

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**

AUGUST 2018  
Capital Markets Update



# Market commentary

## U.S. ECONOMICS

- Nonfarm payrolls expanded by 201,000 in August, exceeding expectations of a 191,000 increase. Average hourly wage growth also beat expectations, coming in at 2.9% for the month, the highest reading since April 2009.
- The University of Michigan's consumer sentiment index fell from 97.9 in July to 96.2 in August, the lowest since January – economists had expected a reading of 95.5. Much of the decline was attributed to less favorable assessments of buying conditions.
- Core CPI increased 2.4% year-on-year in July, the highest rate since 2008. Core PCE, which is monitored more closely than CPI by the Federal Reserve, advanced 2.0% year-on-year, meeting expectations.

## U.S. EQUITIES

- The S&P 500 returned 3.3% in August, its 5<sup>th</sup> consecutive month of positive performance. The index has now fully recovered from the February correction, and is up 9.9% year-to-date.
- The technology sector led the way (+4.9%) as computer hardware and software firms outperformed.
- The CBOE VIX Index jumped to 14.8 midway through August amidst concerns relating to trade, geopolitical tension, and idiosyncratic emerging market stories. The VIX Index finished at 12.9, essentially unchanged during the month.

## U.S. FIXED INCOME

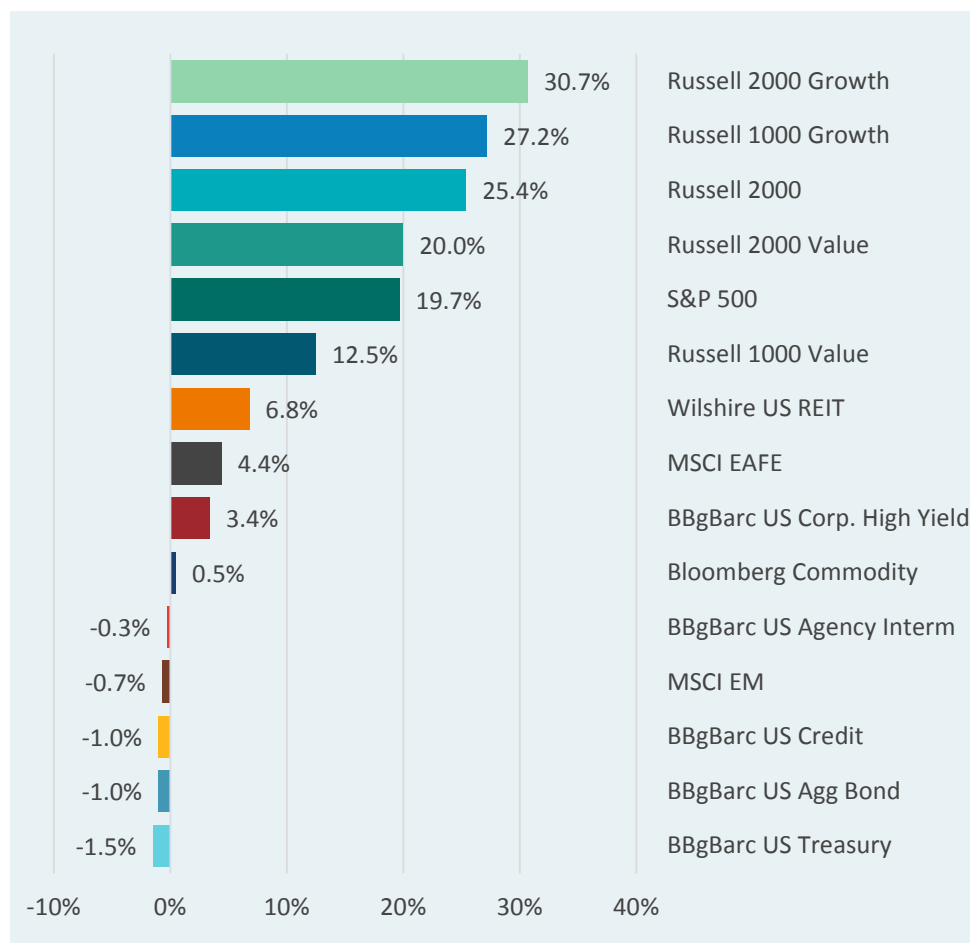
- Domestic fixed income performance was strong in August – the Bloomberg Barclays Aggregate and High Yield indices advanced 0.6% and 0.7% respectively.
- Yields on 10-year Treasuries fell 10 basis points, from 2.96% to 2.86%.
- The yield curve continued to flatten; the spread between the 10-year U.S. Treasury yield and the 2-year yield compressed from 29 bps to 23 bps.

## INTERNATIONAL MARKETS

- While President Trump and President Xi remain hopeful about working towards a trade deal before year-end, tariffs of 25% on \$200 billion of Chinese imports could take effect as early as September 6<sup>th</sup>.
- Trade representatives from the United States and Mexico reached a preliminary agreement on a new trade deal which would replace NAFTA. Canada is not currently included in the new trade agreement, although Canadian Foreign Affairs Minister Chrystia Freeland is optimistic about the progression of negotiations.
- Tensions between the United States and Turkey have continued to rise, while economic conditions in Turkey have steadily fallen. The Turkish CPI rose from 15.9% year-on-year in July to 17.9% in August, while the lira depreciated 27.5% relative to the US dollar.

