



**PERSPECTIVES  
THAT DRIVE  
ENTERPRISE  
SUCCESS**

APRIL 2017  
Capital Markets Update



# Market commentary

## ECONOMIC CLIMATE

- Real GDP grew 1.9% YoY in the first quarter (0.7% QoQ annualized). The pace of growth was below the Bloomberg consensus estimate of 1.1% QoQ, negatively affected by lower than anticipated government spending and an increase in imports.
- Economic growth was also affected by consumer spending, which was lower than in previous quarters. Consumer spending was negatively influenced by a decrease in automobile sales.
- The U.S. economy added 211,000 non-farm jobs in April, above the consensus estimate of 185,000. The unemployment rate fell from 4.5% to 4.4%, partially influenced by a decrease in the participation rate from 63.0% to 62.9%.
- Headline CPI increased by 2.4% year-over-year in March, down 41 bps from February. Core CPI increased 2.0% over the previous year, down 21 bps from the prior month.
- The ISM Manufacturing index decreased in April from 57.2 to 54.8, below the consensus estimate of 56.5. The report was a break from the recent upward trend, however, readings above 50 still indicate general expansion in manufacturing.

## DOMESTIC EQUITIES

- Domestic equities increased in April. The S&P 500 returned 1.0% during the month, and the index has risen 7.2% year-to-date.
- According to FactSet, 83% of S&P 500 companies had reported Q1 earnings as of May 5<sup>th</sup>, and the blended year-over-year earnings growth rate was 13.5%. This was above the previous estimate of 9.0% on March 31<sup>st</sup>.

## DOMESTIC FIXED INCOME

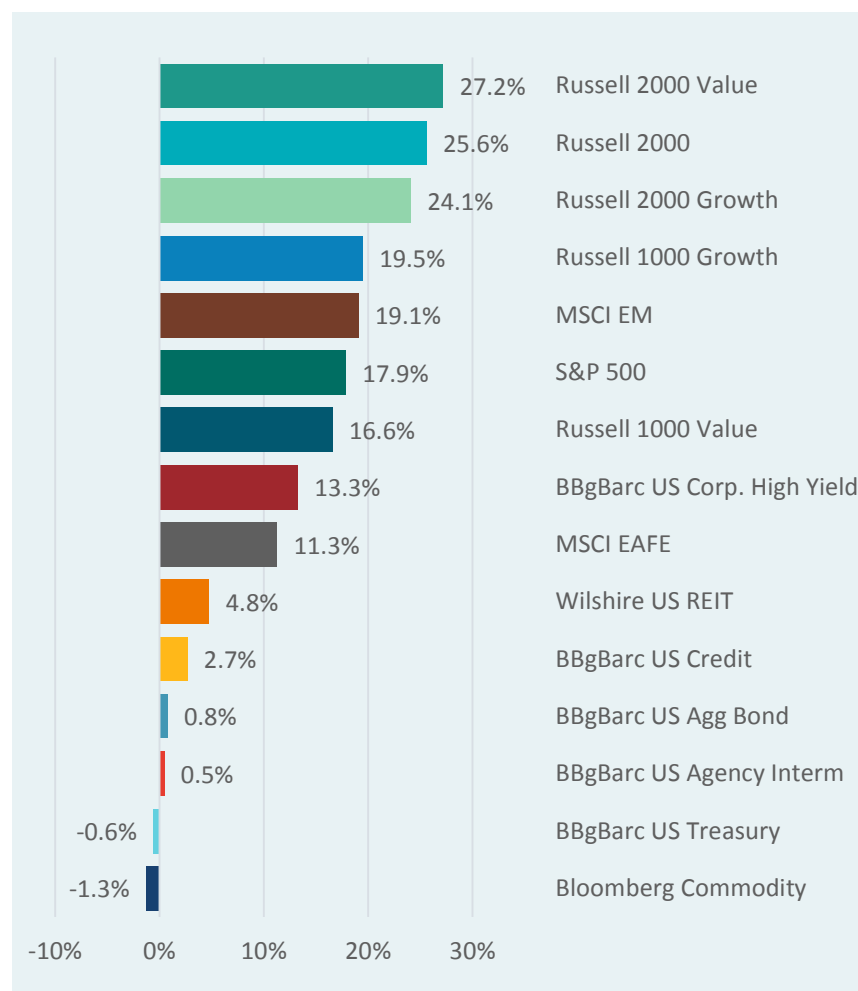
- Domestic fixed income returns were positive in April. The Bloomberg Barclays U.S. Aggregate returned 0.8%.
- The U.S. Treasury curve flattened slightly in April, with the 10-year minus 2-year Treasury yield spread contracting 11 bps to 1.06%.
- Medium and longer-term interest rates continued downward from recent highs. The 10-year Treasury yield ended April at 2.29%, down from 2.40% at prior month end and the recent high of 2.62% on March 13<sup>th</sup>.

## INTERNATIONAL MARKETS

- International equities outperformed domestic equities (S&P 500 1.0%) as the unhedged MSCI ACWI ex U.S. index returned 2.1% (1.6% hedged). Eurozone equities contributed to the outperformance as the MSCI Euro returned 4.0% in the month.
- Real U.K. GDP increased 2.1% year-over-year in the first quarter, below the consensus estimate of 2.3%. Positive manufacturing output was muted by lower than anticipated growth in retail sales and services.
- Real GDP growth in the Euro area grew at 1.7% year-over-year in the first quarter. The European Commission forecasted 2017 GDP growth of 1.5%.
- Pro European Union candidate Emmanuel Macron defeated Marine Le Pen of the National Front party in the final ballot of the French Election. The president elect took office on May 14<sup>th</sup>.

