Quarterly Market Review

Fourth Quarter 2018

Q4

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Volatility awoke with vigor during the fourth quarter

Fourth Quarter & Calendar Year Results - 2018

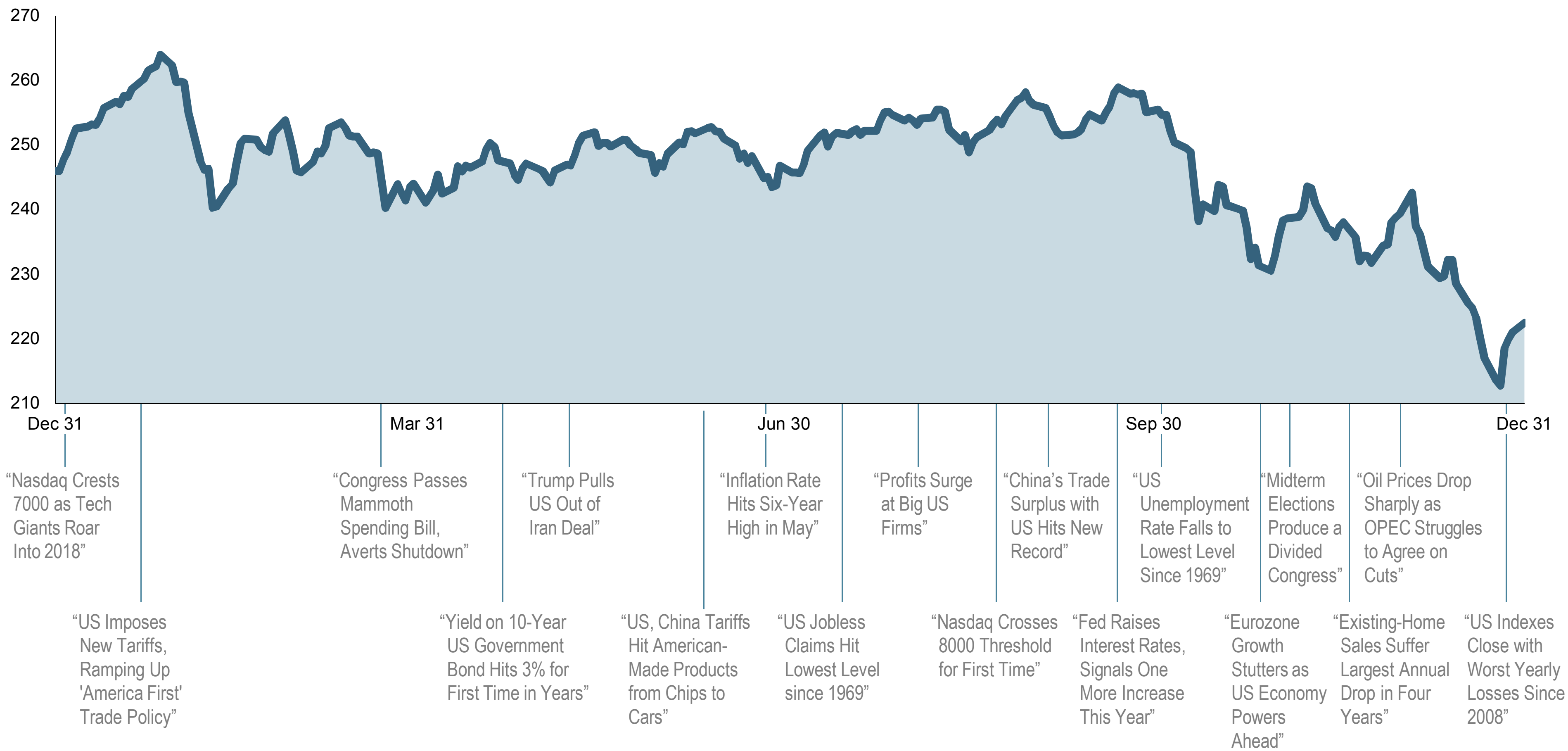
The 4th quarter proved to be a difficult ending to a challenging year. Volatility, dormant since March, awoke once again with vigor taking investors on a topsy-turvy excursion that included touching all-time stock market highs in October and then plunging into a 19.8% correction in the S&P 500 by December, the second 10% plus decline of the year. There was no shortage of attention-grabbing headlines from midterm elections and tariff escalations, to border walls and another government shutdown, to riots in Paris, chaos over Brexit, and the possibility of a synchronized deceleration of the global economy. The capital markets reacted in kind:

	U.S. Stocks	International Developed Stocks	Emerging Market Stocks	Commodities	Global Real Estate	U.S. Bond Market	Global Bond Market
2018 Q4	-14.3% Russell 3000	-12.8% MSCI World Ex-US	-7.5% MSCI EM	-9.4% Bloomberg Comdty	-5.5% S&P Global REIT	1.5% Barclays US Govt/Credit	1.5% Citi World Govt
2018	-5.2% Russell 3000	-14.1% MSCI World Ex-US	-14.6% MSCI EM	-11.3% Bloomberg Comdty	-4.8% S&P Global REIT	-0.4% Barclays US Govt/Credit	2.1% 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]). Bloomberg Barclays data provided by Bloomberg.

