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QUARTERLY MARKET COMMENTARY | Q1 2019

Markets Rebound Around the Globe

Quarterly Snapshot

- Investor sentiment took a 180-degree turn in the New Year. Stock markets rallied around the globe through most of the first quarter of 2019, reclaiming much of the fourth-quarter 2018 losses.
- The original Brexit Day came and went without fanfare; the EU granted an extension to the UK in hopes of avoiding a no-deal departure, which has grown more likely.
- In a world where the best- and worst-performing asset classes tend to dominate headlines, it can be easy to forget that diversification has historically been a reliable approach for meeting long-term investment objectives.

Investor sentiment took a 180-degree turn in the New Year. Stock markets rallied around the globe through most of the first quarter, reclaiming much of the fourth-quarter losses. The S&P 500 Index delivered its best quarterly performance since 2009. West Texas Intermediate crude oil topped $60 per barrel at the end of the three-month period after climbing by more than 30%.

Government bond rates declined in the UK, eurozone and US during the first three months of the year. Long-term rates generally fell by more than short-term rates in the UK and eurozone, while German 10-year government bond yields dropped back below zero. The US Treasury yield-curve inversion continued to deepen over the quarter, with the yield on the 10-year Treasury ultimately falling below those of Treasurys with the shortest maturities.

The original Brexit Day (29 March) came and went without fanfare, as the EU granted an extension to the UK in hope of avoiding a no-deal departure. Prime Minister Theresa May's deal was defeated in Parliament three separate times during the quarter—even as May offered to resign in exchange for votes in support of her deal—as were additional options that legislators debated and voted upon in late March (and again on 1 April). These measures included a customs union between the UK and EU (which failed by only three votes in the second session) and a second referendum (which failed by only 12 votes in the second session). May's bid to resign in exchange for parliamentary support generated speculation about a change in leadership; separately, because the impasse risks provoking a no-confidence motion, the likelihood of a general election increased. Regardless, unless there is an immediate resolution, the UK is expected to participate in the EU's elections later this spring.

The US and China continued to negotiate the terms of a trade agreement after President Donald Trump's administration waived an early March deadline to impose tariffs in the absence of a deal. China's negotiators provided assurances toward the end of the quarter that foreign companies will have greater access to Chinese investments. US negotiators promoted the idea of retaining a portion of the US tariffs imposed on $250 billion of Chinese products last year as leverage to ensure China's compliance with the terms of the eventual agreement. A second summit between Trump and North Korea's Supreme Leader Kim Jong Un faltered in February when they failed to strike a compromise on steps toward North Korean denuclearization in exchange for sanction relief.

Key Measures: Q1 2019

EQUITY		
Dow Jones Industrial Average	11.81%	↑
S&P 500 Index	13.65%	↑
NASDAQ Composite Index	16.81%	↑
MSCI ACWI Index (Net)	12.18%	↑
BOND		
Bloomberg Barclays Global Aggregate Index	2.20%	↑
VOLATILITY		
Chicago Board Options Exchange Volatility Index PRIOR QUARTER: **25.42**	13.71	↓
OIL		
WTI Cushing crude oil prices PRIOR QUARTER: **$45.41**	$60.14	↑
CURRENCIES		
Sterling vs. US dollar	$1.30	↑
Euro vs. US dollar	$1.12	↓
US dollar vs. yen	¥110.69	↓

