GLOBAL EQUITY SEGMENTS SHARPLY DIVERGED HEADING INTO SECOND HALF

- The S&P 500 notched its third positive monthly return, locking in a solid Q2 gain of 3.4%. Relative to last year, however, its YTD return of 2.6% is less than one third of what it was through this time in 2017 (9.3%).
- Meanwhile, small cap stocks, deemed to have less exposure to the detrimental effects of trade wars, are up 9.4% YTD, their best first-half return of the last five years.
- The same cannot be said for emerging market stocks, which were down more than 7% in Q2 and are down nearly 15% from their all-time high in January. Among the worst performers have been China and Brazil, down 13% and 18% YTD, respectively, in USD terms.
- Notwithstanding back-and-forth trade war rhetoric, U.S. equity market volatility trended lower as the month wore on; June's volatility was lower than May's and was also below its five year average.
- The correlation of the S&P 500 to global ex-US equities declined during the month while its correlation to the U.S. aggregate bond market remained largely unchanged.

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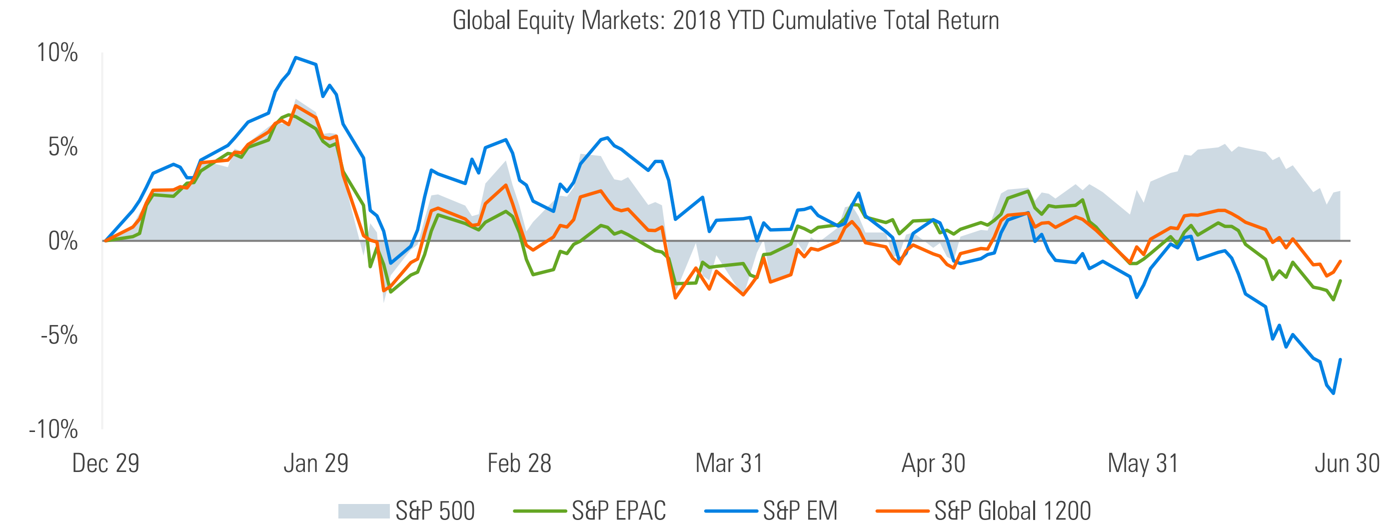

