

Q2

Quarterly Market Review

Second Quarter 2018

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This report features world capital market performance and a timeline of events for the last quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

Overview:

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Select Currency Performance
vs. US Dollar

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Impact of Diversification

Quarterly Market Commentary

Second Quarter 2018 – July 5, 2018

Second quarter has come and gone, along with the usual mixed bag of “what next?” news. There were the typical ugly players such as potential trade wars and rising interest rates. There were also the usual market darlings, such as this quarter’s big, bold tech stocks. Each in their own way can tempt you to cringe or veer off-course.

We hope you’ll avoid reacting to recent news. At the same time, we understand how hard that can sometimes be. No matter how often we’re faced with uncertainty or how well we think we’ve prepared for it, new threats and opportunities have real ramifications in our lives; it’s natural to wonder whether “this time” they should also influence our investment decisions.

The decades and volumes of robust evidence advising our approach still suggests otherwise. To best pursue your personal goals, we must continue to consider the latest news within the greater context of how global capital markets have delivered

their eventual returns.

Our rational selves understand this. But, as Georgetown University finance professor James Angel observed in a recent [Wall Street Journal article](#), “One of the open secrets of the financial-services world is that we’re also in the entertainment and gaming industry.”

Building and maintaining a globally diversified portfolio is usually neither fun nor entertaining. It’s mostly just boring to stick to a well-crafted investment portfolio, year in, year out.

Here’s a fun stat to remember next time you’re tempted to bet against the proverbial house by guessing where the market is headed next (emphasis ours): “Since 1928, the [U.S.] stock market has risen on 54% of days, 58% of months **and 73% of years.**”

This comes from [the same WSJ article](#), along with this important observation: **“The distinction between an investment and a gamble lies in the odds of success.”**

Our goal is to keep those investment odds in your favor. It may not be as entertaining, nor is success guaranteed, but all evidence suggests you’re best off investing in the house and its expected favorable outcomes, rather than placing concentrated bets on every hand played.

As always, please be in touch any time we can help you explore current market returns as they relate to your financial goals – or with anything else that may be on your mind. One sure bet you can make: We’re always happy to hear from you!







David Bromelkamp

President and CEO

Chief Investment Officer

Market Summary

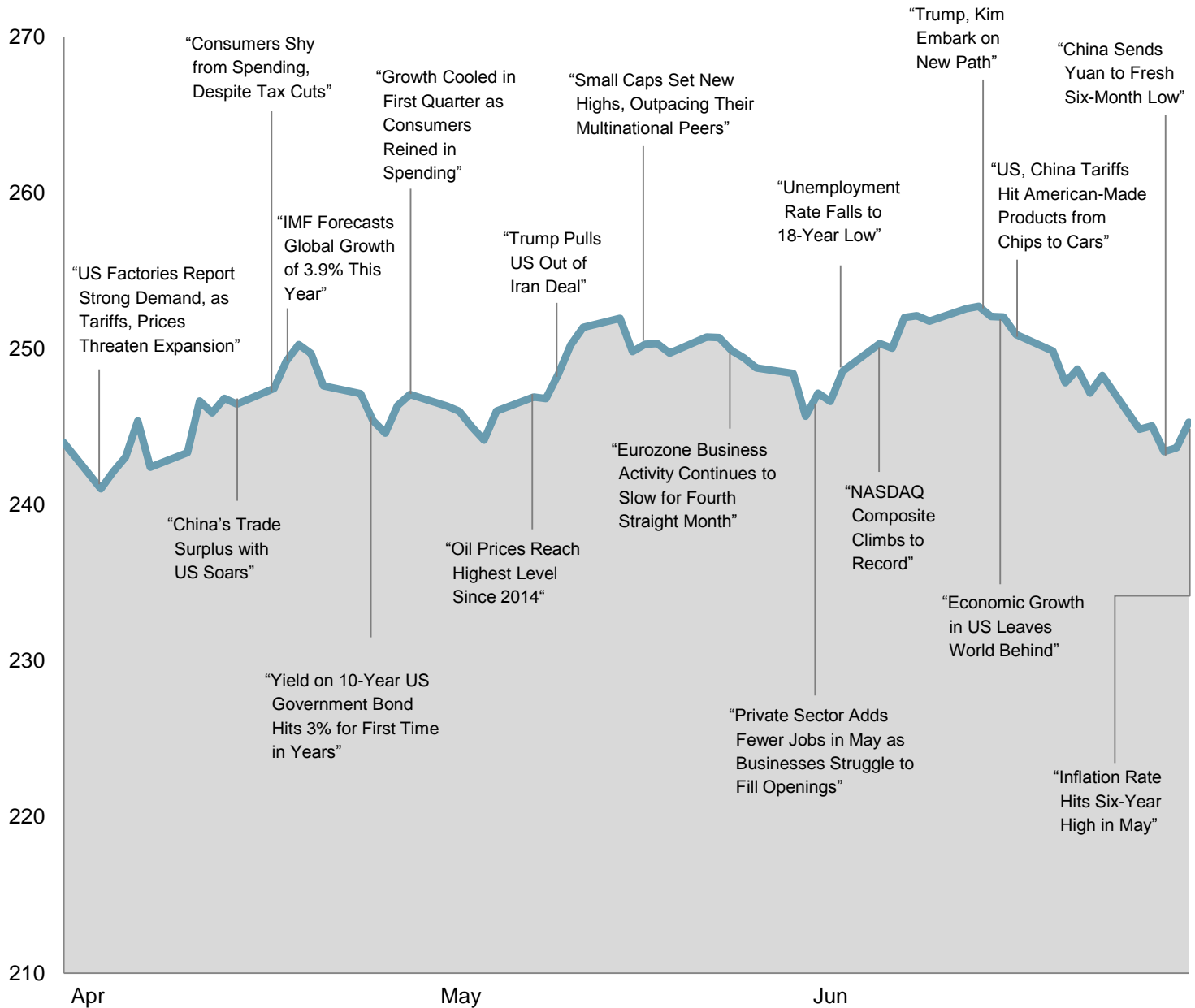
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Q2 2018	STOCKS				BONDS	
	3.89% 	-0.75% 	-7.96% 	6.05% 	-0.16% 	0.48% 
Since Jan. 2001						
Avg. Quarterly Return	2.0%	1.5%	3.0%	2.6%	1.1%	1.1%
Best Quarter	16.8% Q2 2009	25.9% Q2 2009	34.7% Q2 2009	32.3% Q3 2009	4.6% Q3 2001	4.6% Q4 2008
Worst Quarter	-22.8% Q4 2008	-21.2% Q4 2008	-27.6% Q4 2008	-36.1% Q4 2008	-3.0% Q4 2016	-2.7% Q2 2015

