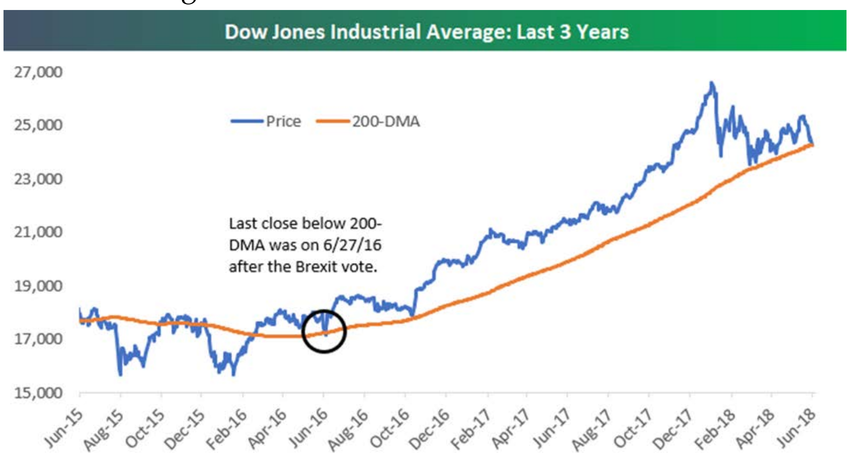
Weekly Market Recap
July 2, 2018

Last Week:

- The Dow Jones Industrial Average finished the quarter by slipping another (-1.3%) as only six of 30 stocks advanced on the week
  - The index barely eked out a +0.7% gain for the quarter but is still down for the year (-1.8%)
    - Best performing industry groups in the first half were Coal, Retailers (except Drug Retailers) and Footwear
    - The biggest losers were Electronic Office Equipment, Tires, Tobacco, Durable Household Products and Drug Retailers
  - The Dow Jones Industrials closed below its 200-day moving average for the first time since Brexit two summers ago

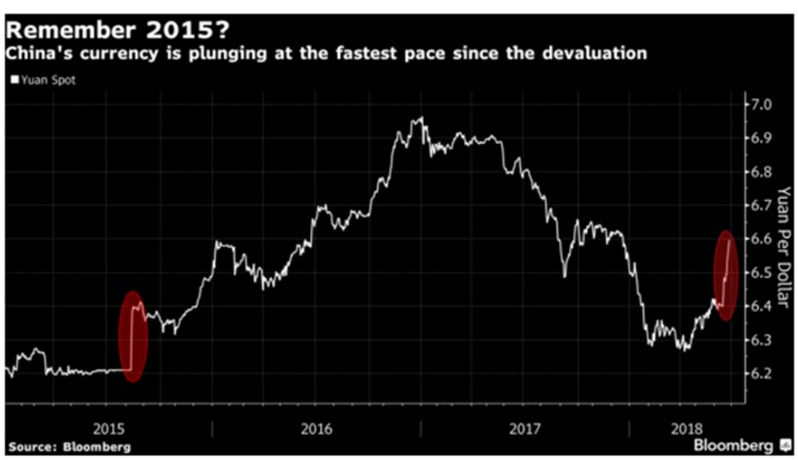


Source: Bespoke

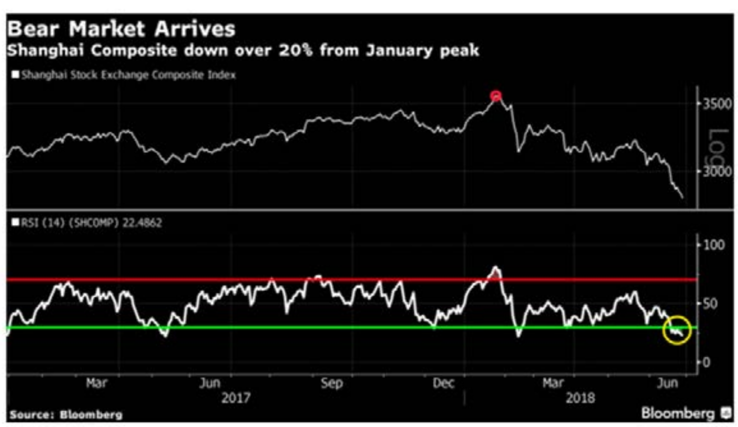
  - Nike +5.1%, **Verizon** +4.7%, Exxon-Mobil +2.6% and Walmart +2.3% were the only names up 2%+
  - The newest name in the index, **Walgreens Boots**, was not given a warm welcome, as shares declined (-11.2%) for the week, while mainstays Intel (-9.8%), Caterpillar (-9.6%), Boeing (-6.3%) and Travelers (-5.4%) also suffered
- Dow Transports hit the skids (-4.0%) on the last week of the quarter, finished down (-0.5%) for the quarter and is now off (-2.5%) for the year
- Dow Utilities closed the quarter as a beacon of safety, gaining +2.2% … the index is up 7.2% over the last three weeks, but for the year has declined (-1.6%)
  - The Dow Utilities index dipped less than 0.1% Thursday, ending a 10-session winning streak, its longest since October 2006
- The S&P 500 fell (-1.3%) on the last week of the quarter, but remained in black number year to date +1.7%
  - Leading sectors for a second straight week were Utilities, Real Estate, Telecom, and Energy, all gaining 1%+
  - All down nearly 2% were Technology, Consumer Discretionary, Health Care and Financials

