Capital Market Review

Second Quarter 2018

By Jack Peluso, Allegheny Research Team

The broad market (as represented by the S&P 500 Index) regained its footing with three months in the black, following a first quarter in which we finally began to see a bit of volatility. The looming threat of an all-out trade war might have alarmed investors slightly during the first three months of the year, but market fundamentals remain too strong to ignore and continue to drive an increasingly positive view of the economy. The S&P 500 index gained 0.4% in April, 2.4% in May, and 0.6% in June, leading to a cumulative gain of 3.4% during the second quarter. As of 6/30/2018, the six-, nine-, and twelve-month returns were all positive, with the index coming in at 2.7%, 9.5%, and 14.4% respectively.

Over the past year and a half, we've witnessed multiple market anomalies; the S&P 500 was positive every single month during 2017, marking the first time in history that this has ever occurred. This January's gain tied the index's longest streak of positive monthly returns (15 consecutive months). As I mentioned last quarter, the S&P managed 11/12 positive months back in 2006 (over 11 years ago) and saw 15 positive months in a row during 1958-1959 (nearly 60 years ago!), which speaks to how rare these occurrences actually are.

Unlike the S&P, the bond market (as represented by the Bloomberg Barclays Aggregate Bond Index) was in the red for the second quarter of 2018, with a three-month drop of -0.2%. Following a first-quarter hike, new Fed Chair Jerome Powell led the decision to raise rates again during the June 13th meeting. The June hike marked the fourth increase in just under a year's time, and the seventh increase since December 2015 (when we hit the all-time low, 0.25%, or effectively zero). As I discussed last quarter, these consistent increases to the Fed Funds rate may very well be part of the reason that bond market returns have flattened out and dipped into negative territory. During the six-, nine-, and twelve-month time periods ending 6/30/2018, the index saw losses of -1.6%, -1.2%, and -0.4% respectively.

Inflation (as expressed by the Consumer Price Index) has been positive each month this year, yet another factor adding to the positivity of the current economic outlook. As the twelve-month CPI return continues to rest slightly above the Fed's inflation target of 2.0%, and PCE (Personal Consumption Expenditures, which is another key measure of inflation) finally catching up, we believe additional rate hikes are likely throughout the course of 2018. Multiple rate-hikes would almost be a given if it were not for concerns surrounding trade policy and tariffs, in addition to some signs of pressure from our current president. The central bank remains an independent agency, and all prior attempts by previous presidents to influence Fed policy have failed miserably (essentially spooking the markets). Swaying monetary policy has caused such negative (and long-lasting) effects in the past, something like this has not even been attempted by a U.S. President since Richard Nixon in 1971. However, this reality does not seem to have any impact on Trump's attempts to influence Fed Chairman Powell's current course of action. With that said, most economists are still predicting at least one more hike during the year, while Powell himself seems committed (for now) to raising rates twice more during 2018. For the one-, three-, six-, and nine-month periods ending 6/30/2018, the index saw returns of 1.0%, 2.2%, 2.1%, and 2.9% respectively.

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The Stock Market

We saw mixed results across the stock market, as two (out of seven) of the major market averages produced negative results during the second quarter. The S&P 500, an index of large company stocks, was up 3.4% for the three-month period, while the Dow Jones Industrial Average gained 1.3% during the quarter. The Dow Jones US Select REIT, an index representing real estate companies, led the pack (after playing the laggard for three consecutive quarters) by gaining 9.9% over the three-month period ending 6/30/2018. The Russell 2000, an index of small-company stocks, came in second place with a 7.8% gain during the quarter. The MSCI EAFE, an index representing international stocks from developed markets, dropped -1.3%, while the Bloomberg Commodity Index increased by 0.4%. Lastly, the MSCI Emerging Markets, an index representing the international stock of emerging countries, was the clear laggard this quarter, with a three-month drop of -8.0%.

Market Returns

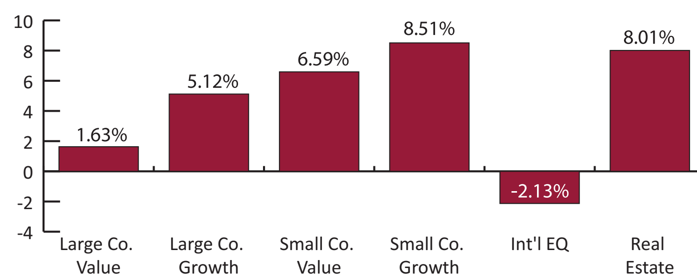
	3 months ending 6/30/2018	12 months ending 6/30/2018
S&P 500	3.4%	14.4%
Dow Jones Industrial Avg	1.3%	16.3%
Russell 2000	7.8%	17.6%
MSCI EAFE	-1.3%	6.8%
MSCI Emerging Markets	-8.0%	8.2%
DJ US Select REIT	9.9%	4.2%
Bloomberg Commodity Index	0.4%	7.4%

