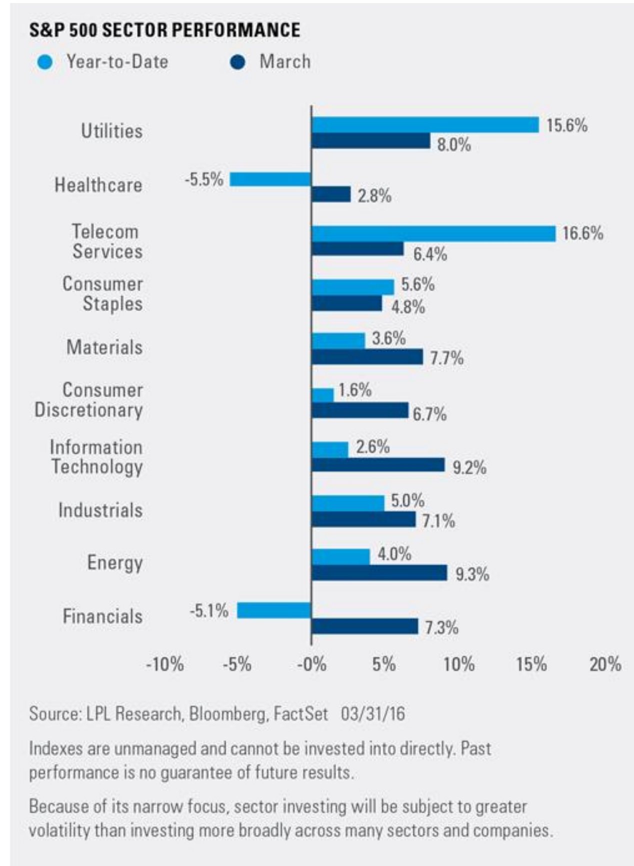
Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.

Stock investing involves risk, including loss of principal.

International and emerging markets investing involves special risks, such as currency fluctuation and political instability, and may not be suitable for all investors.

International

International stocks, as represented by the MSCI EAFE Index (foreign developed) and MSCI Emerging Markets Index, both posted gains of 6.6% and 13.3%, respectively. Despite the rally, foreign developed stocks continue to lag their domestic counterparts on a year-to-date basis and remain in the red with a total return of -2.9%. The strength of the emerging markets rally has resulted in strong relative performance versus domestic stocks and resulted in a positive year-to-date performance of 5.8%. During the month, the ECB continued to move further into the realm of nontraditional monetary policy by expanding both the size and scope of its quantitative easing program. This move, coupled with continued patience by the Fed was a boon for growth-sensitive emerging economies.



