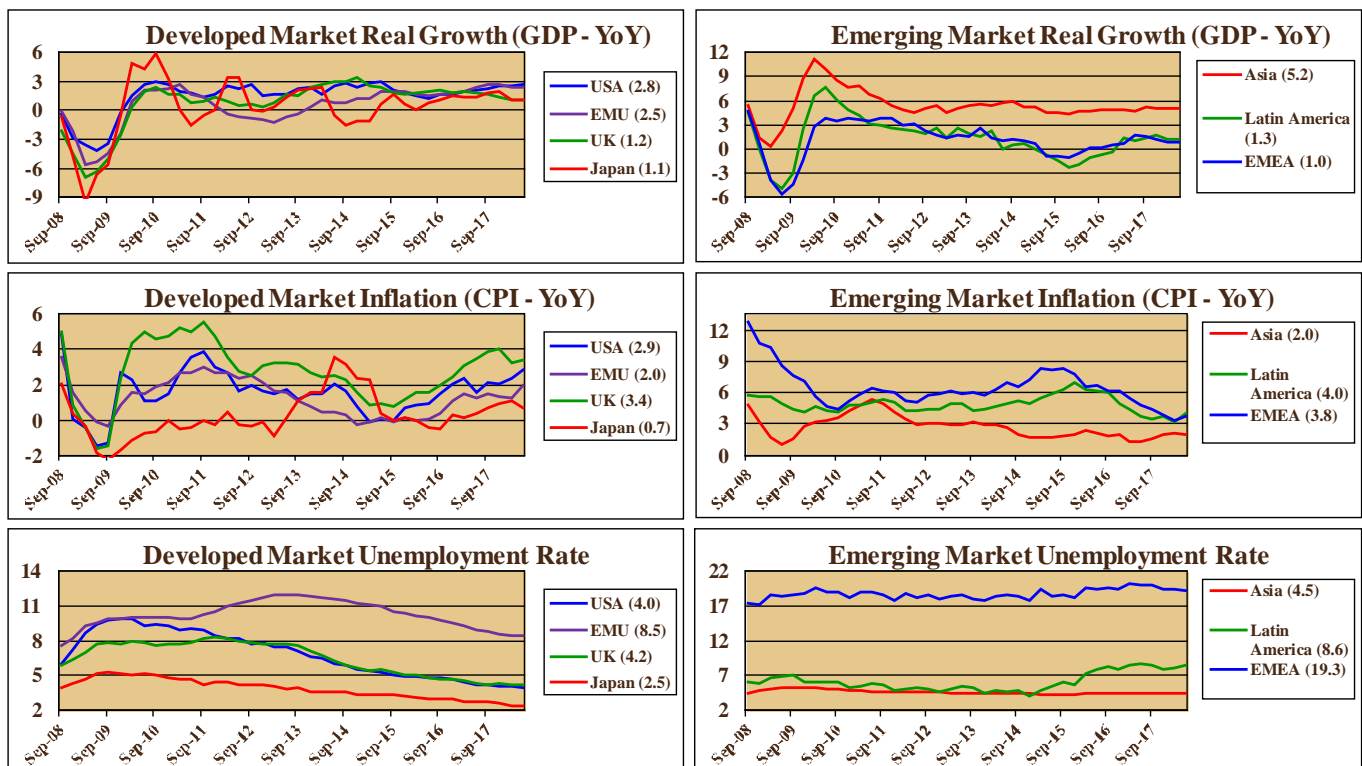


**Second Quarter 2018**

# Global Market and Economic Perspective

**Global Economic Commentary**

- ❖ The second quarter of 2018 saw US real GDP growth continue its upward trend. The advance estimate was a rate of 4.1%. This was driven in part by strong consumption, as household finances continue their decade-long improvement. Strong export growth was also a factor; many attribute this to exporters delivering goods before tariffs took effect (which should be reversed in the 3<sup>rd</sup> quarter GDP number). The unemployment rate briefly dipped below 4.0% during the quarter, the lowest rate in nearly 20 years.
- ❖ After a strong 2017, trade tensions have led to weakening economic growth in the Eurozone in both of the first two quarters of 2018. In the UK, uncertainty related to Brexit, and the seeming inability of the British government to make much progress on a plan for it, have caused many businesses to postpone investment.
- ❖ Weaker financial markets in the emerging markets are pointing to potential economic softening, due to the ongoing uncertainty of the trade war hostilities. However, this could certainly be a situation in which there is considerably more smoke than fire.
- ❖ Inflation has risen modestly (but remains low) in many countries, although the UK is again a bit of an outlier, as its retail price index has been in the 3% to 4% range for the last year and a half. The blame is likely to fall on Brexit here too, as the weakness in sterling has fed into higher import prices.