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 © 2018 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 2018, all rights reserved. Bloomberg Barclays data provided by Bloomberg. FTSE fixed income © 2018 FTSE Fixed Income LLC, all rights reserved.

World Stock Market Performance

MSCI All Country World Index with selected headlines from Q2 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 2018, 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

Short Term (Q3 2017–Q2 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 2018, all rights reserved.

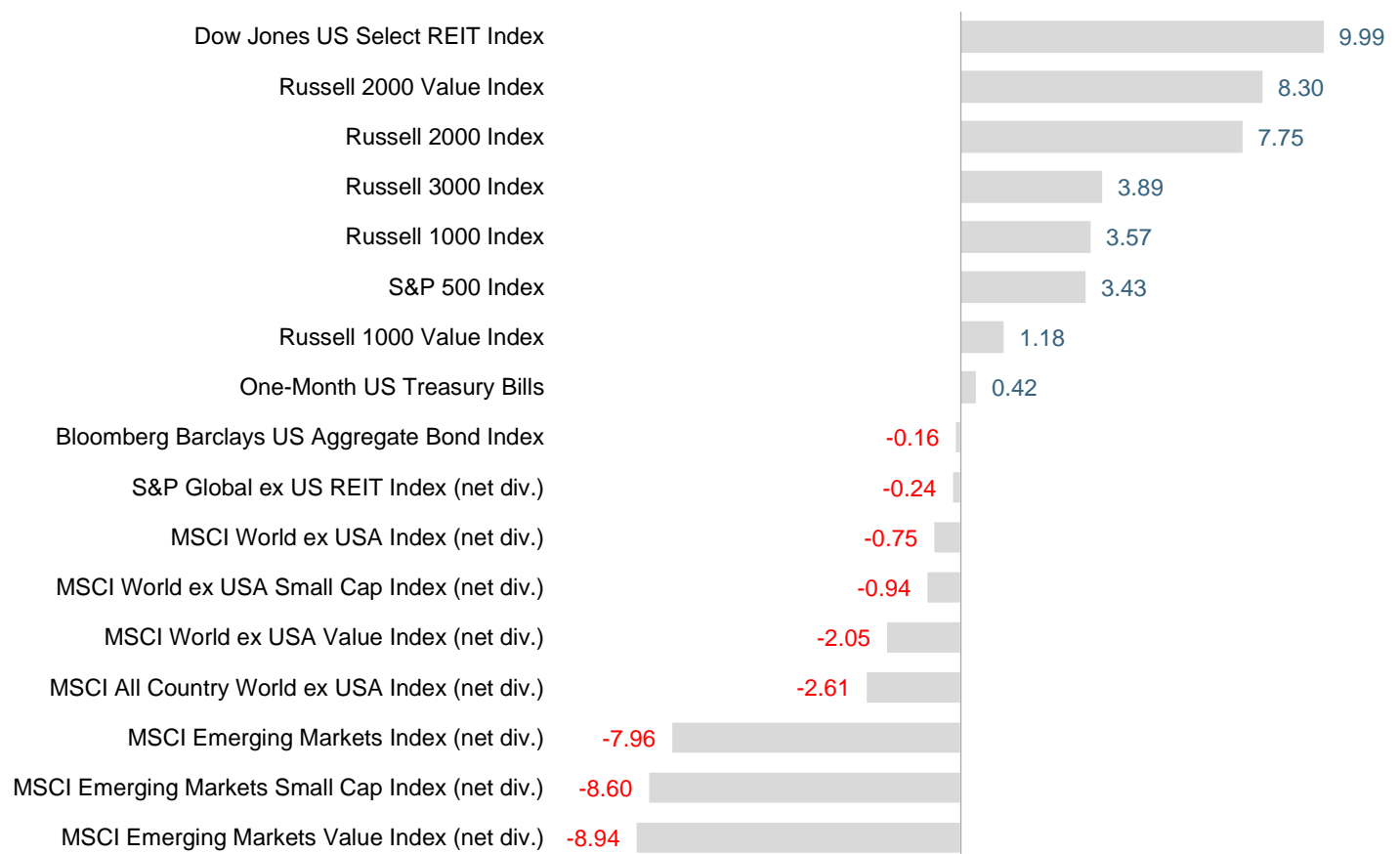
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World Asset Classes

