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June 2018

MONTHLY MARKET REVIEW

T.RowePrice®
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Monthly Market Review
U.S. STOCKS
JUNE 2018

NASDAQ AND SMALL-CAP BENCHMARKS PACE THE MONTH'S GAINS

The large-cap benchmarks were mixed in June, while the technology-heavy Nasdaq Composite Index and the smaller-cap benchmarks managed stronger gains and reached record highs. Stocks gave back some of their gains and volatility spiked late in the month, however. Sector performance varied widely within the S&P 500, with consumer staples and real estate shares performing best while industrials and financials shares recorded losses. Growth stocks continued to outpace value shares among large- and small-caps but lagged among mid-caps.

Total Returns

	June	Year-to-Date
Dow Jones Industrial Average	-0.49%	-0.73%
S&P 500 Index	0.62	2.65
Nasdaq Composite Index	0.92	8.79
S&P MidCap 400 Index	0.42	3.49
Russell 2000 Index	0.72	7.66

Past performance is not a reliable indicator of future performance.
Note: Returns are for the periods ended June 30, 2018. The returns include dividends based on data supplied by third-party provider RIMES and compiled by T. Rowe Price, except for the Nasdaq Composite, whose return is principal only. Frank Russell Company (Russell) is the source and owner of the Russell index data contained or reflected in these materials and all trademarks and copyrights related thereto. Russell® is a registered trademark of Russell. Russell is not responsible for the formatting or configuration of these materials or for any inaccuracy in T. Rowe Price Associates' presentation thereof.

STOCKS RALLY AS STRONG JOB GAINS SEND UNEMPLOYMENT RATE TO 18-YEAR LOW

Positive economic data and hopes that corporate profits could sustain much of their strong momentum from the first quarter seemed to drive most of June's gains. The S&P 500 recorded its best daily performance for the month on June 1, when the Labor Department reported that employers had added 223,000 jobs in May, beating expectations. The unemployment rate ticked down to 3.8%, its lowest level since April 2000. Average hourly earnings also picked up a bit, with wage gains for production and nonsupervisory workers advancing at the fastest pace since the expansion began nearly a decade ago. Commerce Department data released at mid-month showed that wage gains were feeding fully into increased spending, with core retail sales (excluding sales at automotive dealers, building materials stores, and gas stations) rising a solid 0.6% in May, while previous months were revised higher. T. Rowe Price Chief U.S. Economist Alan Levenson observed that spending increases continued to rise faster than income gains, causing a pickup in credit use and a decline in the savings rate.

With the economy operating at or beyond full employment by most measures, investors kept a close eye on whether the Federal Reserve would accelerate its pace of interest rate increases to head off a potential surge in inflation. The Fed's policy committee met at mid-month and decided to raise the federal funds rate by another

quarter point, as expected, but stocks fell moderately after officials offered a slightly more hawkish outlook for coming hikes. According to the Fed's "dot-plot" survey of individual policymakers' rate expectations, one more official now expects a total of four rate hikes in 2018, rather than three. Disquiet over the prospect of a faster pace of U.S. rate hikes appeared to be offset by a somewhat more dovish tone from the European Central Bank, which announced that it would keep its own benchmark rate near zero well into 2019. U.S. inflation figures also remained generally tame, with core inflation (which excludes food and energy costs) remaining near the Fed's target of 2%.

TRADE TENSIONS DEEPEN AND WEIGH ON MARKETS LATE IN JUNE

Trade tensions escalated throughout the month, weighing on sentiment. On June 2, President Trump left a fractious G-7 summit early and retracted his support of a joint statement advocating "free, fair, and mutually beneficial trade." The Trump administration sharpened its stance against China, in particular, releasing a list of USD $50 billion worth of Chinese imports that it planned to subject to a 25% tariff. After China announced retaliatory tariffs of a similar magnitude, the White House responded with a threat to apply a 10% tariff on another USD $200 billion in Chinese imports. The administration also announced that it was considering additional measures to cut off Chinese access to U.S. technology.

