



Monthly Market Commentary

July 2017

ECONOMY: Global Growth Continues To Improve

PRELIMINARY Q2 GDP GROWTH STRONG

According to the Commerce Department's first estimate of U.S. GDP, stronger consumer spending accelerated domestic growth in Q2. The preliminary report showed that Q2 GDP increased by 2.6%, helped by both a strong labor market and personal consumption. This may also signal that the slowdown in the first three months of the year was temporary.

JOB GROWTH CONTINUES

The U.S. economy added 209,000 jobs in July, beating economists' expectations. The unemployment rate fell to 4.3%, matching a 16-year low. The job market continues to be one of the main strengths of the U.S. economy, as July was the 82nd consecutive month of job growth. However, wage growth has remained sluggish, and grew only 2.5% in July compared with a year earlier.

NOTES FROM THE FED

The Federal Reserve left its benchmark interest rate unchanged and planned to start shrinking its balance sheet "relatively soon," according to its most recent policy statement. Officials were divided over normalizing the Fed's balance sheet and signaling an intent of more restrictive monetary policy. Inflation was also noted and being monitored closely, as it remains under the Fed's target of 2%.

CONSUMER CONFIDENCE REBOUNDS

The Conference Board *Consumer Confidence Index*[®], which had declined marginally in June, improved in July. Both the Present Situation Index and the Expectations Index increased for the month. *"Consumer confidence increased in July following a marginal decline in June. Consumers' assessment of current conditions remained at a 16-year high and their expectations for the short-term outlook improved somewhat after cooling last month. Overall, consumers foresee the current economic expansion continuing well into the second half of this year."*

IMF SEES STRONGER EUROZONE GROWTH

The IMF said growth in the eurozone was expected to be slightly stronger in 2018. It upgraded 2017 GDP growth projections for the eurozone to 1.9%, up 0.2% from April. The IMF noted that the expected higher growth in the eurozone indicated "stronger momentum in domestic demand than previously expected". Conversely, the IMF revised its 2017 forecast for GDP growth in the UK down by 0.3% to 1.7%, citing weaker-than-expected activity in Q1. It left its 2018 forecast unchanged at 1.5%.

TROUBLE CUTTING SUPPLY

OPEC raised its collective oil output for a fourth-straight month in July, as output jumped by 173,000 barrels a day to nearly 32.9 million barrels. That was the highest level since December, the month before the cartel agreed to limit its output in an attempt to rebalance the global market supply.

