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ECONOMY: U.S. & World Economies Beginning To Diverge?

CONSUMER SPENDING ROBUST

U.S. consumer spending increased solidly in July, pointing to strong economic growth early in the third quarter. The Commerce Department reported that consumer spending, which accounts for approximately 70% of U.S. economic activity, rose 0.4% after advancing by the same amount in June.

STILL HIRING

Employers added 201,000 new jobs in August, while the prior two months of additions were revised down 50,000, bringing the three-month average to 185,000. Gains in August were broad based, with most industries adding jobs over the month. The unemployment rate remained unchanged at 3.9%, while average hourly earnings increased 0.4% for the month and 2.9% over the previous year.

INFLATION ON THE RISE?

With demand rising last month, prices continued their gradual upward trend. The personal consumption expenditures (PCE) price index (excluding food and energy) rose 0.2% in July after increasing 0.1% in June. The annualized increase in the core PCE price index hit 2% in July, up from 1.9% in June. The core PCE index is the Federal Reserve's preferred inflation measure, and it hit the central bank's 2% inflation target in March for the first time since April 2012.

U.S. ECONOMIC ACTIVITY REMAINS STRONG

Overall business activity in the U.S remains strong, as both the ISM manufacturing and non-manufacturing indices moved higher in August. Despite ongoing trade tensions, manufacturing activity remained robust, as the ISM manufacturing index hit 61.3, its highest reading in 14 years. Both the current production and new orders indices posted large increases during the month. The ISM non-manufacturing (services) index topped expectations increasing 2.8 points to 58.5 for August. The current activity, new orders and backlog sub-indices each edged higher during the month.

THE ART OF THE DEAL?

Trade developments were mixed in August, with the U.S. appearing to reach a deal with Mexico and progressing in negotiations with Canada as well. However, tensions with China remain and an increase in steel tariffs with Turkey significantly impacted the countries currency and financial markets. President Trump also hinted that Japan could also be in focus for future trade negotiations.

ITALY ROCKING THE BOAT

Relations between Italy's populist government and the European Union (EU) continued to worry markets in August. There are concerns that the government could announce a budget this fall that puts the country's debt on an unsustainable course. Italy, one of Europe's largest government borrowers, is expected to grow 1.2% this year. However, government tax and pension reforms are likely to trigger significantly higher spending (borrowing). Fitch Ratings cut Italy's debt outlook to negative, citing concerns that the country's public debt could be exposed to potential shocks.

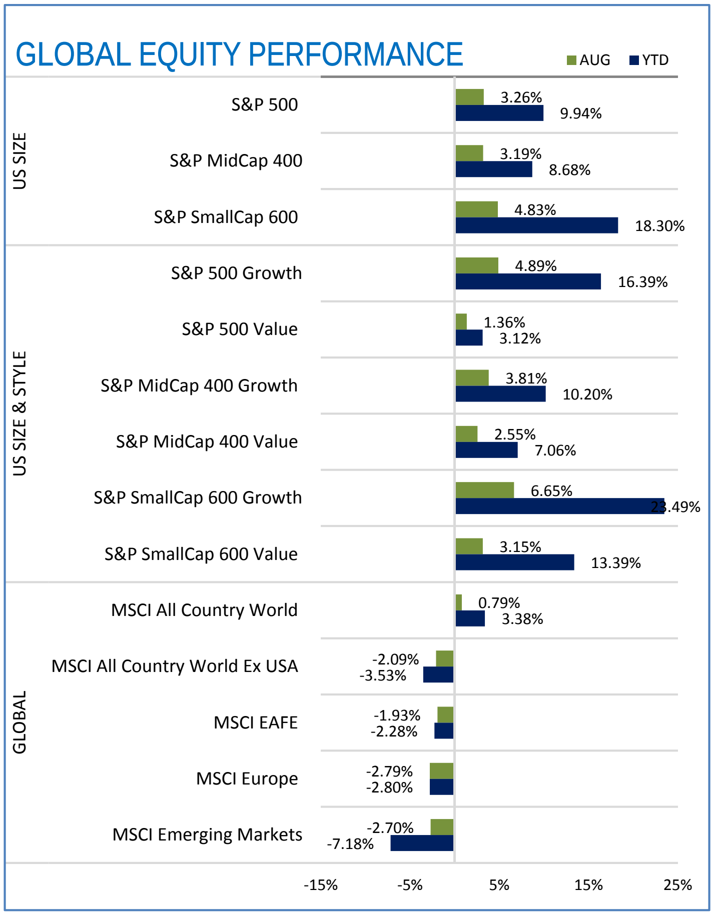
IMPACT OF TRADE WAR?

