June Update | As of May 31, 2016

MAY 2016 IN REVIEW

ECONOMY:

SLOW BUT STEADY U.S. ECONOMIC GROWTH

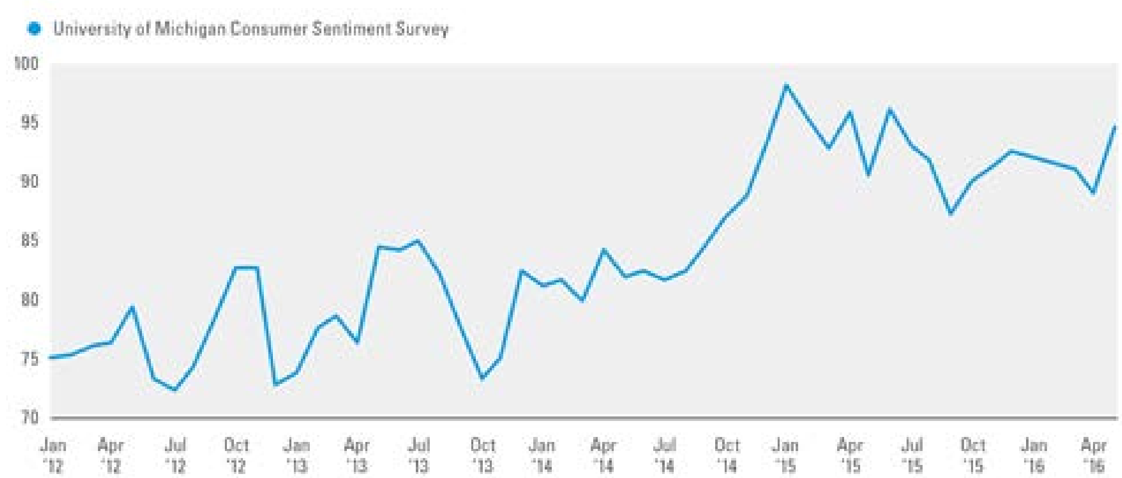
Economic Data

Economic data received in May, which largely reflect economic activity in April, set a decidedly more positive tone than recent months, although signs of better growth prospects remain preliminary. A post-winter rebound in economic growth, should it occur, would be the sixth in the seven full years of the post-recession expansion. About two-thirds of the domestic macroeconomic data points tracked by Bloomberg came in ahead of expectations in May, with upside surprises cutting across economic sectors. While the data are signaling continued stabilization in the manufacturing sector, we're seeing few signs of a real rebound. Business spending and trade also remain muted, though better than somewhat lowered expectations. Despite weaker than expected employment data, however, the tone for consumers, who drive about 70% of gross domestic product (GDP), showed considerable improvement over April.

Job creation, one of the headline economic readings for the month, was one of the few major reports that disappointed in May. Growth in non-farm payrolls, expected to decline modestly to 200,000, fell sharply to 160,000. Outside of a mediocre jobs report, a string of consumer-related data came in at unusually strong levels. Retail sales grew 1.3% month over month, the first reading over 1% in more than a year. April's new home sales, at an annualized 619,000, were the highest since 2008 and topped the next best post-recession reading by over 50,000. The pickup in consumer-driven economic activity was reflected in improving consumer sentiment following early year recession concerns. The University of Michigan Consumer Sentiment Survey advanced solidly to approach the upper end of its post-recession range.

On the industry side, recent stabilization continued but with little to indicate additional acceleration. The