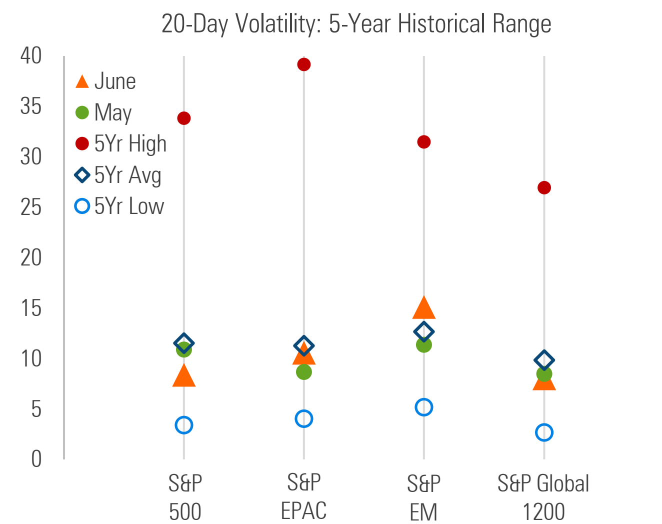

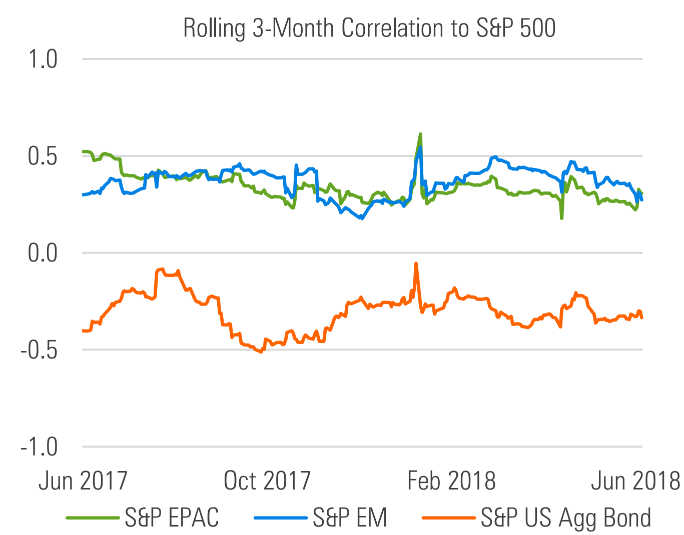

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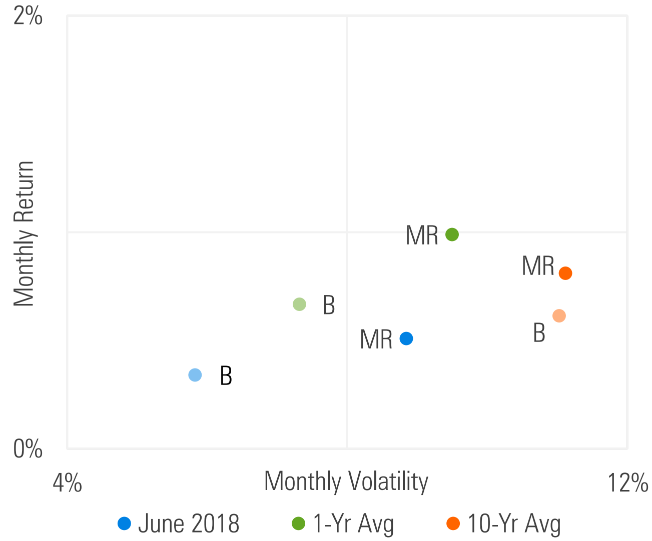
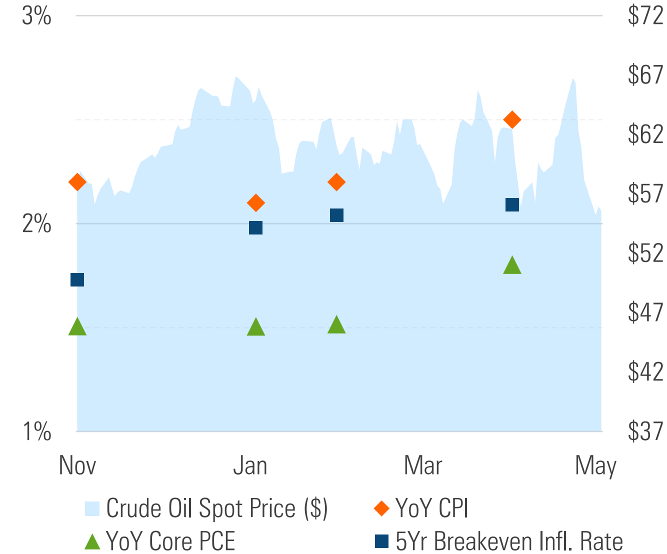
MANAGED RISK INVESTING

