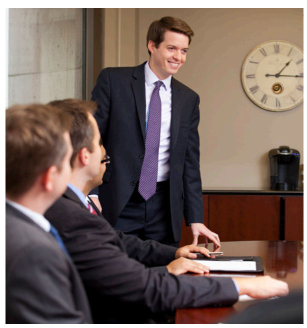
RESEARCH REVIEW

JULY 2018

INSIDE THIS ISSUE



U.S. gross domestic product (GDP) increased 4.1% in the second quarter, the strongest quarterly growth rate since late-2014. With year-over-year growth near 3%, the anticipated positive effects of recently-introduced fiscal stimulus appear to be taking root, leading many to speculate whether the momentum can persist. In July, most risk sectors witnessed positive returns, with notably strong performance generated across domestic equities and more modest returns emanating from international equity markets. Core fixed income returns were essentially flat, with continued positive sentiment in most below-investment grade sectors. In real assets, recent positive momentum across the energy infrastructure space continued during the month, while broader commodity prices slumped amid declines across both energy and metals.

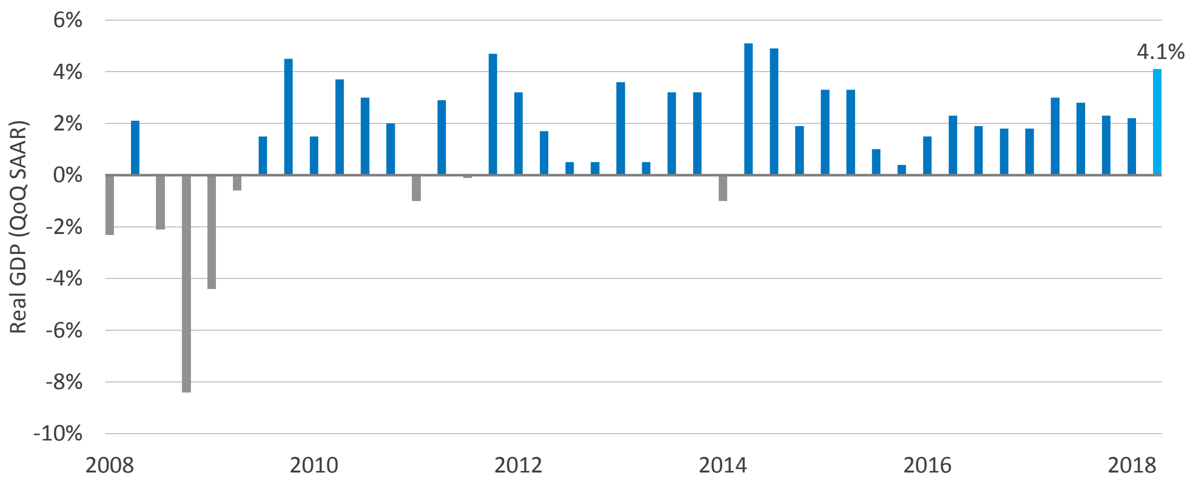
FEG® investment advisors

ECONOMIC UPDATE

U.S. Economy Gathers Steam in the Second Quarter

Released in late-July, the first estimate of second quarter U.S. GDP showed a strengthening economy as evidenced by an inflation-adjusted growth rate of 4.1% from the first quarter. This quarterly growth reading was expected to be particularly strong, as the recently-introduced tax stimulus had the opportunity to begin impacting the broader economy. Indeed, the 4.1% quarterly pace was the strongest since third quarter 2014 and helped propel year-over-year real GDP to 2.8%, the most robust annual rate since second quarter 2015.