  - ▪ The Financial sector ETF fell Wednesday for a 13th-straight session, its longest losing streak ever
- The S&P Midcap index was down (-1.9%) on the final week of the quarter, but has performed well thus far in 2018 +2.7%
- The S&P Smallcap index also pulled back on the week (-2.4%) dropping its year-to-date gain to +8.7%
- The NASDAQ saw a similar fate, with a weekly decline of (-2.4%) and a slightly better year to date gain of +8.8%
- The 10-year Treasury yield continued its slow decline, finishing at 2.86% … despite its recent action, the yield is up 45 bps for the first six months of 2018
  - o The 30-year yield fell below 3% for the third time since the beginning of February, and for the year is up only 25 bps
  - o The yield curve, measured by the spread between shorter-term 2-year Treasury yields and longer-term 10-year Treasury yields, fell to its narrowest level since August 2007

- The US Dollar Index dropped a few cents to close at 94.52
  - o China's currency is depreciating against the dollar at the fastest rate since 2015's devaluation, falling for a 10th straight day on Wednesday, its longest losing streak since March 2014. Hungary's Forint sank to a record low among other emerging market currency victims



- The VIX Volatility Index became more uncertain on the week, finishing up over two points to 16.09
- Crude oil was on fire, gaining nearly $5/barrel and closing at $73.51 … the commodity has steadily gained steam during the year with a gain of over $14 year to date
- Gold continued its decline, finishing at $1,255/ounce, down $16 … year to date it has declined $68, all in the last two months plus
- Global stocks were mostly to the downside on the last week of the quarter
    - The Stoxx Europe 600 fell (-1.3%) and has posted a decline of (-2.4%) year to date … markets of note:
        - Frankfurt finished weakly as the weekly decline of (-2.2%) brought the year to date total to (-4.7%)
        - Paris dipped (-1.2%) but held onto a year to date gain +0.2%
        - London was nearly breakeven going into the last week of the first half, and a decline of (-0.6%) left indices in red numbers thus far for the year
        - Russia popped to the upside +2.6% to get back to even year to date
            - Russia announced it is lowering its forecast for the country's GDP growth in 2019, to reflect a planned increase in the country's value-added tax
        - Markets up year to date include Amsterdam, Helsinki and Lisbon, with Oslo up 10%+
        - To the downside over the last six months are Athens, Brussels, Copenhagen, Dublin, Madrid, Milan and Zurich
    - AsiaPac stock markets were also seeing red
        - China's Shenzhen and Shanghai markets stayed in negative territory, the former down (-1.5%) for the week and (-13.9%) thus far in 2018, while the latter is doing only slightly better, (-0.5%) and (-9.0%), respectively
            - The Shanghai Composite index has lost more than 20% since its January peak

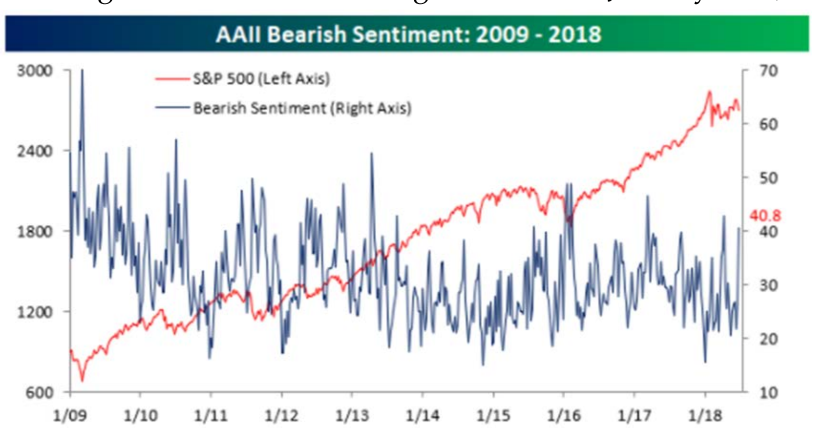


        - Hong Kong dropped (-1.3%), as the index fell in the last two weeks below breakeven, (-3.2%)
        - Tokyo acted similarly, sliding (-0.9%) for the week with the last two weeks accounting for the down (-2.0%) year to date
        - Ahead thus far in 2018 are New Zealand +6.5%, Australia +2.1%, and Bombay +4.0%

