



Week of July 17, 2017

No Summer Break as Stocks Keep Climbing Higher

Unemployment claims in the U.S. fell slightly in early July, but were higher than expected, while retail sales in June were lower than anticipated. Overseas, Japan reported a decline in machine orders—disappointing investors, who had expected an increase.

Major U.S. equity indices posted gains for the week. Investors were encouraged by Federal Reserve Board Chairwoman Janet Yellen's statements to Congress, emphasizing the Fed's intention to raise short-term interest rates gradually. Technology stocks—which had been battered recently—were the week's top performers, with shares of semiconductor manufacturers leading the charge on rising demand for computer chips. Meanwhile, interest-rate-sensitive sectors such as financials and utilities underperformed as interest rates crept higher.

Internationally, emerging markets stocks were the best performers: Brazil, China and Mexico all gained on global economic optimism. In contrast, Japanese equities underperformed due to tepid economic growth and political uncertainty.

In the fixed-income markets, government bond yields rose on investors' belief that central banks would continue to pull back from their accommodative monetary policies. Emerging markets debt and equity-focused fixed-income securities such as convertibles and high-yield bonds were the top performers. Long-duration bonds suffered last week as interest rates rose.

GAIN: Active Asset Allocation

Global stocks benefited last week as markets took Fed Chairwoman Yellen's comments about the gradual pace of future Fed rate hikes positively. In particular, emerging markets stocks and growth shares rebounded nicely after a few soft weeks.

The Gain portfolios' exposure to both growth and emerging markets was beneficial, while our positions in small-cap stocks (which underperformed last week) dragged on performance. Meanwhile, corporate credits were strong again in fixed income markets, as rising oil prices helped boost high-yield bond prices. In contrast, preferred stocks were flat for the week and dampened the portfolios' performance.

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PROTECT: Risk Assist

Global stocks continued to push higher last week, while volatility expectations fell sharply following Fed Chairwoman Janet Yellen's statement to Congress that interest rates do not need to rise significantly to get to "a neutral policy stance."

The Risk Assist portfolios remain unhedged, and have benefited from overall rising equity prices since the election last November. That said, our allocations to small-caps have acted as a slight drag on overall performance as small-cap stocks have generally lagged their large-cap peers.

Although our volatility forecasts are pointing to continued historically subdued volatility, we are not ruling out higher volatility levels during the third quarter.

SPEND: Real Spend

Equity markets posted strong gains again last week. Many major equity indices are now up double-digits year-to-date, while major bond indices are up in the low single-digits.

Inflation remains low, although Fed Chairwoman Yellen reiterated the Fed's 2% inflation target during her testimony to Congress last week. Low inflation allows the Fed to take a measured approach to raising the federal funds rate, a key short-term interest rate. If inflation picks up, however, the Fed may need to raise more quickly.

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