

Q1

Quarterly Market Review

First Quarter 2019

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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 Commentary

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World Asset Classes

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Emerging Markets Stocks

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Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Impact of Diversification

Quarterly Market Commentary

First Quarter 2019 – April 5, 2019

Another quarter has come and gone; a tick of the second hand in your lifelong financial journey.

At this moment, we can compare and contrast the current quarter-end to recent rounds. As a [Wall Street Journal article](#) summarized, “Stock investors have been on a wild ride the past six or so months: The S&P 500 has gone from a record high, to being on the cusp of a bear market, to being back within striking distance of its recent peak.”

At this moment, financial headlines are closely watching what’s in store for Brexit, the shape of the U.S. Treasury yield curve, China trade talks, and other potential slowdowns and stimuli.

At this moment, [a financial commentator proposed](#) a new “golden cross” is supposedly signaling a bull market ahead, based on comparing the 50-day moving average to the 200-day moving average. Noting the historical data isn’t sufficient to be telling, the author admits (emphasis ours): “**The crosses derive their power not because there is something inherent but because many investors believe in them and act on them.**” Moreover, the media like

the stories of golden crosses and death crosses, and promote them. This generates bullish or bearish sentiment.”

Seriously? Then there’s our perspective.

As always, this sort of circular logic leads too many investors astray. As you reflect on any forecasting “powers” reported in the popular press, remember the vast majority of them are premised on what may be the flimsiest platform ever devised: human sentiment.

As always, remember how easy it is to get tangled up in the ticks and tocks. There are always causes for global socioeconomic concern. There are almost always cases for optimism as well. Either way, remember these words from financial luminary William Bernstein, MD, PhD, in [his March 1 commentary](#): “Investing, after all, is an operation that transfers wealth to those who have a process and can execute it from those who do not and cannot; from what I’ve seen, the average investor’s strategy consists of pride when prices rise and panic when they fall.”

As always, we encourage you to rise above the news of the day. It

is our special privilege to help you do just that. There will always be plenty of prognosticators, enticing you to grab at “golden” opportunities. Fortunately, there are many voices of reason among us as well.

As we reflect on what may be this past quarter’s most meaningful news, we mourn the loss of one of our greatest allies on this front. Investors lost a staunch friend with the January 16 passing of John “Jack” C. Bogle, Vanguard founder and father of the first publicly traded index fund. In his honor, we recall one of his countless worthy observations (as shared by [Jason Zweig](#)): “**If they can take your integrity away from you, it’s not integrity.**”

These are words to live by—at home, in the office, and not least of all, as an investor. **At this moment, and as always**, please let us know whenever we can help you cut through the clutter toward your clear investment course.







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
Q1 2019	STOCKS				BONDS	
	14.04%	10.45%	9.92%	14.07%	2.94%	2.96%
						
Since Jan. 2001						
Avg. Quarterly Return	2.0%	1.4%	2.9%	2.6%	1.1%	1.1%
Best Quarter	16.8% 2009 Q2	25.9% 2009 Q2	34.7% 2009 Q2	32.3% 2009 Q3	4.6% 2001 Q3	4.6% 2008 Q4
Worst Quarter	-22.8% 2008 Q4	-21.2% 2008 Q4	-27.6% 2008 Q4	-36.1% 2008 Q4	-3.0% 2016 Q4	-2.7% 2015 Q2

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 © 2019 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 2019, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

