

# Market Environment

February 2016

## Table of Contents

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### Section

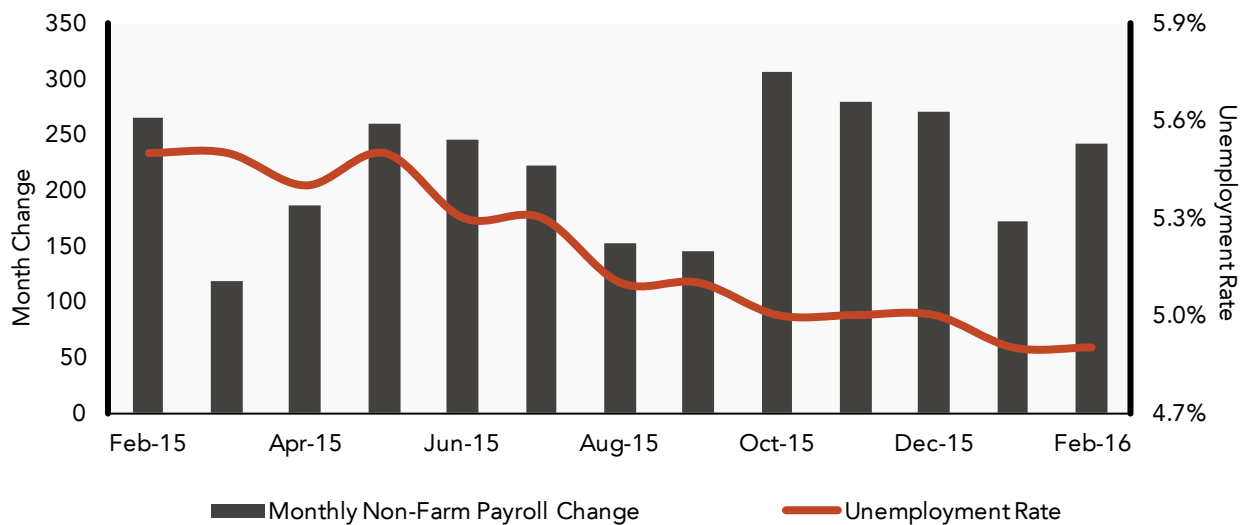
U.S. Economy .....	1
Fixed Income.....	2
U.S. Equity.....	3
Non-U.S. Equity .....	4
Hedge Fund .....	5

## U.S. Economy

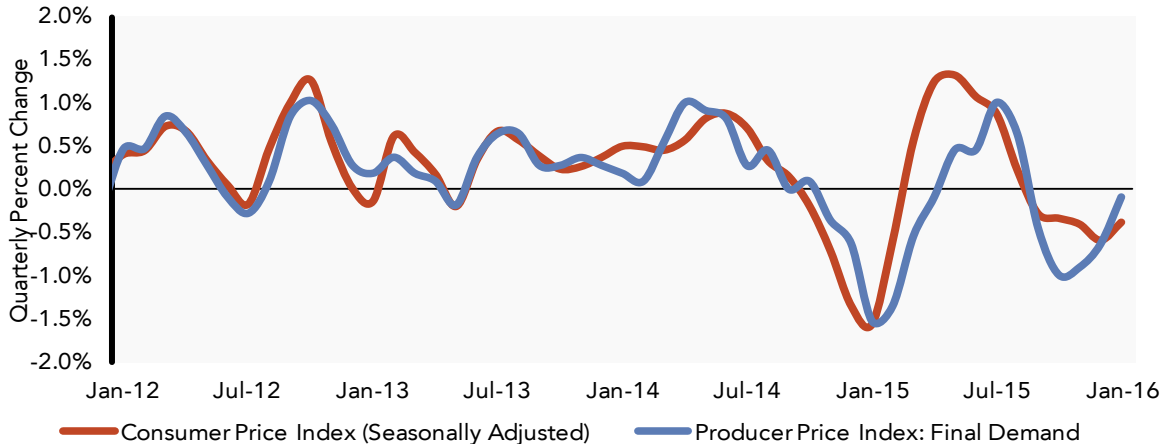
The unemployment rate remained at 4.9% for the month of February. The number of unemployed persons was mostly unchanged at 7.8M for the month, but is down about 800K during the trailing 12 months. The participation rate rose to 62.9%. The employment-population ratio also increased to 59.8%. Average duration of unemployment increased to 29.0 weeks during the month, but is down from 31.4 weeks this time last year. The broader U-6 measure of unemployment fell to 9.7%. The non-farm payroll, the net number of non-farm jobs added or subtracted per month, rose by 242K. Job growth has averaged 217K per month in the last twelve months. Job growth during February was strongest in health care (57K), retail trade (55K), food services (40K), and construction (19K), while employment fell in mining (19K). Employment in other major industries was largely unchanged during the month. Non-farm payroll employment for December and January were revised to show 30K more jobs than previously reported.

