LAURENTIDE
ADVISORY

Market Commentary
1Q 2017

Strong market returns. Global equities posted a strong quarterly return led by foreign markets as investors became increasingly comfortable with the global growth environment. U.S equities returned 6.1% versus 7.2% for International equities and 11.4% for the Emerging Markets. Fixed Income yields rallied from a high of 2.6% on the 10-year Treasury to 2.35%, in contrast to two recent Fed moves which raised short term rates by a total of 0.50%. Investment grade credit and high yield spread held in as favorable demand for yield and risky assets continued. Investment grade bonds returned 0.8% in the first quarter while high yield debt returned 2.7%.

Not a strong end to the quarter. U.S. equities were flat in March as investors' high expectations for fiscal stimulus and regulatory relief hit the hard reality of the D.C. political establishment. The Republican version of ACA failed, lowering the probability that bills to bring about meaningful tax reform and infrastructure spending will be enacted easily. As a result, investors unwound some of the popular Trump trades that had carried the markets since the elections in November.

Investment Views

We believe that global equity markets are in the process of rebalancing, and that attractive opportunity is beginning to emerge abroad. In the US, sector rotations may be signaling less investor conviction in the timing and direction of possible constructive changes to economic policy. International economies have shown renewed cyclical growth momentum relative to the U.S. Fundamentally, the corporate earnings growth gap between the US and Europe is starting to narrow, making the cyclical outlook for **international equities relatively more attractive** after several years of underperformance. In the same vein, the strong US dollar may be at risk.

In Fixed Income, we remain less exposed to rising interest rates by carrying an underweight to investment grade bonds – historically the most sensitive sector to rising rates. Globally, central bank policy is becoming less accommodative which ultimately should create upward direction for interest rates. Additionally, global growth is currently providing stability for corporate and emerging market debt. **Our strategy allocates to both high-quality bonds and higher-yielding sectors for a yield advantage.** A diversified, core-plus approach typically results in fewer periods of negative returns. We recognize the out-of-index nature of our strategy and the risk that weaker economic fundamentals may present.

Market Theme	Investment View
Bond price (duration) risk is extreme	Favor short duration and out of benchmark credit
Better balanced global growth	Own foreign equities, be neutral to currency exposure
Consumerism in developing economies is on the rise	Emerging and small-cap equities look attractive

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