Global equities were supported by a risk-on environment led by continued U.S. economic and earnings strength while previously weakening overseas momentum began to level off. Trade remains a key, but underpriced, risk to the market; an agreement between the European Union and the U.S. helped to deescalate tensions. The main themes of the month include higher yields, the rotation from growth to value, small caps losing ground, FANG stocks' performance divergence, and emerging markets partially recovering from June's losses.

Persistent upward momentum in the U.S. continues to pull away from economic activity abroad; expect higher inflation and continued policy normalization. Lower activity and inflationary pressures overseas have kept policy easy. Trade actions and China's slowing growth are key risks to watch.

Global equities showed strong performance with a general risk-on bias, supported by strong earnings, improving hard data releases from the U.S. and Europe, and relatively easier trade tensions compared to the last month. Core sovereign bond yields edged higher across the board; credit spreads tightened; the USD was mostly unchanged; and oil lost on output increases.
GROWTH
U.S. strength continues to lead global growth even as previously weakening overseas momentum has begun to level off. The market remains focused on the impact of higher tariffs and China’s recent signs of a slowdown.

INFLATION
Inflationary pressures and estimates continue to rise, most notably in the U.S. Core PCE is only slightly below the Fed’s 2% target and is the highest since April 2012. Higher tariffs should lead to greater inflation.

CENTRAL BANK POLICY
The Fed is expected to continue its policy normalization while expectations for delayed tightening by the ECB and BOJ remain largely unchanged. China has reversed its tightening stance and is increasingly shifting towards an easy bias adding liquidity to the economy.
GLOBAL ECONOMY

Growth | Inflation | Central Bank Policy

U.S. strength continues to lead global growth even as previously weakening overseas momentum has begun to level off. The market remains focused on the impact of higher tariffs and China’s recent signs of a slowdown.

- **U.S. Strength Leading and Likely to Persist, Reinforcing Continued Policy Normalization.** Q2 GDP jumped to 4.1% q/q (saar), the highest since Q3 2014, leading some forecasters to raise their 2018 estimate above 3%, which would be the first time since 2005. The unemployment rate increased for the first time since August 2017 from 3.8% to 4.0%; however, the change was largely driven by greater labor force participation while wages continued to tread within the recent range. Capacity utilization, a measure of resource slack with higher utilization implying less slack, increased to 78.0% in June, near the highest since early 2015.

- **Eurozone’s Soft Patch Expected to Stabilize.** GDP grew 2.1% y/y in Q2, slightly below expectations and down from 2.5% in the prior quarter. For 2018, the market expects growth of 2.2%, down from 2.4% at the end of Q1. The manufacturing PMI increased for the first month since the end of 2017 while the Citi economic surprise index continues to improve. Consumer confidence, while historically elevated, was unchanged in July after steadily falling YTD.

- **Chinese Growth Headwinds Rising.** China grew in-line with expectations at 6.7% y/y in Q2, the slowest pace since 2016. For 2018, the market is forecasting 6.5%, which has been unchanged YTD. Going forward, risks surrounding trade, a focus on injecting liquidity into the economy, and a weakening currency could dampen sentiment and cause a downward revision to the current forecast.

- **Trade Remains a Concern.** $34 billion of tariffs between the U.S. and China were implemented on July 6. EU and U.S. tensions were reduced after a temporary deal was struck.

**TAKEAWAY:** Export growth from advanced and emerging economies has slowed in 2018. Heightened trade frictions could weaken growth further.

**TAKEAWAY:**

Positive global growth momentum continues but has moderated slightly and become less synchronous in 2018.
Inflationary pressures and estimates continue to rise, most notably in the U.S. Core PCE is only slightly below the Fed’s 2% target and is the highest since April 2012. Higher tariffs should lead to greater inflation.

- Inflation across OECD countries increased to 2.8% y/y in June, the highest since early 2012.
- U.S. CPI grew 2.9% y/y in June, up 0.1% from the prior month and has risen for six consecutive months to the highest since early 2012. Core CPI also gained 0.1% to 2.3% y/y, the highest since January 2017. The Fed’s preferred measure of inflation, core PCE, remained at 1.9% for the third month in a row after revisions and is near the highest since April 2012. Input prices are near the highest since mid-2011.
- Eurozone CPI increased 0.1% to 2.1% y/y in July, the largest growth since the end of 2012. Core inflation advanced 0.2% to 1.1% y/y. Input prices, measured by the producer price index, grew 3.0% y/y in May, the strongest since May 2017. For 2018, the market expects inflation of 1.7%, up from 1.5% at the beginning of the year.
- UK inflation stayed at 2.4% y/y for the third consecutive month but has fallen from 3.1% near the end of 2017. Meanwhile, core inflation declined 0.2% to 1.9% y/y or the lowest since March 2017.
- Japan’s CPI (ex-fresh food) increased 0.1% to 0.8% in July and has tacked between 0.5% to 0.9% since September 2017. The market’s estimate for 2018 price growth has remained at 1.0% for most of 2018. Meanwhile, the Bank of Japan lowered its 2018 inflation forecast range from 1.2%–1.3% to 1.0%–1.2% and also its estimate for 2019.