The six-month period ending 6/30/2018 showed varied results, as three (out of seven) indices came in negative, while the nine-month period saw positive returns across the spectrum. The S&P 500 gained 2.7% and 9.5% respectively, while the DJ Industrial Average fell into the red during the six months with a return of -0.7%, but then bounced back with a nine-month gain of 10.2%. The DJ REIT Index fell from first place but remained positive, coming in with six- and nine-month increases of 1.8% and 3.8% respectively. The Russell 2000 Index took over the lead during both the six- and nine-month periods ending 6/30/2018, with gains of 7.7% and 11.3% respectively. The MSCI EAFE Index remained negative during the six-month period with a loss of -2.8% but then recovered with a nine-month gain of 1.4%. The Commodity Index was flat during the six-month period but managed a nine-month gain of 4.7%. Lastly, the MSCI EM Index remained in the laggard position across both time periods, coming in with a six-month loss of -6.7% and a nine-month gain of 0.3%.

Just like the nine-month period, results were positive across the board for the trailing twelve months ending 6/30/2018. The S&P 500 was up 14.4%, while the Dow Industrial Average increased by 16.3%. The REIT Index trailed the pack with a gain of 4.2%, while the Russell 2000 Index remained in the lead with an increase of 17.6%. The MSCI EAFE Index posted a 6.8% gain, the Bloomberg Commodity Index rose by 7.4%, and the MSCI EM Index pulled itself from last place increasing by 8.2% over the twelve months ending 6/30/2018.

Comparison of Equity Styles

3 months ended 6/30/2018



The value/growth trend we've witnessed over the past several quarters continued with value companies trailing growth companies across all four time periods ending 6/30/2018 (the trailing three-, six-, nine- and twelve-month periods). Some of our managers are attributing this extended trend to what they call the "momentum effect." Essentially, they maintain the view that the ongoing upswing in stock prices has evolved into a momentum rally that is significantly disconnected from underlying equity fundamentals. Voya's CIO, Equities, Michael Pytosh, and Head of Value and Global Quantitative Equities, Vincent Costa, CFA, discuss the momentum effect in a recent white paper[1]. Pytosh and Costa set the article off with a great quote from a financial journalist, Louis Rukesyer, who once said, "Trees don't grow to the sky," in an effort to explain the inevitability of down markets. Costa and Pytosh go on to discuss mean reversion, citing examples from an analysis of long-term annualized factor returns. Based on this analysis, they presume that (historically) momentum stocks have underperformed value stocks while taking on twice the amount of risk. In other words, it has been more profitable and less risky (over the long-term) to own "value" companies rather than "growth" companies. In sharp

contrast, both momentum stocks and value stocks have shown significant deviations from these historical means since the beginning of 2017. However, we do not see any reason to believe a genuine paradigm shift has occurred. Furthermore, in our opinion, predicting inflection points is nearly impossible, and as firm believers in reversion to the mean, we would encourage all of our advisors to continue thinking long-term and remember what Louis said, “Trees don’t grow to the sky.”

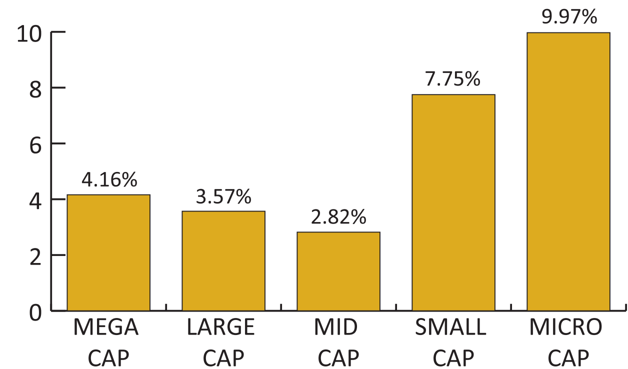
During the three-month period ending 6/30/2018, Large Value gained 1.6%, trailing Large Growth at 5.1%. Small Value increased by 6.6%, trailing Small Growth at 8.5%. The average International Equity manager lingered during the three-month period, falling by -2.1%, while the average Real Estate manager performed admirably, finishing June with a three-month gain of 8.0%.

