MONTHLY
MARKET REVIEW

07 2017

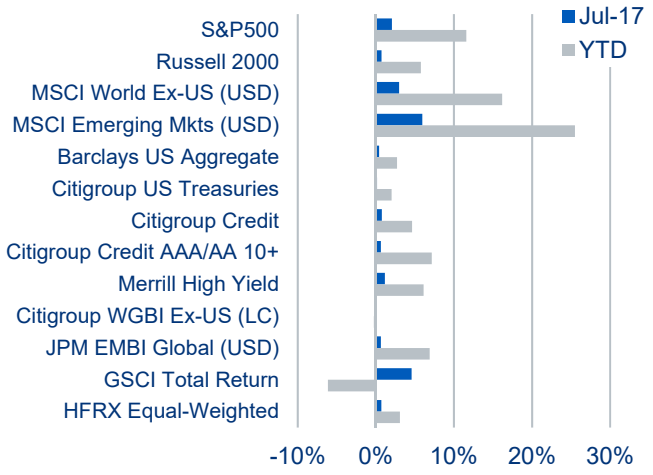
Strategic Investment Group®

Global Market Review

Macro Summary

Favorable U.S. corporate earnings reports and a continued macro backdrop of solid global growth and low inflation boosted U.S. equities to record highs in July, as volatility approached record lows. The Fed, ECB, and BoJ left policy rates unchanged, as expected, while the Fed indicated that it would begin unwinding QE "relatively soon". The Bank of Canada increased rates for the first time in seven years, becoming the second G-7 member to raise rates, sending the Canadian dollar and bond yields sharply higher. The U.S. dollar continued to fall against most currencies.

Performance of Major Market Indices
Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.

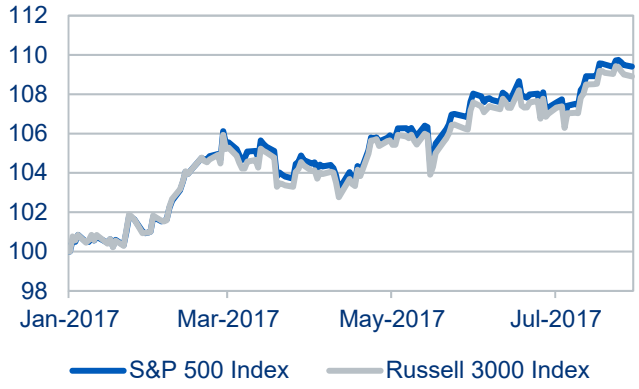


U.S. equities hover near record highs

The S&P 500 Index climbed over 2% in July, its ninth consecutive monthly gain, buoyed by strong corporate earnings reports. With three fifths of the companies in the S&P 500 reporting, about three quarters have posted positive earnings surprises for the second quarter. The equity rally was widespread, as all three major U.S. indices touched record highs during the month. Large cap shares outperformed small, extending their strong outperformance so far this year, although the Russell 2000 index of small cap stocks also touched a new record high. Growth stocks outperformed value in July, as they have for much of the year. Implied equity market volatility, as measured by the VIX, remained near record lows throughout the month.

The U.S. equity rally so far this year has been propelled by a small number of large tech stocks. Apple, Amazon, Facebook, Google, and Microsoft have driven about one third of the S&P 500's gains in 2017. While it is not unusual for a small number of stocks to have an outsized impact on the broader market, recent moves have raised concerns regarding crowded trades and the potentially disruptive impact of rapid sector rotation out of the current market darlings.

U.S. Equity Markets March Higher
Sources: Bloomberg, Strategic.



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Non-U.S. equities also gain, led by EM

Non-U.S. equities enjoyed strong gains in July, with most regions performing at least as well or better than the U.S. market. The appreciation of foreign currencies contributed to the gains for U.S. dollar based investors. The World Ex-U.S. Index of developed market stocks rose by almost 3% in July. Canadian markets declined by 0.25% in local currency terms, but rose by 3.6% in dollar terms, as the Canadian dollar surged. Among other developed markets, European bourses stood out, helped by the appreciation of the euro. Japanese equities also performed well, rising about 2%.