The Consumer Price Index (CPI-U) was mostly unchanged during the month of January. Within CPI-U, food remained the same for the month, while energy fell 2.8%. In the last twelve months, the CPI-U increased 1.4% with food rising by .8%. Energy declined by 6.5% during this time period. Core CPI rose .3% in January and has increased by 2.2% in the trailing twelve months. The Producer Price Index for final demand rose by .1% in January and has declined .2% in the last twelve months. The index for final demand services increased by .5%, while the final demand goods index fell by .7%.

**Unemployment Data: Monthly Non-Farm Payroll Change and Unemployment Rate**



**U.S. Inflation Data: Consumer Price Index & Producer Price Index (Year over Year)**



Source: Bureau of Economic Analysis, Bureau of Labor Statistics

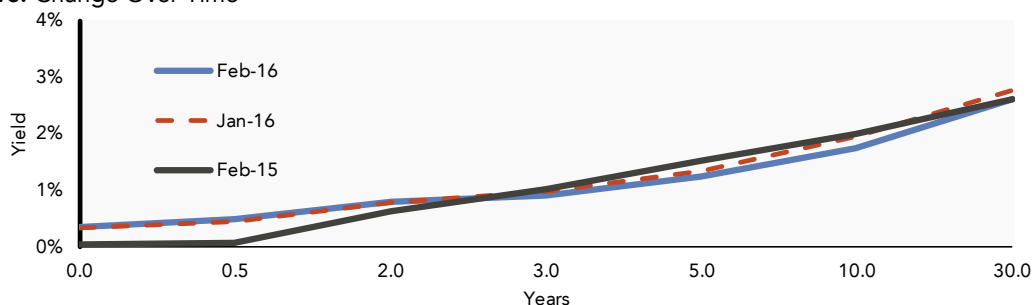
## Fixed Income

February featured an about-face in the credit markets as spreads widened in the first half, then tightened in the second half. Continued concerns about the oversupply of oil and slow growth in the world economy caused the widening in the first half, while the tightening in the second half was due to a downtick in unemployment, an uptick in inflation and a rebound in oil prices. The Agg returned 0.7% for the month while long government bonds returned 2.9% due to the flight to quality. Meanwhile, high yield eked out a small gain of 0.6% from the tightening, while bank loans were negative for the month at -0.6%. The unhedged Global Agg gained 2.2% due to rises in the euro and yen. The yield curve remained relatively unchanged from the previous month, with a slight decline in long-end yields.

### Benchmark Annualized Performance: Select Fixed Income Indices

	Month	3-Month	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Market Indices</b>							
BarCap Aggregate	0.7%	1.8%	2.1%	1.5%	2.2%	3.6%	4.7%
BarCap Gov./Credit	0.9%	1.8%	2.3%	1.1%	2.0%	3.8%	4.7%
<b>Intermediate Indices</b>							
BarCap Int. Gov./Credit	0.5%	1.4%	1.7%	1.8%	1.6%	2.9%	4.2%
<b>Government Only Indices</b>							
BarCap Gov.	0.9%	2.8%	3.0%	2.8%	2.1%	3.4%	4.4%
BarCap Long Gov.	2.9%	8.0%	8.1%	4.0%	6.0%	9.5%	7.5%
BarCap Int. Gov.	0.5%	1.9%	2.1%	2.6%	1.5%	2.4%	3.9%
BarCap 1-3 Year Gov.	0.1%	0.6%	0.7%	1.0%	0.7%	0.9%	2.6%
BarCap U.S. TIPS	1.1%	1.8%	2.6%	-0.8%	-1.2%	2.9%	4.2%
<b>Corporate Bond Indices</b>							
BarCap U.S. Credit	0.8%	0.6%	1.4%	-1.2%	2.0%	4.5%	5.3%
BarCap U.S. Long Credit	1.7%	0.7%	2.0%	-5.4%	2.3%	6.7%	6.3%
BarCap High Yield	0.6%	-3.5%	-1.0%	-8.3%	0.7%	4.1%	6.6%
CSFB Leveraged Loan Index	-0.6%	-2.2%	-1.3%	-3.3%	1.6%	3.0%	3.8%
<b>Securitized Bond Indices</b>							
BarCap MBS	0.4%	1.6%	1.7%	2.5%	2.7%	3.2%	4.7%
BarCap ABS	0.2%	1.0%	1.2%	2.0%	1.4%	2.5%	3.4%
BarCap CMBS	0.8%	1.4%	2.3%	2.2%	2.6%	4.1%	5.5%
<b>Non-US Indices</b>							
Barclays Global Aggregate	2.2%	3.7%	3.1%	0.8%	-0.1%	1.4%	4.0%
JPM EMBI Global Diversified	1.9%	0.3%	1.7%	1.1%	2.1%	5.8%	6.7%