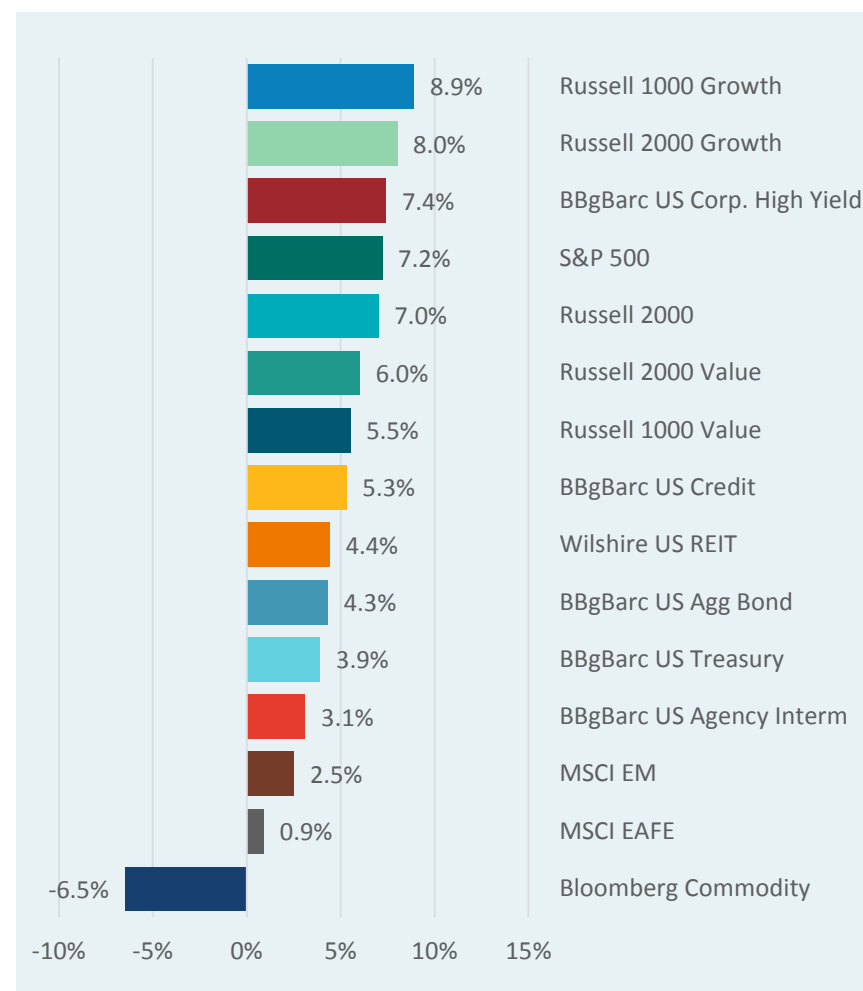
# Major asset class returns

ONE YEAR ENDING APRIL



Source: Morningstar, as of 4/30/17

TEN YEARS ENDING APRIL

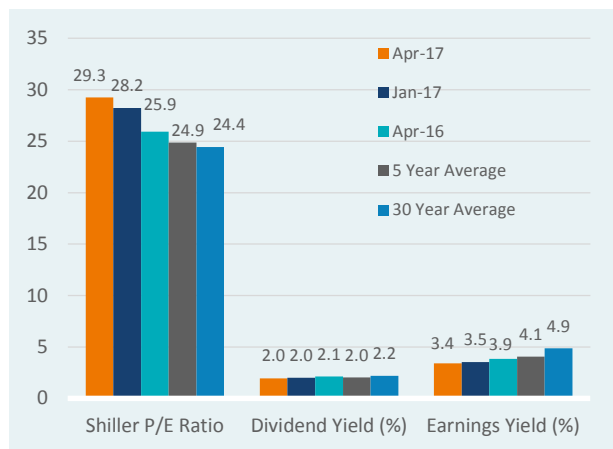


Source: Morningstar, as of 4/30/17

# U.S. large cap equities

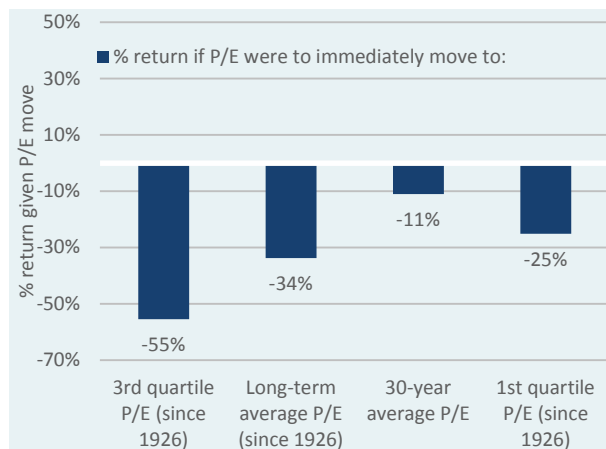
- The S&P 500 returned 1.0% in April. According to FactSet, the blended year-over-year Q1 earnings growth rate of 13.5% was the highest since Q3 2011. Ten of the eleven sectors have reported positive year-over-year earnings growth, led by Energy, Financials, and Information Technology.
- In April, Information Technology and Consumer Discretionary companies outperformed the S&P 500 index (+1.0%). The sectors returned 2.5% and 2.4%, respectively.
- The two worst performing sectors were Telecom Services and Energy, returning -3.3% and -2.8%, respectively. Telecom earnings growth was -0.8% in the first quarter. Energy stocks benefited from 21.9% earnings growth, but were negatively affected by declining energy prices.
- The trailing P/E ratio of the S&P 500 declined from 21.8 to 21.3 in April on positive earnings reports. The valuation remained elevated above its 5-year average of 17.8.