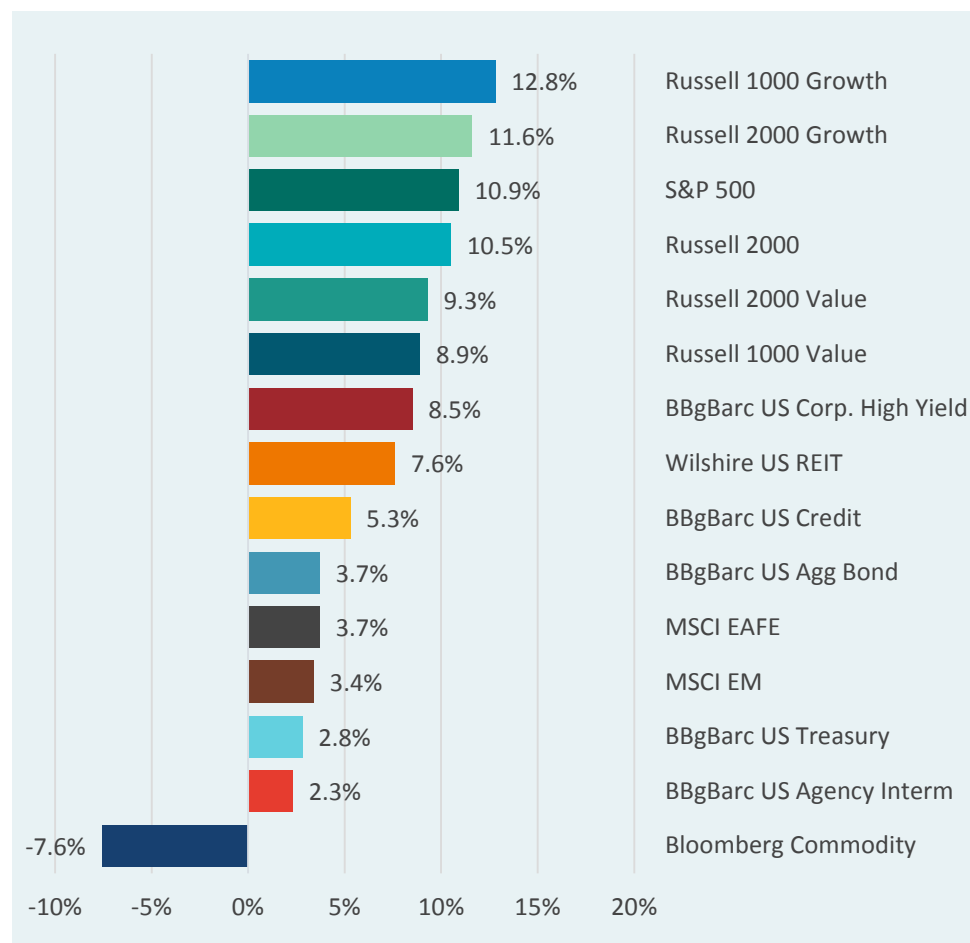
# Major asset class returns

ONE YEAR ENDING AUGUST



Source: Morningstar, as of 8/31/18

TEN YEARS ENDING AUGUST



Source: Morningstar, as of 8/31/18

# U.S. large cap equities

- The S&P 500 Index advanced 3.3% in August, reaching new all-time highs and ending the month at 2902. The index has now fully recovered from the February and March drawdowns. Over the past five months, the S&P 500 has gained 10.8%.
- Within the S&P 500 Index, Information Technology (+6.9%), Consumer Discretionary, (+5.1%), and Healthcare (+4.4%) outperformed. Energy (-3.3%), and Materials (-0.5%) underperformed the overall index.
- Big tech names continued to lead the advance in August. Apple, Amazon, and Microsoft contributed 40.5% of the overall S&P 500 return for the month. The largest detractor from S&P 500 performance was Chevron (-6.4%).
- Apple alone contributed 22.5% to the S&P 500 monthly return, and became the first US company to pass \$1 trillion in market capitalization. At month-end, Amazon's market cap was \$980.2 billion.

Cyclical sectors outperformed

S&P 500 PRICE INDEX



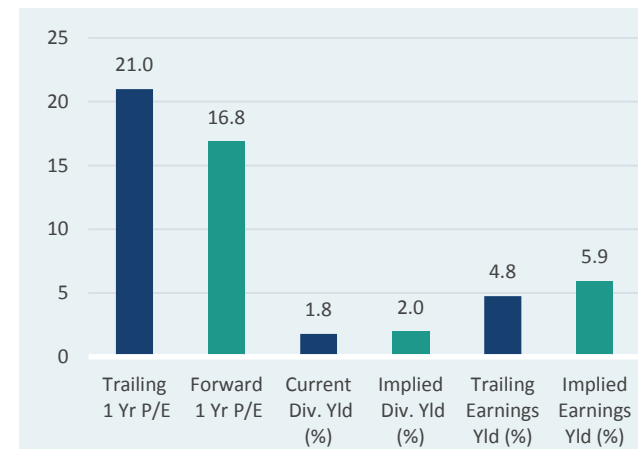
Source: Bloomberg, as of 8/31/18

IMPLIED VOLATILITY (VIX INDEX)