Second Quarter 2018 Index Returns (%)

Looking at broad market indices, the US outperformed non-US developed and emerging markets during the second quarter.

Small caps outperformed large caps in the US but underperformed in both non-US developed and emerging markets. The value effect was negative in the US as well as markets outside the US.



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US Stocks

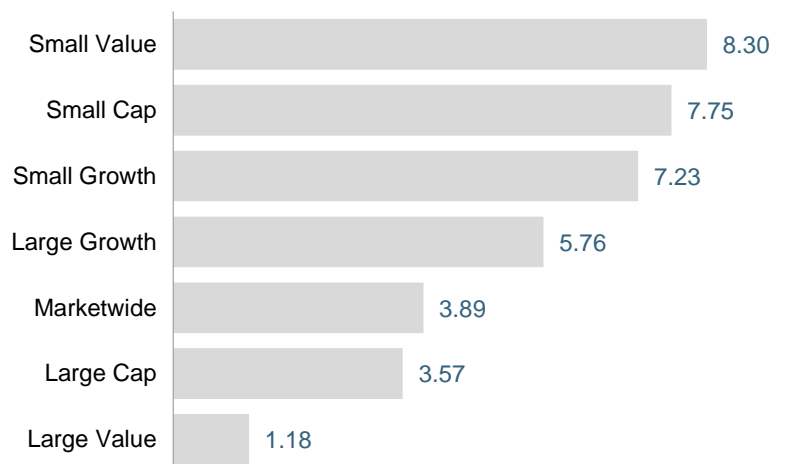
Second Quarter 2018 Index Returns

The US equity market posted a positive return, outperforming both non-US developed and emerging markets in the second quarter.

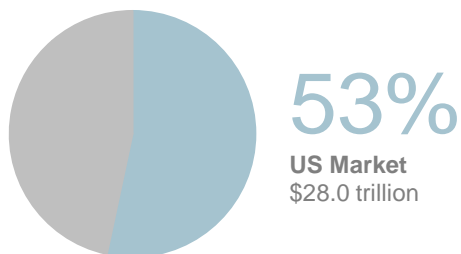
Large cap value stocks underperformed large cap growth stocks in the US; however, small cap value stocks outperformed small cap growth.

There was a positive size premium, as small cap stocks generally outperformed large cap stocks in the US.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

* Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Small Value	8.30	13.10	11.22	11.18	9.88
Small Cap	7.75	17.57	10.96	12.46	10.60
Small Growth	7.23	21.86	10.60	13.65	11.24
Large Growth	5.76	22.51	14.98	16.36	11.83
Marketwide	3.89	14.78	11.58	13.29	10.23
Large Cap	3.57	14.54	11.64	13.37	10.20
Large Value	1.18	6.77	8.26	10.34	8.49

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 source and owner of trademarks, service marks, and copyrights related to Russell Indexes. MSCI data © MSCI 2018, all rights reserved.

