Market & Economic Review

Second Half 2018

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Market Review

Overview

Overview

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Market Review

Summary and Outlook

Summary

- Growth assets (i.e., risk-based assets) significantly outperformed defensive assets (i.e., investment-grade bonds) in recent years.
- Geopolitical uncertainty has been the major headwind for Growth assets, despite accelerating corporate earnings and robust economic growth.
- U.S. stocks have significantly outperformed international stocks so far this year due to the depreciation of foreign currencies relative to the U.S. dollar.
- U.S. Small-cap stocks have significantly outperformed large-cap while growth stocks have significantly outperformed value.
- Emerging-market stocks (and bonds) have been the worst performing asset classes due to depreciation in EM currencies and protectionist trade talk.
- U.S. taxable investment-grade bonds have been impacted the most by rising rates and firming inflation; while municipal bonds have been affected less.
- U.S. non-investment grade bonds have held up well so far this year. Generally, higher coupons together with solid corporate fundamentals have helped.
- International developed-market bonds (US dollar hedged) are positive year-to-date, as interest rates have held steady in developed countries.

Outlook

- Volatility will likely rise going forward as we continue moving into the later phases of the economic cycle; trade tensions will add to volatility.
- Targeted bilateral tariffs may continue, but with limited effect on the global economy. Renegotiation of existing trade deals will likely be the outcome.
- The combination of continued solid earnings growth lower stock valuations should support stocks going forward; although returns will likely be lower.
- Although the treasury yield curve is flatter, it is not yet indicating a near-term slowdown in the economy.
- Currency impact will likely be less, if not contributory, to international investment returns going forward.
- The outlook for emerging markets is still strong despite their sensitivity to U.S. rates, the dollar, and trade war talk.
- We expect bond returns to increase going forward gradually; higher rates increase bond investor total-returns in the long-term.

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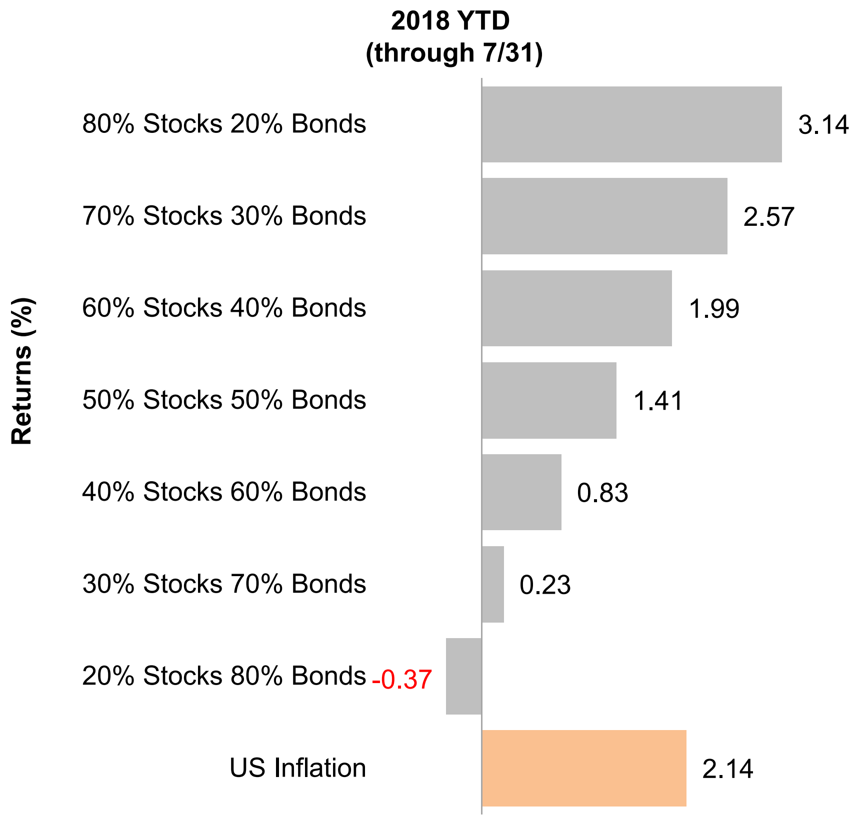
Market Review: Balanced Portfolios

Index Returns (%)

- Aggressive portfolios have outperformed conservative portfolios both recently and over longer periods. Regardless of the asset allocation, balanced portfolios of stocks and bonds have outpaced inflation over longer time periods (i.e., 3 years+).



Historical Returns	1 Year	3 Years	5 Years	10 Years	20 Years
80% Stocks 20% Bonds	10.52	8.86	9.23	8.14	6.77
70% Stocks 30% Bonds	9.08	7.97	8.38	7.72	6.63
60% Stocks 40% Bonds	7.65	7.07	7.53	7.27	6.45
50% Stocks 50% Bonds	6.22	6.17	6.67	6.77	6.24
40% Stocks 60% Bonds	4.81	5.25	5.80	6.23	6.00
30% Stocks 70% Bonds	3.39	4.32	4.93	5.66	5.72
20% Stocks 80% Bonds	1.99	3.39	4.04	5.05	5.41
US Inflation	2.86	1.80	1.51	1.36	2.19

Source: Morningstar Direct. Data as of 07/31/2018. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Stocks = 70% Russell 3000 TR USD + 30% MSCI ACWI Ex USA IMI NR USD, Bonds = 100% BBgBarc US Agg Bond TR USD, US Inflation = IA SBBI US Inflation (Ibbotson Associates *Stocks, Bonds, Bills, and Inflation)*

Assumes portfolios are rebalanced monthly.

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Market Review: Major World Asset Classes

Index Returns (%)

- U.S. stocks continue to lead international stocks on stronger earnings growth and a stronger economy. U.S. bonds have declined modestly amid rising interest rates in the U.S. International bonds have been positive on continued low interest rates abroad.

Historical Returns	1 Year	3 Years	5 Years	10 Years	20 Years
U.S. Stocks	16.39	12.18	12.83	10.68	7.09
U.S. Dollar Currency	1.76	-0.98	3.01	2.58	-
International Stocks (Hedged to USD)	9.28	6.52	8.48	5.47	-
International Bonds (Hedged to USD)	3.02	3.20	3.92	4.31	4.69
Cash	1.38	0.67	0.41	0.30	1.87
International Stocks	6.17	6.39	5.92	3.54	5.37
U.S. Bonds	-0.80	1.49	2.25	3.73	4.69
International Bonds	-0.27	3.15	0.40	1.70	3.91

Source: Morningstar Direct. Data as of 07/31/2018. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

U.S. Stocks = Russell 3000 TR USD, International Stocks (Hedged to USD) = MSCI ACWI ex US 100% Hedged NR USD, International Stocks = MSCI ACWI Ex USA IMI NR USD, U.S. Bonds = BBgBarc US Agg TR USD, International Bonds = BBgBarc Gbl Agg Ex USD TR USD, International Bond (Hedged to USD) BBgBarc Gbl Agg Ex USD TR Hdg USD, Cash = ICE BofAML 0-3 M US Trsy Bill TR USD, US Dollar Currency = ICE USD Spot

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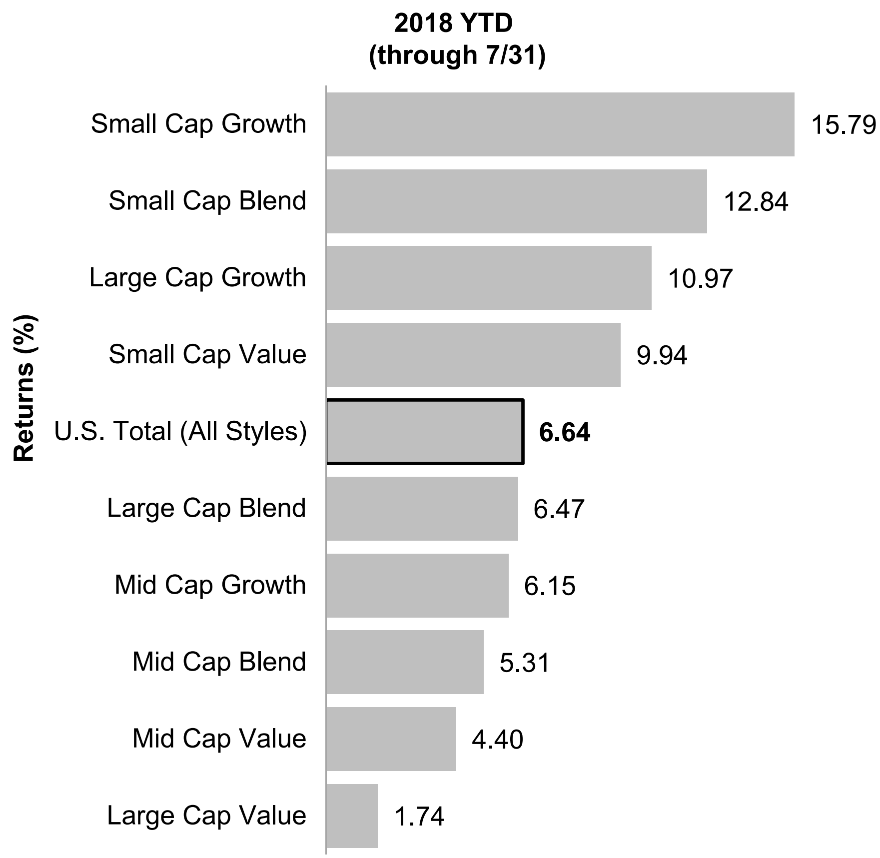
Market Review: U.S. Stocks (Styles)

Index Returns (%)

- Recently, growth and small-cap stocks have significantly outperformed the total U.S. stock market. Small cap stocks have been more insulated from trade concerns because more of their revenue is generated domestically. Technology companies have been the main performance drivers of growth stocks.



Historical Returns	1 Year	3 Years	5 Years	10 Years	20 Years
Small Cap Growth	25.53	15.38	14.78	12.99	10.38
Small Cap Blend	23.11	15.35	13.80	12.37	10.50
Large Cap Growth	21.61	14.41	15.63	12.39	6.79
Small Cap Value	20.72	15.32	12.75	11.69	10.16
U.S. Total (All Styles)	**16.39**	**12.18**	**12.83**	**10.68**	**7.09**
Large Cap Blend	16.24	12.52	13.12	10.67	6.72
Mid Cap Growth	16.36	10.98	12.12	11.51	10.63
Mid Cap Blend	14.50	11.49	11.73	11.19	10.62
Mid Cap Value	12.50	11.70	11.07	10.71	10.51
Large Cap Value	10.43	10.13	10.23	8.73	6.33

Source: Morningstar Direct. Data as of 07/31/2018. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

U.S. Total (All Styles) = Russell 3000 TR USD, Large Cap Blend = S&P 500 TR USD, Large Cap Value = S&P 500 Value TR USD, Large Cap Growth = S&P 500 Growth TR USD, Mid Cap Blend = S&P MidCap 400 TR, Mid Cap Value = S&P MidCap 400 Value TR USD, Small Cap Blend = S&P SmallCap 600 TR USD, Small Cap Value = S&P SmallCap 600 Value TR USD, Small Cap Growth = S&P SmallCap 600 Growth TR USD

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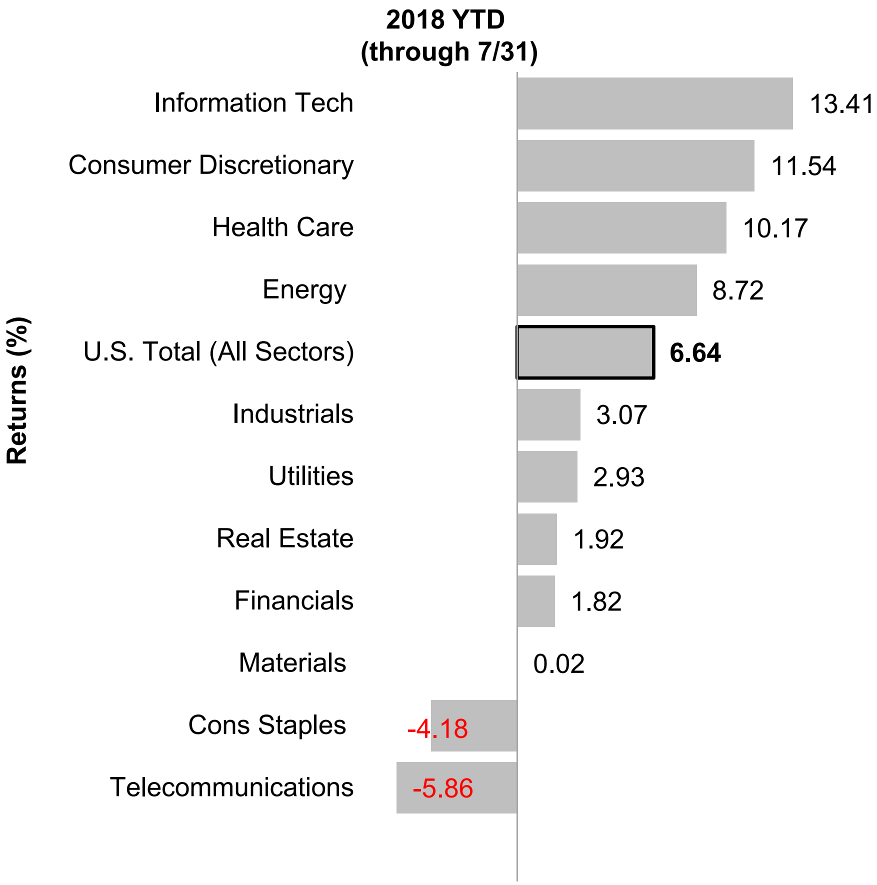
Market Review: U.S. Stocks (Sectors)

Index Returns (%)

- The best performing sectors so far in 2018 have been technology and consumer discretionary. Robust economic growth and a healthy consumer have particularly helped companies in these sectors.



Historical Returns	1 Year	3 Years	5 Years	10 Years	20 Years
Information Tech	28.09	21.47	20.67	14.91	7.69
Consumer Discretionary	21.49	12.14	14.17	16.11	8.36
Health Care	15.47	7.13	14.25	13.57	8.71
Energy	20.66	5.96	0.45	1.84	8.47
U.S. Total (All Sectors)	16.39	12.18	12.83	10.68	7.09
Industrials	15.21	14.27	12.82	10.29	8.30
Utilities	3.98	11.17	10.33	8.13	7.72
Real Estate	3.00	6.36	8.24	7.69	9.68
Financials	13.32	13.69	13.22	7.93	5.09
Materials	11.49	12.36	10.39	6.99	7.95
Cons Staples	0.09	5.04	8.20	10.15	7.42
Telecommunications	-2.51	4.81	4.76	6.95	1.72

Source: Morningstar Direct. Data as of 07/31/2018. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

U.S. Total (All Sectors) = Russell 3000 TR USD, Energy = MSCI USA IMI/Energy GR USD, Telecommunicaitons = MSCI USA IMI/Telecom Svcs GR USD, Financials = MSCI USA IMI/Financials GR USD, Industrials = MSCI USA IMI/Industrials GR USD, Materials = MSCI USA IMI/Materials GR USD, Utilities = MSCI USA IMI/Utilities GR USD, Information Technology = MSCI USA IMI/Information Tech GR USD, Consumer Discretionary = MSCI USA IMI/Cons Disc GR USD, Consumer Staples = MSCI USA IMI/Cons Staples GR USD, Real Estate = MSCI US REIT GR USD, Health Care = MSCI USA IMI/Health Care GR USD.

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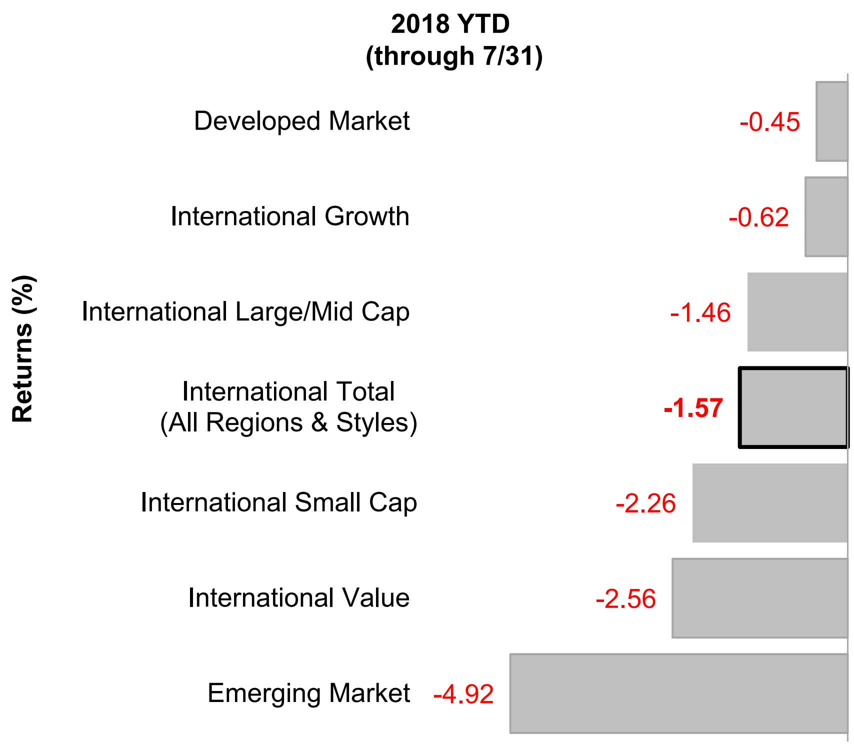
Market Review: International Stocks (Regions and Styles)

Index Returns (%)

- Emerging-market stocks have been the worst performing international asset class so far this year due to significant depreciation in emerging market currencies relative to the U.S. dollar and protectionist trade talk.



