

FUNDMARKET INSIGHT REPORT

THOMSON REUTERS LIPPER RESEARCH SERIES

EQUITY MARKET - QUARTER-END ANALYSIS

JUNE 30, 2018

Despite Nagging Tariff Concerns, Equity Funds on Average Post a Plus-Side Return for Q2 2018

EXECUTIVE SUMMARY

Investors cautiously pushed the broad-based market indices to their tenth quarterly gain in 11, generally shrugging off trade-war rhetoric during the quarter. While investors embraced better-than-expected economic figures for June, market advances during April and May were limited by worries about protectionism, geopolitical issues, and inflation. For Q2 2018 the average equity fund posted a return of 1.77%, with Lipper's Sector Equity Funds macro-classification (+3.90%) landing at the top of the four major equity groups for the first quarter in eight.

At the beginning of June investors generally shrugged off trade-war concerns and cheered a better-than-expected nonfarm-payrolls report, a possible resolution to Italy's political woes, and a rally in tech and financial issues. In Italy the antiestablishment League and 5 Star Movement struck a deal to form a coalition government—easing some geopolitical uncertainties, but it wasn't enough to offset investors' continued flight to safety. Nonetheless, the Dow Jones Industrial Average got a shot in the arm after reports showed the U.S. economy had added 233,000 new jobs for May, outpacing analyst expectations of 200,000. The unemployment rate declined to 3.8%, an 18-year low. The Institute of Supply Management reported that its May manufacturing index rose 1.4 percentage points to 58.7%.

The following week investors remained skittish over the then-upcoming FOMC and European Central Bank policy meetings. Near-month crude oil prices rose on fears over supplies from Iran and Venezuela. However, on Friday, June 8, investors shook off their G-7 trade jitters, pushing the Dow to its third straight weekly gain and its highest level since March after learning that April wholesale inventories rose 0.1%. Despite an escalation of tensions between President Donald Trump and Canadian Prime Minister Justin Trudeau during the G-7 meeting, the market continued its ascent.

President Trump and North Korean leader Kim Jong Un—at the highly anticipated Singapore summit on June 12—signed a document pledging to work toward complete denuclearization of the Korean Peninsula. However, investors remained reluctant to make any big bets ahead of the FOMC and ECB policy-setting meetings, especially as some commentators criticized the lack of verification details in the denuclearization pact. Mid-month the markets slumped when the Federal Reserve telegraphed a more hawkish outlook than had been anticipated. As expected, the FOMC hiked its benchmark interest rate 25 basis points (bps) to a range between 1.75% and 2.00%. In its post-meeting statement policymakers also penciled in two additional rate hikes for 2018, up from March's estimate of one more, and made hawkish changes to the text of the Fed statement. The two-/ten-year Treasury spread declined to 39 bps, the lowest since August 31, 2007. Additionally, the ECB laid out plans to wind down its massive bond-buying program.

Despite Nagging Tariff Concerns, Equity Funds on Average Post a Plus-Side Return for Q2 2018

- For Q2 2018 equity funds (+1.77% on average) posted their tenth quarterly gain in 11. Thomson Reuters Lipper's Sector Equity Funds macro-classification (+3.90%) jumped to the top of the leader board for the first quarter in eight, followed by U.S. Diversified Equity (USDE) Funds (+3.71%), Mixed-Asset Funds (+0.58%), and World Equity Funds (-2.96%).
- The Sector Equity Funds macro-classification housed four of the five best performing classifications in the equity universe for Q2, with Commodities Energy Funds (+13.29%) being the universe leader.
- The World Equity Funds macro-group was dragged down by Latin American Funds (-17.62%) and Emerging Markets Funds (-8.85%).
- Small-cap (+6.91%) and growth-oriented (+6.08) domestic equity funds ruled the roost for Q2.