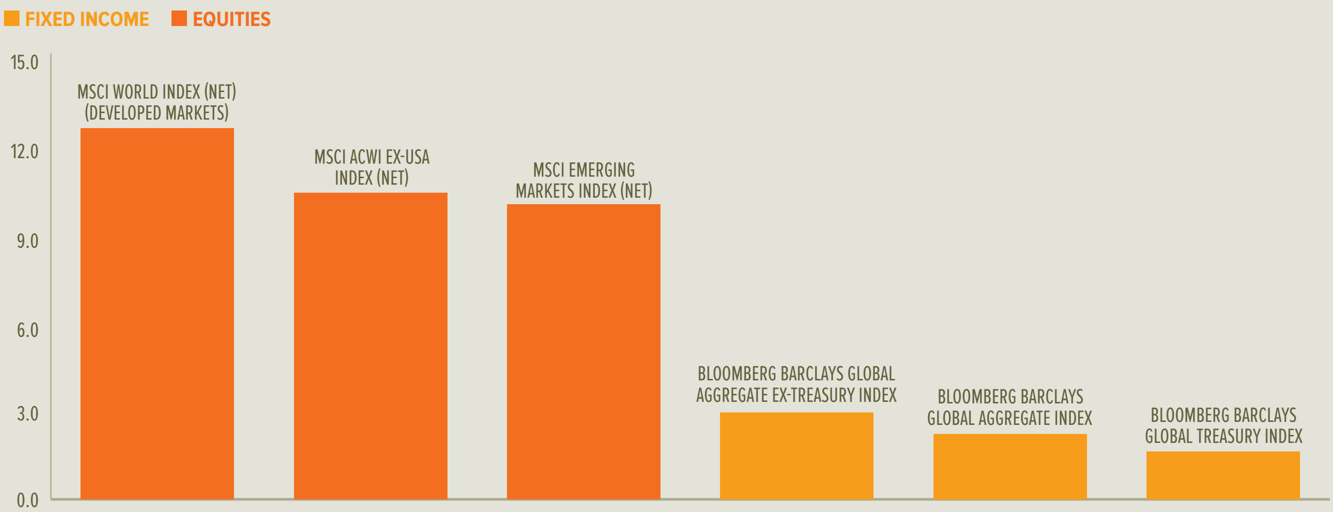
Sources: Bloomberg, FactSet, Lipper

On the US domestic front, the government remained partially shuttered for most of January due to an impasse between Congress and the White House about whether to fund a multi-billion dollar wall on the US-Mexico border championed by the president. The Trump administration received a measure of resolution in March, when the special counsel investigating the 2016 election reportedly "did not establish that members of the Trump campaign conspired or coordinated with the Russian government" to sway the election (although it did concur with the US intelligence community's assessment that Russia sought to influence the outcome in Trump's favour). The special counsel also reportedly did not conclude that the president committed criminal obstruction of justice (but neither did it exonerate him); leadership at the US Department of Justice found insufficient grounds to establish obstruction of justice charges based on the special counsel's report. Congressional Democrats intend to obtain and review the special counsel's report to make a separate determination in conjunction with information gathered through Congressional investigations.

Elsewhere, Turkish stocks finished the quarter in negative territory after government-imposed currency controls triggered a sharp selloff in March. While local elections at the end of the quarter tilted the balance of power slightly away from President Tayyip Erdogan's Justice and Development Party, the ruling party remained Turkey's most dominant political force by a wide margin. In Ukraine, Volodymyr Zelenskiy—comedian, actor and political outsider—appeared set to win the presidency after a first-round election, which was held on the last day of the quarter.

Kazakhstan's President Nursultan Nazarbayev resigned in March after serving as the first and only leader of the country since it emerged from the USSR nearly 30 years ago. In Algeria, after military leadership sought to declare President Abdelaziz Bouteflika unfit for office, the ailing leader announced that he would step down in April after holding office for 20 years. Kazakhstan and Algeria are the ninth and tenth largest counties in the world, respectively, by land area, according to the World Bank.

