Quarterly Market Review

Second Quarter 2018

Q2

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Capital markets swings were less severe during the 2nd quarter

Second Quarter Results - 2018

The 2nd quarter provided a much needed reprieve from the year's earlier gyrations when fears over interest rates, inflation and trade wars grated against tax cuts and government spending to stir volatility not seen in two years. Capital market fluctuations were certainly less severe this quarter although a barrage of economic and geopolitical headlines weighed on international and emerging market stocks, but failed to hinder progress in U.S. stocks as investors contemplated data suggesting synchronized global growth is fading. The following table summarizes major asset class performance for the second quarter and calendar year:

	U.S. Stocks	International Developed Stocks	Emerging Market Stocks	Commodities	Global Real Estate	U.S. Bond Market	Global Bond Market
2018 Q2	3.9% Russell 3000	-0.7% MSCI World Ex-US	-8.0% MSCI EM	0.4% Bloomberg Comdty	6.4% S&P Global REIT	-0.3% Barclays US Govt/Credit	0.2% Citi World Govt
2018	3.2% Russell 3000	-2.8% MSCI World Ex-US	-6.7% MSCI EM	0.0% Bloomberg Comdty	0.5% S&P Global REIT	4.0% Barclays US Govt/Credit	0.4% Citi World Govt

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]).

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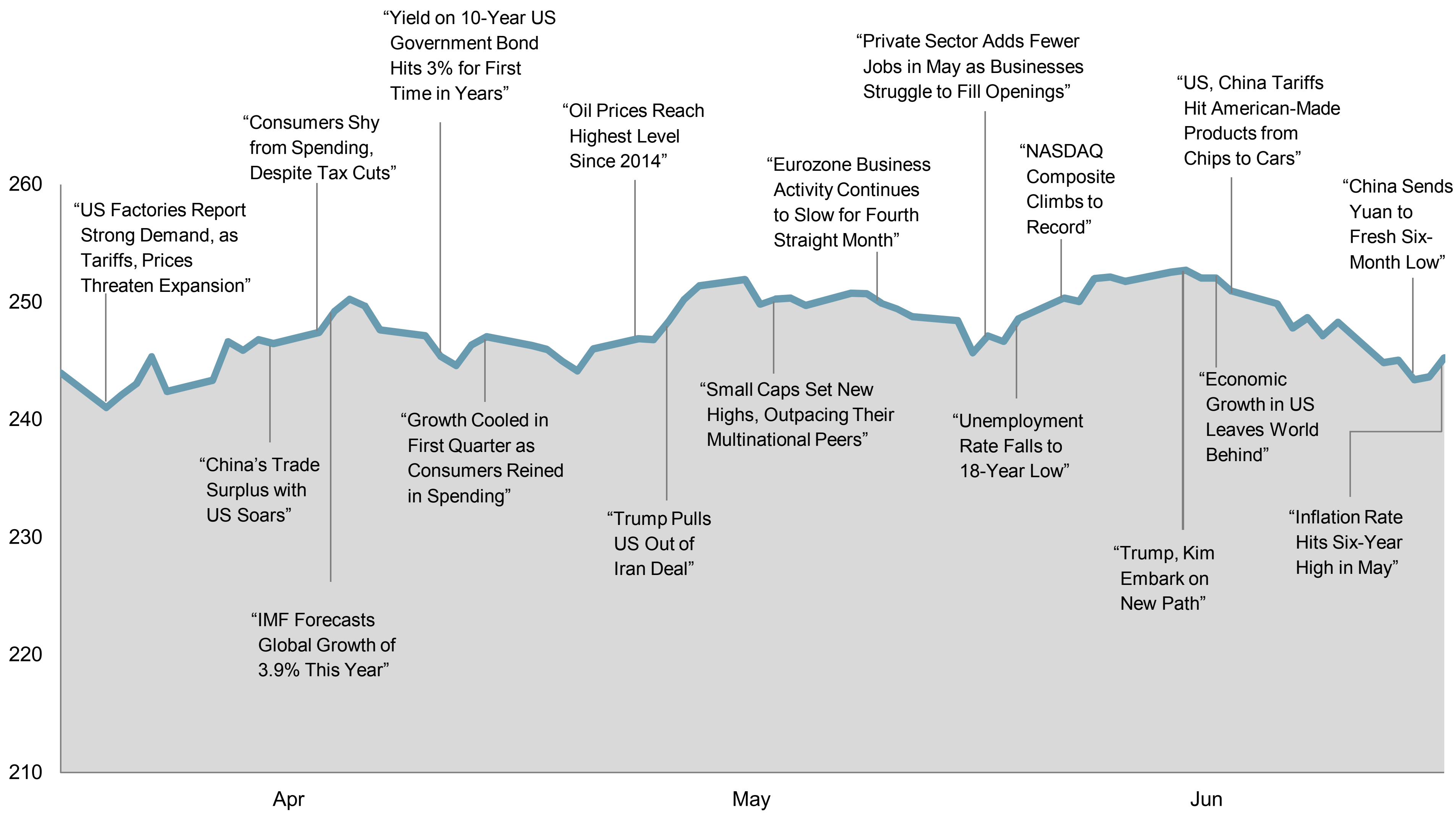
Tariffs, trade and geopolitics dominated headlines