Whether the growing threats were merely negotiating tactics on all sides remained unclear, but markets wavered late the in the month as evidence emerged that trade tensions were already impacting corporate strategy and earnings prospects. On June 21, stocks slumped after German automaker Daimler lowered its outlook, citing the likelihood of lower sales for SUVs that the company makes in the U.S. and exports to China given the possibility of Chinese tariff hikes. Investors were further unsettled a few days later after Harley-Davidson revealed in an SEC filing that it was planning to move some of its motorcycle production overseas to avoid retaliatory tariffs recently announced by the European Union. Shares of major U.S. exporters such as Boeing and Caterpillar performed particularly poorly late in the month and weighed on the industrials and business services sector as investors worried about the effects of rising protectionism.

EARNINGS CONTINUING TO RISE FASTER THAN STOCK PRICES WOULD MAKE VALUATIONS MORE COMPELLING

T. Rowe Price Group Chief Investment Officer Rob Sharps observes that the very high bar set in the first quarter suggests that earnings growth will likely slow for the rest of the year, but only moderately. Nevertheless, he cautions that investors should expect lower returns relative to the last couple of years. On balance, U.S. large-cap valuations, as measured by the S&P 500 Index, still appear moderately expensive—off recent peaks but still far from compelling. A relatively painless path to more attractive broad valuations, he observes, would be if earnings continued to rise at a faster pace than equity prices over the balance of 2018 and into 2019.

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Monthly Market Review
INTERNATIONAL STOCKS

JUNE 2018

INTERNATIONAL EQUITIES LOST GROUND

Stocks in developed international markets fell in June amid escalating concerns of a trade war between the U.S. and China and Europe, uncertainty about new governments in Spain and Italy, and mixed economic indicators. Volatility was relatively high as investors searched for direction amid myriad conflicting news events, but trade volumes were below average. OPEC ministers reached an agreement to increase oil production, but oil prices rallied as the increase was smaller than most expected. Most major currencies weakened or were relatively flat versus the U.S. dollar.

Within the MSCI EAFE Index, seven sectors reported losses and four gained. Consumer discretionary lost the most ground, declining 3%, while the utilities, energy, and consumer staples sectors logged the biggest gains, each rising just over 1%. Health care and telecommunication services also outperformed the broad EAFE Index. Growth stocks in the EAFE Index lost ground but slightly outperformed value shares in June. Emerging markets underperformed developed market stocks, and both lost ground.

Total Returns

MSCI Indexes	June	Year-to-Date
EAFE (Europe, Australasia, Far East)	-1.19%	-2.37%
All Country World ex USA	-1.84	-3.44
Europe	-0.64	-2.71
Japan	-2.50	-1.85
All Country Asia ex Japan	-4.74	-4.65
EM (Emerging Markets)	-4.09	-6.51

All data are in U.S. dollars as of June 30, 2018. This chart is shown for illustrative purposes only and does not represent the performance of any specific security. **Past performance cannot guarantee future results.**
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EUROPEAN STOCKS WERE VOLATILE

Escalating trade tension between the U.S. and Europe was a primary driver of market volatility in June. In response to recent tariffs on European aluminum and steel, certain U.S. goods, including bourbon, cranberries, and Harley-Davidson motorcycles were among the €2.8 billion (USD $3.2 billion) worth of products that will now carry tariffs in Europe. Investor sentiment also weighed on automobile and mining shares. German stocks, which have considerable exposure to the export market, widely underperformed many of their European peers.

The European Central Bank (ECB) said it would reduce asset purchases from €30 billion to €15 billion at the end of September and stop them entirely at the end of December. The ECB also vowed to wait until at least the end of summer 2019 to begin raising short-term interest rates. T. Rowe Price's Chief International Economist Nikolaj Schmidt noted that the ECB moves were dovish relative to the market's more hawkish expectations. Schmidt said that the important points are the conditions attached to the tapering of asset purchases, as well as the fact that rates will stay steady through next summer.

