



Monthly Market Review

U.S. Equity

- Domestic equity markets, as represented by the S&P 500 Index (S&P), gained 3.26% in August.
- Sector performance within the S&P was positive overall in August, with nine of the 11 sectors posting positive returns. The Information Technology, Consumer Discretionary and Healthcare sectors led gains with 6.93%, 5.13% and 4.37%, respectively. Energy and Materials lagged during the month, returning -3.30% and -0.45%, respectively.
- By market capitalization, small-caps (Russell 2000 Index) were the best performers during the month, returning 4.31%. The next best performers during the period were large-caps (Russell 1000 Index), returning 3.45%, followed by mid-caps (Russell Midcap Index) with a return of 3.11%. Growth stocks outperformed value stocks within all three market capitalization indices.

Non-U.S. Equity

- Non-U.S. equity markets, represented by the MSCI ACWI ex-U.S. Index, ended the month down -2.09%. Developed Markets, represented by the MSCI EAFE Index, finished -1.93%, while the Emerging Markets (EM), represented by the MSCI Emerging Markets Index, returned -2.70% in August.
- Within the MSCI ACWI ex-U.S. Index, all sectors except Healthcare posted negative returns. Healthcare, Information Technology and Industrials were the best performers in August, returning 0.23%, -0.06% and -0.85%, respectively. Materials and Utilities lagged the index in August, returning -3.92% and -3.51%, respectively.
- North America was the best-performing region in August, returning 2.99%. EM Latin America and Europe, Middle East and Africa (EMEA) were the worst performing regions, returning -8.37% and -7.72%, respectively.

Fixed Income

- The Bloomberg Barclays U.S. Aggregate Index (Aggregate) returned 0.64% in August.
- Investment-grade (IG) credit within the Aggregate returned 0.51%. Within the IG credit spectrum, returns were positive across all qualities. AAA-rated bonds returned 0.48%, AA-rated bonds returned 0.69%, A-rated bonds returned 0.56% and BBB-rated bonds returned 0.43%. High Yield (HY), represented by the Bloomberg Barclays U.S. Corporate HY Index, returned 0.74% in August.
- The U.S. Treasury yield curve flattened in August. Yields for three-month and six-month bills increased by 7 basis points (bps), while seven-year, 10-year and 30-year bond yields fell by 12, 10 and 8 bps, respectively.

