WHERE DO WE GO FROM HERE? U.S. DOLLAR BREAKS THROUGH TO FRESH CYCLE HIGHS

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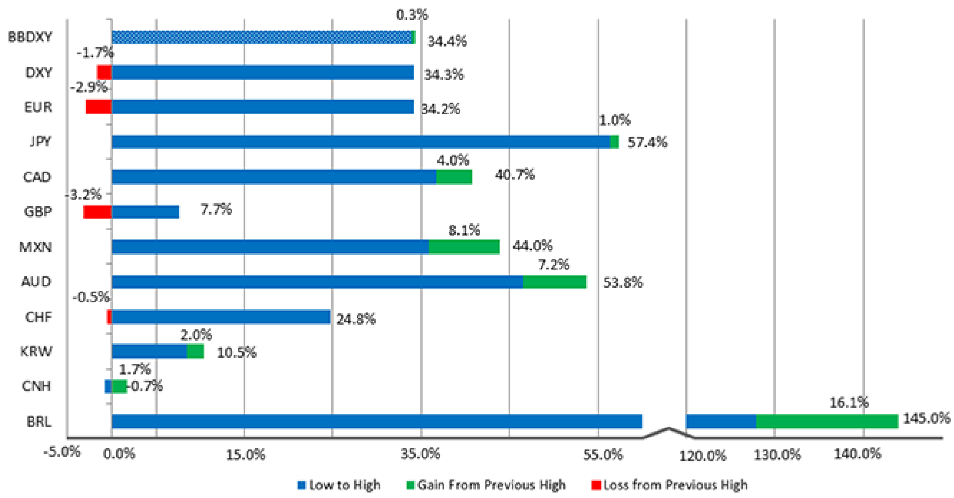
The divergence theme in currency markets that we've been discussing was in full swing over the last couple of weeks. The People's Bank of China (PBoC) delivered a fresh round of stimulus, the European Central Bank (ECB) all but guaranteed more quantitative easing in December, and the Federal Reserve (Fed) narrowed the markets' sights to its December 16 meeting for the first rate hike. On November 6, the Fed's view was corroborated by an extremely strong labor report that showed a 271,000 increase in payrolls. With other major central banks easing and the Fed looking to hike rates, the U.S. dollar strengthened broadly. In fact, the Bloomberg Dollar Spot Index (BBDXY) recently powered through the previous cycle highs of March 2015. With the trend in dollar appreciation potentially resuming, where are markets likely to head next? **Your Dollar Index Matters** An interesting development in recent weeks is that signals from the ICE U.S. Dollar Index (DXY) and the Bloomberg Dollar Spot Index are pointing toward different conclusions. Unlike BBDXY, DXY remains nearly 2% below its previous peak.[1] As we have argued previously, DXY is, for all intents and purposes, a measure of the yen and the euro. While this concentrated bet led to a strong performance in 2014, when we attempt to assess the standing of the dollar in the global economy (and investor portfolios), it is likely much more intuitive to look not only at the developed world, but emerging markets as well. Through our partnership with Bloomberg we believe our approach, provides a more intuitive measure of the dollar for today's global economy. By focusing not only on global currency liquidity, but also basing our methodology on the amount of trade between the U.S. and these foreign countries, we believe our approach helps answer the question of the U.S. dollar's actual value. **What Currencies Are Driving the Rally?** With BBDXY reaching fresh highs and DXY still consolidating, it is important to understand what currencies are ultimately driving performance. As illustrated below, since the previous index highs were set in March 2015, the euro, the British pound, and the Swiss franc are currently all trading above their cycle lows.[2] While the euro and the yen may be poised to fall further on the back of increases in QE, weakness in commodity currencies has been the primary contributor to BBDXY's relative outperformance. Leading currencies lower was the Brazilian real, which fell by over 16%. Similarly, the Mexican peso and the Australian dollar both declined by 8.1% and 7.2%, respectively. Given that DXY does not have exposure to these currencies, this is the primary driver of performance deviation over the last eight months. Among the majors, zero foreign currencies have appreciated against the U.S. dollar year-to-date. **U.S. Dollar vs.**



Source: Bloomberg, as of 11/12/15. "Low to High" period includes performance 7/26/12–11/12/15. "From Previous High" represents performance 3/13/15–11/12/15. Past performance is not indicative of future results. You cannot invest directly in an index.

Major Currencies

While short-term performance deviations can occur, we thought it would also be interesting to understand the net impact of dollar strength since the dollar bottomed on July 26, 2011. Since then, BBDXY strengthened by 34.4%, compared to a 34.3% gain for DXY. Over that period, the Chinese yuan (+0.7%) has been the only foreign currency to strengthen against the U.S. dollar. Among the losers, commodity currencies generally fell faster than others, with the exception of the Japanese yen. While commodity prices have recently shown some signs of stabilization, greater comfort with the growth outlook for China may be an equally important determinant of the future path of these currencies. In response to signaling from the ECB and the Fed, Goldman Sachs recently reiterated its call that the euro could fall to parity with the U.S. dollar by the end of 2015.[3] Should this occur, we believe BBDXY could rise another 3% to 5% by the end of the year. In our view, divergence in [monetary policy]() remains the principal driver in our outlook for dollar strength heading into 2016. As a result, investors could consider currency-hedged equity strategies or outright long-dollar positions via bullish U.S. dollar strategies.

[1]As of 10/31/15, BBDXY had the following 10 exposures: EUR 31.6%, JPY 18.8%, CAD 11.5%, GBP 9.5%, MXN 9.7%, AUD 6.1%, CHF 4.3%, KRW 3.4%, CNH 3.0%, BRL 2.2%; DXY had the following 6 exposures: EUR 57.6%, JPY 13.6%, GBP 11.9%, CAD 9.1%, SEK 4.2%, CHF 3.6%. [2]Source: Bloomberg, as of 11/12/15. [3]Source: Bloomberg, as of 11/8/15.

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DEFINITIONS

Quantitative Easing (QE) : A government monetary policy occasionally used to increase the money supply by buying government securities or other securities from the market. Quantitative easing increases the money supply by flooding financial institutions with capital, in an effort to promote increased lending and liquidity.

Rate Hike : refers to an increase in the policy rate set by a central bank. In the U.S., this generally refers to the Federal Funds Target Rate.

Bloomberg Dollar Spot Index (BBDXY) : Tracks the performance of a basket of ten leading global currencies versus the U.S. dollar. Each currency in the basket and their weight is determined annually based on their share of international trade and FX liquidity.

ICE U.S. Dollar Index (DXY) : a geometrically- averaged calculation of six currencies weighted against the U.S. dollar. Current exposures include the euro, Japanese yen, British pound, Canadian dollar, Swedish krona and, & Swiss franc.

Liquidity : The degree to which an asset or security can be bought or sold in the market without affecting the asset's price. Liquidity is characterized by a high level of trading activity. Assets that can be easily bought or sold are known as liquid asset.

Monetary policy : Actions of a central bank or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.