Source: CBOE, as of 8/31/18

S&P 500 VALUATION SNAPSHOT



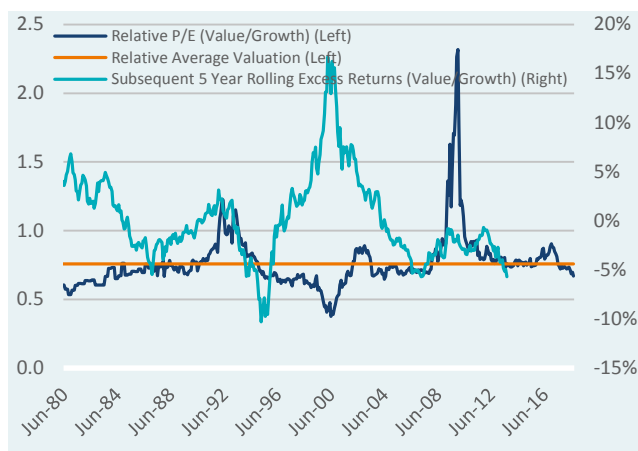
Source: Bloomberg, as of 8/31/18

# Domestic equity size and style

- The Russell 2000 Index and Russell 1000 Index returned 4.3% and 3.5% in August, respectively.
- Growth equities significantly outperformed value. The Russell 1000 Growth Index and Russell 1000 Value Index returned 5.5% and 1.5%, respectively. In the small-cap space, the Russell 2000 Growth Index and Russell 2000 Value Index returned 6.2% and 2.4% respectively.
- The Russell 2000 Growth Index is now trading 11.4% above its 200-day simple moving average, indicating that the asset class has benefitted from strong momentum over the past 200 days.
- Growth equities have gotten more expensive year-to-date. The ratio of the Russell 1000 Value P/E relative to the Russell 1000 Growth P/E declined from 0.70 in July to 0.67 in August. At the beginning of the year, the ratio was 0.74.

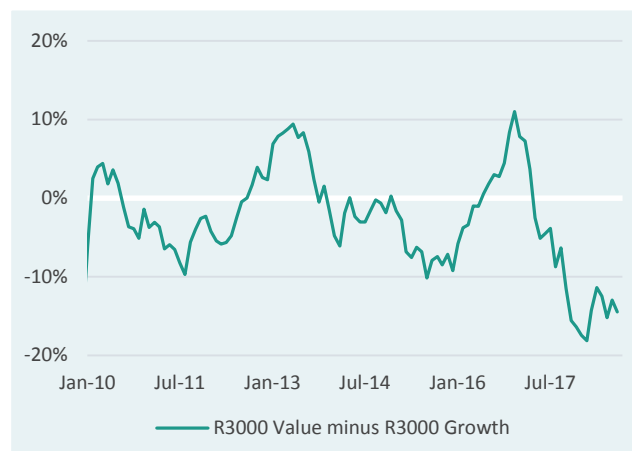
Growth and momentum led stocks higher

VALUE VS. GROWTH RELATIVE VALUATIONS



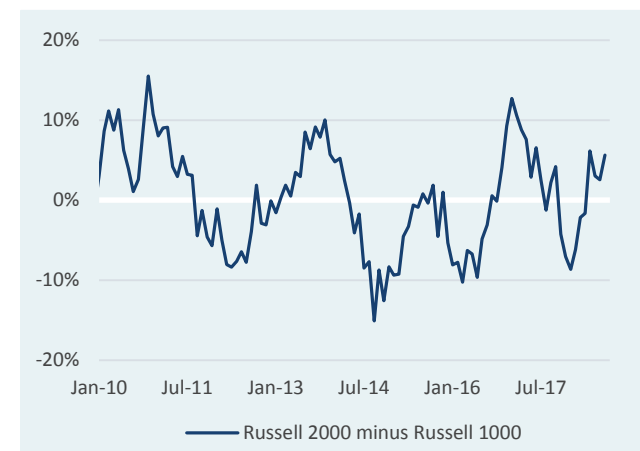
Source: Russell, Bloomberg, as of 8/31/18