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Toward month-end the Dow managed to snap its eight-session losing streak after an OPEC-led rally in energy helped industrials stave off a lengthy decline—but not before suffering its worst weekly decline since March 23. Near-month crude oil prices got a shot in the arm after OPEC members and other major producers struck a deal that called for a more measured rise in output than was previously forecasted. U.S. stocks finished higher on the last trading day of the month but suffered another weekly decline as investors learned that the personal-consumption expenditures index—the Fed’s preferred inflation gauge—rose 0.2% for May, indicating that inflation had surged to 2.3% in the last 12 months—its largest rise since March 2012. Also, Q1 GDP growth was revised down to 2.0% from 2.2% earlier.

Lipper’s preliminary Q2 2018 fund-flows numbers showed mutual fund investors were net sellers of fund assets for the quarter, withdrawing an estimated \$28.9 billion from the conventional funds business (excluding ETFs). During the quarter investors were net sellers of equity funds (-\$13.0 billion), continuing to shun domestic equity funds (-\$27.0 billion) but being net purchasers of non-domestic equity funds (+\$14.1 billion). Once again, investors were net purchasers of taxable bond funds (+\$5.8 billion) but net sellers of municipal bond funds (-\$1.7 billion). For the second consecutive quarter they were net redeemers of money market funds (-\$20.1 billion). ETF investors (authorized participants [APs]) were net purchasers for Q2 (+\$33.1 billion), injecting \$8.4 billion into equity ETFs, \$23.2 billion into taxable fixed income ETFs, and \$1.5 billion into municipal debt ETFs.

All the major U.S. broad-based indices posted plus-side returns for Q2. The energy and mining-heavy NYSE AMEX Composite Price Only Index (+11.90%) led the pack for the first quarter in eight. The Russell 2000 Price Only Index (+7.43%) took the runner-up position of the remaining U.S. broad-based indices, followed by the NASDAQ Composite Price Only Index (+6.33%), the S&P 500 Composite Price Only Index (+2.93%) and the Dow (+0.70%). Overseas, the FTSE 100 Price Only Index (+1.86%) managed to stay in the plus column, while its overseas cohorts suffered declines; the Nikkei 225 Price Only Return Index (-0.18%) mitigated losses better than the other global indices for the quarter, followed by the Xetra Dax Total Return Index (-3.42%) and the Shanghai Composite Price Only Index (-14.67%).

For the quarter 62 of Lipper’s 96 equity and mixed-equity fund classifications posted positive returns. For the first quarter in eight the Sector Equity Funds macro-classification (+3.90%) outpaced Lipper’s other three broad equity groupings. USDE Funds (+3.71%) took the runner-up position for the quarter, followed by Mixed-Asset Funds (+0.58%) and World Equity Funds (-2.96%). In total, 72% of all individual equity and mixed-asset funds posted plus-side returns for the quarter.

During Q2 the dollar strengthened against the euro (+5.46%), the pound (+6.42%), and the yen (+4.19%). Commodity prices were mixed, with near-month crude oil prices gaining 14.18% to close the quarter at \$74.15/barrel and with gold prices declining 4.51% to end the quarter at \$1,251.30/ounce.



U.S. DIVERSIFIED EQUITY (USDE) FUNDS SUMMARY

The USDE Funds macro-classification (+3.71% [quarter] and +0.45% [June]) was the second best performing of Lipper’s four broad equity macro-classifications for the quarter and the best performer for June. Once again market participants kept a keen eye on geopolitical risks (particularly the tariff threats), inflation and rising interest rates, and the Federal Reserve’s June policy meeting but continued to favor growth-oriented issues for the sixth consecutive quarter. Meanwhile, small-cap issues (+6.91%) jumped to the top of the leader board for the first quarter in six. Despite global growth concerns resulting from the increasing tariff rhetoric, Lipper’s bear-oriented Dedicated Short-Bias Funds classification (-4.60% [quarter] and -0.08% [June]) was the worst performing classification in the equity universe for the quarter, bettered by Alternative Equity Market-Neutral Funds (-0.73% [quarter] and -0.68% [June], the only other classification in the group posting a negative return for the quarter). At the top of the macro-classification for the second consecutive quarter was Small-Cap Growth Funds (+8.69% [quarter] and +1.32% [June]), followed by Small-Cap Value Funds (+6.64% [quarter] and +0.69% [June]), Small-Cap Core Funds (+5.95% [quarter] and +0.59% [June]), and Large-Cap Growth Funds (+5.68% [quarter] and +0.84% [June]).

