



Q1

Quarterly Market Review

First Quarter 2019

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First Quarter 2019

The last two quarters have provided quite the roller coaster ride for equity investors. After a dismal 4Q18, which included a decline into bear market territory, the market did an about face in January, setting the stage for a tremendous first quarter of 2019.

All it took was an indication from the Federal Reserve that they may look to pause the interest rate hike cycle, and the belief that a trade deal with China could be reached, and the market shot upward.

As you will see in the pages that follow, most equity categories enjoyed double-digit gains for the quarter, while stabilizing interest rates prompted a rally in the fixed income markets, as well.

The economy has slowed, but we are in the 9<sup>th</sup> year of expansion, one of the longest streaks in history, so that's not entirely unexpected. This modest continued growth leads us to believe that we will avoid a turn into recession this year.

2020 promises to be a tumultuous year, as the expansion grows longer in the tooth, coupled with the elections, but we feel cautiously optimistic about the remainder of 2019.



## Overview:

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Quarterly Topic: Déjà Vu All Over Again

# Quarterly Market Summary

## Index Returns





















	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
<b>Q1 2019</b>	<b>STOCKS</b>					<b>BONDS</b>	
	<b>14.04%</b> 	<b>10.45%</b> 	<b>9.92%</b> 	<b>14.07%</b> 		<b>2.94%</b> 	<b>2.96%</b> 
<b>Since Jan. 2001</b>							
Avg. Quarterly Return	2.0%	1.4%	2.9%	2.6%		1.1%	1.1%
Best Quarter	16.8%	25.9%	34.7%	32.3%		4.6%	4.6%
	<b>2009 Q2</b>	<b>2009 Q2</b>	<b>2009 Q2</b>	<b>2009 Q3</b>		<b>2001 Q3</b>	<b>2008 Q4</b>
Worst Quarter	-22.8%	-21.2%	-27.6%	-36.1%		-3.0%	-2.7%
	<b>2008 Q4</b>	<b>2008 Q4</b>	<b>2008 Q4</b>	<b>2008 Q4</b>		<b>2016 Q4</b>	<b>2015 Q2</b>

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# Long-Term Market Summary

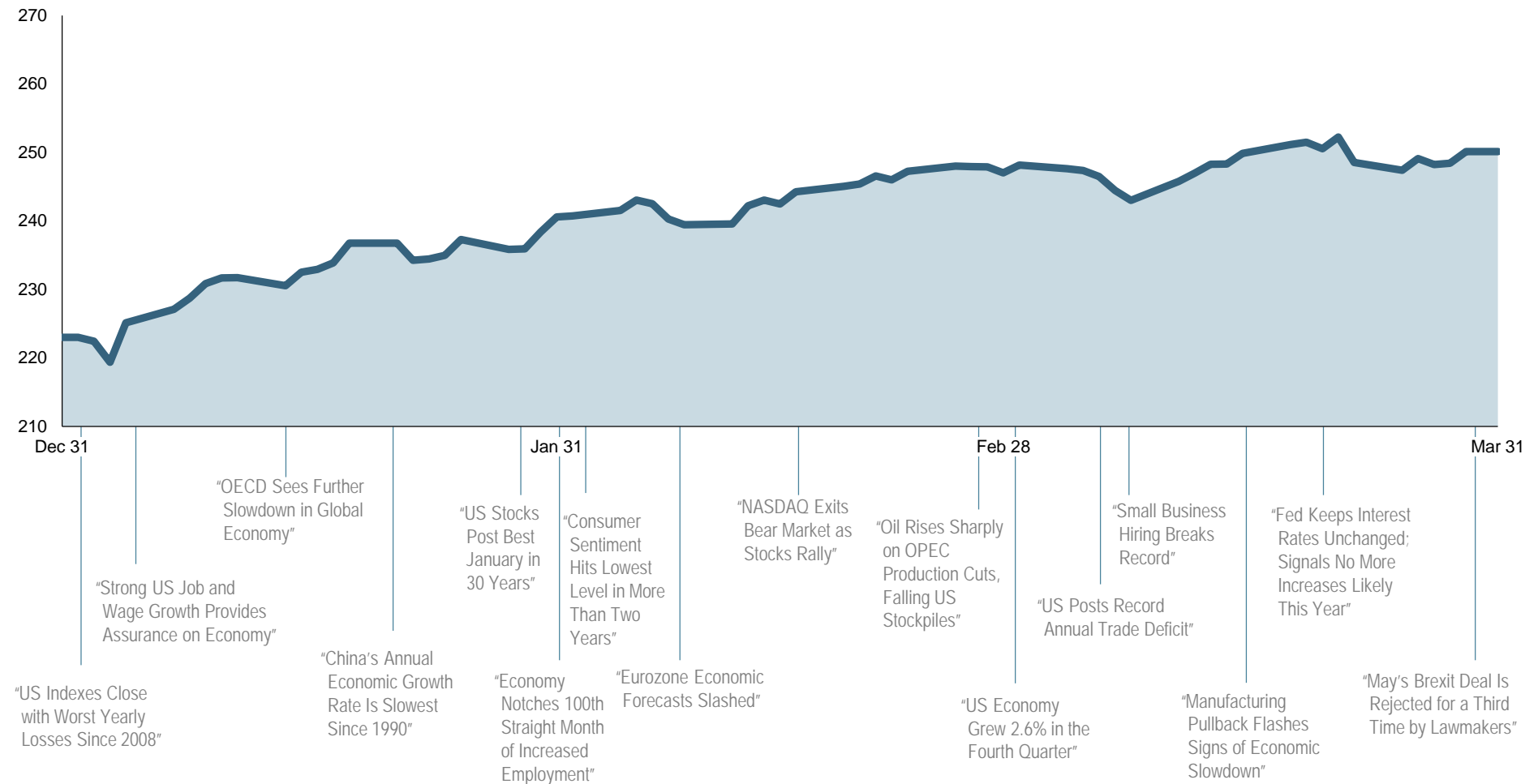
## Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	8.77%	-3.14%	-7.41%	13.93%	4.48%	5.23%
						
