

Global Overview

- **Markets** – Markets were mixed in August as strong economic data out of the U.S. led to a positive month for domestic companies, while the increased trade tensions in Asia and lack of growth in Europe led to a decline in many non-U.S. markets. Energy prices rallied alongside U.S. stocks, as crude oil gained 5% during the month. A barrel of West Texas Intermediate (WTI) closed August just shy of \$70, near the multi-year high reached in June 2018 (\$74.15) as upcoming U.S. sanctions on Iran have squeezed supply.
- **Developed markets** – U.S. markets performed well in August, supported by strong GDP growth and positive economic indicators reported during the month. European markets were impacted by weaker than expected corporate earnings and continued uncertainty due to the lack of a clear path forward for Brexit. The Bank of England raised rates to 0.75%, the highest since 2009. Italian bonds sold off during the month as a result of budgetary concerns, as 10-year treasury yields are near levels seen during May, when there was uncertainty surrounding Italy's future in the European Union.
- **Emerging Markets** – Emerging market declined in August. Chinese equities began to feel the impact of the tariffs enacted by the United States as the MSCI China Index had one of its worst months of the year. China's disappointing year-over-year fixed asset investment growth of 5.5% can be attributed to a slowdown in public investment, particularly in environmental/agricultural, transportation, and storage industries. Emerging market sovereign bond spreads widened nearly 50 basis points in August as the JP Morgan EMBI continued its slide this year. A number of emerging market currencies dropped precipitously over the month, as unrest between Turkey and the U.S. and downward pressure on the Turkish lira led to contagion fears among emerging market currencies.

U.S. Economy and Markets

- Investors appear to be shaking off concerns surrounding trade tensions in China and other geopolitical uncertainty, as the U.S. officially entered the longest bull market in modern history. The S&P 500 Index had its strongest one month of performance since January and closed at an all-time high of 2,914 on August 29th.
 - Nine of the eleven sectors finished positive for the month, led by technology and consumer discretionary. Materials and energy declined.
- Small cap stocks posted positive gains in August, outpacing large cap stocks. Growth led value across the market capitalization spectrum, with small caps growth stocks posting the strongest results of the month.
- The Russell 2000 Index gained 4.3% in August. Small caps are up over 14% in 2018.
 - Consistent with large cap, the technology and consumer discretionary sectors lead the way with materials and energy lagging.

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- Payrolls increased by 201,000 in August, above consensus expectations, while the unemployment rate held at 3.9%. Top contributors to job growth were professional and business services, followed by healthcare. Average hourly earnings rose 2.9% in August on an annualized basis, marking the best wage growth since April 2009.
- The Consumer Sentiment Index remained high supported by the strong jobs report and overall growth in the economy. Core inflation continued its rise and most recently reached 2.4%. Consumer spending has yet to be curtailed as a result of rising inflation, but less favorable asset prices and rising interest rates have had a moderately negative month-to-month impact on consumer sentiment.
- The 10-year Treasury yield finished August at 2.9%, after briefly closing above 3.0% to begin the month. The yield curve continued to flatten in August, with the 2-to-10 year spread falling to just 24 basis points, the lowest to month-end spread since 2007. Both investment grade and high yield corporate spreads widened amid the increase in short-term Treasury yields.
- Domestic bond indices gained alongside the equity indices, as the Bloomberg Barclays Aggregate Index returned just over 0.6% for the month, while Corporate Bonds gained nearly 0.5%, and the Bloomberg Barclays U.S. High Yield Index advanced 0.7%.