For the first quarter in three small-cap funds (+6.91% [quarter] and +0.84% [June]) were at the top of the leader board as investors bid up small-cap healthcare, information technology, and consumer discretionary issues. Large-cap funds (+3.43% [quarter] and 0.49% [June]) outpaced the remaining capitalization groups for Q2, with mid-cap funds (+3.33%) and multi-cap funds (+3.09%) being the relative laggards for the quarter. For the sixth quarter in a row growth-oriented funds (+6.08%) outperformed their core-oriented (+3.79%) and value-oriented (+2.63%) cousins.

According to Lipper’s active indices, Small-Cap Growth Funds (+8.69%, the 4x3-matrix quarterly leader) was helped in Q2 by heavier weightings and stronger performance results in the healthcare equipment & supplies, biotechnology, Internet software & services, and software groups, which accounted for about half of the performance of small-cap growth funds. For June—for the second month in a row—small-cap funds (+0.84%) performed better than the other capitalization groups, while growth-oriented funds (+0.86%)—also for the second month in a row—shouldered out their core- (+0.48%) and value-oriented (+0.31%) counterparts. For June Small-Cap Growth Funds (+1.32%) outpaced the other classifications in Lipper’s style-based funds group, while Large-Cap Value Funds (+0.09%) was the laggard of the 4x3-matrix group. According to Lipper’s active indices, the average small-cap growth fund benefitted from relatively stronger performance from specialty retail, while healthcare technology and healthcare providers & services stocks were the next strongest contributors.

FIGURE 1 LIPPER U.S. DIVERSIFIED EQUITY FUNDS CLASSIFICATION PERFORMANCE FOR THE QUARTER ENDED JUNE 30, 2018

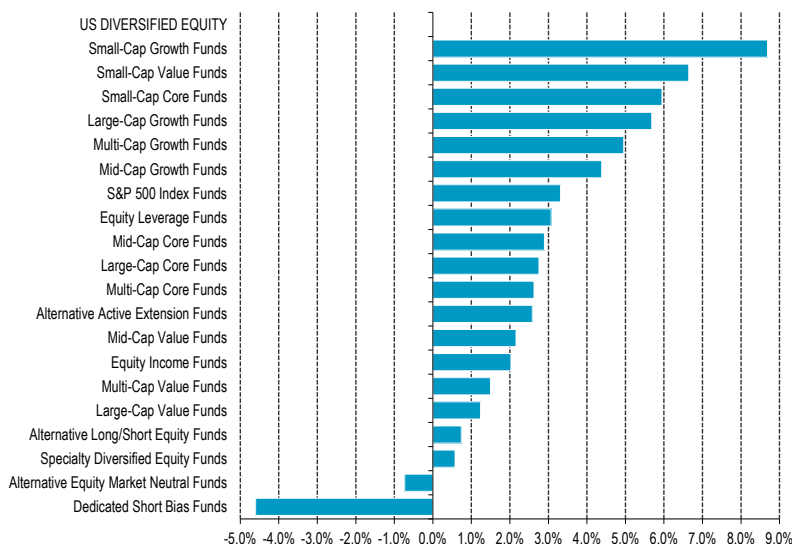


FIGURE 2 LIPPER U.S. DIVERSIFIED EQUITY MATRIX, TOTAL RETURN (%) FOR THE QUARTER ENDED JUNE 30, 2018

	VALUE	CORE	GROWTH	AVERAGE
Large-Cap	1.24	2.76	5.68	3.43
Multi-Cap	1.50	2.63	4.95	3.09
Mid-Cap	2.16	2.90	4.38	3.33
Small-Cap	6.64	5.95	8.69	6.91
AVERAGE	2.63	3.79	6.08	