Yield Curve: Change Over Time



Source: Barclays

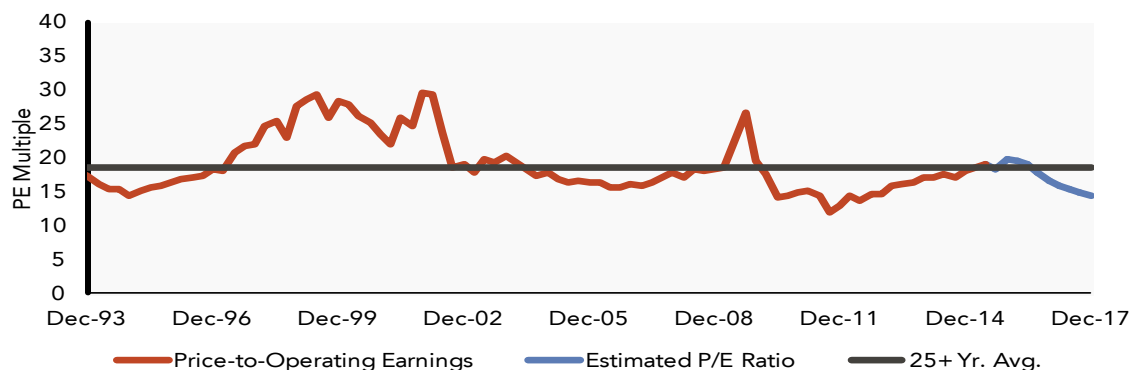
## U.S. Equity

U.S. equities were largely flat during February following an especially poor start to the year in January. Mid-cap was the best performing size segment within U.S. equities in February, led by the Russell Mid-Cap Growth index. Year-to-date, large and mid-cap indices continue to outperform small-cap indices in the current risk-off environment. Value is outperforming growth this year across all market cap segments with this performance differential most significant in small-cap. Six out of ten S&P 500 sectors posted positive returns in February. Materials (+7.6%) and Industrials (+4.0%) led during the month following poor performance in both January and the prior year. Financials (-2.9%) and Energy (-1.9%) lagged the most in February. Concern over the exposure banks have to the energy sector and continued interest rate concerns weighed on Financials, while continued uncertainty and weakness in oil prices weighed on energy companies. Year-to-date, defensive areas of the S&P 500 Telecom (+9.6%), Utilities (+7.0%), and Consumer Staples (+0.8%), are the only sectors with positive returns.

### Equity Returns: Select Index Performance

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Market Indices</b>							
Dow Jones (16,516.50)	0.8%	-6.1%	-4.7%	-6.6%	8.1%	8.9%	6.9%
Wilshire 5000	-0.1%	-7.4%	-5.5%	-7.4%	10.1%	9.6%	6.4%
Russell 3000	0.0%	-7.6%	-5.7%	-7.8%	10.1%	9.6%	6.4%
<b>Large-Cap Market Indices</b>							
S&P 500 (1,932.23)	-0.1%	-6.6%	-5.1%	-6.2%	10.8%	10.1%	6.4%
Russell 1000	0.0%	-7.1%	-5.4%	-7.2%	10.4%	9.9%	6.5%
Russell 1000 Value	0.0%	-7.2%	-5.2%	-9.4%	8.3%	8.8%	5.1%
Russell 1000 Growth	0.0%	-7.0%	-5.6%	-5.1%	12.5%	11.0%	7.7%
<b>Mid-Cap Market Indices</b>							
Russell MidCap	1.1%	-8.0%	-5.5%	-11.3%	9.1%	8.9%	6.9%
Russell MidCap Value	0.7%	-7.8%	-4.9%	-11.7%	8.3%	8.9%	6.5%
Russell MidCap Growth	1.6%	-8.2%	-6.1%	-10.8%	9.9%	8.8%	7.0%
<b>Small-Cap Market Indices</b>							
Russell 2000	0.0%	-13.4%	-8.8%	-15.0%	5.7%	6.1%	5.0%
Russell 2000 Value	0.7%	-11.0%	-6.1%	-13.4%	4.4%	5.3%	4.1%
Russell 2000 Growth	-0.7%	-15.7%	-11.5%	-16.7%	7.1%	6.9%	5.7%