**US LARGE CAP (S&P 500) VALUATION SNAPSHOT**



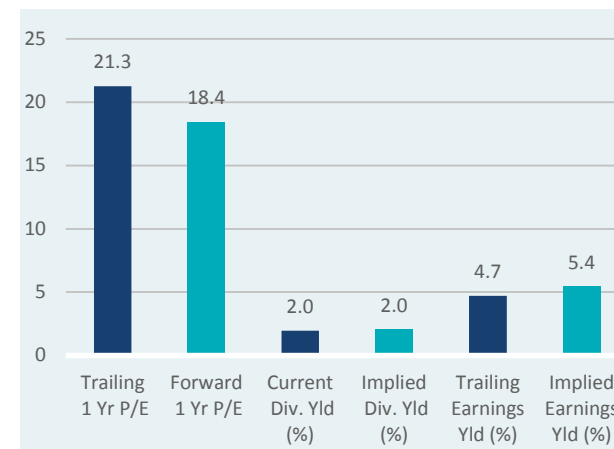
Source: Yale/Shiller, as of 4/30/17

**RETURNS IF P/E MOVED TO HISTORIC LEVEL**



Source: Yale/Shiller, Verus, as of 4/30/17

**S&P 500 VALUATION SNAPSHOT**

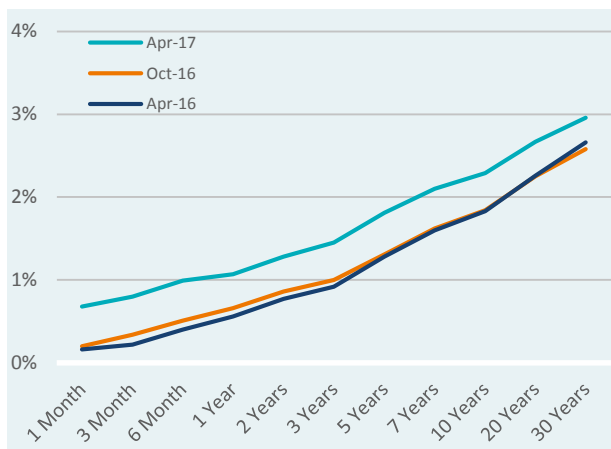


Source: Bloomberg, as of 4/30/17

# Fixed income

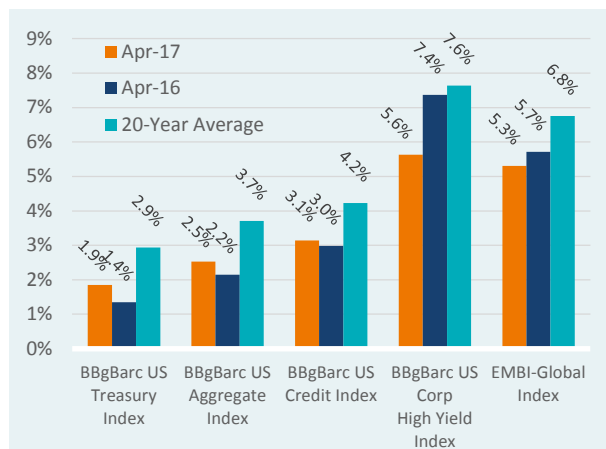
- The Federal Reserve chose to hold the federal funds rate at its current range of 0.75% - 1.00%. The market is pricing in the next rate hike to occur at the June meeting, according to federal funds futures prices.
- In April, the Bloomberg Barclays Treasury Long index (+1.5%) outperformed the U.S. Aggregate index (+0.8%). The longer duration index benefitted from a slight flattening of the yield curve, as the 10-year and 20-year yields fell by 11 bps and 9 bps, respectively.
- Market based inflation expectations fell slightly during the month. The 10-year TIPS breakeven rate decreased to 1.9%, down from 2.0% in March and 2.1% in January.
- According to Bloomberg, leveraged loan issuance in Q1 hit its highest quarterly rate since 1999, at approximately \$434 billion in loans. The repricing and issuance of loans may have been influenced by expectations of interest rate hikes later in the year.