IMMIGRATION UNCERTAINTY RISES, THEN RECEDES

Stock markets moved higher after the European Union (EU) announced a deal on immigration in the final days of the month. The member states agreed to increase border security, set up holding centers to handle asylum seekers, and speed up the decision to grant asylum or expulsion. Leaders also pledged to overhaul the rules for distributing migrants when a gateway country is overwhelmed, a key demand by the Italian government. T. Rowe Price traders noted that, as with any EU deal, the devil is in the details, which were unclear by month's end.

MAJOR DEBT CRISIS IN ITALY UNLIKELY IN THE NEAR TERM

Italian stocks lost ground but performed in line with the Europe region. Political uncertainty diminished as the anti-establishment parties League and 5-Star Movement formed a ruling coalition. T. Rowe Price fixed income manager Ken Orchard said that while the coalition is fragile and several issues (including debt and new spending initiatives) could be troublesome, he doesn't see Italy's issues triggering a major debt crisis soon. He noted that the government is running a current account surplus and the central bank owns a large chunk of the outstanding debt, meaning the risk of a major debt crisis is dramatically lessened.

JAPANESE EQUITIES SLIDE

Japanese equities in U.S. dollar terms underperformed the broad EAFE Index. Japanese shares returned -2.50% in dollar terms, as the yen fell almost 2% versus the U.S. dollar. The Bank of Japan (BoJ) maintained its negative short-term interest rate target and kept its yield curve control policy in place. The June meeting statement noted that the economy is expanding modestly, but also that inflation remains well below target, stuck in a range of 0.5% to 1%. BoJ Governor Haruhiko Kuroda warned about "significant consequences" for the Japanese economy due to the brewing trade war between the U.S. and China.

EMERGING MARKETS STRUGGLE

Emerging markets were under pressure in June due in part to concerns about trade tensions between China and the U.S., as well as some negative economic and political developments in key markets. Asian stocks were especially weak. Chinese A shares, which are shares of mainland China-based companies, led the losses, falling almost 11% in U.S. dollar terms. Investors have been cautious about the possibility of more U.S. trade tariffs leveled against Chinese goods. The yuan dropped to its lowest level since late last year. Equities in South Korea, Indonesia, and the Philippines were notable laggards. Latin American stocks lost ground but outperformed the MSCI Emerging Markets Index, helped by a 9% return on Mexican shares. Mexico's central bank unanimously raised the overnight interbank funding rate to 7.75% from 7.5%, as expected, in an effort to stem weakness in the peso. Brazilian stocks tumbled 8% as a recent 10-day truckers' strike related to fuel subsidies and diesel prices weighed on commerce. The Europe, Middle East, and Africa region lost 2%, weighed down by a nearly 5% drop in stocks in Turkey, where President Recep Tayyip Erdogan's ruling party won the country's snap election on June 25.

OUTLOOK: GLOBAL GROWTH REMAINS POSITIVE IN 2018

Global growth remains positive but has slowed from the strong pace in 2017. Europe, the most notable area of strength among developed markets in 2017, has seen the sharpest slowdown. While external liabilities are a risk for certain emerging markets countries, fundamentals for the region remain broadly favorable. Risks to the outlook for global equities include a further rise in geopolitical or trade tensions and the possibility of a central bank policy misstep.

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Monthly Market Review
FIXED INCOME MARKETS

JUNE 2018

LONGER-TERM TREASURY YIELDS LITTLE CHANGED AS TARIFF CONCERNS OFFSET FED RATE HIKES

Longer-term U.S. Treasury yields were little changed in June. Positive economic data and another Federal Reserve rate hike pressured yields higher, but those factors were offset by concerns about the Trump administration's trade disputes and the effects of tariffs on the economy, which stoked demand for safe-haven securities. The yield on the two-year Treasury note, which is more closely tied to the Fed's interest rate moves, continued to increase and reached its highest level in 10 years. (Bond prices and yields move in opposite directions.) The increase in shorter-maturity yields led to a further flattening of the yield curve, with the yield difference between the 2- and 10-year notes finishing the month at just 33 basis points (0.33 percentage point), the narrowest level since 2007.