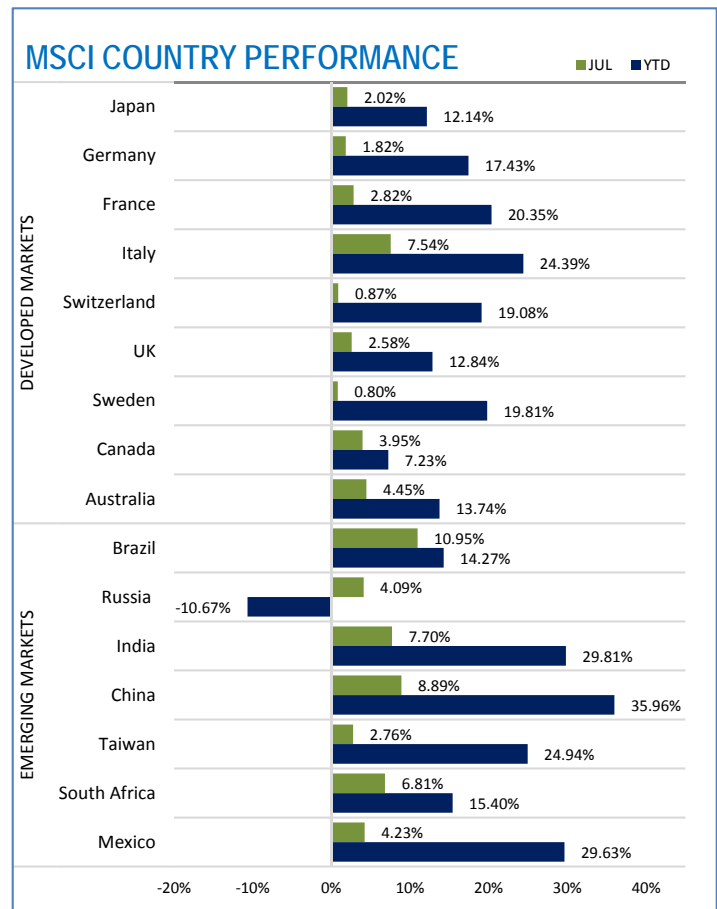
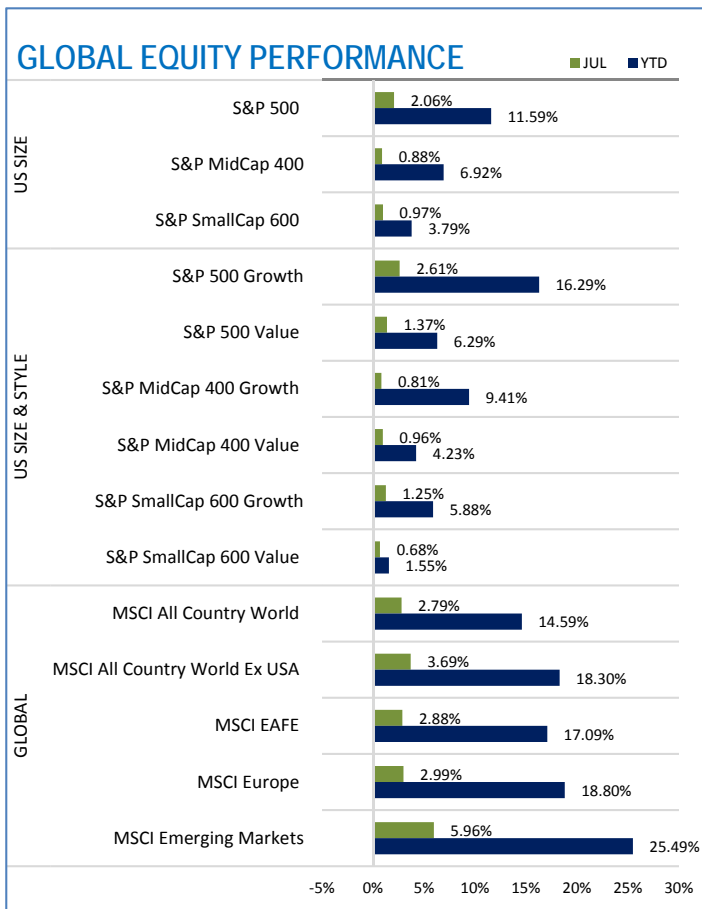
REVISING CHINA GROWTH EXPECTATIONS

Economists raised their forecasts for China's economic output after growth in the first half of 2017 has beaten estimates. China's gross domestic product will expand by 6.7% from a year ago in the third quarter and 6.6% in the fourth quarter, according to the median of 57 economists' estimates in a July Bloomberg survey. Both forecasts were 0.1% higher than a month ago. This comes after China reported 6.9% Q2 GDP growth, matching its growth in Q1.

THE GULF UN-COOPERATION COUNCIL

Moody's Investors Service changed the outlook on Qatar's rating to negative from stable, but affirmed the countries long-term debt rating at Aa3. Moody's noted that the key driver for the outlook change to negative is the economic and financial risks arising from the ongoing dispute between Qatar and a group of countries, including its fellow Gulf Cooperation Council neighbors Bahrain, Saudi Arabia, and the United Arab Emirates. Qatar has faced a 2 month long economic embargo after being accused of supporting terrorism.

