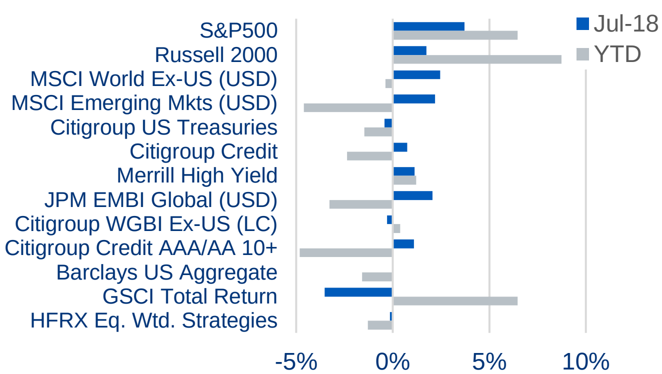
Global Market Review

Macro Summary

Global equities rose in July as second quarter GDP growth of 4.1% and strong corporate earnings supported U.S. stocks, while European shares benefited from a trade truce reached by the EU and U.S. Chinese markets, in contrast, declined as higher tariffs weighed on sentiment, compounding concerns over slowing growth in the region. Investment grade and high yield credit benefited from corporate earnings growth, while both domestic and developed non-U.S. government bonds retreated. Emerging market debt, however, posted gains despite trade tensions and the prospect of tighter external financing conditions. Concerns over increased global oil supply sparked a sharp reversal of last month's gains.

Performance of Major Market Indices

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



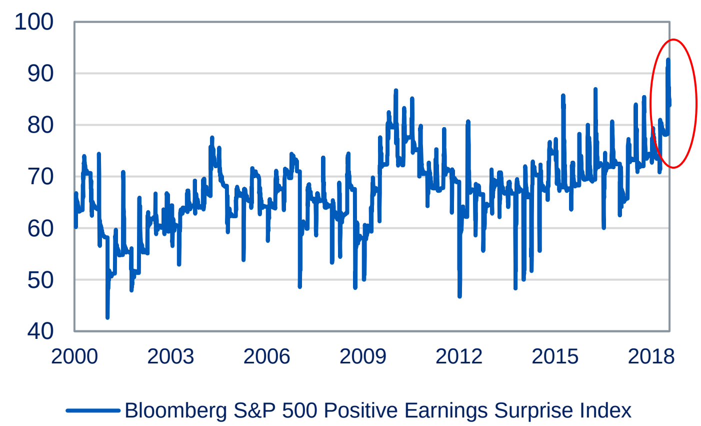
Stocks Soar; Trends Turn Over

The major U.S. equity indices posted their strongest gains since January, with the S&P 500 and Russell 3000 adding 3.7% and 3.3%, respectively. July also saw the reversal of some trends that had persisted through the second quarter as large cap stocks outperformed small and value outpaced growth in the wake of a technology sector rout late in the month. Tech shares lost over 5% in the last five trading sessions of the month, with losses led by the high-flying FANG stocks, particularly the mega-cap Facebook, which sank over 20% in one day. Nevertheless, all sectors still gained in July as industrials, healthcare, and financials led, while telecom, energy, and consumer discretionary lagged posting modest gains.

The economic backdrop remained supportive as GDP rose 4.1% in the second quarter, the highest in nearly four years, on the back of robust consumer spending and a rise in exports. U.S. second quarter earnings are robust (Exhibit below). With over half of S&P 500 companies reporting, 83% have posted a positive earnings surprise. The banking sector has had a particularly good earnings season. Some of the largest banks reported their best results since the pre-crisis period.

U.S. Positive Earnings Surprises Trending Higher

Source: Bloomberg.



Higher number indicates greater share of companies reporting positive earnings surprises.

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Europe, EM ex-China Lead Global Equities

International stocks in both developed and emerging markets also gained in July, with Chinese equities the lone laggard. The MSCI World ex-U.S. rose 2.5% in dollar terms. European shares were the bright spot in the developed world, responding positively to an agreement to deescalate trade tensions with the U.S. and return to the negotiating table. The MSCI Europe Index gained 3.3%.