International Developed Stocks

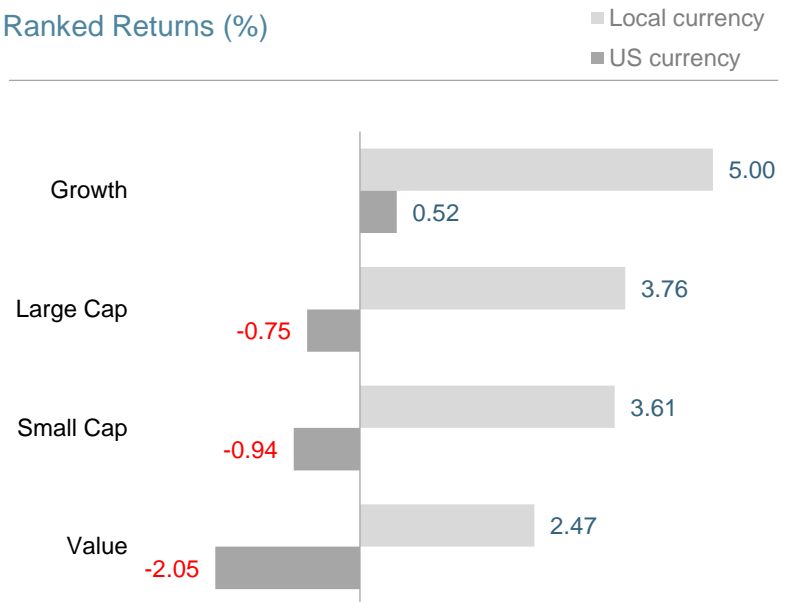
Second Quarter 2018 Index Returns

In US dollar terms, developed markets outside the US underperformed the US but outperformed emerging markets during the second quarter.

Value underperformed growth in non-US developed markets across large and small cap stocks.

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

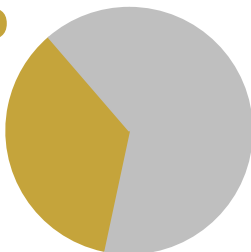
Ranked Returns (%)



World Market Capitalization— International Developed

35%

International
Developed
Market
\$18.5 trillion



Period Returns (%)

* Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Growth	0.52	9.26	5.95	7.11	2.92
Large Cap	-0.75	7.04	4.87	6.23	2.63
Small Cap	-0.94	11.87	9.45	10.28	6.09
Value	-2.05	4.80	3.70	5.27	2.29

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Emerging Markets Stocks

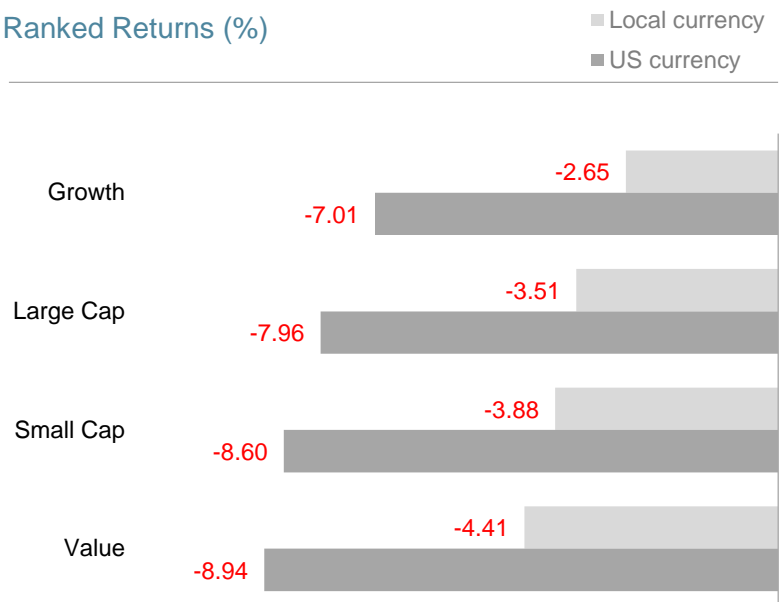
Second Quarter 2018 Index Returns

In US dollar terms, emerging markets posted negative returns in the second quarter, underperforming developed markets including the US.

The value effect was negative in large caps; however, value and growth stocks had similar performance among small cap stocks within emerging markets.

Small caps underperformed large caps in emerging markets.

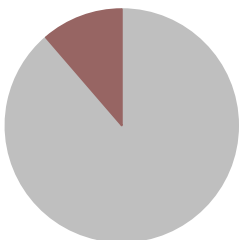
Ranked Returns (%)



World Market Capitalization— Emerging Markets

11%

Emerging Markets
\$5.9 trillion



Period Returns (%)

* Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Growth	-7.01	11.92	8.34	7.16	3.28
Large Cap	-7.96	8.20	5.60	5.01	2.26
Small Cap	-8.60	5.64	2.55	4.32	4.44
Value	-8.94	4.28	2.76	2.77	1.14

