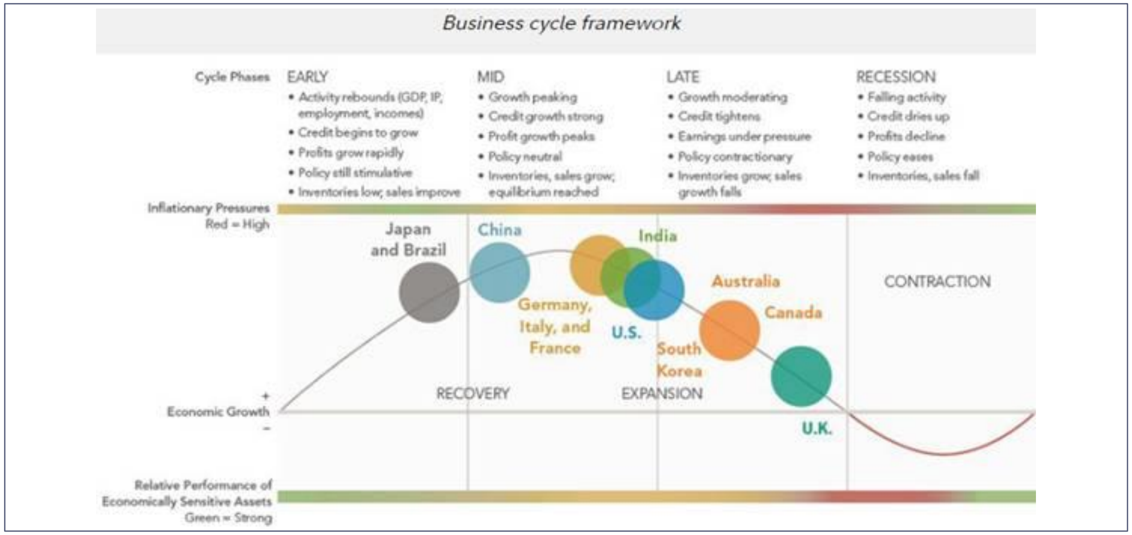
Market Recap

Global Growth Catching Up



Source: Fidelity

Stocks Deliver Strong First Half Returns

Source: FactSet

The global economy is showing signs of improving growth as both developed and emerging markets are expanding at a faster pace than last year. Today, more than 75% of countries' leading economic indicators are rising, compared to just 50% a year ago. A combination of improving business confidence and accommodative monetary policy has led to increasing manufacturing activity around the world. Having weathered considerable political uncertainty, most European economies continue to chug along in the middle/late stage of the business cycle. Many emerging markets are in an earlier stage of cyclical growth, buoyed recently by improving manufacturing output from China. While many risks remain (e.g. geopolitical conflict, commodity price shocks, etc.), the breadth of activity abroad suggests that the gap in growth between international markets and the U.S. is narrowing.

Stock markets around the world delivered impressive returns over the first half of the year as solid growth in corporate profits and persistently low levels of volatility paved the way for higher market prices. While the popular narrative entering the year focused on the 'reflation' trade, within the U.S. it was the more traditional growth sectors (Technology and Healthcare) that led the way, while more defensive areas (Consumer Staples and Utilities) generally lagged. From a market cap (size) perspective, larger cap companies modestly outperformed smaller ones amidst waning expectations for U.S. corporate tax reform. Looking beyond our borders, both developed and emerging markets surged higher as investors flocked towards improving fundamentals and relatively cheap valuations outside the U.S. If these trends persist through year-end, it would mark the first time since 2012 that U.S. stocks failed to outperform their overseas peers.

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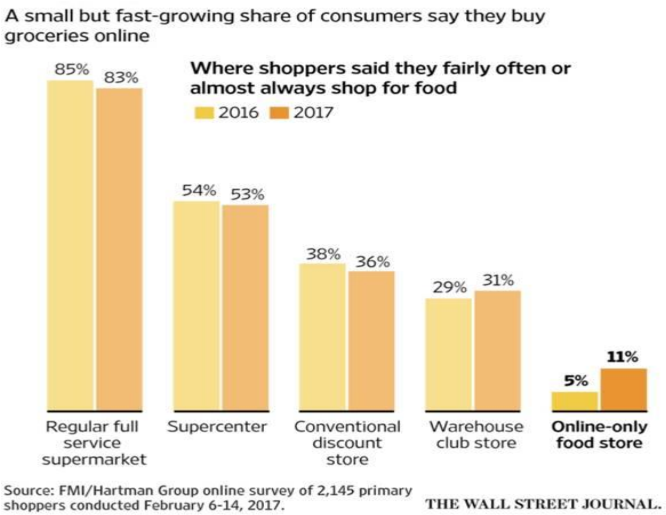
Effects of Reducing the Fed's Balance Sheet

Source: Investopedia

The Rise of Online Grocery Shopping



Source: FMI/Hartman Group, Wall Street Journal

Two weeks ago, the Federal Reserve announced that it would implement a balance sheet reduction program later this year, limiting the amount of maturing Treasury and Mortgage-Backed securities in which it re-invests. Initially, the Fed will reduce its balance sheet by $10 billion per month as holdings mature. This level will gradually increase each month until the pace of reduction reaches $50 billion per month (compared with a total increase of $3.5 trillion at a pace of $100 billion per month during the expansion). A Fed study conducted in 2013 suggests that the net effect of that QE program was to decrease the 10-year Treasury yield by 120 basis points and reduce unemployment by 1.25%. While the balance sheet reduction plan should result in an upward tick in yields and unemployment, the smaller magnitude, slower pace and telegraphed nature of the balance sheet reduction relative to the expansion suggests that the impacts will not be as severe as the reverse effects seen during the initial expansion period.

Despite its dominance elsewhere, e-commerce has yet to take a firm hold of the grocery sector, with online grocery sales making up less than 2% of the $715 billion in food-retail sales in 2016. However, with substantial growth in recent years (up 21% in 2015), online grocery shopping is on the rise. In early 2017, 11% of consumers primarily shopped for groceries online, up from 5% the prior year. Likely seeking to capitalize on a 23.1% projected growth rate for e-commerce food sales, Amazon announced in June its plan to buy Whole Foods. With over half of online food sales in 2016 made through Amazon's food delivery services Fresh, Prime, and Prime Now, Amazon has a strong foothold in the market as it evaluates how best to leverage its purchase of the supermarket chain. Given that food constitutes 55% of competitor Walmart's U.S. sales, staking out territory in the food-retail business appears to be a major component of Amazon's long-term growth strategy.

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