No shortage of attention-grabbing headlines in 2018

MSCI All Country World Index with selected headlines from 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.]. 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.

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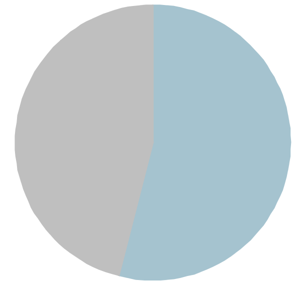
4th quarter pushed U.S. stocks into the red for the year

2018 Index Returns

The S&P 500 began the 4th quarter near all-time highs, despite apprehensions about interest rates and trade tensions threatening global growth. Underneath the headlines, strong economic data reinforced stock levels as the economy posted strong 3rd quarter GDP growth, courtesy of tax cuts and federal spending. There were signs of progress in trade talks between China and the U.S., and Canada was dramatically included in a re-write of NAFTA with the U.S. and Mexico. The general economic outlook was positive, but volatility not seen since the early part of 2018 soon emerged. As U.S.-China talks broke down, a run-up in bond yields jarred equity markets, and the S&P 500 registered its worst October since 2008. The November midterm results ushered in temporary relief as investors welcomed the benefits of a divided Congress, but as the California wildfires burned, investors fretted once again over the sustainability of the nearly 10-year economic expansion. As the administration delayed tariff escalations, the weight of the unresolved trade dispute between the world's two largest economies dragged on stocks, and feuding over federal spending and the border wall led to a government shutdown that helped drive the S&P 500 to a nearly 20% decline from September highs. A modest Santa Claus rally alleviated some of the tribulation as the year came to a close.

World Market Capitalization—US

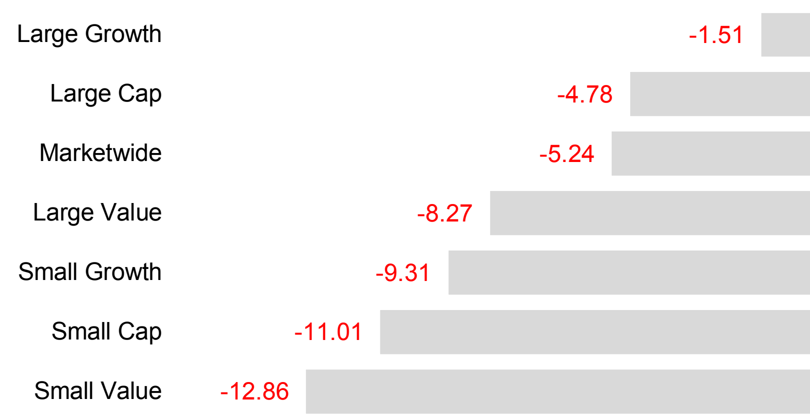


54%

US Market

$25.1 trillion

Ranked Returns for 2018 (%)



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	-1.51	11.15	10.40	15.29
Large Cap	-4.78	9.09	8.21	13.28
Marketwide	-5.24	8.97	7.91	13.18
Large Value	-8.27	6.95	5.95	11.18
Small Growth	-9.31	7.24	5.13	13.52
Small Cap	-11.01	7.36	4.41	11.97
Small Value	-12.86	7.37	3.61	10.40

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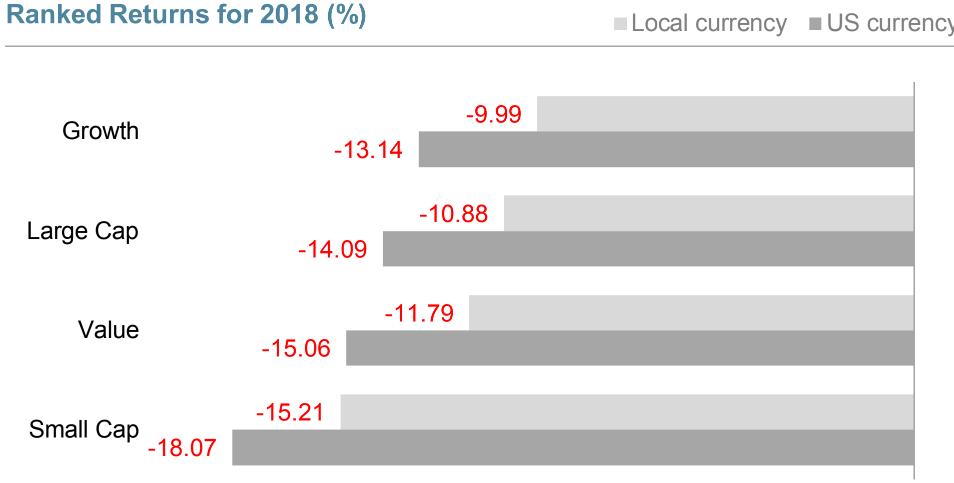
Trade disruptions frustrated international stocks in 2018

