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ECONOMY: US GDP Slows

Q1 GDP REVISED UPWARD AGAIN

The U.S. economy expanded at 1.4% in Q1 according to the final estimate of U.S. Q1 GDP. The improvement was largely attributable to personal consumption which rose 1.1% in Q1, much better than the original estimate of 0.3%.

STRONG MANUFACTURING REPORT

Economic activity in the manufacturing sector expanded in June, and the overall economy grew for the 97th consecutive month, according to the ISM Manufacturing Report on Business for June. The June PMI registered 57.8%, an increase of 2.9% from the May report , with strong gains in new orders, production and employment. (Readings over 50 note economic expansion.)

WAGE GAINS ELUSIVE

Employers added 222,000 net new jobs in June, the second strongest report in 2017. However, the unemployment rate rose to 4.4% due to an increase the labor force. The major weak spot in the report was average hourly earnings growth. In its report to Congress, the Fed noted that, *"Despite the broad-based strength in measures of employment, wage growth has been only modest, possibly held down by the weak pace of productivity growth in recent years."*

CONSUMER CONFIDENCE REBOUNDS

The Conference Board ***Consumer Confidence Index***®, which had decreased in May, increased moderately in June. The Index now stands at 118.9, up from 117.6 in May. The Present Situation Index increased from 140.6 to 146.3, while the Expectations Index declined from 102.3 last month to 100.6. *"Consumer confidence increased moderately in June following a small decline in May. Consumers' assessment of current conditions improved to a nearly 16-year high (July 2001, 151.3). Expectations for the short-term have eased somewhat, but are still upbeat. Overall, consumers anticipate the economy will continue expanding in the months ahead, but they do not foresee the pace of growth accelerating."*

MONETARY POLICIES ALIGNED?

Three of the major global central banks – European Central Bank (ECB), Bank of England (BoE), and U.S. Federal reserve (Fed) – all held policy meetings in June. Ironically, all also showed signs of tightening monetary policies. The Fed followed market expectations and raised interest rates 0.25 bp. While the BoE and ECB kept rates unchanged, comments from the ECB noted that they have considered gradually adjusting monetary policies.

JAPAN BUSINESS SENTIMENT INCREASES

Signs of strength in the economy were evident in the Bank of Japan's (BOJ) latest "Tankan" survey. The report showed stronger-than-expected business sentiment among major Japanese manufacturers, with the index hitting a three-year high. The Big Manufacturers Index for June came in higher than expected at +17, compared with a Reuters poll forecast for +15. That was up from +12 in the March survey.