U.S. QUARTERLY REAL GDP GROWTH



Data sources: BEA, Bloomberg, L.P.; data as of 2Q 2018

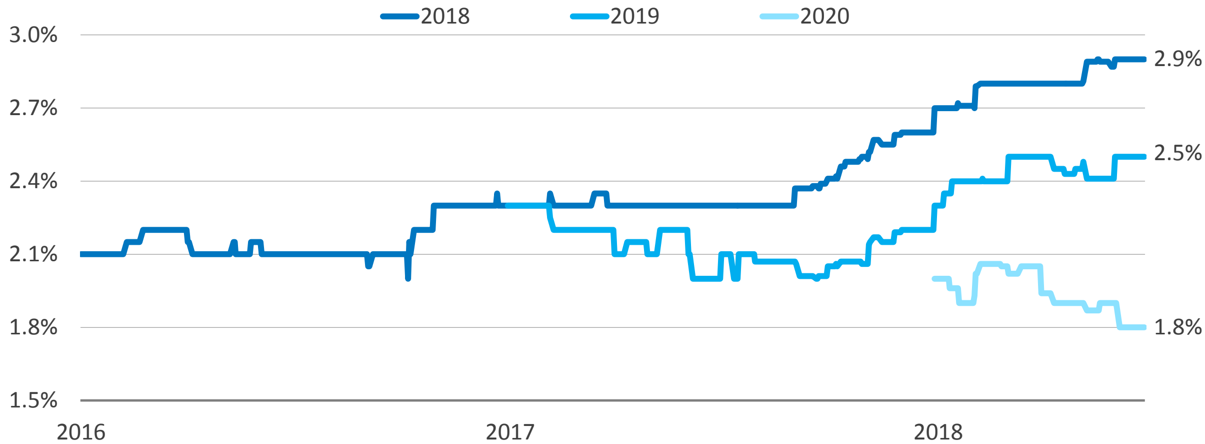
Two additional estimates of second quarter's economic gains will be provided by the Bureau of Economic Analysis (BEA) in the coming months. While fiscal accommodation in the way of tax cuts for both corporations and individuals is likely to provide a short-term boost to the economy, some market participants remain skeptical regarding the likelihood for this strength to persist.

So far, Wall Street estimates have corroborated this doubt. Bloomberg median consensus estimates, which are provided by dozens of sell-side economist estimates polled by Bloomberg, show that recent economic momentum is expected to fade by 2020, with real GDP growth expected to decline by more than a percentage point from 2018 levels.

The anticipated growth slowdown in the years to come has been echoed by the Federal Reserve (Fed), according to their most recent update to the Summary of Economic Projections from mid-June. Specifically, the Fed continues to believe in muted long-term growth potential for the U.S. economy, punctuated by a median longer-run estimate for real GDP growth of 1.8%.

The strengthening U.S. economy comes at a time when critical regions' contributions to global economic growth, such Europe, Japan, and select developing economies, have experienced a slowdown across many broad measures of economic activity. The U.S.'s benefit from this disparity may continue to support already-elevated domestic risky asset valuations through strong earnings growth and heightened animal spirits for a period of time, but the persistence of these benefits may be limited.