**U.S. TREASURY YIELD CURVE**



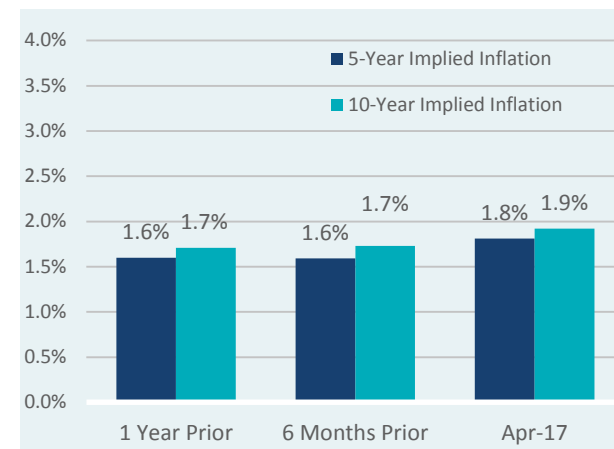
Source: Federal Reserve, as of 4/30/17

**NOMINAL FIXED INCOME YIELDS**



Source: Morningstar, as of 4/30/17

**IMPLIED INFLATION (TIPS BREAKEVEN)**

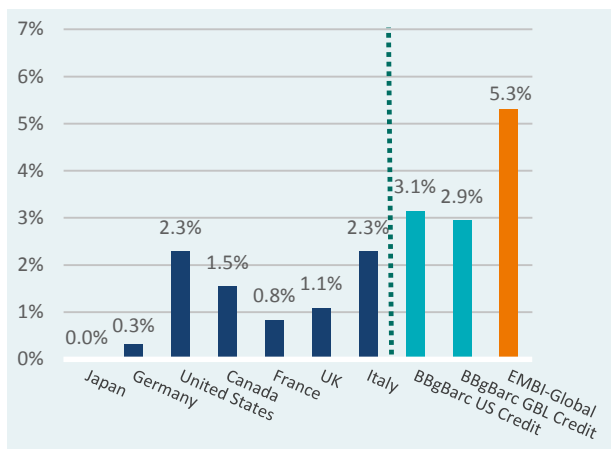


Source: Federal Reserve, as of 4/30/17

# Global markets

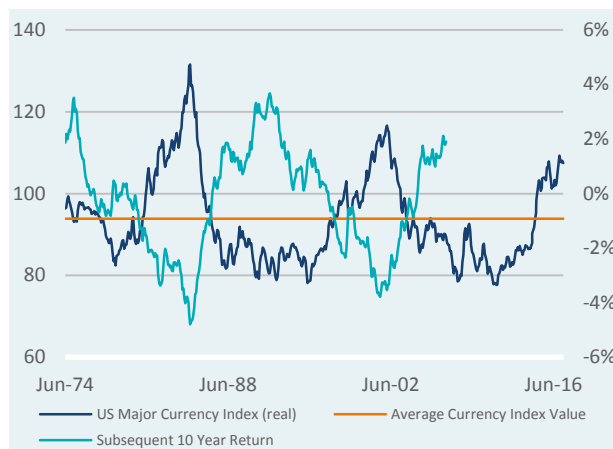
- Global sovereign bond yields were generally lower in April. The French 10-year yield experienced the largest change, decreasing by 13 bps.
- The U.S. major currency index decreased -0.5% to 107.5 in April against a trade weighted basket of currencies. The index was down 1.6% year-to-date but remained well above its long-term average of 93.8.
- Valuations of international, emerging, and U.S. equities fell slightly in April due to positive Q1 earnings growth. Emerging market equities remain the cheapest based on P/E and P/FCF valuations.
- Trans-Pacific Partnership (TPP) trade talks resumed in Canada for the first time since the U.S. withdrew from negotiations in January. The future of the pact will be determined by the 10 remaining countries at the APEC trade summit in November.

**GLOBAL SOVEREIGN 10 YEAR INDEX YIELDS**



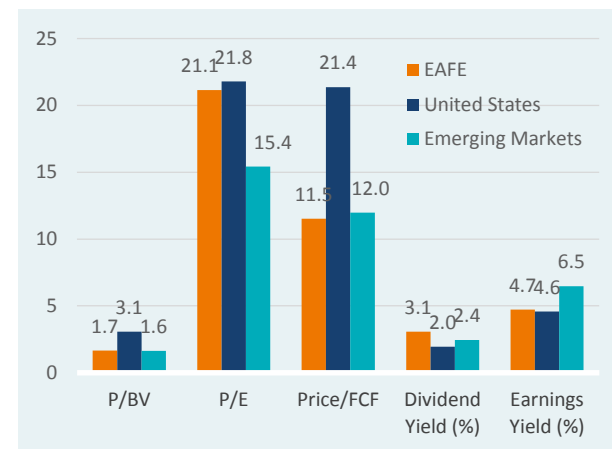
Source: Morningstar, as of 4/30/17

**U.S. DOLLAR MAJOR CURRENCY INDEX**



Source: Federal Reserve, as of 4/30/17

**MSCI VALUATION METRICS (3 MONTH AVERAGE)**

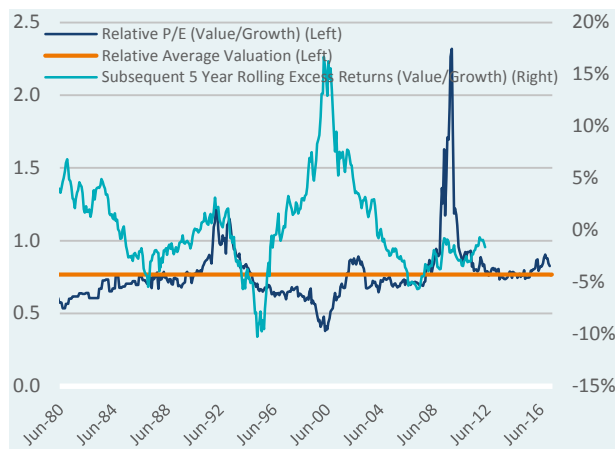


Source: Bloomberg, as of 4/30/17

# Style tilts: U.S. large value vs. growth

- For a fourth consecutive month, growth equities outperformed value equities. In April, the Russell 1000 Growth Index and Russell 1000 Value Index returned 2.3% and -0.2%, respectively. The large cap growth index has outperformed value by 8.3% year-to-date.
- In April, the Russell 1000 Growth index had a 5-year EPS growth rate of 9.8%, significantly higher than the Russell 1000 Value which was only 2.3%.
- The outperformance of growth equities in April was attributable to a higher relative concentration of Consumer Discretionary and Technology companies. The two sectors returned 2.6% and 2.4%, respectively.
- As calculated by the Sharpe ratio, growth equities have provided higher risk adjusted returns over the 3-year, 5-year and 10-year periods, despite strong outperformance of value equities in 2016.

