

MARKET COMMENTARY

May 2018

Stocks once again ended the month on a sour note, with the S&P 500 paring strong prior-day gains after the Trump administration refused to extend the temporary tariff exemptions it previously granted for steel and aluminum imports from Canada, Mexico and the European Union. The newly imposed U.S. tariffs (25% on steel, 10% on aluminum, effective June 1) drew immediate retaliatory tariff announcements from affected nations, reigniting trade war fears. Yet despite the renewed trade concerns, as well as political turmoil in Spain and Italy, the S&P 500 and Dow Industrials capped May with strong returns and their first two-month gains since January. Technology led the advance, helping extend solid gains on the Nasdaq Composite into a third month.

By market capitalization, small cap stocks widely outperformed both large and mid-cap equities. Additionally, as was the case in April, cyclical-oriented sectors were the top performers last month and YTD, while defensive sectors, including Consumer Staples, lagged. In international equities, emerging markets widely trailed ex-U.S. developed markets last month, with both major foreign market groups posting losses in May and YTD.

U.S. Treasuries rallied on safer-haven buying during the second half of May, prompted largely by political turmoil in Italy and Spain, sending the yield on 10-year Treasuries down nearly 10 basis points to 2.859%. The flattening of the yield curve (between 2- and 10-year notes) gained momentum in May, prompting concerns among investors and several Fed officials. On a total return basis, municipal bonds and other investment-grade bonds posted gains in May, while non-investment grade high-yield corporate bonds outperformed on a YTD basis.

Source: Cetera Investment Management ®



SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q1 2018	2.2%	↑	The second estimate for Q1 GDP was revised slightly lower. Personal consumption slowed sharply. Q1 results have been negatively impacted in recent years by a seasonality adjustment.
Global Real GDP Growth (ann. rate; Source: IMF)	Q4 2017	3.7%	n/a	The IMF increased its global growth forecast for 2018 to 3.9%, mainly to due to potentially faster U.S. growth as a result of the tax legislation passed in December 2017.
Non-Farm Employment Growth	May 2018	223,000	↑	Job growth was above expectations reflecting firmer hiring in weather-sensitive industries. Gains were fairly balanced between goods-producing and service-providing sectors.
Unemployment Rate	May 2018	3.8%	↓	The unemployment rate declined to 3.8%, the lowest level in the last 18 years and also a new low for the current economic cycle. The total pool of available workers continued to decline.
ISM Manufacturing Index	May 2018	58.7	↑	The manufacturing index rebounded in May as key components (new orders, production and employment) strengthened. The Index remained in expansion for the 27 th consecutive month.
ISM Non-Manufacturing Index	May 2018	58.6	↑	Activity in service-related sectors returned to elevated levels as the major underlying components strengthened from the prior month. The index remained consistent with an expanding economy.
Capacity Utilization	Apr 2018	78.0	↔	Capacity utilization for the industrial sector rose to its highest level in three years. The utilization improvement in this cycle has come primarily from the mining sector.
Consumer Price Index (CPI, SA)	Apr 2018	0.2%	↑	Consumer prices rose last month, primarily reflecting higher prices at the gas pump. The underlying long-term trend is pointing towards firmer prices.
Producer Price Index (Final Demand, SA)	Apr 2018	0.1%	↓	Producer prices rose and the annual rate of price increases continued to slow over the past several months.
Leading Economic Indicators Index (LEI)	Apr 2018	0.4%	↑	LEI continued its upward trend as most components strengthened. The index is pointing to continued growth in the second half of 2018.
10-year Treasury Yield	May 2018	2.93%	↑	The 10-year Treasury yield peaked at 3.11% intra-month before closing lower than where it started. The Federal Reserve meeting minutes noted a potentially less aggressive approach to rate hikes.

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

GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	May Close	May	Year-to-Date	1 year	3 years	5 years
US Indices						
Dow Jones 30	24,416	1.41%	-0.24%	18.91%	13.46%	12.78%
S&P 500	2,705	2.41%	2.02%	14.38%	10.97%	12.98%
Nasdaq	7,442	5.50%	8.31%	21.34%	14.98%	17.97%
Russell 2000	1,634	6.07%	6.90%	20.76%	10.98%	12.18%
International Indices						
MSCI EAFE (Developed)	1,986	-2.11%	-1.19%	8.50%	4.83%	6.42%
MSCI EM (Emerging)	1,121	-3.52%	-2.52%	14.43%	6.56%	4.89%
US Fixed Income						
Bloomberg Barclays US Aggregate	--	0.71%	-1.50%	-0.37%	1.39%	1.98%
Bloomberg Barclays US TIPS	--	0.43%	-0.42%	0.74%	1.46%	0.86%
Commodities and Real Estate						
Bloomberg Commodity Index	186	1.42%	3.62%	11.02%	-2.84%	-6.64%
Crude Oil (\$/bbl)		\$67.04	\$60.42	\$48.32	\$60.30	\$91.97
DJ US Select REIT	9,517	3.98%	-2.32%	2.44%	4.64%	7.01%



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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GLOSSARY

The **Bloomberg Barclays Capital U.S. Aggregate Bond Index**, which was originally called the Lehman 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 debt securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency) debt securities that are rated at least Baa3 by Moody's and BBB- by S&P. Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. Eligible bonds must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 8.25 years. This total return index, created in 1986 with history backfilled to January 1, 1976, is unhedged and rebalances monthly. The **Bloomberg Barclays US Municipal Bond Index** covers the USD-denominated long-term tax-exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and pre-refunded bonds. Many of the sub-indices of the Municipal Index have historical data to January 1980. In addition, several sub-indices based on maturity and revenue source have been created, some with inception dates after January 1980, but no later than July 1, 1993. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 12.8 years. This total return index is unhedged and rebalances monthly.

The **Bloomberg Barclays US Corporate High Yield Index** measures the USD-denominated, non-investment grade, fixed rate, taxable 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, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. This total return unhedged index was created in 1986, with history backfilled to July 1, 1983 and rebalances monthly.

The **CBOE Volatility Index® (VIX®)** is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. Introduced in 1993, the VIX Index has been considered by many to be the world's premier barometer of investor sentiment and market volatility.

The **MSCI EAFE** is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted.

The **MSCI Emerging Markets** is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index.

The **MSCI ACWI Excluding the U.S.** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets without the inclusion of the United States. The MSCI full ACWI consists of 46 country indexes comprising 23 developed and 23 emerging market country indexes. The developed market country indexes included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom and the United States. The emerging market country indexes included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Qatar, Russia, South Africa, Taiwan, Thailand, Turkey* and United Arab Emirates.

The **Russell 1000 Growth Index** measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 Index companies with higher price-to-book ratios and higher forecasted growth values.



The **Russell 1000 Value Index** measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 Index companies with lower price-to-book ratios and lower forecasted growth values.

The **Russell 2000 Index** measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership.

The **Russell 3000 Index** measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market.

The **Russell Mid Cap Index** measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies.

The **S&P 500** is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **Dow Jones Industrial Average** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ.

The **NASDAQ Composite Index** includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index.

The **U.S. Dollar Index** is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008.

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