Long-Term Market Summary

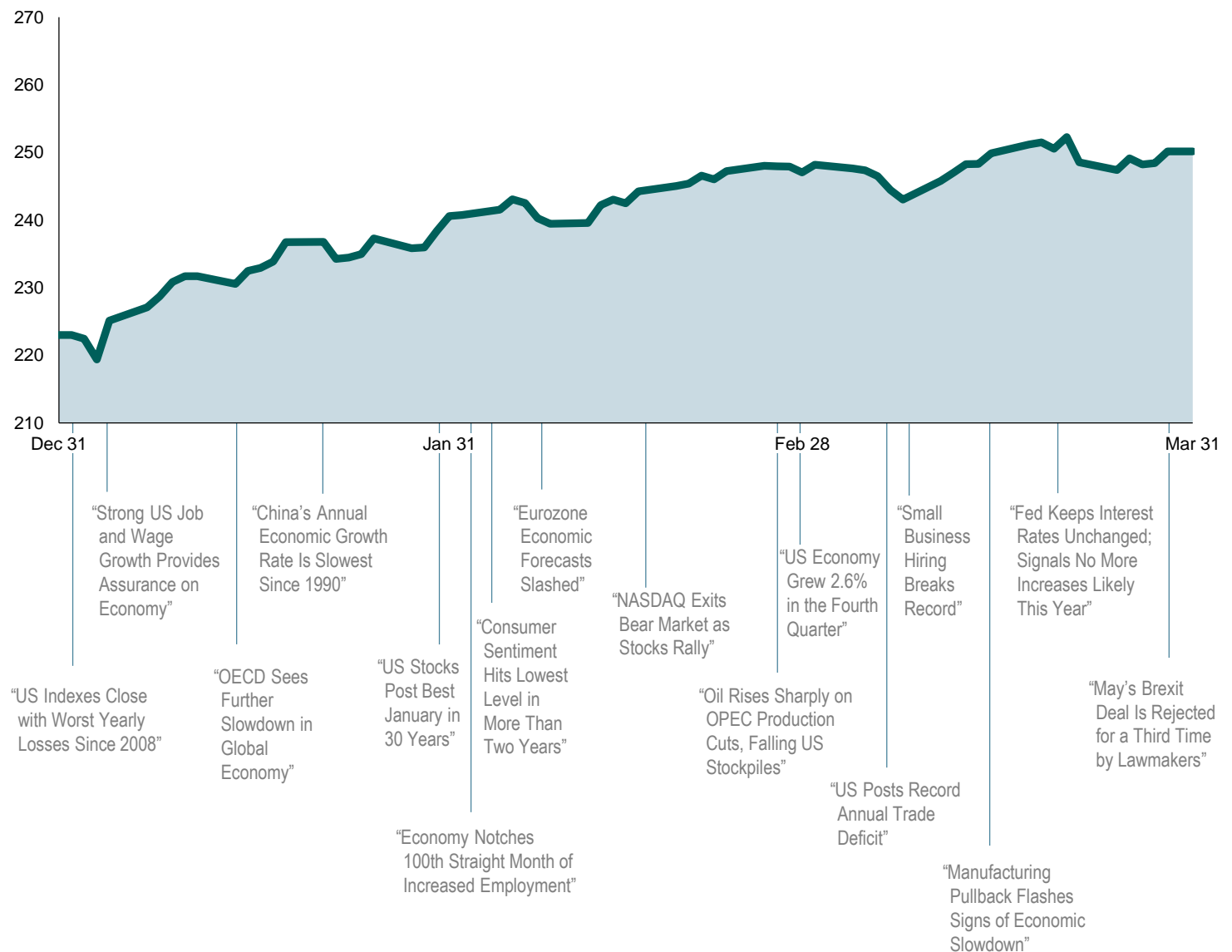
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	8.77%	-3.14%	-7.41%	13.93%	4.48%	5.23%
						
5 Years						
	10.36%	2.20%	3.68%	6.63%	2.74%	4.27%
						
10 Years						
	16.00%	8.82%	8.94%	14.84%	3.77%	4.29%
						

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World Stock Market Performance

MSCI All Country World Index with selected headlines from Q1 2019



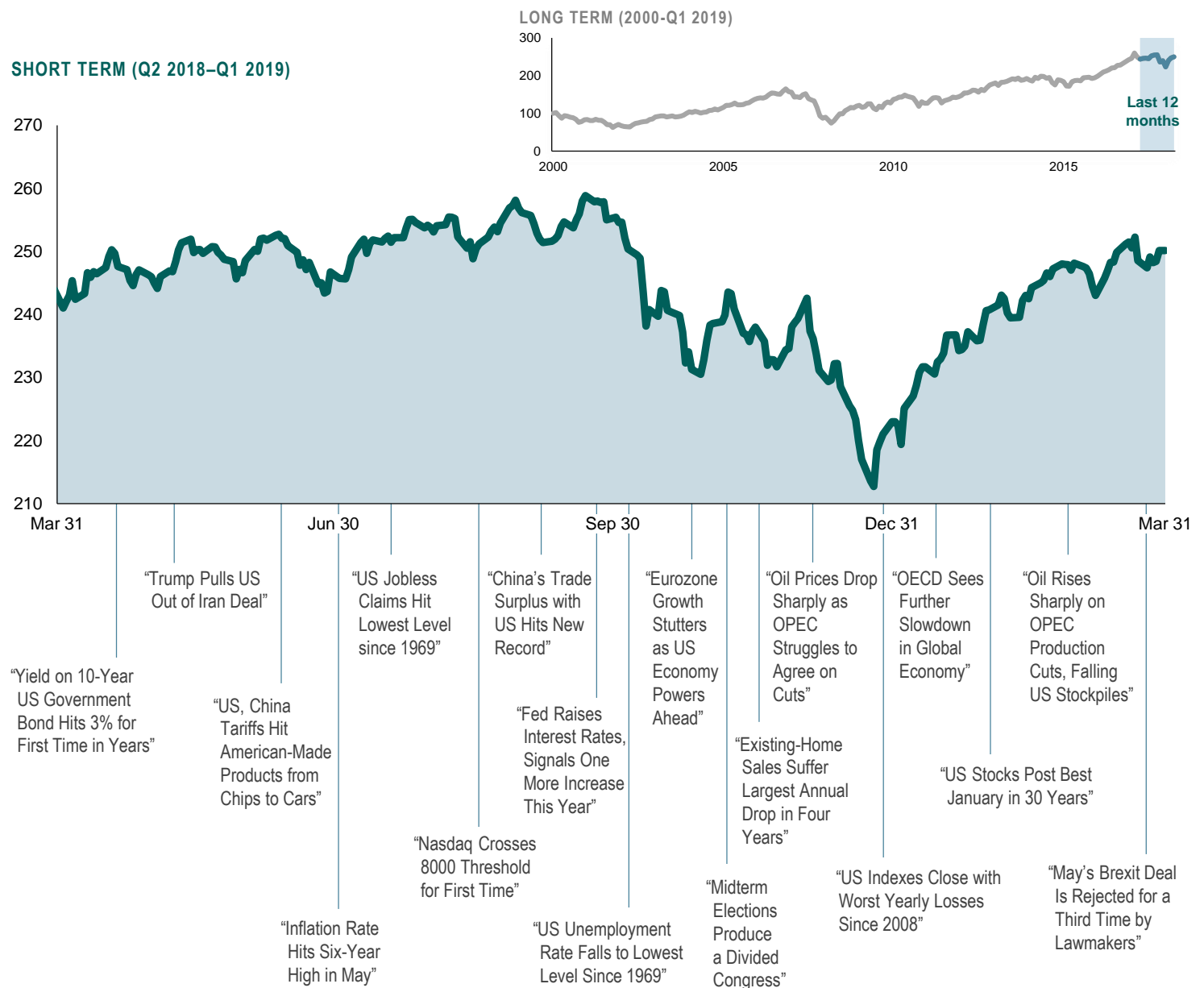
These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.]. 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.**

