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ECONOMY: Synchronized Growth Coming To An End?

ROBUST Q2?

The CNBC/Moody's Analytics GDP Survey reported that economists' estimates of Q2 GDP growth show an average increase of 3.8%. The primary source of the acceleration in anticipated growth this quarter is the consumer. A low unemployment rate, along with tax savings have significantly increased retail sales. Business investment is also likely to rise as a result of tax reform.

TRADE WARS BEGIN

Towards the end of June, Canada responded to U.S. steel and aluminum tariffs by implementing tariffs of 10-25% on $12.6 billion of U.S. goods, including steel and aluminum. The U.S. implemented tariffs of 25% on $34 billion of Chinese goods, with China responding in-kind. Of the original $50 billion tariff threat made by the U.S., $16 billion are still pending public comment and review and could go into effect in the near future.

HOME PRICES ON THE RISE

A supply and demand imbalance in the housing market has contributed to strong price gains this year. The S&P CoreLogic Case-Shiller National Home Price Index increased 1.01% in April, a 6.4% gain over the trailing 12 months. Price increases are widespread, with 17 markets in the 20-city index showing higher prices in April.

JOB GROWTH ROBUST IN JUNE

The labor market remained hot in June as employers added 213,000 new jobs, while May's gain was revised up to 244,000 from 223,000. The unemployment rate ticked up to 4%, but that was due to an increase in the labor force participation rate. Meanwhile, average hourly earnings increased 0.2% for the month and 2.7 % on a year-over-year basis.

CONFIDENCE DROPS ON EXPECTATIONS

The Conference Board ***Consumer Confidence Index®*** decreased in June, following an increase in May. *"Consumer confidence declined in June after improving in May. Consumers' assessment of present-day conditions was relatively unchanged, suggesting that the level of economic growth remains strong. While expectations remain high by historical standards, the modest curtailment in optimism suggests that consumers do not foresee the economy gaining much momentum in the months ahead."*

CENTRAL BANK WATCH

Globally, monetary policy has started to turn less stimulative as major central banks are planning to gradually remove their support.

U.S. Federal Reserve (Fed): In June, the Fed increased interest rates for the seventh time since December 2015, hiking rates again by 0.25%.

European Central Bank (ECB): The ECB left rates unchanged in June, but announced plans to end its asset purchase plan by years end. It sees interest rate hikes more likely in the second half of 2019.

Bank of England (BOE): The BOE voted 6-3 in favor of maintaining current interest rates. These results were less favorable than its previous meeting and suggest interest rates may be increased later this year.

Bank of Japan (BoJ): In contrast to other central banks, the BoJ maintained their loose monetary policies. The BoJ maintained negative short term interest rates to combat weak economic growth and low inflation.

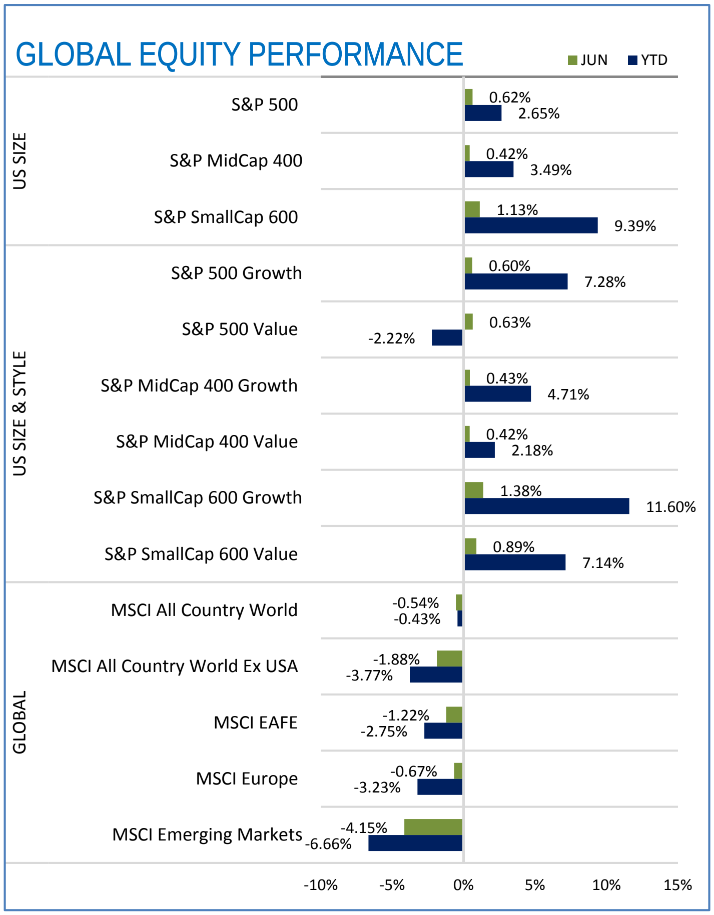
EUROZONE SLOWING?

