MONTHLY
MARKET REVIEW

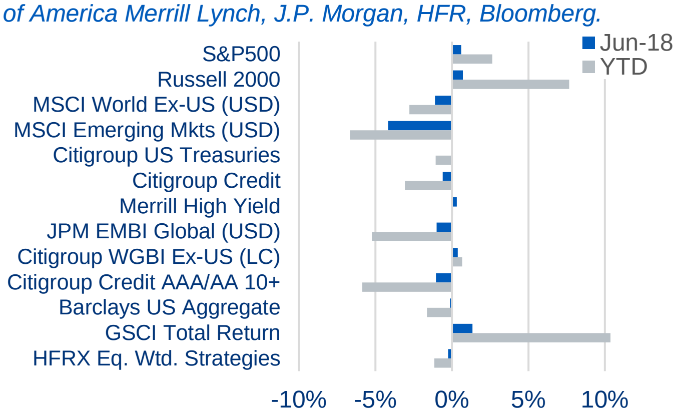
06 2018

# Global Market Review

## Macro Summary

Markets were buffeted by conflicting cross currents in June. Intensifying global trade tensions, a fractious G7 summit, rising populist sentiment in Europe and Mexico, diverging monetary policies, and a strong U.S. economy that saw unemployment reach 48 year lows and consumer sentiment soar, were among the cross currents that investors faced. The Fed hiked rates and pointed to two more for 2018 on signs of continued economic strength and gradually rising inflation. The ECB was more dovish, delaying the end of QE and pushing off rate hikes until 2019. U.S. equities eked out a modest gain while non-U.S. markets fell further. U.S. Treasuries were flat while European sovereigns retreated. Commodities rose, led by oil.

***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 Manage Modest Gains

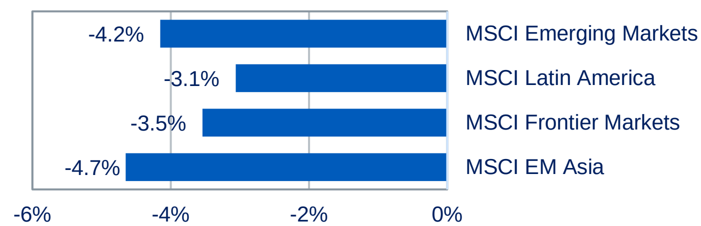
The S&P 500 continued its rally from May, adding a modest 0.6% while the Russell 3000 returned 0.7%. Growth stocks outperformed their value counterparts once again, with the Russell 3000 Growth index posting 0.9% for the month. This brings the year-to-date return on the growth index to 7.4%, while the value index lags, at -1.2%. Returns across sectors were mixed as financials, industrials and materials fell while consumer staples and consumer discretionary stocks gained 4.1% and 3.5%, respectively.

Trade tensions stole headlines throughout the month, and the protectionist and uncertain narrative weighed heavily on the blue-chip Dow Jones Industrial Average. The index posted an 8-day losing streak, rebounding on the ninth day to narrowly avoid its longest drawdown in over 40 years. Elsewhere, Amazon's bid to enter the retail healthcare sector catalyzed a selloff in pharmaceutical stocks, while the financial sector endured a weak month as investors awaited results from the latest round of the Fed's annual stress tests on U.S. banks. A passing grade for 34 out of 35 of the biggest firms coupled with a late-innings rebound in the technology sector helped push U.S. indices higher toward the end of the month.

## Emerging Markets Lead Losses

Developed and emerging non-U.S. equity markets lost ground, with emerging markets falling sharply. The MSCI World ex-U.S. Index of developed stocks fell 1.1% in USD terms. Mounting trade tensions, a strengthening U.S. dollar, the prospect of reduced access to external financing, and concerns over the Chinese economy sent emerging markets sharply lower. The MSCI Emerging Markets index fell 4.2% in June, with newly added Chinese shares leading the rout (Exhibit below).

***Emerging Equity Markets Struggle in June***
*Source: Bloomberg.*

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Europe was not insulated from the broader sell-off, as erstwhile trading partners imposed tit for tat trade tariffs. The European industrials and materials sectors, traditionally reliant on trade, sank 1.6% and 2.1% respectively, while consumer discretionary stocks slid 4.8%. Across the pond, Canadian equity markets were among the few to post a positive month. The S&P TSX index posted returns of 1.3%, with exporters taking advantage of a weakening loonie and rising oil prices.

