



QUARTERLY MARKET REVIEW

SECOND QUARTER 2019

Quarterly Market Review

Second Quarter 2019

2019 began with a sharp snap back rally on the heels of 2018's late market decline. The second quarter still produced positive results, but not without the return of volatility that we experienced in the month of May.

What has continued to help things is a Federal Reserve that appears intent on lowering interest rates. This notion has also helped to generate very attractive returns for bond investors in 2019, as the general trend in rates has been downward.

We remain cautious about the next several months, as the impact of tariffs filters through the economy, and there is still no end in sight to the trade war with China. It's in the interest of both countries to reach an agreement, though, so hopefully a deal can be reached sooner rather than later.

Importantly, also keep an eye on the Brexit talks. October 31 is now a hard Brexit deadline, and it increasingly appears that Britain is in a no-win situation. Boris Johnson's recent ascension to the Prime Minister position could very well *not* be the answer that Britain's parliament was looking for. Johnson's long-time, consistent statements against the EU make it hard to believe that the EU leaders will take anything resembling a conciliatory approach with him in negotiations.



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Quarterly Market Review

Second Quarter 2019

Failure to find a creative solution could bring about the serious recession in Europe, and beyond, that was feared in the immediate aftermath of the original vote.

With these issues in mind, we feel that our discussion at the end of this report is particularly timely. As the market has touched new highs, it's important to keep in mind the true range of returns the market can generate in any given year. With a longer-term view, however, investors have typically been rewarded with very attractive average annual returns.

Finally, with global temperatures reaching all-time highs, we encourage you to stay cool this summer, and remember to hydrate!

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
Q2 2019	STOCKS					BONDS	
	4.10% 	3.79% 	0.61% 	1.29% 		3.08% 	2.75%
Since Jan. 2001							
Avg. Quarterly Return	2.0%	1.5%	2.9%	2.6%		1.2%	1.1%
Best Quarter	16.8%	25.9%	34.7%	32.3%		4.6%	4.6%
	2009 Q2	2009 Q2	2009 Q2	2009 Q3		2001 Q3	2008 Q4
Worst Quarter	-22.8%	-21.2%	-27.6%	-36.1%		-3.0%	-2.7%
	2008 Q4	2008 Q4	2008 Q4	2008 Q4		2016 Q4	2015 Q2

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. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2019, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

Long-Term Market Summary

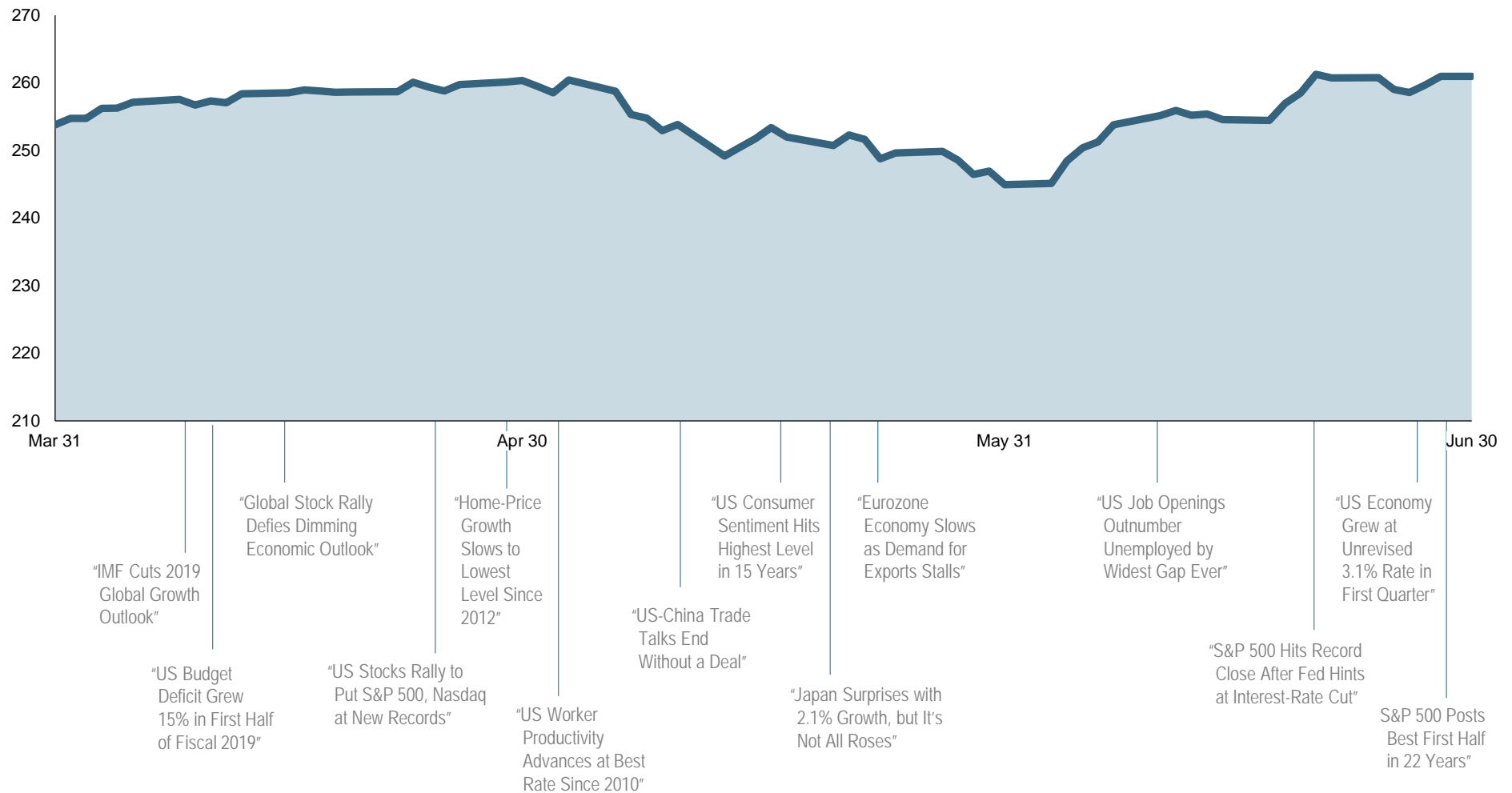
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
1 Year	STOCKS					BONDS	
	8.98%	1.29%	1.21%	8.81%		7.87%	7.61%
							
