

Market commentary

U.S. ECONOMICS

- U.S. real GDP grew at an annualized quarterly rate of 4.1% in the second quarter (2.8% YoY), marking the best rate of growth since 2014. Net exports contributed 1.1% of the 4.1% growth rate, the biggest contribution since Q1 of 2014.
- Non-farm payrolls increased by 157,000 jobs in July, compared to the 248,000 jobs added in the prior month. The U-6 unemployment rate, which includes discouraged workers as well as workers who are involuntarily part-time, dropped from 7.8% to 7.5%, the lowest mark since 2001.
- Despite a slightly shorter average work week and a smaller "underemployed" (U-6 unemployment rate) contingent in the labor force, average hourly wage growth remained relatively low at 2.7% over the past year.

U.S. EQUITIES

- Amidst ongoing trade concerns, U.S. equities traded higher on the back of strong earnings and the best quarterly GDP growth since 2014. The S&P 500 Index returned 3.7% in July, its highest monthly return since January, bringing the year-to-date return to 7.3%.
- Second quarter earnings have been strong of the firms in the S&P 500 that have reported results, 80% topped earnings estimates and 74% beat revenue estimates. Price reaction to positive earnings beats (+1.1%) was mostly in line with the 5-year average (+1.0%), according to FactSet.

U.S. FIXED INCOME

- The 10-year Treasury yield rose 10 bps over the month, ending at 2.96%.
- Short-term Treasury yields continued to climb, resulting in further yield curve flattening. During the month, the spread between the 2- and 10-year yields dropped to a cycle low of 24 bps, further fueling concerns over potential yield curve inversion. At monthend, the 2-10 spread settled at 29 bps.
- Economists expect the Federal Reserve to hold the fed funds target range at 1.8% to 2.0% until September. On July 31st, the implied probability of at least two more rate hikes before the end of the year was 68.5% based on fed fund futures.

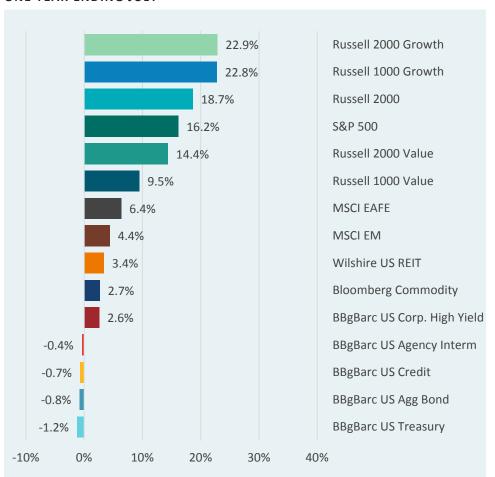
INTERNATIONAL MARKETS

- On July 10, the U.S. Trade Representative's office released a \$200 billion list of Chinese goods that could be subject to a 10% tariff. At the end of the month, the Trump administration raised the proposed tariff rate to 25%.
- President Trump met with Jean-Claude Juncker, President of the European Commission, which yielded a "handshake agreement" to de-escalate trade negotiations. In exchange for the relaxed tariffs on E.U. automakers, Juncker pledged E.U. commitment to buy more U.S. soybeans and liquid natural gas.
- International developed equities underperformed U.S. equities (MSCI EAFE +2.5%) for the third straight month, with currency movements producing a slight headwind. On a hedged basis, the MSCI EAFE returned 2.8%.