5 Years						
	10.36%	2.20%	3.68%	6.63%	2.74%	4.27%
						
10 Years						
	16.00%	8.82%	8.94%	14.84%	3.77%	4.29%
						

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# World Stock Market Performance

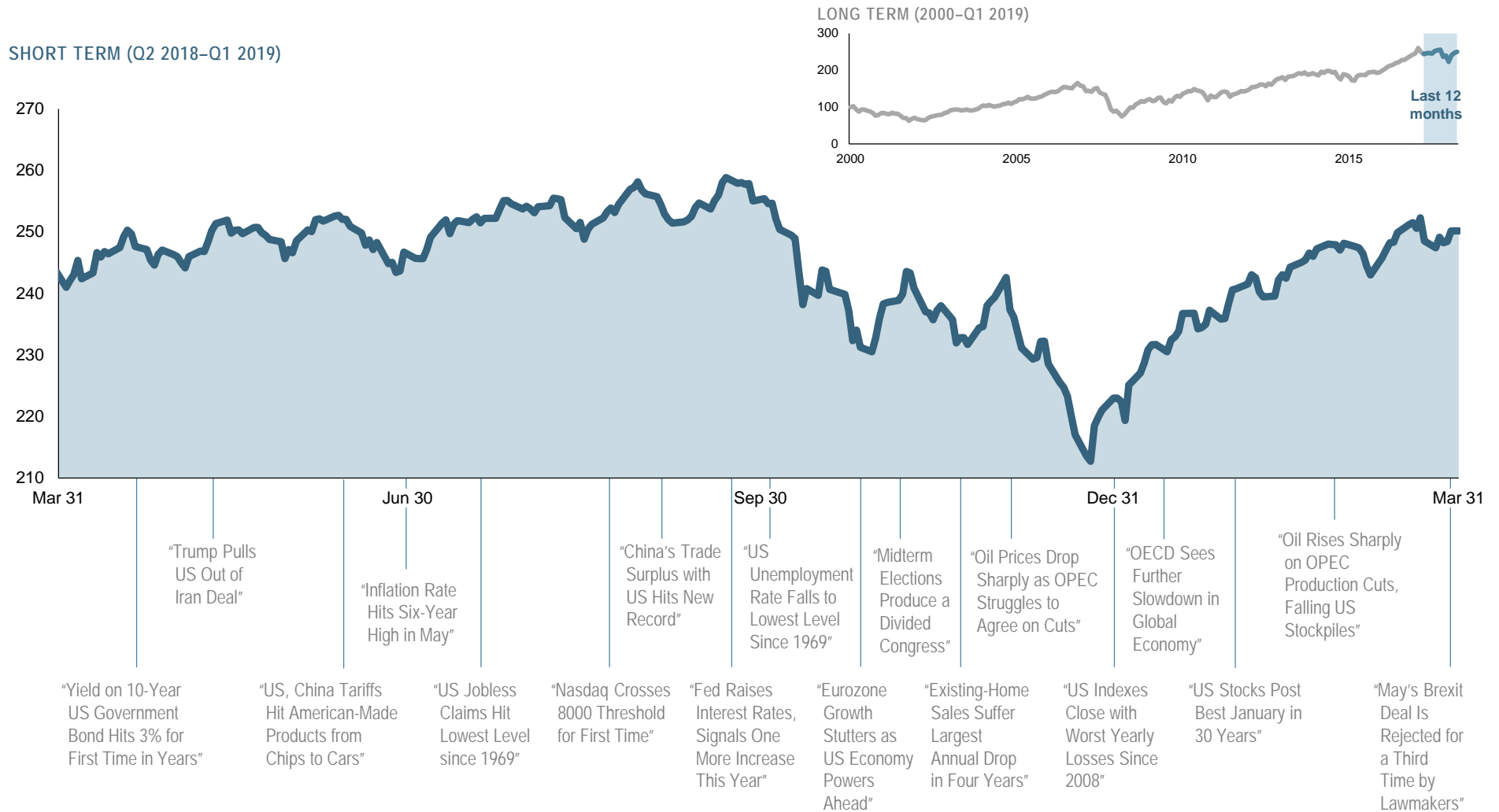
MSCI All Country World Index with selected headlines from Q1 2019



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

# World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



*These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.*

Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2019, all rights reserved.

