Investment Market Summary - August 2017

HILLVIEW®

STANDARD INDICES (In USD)

	Aug 2017	YTD 2017	1 Year	3 Years	5 Years	10 Years
S&P 500 TR	0.3%	11.9%	16.2%	9.5%	14.3%	7.6%
MSCI AC World Index	0.4%	15.0%	17.1%	5.6%	10.5%	4.2%
MSCI EAFE	0.0%	17.0%	17.6%	2.8%	8.5%	1.6%
MSCI Emerging Markets	2.2%	28.3%	24.5%	2.4%	5.3%	2.4%
Alerian MLP Index	-4.9%	-6.3%	-2.6%	-13.6%	-0.3%	6.1%
Bloomberg Barclays US Agg Index	0.9%	3.6%	0.5%	2.6%	2.2%	4.4%
Bloomberg Barclays Muni Bond 5 Year Index	0.6%	4.6%	1.4%	2.2%	2.2%	4.0%
Bloomberg Barclays US Corp High Yield	0.0%	6.1%	8.6%	4.8%	6.5%	8.0%
Bloomberg Commodity Index	0.4%	-2.7%	3.0%	-12.3%	-10.1%	-6.1%
US Dollar Index	-0.2%	-9.3%	-3.5%	3.8%	2.7%	1.4%

HEADLINES

Although equity markets finished August flat to slightly positive, the muted results masked heightened volatility during the month. The Chicago Board Options Exchange SPX Volatility Index, or VIX Index, which measures implied volatility and is considered a market “fear” gauge, spiked twice in August. These spikes coincided with single-day drops in the S&P 500 Index of over 1%. Different factors were contributors to these dips, but geopolitical tensions involving North Korea appear to have been the main factor. Markets had been relatively calm this year, rising steadily as economic and corporate earnings growth have been accelerating globally; a rise in volatility was, therefore, not unexpected. What was surprising, however, was the shift in market reactions. The US Dollar (USD), which over the past few years was seen as a relative safe haven, fell 0.2% in August, while Emerging Market (EM) equities surged 2.2% on the month in USD terms, as represented by the MSCI EM Index. International developed markets, as represented by the MSCI EAFE Index, were flat on the month, while the S&P 500 rose 0.3%.

Reflecting the heightened volatility, fixed income markets had a strong month. The Bloomberg Barclays US Aggregate Bond Index returned 0.9% in August, as yields continued to slide; the 10-year US Treasury yield fell from 2.29% to 2.12%. The fall in bond yields has continued despite solid economic numbers, with US second quarter GDP growth having been revised up from 2.7% to 3%, and as payrolls increase and unemployment stays well below 5%. Most market economists point to falling inflation as the cause, as year-over-year growth in the Consumer Price Index recently peaked in February at 2.8%, and has subsequently fallen to 1.7%. Riskier debt did not perform as well, as the Bloomberg Barclays US Corporate High Yield Index was flat.

As mentioned above, EM equities surged in August. The MSCI EM Index is now up 28.3% on the year. Investors keep pouring capital into the asset class as developed market valuations are becoming less attractive, and as economic tailwinds persist in EM, including structural reforms, improved corporate governance standards, the penetration of technological innovations, and a cyclical earnings and commodities recovery, among other factors. Moreover, with political uncertainty rising in developed markets, EM looks relatively less risky than in the past.

Despite equity markets eking out gains, MLPs faced another tough month, falling 4.9%, as represented by the Alerian MLP Index. MLPs are now down 6.3% year-to-date. Two factors hit MLPs in August: oil prices and Plains All American Pipeline, L.P. Even though Natural Gas rose 8.8% in August, MLPs traded lower with oil prices, as WTI Crude Oil dropped 5.9%. Investor sentiment, for now, seems to be weighting the price of oil as the main driver of future MLP prospects, despite the more stable and diversified nature of many MLP businesses. Exasperating this sentiment were the earnings and distribution cut announcements by Plains, one of the heavyweights in the sector.