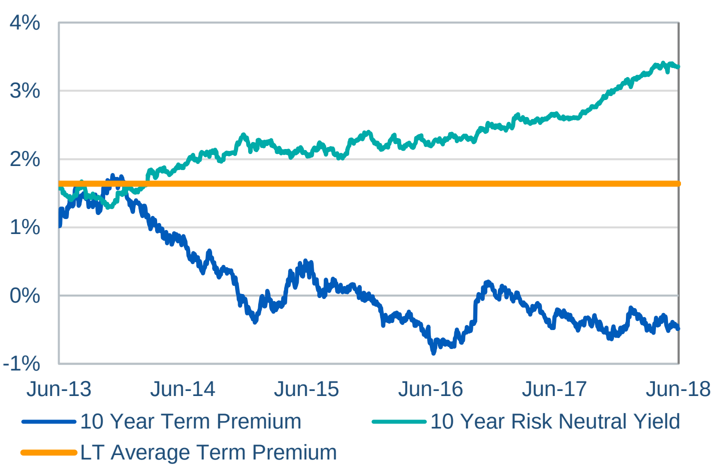
## Central Bank Policy Gap Widens

The Fed raised rates once more in June, bringing the target fed-funds rate to between 1.75% and 2%. The FOMC penciled in two more hikes for 2018 in their effort to keep a strong U.S. economy from overheating. A favored inflation measure of the Fed, the PCE excluding food and energy, hit the target of 2% for the first time in six years in May. The yield curve flattened further, as the term premium on the longer end of the curve remains anomalously low (Exhibit below). The spread between the two- and ten-year Treasury yields narrowed to just 33 basis points, raising speculation that the curve might invert, signaling an impending recession.

In contrast, the ECB adopted a more dovish stance. Less than a week after laying out plans to wind down their bond-purchasing program by December, ECB president, Mario Draghi, pointed to the possibility of delaying QE tapering and rate hikes until 2019. The widening policy divergence between the U.S. and Europe and Japan has contributed to an appreciation of the dollar, which has risen against a broad basket of currencies this year, reversing the declining trend of 2017.

***U.S. 10-year Term Premium Remains Negative***

*Source: Bloomberg.*




Against this backdrop, U.S. Treasuries were flat in June, while the Citigroup WGBI Europe Index lost 0.7%. U.S. Corporate credit indices were mixed with high yield posting a modest gain and longer-dated investment grade bonds losing 1.2%. Amid trade concerns and political turmoil across emerging markets, including Argentina (that resorted to emergency IMF financing) and Turkey (that faced mounting inflation and fiscal and external deficits), the JP Morgan EMBI Index fell over 1.0%.

## Merger Arb Leads, Distressed Lags

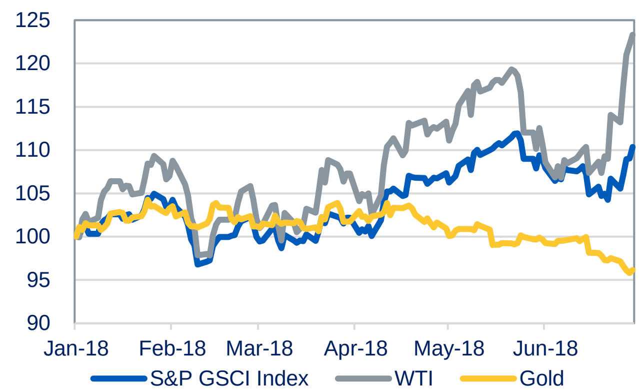
The HFRX Equal Weighted Index was down 0.2% in June, bringing year-to-date performance to -1.1%. Returns across strategies were again mixed this month as distressed credit and equity-focused strategies struggled, losing 1.7% and 0.7% respectively, while merger arbitrage gained 0.6% on the heels of the DOJ's approval of the AT&T-Time Warner deal and the close of the Disney-Fox merger. Relative value strategies saw small pullbacks in June, but continue to lead other strategies year-to-date.

## Commodities Ride Oil's Wave

Commodities ended a turbulent month in positive territory, as the GSCI Index gained 1.4%. Oil returned to form as the leader within the asset class, with the GSCI All Crude Index surging 10.6% in June on an announcement from OPEC that they have agreed to a more modest increase in production than previously expected. Oil's gains were partially offset by losses in precious metals, with Gold falling 3.5% (Exhibit Below).

***Gold Falls as Oil Soars***

*Source: Bloomberg.*




***Performance of Major Market Indices through 06-30-2018***

*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 | 0.6% | 3.4% | 2.6% | 14.4% | 11.9% | 13.4% |
| Russell 2000 | 0.7% | 7.8% | 7.7% | 17.6% | 11.0% | 12.5% |
| MSCI World Ex-US (USD) | -1.1% | -0.7% | -2.8% | 7.0% | 4.9% | 6.2% |
| MSCI Emerging Mkts (USD) | -4.2% | -8.0% | -6.7% | 8.2% | 5.6% | 5.0% |
| Citigroup US Treasuries | 0.0% | 0.1% | -1.1% | -0.6% | 1.0% | 1.5% |
| Citigroup Credit | -0.6% | -1.0% | -3.1% | -0.7% | 2.9% | 3.4% |
| Merrill High Yield | 0.3% | 1.0% | 0.1% | 2.5% | 5.5% | 5.5% |
| JPM EMBI Global (USD) | -1.0% | -3.5% | -5.2% | -2.4% | 4.3% | 4.4% |
| Citigroup WGBI Ex-US (LC) | 0.4% | -0.3% | 0.7% | 1.7% | 2.6% | 3.6% |
| Citigroup Credit AAA/AA 10+ | -1.0% | -1.7% | -5.9% | -1.0% | 5.1% | 5.7% |
| Barclays US Aggregate | -0.1% | -0.2% | -1.6% | -0.4% | 1.7% | 2.3% |
| GSCI Total Return | 1.4% | 8.0% | 10.4% | 30.0% | -4.4% | -9.4% |
| HFRX Eq. Wtd. Strategies | -0.2% | 0.1% | -1.1% | 1.2% | 1.4% | 1.6% |