

# July 2018 Investment Report

## Highlights

- Trade policy continued to dominate headlines, but U.S. markets largely ignored the negative news focusing instead on strong economic fundamentals, including second quarter (Q2) preliminary gross domestic product (GDP) growth of 4.1%, record low jobless claims and another quarter of strong US corporate earnings.
- In testimony before Congress, Federal Reserve (Fed) Chairman Jerome Powell reiterated a policy of steady rate hikes in light of the strong U.S. economy. Several global central banks raised rates in July and the U.S. dollar depreciated modestly against a basket of developed and emerging market currencies that provided some support for Wespath's non-U.S. investments.
- In July, the Fixed Income Fund outperformed its respective benchmark, while the U.S. Equity Fund, International Equity Fund and Inflation Protection Fund underperformed. As a result, the Multiple Asset Fund underperformed its benchmark.

## Monthly Overview

### Trade rhetoric buffets markets

The U.S. Treasury imposed tariffs on \$34 billion of Chinese industrial products and announced another \$16 billion over the month. On a positive note, President Donald Trump and European Commission President Jean-Claude Juncker agreed to postpone the imposition of any further trans-Atlantic tariffs and to hold talks on eliminating current tariffs. The de-escalation of European trade tensions in late July, strong Q2 GDP growth of 4.1% and better-than-expected earnings reports for over 70% of S&P 500 Index companies supported the largest monthly stock market gain since January.

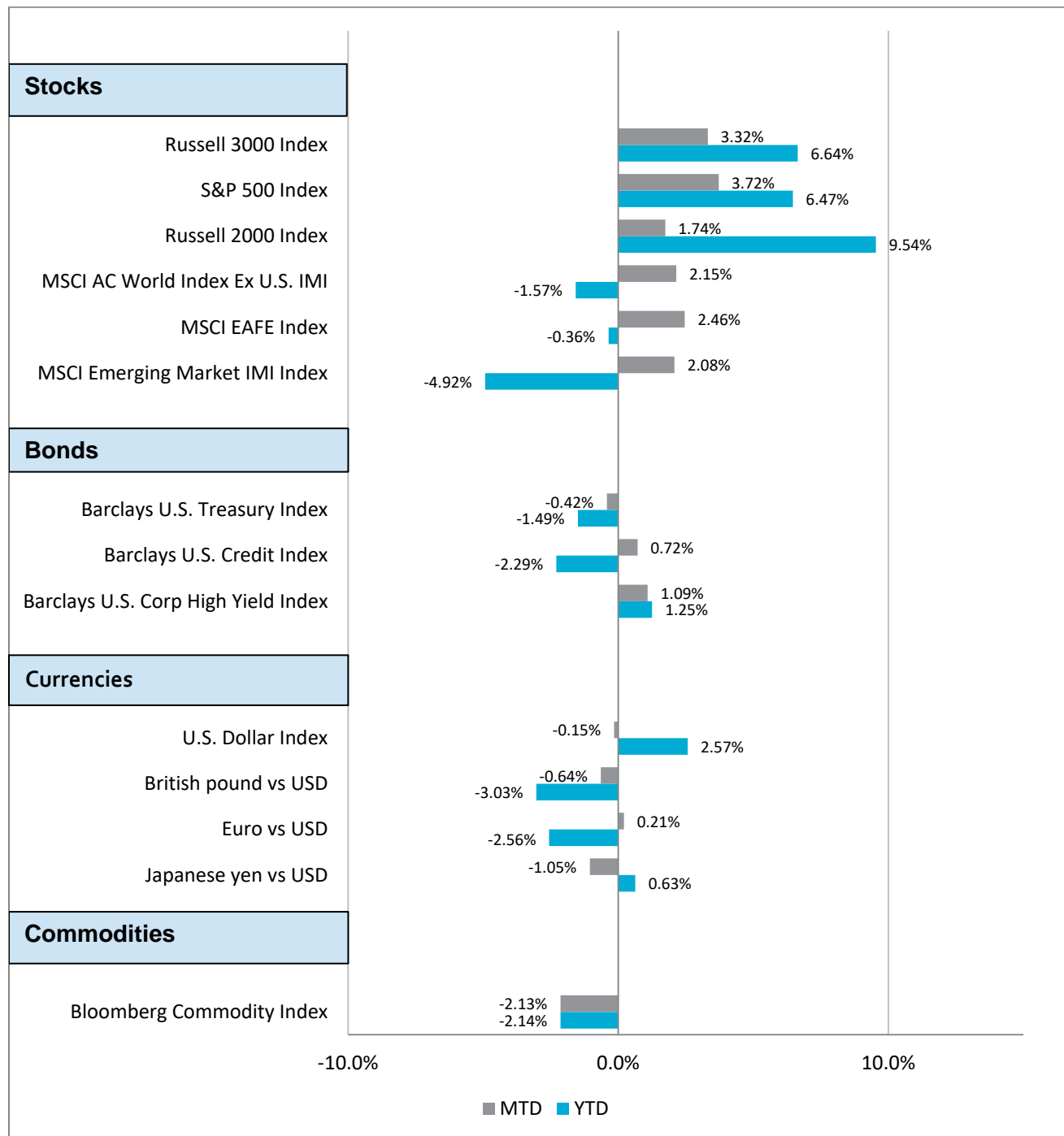
### Fed affirms current policy

Appearing before Congress, Fed Chairman Powell gave an optimistic view of the economy and affirmed the Fed's current policy for a steady series of rate hikes. Powell also noted the difficulty of predicting the economic impacts from current discussions over trade and recent changes in fiscal policy. In an unusual move, the President questioned Fed interest rate policy but later stated his respect for Fed independence.