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



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.

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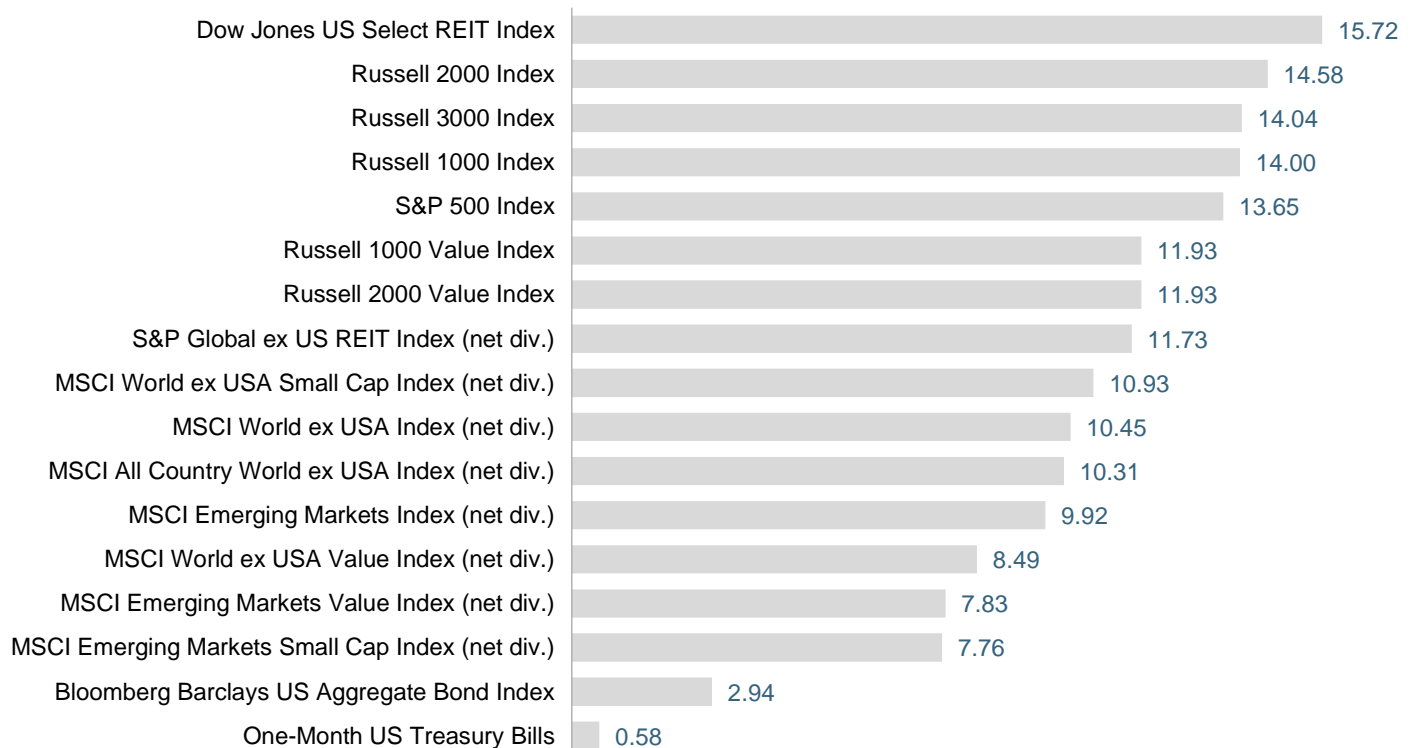
World Asset Classes

First Quarter 2019 Index Returns (%)

Equity markets posted positive returns around the globe in the first quarter. Looking at broad market indices, US equities outperformed non-US developed and emerging markets.

Small caps outperformed large caps in the US and non-US developed markets but underperformed in emerging markets. Value stocks generally underperformed growth stocks in all regions.

REIT indices outperformed equity market indices in both the US and non-US developed markets.