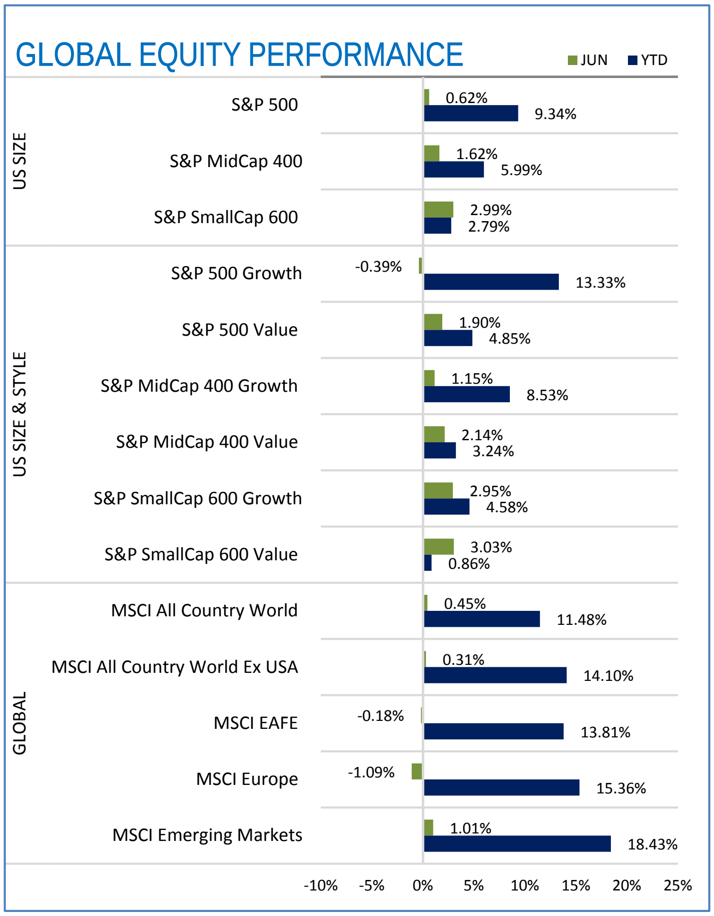
DATA CONFIRMS EUROZONE EXPANSION

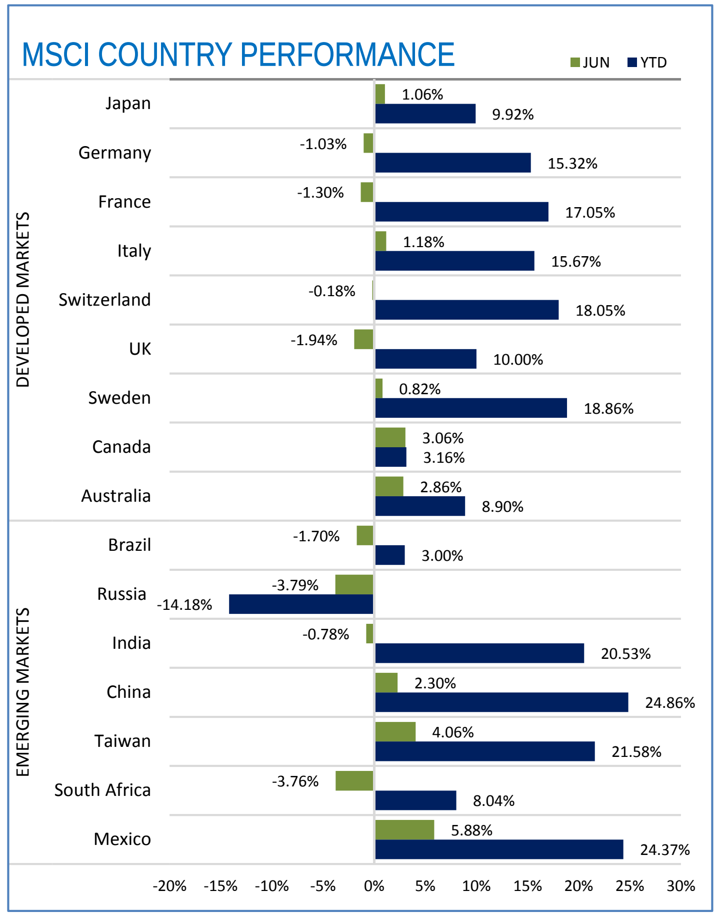
Eurozone Q1 GDP growth was revised upwards from 0.5% to 0.6%, with the revision largely due to increased domestic demand. Additionally, a preliminary reading of the Eurozone services Purchasing Managers Index (PMI), showed continued growth, but at a slower pace than the previous month. The preliminary Eurozone manufacturing PMI also indicated that the industry was expanding and above expectations.

EXPORTS/IMPORTS IMPROVE IN CHINA

China reported better-than-expected trade figures for the month of June as a recovery in global demand spurred exports. In June, exports from the world's second largest economy posted a 11.3% increase from a year ago and imports rose 17.2% over the same period according to China's General Administration of Customs. Analysts had expected exports to rise 8.7% and imports to rise 13.1%.

GLOBAL EQUITIES: Mixed Month For Global Equities





S&P 500 MOVES HIGHER…AGAIN

The S&P 500 continued its slow upward move, posting new highs, and gaining 0.62% in June due to positive economic news and earnings. The index set four new closing highs in June, and posted its seventh consecutive quarterly gain, up 3.09% for Q2 2017 and 9.34% YTD. For the one-year period, the S&P 500 posted a 17.90% total return.

