

**Global Economy**

June was an active month with a number of geopolitical and trade policy headlines, but no definitive outcomes. The summit between North Korea and the US was a step toward increasing communication and cooperation between the countries, but measurable action is not assured. The issue of global trade continues to weigh on markets, as leaders of China and the US escalate tariff rhetoric. Even traditional American allies, including key EU countries, Japan, Canada, and Mexico would be affected by possible tariffs, with this drawing retaliatory warnings.

The Federal Open Market Committee (FOMC) met in mid-June, voting unanimously to increase short-term interest rates to a targeted range of 1.75% to 2.00%. The overall tone of the message was slightly more “hawkish,” with the unofficial dot-plot projecting five more 25 bps adjustments by the end of 2019. Core PCE remains fairly well-contained, but has finally achieved the stated objective of 2% (first time since 2012).

The US economy grew at a 2.0% rate in 1Q-18, with the latest revision of GDP revised down by additional 20 bps due to lower net exports and inventory investments. With fiscal stimulus tailwinds taking hold, consensus expectations call for stronger 2Q-18 growth of 3.5% to 4.0%. Still, the FOMC’s longer run GDP projection of 1.8% reflects structural challenges.

The unemployment rate unexpectedly increased from 3.8% to 4.0% in June, but this was due primarily to an increase in the labor force participation rate. Nonfarm payrolls exceeded expectations, adding 213,000, with April and May also revised higher. Wages continued to rise moderately, with a steady increase of 2.7% year-over-year.

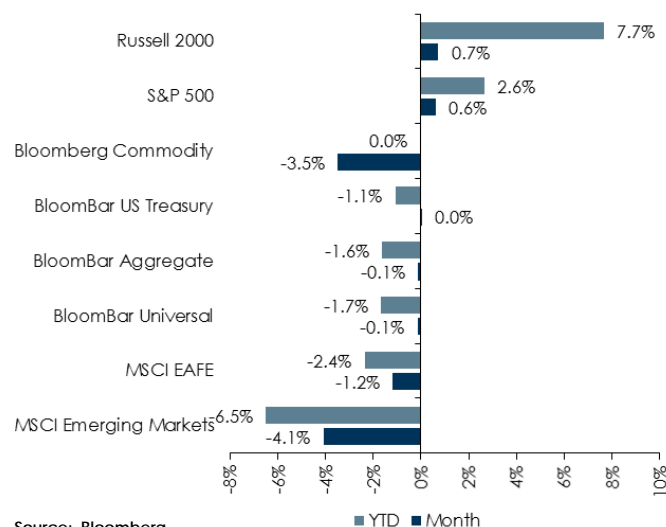
Brexit negotiations continue, with the UK trying to develop its breakup approach with the EU. The potential for a “hard Brexit” appears to be in play, although a more moderate compromise deal is likely. The stronger US dollar continues to weigh on the disparate mix of emerging market countries. Global consumer and business confidence remains reasonably strong, but the economic surprise index (outcomes versus expectations) has been slowly trending lower.

	Current	Dec-17
US GDP (%)	2.00	3.20
US Unemployment (%)	4.00	4.10
CPI (Core) (%)	2.20	1.70
Fed Funds (%)	1.75 – 2.00	1.25 – 1.50
10 Year UST Yld (%)	2.86	2.41
S&P 500 Div Yld (%)	1.93	1.89
S&P 500 P/E (Trailing)	20.72	22.45
Gold/oz.	\$1,254.50	\$1,309.30
Oil (Crude)	\$74.15	\$60.42
Gasoline (Natl Avg)	\$2.91	\$2.59
USD/Euro	\$1.17	\$1.20
USD/GBP	\$1.32	\$1.35
Yen/USD	¥110.76	¥112.69

Source: Bloomberg

**Global Markets**

**Key Market Indices**



Source: Bloomberg

Ultimately, June was a moderate month for risk assets across the globe. Large cap domestic equities were up in the first half of the month, but retreated somewhat as trade concerns became more intense. The S&P 500 ended up +0.6% for the month, building on a strong May and returning +2.6% for the first half of 2018. Consumer Staples and Discretionary were both solid, at +4.1% and +3.5% respectively. Industrials (-3.4%) and Financials (-2.0%) were laggards for the month. At the halfway point of 2018, Consumer Discretionary (+10.8%) and IT (+10.2%) lead the way.

