Summit Strategies Group
8182 Maryland Avenue, 6th Floor
St. Louis, Missouri 63105
314.727.7211

Monthly Economic & Capital Market Update

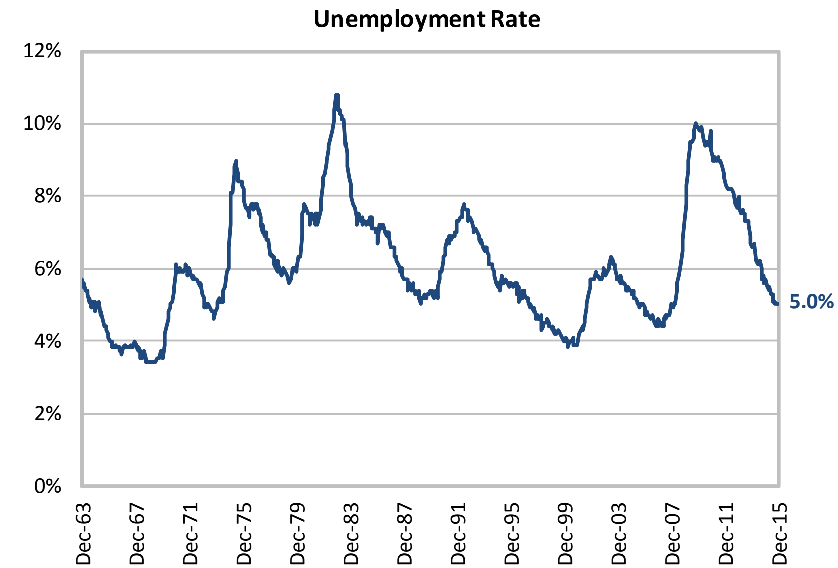
December 2015

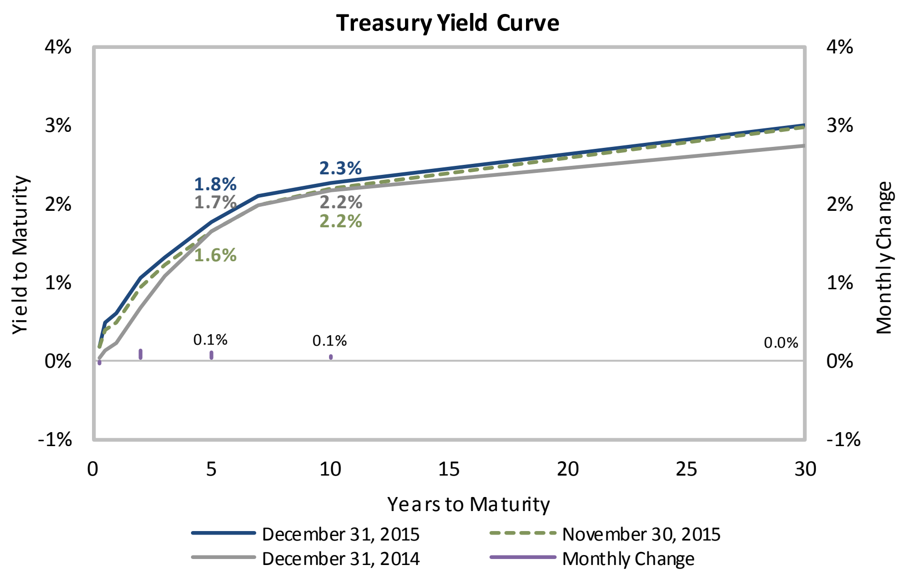
Economy

- December featured one of the most anticipated and debated economic events of 2015: the first Federal Reserve interest rate increase since 2006. After keeping the federal funds rate at zero since 2008, the Federal Open Market Committee (FOMC) decided in December the economic outlook was encouraging enough to begin gradually raising short-term interest rates. The increase of 25 basis points means monetary policy remains accommodative and expectations are for the Fed to raise rates at the slowest pace on record. Financial markets did not show a major reaction to the Fed's announcement, as the rate hike had been mostly expected by investors prior to the meeting.
- The December employment report showed continued strength in the US labor market. Employers added 292,000 jobs during the month, exceeding market expectations of 210,000 jobs. The unemployment rate remained at 5.0%, its lowest level since April 2008. In addition to the strong December report, figures for October and November were revised upwards by a combined 50,000 jobs. Job growth averaged 220,000 in 2015; historically, 200,000 new jobs per month has been consistent with strong labor market expansion.
- Oil was once again in the headlines during December as prices declined 11% to $37 per barrel, the lowest level for WTI crude since 2004; in 2015 oil prices fell 31%. OPEC announced during the month that it failed to set a production quota and therefore is likely to maintain its elevated level of output. The global supply-demand imbalance has been exacerbated by increased production by OPEC countries in an attempt to push higher-cost producers (i.e., US shale) out of the market. Consumers have benefited from the decline in oil prices, as gasoline prices have also fallen. As of December 31 the average gas price per gallon in the US was $2.00, down from $3.67 in June 2014.
- Real GDP increased at a 2.0% annualized rate during the third quarter, according to the Bureau of Economic Analysis. GDP growth rates (annualized) in the first and second quarters of 2015 were 0.6% and 3.9%, respectively.
