

DeMarche Dashboard

August 2017

Global Economy and Markets

- **Global Overview** – Geopolitical concerns, particularly the standoff over North Korea’s nuclear weapons programs, impacted markets in August. Escalating rhetoric from both the Trump administration and Pyongyang, along with continued North Korean provocations, raised tensions in Japan and South Korea, even as the United States increased pressure on China to reign in its neighbor. Hurricane Harvey’s impact on the United States energy sector, although still not fully assessed at month’s end, was significant enough to push the energy sector well into negative territory. The Federal Reserve indicated during its annual Jackson Hole Economic Policy Symposium that it would begin to reduce its balance sheet as planned. Market observers still generally expect another 25 basis point interest rate increase in 2017. Those expectations may be tempered given the weak inflation data that was released in August. While inflation remains low, 2nd quarter GDP was revised upwards during the month to 3%.
- **Developed markets** were slightly negative as Japan, the U.K., and the Euro zone all fell. The euro strengthened against the dollar as economic conditions on the continent continued to improve. European Central Bank President Mario Draghi, speaking in the U.S., indicated that the bank would do more to combat persistently low inflation. The Bank of England revised downward its estimates of British growth, while the British government’s and European Union’s negotiations over Brexit continue. Japan’s GDP grew for the sixth straight quarter and although the growth was low, policymakers were encouraged that domestic demand had increased as a driver of growth.
- In **emerging markets**, stronger global growth and higher commodity prices were a positive. Despite the tensions on the Korean peninsula, Chinese markets rose as central government measures aimed at slashing excess capacity went into effect and the consumer sector delivered a strong month. South American countries, particularly Brazil, benefited from a commodity rally. Developing European countries such as Poland and Hungary advanced as their economies continued to show strength. In contrast, South Korean markets fell as concerns over North Korea dominated headlines.

U.S. Economy and Markets

- The S&P 500 Index gained 0.3% in August. Six out of 11 sectors were positive for the month.
- Large-cap stocks strongly outperformed small-cap stocks, which broadly declined. Growth again led value across all market capitalizations.
 - Information Technology, Utilities, and Health Care were the strongest performing sectors. Energy, Telecomm Services, and Consumer Discretionary were the weakest performing sectors.
- The Russell 2000 Index declined -1.3%. Eight out of 11 sectors were negative.
 - Biotech, Health Care, and Utilities were the strongest performing sectors. Energy, Consumer Staples, and Telecomm Services were the weakest performing sectors.

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- Job creation was softer than expected in August with payrolls increasing by 156,000, below the pace of earlier summer months. The unemployment rate ticked up marginally from 4.3% to 4.4%. However, employment increased in manufacturing, construction, mining, and professional services. Wage growth continued to slowly increase at 2.5% year-over-year. Labor force participation rates remained relatively unchanged, as they have throughout the past year. The Consumer Confidence Index increased for the second straight month to 122.9, up from 120.0 in July. Consumers' assessment of current conditions increased from an already high level in July. However, the Index shows consumers are expecting little to no short-term increase in economic activity above current levels.
- The 10-year Treasury yield fell in August, dropping to 2.12% vs. 2.30% in July. Investment-grade corporate spreads widened modestly, ending at 116 basis points above Treasuries. High-yield spreads widened as well, briefly rising above 400 basis points before closing the month at 385 basis points.
- The Bloomberg Barclays Aggregate Index returned 0.9% for the month, with the move in yields, while the Investment Grade Corporate Index rose 0.8%. The Bloomberg Barclays US High Yield Index was flat.