- Stand outs in negative territory were led by Turkey (-16.3%) and the Philippines (-16.0%), followed by Thailand (-9.0%), South Korea (-5.7%), and Singapore (-3.9%)
    - South America is much harder to gauge, market movements have to be considered alongside inflation numbers. For example, a cup of coffee now costs 1 million Bolivars (or the equivalent of 29 US cents) in Venezuela, up from 450 bolivars two years ago. The annual inflation rate now stands at more than 43,000%
- St. Louis Fed President James Bullard said the FOMC may be pushing "too far" with respect to interest rate increases, and that he is "trying to push against faster rate hikes." He views the neutral level of overnight interest rates closer to 2%, vs. his Fed colleagues whose view is closer to 3%
- For his part, Boston Fed President Eric Rosengren said he favors "a rainy day fund during good times" for banks, i.e. higher capital levels. That comment seems particularly noteworthy coming as it did the day prior to the Federal Reserve approving significant increases in dividend and share buyback programs for the nation's systemically important banks
- Meanwhile, creditworthiness must be terrific, as the FDIC didn't close a single financial institution in the first half of 2018, which compares to six closed in the first half of 2017, three in the first half of 2016, and five in the first half of 2015
- US federal debt reached 78% of GDP, its "highest level since shortly after World War II," according to the non-partisan Congressional Budget Office. "If current laws generally remain unchanged, the Congressional Budget Office projects growing budget deficits would boost that debt sharply over the next 30 years … it would approach 100% of GDP by the end of the next decade and 152% by 2048. That amount would be the highest in the nation's history by far." In April 2017, President Trump stated that he intended to eliminate the national debt "over a period of eight years." Seven years to go!
    - Meanwhile, Director the National Economic Council Larry Kudlow said Friday that "the deficit is coming down, and it's coming down rapidly." That characterization is at odds with the Treasury Department's data. The CBO said the federal deficit totaled $530 billion in fiscal 2018, some $97 billion more than at the same time in 2017. Raymond James Chief Economist Scott Brown responded to Kudlow's assertion by saying, "That's just nonsense"
- Supreme Court Justice Anthony Kennedy (a Reagan appointee) announced his retirement, which will take effect July 31. Kennedy has been considered the court's "swing vote," so his moderate/independent voice may be missed if his replacement has stronger partisan views … a nomination is expected from President Trump on July 9
- Trade looks to be getting more tense, as new tariffs from Canada go into effect while the US threatens more tariffs on China and Europe
    - President Trump now says he will not sign a new NAFTA agreement, should an agreement be reached, until after the mid-term elections
- In other corporate news:
    - General Electric announced it intends to split off its healthcare unit, and sell down its stake in Baker Hughes, using proceeds to pay down debt and continue funding its dividend. That news sent GE's stock soaring 8%+ Tuesday

- Synnex announced it is acquiring Convergys for $26.50/share, a piece of news that seemed to have leaked to some market participants an hour or so prior to its actual announcement
- BJ's Wholesale Club returned to the public markets Thursday, spiking more than 20% in the first hour after debuting, and finishing 29% higher in its first day of trading
- Amazon.com was the successful bidder for PillPack, a prepackaged drug start-up … Walmart was thought to be the losing bidder

- The Conference Board's gauge of Consumer Confidence dipped to 126.4 in June, below the 128.1 consensus forecast and May's 128.0 reading
- The University of Michigan's Consumer Sentiment index printed 98.2, shy of the 99.2 consensus forecast
- First quarter GDP got revised down to 2.0%, from a previously guesstimated 2.3%, albeit that topped the 1.9% consensus forecast
- May Personal Income rose 0.4%, matching consensus estimates, while Personal Spending edged up 0.2%, only half as much as Street forecasts anticipated
- The Federal Reserve's preferred inflation gauge, PCE, rose 2.0% year-over-year, a tick higher than the 1.9% consensus guess. It's the first time in six years the measure has registered a 2% increase, and 2% is the Fed's target level
- Weekly jobless claims printed 227,000, up from 220,000 last week
- Individual Investor bearish sentiment jumped above 40% for only the second week in the last 52, and the largest increase in negative sentiment in a single week since January 2016, according to AAII data



Source: Bespoke

This Week:

- US markets look to start the second half on a down note
  - Markets close at 1pm Tuesday, in advance of taking a full day off Wednesday for Independence Day … Happy 242nd birthday, America!
- Most major European markets are down around 1% in trading early in the day
- Asian markets were even weaker overnight, many logging 2%+ losses, while Hong Kong was closed
- The FOMC releases the minutes of its last meeting on Thursday
- In Mexico, Andres Manual Lopez Obrador was elected President as expected but by a much wider margin than expected
- Dutch Prime Minister Mark Rutte meets with President Trump at the White House on Monday
- Earnings season kicks off late next week … this week there's very little:
  - Tuesday: Acuity Brands
  - Thursday: International Speedway
- Economic reports:
  - Monday: Construction Spending and ISM Manufacturing
  - Tuesday: Factory Orders/Durable Goods and Vehicle Sales
  - Thursday: Jobless Claims, ADP Jobs and ISM Non-Manufacturing
  - Friday: US Trade Balance, Non-Farm Payrolls, Unemployment and Average Hourly Earnings, which have been scooching higher with each report

Source: William Blair

As always, thanks very much for your interest and support.

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