**U.S. INFLATION AND WAGES**

- Core PCE (% y/y)
- Wages (% y/y)
- Fed’s Core PCE Target (% y/y)

**MARKET IMPLIED 10-YEAR FORWARD INFLATION FORECASTS**

- 3/31/2017
- 6/30/2017
- 9/30/2017
- 12/31/2017
- 3/31/2018
- 7/31/2018

30-day moving average for each above mentioned date of the 10-year breakeven inflation rate. Source: BNY Mellon Global Investment Strategy using data from Bloomberg.

**TAKEAWAY:**

The Fed’s preferred inflation measure, core PCE, has steadily risen towards its 2.0% target while wage growth continues to move range-bound.

**TAKEAWAY:**

The market’s forecast of future inflation across G4 economies is slightly higher compared to a year ago but is for the most part unchanged in 2018.
GLOBAL ECONOMY

The Fed is expected to continue its policy normalization while expectations for delayed tightening by the ECB and BOJ remain largely unchanged. China has reversed its tightening stance and is increasingly shifting towards an easy bias adding liquidity to the economy.

• The Fed reaffirmed the continued improvement in economic activity and the labor market, which is expected to persist, and suggested they will likely continue to raise interest rates on a regular basis. According to Powell, “with appropriate monetary policy, the job market will remain strong and inflation will stay near 2% over the next several years.” Powell also downplayed fears over the shape of the yield curve and stated “what really matters is what the neutral rate of interest is.” The Fed also highlighted concerns over the negative impact from higher trade tensions on growth and future investment intentions, and also expressed some worry regarding conditions overseas, particularly in Europe and some emerging markets.

• The ECB kept its interest rate and QE policy unchanged but delivered an upbeat assessment of the Eurozone’s outlook despite the recent slowdown in economic momentum. According to ECB President Mario Draghi, the Eurozone was “proceeding along a solid and broad-based growth path.” Currently, the ECB is expected to end its QE purchases at the end of 2018 and keep interest rates on hold until at least through the summer of 2019.

• The BOJ made several changes to its stimulus programs but overall pledged to continue maintaining an easy bias for the foreseeable future. The BOJ also introduced forward guidance for its policy rates and suggested the current low level would remain “for an extended period of time.” In addition, the BOJ announced they would allow the yield on the 10-year JGB to move up and down 0.2% around 0% to provide additional flexibility.

• To counter the negative impact of slowing growth, trade concerns with the U.S., and U.S. policy tightening, China has shifted away from deleveraging towards an easing bias. Policymakers have boosted both fiscal and monetary stimulus in order to inject liquidity into the system.

**CHINA’S INTEREST RATES AND RESERVE REQUIREMENT RATIO**

**TAKEAWAY:**
China’s shift towards an easing bias, to counter slowing growth and concerns over trade, has contributed to a decline in interest rates.

SHIBOR: Shanghai Interbank Offered Rate, a measure of interbank liquidity. Required deposit reserve ratio is the proportion of deposits that banks must hold for reserves. Source: BNY Mellon Global Investment Strategy using data from Bloomberg.
GLOBAL EQUITIES
Most major global equity indices gained in July. The U.S. and Europe showed strong performance on solid earnings results and improving hard data releases. Emerging markets gained but underperformed developed markets, as EMs continue to be sensitive to the evolving U.S.-China trade backdrop and tightening in the U.S.

FIXED INCOME
Core global sovereign bond yields edged higher in July and the U.S. yield curve steepened during the second half of the month. Corporate credit spreads tightened in the U.S., Europe, and emerging markets.

FOREIGN EXCHANGE
The USD was mostly unchanged against major crosses and EM currencies lost for another month on continuation of protectionism and U.S. rate hikes.

COMMODITIES
Commodities dropped, led by oil which had its largest monthly loss in two years. Base metals continue to face headwinds from trade anxieties and China growth slowdown.
FINANCIAL MARKETS

Most major global equity indices gained in July. The U.S. and Europe showed strong performance on solid earnings results and improving hard data releases. Emerging markets gained but underperformed developed markets, as EMs continue to be sensitive to the evolving U.S.-China trade backdrop and tightening in the U.S.

• Global equities (+2.9% MTD, +1.3% YTD) showed strong performance in July on, so far, a satisfactory Q2 corporate earnings season, weakening USD later in the month, and overall easing trade tensions. In the U.S. (large caps +3.6% MTD, small caps +1.7%), equities were supported by solid earnings (+22% y/y) and revenue (+9% y/y) growth of nearly 65% of companies reported so far as of August 1st. In aggregate, nearly 78% of companies exceeded consensus EPS estimates and energy (+124% y/y), materials (+50%), and telecommunication (+31%) delivered the strongest earnings results.