It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

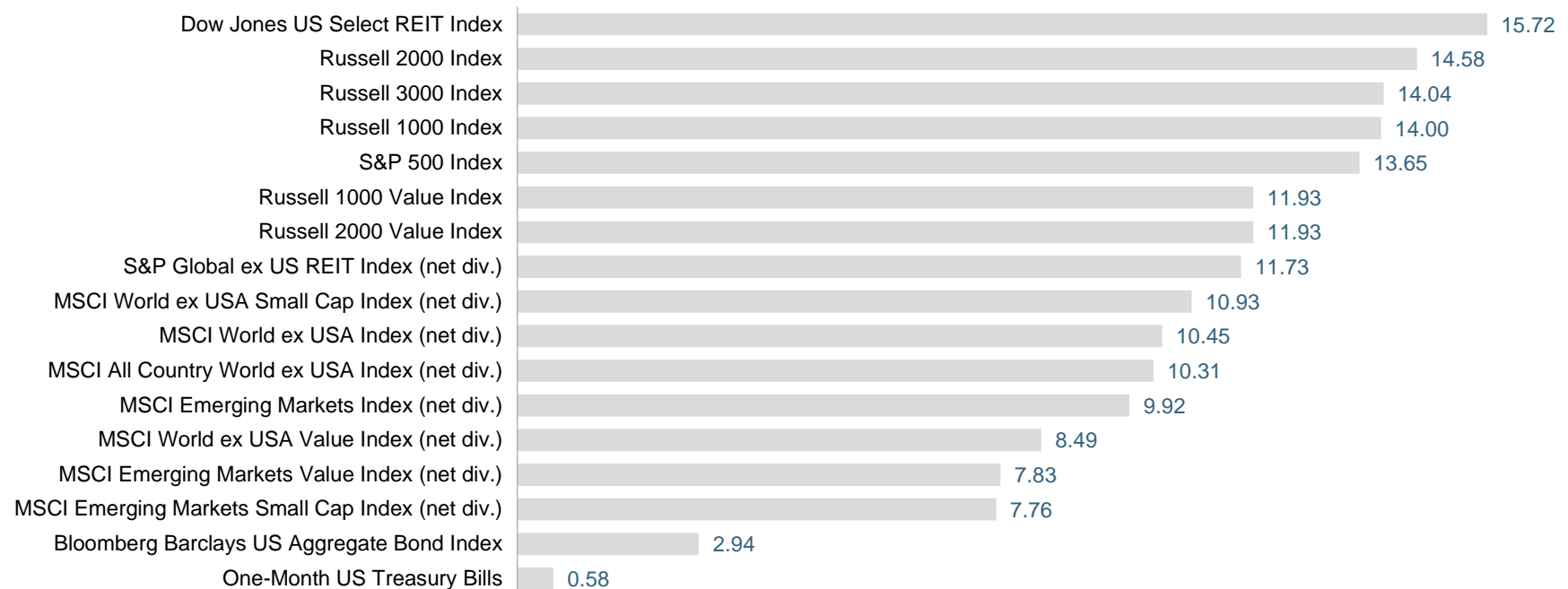
# World Asset Classes

## First Quarter 2019 Index Returns (%)

Equity markets posted positive returns around the globe in the first quarter. Looking at broad market indices, US equities outperformed non-US developed and emerging markets.

Small caps outperformed large caps in the US and non-US developed markets but underperformed in emerging markets. Value stocks generally underperformed growth stocks in all regions.

REIT indices outperformed equity market indices in both the US and non-US developed markets.



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# US Stocks

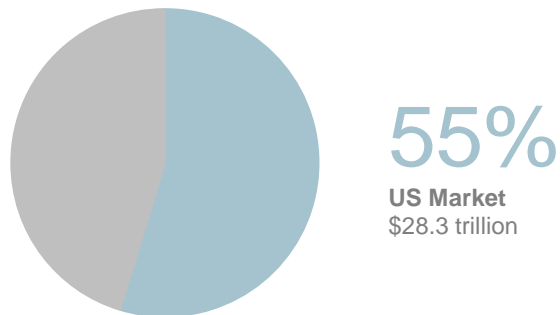
## First Quarter 2019 Index Returns

US equities outperformed both non-US developed and emerging markets.

Small caps outperformed large caps in the US.

Value underperformed growth across large and small cap stocks.

### World Market Capitalization—US



### Ranked Returns for the Quarter (%)



### Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	12.75	16.53	13.50	17.52
Large Cap	9.30	13.52	10.63	16.05
Large Value	5.67	10.45	7.72	14.52
Small Growth	3.85	14.87	8.41	16.52
Small Cap	2.05	12.92	7.05	15.36
Small Value	0.17	10.86	5.59	14.12
Marketwide	8.77	13.48	10.36	16.00

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# International Developed Stocks

## First Quarter 2019 Index Returns

In US dollar terms, developed markets outside the US outperformed emerging markets but underperformed the US equity market during the quarter.

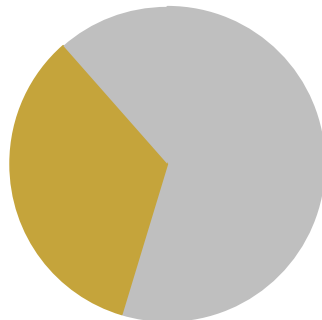
Small caps outperformed large caps in non-US developed markets.

Value underperformed growth across large and small cap stocks.

