EQUITIES RECAP

Global equity markets moved steadily higher in July, supported by improving global growth and positive corporate earnings in the U.S. and abroad.

- In the U.S., large-cap stocks led the major indices higher for the month, with the S&P 500® Index posting a 2.1% total return and advancing its year-to-date (YTD) gain to 11.6%. Mid- and small-cap stocks also closed the month in positive territory, with the Russell Midcap® Index and Russell 2000® Index advancing 1.5% and 0.7%, respectively.

- July was another good month for international equities, with the MSCI EAFE Index, representing international developed markets, advancing 2.9%, and increasing its YTD return to 17.1%. Emerging markets continued their strong performance thus far in 2017, with the MSCI Emerging Markets Index (not shown) advancing 6.0% for the month, in U.S. dollar terms.

U.S. EQUITIES

- U.S. equity markets continued their upward momentum in July, with the S&P 500 Index posting five new closing highs and recording a 2.1% total return. From the U.S. Presidential election (November 8, 2016) through July, the popular benchmark for the U.S. equity market was up 15.3% in price return and 17.2% with dividends.

- All eleven sectors within the S&P 500 Index posted positive returns in July. Telecommunication Services was the best performer, up 6.4%, helped by positive earnings results from Verizon and AT&T. Information Technology continued to rally, up 4.3% for the month, leading all sectors YTD with a 22.3% total return. Other notable sector performance came from Energy, which was up 2.5% for the month, but remained the worst performing sector YTD, down -10.4%.

- From a style perspective, Growth stocks remained in a leadership position over Value stocks, with the Russell 2000 Growth Index gaining 0.9% for the month and 10.9% YTD. Through July, Growth stocks have outperformed Value stocks by 9.7% (10.9% vs. 1.2%).

GLOBAL EQUITIES

- Major international markets posted solid gains in July, supported by stabilizing oil prices, accelerating economic growth, and a weaker U.S. dollar. Emerging markets continued to outperform developed markets, with the MSCI Emerging Market Index (not shown) gaining 6.0% for the month, and through July, recorded the best YTD returns among the major indices, advancing 25.5%. Meanwhile, international developed markets gained 2.9% for the month, following a slightly negative return in June.

- International sector returns were largely positive in July, with 10 of the 11 posting positive returns. On a YTD basis, Technology continues to be a standout sector, helped by the international version of the FAANG (Facebook, Apple, Amazon, Netflix, and Google) stocks, notably called SATT (Samsung, Alibaba, Tencent, and Taiwan Semiconductor). The positive performance of these four companies has helped propel the international Technology sector and Emerging Market Index to multi-year highs.

FIXED INCOME RECAP

- U.S. fixed income markets were mostly positive in July, during which time the Federal Reserve decided not to raise interest rates after having raised them again in June. For the month, the Bloomberg Barclays U.S. Aggregate Bond Index posted a 0.4% total return and advanced its YTD gain to 2.7%. Over the longer 1- and 5-year time periods, investment grade bonds recorded annualized total returns of -0.5% and 2.0%, respectively.

- After their modest decline in June, U.S. municipal bonds moved back into positive territory in July, with the Bloomberg Barclays U.S. Municipal Bond Index posting a 0.8% total return and increasing its YTD gain to 4.4%. Over the longer 1- and 5-year time periods, municipal bonds recorded annualized total returns of 0.3% and 3.1%, respectively.

- In July, U.S. Treasury yields saw little change, with the 3-month and 30-year Treasury yields increasing by 4 basis points (0.04%) and 5 basis points (0.05%) to 1.07% and 2.89%, respectively. Meanwhile, the yield on the benchmark 10-Year Treasury note fell 1 basis point (0.01%) from June’s month-end, decreasing from 2.31% to 2.30%.

U.S. BOND MARKET PERFORMANCE

Total Returns for Periods Ended July 31, 2017

- Bloomberg Barclays 1-5 Year U.S. Treasury Index
- Bloomberg Barclays U.S. Aggregate Bond Index
- Bloomberg Barclays U.S. Municipal Bond Index

U.S. TREASURY YIELD CURVES

- 1 Mo. 3 Mo. 1 Yr. 2 Yrs. 5 Yrs. 10 Yrs. 20 Yrs. 30 Yrs.
- 7/31/2016 0.19% 0.28% 0.50% 0.67% 1.03% 1.46% 1.78% 2.16%
- 12/31/2016 0.44% 0.51% 0.85% 1.20% 1.93% 2.45% 2.79% 3.06%
- 7/31/2017 1.00% 1.07% 1.23% 1.34% 1.84% 2.30% 2.66% 2.89%

PERFORMANCE OF THE S&P 500 INDEX

Total Returns for Periods Ended July 31, 2017

Country

- Japan
- United Kingdom
- France
- Germany
- Switzerland
- Australia
- Spain
- Hong Kong
- Netherlands
- Sweden

NOTES:

- Total Returns for Periods Ended July 31, 2017
- Returns are in U.S. dollars with dividends reinvested.
- Weightings as of 06/30/17
- Ranked by highest to lowest index weighting.
Looking ahead to the remainder of the year, a potential tailwind for the financial markets is a possible reduction in the corporate tax rate. President Trump’s stated desire to lower the corporate tax rate—from the current 35% level to a proposed 15% rate—would be a historical cut not only in size but also because it would represent the first such decrease since 1988. If implemented, this reduction could have a meaningful impact on businesses, including helping to increase their earnings per share (EPS) growth over the next couple of years.

For investors, such a tax-savings boost to EPS may come at just the right time. As the accompanying chart shows, the collective companies that make up the S&P 500 exited a prolonged earnings recession in the third quarter of 2016, steadily posting gains each quarter thereafter. However, given an environment in which the Federal Reserve has been tightening its monetary policy and the economy continues to muster only modest growth, that upward trend in companies’ bottom-line results may be threatened. As U.S. equities trade near the higher end of their long-term price-to-earnings (P/E) valuation range, P/E multiple expansion—paying more for a stock given each dollar of earnings—may grow more challenging through the remainder of the year and into 2018.

Consequently, a reduction in the corporate tax rate may help propel the stock market for the remainder of the year and beyond. However, until any legislation is finalized, the markets may experience varying levels of volatility. With this in mind, investors should keep short-term market turbulence in perspective, maintain their focus on investing over the long-term, and avoid making quick decisions based upon political and legislative developments.