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MARKET minute

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Brian K. Hrabak, CFA
Chief Investment Officer & Senior Managing Director

For any inquiries about this document please contact

BHrabak@hartland.com

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.

The U.S. economy is doing "very well" per Federal Reserve Chairman Powell: growth is strong, unemployment is at a 17 year low, corporate profits are exceptional and asset markets have produced strong returns[1]. U.S. inflation accelerated to its fastest pace in more than six years as headline Consumer Price Index (CPI) rose to 2.8% while core CPI (excluding food and energy) was reported at 2.2% year over year[2]. Despite the upward pressure on inflation, it is still within the Fed's acceptable range. Wage gains remain modest although the labor market continues to tighten, and the U.S. economy now has more jobs than the jobless.

The shift from quantitative easing to tightening continues to garner investors' attention, and coupled with escalating trade tensions, contributed to a sell-off of risk assets. As widely anticipated, the Fed announced a 25 basis point hike increasing their policy rate range to 1.75%-2.00%[1]. The "dot plot" also shifted the median projection up to four 2018 hikes from three, impacted by one member increasing their forecast. Overseas, the European Central Bank also announced it would wind down its quantitative easing plan by the end of the year.

June was quite a busy month in terms of international headlines. Ongoing trade threats continued to weigh on the markets and global trade. Geopolitical tensions in Europe resurfaced in Italy amid concerns of the challenges associated with a populist government. There was pomp and circumstance surrounding Trump's meeting with North Korea's Kim Jong-un in Singapore which produced little other than opening dialogue.

Manufacturing Purchasing Managers Index (PMI) surveys across the globe drifted mostly lower. Recent PMI readings suggest some divergence of growth between U.S. and other world economies. U.S. Manufacturing PMI declined to 55.4 from 56.4 last month[3]. The IHS Markit's Eurozone Manufacturing PMI declined to 54.9[3]; though still at a solid level, the rate of expansion is weaker than earlier in the year amid signs of cooling demand and output.

U.S. EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
DJIA	-0.5	-0.7	16.3	14.1
S&P 500	0.6	2.6	14.4	11.9
Russell 2000	0.7	7.7	17.6	11.0
Russell 1000 Growth	1.0	7.3	22.5	15.0
Russell 1000 Value	0.2	-1.7	6.8	8.3
FTSE NAREIT U.S.	4.1	1.1	4.8	9.2
Bloomberg Commodity	-3.5	0.0	7.3	-4.5

The markets were captivated by macro events, particularly the flare-up in trade tensions during most of June as earnings season was largely complete. U.S. Equities managed to eke out a modest gain despite the risk-off theme evident during most of the second half of June. The S&P 500 Index returned 0.6% for the month, while small caps as measured by the Russell 2000 Index advanced 0.7%. Defensive sectors like Telecom, Utilities, Real Estate, and Consumer Staples, performed well during the month given the prevailing sentiment. Small caps were the "big" winner for the quarter returning 7.8%.

INTERNATIONAL EQUITY MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
MSCI ACWI ex USA	-1.9	-3.8	7.3	5.1
MSCI EAFE	-1.2	-2.7	6.8	4.9
MSCI Emerging Markets	-4.2	-6.7	8.2	5.6
MSCI EAFE Small Cap	-1.9	-1.1	12.9	10.5

The trade war and spillover concerns are not going away as a market overhang. International equity markets sold-off during June as currency movements proved to be an additional headwind. The MSCI EAFE Index and MSCI Emerging Markets Index declined 1.2% and 4.2%, respectively. The combination of U.S. dollar strength and risk-off market sentiment stoked by trade war concerns pressured emerging market assets. Growing concerns over a Chinese slowdown surrounding more restrictive banking regulations triggered fears over tighter credit and lower growth in the region.

FIXED INCOME MARKETS

Index	1 Month	Year-to-Date	1 Year	3 Year
BarCap US Aggregate	-0.1	-1.6	-0.4	1.7
BarCap Global Aggregate	-0.4	-1.5	1.4	2.6
BarCap US High Yield	0.4	0.2	2.6	5.5
JPM Emerging Market Bond +	-1.0	-6.1	-4.3	4.0
BarCap Muni	0.1	-0.2	1.6	2.9

Yield curve flattening continued amidst the demand for safe-haven assets with the spread between the two and ten year note declining to 33 basis points, the lowest since 2007[4]. The 10-year U.S. treasury yield was unchanged for the month at 2.86%, the 30-year declined 4 basis points to 2.99%, and the 2-year U.S. Treasury yield increased 10 basis points[4].

The Bloomberg Barclay's Aggregate Index total return for June was -0.1% whereas the longer duration Bloomberg Barclay's Long Gov't/Credit Index returned -0.6%. Investment grade corporates underperformed relative to Treasuries for the month as spreads widened. High Yield and Bank Loans managed positive returns due to their yield, returning 0.4% and 0.1%, respectively. The JPM Emerging Market Bond+ Index declined 1.0% and was impacted by the risk-off market sentiment.

Sources:
1 Board of Governors of the Federal Reserve System, 6/13/18
2 Bureau of Labor Statistics, United State Department of Labor, 6/12/18
3 IHS Markit, 7/2/18
4 Bloomberg

Definitions:

Consumer Price Index: is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. Changes in the CPI 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.