FED FORECASTS TWO MORE RATE HIKES IN 2018 AMID SOLID ECONOMIC DATA

As expected, the Fed raised the target range for the federal funds rate to 1.75% to 2.00% at its June meeting, the second increase this year. With the latest move, the real, or inflation-adjusted, effective fed funds rate is now close to 0%, meaning future rate hikes could move monetary policy into a tightening phase. Besides raising rates, the Fed also revised its median rate projections in a slightly more hawkish direction, and policymakers are now penciling in two more hikes this year and three hikes in 2019. Solid economic data seemed to bolster the Fed's confidence in its path toward normalizing monetary policy. The unemployment rate fell to an 18-year low of 3.8% in May, and various inflation measures were at or slightly above the Fed's 2% target. Although first-quarter gross domestic product growth was revised down to a 2.0% annualized rate, preliminary data have pointed to a strong pickup in the second quarter.

Total Returns

Index	June	Year-to-Date
Bloomberg Barclays U.S. Aggregate Bond Index	-0.12%	-1.62%
J.P. Morgan Global High Yield Index	0.12	-0.53
Bloomberg Barclays Municipal Bond Index	0.09	-0.25
Bloomberg Barclays Global Aggregate Ex-U.S. Dollar Bond Index	-0.70	-1.31
J.P. Morgan Emerging Markets Bond Index Global Diversified	-1.19	-5.23
Bloomberg Barclays U.S. Mortgage Backed Securities Index	0.05	-0.95

Figures as of June 30, 2018. **Past performance cannot guarantee future results.** This chart is shown for illustrative purposes only and does not represent the performance of any specific security.

Source: Third-party vendor RIMES.

LIMITED SUPPLY SUPPORTS HIGH YIELD BOND OUTPERFORMANCE

High yield bonds outperformed most other fixed income segments for the month, supported by limited new issuance, modest equity gains, low recent default levels, and investor demand for securities that are less sensitive to rising interest rates. Energy issuers, which make up a large portion of the high yield bond indexes, benefited from rising U.S. oil prices, which reached a year-to-date high by month-end. Bank loans also produced positive results.

U.S. Treasury Yields

Maturity	May 31	June 30
3-Month	1.93%	1.93%
6-Month	2.08	2.11
2-Year	2.40	2.52
5-Year	2.68	2.73
10-Year	2.83	2.85
30-Year	3.00	2.98

Source: Federal Reserve Board.

MUNI BONDS OUTPERFORM, WHILE INVESTMENT-GRADE CORPORATES STRUGGLE WITH HEAVY SUPPLY

Municipal bonds produced modest gains in June, outperforming Treasuries and the broader taxable investment-grade bond market. Munis were supported by limited supply and steady demand. New municipal issuance was down 19% in June from the same period in 2017, according to data from *The Bond Buyer*, and totals for the first half were down about 20%. The decline in supply reflected a sharp drop in refunding deals. Flows into the asset class were positive throughout the month, and demand was supported by reinvestments from maturing bonds. Investors continued to seek out higher-yielding securities.

Negative corporate bond returns weighed on the Bloomberg Barclays U.S. Aggregate Bond Index, a measure of investment-grade taxable bond performance. Investment-grade corporates were hampered by heavy supply driven by increased merger activity, concerns about the impact of tariffs on some issuers, and faltering demand for longer maturities as investors became more averse to assets that could struggle in a rising rate environment. Investment-grade corporate credit spreads—the excess yield offered versus comparable-maturity Treasuries—had widened to a year-to-date high by the end of the month but remained below longer-term averages. Other key segments in the investment-grade index, Treasuries and mortgage-backed securities, were slightly positive for the month.

