GLOBAL MONTHLY FOCUS
May 2018

Global Financial Private Capital

KEY TAKEAWAYS

- Heightened political risk continued to drive market volatility during May. Concerns over global trade, the North Korea summit, the Iran nuclear deal and Italy's new populist government were some of the key headlines that dominated the marketplace.
- Despite the noise, the ongoing strength of global growth was evident in corporate earnings. Therefore, despite intra-month swings, the S&P 500 posted solid monthly gains while broad fixed income markets trailed.
- Last year's calm markets, which saw both bond and stock prices rising steadily each month, seem firmly behind us. Summer and midterm elections may continue to bring volatility, and investors should focus on discipline and diversification during these fluctuations. The economy looks healthy, and corporate earnings growth has been strong, but investors also need to be mindful of setting their expectations too high.

GLOBAL ECONOMIC SUMMARY

U.S. economic indicators continue to remain strong. Consumer confidence is still close to the 17-year high. The employment report showed an addition of 223,000 jobs in May, and the unemployment rate declined to 3.8%. Concerns over an aggressive pace of tightening by the U.S. Federal Reserve (Fed) eased over the month as wage inflation remains benign. Although the Fed is still expected to raise interest rates by a quarter percentage point at its June meeting, it has taken a more dovish stance in recent communications.

Abroad, the signals for a potential global economic acceleration were more mixed. The labor market in the Eurozone remains strong, with unemployment falling to 8.5%, which is below the average of 9.74% over the last two decades. Consumer confidence also remains close to a 17-year high. However, concerns about a global trade war and higher oil prices appear to be weighing on corporate sentiment. The preliminary euro area Purchasing Managers Indexes (PMI) declined for the fifth consecutive month in May from a peak of 60.6 in December. The global PMI (a combination of over 30 countries) also slid. The PMI is an important indicator for investors looking for clues about economic growth. The current global PMI reading at 53.3 indicates a solid, but no longer accelerating, pace of global economic growth. The PMI index is closely watched as stock market returns tend to closely track the index. According to a study by Charles Schwab, when PMI readings range between 52.5 and 55.3, global stock markets have historically produced single-digit returns.

Global Composite PMI Range	MSCI World Index year-over-year % change	% of the time in the PMI range
Above 58.1	Greater than +20%	11%
55.3 to 58.1	+10 to +20%	21%
52.5 to 55.3	0 to +10%	38%
46.9 to 52.5	-20% to 0%	26%
41.3 to 46.9	-40% to -20%	2%
Below 41.3	Lower than -40%	2%

Grey shaded row marks current environment.
Source: Charles Schwab, Bloomberg data as of 5/21/2018. Past performance is no guarantee of future performance.

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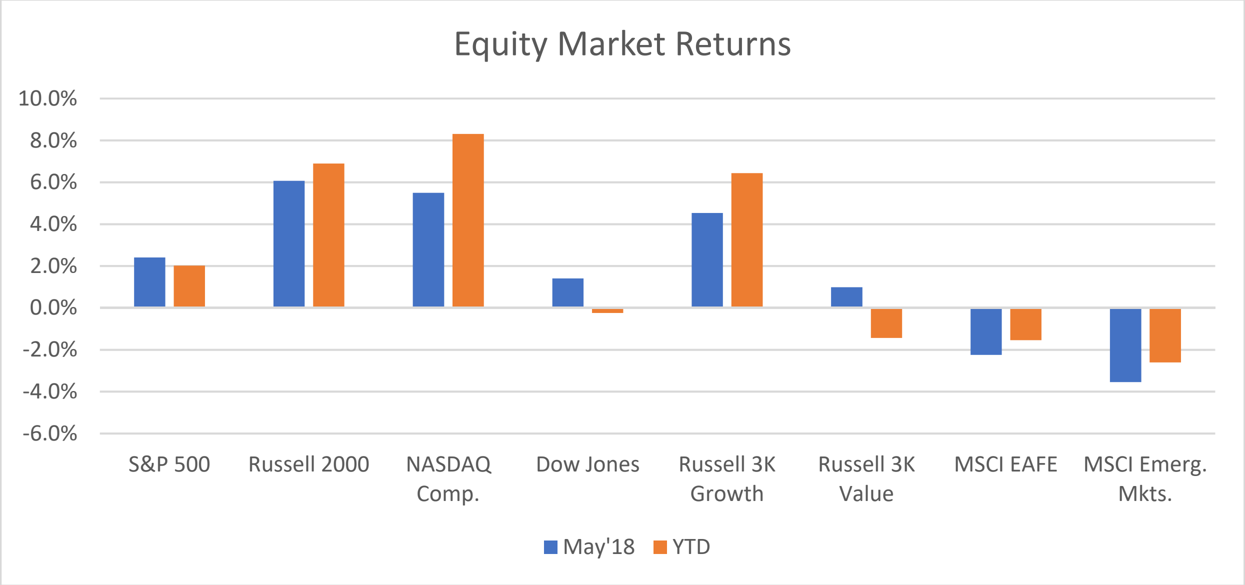
GLOBAL MARKETS SUMMARY

