Quarterly Market Review

Third Quarter 2018

Q3

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Market fluctuations were relatively subdued in the 3rd quarter

Third Quarter Results - 2018

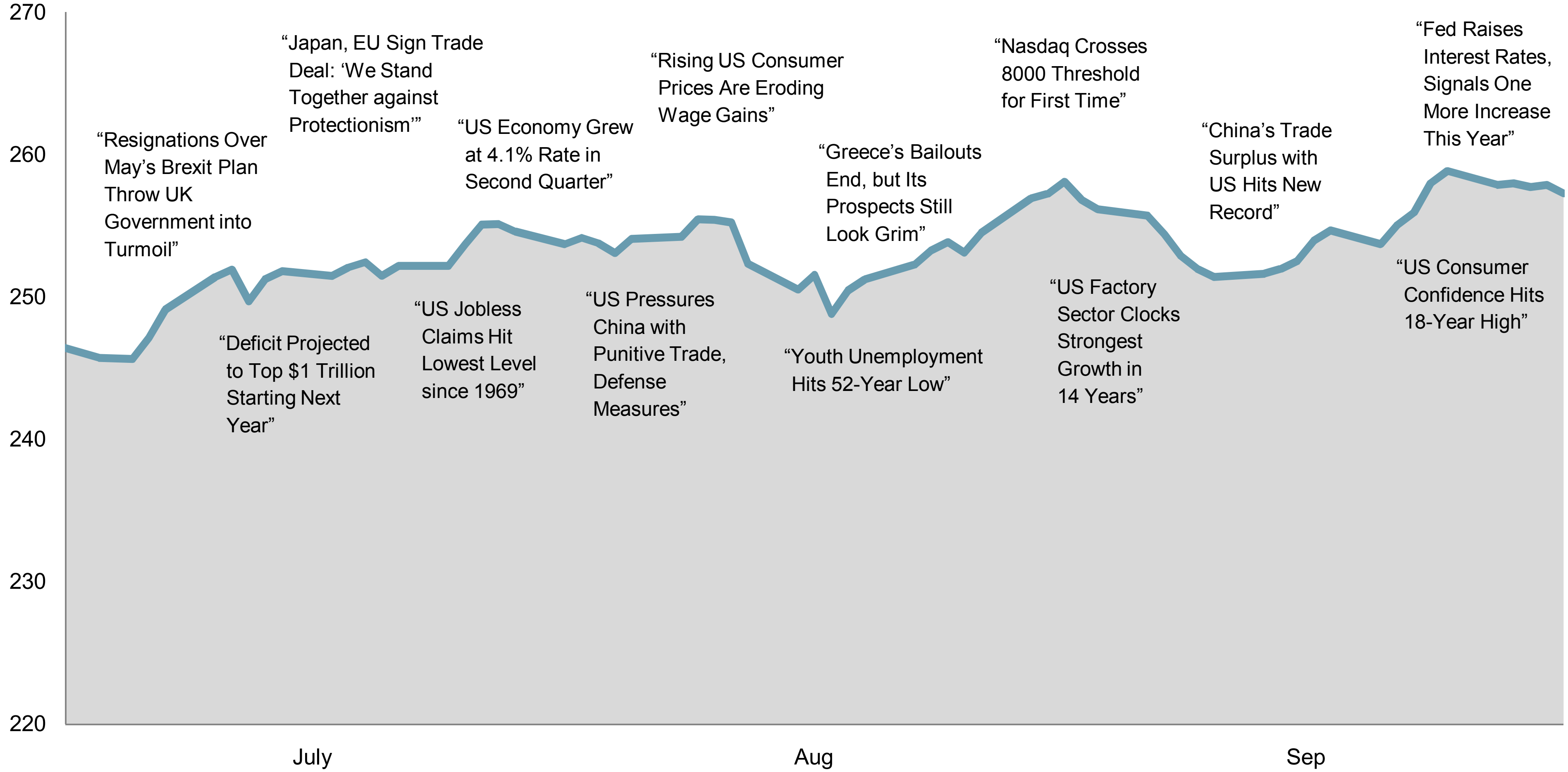
Given the intensity of the newswire over the 3rd quarter, undulations in the global capital markets were relatively subdued. As the shadow of a full blown global trade war persisted, questions swirled around NATO, U.S. intelligence, the Federal Reserve, the European Union and the U.S. Supreme Court. Add in contagion fears pertaining to emerging markets, a strong dollar and rising interest rates, and the quarter had the potential to be more erratic than the final results:

	U.S. Stocks	International Developed Stocks	Emerging Market Stocks	Commodities	Global Real Estate	U.S. Bond Market	Global Bond Market
2018 Q3	7.1% Russell 3000	1.3% MSCI World Ex-US	-1.1% MSCI EM	-2.0% Bloomberg Comdty	0.2% S&P Global REIT	0.1% Barclays US Govt/Credit	0.2% Citi World Govt
2018	10.6% Russell 3000	-1.5% MSCI World Ex-US	-7.7% MSCI EM	-2.0% Bloomberg Comdty	0.8% S&P Global REIT	-1.9% Barclays US Govt/Credit	0.6% 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]).

The newswire was intense

MSCI All Country World Index with selected headlines from Q3 2018



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.].

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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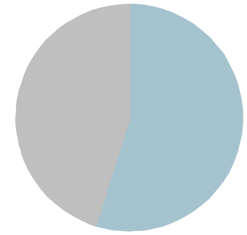
U.S. stocks recorded strong results

Third Quarter 2018 Index Returns

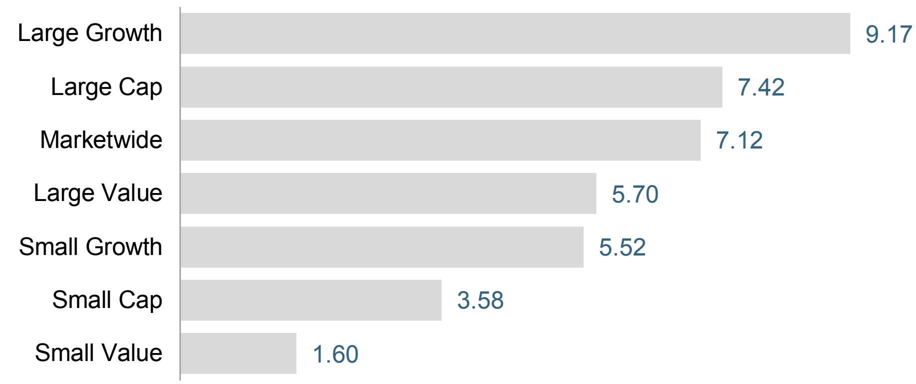
The U.S. economy began the quarter with the tailwinds of strong economic growth, low unemployment, steady job creation, robust corporate earnings, and fiscal stimulus from recent tax cuts. This combination delivered sturdy returns with moderate volatility despite underlying geopolitical and trade tensions. In July, President Trump demanded members of the 29-nation NATO alliance live up to their defense spending commitments, implying ambiguity in coalition's unity. Later in the month, President Trump questioned U.S. intelligence's findings that Russia interfered in the 2016 election at the Helsinki summit with Vladimir Putin. Meanwhile, tariff pressures intensified with China, and trade relations thawed a bit with the European Union and Japan, while the U.S., Canada and Mexico worked to overhaul the North American Free Trade Agreement (NAFTA). As scheduled, U.S. tariffs on $16 billion of Chinese exports took effect in August, on top of the $34 billion previously imposed. In September, additional tariffs were levied on another $200 billion of Chinese goods as trade relations deteriorated further. While China retaliated with their own tariffs, the strength of the U.S. economy overcame the negative news cycle, and the S&P 500 ended the quarter near all-time highs within what is now the second longest economic expansion of all time.