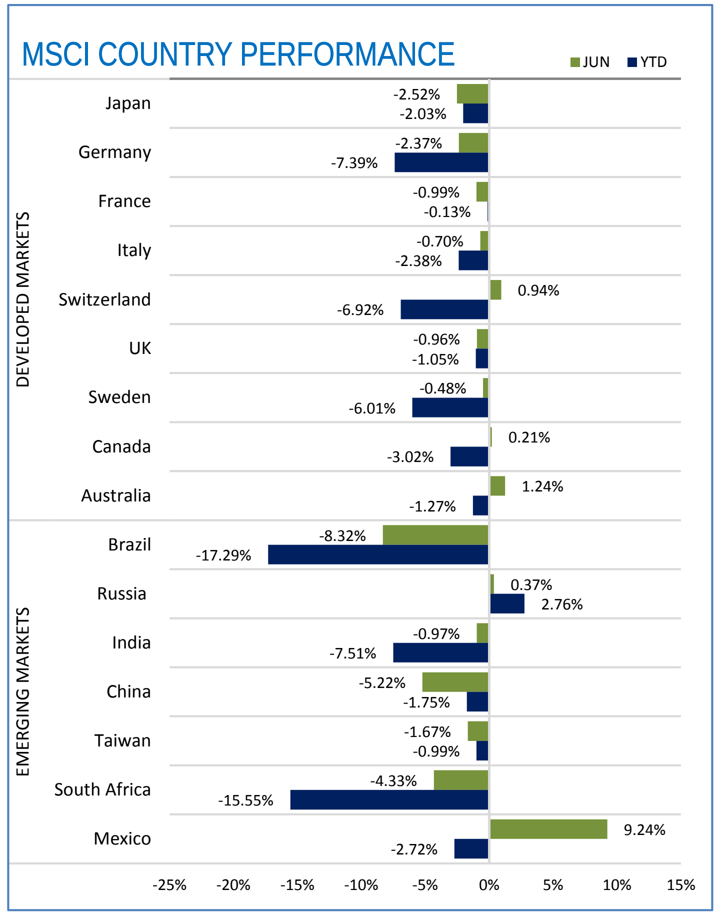
The euro area manufacturing upturn slowed further at the end of the second quarter. The final IHS Markit Eurozone Manufacturing PMI posted an 18-month low of 54.9 in June, and has signaled a weakening in the pace of expansion in each month since the turn of the year.

BANK OF JAPAN UPBEAT

The BoJ maintained its upbeat economic assessment of the country but noted rising costs from labor shortages, a sign that a tightening job market could constrain business activity. In a quarterly report on regional conditions, the central bank said all areas were either recovering or expanding, thanks to robust overseas demand and improving private consumption.

GLOBAL EQUITIES: Trade Tensions vs Earnings in U.S.





A Push & Pull U.S. Market

U.S. equities continued to outperform global markets as the S&P 500 increased by 0.62% for the month and 2.65% YTD. The market continues to be at the mercy of a push higher – higher earnings and economic growth – and a pull lower – global trade tensions. The S&P 500 remains in a trading range, off 5.38% from its January closing high and up 5.32% from its February post-correction low. Continued trade tensions benefitted the consumer staples sector, up 4.15%, while punishing the industrial sector, down 3.43%. Small cap equities and growth performed well while value stocks continue to lag.