MSCI All Country World Index with selected headlines from Q2 2018



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.**

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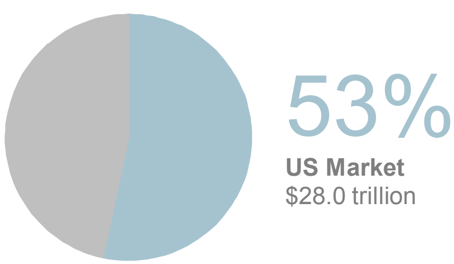
U.S. stocks advanced powered by strong economic fundamentals

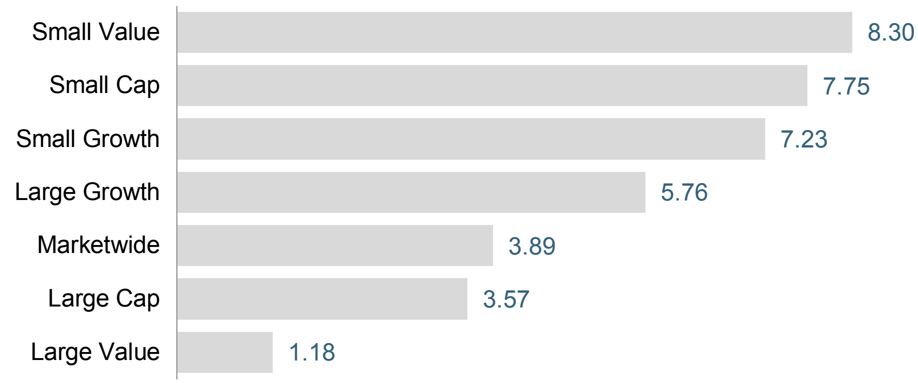
Second Quarter 2018 Index Returns

After a negative first quarter highlighted by an early year correction, U.S. stocks pushed into positive territory as foreign policy and international trade initiatives garnered momentum. In April, a coalition of U.S., British and French forces launched airstrikes against Bashar al-Assad in response to the use of chemical weapons in the Syrian civil war. In May, the U.S. exited the 2015 Iran nuclear accord and reinstated economic sanctions on Iran. In early June, the Trump administration enacted steel and aluminum tariffs on major trading partners. In mid-June, President Trump and Kim Jong Un penned the latest chapter in U.S. relations with North Korea, the world's newest nuclear power. While the drama and posturing of high stakes negotiation dominated current events, the strength of U.S. economic fundamentals and "America First" policies drove equity prices higher.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Small Growth	9.70	21.86	10.60	13.65	11.24
Small Cap	7.66	17.57	10.96	12.46	10.60
Large Growth	7.25	22.51	14.98	16.36	11.83
Small Value	5.44	13.10	11.22	11.18	9.88
Marketwide	3.22	14.78	11.58	13.29	10.23
Large Cap	2.85	14.54	11.64	13.37	10.20
Large Value	-1.69	6.77	8.26	10.34	8.49

