

A decorative geometric pattern of overlapping triangles in shades of blue and gold is overlaid on the left side of the image. A white triangle is positioned to the left of the main title text.

PERSPECTIVES THAT DRIVE ENTERPRISE SUCCESS

JUNE 2018
Capital Markets Update

Market commentary

U.S. ECONOMICS

- Personal spending rose 0.2% from the previous month in May (4.6% YoY), below expectations of a 0.4% increase. The slower pace of consumer spending led to downward revisions in Q2 GDP expectations – the Atlanta Fed’s forecast fell from 4.5% to 3.8%.
- Core PCE inflation increased by 2.0% YoY in May, slightly above expectations of 1.9%. Year-over-year growth in this price gauge has moved up from 1.3% in August of last year and reached 2.0% for the first time since April of 2012.
- Non-farm payrolls added 213,000 jobs in June, led by strong gains in the manufacturing sector (+36,000). Year-to-date employment growth continued to be strong, despite low unemployment rates indicating a tight labor market.

U.S. EQUITIES

- Investor concerns over uncertainty in global trade relations dominated the headlines, but U.S. equities still managed positive returns for the third straight month. The S&P 500 Index returned 0.6% in June.
- The S&P 500 Index has been rangebound between 2600 and 2800 since the sell off in February. The index finished the month near the middle of that range at 2718.
- Second quarter earnings estimates have increased over the past three months. According to FactSet, the bottom-up earnings forecast for the S&P 500 Index is 20.0% YoY, up from a forecast of 18.1% on March 31st.

U.S. FIXED INCOME

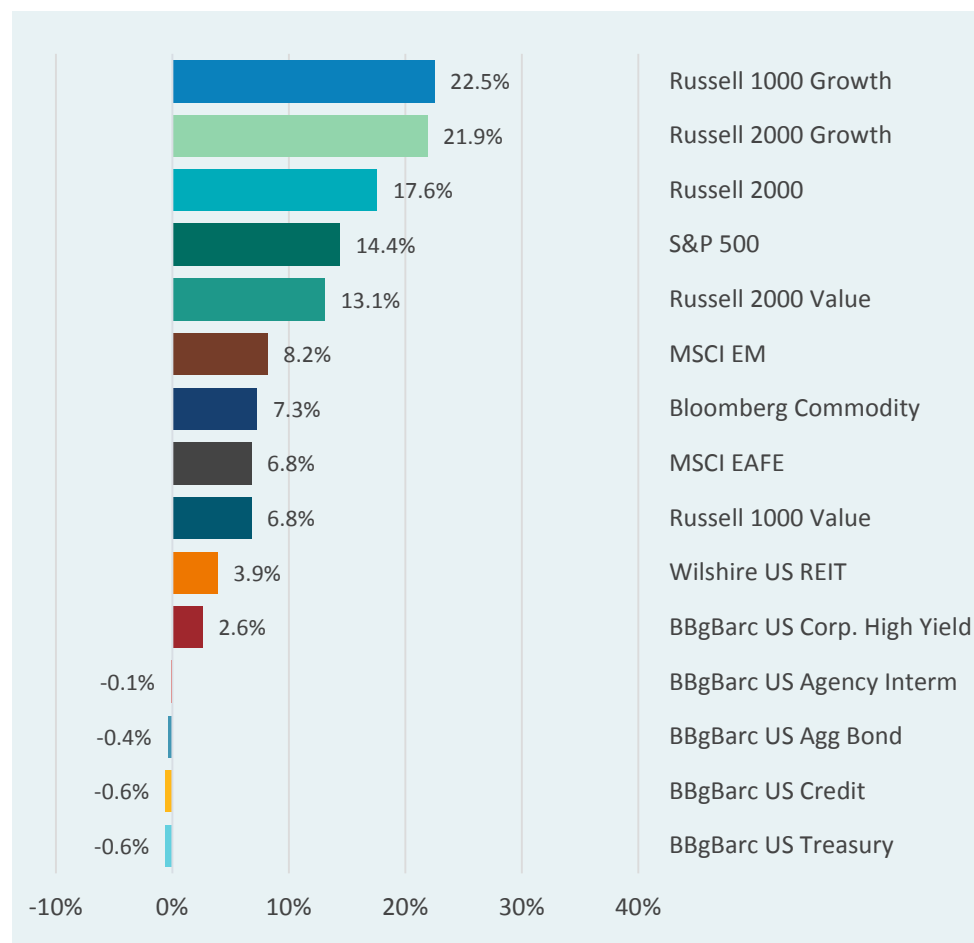
- The 10-year Treasury yield traded within a narrow range between 2.85% and 2.90%, ending the month at 2.86%.
- Short-term Treasury yields moved higher, resulting in a further flattening of the yield curve. The 2-year Treasury yield rose 10 bps to 2.53% – the spread between the 2 and 10-year yields fell to a cycle low of 33 bps.
- As expected, the Fed raised the fed funds rate by 25 bps to a target range of 1.8% to 2.0%. The committee also raised its expectations for additional hikes this year from one to two.