Historical Returns	1 Year	3 Years	5 Years	10 Years	20 Years
Developed Market	6.82	5.78	6.10	3.68	5.02
International Growth	8.36	7.34	7.02	3.91	4.63
International Large/Mid Cap	5.94	6.00	5.59	3.16	-
International Total (All Regions and Styles)	**6.17**	**6.39**	**5.92**	**3.54**	**5.37**
International Small Cap	7.54	8.89	8.08	6.32	7.86
International Value	3.98	5.38	4.77	3.13	5.94
Emerging Market	4.26	8.53	5.15	3.11	7.80

Source: Morningstar Direct. Data as of 07/31/2018. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

International Total (All Regions & Styles) = MSCI ACWI Ex USA IMI NR USD, Developed Market = MSCI World Ex USA IMI NR USD, Emerging Market = MSCI EM IMI NR USD, International Large/Mid Cap = MSCI ACWI Ex USA NR USD, International Small Cap = MSCI ACWI Ex USA Small NR USD, International Growth = MSCI ACWI Ex USA IMI Growth NR USD, International Value = MSCI ACWI Ex USA IMI Value NR USD

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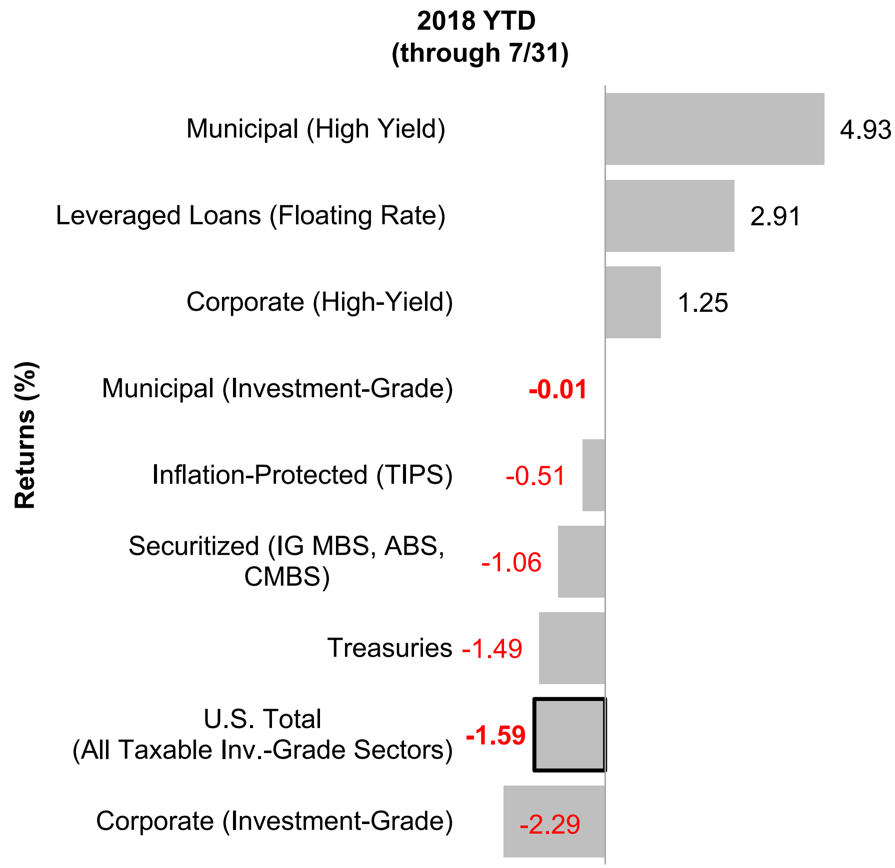
Market Review: U.S. Bonds (Sectors)

Index Returns (%)

- High Yield bonds outperformed investment-grade bonds due to improving economic conditions and corporate earnings, together with rising stock markets. Investment-grade bonds have been impacted the most by rate increases; municipal bonds have been affected less given their tax benefit and favorable supply/demand dynamics.



Historical Returns	1 Year	3 Years	5 Years	10 Years	20 Years
Municipal (High Yield)	5.34	6.53	6.34	6.43	-
Leveraged Loans (Floating Rate)	4.42	4.47	3.95	5.35	4.80
Corporate (High-Yield)	2.60	6.12	5.35	8.45	6.58
Municipal (Investment-Grade)	**0.99**	**2.69**	**3.76**	**4.41**	**4.66**
Inflation-Protected (TIPS)	1.17	1.69	1.43	3.04	5.34
Securitized (IG MBS, ABS, CMBS)	-0.43	1.23	2.24	3.59	4.61
Treasuries	-1.23	0.60	1.42	2.89	4.30
U.S. Total (All Taxable Inv.-Grade Sectors)	-0.80	1.49	2.25	3.73	4.69
Corporate (Investment-Grade)	-0.66	2.89	3.37	5.29	5.40

Source: Morningstar Direct. Data as of 07/31/2018. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

U.S. Total (All Taxable Inv. Grade Sectors) = BBgBarc US Agg Bond TR USD, Corporate (High-Yield) = BBgBarc High Yield Corporate TR USD, Leveraged Loans (Floating Rate) = S&P/LSTA Leveraged Loan TR, Corporate (Investment Grade) = BBgBarc US Credit TR USD, Municipal (High Yield) = S&P Municipal Bond High Yield TR, Inflation-Protected Bonds (TIPS) = BBgBarc US Treasury US TIPS TR USD, Securitized (IG MBS, ABS, CMBS) = BBgBarc US Scrtzd MBS ABS CMBS TR USD, Treasuries = BBgBarc US Treasury TR USD, Municipal (Investment Grade) = BBgBarc Municipal TR USD

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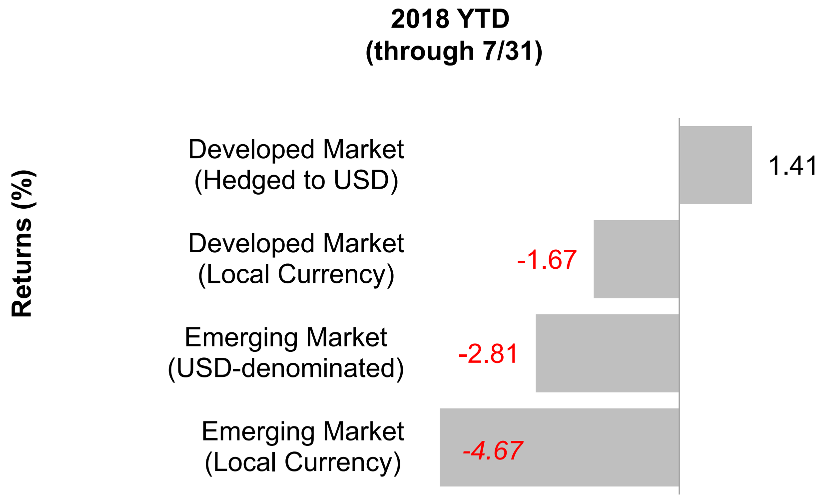
Market Review: International Bonds

Index Returns (%)

- Similar to stocks, emerging markets bonds have been the worst performing international bond asset class so far this year due to significant depreciation in emerging market currencies relative to the U.S. dollar and protectionist trade talk.



Historical Returns	1 Year	3 Years	5 Years	10 Years	20 Years
Developed Market (Hedged to USD)	3.02	3.20	3.92	4.31	4.69
Developed Market (Local Currency)	-0.27	3.15	0.40	1.70	3.91
Emerging Market (USD-denominated)	0.07	5.34	5.43	6.91	8.68
Emerging Market (Local Currency)	-2.50	3.49	-0.92	2.15	-

Source: Morningstar Direct. Data as of 07/31/2018. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Developed Market (Local Currency) = BBgBarc Gbl Agg Ex USD TR USD, Developed Market (Hedged to USD) = BBgBarc Gbl Agg Ex USD TR Hdg USD, Emerging Market (Local Currency) = JPM GBI-EM Global Diversified TR USD, Emerging Market (USD-denominated) = JPM EMBI Global Diversified TR USD

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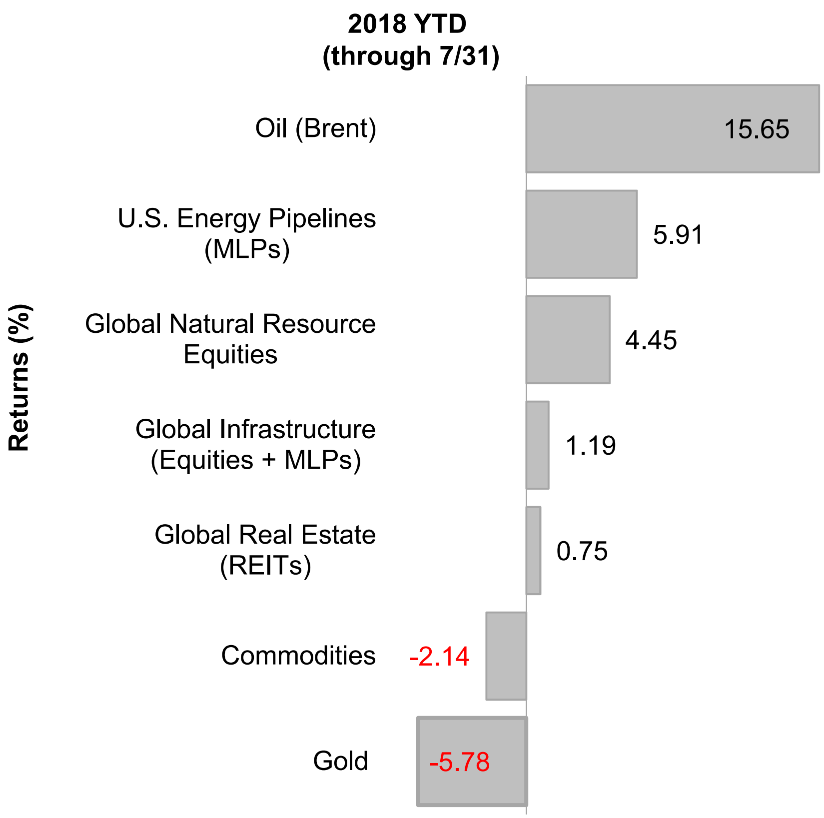
Market Review: Real Assets

2017 Index Returns (%)

- Real assets tied to commodity prices (particularly oil) have outperformed so far this year. Broadly, the demand and supply fundamentals supporting real assets remain strong.



Historical Returns	1 Year	3 Years	5 Years	10 Years	20 Years
Oil (Brent)	50.31	4.19	-12.42	-	-
U.S. Energy Pipeline (MLPs)	0.41	-2.85	-2.77	7.33	11.27
Global Natural Resource (Equities)	18.37	11.89	4.56	0.13	-
Global Infrastructure (Equities + MLPs)	0.85	4.42	5.97	8.32	-
Global Real Estate (REITs)	3.06	4.76	6.34	5.42	-
Commodities	2.73	-1.61	-7.06	-8.09	1.59
Gold	-3.13	4.05	-1.24	2.95	7.50

Source: Morningstar Direct. Data as of 07/31/2018. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

U.S. Energy Pipelines (MLPs) = Alerian MLP TR USD, Commodities = Bloomberg Commodity TR USD, Gold = S&P GSCI Gold Spot, Oil = S&P GSCI Brent Crude TR USD, Global Real Estate (REITs) = S&P Global REIT NR USD, Global Natural Resrouces = S&P Global Natural Resources NR USD, Global Infrastructure = DJ Brookfld Glb Infra Comp TR USD

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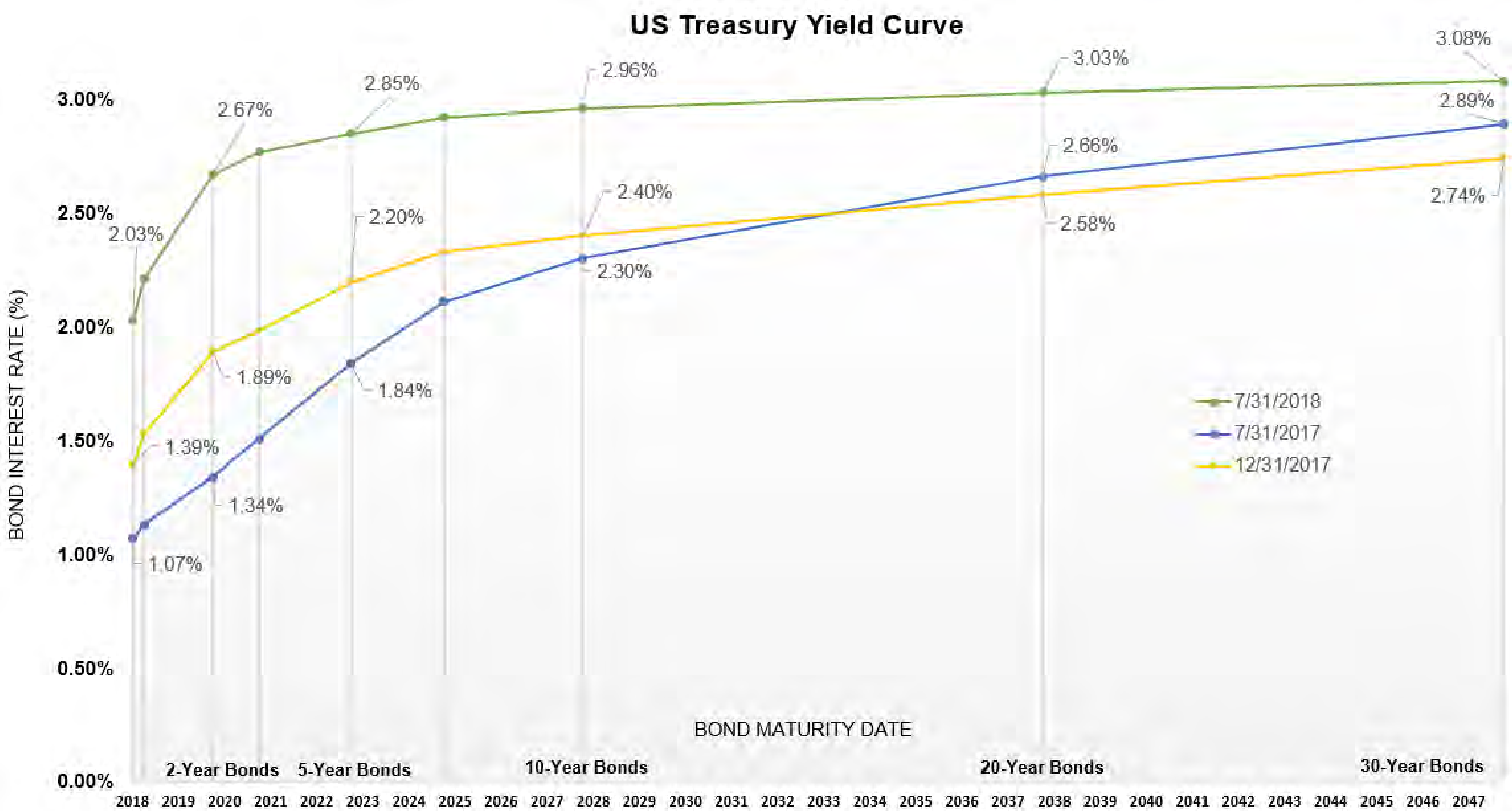
Market Review: US Interest Rates

Treasury Yield Curve

- Short-term rates have moved up in line with Fed interest rate hikes. Longer-term rates have also moved up (although not as much) due to increasing growth and inflation expectations.



- The Treasury Yield Curve is a graph of the interest rates (yields) of U.S. government bonds plotted against the time they have to maturity. Treasury yields impact consumer and business borrowing rates (e.g., 10-year Treasury yields influence 30-year mortgage rates).

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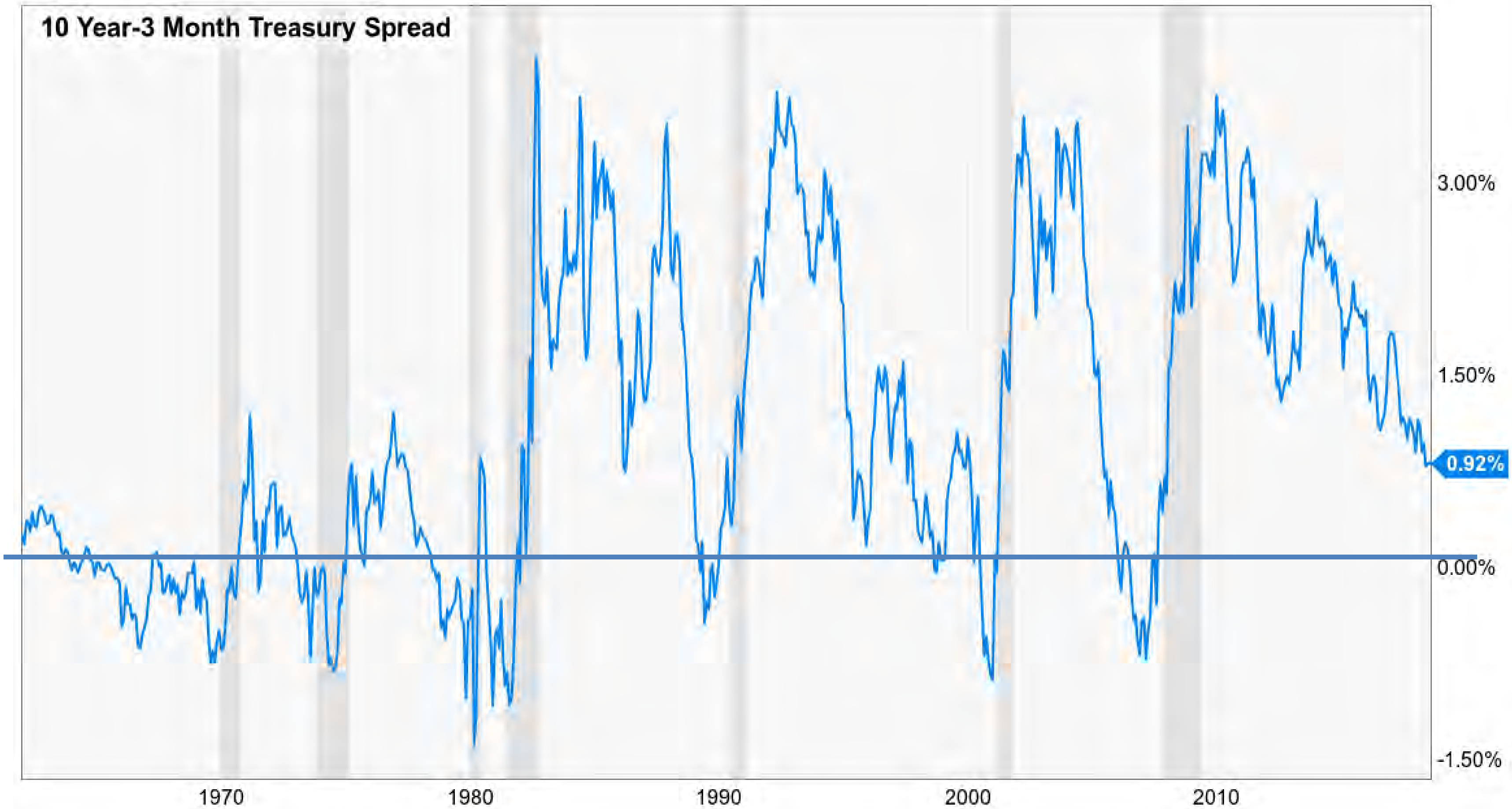
Source: YCharts. Data as of 07/31/2018. Past performance is not a guarantee of future results.

Market Review: US Interest Rates

Treasury Yield Curve Slope

- The treasury yield curve has continued to “flatten”, but it is still “upward sloping”; the yield curve is currently not indicating a recession is near.