FIGURE 3 LIPPER U.S. DIVERSIFIED EQUITY MATRIX, TOTAL RETURN (%) FOR THE MONTH ENDED JUNE 30, 2018

	VALUE	CORE	GROWTH	AVERAGE
Large-Cap	0.09	0.43	0.84	0.49
Multi-Cap	0.16	0.38	0.62	0.41
Mid-Cap	0.56	0.51	0.55	0.53
Small-Cap	0.69	0.59	1.32	0.84
AVERAGE	0.31	0.48	0.86	

Source: Thomson Reuters Lipper

SECTOR EQUITY FUNDS SUMMARY

Strength in energy, healthcare, and real estate issues contributed to Sector Equity Funds' Q2 outperformance, pushing the group to the top of Lipper's four equity macro-classifications. Sector Equity Funds (+3.90%) housed four of the five top-performing classifications in the equity universe for the quarter, with Commodities Energy Funds for the first quarter in 12 posting the strongest return in the equity universe (+13.29%), followed by Energy MLP Funds (+11.89%), Natural Resources Funds (+10.50%), and Real Estate Funds (+7.49%). At the bottom of the group for the quarter were the Commodities Precious Metals Funds (-4.88%), Commodities Agriculture Funds (-4.47%), and Global Financial Services Funds (-2.53%) classifications.

The Sector Equity Funds macro-classification (+0.17%) was the second best performing of Lipper's four equity macro-classifications for June. For the month the macro-classification was propped up by strong performance from Real Estate Funds (+3.57%), Commodities Energy Funds (+3.45%), Consumer Services Funds (+3.23%), and Consumer Goods Funds (+3.10%). The Commodities Agriculture Funds classification posted the worst return of the group for June, declining 7.58%, bettered by Commodities Base Metals Funds (-4.46%).

WORLD EQUITY FUNDS SUMMARY

Trade war concerns with the U.S.'s most favored trading partners and China, a strengthening dollar, and political issues in Italy and Venezuela weighed on international markets during Q2. World Equity Funds (-2.96%) posted the weakest return for the quarter of Lipper's four broad-based equity macro-classifications. Latin American Funds (-17.62%), with headwinds from the then-upcoming general elections in Mexico and Brazil and concerns over NAFTA renegotiations, suffered the largest decline in the equity universe for the quarter, bettered by Emerging Markets Funds (-8.85%), Pacific ex-Japan Funds (-5.15%), and China Region Funds (-4.74%). At the top of the charts Global Large-Cap Growth Funds (+2.83%), Global Multi-Cap Growth Funds (+1.76%), and Global Small-/Mid-Cap Funds (+1.26%) posted the strongest returns for Q2. For June the World Equity Funds macro-classification (-2.04%) suffered the worst return of the four Lipper equity macro-classifications. A total of 25 of the 26 classifications in the group posted a negative return for the month. At the top of the group was Global Large-Cap Growth Funds—chalking up a 0.28% return, followed by Global Large-Cap Value Funds—posting a 0.19% loss, and Global Equity Income Funds—losing 0.26%. China Region Funds (-5.64%) was at the bottom of the heap for June, bettered by Latin American Funds and Pacific ex-Japan Funds, declining 4.63% and 4.28%, respectively.

