

Global Economy

July was filled with plenty of generally positive economic news, but there were some notable challenges. For example, Facebook lost \$119 billion in market value, the largest single day loss in history, after a disappointing quarterly call. Trade turmoil continued, with no clear resolution on the horizon despite a successful meeting between the US and the European Union (EU).

The Federal Open Market Committee (FOMC) met at the end of July, voting to leave short-term interest rates at a targeted range of 1.75% to 2.00%. The overall tone of the media statement was slightly more “hawkish” than the mid-June statement, touting the “strong” economic activity and the growth of spending and business investment. Core PCE remained fairly well-contained at 1.9% allaying some short-term inflation fears.

The US economy grew at a 4.1% rate in 2Q-18, according to the Bureau of Economic Analysis’ first estimate. Strong consumer and business spending led the way, with an increase in exports (notably crops) ahead of likely tariffs helping to drive growth. Future investment for inventory re-building is likely to contribute to continued growth in 3Q-18.

The unemployment rate decreased from 4.0% to 3.9% in July, with employers adding 157,000 jobs. While the jobs number was below expectations, the already strong May and June numbers were revised upward by a total of 59,000. The labor force participation rate remained at 62.9%. Wages continued to rise only moderately, with the year-over-year increase remaining relatively subdued at 2.7%.

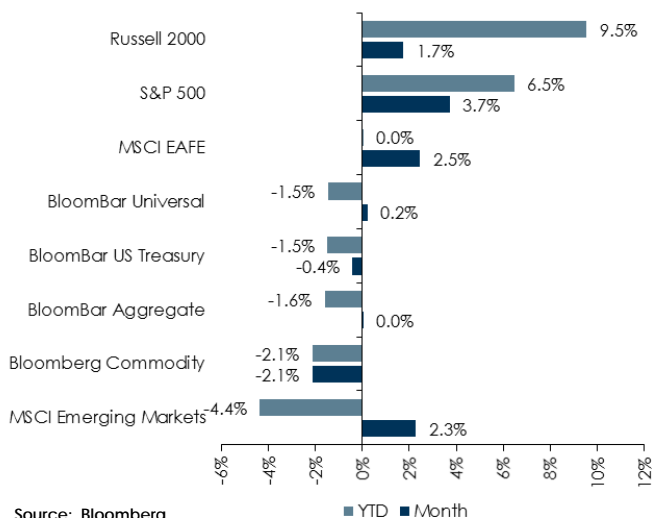
China’s trade war with the US continues its rollercoaster ride, with some tariffs already in effect, while others are pending or just threatened. It can be seen as positive that negotiations continue. The People’s Bank of China eased its monetary policy via loans to financial institutions and is lowering reserve requirements partly in response to the ongoing stress.

	Current	Dec-17
US GDP (%)	4.10	3.20
US Unemployment (%)	3.90	4.10
CPI (Core) (%)	2.30	1.70
Fed Funds (%)	1.75 – 2.00	1.25 – 1.50
10 Year UST Yld (%)	2.96	2.41
S&P 500 Div Yld (%)	1.84	1.89
S&P 500 P/E (Trailing)	20.56	22.45
Gold/oz.	\$1,223.70	\$1,309.30
Oil (Crude)	\$68.76	\$60.42
Gasoline (Natl Avg)	\$2.92	\$2.59
USD/Euro	\$1.17	\$1.20
USD/GBP	\$1.31	\$1.35
Yen/USD	¥111.86	¥112.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Equities shrugged off the political banter, uncertainty over tariffs, and faltering Brexit negotiations to instead focus more intently on continued solid earnings. All major equity markets were up for the month, led by the S&P 500. Large cap domestic equities were up +3.7% in July, and have now risen +6.5% on the year. Industrials (+7.3%), Healthcare (+6.5%) and Financials (+5.2%) led the way, while Real Estate and Telecom both trailed, though still up +1.0%.

Small cap stocks continued to post strong results, gaining +1.7% for the month. This category is considered to be more sheltered from global trade tensions and is now up an impressive +9.5% for the year. Growth and value were both solid, with value outperforming growth by only 5 bps. For the year, growth has outperformed value by +4.3%.

In the broad international developed markets, the MSCI EAFE index was up +2.5% in July, and is flat for the year. Among the various regions, the Eurozone was up +3.3% and Pacific ex Japan was up +1.9%. Japanese equities were up only modestly at +0.4% given a relatively weak Yen.

The MSCI Emerging Markets index reversed course somewhat in July and was up +2.3% for the month. The category remains down -4.4% for the year, mostly attributable to local currency weakness versus the US dollar, which hinders returns for US-based investors.

Real estate was up again in July, with the FTSE EPRA/NAREIT Developed index up +0.9% during the month. Oil reversed course in July, down -7.3% after the double digit rise in June. The Alerian MLP index moved significantly the other way, up +6.6% and comfortably back into positive territory for the year. The highly diversified Bloomberg Commodity index had another poor month, dropping -2.1% and moving into negative territory for the year.