### Technology stocks under pressure at month-end

Investors questioned the prospects of the largest global internet-focused firms after Facebook reported disappointing growth driven by a decline in internet advertising revenue. Facebook's stock fell 19% and suffered the largest one-day loss (\$120 billion) for a U.S. listed company. A New York Stock Exchange index that tracks the FAANG stocks (Facebook, Apple, Amazon, Netflix and Alphabet, Google's parent company) fell over 10% from its record high on June 20.

## Market Performance



Source: FactSet, as of July 31, 2018

## Key Monthly Economic Statistics

Statistic	Monthly/Yearly Change	Positive
Consumer Confidence	Jul: 127.4 (Jun: 127.1)	▲
Factory Orders	Jun: 0.7% (May: 0.4%); M/M-SA	▲
Institute for Supply Management Index	Jul: 58.1% (Jun: 60.2%)	▲
Nonfarm Payrolls	Jul: 157,000 (Jun: 248,000)	▲
Real Gross Domestic Product	Jun: 4.1% (Mar: 2.2%); Q/Q-SAAR	▲
Retail Sales ex-auto	Jun: 0.4% (May: 1.4%); M/M-SA	▲
Retail Sales	Jun: 0.5% (May: 1.3%); M/M-SA	▲
Unemployment Rate	Jul: 3.9% (Jun: 4.0%)	▲
		<b>Neutral</b>
Consumer Price Index core	Jun: 0.2% (May: 0.2%); M/M-SA	◆
Consumer Price Index	Jun: 0.1% (May: 0.2%); M/M-SA	◆
Durable Goods Orders	Jun: 0.8% (May: -0.3%); M/M-SA	◆
Producer Price Index core	Jun: 0.3% (May: 0.3%); M/M-SA	◆
Producer Price Index	Jun: 0.3% (May: 0.5%); M/M-SA	◆
S&P/Case-Shiller 20-City Home Price Index	May: 6.5% (Apr: 6.7%); Y/Y	◆
Existing Home Sales	Jun: -0.6% (May: -0.7%); M/M-SAAR	▼
Housing Starts	Jun: -12.3% (May: 4.8%); M/M-SAAR	▼
New Home Sales	Jun: -5.3% (May: 3.9%); M/M-SAAR	▼

M/M Month-over-month (% change since last month)

Q/Q Quarter-over-quarter (% change since last quarter)

Y/Y Year-over-year (% change since the same month, last year)

SA Seasonally Adjusted

SAAR Seasonally Adjusted Annual Rate

Source [FactSet](#)

## Investment Fund Review (Net-of-Fees Performance)<sup>i</sup>

### Equity Funds

#### U.S. Equity Fund

Fund	July	YTD
U.S. Equity Fund	+2.25%	+7.81%
Russell 3000 Index	+3.32%	+6.64%
Difference (percentage points)	-1.07	+1.17

- In July, the fund's strategic overweight to small- and mid-sized company stocks and corresponding underweight in large-company stocks, detracted from benchmark-relative performance. Poor performing internet technology companies and the fund's dedicated allocation to alternative investments negatively impacted fund performance.
- Year-to-date, the fund's positive benchmark-relative performance was mainly due to two growth-oriented managers' investments in e-commerce, biotech and healthcare equipment companies. The fund's strategic overweight to small- and mid-sized companies, and corresponding underweight in large-company stocks, contributed positively to benchmark-relative performance. The fund also benefited from not holding underperforming tobacco stocks, which Wespath's **Ethical Exclusions** policy excludes.

#### International Equity Fund

Fund	July	YTD
International Equity Fund	+1.72%	-0.37%
MSCI ACWI ex U.S. Investable Market Index (Net)	+2.15%	-1.57%
Difference (percentage points)	-0.43	+1.20

- In July, the fund's strategic underweight to developed markets and corresponding overweight to emerging markets, negatively impacted benchmark-relative performance. Dedicated investments in private equity and private real estate also detracted from relative performance. However, the fair market valuation policy (described [here](#)) positively contributed to benchmark-relative performance.
- Year-to-date, the fund's strategic underweight to developed market equities, and corresponding overweight to emerging market equities, detracted from benchmark-relative returns. The fund benefited the most from strong performance by two developed market managers and one emerging market manager. Both private equity and private real estate positively contributed to relative returns.