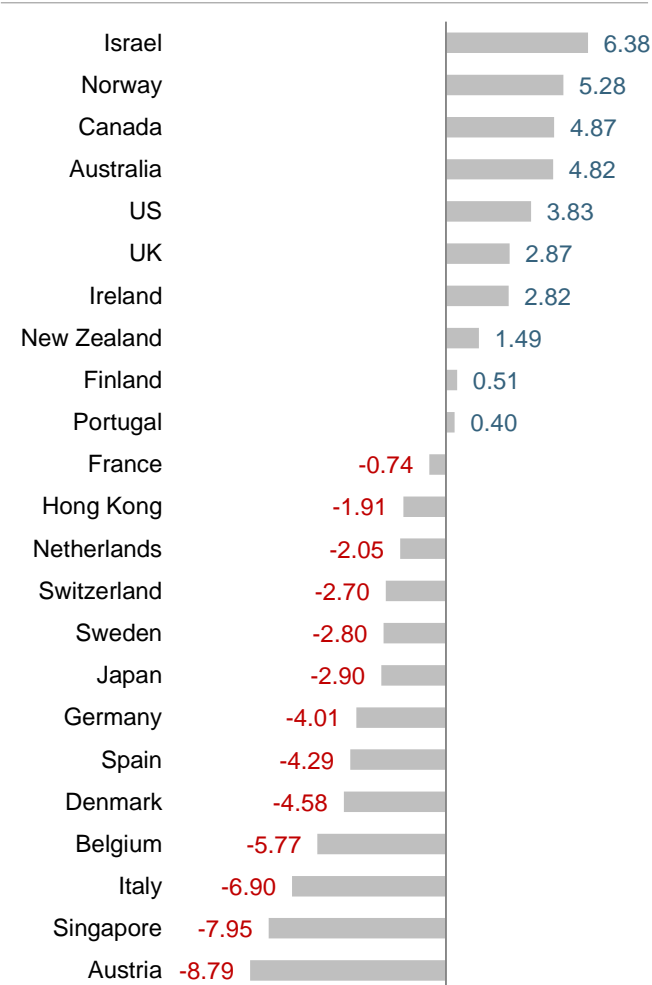
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Select Country Performance

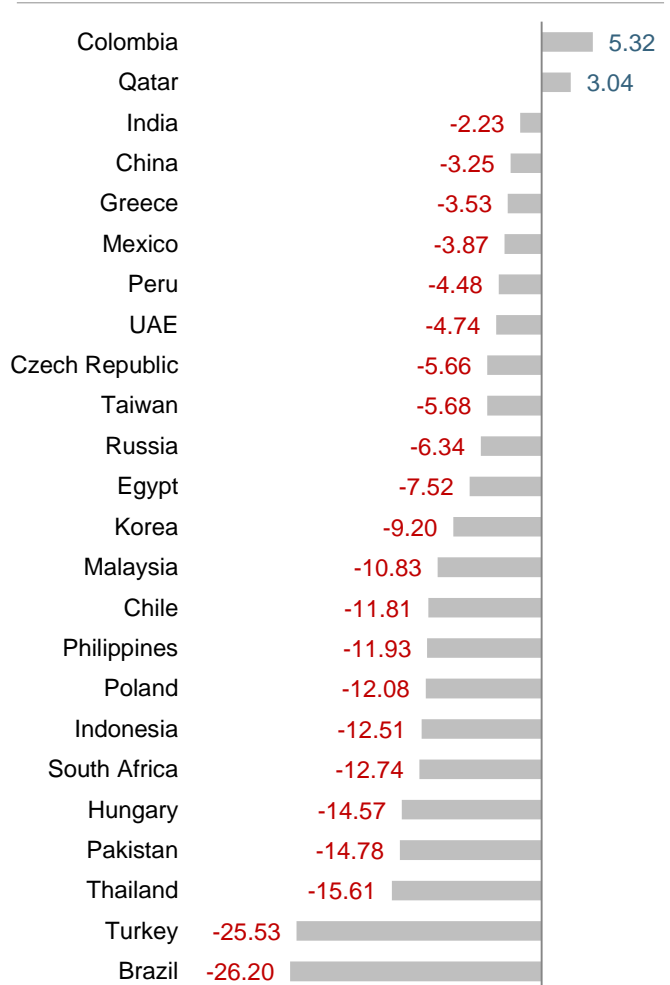
Second Quarter 2018 Index Returns

In US dollar terms, Israel and Norway recorded the highest country performance in developed markets, while Austria and Singapore posted the lowest returns for the second quarter. Most emerging markets recorded negative absolute returns with the exception of Colombia and Qatar, which posted the highest country performance. Brazil and Turkey had the lowest performance in the emerging markets.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