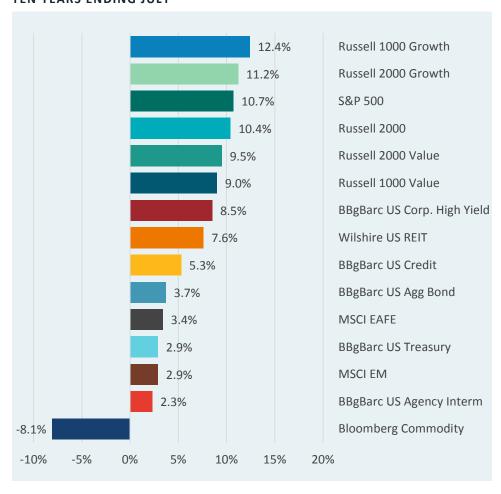


Major asset class returns

ONE YEAR ENDING JULY



TEN YEARS ENDING JULY



Source: Morningstar, as of 7/31/18

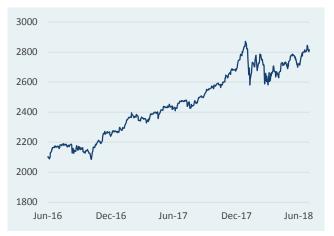
Source: Morningstar, as of 7/31/18



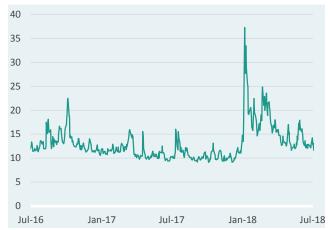
U.S. large cap equities

- The S&P 500 Index broke through the upper end of its trailing five-month trading range (2800) in the middle of the month, before settling at 2816 by month-end, 1.8% above its 50-day moving average.
- Within the S&P 500 Index, Industrials (+7.3%),
 Healthcare (+6.6%), and Financials (+5.3%)
 outperformed, led by cyclical subsectors such as airlines, pharmaceuticals, and banks. Real estate (+1.1%), and Energy (+1.4%) underperformed the overall index.
- Mega-cap tech firms led the advance with Microsoft, Amazon, Apple, and Google accounting for 23% of the monthly return.
- Several market leaders experienced significant corrections during the month. Netflix returned -13.8% in July after missing Q2 net subscriber expectations. On July 26th, Facebook dropped 19% after missing expectations on revenue user growth. Despite a slight recovery, Facebook finished the month down 11.2%.

S&P 500 PRICE INDEX



IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 7/31/18

S&P 500 VALUATION SNAPSHOT



Source: Bloomberg, as of 7/31/18

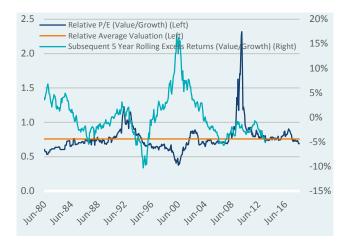


Domestic equity size and style

- Small cap equity performance significantly lagged large cap equities. The Russell 2000 Index and Russell 1000 Index returned 1.7% and 3.5% in July, respectively.
- The momentum story with small cap equities continued. At the end of July, the Russell 2000 Index was trading 6.2% above its 200-day moving average. In comparison, the Russell 1000 Index was trading only 2.3% above its 200-day moving average.
- Value equities outperformed growth equities for the first month since March. The Russell 1000 Value Index and Russell 1000 Growth Index returned 4.0% and 2.9%, respectively.
- While value outperformed growth in the large cap universe, style impact on small cap performance was negligible. Both the Russell 2000 Value Index and the Russell 2000 Growth Index returned 1.7%.

Value outperformed growth, especially within large cap equities

VALUE VS. GROWTH RELATIVE VALUATIONS



Source: Russell, Bloomberg, as of 7/31/18

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 7/31/18

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 7/31/18

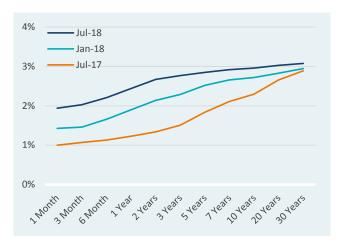


Fixed income

- The Bloomberg Barclays Aggregate Index was unchanged over the month – Treasury yields rose slightly while investment grade credit spreads narrowed. The yield on the index ticked up to 3.4%, below the 20-year average of 4.0%.
- The spread over the sovereign curve on the Bloomberg Barclays Global High Yield Index narrowed from 4.2% to 3.8% during the month – the index posted a 1.7% gain. Currency effects were muted, as the dollar-hedged index also gained 1.7% in July.
- Investment grade credit spreads narrowed, ending nearly a six-month widening trend. The spread on corporate bonds in the U.S. Aggregate Index dropped from 1.23% to 1.09%.
- The Bank of Japan voted to maintain ultra-loose monetary policy through a short-term rate target of -0.1% and a 10-year target yield of 0.0%, although it expanded the allowable range from +/- 0.1% to +/-0.2%. The BOJ had to step in several times by offering to buy unlimited amounts of 5-10-year bonds to bring yields back toward the 0.0% target.