Global Markets (continued)

US Treasury (UST) yields trended higher across all maturities throughout July and the curve continued to flatten. The overall UST complex was down -0.4% for the month, with longer-dated issues showing the most sensitivity to increasing yields (20+ year index down -1.5%). Front-end yields ended near intra-month highs, with the 2-year UST settling 14 bps higher at 2.67%. The benchmark 10-year UST yield continues to flirt with the psychologically relevant 3% level, ending the month 10 bps higher at 2.96%. The futures market is now pricing approximately 75% chance of both September and December hikes, despite President Trump’s public lament of policy normalization.

Total returns for the Bloomberg US Aggregate Bond index were essentially flat during July, but year-to-date results remain down -1.6%. IG corporates were the best performing sub-sector, as credit spreads benefitted from the same strong earnings reports that drove equities higher. Reversing a five-month trend, spreads tightened by 14 bps and offset the increase in underlying base-rates. The traditional benchmark ended the month with an all-in yield of just under 3.4%.

The Bloomberg 1-15-Year Municipal index returned +0.3%, as tax-exempt issues again outperformed their taxable counterparts. The relative steepness of the municipal curve provides a significant roll-down advantage for managers able to extend maturities. Credit risk in BBB-rated issues (e.g. IL & NJ) continues to be rewarded.

The Bloomberg US Corporate High Yield index advanced +1.1% in July, and is back into positive territory for 2018. The benchmark’s overall spread tightened by 27 bps and the credit curve continues to flatten (CCC vs. BB declining). Unhedged international government bonds were mixed, with developed market issues mimicking the losses experienced in the UST market, even as local currency emerging market debt (+1.9%) recovered somewhat during the month.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-17
Japan	0.06	0.04
Germany	0.44	0.42
France	0.73	0.78
United Kingdom	1.33	1.19
Spain	1.40	1.56
Italy	2.72	2.01
United States	2.96	2.41
Mexico	7.75	7.65
Brazil	11.18	10.26

Source: Bloomberg

Indices Report (Periods Ending July 31, 2018)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	3.72	6.47	16.24	12.52	13.12	10.67	9.44
Russell 1000	3.45	6.40	16.19	12.20	12.96	10.70	9.64
Russell 1000 Growth	2.94	10.40	22.84	14.81	15.83	12.37	10.34
Russell 1000 Value	3.96	2.20	9.54	9.51	10.04	8.95	8.81
Russell 2500	1.93	7.50	17.28	11.08	11.30	10.87	10.74
Russell 2000	1.74	9.54	18.73	12.04	11.33	10.39	10.18
Russell 2000 Growth	1.72	11.58	22.91	11.08	12.38	11.17	10.54
Russell 2000 Value	1.77	7.31	14.37	12.92	10.19	9.52	9.70
Wilshire 5000 Cap Wtd	3.47	6.61	16.44	12.48	12.94	10.70	9.80
MSCI ACWI	3.05	2.91	11.55	9.54	9.62	6.97	8.81
MSCI ACWI ex US	2.42	-1.10	6.45	6.50	6.07	3.64	8.20
MSCI EAFE	2.47	0.04	6.93	5.54	6.35	3.92	7.75
MSCI EAFE Local Currency	2.64	2.06	8.72	5.39	9.09	5.96	7.39
MSCI EAFE Growth	2.07	1.44	9.46	6.70	7.28	4.41	7.99
MSCI EAFE Value	2.88	-1.40	4.40	4.29	5.35	3.36	7.43
MSCI Emerging Markets	2.28	-4.37	4.74	9.35	5.63	3.22	10.78
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.00	0.10	-0.14	0.41	0.55	1.20	1.95
BloomBar US Aggregate	0.02	-1.59	-0.80	1.49	2.25	3.73	4.00
BloomBar Gov't Bond	-0.41	-1.46	-1.20	0.61	1.41	2.83	3.46
BloomBar US Credit	0.72	-2.29	-0.66	2.89	3.37	5.29	4.87
BloomBar 10 Yr Municipal	0.38	-0.35	0.31	2.71	3.72	4.70	4.65
BloomBar US Corp High Yield	1.09	1.25	2.60	6.12	5.35	8.45	7.92
Citigroup World Gov't Bond	-0.41	-1.35	-0.36	2.51	0.75	2.00	3.67
BloomBar Global Aggregate	-0.17	-1.62	-0.48	2.45	1.21	2.55	3.87
BloomBar Multiverse	-0.06	-1.63	-0.42	2.70	1.40	2.77	4.05
Real Assets							
NCREIF Property	0.00	3.54	7.20	8.26	9.77	6.22	8.99
NFI ODCE Net	0.00	3.82	7.47	8.37	10.03	4.33	7.29
FTSE NAREIT US Real Estate	0.80	1.83	3.07	6.39	8.28	7.66	9.69
Bloomberg Commodity	-2.13	-2.14	2.73	-1.61	-7.06	-8.09	-0.81
Cash and Equivalents							
US T-Bills 90 Day	0.16	0.97	1.43	0.73	0.45	0.35	1.31

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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