



Market Overview

- U.S. equity markets advanced in August marking the 7th straight month of gains. Strong corporate earnings, positive economic data, and the passage of a \$1 trillion infrastructure spending bill provided a boost to stocks. Corporate earnings for the 2nd quarter set a record with an increase of 9.9% from the prior quarter and more than 90% compared to the same quarter last year. After a period of uneven employment growth, the employment report came in very strong showing 943,000 new jobs were added in July and the unemployment rate dropped from 5.9% to 5.4%. Wages rose 0.4% from the prior month.
- While still elevated, inflation showed some signs of easing with CPI registering 0.5% for July and 5.4% on a year-over-year basis. With continued progress on economic growth and inflation at elevated levels, interest rates increased across the yield curve. Lower quality bonds outperformed higher quality as corporate credit fundamentals were strong and investors reach for yield in a low interest rate environment.
- In international developed markets, corporate earnings and economic measurements were strong in Europe with progress in vaccination programs and signs of stabilization in COVID cases after another wave. In the U.K. the economy expanded by 4.8% in the 2nd quarter with the Bank of England indicating that a modest tightening in monetary policy may be necessary. The Japanese economy grew by a more modest 1.3% in the 2nd quarter after contracting 3.7% in the 1st quarter. Emerging market equities advanced as economic recovery gained momentum while China was nearly flat on fallout over its regulatory crackdown across industries.
- In other markets, commodities were down 0.3% in August driven by a decline in oil prices with WTI crude down 7%. Gold was up fractionally. Real estate continued its rebound on the heels of improvement in economic activity. Hedge fund strategies did well as most markets were higher for the month.

Equity Markets

The S&P 500 Index returned 3.0% in August bringing year-to-date gains to 21.6%. U.S. large cap stocks outperformed small-cap and mid-cap stocks by 80-100 bps. Growth stocks outperformed value. The best performing sector was financials followed by communication services. Energy was the only sector that posted a loss for the month as oil prices declined. The U.S. equity market outperformed other regions with non-U.S. developed markets returning 1.8% for the month. Strong corporate earnings and economic activity helped stocks in Japan and Europe while the U.K. lagged amid a stubborn rise in covid cases. Emerging markets advanced by 2.6% despite difficulties in China with solid gains in India, the Philippines and Thailand and in emerging European countries.

Fixed Income Markets

U.S. interest rates increased with 5- and 10-year Treasuries each increasing by 9 bps to end the month at 0.78% and 1.31%, respectively. Corporate credit underperformed Treasuries although financials did relatively well as did securitized credit segments such as asset backed and commercial mortgage backed securities. Investment grade corporate credit spreads ended the month 1 basis point wider at 87 bps while high yield outperformed gaining 0.5%. High yield spreads tightened by 11 bps to 321 bps. In overseas markets, emerging market debt finally saw a rebound on improving economic activity while inflation concerns and interest rate increases weighed on bond markets in Europe. The U.S. dollar strengthened relative to most developed markets while emerging market currencies were mixed.

Alternative Strategies

Hedge fund strategies produced positive results for the month with convertible arbitrage performing best followed by equity hedge and event driven strategies as risk assets advanced nearly across the board. Global macro strategies lagged as commodity markets pulled back and currencies were mixed. The HFR Fund of Funds index was up 1.0% for the month and 5.3% year-to-date.

Developed Market Returns (%)

	Month	Year to Date
S&P 500	3.04	21.58
Russell 2000	2.24	15.83
MSCI EAFE (\$)	1.76	11.56
MSCI Europe (\$)	1.51	15.58
MSCI UK (\$)	0.85	14.50
MSCI Japan (\$)	3.07	3.07
MSCI Pacific ex Japan (\$)	0.68	8.69

Source: eVestment Alliance, MSCI, S&P, Russell

Emerging Market Returns (%)

	Month	Year to Date
MSCI EM (\$)	2.62	2.84
MSCI EM Asia (\$)	2.68	0.21
MSCI EM EMEA (\$)	3.42	20.07
MSCI EM Latin America (\$)	0.84	5.33

Source: eVestment Alliance, MSCI

U.S. Fixed Income Returns (%)

	Month	Year to Date
Bloomberg Barclays Aggregate	(0.19)	(0.69)
Bloomberg Barclays Government	(0.17)	(1.37)
Bloomberg Barclays U.S. TIPS	(0.18)	4.25
Bloomberg Barclays U.S. Inv. Grade Corp	(0.30)	(0.21)
Bloomberg Barclays U.S. Mort. Backed	(0.16)	(0.31)
Bloomberg Barclays U.S. High Yield	0.51	4.55
Credit Suisse Leveraged Loan	0.49	3.99

Source: eVestment Alliance, Bloomberg Barclays, Credit Suisse

Non-U.S. Fixed Income Returns (%)

	Month	Year to Date
FTSE Non-U.S. WGBI Hedged	(0.40)	(1.11)
FTSE Non-U.S. WGBI Unhedged	(0.83)	(4.97)
JP Morgan EMBI Global	0.91	0.44

Source: eVestment Alliance, FTSE, JP Morgan