Six-month returns followed a nearly identical pattern as the three-month figures, though this time, Large Value joined International Equities in the red. Meanwhile, nine-month returns came in positive across the board. Large Value stocks underperformed Large Growth, falling by -1.0% (vs. 7.5%) for the six months and gaining 5.0% (vs. 14.4%) for the nine months. Small Value stocks continued to underperform Small Growth, gaining 3.7% (vs. 11.0%) during the trailing six-month period and 7.3% (vs. 16.2%) during the trailing nine-month period. International Equities remained in the rearmost position for the six- and nine-month periods ending 6/30/2018, with returns of -3.0% and 0.9% respectively. Although Real Estate provided a decent three-month gain, a rough first quarter resulted in a six-month return of only 0.6%, while the nine-month figure came in slightly better at 2.7%.

The twelve-month returns repeated the pattern as the nine-month figures, though this time, Real Estate (now the laggard) switched places with International Equity. Large Value produced an annual gain of 8.9%, while Large Growth increased by 20.5%. Small Value produced an annual gain of 12.4%, while Small Growth increased by 22.7%. The average International Equity manager produced a yearly gain of 6.3%, while the average Real Estate manager fell to last place with an increase of 3.5%.

Return by Market Cap

3 months ended 6/30/2018



During the first quarter of the year, we finally began to notice a bit more volatility; however, following a solid second quarter for U.S. stocks, this trend did not continue. Results came in positive across all four time periods: the trailing three-, six-, nine- and twelve-month periods ending 6/30/2018. Also worth noting, the small/large trend has clearly returned, with Small-cap stocks outperforming Large-caps across the board.

Four (out of five) segments outpaced the broad market return of 3.4% during the second quarter. Micro-cap stocks lead the pack, finishing the three-month period with a gain of 10.0%, while Small-caps followed with a three-month increase of 7.8%. Mega-cap and Large-cap stocks were the other two segments to outperform the broad market, finishing June with quarterly returns of 4.2% and 3.6% respectively. Meanwhile, Mid-cap stocks underperformed the broad market, completing the three-months ending 6/30/2018, with a gain of 2.8%.

With the exception of Micro-caps, six-month results ending 6/30/2018, came in lower than the three-month figures, as most market segments were affected by the volatility we observed during the first quarter. Despite being lower, the six-month results followed a similar pattern to the three-month period; however this time, only three (out of five) segments were able to outperform the broader market return of 2.7%. The Small and Micro-cap segments maintained the top two positions finishing the trailing six-month period with returns of 7.7% and 10.7% respectively. The Large-cap segment ended the six months (just ahead of the broad market) with a gain of 2.9%, while both the Mega- and Mid-cap segments underperformed the broad market, finishing the second quarter with six-month gains of 2.2% and 2.3% respectively.

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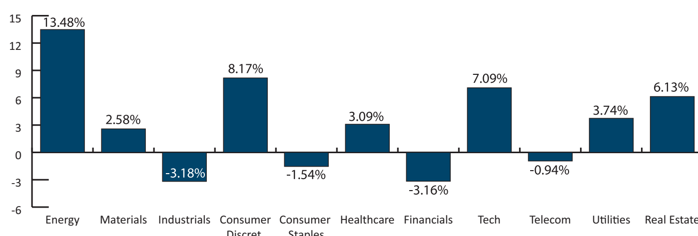
The nine-month period ending 6/30/2018, saw strong results across the board, and just like the three-month period, only the Mid-cap segment underperformed the broader market (returning 8.6% versus 9.5% for the broad market). The Small- and Micro-cap segments remained in the lead, ending the second quarter with nine-month gains of 11.3% and 12.7% respectively. Underperforming the Small- and Micro-cap segments, but outperforming the broader market, the Mega-cap and Large-cap segments produced nine-month gains of 9.6% and 9.7% respectively.

For the twelve-month period ending 6/30/2018, all market segments finished with double-digit annual returns. Once again, Mid-cap stocks (as represented by the small-cap Russell) played the laggard, coming in with a twelve-month gain of 12.3%—and once again, Mid-cap was the only segment to underperform the broad market's annual return of 14.4%. Small- and Micro-cap stocks (as represented by the Russell 2000 Index and the Russell Microcap Index) held on to the lead, ending the quarter with annual gains of 17.6% and 20.2% respectively. Mega-cap and Large-cap stocks (as represented by the Russell Top 50 Mega Cap Index and the large cap Russell 1000 Index) finished the quarter with annual gains of 14.9% and 14.5% respectively.

Stocks by Sector

3 months ended 6/30/2018



With Real Estate separated from the Financials sector towards the end of 2016, the S&P 500 now has eleven individual sectors. These sectors, along with their respective quarter-end weightings in the index (as of 6/30/2018), are as follows: Energy 6.3%, Materials 2.6%, Industrials 9.5%, Consumer Discretionary 12.9%, Consumer Staples 7.0%, Healthcare 14.1%, Financial Services 13.8%, Technology 26.0%, Telecom 2.0%, Utilities 2.9% and Real Estate 2.9%.