- With volatility declining through June, the S&P 500 Managed Risk Index, which has an 18% volatility threshold and no fixed allocation to bonds, resumed a 100% equity allocation on the second day of the month and retained it through the end of the month.
- In June the Index outperformed a 70/30 blend* by 17 bps, locking in 51 bps of outperformance for Q2, as well as a higher risk-adjusted return.
- Over the last 10 years, the Managed Risk Index has exhibited virtually the same average monthly volatility as a 70/30 blend*, while generating an average excess monthly return of 20 bps, equal to an annualized excess return of 2.6% per year.

- The S&P 500 finished June 12% higher than its closing level from a year earlier. At 20.9x earnings, however, its valuation is actually slightly lower than it was at the end of June 2017.
- Up 4.1% and 3.9%, respectively, consumer staples and real estate led all sectors in June, perhaps in response to investor expectations of higher inflation ahead. At the front of the pack YTD, consumer discretionary stocks are up 10.8%, while telecom stocks, down by the same amount, bring up the rear.

*Measured by the S&P 500 and the S&P U.S. Agg Bond Index.





Total Returns as of June 30, 2018

	S&P 500	S&P 500 MR	S&P 400	S&P 600	S&P EPAC	S&P EM	S&P Global 1200	S&P US AGG	Crude Oil (WTI)	US Dollar	70/30 Stock/Bond
1 Month	0.6%	0.5%	0.4%	1.1%	-1.2%	-4.1%	-0.2%	0.0%	11.5%	0.9%	0.3%
3 Months	3.4%	2.6%	4.3%	8.8%	-1.0%	-7.4%	1.2%	-0.1%	1.2%	5.0%	2.1%
6 Months	2.6%	1.0%	3.5%	9.4%	-2.1%	-6.3%	0.3%	-1.4%	1.5%	1.9%	0.9%
1 Year	14.4%	12.5%	13.5%	20.5%	7.7%	8.4%	11.6%	-0.2%	37.3%	-0.2%	8.5%
1M Volatility	8.4%	8.4%	9.3%	11.4%	10.6%	15.1%	8.0%	1.9%	45.6%	5.7%	5.8%

