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### KEY TAKEAWAYS

- U.S. equity values – notably S&P 500 stocks – increased following positive signs from U.S. GDP and unemployment numbers
- Tariffs remain a key concern in the global economy as increased protectionism is threatened between China and the U.S.
- Recent U.S. economic data suggest the risk of recession in the U.S. is low in the near-term

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### GLOBAL ECONOMIC SUMMARY

U.S. economic indicators continue to show overall positive results for the month of July. U.S. Gross Domestic Product (GDP) for the second quarter reached 4.1%, which is the best in almost four years, while unemployment claims reached their lowest levels since December 1969. These are notable statistics that have a strong connection to the health of the economy. The unemployment rate did rise slightly from 3.8% to 3.9% during July, but this was due to an increase in the number of individuals included in the workforce, which tends to raise the unemployment rate. The increase in workforce participants may also be viewed as positive, since individuals who were previously too discouraged to find employment are now actively searching for jobs.

The U.S. and China have taken shots back and forth implementing trade tariffs, sparking fears of a trade war. So far, U.S. tariffs have been placed on a relatively small amount of goods from China. However, China has retaliated with a comparable tariff on U.S. goods, and there has already been more talk of potentially higher and more widespread tariffs in the near future. The potential for tariffs between the U.S. and the Eurozone has struck a different chord. President Trump and the President of the European Commission Jean-Claude Juncker released a joint statement in late July that the United States and E.U. would “work toward zero tariffs, zero non-tariff barriers, and zero subsidies on non-auto industrial goods.”<sup>1</sup> The central banks of Japan and the Eurozone both decided to keep their monetary policies unchanged, leaving rates at near historic lows. The IMF (International Monetary Fund) has kept their optimistic stance on global GDP reaching 3.9% through 2019.

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### GLOBAL MARKETS SUMMARY

#### GLOBAL EQUITY

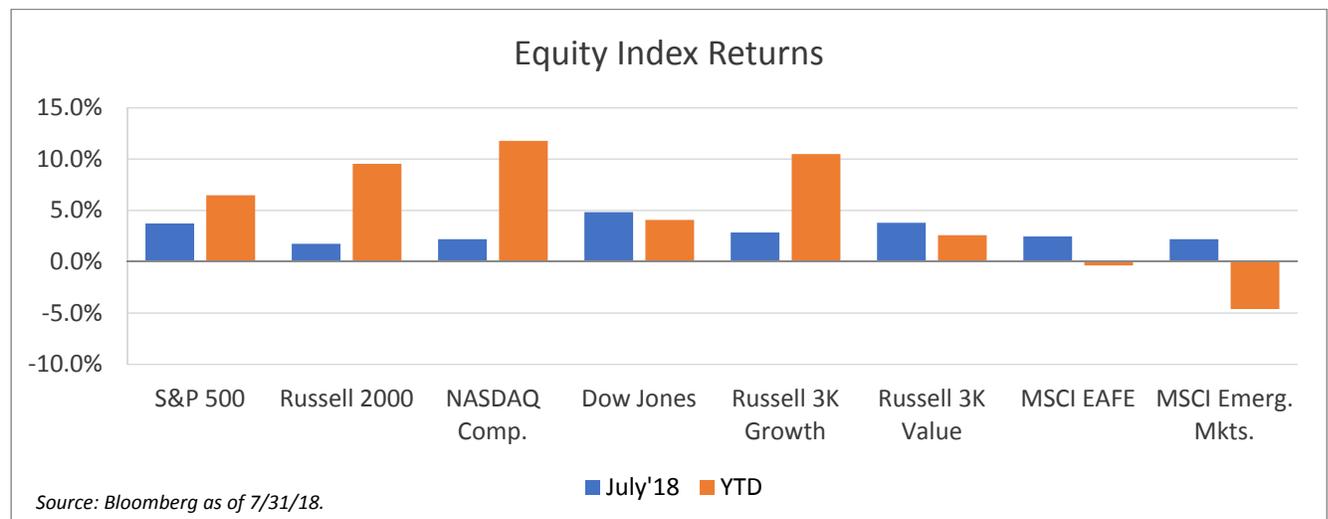
Despite “tariff talk,” U.S. equities were positive for the quarter, boosted by strong earnings and tax cuts. In fact, 83% of companies in the S&P 500 reported earnings that exceeded expectations during the month. The S&P 500, often viewed as the main U.S. equity benchmark, returned 3.7%. Value-oriented stocks outperformed growth