- The service sector continues to drive US growth while manufacturing has contracted in recent months. The ISM non-manufacturing purchasing managers' index (PMI) for December showed the service sector expanded for the 71st consecutive month, while the manufacturing index saw a sixth straight month of declines and reached its lowest level since 2009.

Yield Curve

- The spread between 2-year and 30-year Treasuries declined 5 bps to 200 bps in December. Over the past 30 years the spread between 2- and 30-year Treasuries has averaged 165 bps.





Public Equities

- In December, despite an overall strong 4th quarter, global equity markets were broadly negative. The S&P 500 ended the month down 1.6% and domestic small cap equities underperformed their large cap peers, falling 5.0% for the month. Developed international markets slightly outperformed domestic markets, with the MSCI EAFE Index falling 1.4% and the MSCI EAFE Small Cap Index posting a small gain at 0.7%.
- MLP volatility elevated in December, with the index ultimately returning -3.6%. A dividend cut by Kinder Morgan, a large corporate (non-MLP) pipeline company, increased MLP volatility on speculation of possible distribution cuts if MLPs followed suit. Selling pressures from closed-end fund de-leveraging, retail fund outflows, and potential tax loss selling occurred during the month as well. The yield for the Alerian MLP index closed the year at 8.5%, at one point reaching 10% intra-month.

Public Debt

- High yield continued its selloff in December with the index returning -2.5%. Spreads widened 58 bps to 660 bps, leaving the index yielding nearly 9%. Commodity-sensitive bonds remained the biggest laggards. Mutual funds continue to see outflows, serving as a headwind to the sector.
- Local currency emerging markets debt slipped another 2.2% in December. Commodity-sensitive currencies (Mexico, Peru, Russia) drove the decline with South Africa in particular suffering due to political strife surrounding its president and finance minister.

Private Equity

- Purchase price multiples, as measured by S&P Leveraged Commentary and Data (LCD), remain at record high levels; the easy availability of credit and record levels of dry powder have been the main drivers. However, several market participants are noticing widening bid/ask spreads as lenders are beginning to tighten. Additionally, public market volatility combined with peak earnings has begun to spook buyers.

