Quarterly Market Review

First Quarter 2019

Q1

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Q1 delivered considerable relief after a difficult 2018

First Quarter 2019

The 1st quarter of the year proved to be substantially positive and offered much needed relief after a difficult 2018. The decision by the Fed and other global central banks to pivot away from stringent monetary tightening policies provided a boost to asset prices worldwide. These actions proved enough to counteract many of the negative headlines relating to the U.S. government shutdown, the Michael Cohen trial, failed nuclear disarmament talks with North Korea, and the tumult of Brexit. 1st quarter index performance is detailed below:

	U.S. Stocks	International Developed Stocks	Emerging Market Stocks	Commodities	Global Real Estate	U.S. Bond Market	Global Bond Market
2019 Q1	14.0%	10.5%	9.9%	6.3%	14.4%	3.3%	1.2%
	Russell 3000	MSCI World Ex-US	MSCI EM	Bloomberg Comdty	S&P Global REIT	Barclays US Govt/Credit	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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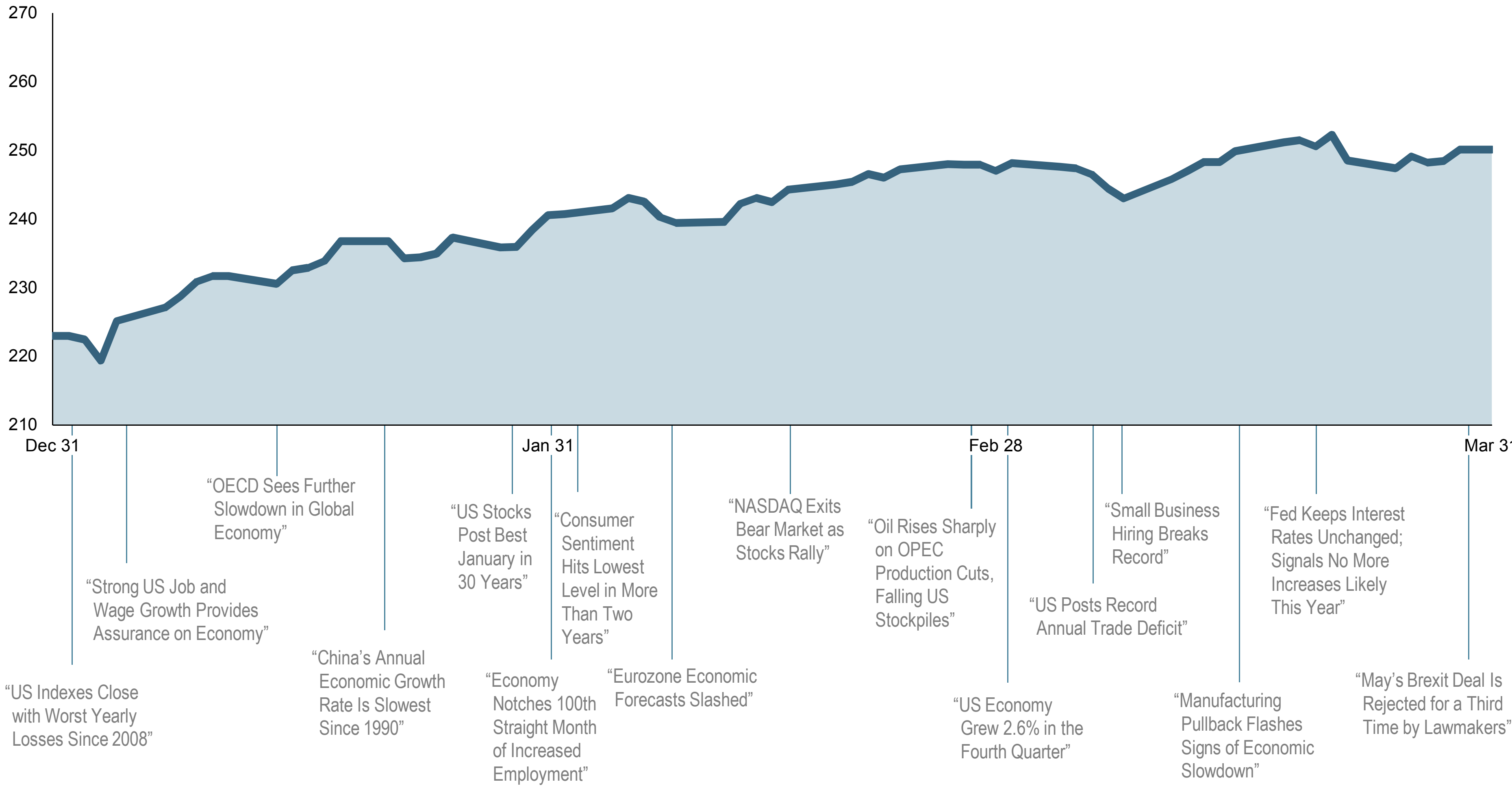
Stable rates propelled stocks higher despite slow growth