## RELATIVE TRAILING PE RATIO OF U.S. VALUE VS. GROWTH



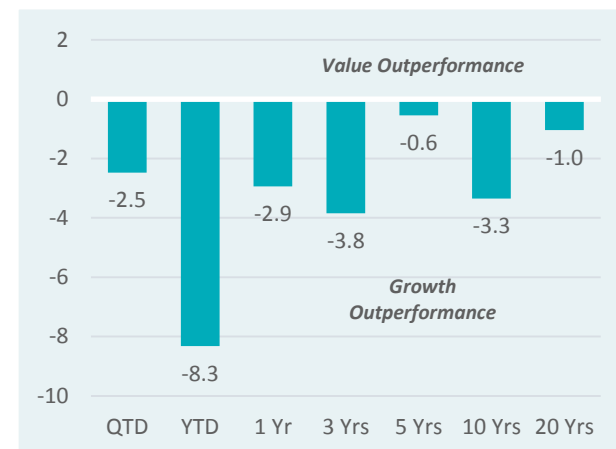
Source: Russell, Bloomberg, as of 4/30/17

## U.S. VALUE VS. GROWTH ABSOLUTE PERFORMANCE

	RUSSELL 1000 VALUE ANNUALIZED RETURN TO DATE %	RUSSELL 1000 GROWTH ANNUALIZED RETURN TO DATE %
QTD	(0.2)	2.3
YTD	3.1	11.4
1 YEAR	16.6	19.5
3 YEARS	8.3	12.1
5 YEARS	13.3	13.9
10 YEARS	5.5	8.9
20 YEARS	8.1	7.1
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.79	1.07
5 YEARS	1.23	1.27
10 YEARS	0.38	0.59
20 YEARS	0.45	0.36

Source: Morningstar, as of 4/30/17

## U.S. VALUE VS. GROWTH RELATIVE PERFORMANCE

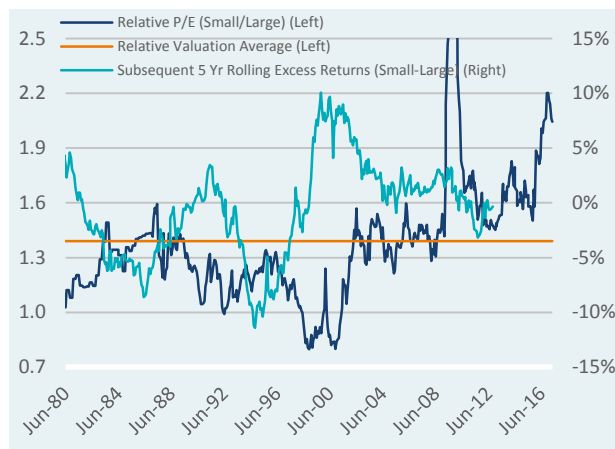


Source: Morningstar, as of 4/30/17

# Style tilts: U.S. large vs. small

- U.S. small cap equities performance was on par with large cap equities in April, as the Russell 2000 index and Russell 1000 index both returned 1.1%.
- The relative trailing P/E ratio of small to large equities regressed moderately from a 7-year high (2.2) in December to 2.04 in April. The ratio remained well above the long-term average of 1.39.
- In the calendar year of 2016 small cap equities outperformed large cap equities by 10.3%. In 2017, large cap equities have reversed that trend with a relative outperformance of 3.6% year-to-date.
- Large cap equities have provided superior risk-adjusted returns (Sharpe ratio) relative to small cap equities over the periods examined below. The difference was mainly attributed to the consistently higher realized volatility of small cap equities.

**RELATIVE TRAILING PE RATIO OF U.S. SMALL VS. LARGE**



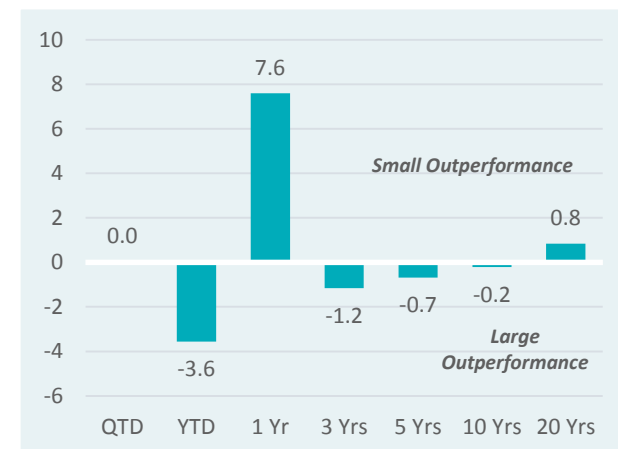
Source: Russell, Bloomberg, as of 4/30/17

**U.S. LARGE VS. SMALL ABSOLUTE PERFORMANCE**

	RUSSELL 1000 INDEX	RUSSELL 2000 INDEX
	ANNUALIZED RETURN TO DATE %	ANNUALIZED RETURN TO DATE %
QTD	1.1	1.1
YTD	7.1	3.6
1 YEAR	18.0	25.6
3 YEARS	10.2	9.0
5 YEARS	13.6	12.9
10 YEARS	7.3	7.0
20 YEARS	7.9	8.7
	SHARPE RATIO	SHARPE RATIO
3 YEARS	0.96	0.62
5 YEARS	1.29	0.92
10 YEARS	0.49	0.41
20 YEARS	0.43	0.41