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US Stocks

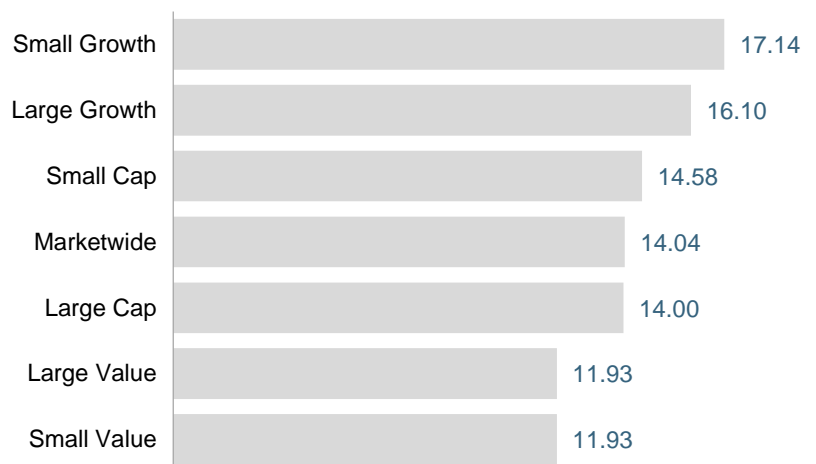
First Quarter 2019 Index Returns

US equities outperformed both non-US developed and emerging markets.

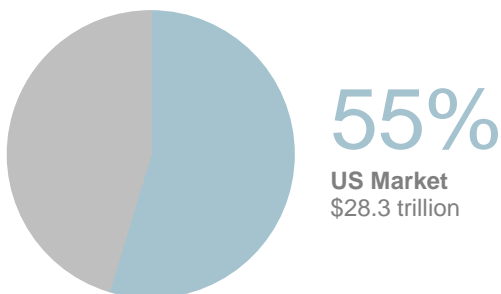
Small caps outperformed large caps in the US.

Value underperformed growth across large and small cap stocks.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



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

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 2019, all rights reserved. 7

International Developed Stocks

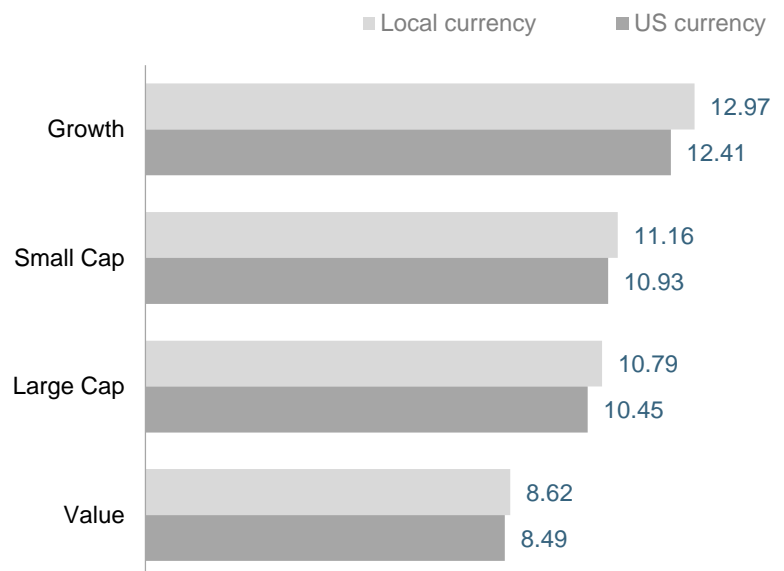
First Quarter 2019 Index Returns

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

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

Value underperformed growth across large and small cap stocks.

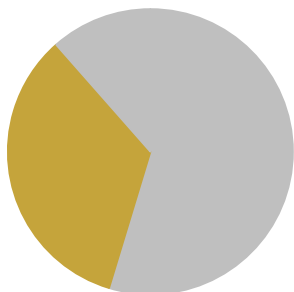
Ranked Returns for the Quarter (%)



World Market Capitalization— International Developed

34%

International
Developed Market
\$17.5 trillion



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

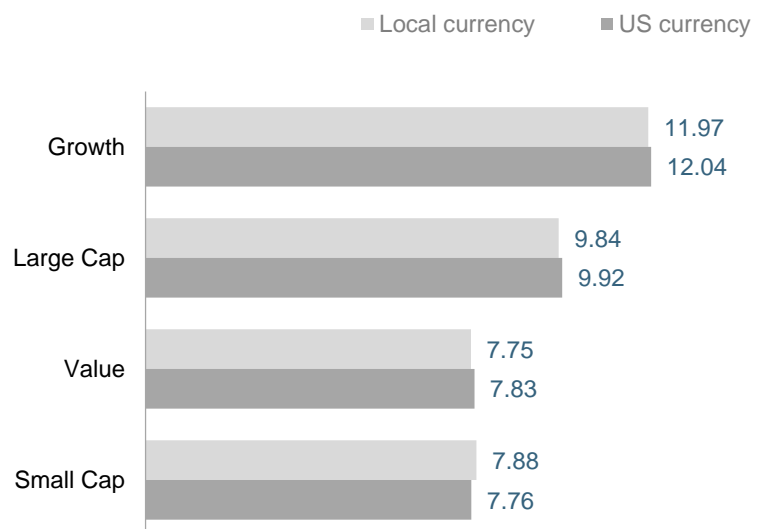
First Quarter 2019 Index Returns

In US dollar terms, emerging markets underperformed developed markets, including the US.

Value outperformed growth across small cap stocks but underperformed in large caps.

Small caps underperformed large caps.