2018 Index Returns

Developed international stocks struggled as trade disruptions hampered the global economy. While the E.U. and U.S. worked toward "zero tariffs," German Chancellor Angela Merkel announced she will step down in 2020 as the German economy shrank for the first time in 3½ years. France became the most heavily taxed developed country, sparking riots against President Macron's government. A "euroskeptic" Italy thumbed its nose at eurozone budgetary guidelines, and U.K. Prime Minister Theresa May survived a vote of confidence amidst a tumultuous Brexit process. Japan, the world's third largest economy, stalled, posting its worst economic contraction in over four years.

Ranked Returns for 2018 (%)

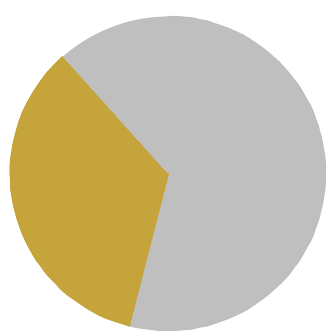


World Market Capitalization—International Developed

34%

International Developed Market

$16.0 trillion



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Growth	-13.14	2.84	1.36	6.74
Large Cap	-14.09	3.11	0.34	6.24
Value	-15.06	3.36	-0.73	5.69
Small Cap	-18.07	3.85	2.25	10.06

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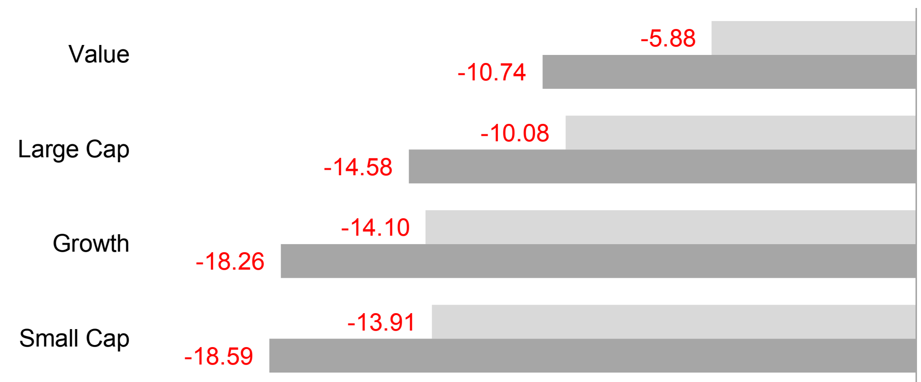
Emerging markets struggled as growth in China softened

2018 Index Returns

Trade tensions weighed on investor confidence across emerging markets as China is not only the largest emerging economy, but is also the major trading partner of most other emerging countries. 3rd quarter GDP growth in China slowed to levels not seen since 2009, Chinese stocks fell to four year lows, and the yuan depreciated against the dollar lessening the impact of U.S. tariffs. Rising interest rates in the U.S. added to the turmoil as emerging market currencies weakened, making dollar denominated debt more expensive to repay.

Ranked Returns for 2018 (%)

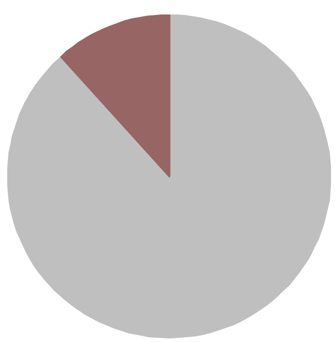


World Market Capitalization—Emerging Markets

12%

Emerging Markets

$5.4 trillion



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Value	-10.74	9.52	0.51	6.99
Large Cap	-14.58	9.25	1.65	8.02
Growth	-18.26	8.89	2.67	8.97
Small Cap	-18.59	3.68	0.95	9.87