International Markets

- The MSCI EAFE Index lost -0.04% in August. Portugal, Denmark, and Norway were the strongest performing countries. Israel, New Zealand, and Belgium were the weakest performing countries. Small-cap stocks outperformed large-caps. The MSCI EAFE Small Cap Index posted a gain of 0.8%.
- By style, international developed markets' performance was very even, with growth only slightly ahead of value. The MSCI EAFE Growth Index gained 0.6%, leading the MSCI EAFE Value Index which fell -0.6%.
- The MSCI Japan Index dropped -0.5%, while Asia excluding Japan gained 1.3%. The Europe-wide index gained 0.06%, while the United Kingdom benchmark fell, dropping -0.8%.
- The MSCI Emerging Markets Index advanced 2.2% during the month. Peru, Russia, and Hungary were the strongest performing countries. Pakistan, Qatar, and South Korea were the weakest performing countries.
- MSCI's China Index advanced 4.2%. Eastern Europe overall was the strongest performing region. India was slightly negative, dropping -0.6%. Chile, a strong performer in July, continued to advance, while Turkey and South Africa continued to lead Middle Eastern and African markets.
- The MSCI Frontier Markets Index gained 3.7%. Argentina, Kuwait, and Kenya were the strongest performing countries. Nigeria, Sri Lanka, and Romania were the weakest performing countries.
- Government bond yields declined in August as investors sought safety given geopolitical tensions around the world. 10-year German government bond yields dropped to 0.4%, while 10-year British yields declined to just above 1.0%. The Bloomberg Barclays Euro Universal Index advanced 1.6% in dollar terms. Global treasury markets also gained as the Global Treasury Ex-US Index advanced 1.1%.



- Emerging Markets hard currency debt rallied on increased expectations of global growth and a weaker dollar. The Bloomberg Barclays EM Hard Currency Aggregate Index gained 1.4%.

Looking Ahead

- The U.S. Congress has returned from its summer recess. The impacts of hurricanes in Texas and Florida have further complicated the legislative picture for the fall. President Trump's deal with congressional Democrats tying hurricane relief to short-term government financing raises questions about the exact shape and scope of his proposed tax reform measures and how those measures will be received by the Republican leadership.
- The German general election on September 24th is the next major European election with the potential for major policy impact on the continent. Populist parties appear to have lost some ground in Europe. Polling indicates that Angela Merkel's Christian Democratic Union party is the favorite to remain the largest legislative party and secure a fourth term as chancellor for Merkel. However, a surprise result or more fragile governing coalition emerging from the election could jolt markets and further complicate Brexit talks, along with the continent's relations with Russia and the U.S.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates	Exchange Rates per US \$	
	Latest (Q2)	2017 ^A	2018 ^A	(Most recently available)	Sovereign Bonds, 10 Year ^B	Current	1 Year Ago
United States	2.20	2.20	2.30	4.40	2.16	-	-
China	6.90	6.70	6.30	4.00	1.50	6.56	6.67
Japan	1.26	1.30	1.10	3.20	0.04	110.09	103.22
United Kingdom	1.99	1.60	1.20	4.50	1.08	1.30	1.33
Euro Area	2.15	1.90	1.70	9.10	0.25	1.19	1.12
Germany	1.66	1.80	1.70	3.90	0.25	1.19	1.12
France	1.18	1.50	1.60	10.00	0.66	1.19	1.12
Italy	1.20	1.10	1.00	11.30	2.05	1.19	1.12
Canada	2.27	2.30	2.00	6.60	1.48	1.24	1.31
India	6.20	7.10	7.60	5.00	6.50	64.02	66.71
Mexico	2.55	2.00	2.10	3.50	7.32	17.78	18.83
Brazil	-0.41	0.60	1.90	13.00	11.75	3.13	3.25

A. *The Economist* or The Economist Intelligence Unit estimate/forecast

B. Most recently available data

Sources: Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, and *The Economist*