• Within the U.S., rotation from growth to value sectors dominated towards the end of the month as core yields moved higher across the board, and industrials (+7.3%) led in performance, followed by healthcare (+6.5%), and financials (+5.1%). Although tech overall managed to hold up and finish the month with a +2.0% return, FANG performance divergence (with misses from Facebook and Netflix) gained ample attention from market participants.

• Among developed market indices (+3.1% MTD, +2.4% YTD), Europe was strong (+3.1% MTD) on satisfactory earnings reports and improving hard data releases, as well as easing trade tensions with the U.S. Performance in Europe was led by Germany (+4.1%) and France (3.5%).

• Although emerging markets (+1.7% MTD, -6.1% YTD) underperformed relative to developed markets, overall, EMs managed to finish the month in the green on diminishing trade anxieties and weakening USD during the second half of the month.

TAKEAWAY:
Value holding up against growth as Q2 earnings season progresses.

TAKEAWAY:
Performance gap between U.S. small caps and emerging markets decreased as trade anxieties eased and dollar weakened.
FINANCIAL MARKETS

Core global sovereign bond yields edged higher in July and credit spreads tightened. The USD was mostly unchanged across major currencies. Commodities lost, led by oil which had its largest monthly loss in two years.

FIXED INCOME
• Average G-4 government bond yields increased in July (+8 bp MTD; U.S. [+11 bp], Germany [+14 bp], UK [+5 bp], Japan [+3 bp]) on the market’s speculating a moderation in the BoJ’s ultra-easy monetary policy, strong U.S. GDP print, and President Trump’s criticisms of the Fed’s pace of rate hikes. Although the U.S. yield curve ended the month slightly flatter, it steepened during the second half of the month.
• Global credit spreads tightened, led by EM USD bonds (-28 bp MTD, +46 bp YTD), US HY corporates (-27 bp, -7 bp) and US IG corporates (-14 bp, +16 bp).

FOREIGN EXCHANGE
• U.S. dollar (+0.1% MTD, +2.6% YTD) was mostly unchanged in July but had a volatile month against major currencies. Emerging markets currencies, especially those in the Asia-Pacific region led by China’s renminbi, lost in July (-0.2% MTD, -3.1% YTD) as protectionism concerns and withdrawal of global liquidity continue to put pressure on local currencies.

COMMODITIES
• Commodities dropped in July, led by WTI oil’s retreat of -7.3% (+13.8% YTD), its biggest monthly loss since July 2016. The fall in prices was due to increases in output from Russia and Kazakhstan as well as President Trump’s remarks on his willingness to meet with Iranian President Rouhani to discuss U.S. sanctions. Overall, global supply disruptions pressure prices to the upside on continuation of decreasing output from Venezuela and imminent U.S. sanctions on Iran.

CHINA–U.S. 10-YEAR YIELD DIFFERENTIAL AND THE RENMINBI

TAKEAWAY: Base metals partially up from their recent collapse as trade rhetoric eased somewhat; but facing major headwinds including China manufacturing slowdown and further trade spats with the U.S.

TAKEAWAY: As China-U.S. yield differential narrows, renminbi depreciation pressures intensify.

LONDON METAL EXCHANGE INDEX (LMEX)

The London Metal Exchange LMX Index is calculated once a day on the basis of the closing prices of the six primary metals: copper, aluminum, lead, tin, zinc and nickel. Source: BNY Mellon Global Investment Strategy using data from Bloomberg.
# Market Roundup

Data as of July 31, 2018 close.