INTERNATIONAL MARKETS

- The back and forth on trade relations between the U.S. and much of the rest of the world intensified, although there were not any major breakthroughs or setbacks. Global markets were rattled after a report that the White House was considering curbing foreign investment in U.S. companies for firms with more than 25% Chinese ownership. However, President Trump chose to focus on strengthening an already established foreign investment review process with the CFIUS.
- International developed equities underperformed U.S. equities (MSCI EAFE -1.2%) during the month, but much of this performance was driven by currency losses. On a hedged basis the MSCI EAFE returned -0.1%.
- Emerging market currencies depreciated further – the JPMorgan Emerging Market Currency Index fell 2.6%.

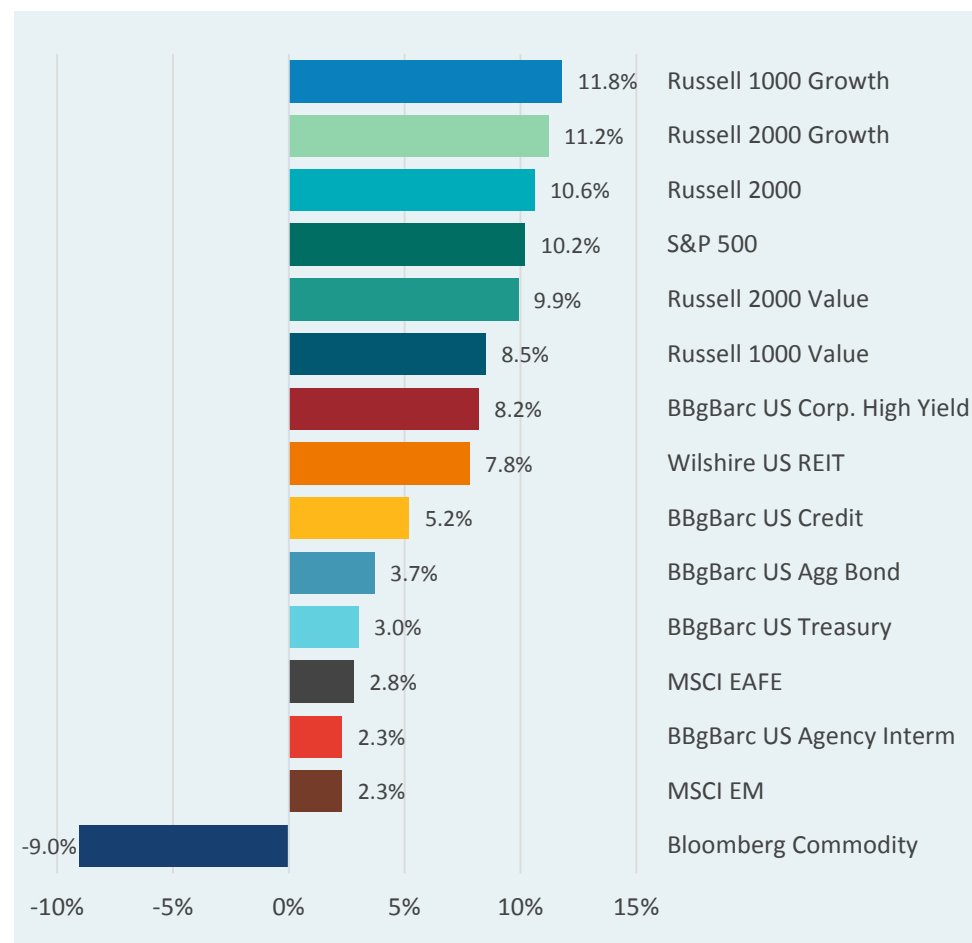
Major asset class returns

ONE YEAR ENDING JUNE



Source: Morningstar, as of 6/30/18

TEN YEARS ENDING JUNE



Source: Morningstar, as of 6/30/18

U.S. large cap equities

- The S&P 500 Index climbed to the upper end of its recent range (2800) in the middle of the month, but came back down to close only slightly higher, influenced by increased global trade tensions. The Index returned 0.6% in June.
- Defensive sectors in the S&P 500, such as Consumer Staples (+4.5%) and Utilities (+2.8%) outperformed the overall index. Cyclical sectors, including Industrials (-3.3%) and Financials (-1.9%) lagged the market.
- Implied volatility rose off of low levels during the second half of the month. The VIX Index closed at 16.1, slightly below its long-term average.
- Forward P/E ratios have been mostly unchanged since the significant upward earnings revisions experienced at the beginning of the year. The S&P 500 traded at a forward earnings multiple of 16.2 at the end of June, slightly above its long-term average of 15.8 since 1990.