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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	0.14	2.93	13.47	16.19	5.92	11.10	4.47
	BBgBarc US Agg Bond TR USD	0.90	1.23	3.64	0.49	2.64	2.19	4.40
	Russell 3000 TR USD	0.19	3.00	11.20	16.06	9.08	14.27	7.70
	DJ Industrial Average TR USD	0.65	5.15	13.01	22.29	11.46	13.70	7.93
	NASDAQ Composite TR USD	1.43	4.00	20.34	24.73	13.30	17.40	10.70
	Citi Treasury Bill 3 Mon USD	0.09	0.24	0.47	0.58	0.26	0.18	0.44
	Bloomberg Commodity TR USD	0.40	2.48	-2.72	2.99	-12.27	-10.14	-6.09
Domestic Equities	S&P 500 TR USD	0.31	3.01	11.93	16.23	9.54	14.34	7.61
	S&P MidCap 400 TR	-1.53	0.94	5.28	12.37	8.07	13.99	8.87
	S&P SmallCap 600 TR USD	-2.57	1.32	1.13	13.11	9.25	14.42	8.62
	Russell 1000 TR USD	0.31	3.01	11.79	16.16	9.21	14.37	7.73
	Russell 1000 Growth TR USD	1.83	4.26	19.17	20.82	11.67	15.41	9.39
	Russell 1000 Value TR USD	-1.16	1.79	4.81	11.58	6.74	13.25	5.96
	Russell Mid Cap TR USD	-0.78	1.69	8.73	12.44	7.32	14.11	8.14
	Russell Mid Cap Growth TR USD	0.71	2.69	14.06	14.52	7.88	13.99	8.32
	Russell Mid Cap Value TR USD	-1.87	0.91	4.58	10.82	6.83	14.22	7.82
	Russell 2000 TR USD	-1.27	2.90	4.42	14.91	7.67	13.15	7.38
	Russell 2000 Growth TR USD	-0.12	4.20	10.78	16.39	8.20	13.75	8.21
	Russell 2000 Value TR USD	-2.46	1.59	-1.31	13.47	7.07	12.51	6.46
International Equities	MSCI ACWI Ex USA NR USD	0.52	4.55	18.92	18.88	2.36	7.36	1.74
	MSCI EAFE NR USD	-0.04	2.66	17.05	17.64	2.83	8.48	1.62
	MSCI EAFE Growth NR USD	0.56	2.32	20.18	15.23	4.55	9.04	2.55
	MSCI EAFE Value NR USD	-0.62	3.01	14.12	20.03	1.03	7.85	0.62
	MSCI Japan NR USD	-0.05	3.05	12.09	13.69	6.80	10.68	1.72
	MSCI AC Asia Ex Japan NR USD	1.33	8.45	31.10	24.83	5.77	8.94	4.29
	MSCI Europe NR USD	0.06	1.92	18.87	19.43	1.93	8.29	1.25
	MSCI United Kingdom NR USD	-0.77	-0.18	11.97	12.09	-2.09	4.71	0.77
	MSCI EAFE Small Cap NR USD	0.82	4.45	21.94	21.98	8.07	13.25	4.45
	MSCI EM NR USD	2.23	9.42	28.29	24.53	2.38	5.30	2.43
Fixed Income	BBgBarc US Govt/Credit TR USD	0.96	1.41	4.08	0.37	2.72	2.23	4.48
	BBgBarc US Govt/Credit Interm TR USD	0.59	0.88	2.81	0.82	2.11	1.75	3.76
	BBgBarc US Govt/Credit Long TR USD	2.25	3.29	8.70	-1.08	4.90	4.02	7.55
	BBgBarc US Corp IG TR USD	0.78	1.82	5.37	2.13	3.66	3.64	5.84
	BofAML US HY Master II TR USD	-0.03	1.23	6.09	8.79	4.81	6.49	7.88
	Credit Suisse HY USD	-0.03	1.12	5.52	8.97	4.55	6.30	7.56
	S&P/LSTA Leveraged Loan TR	-0.04	0.60	2.57	5.80	3.53	4.24	4.88
	Citi WGBI NonUSD USD	1.23	3.88	10.15	-0.76	-0.57	-0.43	3.11
	BBgBarc Gbl Agg Ex USD TR USD	1.07	3.68	10.13	-0.17	-0.82	-0.09	3.02
REITs	FTSE NAREIT All REITs TR	0.62	3.89	7.36	2.75	8.39	9.79	6.62
	Wilshire US REIT TR USD	-0.41	3.15	2.52	-1.97	7.50	9.13	5.96

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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