Alternatives and Other Asset Classes

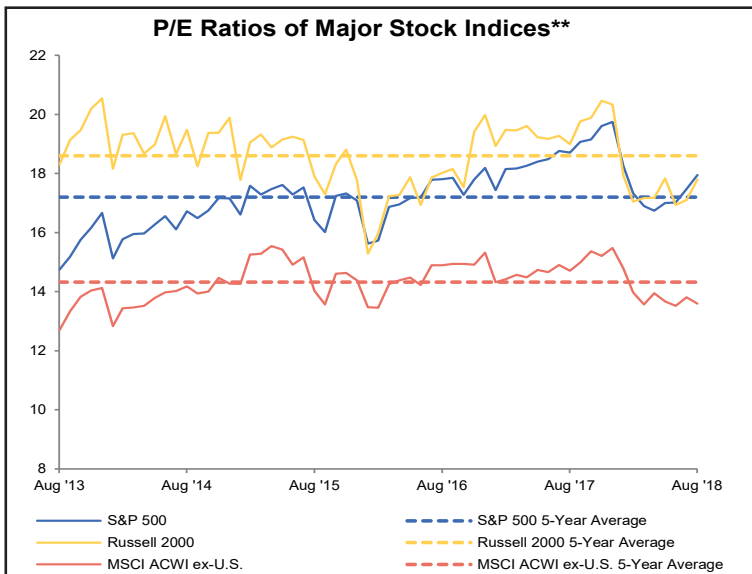
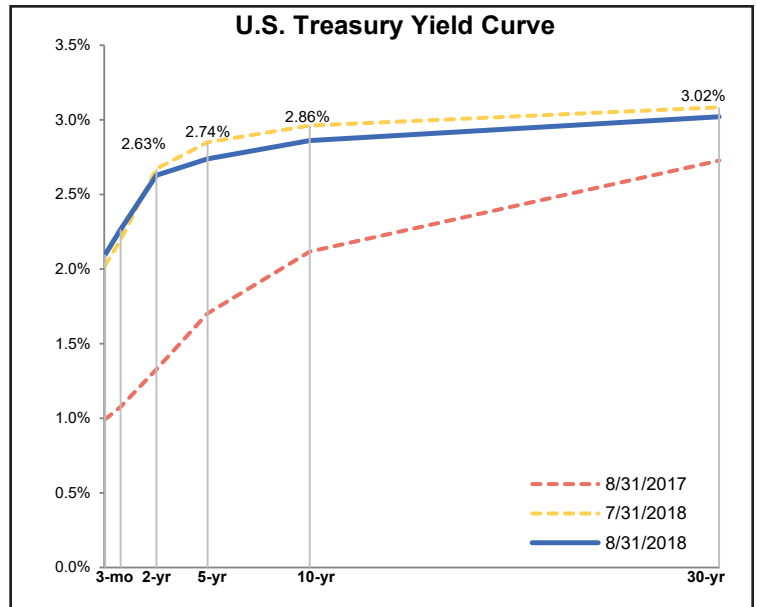
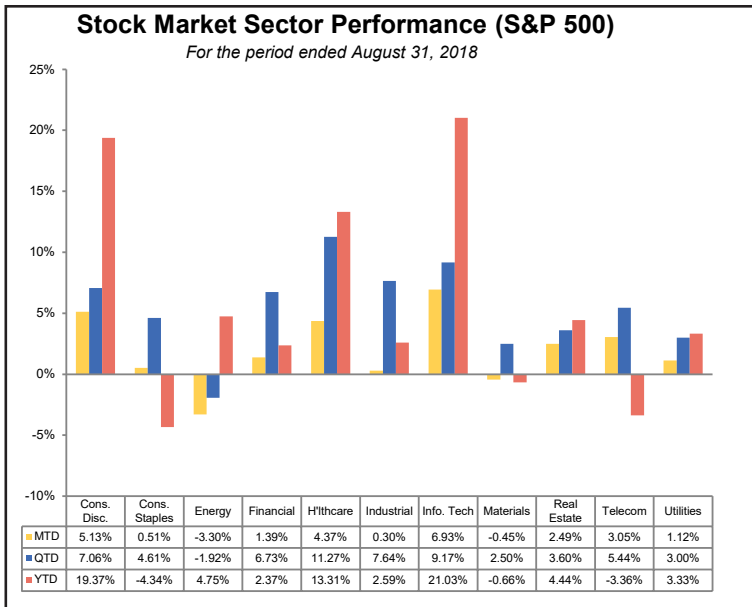
- Real estate investment trusts (REITs), represented by the FTSE Nareit All Equity REITS Index, returned 2.59% in August, bringing the year-to-date (YTD) return to 4.47%. Returns were positive for eight of the nine individual Real Estate sectors. Healthcare, Residential and Diversified REITs were the strongest performers, returning 7.13%, 3.62% and 3.47%, respectively. The worst performer of the month was Self-Storage, which had a return of -1.65%, followed by Retail and Data Centers, which returned 1.62% and 1.84%, respectively. Lodging/Resorts remains one of the best-performing sectors in 2018 with a return of 10.88% YTD.
- Commodities, represented by the Bloomberg Commodity Index, posted a -1.94% return. The active contract for the West Texas Intermediate (WTI) Crude Index closed at \$69.80/barrel, up slightly from \$68.76/barrel in July.