- The slope of the yield curve provides an important clue to the direction of future short-term interest rates; an upward sloping curve generally indicates that the financial markets expect higher future interest rates (i.e., a stronger economy); a downward sloping curve indicates expectations of lower rates in the future. Historically, the slope of the yield curve is the single best indicator of trouble.

Source: YCharts. Data as of 07/31/2018. Past performance is not a guarantee of future results.
Shaded areas indicate past U.S. recessions.

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Market Review: US Interest Rates

US 10-Year and 5-Year Treasury Yields

- The 10-Year treasury yield, which various borrowing rates are based on, has moved up this year. Rates are still at relatively low levels, and supportive of economic growth.

- The 10-year treasury yield is the benchmark yield that borrowing rates for mortgage rates and Home Equity Loans, Federal student Loans (once a year in May reset) are based on.

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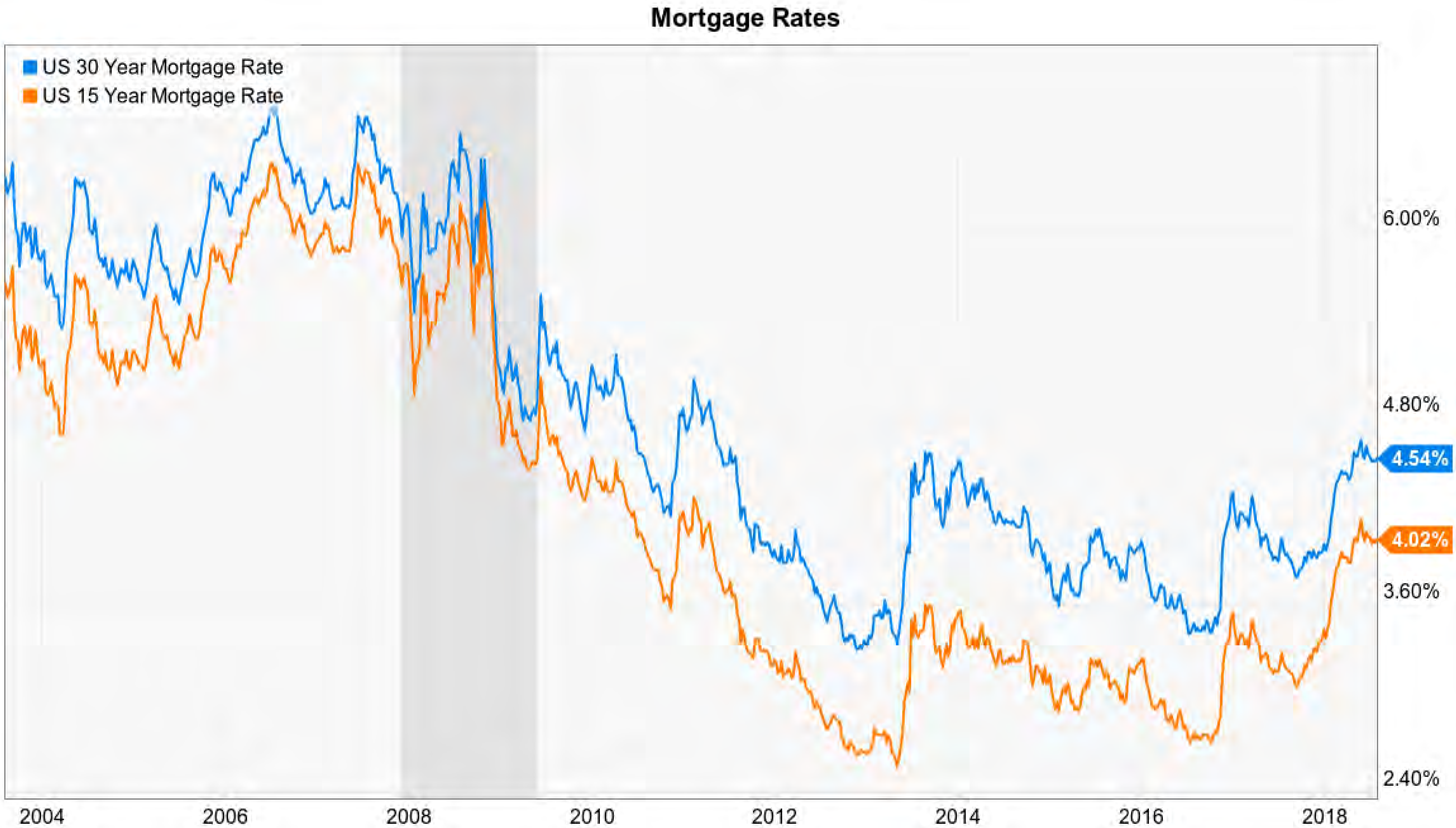
Source: YCharts. Data as of 07/31/2018. Past performance is not a guarantee of future results.
Shaded areas indicate past U.S. recessions.

Market Review: US Interest Rates

30-Year Fixed Mortgage Rate

- Mortgage rates have moved up, but it has not had a dampening effect on the housing market yet. Rates remain relatively low.



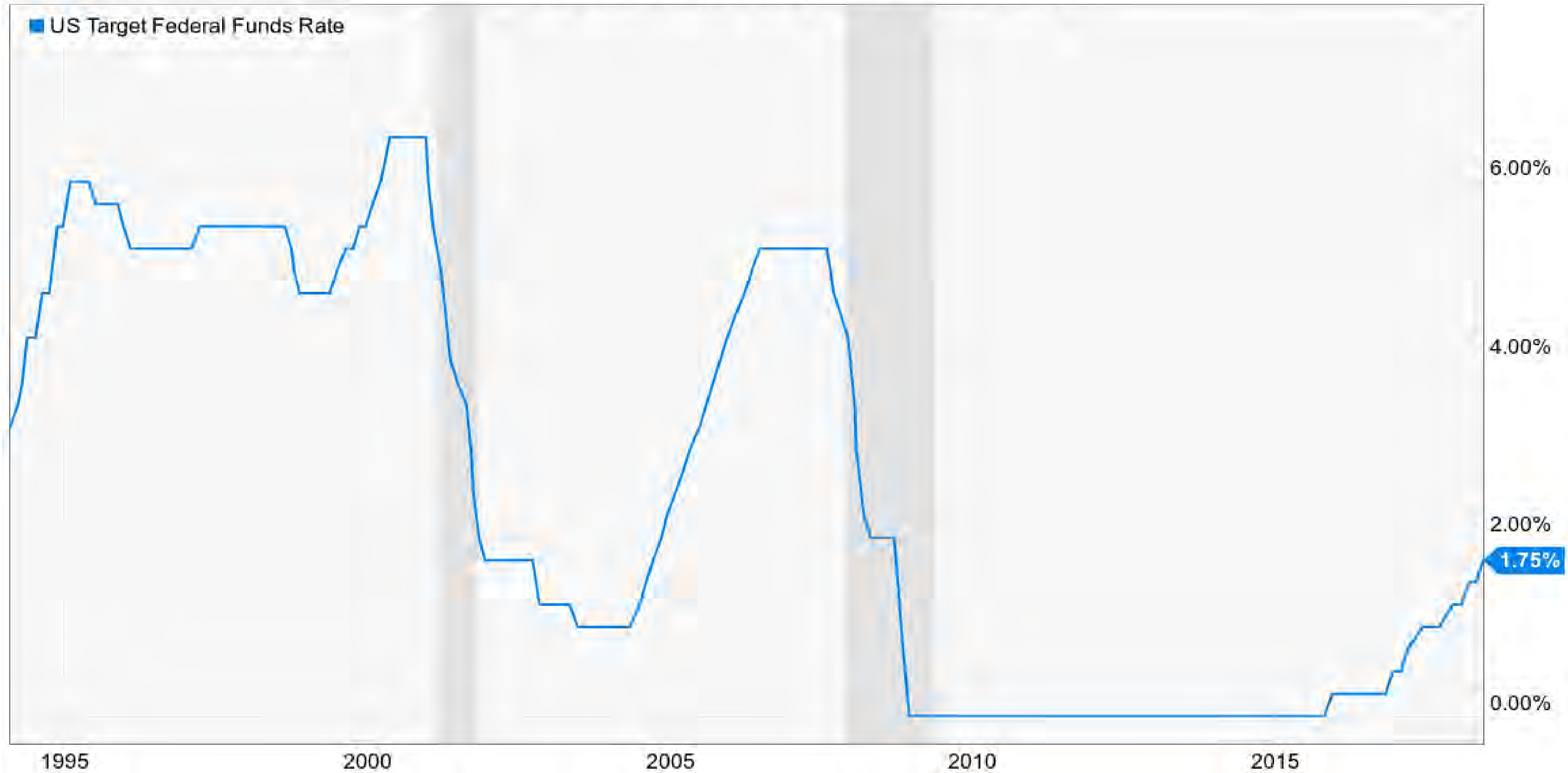
Source: YCharts, Freddie Mac. Data as of 07/31/2018. Past performance is not a guarantee of future results.
Shaded areas indicate past U.S. recessions.

Market Review: US Interest Rates

Federal Funds Rate

- Firming inflation and accelerating economic growth in the U.S. prompted the Federal Reserve (the Fed) to raise policy interest rates twice so far this year. The Fed has recently communicated that it plans to raise rates two more times this year, and possible three times next year.

Fed Short-Term Policy Interest Rate Target



- The federal funds rate is rate at which banks can borrow and lend to each other overnight. It is one of the most influential interest rates in the U.S. economy because it affects other short-term and long-term lending rates in the U.S. economy (e.g., credit cards, mortgages, home equity lines, etc.).

Source: YCharts, Federal Reserve. Data as of 07/31/2018. Past performance is not a guarantee of future results.
Shaded areas indicate past U.S. recessions.

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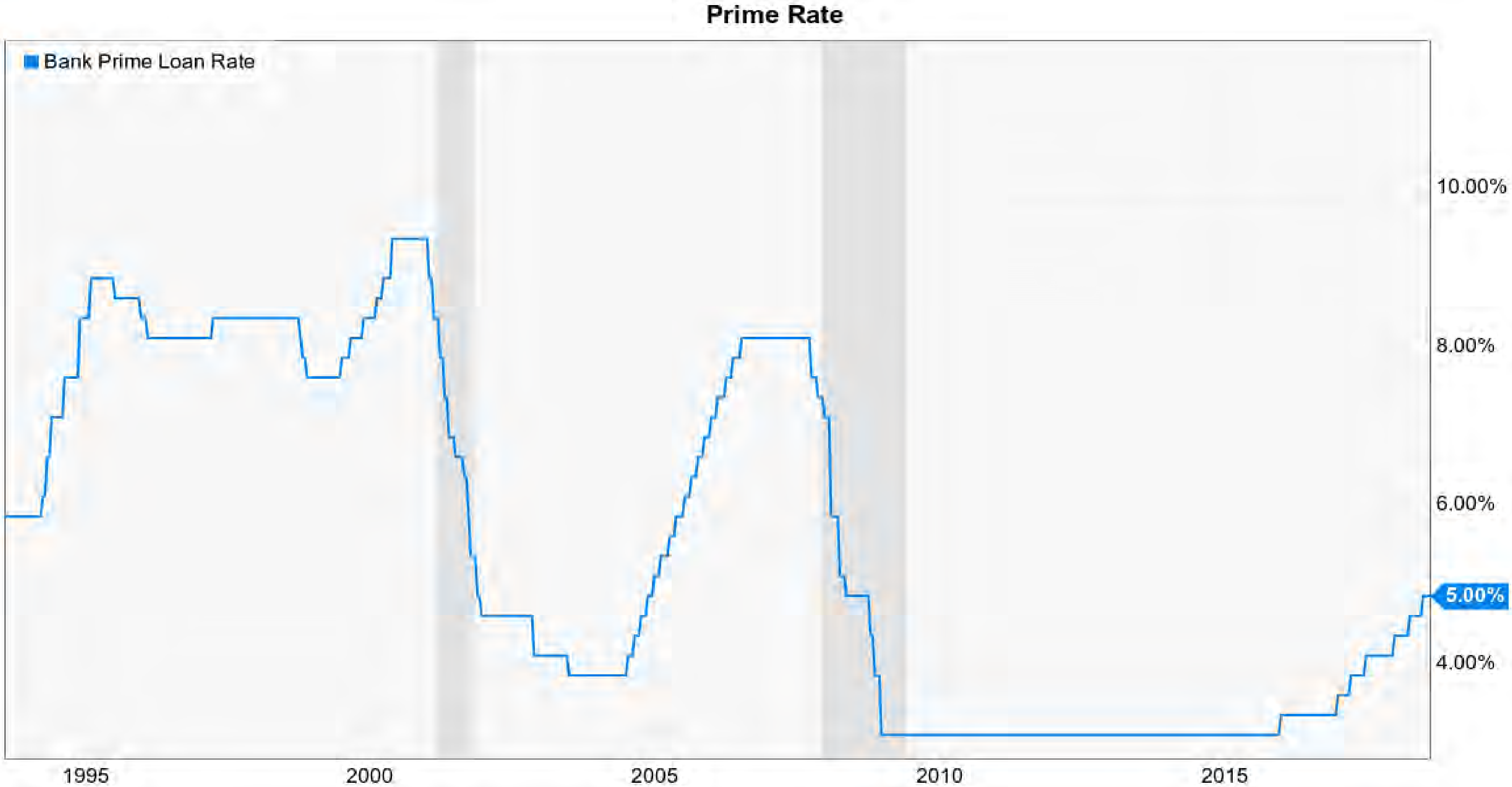
Market Review: US Interest Rates

Prime Rate

- Many of the major banks continue to increase their prime rates following the federal fund rate increases. Credit cards, brokerage margin loans, and home equity lines of credit have increased. These rates remain low by historical standards.



- The prime rate is the interest rate that commercial banks charge their most credit-worthy customers and large corporations. The prime interest rate, or prime lending rate, is largely determined by the federal funds rate; the prime rate is also important for individual borrowers as it influences credit card rates and home-equity lines of credit.

Source: Board of Governors of the Federal Reserve System (US), YCharts. Data as of 07/31/2018. Past performance is not a guarantee of future results.
Shaded areas indicate past U.S. recessions.

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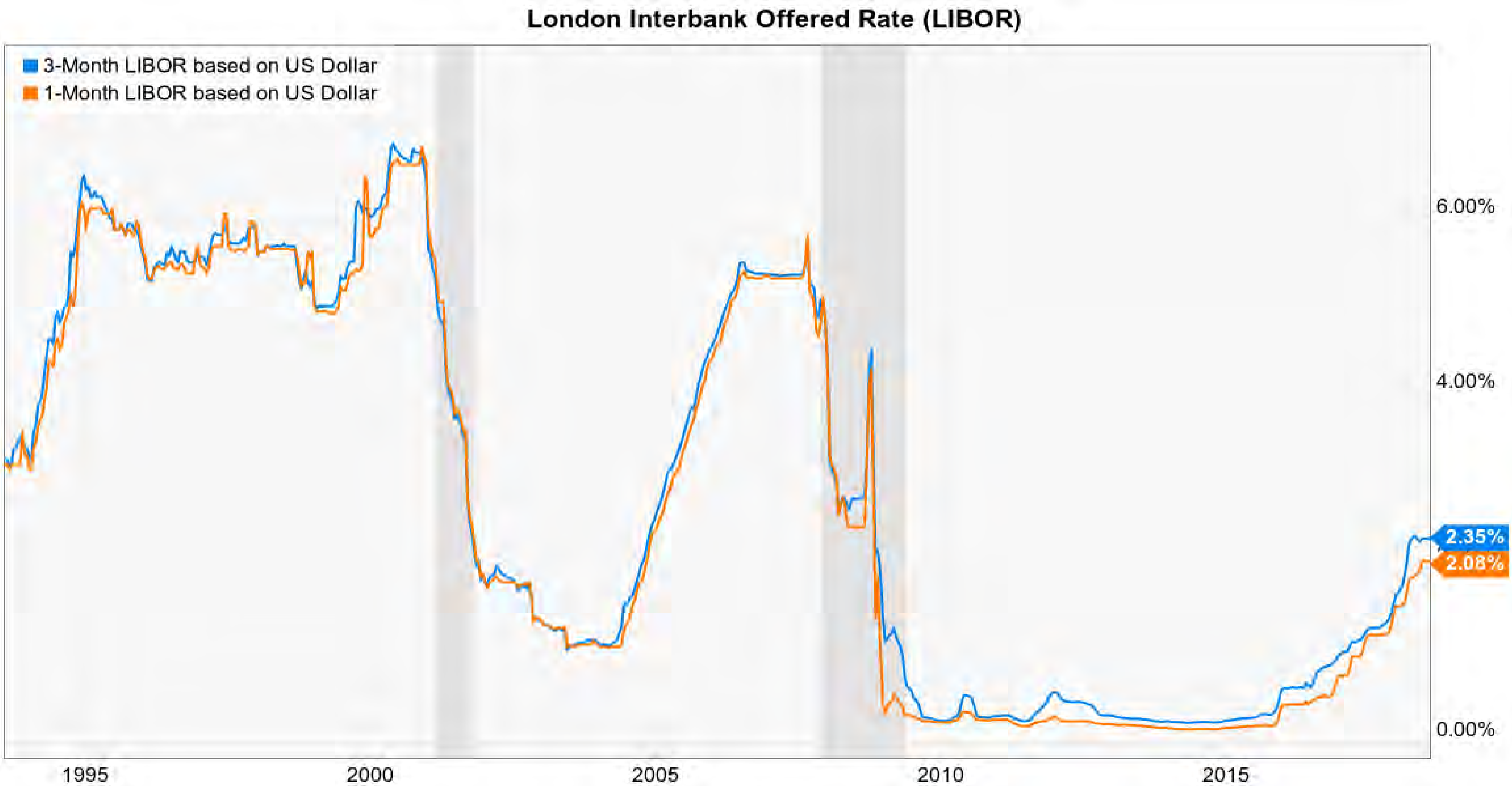
Market Review: US Interest Rates

1-Month and 3-Month London Interbank Offer Rate (LIBOR)

- LIBOR rates have moved up, with both 1-month and 3-month LIBOR crossing 2% for the first time since the US emerged from recession in 2009. Some variable rate loans (e.g., ARMs) and leveraged loans have been impacted.



- The Intercontinental Exchange London Interbank Offered Rate (LIBOR or ICE LIBOR) is a benchmark rate that some of the world's leading banks charge each other for short-term loans. It stands for and serves as the first step to calculating interest rates on various loans throughout the world.

Source: YCharts, ICE. Data as of 07/31/018. Past performance is not a guarantee of future results.
Shaded areas indicate past U.S. recessions.