GLOBAL EQUITY

The effects of domestic tax cuts and economic growth have contributed to strong Q1 earnings in the U.S. The first quarter of 2018 saw record profits, with S&P 500 earnings per share growth of 25% year on year, the highest growth since Q3 2010, according to Factset earnings insight. Despite fears of a global trade war, geopolitical concerns over North Korea and Iran, and other major news dominating the headlines, domestic equity markets posted positive returns for May. U.S. large cap equities, as represented by the S&P 500 index, posted solid gains, turning in the best monthly performance since January and bringing year-to-date returns back into positive territory. Investor appetite for “growth” stocks continues to drive the technology-heavy NASDAQ index as the best-performing domestic index year to date. Meanwhile, defensive or value-oriented stocks, which have a greater sensitivity to interest rates, have lagged growth stocks as seen by the Russell 3000 Value Index. The performance gap between growth and value-oriented stocks widened after May to nearly 8%. Investors also favored companies less exposed to geopolitical concerns and trade war issues. As such, small cap stocks, as represented by the Russell 2000 Index, posted a relatively strong May and continue to outperform large cap stocks for the year.

International equity markets lagged domestic equities as geopolitical concerns weighed on investors. Developed international equity markets, as represented by the MSCI EAFE (Europe, Australasia and Far East), posted a loss for the month primarily due to weakness in Europe. Finally, emerging markets, as represented by the MSCI Emerging Markets Index, sold off in May over concerns on tariffs and underperformed the S&P 500 for the month as well as for the year.



Source: Bloomberg as of 5/31/18.

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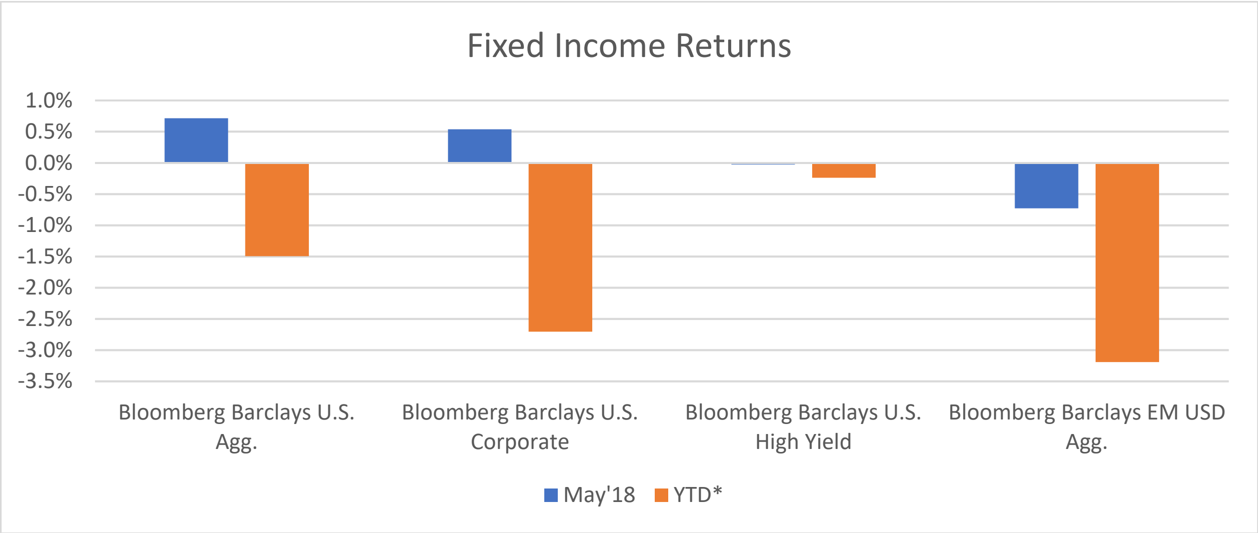
FIXED INCOME