### Social Values Choice Equity Fund

Fund	July	YTD
Social Values Choice Equity Fund	+3.48%	+3.01%
SVCEF Benchmark <sup>ii</sup>	+3.45%	+2.97%
Difference (percentage points)	+0.03	+0.04

- The Social Values Choice Equity Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. The fair market valuation policy (described [here](#)) positively contributed to performance.

### U.S. Equity Index Fund

Fund	July	YTD
U.S. Equity Index Fund	+3.36%	+6.73%
Russell 3000 Index	+3.32%	+6.64%
Difference (percentage points)	+0.04	+0.09

- The U.S. Equity Index Fund is a passively managed fund designed to closely match the fund benchmark, less fees and expenses. Ethical exclusions (described [here](#)) detracted from benchmark-relative performance for the month but positively contributed year-to-date.

## Fixed Income Funds

### Fixed Income Fund

Fund	July	YTD
Fixed Income Fund	+0.52%	-1.36%
Barclays U.S. Universal (ex MBS) Index	+0.31%	-1.59%
Difference (percentage points)	+0.21	+0.23

- In July, the overweight allocation to emerging markets contributed to benchmark-relative results. The asset class benefited from foreign currency strength versus the U.S. dollar and continued demand for higher yielding bonds by investors. The overweight allocation to below-investment-grade corporate bonds also positively contributed to benchmark-relative performance. The allocation to Wespath's Positive Social Purpose Lending Program detracted.
- Year-to-date, the overweight allocation to below-investment-grade corporate bonds positively contributed to benchmark-relative results. High yield bond valuations benefited from positive economic growth and strong corporate earnings reports. The allocations to Wespath's Positive Social Purpose Lending Program and alternative investments benefited relative results, but the allocation to non-dollar emerging market currencies detracted.

### Social Values Choice Bond Fund

Fund	July	YTD
Social Values Choice Bond Fund	+0.26%	-1.90%
Barclays U.S. Universal (ex MBS) Index	+0.31%	-1.59%
Difference (percentage points)	-0.05	-0.31

- For the month and year-to-date, interest rate strategies contributed positively to benchmark-relative performance, as did the overweight to investment-grade credit, particularly the Financials sector during July. The underweight allocation to emerging markets detracted during the month and, for year-to-date, the allocation to certain emerging market currencies, particularly the Argentine peso and Brazilian real, detracted.

#### Extended Term Fixed Income Fund

Fund	July	YTD
Extended Term Fixed Income Fund	+0.24%	-2.93%
Barclays U.S. Government/Credit Long Term Index	+0.25%	-4.74%
Difference (percentage points)	-0.01	+1.81

- The Extended Term Fixed Income Fund's policy of maintaining a lower sensitivity to interest rate movements had a neutral impact on month-to-date performance results, but contributed to the fund's benchmark-relative performance year-to-date.

#### Inflation Protection Fund

Fund	July	YTD
Inflation Protection Fund	-0.22%	-0.31%
IPF Benchmark <sup>iii</sup>	-0.02%	-0.35%
Difference (percentage points)	-0.20	+0.04

- In July, the decision to strategically underweight U.K. inflation-linked bonds and the overweight allocation to U.S. Treasury Inflation Protected securities (TIPS) negatively affected relative results.
- Year-to-date, the allocation to below-investment-grade floating rate strategies and the commodities manager's decision to overweight energy helped relative results. The overweight to TIPS detracted as did the emerging market inflation-linked bond manager's decision to overweight certain currencies, including the Brazilian real and South African rand, which weakened versus the U.S. dollar.

#### U.S. Treasury Inflation Protection Fund

Fund	July	YTD
U.S. Treasury Inflation Protection Fund	-0.57%	-0.83%
Barclays U.S. Inflation Linked Bond Index	-0.52%	-0.58%
Difference (percentage points)	-0.05	-0.25

- The U.S. Treasury Inflation Protection Fund is a passively managed fund designed to closely match the performance of the fund benchmark, less fees and expenses.

## Balanced Fund

### Multiple Asset Fund

Fund	July	YTD
Multiple Asset Fund	+1.42%	+2.41%
MAF Benchmark	+1.88%	+1.45%
Difference (percentage points)	-0.46	+0.96

During the month, the U.S. Equity Fund, International Equity Fund, and Inflation Protection Fund negatively contributed to the Multiple Asset Fund's benchmark-relative performance, while the Fixed Income Fund positively contributed. Year-to-date, all four underlying funds in the Multiple Asset Fund positively contributed to benchmark-relative performance.

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<sup>i</sup> Historical returns are not indicative of future performance. Fund returns are net of fees. Please refer to the [Investment Funds Description](#) for more information about the funds. This is not an offer to purchase securities.

<sup>ii</sup> The benchmark for the Equity Social Values Plus Fund is the MSCI World Environmental, Social and Governance (ESG) ex Fossil Fuels Index.

<sup>iii</sup> The benchmark for the Inflation Protection Fund is comprised of 80% Barclays World Government Inflation Linked Bond Index (Hedged), 10% Barclays Emerging Market Tradeable Inflation Linked Bond Index (Unhedged) and 10% Bloomberg Commodity Index.