World Market Capitalization—US



55%
US Market
$29.7 trillion

Ranked Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	17.09	26.30	20.55	16.58	14.31
Small Growth	15.76	21.06	17.98	12.14	12.65
Small Cap	11.51	15.24	17.12	11.07	11.11
Marketwide	10.57	17.58	17.07	13.46	12.01
Large Cap	10.49	17.76	17.07	13.67	12.09
Small Value	7.14	9.33	16.12	9.91	9.52
Large Value	3.92	9.45	13.55	10.72	9.79

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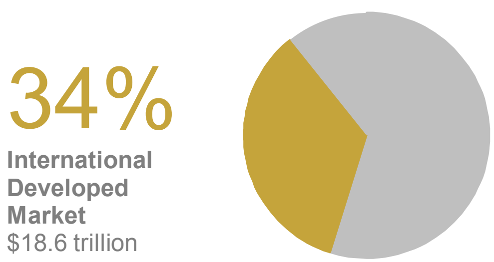
International developed stocks had positive returns

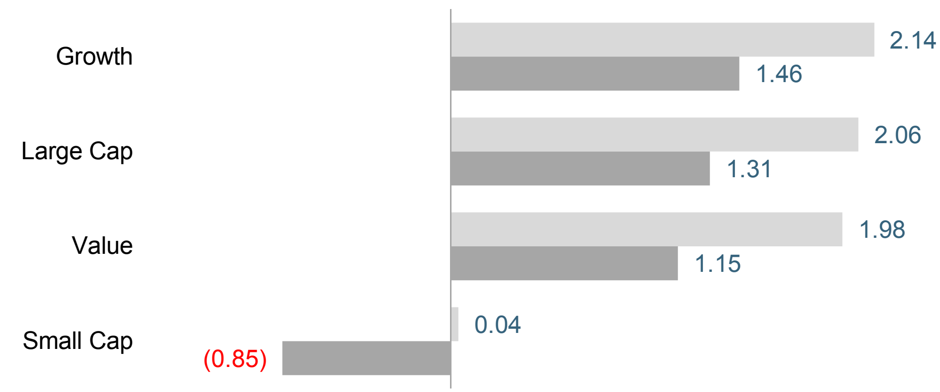
Third Quarter 2018 Index Returns

Developed international stocks proved temperamental as uncertainty around trade policy and slow economic growth weighed on the European Union, the United Kingdom, Canada and Japan. The EU struggled to regain economic momentum as worries persisted around trade, Italy's "euroskeptic" coalition government, and the ousting of Spain's prime minister. The UK continued to grapple with the reality of Brexit, as Canada fought for relevance in a re-write of NAFTA, and Japan's woes continued. Commitments by the EU and U.S. to work toward "zero tariffs" and the potential for renewed trade talks between the U.S. and Japan demonstrated significant progress on the trade front.

World Market Capitalization—International Developed



Ranked Returns (%)



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	0.39	5.47	9.91	5.37	5.78
Large Cap	-1.50	2.67	9.32	4.24	5.18
Small Cap	-2.28	3.42	12.23	7.07	9.04
Value	-3.43	-0.13	8.65	3.05	4.51

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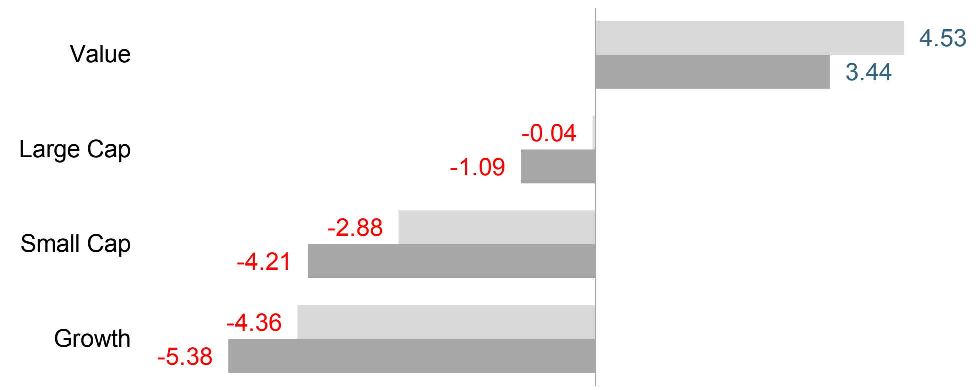
Emerging markets stocks sagged under trade pressures

