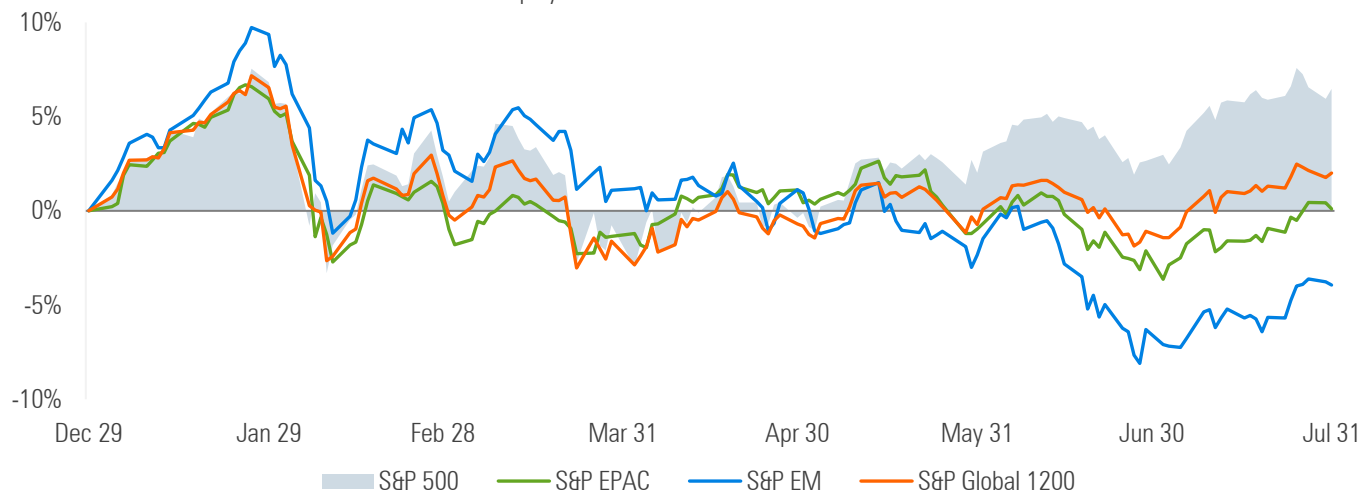


### STOCKS HIT THE GROUND RUNNING TO START THE SECOND HALF OF 2018

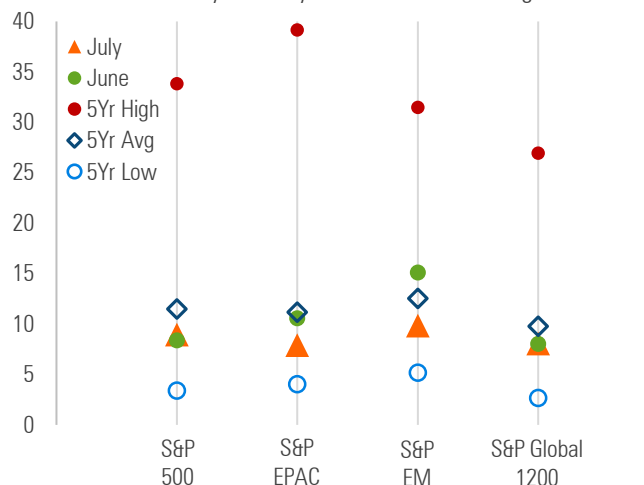
- All three major segments of the global equity market pushed higher in July amidst cooling trade war rhetoric, rising global interest rates and reports of strong economic growth.
- With its fourth consecutive positive monthly return and its best since January, the S&P 500 increased its YTD return to 6.5%.
- Small-cap stocks continued their winning streak with their fifth consecutive month of positive returns, during which they've risen 14.5%.
- After touching a YTD low in late June, EM equities reversed course in July, benefiting from a reprieve in the US dollar's ascent and climbing 2.5%, their first positive monthly return in six months.
- The relatively low equity market volatility in June extended into July as positive news outweighed the negative, pushing stock prices gradually higher.
- After declining in June, the correlation of the S&P 500 to global ex-US equities increased steadily higher during July, while its correlation to the U.S. aggregate bond market, after rising and falling remained largely unchanged.

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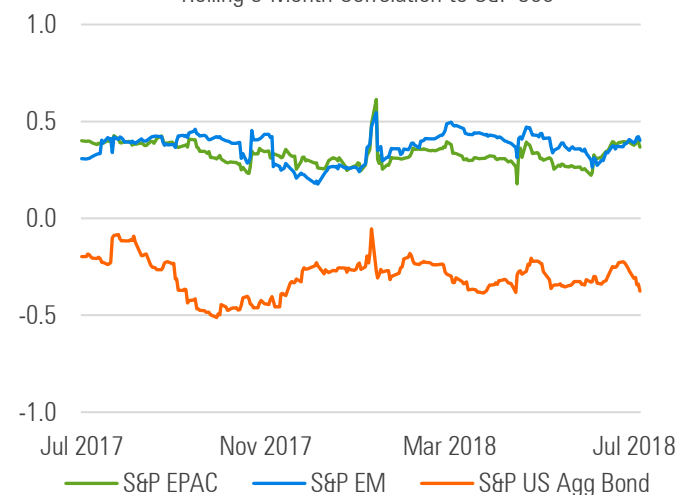
Global Equity Markets: 2018 YTD Cumulative Total Return