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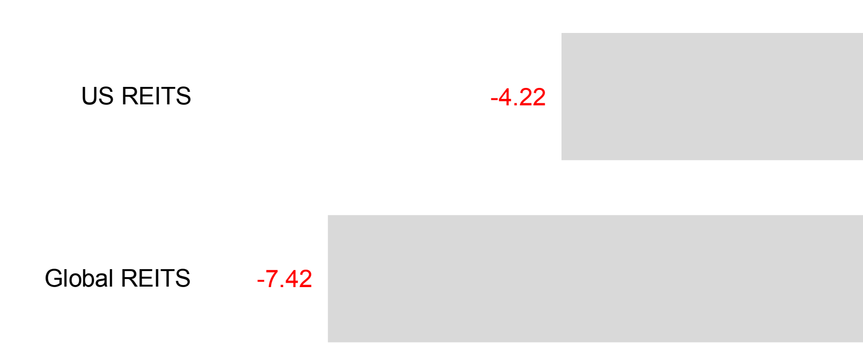
Real estate weakened with rising global interest rates

2018 Index Returns

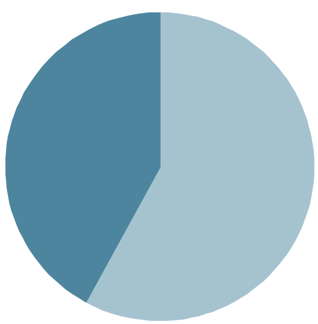
Global real estate slumped in the face of rising interest rates and market turmoil as office properties, shopping centers, lodging/resorts, timber and data centers exhibited weakness.

Ranked Returns for 2018 (%)



Total Value of REIT Stocks

42%
World ex US
$436 billion
245 REITs
(22 other countries)



58%
US
$601 billion
97 REITs

Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
US REITS	-4.22	1.97	7.89	12.05
Global REITS	-7.42	3.35	3.39	8.94

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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Oil prices led commodities lower for the year

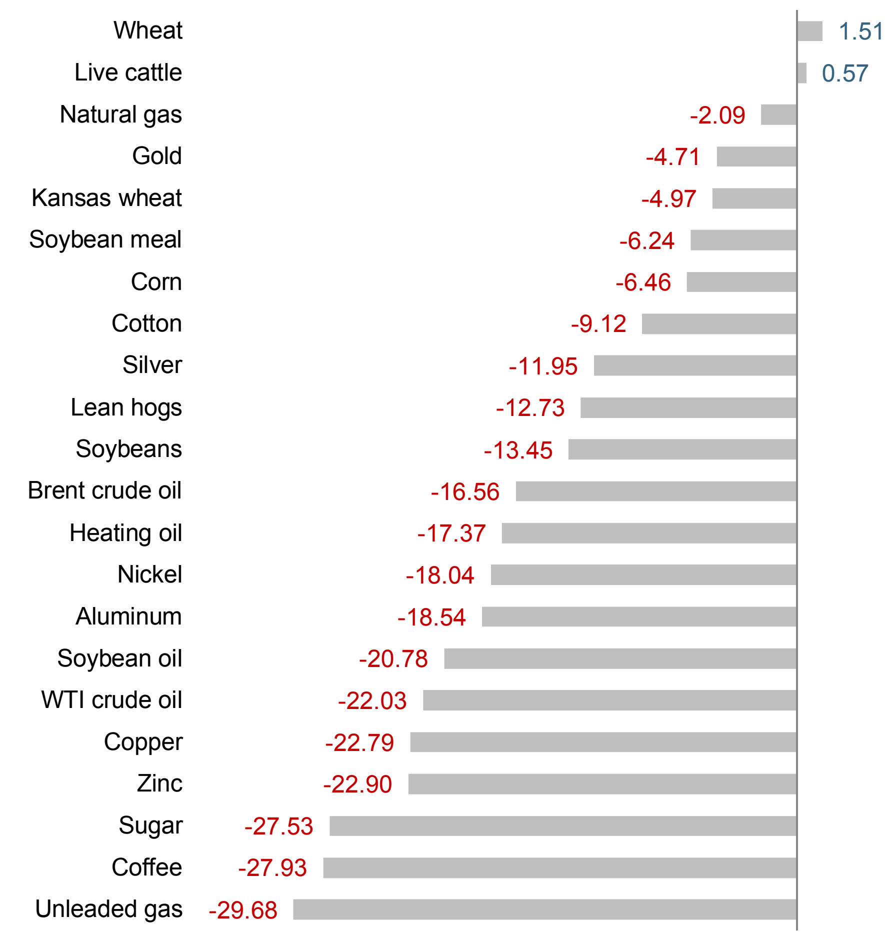
2018 Returns

Key industrial inputs such as metals and energy struggled as demand waned with the dimmer macroeconomic outlook. Oil was the primary culprit as crude prices fell over 40% from recent October highs with increasing supply and softening demand. The dollar's strength exacerbated the weakness in dollar-denominated commodities as they became more expensive to foreign buyers.

