



June 2018 Monthly Market Update

Geopolitical news dominated headlines throughout May: from steel and aluminum tariffs on U.S. allies and continued trade tensions with China, to the on-and-off (and back on again) summit with North Korea. The news flow was constant, though we view most of it as short-term noise when it comes to our investment process. U.S. stocks shrugged off the macro news as well; large-cap U.S. stocks gained 2.4% (Vanguard 500 Index) and small-cap U.S. stocks surged 6.2% (iShares Russell 2000 ETF). Technology was the top-returning sector in May, up more than 7%. On the flipside, and similar to what happened in April, “bond-proxy” sectors that have attracted yield-hungry investors in recent years (e.g., telecom, utilities, and consumer staples) posted negative returns due to worries about rising interest rates.

May Benchmark Returns			
	MTD	QTD	YTD
EQUITY BENCHMARKS			
Vanguard 500 Index	2.4%	2.8%	2.0%
iShares Russell 1000 ETF	2.6%	2.8%	2.1%
iShares Russell 1000 Value ETF	0.6%	0.9%	-2.1%
iShares Russell 1000 Growth ETF	4.4%	4.7%	6.1%
iShares Russell 2000 ETF	6.2%	7.2%	7.0%
Vanguard REIT	3.6%	4.5%	-4.0%
FIXED-INCOME BENCHMARKS			
Vanguard Total Bond Market Index	0.6%	-0.2%	-1.7%
Vanguard Intermediate-Term Tax-Exempt	1.0%	0.7%	-0.4%
iShares TIPS Bond ETF	0.3%	0.2%	-0.7%
ICE BofA Merrill Lynch U.S. High Yield Cash Pay Index	-0.0%	0.6%	-0.3%
S&P/LSTA Leveraged Loan Index	0.2%	0.6%	2.0%
ALTERNATIVE BENCHMARKS			
HFRX Global Hedge Fund Index	0.3%	0.4%	-0.7%
Bloomberg Commodity Index	1.4%	4.0%	3.6%
SG Trend Index	-2.8%	-2.4%	-6.2%
3-Month LIBOR	0.2%	0.4%	0.7%

In contrast to the positive domestic returns, international markets experienced losses in May. Developed international stock markets dropped 1.4% (Vanguard FTSE Developed Markets ETF), while European stocks fell 2.4% (Vanguard FTSE Europe ETF). Much of the weakness can be attributed to the strengthening U.S. dollar—local-market returns were a couple of percentage points better. Toward the end of May, Italian political turmoil took center stage, raising concerns about Italy's membership in the European Union. While this type of political disorder can be worrisome, it seems to be the norm in Italy. There have been more than 60 governments in Italy since World War II—nearly one per year! Italian markets fell more than 11% during May (in U.S. dollars). For context, Italy currently constitutes 4.7% of the Vanguard FTSE Europe ETF.

The stronger dollar and higher interest rates in the United States also weighed on emerging markets last month. Emerging-market stocks dropped 2.3% and local-currency emerging-market bonds fell almost 5% (Vanguard FTSE Emerging Markets ETF and JPMorgan GBI-EM Global Diversified USD Index, respectively).

Turning to the bond market, U.S. interest rates in May hit levels not seen in seven years. The yield on the 10-year U.S. Treasury note hit 3.11% in the middle of May, before falling back below the 3% threshold during the second half of the month due to the aforementioned geopolitical issues. U.S. core bonds gained 0.6% during the month but remain in negative territory for the year (Vanguard Total Bond Market Index). U.S. high-yield bonds were slightly negative and floating-rate loans were slightly positive during the month (ICE BofA ML US High Yield Index and S&P/LSTA Leveraged Loan Index, respectively). Municipal bonds gained 1% (Vanguard Intermediate-Term Tax-Exempt).