5 Years	STOCKS					BONDS	
	10.19%	2.04%	2.49%	5.29%		2.95%	4.43%
							
10 Years	STOCKS					BONDS	
	14.67%	6.75%	5.81%	12.19%		3.90%	4.44%
							

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 2019



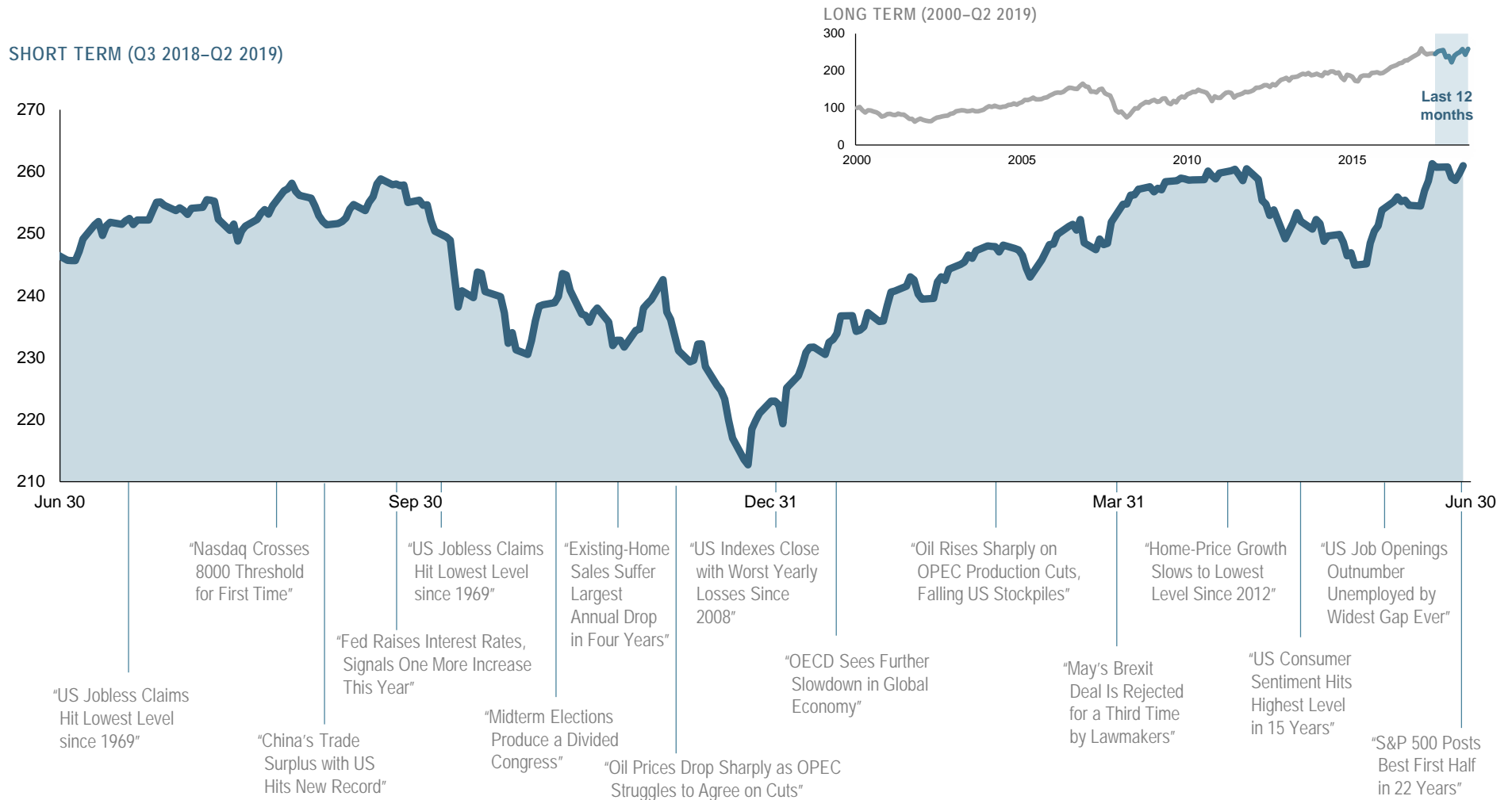
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