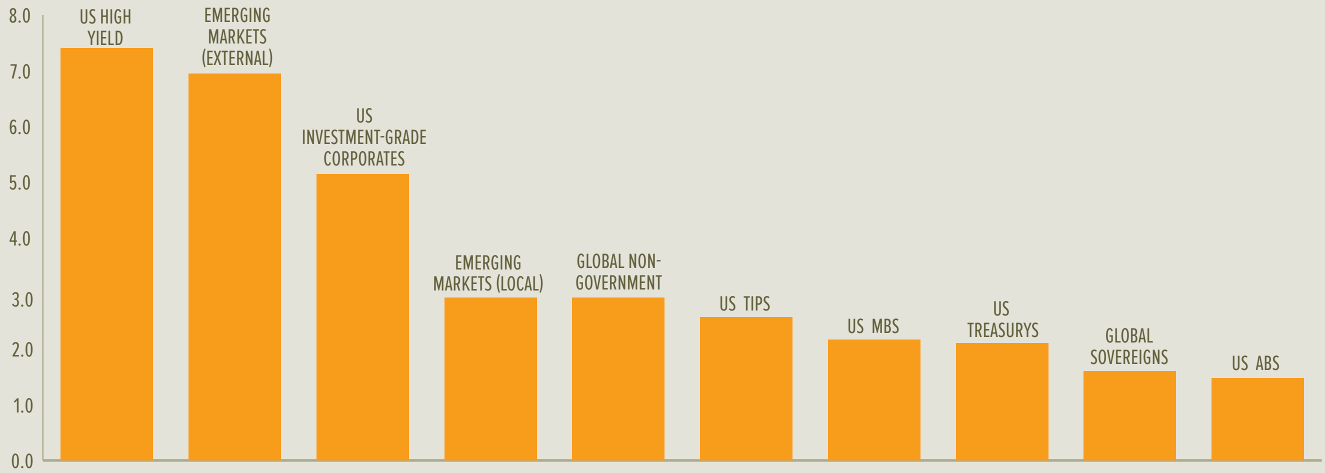
Major Index Performance in Q1 2019 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Major Index Performance Exhibit" in the Index Descriptions section for more information.

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

Fixed-Income Performance in Q1 2019 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Fixed-Income Performance Exhibit" in the Index Descriptions section for more information.

Central Banks

- The Bank of England's Monetary Policy Committee took no action in either of its two meetings this quarter. Its post-meeting statements expressed continued bias toward gradually tightening monetary policy (depending, of course, on the Brexit outcome).
- The European Central Bank said it intends to maintain current eurozone interest-rate levels at least until the end of the year (rather than through the summer) and continue re-investing proceeds from its asset-purchase programme for just as long if not longer. The central bank also announced the scheduled September revival of its targeted longer-term refinancing operation to provide banks with funding for credit to households and businesses.
- The US Federal Open Market Committee took a dovish turn during the quarter, with new economic projections that showed zero interest-rate increases in 2019. It also unveiled a plan to start slowing the reduction of its balance sheet in May—before halting reduction altogether in September and converting its allocation of mortgage-related assets to Treasurys.
- The Bank of Japan made no changes to its accommodative monetary-policy orientation in either of its two meetings this quarter (first in late January, and then in mid-March).
- The People's Bank of China undertook several initiatives early in the first quarter to increase liquidity through open-market operations, reducing reserve requirement ratios, establishing a new medium-term lending facility, and creating a line to swap perpetual bank bonds for the central bank's bills that can be pledged as collateral.

Economic Data

- British manufacturing growth cooled through January and February before rebounding convincingly in March; services sector growth slowed to a standstill in January, re-accelerated in February and then contracted in March. Claimant-count unemployment edged up to 2.9% in February after a flat January. The UK economy grew by 0.2% during the fourth quarter and 1.4% year over year.

Today, there's no denying that a synchronised global growth slowdown is underway. However, it does not mean that the world economy is in recession or that it will soon fall into one.

- Conditions in eurozone manufacturing deteriorated during the first quarter, starting in slow-growth territory, contracting modestly in February and tumbling further in March. Eurozone services sector activity picked up from slow growth to healthier levels over the same three-month period. Eurozone unemployment ticked down to a rate of 7.8% in January, where it remained in February. The eurozone economy expanded by 0.2% during the fourth quarter and by 1.1% for all of 2018—recording the softest year-over-year expansion in five years.
- US manufacturing conditions oscillated between modest and healthy growth during the quarter, while US services sector activity showed firmer strength. The US unemployment rate declined to 3.8% in February, and the labour-force participation rate increased; more Americans joined or returned to the labour market amid an increase in average earnings. The US economy expanded by a 2.2% annualised rate during the fourth quarter, propelled by strong consumer spending.