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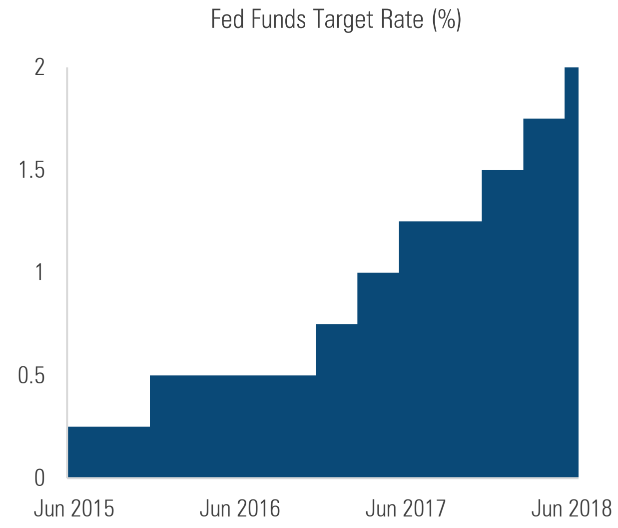
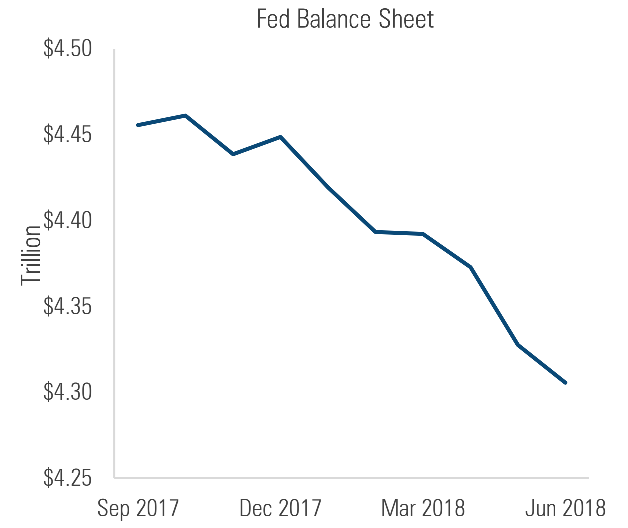
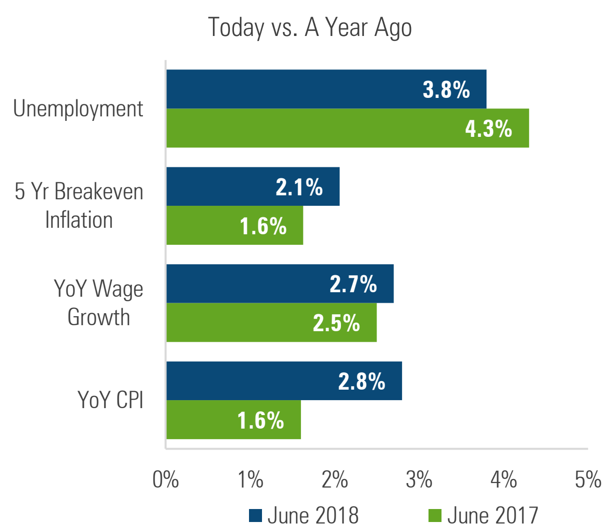
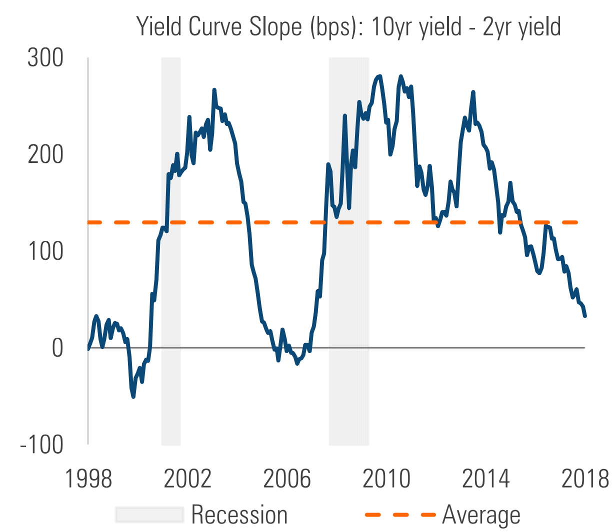
POLICY NORMALIZATION WELL UNDER WAY, BUT IS IT TOO LITTLE TOO LATE?

- The Fed is now seven rate hikes and $150 billion into its policy normalization process. In June it raised the Fed funds rate from 1.75% to 2% and further trimmed its balance sheet, bringing the nine-month cumulative reduction to $150 billion.
- In one sense this is a meaningful amount of activity; in another it's not. At 2%, the Fed funds rate is still 280 bps below its 20-year pre-crisis average. Moreover, while a $150 billion reduction is large on a nominal basis, it's still less than 4% of the nearly $4.5 trillion the Fed started with.
- Against this policy back drop, inflationary pressure seems to be rising: relative to a year ago, wage growth, breakeven inflation and YoY CPI are all higher, while unemployment is lower.
- The Fed seems to want to continue raising rates, but the long end of the curve isn't cooperating. The June hike further flattened the stretch of the yield curve between 2 and 10 years; as of month end it was only 33 bps from inversion, a condition it has not exhibited since the first half of 2007.
- Perhaps indifferently to the slope, the median year-end rate projection of Fed members at their June meeting was 2.375%, indicating an expectation of at least one more rate hike before the end of 2018.
- In the months ahead, investors will be closely monitoring inflation, along with if and how the slope of the curve affects the Fed's thinking about future rate changes. Amidst such uncertainty, we believe volatility control remains a cardinal component of managing portfolio risk.









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