VALUE VS. GROWTH 1-YR ROLLING RELATIVE PERFORMANCE



Source: FTSE, as of 8/31/18

SMALL VS. LARGE 1-YR ROLLING RELATIVE PERFORMANCE



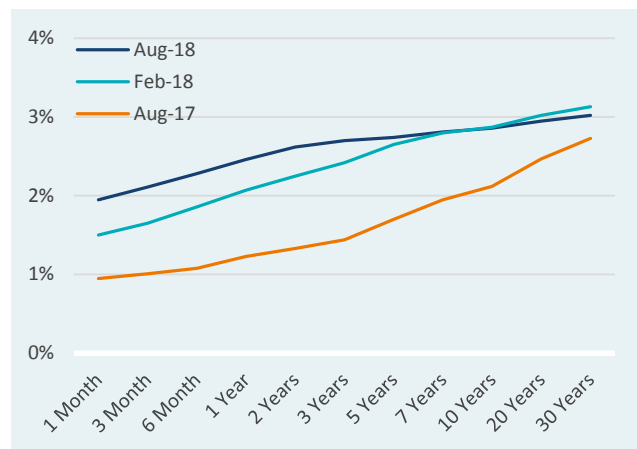
Source: FTSE, as of 8/31/18

# Fixed income

- The Bloomberg Barclays Aggregate Index returned 0.6% in August, as Treasury yields moved lower across the curve.
- The spread over the sovereign curve on the Bloomberg Barclays Global High Yield Index reversed in August, expanding from 3.8% to 4.2% during the month. The index lost 0.9% on a USD-hedged and 1.0% on an unhedged basis, as dollar strength presented a slight headwind.
- The 10-year Italian bond yield spread over German bund yields of the same maturity expanded from 2.3% to 2.9%. Uncertainty regarding the Italian government's adherence to EU fiscal spending rules likely impacted Italian yields over the period.
- The Central Bank of Argentina hiked its benchmark interest rate from 45% to 60%, hoping to support its rapidly depreciating currency. Concerns related to the speed of payments from the IMF's bailout package exacerbated the weakness of the peso, which has lost around 50% of its value over the year.

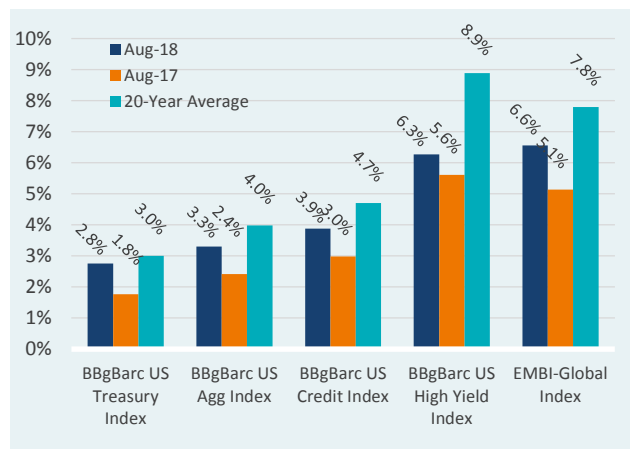
Treasury yields fell across the curve

U.S. TREASURY YIELD CURVE



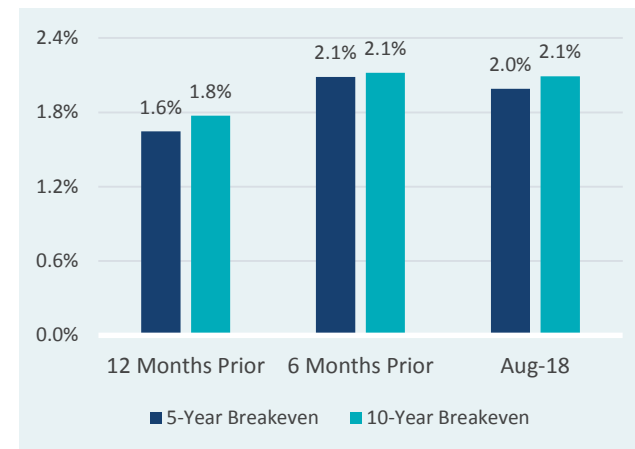
Source: Bloomberg, as of 8/31/18

NOMINAL YIELDS



Source: Morningstar, as of 8/31/18

BREAKEVEN INFLATION RATES



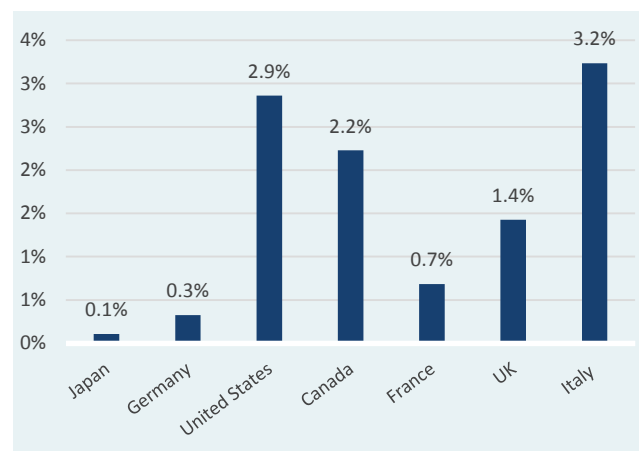
Source: Bloomberg, as of 8/31/18

# Global markets

- Emerging market assets sold off in August, possibly affected by lingering trade concerns, currency weakness, and geopolitical tensions. The JPM GBI-EM Global Diversified Index fell 1.7% and the MSCI Emerging Markets Index fell 2.7%.
- The MSCI Emerging Markets Currency Index fell another 2.0% in August, bringing the year-to-date decline to 5.0%. Weakness in the South African rand, Chinese yuan, Russian ruble, and Indian rupee have detracted from performance.
- South Africa entered a technical recession, as real GDP contracted for the second consecutive quarter. Real GDP contracted at an annualized quarterly rate of 0.7% in Q2, following a contraction of 2.6% in the Q1. Year-to-date, the MSCI South Africa index is down 20.0%.
- U.S. equity price-to-earnings multiples continued to expand relative to emerging market equity multiples. The spread in trailing P/E ratios between the MSCI USA Index over the MSCI EM Index moved from 7.3 to 8.0 in August.