U.S. large cap equities remained rangebound

S&P 500 PRICE INDEX



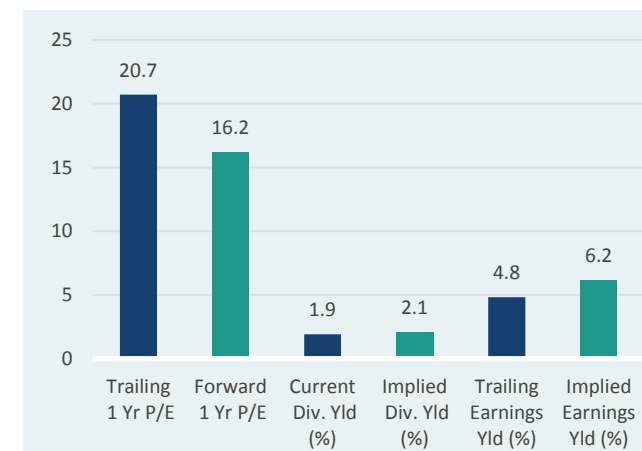
Source: Bloomberg, as of 6/30/18

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 6/30/18

S&P 500 VALUATION SNAPSHOT



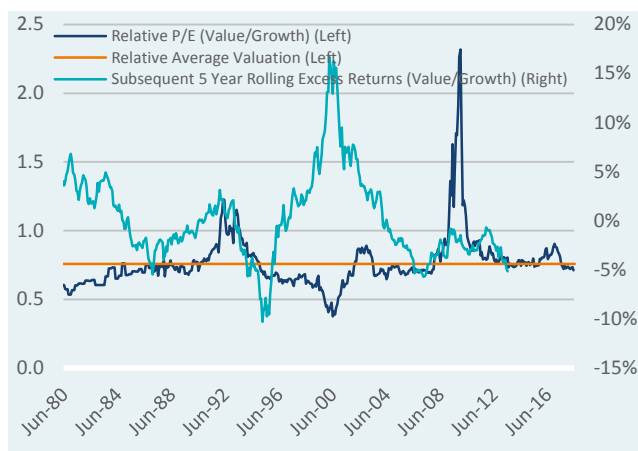
Source: Bloomberg, as of 6/30/18

Domestic equity size and style

- Small cap equity performance was on par with that of large cap equities. The Russell 2000 Index and Russell 1000 Index returned 0.7% and 0.6% in June, respectively.
- Small cap equities have experienced strong positive momentum over the past three months. The Russell 2000 Index was 5.7% above its 200-day moving average at the end of June, while the Russell 1000 Index was only 2.1% above its 200-day moving average.
- Growth equities outperformed value equities for the third straight month. The Russell 1000 Growth Index and Russell 1000 Value Index returned 1.0% and 0.2%, respectively.
- The Russell 1000 Growth and Russell 1000 Value Indices traded at trailing P/E ratios of 26.4 and 18.2, respectively at the end of June. The ratio of value to growth multiples was 0.69, slightly below its long-term average of 0.73.

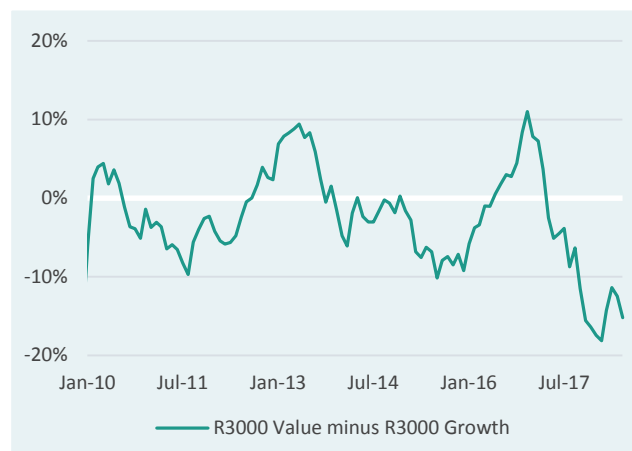
Growth equities outperformed for a third straight month

VALUE VS. GROWTH RELATIVE VALUATIONS



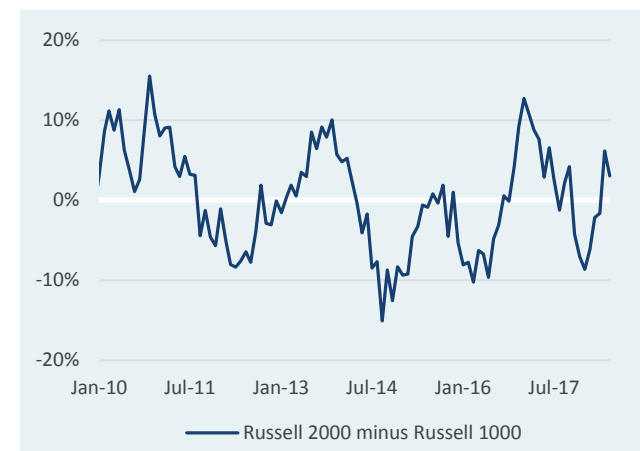
Source: Russell, Bloomberg, as of 6/30/18