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 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.

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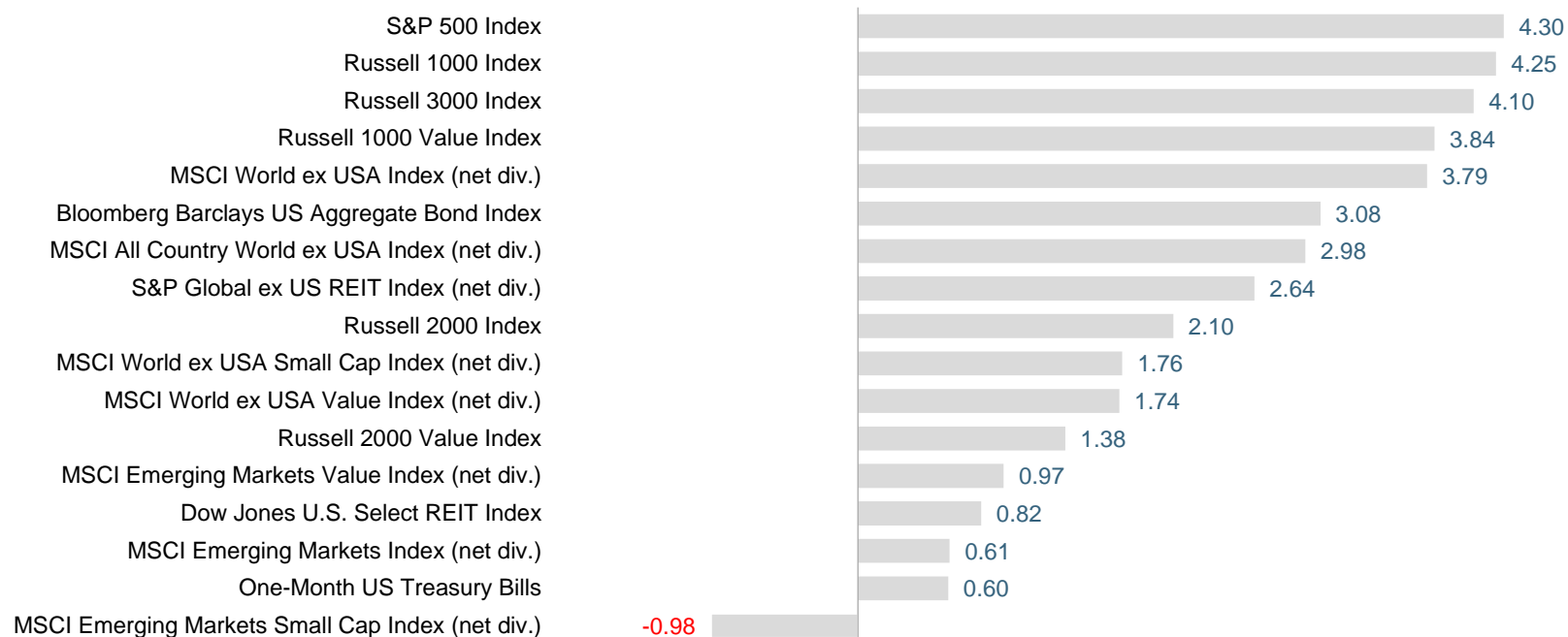
World Asset Classes