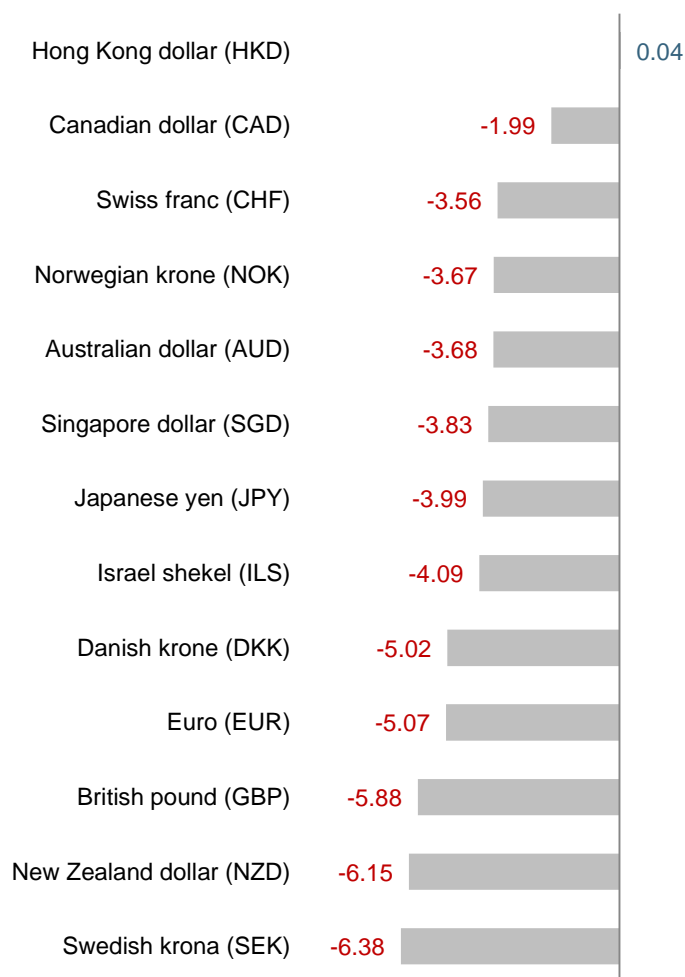
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), MSCI USA IMI Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. MSCI data © MSCI 2018, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Select Currency Performance vs. US Dollar

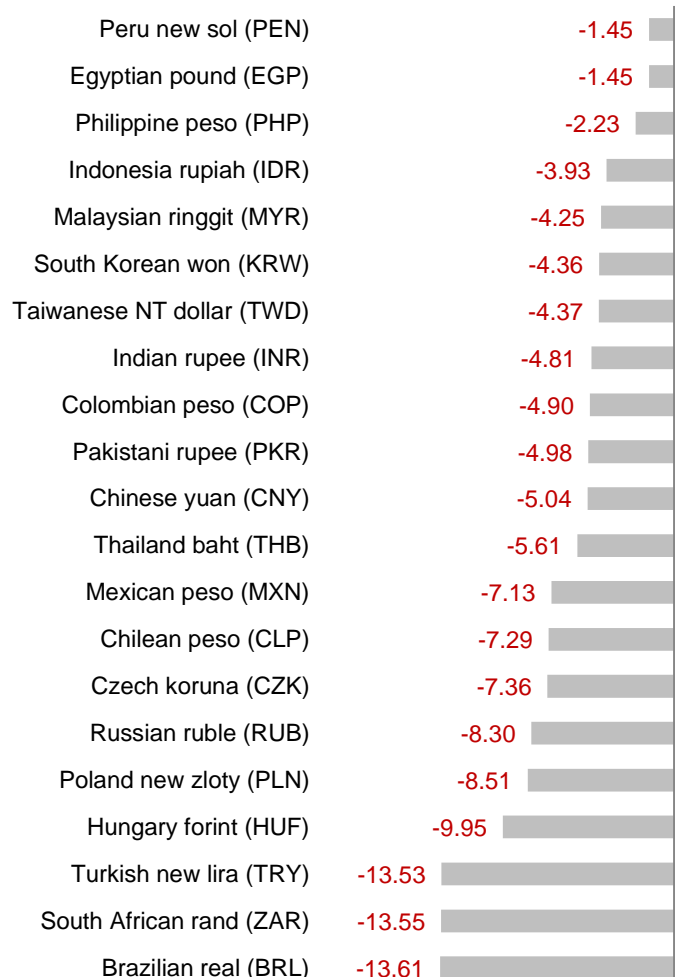
Second Quarter 2018

Almost all currencies depreciated vs. the US dollar. For example, in developed markets, the Japanese yen and the British pound depreciated almost 4% and 6%, respectively. In emerging markets, the currency effect was greater; the Brazilian real, Turkish lira, and South African rand all depreciated by over 13%.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)

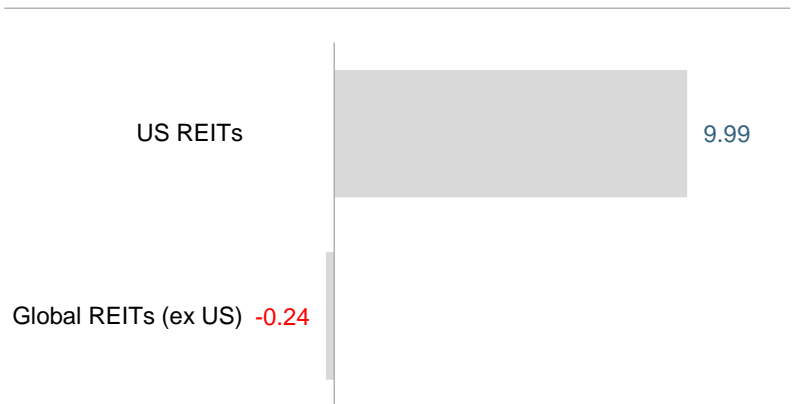


Real Estate Investment Trusts (REITs)