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 6/30/18

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



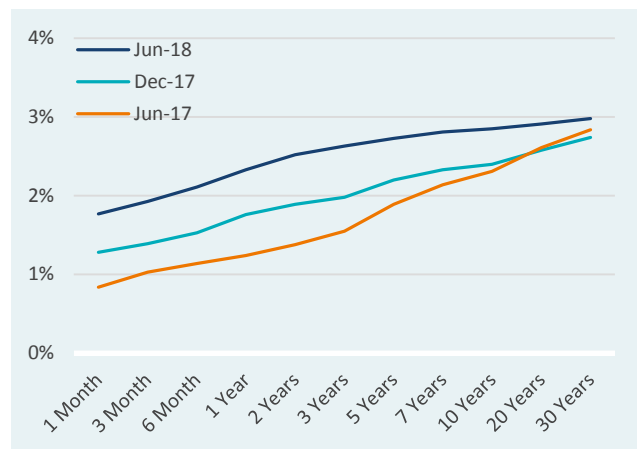
Source: FTSE, as of 6/30/18

Fixed income

- The Bloomberg Barclays Agg Index lost 0.1% during the month as Treasury yields rose slightly and investment grade credit spreads widened. The yield on the index rose 7 bps to 3.3%, below the 20-year average of 4.0%.
- The shape of the Treasury yield curve flattened to a cycle low. The spread between the 10- and 2-year yields was 33 bps at the end of June. Yield curve shape (inversion) has historically been a useful late cycle indicator, but the ongoing Fed balance sheet unwind may impact how investors should interpret this signal.
- Investment grade credit spreads continued a year-to-date widening trend. The spread on corporate bonds in the Agg Index increased 8 bps to 1.23%, the highest level since late 2016. Investment grade spreads are up 30 bps so far this year.
- Emerging market local debt experienced more weakness during the month, primarily due to currency losses. The JPM GBI-EM Global Diversified Index lost 2.9%.

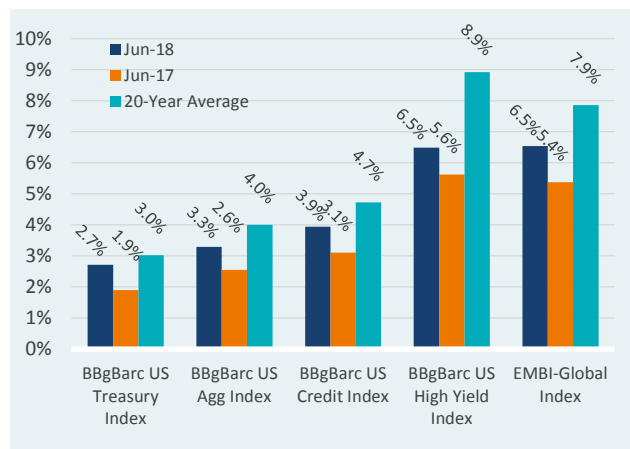
The Treasury curve flattened to a cycle low

U.S. TREASURY YIELD CURVE



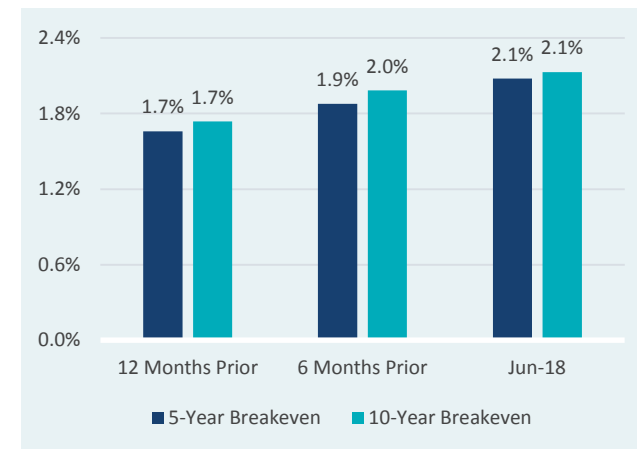
Source: Bloomberg, as of 6/30/18

NOMINAL YIELDS



Source: Morningstar, as of 6/30/18

BREAKEVEN INFLATION RATES



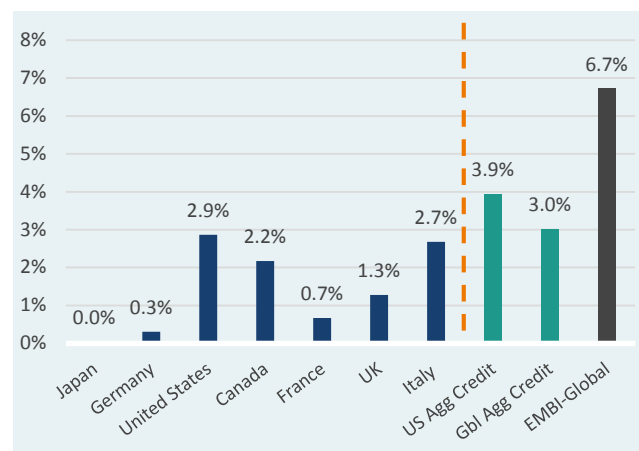
Source: Bloomberg, as of 6/30/18

Global markets

- Emerging market equities significantly underperformed developed market equities for a third consecutive month. Recent losses in EM equity markets appear to be driven more by investor nervousness over trade rather than a change in fundamentals. The MSCI Emerging Markets Index and the MSCI World Index returned -4.2% and 0.0%, respectively.
- Chinese mainland equities experienced sharp losses in June. The CSI 300 Index fell 7.7%, and was down 20.0% from its peak in late January.
- As expected, the ECB announced it will cut bond purchases from €30 to €15 billion in October, and then stop purchases altogether at the end of year. The central bank also communicated it will not raise interest rates until at least the middle of 2019.
- The dollar appreciated in June against developed and emerging market currencies. The price-adjusted U.S. Dollar Major Currency Index rose 1.3%.