Second Quarter 2019 Index Returns (%)

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

Value stocks outperformed growth stocks in emerging markets but underperformed in developed markets, including the US. Small caps underperformed large caps in all regions.

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



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US Stocks

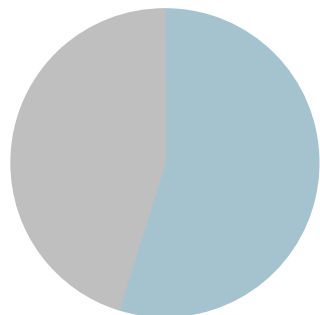
Second Quarter 2019 Index Returns

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

Small caps underperformed large caps in the US.

Value underperformed growth in the US across large and small cap stocks.

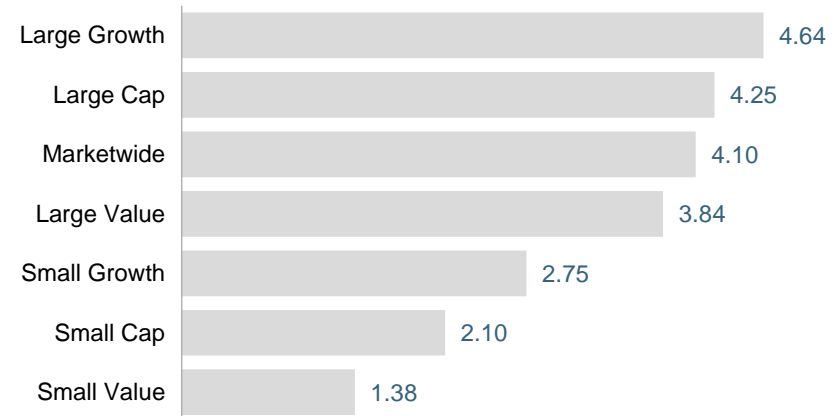
World Market Capitalization—US



55%

US Market
\$29.3 trillion

Ranked Returns for the Quarter (%)



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	21.49	11.56	18.07	13.39	16.28
Small Growth	20.36	-0.49	14.69	8.63	14.41
Large Cap	18.84	10.02	14.15	10.45	14.77
Marketwide	18.71	8.98	14.02	10.19	14.67
Small Cap	16.98	-3.31	12.30	7.06	13.45
Large Value	16.24	8.46	10.19	7.46	13.19
Small Value	13.47	-6.24	9.81	5.39	12.40

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. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2019, all rights reserved.

International Developed Stocks

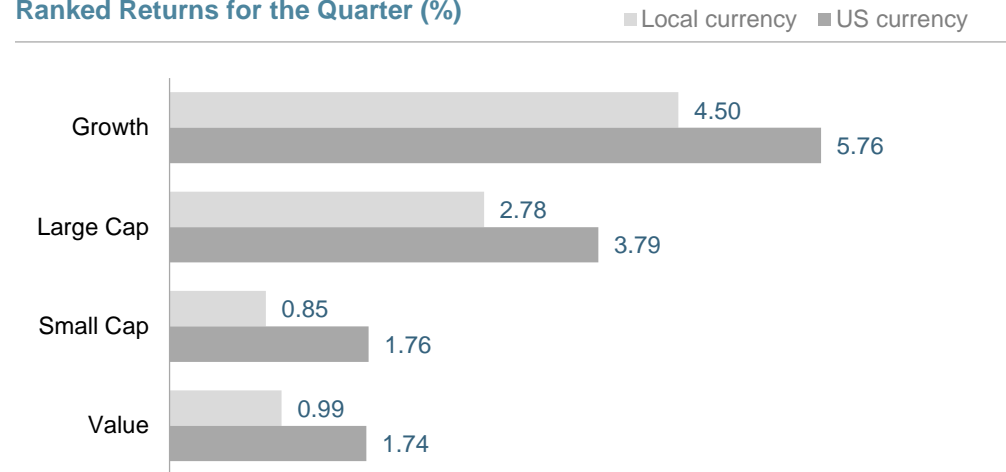
Second Quarter 2019 Index Returns

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

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

Value underperformed growth across large and small cap stocks.