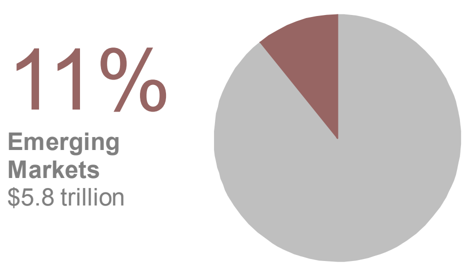
Third Quarter 2018 Index Returns

Tariff clashes with China, coupled with a strong U.S. dollar, challenged emerging market stocks for the second consecutive quarter. U.S. tariffs frustrated an already slowing Chinese economy, and other emerging economies suffered as goods faced levies while passing through the global supply chain from China to the U.S. Climbing U.S. interest rates and a strong dollar increased the cost of servicing dollar-denominated debt, sparking trouble in Turkey and Argentina.

Ranked Returns (%)



World Market Capitalization—Emerging Markets



Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Value	-4.28	2.27	11.55	2.04	4.53
Large Cap	-7.68	-0.81	12.36	3.61	5.40
Growth	-10.94	-3.89	13.03	5.08	6.18
Small Cap	-12.30	-4.20	7.43	2.72	7.43

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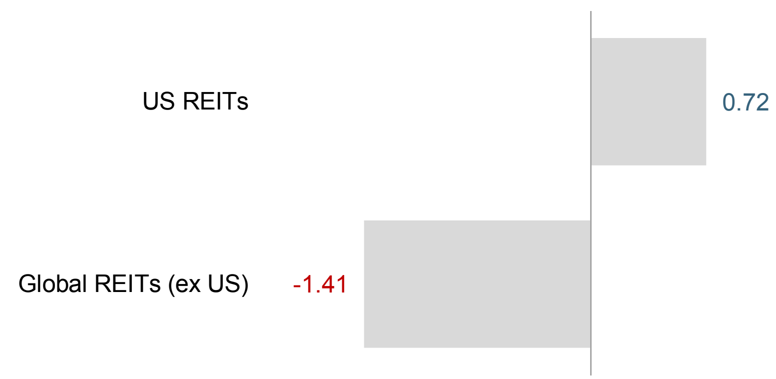
Real estate held steady in the face of rising interest rates

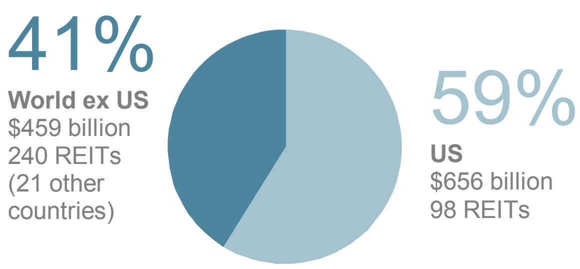
Third Quarter 2018 Index Returns

Global real estate held steady as the cost of capital rose with interest rates. The residential, healthcare, industrial and lodging property sectors proved durable.