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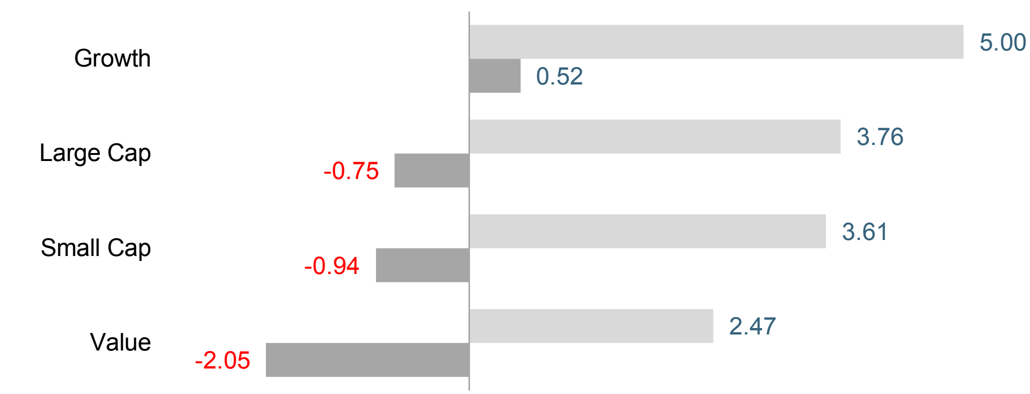
Growth worries pushed international developed stocks lower

Second Quarter 2018 Index Returns

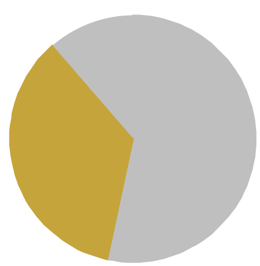
Developed international stocks slipped as synchronized global growth softened from earlier in the year. In Italy, eurozone solidarity worries resurfaced as a “euroskeptic” administration took office after five days of political pandemonium. Elsewhere in the developed world, member countries fumed at the Group of Seven (G7) summit after the U.S. rejected a joint communiqué with the potential to ease international trade tensions. Shortly thereafter, the European Union, Canada and Mexico joined China, Russia and Japan on the list of countries subject to U.S. tariffs on steel and aluminum.

Ranked Returns (%)



World Market Capitalization—International Developed

35%
International Developed Market
$18.5 trillion



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-1.05	9.26	5.95	7.11	2.92
Small Cap	-1.44	11.87	9.45	10.28	6.09
Large Cap	-2.77	7.04	4.87	6.23	2.63
Value	-4.53	4.80	3.70	5.27	2.29

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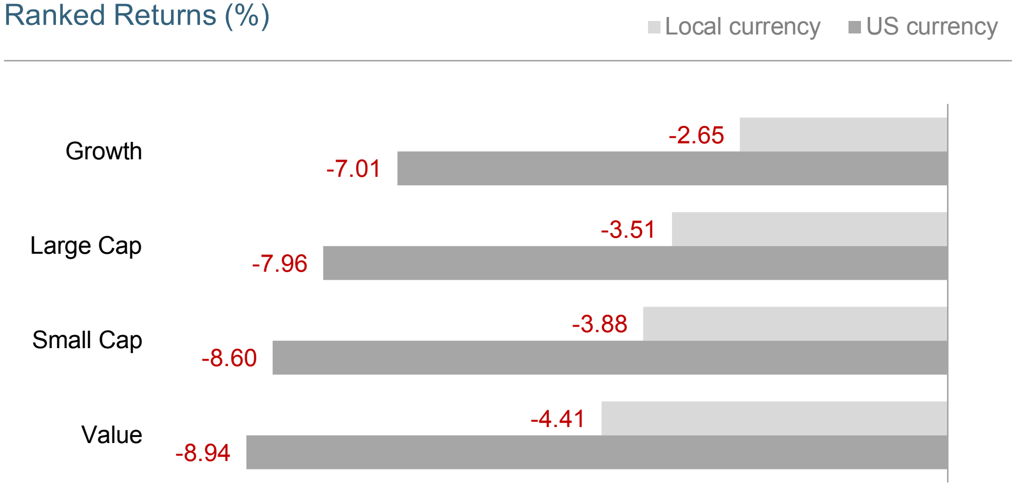
Emerging market stocks declined with new U.S. trade policies