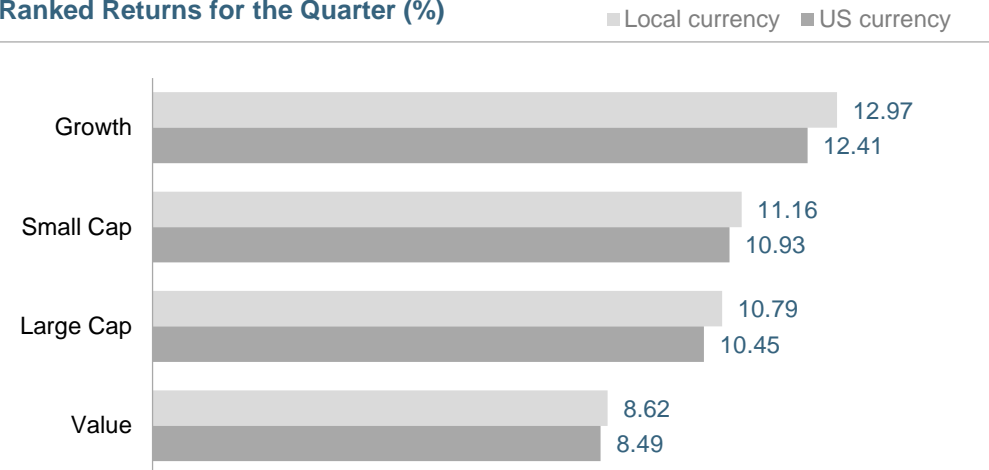
### World Market Capitalization—International Developed

**34%**

International  
Developed Market  
\$17.5 trillion



### Ranked Returns for the Quarter (%)



### Period Returns (%)

\* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Growth	-0.82	7.42	3.67	9.35
Large Cap	-3.14	7.29	2.20	8.82
Value	-5.46	7.13	0.68	8.25
Small Cap	-8.66	7.28	3.69	12.25

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# Emerging Markets Stocks

## First Quarter 2019 Index Returns

In US dollar terms, emerging markets underperformed developed markets, including the US.

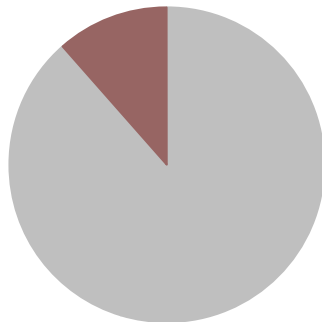
Value outperformed growth across small cap stocks but underperformed in large caps.

Small caps underperformed large caps.

### World Market Capitalization—Emerging Markets

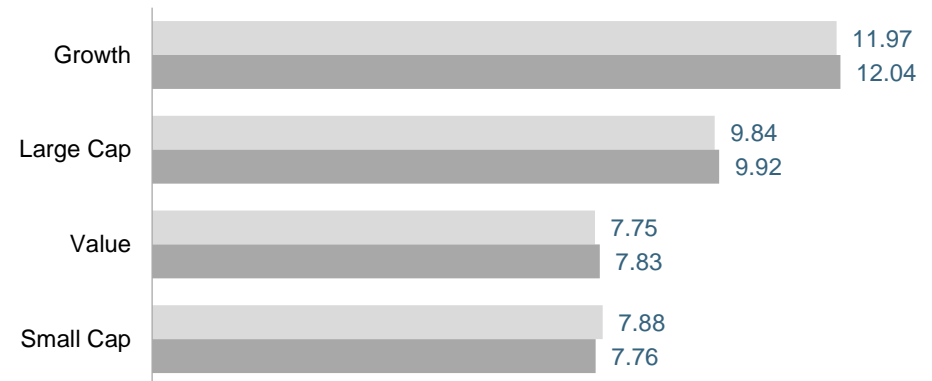
**11%**

Emerging Markets  
\$6.0 trillion



### Ranked Returns for the Quarter (%)

■ Local currency ■ US currency



### Period Returns (%)

\* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Value	-5.27	9.54	2.21	7.83
Large Cap	-7.41	10.68	3.68	8.94
Growth	-9.52	11.75	5.04	9.98
Small Cap	-12.42	5.95	1.76	10.37

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# Real Estate Investment Trusts (REITs)

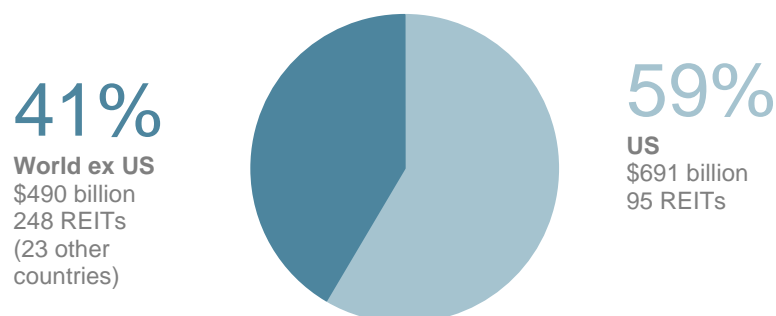
## First Quarter 2019 Index Returns

US real estate investment trusts outperformed non-US REITs in US dollar terms.

