

## MARKET COMMENTARY

August 2018

U.S. stocks extended gains for a fifth straight month, allowing the S&P 500 to fully emerge from its February correction cloud that had undermined investor optimism since the late January peak. Broader market gains in technology stocks also lifted the Nasdaq Composite to its best August since 2000. Last month's performance was decidedly atypical, as thin summer trading tends to push August returns over the past two decades toward the worst of the year. Also unusual, the S&P 500 recorded its least volatile August in 50 years, never gaining or losing more than 0.8% on any given day. This occurred as investors cheered strong U.S. corporate earnings reports amid an escalation in trade tensions, mixed economic data and emerging market turmoil. Overall, S&P 500 companies posted annualized earnings growth of 24% for a second straight quarter. Wall Street also welcomed milestone-setting news that the present equity bull market has lasted the longest in American history, and the S&P 500 finished the month above 2,900 for the first time ever.

By market capitalization, small cap stocks (+4.31%) outperformed large and mid caps (+3.11%) in August, with small caps extending YTD gains to 14.26%. Sector returns again were led by cyclically-oriented companies in August and YTD, while large cap growth reasserted leadership over value stocks. Internationally, emerging markets and ex-U.S. developed markets widely underperformed relative to domestic equities.

Treasuries advanced last month, sending the yield on 10-year Treasury notes down ten basis points to end August at 2.861%. Investment-grade bonds of all types edged higher in August, while state and local municipal bonds posted a fourth straight monthly gain, the longest winning streak in over a year. Non-investment grade high-yield corporate bonds outperformed within U.S. fixed-income markets in both time periods.

*This material is provided by SageView Advisory Group and written by Cetera Investment Management ®*



## SUMMARY OF MAJOR ECONOMIC INDICATORS

INDICATOR	LAST REPORT DATE	VALUE*	6-MO. TREND	COMMENTS
U.S. Real GDP (ann. rate) *	Q2 2018	4.2%	↑	The second estimate of Q2 GDP was increased slightly from 4.1%. The change reflected increases in consumer spending, business investment, exports, and government spending.
Global Real GDP Growth (ann. rate; Source: IMF)	Q2 2018	3.9%	n/a	The IMF's global growth forecast for 2018 remained at 3.9%, but the IMF noted that growth may have peaked in some major economies and risks to its outlook are increasing.
Non-Farm Employment Growth	Aug 2018	201,000	↑	Job growth was strong in August, beating expectations of 191,000 jobs. The largest gains came from business and professional services, while health care and wholesale trade also contributed.
Unemployment Rate	Aug 2018	3.9%	↓	The unemployment rate held steady near its generational low of 3.9%. However, the labor force participation rate declined by 0.2%.
ISM Manufacturing Index	Aug 2018	61.3	↑	U.S. manufacturing activity grew faster than expected in August. At the present time, trade tensions do not appear to be having a meaningful adverse effect on production and capital expenditures.
ISM Non-Manufacturing Index	Aug 2018	58.5	↑	Activity in the services sector boomed in August, as 14 of 16 industries reported increased business activity. The New Orders and Employment indexes both rose over the prior month.
Capacity Utilization	July 2018	78.1	↔	Capacity utilization for the industrial sector was unchanged in July. The utilization rate for manufacturing rose, but was offset by a decrease in rates for mining and utilities.
Consumer Price Index (CPI, SA)	July 2018	0.2%	↑	The CPI rose in July, with 60% of the increase attributable to a rise in the shelter index. The food index also rose slightly, while the energy index fell 0.5%, as all major component declined.
Producer Price Index (Final Demand, SA)	July 2018	0.0%	↓	A small increase in the index for final demand goods was offset by a slight decrease in the index for final demand services. Over the last 12 months producer prices have increased 3.3%.
Leading Economic Indicators Index (LEI)	July 2018	0.6%	↑	The growth in leading indicators was widespread in July, with the largest contributions coming from the unemployment claims, the financial components, and the ISM New Orders Index.
10-year Treasury Yield	Aug 2018	2.86%	↑	The 10-year Treasury yield decreased by 10 basis points in August, after rising 11 basis points in July. The next interest rate increase by the Fed is expected in September.

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

## GLOBAL CAPITAL MARKETS: RETURNS AND PRICE LEVELS

	Aug Close	Aug	Year-to-Date	1 year	3 years	5 years
<b>US Indices</b>						
Dow Jones 30	25,965	2.56%	6.73%	21.00%	19.17%	14.64%
S&P 500	2,902	3.26%	9.94%	19.66%	16.11%	14.52%
Nasdaq	8,110	5.85%	18.31%	27.45%	20.67%	19.07%
Russell 2000	1,741	4.31%	14.26%	25.45%	16.11%	13.00%
<b>International Indices</b>						
MSCI EAFE (Developed)	1,962	-1.92%	-1.87%	4.90%	7.57%	6.22%
MSCI EM (Emerging)	1,056	-2.67%	-6.93%	-0.32%	11.83%	5.42%
<b>US Fixed Income</b>						
Bloomberg Barclays US Aggregate	--	0.64%	-0.96%	-1.05%	1.76%	2.49%
Bloomberg Barclays US TIPS	--	0.72%	0.21%	0.83%	2.20%	1.88%
<b>Commodities and Real Estate</b>						
Bloomberg Commodity Index	173	-1.77%	-3.87%	0.51%	-1.89%	-8.01%
Crude Oil (\$/bbl)		\$69.80	\$60.42	\$47.23	\$49.20	\$107.65
DJ US Select REIT	10,273	2.98%	5.43%	7.80%	9.06%	10.44%



**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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