FIGURE 4

LIPPER SECTOR EQUITY INVESTMENT CLASSIFICATION PERFORMANCE FOR THE QUARTER ENDED JUNE 30, 2018

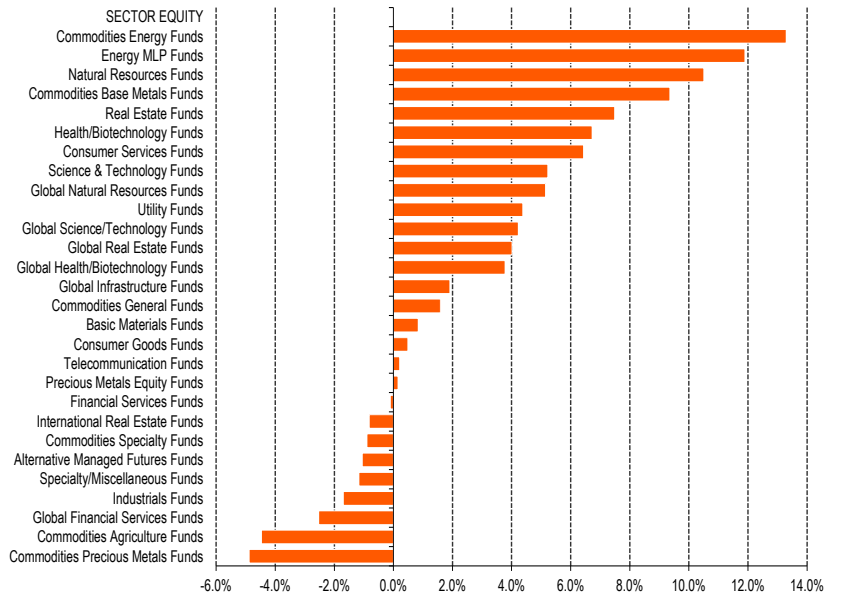
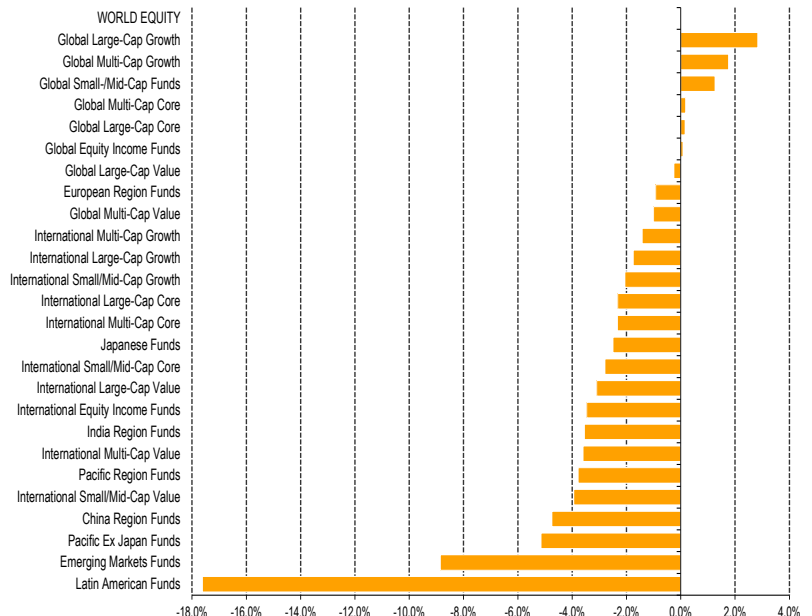


FIGURE 5

LIPPER WORLD EQUITY INVESTMENT CLASSIFICATION PERFORMANCE FOR THE QUARTER ENDED JUNE 30, 2018



Source: Thomson Reuters Lipper

International and global large-cap funds outpaced or mitigated losses better than the other capitalization groups for Q2, while once again growth-oriented funds outperformed their value- and core-oriented brethren for both the international and global 3x3-matrix groups. For June large-cap funds and growth plays edged ahead of their capitalization and valuation brethren. For the quarter Global Large-Cap Growth Funds (+2.83%) outshone the other classifications in the global 3x3-matrix group, while International Multi-Cap Growth Funds (-1.42%) took the honors for the international 3x3-matrix group. For the month of June the top performers for the individual matrices were International Large-Cap Growth Funds (-1.50%) and Global Large-Cap Growth Funds (+0.28%).