### Ranked Returns for the Quarter (%)



### Total Value of REIT Stocks



### Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
US REITS	19.73	5.29	8.93	18.50
Global ex US REITS	4.75	4.34	5.03	12.18

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# Commodities

## First Quarter 2019 Index Returns

The Bloomberg Commodity Index Total Return returned 6.32% for the first quarter of 2019.

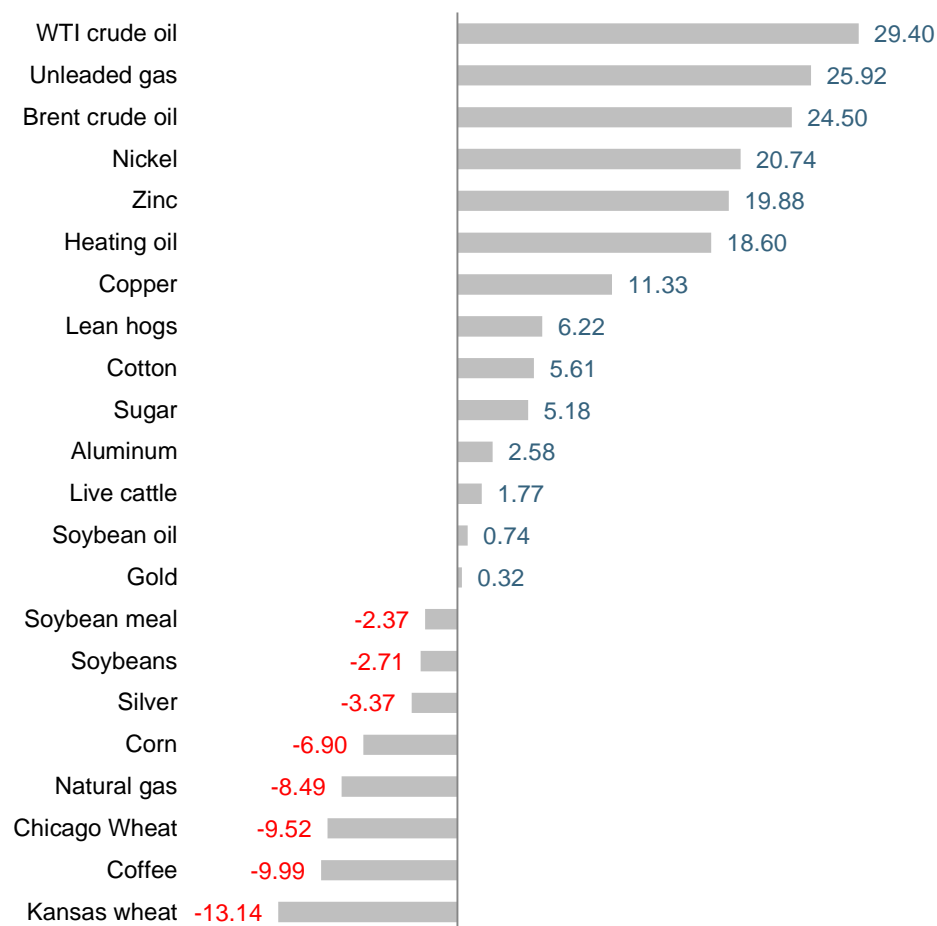
The energy complex led quarterly performance. Crude oil gained 29.40%, and unleaded gas added 25.92%.

Grains was the worst-performing complex. Wheat (Kansas) and wheat (Chicago) declined by 13.14% and 9.52%, respectively.