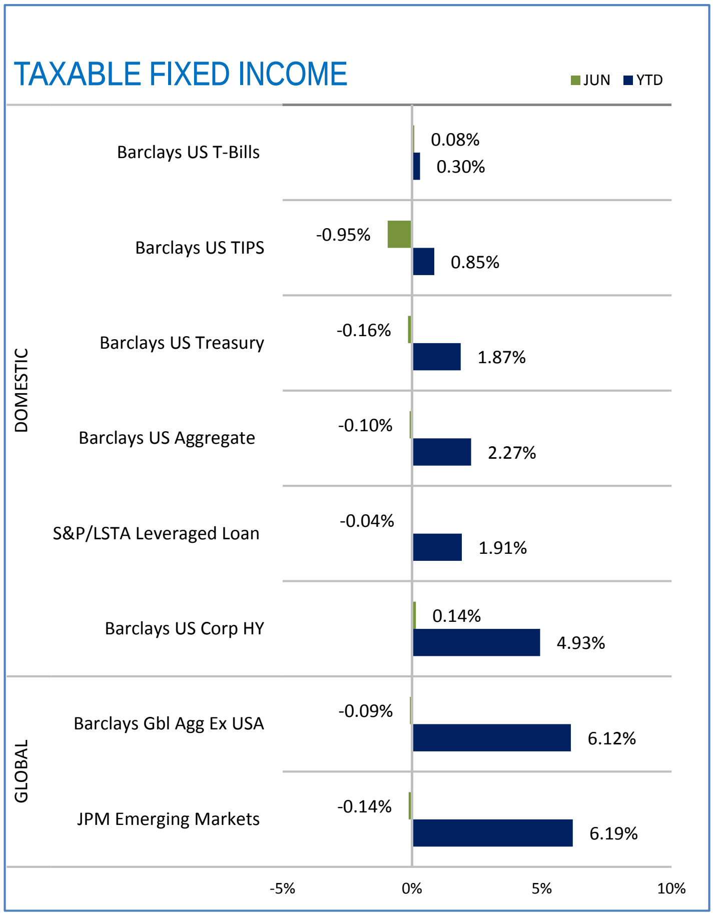
SMALL CAP COMEBACK?

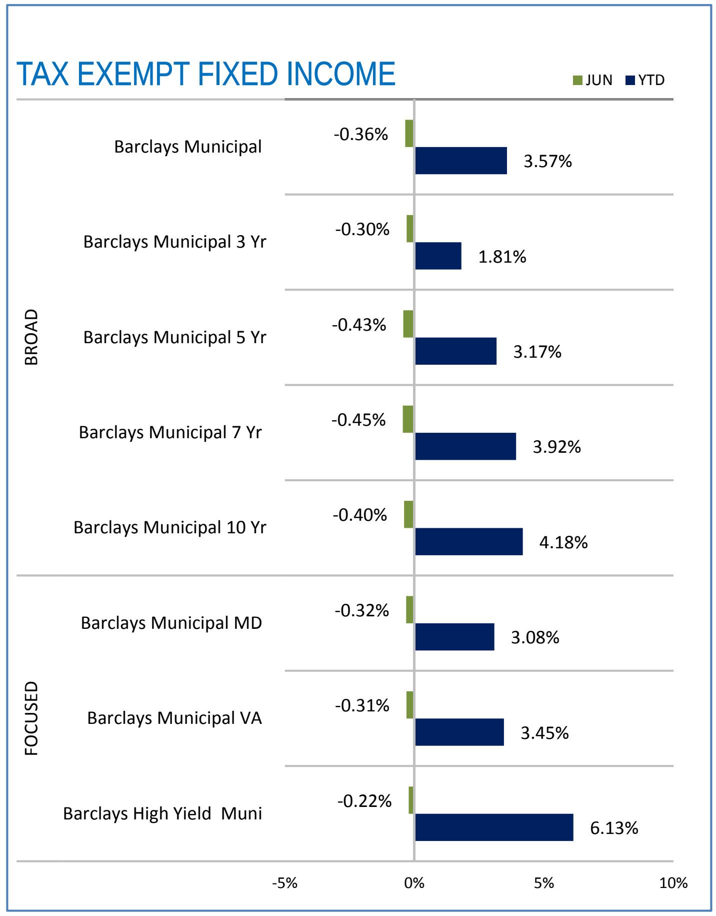
The S&P SmallCap 600 posted a 2.99% gain in June, reversing its 2.13% decline in May. The index posted the best June return of the three primary capitalization weighted S&P indices. The gain pushed the index to a profit for the quarter and YTD, up 1.71% and 2.79%, respectively. The differences in sector returns YTD have been fairly significant. Health care is up 19.75% for the first half of the year, while the energy sector has fallen 36.89% amidst continued oil price declines.