International Markets

- The MSCI EAFE Index lost 1.9% in August, as continued Brexit uncertainty, increased trade tensions between Europe and the U.S., and modest corporate earnings growth weighed on the index. The MSCI United Kingdom Index and the MSCI Europe Index lost 4.2% and 2.8%, respectively. Japanese markets were flat for the month.
- Small cap stocks continued to fare better than large cap stocks in the month of August, as the MSCI EAFE Small Cap Index has outperformed the MSCI EAFE Index by 0.8% year-to-date. By style, international developed growth stocks outperformed value stocks. The MSCI EAFE Growth Index lost 0.3%, while the MSCI EAFE Value Index fell 3.6% in the month. International developed growth stocks have outperformed value stocks by 6.3% year-to-date, a trend across the globe.
- Asian equities had a rough month in August. The MSCI China Index lost 3.8%, while mainland Chinese equities (A shares) lost 6.4%. Chinese A Shares have erased their gains from 2017 in the first eight months of 2018, as the Index is down over 25%. The lone bright spots in Asia over the past month were Thailand and Korea, which posted returns of 1.9% and 2.2%, respectively.
- Emerging markets continued their decline in August, with the MSCI Emerging Markets Index dropping 2.7%. The strengthening of the dollar and U.S. trade tensions with China have proved to be headwinds for emerging market stocks.
- Frontier countries followed emerging markets in declining during August as the MSCI Frontier Markets Index retreated 5.4%.

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Looking Ahead

- The Federal Reserve will hold one of their eight annual meetings on September 25-26. Market consensus is that the central bank will announce another rate increase of 25 basis points as economic data continues to be strong. With the Fed expected to continue their schedule of raising rates in the coming months, investors will be watching to see if the yield curve will invert. Yield curve inversion has long been regarded as an indicator of an economic slowdown or recession. With 2-to-10 year spreads as low as 24 basis points, the probability of an inversion in 2019 is growing unless inflation can increase meaningfully. August CPI data is set to be released on September 13.
- Trade talks continued to dominate the news as the United States and China each enforced tariffs on the other country's goods in late August. Growth in Chinese exports decreased 10% this past month. A bilateral trade agreement was reached between the U.S. and Mexico as a preliminary deal to revise NAFTA was achieved. Canada has not yet agreed to the preliminary deal, though both sides remain optimistic an agreement can be reached.
- Emerging market currencies hit multi-year lows in August as news of possible U.S. sanctions against Turkey and slow economic data led to the sharp drop of the Turkish lira, sparking a selloff in other emerging currencies. Against the backdrop of global liquidity tightening and rising rates, other currencies tumbled including the Argentinian peso, the Brazilian real, the South African rand, and the Indian rupee. Investors will be watching to see if the plunge in emerging market currencies will begin to bleed over into the developed markets.

Economic Indicators

	GDP		Unemployment Rate	Interest Rates	Exchange Rates per US \$		Inflation' (Most recently available)	
	Qtr.	2018			2019	Sovereign Bonds, 10 Year		Current
United States	4.20	2.90	2.50	3.90	2.86	-	-	2.35
China	7.40	6.60	6.30	3.80	3.63	6.83	6.59	1.75
Japan	1.90	1.20	1.20	2.40	0.11	110.98	110.06	0.70
United Kingdom	1.50	1.30	1.40	4.00	1.43	1.30	1.29	2.32
Euro Area	1.50	2.10	1.90	8.30	1.37	1.16	1.19	0.95
Germany	1.80	2.10	1.90	3.40	0.33	1.16	1.19	2.11
France	0.60	1.80	1.80	9.20	0.68	1.16	1.19	2.02
Italy	0.70	1.20	1.20	10.90	3.24	1.16	1.19	0.92
Canada	1.30	2.30	2.20	5.80	2.23	1.31	1.25	1.81
India	10.10	7.20	7.40	5.60	7.95	71.58	64.48	3.93
Mexico	(0.60)	2.20	2.20	3.40	7.93	19.21	17.79	4.65
Brazil	1.80	1.60	2.40	12.40	12.19	4.13	3.15	4.39

