

Global Economy

The month of May brought the withdrawal of the US from the Iran Nuclear agreement, the end of the exemption on steel and aluminum tariffs for key US allies, and no noticeable progress on a revision to the North American Free Trade Agreement (NAFTA). After a series of on-again / off-again communications, the leaders of the US and North Korea now appear set to meet in Singapore on June 12. Italian political strife emerged as the most stirring risk-off test for markets, as the country worked to put together a new government led by Eurosceptic parties.

The Federal Open Market Committee (FOMC) met during the first two days of May but unanimously voted not to increase rates. Expectations are for another 25 bps hike at the June meeting, which will include a press conference and updates to economic projections. Implied rates are vacillating between one and two additional hikes in the second half of the year. Core PCE, the FOMC's preferred measure of inflation, has risen 1.8% over the past 12-months.

The first revision of 1Q-18 GDP lowered it from 2.3% to 2.2%. Expectations are that with lower inventory investment during the quarter and a likely increase in consumer purchases, there will be an increase for 2Q-18, perhaps to well-above 3%.

The unemployment rate dropped to 3.8%, a second consecutive drop after being stuck at 4.1% for six consecutive months. This was not completely unexpected, as the FOMC had projected unemployment to continue to dip. Wages surprised modestly to the upside, with an increase of 2.7% year-over-year as US economic slack continues to diminish.

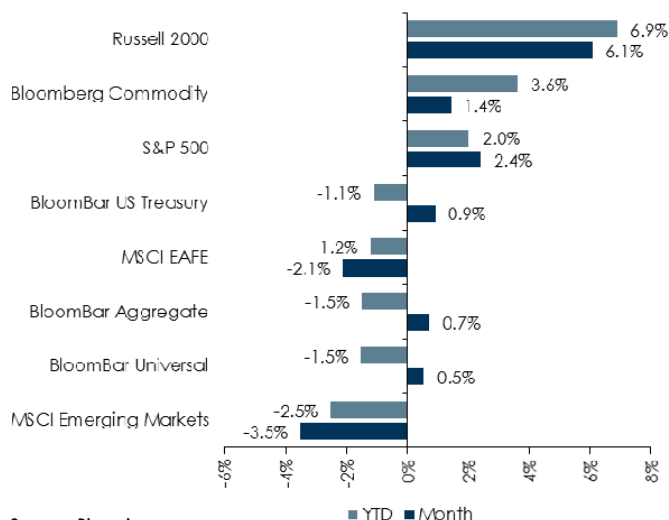
In China, the measure of manufacturing by Caixin-Market met expectations, staying at 51.1 in May, remaining expansionary. The Service Purchasing Managers Index (PMI) also stayed constant at 52.9. Of note, the European Union has joined the US at the World Trade Organization in a trade dispute against China in a fight over intellectual property.

	Current	Dec-17
US GDP (%)	2.20	3.20
US Unemployment (%)	3.80	4.10
CPI (Core) (%)	2.10	1.70
Fed Funds (%)	1.50 – 1.75	1.25 – 1.50
10 Year UST Yld (%)	2.86	2.41
S&P 500 Div Yld (%)	1.92	1.89
S&P 500 P/E (Trailing)	20.67	22.45
Gold/oz.	\$1,300.10	\$1,309.30
Oil (Crude)	\$67.04	\$60.42
Gasoline (Natl Avg)	\$3.04	\$2.59
USD/Euro	\$1.17	\$1.20
USD/GBP	\$1.33	\$1.35
Yen/USD	¥108.82	¥112.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Domestic risk assets had a solid month, while the international markets, both developed and emerging, declined and are negative for the year. Large domestic stocks, as represented by the S&P 500, were up +2.4% for the month, restoring returns into positive territory for the year. Technology was far and away the top sector at +7.1%, while Telecom brought up the rear, down another -2.3%. Ongoing weakness was also shown in Consumer Staples and Utilities at -1.8% and -1.7%, respectively. Healthcare was flat for the month, and is down slightly for the year at -0.5%.

Small cap stocks rallied significantly, up +6.1% for May and reaching +6.9% for the year. The category's more domestically-oriented nature benefits amid trade uncertainty, with M&A also being supportive. Growth and Value were both solid, with growth outperforming only marginally. For the year, growth has outperformed value by +4.0%.

In the broad international developed markets, the MSCI EAFE index was down -2.1% in May. Among the various regions, the Eurozone was down -3.1% given weakness in peripheral countries, while Pacific Ex Japan was up +0.3%. The MSCI Emerging Markets index was down -3.5% for the month, taking the asset class to negative territory for the year at -2.5%. The US dollar strengthened consistently throughout the month, detracting from overseas returns.

Real estate was up again in May, as the category's income levels continued to offer excess value versus long-term interest rates. Though still down slightly for the year, the FTSE EPRA/NAREIT Developed index advanced +1.8% during the month. The FTSE NAREIT US Real Estate index gained +3.5%, but remains down -2.8% on the year.

The Alerian MLP index was up again in May at +5.1%, and is now up 0.9% year-to-date. The Bloomberg Commodity index continues to trend higher, up by +1.4% for the month, and has advanced +3.6% year-to-date.

Global Markets (continued)

It was a tale of two halves for the US Treasury (UST) market, as rates hit multi-year highs before turning dramatically lower in the final week of May. The overall UST complex returned +0.90% for the month, with longer-dated issues more than recovering the prior month's loss (20+ year index up +2.2%). With slightly tempered expectations regarding the pacing of monetary policy action, front-end yields softened a bit. After briefly surpassing 3.10% for the first time since July 2011, the 10-year UST yield ended the month lower at 2.86%. The yield curve continued to flatten, but the futures market is still pricing somewhat below the Fed's policy projections for 2019 and 2020.