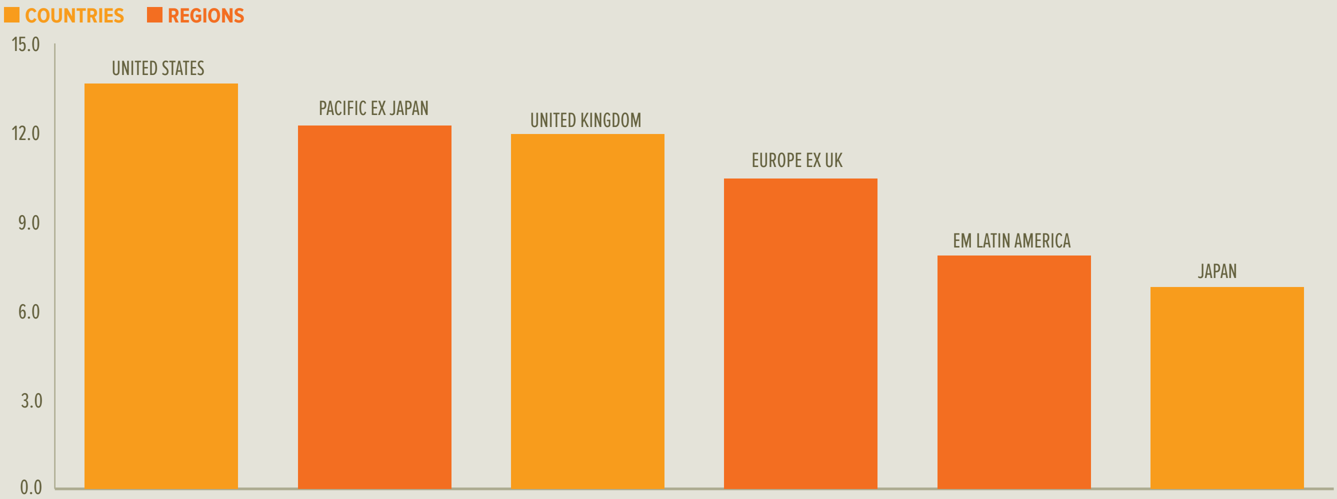
Our View

At the end of last year, we correctly forecasted that global equity markets were poised to robustly recover from their late December lows. We assumed the sharp price correction sustained during the fourth quarter overstated the weakness in economic fundamentals and various uncertainties that plagued markets throughout much of 2018. We firmly believed that most global equity markets were deeply oversold.

Today, there's no denying that a synchronised global growth slowdown is underway. However, it does not mean that the world economy is in recession or that it will soon fall into one. China and the UK, for example, are the third and fourth worst-performing countries, according to the Organisation for Economic Co-operation and Development's composite leading indicators. Yet China continues to post gross domestic product growth in the vicinity of 6%, while the UK recorded an increase of 1.3% last year (both in inflation-adjusted terms).

The spread between 3-month and 10-year US Treasurys went negative in March after narrowing throughout much of the expansion. Recession

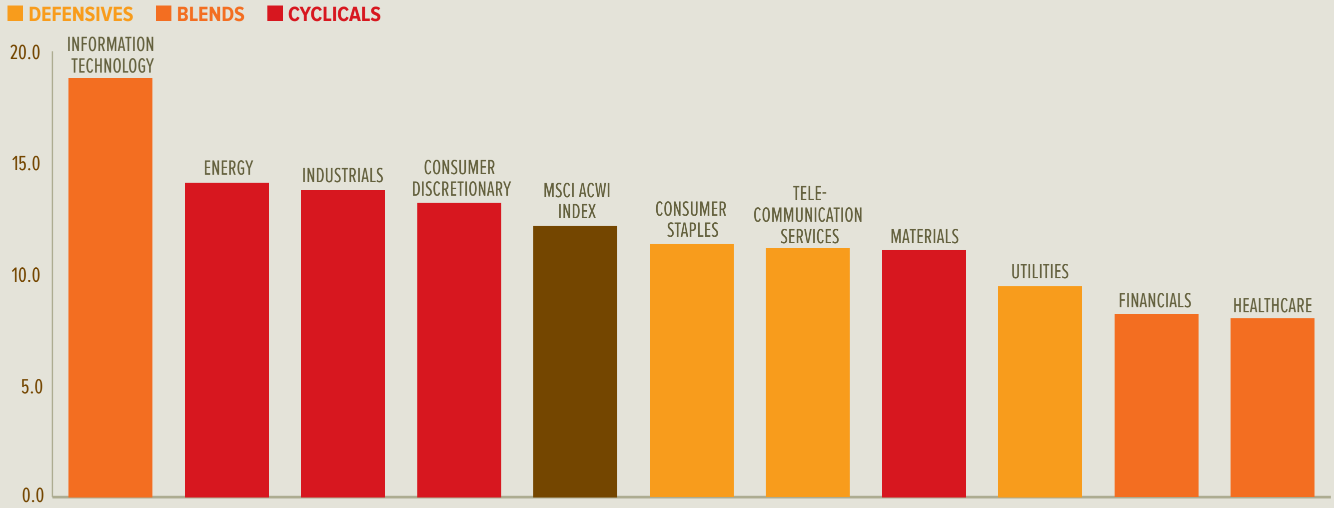
Regional Equity Performance in Q1 2019 (Percent Return)



