OPPENHEIMER
ASSET MANAGEMENT

Market Observations – July 2017 Recap

By Jeff Sutton, CFA
Managing Director
Oppenheimer Asset Management

After another month of strong gains with S&P 500 up 2.1% in July and 11.6% year-to-date, US equities are sitting at historic levels. Corporate earnings have exceeded expectations and the Fed is tempering its path to rate normalization, both of which have contributed to the current equity rally. Overseas, equities have provided even more impressive numbers due to a combination of good local market returns and a declining US Dollar (USD). The MSCI EAFE index was up 2.9% for the month, bringing its year-to-date return to 17.1%. Emerging markets posted a 6.0% return for the month, bringing its year-to-day tally to an impressive 25.5%. The US Dollar Index, a trade weighted basket of currencies, was down 2.9% for the month and 9.1% for the year-to-date – a meaningful driver of performance for non-US equities.

It is not only the equity markets that are rallying. Bond markets are having a party of their own, continuing their rally through the month of July. Treasuries, credit (both investment grade and high yield), municipal bonds, and non-US bonds all posted positive returns, with the one exception of 20+ year US Treasuries. It is rare for equities and bonds to both rally simultaneously. A lot of this is due to the "goldilocks" scenario of good corporate earnings, good economic numbers, but stubbornly low inflation which is holding the Fed back from more aggressive interest rate normalization.

Both equity and bond markets are expensive from a valuation perspective, in our opinion. There seems to be more downside risk than upside return potential across risk assets. However, given the low volatility of the current environment, the gradual improvement in global growth, and the transparent engineering of central banks winding down monetary stimulus, there could be additional upside to capture before downside volatility kicks in.

US Equity Summary:

- The S&P 500 was up 2.1% for the month. Growth outperformed value across the market cap spectrum.
- All sectors posted positive returns. Telecom, Information Technology, Energy and Utilities were the top performing sectors. The Industrials, Consumer Staples, and Health Care sectors were the weakest performers.
- Large-cap stocks outperformed mid and small-cap stocks for the month. Small-cap, the weakest performing segment was up 0.7%.
- Facebook, Microsoft and Apple were the top contributing stocks within the S&P 500 for the month. Information Technology as a sector, with a 22.7% weighting, contributed close to half of the index's return.
- Based on JPMorgan factors Size and Beta and Momentum were the dominant factors while Yield and Quality were the weakest performing factors.

Developed and Emerging Market Equity Summary:

- The MSCI EAFE Index was up 2.9% for the month, while the MSCI EM Index returned 6.0%. Small-cap stocks outperformed large-cap stocks in developed markets while large-cap outperformed small-cap within emerging markets.
- Beta and Value were the best performing factors in developed markets with Quality and Yield being the weakest. Within emerging markets Momentum and Growth were the strongest performing factor while Value was the weakest.
- The European region was the best performing region within the developed markets, followed by the Pacific region. The Far East region was the weakest developed market region driven by Japan's 2.0% return.
- Latin America was the best performing region within emerging markets, while Eastern Europe was the weakest. Frontier markets underperformed the broad emerging markets for the month, as the MSCI Frontier Emerging Markets index posted a July return of 2.3%.
- Materials, Energy and Financials were strong performing sectors within developed markets while Real Estate, Materials, and Information Technology were top performing sectors within emerging markets. Health Care and Consumer Staples were weakest in both developed and emerging markets.

Fixed Income Summary:

- All major bond segments were up for the month. While the Barclays US Treasury index was up 0.2%, long-dated Treasuries (20+ years) were slightly down. Overall, the yield curve moves were modest during the month.
- High yield credit was the top performing segment with a 1.2% return on the BofA ML US High Yield Index. Within high yield, CCC-rated credits performed best. Credit spreads are near historic tight levels.
- Developed markets continued to benefit from stronger currency, as European sovereign debt returned 3.6% for the month (JPMorgan EMU Index). Similarly, within emerging markets, locally-denominated bonds fared better than hard-currency debt due to the broad decline of the USD.

OPPENHEIMER
ASSET MANAGEMENT

Disclosures

Indices are unmanaged and presented for comparison purposes only. Please note that the returns displayed for indices do not take into account any of the costs associated with buying and selling individual securities. Individuals cannot invest directly in an index.

Bloomberg Barclays US Corporate High Yield TR USD: *Bloomberg Barclays US Corporate High Yield TR USD*

Bloomberg Barclays US Treasury 1-3 Yr TR USD: *The Bloomberg Barclays Capital US Treasury Bond 1-3yr term index measures the performance of short-term government bonds issued by the US Treasury.*

Bloomberg Barclays US Treasury 10 Yr USD: The index *measures the performance of government bonds issued by the US Treasury.*

Bloomberg Barclays US Treasury 20+ Yr TR USD: *The Index is market capitalization weighted and includes all of the securities that meet the Index criteria. The index includes all publicly issued, U.S. Treasury securities that have a remaining maturity greater than 20 years, are non-convertible, are denominated in U.S. dollars, are rated investment grade (Baa3 or better) by Moody's Investors Service, are fixed rate, and have more than $150 million par outstanding. Excluded from the Index are certain special issues, such as flower bonds, targeted investor notes (TINs) and state and local government series bonds (SLGs), and coupon issues that have been stripped from assets already included.*

Bloomberg Barclays US Aggregate Bond Index: *The U.S. Aggregate Index covers the USD-denominated, investment-grade, fixed-rate, taxable bond market of SEC-registered securities. The Index includes bonds from the Treasury, Government-Related, Corporate, MBS (agency fixed-rate and hybrid ARM pass throughs), ABS, and CMBS sectors. The U.S. Aggregate Index is a component of the U.S. Universal Index in its entirety.*