FIGURE 6

LIPPER INTERNATIONAL DIVERSIFIED EQUITY MATRIX TOTAL RETURN (%) FOR THE QUARTER ENDED JUNE 30, 2018

	VALUE	CORE	GROWTH	AVERAGE
Large-Cap	-3.10	-2.32	-1.75	-2.08
Multi-Cap	-3.60	-2.33	-1.42	-2.11
Small-/Mid-Cap	-3.94	-2.79	-2.06	-2.36
AVERAGE	-3.56	-2.38	-1.65	

FIGURE 7

LIPPER INTERNATIONAL DIVERSIFIED EQUITY MATRIX TOTAL RETURN (%) FOR THE MONTH ENDED JUNE 30, 2018

	VALUE	CORE	GROWTH	AVERAGE
Large-Cap	-1.94	-1.74	-1.50	-1.62
Multi-Cap	-2.41	-1.88	-1.55	-1.81
Small-/Mid-Cap	-2.63	-2.40	-1.96	-2.11
AVERAGE	-2.36	-1.91	-1.64	

FIGURE 8

LIPPER GLOBAL DIVERSIFIED EQUITY MATRIX TOTAL RETURN (%) FOR THE QUARTER ENDED JUNE 30, 2018

	VALUE	CORE	GROWTH	AVERAGE
Large-Cap	-0.25	0.16	2.83	1.44
Multi-Cap	-1.00	0.18	1.76	0.55
Small-/Mid-Cap (No Style)		1.26		1.26
AVERAGE (LARGE & MULTI)	-0.78	0.17	2.19	

FIGURE 9

LIPPER GLOBAL DIVERSIFIED EQUITY MATRIX TOTAL RETURN (%) FOR THE MONTH ENDED JUNE 30, 2018

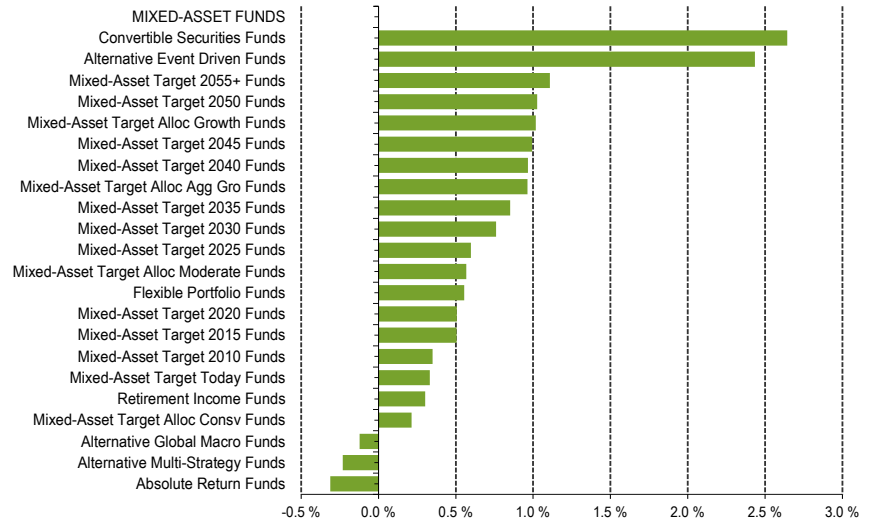
	VALUE	CORE	GROWTH	AVERAGE
Large-Cap	-0.19	-0.65	0.28	-0.10
Multi-Cap	-0.93	-0.73	-0.36	-0.63
Small-/Mid-Cap (No Style)		-0.71		-0.71
AVERAGE (LARGE & MULTI)	-0.72	-0.70	-0.11	