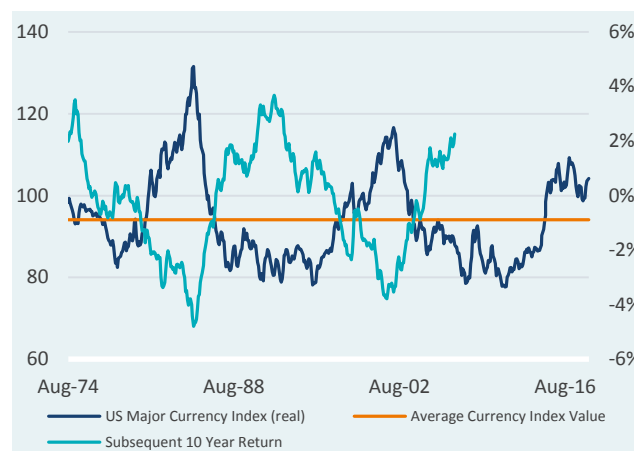
Weakness in emerging market assets continued

GLOBAL SOVEREIGN 10-YEAR YIELDS



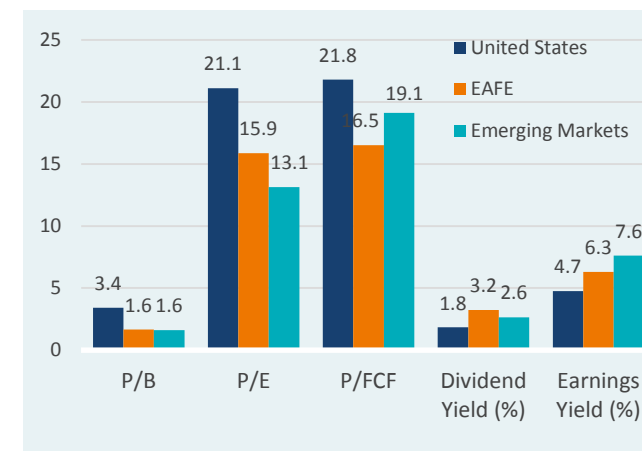
Source: Bloomberg, as of 8/31/18

U.S. DOLLAR MAJOR CURRENCY INDEX



Source: Federal Reserve, as of 8/31/18

MSCI VALUATION METRICS (3-MONTH AVG)



Source: Bloomberg, as of 8/31/18

# Commodities

- The Bloomberg Commodity Index fell another 1.8% in August, bringing the trailing three-month loss to 7.2%. All sub-sectors except for energy and petroleum declined over the month.
- The Bloomberg Grains Index declined 6.1% in August, which was influenced by the Russian agriculture ministry stating that there was no plan to restrict wheat exports, and soybean surpluses continued to build.

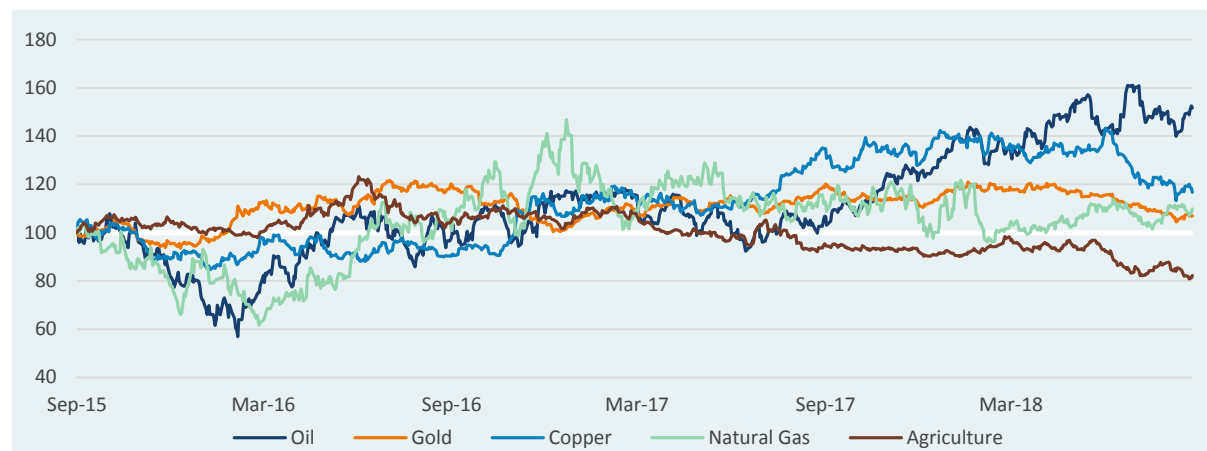
- Oil and petroleum rebounded in August (Bloomberg Petroleum 3.6%). Iranian crude exports declined at a pace exceeding expectations, which likely helped oil prices climb higher. The United States has expressed a willingness to impose sanctions on countries that continue to buy Iranian oil after November 4th.
- Towards the end of the month, concerns regarding the impact of Tropical Storm Gordon on domestic oil production helped send crude higher – WTI oil closed just below \$70 per barrel.