Source: Morningstar, as of 4/30/17

**U.S. LARGE VS. SMALL RELATIVE PERFORMANCE**



Source: Morningstar, as of 4/30/17



# Commodities

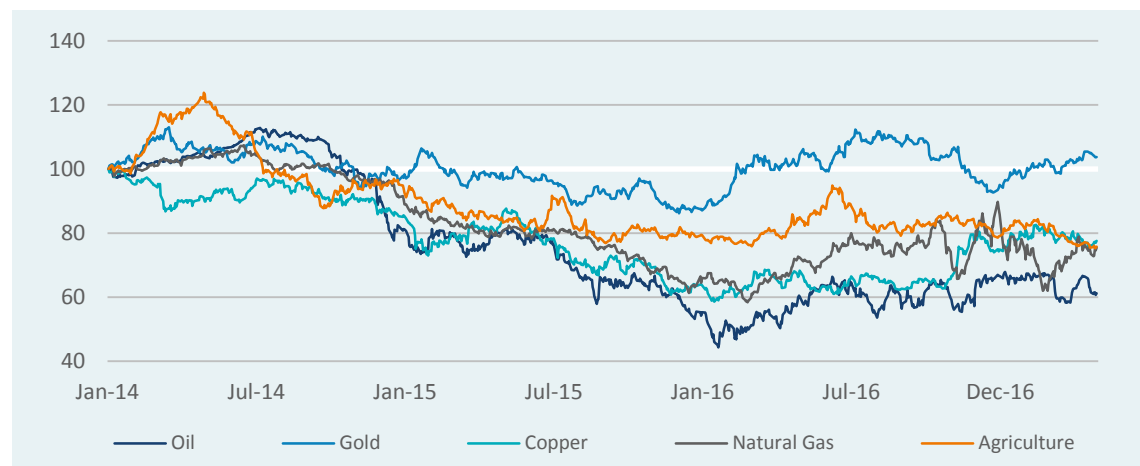
- The Bloomberg Commodity index returned -1.5% in April. The Livestock sub-index (+7.4%) significantly outperformed the broad index, bolstered by tight supply and seasonal demand that led to an 11.9% month-over-month increase in Cattle futures.
- WTI Crude Oil edged lower by -2.5% and ended the month at \$49.33 per barrel. The decrease in prices occurred despite multiple OPEC members comments signaling an extension of the production cuts.
- Precious Metals was the second highest returning commodity sub-index - returning -0.6% in April. The positive price increase in gold (+1.4%) was offset by a drop in Silver which fell by -5.4%.
- Sugar futures continued their downward trend and fell by -4.0% in April. The commodity is down -31.1% from October of 2017.

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(1.5)	(1.5)	(3.8)	(1.3)	(15.0)	(9.7)	(6.5)
Bloomberg Agriculture	(1.2)	(1.2)	(4.2)	(9.2)	(14.7)	(8.3)	(1.0)
Bloomberg Energy	(3.0)	(3.0)	(14.1)	(2.9)	(29.8)	(17.7)	(17.6)
Bloomberg Grains	(0.8)	(0.8)	(2.2)	(15.3)	(17.5)	(9.4)	(2.4)
Bloomberg Industrial Metals	(3.4)	(3.4)	4.0	13.7	(4.8)	(7.0)	(7.3)
Bloomberg Livestock	7.4	7.4	7.6	4.0	(7.1)	(1.4)	(7.1)
Bloomberg Petroleum	(4.4)	(4.4)	(13.2)	(6.1)	(29.7)	(19.4)	(11.2)
Bloomberg Precious Metals	(0.6)	(0.6)	9.1	(3.3)	(2.1)	(7.4)	4.8
Bloomberg Softs	(3.5)	(3.5)	(8.2)	2.6	(12.5)	(9.8)	(0.9)

Source: Morningstar, as of 4/30/17

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 4/30/17

# Appendix

# Periodic table of returns

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	5-Year	10-Year
Emerging Markets Equity	16.6	38.4	23.2	35.2	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	13.9	13.9	8.9
Large Cap Growth	8.1	37.8	23.1	32.9	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	11.4	13.6	8.0
International Equity	6.4	37.2	22.4	31.8	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	10.0	13.3	7.3
Small Cap Growth	4.4	31.0	21.6	30.5	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	7.3	13.0	7.0
Large Cap Equity	3.2	28.5	21.4	22.4	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	7.1	12.9	6.7
60/40 Global Portfolio	2.6	25.7	16.5	16.2	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	6.3	12.9	6.0
Small Cap Equity	0.4	19.6	14.4	13.9	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	3.6	10.7	5.5
Large Cap Value	-1.5	18.5	11.3	12.9	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	3.1	6.8	4.3
Hedge Funds of Funds	-1.8	15.2	10.3	10.6	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	3.0	5.6	3.9
US Bonds	-2.0	11.6	9.9	9.7	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	1.6	3.4	2.5
Real Estate	-2.4	11.1	6.4	5.2	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	1.6	2.3	1.1
Small Cap Value	-2.9	7.5	6.0	2.1	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	0.3	1.5	0.9
Cash	-3.5	5.7	5.1	-3.4	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	0.2	0.1	0.5
Commodities	-7.3	-5.2	3.6	-11.6	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	-3.8	-9.7	-6.5