<table>
<thead>
<tr>
<th>GLOBAL EQUITIES (USD, % chg.)</th>
<th>Level</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>MSCI All-Country World</td>
<td>520</td>
<td>2.9%</td>
<td>1.3%</td>
<td>8.8%</td>
<td>6.8%</td>
<td>21.6%</td>
</tr>
<tr>
<td>MSCI World - DM</td>
<td>2,153</td>
<td>3.1%</td>
<td>2.4%</td>
<td>9.8%</td>
<td>6.8%</td>
<td>20.1%</td>
</tr>
<tr>
<td>MSCI EAFE</td>
<td>2,006</td>
<td>2.4%</td>
<td>-2.2%</td>
<td>3.6%</td>
<td>2.2%</td>
<td>21.8%</td>
</tr>
<tr>
<td>MSCI EM</td>
<td>1,087</td>
<td>1.7%</td>
<td>-6.1%</td>
<td>2.0%</td>
<td>6.4%</td>
<td>34.3%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COUNTRY EQUITIES (Local, % chg.)</th>
<th>Level</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. (S&amp;P 500)</td>
<td>2,816</td>
<td>3.6%</td>
<td>5.3%</td>
<td>14.0%</td>
<td>10.2%</td>
<td>19.4%</td>
</tr>
<tr>
<td>U.S. (NASDAQ)</td>
<td>7,672</td>
<td>2.2%</td>
<td>11.1%</td>
<td>20.9%</td>
<td>14.4%</td>
<td>28.2%</td>
</tr>
<tr>
<td>U.S. (Russell 2000)</td>
<td>1,671</td>
<td>1.7%</td>
<td>8.8%</td>
<td>17.2%</td>
<td>10.5%</td>
<td>13.1%</td>
</tr>
<tr>
<td>Japan (NIKKEI 225)</td>
<td>22,554</td>
<td>1.1%</td>
<td>-0.9%</td>
<td>13.2%</td>
<td>3.1%</td>
<td>19.1%</td>
</tr>
<tr>
<td>EU (STOXX 600)</td>
<td>392</td>
<td>3.1%</td>
<td>0.6%</td>
<td>3.6%</td>
<td>-0.4%</td>
<td>7.7%</td>
</tr>
<tr>
<td>UK (FTSE 100)</td>
<td>7,749</td>
<td>1.5%</td>
<td>0.8%</td>
<td>5.1%</td>
<td>5.0%</td>
<td>7.6%</td>
</tr>
<tr>
<td>France (CAC 40)</td>
<td>5,511</td>
<td>3.5%</td>
<td>3.7%</td>
<td>8.2%</td>
<td>2.7%</td>
<td>9.3%</td>
</tr>
<tr>
<td>Germany (DAX 30)</td>
<td>12,806</td>
<td>4.1%</td>
<td>-0.9%</td>
<td>5.7%</td>
<td>4.2%</td>
<td>12.5%</td>
</tr>
<tr>
<td>China (SHANGHAI A SE)</td>
<td>3,012</td>
<td>1.0%</td>
<td>-13.0%</td>
<td>-12.1%</td>
<td>-7.8%</td>
<td>6.6%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FIXED INCOME (USD, % chg.)²</th>
<th>Level</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Global Treasury ex. U.S.</td>
<td>637</td>
<td>-0.1%</td>
<td>1.5%</td>
<td>3.0%</td>
<td>3.2%</td>
<td>2.1%</td>
</tr>
<tr>
<td>U.S. Treasury</td>
<td>2,166</td>
<td>-0.4%</td>
<td>-1.5%</td>
<td>-1.2%</td>
<td>0.6%</td>
<td>2.3%</td>
</tr>
<tr>
<td>Global IG Corporate</td>
<td>250</td>
<td>0.6%</td>
<td>-1.2%</td>
<td>0.5%</td>
<td>3.4%</td>
<td>5.7%</td>
</tr>
<tr>
<td>Global High Yield</td>
<td>468</td>
<td>1.7%</td>
<td>-0.2%</td>
<td>1.8%</td>
<td>6.4%</td>
<td>8.4%</td>
</tr>
<tr>
<td>U.S. Leveraged Loans</td>
<td>2,882</td>
<td>0.7%</td>
<td>2.9%</td>
<td>4.4%</td>
<td>4.5%</td>
<td>4.1%</td>
</tr>
<tr>
<td>EM USD Denominated</td>
<td>1,071</td>
<td>1.7%</td>
<td>-2.2%</td>
<td>-0.3%</td>
<td>4.6%</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>COMMODITIES (USD, % chg.)³</th>
<th>Level</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bloomberg Commodity Index</td>
<td>176</td>
<td>-2.1%</td>
<td>-2.1%</td>
<td>2.7%</td>
<td>-1.6%</td>
<td>1.7%</td>
</tr>
<tr>
<td>Oil (WTI, USD/Barrel)</td>
<td>68.8</td>
<td>-7.3%</td>
<td>13.8%</td>
<td>37.1%</td>
<td>13.4%</td>
<td>12.5%</td>
</tr>
<tr>
<td>Gold (USD/Troy Ounce)</td>
<td>1,219.2</td>
<td>-2.5%</td>
<td>-6.0%</td>
<td>-3.7%</td>
<td>4.1%</td>
<td>11.9%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SPREADS (OAS, bp chg.)³</th>
<th>Level</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>U.S. Investment Grade Corporate</td>
<td>109</td>
<td>-14</td>
<td>16</td>
<td>7</td>
<td>-45</td>
<td>-30</td>
</tr>
<tr>
<td>U.S. High Yield</td>
<td>336</td>
<td>-27</td>
<td>-7</td>
<td>-16</td>
<td>-177</td>
<td>-66</td>
</tr>
<tr>
<td>EM USD Denominated</td>
<td>272</td>
<td>-28</td>
<td>46</td>
<td>10</td>
<td>-90</td>
<td>-75</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>KEY RATES (bp chg.)⁴</th>
<th>Level</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>3M U.S. Libor</td>
<td>2.34</td>
<td>1</td>
<td>65</td>
<td>103</td>
<td>203</td>
<td>70</td>
</tr>
<tr>
<td>2Y U.S. Treasuries</td>
<td>2.67</td>
<td>15</td>
<td>78</td>
<td>133</td>
<td>200</td>
<td>69</td>
</tr>
<tr>
<td>10Y U.S. Treasuries</td>
<td>2.96</td>
<td>11</td>
<td>56</td>
<td>66</td>
<td>76</td>
<td>-5</td>
</tr>
<tr>
<td>10Y German Bund</td>
<td>0.44</td>
<td>14</td>
<td>2</td>
<td>-10</td>
<td>-20</td>
<td>22</td>
</tr>
<tr>
<td>10Y UK Gilt</td>
<td>1.33</td>
<td>5</td>
<td>14</td>
<td>10</td>
<td>-55</td>
<td>-5</td>
</tr>
<tr>
<td>10Y Japanese Bond</td>
<td>0.06</td>
<td>3</td>
<td>1</td>
<td>-2</td>
<td>-35</td>
<td>0</td>
</tr>
<tr>
<td>CBOE VIX</td>
<td>12.83</td>
<td>16.09</td>
<td>11.04</td>
<td>10.26</td>
<td>12.12</td>
<td>14.04</td>
</tr>
<tr>
<td>U.S. 30Y Fixed Rate Mortgage</td>
<td>4.43</td>
<td>3</td>
<td>58</td>
<td>58</td>
<td>53</td>
<td>-21</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>FOREIGN EXCHANGE (vs. USD, % chg.)⁵</th>
<th>Level</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>USD – Majors Dollar Index</td>
<td>94,5540</td>
<td>0.1%</td>
<td>2.6%</td>
<td>1.8%</td>
<td>-1.0%</td>
<td>-9.9%</td>
</tr>
<tr>
<td>Euro</td>
<td>1.1691</td>
<td>0.1%</td>
<td>-2.6%</td>
<td>-1.3%</td>
<td>2.1%</td>
<td>14.1%</td>
</tr>
<tr>
<td>British Pound</td>
<td>1.3124</td>
<td>-0.6%</td>
<td>-2.9%</td>
<td>-0.7%</td>
<td>-5.6%</td>
<td>9.5%</td>
</tr>
<tr>
<td>Japanese Yen</td>
<td>111,8600</td>
<td>-1.0%</td>
<td>0.7%</td>
<td>-1.4%</td>
<td>3.5%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