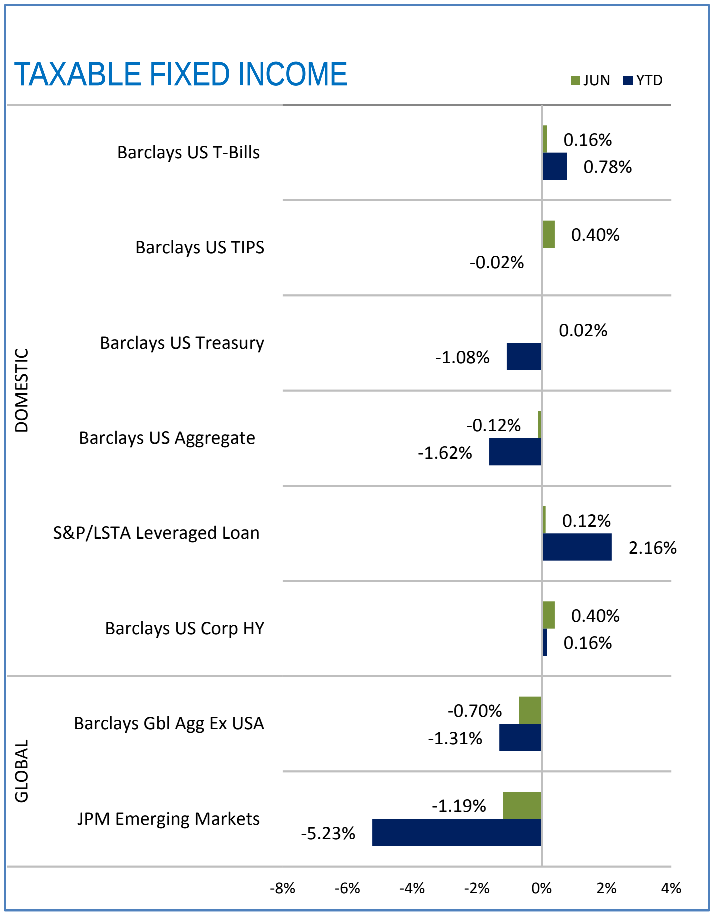
Divergence in European Markets

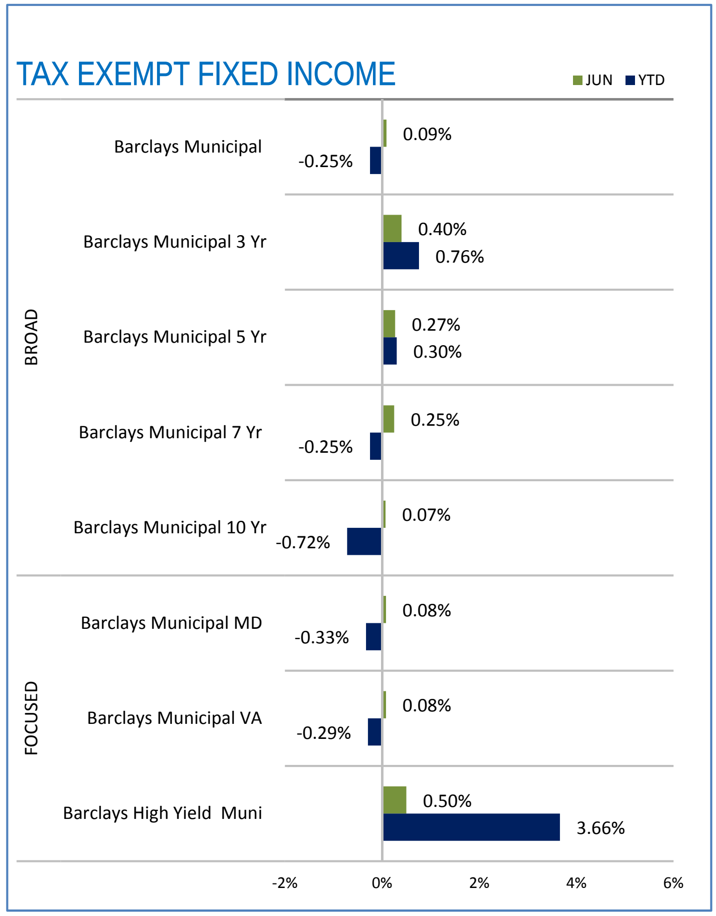
Signs of slowing economic growth, rising geopolitical tensions and protectionist rhetoric combined to dampen investor sentiment in Europe. European equity markets ended June broadly flat. While the MSCI Europe Index fell only 0.67%, this masked a wide divergence in country performance. German was hit especially hard, falling 2.37% due to its trade dependent economy. Spain rebounded from a poor performance in May to gain 2.58%.