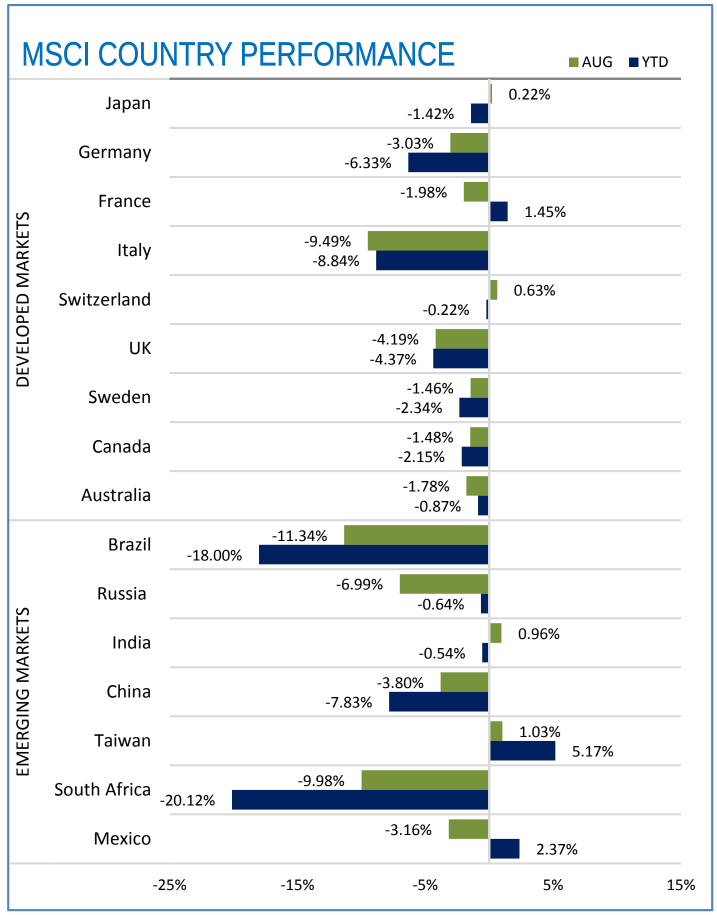
Amidst a growing trade war with the U.S., China's economy is showing some signs of slowing. Investment growth is slowing and consumers are also becoming more cautious. Fixed asset investment expanded at 5.5% through July, the weakest since 1996 according to Reuters data. Retail sales data also missed expectations. According to a Reuters poll, some Chinese consumers are beginning to boycott U.S. made goods.

JAPANESE GROWTH RETURNS

Japan's economy grew faster than initially estimated Q2, with the revised growth rate reflecting the quickest rise in more than two years. The final reading on GDP growth showed an annualized increase of 3% in Q2, compared to an initial reading of 1.9%. The revised reading was the fastest since the economy grew 3.4% in the Q1 2016. Consequently, the BOJ confirmed that the current low interest rate policy would be maintained for "an extended period of time".