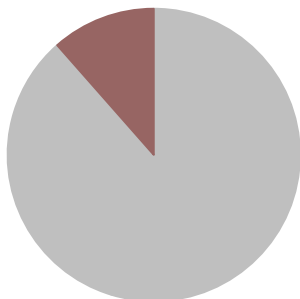
Ranked Returns for the Quarter (%)



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

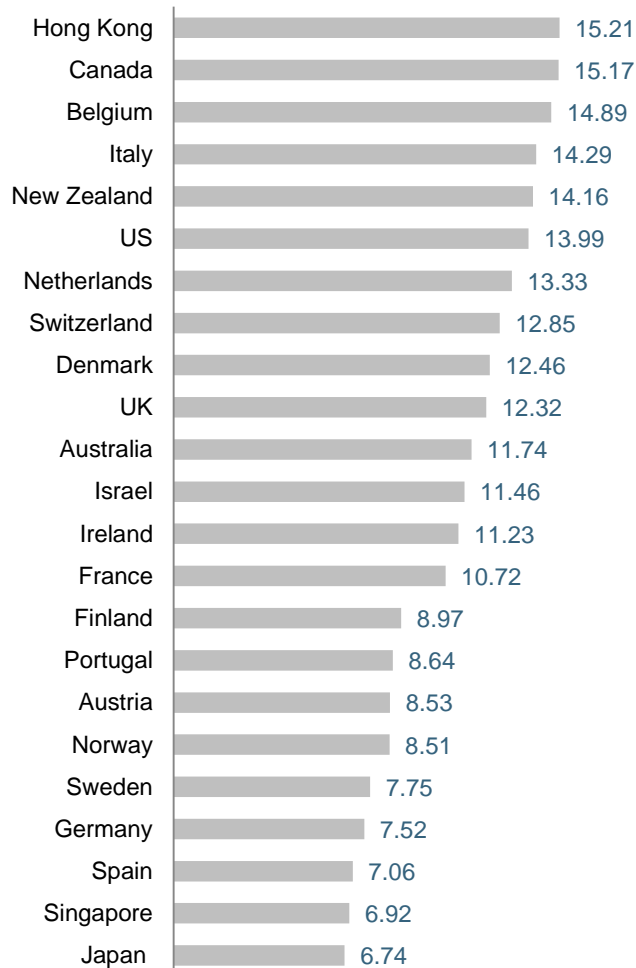
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Select Country Performance

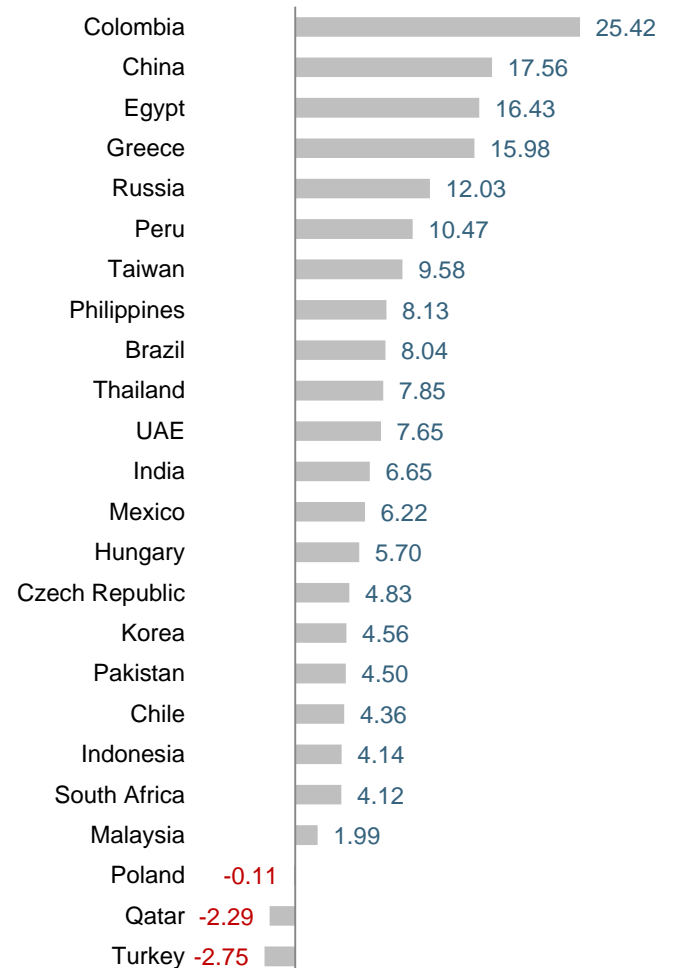
First Quarter 2019 Index Returns

In US dollar terms, Hong Kong and Canada recorded the highest country performance in developed markets, while Japan and Singapore posted the lowest returns for the quarter. In emerging markets, Columbia and China recorded the highest country performance, while Turkey and Qatar posted the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