EM Continues to Struggle

Emerging equity markets fell again in June as the MSCI Emerging Markets Index declined 4.15%. After a strong January, emerging markets equities have declined every month since, losing 13.84% over the past 5 months. Increasing U.S. interest rates and growing trade related concerns again provided headwinds for emerging markets equities. All regions registered losses with Asia leading the way with a 4.65% decline. Latin American equity markets also came under pressure although country performance here varied significantly with weakness in Brazil (-8.32%) being offset by strength in Mexico (9.24%). Emerging Europe was the best performing region, declining only 0.59%.

FIXED INCOME: Credit Benefits as Fed Raises Rates





Treasury Curve Continues To Flatten

Short and intermediate Treasury yields rose early in June and the yield curve continued to flatten in 2Q as the spread between the 2 and 10-year U.S. Treasury fell to 0.32%. Solid growth and modest inflation led the Fed to raise the federal funds rate target another 0.25% in June to 1.75%-2.00%. This was the second increase of the year, and the market fully expects a third and potentially fourth increase in 2018. Escalating trade tensions put downward pressure on yields later in the month as the U.S. imposed 25% tariffs on imported steel and aluminum. The Barclays U.S. Aggregate Bond Index declined 0.12% in June and was down 0.16% for Q2.

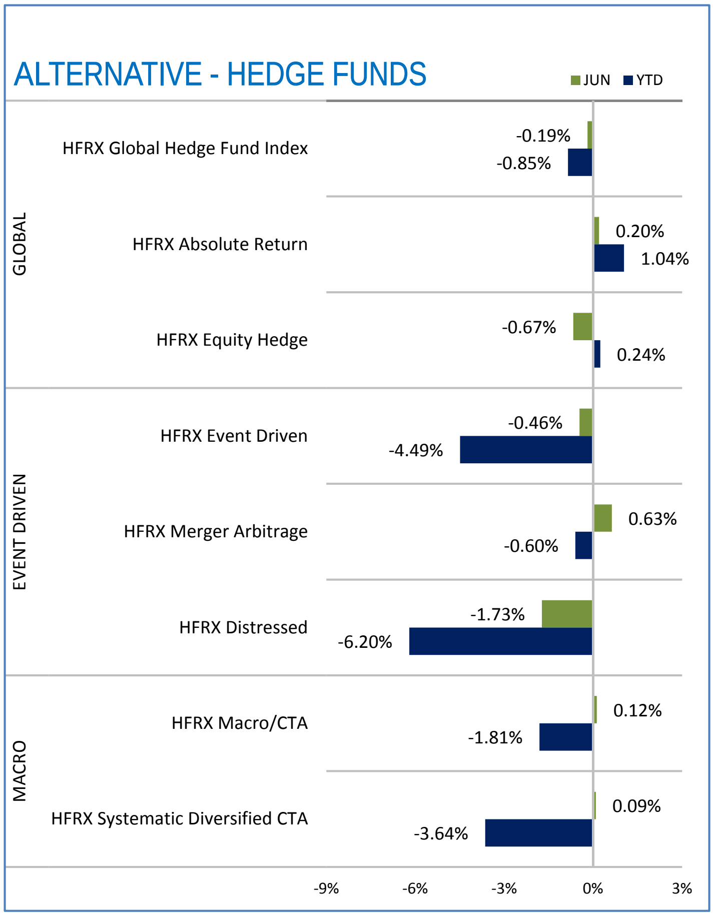
Corporate Credit Risk Rewarded

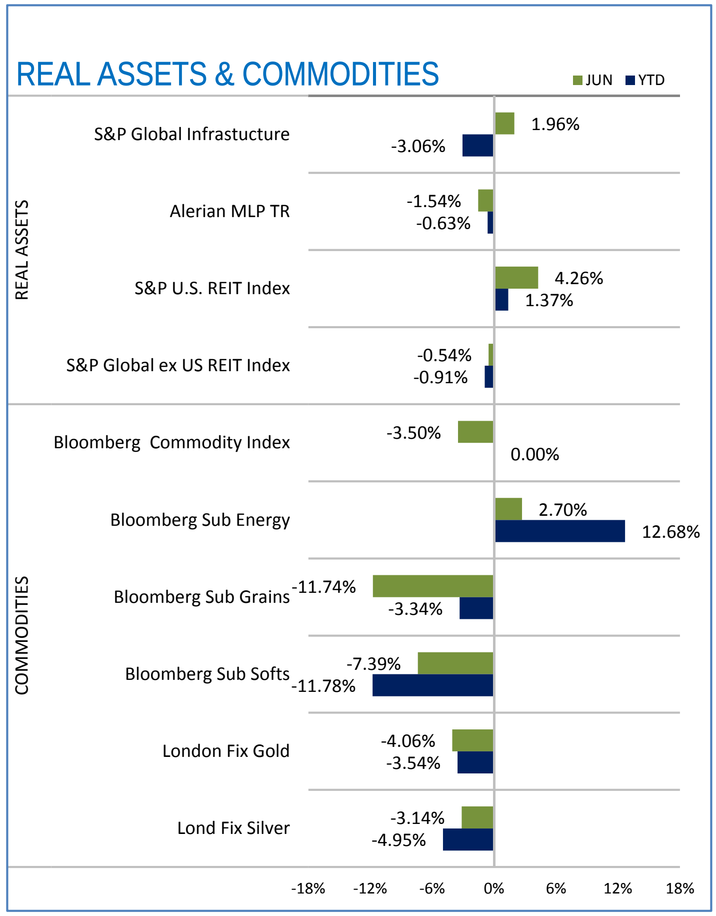