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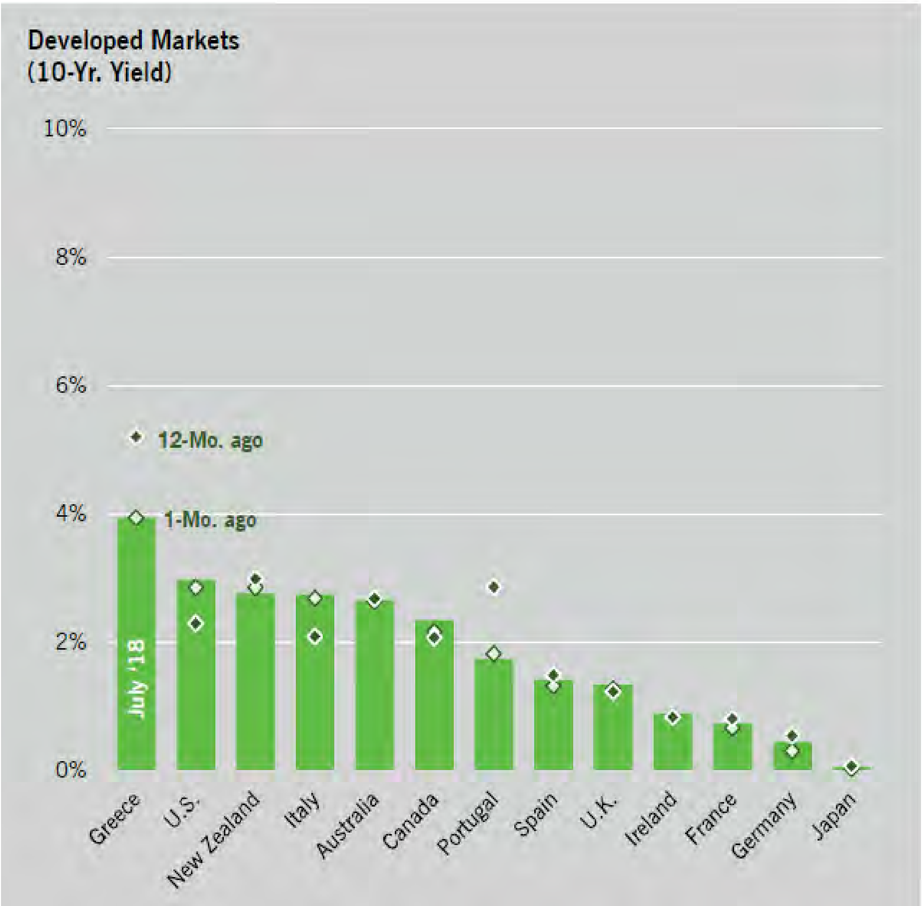
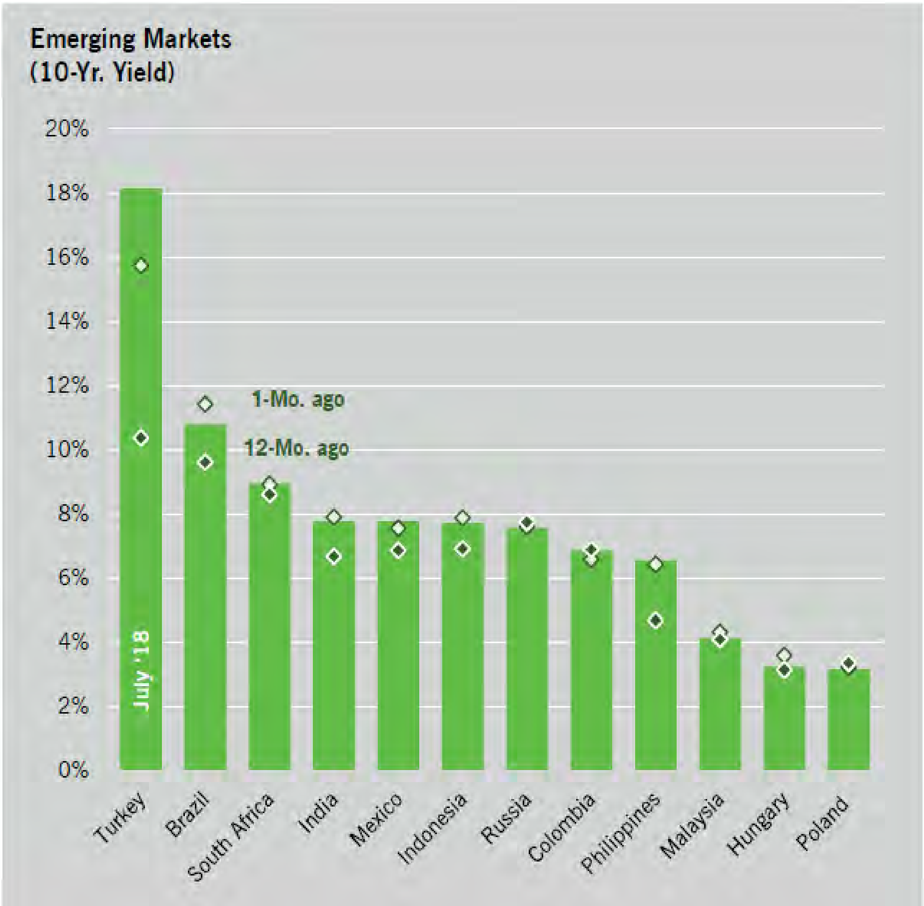
Market Review: International Interest Rates

Government Bond Yields (10-Year)

- Other than Greek government bonds, U.S. government bonds currently pay the highest interest rate amongst other Developed Market countries. Emerging Market government bonds pay higher interest rates than Developed Market bonds; this is typical given that Emerging Market bonds are higher risk.





Source: Easton Vance, Bloomberg, Factset. Data as of 07/31/2018. Past performance is not a guarantee of future results.

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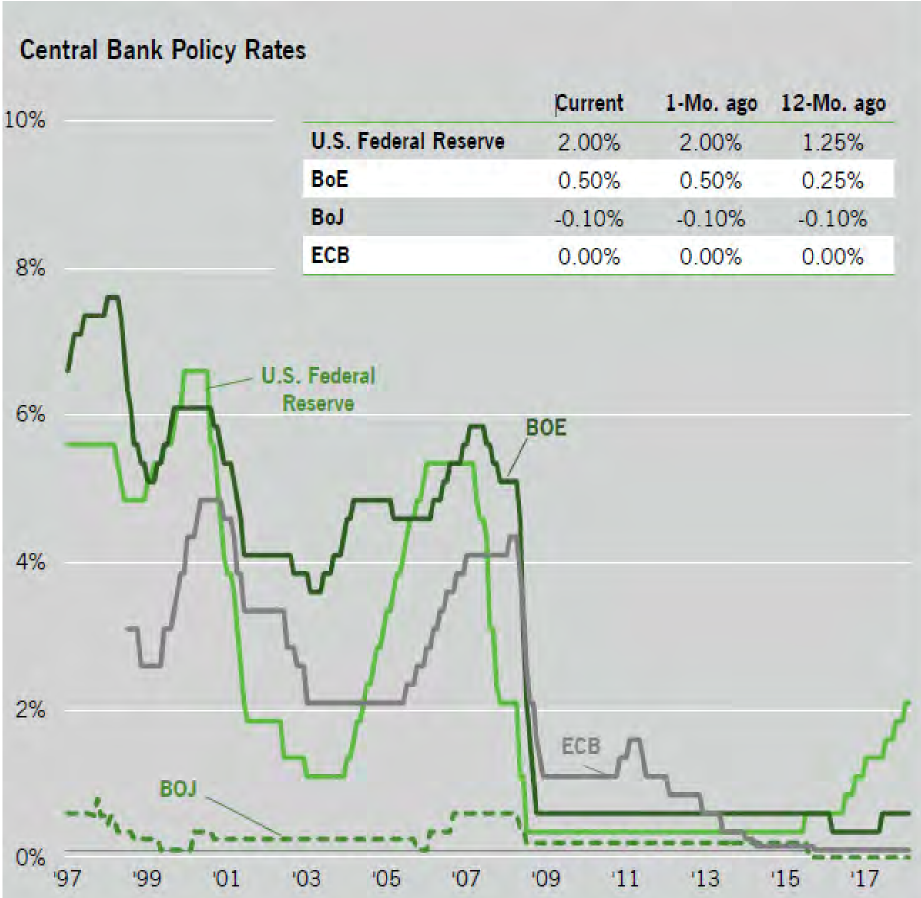
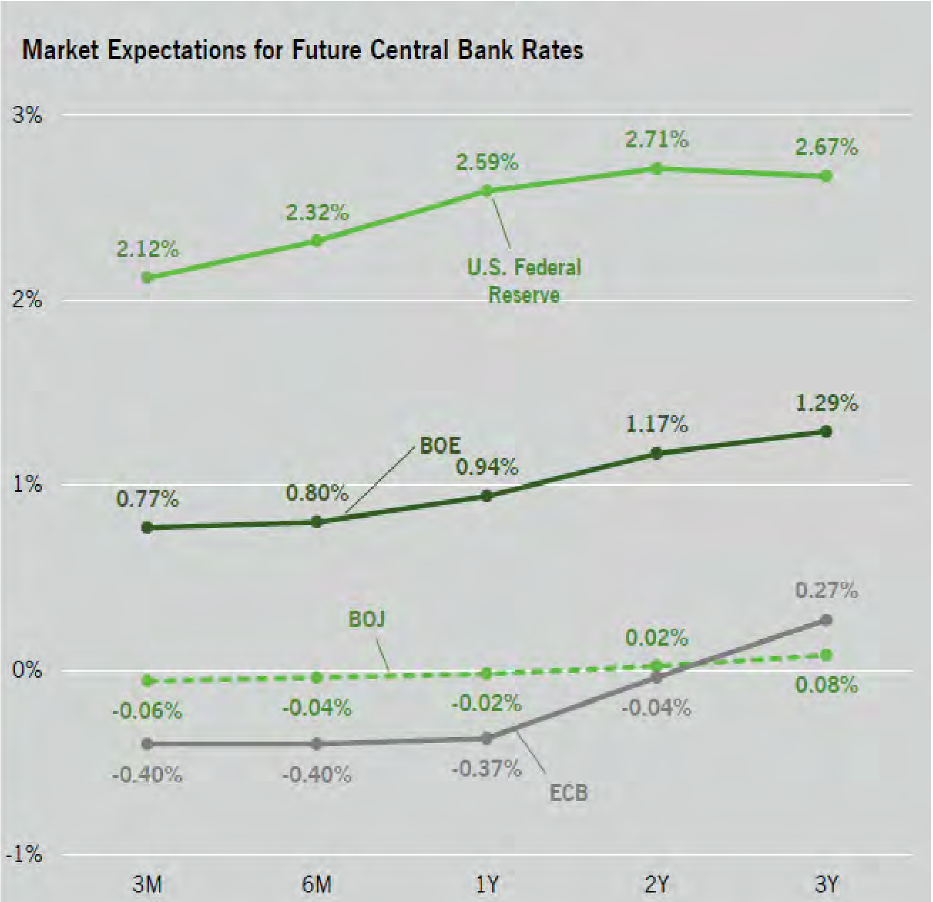
Market Review: International Interest Rates

Central Bank Policy Rates

- Market expectations are for the U.S. Federal reserve to raise policy rates 3-4 more times before they start to lower rates again (in 2021). Markets expect other major central banks to raise rates minimally over the next three years.



	Current	1-Mo. ago	12-Mo. ago
U.S. Federal Reserve	2.00%	2.00%	1.25%
BoE	0.50%	0.50%	0.25%
BoJ	-0.10%	-0.10%	-0.10%
ECB	0.00%	0.00%	0.00%



Source: Easton Vance, Bloomberg, Factset. Data as of 07/31/2018. Past performance is not a guarantee of future results.

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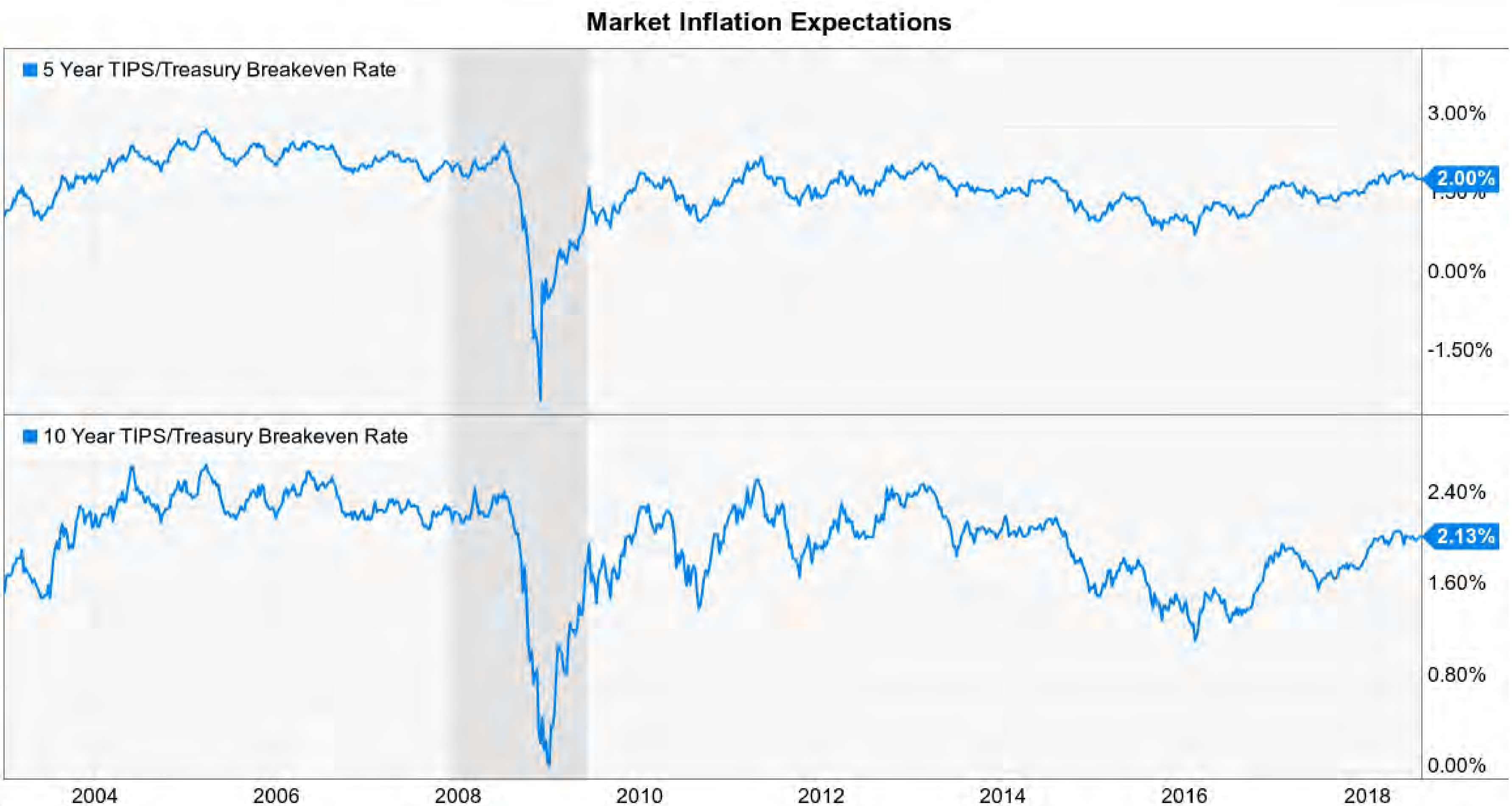
Market Review: US Inflation Expectations

Breakeven Rates

- ❑ Market expectations of future inflation in the U.S. have increased recently, but are still relatively muted, near 2%



- ❑ Breakeven rates are market-based inflation indicators. They are the differential between nominal (non-inflation-adjusted) Treasuries and Treasury-Inflation-Protected-Securities. Policy makers pay close attention to inflation expectation because they can influence firms' and households' spending decisions, which affect actual prices.

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Source: YCharts. Data as of 07/31/2018. Past performance is not a guarantee of future results.

Market Review: Energy Prices

Oil & Gas

- Oil prices have moved up to over 3-year highs, supported by tighter U.S. inventories and the possibility of extended OPEC production cuts. Strong global growth has supported demand for oil.

Energy Prices

Source: YCharts, Energy Information Administration. Data as of 07/31/2018. Past performance is not a guarantee of future results.

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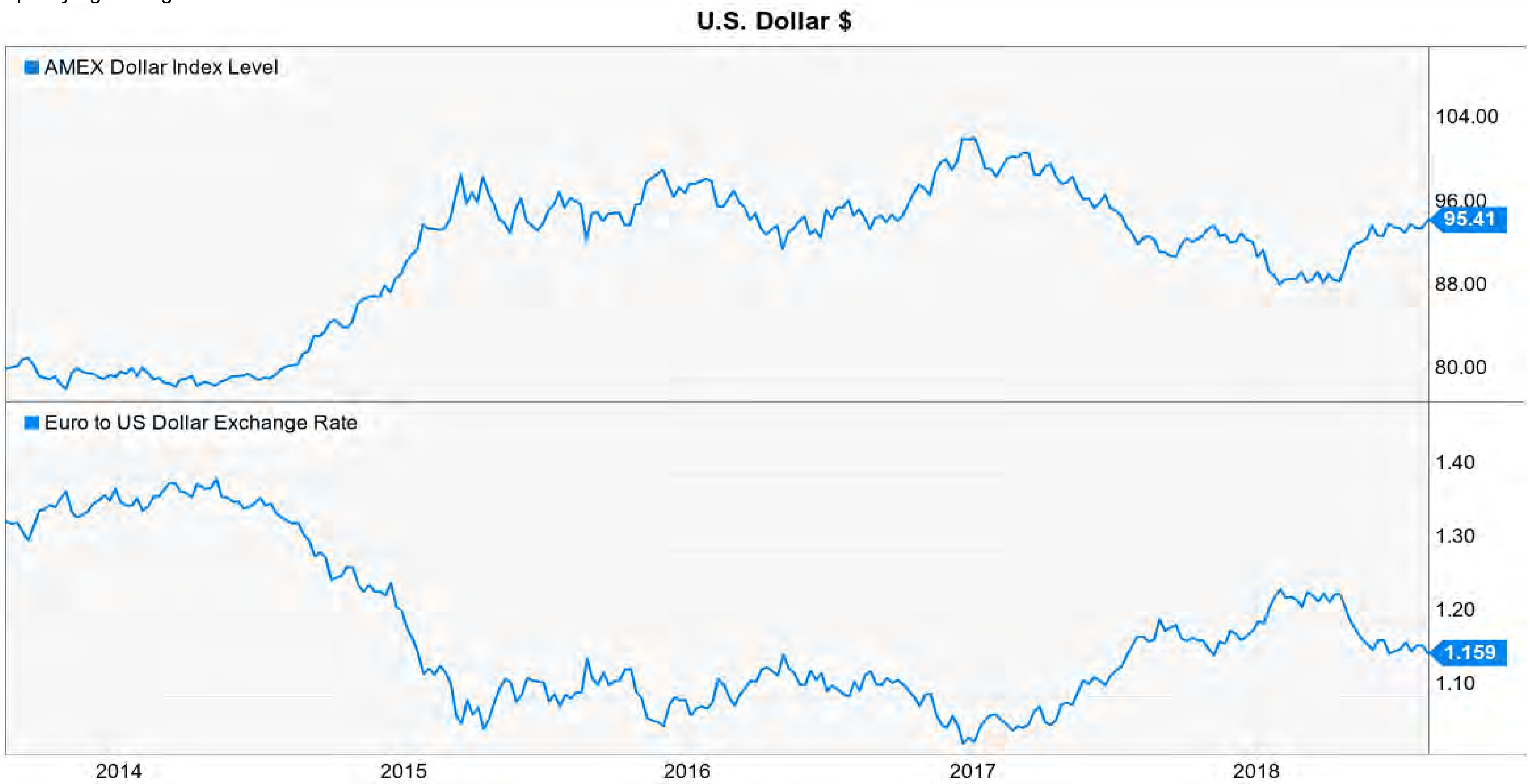
Markets Review: Currency

US Dollar

- The U.S. dollar has strengthened relative to other foreign countries more broadly, due to expectations of U.S. economic outperformance and faster monetary policy tightening.