Private Debt

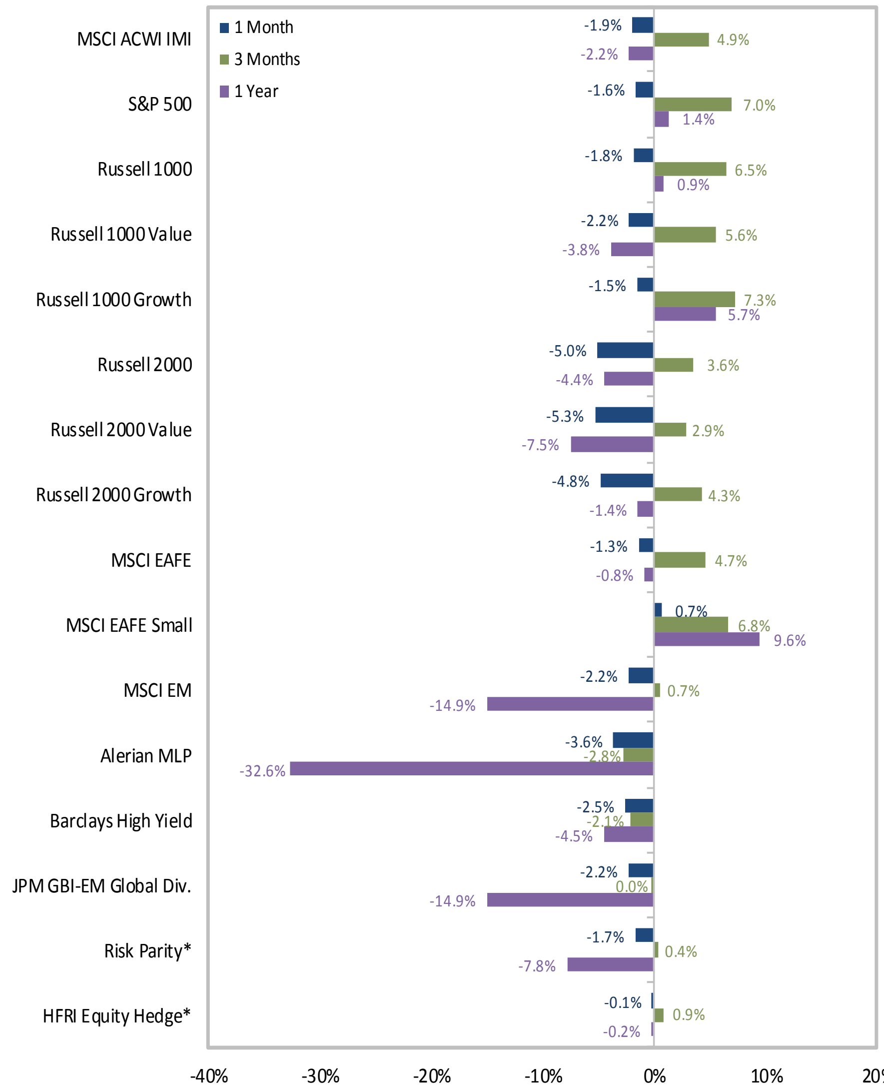
- The third quarter delivered another uptick in covenant relief amendments; however, there has been no concentration in any one industry. More amendments are possible in coming quarters as oil prices test the capital structures of energy-related, sponsor-backed deals. Debt/EBITDA ratios are near all-time highs, but capex and interest coverage remain significantly higher than the low coverage rates seen in 2006-07.

Risk Parity

- Risk parity strategies detracted in November, with the largest losses coming from commodity exposures.

Growth Hedge Funds

- Equity long/short hedge funds posted mixed performance in November, with positive performance from technology and healthcare-oriented funds and negative performance from energy-oriented funds.



* Data was not available at time of publication – returns are previous month's.
Note: Risk Parity returns are based on an internally comprised benchmark.
All returns are USD.

Summit Strategies Group

Public Debt

- Despite rates pushing returns negative, US Treasuries outperformed most spread sectors in December. There Federal Reserve rate hike resulted in limited disruption to the market as investors had largely anticipated the move, evidenced by the 42 bps increase in the two-year Treasury since early October. For the month, the curve flattened with the two-year Treasury yield up 12 bps while the long end rose only four bps.
- Investment grade credit spreads were buffeted once again by energy prices even as issuance slowed dramatically into year-end. The sector was down -0.8% for the month with spreads widening eight bps; the industrial sub-sector fell -1.1% with energy names alone falling -4.1%. Spreads finished the year 30 bps wider at 155 bps as global growth concerns, energy/commodity price pressures, and a record new issue supply of $1.3T coming on line weighed on the sector.
- The MBS and ABS sectors once again proved fairly resilient to the general risk-off sentiment in December. The risk-off tenor of the month did impact CMBS, however, which experienced 19 bps of spread widening, bringing the monthly return to -0.9%. For the year, securitized assets were the clear outperformers among major Barclays Aggregate sectors.
- International bonds were up 1.2% in December on currency improvement versus the USD. The ECB failed to meet easing hopes leading to a spike in the euro. The yen benefited from Japan's growing current account surplus.