U.S. REAL GDP
Bloomberg Consensus Estimates

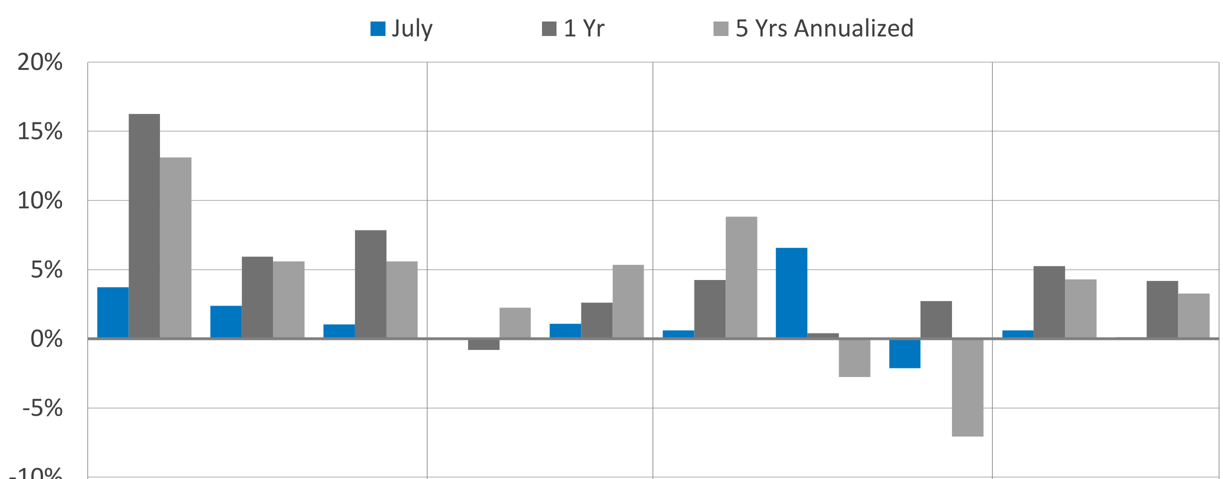


Data source: Bloomberg, L.P.; data as of August 8, 2018
Note: Bloomberg median consensus estimate shown

To summarize, economic momentum has gathered across the U.S. economy, the benefit of which may have partially come at the expense of key trading partners. Moreover, survey estimates of real GDP growth in the coming years point to a moderating pace of economic activity, with longer-run estimates falling below 2% across both private and public survey data.

MARKET RETURNS

JULY 2018



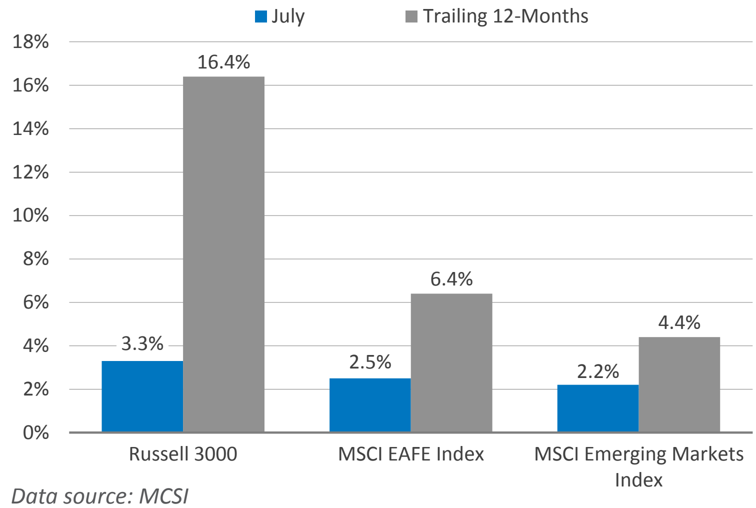
	GLOBAL EQUITY			FIXED INCOME		REAL ASSETS			DIVERSIFYING STRATEGIES	
	S&P 500 Index	MSCI ACWI ex-U.S.	HFRI Equity Hedge Index	Blmbrg Barclays U.S. Agg Index	Blmbrg Barclays HY Index	FTSE NAREIT All Equity Index	Alerian MLP Index	Blmbrg Cmdty Index	HFRI Fund Wtd Comp. Index	HFRI Fund of Fund Index
July	3.7%	2.4%	1.1%	0.0%	1.1%	0.6%	6.6%	-2.1%	0.6%	0.1%
1 Yr	16.2%	5.9%	7.9%	-0.8%	2.6%	4.3%	0.4%	2.7%	5.2%	4.2%
5 Yrs Annualized	13.1%	5.6%	5.6%	2.2%	5.3%	8.8%	-2.8%	-7.1%	4.3%	3.3%

Data sources: Lipper, HedgeFund Research

GLOBAL EQUITY

- Global equity markets inched higher during the month of July. Companies across the globe and sectors reported strong earnings. Within the U.S., roughly 80% of companies that reported earnings by the end of July beat analyst estimates. U.S. markets led geographical returns in July and year-to-date, followed by Europe and emerging markets.
- Investors demand increased for stocks in defensive sectors such as health care, financials, and industrials—three of the leading sectors during the month. The real estate and energy sectors lagged; however, all sectors had positive returns.
- Facebook's weak quarterly earnings news included a warning about slowing user and sales growth and triggered a 20% decline—coined "The Facebook Faceplant." Facebook's decline coupled with weak Netflix performance, due in part to subscription projections, aided in value stocks surpassing of growth stocks within the large capitalization universe.
- European equities, represented by the MSCI EAFE Index, rebounded after a weak start to 2018. Export-related sectors advanced, as trade tensions between the U.S. and the euro zone subsided after a meeting between President Trump and Jean-Claude Juncker, President of the European Commission. The UK market was relatively flat, as uncertainties regarding Brexit and the future of the UK's relationship with the European Union persisted.
- Emerging markets rebound was led by Latin America. Specifically, political tensions subsided in Brazil and Mexico, which carried the region with returns of 11.8% and 8.7%, respectively. China, however, was a laggard, as trade tensions with the U.S. continued to worsen.