Sources: FactSet, Lipper. See "Corresponding Indexes for Regional Equity Performance Exhibit" in the Index Descriptions section for more information.

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

Global Equity Sector Performance in Q1 2019 (Percent Return)



Sources: FactSet, Lipper. MSCI ACWI Index Sector Components (Cyclicality determined by SEI).

historically occurs within 12 to 18 months of the yield curve either narrowing to 25 basis points or inverting. The only time recession did not follow a yield-curve inversion was in the 1966-to-1967 period—although US economic growth slowed dramatically.

Deeper recessions usually cause sharper share-price declines (as was the case in 1973). More expensive stock markets (as seen following the 1998-to-2000 tech bubble) also are more vulnerable. But the time between an initial yield-curve inversion and the emergence of a bear market can be extremely long.

The US Federal Reserve's change in rhetoric at the start of the year certainly has been a helpful catalyst in sparking the risk-asset rally and credit-spread narrowing. By stressing patience and data dependence, the US central bank signalled that the pace of US interest-rate increases will slow considerably from that of the past two years. The Fed's decision makers approvingly noted that the benefits of the long economic expansion are finally being distributed more evenly as the labour market tightens; they seem confident that the economy can grow without generating worrisome inflationary pressures, even as most measures of labour-market activity point toward accelerating wage inflation.

We see plenty of opportunities in emerging equities as investors gain confidence that the worst is behind us for the asset class. But a sustained improvement depends on better global growth. In our view, China is the linchpin; we are optimistic that the country's economic conditions will improve as it begins to feel the lagged impact of easier economic and monetary policies. We also expect domestic political pressures will likely force the Chinese government to ease further. Those political pressures certainly are influencing China's trade discussions with the US. Meanwhile, Trump is grappling with similar pressures on the American side of the negotiating table; he does not want the US economy to sputter or the stock market to turn down as the country heads into a presidential election year. To put it bluntly, the leaders of both countries need a "win."

We therefore think China and the US could reach a broader trade agreement than most observers currently expect. This is a more optimistic

MSCI Emerging Markets Index performance will depend on the economic fortunes of China, South Korea and Taiwan, which now account for 57% of its market capitalisation.

view than we expressed three months ago. Since that time, the Trump administration has deferred tariff increases. Both sides now recognize the damage that the trade standoff has caused to their respective economies and financial markets. While many view the delay in finalising a trade deal as a bad sign, we see it as a sign that both sides are willing to grapple with the hard, substantive issues that would make a broader, more meaningful agreement.

A more expansive trade agreement would provide a much-needed boost to the Chinese economy. It also would benefit nations that have high export exposure to China, both directly and through the supply-chain network. MSCI Emerging Markets Index performance will depend on the economic fortunes of China, South Korea and Taiwan, which now account for 57% of its market capitalisation.

Investor pessimism about Europe appears overwhelming. The European Central Bank recently cut its forecast for 2019 eurozone gross domestic product growth to 1.1% from 1.7% just three months ago. It's a wonder that the year-to-date performance of European equities managed to nearly keep pace with that of US equities.