MSCI EM Index: *The MSCI Emerging Markets Index captures large and mid cap representation across 23 Emerging Markets (EM) countries. With 822 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country*

MSCI EAFE Index: *The MSCI EAFE Index is recognized as the pre-eminent benchmark in the United States to measure international equity performance. It comprises the MSCI country indices that represent developed markets outside of North America: Europe, Australasia and the Far East.*

S&P 500 Index: *The S&P 500 Index consists of 500 stocks chosen for market size, liquidity, and industry group representation. It is a market value weighted Index (stock price times number of shares outstanding), with each stock's weight in the Index proportionate to its market value. The Index is one of the most widely used benchmarks of US Equity Large Cap performance.*

Alerian MLP Index: *The Alerian MLP Index is the leading gauge of energy Master Limited Partnerships (MLPs). The float-adjusted, capitalization-weighted index, whose constituents represent approximately 85% of total float-adjusted market capitalization, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).*

J.P. Morgan Factor Definitions

Yield: *Stocks are ranked by trailing 12 month dividend yield. Positive factor performance indicates that the highest yielding stocks outperformed the lowest yielding stocks (as well as those stocks that did not pay any dividends) in the universe.*

Size: *Stocks are ranked by their month end market cap. A negative Size factor return would indicate that smaller cap stocks generally outperformed larger cap stocks.*

Quality: *Combines ROE and Earnings Risk (inverted such that stocks with tightest forecasts are rewarded with a higher score).*

Price Momentum: *The 12 Month Price Momentum factor is calculated by ranking stocks by their total return over the previous 12 months.*

Earnings Momentum: *This factor ranks stocks by their forward earnings momentum (1Mth + 3 Mth). For each stock, the change in FY1 earnings over the last month and the last 3 months, and the change in FY2 earnings over the last month and the last 3 months are calculated. A 3-month revision number and a 1-month revision number is calculated by taking the average of the change in FY1 and FY2. A composite value as the average of the 1 month and 3 month values is then calculated.*

Book-to-Price: *Stocks are ranked by their 12 month trailing Book/Market ratio with the cheapest stocks exhibiting the lowest ratio. A positive factor return indicates that stocks with a lower book-to-price ratio outperformed higher book-to-price stocks in the universe.*

Beta: *Beta for the stock relative to its local benchmark index. Note this is a fundamental beta not a calculated Beta.*

USD: United States Dollar.
EURO: The official currency of the Eurozone.
CAD: The official currency of Canada.
AUD: The official currency of Australia.
BRL: The official currency of Brazil.
CHF: The official currency of Switzerland.
JPY: The official currency of Japan.
INR: The official currency of India.

West Texas Intermediate (WTI): *West Texas Intermediate (WTI) crude oil is the underlying commodity of the New York Mercantile Exchange's oil futures contracts. The success of an investment program may be affected by general economic and market conditions, such as interest rates, availability of credit, inflation rates, economic uncertainty, changes in laws and national and international political circumstances. These factors may affect the level and volatility of securities prices and the liquidity of a portfolio's investments. Unexpected volatility or illiquidity could result in losses.*

Investing in securities is speculative and entails risk. There can be no assurance that one's investment objectives will be achieved or that an investment strategy will be successful. Significant losses could result if a strategy involves the use leverage, short sales and derivative transactions, investment in foreign or illiquid securities, and potentially limited diversification.

The opinions expressed herein can change anytime without notice.

Any forward looking statements are not guaranteed and can be affected by inaccurate assumptions or by known or unknown risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements

Special Risks of Foreign Securities
Investments in foreign securities are affected by risk factors generally not thought to be present in the US. The factors include, but are not limited to, the following: less public information about issuers of foreign securities and less governmental regulation and supervision over the issuance and trading of securities.

Special Risks of Master Limited Partnerships
Master limited partnerships (MLPs) are publicly listed securities that trade much like a stock, but they are taxed as partnerships. MLPs are typically concentrated investments in assets such as oil, timber, gold and real estate. The risks of MLPs include concentration risk, illiquidity, and exposure to potential volatility, tax reporting complexity, fiscal policy and market risk. MLPs are not suitable for all investors.

Special Risks of Small Market Capitalization Securities
Investments in companies with smaller market capitalization are generally riskier than investments in larger, well-established companies. Smaller companies often are more recently formed than larger companies and may have limited product lines, distribution channels and financial and managerial resources. These companies may not be well known to the investing public, may not have significant institutional ownership and may have cyclical, static or moderate growth prospects. There is often less publicly available information about these companies than there is for larger, more established issuers, making it more difficult for the Investment Manager to analyze that value of the company. The equity securities of small and mid capitalization companies are often traded over-the-counter or on regional exchanges and may not be traded in the volume typical for securities that are traded on a national securities exchange. Consequently, the Investment Manager may be required to sell these securities over a longer period of time (and potentially at less favorable prices) than would be the case for securities of larger companies. In addition, the prices of the securities of small and mid capitalization companies may be more volatile that those of larger companies.

Special Risks of Fixed Income Securities
For fixed income securities, there is a risk that the price of these securities will go down as interest rates rise. Another risk of fixed income securities is credit risk, which is the risk that an issuer of a bond will not be able to make principal and interest payments on time.

there is no guarantee that these securities will be held for a client's account nor should it be assumed that they were or will be profitable. The Consulting Group is a division of Oppenheimer Asset Management. Oppenheimer Asset Management is the name under which Oppenheimer Asset Management Inc. ("OAM") does business. OAM is an indirect, wholly owned subsidiary of Oppenheimer Holdings Inc., which is also the indirect parent of Oppenheimer & Co. Inc. ("Oppenheimer"). Oppenheimer is a registered investment adviser and broker dealer. Securities are offered through Oppenheimer. OAM8032017dk2