

August 2018 Monthly Market Update

Global stocks had a strong start to the second half of the year as the markets temporarily shrugged off trade war rhetoric and political tensions. Instead, investors focused on strong second quarter corporate earnings. With roughly three-fourths of S&P 500 companies having reported, estimates for GAAP earnings-per-share growth remain in the double digits year over year. Recent second quarter estimates for aggregate 12-month earnings show growth being a shade under 19% over the last year. Large-cap US stocks (Vanguard 500 Index) jumped 3.7% in July, while domestic small caps returned 1.6% (iShares Russell 2000 ETF). Gains within the larger-cap index were broad-based, with every sector posting a positive return.

Emerging-market (EM) stocks witnessed even stronger gains, rising 4% in July after five straight months of losses (Vanguard FTSE Emerging Markets ETF). EM stocks benefited from an improvement in sentiment as trade tensions seemed to ease during July. Developed international stocks returned 2.3% (Vanguard FTSE Developed Markets ETF) and European stocks gained 3.4% (Vanguard FTSE Europe ETF). The US dollar was flat over the month, which resulted in similar returns for both hedged and unhedged investors.

Interest rates moved up modestly during July. Throughout the summer, the 10-year US Treasury rate has remained steady in the 2.8%–2.9% range. Rates at the short end of the curve continue to increase and flatten the overall curve. At the start of the year, there was more than a 50-basis-point differential between 10-year and 2-year rates. That 10–2 spread has now collapsed to below 30 basis points. Attention at the end of July shifted toward the Federal Reserve meeting. However, the Fed meeting finished with the decision to leave rates unchanged (in the 1.75%–2.0% range), which was what market participants expected. The Fed signaled more rate hikes are likely this year. The futures markets are currently pricing in a 94% probability of a hike in September and just shy of a 70% probability of another hike in December—which, if they happen, would make it four total rate hikes in 2018 (the most in a calendar year since 2006).

Investment-grade bonds were flat in July (Vanguard Total Bond Market Index) and remain negative for the year (down 1.7%). Both US high-yield bonds and floating-rate loans outperformed investment-grade bonds during the month with gains of 1.1% and 0.7%, respectively (the ICE BofA ML US High Yield Cash Pay Index and the S&P/LSTA Leveraged Loan Index).

July Benchmark Returns			
	MTD	QTD	YTD
EQUITY BENCHMARKS			
Vanguard 500 Index	3.7%	3.7%	6.4%
iShares Russell 1000 ETF	3.5%	3.5%	6.3%
iShares Russell 1000 Value ETF	3.9%	3.9%	2.0%
iShares Russell 1000 Growth ETF	2.9%	2.9%	10.2%
iShares Russell 2000 ETF	1.6%	1.6%	9.4%
Vanguard REIT	0.7%	0.7%	0.7%
iShares MSCI ACWI ETF	3.1%	3.1%	2.8%
Vanguard FTSE Developed Markets ETF	2.3%	2.3%	-0.6%
Vanguard FTSE Europe ETF	3.4%	3.4%	0.5%
Vanguard FTSE Emerging Markets ETF	4.0%	4.0%	-3.6%
FIXED-INCOME BENCHMARKS			
Vanguard Total Bond Market Index	0.0%	0.0%	-1.7%
Vanguard Intermediate-Term Tax-Exempt	0.2%	0.2%	-0.1%
iShares TIPS Bond ETF	-0.5%	-0.5%	-0.6%
ICE BofA Merrill Lynch U.S. High Yield Cash Pay Index	1.1%	1.1%	1.2%
S&P/LSTA Leveraged Loan Index	0.7%	0.7%	2.9%
ALTERNATIVE BENCHMARKS			
HFRX Global Hedge Fund Index	-0.2%	-0.2%	-1.0%
Bloomberg Commodity Index	-2.1%	-2.1%	-2.1%
SG Trend Index	-0.8%	-0.8%	-5.9%
3-Month LIBOR	0.2%	0.2%	1.1%