---

9 Please see important footnotes for returns and charts on the last page.
## SECTOR PERFORMANCE

Data as of July 31, 2018 close.

<table>
<thead>
<tr>
<th>S&amp;P 500 SECTORS</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y Annualized</th>
<th>2017</th>
<th>5Y Annualized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Information Technology</td>
<td>2.0%</td>
<td>12.4%</td>
<td>26.8%</td>
<td>20.4%</td>
<td>36.9%</td>
<td>19.5%</td>
</tr>
<tr>
<td>Financials</td>
<td>5.1%</td>
<td>0.0%</td>
<td>11.5%</td>
<td>11.0%</td>
<td>20.0%</td>
<td>11.0%</td>
</tr>
<tr>
<td>Health Care</td>
<td>6.5%</td>
<td>7.5%</td>
<td>11.4%</td>
<td>5.1%</td>
<td>20.0%</td>
<td>11.7%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>1.7%</td>
<td>12.7%</td>
<td>21.8%</td>
<td>11.7%</td>
<td>21.2%</td>
<td>13.6%</td>
</tr>
<tr>
<td>Industrials</td>
<td>7.3%</td>
<td>1.2%</td>
<td>10.8%</td>
<td>11.4%</td>
<td>18.5%</td>
<td>10.6%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>3.9%</td>
<td>-6.4%</td>
<td>-3.4%</td>
<td>2.2%</td>
<td>10.5%</td>
<td>5.2%</td>
</tr>
<tr>
<td>Energy</td>
<td>1.4%</td>
<td>6.7%</td>
<td>16.3%</td>
<td>3.9%</td>
<td>-3.8%</td>
<td>-1.2%</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.8%</td>
<td>0.3%</td>
<td>-0.7%</td>
<td>6.3%</td>
<td>8.3%</td>
<td>5.9%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>1.0%</td>
<td>0.0%</td>
<td>1.3%</td>
<td>3.6%</td>
<td>7.2%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Materials</td>
<td>3.0%</td>
<td>-1.2%</td>
<td>9.5%</td>
<td>9.1%</td>
<td>21.4%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Telecommunication Services</td>
<td>1.0%</td>
<td>-9.9%</td>
<td>-7.6%</td>
<td>-0.5%</td>
<td>-6.0%</td>
<td>-1.1%</td>
</tr>
</tbody>
</table>

### S&P 500 JULY SECTOR PERFORMANCE

- **Industrials**: 7.3%
- **Health Care**: 6.5%
- **Financials**: 5.1%
- **Consumer Staples**: 3.9%
- **Materials**: 3.0%
- **Information Technology**: 2.0%
- **Utilities**: 1.8%
- **Consumer Discretionary**: 1.7%
- **Energy**: 1.4%
- **Real Estate**: 1.0%
- **Telecommunication Services**: 1.0%
## SECTOR PERFORMANCE

Data as of July 31, 2018 close.