MCSI AND RUSSELL INDICES PERFORMANCE
Returns in U.S. Dollars

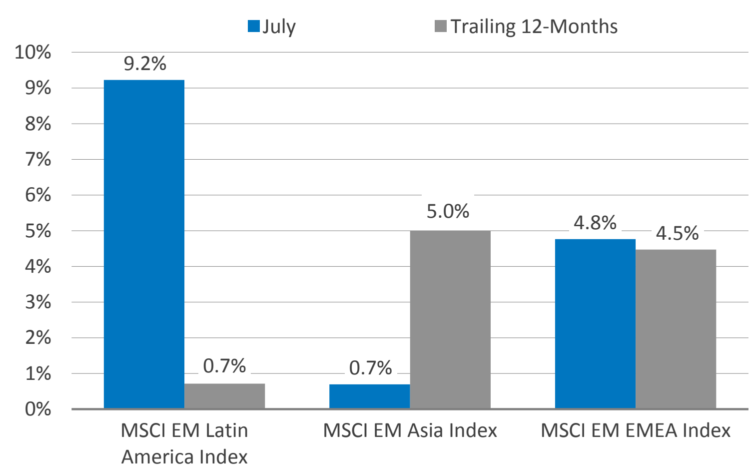


Data source: MCSI

FACEBOOK'S DAILY CLOSING PRICE

Data source: Bloomberg, L.P.