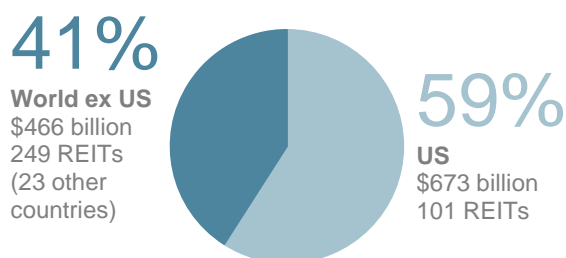
Second Quarter 2018 Index Returns

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

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	QTR	* Annualized			
		1 Year	3 Years*	5 Years*	10 Years*
US REITs	9.99	4.23	7.71	8.29	7.63
Global REITs (ex US)	-0.24	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. Dow Jones data © 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. S&P data © 2018 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Commodities

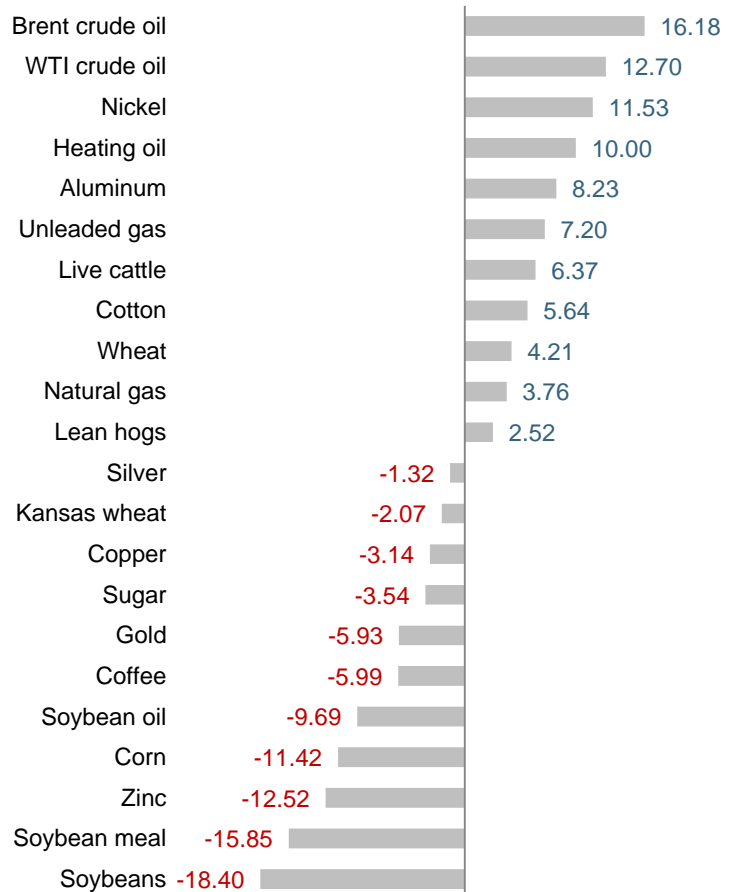
Second Quarter 2018 Index Returns

The Bloomberg Commodity Index Total Return gained 0.40% during the second quarter.

The energy complex led performance with Brent oil returning 16.18% and WTI crude oil 12.70%.

Grains was the worst-performing complex; soybeans declined 18.40%, and soybean meal lost 15.85%.

Ranked Returns for Individual Commodities (%)



Period Returns (%)

* Annualized

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

Fixed Income

Second Quarter 2018 Index Returns

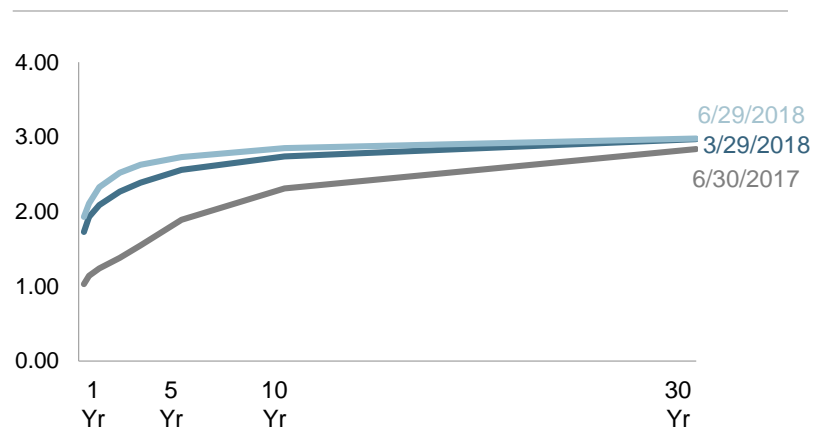
Interest rates increased in the US during the second quarter. The yield on the 5-year Treasury note rose 17 basis points (bps), ending at 2.73%. The yield on the 10-year T-note rose 11 bps to 2.85%. The 30-year Treasury bond yield climbed 1 bps to 2.98%.