CONSUMER SENTIMENT REBOUNDED IN MAY



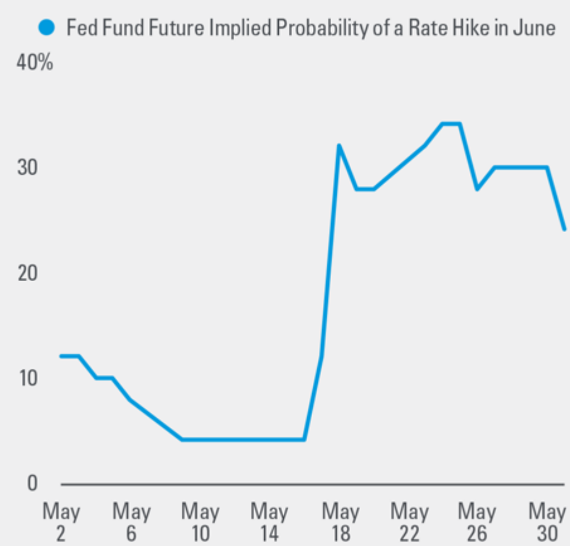
Institute for Supply Management's (ISM) manufacturing Purchasing Managers' Index (PMI) retreated from 51.8 to 50.8, missing consensus expectations (above 50 indicates expansion). New export orders held steady at 52.5, offering some evidence that headwinds from a strong dollar may be abating. Factory orders (March) and industrial production (April) both posted small upside surprises and exhibited growth after contracting in the April releases. The services sector remains more robust with the ISM's non-manufacturing composite, at 55.7, both topping expectations and accelerating from the prior month.

Real time and leading indicators continue to point to a declining chance of recession in the next year. Financial stress, as measured by the St. Louis Fed's Financial Stress Index, fell for the third consecutive month and has retreated to its lowest level since August of last year. The Conference Board's Leading Economic Index (LEI), an aggregate of leading indicators, topped expectations and has risen 1.9% year over year. Historically, a negative year-over-year rate indicates increased likelihood of recession in the next 6–18 months, and at current levels a signal remains unlikely over the next several months. Meanwhile, the Atlanta Fed's real-time GDP forecasting model saw its second quarter GDP forecast rise from 1.8% at the end of April to 2.9% at the end of May, driven primarily by forecast improvements from consumer goods expenditures and home building.

Central Banks

The May 18 release of the minutes from the Federal Reserve's (Fed) April 26–27, 2016 policy meeting caused a meaningful shift in market expectations of future Fed rate hikes. The release of the minutes is usually a non-event, as market participants already have the policy statement (released post-meeting), and Fed members have already made a series of post-meeting speeches. However, markets had remained skeptical of Fed projections of two rate hikes by the end of the year. The minutes, however, reinforced what Fed members have been emphasizing in speeches by explicitly stating that a hike in June was still on the table for "most participants," assuming continued economic data support. The market's immediate response was a substantial shift in rate hike expectations, as measured by fed fund futures, accompanied by a stronger dollar and a sharp one-day spike in Treasury yields. The Fed will meet again on June 14–15.

FED FUND FUTURES RESPONDED SHARPLY TO FED MEETING MINUTES



Source: LPL Research, Bloomberg 05/31/16

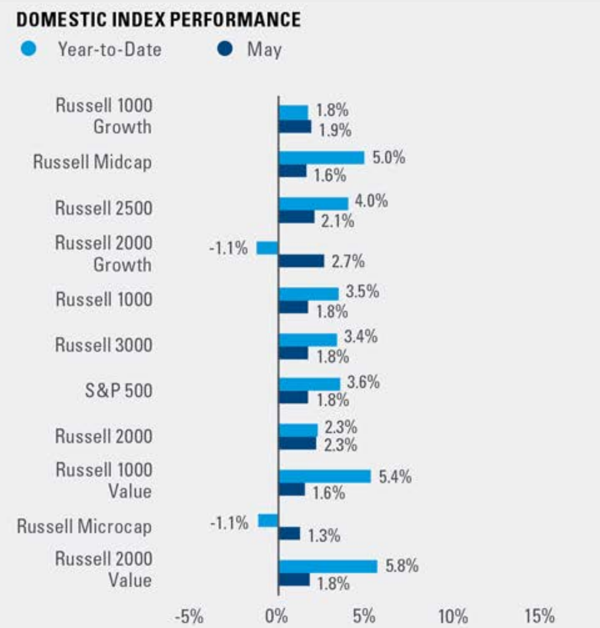
Global Equities:

U.S. EQUITIES ROSE FOR THE THIRD STRAIGHT MONTH IN MAY

U.S.