MCSI RUSSELL INDICES PERFORMANCE
Returns in U.S. Dollars

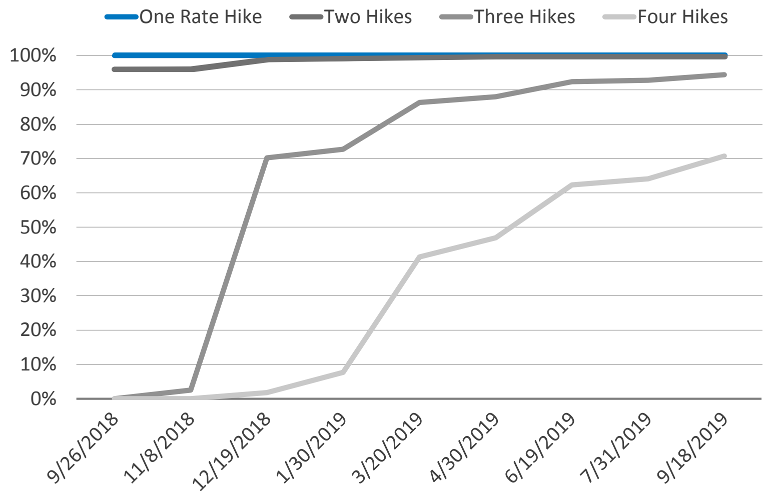


Data source: MCSI

FIXED INCOME

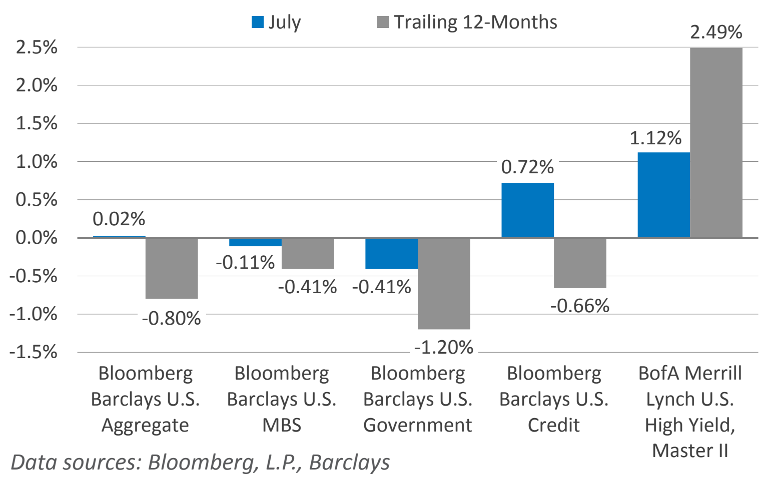
- Fixed income market returns were flat to slightly negative in the interest rate sensitive space, while credit risk assets provided respectable returns for the month amid investors' optimistic outlooks.
- Minutes from the June 12-13 Federal Open Market Committee (FOMC) meeting were released on July 5. The committee indicated that the economy is "expanding at a solid rate," but expressed concerns that uncertainty surrounding U.S. trade policy could negatively impact the economy. Some FOMC members also raised concerns about the flattening of the yield curve.
- The FOMC met on July 31 and voted to leave the federal funds rate unchanged at 1.75-2.00%, continuing the current accommodative monetary policy stance.
- The U.S. Treasury Department raised its third quarter borrowing estimates $50 billion to $329 billion. The Treasury expects to borrow $769 billion in the second half of 2018, which would represent the largest six-month stretch of borrowing since the second half of 2008.
- The Bank of Japan (BoJ) left both interest rates and its quantitative easing program unchanged in light of persistently below-target inflation; however, the BoJ indicated a plan to loosen its yield-curve curve control policy and allow interest rates to rise naturally.
- The European Central Bank's (ECB) Monetary Policy Committee met on July 26. The ECB left its monetary policy unchanged and reaffirmed intentions to end quantitative easing by the end of the year. The ECB expects to hold interest rates at current levels through the summer of 2019. The euro ended July up 0.2%, at €1.17 per U.S. dollar.

IMPLIED PROBABILITY OF FED RATE HIKES



Data source: CME Group

BOND INDICES PERFORMANCE



Data sources: Bloomberg, L.P., Barclays

REAL ASSETS

REAL ESTATE

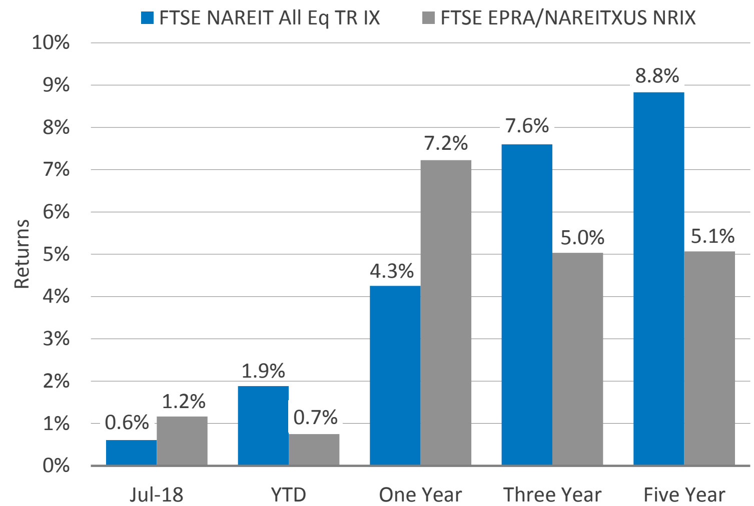
- U.S. REITs had modest gains in July (+0.6%), with certain property segments posting outsized gains. After the REIT sell-off in January and February, the REIT sector has outperformed the broader market for 4 of the past five months.
- REITs trade at a discount to net asset value and yield approximately 4%, both of which have contributed to recent investor demand and consequential performance. Data centers (+4.8%), retail (+2.4%), and residential (+1.2%), were the top-performing sectors. The breadth of positive performance across the REIT space has shown that the REIT recovery remained strong amid the growing economy and has not been isolated within certain property types.