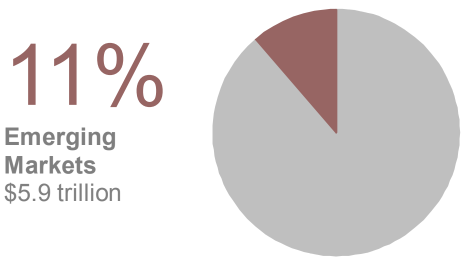
Second Quarter 2018 Index Returns

Emerging markets sank as U.S. protectionist trade policies and a surging dollar weighed on return expectations. Market participants contemplated the negative impact of tariffs on the earnings of emerging market companies, the rising cost of servicing dollar-denominated debt, and the fallout from global trade dislocation. Additional tariffs took effect on $50 billion of Chinese imports (not including steel and aluminum), with another $200 billion of goods being considered for new levies.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	-5.88	11.92	8.34	7.16	3.28
Large Cap	-6.66	8.20	5.60	5.01	2.26
Value	-7.47	4.28	2.76	2.77	1.14
Small Cap	-8.45	5.64	2.55	4.32	4.44

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Oil prices led commodities slightly higher

Second Quarter 2018 Index Returns

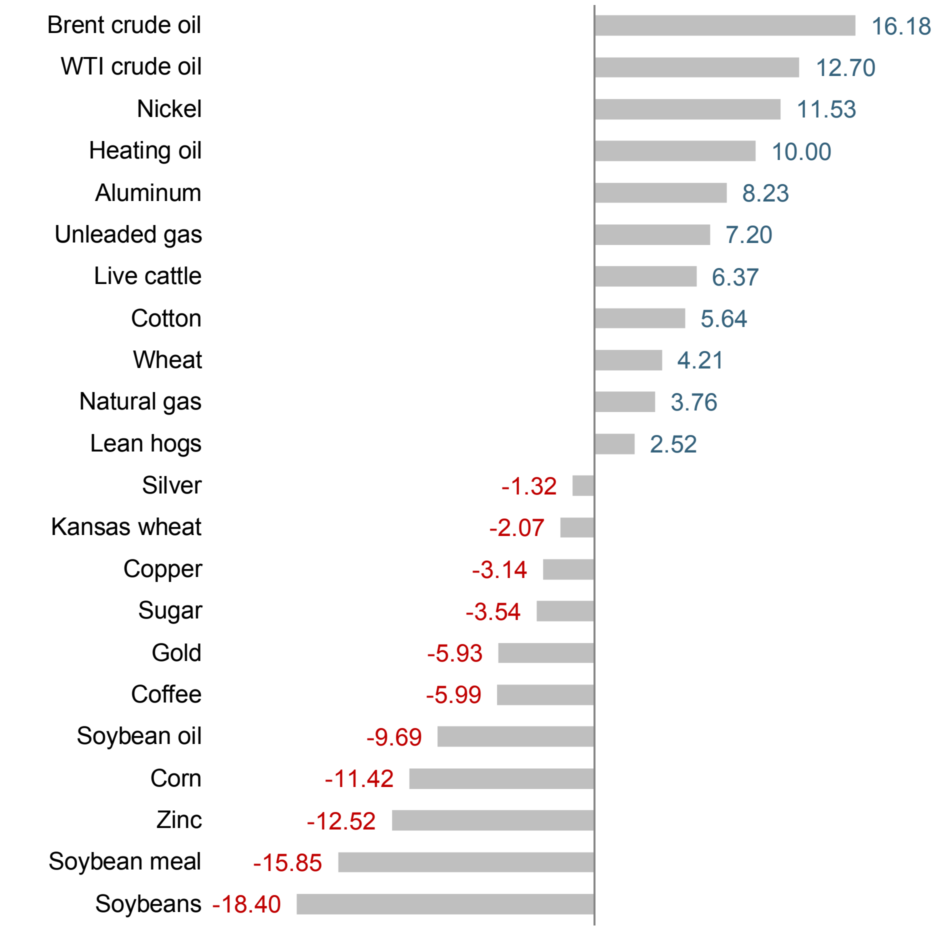
Commodity prices ticked higher over the quarter as economic sanctions against Iran and continued turmoil in Venezuela threatened global oil supplies and drove energy prices higher. In response, OPEC boosted oil production and U.S. shale production surged. Nickel, aluminum, cattle and cotton enjoyed healthy quarterly gains, as soybeans lost substantial ground as China retaliated with tariffs on the crop and other goods.