In other trade news, the first round of tariffs were levied this month between the U.S. and China, precipitating a decline in Chinese equities. The MSCI China Index fell 2.5%, significantly lagging its emerging market counterparts, as the MSCI EM EMEA Index rose 4.7% and MSCI Latin America soared 9.2%. Latin American bourses were buoyed as corporate earnings rose, capital outflows from the region abated, and sharp sell-offs earlier in the year brought valuations to more appealing levels. News in China of renewed fiscal stimulus, including tax cuts for major industries, also supported Latin American equities, especially those with strong links to China.

Both developed and emerging non-U.S. markets have struggled relative to the U.S. since January as global interest rate and growth differentials, trade tensions, and a capital drain from EM boosted the dollar (Exhibit below). This trend abated somewhat in July, however, as trade tensions eased across the Atlantic, the risk appetite for emerging markets improved, and the dollar declined.

Dollar Rally Moderates in July

Source: Bloomberg. Indexed to January 1, 2018.

BOJ Causes a Stir

Central bank policies continue to diverge among developed economies as soaring U.S. GDP growth fortified the Fed's confidence in their rate hike path, the ECB confirmed the end of its bond purchasing program by December, and the Bank of Japan defied expectations as well as the global tightening trend by keeping rates unchanged. The BOJ did, however, adjust the target yield limits of the 10-year Japanese government bond from a 10 basis point cap to a +/- 20 basis point range. In the wake of these developments, Japanese yields oscillated in subsequent trading sessions, notching a record move both higher and lower for the last two years.

U.S. Treasuries fell 0.4%, in July on concerns of waning demand as the Fed trims its balance sheet. Global government bonds followed suit as the WGBI ex-U.S. Index also lost 0.4%. Emerging market debt was the exception in July. After falling over 5% in the first half of the year, the JP Morgan EMBI Global Index gained 2.1% supported by many of the same drivers that boosted emerging market equities during the month.

Also following the lead of their equity counterparts, U.S. corporate credit posted gains in July. Both U.S. high yield and longer dated investment grade credit gained over 1%.

Hedge Funds Flounder

Long/short equity strategies led hedge funds for the first time this year, adding 0.7%, as equity markets posted their strongest gains since January. Gains took a haircut, however, late in the month in tandem with the tech sector rout. The bust of the NXPI/Qualcomm deal, a popular hedge fund position in 2018, hurt event and merger arbitrage strategies. Macro funds were down 1.1% amid continued trade uncertainty, a meandering dollar, and a drop in commodities in July. With most other strategies flat, both the HFRX Equal Weighted and Global Indices ended the month down a modest 0.1%.

Oil Gives Back Gains

Oil tumbled in July as traders reacted to Libya resuming exports and anticipated increased global supply from other major producers like Russia and Saudi Arabia. The GSCI All Crude Index fell 7.3%, dragging the total commodities index down 3.5% for the month. Elsewhere, China, the largest importer of the roughly $20 billion U.S. soybean industry, confirmed tariffs on U.S. agricultural products would begin on July 6. The ensuing demand-supply imbalance resulted in soybean futures for July delivery touching a nine-year low.

Performance of Major Market Indices through 07-31-2018

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	3.7%	3.7%	6.5%	16.2%	12.5%	13.1%
Russell 2000	1.7%	1.7%	9.5%	18.7%	12.0%	11.3%
MSCI World Ex-US (USD)	2.5%	2.5%	-0.4%	6.5%	5.2%	5.6%
MSCI Emerging Mkts (USD)	2.2%	2.2%	-4.6%	4.4%	8.9%	5.3%
Citigroup US Treasuries	-0.4%	-0.4%	-1.5%	-1.2%	0.6%	1.4%
Citigroup Credit	0.7%	0.7%	-2.4%	-0.8%	3.0%	3.4%
Merrill High Yield	1.1%	1.1%	1.2%	2.5%	6.2%	5.3%
JPM EMBI Global (USD)	2.1%	2.1%	-3.3%	-1.1%	4.9%	4.6%
Citigroup WGBI Ex-US (LC)	-0.3%	-0.3%	0.4%	1.3%	2.0%	3.4%
Citigroup Credit AAA/AA 10+	1.1%	1.1%	-4.8%	-0.5%	4.7%	5.9%
Barclays US Aggregate	0.0%	0.0%	-1.6%	-0.8%	1.5%	2.2%
GSCI Total Return	-3.5%	-3.5%	6.5%	20.0%	-0.6%	-10.9%
HFRX Eq. Wtd. Strategies	-0.1%	-0.1%	-1.3%	0.4%	1.3%	1.4%