SAGE VIEW

MARKET COMMENTARY

July 7, 2017

The S&P 500 and Dow Industrials both extended their quarterly gains to post their strongest first-half performances in four years. Technology (+17.23%) and Healthcare (+16.07%) led the six month broad market advance, but both sectors have recently given back gains. The NASDAQ Composite, with a 21% weighting in technology stocks, had its best first-half of a year since 2009 with a 14.71% return. Despite the rally, the Composite finished June with a 0.87% loss. Equity markets have remained largely resilient even as investors faced valuation concerns, a June 14 Federal Reserve rate hike to 1% - 1.25% (its second one quarter point hike this year), and a mixed bag of economic data. Beyond an overhang of geopolitical risks, Wall Street has also been disappointed by a lack of legislative success to enact tax and healthcare reform and infrastructure stimulus measures. On a brighter note, in the closing days of the quarter, investors learned that all 34 of the largest U.S. banks passed their Federal Reserve financial stress tests and consequently approved their respective quarterly dividend increase requests and stock buyback plans. Moreover, the final of three readings of GDP growth for the first quarter was revised higher to 1.4% from 1.2%, and double the 0.7% initial estimate.

By market capitalization, U.S. small cap companies outperformed large and mid caps last month; but trail them on a quarterly and year-to-date (YTD) basis. The Russell 2000 Index, a broad measure of small cap equity performance, rose 3.46% in June, whereas the Russell Mid Cap Index gained just under 1%. Mid cap stocks gained 2.7% in the second quarter, while the Russell 2000 Index rose 2.46%. On a YTD basis, small cap stocks rose 5%, mid caps gained 8%, while large cap S&P 500 stocks advanced 9.34%. Value-oriented stocks likewise outperformed growth stocks in June, while Growth outperformed in the second quarter and during the first-half. The Russell 1000 Value Index rose 1.63% last month versus a 0.26% loss on the Russell 1000 Growth Index. In contrast, the Russell 1000 Growth Index rose 4.67% in the second quarter and 14% YTD, whereas the Russell 1000 Value Index gained 1.34% and 4.66% respectively.

Within the S&P 500 Index, 5 of the 11 major sector groups advanced in June, with Financials (+6.43), Healthcare (+4.62%) and Real Estate (+1.92%) gaining the most. Telecom (-2.92%) and Technology (-2.70%) led among June decliners. For the quarter, Healthcare (+7.10%) and Industrials (+4.73%) led all sectors, while Telecom (-7.05%) and Energy (-6.36%) fell the most.

The MSCI EAFE Index, which measures returns on developed markets outside the U.S. and Canada, underperformed domestic equities in June with a 0.18% loss, but outperformed during the second quarter and YTD. The MSCI EAFE advanced 6.12% in the quarter and jumped 13.81% during the first-half of the year.

The Stoxx Europe 600 Index fell nearly 1% in June and gained 7.96% and 16.39% respectively in the second quarter and YTD. The U.K.-based FTSE 100 Index fell 1.56% last month, trimming a second quarter gain to 4.73% and a 10.31% first-half rally. Meanwhile, Japan's Nikkei 225 posted gains of 0.53% in June and 5.07% and 9.82% respectively for the second quarter and YTD.

Emerging markets equities, as measured by the MSCI Emerging Markets Index, rose 1.01% in June, extending its second quarter gain to 6.27%. With a YTD return of 18.43%, emerging markets outperformed the U.S. and also posted its strongest first-half return since 2009. Gains were led by China, South Korea and Taiwan, while Qatar and Russia lagged.

Turning to bonds, U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, were down in June (-0.16%), slightly paring a second quarterly gain to 1.17% and a first-half return of 1.86%. The yield on the benchmark 10-year Treasury notes ended the second quarter at 2.31%, down 9 basis points during the quarter, while recovering from a June 14 low of 2.13%. Investment grade bonds, as measured by the Bloomberg Barclays U.S. Aggregate Bond Index, fell 0.1% in June, slightly trimming their second quarter gain to 1.45% and its YTD return to 2.27%. Higher-rated corporate bonds delivered strong gains last quarter and YTD, as the Bloomberg Barclays U.S. Corporate Investment Grade Bond Index returned 2.54% and 3.8% respectively.