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.

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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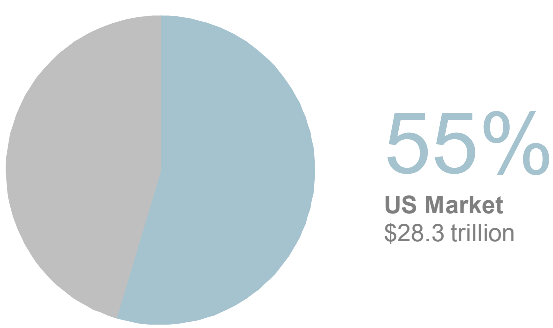
U.S. stocks surged as positive news eclipsed negativity

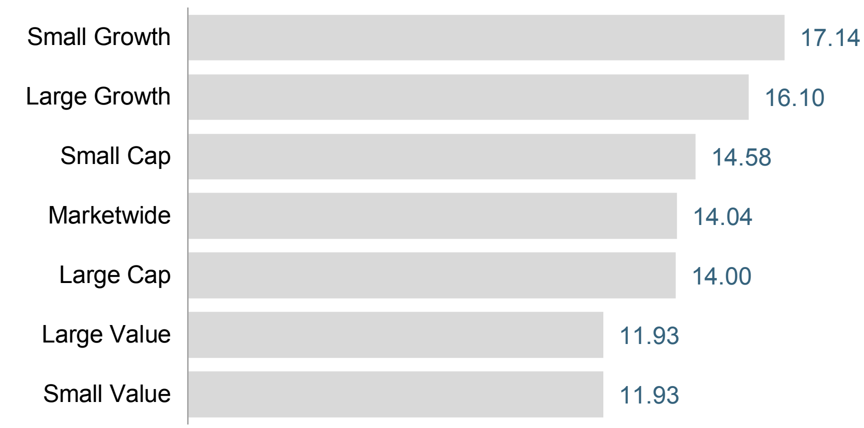
First Quarter 2019 Index Returns

After plummeting nearly 20% during the last quarter of 2018, stocks rebounded with vigor in the 1st quarter of 2019. In January, Democrats took control of the House for the first time since 2010. At the same time, the outlook appeared bleak as a pall of uncertainty shrouded the longest partial government shutdown in modern history. While federal workers returned to work and a bipartisan spending bill promised to keep the government funded through the fall, the administration declared a state of emergency to fund the US-Mexico border wall. Business optimism faltered as the US-Chinese trade impasse escalated before the administration agreed to delay increasing tariffs from 10% to 25% on $200 billion of Chinese imports. The outlook brightened considerably as the Fed backtracked on its march to higher interest rates and telegraphed an indefinite hold on future hikes based on slowing economic growth in the U.S. and elsewhere. Progress on global trade issues and stable interest rates outweighed lackluster economic growth and failed disarmament talks with North Korea to drive U.S. stocks higher over the quarter.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