Seven (out of eleven) sectors finished the three months ending 6/30/2018, in positive territory; this was much improved, as compared to the two (out of eleven) that managed positive results during the first three months of the year. Energy was up 13.5% during the second quarter (as compared to being down -5.9% during the first quarter) and led all other sectors during this period, while Materials increased by 2.6%. Industrials (one of four sectors in the red) fell by -3.2% during the trailing three-month period, while Consumer Discretionary increased by 8.2%. Consumer Staples was another negative performer, finishing the second quarter with a three-month loss of -1.5%, while Healthcare gained 3.1%. Financial services played the laggard during the three months ending 6/30/2018, falling by -3.2%, while Technology rose by 7.1%. Telecom was the only other sector to produce a negative return during the trailing three-month period, dropping by -0.9%, while Utilities increased by 3.7%, and Real Estate gained 6.1%.

We can clearly see the effects of some first-quarter volatility by observing the six-month figures, as five (out of eleven) sectors produced negative results and (as compared to the three-month period), the magnitude of returns decreased in each sector except for Consumer Discretionary and Technology. The Energy sector increased by 6.8% during the six-month period, while the Materials and Industrials sectors decreased, dropping by -3.1% and -4.7% respectively. The Consumer Discretionary sector took the lead during the trailing six months (gaining 11.5%), while the Consumer Staples sector played the laggard (dropping -8.6%). The Healthcare sector came in with a six-month gain of 1.8%, while the Financial Services sector fell by -4.1%. The Technology sector rose by 10.8% during the six months, while the Telecom sector fell by -8.4%. The Utilities and Real Estate sectors came in just barely above zero during the trailing six-month period, producing gains of 0.3% and 0.8% respectively.

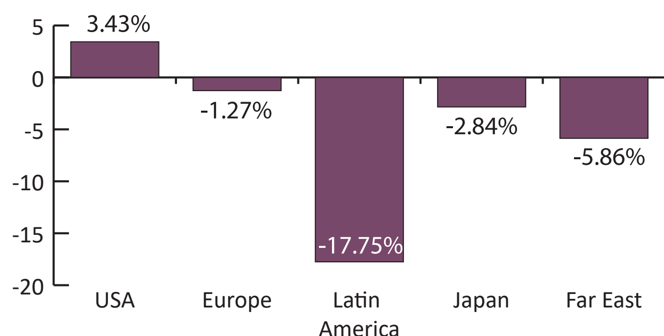
Focusing on the trailing nine-month period ending 6/30/2018, we can see the effects of the first-quarter volatility being washed-out slightly, as nine (out of eleven) sectors produced positive results for the period. For the nine months ending 6/30/2018, Energy was up 13.2%, Materials rose 3.6%, and Industrials increased 1.1%. Consumer Discretionary lead the pack again, climbing 22.5% during the nine-month period, while Consumer Staples decreased by -2.6%. Healthcare and Financial Services both rose over the trailing nine months, gaining 3.3% and 4.2% respectively. Technology produced the second-highest nine-month gain of the group, increasing by 20.9%, while Telecom trailed the group, falling by -5.1%. Utilities managed to stay in the black, finishing the second quarter with a nine-month gain of 0.5%, while Real Estate remained near the middle of the pack, coming in with a nine-month increase of 4.1%.

Observing the trailing twelve-month period ending 6/30/2018, we can see the effects of the first-quarter volatility weaken even more, as ten (out of eleven) sectors produced positive results for the period. The Energy sector

finished the second quarter with a substantial annual gain of 21.0%, the Materials sector rose by a decent 9.9%, and the Industrials sector increased by 5.3%. Consumer Discretionary sector put up an annual gain of 23.6%, while Consumer Staples retook the bottom position with an annual loss of -3.9% (making it the only sector in the red during the trailing twelve-month period). The Healthcare sector rose by 7.1% during the trailing twelve months, while the Financial Services sector produced an annual return of 9.7%. Technology took over the lead, finishing the second quarter with a hefty twelve-month gain of 31.3%, while Telecom pulled out of negative territory and finished the twelve-month period up 1.4%. The Utilities and Real Estate sectors were both up for the twelve-month period ending 6/30/2018, coming in with gains of 3.4% and 5.0% respectively.

Stocks by Region

3 months ended 6/30/2018



Looking at average stock market returns in five main regions (USA, Europe, Latin America, Japan, and the Far East), we saw mainly negative results across all four time periods (the trailing three-month, six-month, nine-month, and twelve-month periods) ending 6/30/2018. Analyzing the three- and six-month returns, it is apparent that while volatility here in the U.S. has eased up from the first quarter, this is not the case in other countries.

