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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.

Summer and the U.S. economy are in full swing...and hot. The U.S. economy is doing very well with strong growth and low unemployment. The initial release of Q2 GDP growth was 4.1%, just shy of estimates<sup>1</sup>. Personal consumption of 4% was much better than expected and showed a rebound from 0.5% in the first quarter and was the fastest pace since the third quarter of 2014.

The Core Personal Consumption Expenditures Price Index increased 1.9%<sup>2</sup> in June from year ago levels. The Fed is watching key inflation measures and this reading remains within the Fed's acceptable range. The Fed's plan to gradually raise its fed funds rate appears intact with the market expecting two more 0.25% hikes this year. The European Central Bank, on the other hand, remains on track to wind down its asset purchase program by the end of the year.

Manufacturing Purchasing Managers Index (PMI) have softened modestly across the globe through the first half of the year, though July readings were largely unchanged from June. Recent PMI readings suggest some divergence of growth between U.S. and other world economies. The IHS U.S. Manufacturing PMI for July was 55.3 with the IHS Markit's Eurozone Manufacturing PMI at 55.1<sup>3</sup>. The rate of expansion is modestly weaker than earlier in the year amid signs of cooling demand and output.

Ongoing trade tensions and the shift from quantitative easing to tightening continue to garner investors' attention and have kept investors' risk posture in check.

U.S. EQUITY MARKETS				
Index	1 Month	Year-to-Date	1 Year	3 Year
DJIA	4.8	4.1	18.7	15.7
S&P 500	3.7	6.5	16.2	12.5
Russell 2000	1.7	9.5	18.7	12.0
Russell 1000 Growth	2.9	10.4	22.8	14.8
Russell 1000 Value	4.0	2.2	9.5	9.5
FTSE NAREIT U.S.	0.8	1.9	4.3	7.8
Bloomberg Commodity	-2.1	-2.1	2.7	-1.6

With earnings season in full swing, the markets were able to refocus on fundamentals which have been strong. U.S. Equities produced positive results across the board in July. The S&P 500 Index returned 3.7%, while small caps as measured by the Russell 2000 Index advanced 1.7% in July. All eleven sectors of the S&P 500 were positive, led by Industrials +7.3%, Health Care +6.6% and Financials +5.3%.

As of July 27 with 53% of companies having reported earnings, 83% of companies have surpassed analysts' expectations<sup>4</sup>. The blended year-over-year earnings growth rate for the second quarter is 21.3% with strength across sectors. In aggregate, earnings are 2.5% above estimates with revenues 0.9% above estimates.

Two notable tech companies, Netflix and Facebook, with lofty embedded growth expectations disappointed investors with muted earnings guidance. These stocks were punished on their earnings releases and had been a major portion of large cap index returns in 2018.

Trade tensions have not yet had a material impact on earnings, though higher input costs and foreign exchange headwinds could be factors over the coming quarters.

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Year-to-Date	1 Year	3 Year
MSCI ACWI ex USA	2.4	-1.5	5.9	6.0
MSCI EAFE	2.5	-0.4	6.4	5.0
MSCI Emerging Markets	2.2	-4.6	4.4	8.9
MSCI EAFE Small Cap	0.7	-0.4	9.6	10.4

Trade tariffs and spillover concerns remain a market overhang, though international equity markets rebounded in July. The MSCI EAFE Index and MSCI Emerging Markets Index returned 2.5% and 2.2%, respectively. Emerging Markets have been in focus this year after advancing 37% in 2017. The stronger US\$ and central bank retreat from easy money are presenting challenges to certain emerging market countries. Ongoing concerns over a China slowdown from more restrictive banking regulations triggered fears of lower growth in the region and led to a 2.4% loss on the MSCI China Index.

Eurozone GDP growth eased modestly in the quarter but remains healthy. The advance second quarter GDP was reported at 0.3% quarter-over-quarter which was slightly below expectations while the year-over-year growth slipped to 2.1%. Headline Eurozone inflation also ticked up to 2.1% though higher energy prices were the main driver.

FIXED INCOME MARKETS				
Index	1 Month	Year-to-Date	1 Year	3 Year
BarCap US Aggregate	0.0	-1.6	-0.8	1.5
BarCap Global Aggregate	-0.2	-1.6	-0.5	2.4
BarCap US High Yield	1.1	1.3	2.6	6.1
JPM Emerging Market Bond +	1.9	-4.3	-2.9	4.4
BarCap Muni	0.2	0.0	1.0	2.7

U.S. Treasury yields rose in the wake of strong US GDP growth. The yield curve flattened slightly amidst the demand for safe-haven assets with the spread between the two and ten year note declining to 29 basis points, the lowest since 2007. The 2-year U.S. Treasury yield increased 14 basis points, the 10-year increased 10 basis points to 2.96%, and the 30-year increased 9 basis points to 3.08%<sup>1</sup>.

The Bloomberg Barclay's Aggregate Index total return for July was 2 basis points whereas the longer duration Bloomberg Barclay's Long Gov't/Credit Index returned 25 basis points due to strong performance from credit exposure. High Yield and Bank Loans generated positive returns due to their yield and spread compression, returning 1.1% and 0.8%, respectively. The JPM Emerging Market Bond+ Index returned 1.9%, rebounding from its recent sell-off in May and June.

**Sources:**

- 1 Bloomberg
- 2 Bureau of Economic Analysis, 7/31/18
- 3 IHS Markit, 8/1/18
- 4 Factset insight, 7/27/18

**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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