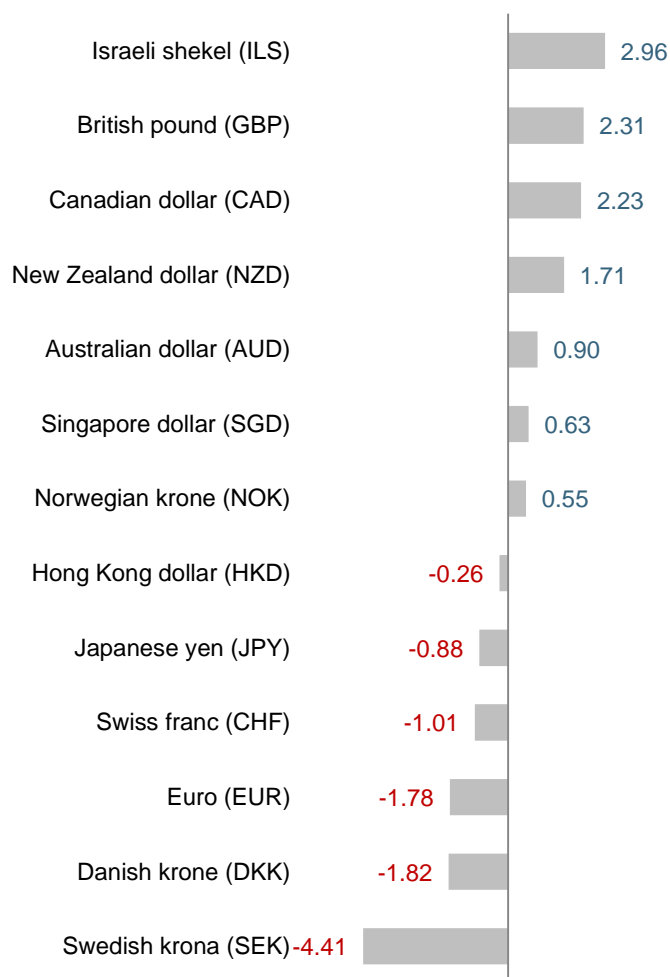
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed 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 2019, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Select Currency Performance vs. US Dollar

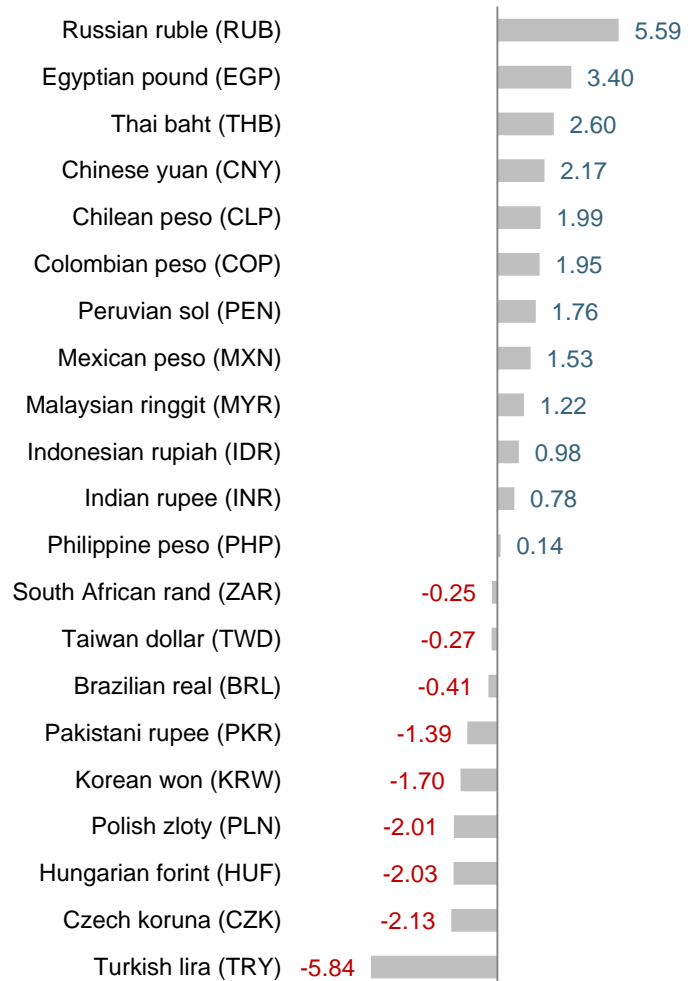
First Quarter 2019

Currencies were mixed against the US dollar in both developed and emerging markets.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



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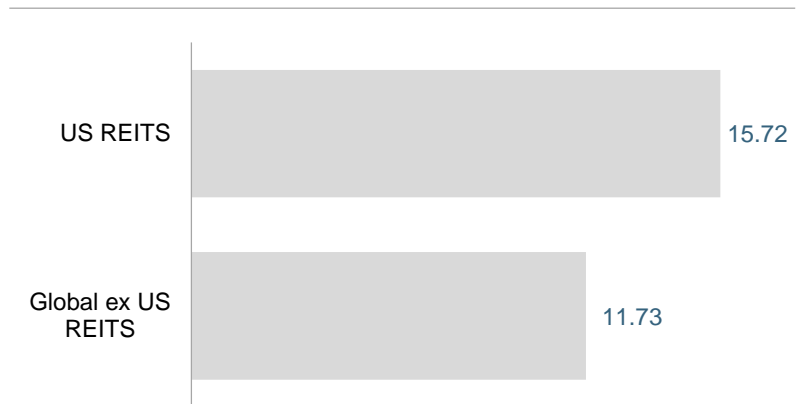
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Real Estate Investment Trusts (REITs)