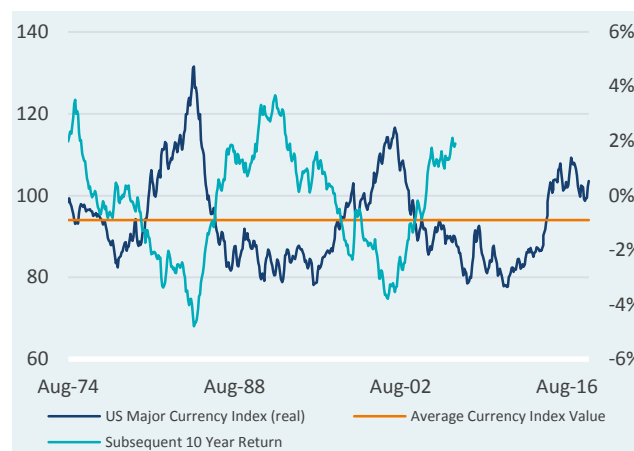
Emerging market assets faced continued selling pressure

GLOBAL SOVEREIGN 10-YEAR YIELDS



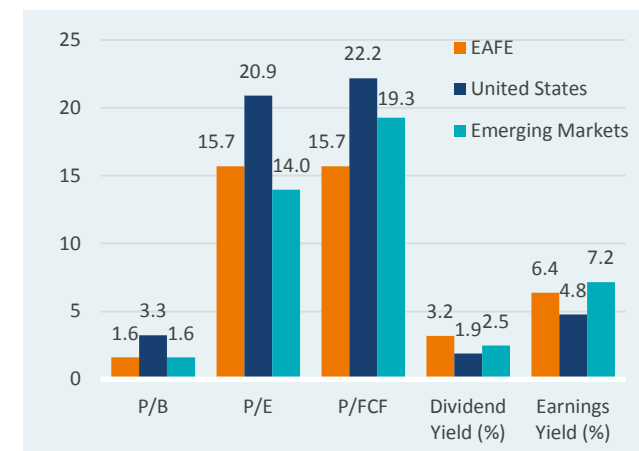
Source: Bloomberg, as of 6/30/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 6/30/18

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 6/30/18

Commodities

- The Bloomberg Commodity Index fell 3.5% in June as agriculture and industrial metal prices sank.
- The Bloomberg Commodity Agriculture Index dropped 10.5%, influenced by concerns over slowing Chinese purchases of U.S. agriculture products as a retaliation to tariffs.
- WTI oil prices jumped to over \$74 per barrel for the first time since late 2015, up from \$67 (+10.7%) to start the month.

- Oil prices were impacted by OPEC's agreement to increase production by around 800,000 barrels per day, less than originally anticipated. Further increases may be limited because certain members such as Saudi Arabia have already stepped up production to replace lower supply in countries such as Venezuela and Iran.

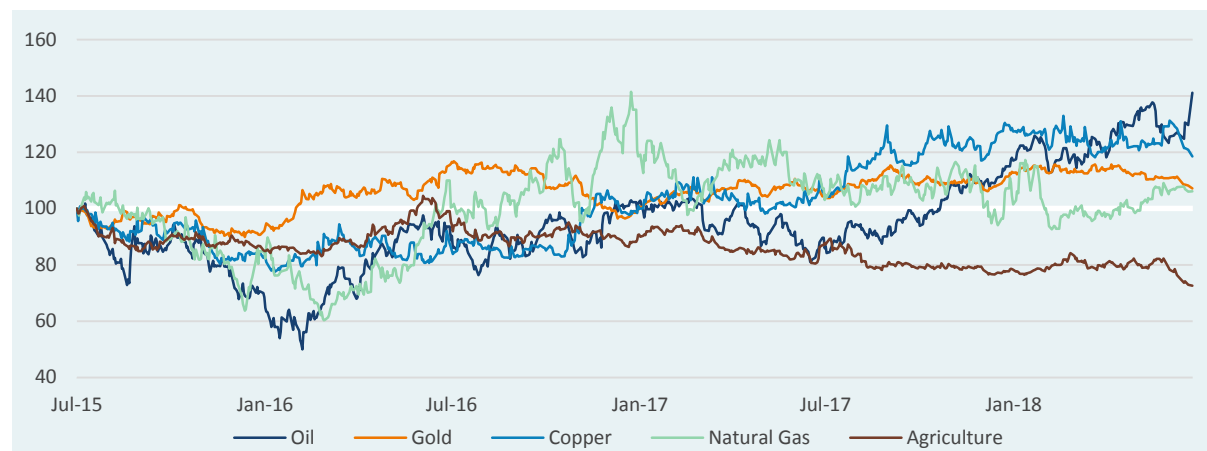
Agriculture prices dropped materially

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(3.5)	0.4	(0.0)	7.3	(4.5)	(6.4)	(9.0)
Bloomberg Agriculture	(10.5)	(8.7)	(5.8)	(13.3)	(9.9)	(9.5)	(7.1)
Bloomberg Energy	2.7	10.7	12.7	34.8	(9.0)	(13.0)	(20.0)
Bloomberg Grains	(11.7)	(9.7)	(3.3)	(16.7)	(13.7)	(12.0)	(9.5)
Bloomberg Industrial Metals	(4.8)	1.0	(5.3)	15.2	6.2	0.9	(4.6)
Bloomberg Livestock	2.7	5.5	(5.1)	(9.4)	(4.5)	(2.7)	(5.5)
Bloomberg Petroleum	3.8	13.0	18.3	58.4	(4.1)	(10.9)	(13.9)
Bloomberg Precious Metals	(3.3)	(4.5)	(5.0)	(0.8)	1.2	(1.3)	1.5
Bloomberg Softs	(7.4)	(1.9)	(11.8)	(7.9)	(4.4)	(8.4)	(4.7)