** Annualized*

Asset Class	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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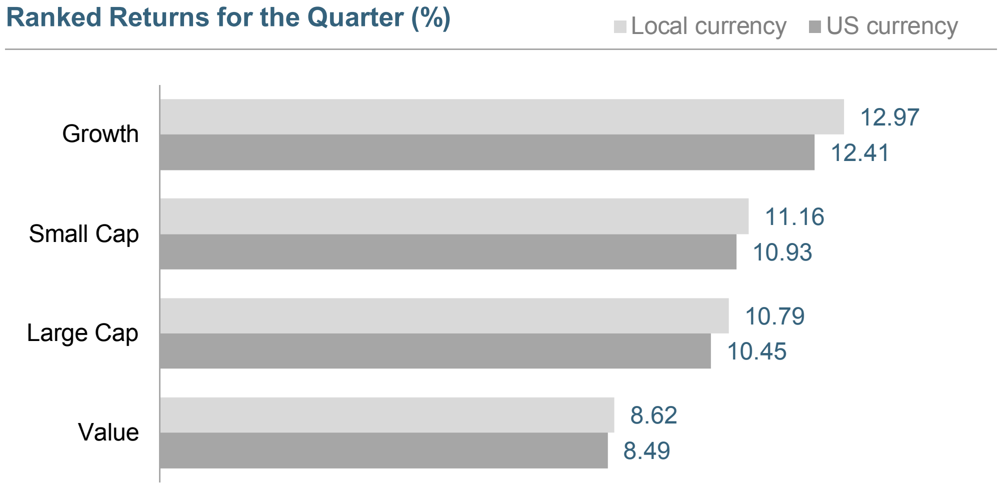
International developed stocks also gained

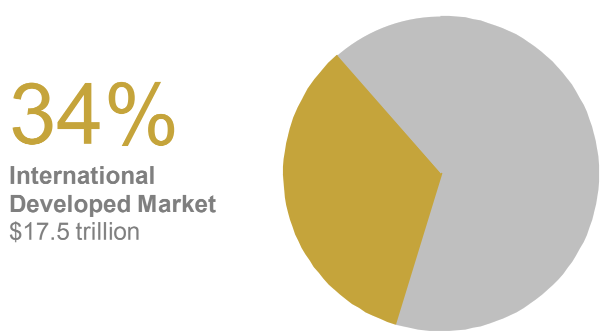
First Quarter 2019 Index Returns

Developed international and emerging stocks gained significant ground despite clues that the growth of the world's leading economies were slowing simultaneously. The European economy continued to struggle from weak external demand, the weight of global trade tensions, and political discord. Specifically, Germany, the continent's largest economy, registered weak economic data, and Italy remained mired in fiscal troubles. U.K. Prime Minister Theresa May's Brexit plan was rejected by Parliament for the third time, leaving EU leadership to decide if the bloc will extend the deadline in an effort to foster an orderly transition.

Ranked Returns for the Quarter (%)



World Market Capitalization—International Developed



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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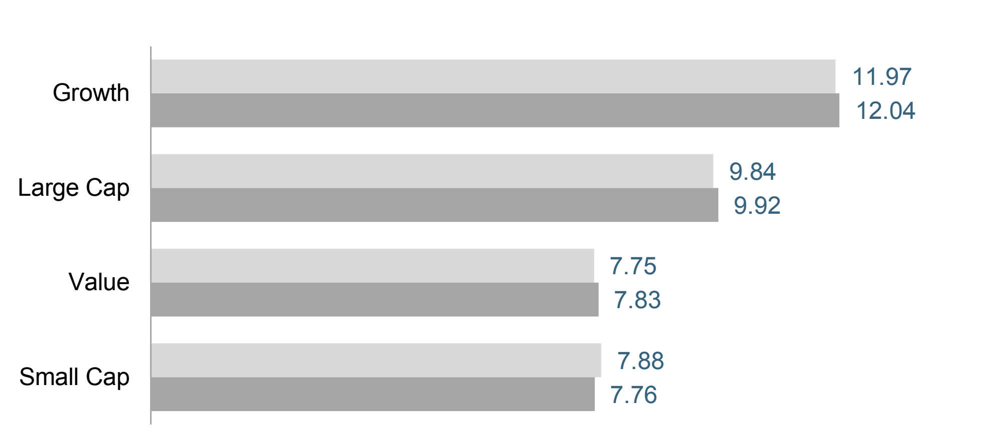
Emerging markets stocks advanced too

First Quarter 2019 Index Returns

Further abroad, Japan's growth remained subdued and growth in China declined to its slowest pace in a decade. In response to the glum economic data, global central banks recommitted to stable and low interest rates, providing the ballast for a positive quarter.

