LOSS AVOIDANCE IS A KEY TO LONG TERM INVESTMENT SUCCESS. WE DEEM CERTAIN RISKS PROFITABLE, TO BE EXPLOITED WITH SOUND RESEARCH, WHILE OTHER RISKS ARE INHERENTLY UNPROFITABLE AND SHOULD BE AVOIDED.

US stock markets finished the month near record highs as early indicators of a strong second quarter corporate earnings season and still steady economic data suggested the current rally has legs. Non-US equity markets also gained, led by emerging market stocks that reacted positively to signs of continued synchronized global growth. The US dollar weakened further, especially relative to the euro, providing a boost to dollar denominated stock returns for foreign assets. The performance by stocks came despite a lack of meaningful policy from Washington, as the GOP’s attempts to replace the Affordable Care Act were unsuccessful. Treasury securities, on the other hand, were largely flat. Yields on government bonds finished the month near where they started, though the path was bumpy. Credit markets more broadly, however, rose as spreads tightened further, yet another sign of the willingness by investors to accept risk. Aided by a weakened dollar, broad commodity markets rallied for the month. Crude benefited on news that Saudi Arabia will curb exports and to lower inventory levels in the US, while copper gained on expectations that Chinese demand would rise.

With about one-third of S&P 500 companies having reported second quarter earnings at the time of this writing, over 80% of those companies had beaten consensus earnings estimates and 75% had exceeded sales estimates. Those companies have reported earnings growth of 7.5% and sales growth of 3.5%, marking the fourth consecutive quarter of earnings growth, should the trend hold up. As a result, US stocks continued to rally, up over 2.0% for the month and up over 11.5% for the year. The rally in stocks coincided with a decline in volatility, as the Chicago Board Options Exchange Volatility index (“VIX”) finished the month near an all-time low. The VIX can be interpreted as a measure of investor risk appetite. This gain in stocks combined with low volatility despite no meaningful policies being enacted by Congress and the likelihood of any near-term policy enactment remains low.

In addition, economic data in the US was generally mixed. The labor market added...
222k jobs in June, even though the Unemployment and Underemployment Rates ticked higher. This increase in unemployment was more a sign that workers were re-entering the labor market than any signal of a slowdown in hiring. As a consequence, July’s preliminary consumer confidence measure was just shy of a 10-year high, as consumers credited improving labor conditions for their better mood. More jobs and better levels of confidence did not translate into sales, however. Retail Sales fell in June, even after accounting for the lull in auto sales. Perhaps most surprising was the decline in sales at restaurants and bars, a thoroughly discretionary expense that should be rising if consumers are working and feeling better about their situation. Further, inflation data suggested pricing pressures were losing momentum. Lower readings of inflation complicate the Federal Reserve’s (the “Fed”) desired interest rate hiking and balance sheet reduction timetables. Nonetheless, the Fed suggested these lower inflation readings were temporary and that it would likely begin to reduce its balance sheet in September and raise rates again in December.

Overseas equities markets also posted solid monthly gains, driven higher by an improving economic backdrop. Markit’s final June Purchasing Managers Index of Eurozone manufacturing ticked higher to 57.4 (any reading above 50.0 shows expansion, below 50.0 contraction), while the non-manufacturing measure held steady at 55.4, strong indications that the Euro area’s economy was holding up well. As a result, the euro strengthened further, after gaining in value on market expectations for the removal of monetary policy accommodation by the European Central Bank (the “ECB”). The ECB president was quick to remind markets that the ECB does not plan to end its quantitative easing program any time soon, in reaction to the rise in the value of the euro and a sharp increase of sovereign debt yields. Nevertheless, the euro continued to rally, especially versus the dollar. In addition, emerging market stocks performed even better than their developed markets counterparts. A weakening US dollar helped to support commodity prices, Chinese industrial metal demand showed signs of increasing and geopolitical risks in the region subsided.

Fixed income markets were positive. The spectrum of monthly returns mirrored the riskiness of each market, with the riskier portions of the bond market performing best and Treasuries performing worst. Credit spreads narrowed further, especially in high yield or junk bonds. The narrowing of spreads in high yield was linked to the performance of commodities and oil, in particular. Many of the less creditworthy companies that comprise the high yield market are oil companies, and with oil prices rebounding during the month, spreads narrowed in response to the perceived improving fundamentals of those companies. Returns for non-US bonds, both developed and emerging markets, were strong, in part due to the weakening dollar.