Source: Thomson Reuters Lipper

MIXED-ASSET FUNDS SUMMARY

For the quarter the Mixed-Asset Funds macro-classification (+0.58% [quarter] and -0.25% [June]) took the number-three spot of Lipper’s four equity macro-classifications. (The Mixed-Asset Funds group comprises primarily life-cycle funds [target date and target risk funds], which generally have a mix of both stocks and bonds.) Year to date through May 31, 2018, the macro-group took in \$4.3 billion of estimated net inflows, with target date funds taking in some \$33.7 billion, while target risk funds handed back \$29.3 billion. Quarterly returns for the Mixed-Asset Funds classifications ranged from minus 0.31% (Absolute Return Funds [-0.28% for June]) to 2.64% (Convertible Securities Funds [-0.34% for June]).

FIGURE 10 LIPPER MIXED-ASSET INVESTMENT CLASSIFICATION PERFORMANCE FOR THE QUARTER ENDED JUNE 30, 2018



Source: Thomson Reuters Lipper

FIGURE 11 PERFORMANCE OF SECURITIES MARKET INDICES

INDEX	ONE QUARTER	YEAR TO DATE	ONE YEAR	THREE YEARS	FIVE YEARS	TEN YEARS
	3/31/2018	12/31/2017	6/30/2017	6/30/2015	6/30/2013	6/30/2008
	6/30/2018	6/30/2018	6/30/2018	6/30/2018	6/30/2018	6/30/2018
	CUM. RETURN	CUM. RETURN	CUM. RETURN	ANN. RETURN	ANN. RETURN	ANN. RETURN
FTSE 100 P IX	8.22	-0.66	4.43	5.41	4.21	3.10
Xetra Dax TR IX	1.73	-4.74	-0.16	3.98	9.11	6.73
Nikkei 225 Avg;Yen P IX	5.41	-2.02	11.34	3.30	10.28	5.16
DJ Ind Dly Reinv Avg IX	1.26	-0.73	16.31	14.07	12.96	10.78
NASDAQ Composite P IX	6.33	8.79	22.31	14.62	17.15	12.60
S&P 500 Daily Reinv IX	3.43	2.65	14.37	11.93	13.42	10.17

FIGURE 12 PERFORMANCE OF THE TEN LARGEST FUNDS

FUND NAME	CLASS	NASDAQ SYMBOL	ONE QUARTER	YEAR TO DATE	ONE YEAR	THREE YEARS	FIVE YEARS	TEN YEARS
			03/31/18	12/31/17	06/30/17	06/30/15	06/30/13	06/30/08
			06/30/18	06/30/18	06/30/18	06/30/18	06/30/18	06/30/18
			CUM	CUM	CUM	ANN	ANN	ANN
SPDR S&P 500 ETF	SPSP	SPY	3.40	2.59	14.24	11.82	13.29	10.07
Vanguard 500 Index;Adm	SPSP	VFIAX	3.42	2.63	14.34	11.89	13.38	10.16
Vanguard TSM Idx;Adm	MLCE	VTSAX	3.91	3.28	14.82	11.58	13.26	10.33
iShares:Core S&P 500	SPSP	IVV	3.42	2.63	14.34	11.88	13.37	10.12
Vanguard TSM Idx;Inst+	MLCE	VSMPX	3.91	3.29	14.83	11.61	N/A	N/A
Vanguard TSM Idx;Inv	MLCE	VTSMX	3.88	3.23	14.71	11.46	13.15	10.21
Vanguard Instl Idx;Inst	SPSP	VINIX	3.42	2.63	14.33	11.90	13.39	10.17
Vanguard Tot I Stk;Inv	IMLC	VGTSX	-3.16	-3.62	7.03	5.26	6.35	2.68
Vanguard TSM Idx;Inst	MLCE	VITSX	3.91	3.28	14.82	11.59	13.27	10.34
Vanguard Instl Idx;InsP	SPSP	VIIIIX	3.43	2.64	14.36	11.92	13.41	10.19

Source: Thomson Reuters Lipper

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