

## MARKET COMMENTARY

Aug 4, 2017

U.S. stocks slipped at month-end, but powered to fresh records in July amid mostly solid corporate earnings and further signs of improved economic growth. The S&P 500 pared gains the last three sessions of the month, yet climbed 2.1% in July to extend YTD gains to 11.6%. The Dow Industrials finished at an all-time high, posting a 2.7% gain in July and is up 12.3% YTD. The NASDAQ Composite performed best among the major U.S. indices, rising 3.4% and 18.6%, respectively, in July and YTD. Fueled by a weaker dollar, stronger consumer spending and years of cost-cutting, S&P 500 companies are now poised to register two consecutive quarters of double-digit earnings growth for the first time since 2011. At more than halfway through the quarterly earnings season, overall S&P 500 profits are expected to rise 11% in the second quarter, following the 15% earnings growth posted in the first quarter. Recently however, even as the majority of large cap technology firms posted street-beating 2Q earnings, a number of them reported soft revenue and/or issued lackluster forward guidance, sparking some end-of-the-month selling. The challenge came just as the VIX Volatility Index reached its longest period of record low volatility (ten consecutive days finishing below a level 10). On a brighter note, Commerce Department officials said in a preliminary report that second quarter GDP growth expanded at a 2.6% annualized pace, more than double the revised 1.2% pace of first quarter growth.

Within the S&P 500, all 11 of its major sector groups posted gains in July, led by Telecom (+6.4%), Technology (+4.3%) and Energy (+2.5%). On a YTD basis, Technology (+22.3%) and Healthcare (+17%) are this year's best performing sectors, while Energy (-10.4%) and Telecom (-5.1%) are the only sectors that remain negative in 2017. Large cap stocks, as measured by the S&P 500 performed best in July, outperforming small and mid-cap companies. Small cap companies, as measured by the Russell 2000 Index, rose 0.7% last month, while the Russell Mid Cap Index returned 1.5%. Large cap stocks also gained the most this year, up 11.6% YTD versus 9.6% for mid-caps and 5.8% for small caps. Growth stocks outperformed value stocks in July, with the Russell 1000 Growth Index up 2.7%, while the Russell 1000 Value Index rose 1.3%. The outperformance in growth stocks has continued to widen on a year-to-date basis, with growth shares up 17%, while value stocks trailed with a 6.1% YTD gain.

The MSCI EAFE Index, a broad performance measure of global developed markets outside the U.S. and Canada, outperformed domestic equities last month, gaining 2.9%.

The MSCI Emerging Markets Index also outperformed the U.S., posting a 6% advance in July. The MSCI All Country World Index excluding the U.S. rose 3.7% in July and 18.3% YTD. Prices on benchmark 10-year U.S. Treasury notes edged higher in July, sending its yield lower by 5.2 basis points to end the month at 2.295%. The Bloomberg Barclays U.S. Municipal Bond Index gained 0.8% last month, while Bloomberg Barclays U.S. Aggregate Bond Index, a broader measure of U.S. investment grade bonds, rose just 0.4%. At the other end of the credit spectrum, the Bloomberg Barclays U.S. Corporate High Yield Index, a proxy for below-investment grade corporate bonds, returned 1.1% in July and was up 6.1% YTD.

Source: Tower Square Investment Management ®



### SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q2 2017	2.6%	↑	Economic growth rebounded in Q2. Consumer spending, business fixed investment and government spending all contributed to the improved growth from the prior two quarters.
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	July 2017	209,000	↓	The US added 209,000 jobs in July, beating economists' expectations of 180,000. Hourly wages also increased at a modest pace, up 2.5% from a year earlier.
Unemployment Rate	July 2017	4.3%	↓	The unemployment rate dropped to a 16 year low in July, as more people joined the workforce. The labor force participation rate also edged up, but remains near its lowest level since 1970s.
ISM Manufacturing Index	July 2017	56.3	↔	Manufacturing activity expanded in July, but at a slower pace than the prior month. Factory activity expanded, while construction spending disappointed for a second month.
ISM Non-Manufacturing Index	July 2017	53.9	↔	Activity in service-related industries grew at a slower pace than expected, declining 3.5 points from the previous month. Business activity and new orders both declined for the month.
Capacity Utilization	June 2017	76.6	↔	Capacity utilization for the industrial sector increased 0.2% in June. Utilization for mining and manufacturing increased, while the operating rate for utilities was unchanged.
Consumer Price Index (CPI, SA)	June 2017	0.0%	↑	A decrease of 1.6% in the energy index was offset by an increase in all items less food and energy. The food index was unchanged, and the shelter index continued to rise.
Producer Price Index (Finished Goods, SA)	June 2017	0.1%	↑	Producer prices increased in June, after no change in May. Almost 80% of the rise was due to an increase in final demand services, while final demand goods also inched up.
Leading Economic Indicators Index (LEI)	June 2017	0.6%	↑	The LEI rose sharply in June, pointing to continued growth in the US. The gain was led by a large contribution from housing permits, which have improved after several months of weakness.
10-year Treasury Yield	July 2017	2.30%	↓	The 10-year Treasury yield ended the month 1 basis point lower. The Fed chose to keep interest rates steady in July, due to inflation falling below the 2% target.

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

### GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	July Close	July	Year-to-Date	1 year	3 years	5 years
<b>US Indices</b>						
Dow Jones 30	21,891	2.68%	12.28%	21.81%	12.54%	13.79%
S&P 500	2,470	2.06%	11.59%	16.04%	10.87%	14.78%
Nasdaq	6,348	3.42%	18.64%	24.41%	14.60%	18.11%
Russell 2000	1,425	0.74%	5.77%	18.45%	9.89%	14.19%
<b>International Indices</b>						
MSCI EAFE (Developed)	7,611	2.89%	17.53%	18.32%	3.26%	9.55%
MSCI EM (Emerging)	2,302	6.04%	25.77%	25.30%	2.76%	5.14%
<b>US Fixed Income</b>						
Bloomberg Barclays US Aggregate	---	0.43%	2.71%	-0.51%	2.71%	2.02%
Bloomberg Barclays US TIPS	---	0.45%	1.30%	-1.04%	0.77%	-0.02%
<b>Commodities and Real Estate</b>						
Bloomberg Commodity Index	171	2.26%	-3.11%	0.77%	-12.69%	-9.98%
Crude Oil (\$/bbl)	---	\$50.17	\$53.72	\$41.60	\$98.17	\$88.06
DJ US Select REIT	9,605	0.92%	2.29%	-5.66%	8.30%	8.79%



**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 prerefunded bonds. Many of the subindices of the Municipal Index have historical data to January 1980. In addition, several subindices 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, fixedrate, 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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