Small cap stocks maintained their strength in 2018, gaining +0.7% for the month, and now up +7.7% for the year. The category’s perceived shelter from the global trade issue has been supportive to returns. Growth and Value were both solid, with growth outperforming only marginally. For the year, growth has outperformed value by +4.3%.

In the broad international developed markets, the MSCI EAFE index was down -1.2% in June. Among the various regions, the Eurozone was down -0.6% while Japan was down -2.5%. The MSCI Emerging Markets index was down another -4.1% for the month. The category is now down -6.5% in 2018, and has relinquished its 12-month edge over domestic equities. Currency fluctuations continue to weigh on the returns earned by US investors, with the US dollar strengthening modestly (+0.5%) against developed markets and more aggressively versus emerging markets (+2.6%).

Real estate was up once again in June, with the FTSE EPRA/NAREIT Developed index up +1.6% during the month, moving the index into positive territory for the year at +0.9%. The FTSE NAREIT US Real Estate index gained +4.1%, also moving positive for the year at +1.1%.

Oil experienced a volatile rally (+10.6%) in conjunction with OPEC quotas and the implications of Iran sanctions. That said, the Alerian MLP index reversed course, losing -1.5% in June and moving back into negative territory for the year. The Bloomberg Commodity index had a poor month, dropping -3.5% and moving back to flat for the year.

**Global Markets (continued)**

US Treasury (UST) yields rose across all maturities amid the equity rally in the first half of June, but the yield curve flattened notably after the FOMC's announcement and the escalation of trade concerns. The overall UST complex was essentially flat for the month, although longer-dated issues continued to outperform (20+ year index up +0.2%). Front-end yields ended off their intra-month highs, but nonetheless the 2-year UST ended 10 bps higher at 2.53%. The benchmark 10-year UST yield briefly re-tested the psychologically relevant 3% level, but ended the month unchanged at 2.86%. The futures market is pricing a ~50% chance of both September and December hikes, but lags FOMC projections in 2019 and 2020.

The Bloombar US Aggregate index posted a modest loss (-0.1%) in June, pulling year-to-date returns down to -1.6%. Agency MBS slightly outperformed government issues on a duration-matched basis. That said, IG corporates were the worst performing sub-sector as credit spreads were another 8 bps wider, taking all-in category yields to just above 4.0%.

The Bloombar 1-15-Year Municipal index returned +0.2%, as tax-exempt issues again outperformed taxable counterparts. Shorter maturities continue to set the pace, with 2-year AAA GO yields falling by 13 bps as a result of a strong retail bid throughout the month. The relative steepness of the municipal curve provides a significant roll-down advantage for managers able to extend even slightly. Credit risk is also being rewarded, with BBB's outperforming higher quality issues.

The Bloombar US Corporate High Yield index advanced +0.4% in June, and is now back into positive territory for 2018. The benchmark's overall spread was virtually unchanged, but the credit curve continues to flatten (CCC vs. BB declining), which is unusual as the credit cycle ages. Unhedged international government bonds, particularly local currency emerging market debt (-2.9%), struggled given the ongoing rally in the safe-haven US dollar.

**Selected Bond Yields**

10 Year Sovereign Bond Yields (%)		
	Current	Dec-17
Japan	0.03	0.04
Germany	0.30	0.42
France	0.66	0.78
United Kingdom	1.28	1.19
Spain	1.32	1.56
Italy	2.67	2.01
United States	2.86	2.41
Mexico	7.60	7.65
Brazil	11.68	10.26

