

# August Market Monitor

The S&P 500 fell the most in two months on July 31, ending the month with muted returns after the Federal Reserve cut its key Fed funds lending rate by a ¼-point to a target range of 2.0%-2.25%. While the easing was widely anticipated, the late-day selloff deepened after Fed Chairman Jerome Powell characterized the first rate cut in 11 years as an insurance cut to sustain economic growth and guard against downside trade-related risks. He labeled the move a “mid-cycle adjustment and not the beginning of a long cutting cycle.” The shock stirred equity angst as market expectations had priced in up to four ¼-point rate cuts over the next 12 months. Walking a thin line, Powell said the Fed could ease again if needed. July month-ending volatility surged over 15% ending a 36-session streak that the S&P 500 traded without moving up or down 1% or more. The S&P 500 ended July within 1.5% of its July 26 all-time high, posting its sixth monthly gain in the past seven months.

Small cap equities underperformed last month, with the Russell 2000 Index gaining nearly 1% less than mid and large cap companies. Among the 11 major sector groups, Communication Services and Technology led gainers in July and year-to-date (YTD). Developed markets excluding the U.S. and Canada fell slightly more than Emerging Markets in July. Globally, the MSCI All-Country World Index excluding the U.S. fell 1.21% in July, cutting its year-to-date (YTD) gain to 12.22%.

Bond returns were broadly higher last month and YTD, led by longer-term maturities. The Bloomberg Barclays US Government Index has gained 5.03% YTD, whereas the Bloomberg Barclays US Government Long-Term Index has returned over twice as much this year (+11.10%). Investment-grade bonds of all types posted a fractional gain last month, but outperformed relative to U.S. Government debt YTD. Municipal bonds performed best in July, while noninvestment grade high-yield corporate bonds took the lead on a YTD basis.

Top Performers – July	Top Performers – YTD <sup>1</sup>
Communication Services (+3.37%)	Technology (+31.36%)
Technology (+3.33%)	Communication Services (+23.10%)
Consumer Staples (+2.50%)	Consumer Discretionary (+23.00%)
Bottom Performers – July	Bottom Performers – YTD <sup>1</sup>
Materials (-0.37%)	Utilities (+14.39%)
Healthcare (-1.59%)	Energy (+11.11%)
Energy (-1.78%)	Healthcare (+6.41%)

<sup>1</sup> Morningstar Direct (all performance percentages are total return based, which include reinvested dividends, interest)

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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 passthroughs), 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 prerefunded bonds. 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 holding have 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 Barclays U.S. Government Bond Index is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes U.S. dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government). The US Government Index is a component of the U.S. Government/Credit and U.S. Aggregate Indices, and eligible securities also contribute to the multi-currency Global Aggregate Index. The U.S. Government Index has an inception date of January 1, 1973. The Bloomberg Commodity Index is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components). 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. 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 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 Midcap 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 BSE SENSEX Index is a free-float market-weighted index of 30 well-established and financially sound stocks on the Bombay Stock Exchange, representative of various industrial sectors of the Indian economy. 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 Shanghai Composite Index is a stock market index of all stocks (A shares and B shares) that are traded at the Shanghai Stock Exchange. 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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