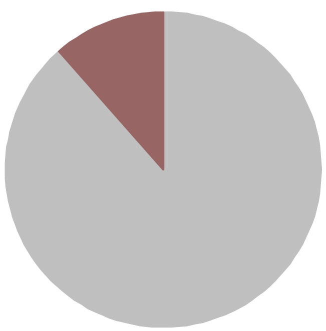
Ranked Returns for the Quarter (%)



World Market Capitalization—Emerging Markets

11%

Emerging Markets
$6.0 trillion



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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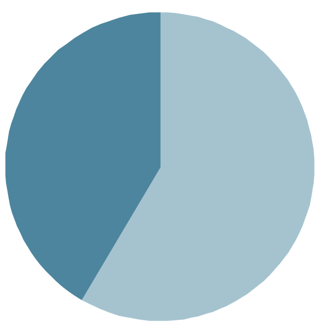
Real Estate benefitted from the likelihood of stable rates

First Quarter 2019 Index Returns

Global real estate advanced with the stable interest rate outlook, as nearly all property sectors returned in the low double digits with industrial, timber and infrastructure leading the way.

Ranked Returns for the Quarter (%)

Total Value of REIT Stocks



Period Returns (%)

** Annualized*

Asset Class	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 recovered somewhat

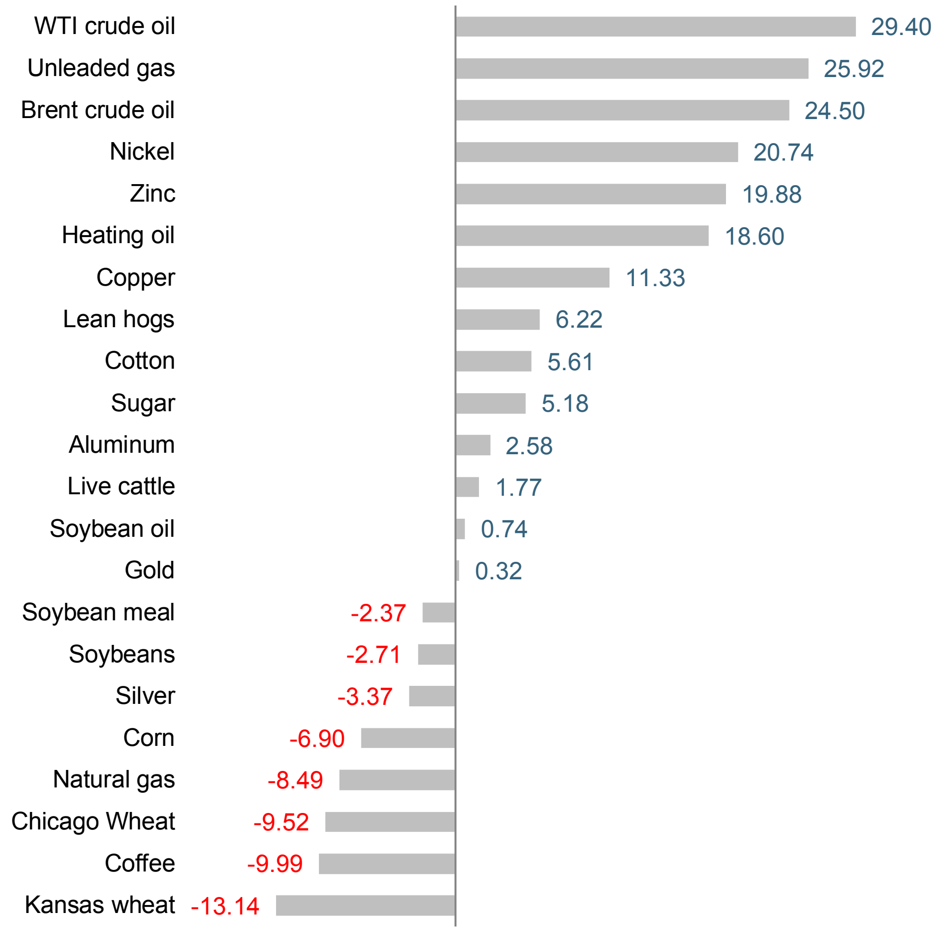
First Quarter 2019 Index Returns

Energy based commodities such as gasoline, crude oil and diesel rebounded off of their recent December lows, but remained well below their recent highs of October 2018. Copper and platinum notched solid returns, while gold was flat and silver was down modestly. Natural gas, coffee, wheat and cocoa were the worst performers.