NATURAL RESOURCES

- Crude oil (WTI) reached $74.80 during the quarter—its highest level since November 2014—amid global supply concerns.
- Supply disruptions in Canada, Venezuela, and Iran initially offset any planned increase in production from Saudi Arabia and other cartel members. Recently, Saudi Arabia took steps to fulfill its pledge to offset supply losses from other OPEC states.
- Late in the month, WTI crude trended lower on signals global supplies may rise. At the same time, renewed trade war concerns between the U.S. and China also caused downward pressure on crude oil. Over the near term, investors are expected to assess the impacts of the re-imposition of U.S. sanctions on Iran, with oil-related sanctions coming into effect starting in November 2018.
- Commodity prices fell over the month of July as the trade dispute between U.S. and China impacted the prices of raw materials. Agricultural commodities posted significant losses during the month, with soybeans suffering the most significant declines. Soybeans are the top agricultural crop exported to China, accounting for approximately 60% of U.S. soybean production.

DOMESTIC vs. INTERNATIONAL REIT RETURNS

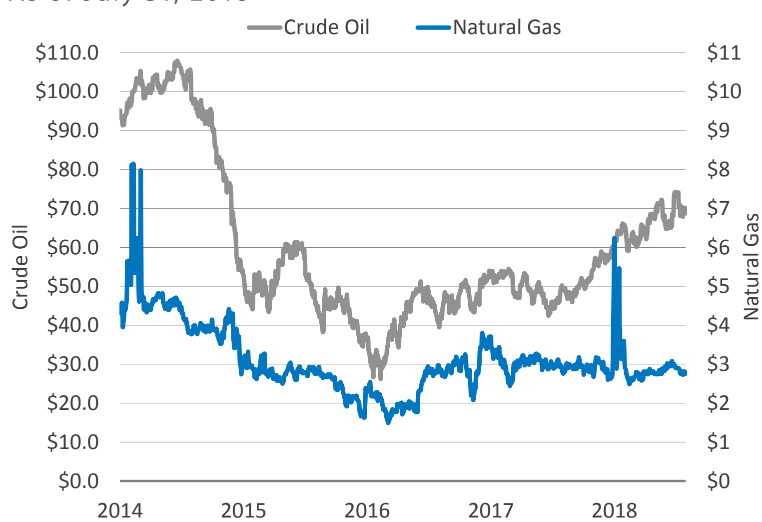
As of July 31, 2018



Data source: Bloomberg, L.P.

PRICE OF CRUDE OIL AND NATURAL GAS

As of July 31, 2018

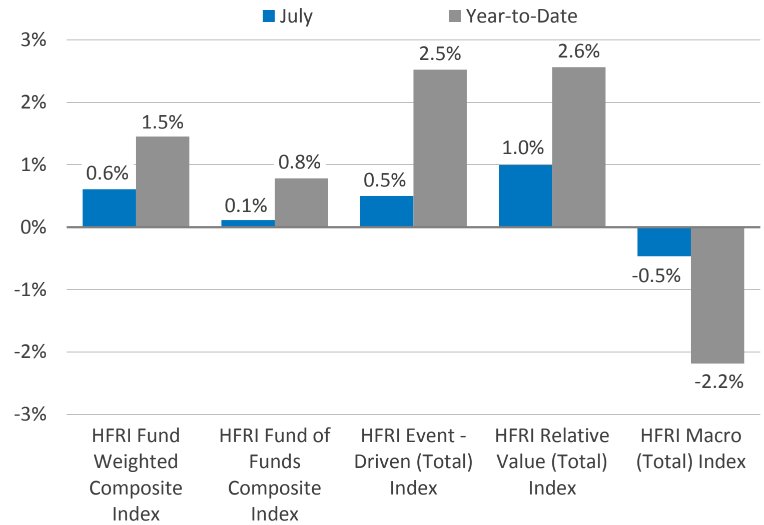


Data source: Energy Information Agency

DIVERSIFYING STRATEGIES

- Event-driven strategies endured headwinds during the month of July largely due to the breakup of the merger deal between NXP and Qualcomm, a deal held by a number of hedge funds. Additionally, spreads broadly widened after the break, as market participants priced in the increased regulatory risk created by continued global trade tensions.
- Certain widely-held equity positions in the technology sector endured substantial volatility during the month, creating headwinds for technology-focused managers.
- Markets generally remained range bound, posing continued challenges for managers with a momentum component, such as systematic global macro.