GLOBAL EQUITIES: Risk Assets Continue To Rally



POSITIVE EARNINGS BOOST S&P 500

The U.S. equity market remained near all-time highs in July supported by generally positive earnings reports and renewed confidence in the strength of the U.S. economy. The S&P posted 5 new closing highs and finished July up 2.06%. All 11 sectors posted positive returns while 70% of companies that have reported beat both earnings and sales expectations.

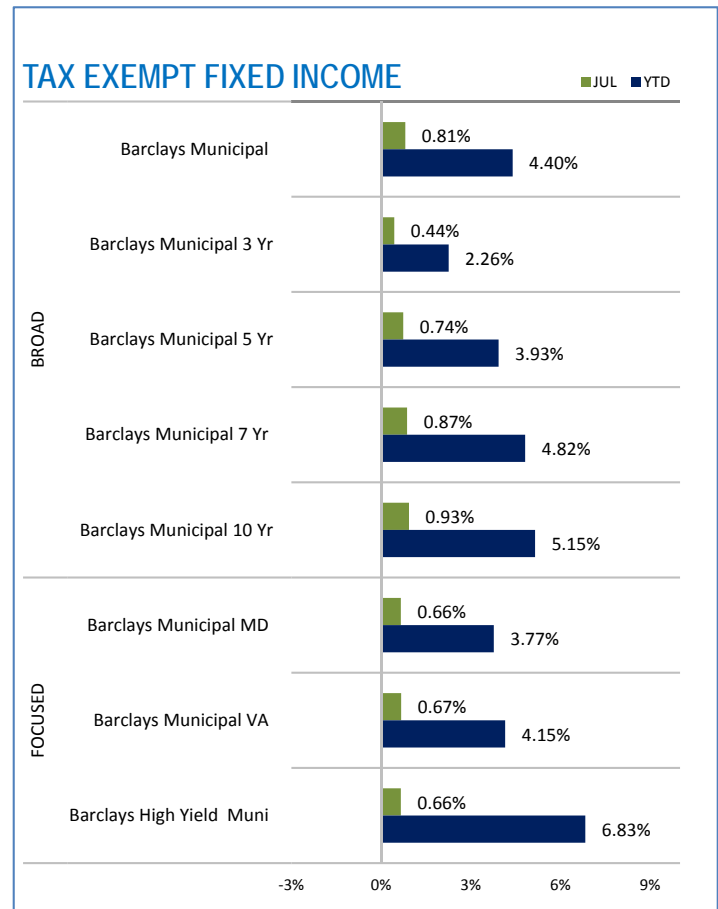
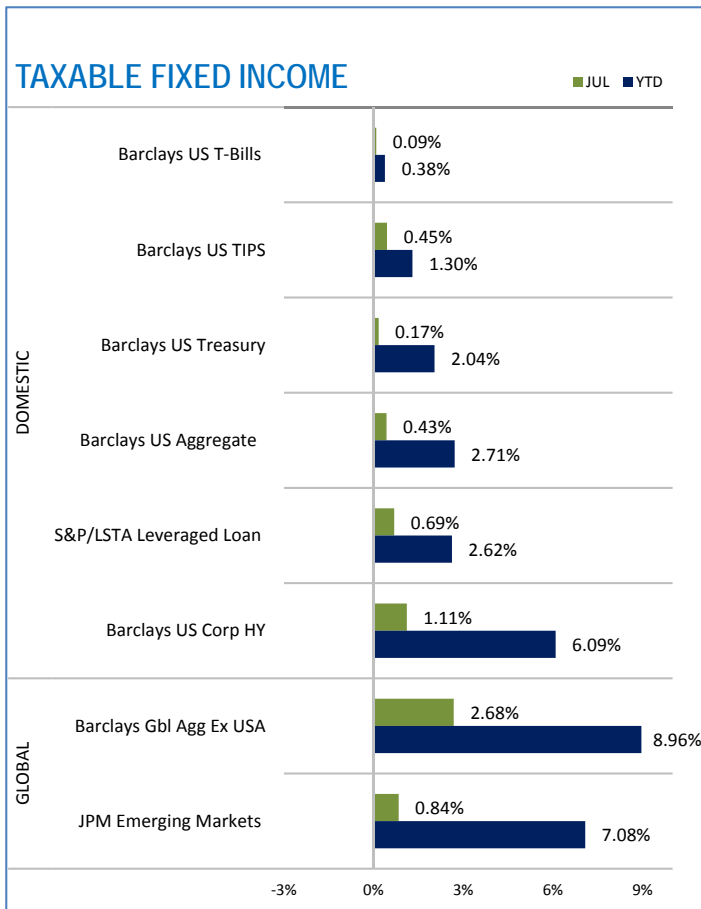
A FEARLESS MARKET?