<table>
<thead>
<tr>
<th>RUSSELL 2000 SECTORS</th>
<th>MTD</th>
<th>YTD</th>
<th>1Y</th>
<th>3Y Annualized</th>
<th>2017</th>
<th>5Y Annualized</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Services</td>
<td>1.7%</td>
<td>5.4%</td>
<td>8.6%</td>
<td>9.6%</td>
<td>2.9%</td>
<td>8.7%</td>
</tr>
<tr>
<td>Technology</td>
<td>0.9%</td>
<td>14.0%</td>
<td>17.5%</td>
<td>17.3%</td>
<td>17.6%</td>
<td>15.6%</td>
</tr>
<tr>
<td>Producer Durables</td>
<td>3.9%</td>
<td>5.3%</td>
<td>17.8%</td>
<td>11.6%</td>
<td>17.5%</td>
<td>8.6%</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>-0.3%</td>
<td>8.1%</td>
<td>21.8%</td>
<td>6.7%</td>
<td>15.7%</td>
<td>7.2%</td>
</tr>
<tr>
<td>Health Care</td>
<td>2.0%</td>
<td>19.5%</td>
<td>34.2%</td>
<td>10.0%</td>
<td>35.9%</td>
<td>17.3%</td>
</tr>
<tr>
<td>Materials and Processing</td>
<td>4.4%</td>
<td>1.6%</td>
<td>14.0%</td>
<td>14.2%</td>
<td>14.7%</td>
<td>9.7%</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.6%</td>
<td>3.2%</td>
<td>3.2%</td>
<td>10.5%</td>
<td>8.4%</td>
<td>7.7%</td>
</tr>
<tr>
<td>Energy</td>
<td>-0.5%</td>
<td>7.7%</td>
<td>19.8%</td>
<td>-4.6%</td>
<td>-17.6%</td>
<td>-14.6%</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>-0.1%</td>
<td>5.4%</td>
<td>12.7%</td>
<td>6.4%</td>
<td>0.7%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

### RUSSELL 2000 JULY SECTOR PERFORMANCE

<table>
<thead>
<tr>
<th>Sector</th>
<th>Monthly Return (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Materials and Processing</td>
<td>4.4</td>
</tr>
<tr>
<td>Producer Durables</td>
<td>3.9</td>
</tr>
<tr>
<td>Health Care</td>
<td>2.0</td>
</tr>
<tr>
<td>Financial Services</td>
<td>1.7</td>
</tr>
<tr>
<td>Utilities</td>
<td>1.6</td>
</tr>
<tr>
<td>Technology</td>
<td>0.9</td>
</tr>
<tr>
<td>Consumer Staples</td>
<td>-0.1</td>
</tr>
<tr>
<td>Consumer Discretionary</td>
<td>-0.3</td>
</tr>
<tr>
<td>Energy</td>
<td>-0.5</td>
</tr>
</tbody>
</table>

Monthly Return (%)
SECTOR PERFORMANCE

Data as of July 31, 2018 close.

### S&P 500 JULY SECTOR PERFORMANCE

- **Industrials**: 7.3%
- **Health Care**: 6.5%
- **Financials**: 5.1%
- **Consumer Staples**: 3.9%
- **Materials**: 3.0%
- **Information Technology**: 2.0%
- **Utilities**: 1.8%
- **Consumer Discretionary**: 1.7%
- **Energy**: 1.4%
- **Real Estate**: 1.0%
- **Telecommunication Services**: 1.0%

### RUSSELL 2000 JULY SECTOR PERFORMANCE

- **Materials and Processing**: 4.4%
- **Producer Durables**: 3.9%
- **Health Care**: 2.0%
- **Financial Services**: 1.7%
- **Utilities**: 1.6%
- **Technology**: 0.9%
- **Consumer Staples**: -0.1%
- **Consumer Discretionary**: -0.3%
- **Energy**: -0.5%

Data as of July 31, 2018 close.
BNY Mellon Global Investment Strategy

Alicia Levine, PhD
Head of Global Investment Strategy

Lale Akoner
Market Strategist

Bryan Besecker, CFA, CAIA
Market Strategist

Eliana Daitch
Associate Investment Strategist

Eric Hundahl, CFA
Senior Investment Strategist

Melissa Wilson
Investment Strategist

Liz Young, CFA
Senior Investment Strategist

Abbreviations

y/y — year-over-year
m/m — month-over-month
q/q — quarter-over-quarter
MTD — month-to-date
YTD — year-to-date
Fed — Federal Reserve
ECB — European Central Bank
BOJ — Bank of Japan
bp — basis points
EM — emerging markets
DM — developed markets
USD — U.S. dollar