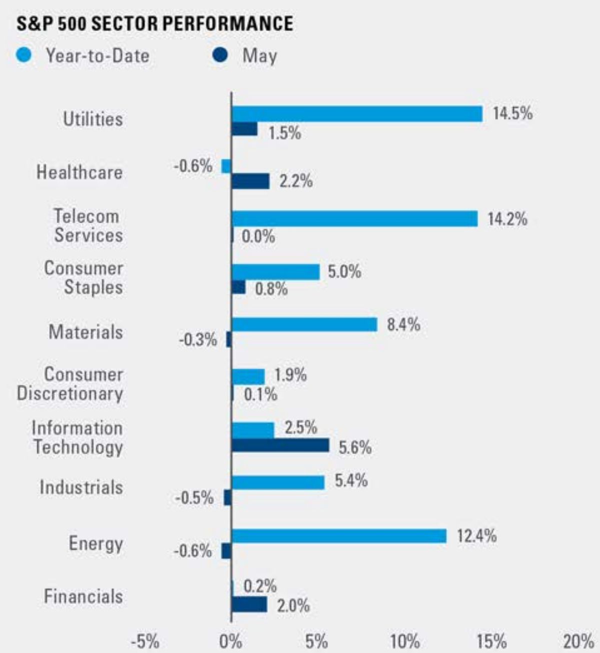
Those who followed the “sell in May” adage by getting out of the market at the end of April missed out on a good month for the U.S. stock market. The S&P 500 Index produced a third straight positive month in May, the first such streak in two years (and the fourth straight positive May), and posted a total return of 1.8%. The month’s gains, which brought the year-to-date total return to 3.6%, were not quite enough to get the index back to its all-time high—something it has been lacking for over a year now (note that the total return index, which includes dividends, has been setting new highs). Higher oil prices, which came on the back of production cuts in the U.S. in the absence of any coordinated supply freeze from foreign producers, helped boost sentiment.

Market leadership was very different in May than in prior months. Growth outpaced value in May, based on the Russell 3000 style indexes, after trailing in March and April. Technology and healthcare topped the sector rankings; energy suffered a loss, after leading in both March and April (materials and industrials were the other two sectors that fell in May). But perhaps the biggest change in markets from April to May was the likelihood of a summertime rate hike from the Fed increased significantly, due to a combination of stronger economic data, an uptick in inflation, and hawkish communications from Fed officials.