ECB ANNOUNCES COMING PHASEOUT OF BOND-BUYING PROGRAM

With the latest eurozone inflation measures nearing its 2% target, the European Central Bank (ECB) announced at its June meeting that it will cut its bond purchases in half in October and end the asset purchase program by December. However, the ECB's statement signaled that policymakers don't plan to begin raising rates until the end of next summer at the earliest and will continue reinvesting maturing debt, focusing on longer-dated bonds in an effort to hold down long-term rates. The yield on the 10-year German government bond decreased in June, and Spanish and Italian government bond yields, which were volatile in May, also declined as the countries' political situations stabilized.

EMERGING MARKETS: CURRENCY WEAKNESS WEIGHS ON BOND RETURNS

Generally increasing global interest rates—underpinned by the Fed's decision to raise rates in June—and falling investor risk tolerance pressured emerging markets bonds and currencies, although countries with large current-account deficits and high rates of inflation experienced the worst results. Argentina's peso, for example, was

down more than 13% for the month. Several emerging markets' central banks, including India and Turkey, raised rates to try to strengthen their currencies, pressuring prices of their bonds.

OUTLOOK: BENIGN INFLATION BACKDROP SHOULD KEEP RATE HIKES GRADUAL

In their Midyear Market Outlook, T. Rowe Price's chief investment officers noted that, although inflation measures firmed in the second quarter, the U.S. and other developed debt and equity markets were benefiting from a relatively benign inflation environment as we entered the second half of 2018. This should allow the Fed to remain on a gradual policy course, avoiding the kind of sudden or large rate hikes that might cause the yield curve to invert in the near term (which occurs when shorter-term bonds offer higher yields than longer maturities). "Historically, a flattening or flat yield curve has not necessarily spelled imminent trouble for the economy or for financial assets," said Rob Sharps, the firm's group chief investment officer. "But once the yield curve inverts, it's important to pay attention, because then the risks really do increase."

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Monthly Market Review

GLOBAL CAPITAL MARKETS ENVIRONMENT

JUNE 2018

Most major U.S. stock indexes edged higher in June. Shares were supported by a strong economic background, although the Federal Reserve's slightly more hawkish interest rate outlook—two rates hikes are expected in the second half of 2018 rather than one—weighed on the market somewhat.

More concerning, however, was the ratcheting up of global trade tensions, as the U.S. imposition of steel and aluminum tariffs on Canada, Mexico, and the European Union (EU) prompted its trading partners to retaliate or threaten to do so. President Trump upped the ante during the month by directing his administration to draw up a list of tariffs on another USD $200 billion of Chinese goods and by warning the EU that the U.S. would place a 20% tariff on EU auto imports if it did not lower its own trade barriers. These actions sparked fears that global commerce and the worldwide economic expansion could be hurt by continued trade actions.

Small-cap shares marginally outperformed their larger peers. The small-cap Russell 2000 Index returned 0.72% versus 0.62% for the large-cap S&P 500 Index and 0.42% for the S&P MidCap 400 Index. As measured by various Russell indexes, growth stocks outperformed value among large- and small-cap shares; the opposite was true among mid-caps.

In the large-cap universe, as measured by the S&P 500 Index, most sectors advanced. Real estate, utilities, and telecommunication services stocks, many of which have relatively high dividend yields and are considered a relative safe haven, did well. Consumer staples stocks also did well. Energy stocks performed in line with the S&P 500 but were volatile, as oil prices skidded early in the month amid indications that OPEC would seek to increase oil output at its June 23 meeting in Vienna. However, U.S. oil prices rebounded late in the month and approached four-year highs due in part to a drop in U.S. oil inventories, as well as U.S. demands that countries stop importing Iranian oil by November 4.

	S&P 500 Index	S&P MidCap 400 Index	Russell 2000 Index
June	0.62%	0.42%	0.72%
Year-to-Date	2.65	3.49	7.66

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Source: Third-party vendor RIMES, as of June 30, 2018.

On the other hand, industrials and business services stocks declined as actual and threatened tariffs weighed on the prospects for large export-oriented companies. Financial stocks declined, but the sector pared its losses late in the month, as many major financial institutions passed the Federal Reserve's stress tests—which measure their financial health in a hypothetical economic downturn—and some announced substantial increases in share buybacks or dividends. Information technology shares edged lower amid fears that the Trump administration would issue new rules to restrict Chinese investments in U.S. technology companies.