Only the United States (as represented by the S&P 500 Index) managed to produce positive results over the three- and six-month periods ending 6/30/2018, gaining 3.4% and 2.7% respectively. Europe (as represented by the MSCI Europe Index) fell by -1.3% during the trailing three months and -3.2% during the trailing six months. Latin America (as represented by the MSCI EM Latin America Index) finished the second quarter as the clear laggard, coming in with three- and six-month losses of -17.8% and -11.2% respectively. Japan (as represented by the MSCI Japan Index) dropped -2.8% during the three-month period and -2.0% during the six-month period. Meanwhile, the Far East (as represented by the MSCI AC Far East Ex-Japan Index) finished June with three- and six-month losses of -5.9% and -4.4% respectively.

As we factor in the fourth quarter of last year, looking at the nine-month period ending 6/30/2018, only two regions produced losses (Europe and Latin America). The U.S. region held onto the lead spot once more, gaining 9.5% over the trailing nine months. The European region decreased by -1.1% over the nine-month period, while the Latin American region fell by -13.2%. With help from a strong finish in 2017, the Japanese and Far East regions managed to pull themselves from the red, finishing June with nine-month gains of 6.3% and 3.1% respectively.

Factoring in more of the previous year, only one region (Latin America) produced a loss during the trailing twelve-month period ending 6/30/2018. Once again, the U.S. finished in first place, boasting an annual gain of 14.4%. Europe managed to get back into positive territory with a twelve-month increase of 5.3%, while Latin America remained in the red, falling by -0.2%. Despite the rough performance so far this year, Japan and the Far East both managed to finish the second quarter with double-digit annual gains, coming in at 10.5% and 10.4% respectively (with the second half of 2017 padding these figures significantly).

Please note, all data is quoted in U.S. Dollar terms. Any change in currencies may, therefore, influence actual returns.

Bonds Market

Rates continued to rise consistently across the yield curve. As we saw last quarter, longer-term rates increased slightly less than shorter-term rates; the 10-year and 30-year rates rose 2-11 basis points above where they finished the first quarter, while 2-year and 5-year rates rose 17-25 basis points from their 3/31/2018 position. Following the March 21st rate-hike, the Fed increased rates again during the June 13th meeting. The June hike marked the fourth increase in just under a year, and the seventh increase since December 2015 (when we hit the all-time low, 0.25%, or effectively zero). As we've mentioned previously, in a non-inflationary environment in which there have been multiple increases to the Fed funds rate, one would generally expect longer-term rates to dip slightly. Now that inflation has seemingly picked-up, the fact that longer-term rates are exclusively higher than they were a year ago makes much more sense than before.

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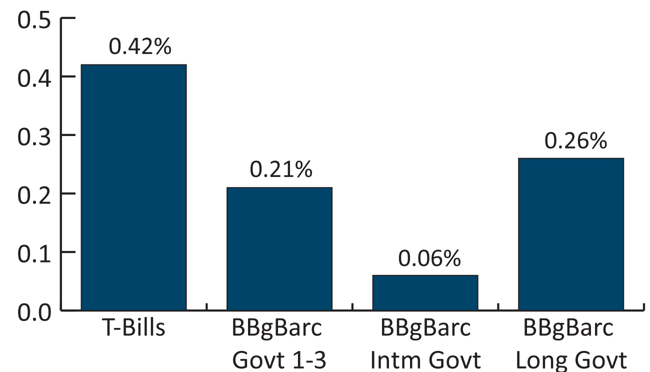
Treasury	6/30 2018	3/31 2018	12/31 2017	9/30 2017	6/30 2017
2 Year	2.52%	2.27%	1.89%	1.47%	1.38%
5 Year	2.73%	2.56%	2.20%	1.92%	1.89%
10 Year	2.85%	2.74%	2.40%	2.33%	2.31%
30 Year	2.98%	2.97%	2.74%	2.86%	2.84%

As we've pointed out in the past, the main reason for the Fed's cautious approach to raising rates has been due to the (essentially unexplained) lack of inflation. The Fed's framework for forecasting inflation applies a version of the Phillip's Curve, which posits an inverse relationship between unemployment and inflation. To simplify, this means that when the unemployment rate falls, wages will go up; this will lead to higher prices, which leads to higher inflation. However, over the past few years, there seems to have been a breakdown in this relationship. While we've seen lower and lower unemployment in the U.S., it has taken much longer than expected for this to lead to higher inflation. There are several theories regarding the reasoning behind this breakdown, such as anti-inflationary trends, or a mere lag in the Phillip's curve (which seems to be the more likely explanation now that we've begun to see inflation pick-up).