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, and *The Economist*

1. In terms of CPI All Items



OBJECTIVE

DeMarche Dashboard

Data and Commentary for Periods Ended 8/31/18

August 2018

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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	1.24	4.35	4.85	13.10	11.92	10.23	7.13
	BBgBarc US Agg Bond TR USD	0.64	0.54	-0.96	-1.05	1.76	2.49	3.70
	Russell 3000 TR USD	3.51	7.65	10.39	20.25	15.86	14.25	10.89
	DJ Industrial Average TR USD	2.56	6.99	6.73	21.00	19.17	14.64	11.34
	NASDAQ Composite PR USD	5.71	8.97	17.47	26.15	19.30	17.70	13.10
	MSCI EAFE NR USD	-1.93	-0.74	-2.28	4.39	7.04	5.73	3.66
	FTSE Treasury Bill 3 Mon USD	0.17	0.48	1.12	1.49	0.75	0.46	0.32
	Bloomberg Commodity TR USD	-1.77	-7.23	-3.87	0.51	-1.89	-8.01	-7.56
Domestic Equities	S&P 500 TR USD	3.26	7.76	9.94	19.66	16.11	14.52	10.86
	S&P MidCap 400 TR	3.19	5.46	8.68	20.00	14.84	13.30	11.35
	S&P SmallCap 600 TR USD	4.83	9.37	18.30	32.46	19.28	15.44	12.44
	Russell 1000 TR USD	3.45	7.71	10.07	19.82	15.84	14.36	10.93
	Russell 1000 Growth TR USD	5.47	9.61	16.44	27.23	19.33	17.47	12.84
	Russell 1000 Value TR USD	1.48	5.76	3.71	12.47	12.32	11.22	8.93
	Russell Mid Cap TR USD	3.11	6.40	8.15	17.89	13.37	12.80	10.92
	Russell Mid Cap Growth TR USD	5.76	8.45	13.87	25.06	15.29	14.19	11.64
	Russell Mid Cap Value TR USD	1.36	4.96	3.95	12.67	12.12	11.81	10.33
	Russell 2000 TR USD	4.31	6.89	14.26	25.45	16.11	13.00	10.46
	Russell 2000 Growth TR USD	6.23	8.90	18.53	30.72	16.36	14.20	11.57
	Russell 2000 Value TR USD	2.38	4.82	9.86	20.05	15.73	11.72	9.27
	International Equities	MSCI ACWI Ex USA NR USD	-2.09	-1.64	-3.53	3.18	8.08	5.43
MSCI EAFE NR USD		-1.93	-0.74	-2.28	4.39	7.04	5.73	3.66
MSCI EAFE Growth NR USD		-0.28	0.58	0.83	8.12	8.87	7.10	4.51
MSCI EAFE Value NR USD		-3.64	-2.13	-5.44	0.63	5.11	4.28	2.73
MSCI Japan NR USD		0.22	-1.91	-1.42	9.05	8.44	7.84	4.39
MSCI AC Asia Ex Japan NR USD		-1.02	-4.98	-4.94	2.76	13.15	8.07	6.64
MSCI Europe NR USD		-2.79	-0.23	-2.80	2.62	5.88	5.07	3.12
MSCI United Kingdom NR USD		-4.19	-4.29	-4.37	4.46	3.99	2.99	3.07
MSCI EAFE Small Cap NR USD		-0.80	-2.10	-1.48	7.46	11.38	9.99	7.71
MSCI EM NR USD		-2.70	-4.70	-7.18	-0.68	11.42	5.04	3.45
Fixed Income	BBgBarc US Govt/Credit TR USD	0.65	0.53	-1.19	-1.27	1.91	2.52	3.76
	BBgBarc US Govt/Credit Interm TR USD	0.59	0.55	-0.36	-1.01	1.27	1.76	3.05
	BBgBarc US Govt/Credit Long TR USD	0.85	0.47	-3.93	-2.15	4.25	5.61	6.80
	ICE BofAML US High Yield TR USD	0.72	2.20	1.93	3.26	7.04	5.63	8.37
	Credit Suisse HY USD	0.67	2.16	1.98	3.43	7.02	5.48	8.04
	S&P/LSTA Leveraged Loan TR	0.40	1.26	3.32	4.88	4.85	4.04	5.40
	FTSE WGBI NonUSD USD	-0.73	-1.58	-2.04	-1.88	3.01	0.48	1.93
	BBgBarc Gbl Agg Ex USD TR USD	-0.31	-1.37	-1.98	-1.64	2.92	0.44	2.01
REITs	FTSE NAREIT All REITs TR	2.33	7.31	4.26	6.12	10.76	10.96	8.28
	Wilshire US REIT TR USD	2.96	8.18	5.14	6.84	9.25	10.56	7.64

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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