Source: Bloomberg

**Indices Report (Periods Ending June 29, 2018)**

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
<b>Equity</b>							
S&P 500	0.62	2.65	14.37	11.93	13.42	10.17	9.30
Russell 1000	0.65	2.85	14.54	11.64	13.37	10.20	9.54
Russell 1000 Growth	0.96	7.25	22.51	14.98	16.36	11.83	10.30
Russell 1000 Value	0.25	-1.69	6.77	8.26	10.34	8.49	8.63
Russell 2500	0.72	5.46	16.24	10.30	12.29	10.74	10.99
Russell 2000	0.72	7.66	17.57	10.96	12.46	10.60	10.50
Russell 2000 Growth	0.78	9.70	21.86	10.60	13.65	11.24	10.95
Russell 2000 Value	0.61	5.44	13.10	11.22	11.18	9.88	9.93
Wilshire 5000 Cap Wtd	0.65	3.04	14.66	11.85	13.36	10.23	9.73
MSCI ACWI	-0.50	-0.13	11.31	8.78	10.00	6.37	8.75
MSCI ACWI ex US	-1.84	-3.44	7.79	5.56	6.48	3.01	8.21
MSCI EAFE	-1.19	-2.37	7.37	5.41	6.93	3.33	7.75
MSCI EAFE Local Currency	-0.28	-0.57	6.64	5.69	9.43	5.47	7.50
MSCI EAFE Growth	-1.16	-0.62	9.84	6.82	7.83	3.83	7.93
MSCI EAFE Value	-1.23	-4.16	4.87	3.90	5.95	2.76	7.47
MSCI Emerging Markets	-4.09	-6.51	8.59	5.98	5.39	2.60	11.07
<b>Fixed Income</b>							
ICE BofA ML 1-3 Yr Treasury	0.01	0.10	0.07	0.42	0.58	1.24	1.92
BloomBar US Aggregate	-0.12	-1.62	-0.40	1.72	2.27	3.72	3.77
BloomBar Gov't Bond	0.02	-1.05	-0.63	1.02	1.48	2.91	3.20
BloomBar US Credit	-0.47	-2.99	-0.65	2.86	3.37	5.15	4.52
BloomBar 10 Yr Municipal	0.07	-0.72	0.86	2.84	3.56	4.74	4.33
BloomBar US Corp High Yield	0.40	0.16	2.62	5.53	5.51	8.19	7.77
Citigroup World Gov't Bond	-0.29	-0.94	1.90	2.81	1.11	2.07	3.49
BloomBar Global Aggregate	-0.44	-1.46	1.36	2.58	1.50	2.58	3.68
BloomBar Multiverse	-0.46	-1.58	1.34	2.78	1.67	2.78	3.85
<b>Real Assets</b>							
NCREIF Property	0.00	1.70	5.29	7.61	9.38	6.03	8.85
NFI ODCE Net	0.00	1.97	5.56	7.73	9.64	4.15	7.16
FTSE NAREIT US Real Estate	4.36	1.02	3.50	8.06	8.31	7.94	10.02
Bloomberg Commodity	-3.50	0.00	7.35	-4.54	-6.40	-9.04	-0.63
<b>Cash and Equivalents</b>							
US T-Bills 90 Day	0.17	0.81	1.36	0.68	0.42	0.36	1.30

## Definitions

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### **Bloomberg Barclays Capital Aggregate**

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

### **Bloomberg Barclays Capital Global Aggregate Index**

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

### **Bloomberg Barclays Capital Muni 5 Yr**

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

### **Bloomberg Barclays Capital U.S. Credit Index**

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

### **The Bloomberg Barclays U.S. Treasury Index**

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

### **The Bloomberg Barclays Capital U.S. Universal Index**

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

### **BofA ML High-Yield Index Master II**

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

### **Bloomberg Commodity Index**

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

### **CITI World Government Bond Index**

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

### **FTSE EPRA/NAREIT Developed Index**

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

### **HFRI Fund of Funds (FOF) Conservative Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

### **HFRI Fund of Funds (FOF) Strategic Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

### **MSCI ACWI Index (exU.S.)**

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

### **MSCI EAFE® Index**

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

### **MSCI EAFE Growth Index**

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

### **MSCI EAFE Value Index**

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

### **MSCI Emerging Markets Index**

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

### **Ncreif® Property Index**

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

### **Russell 1000® Growth Index**

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

### **Russell 1000® Value Index**

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

### **Russell 2000® Index**

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

### **Russell 2000® Growth Index**

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

### **Russell 2000® Value Index**

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

### **Russell Midcap® Index**

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

### **S&P 500**

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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