The CBOE Volatility Index (VIX), widely considered a gauge of fear in the market, set a new low at 8.84 on July 26th. Just following the release of the Fed's monetary policy statement, the VIX dropped below 9. The prior low was 8.99, set in December 1993. The VIX closed the month at 10.58, down from 11.23 in June and 14.04 at year-end 2016.

ECONOMIC FUNDAMENTALS FUEL EMERGING MARKETS

Emerging market equities surged in July, supported by improving fundamentals and encouraging corporate earnings. Equity markets in Asia advanced higher, boosted by news that China's Q2 GDP grew by 6.9%, above consensus estimates. Markets in Latin America benefitted from a favorable mixture of lower interest rates, higher commodity prices and a weakening U.S. dollar. The MSCI Emerging Markets Index gained an additional 5.96% in July and is up over 25% YTD.

FIXED INCOME: Slow & Steady



BONDS POST STEADY GAINS

U.S. Treasury yields were fairly stable in July, as the benchmark 10-year U.S. Treasury yield closed at 2.29%, up from 2.27% the prior month. Corporate bond spreads continued to contract, while high-yield bonds led major U.S. sectors for the month, rising 1.1%. Municipal bonds also had a strong month as the Barclays Municipal Bond Index gained 0.8%. The Barclays U.S. Aggregate Bond Index gained 0.43% for the month and is up 2.71% YTD.