Source: Morningstar, as of 6/30/18

COMMODITY PERFORMANCE



Source: Bloomberg, as of 6/30/18

Appendix

Periodic table of returns

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD	5-Year	10-Year
Small Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	9.7	16.4	11.8
Small Cap Equity	27.0	43.1	22.8	8.4	10.3	48.5	22.2	21.4	26.9	16.2	1.4	37.2	26.9	7.8	18.1	38.8	13.2	5.7	21.3	30.2	7.7	13.6	11.2
Large Cap Growth	20.3	33.2	12.2	7.3	6.7	47.3	20.7	20.1	23.5	15.8	-6.5	34.5	24.5	2.6	17.9	34.5	13.0	0.9	17.3	25.0	7.3	13.4	10.6
Small Cap Value	19.3	27.3	11.6	3.3	1.6	46.0	18.3	14.0	22.2	11.8	-21.4	32.5	19.2	1.5	17.5	33.5	11.8	0.6	12.1	22.2	5.4	12.5	10.2
Large Cap Equity	16.2	26.5	7.0	2.8	1.0	39.2	16.5	7.5	18.4	11.6	-25.9	28.4	16.8	0.4	16.4	33.1	6.0	0.0	11.8	21.7	2.9	11.2	9.9
Real Estate	15.6	24.3	6.0	2.5	-5.9	30.0	14.5	7.1	16.6	10.9	-28.9	27.2	16.7	0.1	16.3	32.5	5.6	-0.4	11.3	17.1	1.7	10.3	8.5
Hedge Funds of Funds	8.7	21.3	4.1	-2.4	-6.0	29.9	14.3	6.3	15.5	10.3	-33.8	23.3	16.1	-2.1	15.3	23.3	4.9	-0.8	11.2	14.6	1.2	10.0	6.1
Cash	4.9	20.9	-3.0	-5.6	-11.4	29.7	12.9	5.3	15.1	7.0	-35.6	20.6	15.5	-2.9	14.6	12.1	4.2	-1.4	8.0	13.7	0.8	6.4	4.8
Commodities	1.2	13.2	-7.3	-9.1	-15.5	25.2	11.4	4.7	13.3	7.0	-36.8	19.7	13.1	-4.2	11.5	11.0	3.4	-2.5	7.1	7.8	0.0	6.3	3.7
60/40 Global Portfolio	-2.5	11.4	-7.8	-9.2	-15.7	23.9	9.1	4.6	10.4	5.8	-37.6	18.9	10.2	-5.5	10.5	9.0	2.8	-3.8	5.7	7.7	-0.8	5.0	2.8
US Bonds	-5.1	7.3	-14.0	-12.4	-20.5	11.6	6.9	4.6	9.1	4.4	-38.4	11.5	8.2	-5.7	4.8	0.1	0.0	-4.4	2.6	5.1	-1.6	3.6	2.3
Large Cap Value	-6.5	4.8	-22.4	-19.5	-21.7	9.0	6.3	4.2	4.8	-0.2	-38.5	5.9	6.5	-11.7	4.2	-2.0	-1.8	-7.5	1.0	3.5	-1.7	2.3	1.5
International Equity	-25.3	-0.8	-22.4	-20.4	-27.9	4.1	4.3	3.2	4.3	-1.6	-43.1	0.2	5.7	-13.3	0.1	-2.3	-4.5	-14.9	0.5	1.7	-2.7	0.4	0.4
Emerging Markets Equity	-27.0	-1.5	-30.6	-21.2	-30.3	1.0	1.4	2.4	2.1	-9.8	-53.2	-16.9	0.1	-18.2	-1.1	-9.5	-17.0	-24.7	0.3	0.9	-6.7	-6.4	-9.0