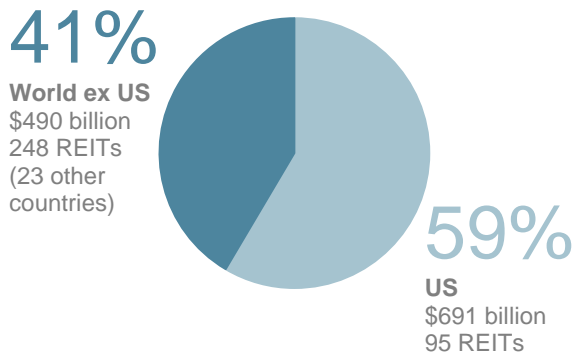
First Quarter 2019 Index Returns

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

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	* Annualized			
	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

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 and S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Commodities

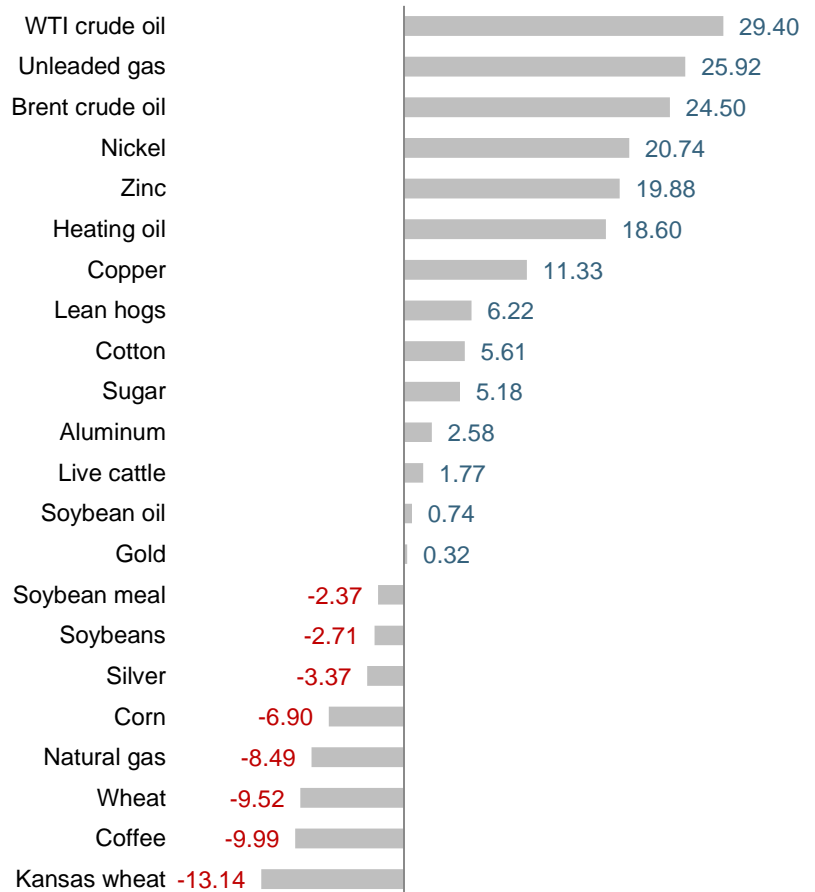
First Quarter 2019 Index Returns

The Bloomberg Commodity Index Total Return returned 6.32% for the first quarter of 2019.

The energy complex led quarterly performance. Crude oil gained 29.40%, and unleaded gas added 25.92%.

Grains was the worst-performing complex. Wheat (Kansas) and wheat (Chicago) declined by 13.14% and 9.52%, respectively.

Ranked Returns for Individual Commodities (%)



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

Fixed Income

First Quarter 2019 Index Returns

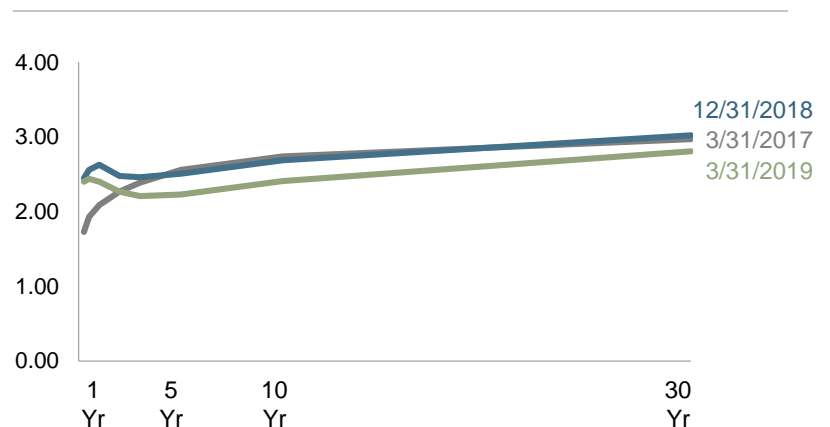
Interest rates decreased in the US Treasury fixed income market during the first quarter. The yield on the 5-year Treasury note declined 28 basis points (bps), ending at 2.23%. The yield on the 10-year Treasury note decreased 28 bps to 2.41%. The 30-year Treasury bond yield fell 21 bps to finish at 2.81%.

On the short end of the curve, the 1-month T-bill yield was relatively unchanged at 2.43%, while the 1-year T-bill yield dipped 23 bps to 2.40%. The 2-year Treasury note finished at 2.27% after a 21 bps decrease.