With inflation surpassing the 2.0% Fed target for the second consecutive quarter, along with the strong underlying fundamentals we've seen in the U.S., one might expect the Fed to start acting less cautiously moving forward. However, amid concerns regarding foreign policy and trade conflicts, we believe the Fed will most likely continue their measured approach (raising rates gradually—only once or twice more this year). As I mentioned earlier, some critics of the Fed (including our current president, as well as some liberal Democrats, like Elizabeth Warren and Bernie Sanders, believe continued tightening is not necessary at this point in time. The main concern of these critics (particularly President Trump) appears to be the implication that continued rate hikes have the potential to drive the dollar higher, ultimately driving the trade deficit higher, which appears to be a focal point for the current administration. The bottom line here is that (regardless of pressure from the White House) the central bank is an independent agency, and Chairman Powell seems committed to continuing his current course. With that said, the chances of a third hike at the next meeting (August 1st) seem unlikely. The CME Group is currently predicting the probability of a third hike in August to be less than 4%, while the chances of a third hike in September are being predicted to be over 86%. CME is also predicting that there is a 56% chance of a fourth increase occurring before the end of 2018.

Bonds by Maturity

3 months ended 06/30/2018



As interest rates rose across the board, the various maturity sectors of the government bond market saw essentially flat or negative results during all four time periods (the trailing three, six, nine, and twelve months ending 6/30/2018), with the exception of U.S. Treasury Bills, the only sector to produce positive results during each period.

For the three-month period ending 6/30/2018, results came in consistently flat. The US T-Bill Index lead the group, finishing the second quarter with a three-month gain of 0.4%, while the Bloomberg Barclays 1-3 Year Government Index increased by 0.2%. The Bloomberg Barclays Intermediate Government Index played the laggard (but managed to outperform the Aggregate Bond Index), finishing the second quarter with a three-month gain of 0.1% (versus a three-month drop of -0.2% for the Aggregate). The Bloomberg Barclays Long Government Index outperformed the short and intermediate indices just slightly over the trailing three-month period, producing a gain of 0.3%.

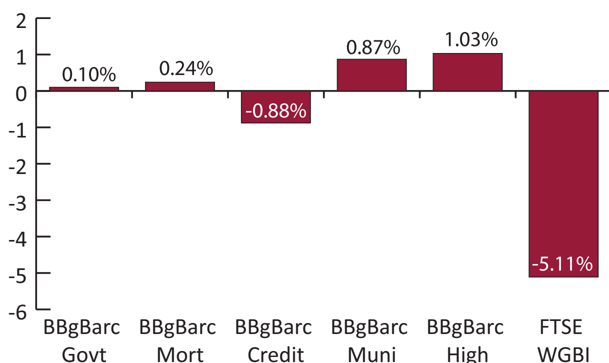
For the six-month period ending 6/30/2018, results came in split. U.S. T-Bills maintained the lead position once again, while Short (1-3 Year) maturity government bonds finished slightly above zero, producing six-month gains of 0.7% and 0.1% respectively. Meanwhile, Intermediate and Long maturity government bonds ended the six months in the red, producing losses of -0.7% and -3.0% respectively. Long maturity government bonds are generally the most sensitive to changes in interest rates, and considering multiple rate-hikes over the past 12 months, we would expect them to be hit the hardest.

Nine- and twelve-month returns as of 6/30/2018, maintained a similar pattern, with U.S. Treasury Bills leading the group during both periods, increasing by 1.0% and 1.2% respectively. Short Government finished the second quarter with a nine-month loss of -0.2%, and was flat for the trailing twelve months, producing an annual return of zero. The

Intermediate and Long Government finished the nine- and twelve-month periods in the red again, as we would expect to be the case. Intermediate fell by -1.1% over the nine months and -0.7% over the trailing twelve, while Long decreased by -0.7% during the nine-month period and -0.1% during the trailing twelve.

Bonds by Sector

3 months ended 6/30/2018



Looking across all six major sectors of the bond market for the three- and six-month time periods ending 6/30/2018, it is apparent once again that the first quarter of the year was much rougher than the following three months (for most of the market), as six-month returns trailed three-month returns almost exclusively. The Bloomberg Barclays U.S. Government Index finished the second quarter slightly behind the Bloomberg Barclays U.S. Mortgage-Backed Securities Index, coming in with three-month gains of 0.1% and 0.2% respectively, followed by six-month losses of -1.1% and -1.0% respectively. Both indices outperformed the Aggregate Bond Index returns (-0.2% for the three months and -1.6% for the nine-month period).