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	2.56	4.59	6.88	9.14	7.21
S&P Global ex US REIT Index (net div.)	-2.88	3.39	5.66	4.18	5.40

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. 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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Commodities declined as the U.S. dollar remained strong

Third Quarter 2018 Index Returns

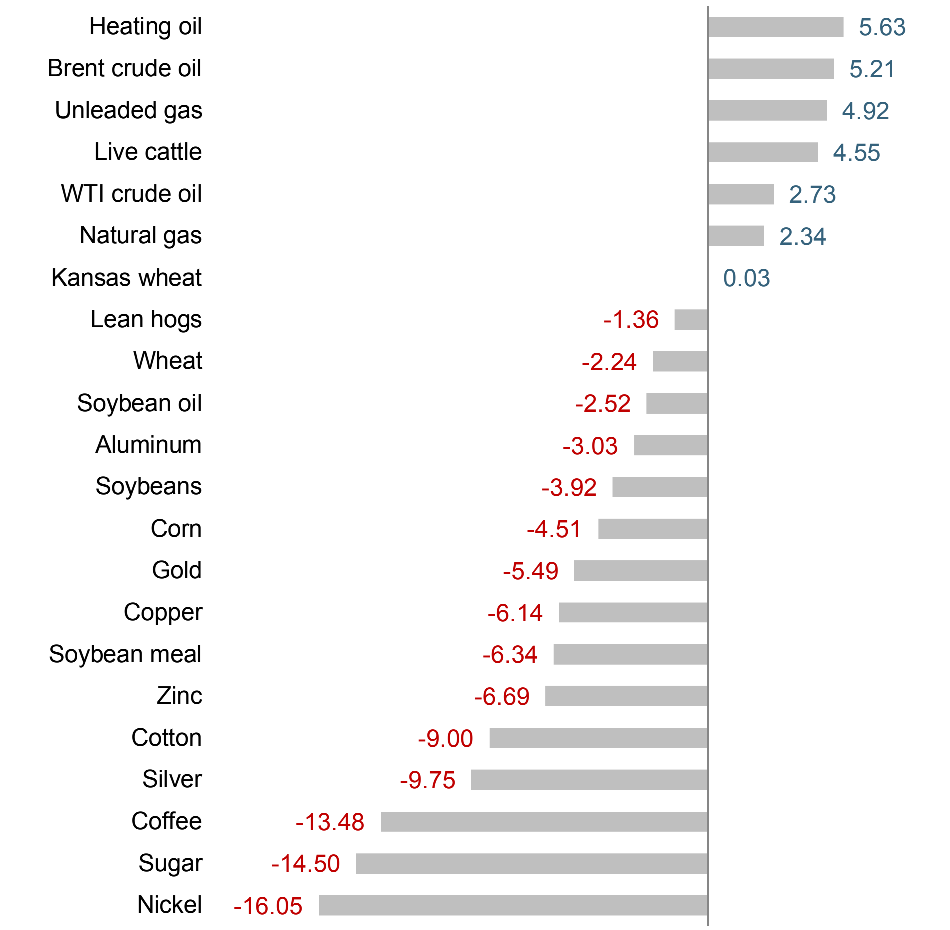
Commodities slumped, pressured by a strong dollar and expectations of a weaker global economy. The strong greenback dampened demand for dollar denominated goods as they became more expensive to foreign buyers. The combative trade environment stressed commodity prices further as angst over a potential economic slowdown increased.

Period Returns (%)

** Annualized*

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-2.02	-2.03	2.59	-0.11	-7.18	-6.24

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.

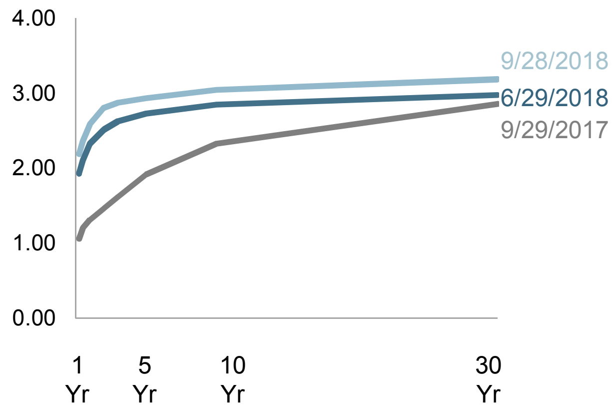
U.S. & international bond prices held steady

