

# Macro Matters

The financial crisis and the response of global central banks to it has drastically changed our current financial landscape. The suppression of interest rates in an attempt to stoke inflation and growth has distorted asset values and challenges assumptions about the future based on past relationships.

## Economic and Fiscal Tendencies Change

The charts below highlight this dilemma by illustrating the correlations amongst different asset classes from a representative pre crisis period, 2002 to 2004, and for the first nine months of 2016. It is clear that correlations have dramatically increased and certain relationships have been turned on their head. For instance, higher oil prices used to be viewed as a negative because of implications for inflation and purchasing power. Now, higher oil, in a risk on/risk off world, is considered a harbinger of growth and a bullish equity signal. The growth of global trade, information flow, and interconnectedness has created interdependencies that require viewing asset allocation with a fresh perspective. What happens when interest rates around the globe finally normalize? Another regime change will be forthcoming.

Passive management has performed well over the last several years as the rising tide of global easy money has lifted virtually every boat. We feel this will certainly change as dispersion increases and correlations shift. It will require dynamic, managed investment strategies to navigate, as what has worked in the past may no longer be relevant for the future.

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### Correlation Charts

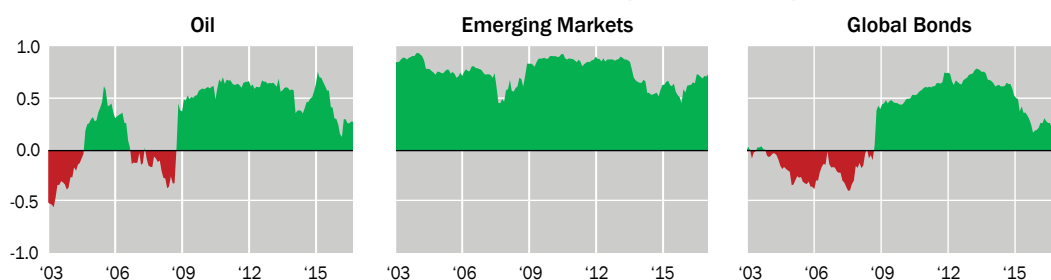
|                       |       | SPX   | MWI   | SXXP  | EM    | HY    | EUAGG | JPY   | GBP  | Oil |
|-----------------------|-------|-------|-------|-------|-------|-------|-------|-------|------|-----|
| S&P 500 Index         | SPX   |       |       |       |       |       |       |       |      |     |
| MSCI World Index      | MWI   | 0.92  |       |       |       |       |       |       |      |     |
| STOXX Europe 600      | SXXP  | 0.59  | 0.76  |       |       |       |       |       |      |     |
| MSCI Emerging Markets | EM    | 0.30  | 0.48  | 0.42  |       |       |       |       |      |     |
| U.S. High Yield       | HY    | 0.16  | 0.27  | 0.22  | 0.37  |       |       |       |      |     |
| Euro Aggregate        | EUAGG | -0.22 | -0.11 | -0.47 | -0.01 | 0.11  |       |       |      |     |
| Japanese Yen          | JPY   | 0.04  | -0.07 | 0.13  | -0.19 | -0.17 | -0.38 |       |      |     |
| British Pound         | GBP   | -0.17 | -0.04 | -0.19 | 0.11  | 0.13  | 0.59  | -0.41 |      |     |
| Brent Crude           | Oil   | -0.18 | -0.12 | -0.10 | 0.05  | -0.03 | 0.17  | -0.05 | 0.14 |     |

**Pre-Crisis**  
2002-2004

|                       |       | SPX  | MWI  | SXXP  | EM   | HY   | EUAGG | JPY  | GBP  | Oil |
|-----------------------|-------|------|------|-------|------|------|-------|------|------|-----|
| S&P 500 Index         | SPX   |      |      |       |      |      |       |      |      |     |
| MSCI World Index      | MWI   | 0.90 |      |       |      |      |       |      |      |     |
| STOXX Europe 600      | SXXP  | 0.69 | 0.85 |       |      |      |       |      |      |     |
| MSCI Emerging Markets | EM    | 0.52 | 0.74 | 0.69  |      |      |       |      |      |     |
| U.S. High Yield       | HY    | 0.57 | 0.74 | 0.77  | 0.73 |      |       |      |      |     |
| Euro Aggregate        | EUAGG | 0.02 | 0.20 | -0.03 | 0.25 | 0.07 |       |      |      |     |
| Japanese Yen          | JPY   | 0.42 | 0.41 | 0.47  | 0.29 | 0.31 | -0.23 |      |      |     |
| British Pound         | GBP   | 0.40 | 0.53 | 0.48  | 0.33 | 0.34 | 0.41  | 0.19 |      |     |
| Brent Crude           | Oil   | 0.49 | 0.53 | 0.47  | 0.37 | 0.51 | 0.04  | 0.21 | 0.27 |     |

**Current**  
2016 Year-To-Date

### Correlation to the S&P 500 (2003 - 2016)



Source: Bloomberg. All data as of 9/30/2016



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## Definitions

The S&P 500 is a capitalization-weighted index that is generally considered representative of the U.S. large capitalization market.

The MSCI World Index is a free-float weighted equity index. It was developed with a base value of 100 as of December 31, 1969. MXWO includes developed world markets, and does not include emerging markets. MXWD includes both emerging and developed markets.

The STOXX Europe 600 Index is derived from the STOXX Europe Total Market Index (TMI) and is a subset of the STOXX Global 1800 Index. With a fixed number of 600 components, the STOXX Europe 600 Index represents large, mid and small capitalization companies across 18 countries of the European region.

The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The BofA Merrill Lynch US High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt publicly issued in the US domestic market.

The Bloomberg Barclays Euro Aggregate Index is a broad-based flagship benchmark that measures the investment grade, euro-denominated, fixed-rate bond market, including treasuries, government-related, corporate and securitized issues.

Japanese Yen (JPY) is the official currency of Japan.

British Pound (GBP) is the official currency of The United Kingdom

The S&P GSCI Brent Crude Oil provides investors with a reliable and publicly available benchmark for investment performance in the Brent crude oil market.

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## Other Market Insights



### Periodic Table: Fixed Income Sector Performance

The chart provides a detailed look at Fixed Income performance over the past decade, broken down by 13 sectors.

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