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### KEY TAKEAWAYS

- The good news about the American economy is that robust growth, low unemployment, and better-than-expected corporate earnings have led to the longest bull market in the history of the S&P 500.
- Trends have diverged in global equities as the U.S. market has continued to set new record highs while international stock returns have suffered.
- While economic data points to a global economy that is still growing above trend, geopolitical headlines, trade uncertainties, and a rising interest rates environment continue to create considerable volatility around this generally positive trend.

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### GLOBAL ECONOMIC SUMMARY

The U.S. economy as measured by gross domestic product (GDP) increased at a 4.2% annualized rate, according to the second reading for the April-June quarter. This puts the economy on track to hit the Trump administration's goal of 3.0% annual growth. The administration's \$1.5 trillion tax cut package provided a boost to consumer spending. While consumer spending has remained strong, the housing market has weakened for both new and existing homes sales due to rising mortgage costs and limited inventory. Trade and tariff concerns have calmed down a bit, with the U.S. and Mexico announcing an agreement and talks with China continuing. Finally, the job market remains robust. The U6 unemployment rate, a broader measure of unemployment than the headline rate, dropped to 7.5% in July, its lowest level since 2001. The U6 is one of the best measures of unemployment since it accounts for those who are working part time but wish to work more, as well as those who are currently discouraged but considering re-entering the job market. While the job market is currently healthy, wage growth remains subdued while productivity remains high.

Abroad, concerns of trade wars and tariffs impacted economic growth. The Eurozone economy slowed to an annual growth rate of 2.2%. However, trade negotiations between the European Union (EU) and the United States offered some encouragement going forward. Emerging market currencies such as Turkey's lira and Argentina's peso suffered as the dollar continued to strengthen, raising concern over those countries' ability to service their debt. Finally, China's GDP figures revealed the weakest pace of growth since 2016 as government measures to rein in debt appeared to have some success in curbing credit growth.

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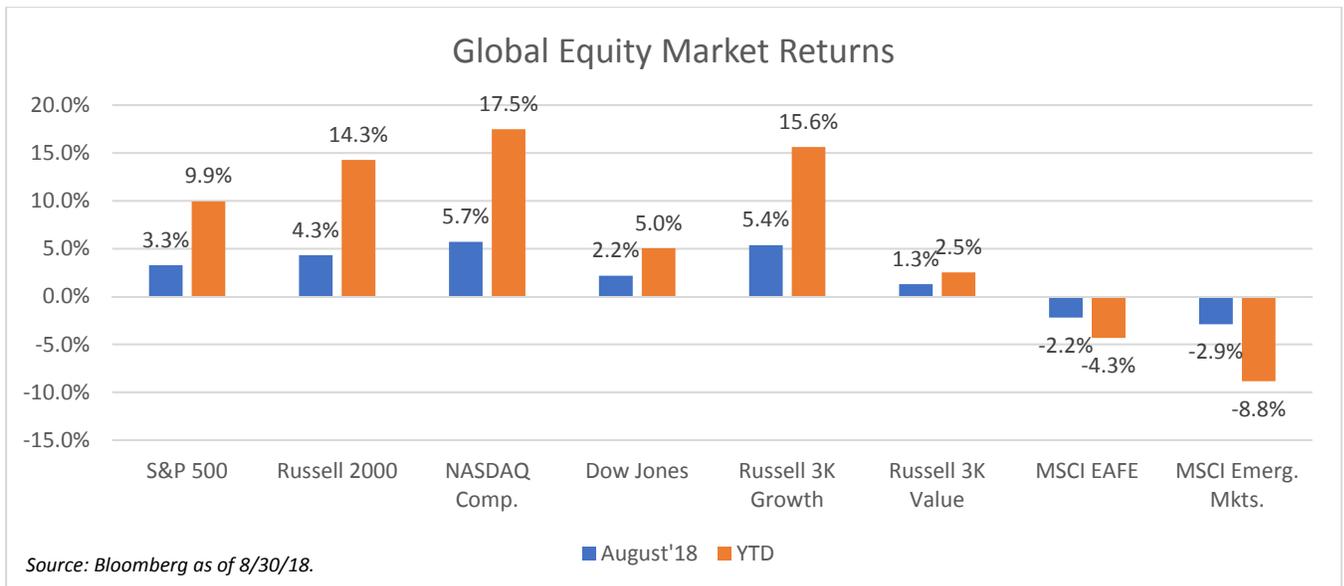
### GLOBAL MARKETS SUMMARY

#### GLOBAL EQUITY

The S&P 500 now holds the record for the longest bull run in history. In addition, both the technology-led NASDAQ index and small-cap Russell 2000 index reached new highs during August. 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