Municipal bonds underperformed government and other investment grade bonds, as the Bloomberg Barclays Municipal Bond Index fell 0.36% last month, trimming its second quarter gain to 1.96% and first-half performance to 3.57%. At the other end of the credit spectrum, the Barclays U.S. Corporate High Yield Index, which measures returns of below-investment grade corporate bonds, gained 2.17% and outperformed most all other bond types in the first half of the year, up 4.93%.

SUMMARY OF MAJOR ECONOMIC INDICATORS				
INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q1 2017	1.4%	↓	Q1 GDP was revised higher by 0.2% but the anemic pace of economic growth has continued, mostly supported by increases in consumer spending.
Global Real GDP Growth (ann. rate; Source: IMF)	Q1 2017	3.5%	n/a	The prospects for stronger global growth in 2017 are led by expectations of more robust global demand, reduced deflationary pressures and optimistic financial markets.
Non-Farm Employment Growth	June 2017	222,000	↓	Job creation was stronger than expected in June, but wage growth remains tepid at 2.5%. This was the 81st consecutive month of job creation.
Unemployment Rate	June 2017	4.4%	↓	The unemployment rate ticked up 0.1% in June, due to more people joining the workforce. The labor-force participation rate also inched up, but still remained near a four-decade low.
ISM Manufacturing Index	June 2017	57.8	↔	Manufacturing activity increased by 2.9% in June, led by factory activity which hit its highest level in almost 3 years. On the other hand, construction spending remained flat for the month.
ISM Non-Manufacturing Index	June 2017	57.4	↔	Activity in service-related industries grew by 0.5% in June, despite economists' predictions for a decline. Seventeen of the 18 industries saw growth, with "other services" as the only decliners.
Capacity Utilization	May 2017	76.6	↔	Capacity utilization for the industrial sector fell 0.1% in May. Utilization for mining and utilities increased, but were offset by a decrease in manufacturing durables.
Consumer Price Index (CPI, SA)	May 2017	-0.1%	↑	A decrease in the energy index (-2.7%) was the largest contributor to the monthly decline in CPI. The food index increased, as well as all items less food and energy.
Producer Price Index (Finished Goods, SA)	May 2017	0.0%	↑	Producer prices were unchanged in May, after rising 0.5% in April. An increase in final demand services was offset by a decline in final demand goods.
Leading Economic Indicators Index (LEI)	May 2017	0.3%	↑	The increase in May was widespread across the majority of leading indicators. The data suggest that the economy will continue to grow around its 2% trend for the remainder of 2017.
10-year Treasury Yield	June 2017	2.31%	↓	The 10-year Treasury yield increased by 10 bps in June, recovering from a low of 2.13 mid-month. Rates are still roughly 15 bps lower than where they started the year.

*NOTE: The "Value" column shows the most current level or change over the prior month or quarter.

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS						
	June Close	June	Year- to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	21,350	1.74%%	9.35%	22.12%	11.01%	13.45%
S&P 500	2,423	0.62%	9.34%	17.90%	9.61%	14.63%
Nasdaq	6,140	-0.87%	14.71%	28.30%	13.02%	17.36%
Russell 2000	1,415	3.46%	4.99%	24.60%	7.36%	13.70%
International Indices						
MSCI EAFE (Developed)	7,397	- 0.15%	14.23%	20.83%	1.61%	9.18%
MSCI EM (Emerging)	2,171	1.07%	18.60%	24.17%	1.44%	4.33%
US Fixed Income						
Bloomberg Barclays US Aggregate	---	-0.10%	2.27%	-0.31%	2.48%	2.21%
Bloomberg Barclays US TIPS	---	-0.95%	0.85%	-0.63%	0.63%	0.27%
Commodities and Real Estate						
Bloomberg Commodity Index	168	-0.19%	-5.26%	-6.50%	- 14.81%	- 9.25%
Crude Oil ($/bbl)	---	$46.04	$53.72	$48.33	$105.37	$84.96
DJ US Select REIT	9,518	2.45%	1.36%	-2.43%	8.04%	9.00%

Sources: Bloomberg, MSCI. Non-US index returns are shown in US Dollar terms and are considered to be currency unhedged. Total returns include dividend and income accruals and price changes. Returns for three and five years are annualized and assume the reinvestment of interest and dividend payments. Investors cannot invest directly in any of the above indices. The performance of any index is not indicative of the performance of any investment and does not take into account the effects of inflation and the fees and expenses associated with investing.

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