Emerging equity markets handily outperformed their developed counterparts in July, as the MSCI EM index gained almost 6%. All major emerging market regions enjoyed strong gains, with Latin American markets leading the pack, rising over 8% in July. So far this year, emerging equity markets are up by more than 25% in dollar terms, with a significant part of these gains reflecting currency appreciation. The Mexican market, for example, is up 11.8% in local currency terms and 30.3% in dollar terms as the peso has rebounded strongly as fears of a trade war with the U.S. waned. Frontier markets also rose in July, advancing over 2%.

U.S. Dollar Declines against Most Major Currencies
Sources: Bloomberg, Strategic.

Credit outperforms treasuries

The yield on the 10-year U.S. Treasury note was little changed in July, reflecting in part the relatively dovish tone struck by Janet Yellen at her semi-annual testimony to Congress. Noting that "considerable uncertainty always attends the economic outlook," the Fed Chair observed that the policy rate "would not have to rise all that much further". The Citigroup U.S. Treasury index rose 0.2% for the month in aggregate, led by gains at the long end of the curve.

U.S. credit markets also advanced, led by gains in the high yield sector. The Citigroup U.S. Credit Index of investment grade corporate bonds climbed 0.8% higher in July, while the Merrill Lynch High Yield Cash Pay Index rose by 1.2%.

Non-U.S. sovereign bonds outpaced the U.S. Treasury market. The Citigroup Non-USD WGBI Index rose 0.6% in local currency and 2.8% in dollar terms. Dollar denominated EM sovereigns rose by 0.7% in aggregate. The spread on the EMBI remained about 340 basis points in July, some 30 basis points above the spread of the U.S. high yield market.

Yet another monthly gain for hedge funds

The HFRX Equal Weighted Strategies Index climbed 0.7% higher in July, the index's ninth consecutive monthly gain, bringing its year-to-date return to just over 3%. All major strategies enjoyed positive returns. The long/short Equity Hedge index added 0.9% on net long exposure to U.S. equities. The Equity Market Neutral Index rose 0.5% as stock selection results were robust. The Distressed/Restructuring Index also advanced 0.5%. The Macro/CTA Index rebounded after a string of four monthly losses to gain 0.9%. The fixed income oriented Relative Value Arbitrage Index also added 0.9%.

Industrial metals hit 2-year highs

The GSCI Total Return Index rose sharply in July as oil prices and industrial metals rebounded. Crude oil prices rose to just over $50 per barrel in July, up 9%. Industrial metals rose to two-year highs buoyed by a weaker dollar, a more robust than expected Chinese economy, and hopes for increased demand from electric car manufacturers. Copper, iron, and nickel prices enjoyed double digit gains in July. Precious metals also rose, with gold prices extending its gains for the year to just over 10%. Despite the July rebound, commodity prices as a group have fallen so far this year, led by weaker petroleum prices.

Performance of Major Market Indices through 7-31-2017
Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	2.1%	0.2%	11.6%	16.0%	10.9%	14.8%
Russell 2000	0.7%	4.1%	5.8%	18.5%	9.9%	14.2%
MSCI World Ex-US (USD)	3.0%	2.1%	16.2%	17.3%	2.3%	8.5%
MSCI Emerging Markets (USD)	6.0%	6.5%	25.5%	31.1%	2.4%	4.8%
Barclays US Aggregate	0.4%	1.1%	2.7%	-0.5%	2.7%	2.0%
Citigroup US Treasuries	0.2%	0.7%	2.0%	-2.5%	2.1%	1.1%
Citigroup Credit	0.8%	2.1%	4.6%	1.4%	3.8%	3.4%
Citigroup Credit AAA/AA 10+Yr	0.6%	3.9%	7.2%	-1.4%	6.5%	3.9%
Merrill High Yield	1.2%	2.2%	6.1%	14.1%	5.3%	6.8%
Citigroup WGBI Ex-US (LC)	0.6%	-0.2%	7.2%	-3.1%	3.2%	3.6%
JPM EMBI Global (USD)	0.7%	1.2%	6.9%	6.2%	4.8%	4.5%
GSCI Total Return	4.6%	1.0%	-6.1%	-4.8%	-22.3%	-14.0%
HFRX Equal-Weighted	0.7%	1.1%	2.4%	6.7%	1.1%	2.4%