Domestic investment-grade bond returns were narrowly mixed. The Bloomberg Barclays U.S. Aggregate Bond Index returned -0.12%. The Fed raised short-term interest rates at its June 12–13 policy meeting, and the Treasury yield curve continued to flatten. In the investment-grade universe, corporate bond prices declined amid heavy supply. Mortgage- and asset-backed securities were flat. Municipal bonds marginally outperformed taxable bonds amid limited supply and generally steady demand for munis. High yield securities outperformed high-quality bonds—albeit with modest gains—helped by limited new issuance and strength in bonds issued by some energy companies as oil prices rose.

	Bloomberg Barclays U.S. Aggregate Bond Index	Bloomberg Barclays Municipal Bond Index	J.P. Morgan Global High Yield Index
June	-0.12%	0.09%	0.12%
Year-to-Date	-1.62	-0.25	-0.53

Past performance cannot guarantee future results.

Source: Third-party vendor RIMES, as of June 30, 2018.

Stocks in developed non-U.S. equity markets generally declined, underperforming U.S. equities as the dollar strengthened against most major non-U.S. currencies. The MSCI EAFE Index, which measures the performance of stocks in Europe, Australasia, and the Far East, returned -1.19%. Some developed Asian markets struggled as U.S.-China trade tensions intensified, raising concerns that a possible trade war could hurt regional growth. Japanese shares returned -2.50% in dollar terms, as the yen fell almost 2% versus the greenback. Economic data revisions confirmed that the country's eight-quarter growth streak has ended, with the economy contracting at an annualized pace of 0.6% in the first quarter, hurt by weak domestic demand and faltering exports. Japanese wage growth has also been sluggish.

European equities were mixed in dollar terms amid increased trade tensions between the U.S. and the EU. German shares fell more than 2% on concerns that tariffs would hurt automakers and other export-driven companies. On the plus side, Belgian stocks rose 3%. Spanish shares also rose close to 3%, as political uncertainty eased after Prime Minister Mariano Rajoy from the Popular Party was ousted by a no-confidence vote. The Socialists took power in early June, with Pedro Sánchez becoming the new Spanish prime minister.

Emerging markets stocks fared worse than developed markets amid global trade tensions and as weaker currencies exacerbated local market losses in U.S. dollar terms. The MSCI Emerging Markets Index returned -4.09%. In dollar terms, many emerging Asian markets skidded amid U.S.-China trade tensions. Chinese stocks fell 5%, while China's A shares market dropped close to 11%. Markets in India and Taiwan held up best but still fell about 1%. Many emerging European markets held up fairly well in dollar terms, despite generally weaker currencies. Turkish shares fell almost 5% as the lira weakened about 1%, despite an unexpected central bank rate increase. As was widely expected, President Recep Tayyip Erdogan's ruling party won the country's snap election on June 24, which further cements Erdogan's executive presidency and raised concerns that he will play a greater role in setting monetary policy. Latin American shares were widely mixed. Mexican stocks advanced 9% in anticipation of reduced political uncertainty ahead of Andrés Manuel López Obrador's expected victory in the

July 1 presidential election. On the other hand, shares in Brazil plunged 8% as a recent truckers' strike related to fuel subsidies and diesel prices crippled commerce in the country. The resignation of the CEO of state-owned oil company Petrobras and uncertainty about elections in October also weighed on the market. Stocks in frontier market Argentina plunged almost 22% as the peso dropped more than 13% and the central bank's president resigned. On the plus side, the International Monetary Fund provided a USD $50 billion line of credit to the country in exchange for the acceleration of some reforms. Also, MSCI upgraded the country to emerging markets status, effective May 2019.

	MSCI EAFE Index	MSCI Emerging Markets Index
June	-1.19%	-4.09%
Year-to-Date	-2.37	-6.51

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Source: Third-party vendor RIMES, as of June 30, 2018.

