November 2016: Portfolio Review & Outlook

Global markets were mixed in November as politics continued to dominate media headlines. In the U.S., a surprise victory by Donald Trump led equities higher (+3.7%) as measured by the S&P 500, marking their strongest month since March. Under a Trump presidency, investors anticipate looser fiscal policy, which should boost U.S. growth and benefit equities. U.S. government bonds did not fare as well, falling (-2.7%) as measured by the Barclays U.S. Treasury Index, posting their worst month since January 2009. Outside the U.S., despite continued fiscal support from the European Central Bank, uncertainty surrounding the Italian referendum weighed on returns. Emerging market equities had their worst month since January as continued strength in USD, which has historically led to declines in emerging markets, weighed on returns. Domestic equities outperformed foreign equities in November as measured by the S&P 500 (+3.7%) and MSCI ACWI ex U.S. (-2.3%). Returns were negative across most fixed income asset classes. Of note, global government bonds declined (-4.6%) as measured by the Citi World Government Bond Index. Commodities rose in November as OPEC members agreed to a production cut of 1.2 million barrels a day, leading to a rise in oil prices (+4.2%) as measured by the Bloomberg Sub WTI Oil Index. REITs continued their downward spiral, finishing down (-1.4%) as measured by the Dow Jones US Select REIT Index.

Performance Summary

- Our Risk Regime portfolios declined during the month but outperformed their respective benchmarks.
- Our allocations to domestic equities, particularly value-oriented equities, contributed positively to returns.
- Our allocation to international treasuries and foreign real estate detracted from returns during the month.

Positioning & Outlook

Our portfolios began the month in favor of risk assets as our measures indicated reduced near-term risk of a significant drawdown. Later in the month we reduced risk in our portfolios as our models indicated increased fragility amongst asset classes driven by a shift in correlations. Looking ahead, while markets remain somewhat unstable, the risk of a significant drawdown continues to decline. We see a return to a market driven by fundamentals, where valuations are more likely to drive returns and diversification in portfolios can play a key role in managing risk. Market environments have made many shifts in the past several years and it is unclear how long we will remain in this calm market. We will continue to rely on our risk models to guide us through these evolving markets.

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