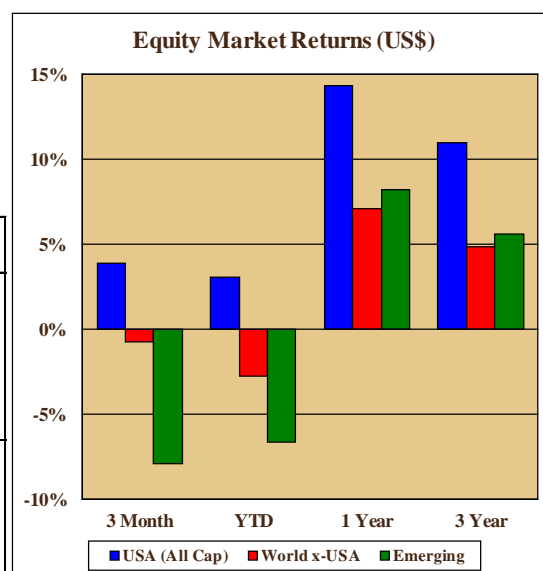
## Global Market and Economic Perspective – Q2 2018

### Global Equity and Currency Commentary

- ❖ In the US, the growth and small-cap equity sectors performed well in the second quarter. The FAANG stocks (Facebook, Apple, Amazon, Netflix, and Google/Alphabet) contributed a good deal to the returns in the overall market and the growth sector. Small capitalization stocks benefitted from the focus on domestic companies, as trade concerns weighed on more internationally oriented firms.
- ❖ When measured in their own local currencies, developed equity markets outside the US produced an aggregate return for the quarter that matched the return in the US equity market. However, due to ongoing US dollar strength during the quarter, the return to US investors from holding non-US developed market equities was slightly negative.
- ❖ The return in emerging market equities was negative, as fears of a slowdown in trade (and consequently in overall activity) hit share prices. The negative return in local currency terms was reduced further by the strength of the US dollar.

Global Equity Market Returns (MSCI)

6/30/2018	Returns (US\$)				Returns (Local)			
	3 Month	YTD	1 Year	3 Year	3 Month	YTD	1 Year	3 Year
<b>United States</b>								
USA (All Cap)	3.8%	3.1%	14.3%	11.0%				
USA Growth	5.6%	7.8%	21.7%	13.6%				
USA Value	1.1%	-2.6%	6.0%	8.4%				
USA SC Growth	7.1%	8.8%	22.3%	11.3%				
USA SC Value	6.4%	3.4%	12.1%	9.9%				
<b>Foreign Developed</b>								
World x-USA	-0.7%	-2.8%	7.0%	4.9%	3.8%	-0.7%	6.5%	5.3%
Europe	-1.3%	-3.2%	5.3%	4.2%	4.1%	-0.4%	4.3%	5.7%
Far East	-2.9%	-2.2%	10.2%	6.1%	0.7%	-3.5%	8.9%	3.3%
Australia	5.2%	-1.3%	8.7%	7.1%	9.2%	4.5%	12.9%	8.5%
Canada	4.7%	-3.0%	9.1%	4.5%	6.8%	1.8%	10.5%	6.4%
<b>Emerging Markets</b>								
Emerging	-8.0%	-6.7%	8.2%	5.6%	-3.5%	-2.8%	10.5%	7.5%
Asia	-5.8%	-5.1%	10.1%	7.3%	-3.4%	-2.8%	10.4%	7.9%
Latin America	-17.8%	-11.2%	-0.2%	2.0%	-8.0%	-2.6%	10.9%	8.9%
EMEA	-10.2%	-11.0%	5.6%	0.8%	-0.3%	-3.2%	10.8%	4.5%

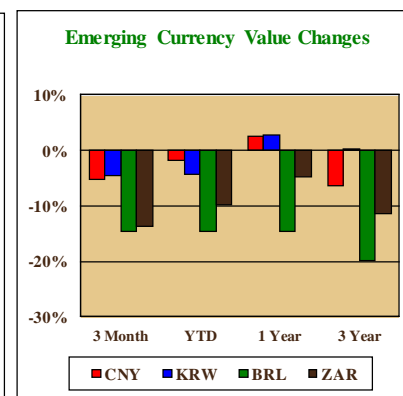
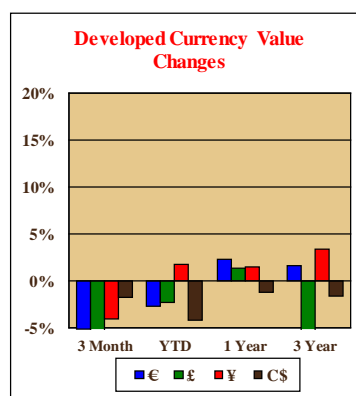