EMERGING MARKETS PUSH HIGHER

Emerging equity markets extended their winning ways by advancing higher in June, gaining 1.01%. An improving economic landscape and some upbeat earnings results provided continued momentum despite U.S. interest rates being hiked for the third time in six months. Mexico's equity market gained 5.88% in June and was unfazed by another hike in domestic interest rates. Conversely, continued political pressure and falling oil prices were reflected in the 3.79% decline in Russian equities.

FIXED INCOME: Time For Quantitative Un-Easing?





FOCUS ON CENTRAL BANKS

The main story for bond markets this month was a shift in tone from the world's major central banks. The European Central Bank (ECB) and the Bank of England (BoE) both spoke about reducing the amount of economic stimulus they are providing, while the Federal Reserve hiked interest rate by 25 basis points and began discussing a reduction in its balance sheet. European government bond yields moved higher, while the spread between 2-year and 10-yearTreasury yields narrowed from 113bps to 82bps, the flattest level seen since 2007.

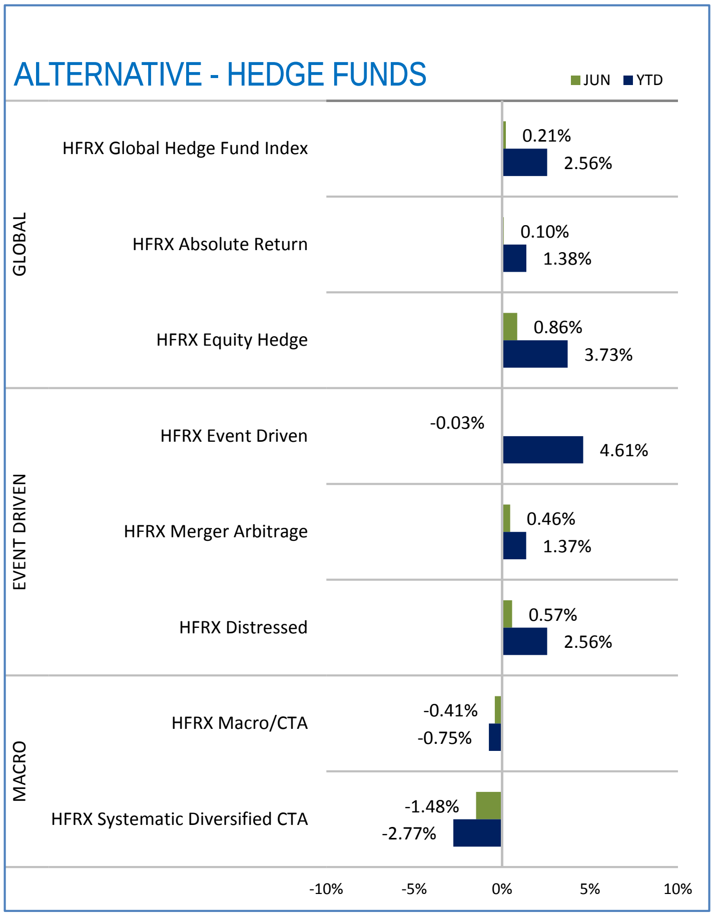
CAVEAT EMPTOR (BUYER BEWARE)