20-Day Volatility: 5-Year Historical Range



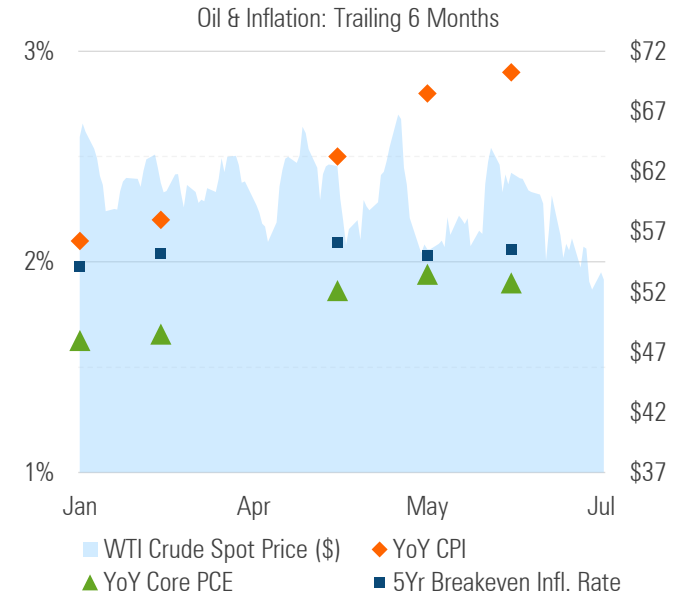
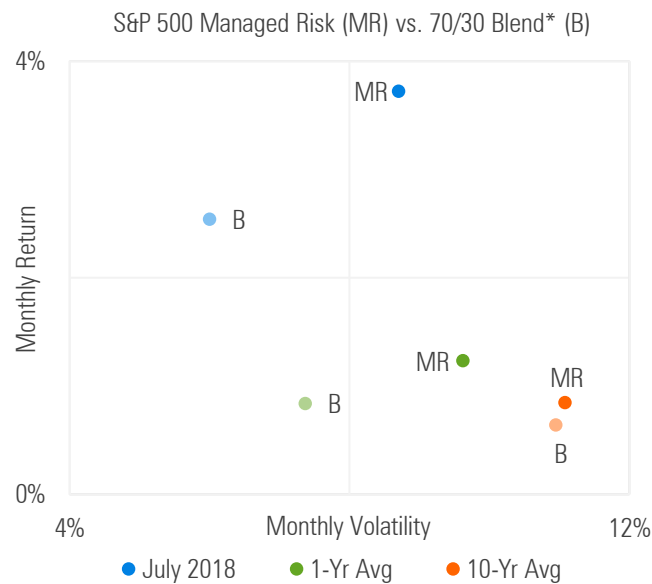
Rolling 3-Month Correlation to S&P 500



### MANAGED RISK INVESTING

- Equity market volatility gradually increased in the first half of the month only to recede during the second half. This left the [S&P 500 Managed Risk Index](#), which has an 18% volatility threshold and no fixed allocation to bonds, at a 100% equity allocation for the entirety of the month.
  - In July the Index outperformed a 70/30 blend\* by 118 bps, its widest margin of outperformance since January.
  - Over the last 10 years, the Managed Risk Index has exhibited marginally higher average monthly volatility than a 70/30 blend\*, while generating an average excess monthly return of 21 bps, equal to an annualized excess return of 2.75% per year.
- 
- Down 10% and 21% in July, respectively, Netflix and Facebook were the two worst performing stocks in the S&P 500. Their drag on the technology sector left it the fourth largest contributor to the return of the S&P 500, behind health care, financials and industrials.
  - The 10 stocks making the largest contributions to the index's YTD return (which still include Netflix) make up 2% of the number of holdings and 16% of the weight, but account for 58% of the total return.