Private Debt

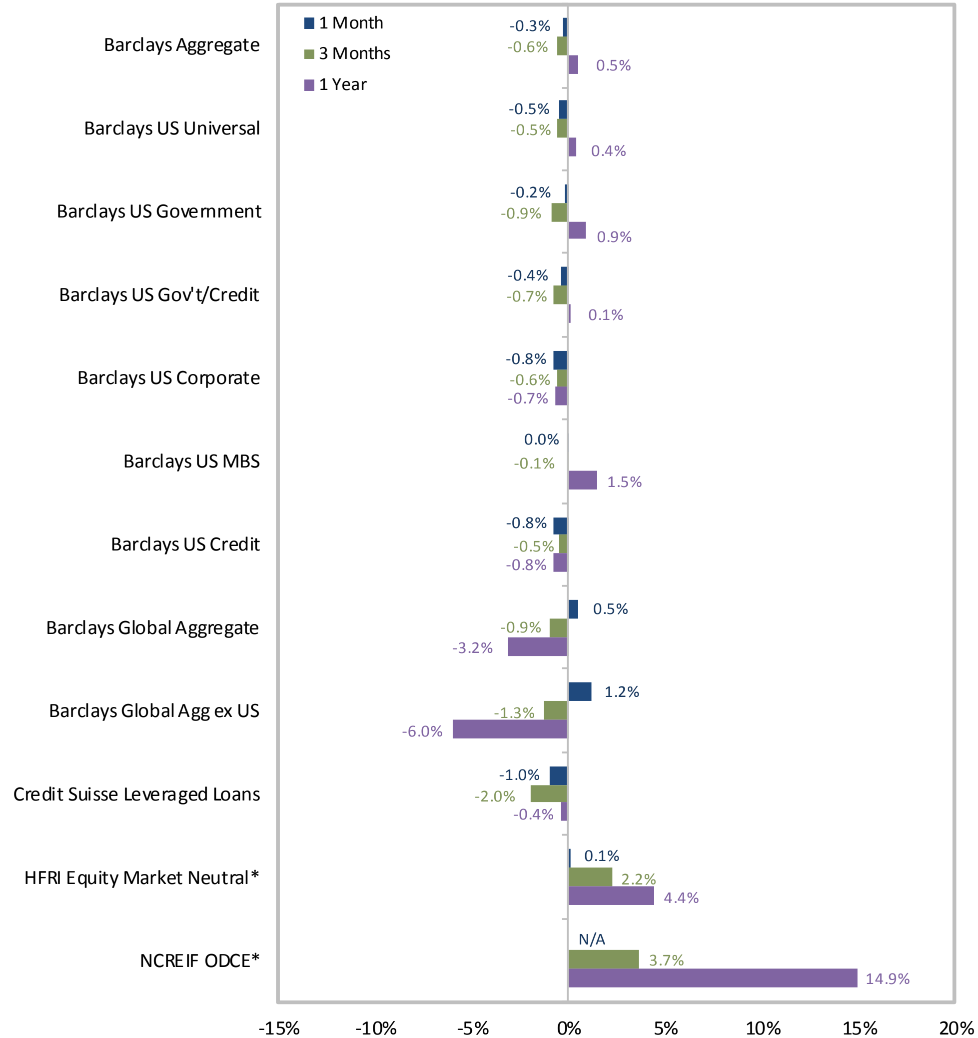
- Bank loans fell for the fifth straight month, returning -1.0% and ending the year down -0.4%, only the second negative calendar year for the index. A combination of accelerating fund outflows and pressure on energy issuers helped bring the average price to $92.7, the lowest since September 2011.

Relative Value Hedge Funds

- Equity market neutral strategies were flat in aggregate during November. Credit and convertible arbitrage funds detracted while relative value volatility contributed.

Core Real Estate

- Core real estate continued to perform well, with returns for the NCREIF ODCE Index coming in at 3.7% for the third quarter. New job openings are near all-time highs, new claims for unemployment are at their lowest levels in decades, and supply-demand fundamentals remain favorable for real estate.



* Data was not available at time of publication – returns are previous month's.
Note: All returns are USD.

Diversification Assets

December 31, 2015

Inflation

- TIPS returned -0.8% in December, underperforming nominal Treasuries as breakeven inflation expectations narrowed along the curve, especially for off-the-run issues. As of the end of December, the breakeven inflation rate for the 10-Year TIPS was 1.45%, down 5 bps on the month.