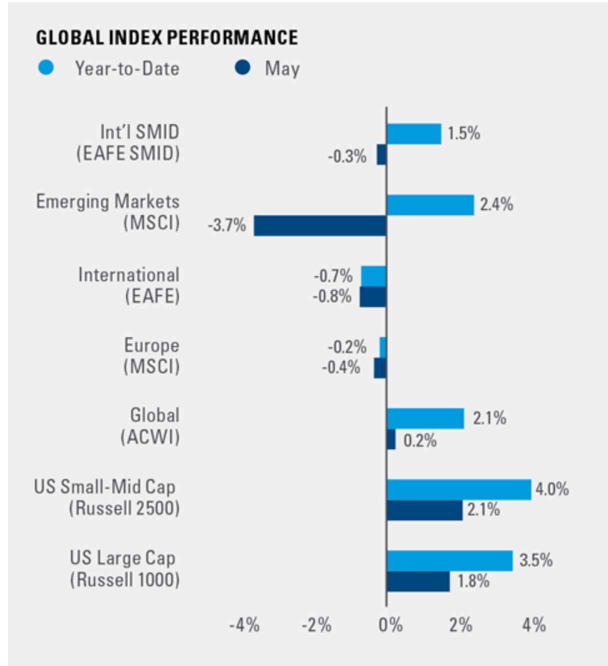
Source: LPL Research, FactSet 05/31/16

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



International

International stocks, as represented by the MSCI EAFE Index (foreign developed) and MSCI Emerging Markets Index, both trailed the U.S. market, measured by the S&P 500. The MSCI EAFE Index lost 0.8% for the month and is down by 0.7% in 2016, as economic growth in Europe and Japan stalled. The emerging markets (EM) benchmark had an even tougher time, losing 3.7%, but is still up 2.4% year to date after a strong start to 2016. After benefiting from the weaker U.S. dollar in recent weeks, the greenback's rally in May on increasing expectations of a summer rate hike from the Fed provided a challenging environment for EM. Any help that rising oil prices or further evidence of stabilization in China may have provided was erased by dollar strength and related Fed fears, along with weakness in metals prices. Political turmoil in Brazil sent that country's market down more than 13%, exacerbating the EM weakness.



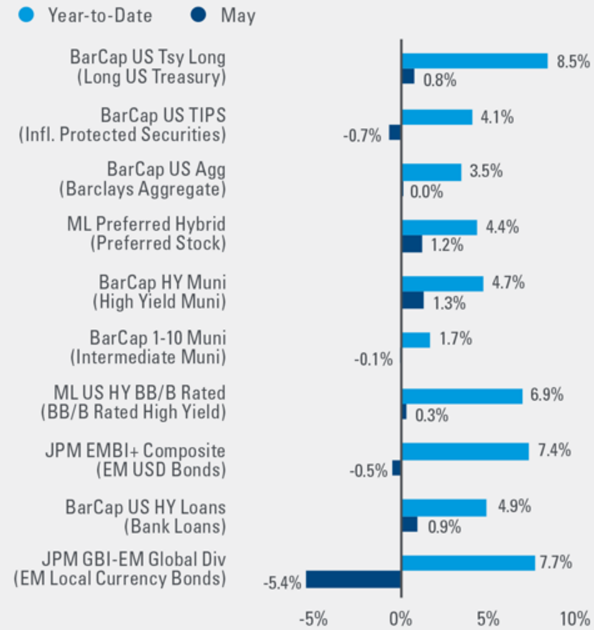
FIXED INCOME: INTEREST RATE HIKE EXPECTATIONS INCREASE IN CHOPPY MONTH FOR FIXED INCOME

Treasury yields moved higher along most of the yield curve in May. The largest moves were seen in the one-to three-year segment of the curve, driven by increasing expectations that the Fed would continue to increase interest rates over the summer. Fed hawkishness drove flattening in the yield curve and reduced inflation expectations, signals that the bond market is unsure that the economy is resilient enough to withstand rate hikes as early as June or July. Increased conviction in rate hikes was a tailwind for bank loans, which returned 0.9% during May.

The increase in interest rates was a slight headwind for fixed income overall, as the Barclays Aggregate was flat, the Barclays U.S. Treasury Index returned -0.2%, and the Barclays Investment-Grade Credit Index returned -0.1% on the month. The decline in inflation expectations was a strong headwind for Treasury Inflation-Protected Securities (TIPS), which returned -0.7% during the month. Strength in the dollar was a headwind for unhedged foreign bonds, which returned -2.0% during May.

High-yield, still very tied to the price of oil, continued its run of strong performance, returning 0.3% in May, as a result of oil prices moving 6.9% higher during the month. Emerging markets debt returned -0.5% despite the rise in the price of oil, largely on fears that a Fed rate hike would have negative impacts on the asset class. Preferreds were the standout performer of the month, returning 1.2%, helped by strong financial sector earnings and improving credit quality.