Large Cap Equity

Large Cap Value

Large Cap Growth

Small Cap Equity

Small Cap Value

Small Cap Growth

International Equity

Emerging Markets Equity

US Bonds

Cash

Commodities

Real Estate

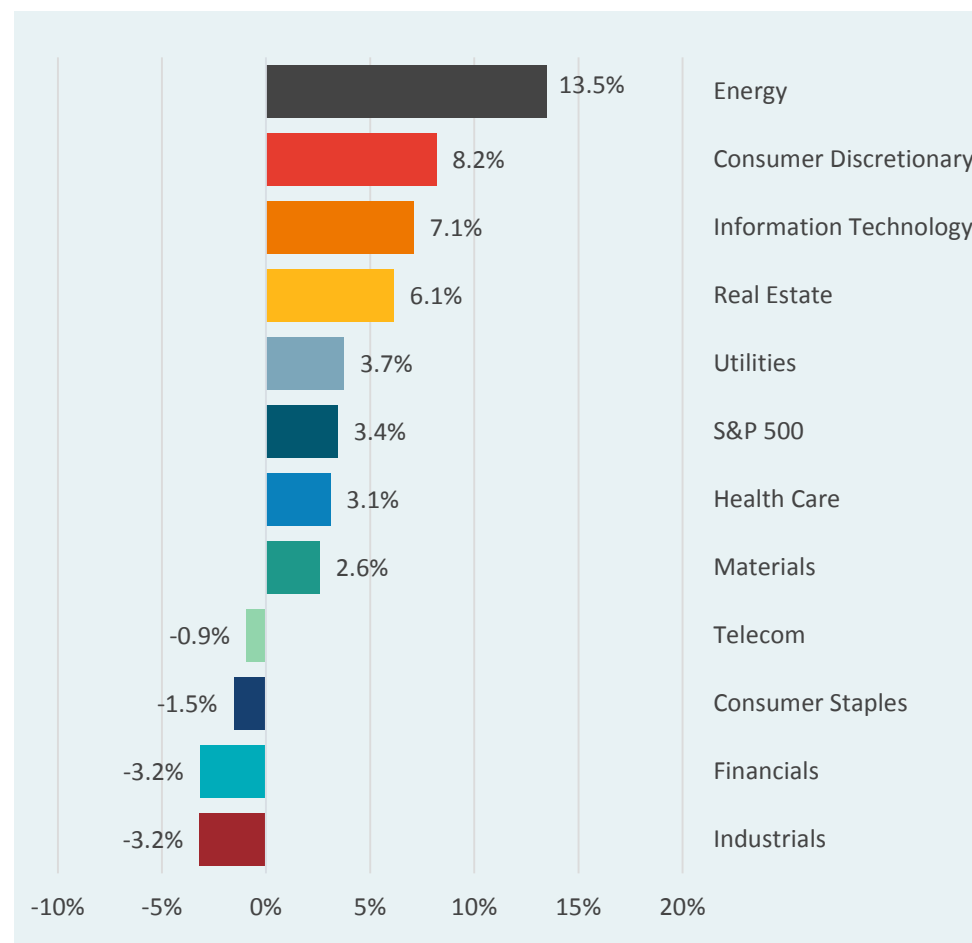
Hedge Funds of Funds

60% MSCI ACWI/40% BBgBarc Global Bond

Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Growth, Russell 2000, Russell 2000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 3/31/18.