Many of Europe's problems are structural and difficult to improve. Its demographic profile, for example, looks rather bleak. Europe is the only major region where the population is expected to contract between now and 2050. The unemployment rate for Europeans aged 25 to 29 is still in double digits (by comparison, the average annual unemployment rate in the US for this age group is approximately 4%). Of course, demographics alone do not explain Europe's poor economic performance. A well-developed welfare state has its costs in the form of high taxation, extensive work rules, and regulations.

The shadow of a looming trade war with the US surely hasn't helped sentiment in Europe. We doubt tariffs will be imposed on European autos, but headline risks may continue to have negative impacts—and it's still possible that Trump will turn his full attention to trade with Europe once his administration concludes negotiations with China. Speaking of which, China's slowdown is an additional factor behind the slide in Europe's exports. Not only was European industrial production in decline for the 2018 calendar year, but it started this year 23% below its January 2008 level.

The EU extended the Brexit deadline (to 12 April) for the UK to decide on its course of action—meaning either a hard Brexit is on its way or that a longer delay is necessary (with the understanding that the UK will fundamentally rethink its position). A longer delay could entail another referendum or even a change of government. It also means that the UK must participate in EU Parliament elections starting 23 May.

In our view, the best-case scenario is one in which the UK maintains close ties to the EU through a customs union. Failing that, now that voters have a better understanding of the costs and consequences of leaving, we think a second referendum either on Brexit alternatives or on Brexit itself makes sense. However, a referendum on reversing Brexit would risk political upheaval given the number of people who still support the divorce. Both Prime Minister May and UK Parliament will also have to reverse their stated positions. It would be nice to say that a no-deal Brexit is off the table, but that's not the case.

The uncertainty surrounding Brexit outcomes and timing remains a depressant for economic growth in the UK and the rest of Europe. Bottom-up analysts expect UK earnings to decelerate to just 2% in 2019, which is in stark contrast with last year's surprisingly strong rate of 10.8%.

The plunge in risk assets during the fourth quarter and subsequent bounce back in the first quarter of this year is a reminder that one should always expect the unexpected when it comes to investing. Cash was king in 2018, providing a 2.1% return. However, cash was consistently one of the worst performers in most other years going back to 2009. Emerging equities fell at the other end of the performance spectrum in 2018, sustaining a total-return loss of 14.6%—but was the strongest category in 2017 and posted a double-digit return in 2016.

In a world where the best- and worst-performing asset classes tend to dominate the headlines, it can be easy to forget that diversification has historically been the most reliable approach for meeting long-term investment goals—especially when looking through the lens of risk-adjusted returns. While a diversified portfolio rarely wins from one year to the next, it also rarely loses—and therein lies its beauty.