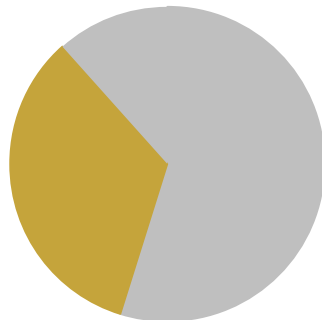
Ranked Returns for the Quarter (%)



World Market Capitalization—International Developed

34%

International
Developed Market
\$17.9 trillion



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Growth	18.89	4.36	9.42	4.02	7.81
Large Cap	14.64	1.29	9.01	2.04	6.75
Small Cap	12.88	-6.17	8.38	3.39	9.19
Value	10.38	-1.80	8.54	0.01	5.62

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Emerging Markets Stocks

Second Quarter 2019 Index Returns

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

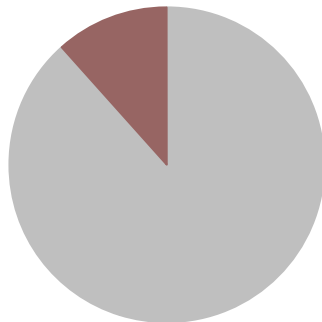
Value stocks generally outperformed growth stocks.

Small caps underperformed large caps.

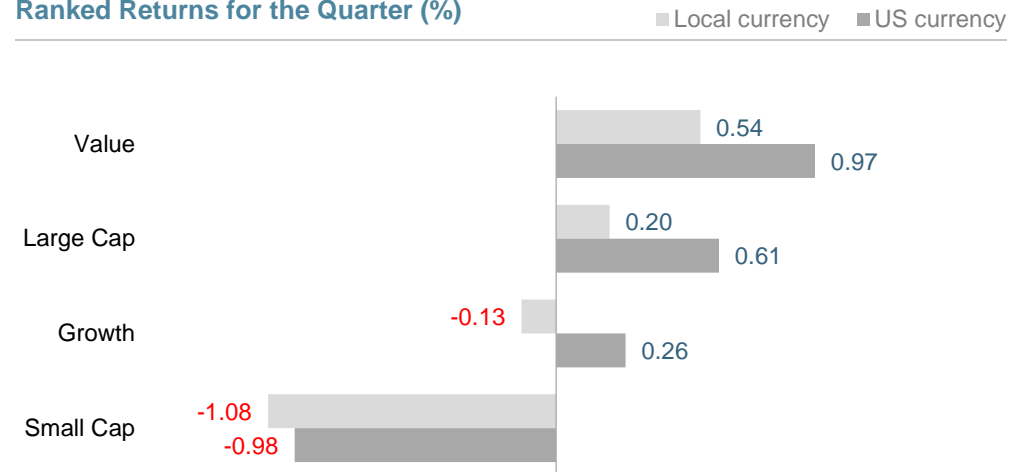
World Market Capitalization—Emerging Markets

12%

Emerging Markets
\$6.2 trillion



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	* Annualized		
			3 Years*	5 Years*	10 Years*
Growth	12.33	-2.44	11.22	3.85	6.94
Large Cap	10.58	1.21	10.66	2.49	5.81
Value	8.87	5.04	10.02	1.03	4.60
Small Cap	6.70	-5.12	5.46	0.53	5.86

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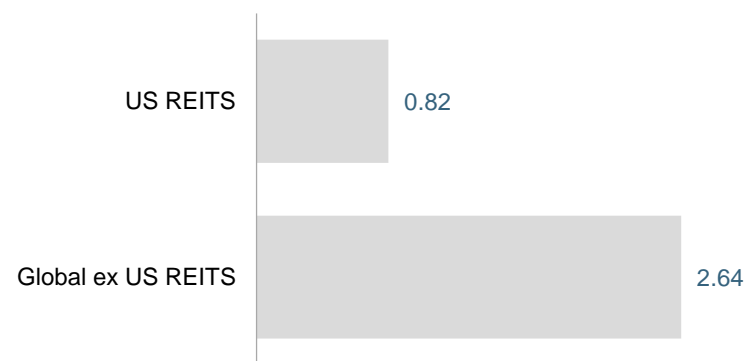
Real Estate Investment Trusts (REITs)