## INDEX AND SECTOR PERFORMANCE

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
Bloomberg Commodity	(1.8)	(3.9)	(3.9)	0.5	(1.9)	(8.0)	(7.6)
Bloomberg Agriculture	(6.0)	(3.4)	(9.0)	(10.9)	(6.2)	(10.0)	(6.0)
Bloomberg Energy	3.8	(0.8)	11.8	26.1	(4.7)	(14.4)	(17.5)
Bloomberg Grains	(6.1)	0.0	(3.3)	(6.8)	(8.5)	(11.7)	(7.7)
Bloomberg Industrial Metals	(4.3)	(8.8)	(13.7)	(8.0)	6.6	(1.5)	(4.3)
Bloomberg Livestock	(0.3)	(4.7)	(9.5)	(3.2)	(5.7)	(3.8)	(5.7)
Bloomberg Petroleum	3.6	(1.1)	17.0	44.2	1.2	(13.1)	(12.3)
Bloomberg Precious Metals	(3.1)	(5.7)	(10.4)	(11.6)	0.7	(5.2)	2.4
Bloomberg Softs	(5.3)	(10.7)	(21.3)	(20.0)	(4.3)	(9.8)	(5.1)

Source: Morningstar, as of 8/31/18

## COMMODITY PERFORMANCE



Source: Bloomberg, as of 8/31/18



# Appendix

# Periodic table of returns

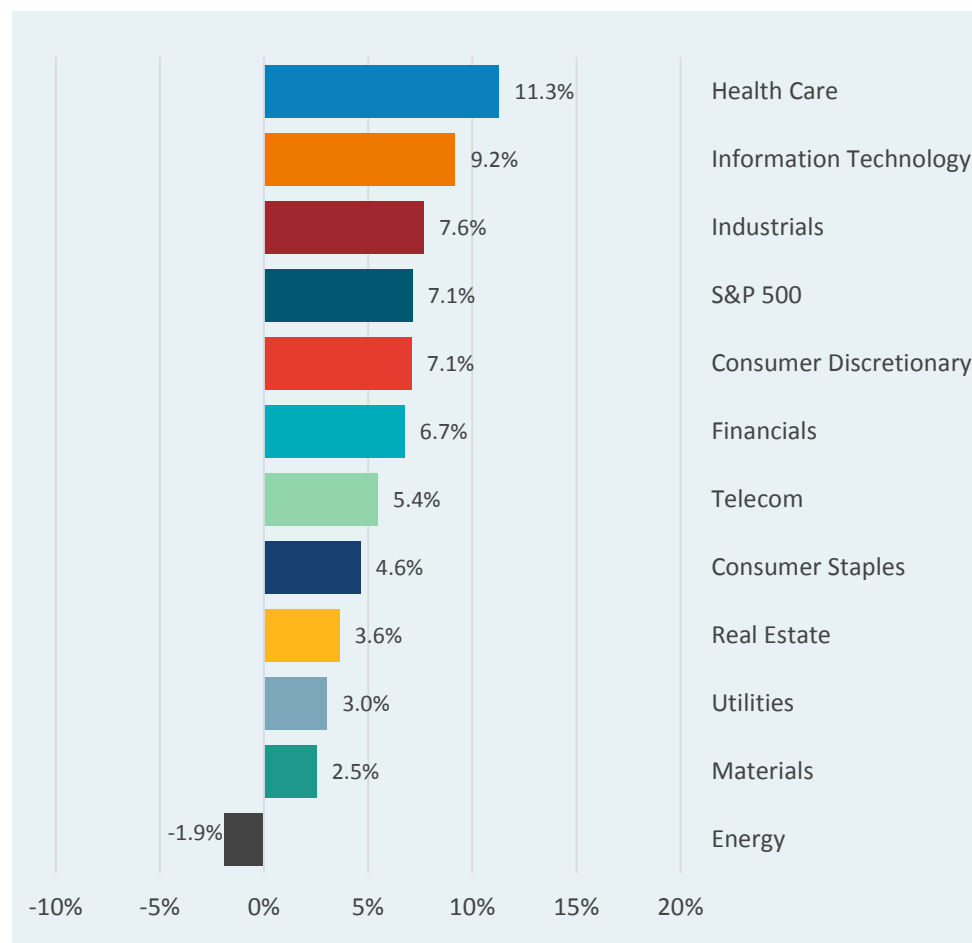
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	YTD	5-Year	10-Year
Small Cap Growth	38.7	66.4	31.8	14.0	25.9	56.3	26.0	34.5	32.6	39.8	5.2	79.0	29.1	14.3	18.6	43.3	13.5	13.3	31.7	37.3	18.5	17.5	12.8
Large Cap Growth	27.0	43.1	22.8	8.4	10.3	48.5	22.2	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	16.4	14.4	11.6
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	14.3	14.2	10.9
Large Cap Equity	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	10.1	13.0	10.5
Small Cap Value	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	9.9	11.7	9.3
Large Cap Value	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	3.7	11.2	8.9
Real Estate	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	3.5	9.8	6.2
Hedge Funds of Funds	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	2.1	6.4	5.4
60/40 Global Portfolio	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	1.5	5.7	3.7
Cash	-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	1.2	5.0	3.7
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	-1.0	3.7	3.4
International Equity	-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	-2.3	2.5	2.0
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	-3.9	0.5	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	-7.2	-8.0	-7.6