Standardised Performance

		1 year to 31-Mar-19	1 year to 31-Mar-18	1 year to 31-Mar-17	1 year to 31-Mar-16	1 year to 31-Mar-15
KEY MEASURES						
Dow Jones Industrial Average		10.08%	19.39%	19.91%	2.08%	10.57%
S&P 500 Index		9.50%	13.99%	17.17%	1.78%	12.73%
NASDAQ Composite Index		10.63%	20.76%	22.88%	0.55%	18.12%
MSCI ACWI Index (Net)		2.60%	14.85%	15.04%	-4.34%	5.42%
Bloomberg Barclays Global Aggregate Index		-0.38%	6.97%	-1.90%	4.57%	-3.66%
MAJOR INDEX PERFORMANCE						
Bloomberg Barclays Global Aggregate ex-Treasury Index		1.12%	5.61%	-0.26%	2.72%	-1.47%
Bloomberg Barclays Global Aggregate Index		-0.38%	6.97%	-1.90%	4.57%	-3.66%
Bloomberg Barclays Global Treasury Index		-1.62%	8.14%	-3.27%	6.14%	-5.51%
MSCI ACWI ex-USA (Net)		-4.22%	16.53%	13.13%	-9.19%	-1.02%
MSCI Emerging Markets Index (Net)		-7.41%	24.93%	17.21%	-12.03%	0.44%
MSCI World Index (Net)		4.01%	13.59%	14.77%	-3.45%	6.02%
FIXED-INCOME PERFORMANCE						
US Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year U.S. TIPS Index	2.72%	0.43%	1.45%	1.84%	1.08%
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index	1.12%	5.61%	-0.26%	2.72%	-1.47%
Global Sovereigns	Bloomberg Barclays Global Treasury Index	-1.62%	8.14%	-3.27%	6.14%	-5.51%
US Investment-Grade Corporates	Bloomberg Barclays U.S. Corporate Investment Grade Index	4.94%	2.70%	3.31%	0.92%	6.81%
US Asset-Backed Securities (ABS)	Bloomberg Barclays U.S. Asset-Backed Securities Index	3.68%	0.62%	1.20%	1.71%	2.24%
US Mortgage-Backed Securities (MBS)	Bloomberg Barclays U.S. Mortgage-Backed Securities Index	4.42%	0.77%	0.17%	2.43%	5.53%
US Treasurys	Bloomberg Barclays U.S. Treasury Index	4.22%	0.43%	-1.44%	2.39%	5.36%
US High Yield	ICE BofAML US High Yield Constrained Index	5.93%	3.70%	16.87%	-3.96%	2.06%
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index	4.21%	4.30%	8.92%	4.19%	5.65%
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index	-7.56%	12.96%	5.47%	-1.65%	-11.14%
REGIONAL EQUITY PERFORMANCE						
United Kingdom	FTSE All-Share Index	-1.21%	13.59%	6.10%	-6.98%	-5.10%
EM Latin America	MSCI Emerging Markets Latin America Index (Net)	-6.72%	19.29%	23.25%	-9.16%	-20.94%
Europe ex UK	MSCI Europe ex UK Index (Net)	-5.09%	15.51%	10.68%	-8.27%	-4.73%
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)	4.59%	8.43%	18.39%	-9.65%	-0.33%
United States	S&P 500 Index	9.50%	13.99%	17.17%	1.78%	12.73%
Japan	TOPIX, also known as the Tokyo Stock Price Index	-8.76%	21.40%	15.68%	-4.85%	12.23%
GLOBAL EQUITY SECTOR PERFORMANCE						
MSCI ACWI Index		2.60%	14.85%	15.04%	-4.34%	5.42%
MSCI ACWI Consumer Discretionary Index		2.73%	17.26%	11.41%	-1.90%	11.25%
MSCI ACWI Consumer Staples Index		4.81%	4.54%	3.88%	7.45%	8.17%
MSCI ACWI Energy Index		2.88%	6.90%	15.50%	-14.54%	-17.16%
MSCI ACWI Financials Index		-7.79%	16.46%	24.84%	-10.93%	3.53%
MSCI ACWI Healthcare Index		10.95%	9.77%	8.19%	-8.34%	20.99%
MSCI ACWI Industrials Index		-1.04%	14.98%	16.01%	-1.82%	2.41%
MSCI ACWI Information Technology Index		8.46%	29.44%	24.93%	1.94%	15.94%
MSCI ACWI Materials Index		-3.11%	15.91%	25.74%	-12.43%	-7.05%
MSCI ACWI Telecommunication Services Index		4.72%	-0.34%	0.50%	2.82%	1.77%
MSCI ACWI Utilities Index		12.38%	5.29%	3.95%	4.89%	0.36%

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

Glossary of Financial Terms

Dovish: Dovish refers to the views of a policy advisor (for example, at the Bank of England) that are positive on inflation and its economic impact, and thus tends to favour lower interest rates.

Federal-funds rate: The federal-funds rate is the interest rate at which a depository institution lends immediately-available funds (balances at the US Federal Reserve) to another depository institution overnight in the US.

Price-to-earnings ratio: The price-to-earnings ratio is the ratio of a company's share price to its earnings over the past 12 months; it can be is used to help determine whether a stock is undervalued or overvalued.

Quantitative easing: Quantitative easing refers to expansionary efforts by central banks to help increase the supply of money in the economy.

Yield curve: The yield curve represents differences in yields across a range of maturities of bonds of the same issuer or credit rating (likelihood of default). A steeper yield curve represents a greater difference between the yields. A flatter yield curve indicates that the yields are closer together.

Index Descriptions

MSCI Emerging Markets Index: The MSCI Emerging Markets Index is a free float-adjusted market-capitalisation-weighted index designed to measure the performance of global emerging-market equities.