As mentioned earlier, oil prices and copper prices rebounded during the month. Oil rose more than 8% on the month as Saudi Arabia announced it would export less crude, while US inventory levels declined for six consecutive weeks. For the better part of this year, many investors have been betting on oil’s decline, expecting the increase in the US rig count to add to supply, thus depressing prices. However, inventories have declined for much of the year and, when combined with Saudi’s announcement, may have forced those shorts to cover their positions at higher prices. In copper, Chinese demand continued to rise, helping to push up prices of other industrial metals like nickel, steel and zinc. A declining dollar also benefited metals prices. In agricultural commodities, wheat declined by over 9%, reversing the steep gains experienced in June somewhat, on the back of drought conditions easing up. Corn also declined on the month, however, soybeans posted a positive return, as coffee soared by over 10% on lower supply.

Should you have any questions about this update or your portfolio, please do not hesitate to contact your Portfolio Manager or Trust Officer.
Unless otherwise noted, performance and return data sourced from Bloomberg, LP as of July 31, 2017.

Disclosures
For informational purposes only. Neither the information nor any opinion expressed in this material constitutes an offer to buy or sell any security or instrument or participate in any particular trading strategy. Capital One, N.A., its affiliates and subsidiaries are not providing or offering to provide personalized investment advice through this communication, or recommending an action to you. Capital One, N.A., its affiliates and subsidiaries are not acting as an advisor to you and do not owe a fiduciary duty to you with respect to the information and material contained in this communication. This communication is not intended as tax or legal advice; consult with any and all internal or external advisors and experts that you deem appropriate before acting on this information or material.

Wealth and Asset Management products and services are offered by Capital One, N.A. (“Bank”) © 2017 Capital One. All rights reserved. Recipients of this report will not be treated as a client by virtue of having received this report. No part of this report may be redistributed to others or replicated in any form without the prior consent of Capital One.

All charts and graphs are shown for illustrative purposes only. Opinions, estimates, forecasts, and statements of financial market trends that are based on current market conditions constitute our judgment and are subject to change without notice. The information has been obtained from sources believed to be reliable but we do not warrant its completeness, timeliness, or accuracy, except with respect to any disclosures relative to Capital One. The information contained herein is as of the date referenced, and we do not undertake any obligation to update such information.

Any opinions and recommendations expressed herein do not take into account an investor’s financial circumstances, investment objectives, or financial needs and are not intended for advice regarding or recommendations of particular investments and/or trading strategies, including investments that reference a particular derivative index or benchmark.

Past performance is not indicative of future results. The securities described herein may be complex, may involve significant risk and volatility, may involve the complete loss of principal, and may only be appropriate for highly sophisticated investors who are capable of understanding and assuming the risks involved. The securities discussed may fluctuate in price or value and could be adversely affected by changes in interest rates, exchange rates, or other factors. Asset allocation and diversification do not assure or guarantee better performance, and cannot eliminate the risk of investment losses. Investors must make their own decisions regarding any securities or financial instruments mentioned or discussed herein, and must not rely upon this report in evaluating the merits of investing in any instruments or pursuing investment strategies described herein. In no event should Capital One be liable for any use by any party, or for any decision made or action taken by any party in reliance upon, or for any inaccuracies or errors in, or for any omissions from, the information contained herein.

Fixed Income securities are subject to availability and market fluctuations. These securities may be worth less than the original cost upon redemption. Corporate bonds generally provide higher yields than U.S. treasuries while incurring higher risks. Certain high yield/high-risk bonds carry particular market risks and may experience greater volatility in market value than investment-grade corporate bonds. Government bonds and Treasury bills are guaranteed by the U.S. government and, if held to maturity, offer a fixed rate of return and fixed principal value. Interest from certain municipal bonds may be subject to state and/or local taxes and in some circumstances, the alternative minimum tax. Unlike U.S. Treasuries, municipal bonds are subject to credit risk. Quality varies widely depending on the specific issuer. Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

This is only an opinion and not a prediction or promise of events to come.

<table>
<thead>
<tr>
<th>Not FDIC Insured</th>
<th>Not Bank Guaranteed</th>
<th>May Lose Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Not a Deposit</td>
<td>Not Insured by any Federal Government Agency</td>
<td></td>
</tr>
</tbody>
</table>