FIXED INCOME PERFORMANCE



US TREASURY YIELDS

Security	04/30/16	05/31/16	Change in Yield
3 Month	0.22	0.34	0.12
2 Year	0.77	0.87	0.10
5 Year	1.28	1.37	0.09
10 Year	1.83	1.84	0.01
30 Year	2.66	2.64	-0.02

AAA MUNICIPAL YIELDS

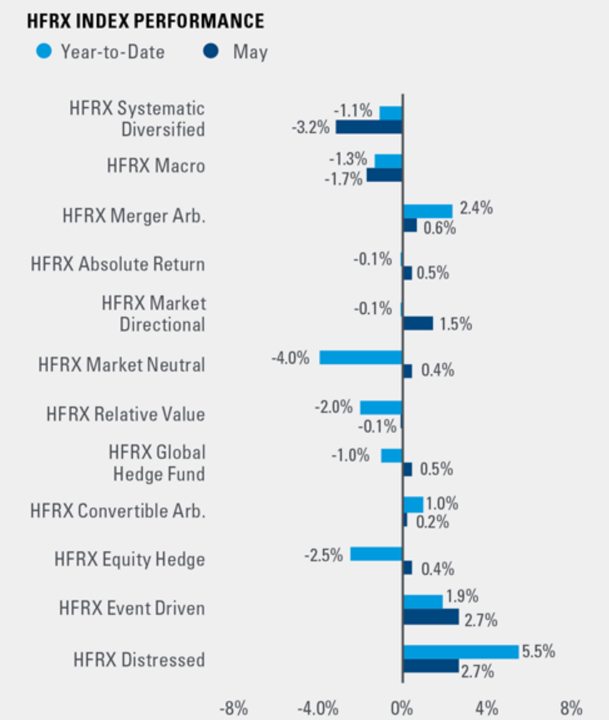
Security	04/30/16	05/31/16	Change in Yield
2 Year	0.69	0.71	0.02
5 Year	1.21	1.22	0.01
10 Year	2.02	2.01	-0.01
20 Year	3.45	3.41	-0.04
30 Year	4.20	4.15	-0.05

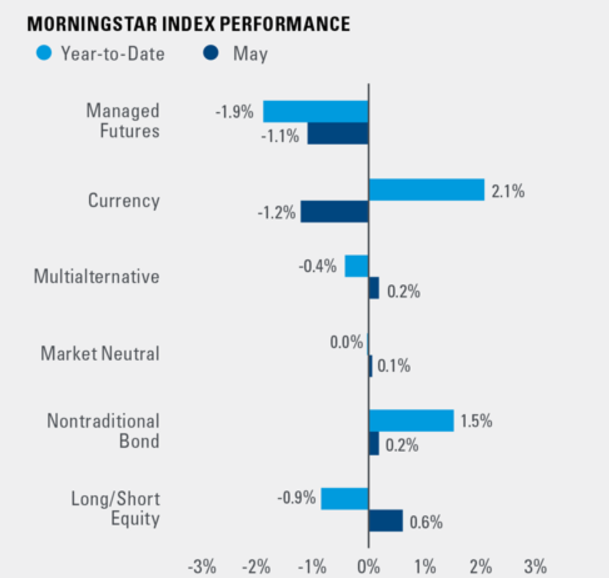
ALTERNATIVES:
DISTRESSED STRATEGIES CONTINUE IMPRESSIVE REBOUND

Event driven strategies continued their rebound, as the HFRX Event Driven Index returned 2.7% during the month. By sub-category, distressed managers (HFRX Event Driven: Distressed up 2.7%) continued to be bolstered by rising oil prices and have now returned over 11% in the past three months and 5.5% year to date. Merger arbitrage strategies benefited from the announcement of several large transactions, which supported broad-based spread tightening on previously announced deals. Per Bloomberg, after a slow start to the year, 2016 merger activity has recently picked up, with May volume up over 25%, as compared to May 2015.

In the equity space, the HFRX Equity Hedge Index returned 0.4%, as managers continue to maintain a rather defensive posture, with a net market exposure of 47%. This has come at the expense of exposure to momentum holdings, which have steadily declined throughout the year. May gains were supported by the industry’s overweight to the technology sector (a consistent trend during the past five years), as the S&P 500 Information Technology Index gained over 5%. Additionally, while the overweight to the healthcare sector has been reduced since the beginning of the year, it remains widely held and proved beneficial with the S&P 500 healthcare sector returning 2.2%. Short positioning did little to support gains, as out of favor sectors such as financials and consumer staples saw positive returns.

