

Economic & Market Commentary

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Market Update – June 2018

June was a month with mixed results for stocks as international stocks were down across the board while U.S. stocks were positive. Emerging markets continued their 2018 struggles, down 4.2% in the month. On the other side, U.S. small value stocks were the top performer – gaining 0.8%. Results were slightly positive among bonds, with short- and intermediate-term bonds essentially flat while international bonds posted a gain of 0.5% for the month.

Economy

- First quarter real GDP growth was revised down to an annualized rate of 2.0% - down from the fourth quarter rate of 2.9%.
- Inflation (CPI) ticked up modestly to a 2.7% gain over last year's data.
- The unemployment rate rose slightly to 4.0% due to an increased labor participation rate.

Stocks

- The S&P 500 gained 0.6% in June, while U.S. small cap (+0.7%) and U.S. small value stocks (+0.8%) posted slightly stronger gains.
- International stocks were the weakest performers. Specifically, international small value (-2.8%) and emerging markets (-4.2%) were a drag on performance.

Bonds

- International bonds (+0.5%) and TIPS (0.4%) posted modest gains for the month.
- Short-term (+0.1%) and intermediate-term (-0.1%) bonds were close to flat as rising interest rates and political tensions contributed to ongoing uncertainty.

Alternatives

- Global REITs (+2.5%), managed futures (+1.2%), and reinsurance (+0.1%) posted gains in June, while commodities (-3.5%) gave up their year-to-date gains.

Approaching Zero Taxes

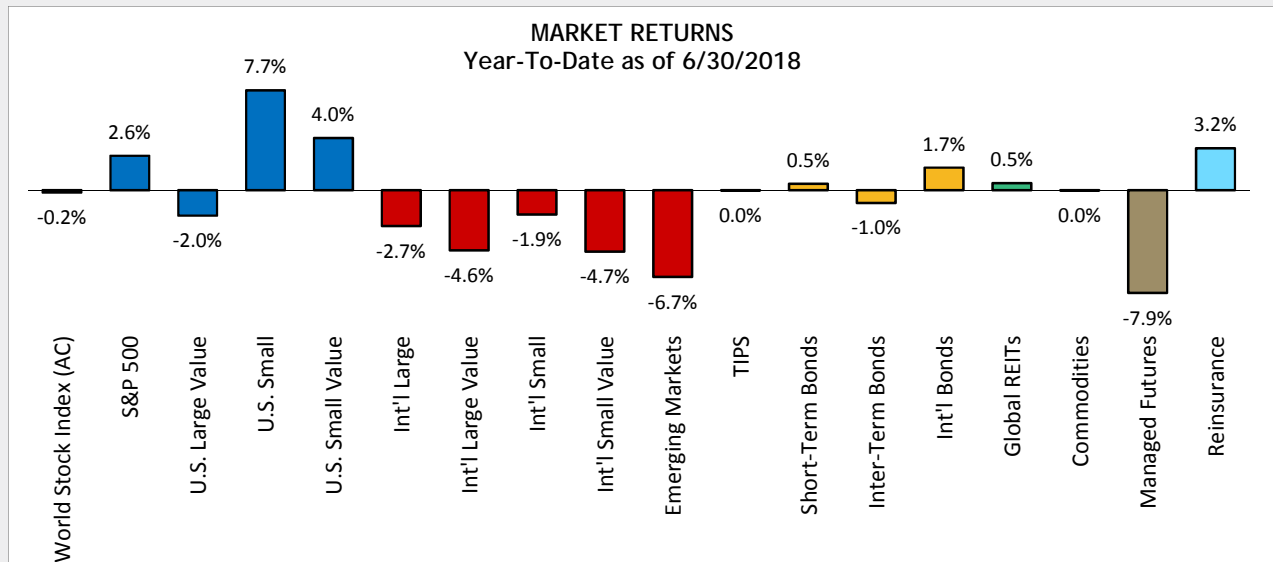
Sir John Templeton once said, "For all long-term investors, there is only one objective – maximum total return after taxes." We could not agree more with this statement. Traditionally, the investment industry has focused on measures of risk and return while ignoring the tax implications of investing processes. In an effort to address this shortcoming, Savant continuously emphasizes tax-efficient investment strategies.

In light of recent tax law changes, Savant decided to revisit these strategies and quantify the benefit that they provide to our clients. The strategies that Savant employs fall into three broad categories: permanently eliminating tax, deferring tax, and timing taxes in low income years. Specific tools within these strategies include asset location, tax-loss harvesting, municipal bonds, charitable giving, and many more. The key to tax-efficient investing is utilizing the right combination of these tools and strategies based on an individual's situation. Although this may sound complicated, we believe the rewards can be tremendous.

A 30 year study commissioned by Charles Schwab supports this idea. The study found that the average mutual fund investor lost 58% of their cumulative return to taxes. While a \$1 investment grew to \$21.89 for a tax-free investor, a taxable investor with identical holdings grew to only \$9.87.

This example serves as a reminder of the big impact that small decisions can have. At Savant, we believe having a disciplined, systematic, and integrated process for tax management is one of the most valuable contributions offered by a financial advisor. If you would like to learn more about the best practices in tax management, we encourage you to read our recent *Approaching Zero Taxes* white paper which can be found on our website.

Sources: Bureau of Economic Analysis (BEA), Federal Reserve, Morningstar Direct, Standard and Poor's, JP Morgan, 'Ranking Mutual Funds on an After-Tax Basis' by Joel Dickson and John Shoven.