Large Cap Equity

Large Cap Value

Large Cap Growth

Small Cap Equity

Small Cap Value

Small Cap Growth

International Equity

Emerging Markets Equity

US Bonds

Cash

Commodities

Real Estate

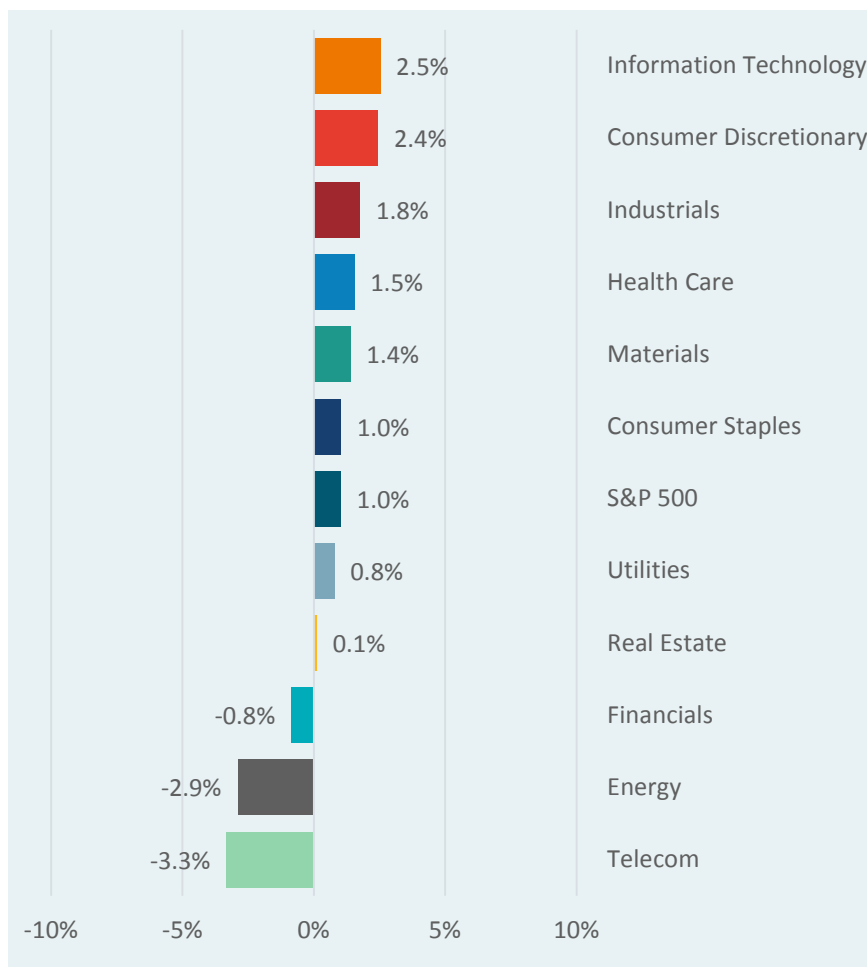
Hedge Funds of Funds

60% MSCI ACWI/40% BBgBarc Global Bond

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 3/31/17.