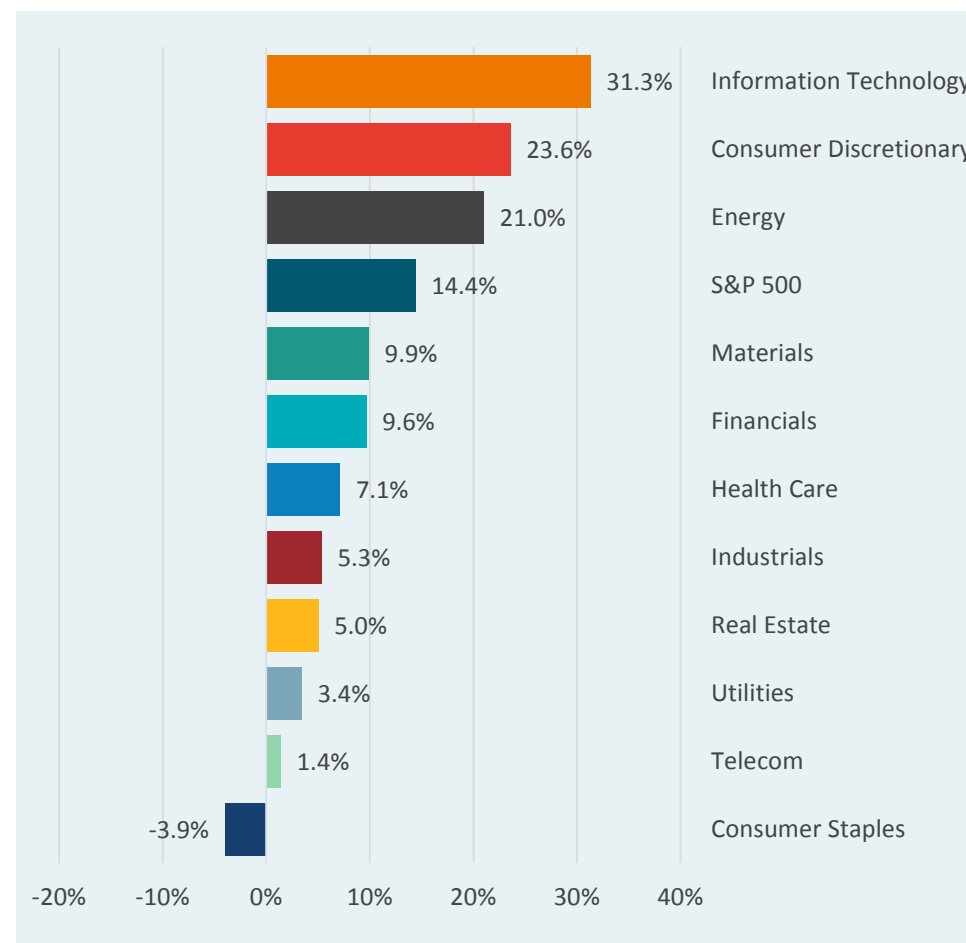
S&P 500 sector returns

QTD



Source: Morningstar, as of 6/30/18

ONE YEAR ENDING JUNE



Source: Morningstar, as of 6/30/18

Detailed index returns

DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	0.6	3.4	2.6	14.4	11.9	13.4	10.2
S&P 500 Equal Weighted	0.9	2.8	1.8	12.0	10.5	12.8	11.6
DJ Industrial Average	(0.5)	1.3	(0.7)	16.3	14.1	13.0	10.8
Russell Top 200	0.6	3.9	3.1	15.4	12.5	13.8	10.2
Russell 1000	0.6	3.6	2.9	14.5	11.6	13.4	10.2
Russell 2000	0.7	7.8	7.7	17.6	11.0	12.5	10.6
Russell 3000	0.7	3.9	3.2	14.8	11.6	13.3	10.2
Russell Mid Cap	0.7	2.8	2.3	12.3	9.6	12.2	10.2
Style Index							
Russell 1000 Growth	1.0	5.8	7.3	22.5	15.0	16.4	11.8
Russell 1000 Value	0.2	1.2	(1.7)	6.8	8.3	10.3	8.5
Russell 2000 Growth	0.8	7.2	9.7	21.9	10.6	13.6	11.2
Russell 2000 Value	0.6	8.3	5.4	13.1	11.2	11.2	9.9

INTERNATIONAL EQUITY

Broad Index							
MSCI ACWI	(0.5)	0.5	(0.4)	10.7	8.2	9.4	5.8
MSCI ACWI ex US	(1.9)	(2.6)	(3.8)	7.3	5.1	6.0	2.5
MSCI EAFE	(1.2)	(1.2)	(2.7)	6.8	4.9	6.4	2.8
MSCI EM	(4.2)	(8.0)	(6.7)	8.2	5.6	5.0	2.3
MSCI EAFE Small Cap	(1.9)	(1.6)	(1.3)	12.4	10.1	11.3	6.8
Style Index							
MSCI EAFE Growth	(1.2)	0.1	(0.9)	9.4	6.4	7.4	3.5
MSCI EAFE Value	(1.3)	(2.6)	(4.6)	4.3	3.3	5.4	2.2
Regional Index							
MSCI UK	(1.0)	2.9	(1.0)	10.0	3.1	4.9	2.7
MSCI Japan	(2.5)	(2.8)	(2.0)	10.5	6.2	7.4	3.5
MSCI Euro	(0.7)	(2.8)	(3.2)	5.0	5.3	7.1	1.1
MSCI EM Asia	(4.7)	(5.8)	(5.1)	10.1	7.3	8.3	5.6
MSCI EM Latin American	(3.1)	(17.8)	(11.2)	(0.2)	2.0	(2.4)	(3.7)

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US TIPS	0.4	0.8	(0.0)	2.1	1.9	1.7	3.0
BBgBarc US Treasury Bills	0.2	0.5	0.8	1.3	0.7	0.4	0.4
BBgBarc US Agg Bond	(0.1)	(0.2)	(1.6)	(0.4)	1.7	2.3	3.7
Duration							
BBgBarc US Treasury 1-3 Yr	0.0	0.2	0.1	0.0	0.4	0.6	1.3
BBgBarc US Treasury Long	0.2	0.3	(3.0)	(0.1)	3.4	4.5	6.1
BBgBarc US Treasury	0.0	0.1	(1.1)	(0.6)	1.0	1.5	3.0
Issuer							
BBgBarc US MBS	0.0	0.2	(1.0)	0.1	1.5	2.3	3.5
BBgBarc US Corp. High Yield	0.4	1.0	0.2	2.6	5.5	5.5	8.2
BBgBarc US Agency Interm	0.0	0.2	(0.2)	(0.1)	0.8	1.1	2.3
BBgBarc US Credit	(0.5)	(0.9)	(3.0)	(0.6)	2.9	3.4	5.2

OTHER

Index							
Bloomberg Commodity	(3.5)	0.4	(0.0)	7.3	(4.5)	(6.4)	(9.0)
Wilshire US REIT	4.5	9.7	1.5	3.9	7.8	8.4	7.8
CS Leveraged Loans	0.2	1.0	2.3	4.5	4.2	4.1	5.0
Alerian MLP	(1.5)	11.8	(0.6)	(4.6)	(5.9)	(4.1)	6.5
Regional Index							
JPM EMBI Global Div	(1.2)	(3.5)	(5.2)	(1.6)	4.6	5.1	6.7
JPM GBI-EM Global Div	(2.9)	(10.4)	(6.4)	(2.3)	2.0	(1.4)	2.6
Hedge Funds							
HFRI Composite	(0.1)	0.8	1.2	5.2	2.6	4.2	3.5
HFRI FOF Composite	(0.2)	0.9	1.2	5.6	2.1	3.6	1.5
Currency (Spot)							
Euro	0.0	(5.1)	(2.8)	2.4	1.6	(2.1)	(3.0)
Pound	(0.8)	(5.9)	(2.4)	1.6	(5.7)	(2.7)	(4.0)
Yen	(1.9)	(4.0)	1.7	1.4	(3.4)	(2.2)	(0.3)

Source: Morningstar, HFR, as of 6/30/18

Notices & disclosures

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