

KEY TAKEAWAYS

- Ho hum, just another boring month filled with record highs for U.S. stocks. Thank goodness for the ongoing political circus to distract us from the volatility-starved equity markets, though few would have predicted such strong and steady gains in the face of policy uncertainty.
- With the hopes of market-friendly fiscal policy changes fading, what's driving markets higher? A benevolent combination of low interest rates, few economic surprises, and strong quarterly earnings for U.S. large cap companies. With equity markets at record levels, corporate earnings are being counted on to justify somewhat expensive valuations, and thus far in 2017 they have delivered.
- The Federal Reserve left interest rates unchanged at its July meeting, but that did not stop investors from speculating on future moves. While the Fed is still sticking to its guns and suggesting another rate hike is in store later this year, recent subdued inflation reports have made traders a bit more dovish (and driven the dollar lower). Futures markets suggest the probability of another 2017 increase is now less than 50%.
- Even without a rate hike, the Fed can still tighten financial conditions later this year as it expects to start shrinking its massive \$4.5 trillion bond portfolio (the result of years of qualitative easing) "relatively soon." This is uncharted territory for both the central bank and markets. While most analysts figure the pace will be so slow as to be a "non-event," others have some consternation around the congruence between the Fed's balance sheet expansion and the equity bull market since the credit crisis.

INDEX PERFORMANCE (as of 07/31/17)

Equity	July	Year-to-Date	One-Year
U.S. Large Cap	2.1%	11.6%	16.0%
U.S. Small Cap	0.7%	5.8%	18.5%
Developed Non-U.S.	2.9%	17.5%	18.3%
Emerging Market	6.0%	25.8%	25.3%
Real Assets			
Real Estate	2.8%	11.0%	2.0%
Commodities	2.3%	-3.1%	0.8%
Natural Resource Equities	3.5%	-7.9%	0.6%
Fixed Income			
<u>Core Plus</u>			
U.S. High Yield Debt	1.1%	6.1%	10.9%
Emerging Market Debt	2.1%	12.6%	8.0%
<u>Core Bonds</u>			
U.S. Aggregate Bonds	0.4%	2.7%	-0.5%
U.S. Treasuries	0.2%	2.0%	-2.5%
U.S. Municipal Bonds	0.7%	3.7%	0.6%
Month-End Values/Yields	Current	Prior Month	One-Year Ago
CBOE Volatility Index	10.3	11.1	11.9
10-Year Treasury Yield	2.3%	2.3%	1.5%

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Sources: Bloomberg, Morningstar

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