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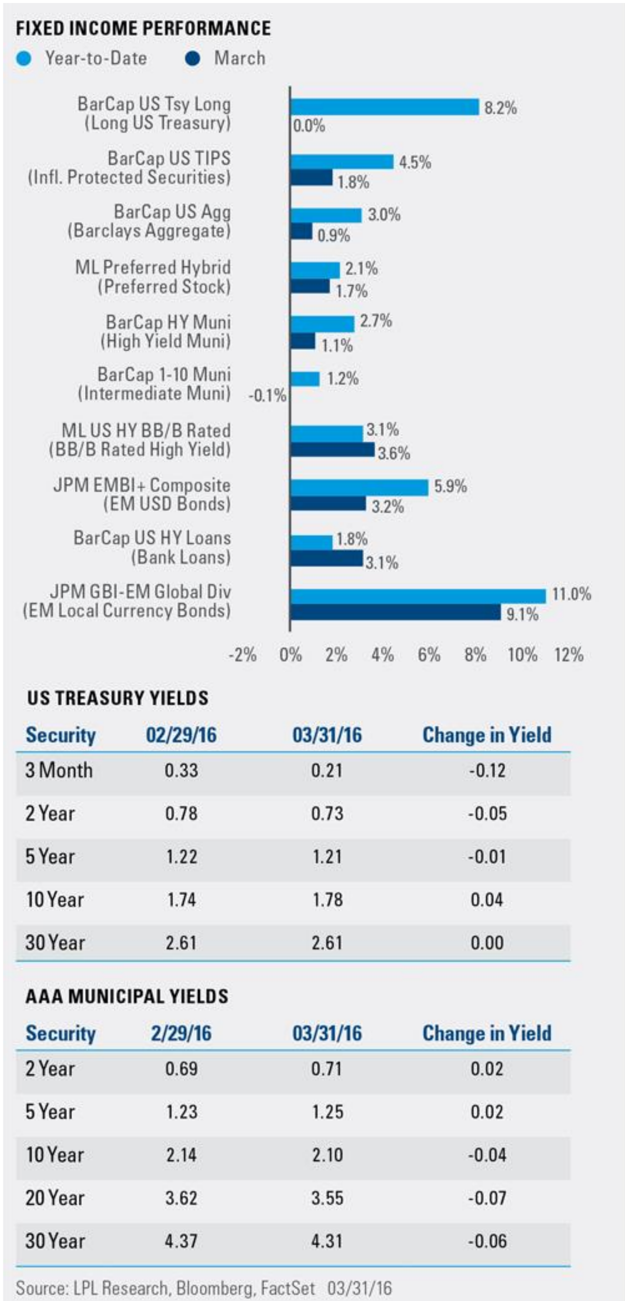
Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

FIXED INCOME: ECONOMICALLY SENSITIVE SECTORS RALLY AS ECONOMIC DATA IMPROVE, RECESSION FEARS FADE

Treasury yields were roughly unchanged during March after declining during the first two months of the year. The only notable change in yields occurred among shorter maturities as yields declined due to dovish comments from Fed Chair Yellen, which served to reduce Fed rate hike expectations. A rebound in oil prices and dovish comments from Yellen gave Treasury Inflation-Protected Securities (TIPS) a boost. Yellen's comments suggested the Fed may be willing to accept higher inflation before raising rates. TIPS rallied as a result, returning 1.8% during March, outperforming Treasuries and the broader fixed income market (represented by the Barclays Treasury and Barclays Aggregate Indexes), which gained 0.2% and 0.9%, respectively.

Economically sensitive sectors were the major beneficiary of the market's rekindled appetite for risk. Higher oil prices also helped as WTI crude oil remained above $35 per barrel for most of the month. Opportunistic investors, realizing that credit spreads were implying overly pessimistic default and recession probabilities, continued the rally in lower-quality fixed income that began in mid-February. High-yield returned 3.6% on this strength, emerging markets debt 3.2%, and bank loans 3.1%. Investment-grade corporate bonds rallied as well, returning 2.8% during March. U.S. dollar weakness was a positive for unhedged foreign bonds during March, boosting the sector to a strong 3.7% return for the month.



US TREASURY YIELDS

Security	02/29/16	03/31/16	Change in Yield
3 Month	0.33	0.21	-0.12
2 Year	0.78	0.73	-0.05
5 Year	1.22	1.21	-0.01
10 Year	1.74	1.78	0.04
30 Year	2.61	2.61	0.00

AAA MUNICIPAL YIELDS

Security	2/29/16	03/31/16	Change in Yield
2 Year	0.69	0.71	0.02
5 Year	1.23	1.25	0.02
10 Year	2.14	2.10	-0.04
20 Year	3.62	3.55	-0.07
30 Year	4.37	4.31	-0.06