High yield (credit) continue to outperform investment grade in the U.S. corporate bond market. Supply and demand imbalances in June were more the culprit than deteriorating fundamentals. Higher issuance due to elevated M&A and lower demand pushed investment grade corporates down 0.58% in June. Conversely, high yield demand remained high and supply low. The performance differential for June was 0.98% and nearly 3.5% YTD.

Munis March To their Own Beat.

Unlike Treasuries, the municipal yield curve steepened in June, as short rates fell 0.19% for the month and short-term debt outperformed long-term maturities. But like the corporate market, credit risk was the driving factor for the month, the quarter and YTD. The fact that tax free yields fell as the Fed raised interest rates demonstrates continued strong demand in the sector.

ALTERNATIVES: REITs Continue To Perform





Hedge Funds Mixed Amidst Trade Tensions

Hedge funds posted mixed performance in June as trade tensions increased around fluid tariff negotiations and proposals, while the U.S. Federal Reserve increased interest rates and M&A activity remained strong. The HFRX Global Hedge Fund Index declined 0.19% in June, as gains in Event-Driven strategies were offset by declines in Equity Hedge, Relative Value and Macro strategies according to Hedge Fund Research.

REITs Remain Hot

REIT returns were higher in June as broadly positive fundamentals continued to support the market. REITs have now outperformed the broader stock market for four consecutive months and gained 4.26% in June. Since March 1st, the S&P U.S. REIT Index has returned 14.56% compared with 0.81% for the S&P 500. It appears that after having sold off in response to interest rate concerns, REITs have recovered and investors are more comfortable with the Feds' future plans for interest rates.