Period Returns (%) \* Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Commodities	6.32	-5.25	2.22	-8.92	-2.56

Ranked Returns for Individual Commodities (%)



# Fixed Income

## First Quarter 2019 Index Returns

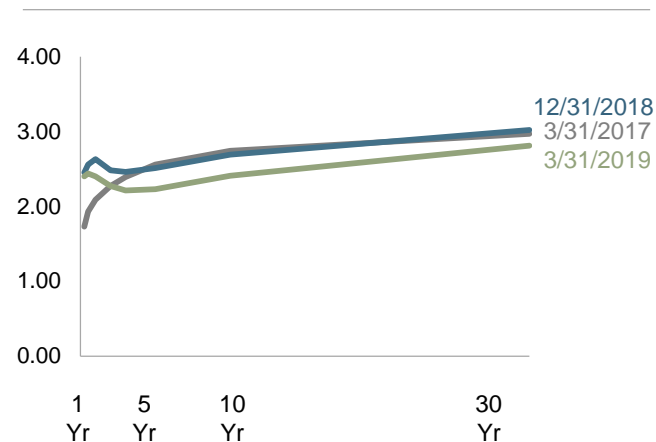
Interest rates decreased in the US Treasury fixed income market during the first quarter. The yield on the 5-year Treasury note declined 28 basis points (bps), ending at 2.23%. The yield on the 10-year Treasury note decreased 28 bps to 2.41%. The 30-year Treasury bond yield fell 21 bps to finish at 2.81%.

On the short end of the curve, the 1-month T-bill yield was relatively unchanged at 2.43%, while the 1-year T-bill yield dipped 23 bps to 2.40%. The 2-year Treasury note finished at 2.27% after a 21 bps decrease.

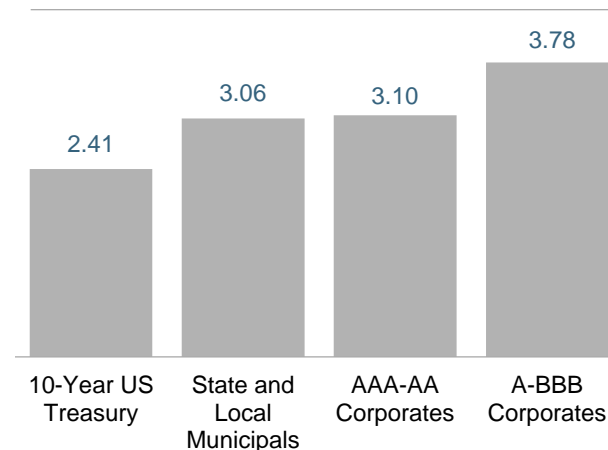
In terms of total returns, short-term corporate bonds gained 1.83%. Intermediate-term corporate bonds had a total return of 3.82%.

Total returns for short-term municipal bonds were 1.33%, while intermediate munis gained 2.78%. Revenue bonds outperformed general obligation bonds.

### US Treasury Yield Curve (%)



### Bond Yield across Issuers (%)



### Period Returns (%)

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Municipal Bond Index	2.90	5.38	2.71	3.73	4.72
Bloomberg Barclays US Aggregate Bond Index	2.94	4.48	2.03	2.74	3.77
Bloomberg Barclays US Government Bond Index Long	4.64	6.20	1.54	5.43	5.19
Bloomberg Barclays US High Yield Corporate Bond Index	7.26	5.93	8.56	4.68	11.26
Bloomberg Barclays US TIPS Index	3.19	2.70	1.70	1.94	3.41
FTSE World Government Bond Index 1-5 Years	0.34	-2.04	0.40	-0.95	0.71
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.16	3.13	1.59	1.65	1.73
ICE BofAML 1-Year US Treasury Note Index	0.82	2.44	1.21	0.85	0.70
ICE BofAML US 3-Month Treasury Bill Index	0.60	2.12	1.19	0.74	0.43

\*Annualized

One basis point equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofAML Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2019 FTSE Fixed Income LLC, all rights reserved. ICE BofAML index data © 2019 ICE Data Indices, LLC. S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

# Déjà Vu All Over Again

First Quarter 2019

Investment fads are nothing new. When selecting strategies for their portfolios, investors are often tempted to seek out the latest and greatest investment opportunities.