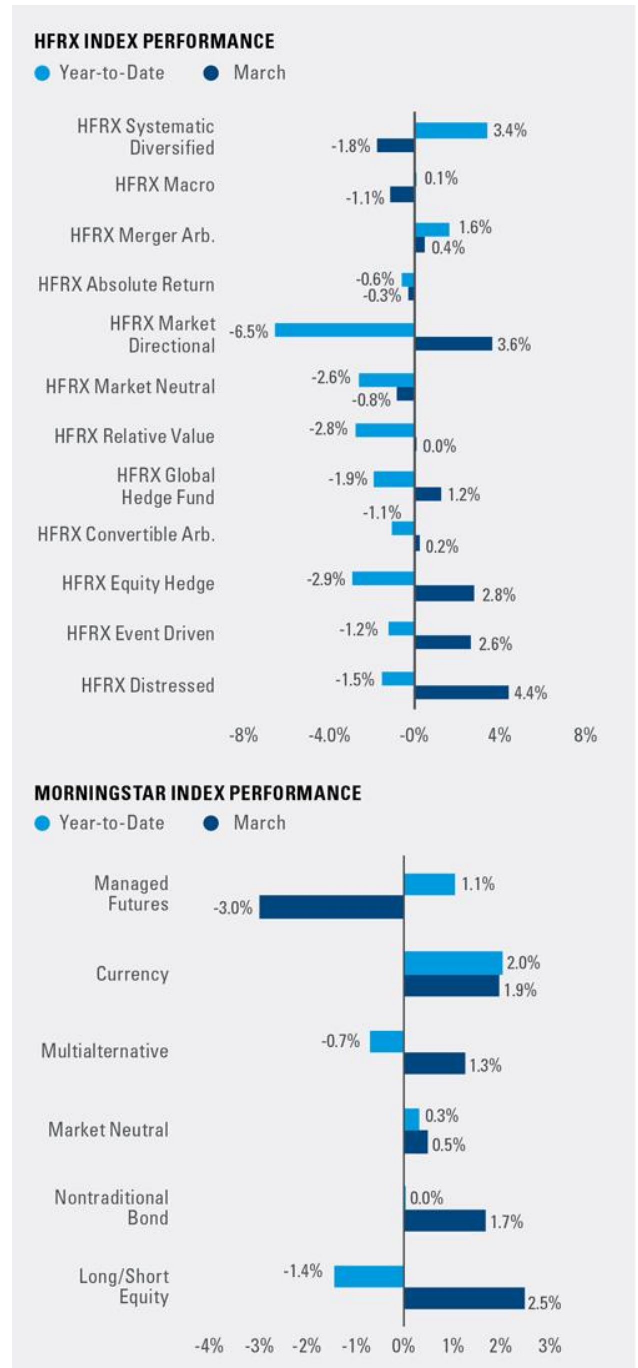
Source: LPL Research, Bloomberg, FactSet 03/31/16

ALTERNATIVES:
DISTRESSED DEBT RALLY

As measured by the HFRX Equity Hedge Index, more directionally sensitive equity strategies were positive (2.8%); however, they trailed traditional benchmarks (S&P 500 returned 6.8%) on both an absolute and risk-adjusted basis. Entering the month, managers across the long/short space were conservatively positioned given the significant selling pressure experienced during the first six weeks of the year. While this helped mitigate downside risk at the time, many strategies maintained these lower gross and net market exposures even as equity markets swiftly rallied throughout March. A noteworthy portion of this decline in exposure has been a reduction in long healthcare positioning across the hedge fund industry. Further, with the broad-based equity gains, it was difficult for managers to add alpha on the short-side of the portfolio, as short holdings predominantly acted as a headwind throughout the month.

On the positive side, given the risk-on sentiment, distressed strategies, as measured by the HFRX Distressed Index, delivered a robust return of 4.4%, the index's first monthly gain since October 2015 and the largest since January 2015. Several managers were further supported by news out of Argentina, stating that holdout creditors from the country's 2001 default would be offered a settlement payment.

Following two straight months of impressive gains, systematic macro strategies suffered a reversal in performance, as the HFRI Systematic Diversified Index declined 1.8%. Short exposure to oil, sugar, and natural gas contracts all weighed on returns, as the previous trends in those commodities quickly reversed during the month, leading to portfolio losses. Many strategies implementing short-term trend models were able to partially offset these losses, profiting from the positive short-term reversal in the equity market.