- The US Dollar Index (DXY) is an index (or measure) of the value of the United States dollar relative to a basket of foreign currencies, often referred to as a basket of US trade partners' currencies. It is a weighted geometric mean of the dollar's value relative to other select currencies. The Euro to US Dollar Exchange Rate is a direct quote of the U.S. dollars per unit of Euro.

Source: YCharts. Data as of 07/31/2018. Past performance is not a guarantee of future results.

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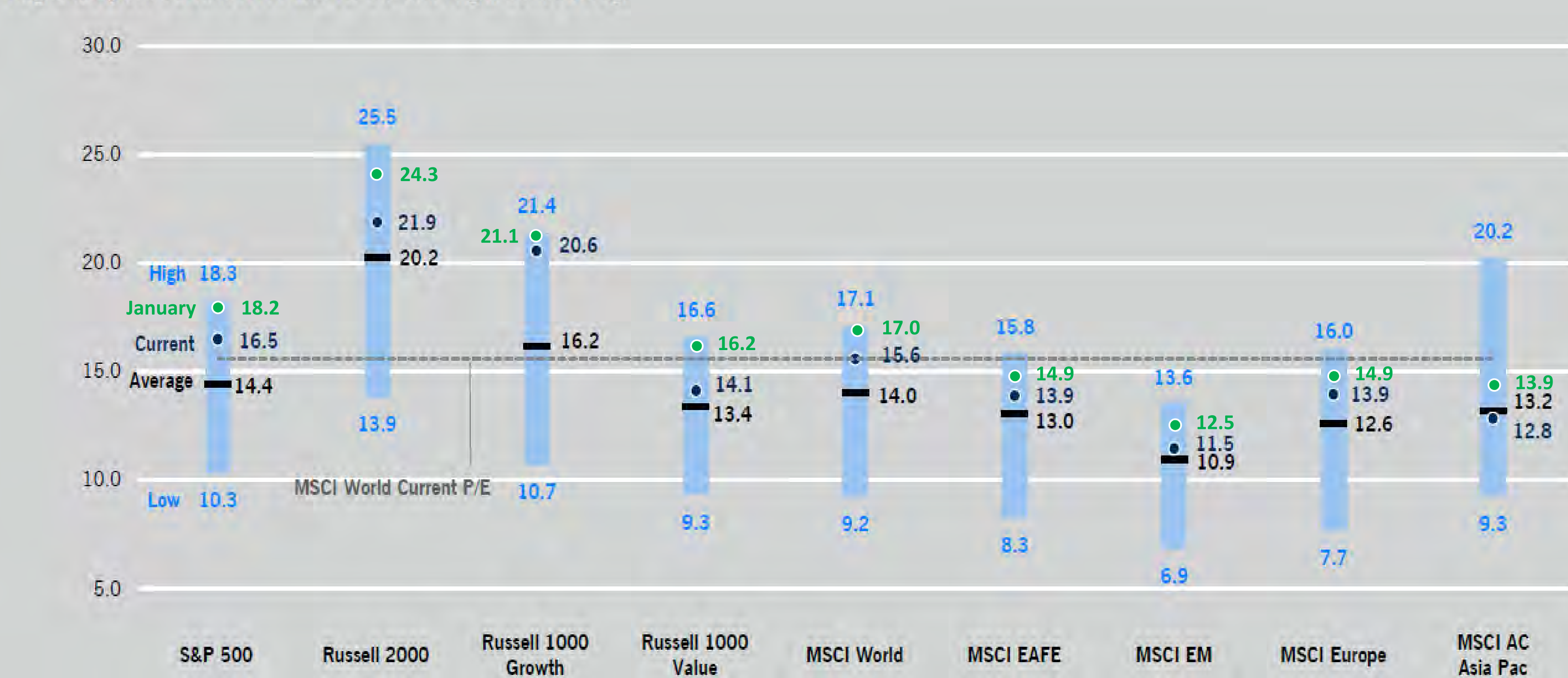
Markets Review: Valuations

Stock Valuations

- Stock market valuations have come down since the start of 2018 due to earnings growth outpacing stock price appreciation. Stock prices have been held back mainly due to trade tensions. Valuations are not at excessively high levels relative to recent history. International valuations are lower than in the U.S.

Regions/Styles: Current NTM P/E vs. 10-Year High, Low, Average



	S&P 500	Russell 2000	Russell 1000 Growth	Russell 1000 Value	MSCI World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Date	11/17	9/17	1/18	2/17	1/18	5/15	7/09	3/15	7/09
Low Date	9/11	9/11	11/08	9/11	10/08	10/08	10/08	10/08	10/08

Source: Eaton Vance, Factset. Data as of 07/31/2018. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

NTM P/E is market price per share divided by expected earnings per share over the next twelve months. ..

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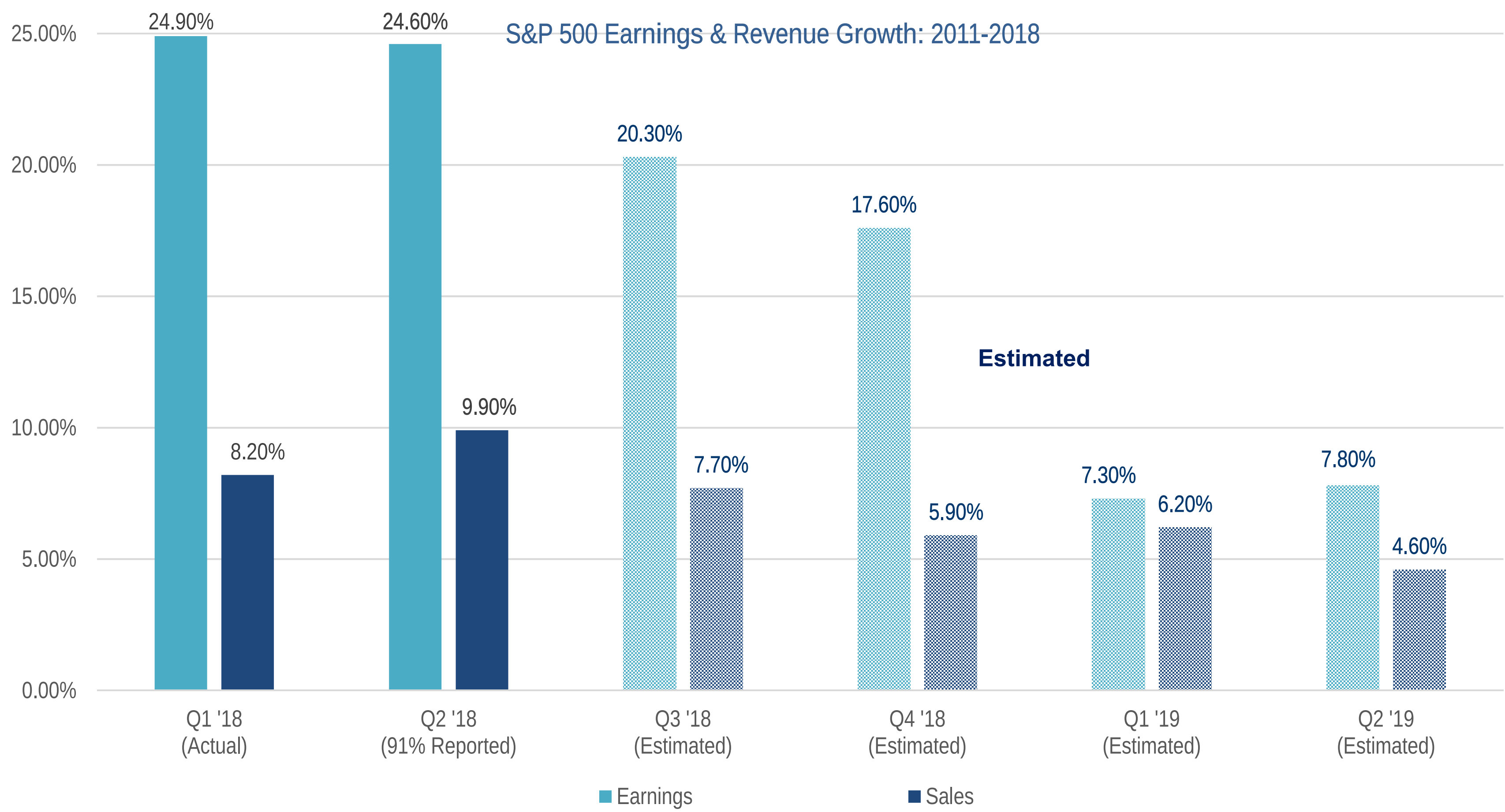
Markets Review: U.S. Earnings Growth

U.S. Corporate Earnings Growth (By Quarter)

- For **Q2 2018**, the blended earnings growth rate for the S&P500 is **24.6%** (with a **9.9%** sales growth rate), based on 91% of companies reporting so far. Around **79%** of these companies have reported better than expected earnings, and **72%** have reported better than expected sales.



Source: Factset. Data as of 08/10/2018. Past performance is not a guarantee of future results.

Earnings Growth is the % change in YoY EPS from the prior year.

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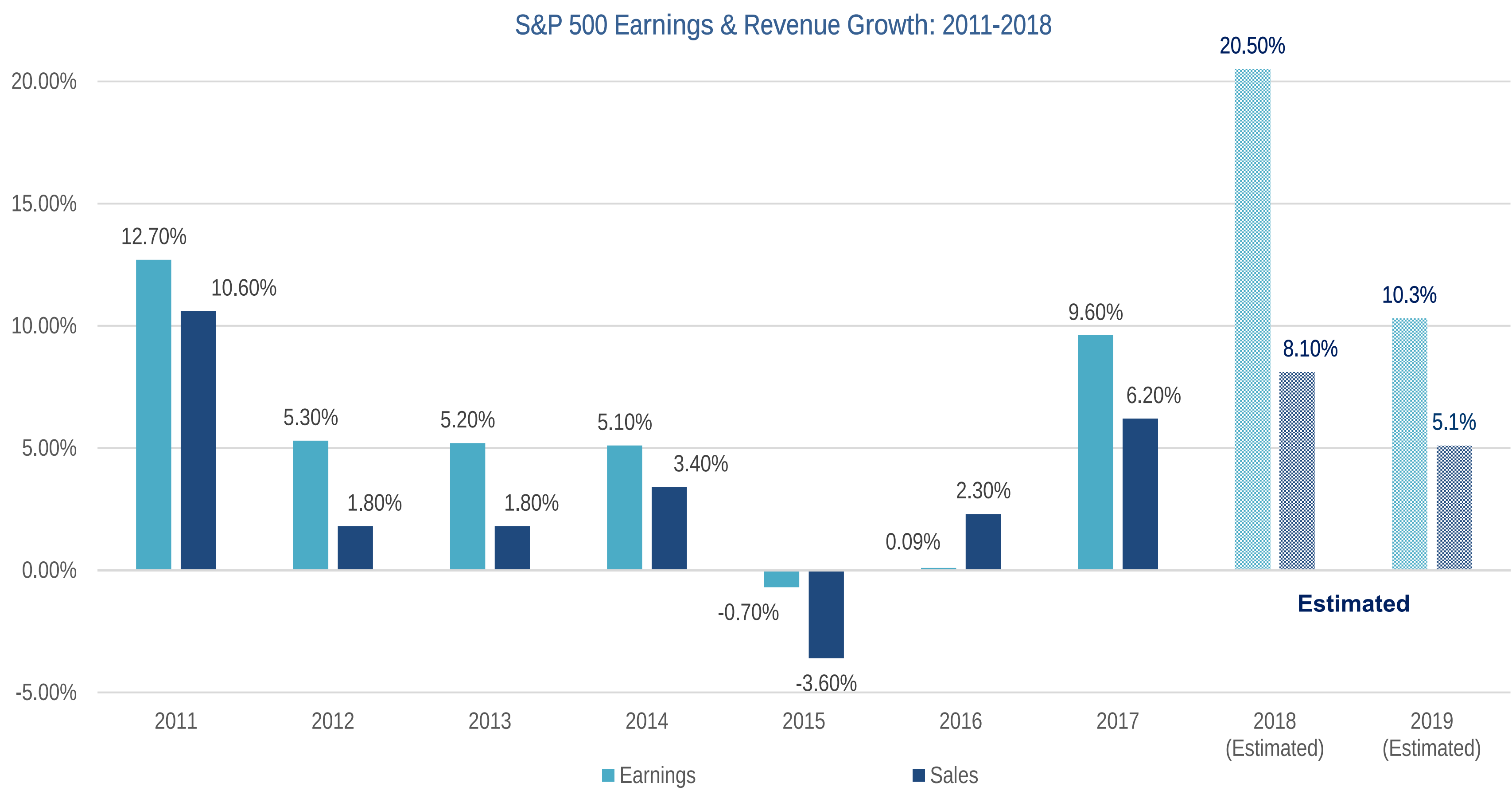
Markets Review: U.S. Earnings Growth

U.S. Corporate Earnings Growth (By Calendar Year)

- Analysts currently estimate earnings to grow near **20% for full-year 2018**, but also expect more moderate growth **near 10% for 2019**.



Source: Factset. Data as of 08/10/2018. Past performance is not a guarantee of future results.

Earnings Growth is the % change in YoY EPS from the prior year.

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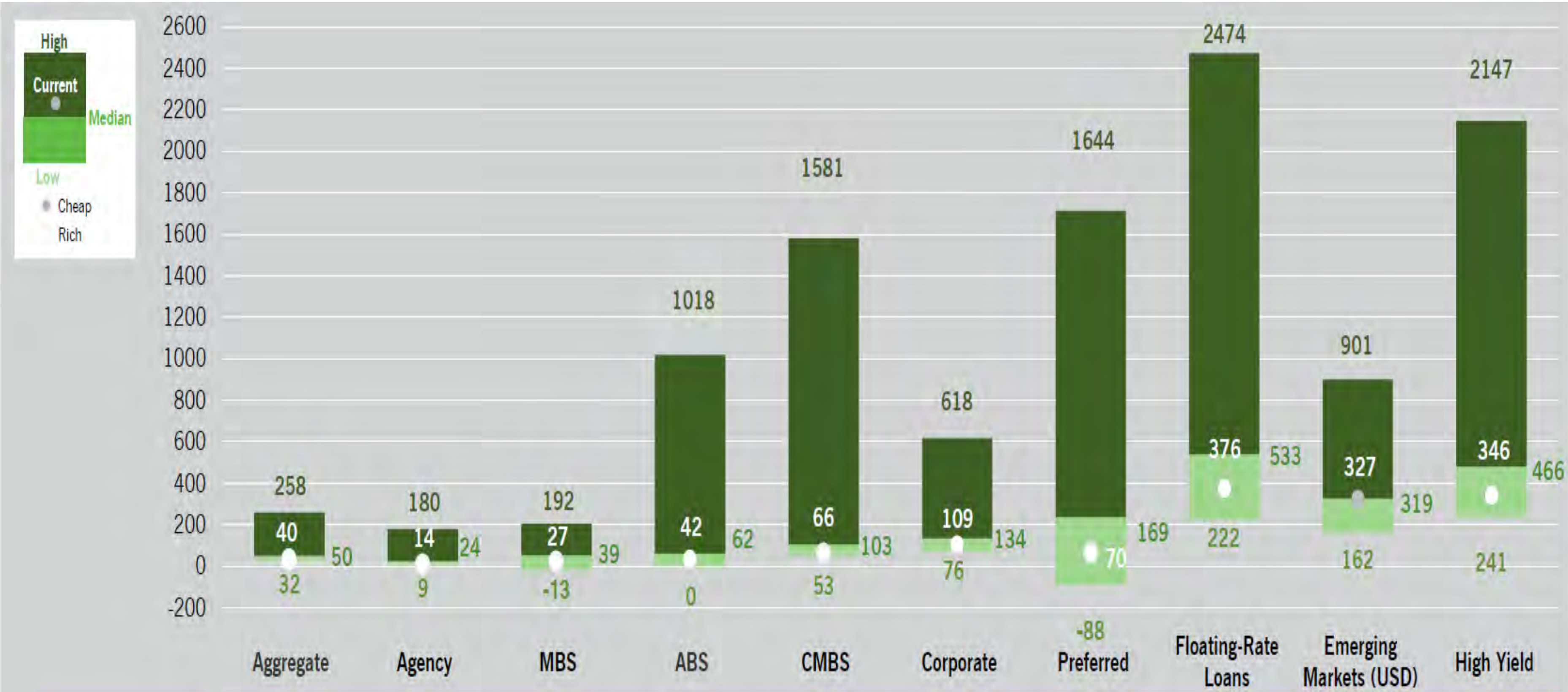
Markets Review: Valuations

Bond Valuations

- Credit spreads are at historically tight levels given the significant improvements in corporate fundamentals.