GLOBAL EQUITIES: Record Setting Month For U.S. Equities





RECORD SETTING AUGUST

The U.S. equity market continued its record-setting run in August to reach a few landmarks: an all-time high and the longest bull market in history. The S&P 500 Index broke above 2,900 for the first time, and set a record close of 2,914.04 on August 29th. The current bull market also became the longest on record for the S&P 500, at 3,462 days and counting. The S&P 500 has gained an annualized return of 19.08% since the current bull market began on March 9, 2009.

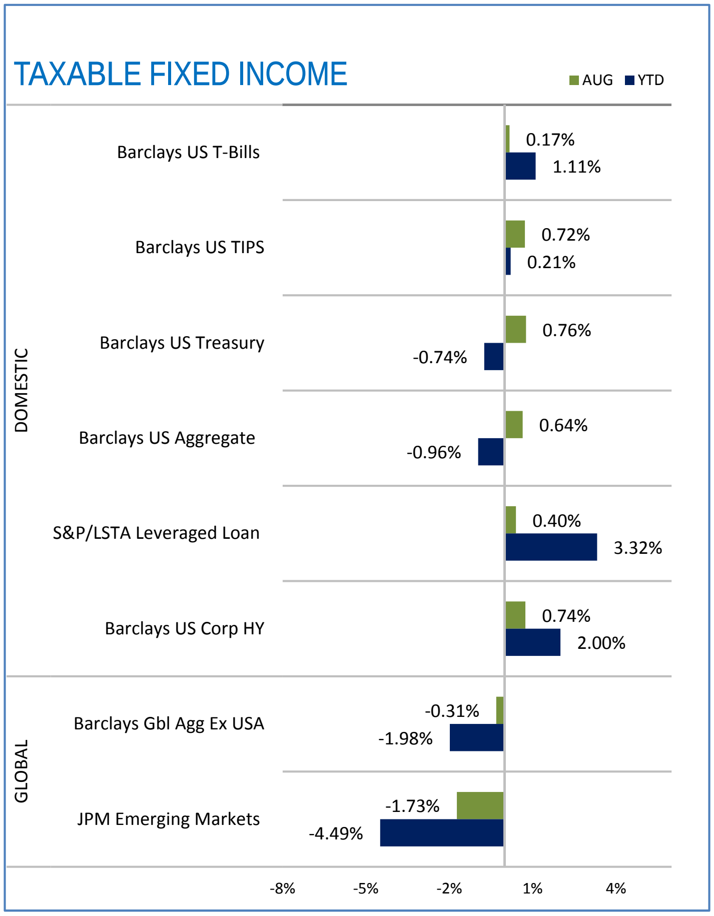
EUROPE RETREATS

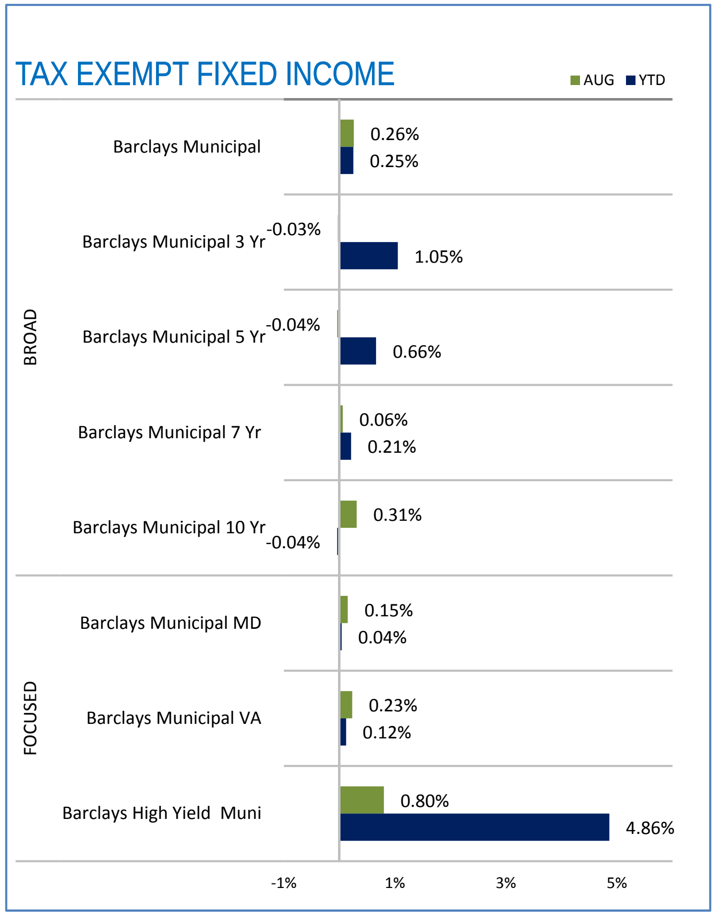
Following a solid July, European stocks sold off in August as the MSCI Europe Index declined 2.79%. Trade and currency issues in Turkey coupled with concerns over Italy's budget and fiscal plans pushed equities in the region lower. Italy fell 9.49% and Turkey fell 29.98% for the month.