HFRI INDICES PERFORMANCE
Returns U.S. Dollars



Data source: HedgeFund Research

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All data is as of July 31, 2018 unless otherwise noted.

INDICES

The Alerian MLP Index is a composite of the 50 most prominent energy Master Limited Partnerships that provides investors with an unbiased, comprehensive benchmark for this emerging asset class.

Barclays Capital Fixed Income Indices is an index family comprised of the Barclays Capital Aggregate Index, Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Backed Securities Index, Municipal Index, High-Yield Index, and others designed to represent the broad fixed income markets and sectors within constraints of maturity and minimum outstanding par value. See https://ecommerce.barcap.com/indices/index.dxml for more information.

The CBOE Volatility Index (VIX) is an up-to-the-minute market estimate of expected volatility that is calculated by using real-time S&P 500 Index option bid/ask quotes. The Index uses nearby and second nearby options with at least 8 days left to expiration and then weights them to yield a constant, 30-day measure of the expected volatility of the S&P 500 Index. FTSE Real Estate Indices (NAREIT Index and EPRA/NAREIT Index) includes only those companies that meet minimum size, liquidity and free float criteria as set forth by FTSE and is meant as a broad representation of publicly traded real estate securities. Relevant real estate activities are defined as the ownership, disposure, and development of income-producing real estate. See www.ftse.com/Indices for more information.

HFRI Monthly Indices (HFRI) are equally weighted performance indexes, compiled by Hedge Fund Research Inc. (HFX), and are used by numerous hedge fund managers as a benchmark for their own hedge funds. The HFRI are broken down into 37 different categories by strategy, including the HFRI Fund Weighted Composite, which accounts for over 2000 funds listed on the internal HFR Database. The HFRI Fund of Funds Composite Index is an equal weighted, net of fee, index composed of approximately 800 fund- of- funds which report to HFR. See www.hedgefundresearch.com for more information on index construction.

J.P. Morgan's Global Index Research group produces proprietary index products that track emerging markets, government debt, and corporate debt asset classes. Some of these indices include the JPMorgan Emerging Market Bond Plus Index, JPMorgan Emerging Market Local Plus Index, JPMorgan Global Bond Non-US Index and JPMorgan Global Bond Non-US Index. See www.jpmorgan.com for more information.

Merrill Lynch high yield indices measure the performance of securities that pay interest in cash and have a credit rating of below investment grade. Merrill Lynch uses a composite of Fitch Ratings, Moody's and Standard and Poor's credit ratings in selecting bonds for these indices. These ratings measure the risk that the bond issuer will fail to pay interest or to repay principal in full. See www.ml.com for more information.

Morgan Stanley Capital International – MSCI is a series of indices constructed by Morgan Stanley to help institutional investors benchmark their returns. There are a wide range of indices created by Morgan Stanley covering a multitude of developed and emerging economies and economic sectors. See www.morganstanley.com for more information.

Russell Investments rank U.S. common stocks from largest to smallest market capitalization at each annual reconstitution period (May 31). The primary Russell Indices are defined as follows: 1) the top 3,000 stocks become the Russell 3000 Index, 2) the largest 1,000 stocks become the Russell 1000 Index, 3) the smallest 800 stocks in the Russell 1000 Index become the Russell Midcap index, 4) the next 2,000 stocks become the Russell 2000 Index, 5) the smallest 1,000 in the Russell 2000 Index plus the next smallest 1,000 comprise the Russell Microcap Index. See www.russell.com for more information.

S&P 500 Index consists of 500 stocks chosen for market size, liquidity and industry group representation, among other factors by the S&P Index Committee, which is a team of analysts and economists at Standard and Poor's. The S&P 500 is a market-value weighted index, which means each stock's weight in the index is proportionate to its market value and is designed to be a leading indicator of U.S. equities, and meant to reflect the risk/return characteristics of the large cap universe. See www.standardandpoors.com for more information.

Information on any indices mentioned can be obtained either through your consultant or by written request to information@feg.com

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Research and Investments Team as of date of publication.