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Over the years, these approaches have sought to capitalize on developments such as the perceived relative strength of particular geographic regions, technological changes in the economy, or the popularity of different natural resources. But long-term investors should be aware that letting short-term trends influence their investment approach may be counterproductive. As Nobel laureate Eugene Fama said, “There’s one robust new idea in finance that has investment implications maybe every 10 or 15 years, but there’s a marketing idea every week.”

## WHAT’S HOT BECOMES WHAT’S NOT

Looking back at some investment fads over recent decades can illustrate how often trendy investment themes come and go. In the early 1990s, attention turned to the rising “Asian Tigers” of Hong Kong, Singapore, South Korea, and Taiwan. A decade later, much was written about the emergence of the “BRIC” countries of Brazil, Russia, India, and China and their new place in global markets. Similarly, funds targeting hot industries or trends have come into and fallen out of vogue. In the 1950s, the “Nifty Fifty” were all the rage. In the 1960s, “go-go” stocks and funds piqued investor interest. Later in the 20th century, growing belief in the emergence of a “new economy” led to the creation of funds poised to make the most of the rising importance of information technology and telecommunication services. During the 2000s, 130/30 funds, which used leverage to sell short certain stocks while going long others, became increasingly popular. In the wake of the 2008 financial crisis, “Black Swan” funds, “tail-risk-hedging” strategies, and “liquid alternatives” abounded. As investors reached for yield in a low interest-rate environment in the following years, other funds sprang up that claimed to offer increased income generation, and new strategies like unconstrained bond funds

proliferated. More recently, strategies focused on peer-to-peer lending, cryptocurrencies, and even cannabis cultivation and private space exploration have become more fashionable. In this environment, so-called “FAANG” stocks and concentrated exchange-traded funds with catchy ticker symbols have also garnered attention among investors.

## THE FUND GRAVEYARD

Unsurprisingly, however, numerous funds across the investment landscape were launched over the years only to subsequently close and fade from investor memory. While economic, demographic, technological, and environmental trends shape the world we live in, public markets aggregate a vast amount of dispersed information and drive it into security prices. Any individual trying to outguess the market by constantly trading in and out of what’s hot is competing against the extraordinary collective wisdom of millions of buyers and sellers around the world.

With the benefit of hindsight, it is easy to point out the fortune one could have amassed by making the right call on a specific industry, region, or individual security over a specific period. While these anecdotes can be entertaining, there is a wealth of compelling evidence that highlights the futility of attempting to identify mispricing in advance and profit from it.

It is important to remember that many investing fads, and indeed, most mutual funds, do not stand the test of time. A large proportion of funds fail to survive over the longer term. Of the 1,622 fixed income mutual funds in existence at the beginning of 2004, only 55% still existed at the end of 2018. Similarly, among equity mutual funds, only 51% of the 2,786 funds available to US-based investors at the beginning of 2004 endured.

# Déjà Vu All Over Again

(continued from page 14)

## WHAT AM I REALLY GETTING?

When confronted with choices about whether to add additional types of assets or strategies to a portfolio, it may be helpful to ask the following questions:

1. What is this strategy claiming to provide that is not already in my portfolio?
2. If it is not in my portfolio, can I reasonably expect that including it or focusing on it will increase expected returns, reduce expected volatility, or help me achieve my investment goal?
3. Am I comfortable with the range of potential outcomes?

If investors are left with doubts after asking any of these questions, it may be wise to use caution before proceeding. Within equities, for example, a market portfolio offers the benefit of exposure to thousands of companies doing business around the world and broad diversification across industries, sectors, and countries. While there can be good reasons to deviate from a market portfolio, investors should understand the potential benefits and risks of doing so.

In addition, there is no shortage of things investors can do to help contribute to a better investment experience. Working closely with a financial advisor can help individual investors create a plan that fits their needs and risk tolerance. Pursuing a globally diversified approach; managing expenses, turnover, and taxes; and staying disciplined through market volatility can help improve investors' chances of achieving their long-term financial goals.

## CONCLUSION

Fashionable investment approaches will come and go, but investors should remember that a long-term, disciplined investment approach based on robust research and implementation may be the most reliable path to success in the global capital markets.

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Source: Dimensional Fund Advisors LP.

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