Period Returns (%)

** Annualized*

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	0.40	0.00	7.35	-4.54	-6.40	-9.04

Ranked Returns for Individual Commodities (%)



Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

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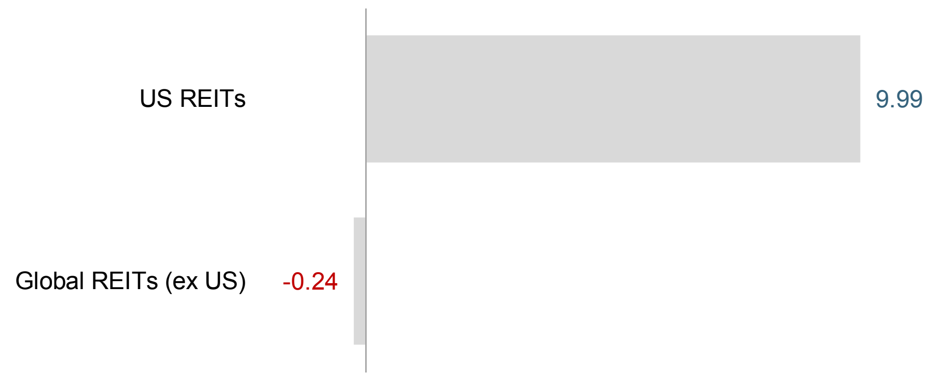
Real estate led the way over the 2nd quarter

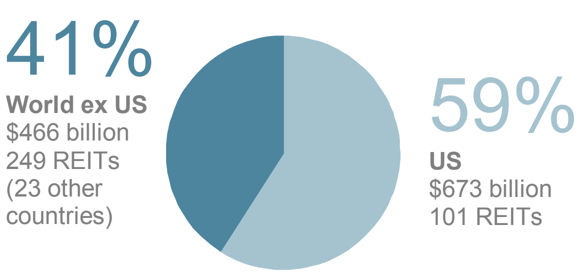
Second Quarter 2018 Index Returns

Despite the continued gradual rise in interest rates, global real estate was the best performing asset class in the 2nd quarter, and more than recouped the 5.5% loss it reported in the 1st quarter.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Dow Jones US Select REIT Index	1.82	4.23	7.71	8.29	7.63
S&P Global ex US REIT Index (net div.)	-1.49	7.17	4.62	5.49	3.83

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.

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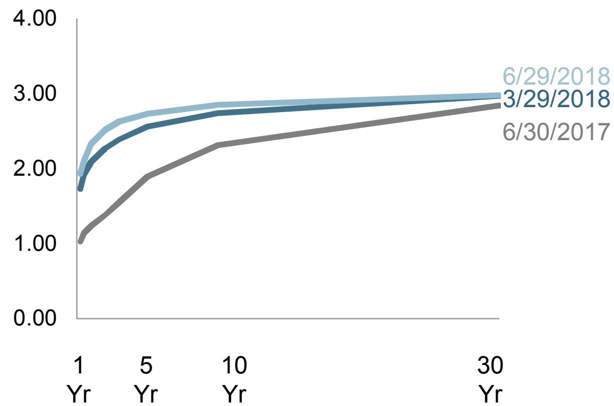
Domestic bonds declined as global bonds held steady