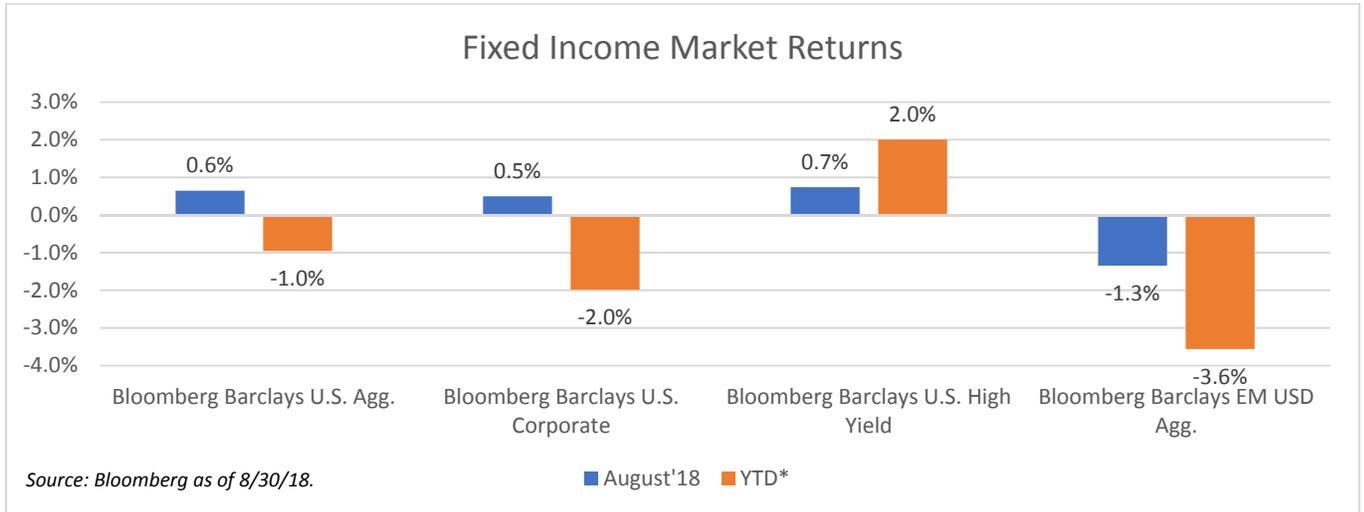


off in August over concerns on tariffs and underperformed the S&P 500 for the month, as well as for the year. It's important to note, the first eight months of 2018 mark significant divergence in stock market returns. Growth-oriented stocks such as technology, as represented by the Russell 3000 growth index, have dominated equity returns, while many blue-chip dividend-oriented stocks, as represented by the Russell 3000 value index, have significantly underperformed. The divergence is even more noteworthy when you look at U.S. stock market returns compared to those of its international peers.



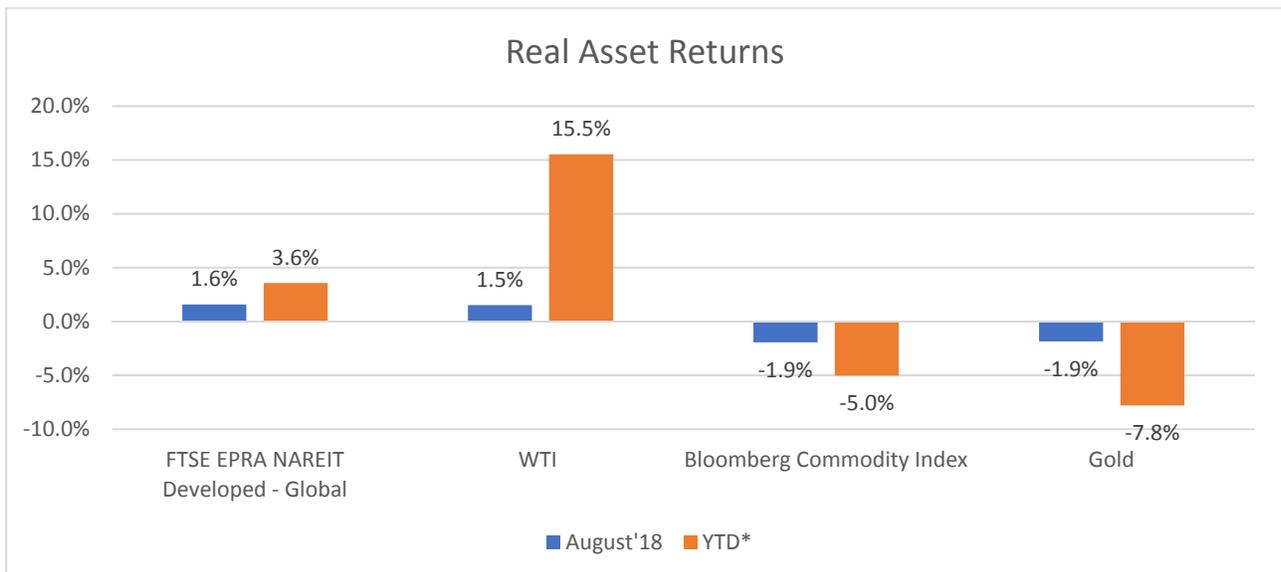
## FIXED INCOME

The Federal Reserve (Fed) held rates steady in August, but the minutes of the last Fed meeting – along with comments from the Fed chair – likely indicate gradual increases in interest rates. 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. However, core bonds remain negative for the year. High-yield bonds outperformed core bonds for the month and for the year. The strength of the dollar and rising risk aversion weighed on emerging market debt in August.



### REAL ASSETS

Oil, as measured by the West Texas Intermediate index, posted positive returns for the month due to declines in U.S. crude supplies and ongoing concerns over tighter global inventories tied to U.S. sanctions on Iran. Developed Global REITs, as represented by the FTSE EPRA NAREIT Developed Global Index, posted positive returns for the month and the year. Finally, gold declined during the month and remains negative for the year as the dollar regained strength.



## 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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