Deflation

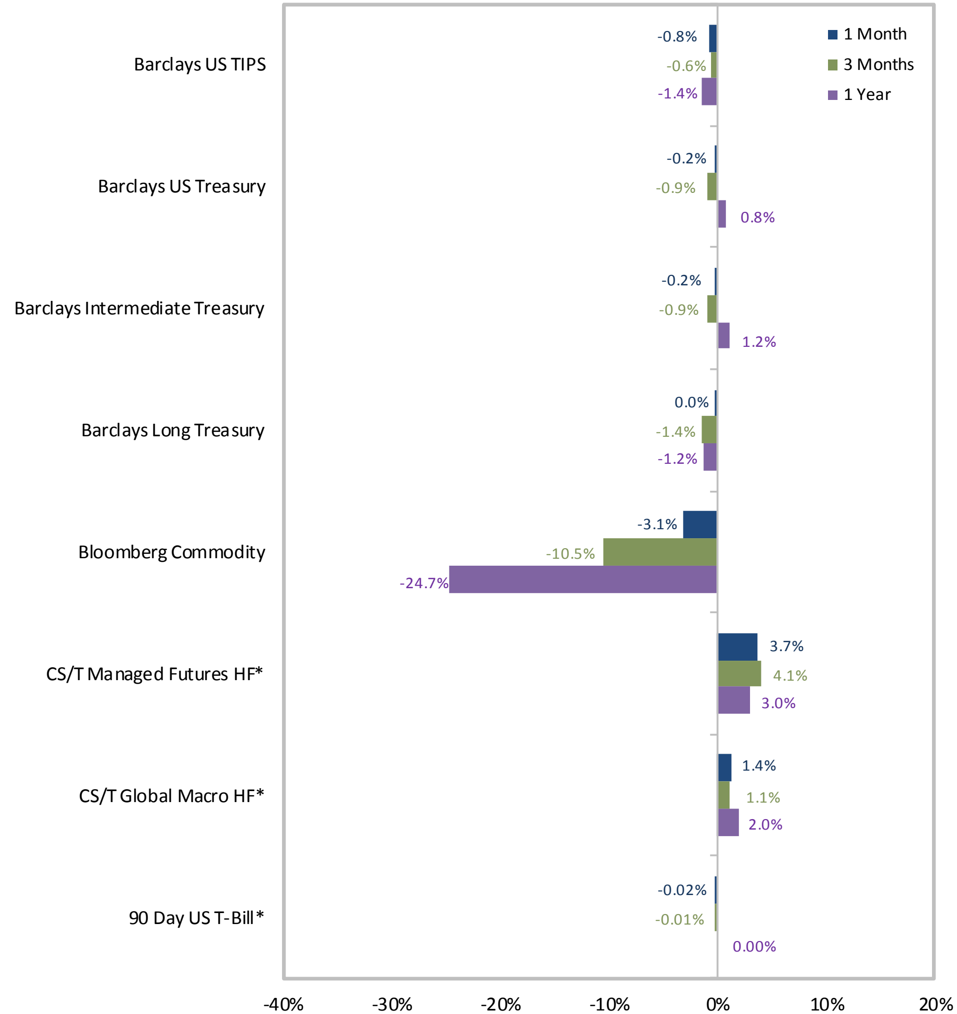
- The FOMC's increase in rates had limited impact on the long end in December. Long Treasury returns were basically unchanged as coupon income offset any price pressure from a modest rise in long rates. However, for the year, a 36 bps increase in rates did lead the long end lower as the Barclays Long Treasury index fell -1.2%.
- Cash continues to offer no return, with 90-day T-Bills returning 0.0% over the past year.

Commodities

- Although 12 of 22 individual commodities advanced during the month, the asset class declined overall due to sharp declines in energy-related commodities. Livestock (+4%), industrial metals (+3%), and soft agriculture (+3%) led advancing sectors. Energy (-11%), primarily petroleum (-14%) declined the most during the month on elevated global production and inventory levels. For 2015, cotton was the only positive individual commodity, driven by lower-than-expected US output throughout the year.

Tactical Trading

- Gains in tactical trading strategies were driven by CTAs in November, while discretionary global macro was also positive.



* Data was not available at time of publication – returns are previous month's.
Note: All returns are USD.

Disclaimer: Although Summit Strategies Group (Summit) believes the modeling contained in this document to be reliable, the modeling of complex financial transactions has inherent limitations. Summit does not guarantee the results to be obtained by the use of this model. This model is developed by Summit based on information obtained from sources which Summit believes are reliable, but Summit does not warrant or guarantee the accuracy, completeness, or reliability of such information. Any information contained in or provided in connection with the model is for information purposes only, for the exclusive use by the client for which it was prepared, and is not intended and should not be construed to be an offer to buy or sell any securities, investment consulting or investment management services. No model can, in and of itself, be used to determine which securities or investments to buy or sell. All forward-looking projections are based on assumptions that Summit believes may be reasonable, but are subject to a wide range of risks, uncertainties and the possibility of loss. Accordingly, there is no assurance that any estimated performance projections of any model will occur in the amounts and during the periods indicated, or at all. Actual results and performance will differ from those expressed or implied by such forward-looking projections. Any decision to use or not use the model and any information accompanying or produced with the model remains solely with the client.