Second Quarter 2019 Index Returns

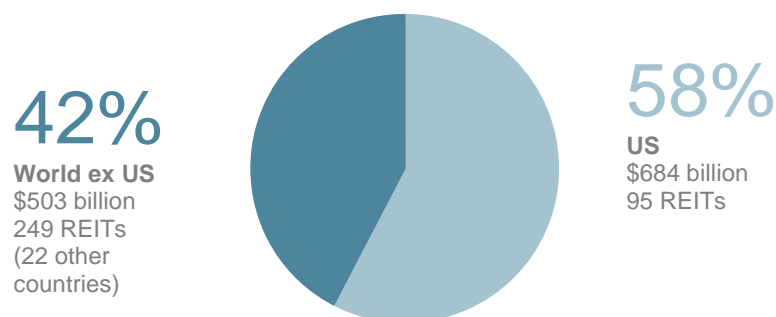


Non-US real estate investment trusts outperformed US REITs in US dollar terms.

Ranked Returns for the Quarter (%)



Total Value of REIT Stocks



Period Returns (%)

* Annualized

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
US REITS	16.67	9.75	3.73	7.61	15.40
Global ex US REITS	14.68	7.78	4.79	3.62	9.84

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. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Commodities

Second Quarter 2019 Index Returns

The Bloomberg Commodity Index Total Return declined 1.19% in the second quarter of 2019.

Corn and wheat led performance, returning 14.24% and 13.36%, respectively.

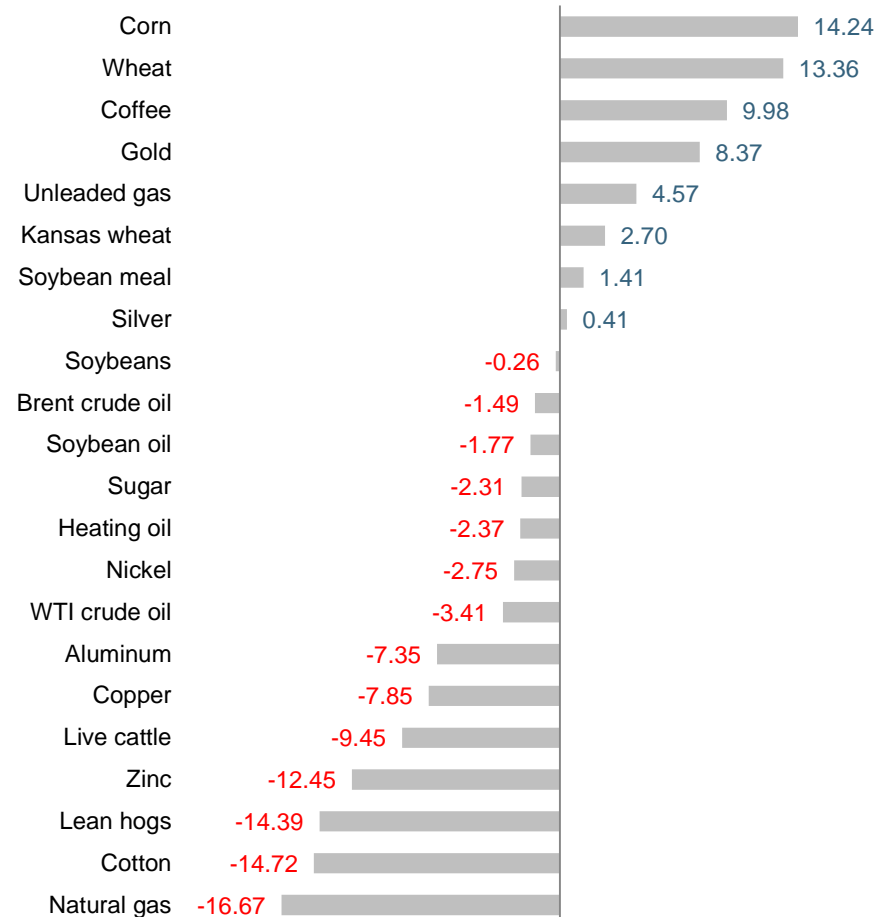
Natural gas and cotton were the worst performers, declining by 16.67% and 14.72%, respectively.

