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Hartland is an independent institutional and wealth advisory firm that seeks to meet clients' investment objectives with appropriate risk and in a low-cost manner. Once this has been achieved, we seek superior returns compared to client-specific, market-based and peer group benchmarks. We believe broad diversification reduces portfolio volatility and enhances the opportunity for superior risk-adjusted returns.

I hope you like the heat as it's getting hot in here. The U.S. economy continues to show its trend of strong growth and low unemployment. The second reading of 2Q US GDP was revised up to 4.2%, its hottest growth rate in nearly four years¹.

August was a busy month of negative political headlines for President Trump that were largely shrugged off by the markets. U.S. - China trade talks resumed after a brief hiatus, but no real progress has been made with neither side bringing a material compromise to the table to end the trade spat. In other important news, Fed Chair Powell reemphasized the Fed's gradual rate path at the Jackson Hole Symposium with the market expecting two more 0.25% hikes this year¹.

Global manufacturing growth continued to lose momentum in August as evidenced by the Manufacturing Purchasing Managers Indexes (PMI), though overall growth is holding up reasonably well. The U.S. Manufacturing PMI for August was 54.7 (55.3 in July) with the Eurozone Manufacturing PMI at 54.6 (55.1 in July)². Concerns regarding U.S. trade relations with China and global trade weigh on confidence, while economic challenges in Turkey as well as ongoing political concerns in Italy contrast against the backdrop of global growth.

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U.S. EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
DJIA	2.6	6.7	21.0	19.2
S&P 500	3.3	9.9	19.7	16.1
Russell 2000	4.3	14.3	25.4	16.1
Russell 1000 Growth	5.5	16.4	27.2	19.3
Russell 1000 Value	1.5	3.7	12.5	12.3
FTSE NAREIT U.S.	2.3	4.3	6.1	10.8
Bloomberg Commodity	-1.8	-3.9	0.5	-1.9

U.S. Equities again produced strong returns across the board in August based on strong earnings and fundamentals. The S&P 500 Index returned 3.3%, while small caps as measured by the Russell 2000 Index advanced 4.3% during the month. Nine of the eleven sectors of the S&P 500 were positive, led by Technology +6.9% and Consumer Discretionary +5.1%. Energy and Materials were the two laggards, -3.3% and -0.5%, respectively. The Technology and Consumer Discretionary sectors are also the top performers year-to-date. Apple became the first company to hit a \$1 trillion market cap during August, only to be followed by Amazon on the first trading day in September.

With 99% of the S&P 500 companies having reported second quarter earnings, 80% of companies have surpassed analysts' expectations with a blended earnings growth rate of 25.0%³. In aggregate, earnings were 5.0% above estimates with revenues 1.3% above estimates.

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
MSCI ACWI ex USA	-2.1	-3.5	3.2	8.1
MSCI EAFE	-1.9	-2.3	4.4	7.0
MSCI Emerging Markets	-2.7	-7.2	-0.7	11.4
MSCI EAFE Small Cap	-0.8	-1.2	7.9	11.8

Trade tariffs and spillover concerns remain a market overhang, and international equity markets reflected that in August. The MSCI EAFE Index declined 1.9% and the MSCI Emerging Markets Index declined 2.7%. Currency weakness, central bank retreat from easy money, and fiscal concerns in Turkey weighed on emerging markets during the month. Ongoing concerns over a China slowdown from the trade war and more restrictive banking regulations triggered fears of lower growth in the region and led to a 3.8% loss on the MSCI China Index.

FIXED INCOME MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
BarCap US Aggregate	0.6	-1.0	-1.0	1.8
BarCap Global Aggregate	0.1	-1.5	-1.4	2.4
BarCap US High Yield	0.7	2.0	3.4	7.0
JPM Emerging Market Bond +	-3.1	-7.3	-7.7	3.5
BarCap Muni	0.3	0.3	0.5	2.7

The Federal Open Market Committee released minutes from their July meeting where members agreed another rate hike is on the table “soon” if the economy continues on its trajectory¹. U.S. Treasury yields declined modestly across the curve during the month. The yield curve flattened with the spread between the two and ten year note ending August at 23 basis points, the lowest since 2007. The 2-year U.S. Treasury yield decreased 4 basis points, the 10-year decreased 10 basis points to 2.86%, and the 30-year decreased 6 basis points to 3.02%¹.

The Bloomberg Barclay’s Aggregate Index total return for August was 64 basis points whereas the longer duration Bloomberg Barclay’s Long Gov’t/Credit Index returned 85 basis points. High Yield and Bank Loans generated positive returns due to their yield, returning 0.7% and 0.4%, respectively. The JPM Emerging Market Bond+ Index declined 3.1%.

Sources:

- 1 Bloomberg
- 2 IHS Markit, 9/3/18
- 4 Factset insight, 8/31/18

Definitions:

Core Personal Consumption Expenditures Price Index: A measure of the prices paid by consumers for goods and services without the volatility caused by movements in food and energy prices to reveal underlying inflation trends. Changes in the index are used to assess price changes with the cost of living and identifying periods of inflation or deflation.

Markit U.S. Manufacturing Purchasing Managers’ Index: The U.S. PMI is based on original survey data collected from a representative panel of around 600 manufacturing firms.

Markit Eurozone Manufacturing Purchasing Managers’ Index: The Eurozone PMI is based on original survey data collected from a representative panel of around 3,000 manufacturing firms.

Disclosures

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