HY — high-yield
G4 — U.S., UK, Germany, Japan
CPI — consumer price index
IG — investment grade
PCE — personal consumption expenditure
QE — quantitative easing
FOMC — Federal Open Market Committee (FOMC)
IIF — Institute of International Finance
GDP — gross domestic product
IMF — International Monetary Fund
EPS — earnings per share
Appendix

GLOBAL ECONOMY > GROWTH

GLOBAL MANUFACTURING PMIs

6/30/2017  9/30/2017  12/31/2017  3/31/2018  7/31/2018

TAKEAWAY:
Positive global growth momentum continues but has moderated slightly and become less synchronous in 2018.
TAKEAWAY:
Export growth from advanced and emerging economies has slowed in 2018. Heightened trade frictions could weaken growth further.
TAKEAWAY:
The Fed's preferred inflation measure, core PCE, has steadily risen towards its 2.0% target while wage growth continues to move range-bound.
**MARKET IMPLIED 10-YEAR FORWARD INFLATION FORECASTS**

- 3/31/2017
- 6/30/2017
- 9/30/2017
- 12/31/2017
- 3/31/2018
- 7/31/2018

**TAKEAWAY:**

The market’s forecast of future inflation across G4 economies is slightly **higher** compared to a year ago but is for the most part unchanged in 2018.
TAKEAWAY:
China’s shift towards an easing bias, to counter slowing growth and concerns over trade, has contributed to a decline in interest rates.
**Appendix**

**FINANCIAL MARKETS > GLOBAL EQUITIES**

**RUSSELL 1000 GROWTH/VALUE INDEX**

**TAKEAWAY:**
*Value holding up against growth as Q2 earnings season progresses.*
Appendix

FINANCIAL MARKETS › GLOBAL EQUITIES

RUSSELL 2000 AND MSCI EM INDEX PERFORMANCE

<table>
<thead>
<tr>
<th>Jan 18</th>
<th>Feb 18</th>
<th>Mar 18</th>
<th>Apr 18</th>
<th>May 18</th>
<th>Jun 18</th>
<th>Jul 18</th>
</tr>
</thead>
<tbody>
<tr>
<td>85.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>90.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>95.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>100.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>105.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>110.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>115.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

TAKEAWAY:
Performance gap between U.S. small caps and emerging markets decreased as trade anxieties eased and dollar weakened.
TAKEAWAY:
As China-U.S. yield differential narrows, renminbi depreciation pressures intensify.
**TAKEAWAY:**
Base metals partially up from their recent collapse as trade rhetoric eased somewhat; but facing major headwinds including China manufacturing slowdown and further trade spats with the U.S.
DISCLOSURE

FOOTNOTES FOR RETURNS AND CHARTS

1 Total 31% change annualized for equities, commodities, foreign exchange and fixed income. 2 Total returns in USD. USD hedged for Global Treasury ex U.S., Global Investment Grade – Corporate, and Global High Yield. 3 OAS: option-adjusted spread. Both level and change in bp. 4 Current level of interest rates (%) shown in “Level” column except for CBOT VIX. For CBOT VIX the value as of each date is shown not the change. 5 “Level” for each exchange rate: USD/1 Euro; USD/1 British Pound; Japanese Yen 1 USD. Changes for Japanese Yen calculated using USD/1 Japanese Yen.

DEFINITIONS

MSCI All-Country World: The MSCI All-Country World is an index that tracks the performance of both Developed and Emerging Market equities.

MSCI World — DM: The MSCI World Index is an index that tracks the performance of Developed Market equities.

MSCI EAFE: The MSCI EAFE Index is an index that tracks the performance of Developed Market equities across Europe, Australasia and the Far East excluding the U.S. and Canada.

MSCI EM: The MSCI EM index tracks the performance of Emerging Market Equities.


U.S. (NASDAQ): The Nasdaq Composite Index is the market capitalization-weighted index of approximately 3,000 common equities listed on the Nasdaq stock exchange.

U.S. (Russell 2000): The Russell 2000 Index is a small-cap stock market index of the bottom 2,039 stocks in the Russell 3000 Index.

Japan (Nikkei 225): The Nikkei 225 is an index that tracks the performance of the largest 225 companies traded in the Japanese market.

EU (STOXX 600): The STOXX 600 is an index that represents the performance of 600 large, mid and small capitalization companies across 18 countries in the European Union.

UK (FTSE 100): The FTSE 100 is an index that tracks the performance of the largest 100 companies traded on the London Stock Exchange.