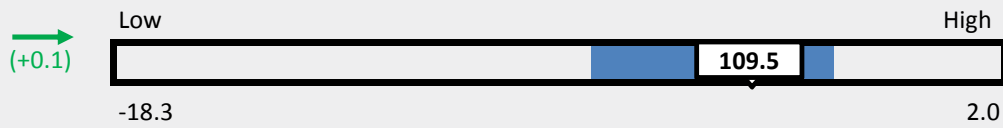
MARKET RETURNS - Longer Term Annualized as of 6/30/2018							
	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
EQUITIES							
S&P 500	0.6%	2.6%	14.4%	11.9%	13.4%	10.2%	9.3%
U.S. Large Value	0.6%	-2.0%	7.3%	9.7%	10.8%	8.8%	8.7%
U.S. Small	0.7%	7.7%	17.6%	11.0%	12.5%	10.6%	10.5%
U.S. Small Value	0.8%	4.0%	11.9%	10.8%	11.4%	10.7%	10.6%
Int'l Large	-1.2%	-2.7%	6.8%	4.9%	6.4%	2.8%	7.3%
Int'l Large Value	-1.3%	-4.6%	4.3%	3.3%	5.4%	2.2%	6.9%
Int'l Small	-2.2%	-1.9%	11.7%	9.6%	11.5%	6.5%	11.0%
Int'l Small Value	-2.8%	-4.7%	7.8%	8.6%	11.1%	6.4%	11.3%
Emerging Mkts	-4.2%	-6.7%	8.2%	5.6%	5.0%	2.3%	10.7%
World Stock Index (AC)	-0.6%	-0.2%	11.1%	8.3%	9.6%	6.1%	8.5%
FIXED INCOME							
TIPS	0.4%	0.0%	2.1%	1.9%	1.7%	3.0%	4.0%
Short-Term Bonds	0.1%	0.5%	0.7%	0.4%	0.3%	0.5%	1.4%
Interm-Term Bonds	-0.1%	-1.0%	-0.6%	1.2%	1.6%	3.1%	3.2%
International Bonds	0.5%	1.7%	3.6%	4.0%	4.4%	4.6%	4.2%
ALTERNATIVES							
Global REITs	2.5%	0.5%	5.3%	7.0%	7.5%	6.6%	9.1%
Commodities	-3.5%	0.0%	7.3%	-4.5%	-6.4%	-9.0%	-0.6%
Managed Futures	1.2%	-7.9%	-3.1%	-1.9%	2.6%	2.4%	5.5%
Reinsurance	0.1%	3.2%	1.8%	4.6%	5.2%	6.8%	7.4%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mtg Index, Interm-Term Bonds-Barclays Interm-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdg, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

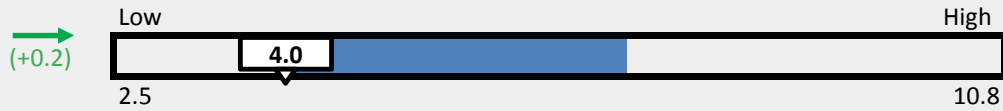
Past performance is historical and does not guarantee or indicate future results. Index returns assume reinvestment of all distributions and unlike mutual funds, do not reflect fees or expenses. It is not possible to invest directly in an index. This report is not intended to provide personalized investment advice. Some information has been produced by unaffiliated third parties, and while it is deemed reliable, the advisor does not guarantee its accuracy or completeness.

Economic Indicators

Leading Economic Index (%)



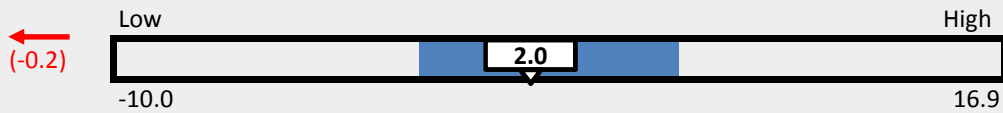
Unemployment (%)



Inflation CPI (YOY %)



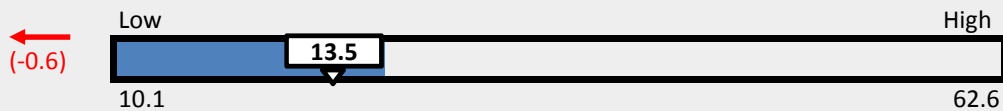
Real GDP Growth (%)



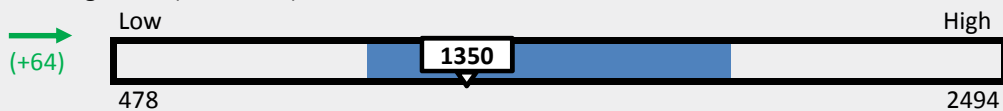
Consumer Confidence



VIX - Market Volatility








Housing Starts (thousands)



10-year Treasury



-  Typical range (within 1 standard deviation of the median)
-  Current Value
-  Historical Range
-   Change in value since last month

*See appendix for sources and data ranges

Appendix

Leading Economic Index

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. *(Data Source: The Conference Board. Monthly data since 1/1/1959)*

Unemployment

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Inflation CPI (YOY)

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Real GDP Growth

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. *(Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947)*

Consumer Confidence

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. *(Data Source: The Conference Board. Monthly data since 1/31/1991)*

VIX

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. *(Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990)*

Housing Starts

The number of housing starts (new construction) in the U.S. each year. *(Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959)*

10-year Treasury

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. *(Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962)*

Disclosure

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