S&P 500 Index: The S&P 500 Index is an unmanaged market-capitalisation-weighted index comprising 500 of the largest publicly-traded US companies and is considered representative of the broad US stock market.

Corresponding Indexes for Key Measures Exhibit

Dow Jones Industrial Average	The Dow Jones Industrial Average is a widely followed market indicator based on a price-weighted average of 30 blue-chip New York Stock Exchange stocks that are selected by editors of The Wall Street Journal.
NASDAQ Composite Index	The NASDAQ Composite Index is a market-value-weighted index of all common stocks listed on the National Association of Securities Dealers Automated Quotations (NASDAQ) system, representing a subset of the US equity market.
MSCI ACWI Index	The MSCI ACWI Index is a market-capitalisation-weighted index composed of over 2,000 companies, and is representative of the market structure of 46 developed- and emerging-market countries in North and South America, Europe, Africa and the Pacific Rim. The Index is calculated with net dividends reinvested in US dollars.
Bloomberg Barclays Global Aggregate Index	The Bloomberg Barclays Global Aggregate Index is an unmanaged market-capitalisation-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.
Chicago Board Options Exchange Volatility Index (VIX)	The Chicago Board Options Exchange Volatility Index (VIX) tracks the expected volatility in the S&P 500 Index over the next 30 days. A higher number indicates greater volatility.

Corresponding Indexes for Major Index Performance Exhibit

MSCI ACWI ex-USA Index	The MSCI ACWI ex-USA Index includes both developed- and emerging-market countries, excluding the US.
MSCI Emerging Markets Index	The MSCI Emerging Markets Index is a free float-adjusted market-capitalisation-weighted index designed to measure the performance of global emerging-market equities.
MSCI World Index	The MSCI World Index is a free float-adjusted market-capitalisation-weighted index that is designed to measure the equity market performance of developed markets.
Bloomberg Barclays Global Aggregate Index	The Bloomberg Barclays Global Aggregate Index is an unmanaged market-capitalisation-weighted benchmark that tracks the performance of investment-grade fixed-income securities denominated in 13 currencies. The Index reflects reinvestment of all distributions and changes in market prices.
Bloomberg Barclays Global Aggregate ex-Treasury Index	The Bloomberg Barclays Global Aggregate ex-Treasury Index is an unmanaged market index representative of the total return performance of ex-Treasury major world bond markets.
Bloomberg Barclays Global Treasury Index	The Bloomberg Barclays Global Treasury Index is composed of those securities included in the Bloomberg Barclays Global Aggregate Index that are Treasury securities.

Corresponding Indexes for Fixed-Income Performance Exhibit

US High Yield	BofA Merrill Lynch U.S. High Yield Master II Constrained Index
Global Sovereigns	Bloomberg Barclays Global Treasury Index
Global Non-Government	Bloomberg Barclays Global Aggregate ex-Treasury Index
Emerging Markets (Local)	JPMorgan GBI-EM Global Diversified Index
Emerging Markets (External)	JPMorgan EMBI Global Diversified Index
US Mortgage-Backed Securities (MBS)	Bloomberg Barclays U.S. Mortgage Backed Securities Index
US Asset-Backed Securities (ABS)	Bloomberg Barclays U.S. Asset-Backed Securities Index
US Treasurys	Bloomberg Barclays U.S. Treasury Index
US Treasury Inflation-Protected Securities (TIPS)	Bloomberg Barclays 1-10 Year U.S. TIPS Index
US Investment-Grade Corporates	Bloomberg Barclays U.S. Corporate Investment Grade Index

Corresponding Indexes for Regional Equity Performance Exhibit

United States	S&P 500 Index
United Kingdom	FTSE All-Share Index
Pacific ex Japan	MSCI Pacific ex Japan Index (Net)
Japan	TOPIX, also known as the Tokyo Stock Price Index
Europe ex UK	MSCI Europe ex UK Index (Net)
EM Latin America	MSCI Emerging Markets Latin America Index (Net)

All references to performance are in US dollar terms unless otherwise noted. See Standardised Performance for more information.

Important Information

Data refers to past performance. Past performance is not a reliable indicator of future results.

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