Second Quarter 2018 Index Returns

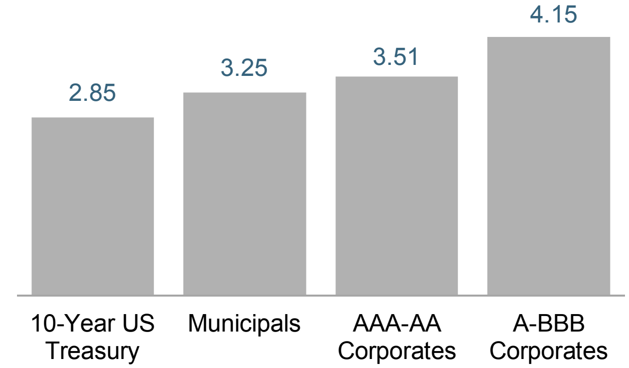
The 10-year U.S. Treasury exceeded 3% for the first time since 2014 and remained near that level for the majority of the quarter. Inflation expectations mounted with unemployment falling to 3.8%, a level not seen since 2000. The Fed raised short-term rates for the seventh time since 2015 in June, and set the stage for two more rate hikes in 2018. Rising interest rates have dented U.S. bond returns year-to-date, as bond prices move inversely with interest rates. While increases in rates are detrimental to bond returns in the short-term, higher rates are beneficial to longer-term investors because interest income can be reinvested at higher yields.

The European Central Bank (ECB) announced plans to end its bond buying program by December 2018 in an effort to normalize the oversized balance sheet it acquired in response to the financial crisis. It also outlined plans to raise short-term rates in mid to late 2019. The Federal Reserve ended a similar program in October 2014 and has been increasing rates since December 2015. This disparity in timing highlights how far behind the U.S. the rest of the developed world is in recovering fully from the financial crisis and returning to more "normal" interest rates. Like the ECB, most global central banks are in the early stages of monetary tightening, except for the Bank of Japan who remains committed to ultra-easy monetary conditions. International bonds advanced as expectations for higher interest rates remained muted.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

* Annualize

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US High Yield Corporate Bond Index	1.03	0.16	2.62	5.53	5.51	8.19
Bloomberg Barclays Municipal Bond Index	0.87	-0.25	1.56	2.85	3.53	4.43
Bloomberg Barclays US TIPS Index	0.77	-0.02	2.11	1.93	1.68	3.03
ICE BofAML 3-Month US Treasury Bill Index	0.45	0.81	1.36	0.68	0.42	0.35
ICE BofAML 1-Year US Treasury Note Index	0.40	0.65	0.92	0.64	0.49	0.77
Bloomberg Barclays US Government Bond Index Long	0.26	-2.97	-0.13	3.40	4.56	6.02
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.24	0.41	0.89	1.18	1.33	2.08
Bloomberg Barclays US Aggregate Bond Index	-0.16	-1.62	-0.40	1.72	2.27	3.72
FTSE World Government Bond Index 1-5 Years	-2.66	-1.06	0.73	1.19	-0.58	0.63

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 Bank of America Merrill Lynch US 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 (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

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Additional factors to monitor closely

Second Quarter 2018

Tariffs

The administration continues to re-write global trade policy with China, the European Union, Japan, Canada, Mexico and the rest of the world. Posturing, negotiation and threats have evolved into decisive action on all sides. The economic, political and investment ramifications will become more evident as time passes.

Eurozone

The recent political tumult in Italy and Spain recalled the eurozone's sovereign debt crisis of 2010-2012. While strong central banking policies averted European fracture then, structural imbalances remain, particularly between northern and southern countries, and will need to be solved eventually.

U.S. Debt Levels

U.S. tax reform and fiscal stimulus are expected to result in trillion dollar annual budget deficits, adding trillions more to the federal debt over the coming years. The U.S. debt-to-GDP ratio stood at 104% at the end 2017, with Japan's at 240%, the U.K.'s at 87% and Germany's at 65%. How rising federal debt will affect U.S. government borrowing costs and interest rates in general is being watched closely.

Continue the conversation with us…

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