Period Returns (%)

* Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-1.19	5.06	-6.75	-2.18	-9.15	-3.74

Ranked Returns for Individual Commodities (%)



Fixed Income

Second Quarter 2019 Index Returns

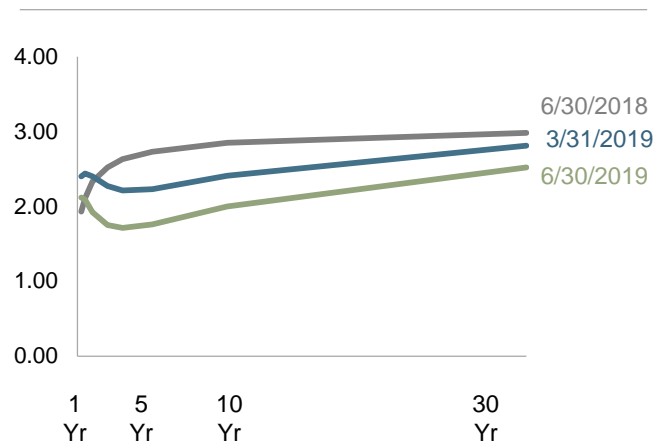
Interest rates decreased in the US Treasury fixed income market during the second quarter. The yield on the 5-year Treasury note declined by 47 basis points (bps), ending at 1.76%. The yield on the 10-year Treasury note fell by 41 bps to 2.00%. The 30-year Treasury bond yield decreased by 29 bps to finish at 2.52%.

On the short end of the curve, the 1-month Treasury bill yield decreased to 2.18%, while the 1-year T-bill yield decreased by 48 bps to 1.92%. The 2-year T-note yield finished at 1.75%, decreasing 52 bps.

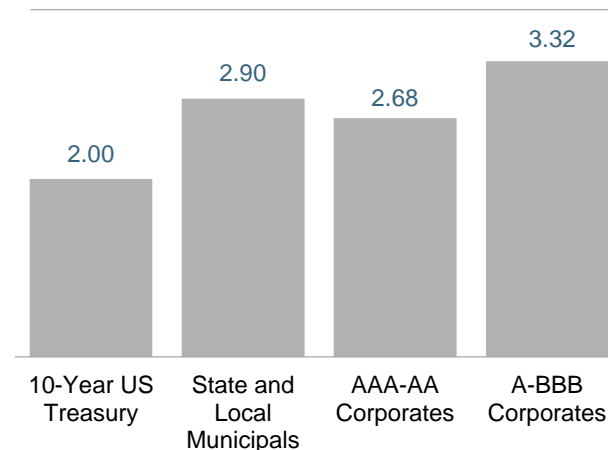
In terms of total returns, short-term corporate bonds increased by 2.09%. Intermediate-term corporate bonds had a total return of 3.13%.

The total return for short-term municipal bonds was 1.12%, while intermediate munis returned 1.98%. Revenue bonds outperformed general obligation bonds.

US Treasury Yield Curve (%)



Bond Yield across Issuers (%)



Period Returns (%)

Asset Class	*Annualized					
	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US Government Bond Index Long	6.00	10.92	12.28	1.42	5.68	6.54
Bloomberg Barclays US Aggregate Bond Index	3.08	6.11	7.87	2.31	2.95	3.90
Bloomberg Barclays US TIPS Index	2.86	6.15	4.84	2.08	1.76	3.64
Bloomberg Barclays US High Yield Corporate Bond Index	2.50	9.94	7.48	7.52	4.70	9.24
Bloomberg Barclays Municipal Bond Index	2.14	5.09	6.71	2.55	3.64	4.72
FTSE World Government Bond Index 1-5 Years	1.92	2.27	2.57	0.67	-0.76	0.53
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.51	2.69	4.44	1.85	1.84	1.86
ICE BofAML 1-Year US Treasury Note Index	0.94	1.76	2.98	1.43	1.02	0.76
ICE BofAML US 3-Month Treasury Bill Index	0.64	1.24	2.31	1.38	0.87	0.49

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.