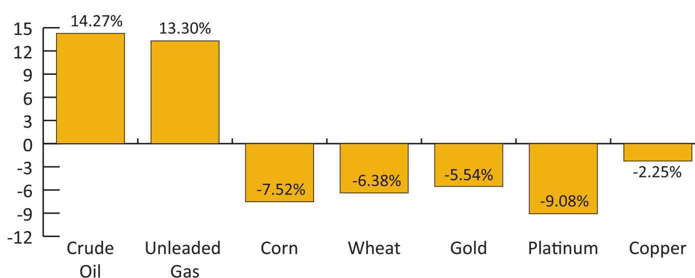
The Bloomberg Barclays Credit Index experienced a tough start this year, producing the three- and six-month losses of -0.9% and -3.0%, clearly underperforming the Agg. Bond Index during both time periods and playing the laggard over the trailing six months. Just like the Government and Mortgage indices, the Bloomberg Barclays Municipal Index was able to manage a positive three-month result (gaining 0.9%) but then came in negative over the trailing six months (falling by -0.3%). The index did, however, manage to outperform the Aggregate during both periods. The Bloomberg Barclays Corporate High Yield Index easily beat the Aggregate Index and (while maintaining the lead position) was the only index in the entire group to finish June with positive three- and six-month results, gaining 1.0% and 0.2% respectively. Similarly to the Credit Index, the Non-USD FTSE WGBI (World Government Bond Index) had a rough first half of 2018, but unlike Credit, the index was hit particularly hard in the second quarter. The WGBI finished June with three- and six-month declines of -5.1% and -0.9% respectively, underperforming the Agg. Bond Index during the three months and outperforming during the six-month period.

Looking further back at the nine- and twelve-month periods ending 6/30/2018, as we factor in the results from the second half of last year, we begin to see more positive results. During the nine-month period, three (out of six) sectors produced negative results, up from the five (out of six) we saw in the red during the six-month period. Government, Mortgage, and Credit all came back negative during the nine months (decreasing by -1.0%, -0.8%, and -2.0% respectively). Meanwhile, the Municipal, High Yield, and WGBI all came back positive during the nine-month period (increasing 0.5%, 0.6% and 0.6% respectively). As compared to the Aggregate's nine-month decline of -1.2%, only the Credit sector underperformed the index. During the trailing twelve-month period ending 6/30/2018, just two (out of six) of the bond sectors came in with negative results. The Government and Credit sectors both fell during the trailing twelve months (dropping by -0.6% and -0.7% respectively), while the Mortgage sector managed a positive result (increasing by 0.2%). The Municipal, the High Yield, and the WGBI sectors also finished June with twelve-month gains (rising by 0.5%, 0.6%, and 0.6% respectively). Both Credit and Government underperformed the annual return of the Aggregate Bond Index (-0.4%).

Please note, the Citi indices were purchased by FTSE, and as such, the Citi WGBI Non-USD has been officially renamed the FTSE WGBI Non-USD.

COMMODITIES MARKET

3 months ended 6/30/2018



The Bloomberg Commodity Index was up slightly during the second quarter of 2018, finishing June with a three-month

gain of 0.4%. When we factor in the first quarter drop (-0.4), the index return is essentially flat over the trailing six-month period. For the nine- and twelve-month periods ending 6/30/2018, the Commodity Index produced much stronger results, finishing the quarter with gains of 4.7% and 7.4% respectively.

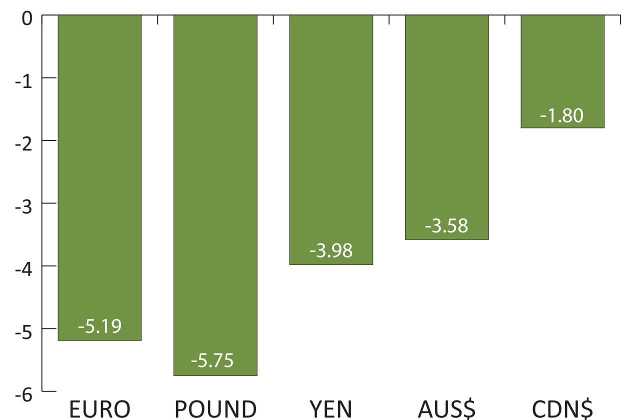
Just as we saw during the first quarter of the year, Crude Oil and Unleaded Gas prices rose in tandem, as the energy commodities finished with three-month gains of 14.3% and 13.3% respectively. Unlike last quarter, this time around Oil and Gas were the only two commodities to produce positive results during the three-month period. Food prices were down over the trailing three-month period, with Corn decreasing by -7.5% and Wheat falling by -6.4%. Looking at metal prices over the trailing three months, Gold dropped by -5.5%, Platinum (playing the laggard for the quarter) decreased by -9.1%, while Copper posted a loss of -2.3%.