REAL ASSETS SHOW BROAD-BASED STRENGTH IN MARCH

Following through on the “risk” rally beginning in mid-February, real assets broadly posted strong returns in March. A weaker U.S. dollar aided performance as well with the Trade-Weighted U.S. Dollar Index down 3.6%. The Bloomberg Commodity Index returned 3.8% as most constituents ended the month with positive performance. Gold and silver ended the month positive with returns of 0.1% and 3.7%, respectively.

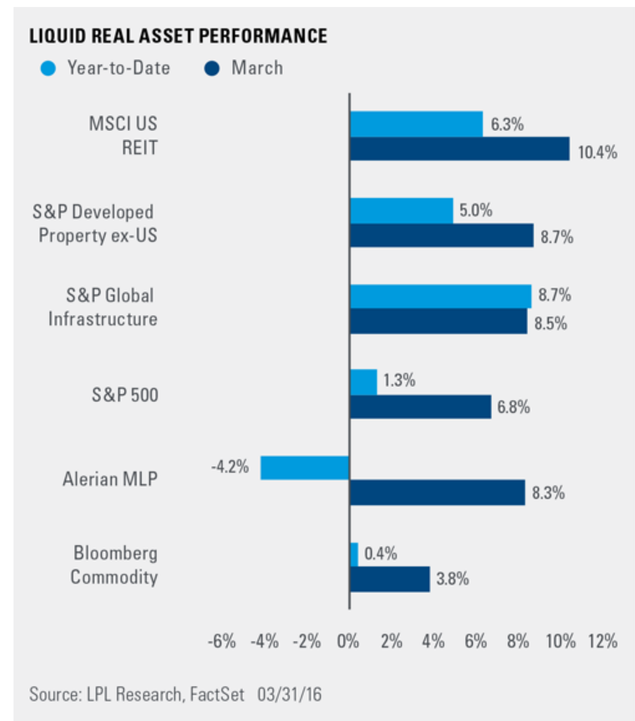
MLPs & Global Listed Infrastructure

Master limited partnerships (MLP) cashed in on oil’s rally and ended the month with an 8.3% return (for the Alerian MLP Total Return Index). Some uncertainty existed to start the month as a bankrupt exploration and production company saw a bankruptcy court rule that certain midstream contracts could be rejected. The index fell by more than 6% on the day this news broke, but was able to recover and end the month strong. The consensus view on this bankruptcy ruling is that midstream companies may now be more inclined to proactively renegotiate contracts with customers, especially those in the exploration and production business. Ultimately, midstream assets in many cases are built specifically for certain customers and, in turn, these customers may only have one option of whom they choose as their midstream provider. This mitigates some of the concern of further bankruptcy rulings for the asset class overall.

Global listed infrastructure, as measured by the S&P Global Infrastructure Index, performed strongly in March and returned 8.5%.

REITs

Rates rose modestly in March, yet real estate investment trusts (REIT) were unfazed, as shown by the MSCI U.S. REIT Index’s return of 10.4%. The index opened up the month with a bang, returning greater than 2% on the first day of March, and never looked back. Perhaps dovish comments from Fed Chair Yellen late in the month helped performance as well. Industrial REITs outperformed while hotel and resort REITs underperformed.



Commodities

WTI crude oil finished the month up 13.6% while Brent crude was up 10.3%. An upcoming production freeze summit in April looms on the horizon and may have major impacts for prices. Natural gas bounced back and returned 14.5%. Copper continued its run and returned 2.4%. Agricultural commodities, helped by a stronger Brazilian real and weaker U.S. dollar, bucked their downward trend and posted their first positive month since October as the Bloomberg Agriculture Subindex returned 4.4%.