Third Quarter 2018 Index Returns

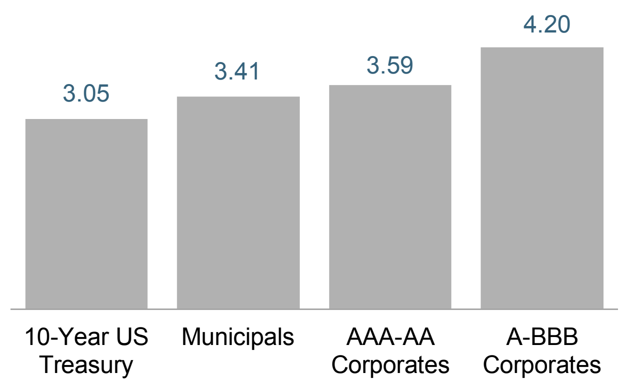
The 10-year U.S. Treasury yield ended the quarter at 3.06%. In September, the Federal Reserve raised the target range for short-term rates by a quarter percentage point to 2.00% - 2.25%. The move marked the first time since 2008 the benchmark target range has been set above 2% and advances the Fed's quest to normalize interest rates. The unanimous vote was the third increase in 2018 and the eighth since December 2015. President Trump publicly disapproved of the Fed's decision, a rare occasion for a sitting president. He first broke 25 years of presidential silence concerning Fed policy in July. Expectations are for the Fed to raise rates once more prior to year-end.

Just as global central banks followed the Fed's lead with accommodative policies during the financial crisis, many have taken steps to unwind those policies in the Fed's footsteps. Notably, the Bank of England raised rates to levels not seen since 2009, and the European Central Bank made plans to phase out its bond-buying program with an eye toward raising rates in 2019. Consensus indicated a global economic environment able to withstand higher interest rates, even without global trade and Brexit reconciled. Two central banks remained highly accommodative, Japan and China. The Bank of Japan announced it expects to keep rates low for "an extended period of time", and the People's Bank of China lowered its reserve requirement to increase liquidity.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

*Annualized

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US High Yield Corporate Bond Index	2.40	2.57	3.05	8.15	5.54	9.46
ICE BofAML US 3-Month Treasury Bill Index	0.49	1.30	1.59	0.84	0.52	0.34
ICE BofAML 1-Year US Treasury Note Index	0.41	1.07	1.08	0.74	0.55	0.71
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.17	0.58	0.64	1.04	1.26	1.90
Bloomberg Barclays US Aggregate Bond Index	0.02	-1.60	-1.22	1.31	2.16	3.77
Bloomberg Barclays Municipal Bond Index	-0.15	-0.40	0.35	2.24	3.54	4.75
FTSE World Government Bond Index 1-5 Years	-0.63	-1.68	-1.39	0.84	-1.16	0.88
Bloomberg Barclays US TIPS Index	-0.82	-0.84	0.41	2.04	1.37	3.32
Bloomberg Barclays US Government Bond Index Long	-2.82	-5.71	-3.50	0.78	4.41	5.45

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). FTSE fixed income indices © 2018 FTSE Fixed Income LLC, all rights reserved. ICE BofAML index data © 2018 ICE Data Indices, LLC.

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Additional factors to monitor closely

Third Quarter 2018

Midterm Elections

Volatility has historically increased as midterm elections approach, particularly in the three months leading up to November. Given the recent buoyancy of U.S. stocks and the political climate, increased volatility should be expected.

Emerging Markets

Political and economic risks in Brazil, Russia, Argentina, Turkey and South Africa (a.k.a "BRATS") are elevated in light of rising U.S. interest rates, a strong dollar and the U.S./China trade dispute. Despite recent results, demographic and economic trends remain attractive.

U.S. Protectionism

To date, the U.S. has imposed tariffs on about 4% of all imports to the U.S., while trading partners have levied roughly 3% of all U.S. exports. Tariffs have not been significant enough to affect the U.S. economy yet, although trade tensions and the unintended consequences surrounding them remain significant risk factors.

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Continue the conversation with us…

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