Bonds in developed non-U.S. markets declined in June. Although longer-term interest rates in many European bond markets were little changed, a stronger dollar versus several currencies hurt returns to U.S. investors. The dollar was flat versus the euro, however. The European Central Bank (ECB) decided to cut its monthly bond purchases in half (from €30 billion to €15 billion) after September and to stop purchases completely at the end of 2018. The ECB also said that it would keep rates on hold until "at least through the summer of 2019." The reaction was fairly muted, with the German 10-year bond yield ending the month slightly lower as rising U.S.-China trade tensions fueled demand for safe havens. Elsewhere, Italian government bonds remained under pressure early in the period, with the 10-year yield rising above 3% before reversing in the second half of the month, as political concerns surrounding the new government eased. In the UK, the pound fell less than 1% versus the greenback, while government bond yields across the yield curve rose as the central bank signaled that it could still raise short-term interest rates this year. In Japan, where the yen fell about 2% versus the dollar, the central bank kept its benchmark short-term interest rate unchanged and continued targeting a yield of around 0% for the 10-year government bond.

Emerging markets debt struggled due to general currency weakness versus the U.S. dollar, which prompted various central banks to raise short-term interest rates in an attempt to defend their currencies. The Argentine peso and South African rand were two of the weakest currencies in the world. Also, rising long-term rates in several countries hurt local bond market performance. Bonds denominated in local currencies fared worse than dollar-denominated emerging markets issues.

	Bloomberg Barclays Global Aggregate ex USD Bond Index	J.P. Morgan Emerging Markets Bond Index Global Diversified	J.P. Morgan GBI-EM Global Diversified Index
June	-0.70%	-1.19%	-2.86%
Year-to-Date	-1.31	-5.23	-6.44

Past performance cannot guarantee future results.

Source: Third-party vendor RIMES, as of June 30, 2018.

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Monthly Market Review
EMERGING MARKETS STOCKS

JUNE 2018

EMERGING MARKETS STOCKS FALL IN JUNE AS DOLLAR STRENGTH, FED TIGHTENING FUEL SELL-OFF

Emerging markets stocks fell for the fifth straight month in June as a stronger dollar and policy tightening in the U.S. diminished the appeal of riskier assets. The dollar continued to gain against nearly all emerging markets currencies, raising the cost of paying off dollar-denominated debt in the developing world. The Federal Reserve increased its benchmark rate for the second time this year and forecast a total of four increases in 2018, up from a prior forecast of three increases. The more aggressive pace of U.S. rate hikes reduced the attractiveness of foreign assets and increased worries about further currency depreciation. Central banks in India, Indonesia, Turkey, Mexico, and the Philippines raised interest rates to stabilize their currencies. Meanwhile, China cut the reserve requirement ratio for some banks for the third time this year to fend off a slowdown and boost credit for smaller companies. All 11 sectors in the MSCI Emerging Markets Index fell. Industrials and business services stocks lost the most, while telecommunication services declined the least.

Total Returns

MSCI Index	June	Year-to-Date
Emerging Markets (EM)	-4.09%	-6.51%
EM Asia	-4.59	-4.93
EM Europe, Middle East, and Africa (EMEA)	-2.23	-10.79
EM Latin America	-3.04	-10.99

All data are in U.S. dollars and represent gross returns, as of June 30, 2018. **Past performance cannot guarantee future results.**
This table is shown for illustrative purposes only and does not represent the performance of any specific security. Investors cannot invest directly in an index.
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Source: MSCI.

CHINESE STOCKS FALL ON TRADE WAR FEARS; SOUTHEAST ASIAN STOCKS FALL ON CURRENCY TURMOIL

- Chinese stocks fell, with yuan-denominated A shares lagging dollar-denominated shares. China's benchmark Shanghai Composite Index entered bear market territory, and the yuan fell to its lowest level since November at month-end as weaker economic signals and rising trade tensions with the U.S. worried investors.