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 (%)



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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.

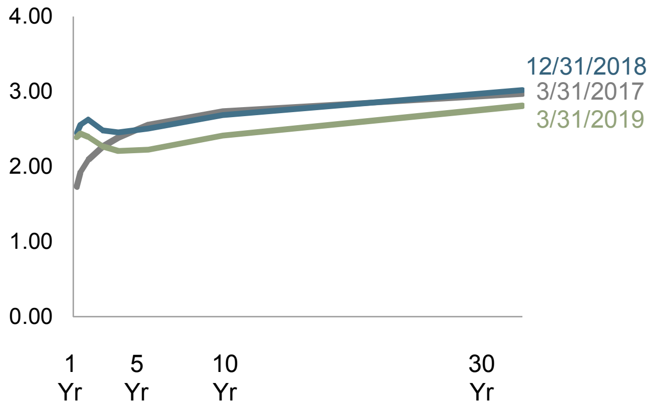
U.S. & global bonds progressed with the interest rate outlook

First Quarter 2019 Index Returns

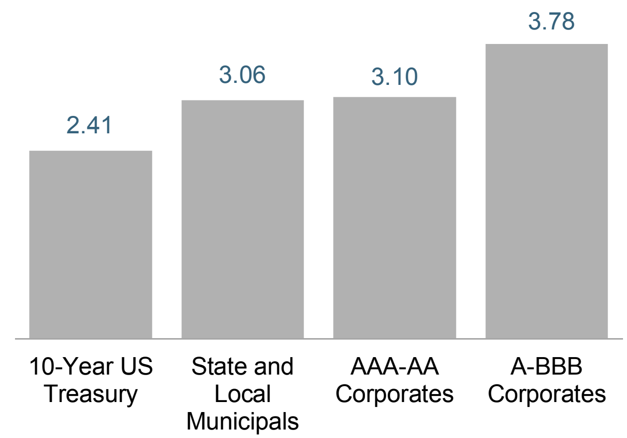
After ratchetting up interest rates four times in 2018 and foreshadowing additional hikes in 2019, the Fed changed course and held short term rates steady through its first two policy meetings of the year. January's abrupt adoption of a "wait-and-see approach" to rate increases morphed into an indefinite hold at current levels by March, courtesy of slower than expected growth domestically and abroad. The Fed also indicated it would end the tapering of its $4 trillion balance sheet by October, illustrating another unexpected pivot by the Fed. Both of these developments provided significant support to bond prices, although trepidation mounted with a portion of the yield curve inverting for the first time since 2007 as the 10-year Treasury bond yield fell below that of the 3-month Treasury bill.

The European Central Bank (ECB) announced it too would keep rates at current levels citing concerns over apathetic growth. The news came in stark juxtaposition to the mood three months ago when the ECB ended its $2.9 trillion bond-buying program in an effort to nudge interest rates back to more normal levels. ECB President, Mario Draghi, will step down in October as his nonrenewable term comes to an end. Over the last seven years he has played a central role in eurozone monetary policy, including architecting the central bank's monumental bond-buying efforts.

US Treasury Yield Curve (%)



Bond Yield across Issuers (%)



Period Returns (%)

*Annualized

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

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).

Additional factors to monitor closely

2019 Outlook

Inverted yield curve

A wide, positive gap between long-term and short-term interest rates typically signals economic health, while a narrowing or negative (inverted) gap has preceded lower interest rates and recessions in the past. However, lower interest rate environments do not always lead to recessions. For now, the yield curve inversion indicates investors believe the Fed may cut interest rates from here to counteract sluggish growth.

Global interest rates

Low interest rates worldwide have defined the post-financial crisis period, leaving central banks with limited capacity to reduce borrowing costs in the event global growth decelerates further. A return to ultra-low rates of the recent past could be problematic in the event of a sustained economic slowdown.

Fed balance sheet

The reversal of the Fed’s commitment to reduce its balance sheet supports low interest rates and has been a net positive for asset prices recently. The mid-to-long term impact of a swollen balance sheet remains to be seen and may have unintended consequences.

Continue the conversation with us.....

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