For the six- and nine-month periods ending as of 6/30/2018, we witnessed a very similar pattern to the three-month period. Crude Oil and Unleaded Gasoline led the other commodities across both time periods, finishing the quarter with six-month gains of 22.6% and 18.5% respectively, and nine-month gains of 43.5% and 10.8% respectively. Food prices came in mixed during the six- and nine-month periods, as Corn gained 0.9% over the six-month period and 2.8% over the trailing nine months, while Wheat dropped -6.4% over the six-month period and -2.8% over the trailing nine-month period. Metals prices came in primarily negative for the six- and nine-month periods as Gold decreased by -3.1% and -2.5% respectively, Platinum dropped by -8.0% and -7.5% respectively, while Copper produced returns of -10.2% and 0.4% respectively.

Results look much better (after factoring in the second half of 2017) as we look back at the twelve-month period ending 6/30/2018. Energy price rose in tandem once again, as Crude Oil finished the quarter with an impressive annual return of 61.1%, while Unleaded Gasoline prices increased by 24.7%. Food prices were a sore spot for the twelve-month period, with Corn prices falling -7.3%, while Wheat prices (stricken hard in Q3 of 2017) finished as the laggard, dropping -22.7%. Metal prices came in mostly positive, as Gold and Copper produced annual gains of 0.7% and 9.3% respectively. Meanwhile, Platinum closed-out the twelve-month period with a loss of -7.7%.

CURRENCY MARKET

3 months ended 6/30/2018



Based on what we've observed over the past several quarters, foreign currencies have (generally) been appreciating versus the Dollar. This trend began slowing down during the past few quarters, as the pace of appreciation (for most currencies) versus the U.S. Dollar dropped off dramatically to start 2018. Observing the June-end figures, it would seem apparent that not only has this trend slowed to a halt, but it has actually begun to reverse course. This reversal can likely be attributed to a handful of factors: recent U.S. foreign policy (tariff war, the threat of a trade war, etc.), the U.S. Federal Reserve (continued rate hikes), and generally strong fundamentals in the U.S. (as compared to the rest of the world). The three-, six- and nine-month currency returns came back almost entirely negative (except for the Japanese Yen, which was up slightly during the six- and nine-month periods). However, as we look further back (factoring in Q3 and Q4 of 2017), the twelve-month figures appear to be generally improved, with only two (out of five) currencies producing negative results.

The Euro finished June with negative returns for the three-, six-, and nine-month periods, but managed a gain over the trailing twelve months. The European currency was down -5.2% for the three-month period, -2.5% for the six-month period, and -1.1% for the nine-month period but managed to produce a gain of 2.3% for the trailing twelve-month period. The British Pound (as per usual) followed a very similar pattern, with the currency falling -5.8% during the three months, -2.1% during the six months, and -1.4% during the nine months but managed to produce a gain of 12.2% during the trailing twelve months.

The Australian Dollar (which is strongly influenced by commodity prices and the Chinese economy), depreciated versus the U.S. Dollar across all four time periods ending 6/30/2018, as the Australian currency finishing the quarter with three-, six-, nine-, and twelve-month returns of -3.6%, -5.1%, -5.4%, and -3.6% respectively. The Canadian Dollar also saw negative results across the board for the periods ending 6/30/2018, following the same trend as the Australian Dollar (as is typically the case). The Canadian currency finished the second quarter with three-, six- nine-, and twelve-month losses of -1.8%, -4.4%, 5.1%, and -1.2% respectively.

Aided by a strong first quarter, the Japanese Yen managed to appreciate in value versus the U.S. Dollar during three (out of four) of the periods ending 6/30/2018 (trailing six, nine and twelve months). However, the currency was not impervious to the trend reversal we witnessed elsewhere, as the three-month results came back in the red, with the currency falling -4.0%. The Yen rose by 1.8% over the trailing six-month period, was up 1.6% over the nine-month period, and increased 1.3% over the trailing twelve-month period.

The information included herein was obtained from sources which we believe reliable.

Past performance is not a guarantee of future results. Any mention of specific investments is not intended to be an offer of sale. Please refer to a fund's prospectus for investment objective, risks, charges, and expenses before investing. For more information, contact your Allegheny Advisor.

Sources:
[1] Pytosh, M. & Costa, V. (2018). *The Momentum Effect: Is the End in Sight?* [White paper]. Retrieved July 25, 2018, from Voya Investment Management: https://investments.voya.com/insights/market-insights/momentum-effect-end-sight.