The 1-month Treasury bill yield rose 14 bps to 1.77%, while the 1-year Treasury bill yield increased 24 bps to 2.33%. The 2-year Treasury note yield finished at 2.52% after increasing 25 bps.

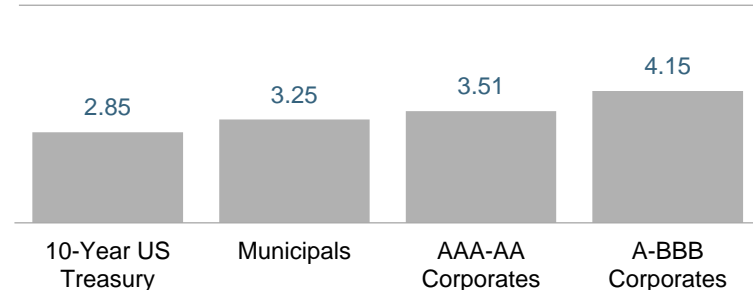
In terms of total return, short-term corporate bonds gained 0.29%, while intermediate-term corporate bonds declined 0.10%.

Short-term municipal bonds added 0.66%, while intermediate-term munis returned 0.81%. Revenue bonds performed in-line with general obligation bonds, returning 0.90% and 0.87%, respectively.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



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

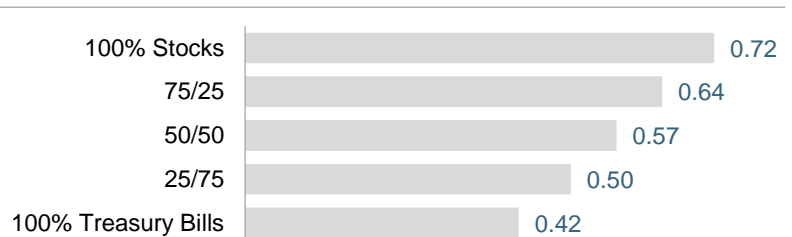
One basis point equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are 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 (S&BI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2018 FTSE Fixed Income LLC, all rights reserved. ICE BofAML index data © 2018 ICE Data Indices, LLC.

Impact of Diversification

Second Quarter 2018 Index Returns

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

Ranked Returns (%)

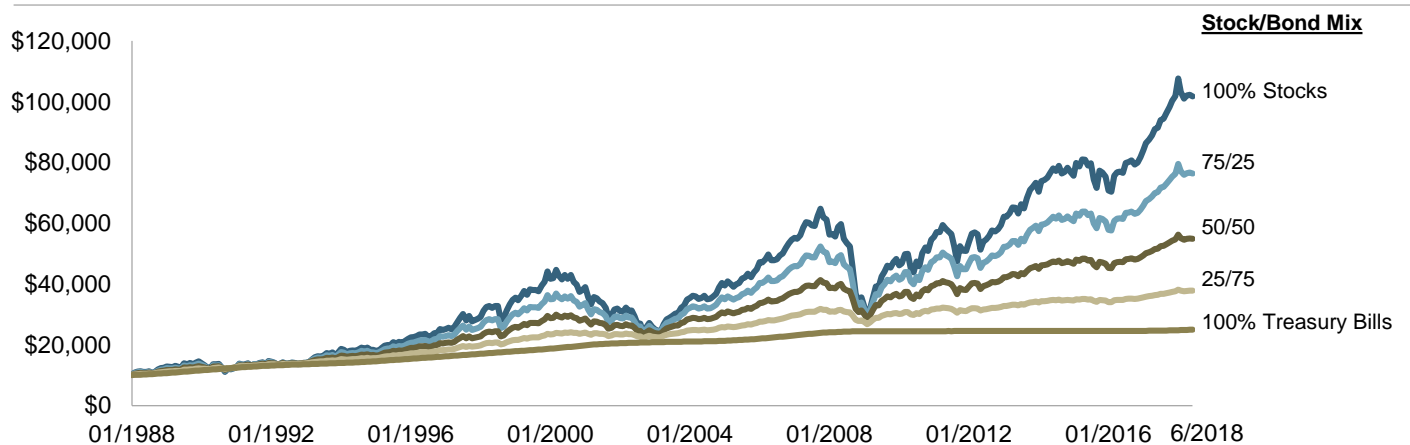


Period Returns (%)

* Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV ¹
100% Stocks	0.72	11.31	8.78	10.00	6.37	16.41
75/25	0.64	8.79	6.79	7.61	5.09	12.30
50/50	0.57	6.27	4.75	5.21	3.64	8.19
25/75	0.50	3.77	2.69	2.79	2.03	4.09
100% Treasury Bills	0.42	1.27	0.59	0.36	0.27	0.13

Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2018, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).