Period Returns (%) ** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-11.25	0.30	-8.80	-3.78

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.

All index returns are net of withholding tax on dividends. Securities and commodities data provided by Bloomberg.

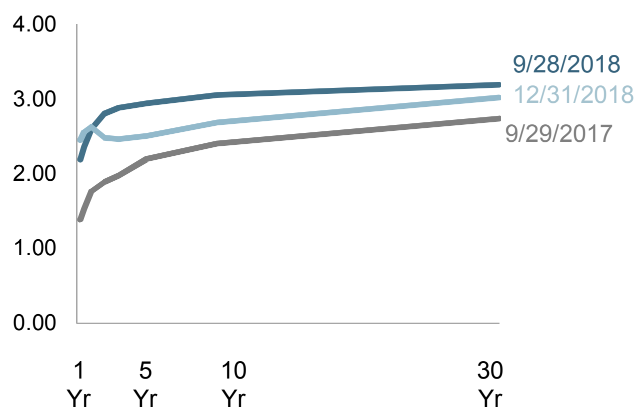
U.S. & global bonds held relatively steady in 2018

2018 Index Returns

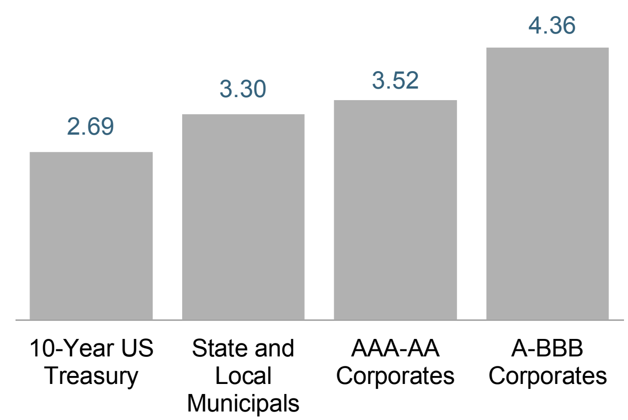
The Fed raised rates in September reconfirming their commitment to the quarterly rate hikes it has ascribed to for much of the last two years. The Fed's objective has been to prevent the economy from overheating on the path to more "normal" interest levels. As stock markets swooned and the strength in the global economic outlook eroded, the Fed pivoted toward a "wait and see" approach as they raised rates in December and telegraphed fewer rate hikes in 2019 than previously expected.

As questions swirled around the health of the global economy, the European Central Bank proceeded with plans to become the third leading central bank to wind down quantitative easing (QE), following in the footsteps of the Federal Reserve and Bank of England. The central banks of Japan and China continued to enact stimulus measures though monetary policy. With many central banks not yet on the path toward normal monetary policies, the risk of the economic cycle ending before the hiking cycle begins increased.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
FTSE World Government Bond Index 1-5 Years (hedged to USD)	2.12	1.58	1.53	1.69
ICE BofAML US 3-Month Treasury Bill Index	1.87	1.02	0.63	0.37
ICE BofAML 1-Year US Treasury Note Index	1.86	1.06	0.70	0.62
Bloomberg Barclays Municipal Bond Index	1.28	2.30	3.82	4.85
Bloomberg Barclays US Aggregate Bond Index	0.01	2.06	2.52	3.48
FTSE World Government Bond Index 1-5 Years	-0.76	1.56	-0.82	0.29
Bloomberg Barclays US TIPS Index	-1.26	2.11	1.69	3.64
Bloomberg Barclays US Government Bond Index Long	-1.79	2.63	5.90	4.15
Bloomberg Barclays US High Yield Corporate Bond Index	-2.08	7.23	3.83	11.12

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 (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield). 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.

Additional factors to monitor closely

2018 Index Returns

Synchronized deceleration

Tighter global financial conditions, coupled with economic uncertainties and fading U.S. fiscal stimulus will likely hamper growth in the U.S., eurozone, and China in 2019.

Central banks

A coordinated response to a sharp global slowdown may prove difficult given most central banks have yet to reign in previously deployed stimulus measures.

Unresolved trade issues

While U.S. stocks were largely spared from the tariff-inflicted declines that plagued international stocks for most of the year, their immunity has deteriorated. This development increases the likelihood that a U.S.-China resolution is close at hand, which could provide much needed relief to the capital markets.

Continue the conversation with us…

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