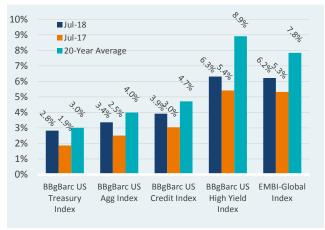
Investment grade credit spreads narrowed for the first time in six months

U.S. TREASURY YIELD CURVE



Source: Bloomberg, as of 7/31/18

NOMINAL YIELDS



Source: Morningstar, as of 7/31/18

BREAKEVEN INFLATION RATES

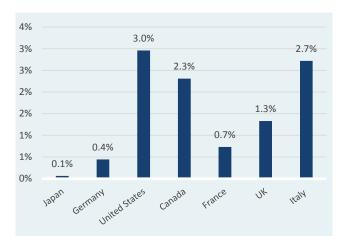




Global markets

- Emerging market equities bounced back, but developed market equities still outperformed. The MSCI Emerging Markets Index and the MSCI World Index returned 2.3% and 3.2% respectively.
- The ECB reaffirmed that it will cut bond purchases by year-end and keep rates steady "through the summer of 2019". ECB President Mario Draghi waved off the pickup in the headline inflation rate, which has already breached the 2% target, stating that it is "very early to call victory" on inflation.
- Chinese mainland equities weathered the escalating tariff tensions in July. The CSI 300 Index managed a 0.2% return for the month, holding its trailing threemonth return at -6.5%.
- The yuan depreciated another 2.9% against the dollar in July, bringing the three-month slide to 7.1%.
 Historically, prolonged currency devaluation has led to capital flight risks, while sustained currency appreciation has compromised the competitiveness of domestic industry.

GLOBAL SOVEREIGN 10-YEAR YIELDS



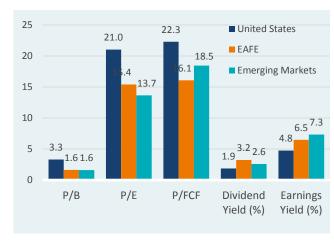
Source: Bloomberg, as of 7/31/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 7/31/18

MSCI VALUATION METRICS (3-MONTH AVG)





Commodities

- The Bloomberg Commodity Index dropped another
 2.1% in July, led by oil and industrial metals.
- The Bloomberg Commodity Industrial Metals Index fell 4.7%, as copper and zinc dropped 3.8% and 8.0%, respectively. The drawdown in industrial metals may have been impacted by uncertainty surrounding global trade policies.
- Oil suffered its worst month in two years. WTI oil prices fell back down to \$69 per barrel, losing 7.3% on the month and price volatility hit its highest level since February.
- Many factors impacted oil prices during the month, including pending U.S. sanctions on Iran, supply shortages in several OPEC member countries, unexpected increases in U.S. reserves, and reports of potential production increases from Saudi Arabia.

Commodities fell, erasing year-to-date gains

INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(2.1)	(2.1)	(2.1)	2.7	(1.6)	(7.1)	(8.1)
Bloomberg Agriculture	2.7	2.7	(3.2)	(11.7)	(5.5)	(8.5)	(5.8)
Bloomberg Energy	(4.4)	(4.4)	7.8	23.2	(5.6)	(14.5)	(18.6)
Bloomberg Grains	6.5	6.5	2.9	(9.3)	(7.7)	(10.1)	(7.5)
Bloomberg Industrial Metals	(4.7)	(4.7)	(9.8)	5.4	7.2	(0.2)	(4.5)
Bloomberg Livestock	(4.3)	(4.3)	(9.2)	(8.9)	(5.2)	(3.3)	(6.0)
Bloomberg Petroleum	(4.5)	(4.5)	13.0	38.6	0.7	(13.1)	(13.3)
Bloomberg Precious Metals	(2.7)	(2.7)	(7.5)	(5.1)	2.5	(2.9)	1.3
Bloomberg Softs	(5.7)	(5.7)	(16.8)	(19.1)	(3.6)	(9.4)	(5.0)