Annualized if greater than one year

Foreign Exchange Rate History (Bloomberg)

6/30/2018	Current Level	Change (Foreign Currency versus \$)			
		3 Month	YTD	1 Year	3 Year
<b>Developed</b>					
Euro (€)	1.17	-5.2%	-2.7%	2.3%	1.6%
British Pound (£)	1.32	-5.8%	-2.3%	1.4%	-5.7%
Japanese Yen (¥)	111	-4.0%	1.7%	1.5%	3.3%
Canadian Dollar (C\$)	1.31	-1.8%	-4.3%	-1.3%	-1.7%
<b>Emerging</b>					
Chinese Renminbi (CNY)	6.62	-5.2%	-1.7%	2.4%	-6.3%
Korean Won (KRW)	1115	-4.6%	-4.2%	2.6%	0.1%
Brazilian Real (BRL)	3.88	-14.6%	-14.6%	-14.7%	-20.0%
South African Rand (ZAR)	13.73	-13.7%	-9.8%	-4.7%	-11.5%

Annualized if greater than one year



## Global Market and Economic Perspective – Q2 2018

### US Fixed Income and Fed Commentary

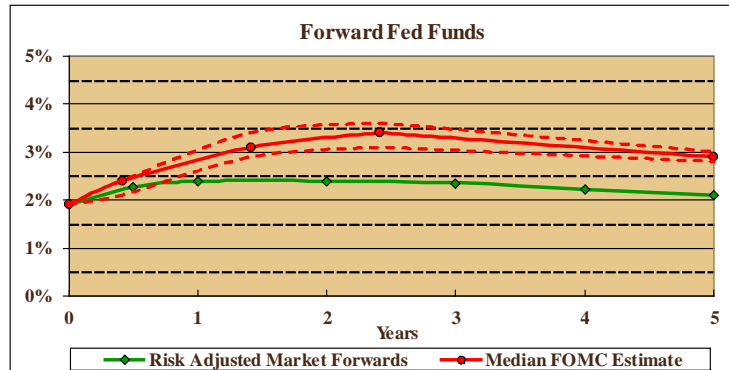
- ❖ In mid-June, the Federal Reserve raised their short-term interest rate – the Fed funds rate – by another 0.25% (one-quarter of a percentage point). This was the second increase in 2018, and it brought the Fed funds rate to 2.00%. The Fed’s own forecasts are for another two increases this year, which would leave the Fed funds rate at 2.50% at the end of 2018.
- ❖ The move by the Fed resulted in further increases in other short-term interest rates, such as the yields on Treasury bills.
- ❖ Because the yield on long-term US Treasury bonds barely rose during the second quarter, the yield curve became even flatter. The spread between short-term and long-term bond yields is now at its lowest level since before the financial crisis a decade ago.

	Current	Dec-18	Dec-19	Dec-20	Dec-20	Long Run
Upper	1.91%	2.10%	2.90%	3.10%	3.10%	2.80%
Median	1.91%	2.40%	3.10%	3.40%	3.40%	2.90%
Lower	1.91%	2.40%	3.40%	3.60%	3.60%	3.00%

Current	6 Month	1 Year	2 Year	3 Year	4 Year	5 Year
1.91%	2.27%	2.38%	2.39%	2.35%	2.22%	2.09%

**Notes**

Upper and lower bands show central tendency for FOMC projections.  
Market implied Fed Funds rates are risk adjusted.



### US Bond Yield and Spread History (Barclays)

	Current Level	Change Through July 2018			
		3 Month	YTD	1 Year	3 Year
<b>US Treasury</b>					
Short	2.72%	0.14%	0.73%	1.21%	1.80%
Intermediate	2.92%	0.03%	0.60%	0.83%	1.00%
Long	3.07%	0.00%	0.37%	0.25%	0.26%
<b>US High Yield</b>					
Yield	6.31%	0.05%	0.59%	0.90%	-0.56%
Spread	3.36%	-0.02%	-0.07%	-0.16%	-1.77%
<b>Tax-Exempt Muni.</b>					
Short	1.77%	-0.27%	0.08%	0.67%	0.79%
Intermediate	2.36%	-0.16%	0.31%	0.54%	0.39%
Long	2.99%	-0.08%	0.44%	0.37%	0.03%