### Operating Earnings Ratio: S&P 500



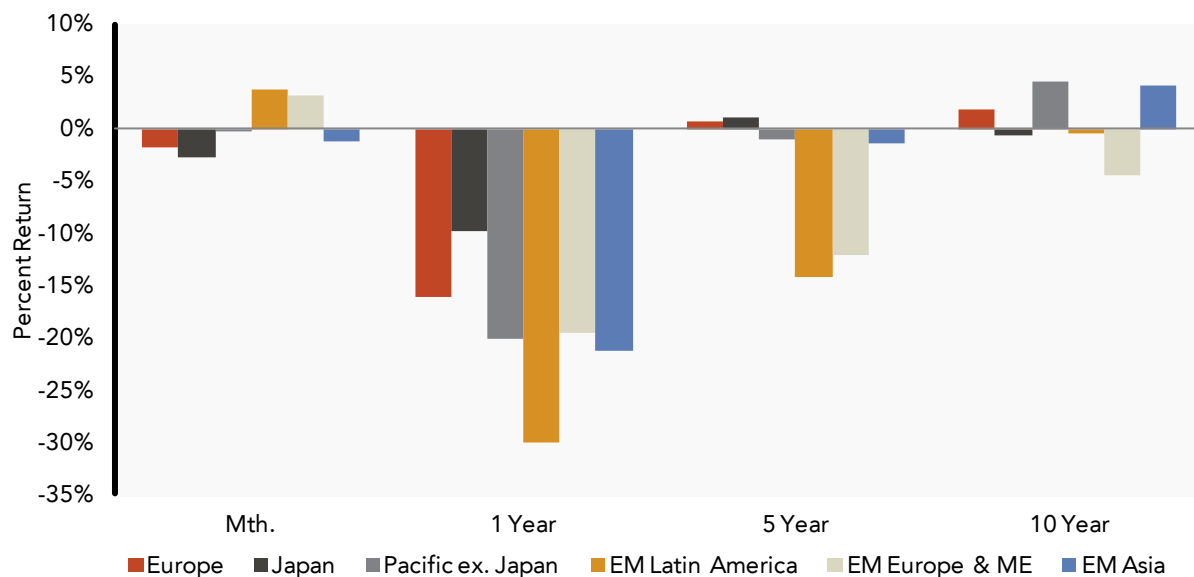
## Non-U.S. Equity

The rough start to the year for international stock investors continued as February produced negative returns. Emerging markets (-0.2%) held up better than developed markets (-1.8%), marking the second month in a row of outperformance. The Latin American region produced outsized gains led by a sharp rally in Brazil (6.3%), a market that was down 41.2% in 2015. U.S. investors benefitted from a weaker dollar as EAFE currency returned 2.0% and helped limit losses in developed equities. Markets await news out of the Eurozone on further rate cuts and/or changes to the quantitative easing program.

### Non-U.S. Equity Performance: Select Indices

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
MSCI ACWI ex U.S. IMI	-0.9%	-9.3%	-7.8%	-16.4%	-1.7%	-1.0%	1.7%
MSCI ACWI ex U.S.	-1.1%	-9.6%	-7.9%	-17.4%	-2.2%	-1.3%	1.4%
MSCI EAFE (U.S. dollar)	-1.8%	-10.2%	-8.9%	-15.2%	0.4%	0.6%	1.5%
MSCI EAFE (Local)	-3.8%	-12.0%	-9.5%	-14.9%	3.3%	2.0%	-1.0%
MSCI EAFE Value	-1.9%	-11.7%	-9.9%	-19.8%	-1.5%	-1.1%	0.2%
MSCI EAFE Growth	-1.7%	-8.7%	-8.0%	-10.5%	2.2%	2.2%	2.7%
MSCI EAFE Small Cap	-0.1%	-7.3%	-8.0%	-5.5%	5.2%	3.9%	3.1%
MSCI Emerging Markets	-0.2%	-8.7%	-6.6%	-23.4%	-8.9%	-5.4%	1.8%
MSCI Emerging Markets Small Cap	-0.4%	-8.1%	-8.2%	-17.6%	-5.6%	-3.5%	4.3%
MSCI Frontier Markets	3.5%	-3.9%	-3.6%	-16.5%	1.1%	1.0%	-1.5%