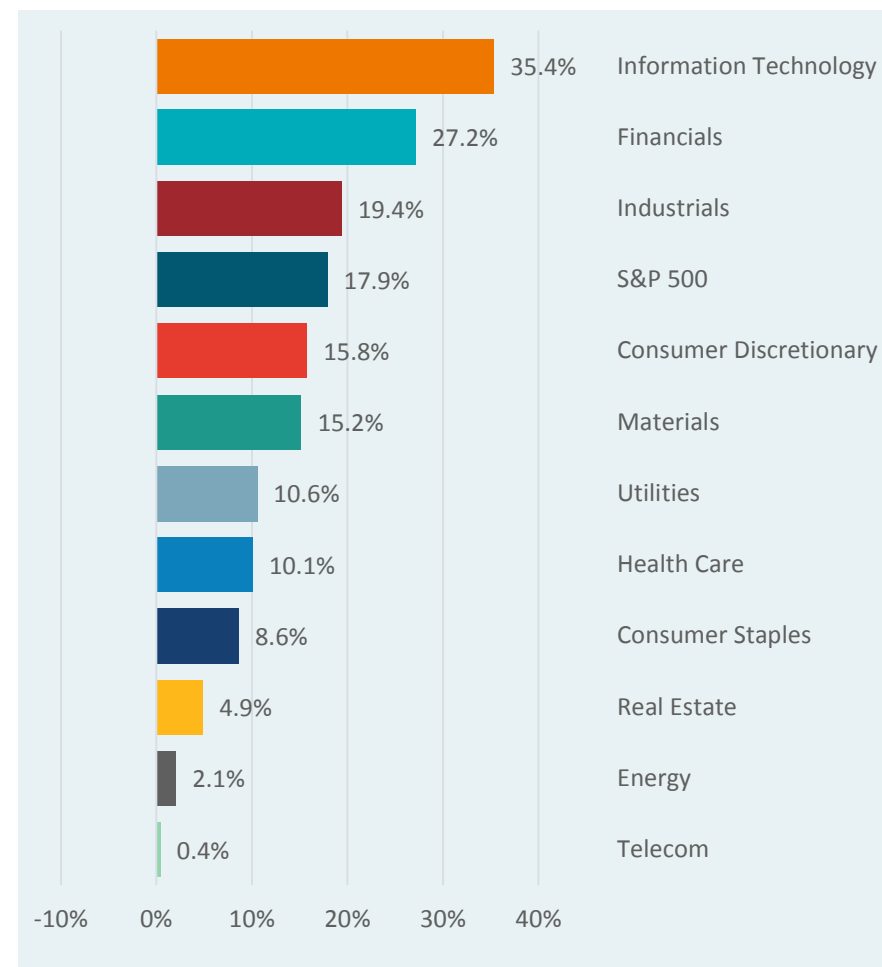
# S&P 500 and S&P 500 sector returns

QTD



Source: Morningstar, as of 4/30/17

ONE YEAR ENDING APRIL



Source: Morningstar, as of 4/30/17



# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	1.0	1.0	7.2	17.9	10.5	13.7	7.2
S&P 500 Equal Weighted	0.7	0.7	6.1	16.8	9.7	14.4	8.3
DJ Industrial Average	1.4	1.4	6.7	20.9	10.8	12.4	7.6
Russell Top 200	1.2	1.2	7.6	18.6	10.7	13.7	7.1
Russell 1000	1.1	1.1	7.1	18.0	10.2	13.6	7.3
Russell 2000	1.1	1.1	3.6	25.6	9.0	12.9	7.0
Russell 3000	1.1	1.1	6.9	18.6	10.1	13.6	7.2
Russell Mid Cap	0.8	0.8	6.0	16.7	9.0	13.3	7.6
<b>Style Index</b>							
Russell 1000 Growth	2.3	2.3	11.4	19.5	12.1	13.9	8.9
Russell 1000 Value	(0.2)	(0.2)	3.1	16.6	8.3	13.3	5.5
Russell 2000 Growth	1.8	1.8	7.3	24.1	9.3	12.9	8.0
Russell 2000 Value	0.4	0.4	0.3	27.2	8.7	13.0	6.0

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	1.6	1.6	8.6	15.1	5.3	9.0	3.7
MSCI ACWI ex US	2.1	2.1	10.2	12.6	0.8	5.1	1.1
MSCI EAFE	2.5	2.5	10.0	11.3	0.9	6.8	0.9
MSCI EM	2.2	2.2	13.9	19.1	1.8	1.5	2.5
MSCI EAFE Small Cap	4.3	4.3	12.6	13.1	5.3	10.2	3.1
<b>Style Index</b>							
MSCI EAFE Growth	3.0	3.0	11.8	8.6	2.3	6.8	1.9
MSCI EAFE Value	2.1	2.1	8.3	13.9	(0.6)	6.7	(0.2)
<b>Regional Index</b>							
MSCI UK	2.1	2.1	7.2	6.0	(3.3)	3.6	0.3
MSCI Japan	1.0	1.0	5.6	10.5	7.3	7.7	0.9
MSCI Euro	4.0	4.0	12.8	15.4	(0.7)	8.6	(0.6)
MSCI EM Asia	2.1	2.1	15.8	22.1	5.2	4.8	4.5
MSCI EM Latin American	(0.0)	(0.0)	12.1	16.3	(4.8)	(5.4)	0.3

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US Treasury US TIPS	0.6	0.6	1.9	1.7	1.8	0.7	4.2
BBgBarc US Treasury Bills	0.1	0.1	0.2	0.4	0.2	0.2	0.7
BBgBarc US Agg Bond	0.8	0.8	1.6	0.8	2.7	2.3	4.3
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	0.1	0.1	0.4	0.3	0.7	0.6	2.0
BBgBarc US Treasury Long	1.5	1.5	3.0	(3.1)	5.7	3.5	6.8
BBgBarc US Treasury	0.7	0.7	1.4	(0.6)	2.1	1.5	3.9
<b>Issuer</b>							
BBgBarc US MBS	0.7	0.7	1.1	0.7	2.6	2.0	4.2
BBgBarc US Corp. High Yield	1.2	1.2	3.9	13.3	4.7	6.8	7.4
BBgBarc US Agency Interm	0.3	0.3	0.8	0.5	1.4	1.1	3.1
BBgBarc US Credit	1.0	1.0	2.3	2.7	3.5	3.6	5.3

## OTHER

<b>Index</b>							
Bloomberg Commodity	(1.5)	(1.5)	(3.8)	(1.3)	(15.0)	(9.7)	(6.5)
Wilshire US REIT	(0.1)	(0.1)	(0.0)	4.8	8.9	9.1	4.4
CS Leveraged Loans	0.4	0.4	1.6	8.2	3.8	4.8	4.2
<b>Regional Index</b>							
JPM EMBI Global Div	1.5	1.5	5.4	8.6	6.3	5.8	7.1
JPM GBI-EM Global Div	1.2	1.2	7.7	4.0	(2.6)	(1.6)	3.9
<b>Hedge Funds</b>							
HFRI Composite	0.6	0.6	3.1	8.2	3.1	4.3	3.2
HFRI FOF Composite	0.6	0.6	3.0	6.3	2.2	3.4	1.1
<b>Currency (Spot)</b>							
Euro	1.8	1.8	3.2	(4.9)	(7.7)	(3.8)	(2.2)
Pound	3.5	3.5	4.7	(11.7)	(8.5)	(4.4)	(4.3)
Yen	(0.0)	(0.0)	4.6	(4.0)	(2.9)	(6.5)	0.7

Source: Morningstar, as of 4/30/17

# Definitions

**ISM Manufacturing Index** – based on data compiled from purchasing and supply executives nationwide. Survey responses reflect the change, if any, in the current month compared to the previous month. For each of the indicators measured (New Orders, Backlog of Orders, New Export Orders, Imports, Production, Supplier Deliveries, Inventories, Customers' Inventories, Employment and Prices), this report shows the percentage reporting each response, the net difference between the number of responses in the positive economic direction and the negative economic direction, and the diffusion index. ([www.instituteforsupplymanagement.org](http://www.instituteforsupplymanagement.org))

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