- Indian stocks declined. India's rupee currency slid to a record low at month-end as surging crude oil prices revived inflation concerns and caused the country's fiscal and current account deficits to widen. The Reserve Bank of India raised its key rate for the first time since 2014 and maintained its 7.4% annual economic growth forecast.

- Southeast Asian stocks fell, led by Thailand's roughly 10% drop. The Philippine central bank raised its benchmark rate for the second month to curb inflation and shore up the peso. Bank Indonesia hiked its key rate

by a surprisingly large 50 basis points to stabilize the rupiah, which has shed more than 5% in 2018 and ranks among the worst-performing currencies in Asia. However, Thailand's central bank left its key rate unchanged near a record low and raised its economic growth forecasts for 2018 and 2019.

MEXICAN STOCKS SURGE AHEAD OF JULY ELECTION; BRAZILIAN STOCKS FALL ON CURRENCY SELL-OFF

- Mexican stocks surged more than 9% as investors priced in a presidential victory by Andres Manual Lopez Obrador and grew more optimistic that the leftist candidate would pursue centrist policies once he takes office in December. The central bank increased its benchmark rate for the second time this year to support the peso and warned that the balance of inflation risks has worsened.

- Brazilian stocks sank roughly 8% as the real weakened, at one point touching its lowest level in more than two years in early June. Investors sold off Brazil's currency as a crippling nationwide truckers' strike in May, uncertainty ahead of the presidential election in October, and rising interest rates worldwide undermined confidence in the country's outlook.

- Andean markets were mixed: Stocks advanced in Colombia after Ivan Duque, an investor-friendly candidate, won the country's presidential election, as expected. Stocks in Chile and Peru declined. Central banks in both countries left their respective interest rates on hold, but Chile's central bank revised its 2018 growth forecast upward and hiked its inflation forecast amid surging prices for copper, the county's top export.

RUSSIAN STOCKS ADVANCE ON BUOYANT OIL PRICES; TURKISH ASSETS FALL AFTER POSTELECTION RALLY FADES

- Russian stocks edged higher as crude oil prices stayed relatively high, driven by strong global demand and production or export disruptions in various countries. Russia's central bank kept its benchmark interest rate unchanged but lifted its inflation forecast, a surprisingly hawkish move that stemmed from a proposed increase in the nation's value-added tax.

- Turkish stocks fell nearly 5%. A rally in Turkish assets following President Recep Tayyip Erdogan's election victory fizzled out within a day as investors resumed worrying about Turkey's overheated economy and the direction of economic and monetary policy under the president's expanded powers. Earlier in June, Turkey's central bank unexpectedly hiked its benchmark rate to 17.75%, just two weeks after an emergency rate hike in May.

- South African stocks shed about 4% as the country's economic outlook remained grim. South Africa's economy shrank an annualized 2.2% in the first quarter from the previous quarter, a worse-than-expected contraction that marked the biggest growth decline in nine years. Downside risks to South Africa's economy are "prominent," the International Monetary Fund warned in a report after visiting the country.

SOLID FUNDAMENTALS IN EMERGING MARKETS OFFSET NEAR-TERM RISKS

We are optimistic about the longer-term outlook for emerging markets. Most developing countries have smaller current account deficits, larger foreign exchange reserves, and more flexible currencies than they did in previous decades, reducing the risk of a financial crisis. Compared with developed markets, most emerging markets have more attractive demographics and a stronger tailwind from rising consumption. Emerging markets stocks remain attractively valued relative to developed markets stocks.

Near-term risks include a rise in U.S. protectionism and a faster-than-expected pace of rate hikes by the Federal Reserve. However, we believe that emerging markets will be able to withstand a gradual tightening of monetary policy given that their financial positions have broadly improved in recent years. Economic growth in emerging markets has stabilized, and corporate earnings have begun to recover after years of disappointing performance. Nevertheless, we believe that careful stock selection will be crucial for producing good long-term returns as emerging markets continue to show wide dispersion in the performance of individual countries and companies.

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