Managed futures strategies were the main laggard, as the HFRX: Systematic Diversified Index declined 3.2%. The majority of the losses were seen in the fixed income and currency space, as the potential for a sooner than expected rate hike during the month caused a spike in short-term Treasury yields, as well as gains in the U.S. dollar against several major currencies (euro, yen, Swiss franc).





REAL ASSET RETURNS UP AND DOWN IN MAY

May saw certain commodities and real assets follow through on strong performance from April, while others took a pause and gave back some gains. The U.S. dollar (trade-weighted index) was up 2.9% for the month. The Bloomberg Commodity Index was modestly down (-0.2%) with varied performance among its constituents. The S&P 500 Index returned 1.8% and the 10-year Treasury yield was relatively unchanged, ending April at 1.83% and finishing May at 1.84%.

MLPs & Global Listed Infrastructure

Still benefiting from a rapid change in sentiment in the oil markets, master limited partnerships (MLP) returned 2.5% in May as exhibited by the Alerian MLP Total Return Index. MLPs outperformed the broader energy infrastructure market (Alerian Energy Infrastructure Index), which includes non-MLP infrastructure companies, recouping some of their underperformance year to date versus their "C-corporation" peers. Distribution announcement season went relatively smoothly, with only a couple of distribution cuts in the true "midstream" part of the market. Decoupling from crude oil prices will be a major hurdle for the asset class, and this may only happen when the market truly believes that the oil supply and demand situation has stabilized. Fundamentals and valuations remain sound for MLPs.

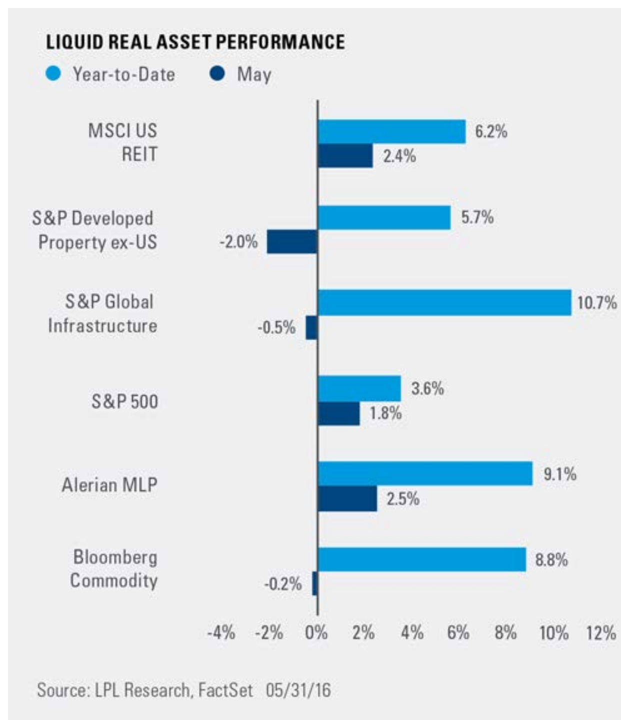
Global listed infrastructure, as measured by the S&P Global Infrastructure Index, lost ground and returned -0.5% in May. The space is still firmly in positive territory year to date.

REITs

The REIT rally resumed in May as the MSCI U.S. REIT Index returned 2.4%. This comes after the index gave back gains in April. Outperforming sectors were industrial, specialized, and diversified REITs.

Commodities

WTI crude finished the month up 6.9% while Brent crude returned 5.1%. U.S. crude production continues to fall (now firmly under 9 million barrels per day) and global supply outages, namely in Nigeria and Canada, contributed to strong performance. Sentiment may be changing in the oil markets, as a prominent sell-side research shop recently noted that the supply and demand imbalance has been corrected. Agricultural commodities, specifically grains, benefited from growing positions by hedge funds. The agriculture subindex of the Bloomberg Commodity Index returned 3.4% in May. Precious metals took a break from strong performance as gold and silver returned -5.7% and -10.1%, respectively. Industrial metals saw a sharp downturn with copper prices declining by 8.2%.



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