The Bloombar US Aggregate index returned +0.7% in May, bringing year-to-date losses back to -1.5%. As credit spreads showed some weakness, the primary market's most dominant sectors underperformed government issues on a duration-matched basis. IG corporate credit spreads were 7 bps wider, but all-in yields for IG corporates held constant at 3.9%.

The Bloombar 1-15-Year Municipal index returned +0.9%, as tax-exempt issues outperformed taxable counterparts. Maturities inside eight years benefited from a strong retail bid throughout the month, while the long end attracted crossover buyers looking to exploit attractive relative value. The 10-year municipal/UST ratio was volatile throughout the month of May, trading between 81% and 87%, but ultimately ended unchanged at just over 85%.

The Bloombar US Corporate High Yield index was virtually flat in May. That said, the benchmark's overall spread widened by 24 bps, and the flattening of the credit curve (CCC vs. BB declining) is a bit unusual as the credit cycle ages. Unhedged international government bonds, particularly local currency emerging market debt (-5.0%), struggled with the impact of a stronger US dollar, which stood out as a safe-haven asset amid geopolitical uncertainties abroad.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-17
Japan	0.03	0.04
Germany	0.34	0.42
France	0.66	0.78
United Kingdom	1.23	1.19
Spain	1.49	1.56
Italy	2.77	2.01
United States	2.86	2.41
Mexico	7.79	7.65
Brazil	11.46	10.26

Source: Bloomberg

Indices Report (Periods Ending May 31, 2018)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	2.41	2.02	14.38	10.97	12.98	9.14	9.35
Russell 1000	2.55	2.19	14.60	10.70	12.91	9.18	9.59
Russell 1000 Growth	4.38	6.23	21.02	13.93	15.69	10.89	10.33
Russell 1000 Value	0.59	-1.93	8.25	7.45	10.09	7.38	8.71
Russell 2500	4.70	4.70	18.29	9.78	11.88	9.72	11.07
Russell 2000	6.07	6.90	20.76	10.98	12.18	9.64	10.58
Russell 2000 Growth	6.30	8.85	25.08	10.81	13.33	10.47	11.03
Russell 2000 Value	5.82	4.81	16.35	11.04	10.96	8.71	10.00
Wilshire 5000 Cap Wtd	2.75	2.37	14.91	10.96	12.93	9.23	9.79
MSCI ACWI	0.21	0.37	12.43	8.12	9.47	5.52	8.93
MSCI ACWI ex US	-2.21	-1.64	10.19	5.24	5.94	2.32	8.55
MSCI EAFE	-2.11	-1.19	8.50	4.83	6.42	2.57	8.01
MSCI EAFE Local Currency	-0.54	-0.28	6.14	4.22	8.69	4.52	7.77
MSCI EAFE Growth	-0.09	0.55	10.42	6.32	7.39	3.22	8.14
MSCI EAFE Value	-4.17	-2.97	6.54	3.26	5.37	1.86	7.79
MSCI Emerging Markets	-3.52	-2.52	14.43	6.56	4.89	1.96	11.79
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.36	0.09	-0.02	0.43	0.57	1.27	1.93
BloomBar US Aggregate	0.71	-1.50	-0.37	1.39	1.98	3.72	3.76
BloomBar Gov't Bond	0.89	-1.07	-0.80	0.72	1.25	2.97	3.16
BloomBar US Credit	0.50	-2.53	0.08	2.41	2.87	5.14	4.53
BloomBar 10 Yr Municipal	1.06	-0.79	0.38	2.74	3.00	4.63	4.29
BloomBar US Corp High Yield	-0.03	-0.24	2.35	4.86	4.87	7.84	7.94
Citigroup World Gov't Bond	-1.21	-0.66	2.06	2.82	1.05	2.14	3.40
BloomBar Global Aggregate	-0.76	-1.02	1.72	2.58	1.34	2.64	3.63
BloomBar Multiverse	-0.85	-1.12	1.74	2.77	1.51	2.83	3.82
Real Assets							
NCREIF Property	0.00	1.70	7.13	8.73	10.00	6.09	9.01
NFI ODCE Net	0.00	1.97	7.11	9.00	10.41	4.16	7.32
FTSE NAREIT US Real Estate	3.95	-3.21	1.34	4.88	6.97	6.25	9.86
Bloomberg Commodity	1.42	3.62	11.02	-2.84	-6.64	-7.92	-0.56
Cash and Equivalents							
US T-Bills 90 Day	0.15	0.64	1.28	0.62	0.39	0.36	1.30

Definitions

Bloomberg Barclays Capital Aggregate

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

Bloomberg Barclays Capital Global Aggregate Index

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

Bloomberg Barclays Capital Muni 5 Yr

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

Bloomberg Barclays Capital U.S. Credit Index

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

The Bloomberg Barclays U.S. Treasury Index

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

The Bloomberg Barclays Capital U.S. Universal Index

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

BofA ML High-Yield Index Master II

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Bloomberg Commodity Index

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

CITI World Government Bond Index

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

FTSE EPRA/NAREIT Developed Index

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

HFRI Fund of Funds (FOF) Conservative Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

HFRI Fund of Funds (FOF) Strategic Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

MSCI ACWI Index (exU.S.)

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI EAFE® Index

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI EAFE Growth Index

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI EAFE Value Index

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI Emerging Markets Index

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Ncreif® Property Index

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

Russell 1000® Growth Index

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 1000® Value Index

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

Russell 2000® Index

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

Russell 2000® Growth Index

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

Russell 2000® Value Index

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Midcap® Index

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

S&P 500

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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