Large Cap Equity	Small Cap Growth	Commodities
Large Cap Value	International Equity	Real Estate
Large Cap Growth	Emerging Markets Equity	Hedge Funds of Funds
Small Cap Equity	US Bonds	60% MSCI ACWI/40% BBgBarc Global Bond
Small Cap Value	Cash	

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 6/30/18.

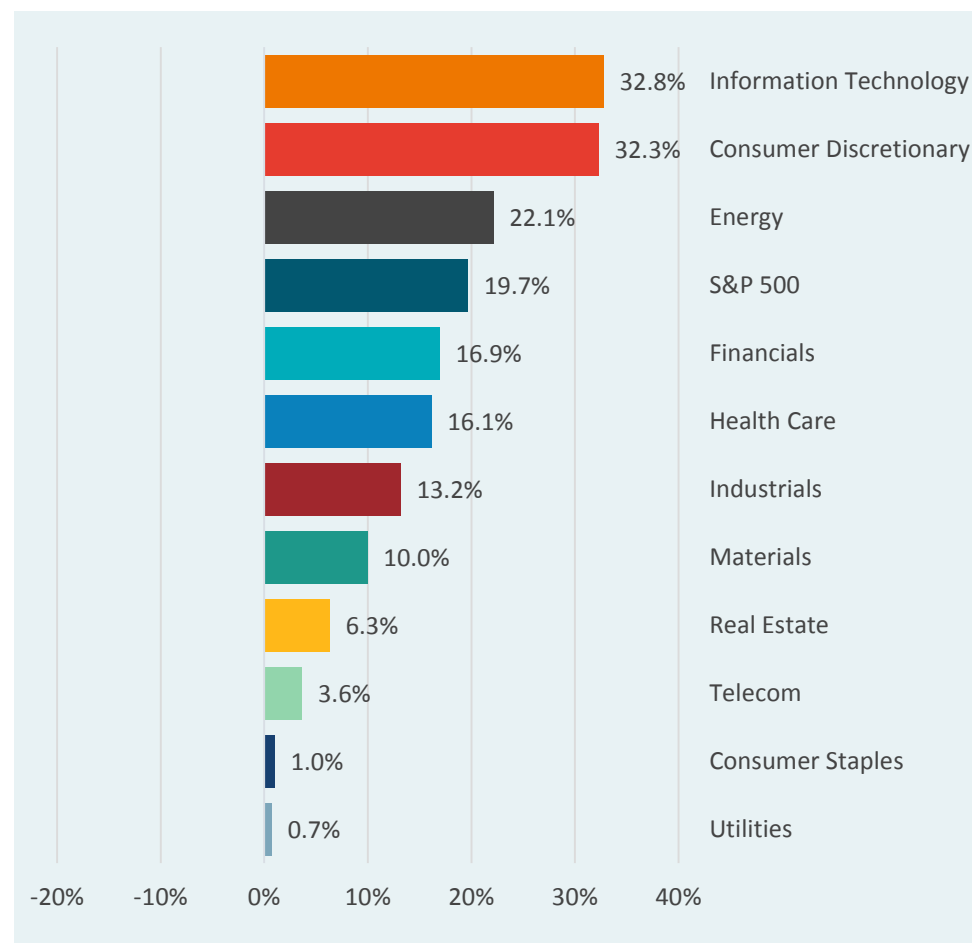
# S&P 500 sector returns

QTD



Source: Morningstar, as of 8/31/18

ONE YEAR ENDING AUGUST



Source: Morningstar, as of 8/31/18



# Detailed index returns

## DOMESTIC EQUITY

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Core Index</b>							
S&P 500	3.3	7.1	9.9	19.7	16.1	14.5	10.9
S&P 500 Equal Weighted	2.0	5.3	7.1	17.1	14.1	13.3	11.9
DJ Industrial Average	2.6	7.5	6.7	21.0	19.2	14.6	11.3
Russell Top 200	3.6	7.5	10.8	20.6	16.9	15.0	10.9
Russell 1000	3.4	7.0	10.1	19.8	15.8	14.4	10.9
Russell 2000	4.3	6.1	14.3	25.4	16.1	13.0	10.5
Russell 3000	3.5	6.9	10.4	20.2	15.9	14.3	10.9
Russell Mid Cap	3.1	5.7	8.2	17.9	13.4	12.8	10.9
<b>Style Index</b>							
Russell 1000 Growth	5.5	8.6	16.4	27.2	19.3	17.5	12.8
Russell 1000 Value	1.5	5.5	3.7	12.5	12.3	11.2	8.9
Russell 2000 Growth	6.2	8.1	18.5	30.7	16.4	14.2	11.6
Russell 2000 Value	2.4	4.2	9.9	20.0	15.7	11.7	9.3