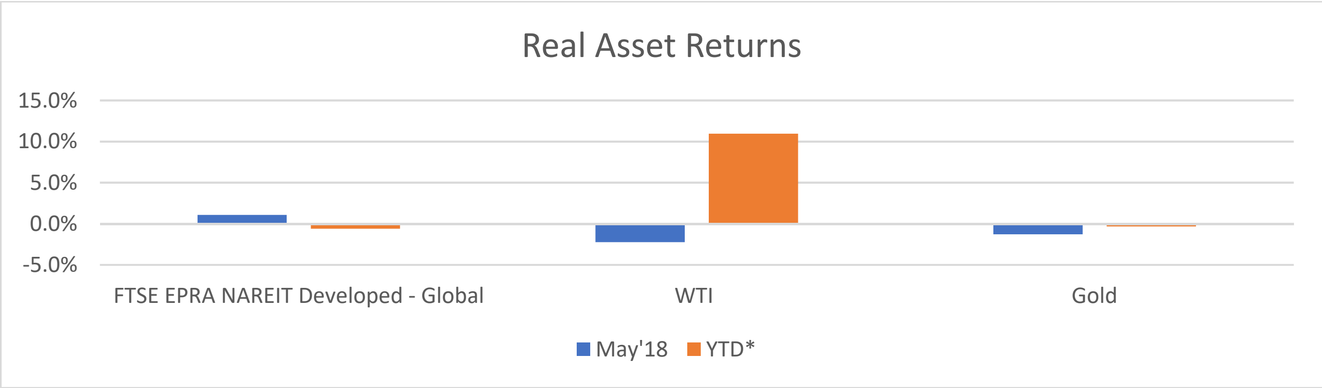
The yield on the 10-year Treasury hit an intra-month high at 3.11% but ended the month lower at 2.86% as investors moved towards safer assets. Core bonds, as represented by the Bloomberg Barclays U.S. Aggregate Bond index, gained as rates fell from previous levels and posted positive returns for the month, but remain negative for the year. High yield corporate bonds lagged core bonds and posted negative returns for the month, thus erasing previous gains for the year. The strength of the dollar and rising risk aversion weighed on emerging market debt in May.



Source: Bloomberg as of 5/31/18.

REAL ASSETS

Oil, as measured by the West Texas Intermediate (WTI) index, declined for the month as excess supply became a concern. Despite the decline, oil has posted strong gains for the year. The FTSE EPRA NAREIT Developed Global Index regained ground from prior months and posted strong returns in May but remains negative for the year. Finally, gold declined during the month and remains negative as U.S. yields ticked higher and the dollar regained strength.



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DEFINITIONS

All indexes are unmanaged and an individual cannot invest directly in an index. Index returns do not include fees or expenses.

The Standard & Poor's 500, often abbreviated as the S&P 500, or just the S&P, is an American stock market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ.

Russell 2000 The Russell 2000 Index is a small-cap stock market index of the bottom 2000 stocks in the Russell 3000 Index. The Russell 2000 is by far the most common benchmark for mutual funds that identify themselves as "small-cap".

The NASDAQ Composite is a stock market index of common stocks and similar securities (e.g. ADRs, tracking stocks, and limited partnership interests) listed on the NASDAQ stock market. Along with the Dow Jones Industrial Average and S&P 500, it is one of the three most-followed indices in US stock markets.

Russell 3000 Value Index is a market-capitalization weighted equity index maintained by the Russell Investment Group which measures how U.S. stocks in the equity value segment perform. Included in the Russell 3000 Value Index are stocks from the Russell 3000 Index with lower price-to-book ratios and lower expected growth rates.

Russell 3000 Growth Index is a market capitalization weighted index based and includes companies that display signs of above average growth. The index is used to provide a gauge of the performance of growth stocks in the U.S. Companies within the Russell 3000 that exhibit higher price-to-book and forecasted earnings are used to form the Russell 3000 Growth Index.

The MSCI EAFE Index is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. & Canada. It is maintained by MSCI Inc., a provider of investment decision support tools; the EAFE acronym stands for Europe, Australasia and Far East.

The MSCI Emerging Markets Index is an index created by Morgan Stanley Capital International (MSCI) designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index that consists of indices in 23 emerging economies.

The Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

The Bloomberg Barclays US Corporate Bond Index measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.

The Bloomberg Barclays US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

The Bloomberg Barclays Emerging Markets Hard Currency Aggregate Index is a flagship hard currency emerging markets debt benchmark that includes USD-denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

The FTSE EPRA NAREIT Developed Global is designed to represent general trends in eligible real estate equities worldwide.

West Texas Intermediate (WTI), also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.

The Gold Spot Price is the current market price at which an asset is bought or sold for immediate payment and delivery.

Gross domestic product is the best way to measure a country's economy. GDP is the total value of everything produced in the country.

Nonfarm payroll employment is a compiled name for goods, construction and manufacturing companies in the U.S. It does not include farm workers, private household employees, or non-profit organization employees.

The unemployment rate is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force.

Average hourly earnings are the average amount employees make per hour in the United States in each month and is calculated monthly by the Bureau of Labor Statistics.

VIX is the ticker symbol for the Chicago Board Options Exchange (CBOE) Volatility Index, which shows the market's expectation of 30-day volatility. It is constructed using the implied volatilities of a wide range of S&P 500 index options.

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Purchasing Managers Index – The global PMI is an indicator of the economic health of the global manufacturing sector. The PMI index is based on five major indicators: new orders, inventory levels, production, supplier deliveries and the employment environment

DISCLOSURES

This commentary is not intended as investment advice or an investment recommendation. It is solely the opinion of our investment management team at the time of writing. Nothing in the commentary should be construed as a solicitation to buy or sell securities. Past performance is no indication of future performance. The author has taken reasonable care to help ensure that the information is accurate.

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