	Aggregate	Agency	MBS	ABS	CMBS	Corporate	Preferred	Floating-Rate Loans	Emerging Markets (USD)	High Yield
Max Spread Date	12/3/2008	11/20/2008	12/3/2008	1/6/2009	11/21/2008	12/3/2008	3/9/2009	12/19/2008	10/24/2008	12/15/2008
Min Spread Date	2/23/2005	3/12/2013	7/27/2010	10/1/2009	12/8/2004	3/11/2005	12/6/2017	3/31/2006	6/1/2007	6/1/2007

Source: Eaton Vance, Factset. Data as of 07/31/2018. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

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Overview

- ❑ U.S. Growth
- ❑ U.S. Inflation
- ❑ U.S. Job Market
- ❑ U.S. Consumer
- ❑ U.S. Housing Market
- ❑ U.S. Trade Policy

Economic Review

Summary and Outlook

Summary

- Growth in the U.S. has accelerated, helped by strong consumer and business spending. Forecasts are for 2.8% U.S. growth in 2018.
- Inflation in the U.S. has increased but is near a level considered a relatively healthy amount of inflation. Forecasts are for 2.1% core inflation in 2018.
- The U.S. unemployment rate (3.9%) is now below a level that is consistent with "full employment". Forecasts are for a 3.6% unemployment rate in 2018.
- U.S. consumer sentiment continues to rise and is at a 14-year high. This is consistent with improving labor market conditions and growing wealth.
- Consumer spending continues to be strong so far in 2018; this has been due to broadly favorable economic conditions particularly the job market.
- The housing market is healthy. Home sales have continued to increase, however the pace has been modest due to limited supply and rising home prices..
- Home prices have increased around 6.4% over the past year as of May. Low inventories have helped push prices higher.

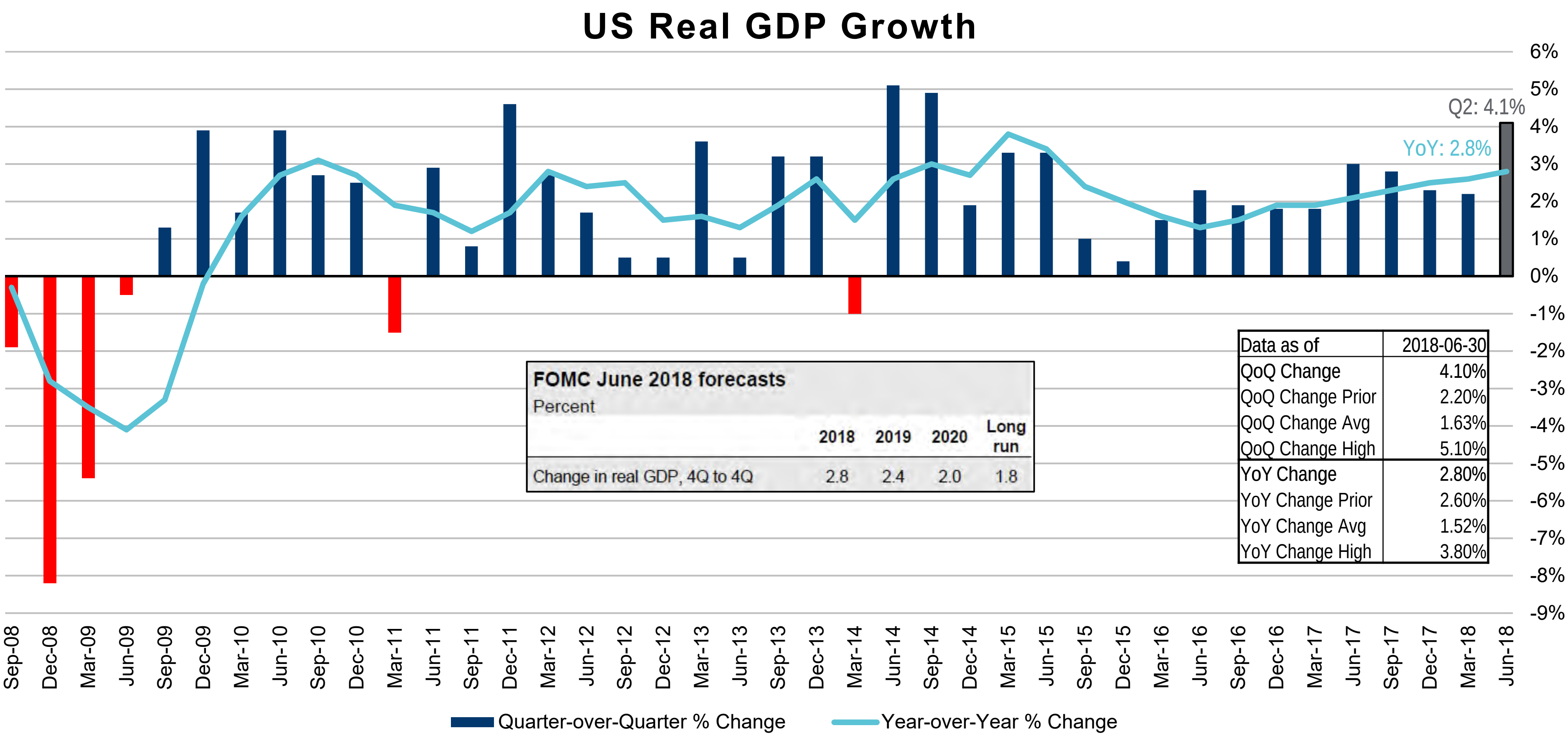
Outlook

- Global economic growth will likely remain on track. We still expect global economic growth (U.S. and abroad) to continue and moderately accelerate throughout the year.
- Despite recent headlines about tariffs and the resulting market reactions, almost all the various economic indicators we monitor are still trending in a positive direction, and there are no imminent signs of a global recession.
- While challenges abroad persist (particularly throughout Europe), central banks remain patient and accommodative.
- With the U.S. economy further along, the recently passed tax cuts and government spending plans should help continue to offset increasing interest rates.

Economy: US Growth

Gross Domestic Product (GDP)

- The U.S. economy grew at its fastest annual rate in nearly four years in Q2. A strong rebound in consumer spending and continued improved business investment contributed to growth. Trade added to growth as exports rose ahead of new tariffs taking effect. FOMC forecasts are for 2.8% growth in 2018.



FOMC June 2018 forecasts
Percent

	2018	2019	2020	Long run
Change in real GDP, 4Q to 4Q	2.8	2.4	2.0	1.8

Data as of	2018-06-30
QoQ Change	4.10%
QoQ Change Prior	2.20%
QoQ Change Avg	1.63%
QoQ Change High	5.10%
YoY Change	2.80%
YoY Change Prior	2.60%
YoY Change Avg	1.52%
YoY Change High	3.80%

- Gross domestic product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period. Though GDP is usually calculated on an annual basis, it can be calculated on a quarterly basis as well. GDP includes all private and public consumption, government outlays, investments and exports minus imports that occur within a defined territory. GDP is a broad measurement of a nation's overall economic activity.

Source: YCharts, Bureau of Economic Analysis. Past performance is not a guarantee of future results.

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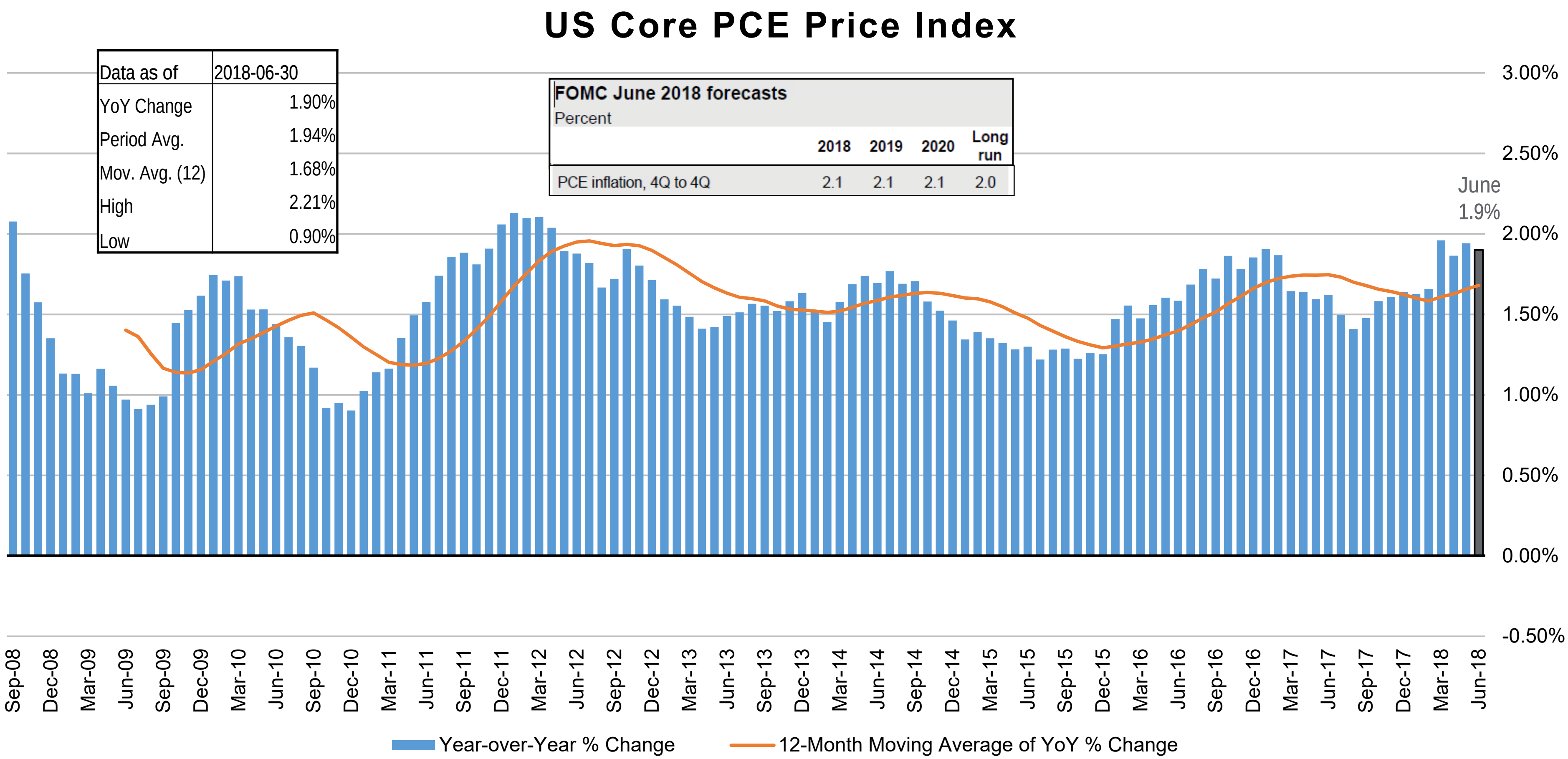
Economy: US Inflation

Core Personal Consumption Expenditures Price Index (Core PCE)

- The Federal Reserve's preferred measure of inflation, Core PCE, has finally reached their target of 2% again after more than two years. This level of inflation is considered a relatively healthy level of inflation. FOMC forecasts are for 2.1% Core PCE inflation in 2018.



- The Core Personal Consumption Expenditures (PCE) Price Index is a measure of the price changes of consumer goods and services excluding food and energy. While it shares similarities with the Consumer Price Index (CPI), it is considered a more comprehensive, dynamic and reliable inflation metric. The Fed prefers it when reviewing economic conditions.

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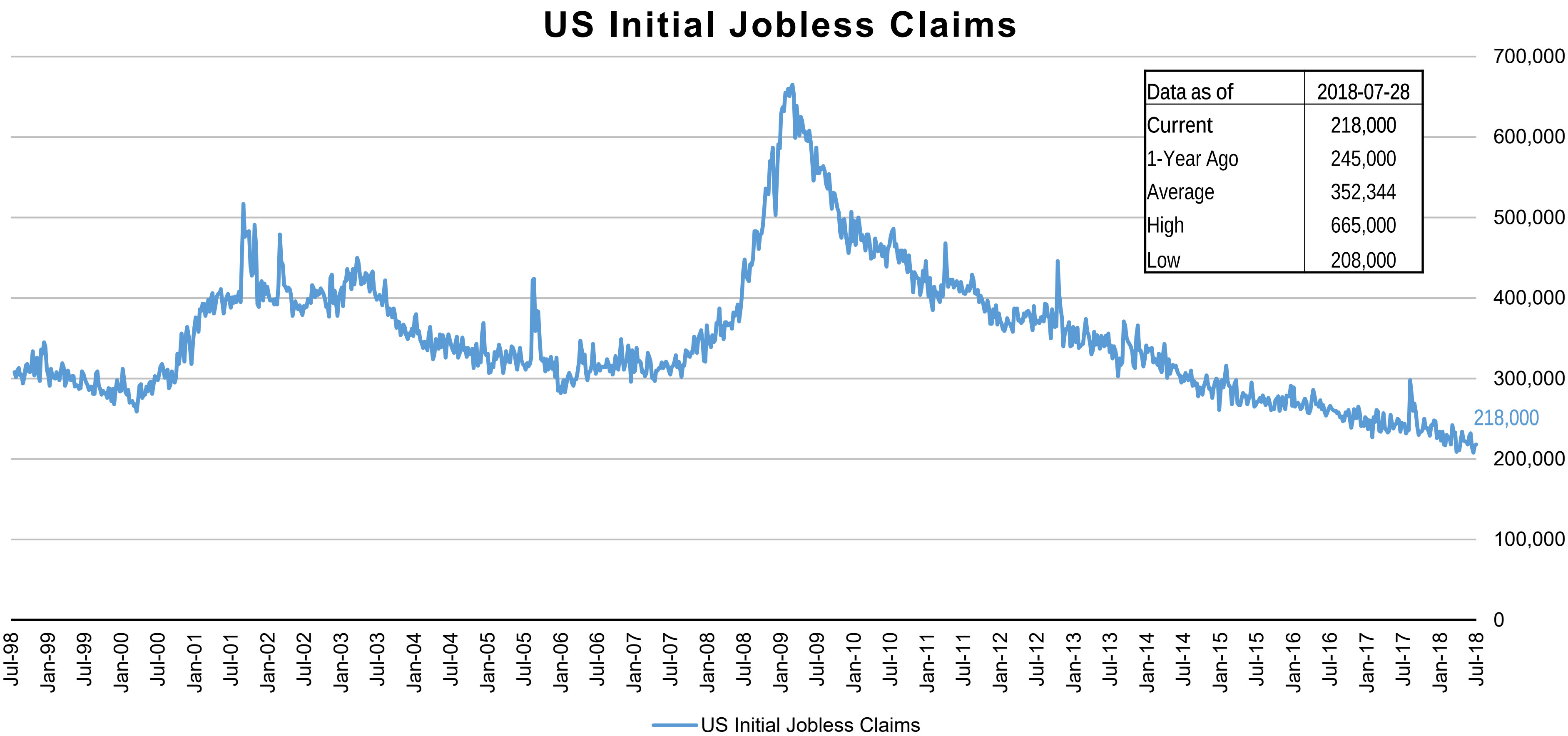
Source: YCharts, Bureau of Economic Analysis (Commerce Department. Past performance is not a guarantee of future results.

Economy: US Job Market

Jobless Claims

- The downward tend in Jobless Claims, a proxy for layoffs, has continued in 2018, and is at an historically low level signaling a healthy job market. The number remains at the lowest level since November 1973. This means that employers are generally content to maintain and expand their payrolls.



Data as of	2018-07-28
Current	218,000
1-Year Ago	245,000
Average	352,344
High	665,000
Low	208,000

- Initial claims for unemployment insurance offer weekly information on layoff activity. Any reading below 300,000 is considered low in a historical context. In the post-war period, when initial claims head above 320,000 per week on a consistent basis, a recession is just around the corner.

Source: YCharts, Department of Labor. Past performance is not a guarantee of future results.

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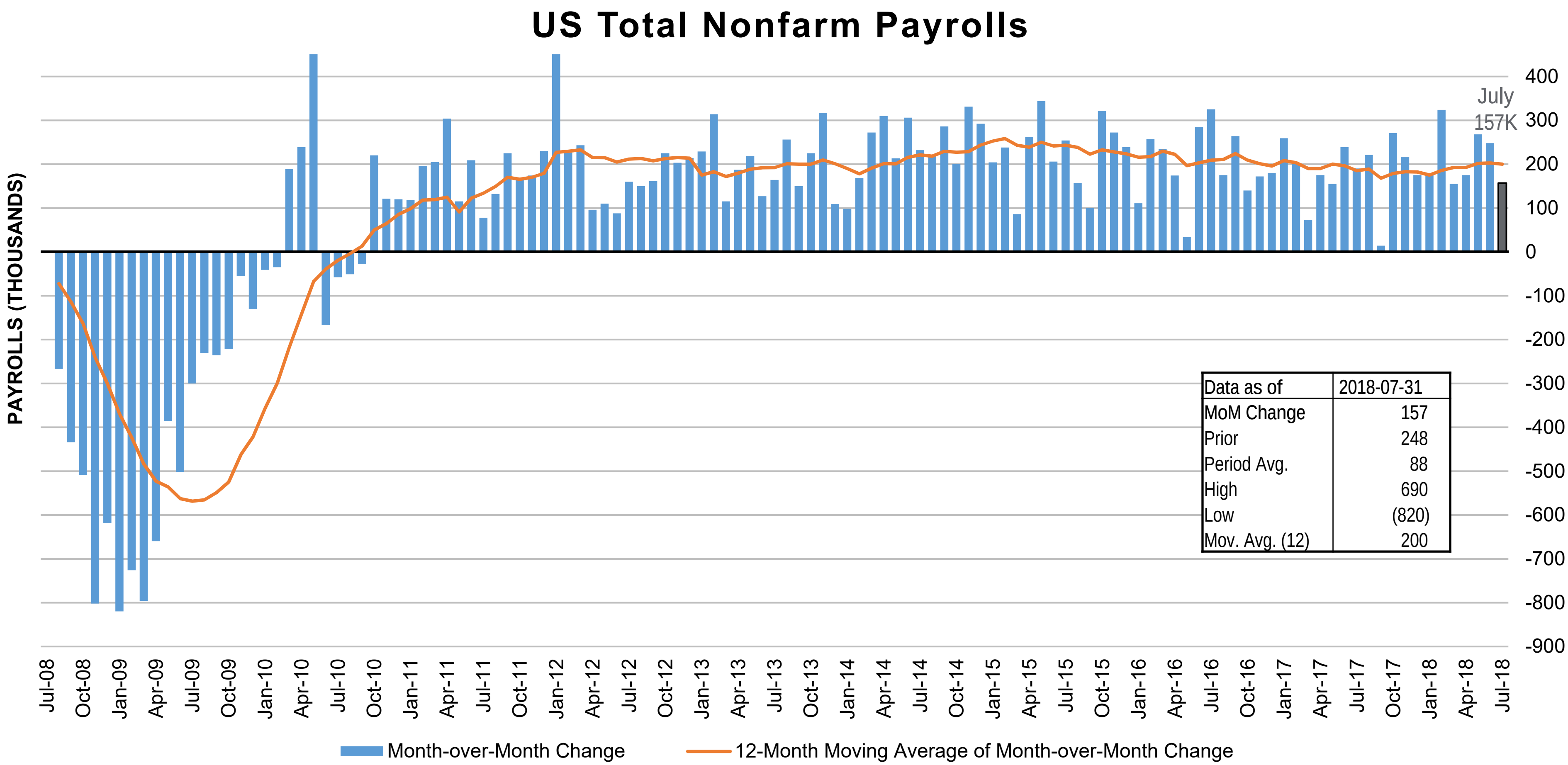
Economy: US Job Market

Change in Nonfarm Payrolls

- U.S. companies continue to hire at a healthy pace. Over the last 12-months, employers have added an average of 200,000 jobs per month.