France (CAC 40): The CAC 40 is an index that tracks the performance of the largest 40 companies traded on the Paris Stock Exchange.

Germany (DAX 30): The DAX 30 is an index that tracks the performance of the largest 30 companies traded on the Frankfurt Stock Exchange.

China (SHANGHAI A SE): The SHANGHAI A SE index tracks the performance of the Renminbi denominated equities traded at the Shanghai Stock Exchange.

Global Aggregate: The Bloomberg Barclays Global Aggregate Total Return (USD hedged) Index is a broad-based measure of the global investment-grade fixed income market.


U.S. Treasury: The Barclays Bloomberg U.S. Treasury Index is the U.S. Treasury component of the U.S. Aggregate Index and uses public obligations of the U.S. Treasury with a remaining maturity of one year or more.

U.S. TIPS: The Bloomberg Barclays U.S. Treasury Inflation-Protected Securities Total Return Index tracks the performance of publicly issued, U.S. Treasury inflation-protected securities that have at least one year remaining to maturity and have $250 million or more of outstanding face value.

Global Investment Grade – Corp.: This Index reflects the corporate component of the Bloomberg Barclays Global Aggregate Index which is designed to provide a broad-based measure of the global investment-grade fixed income markets.

Global High Yield: The Barclays Bloomberg Global High Yield Index is a broad-based measure of the global high yield market.

U.S. Leveraged Loans: The S&P/LSTA Leveraged Loan Total Return Index is designed to measure the performance of the U.S. leveraged loan market.

Hedge Funds: The Hedge Fund Research HFRX Global Hedge Fund Index is designed to be representative of the overall composition of the hedge fund universe. It is comprised of all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market neutral, event driven, macro, merger arbitrage, and relative value arbitrage.

EM USD Denominated: The Bloomberg Barclays EM USD Aggregate Index includes USD denominated debt from sovereign, quasi-sovereign, and corporate EM issuers.

EM Debt LC: The Bloomberg Barclays EM Local Currency Government Total Return Index measures the general performance of locally issued fixed income securities by Emerging Market governments.

Bloomberg Commodity Index: The Dow Jones UBS Commodity index is designed to provide diversified commodity exposure with weightings based on the commodity’s liquidity and economic significance.

Commodities: The S&P GSCI Total Return Index is a benchmark used to measure commodity performance over time.

USD: The U.S. Majors Dollar Index tracks the performance of the USD versus a basket of foreign currencies including the euro, Japanese yen, Pound sterling, Canadian dollar, Swedish krona, and Swiss franc.

Crude Oil (WTI, USD/Barrel): Generic West Texas Intermediate crude oil spot price.

Gold (USD/Troy Ounce): Gold London Bullion Market spot price, quoted in USD per Troy Ounce.

U.S. Investment Grade Corporate: The Barclays Bloomberg U.S. Aggregate – Corporate Index is designed to measure the performance of the investment grade corporate sector in the U.S.

U.S. High Yield: The Bloomberg Barclays U.S. High Yield Index covers the universe of fixed-rate, non-investment grade corporate debt in the U.S.

3M U.S. Libor: Average interest rate at which a selection of banks in London lend to one another in USD with a maturity of 3 months.

2Y U.S. Treasuries: Average yield of a range of Treasury securities all adjusted to the equivalent of a two-year maturity.

10Y U.S. Treasuries: Average yield of a range of Treasury securities all adjusted to the equivalent of a ten-year maturity.

10Y UK Gilt: Average yield of a range of UK government bonds all adjusted to the equivalent of a ten-year maturity.

10Y German Bund: Average yield of a range of German government bonds all adjusted to the equivalent of a ten-year maturity.

10Y Japanese Bond: Average yield of a range of Japanese government bonds all adjusted to the equivalent of a ten-year maturity.

CBOE VIX: Indicator of the implied volatility of S&P 500 index as calculated by the Chicago Board Options Exchange (CBOE).

U.S. 30Y Fixed-Rate Mortgage: Bankrate.com 30-year U.S. home mortgage fixed rate national average.

All investments involve risk including loss of principal. Certain investments involve greater or unique risks that should be considered along with the objectives, fees, and expenses before investing. Charts are provided for illustrative purposes only and are not indicative of the past or future performance of any product. An investor cannot invest directly in any index.

Views expressed are those of the authors stated and do not reflect views of other managers or the firm overall. Views are current as of the date of this publication and subject to change. This information should not be construed as investment advice or recommendations for any particular investment. Please consult a legal, tax or investment advisor in order to determine whether an investment product or service is appropriate for a particular situation. No part of this material may be reproduced in any form, or referred to in any other publication, without express written permission. The Dreyfus Corporation and MBSC Securities Corporation are subsidiaries of BNY Mellon. © 2018 MBSC Securities Corporation, 225 Liberty Street, 19th Fl., New York, NY 10281.