Source: Morningstar, as of 7/31/18

COMMODITY PERFORMANCE





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	11.6	15.8	12.4
Large Cap Growth	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	10.4	13.0	11.2
Small Cap Equity	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	9.5	12.4	10.7
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	7.3	11.3	10.4
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	6.4	10.2	9.5
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	3.5	10.0	9.0
Large Cap Value	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	2.2	9.8	6.2
60/40 Global Portfolio	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	0.9	6.0	5.1
Cash	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	0.9	5.9	3.7
Hedge Funds of Funds	-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	5.3	3.4
International Equity	-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	-0.4	3.3	2.9
US Bonds	-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	-1.6	2.2	1.7
Commodities	-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	-2.1	0.4	0.3
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	-4.6	-7.1	-8.1

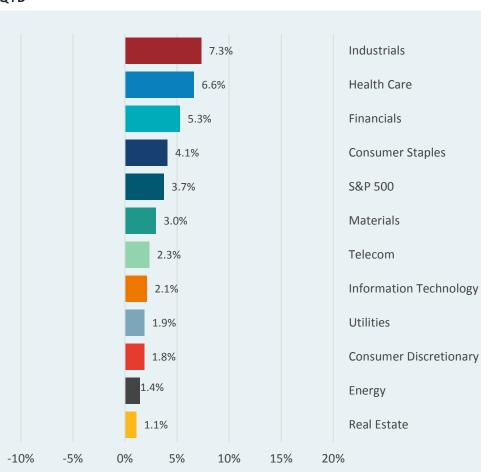


Source Data: Morningstar, Inc., Hedge Fund Research, Inc. (HFR), National Council of Real Estate Investment Fiduciaries (NCREIF). Indices used: Russell 1000, Russell 1000 Value, Russell 1000 Value, Russell 2000 Growth, MSCI EAFE, MSCI EM, BBgBarc US Aggregate, T-Bill 90 Day, Bloomberg Commodity, NCREIF Property, HFRI FOF, MSCI ACWI, BBgBarc Global Bond. NCREIF Property Index performance data as of 6/30/18.

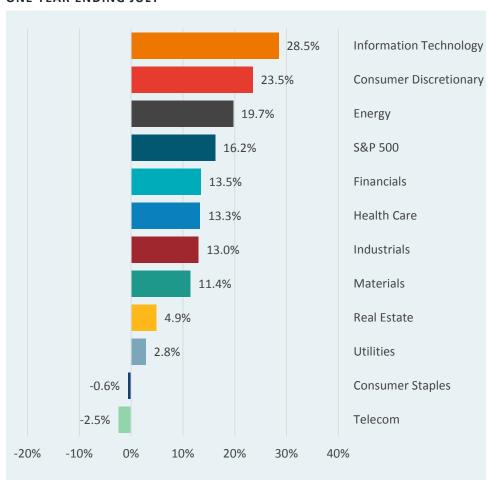


S&P 500 sector returns

QTD



ONE YEAR ENDING JULY



Source: Morningstar, as of 7/31/18

Source: Morningstar, as of 7/31/18



Detailed index returns

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	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Core Index							
S&P 500	3.7	3.7	6.5	16.2	12.5	13.1	10.7
S&P 500 Equal Weighted	3.2	3.2	5.0	13.8	11.3	12.3	12.0
DJ Industrial Average	4.8	4.8	4.1	18.7	15.7	13.1	11.3
Russell Top 200	3.8	3.8	7.0	17.3	13.0	13.6	10.7
Russell 1000	3.5	3.5	6.4	16.2	12.2	13.0	10.7
Russell 2000	1.7	1.7	9.5	18.7	12.0	11.3	10.4
Russell 3000	3.3	3.3	6.6	16.4	12.2	12.8	10.7
Russell Mid Cap	2.5	2.5	4.9	13.5	10.2	11.5	10.8
Style Index							
Russell 1000 Growth	2.9	2.9	10.4	22.8	14.8	15.8	12.4
Russell 1000 Value	4.0	4.0	2.2	9.5	9.5	10.0	9.0
Russell 2000 Growth	1.7	1.7	11.6	22.9	11.1	12.4	11.2
Russell 2000 Value	1.8	1.8	7.3	14.4	12.9	10.2	9.5

FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Broad Index							
BBgBarc US TIPS	(0.5)	(0.5)	(0.5)	1.2	1.7	1.4	3.0
BBgBarc US Treasury Bills	0.2	0.2	0.9	1.4	0.7	0.5	0.4
BBgBarc US Agg Bond	0.0	0.0	(1.6)	(8.0)	1.5	2.2	3.7
Duration							
BBgBarc US Treasury 1-3 Yr	(0.0)	(0.0)	0.0	(0.2)	0.4	0.5	1.2
BBgBarc US Treasury Long	(1.5)	(1.5)	(4.4)	(1.0)	1.7	4.6	5.9
BBgBarc US Treasury	(0.4)	(0.4)	(1.5)	(1.2)	0.6	1.4	2.9
Issuer							
BBgBarc US MBS	(0.1)	(0.1)	(1.1)	(0.4)	1.2	2.3	3.5
BBgBarc US Corp. High Yield	1.1	1.1	1.3	2.6	6.1	5.3	8.5
BBgBarc US Agency Interm	(0.0)	(0.0)	(0.2)	(0.4)	0.7	1.1	2.3
BBgBarc US Credit	0.7	0.7	(2.3)	(0.7)	2.9	3.4	5.3

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Broad Index							
MSCI ACWI	3.0	3.0	2.6	11.0	8.9	9.0	6.4
MSCI ACWI ex US	2.4	2.4	(1.5)	5.9	6.0	5.6	3.2
MSCI EAFE	2.5	2.5	(0.4)	6.4	5.0	5.9	3.4
MSCI EM	2.2	2.2	(4.6)	4.4	8.9	5.3	2.9
MSCI EAFE Small Cap	0.7	0.7	(0.7)	9.2	10.0	10.2	7.4
Style Index							
MSCI EAFE Growth	2.1	2.1	1.1	9.0	6.3	6.9	4.0
MSCI EAFE Value	2.9	(2.8)	(1.9)	3.8	3.7	4.8	2.8
Regional Index							
MSCI UK	0.9	0.9	(0.2)	8.2	2.8	3.8	3.2
MSCI Japan	0.4	0.4	(1.6)	8.8	6.2	7.3	3.9
MSCI Euro	3.6	3.6	0.3	4.9	5.2	6.1	1.6
MSCI EM Asia	0.7	0.7	(4.4)	5.0	10.3	8.1	5.8
MSCI EM Latin American	9.2	9.2	(3.0)	0.7	8.1	(0.4)	(2.0)

OTHER

OTHER							
Index							
Bloomberg Commodity	(2.1)	(2.1)	(2.1)	2.7	(1.6)	(7.1)	(8.1)
Wilshire US REIT	0.6	2.7	2.1	3.4	6.0	8.4	7.6
CS Leveraged Loans	0.8	(4.4)	3.2	4.7	4.6	4.2	5.2
Alerian MLP	(1.5)	11.8	(0.6)	(4.6)	(5.9)	(4.1)	6.5
Regional Index							
JPM EMBI Global Div	2.6	2.6	(2.8)	0.1	5.3	5.4	6.9
JPM GBI-EM Global Div	1.9	1.9	(4.7)	(2.5)	3.5	(0.9)	2.2
Hedge Funds							
HFRI Composite	0.2	0.2	1.6	4.6	2.6	4.0	3.8
HFRI FOF Composite	0.1	0.1	0.8	4.2	1.9	3.3	1.7
Currency (Spot)							
Euro	0.2	0.2	(2.6)	(8.0)	1.9	(2.5)	(2.8)
Pound	(0.6)	(0.6)	(3.0)	(0.5)	(5.6)	(2.9)	(4.0)
Yen	(1.0)	(1.0)	0.6	(1.3)	3.4	(2.6)	(0.3)

Source: Morningstar, HFR, as of 7/31/18



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