CONTINUED HEADWINDS FOR EM

Weakness in emerging equity markets was broad based with all the regions registering losses in August. Investor sentiment further soured as continued trade concerns plagued the asset class. Currency losses relative to the U.S. dollar strongly affected Argentina and Turkey, while constitutional amendments relative to land seizures sunk South African equities. A heighted fear of contagion led the MSCI Emerging Markets Index to shed 2.7% in August.

FIXED INCOME: Yields Fall on EM Currency Concerns





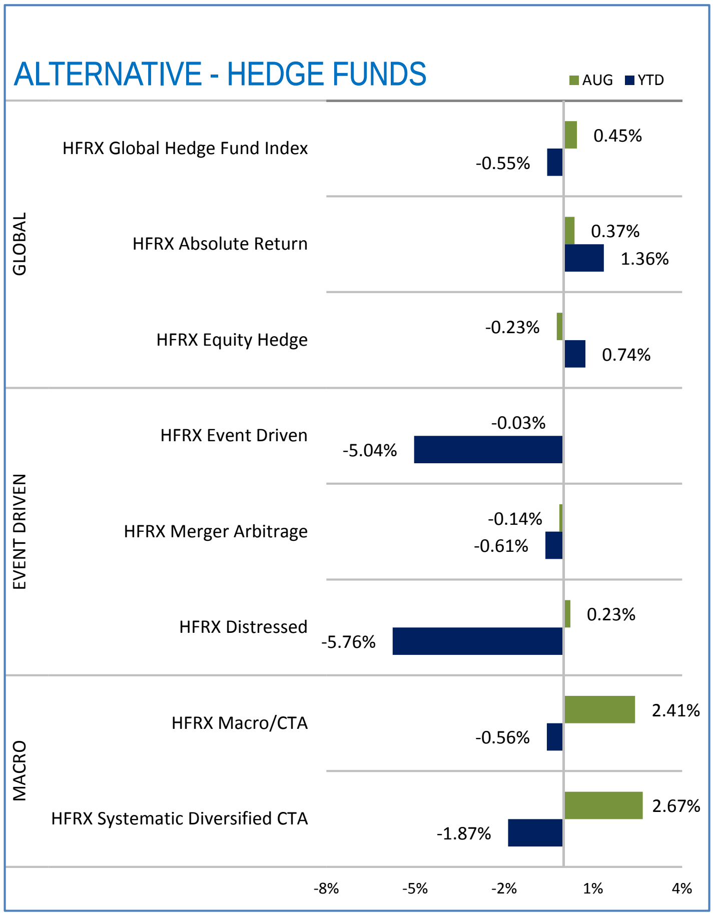
EM Currency Drops Push Treasuries Higher