\*Measured by the S&P 500 and the S&P U.S. Agg Bond Index

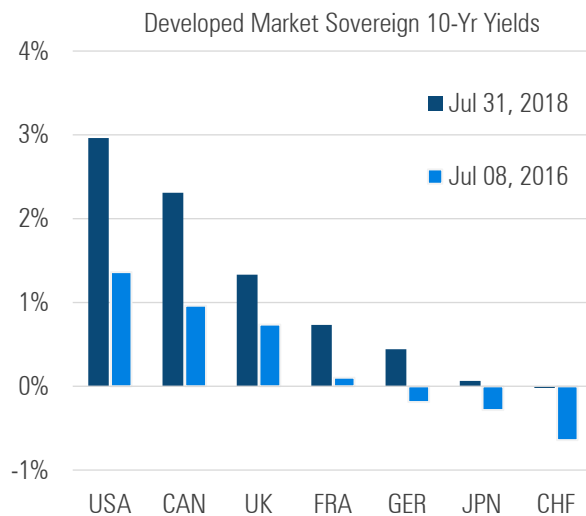
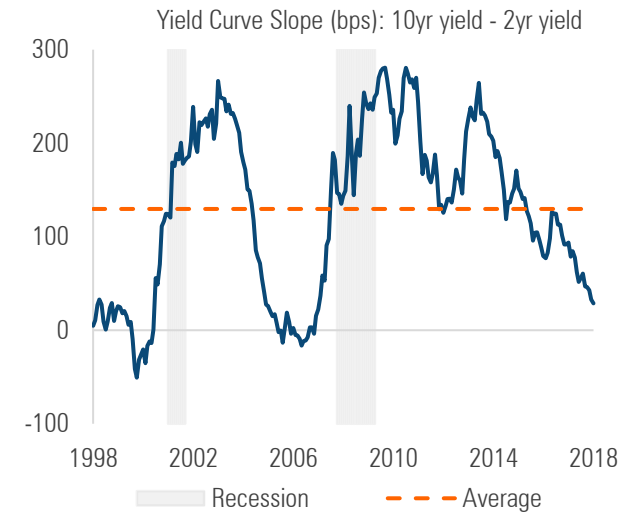
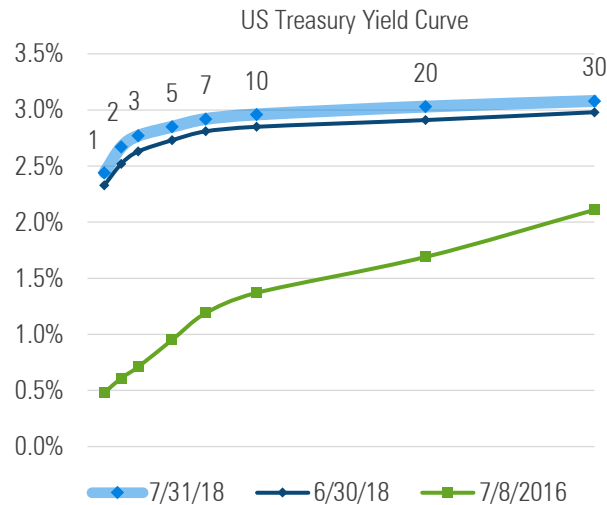


Total Returns as of July 31, 2018											
	S&P 500	S&P 500 MR	S&P 400	S&P 600	S&P EPAC	S&P EM	S&P Global 1200	S&P US AGG	Crude Oil (WTI)	US Dollar	70/30 Stock/Bond
1 Month	3.7%	3.7%	1.8%	3.2%	2.3%	2.5%	3.3%	0.1%	-14.4%	-0.6%	2.5%
3 Months	6.9%	6.4%	6.4%	11.1%	-1.0%	-5.0%	3.4%	0.6%	-15.1%	2.4%	4.6%
6 Months	0.7%	-0.8%	2.4%	10.1%	-4.7%	-11.3%	-1.8%	-0.3%	-18.3%	4.9%	-0.1%
1 Year	16.2%	14.5%	14.5%	23.1%	7.0%	5.0%	12.2%	-0.5%	8.2%	1.8%	9.6%
1M Volatility	8.4%	8.4%	9.3%	11.4%	10.6%	15.1%	8.0%	1.9%	45.6%	5.7%	6.0%



**ARE HIGHER RATES PORTENDING A STEEPER SLOPE?**

- The yield curve made a nearly perfectly parallel shift up in July. But parallel moves have been the exception.
- In just two years, the yield on the 2-year Treasury bill has climbed 206 bps. Over the same period, however, the yield on the 10-year bond has risen by 159 bps. In July, the difference between the two fell further to 24 bps, before finishing the month at 29 bps, its lowest levels since August 2007.
- The curious nature of the flatness has less to do with the short end of the curve and more to do with the long end.
- The short end, being more sensitive to Fed policy, has risen as the Fed has increased the fed funds rate. The long end has failed to keep pace.
- The Fed’s first hike was in December 2015, but it was another 12 months before it embarked on what has since been a steady cycle of increases. In December 2016, when the Fed made its second hike, the 10-yr Treasury yield was 2.48%. Since then it has risen less than 50 bps, while the fed funds rate has climbed 125 bps.
- This dynamic, however, may be changing. If yields in Japan are any indication, longer-term rates may be embarking on a fundamental shift. At the end of July, in spite of the Bank of Japan’s statement to maintain its easy monetary policy, yields at the long end of the curve broke sharply higher.
- With U.S. rates now two years off their low, this breakout may be signaling that Japan is the next domino to fall as rates around the globe revert back to their pre-crisis norms.



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