The Uncommon Average

Second Quarter 2019

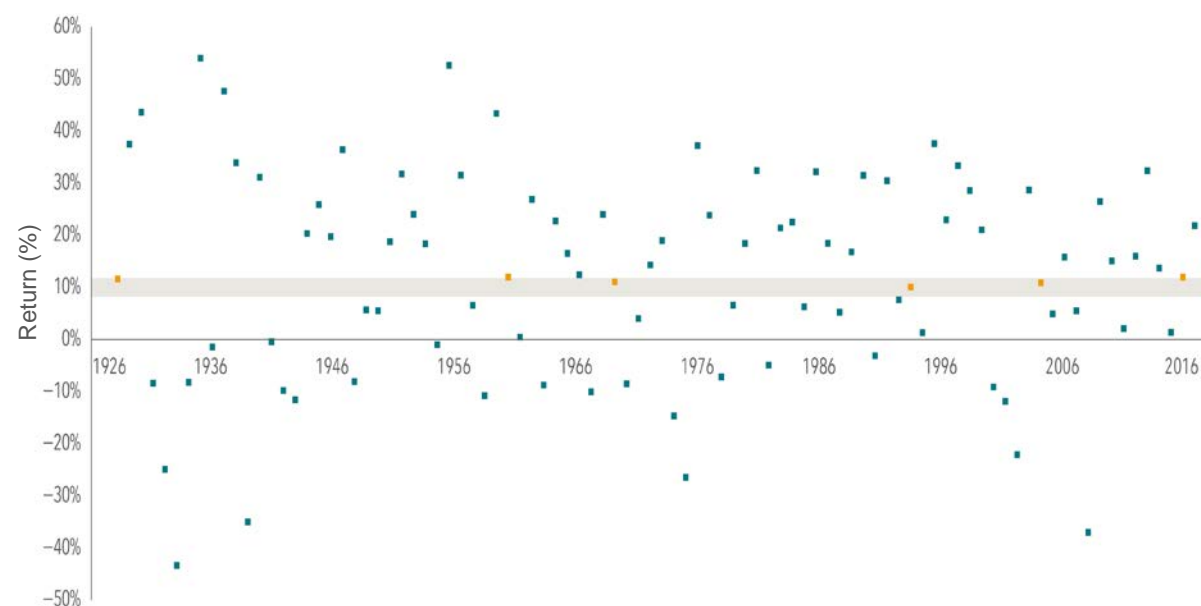
“I have found that the importance of having an investment philosophy—
one that is robust and that you can stick with— cannot be overstated.”

—David Booth

The US stock market has delivered an average annual return of around 10% since 1926. But short-term results may vary, and in any given period stock returns can be positive, negative, or flat. When setting expectations, it's helpful to see the range of outcomes experienced by investors historically. For example, how often have the stock market's annual returns actually aligned with its long-term average?

Exhibit 1 shows calendar year returns for the S&P 500 Index since 1926. The shaded band marks the historical average of 10%, plus or minus 2 percentage points. The S&P 500 Index had a return within this range in only six of the past 93 calendar years. In most years, the index's return was outside of the range—often above or below by a wide margin—with no obvious pattern. For investors, the data highlight the importance of looking beyond average returns and being aware of the range of potential outcomes.

Exhibit 1. S&P 500 Index Annual Returns
1926–2018



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The Uncommon Average

(continued from page 15)

TUNING IN TO DIFFERENT FREQUENCIES

Despite the year-to-year volatility, investors can potentially increase their chances of having a positive outcome by maintaining a long-term focus. **Exhibit 2** documents the historical frequency of positive returns over rolling periods of one, five, and 10 years in the US market. The data show that, while positive performance is never assured, investors' odds improve over longer time horizons.

CONCLUSION

While some investors might find it easy to stay the course in years with above average returns, periods of disappointing results may test an investor's faith in equity markets. Being aware of the range of potential outcomes can help investors remain disciplined, which in the long term can increase the odds of a successful investment experience. What can help investors endure the ups and downs? While there is no silver bullet, understanding how markets work and trusting market prices are good starting points. An asset allocation that aligns with personal risk tolerances and investment goals is also valuable. By thoughtfully considering these and other issues, investors may be better prepared to stay focused on their long-term goals during different market environments.

Exhibit 2. Frequency of Positive Returns in the S&P 500 Index
Overlapping Periods: 1926–2018



In US dollars. From January 1926–December 2018, there are 997 overlapping 10-year periods, 1,057 overlapping 5-year periods, and 1,105 overlapping 1-year periods. The first period starts in January 1926, the second period starts in February 1926, the third in March 1926, and so on. S&P data © S&P Dow Jones Indices LLC, a division of S&P Global. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Past performance is no guarantee of future results. Actual returns may be lower.

Source: Dimensional Fund Advisors LP.

There is no guarantee investment strategies will be successful. Investing involves risks, including possible loss of principal. Diversification does not eliminate the risk of market loss.

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