Data as of	2018-07-31
MoM Change	157
Prior	248
Period Avg.	88
High	690
Low	(820)
Mov. Avg. (12)	200

- Nonfarm payroll is a monthly report intended to represent the number of additional jobs added from the previous month Despite the name nonfarm payroll, the report excludes workers from general government jobs, private household jobs, employees of nonprofit organizations and farm employees.

Source: YCharts, Bureau of Labor Statistics. Past performance is not a guarantee of future results.

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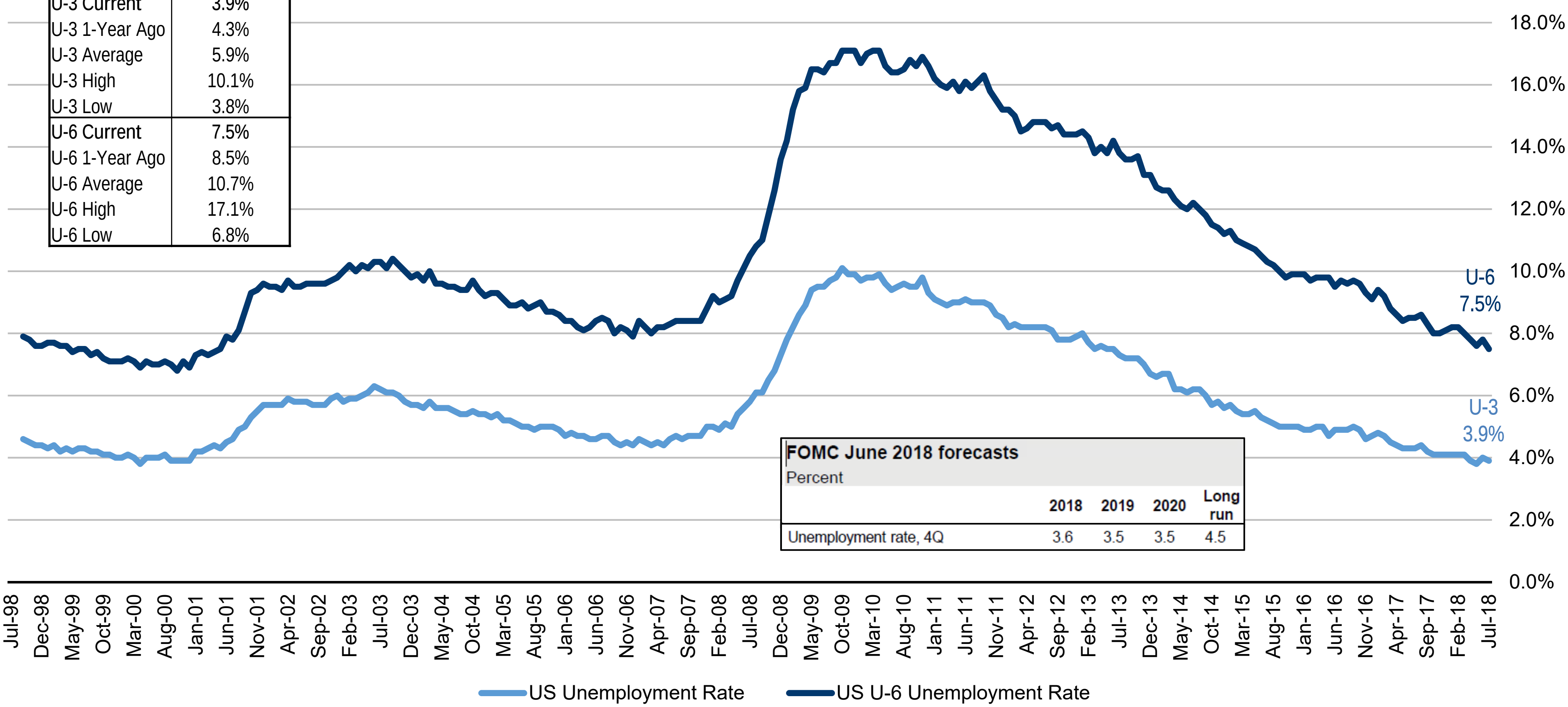
Economy: US Job Market

Unemployment Rate

- The official unemployment rate (U-3) is now below a level that is consistent with "full employment" (i.e., 5%) The broader unemployment rate that includes part-time workers (U-6) is now below its pre-2008/2009 recession levels. FOMC forecasts are for a 3.6% unemployment rate (U-3) in 2018.

Data as of	2018-07-31
U-3 Current	3.9%
U-3 1-Year Ago	4.3%
U-3 Average	5.9%
U-3 High	10.1%
U-3 Low	3.8%
U-6 Current	7.5%
U-6 1-Year Ago	8.5%
U-6 Average	10.7%
U-6 High	17.1%
U-6 Low	6.8%



FOMC June 2018 forecasts

Percent

	2018	2019	2020	Long run
Unemployment rate, 4Q	3.6	3.5	3.5	4.5

- The unemployment rate is the percentage of the total labor force that is unemployed but actively seeking employment and willing to work. The U-3 rate is the officially recognized rate of unemployment, measuring the number of unemployed people as a percentage of the labor force. The U-6 rate includes people who work part time because full-time work is not available due to economic conditions.

Source: YCharts, Bureau of Labor Statistics. Past performance is not a guarantee of future results.

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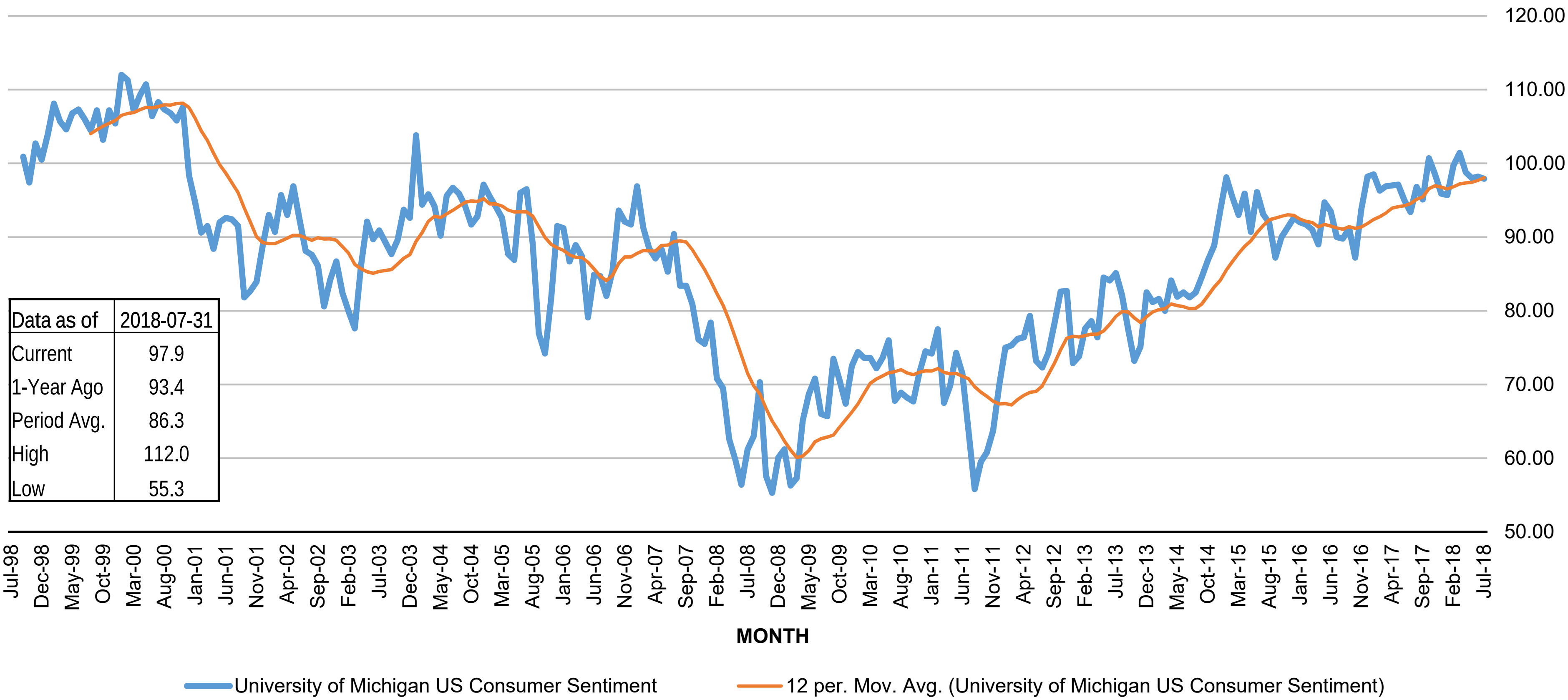
Economy: US Consumer

Consumer Sentiment

- Consumer sentiment continues to rise and is at a 14-year high. This is consistent with improving labor market conditions and growing wealth.

University of Michigan US Consumer Sentiment



Data as of	2018-07-31
Current	97.9
1-Year Ago	93.4
Period Avg.	86.3
High	112.0
Low	55.3

- The U.S. Consumer Sentiment report is published by the University of Michigan. Data is collected from a query of 500 adults regarding their attitude on financial and income situations. Interviewers ask 50 core questions, and the responses are standardized on a 100 point scale.

Source: YCharts, University of Michigan. Past performance is not a guarantee of future results.

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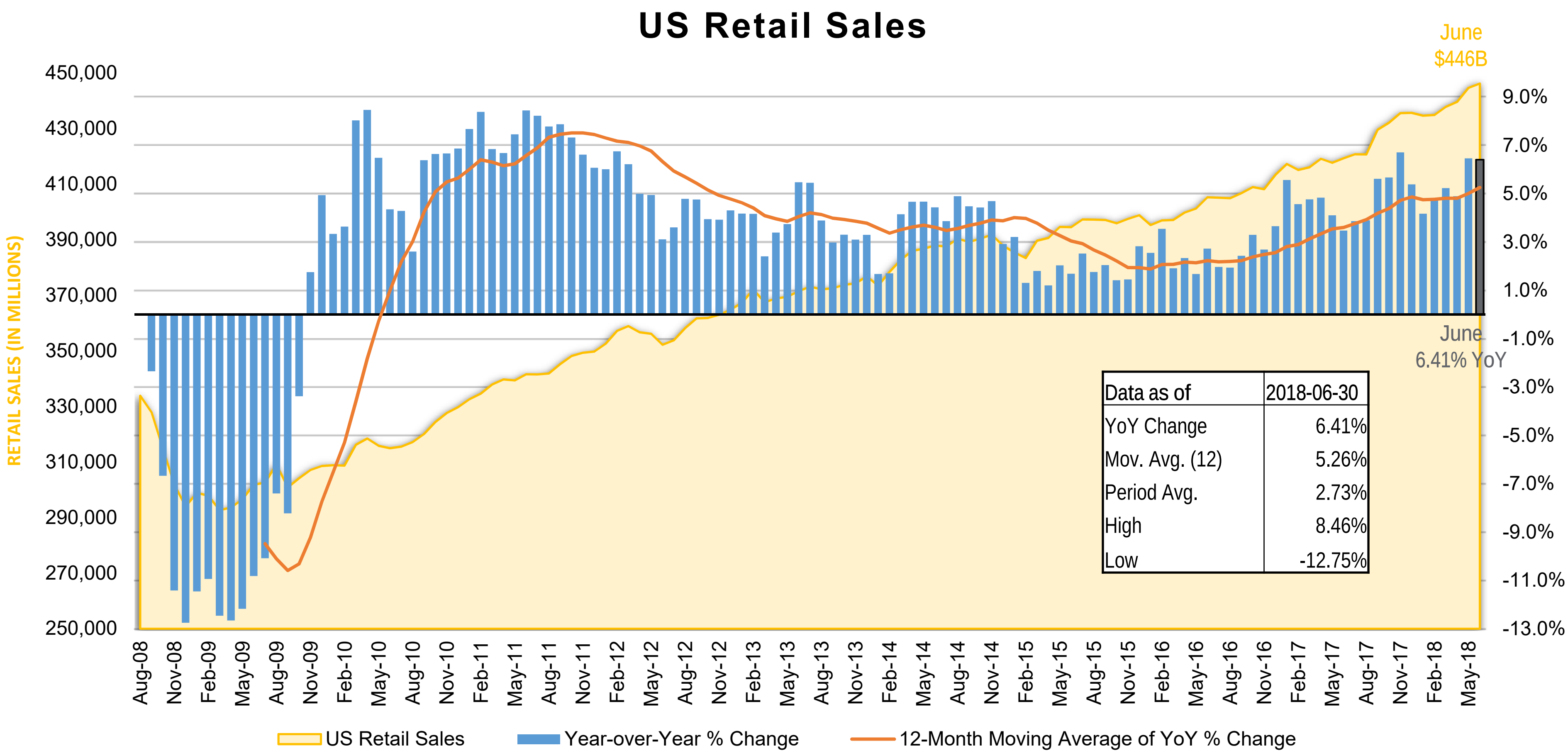
Economy: US Consumer

Retail Sales (Consumer Spending)

- The growth of household spending has picked up. Consumer spending continues to be strong so far in 2018; this has been due to broadly favorable economic conditions particularly the job market.



Data as of	2018-06-30
YoY Change	6.41%
Mov. Avg. (12)	5.26%
Period Avg.	2.73%
High	8.46%
Low	-12.75%

- Retail sales, a measure of purchases at stores, gas stations, car dealerships, restaurants and online, is a substantial portion of consumer spending and an important indicator of economic health. Increased consumer spending is generally considered a sign of stability and growth. Retail sales are important measure of consumer spending, which accounts for more than two-thirds of economic activity in the U.S

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Source: YCharts, Department of Commerce. Past performance is not a guarantee of future results.

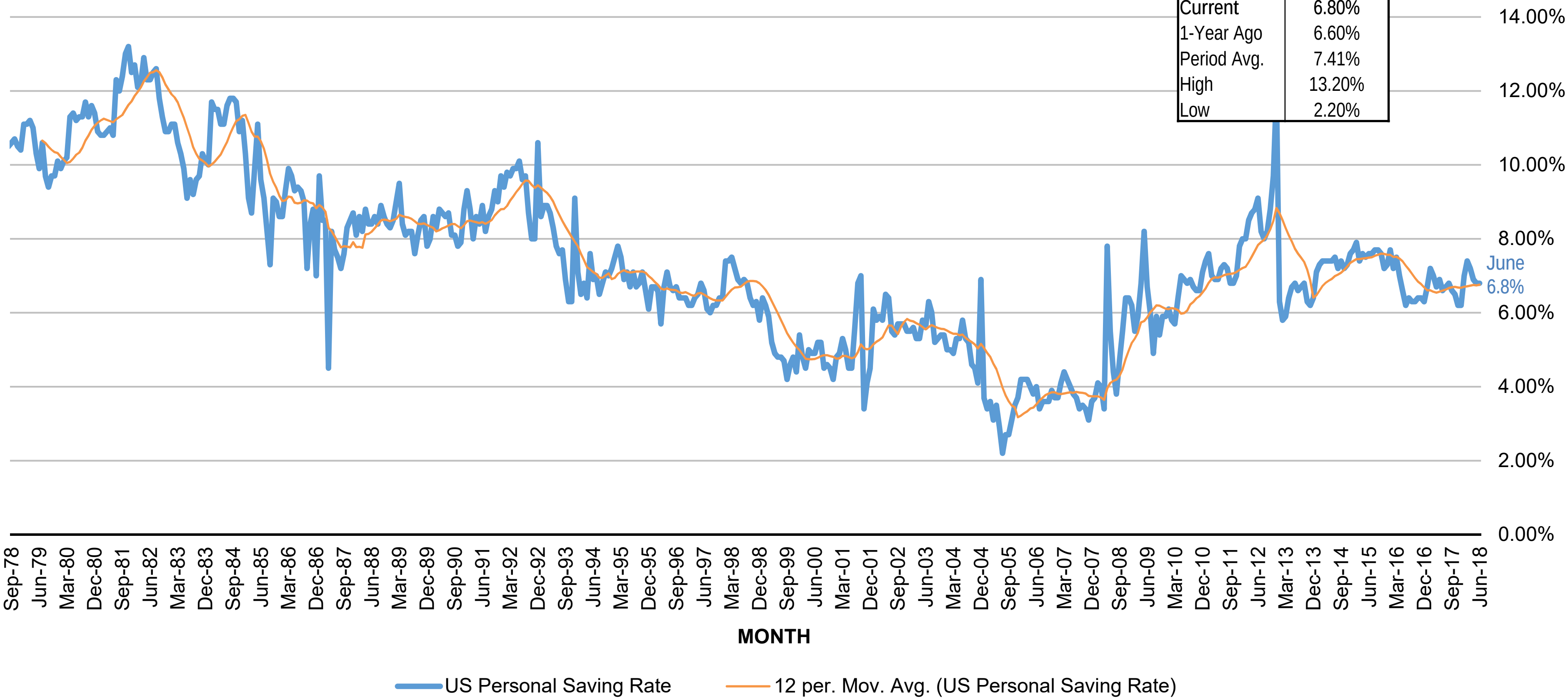
Economy: US Consumer

U.S. Personal Savings Rate

- The personal savings rate in the US has been on a long decline since the 1970s, a trend that began to reverse after the financial crisis. Recently it has been moderately declining, but is nowhere near pre-recession lows (near 2%).

US Personal Saving Rate

Data as of	2018-06-30
Current	6.80%
1-Year Ago	6.60%
Period Avg.	7.41%
High	13.20%
Low	2.20%



- A savings rate is the amount of money, expressed as a percentage or ratio, that a person deducts from his disposable personal income to set aside as a nest egg or for retirement.