Items to Watch

- In August, the Bureau of Economic Analysis announced that second-quarter U.S. real gross domestic product (GDP) was revised to 4.2% from 4.1%. This is up from 2.2% growth in the first quarter. The second-quarter growth rate of 4.2% is the highest growth rate since the third quarter of 2014. Positive contributors include personal consumption expenditures (PCE), exports, nonresidential fixed investment and federal government spending.
- U.S.-Canada trade talks ended on August 31 with no deal to restructure the North American Free Trade Agreement (NAFTA). Subsequently, President Trump notified Congress of his intent to sign a bilateral trade pact with Mexico. Critics have expressed doubt that President Trump actually has the ability to do so without going through Congress. U.S.-Canada NAFTA negotiations resumed September 5, and the new deadline could extend to September 30. After this date, according to U.S. law, the Trump administration would need to make public final text for a trade pact that he could sign by November 30, when Mexico's leader leaves office. All three countries involved have stressed the importance of NAFTA, which underpins \$1.2 trillion in regional trade.
- EM were volatile in August as investors digested news regarding developments in Turkey and Argentina. On August 10, President Trump announced that the U.S. would double tariffs on Turkish steel and aluminum. The Turkish lira depreciated sharply relative to other currencies on the news. Later in the month, the Argentine peso lost more than 20% of its value relative to the U.S. dollar after the Argentinian government unexpectedly asked the International Monetary Fund (IMF) for a \$50 billion loan on August 29 and raised interest rates to 60% on August 30. Furthermore, the appreciating U.S. dollar has been a cause for concern for all EM economies due to the rising cost of servicing outstanding dollar-denominated debt in local currency terms.

Total Return of Major Indices as of 8/31/18				
Domestic Equity	MTD	QTD	YTD	1 YR
S&P 500	3.26%	7.10%	9.94%	19.65%
Russell 3000	3.51%	6.95%	10.39%	20.24%
Russell 2000	4.31%	6.12%	14.26%	25.44%
Russell 1000	3.45%	7.02%	10.07%	19.81%
International Equity	MTD	QTD	YTD	1 YR
MSCI ACWI ex-U.S.	-2.09%	0.25%	-3.52%	3.18%
MSCI EAFE	-1.93%	0.48%	-2.28%	4.39%
MSCI Emerging Markets	-2.70%	-0.57%	-7.19%	-0.68%
Fixed Income	MTD	QTD	YTD	1 YR
Bloomberg Barclays U.S. Agg	0.64%	0.67%	-0.96%	-1.05%
Bloomberg Barclays Global Agg	0.10%	-0.06%	-1.52%	-1.36%
Bloomberg Barclays U.S. HY	0.74%	1.84%	2.00%	3.40%
Alternatives	MTD	QTD	YTD	1 YR
FTSE NAREIT Equity	2.59%	3.42%	4.47%	6.01%
Bloomberg Commodity	-1.94%	-4.20%	-5.03%	-1.09%

Economic Indicators		
Domestic	Current	Previous
Unemployment Rate (%)	3.9%	4.0%
Initial Jobless Claims (4 week avg)	212.3 K	213.8 K
CB Leading Economic Indicators	0.6	0.5
Capacity Utilization	78.1%	78.1%
GDP (annual growth rate)	4.2%	2.2%
University of Michigan Consumer Confidence	96.2	97.9
New Home Starts	627 K	638 K
Existing Home Sales	5.3 MM	5.4 MM
Retail Sales (YoY)	7.2%	6.8%
U.S. Durable Goods (MoM)	-1.7%	0.7%
Consumer Price Index (YoY)	2.9%	2.9%
Producer Price Index (MoM)	0.2%	0.0%
Developed International*	6/30/2018	3/31/2018
Market GDP (annual rate)	2.0%	1.9%
Market Unemployment	4.8%	4.9%



Source: Bloomberg. Data as of August 31, 2018, unless otherwise noted.
 *Developed market data is calculated with respect to the weightings in the MSCI World ex-U.S. index. Most current data is as of June 30, 2018 due to release dates of numerous countries.
 **P/E ratios are calculated based on one-year-forward estimates and adjusted to include only positive earning results for consistency.

The views expressed constitute the perspective of PFM's asset management business at the time of distribution and are subject to change. The content is based on sources generally believed to be reliable and available to the public; however, PFM cannot guarantee its accuracy, completeness or suitability. This material is for general information purposes only and is not intended to provide specific advice or a specific recommendation. PFM is the marketing name for a group of affiliated companies providing a range of services. All services are provided through separate agreements with each company. Investment advisory services are provided by PFM Asset Management LLC, which is registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940. For more information regarding PFM's services or entities, please visit www.pfm.com.