### Regional Performance: Equity Market Performance by Region



Source: Encorr, Standard & Poors

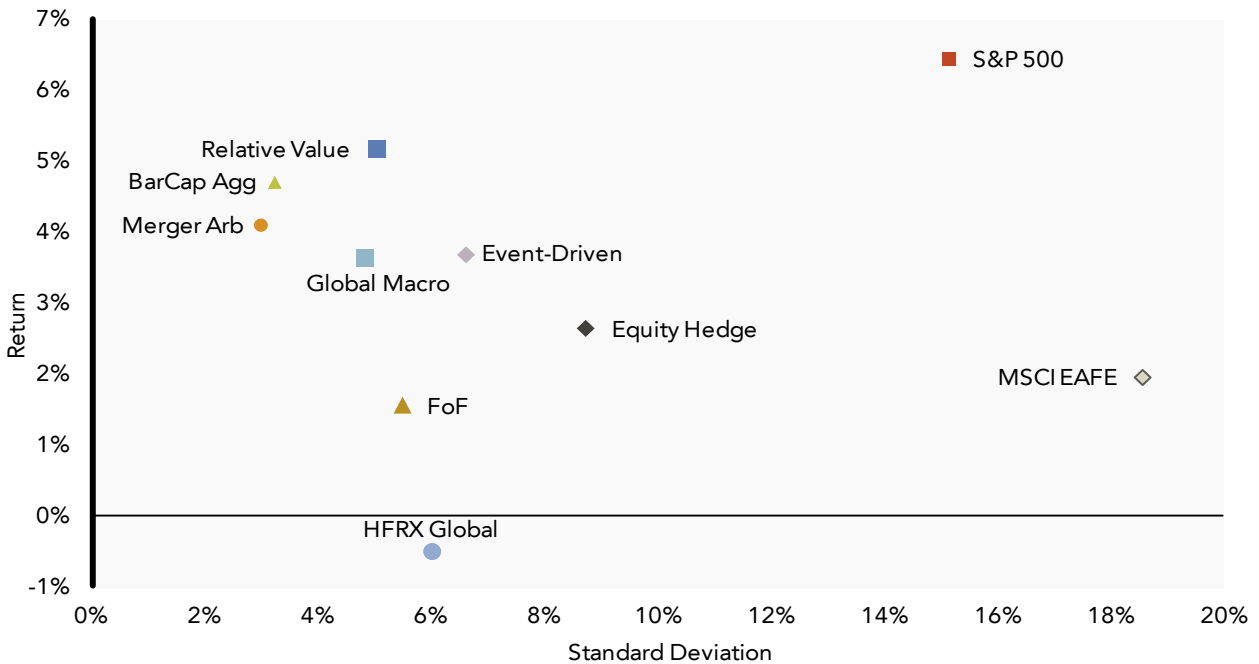
## Hedge Fund

Hedge fund strategies had mixed performance across the board during a volatile month. Risk assets suffered in the first half of February driven by continued weakness in the energy markets and concerns over global growth. Risk assets turned around, however, as oil prices snapped back after speculation that OPEC would consider decreasing oil production. Hedged equity strategies, which ended slightly negative in February (-0.1%), experienced losses on both the long and short side during a month that proved to be very tough for alpha generation. Macro strategies, on the other hand, led the way, up 1.9% for the month, primarily driven by systematic strategies.

### Hedge Fund Performance: HFR Strategy Index Returns

	Month	Qtr.	YTD	1 Year	3 Year	5 Year	10 Year
HFRX Global	-0.3%	-4.6%	-3.1%	-8.2%	-1.1%	-1.6%	-0.5%
HFRX Hedged Equity	-1.1%	-8.2%	-5.6%	-9.2%	0.0%	-2.5%	-1.2%
HFRI Composite	0.5%	-2.9%	-2.0%	-4.8%	2.0%	1.6%	3.5%
HFRI Fund of Funds	-1.2%	-5.6%	-3.8%	-5.7%	1.8%	1.1%	1.6%
HFRI Convertible Arbitrage	-0.2%	-3.3%	-2.2%	-2.1%	2.3%	1.9%	4.4%
HFRI Equity Hedge	-0.1%	-6.7%	-4.6%	-7.0%	2.0%	1.3%	2.6%
HFRI Event-Driven	-0.3%	-5.1%	-3.4%	-8.4%	1.0%	1.5%	3.7%
HFRI Macro	1.9%	4.6%	3.1%	-0.9%	2.0%	0.4%	3.6%
HFRI Merger Arbitrage	0.6%	0.6%	0.4%	1.9%	3.3%	2.6%	4.1%
HFRI Relative Value	0.0%	-2.4%	-1.6%	-3.3%	2.3%	3.5%	5.2%

### Ten Year Risk Return: Hedge Fund Returns vs. Public Markets



Source: HFR, Bloomberg

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