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<sup>1</sup> Reinsch, W.A. and Robinson, J. “Zero Tariffs, Zero Barriers, Zero Subsidies: Is This Even Possible?” Center for Strategic & International Studies. July 2018.

stocks, posting 3.8% and 2.8% returns, as represented by the Russell 3000 Value and Russell 3000 Growth, respectively. Small caps also posted positive returns at 1.74% but underperformed compared to U.S. large caps.

International markets also posted positive returns for the month. Developed international equities posted a 2.5% return, while emerging markets equities returned 2.2% as world economies continued to digest the potential impact of tariffs.



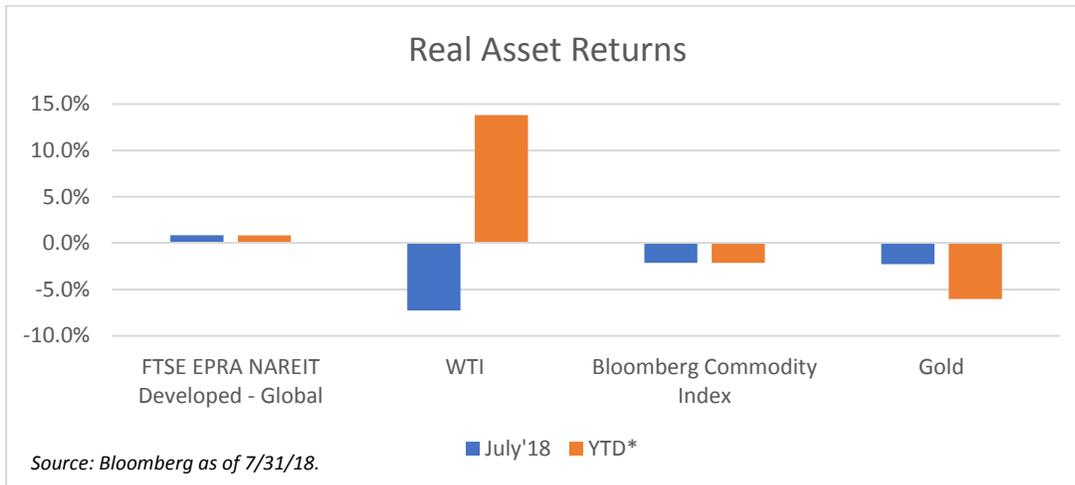
## FIXED INCOME

Results within the fixed income markets were mixed. The overall U.S. bond market, as shown by the Bloomberg Barclays U.S. Aggregate Index, was almost flat for July, returning only 0.02%. However, U.S. corporate bonds and high-yield bonds rose during July, earning 0.83% and 1.09% respectively. The 10-year treasury yield increased 0.10% during the month. Due to the positive performance and economic indicators, the Fed is expected to continue their plans to increase rates twice more during 2018.

International fixed income struggled for the month as the Barclays Global Aggregate ex-U.S. Index decreased 0.17%. A notable performance came from emerging market debt, as the Bloomberg Barclays EM USD Agg. Index posted a gain of 1.65%.

## REAL ASSETS

Real estate, represented by FTSE EPRA NAREIT Developed – Global, returned 0.9% in July. Oil decreased during the month, dropping 7.3%, which is the largest monthly drop since July 2016. The drop is due to an increase in production from both OPEC and Russia, along with softer dialogue from Trump directed at Iran as he offered to meet with Iranian President Hassan Rouhani. Gold also decreased 2.3% during July.



## 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.



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

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## 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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