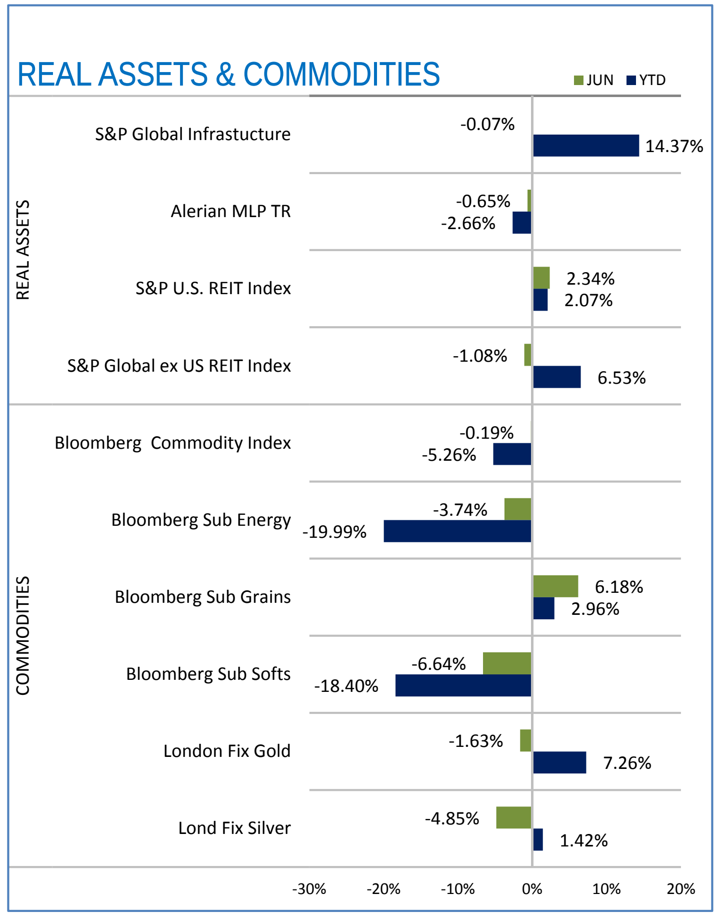
The covenant quality of U.S. high-yield bonds drastically worsened in June, according to a report by Moody's. The rating agency's Covenant Quality Index, a three-month rolling average covenant quality, fell to 4.48 from 4.26 in May, just four basis points off its worst ever score of 4.52 set in August 2015. Contributing to June's weak average covenant quality score was a high volume of bonds sponsored by private equity. (A bond covenant is a legally binding term of agreement between a bond issuer and a bond holder.)

POSITIVE DYNAMICS FOR MUNI MARKET

The fiscal conditions of most state and local governments have benefited from rising tax revenues. According to a survey by the National Association of State Budget Officers (NASBO), state general fund revenues in fiscal 2017 are estimated to rise by 2.4%, versus 1.8% in fiscal 2016, and are projected to increase by 3.1% in 2018. In the first half of 2017, issuers sold $194.9 billion of long-term debt in the municipal market, -14.1% less than was issued in the same period last year. Over the past year, the amount outstanding has increased by only 0.2%, and municipal debt has grown by just 1.4% since the end of 2010.

ALTERNATIVES: High Yields Can't Help MLPs





Managed Futures Struggle

Like the global financial markets, hedge funds posted mixed performance in June. The HFRX Equity Hedge Index gained 0.86% as several European markets declined. The HFRX Event Driven Index fell 0.03% despite strong performance from distressed strategies. Commodity trading advisors (managed futures) were the worst monthly performers, declining 0.41% and 1.48%, due to losses in the currency and commodity markets.

Despite High Yields, MLPs Continue To Struggle

Master limited partnerships (MLPs), as measured by the Alerian MLP Index, ended June down 0.65% and trailing the 0.62% return for the S&P 500. MLP yield spreads relative to the 10-year U.S. Treasury Bond, widened in June to end at 483 bps. This compares with a trailing five-year average spread of 454 bps and the average spread since 2000 of approximately 356 bps. The Alerian MLP Index indicated distribution yield at month-end was 7.5%.