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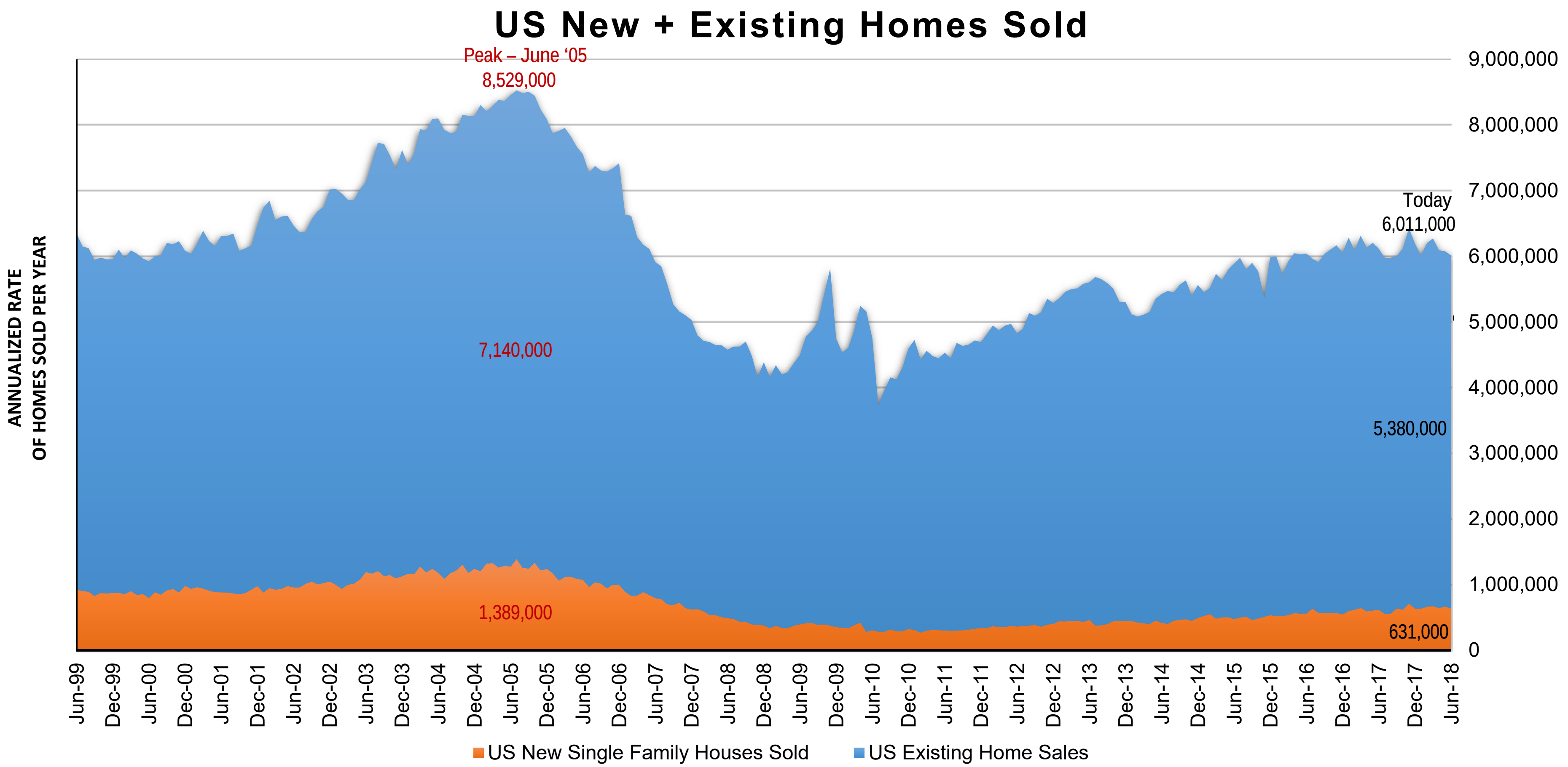
Source: Ycharts, Bureau of Economic Analysis

Economy: US Housing Market

Home Sales

- The housing market is healthy supported by a home buying. Home sales have continued to increase, however the pace has been modest due to limited supply and rising home prices. The current annual rate of home sales is around 70% of the peak in 2005.



- Existing home sales is an economic indicator of both the number and prices of existing single-family homes, condos and co-op sales (which is the vast majority of home sales) over a one-month period. New Homes Sales measures sales of newly built homes. A new home sale is considered to be any deposit or contract signing either in the year the house was built or the year after it was built.

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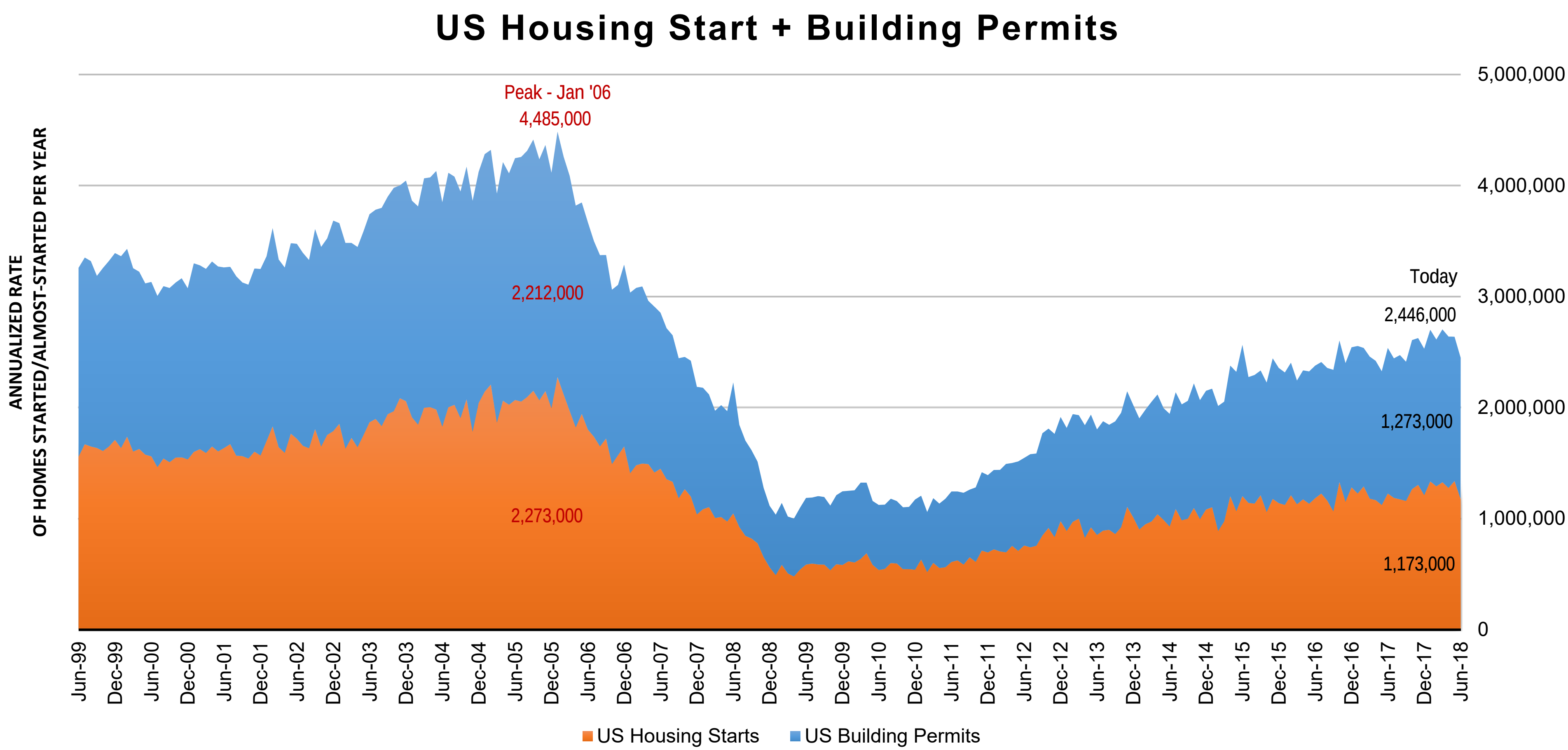
Source: YCharts, U.S. National Association of Realtors. Data as of 06/30/2018. Past performance is not a guarantee of future results.

Economy: US Housing Market

Home Building

- Homebuilders continue to slowly increasing the pace of construction. Shortages of skilled workers and available lots have weighed on the industry even as home-buying demand remains strong. The current annual rate of home building is around 55% of the peak in 2006.



- Housing starts are the number of new residential construction projects that have begun during any particular month. Building permits are a type of authorization that must be granted by a government or other regulatory body before the construction of a new or existing building can legally occur..

Source: Census Bureau, YCharts. Data as of 06/30/.2018. Past performance is not a guarantee of future results.

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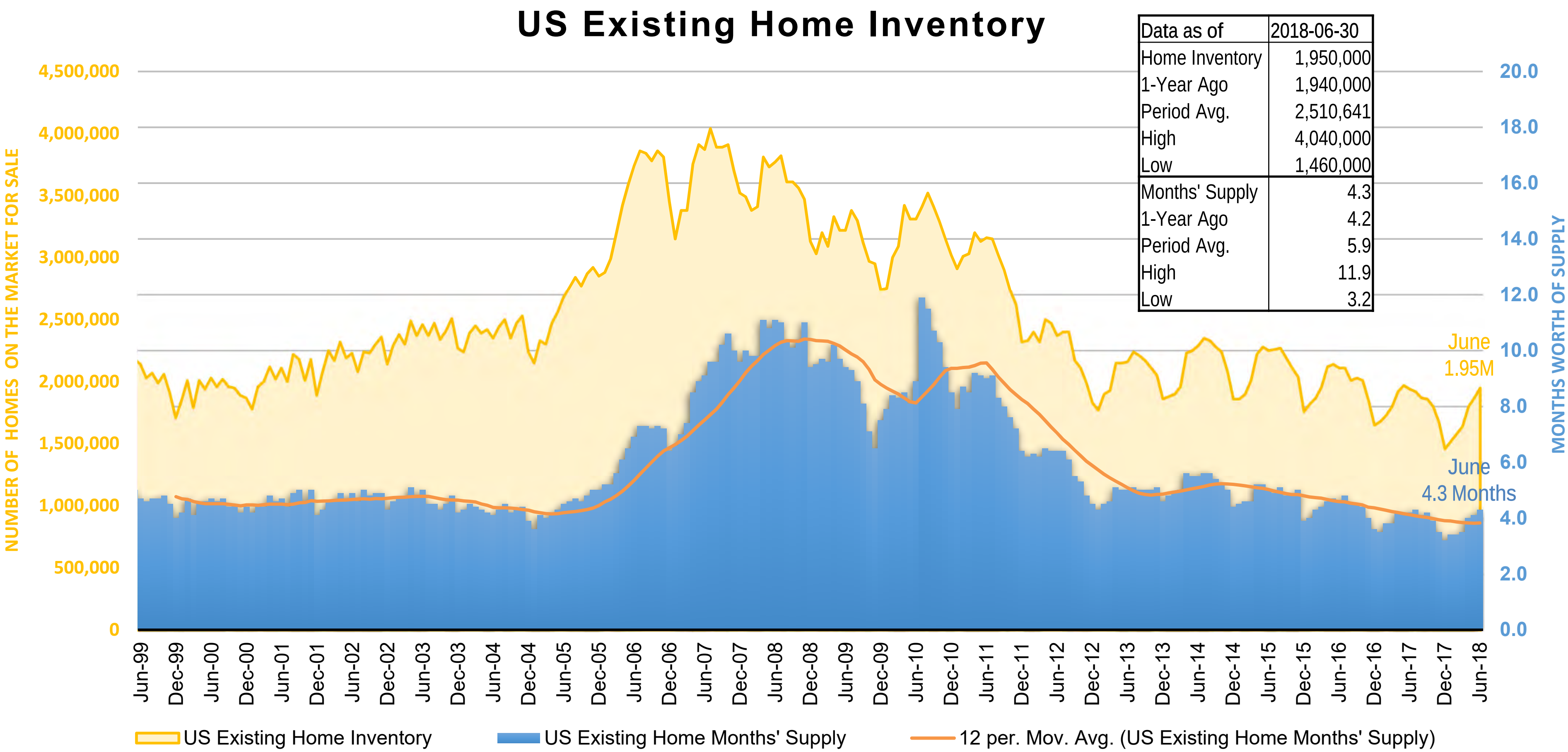
Economy: US Housing Market

Home Supply

- The supply of homes available for sale remains tight. There are currently 1.95 millions existing homes for sale, which equates to about 4.3 months' supply. A balanced market hold about 6 months' supply.



Data as of	2018-06-30
Home Inventory	1,950,000
1-Year Ago	1,940,000
Period Avg.	2,510,641
High	4,040,000
Low	1,460,000
Months' Supply	4.3
1-Year Ago	4.2
Period Avg.	5.9
High	11.9
Low	3.2

- Home inventory is the approximate number of homes on the market for sale in the U.S. Months supply is approximately how long it would take for the homes currently available to sell at the market's present pace.

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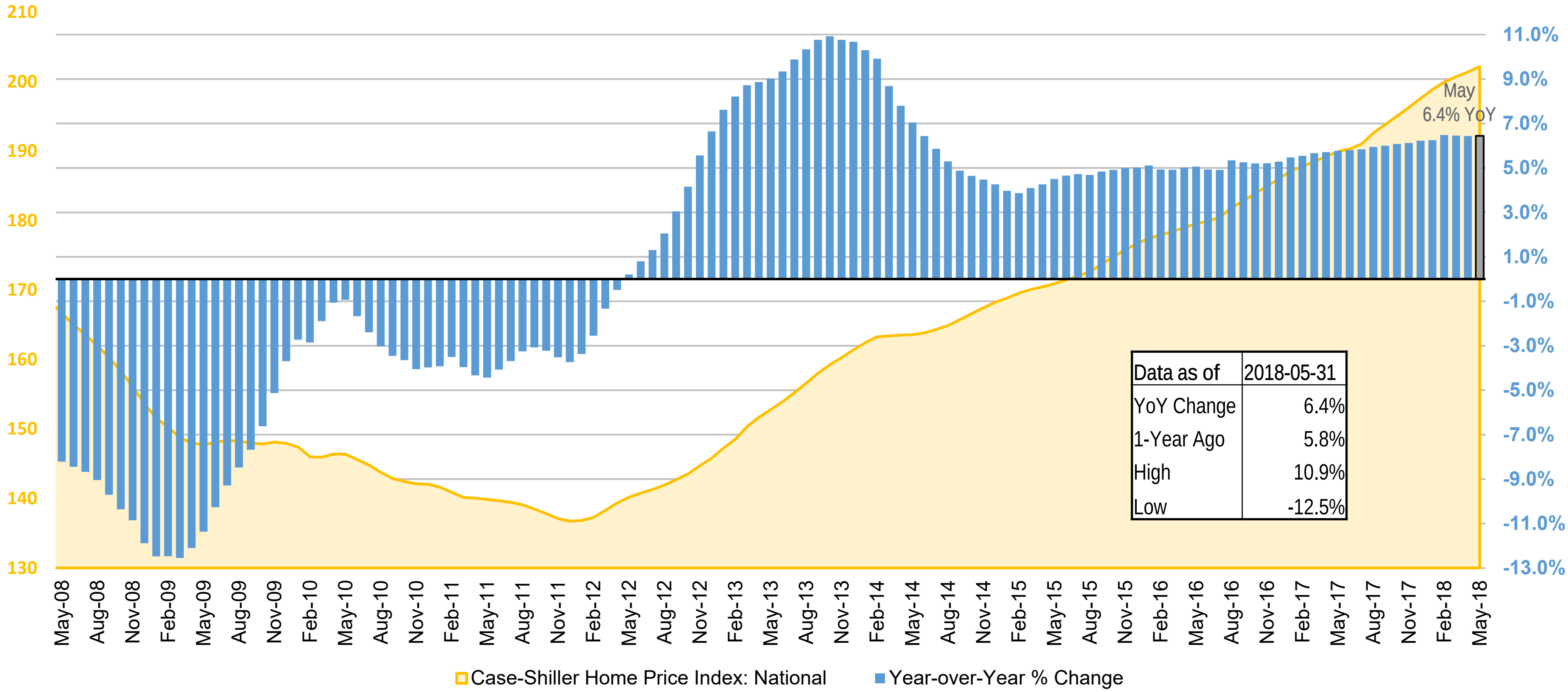
Source: National Association of Realtor, YCharts. Data as of 06/30.2018. Past performance is not a guarantee of future results.

Economy: US Housing Market

Home Prices

- On a national level, single-family home prices have increased around 6.4% over the past year as of May. Low inventories have helped push prices higher as buyers compete over limited number of homes.

Case-Shiller Home Price Index: National



- The S&P CoreLogic Case–Shiller U.S. National Home Price NSA Index is a composite of single-family home price indices for the nine U.S. Census divisions. It is calculated monthly, using a three-month moving average. The S&P CoreLogic Case–Shiller U.S. National Home Price NSA Index is normalized to have a value of 100 in the January 2000.

Source: YCharts, Standard and Poor's. Past performance is not a guarantee of future results.

Economy: US Trade Policy

Potential Impact of Trade Policy Change on the US Economy

- Markets do not seem to be pricing in an extreme protectionist environment. Under the scenario of "protectionism", economic impact would be minimal. The more extreme scenarios are unlikely to play out. If they did, portfolio diversification across equities, bonds, and inflation-sensitive assets will be important.

Scenario and probability	Protectionism 30%–45% Potential trade agreement renegotiations and targeted tariffs or anti-dumping duties. No retaliation.	Trade wars 10%–20% Large tariffs for certain countries or a border adjustment tax. Retaliation occurs.	Isolationism 0%–10% Extreme protectionist policy stance with high tariffs or withdrawal from free-trade agreements. Major retaliation and financial market disruption.
Trade shock	10% import tariff	30% export and import tariff	30% export and import tariff and financial conditions shock
GDP growth impact	+0.2%	–1.0%	–1.7%
Core inflation impact	+0.1%	+0.4%	+0.4%
Federal funds rate (YE 2017)	1 additional increase	Stagflation dilemma	Return to Zero Lower Bound

Notes: All probabilities and impacts are relative to a "status quo" scenario, which has a 20%–30% probability of occurring and entails GDP growth of 2%, core inflation of 2%, and a federal funds rate at year-end 2017 of 1.5%. Probabilities are based on proprietary analysis from Vanguard's global economics team. For the stagflation dilemma, the FRB/US model of the U.S. economy indicates that the Fed would initially raise the federal funds rate but then would lower it as it tried to balance the competing demands of rising inflation and lower growth. Exports and import tariff shocks are represented by a change in export and import prices. Financial conditions shock assumes a 500 basis point (bps) decline in the credit risk premium and a 50 bps decline in the 10-year U.S. Treasury yield.

Source: Vanguard

Important Disclosure Information

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