Q2 GDP Disappoints
GDP growth rose only 1.2% in Q2 versus a consensus expectation of 2.5% growth. This follows a revised and final Q1 estimate of 0.8% growth. Supporting second quarter growth was a surge in consumer spending, while equipment investment, government spending and inventories all subtracted from growth.

Consumer Spending Accelerating
For the seven years of expansion beginning in Q3 of 2009, average consumer-spending growth has been only 2.3%. However, over the last two years, it is up to 3.1%, with the latest quarter growing at 4.2%, the second fastest of the entire expansion.

The July Fed Meeting
The Federal Open Market Committee (FOMC) adjusted their economic comments in a positive direction, but gave no clear signal about the future path of fed funds. They noted that household spending was fairly robust but investment was still very weak. They also noted continued strength in the labor markets.

Labor Markets Remain Strong
A total of 255,000 jobs were added to the U.S. economy in July, according to data released by the U.S. Bureau of Labor Statistics, in a second consecutive month of better than expected growth. The unemployment rate was down to 4.88%, while labor force participation rate was up to 62.8%.

Consumer Confidence Unchanged
The Conference Board Consumer Confidence Index®, which had increased in June, was relatively unchanged in July. “Consumer confidence held steady in July, after improving in June. Consumers were slightly more positive about current business and labor market conditions, suggesting the economy will continue to expand at a moderate pace. Expectations regarding business and labor market conditions, as well as personal income prospects, declined slightly as consumers remain cautiously optimistic about growth in the near-term.”

Leading Economic Indicators Up
The Conference Board Leading Economic Index® (LEI) for the U.S. increased 0.3% in June, following a 0.2% decline in May “Improvements in initial claims for unemployment insurance, building permits, and financial indicators were the primary drivers. While the LEI continues to point to moderating economic growth in the U.S. through the end of 2016, the expansion still appears resilient enough to weather volatility in financial markets and a moderating outlook in labor markets.”

Central Bank Watch
The European Central Bank (ECB) took no action at their July meetings, waiting to survey any real economic damage from the Brexit vote. Consumer confidence and retail sales have been hit pretty hard in the UK so far, but data in the Eurozone has been encouraging. The Bank of Japan once again underwhelmed markets with limited new stimulus, only enlarging the Bank’s purchases of ETFs by $26 billion per year and expanding a dollar-lending facility.

Eurozone Economy SLOWS
The Eurozone economy slowed down in Q2 2016. The economy grew by 0.3% compared to 0.6% growth in Q1. Growth was in line with expectations and shows that the region’s economy was already slowing down before June’s Brexit decision.

Early Brexit Effects?
Recently released data showed that GDP in the UK grew 0.6% in Q2. However, manufacturing and services data have moved from expansion to contraction territory, and retail sales fell 0.9% in June. It is conceivable that the uncertainty regarding the eventual economic relationship between the UK and EU will lead to a sharp pullback in investment spending.

BOE Responds
The Bank of England (BOE) cut its benchmark policy rate to 0.25%, its first decrease since March 2009. Additionally, they increased the size of their bond buying program (QE) to £435 billion from £375 billion.
**U.S. EQUITIES RALLY**
Domestic equity markets generated strong returns in July. The S&P 500 Index returned 3.7% in July amidst a decrease in volatility, with the CBOE Volatility Index (VIX) ending the month at 11.87. Performance across sectors was mixed for the month, with the information technology and materials sectors leading the group, and energy lagging. Small cap stocks outperformed their large cap counterparts, and value continues to outperform growth on a YTD basis.

**INTERNATIONAL MARKETS JOIN THE PARTY**
International equity markets generally provided strong returns in July. The MSCI EAFE Index returned 5.1% in July, while emerging markets rose 5.0%. With strong returns from Germany, France and Italy, the MSCI Europe Index was up 4.2% in July as well.
FIXED INCOME: Slow & Steady For Fixed Income

**MODEST RETURNS FOR U.S. BONDS**
Overall, investment grade bonds delivered modest returns in July. The Barclays U.S. Aggregate Bond Index rose 0.6% for the month, and is up 6% YTD. Credit sensitive sectors, such as leveraged loans and high yield, returned 1.4% and 2.7% respectively. The yield on the benchmark 10 yr. U.S. Treasury ended the month unchanged at 1.46%.

**TIPS OUTPERFORMING TREASURIES**
On a YTD basis, Treasury Inflation Protected Securities (TIPS) have outperformed nominal Treasuries by approximately 1.4%. TIPS are a type of U.S. Treasury bond whose principal amount adjusts with inflation, as measured by the Consumer Price Index. When the CPI rises, so does the principal value of TIPS. TIPS breakeven rates today are well below historical averages, meaning the inflation bar is lower than in the past. The five‐year breakeven rate is 1.4%, compared with a historical average of 1.9%. The 10-year breakeven rate of 1.5% is below its long-term average of 2%. Although prices have been rising slowly in recent years, many measures of inflation have been gradually increasing.

**ITS ALL RELATIVE FOR “HIGH YIELD” MUNIS**
While municipal bonds have performed well in 2016, the Barclays High Yield Municipal Bond Index returned 0.7% in July and 8.7% YTD. The asset class has experienced strong inflows YTD, and valuations continue to rally. The “high yield” moniker can be a bit misleading and is relative to investment grade municipal debt. Despite widespread media coverage, high yield municipal debt defaults are low. According to data from Moody’s, Baa rated municipal bonds have a lower default rate that Aaa rated corporate bonds.
GLOBAL MARKET GAINS BENEFIT HEDGE FUNDS

Hedge funds generally posted positive returns as many global financial markets rallied in July. The HFRX Event Driven index rose 2.4% while the HFRX Distressed Index posted a healthy 3.7% return for the month. The HFRX Distressed Index is now up 11.4% YTD, posting its strongest consecutive 5 month performance since inception.

STABILITY & YIELD BENEFIT REITS

REIT gains were in line with the broader market in July, but on a year-to-date basis, REITs have far outpaced the S&P 500 Index as investors continue to search for yield. The S&P U.S. REIT Index was up 4.4% in July and 18.3% YTD. Foreign real estate is also performing well as the S&P Global ex US REIT Index was up 4.9% in July and 15.9% YTD.

GLOBAL INFRASTRUCTURE RECOVERY CONTINUES

As the debate over the path of interest rates continues, investors are increasingly looking to the return profile of infrastructure investments in the current low growth, low yield environment. The S&P Global Infrastructure Index, which maintains a diversified global exposure to the energy, transportation, and utilities sectors, was up 2.8% in July and 17.3% YTD. The index has benefited from a recovery in oil prices and investors bidding up prices in the utility sector in search of yield.

DISCLOSURES: Past performance may not be indicative of future results. It should not be assumed any recommendations made in the future will be profitable or equal past performance. Any returns listed above are not meant to represent any specific client’s or portfolio’s actual experienced returns.