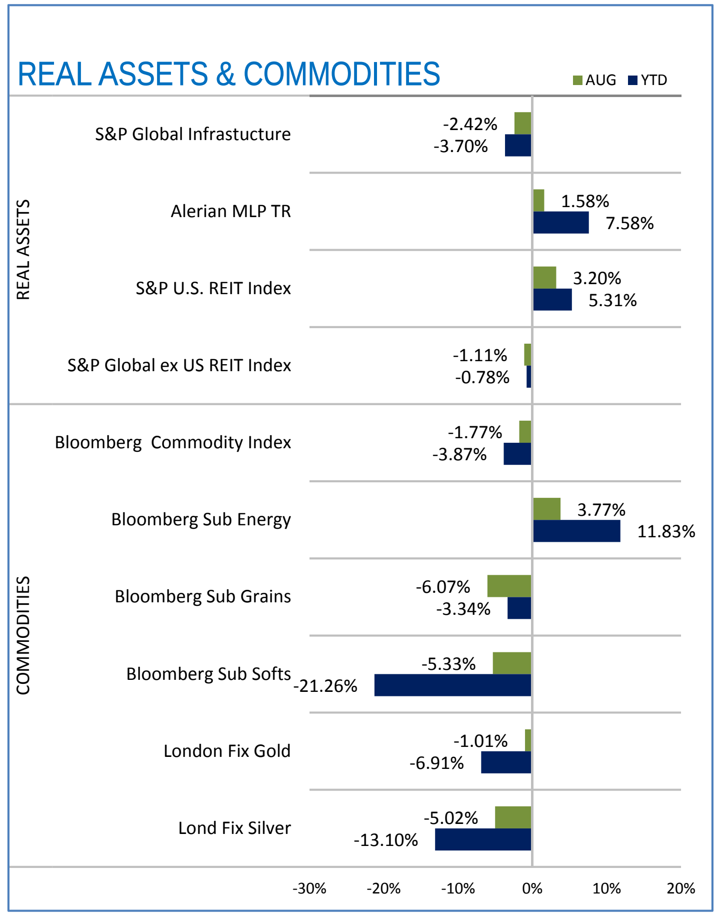
Investors were drawn to safe-haven assets such as U.S. Treasuries due to potential currency crisis in emerging economies of Argentina and Turkey. Rising trade tensions along with the fear of slower global growth and contagion across emerging markets pushed the yield on the 10-year U.S. Treasury down 0.11% to 2.85%. Long yields fell more than short yields, again flattening the yield curve and leaving the 2/10 spread (the difference between the yield on the 2 year and 10 year U.S. Treasury) at 0.22%. During his speech at the Jackson Hole Economic Policy Symposium, Fed Chair Jay Powell reiterated that "the gradual process of normalization remains appropriate."

Global Concerns Benefit Most Bonds

All major sectors with the exception of emerging market bonds posted positive returns in August, benefitting primarily from the decline in rates. The Barclays U.S. Aggregate Bond Index gained 0.64% in August, while U.S. high yield corporates gained 0.74%. However, the JPM Emerging Markets Bond Index declined 1.73% due to currency weakness versus the US dollar, heightened trade pressures, and a strong U.S. economy.

ALTERNATIVES: Macro Strategies & REITs In Focus





Macro Strategies Lead The Way

Hedge funds posted gains in August as U.S. equities, particularly the technology sector, gained and non-U.S. assets continued to struggle. The HFRX Global Hedge Fund Index gained 0.45% in August, but remains down 0.55% YTD. August performance was led by macro strategies, as trend following managers benefitted from strength in the U.S. dollar and long energy exposure. Event driven strategies ended the month flat with gains in distressed assets offset by losses in arbitrage investments.

Six In A Row For REITS

U.S. REITs, measured by the S&P U.S. REIT Index, gained 3.20% in August and kept pace with the S&P 500 for the month. This marks the 6th straight month of gains for the index which has climbed 19% since March, after falling 11.5% in the first two months of 2018. The healthcare REIT sector rose 7.1% in August, as rates fell, sentiment within the sector improved and interest from private capital increased.