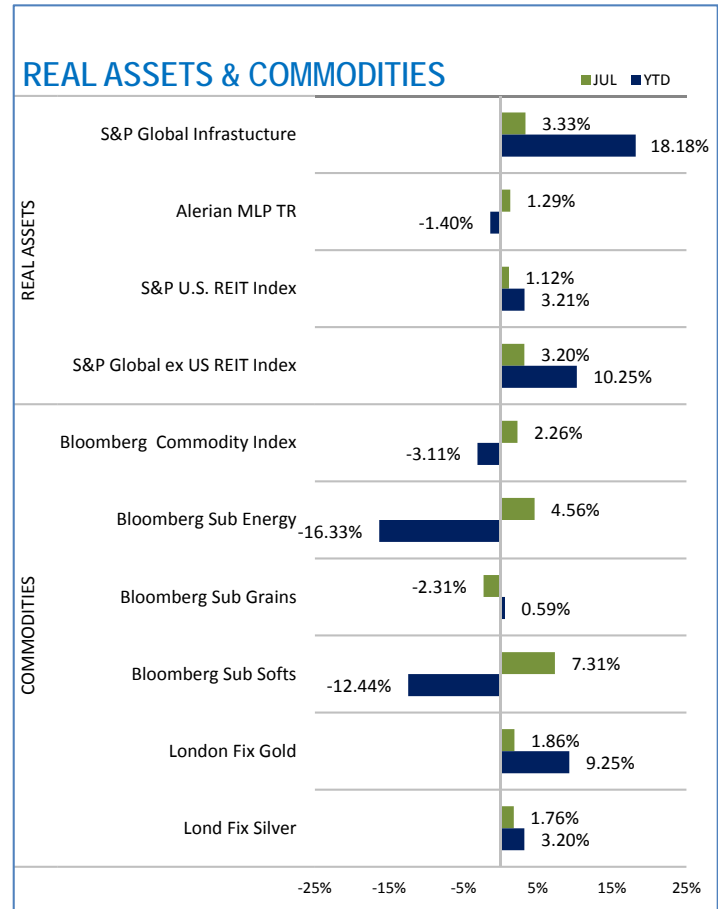
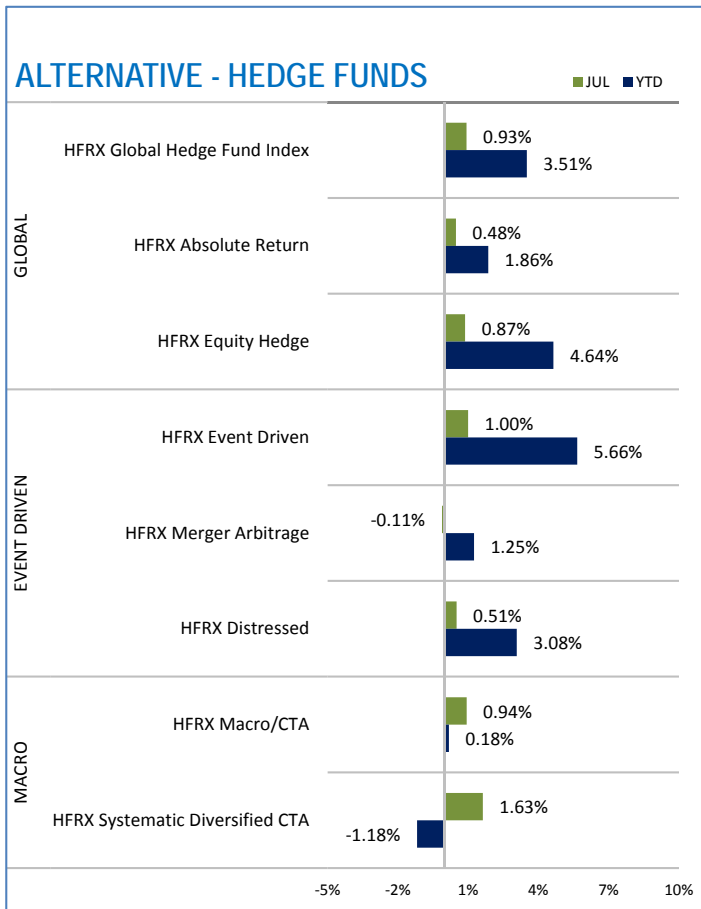
GREECE ISSUES DEBT

Greece completed its first bond issuance since 2014, raising \$3.5 billion from the sale of a five-year bond yielding 4.625%. Despite concerns from the International Monetary Fund (IMF), Greece will use the proceeds to refinance an existing five-year bond at a lower interest rate. The economically troubled country seeks improve its finances before a rescue financing program expires next summer.

USD CONTINUES TO WEAKEN

There was significant movement of FX exchange rates in July as the U.S. dollar (USD) continued to weaken. The euro climbed to a 31-month high against the USD, driven by monetary policy expectations, broadly improving European economic data and moderate inflation. The USD weakness has been consistent across the broad market, with emerging market currencies also making gains despite the Fed increasing interest rates.

ALTERNATIVES: Commodities Outperform Stocks...



PERFORMANCE ATTRACTING ASSETS

Hedge funds recorded their strongest performance since January, led by equity hedge, technology, health care and emerging markets, according to Hedge Fund Research. The HFRX Global Hedge Fund Index has generated positive performance for 9 straight months and posted gains in 16 of the past 17 months. The positive performance is attracting capital, as YTD new flows have increased \$1.2 billion through Q2.

OIL & SUGAR MIX HELPS COMMODITIES

For the first time in 2017, commodities (Bloomberg Commodity Index) outperformed stocks (S&P 500). The most beaten up sectors of the commodities markets – energy & softs - got off to a strong Q3. Energy, the biggest drag on the commodities index for the past 4 years, rose 4.56% in July, while “sweet” returns for sugar helped softs increase 7.31%.