## INTERNATIONAL EQUITY

<b>Broad Index</b>							
MSCI ACWI	0.8	3.8	3.4	11.4	11.8	9.7	6.7
MSCI ACWI ex US	(2.1)	0.2	(3.5)	3.2	8.1	5.4	3.4
MSCI EAFE	(1.9)	0.5	(2.3)	4.4	7.0	5.7	3.7
MSCI EM	(2.7)	(0.6)	(7.2)	(0.7)	11.4	5.0	3.4
MSCI EAFE Small Cap	(0.8)	(0.2)	(1.5)	7.5	11.4	10.0	7.7
<b>Style Index</b>							
MSCI EAFE Growth	(0.3)	1.8	0.8	8.1	8.9	7.1	4.5
MSCI EAFE Value	(3.6)	(0.9)	(5.4)	0.6	5.1	4.3	2.7
<b>Regional Index</b>							
MSCI UK	(4.2)	(3.4)	(4.4)	4.5	4.0	3.0	3.1
MSCI Japan	0.2	0.6	(1.4)	9.0	8.4	7.8	4.4
MSCI Euro	(3.8)	(0.3)	(3.5)	0.7	6.6	5.8	1.7
MSCI EM Asia	(0.8)	(0.1)	(5.2)	2.7	13.6	8.2	6.5
MSCI EM Latin American	(8.4)	0.1	(11.1)	(11.8)	9.0	(1.6)	(2.0)

## FIXED INCOME

	Month	QTD	YTD	1 Year	3 Year	5 Year	10 Year
<b>Broad Index</b>							
BBgBarc US TIPS	0.7	0.2	0.2	0.8	2.2	1.9	3.0
BBgBarc US Treasury Bills	0.2	0.3	1.1	1.4	0.8	0.5	0.4
BBgBarc US Agg Bond	0.6	0.7	(1.0)	(1.0)	1.8	2.5	3.7
<b>Duration</b>							
BBgBarc US Treasury 1-3 Yr	0.3	0.3	0.4	(0.1)	0.5	0.6	1.2
BBgBarc US Treasury Long	1.6	0.1	(2.9)	(2.8)	2.3	5.1	5.8
BBgBarc US Treasury	0.8	0.3	(0.7)	(1.5)	0.8	1.7	2.8
<b>Issuer</b>							
BBgBarc US MBS	0.6	0.5	(0.5)	(0.5)	1.4	2.4	3.5
BBgBarc US Corp. High Yield	0.7	1.8	2.0	3.4	7.0	5.6	8.5
BBgBarc US Agency Interm	0.5	0.4	0.2	(0.3)	0.8	1.3	2.3
BBgBarc US Credit	0.5	1.2	(1.8)	(1.0)	3.3	3.6	5.3

## OTHER

<b>Index</b>							
Bloomberg Commodity	(1.8)	(3.9)	(3.9)	0.5	(1.9)	(8.0)	(7.6)
Wilshire US REIT	3.0	(3.4)	5.1	6.8	9.3	10.6	7.6
CS Leveraged Loans	0.4	(0.8)	3.6	5.3	5.0	4.3	5.2
Alerian MLP	1.6	8.3	7.6	7.3	(0.7)	(2.0)	7.3
<b>Regional Index</b>							
JPM EMBI Global Div	(1.7)	0.8	(4.5)	(3.4)	5.1	5.6	6.6
JPM GBI-EM Global Div	(6.1)	(4.3)	(10.5)	(10.0)	3.2	(1.3)	1.9
<b>Hedge Funds</b>							
HFRI Composite	0.7	1.2	2.0	5.3	5.1	4.6	4.0
HFRI FOF Composite	1.1	1.4	2.1	4.7	3.0	3.7	2.0
<b>Currency (Spot)</b>							
Euro	(0.6)	(0.3)	(3.1)	(2.1)	1.3	(2.5)	(2.3)
Pound	(0.9)	(0.1)	(3.9)	0.9	(5.5)	(3.4)	(3.3)
Yen	1.0	(0.1)	1.6	(0.7)	3.0	(2.4)	(0.2)

Source: Morningstar, HFR, as of 8/31/18

# Notices & disclosures

**Past performance is no guarantee of future results.** This document is provided for informational purposes only and is directed to institutional clients and eligible institutional counterparties only and is not intended for retail investors. Nothing herein constitutes investment, legal, accounting or tax advice, or a recommendation to buy, sell or hold a security or pursue a particular investment vehicle or any trading strategy. This document may include or imply estimates, outlooks, projections and other “forward-looking statements.” No assurance can be given that future results described or implied by any forward looking information will be achieved. Investing entails risks, including possible loss of principal. Verus Advisory Inc. (“Verus”) file a single form ADV under the United States Investment Advisors Act of 1940, as amended. Additional information about Verus Advisory, Inc. available on the SEC’s website at [www.adviserinfo.sec.gov](http://www.adviserinfo.sec.gov).

Verus – also known as Verus Advisory™.