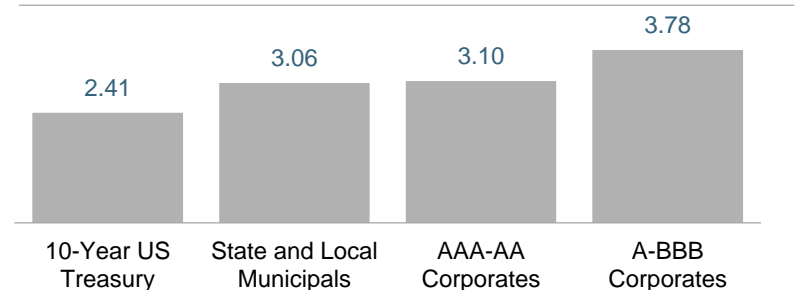
In terms of total returns, short-term corporate bonds gained 1.83%. Intermediate-term corporate bonds had a total return of 3.82%.

Total returns for short-term municipal bonds were 1.33%, while intermediate munis gained 2.78%. Revenue bonds outperformed general obligation bonds.

US Treasury Yield Curve (%)



Bond Yields 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 ICE BofAML US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofAML 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&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). 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.

Global Fixed Income

First Quarter 2019 Yield Curves

Interest rates in the global developed markets generally decreased during the quarter.

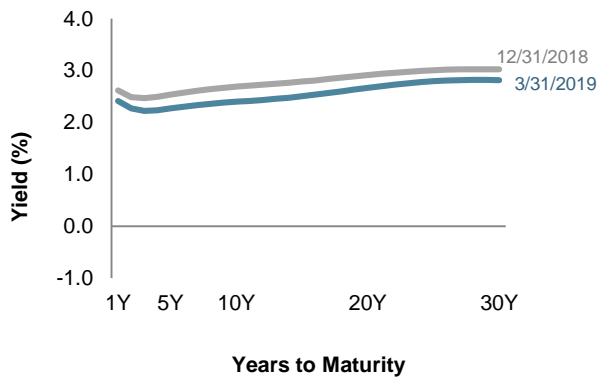
Longer-term bonds generally outperformed shorter-term bonds.

Nominal rates in Germany and Japan are negative out to approximately 10 years.

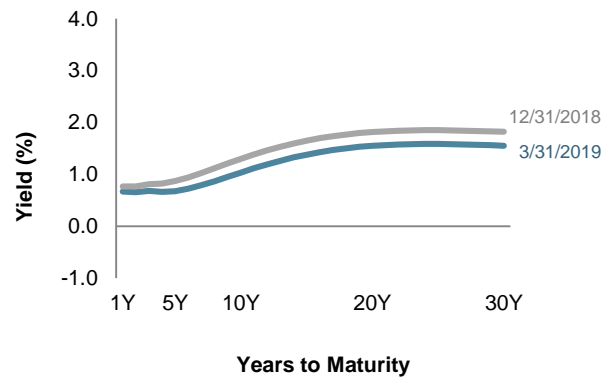
Changes in Yields (bps) since 9/30/2018

	1Y	5Y	10Y	20Y	30Y
US	-20.7	-26.5	-29.1	-24.5	-20.4
UK	-10.2	-19.5	-26.4	-26.4	-27.0
Germany	17.9	-17.9	-33.6	-31.0	-29.0
Japan	-3.4	-5.6	-9.5	-16.8	-21.5

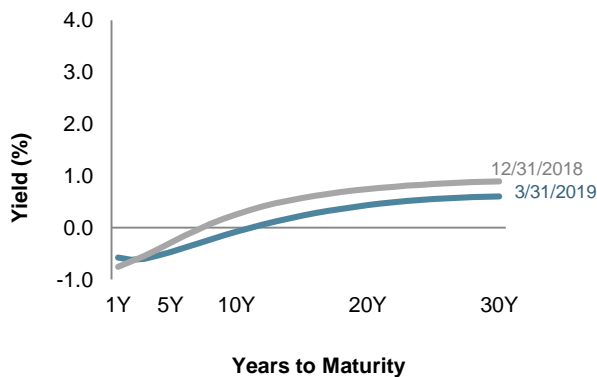
US



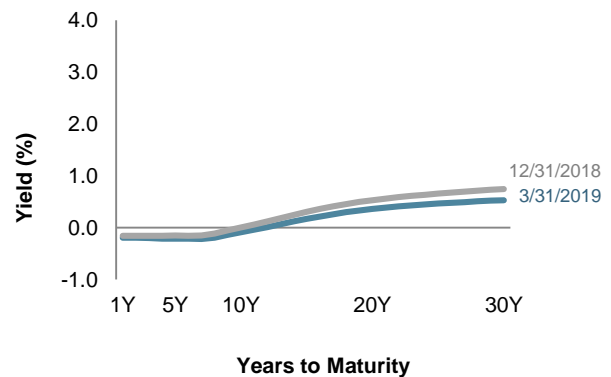
UK



Germany



Japan

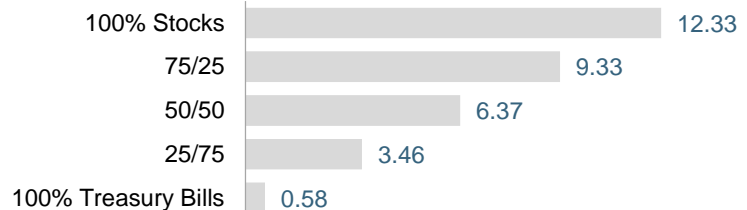


Impact of Diversification

First Quarter 2019 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 (%)

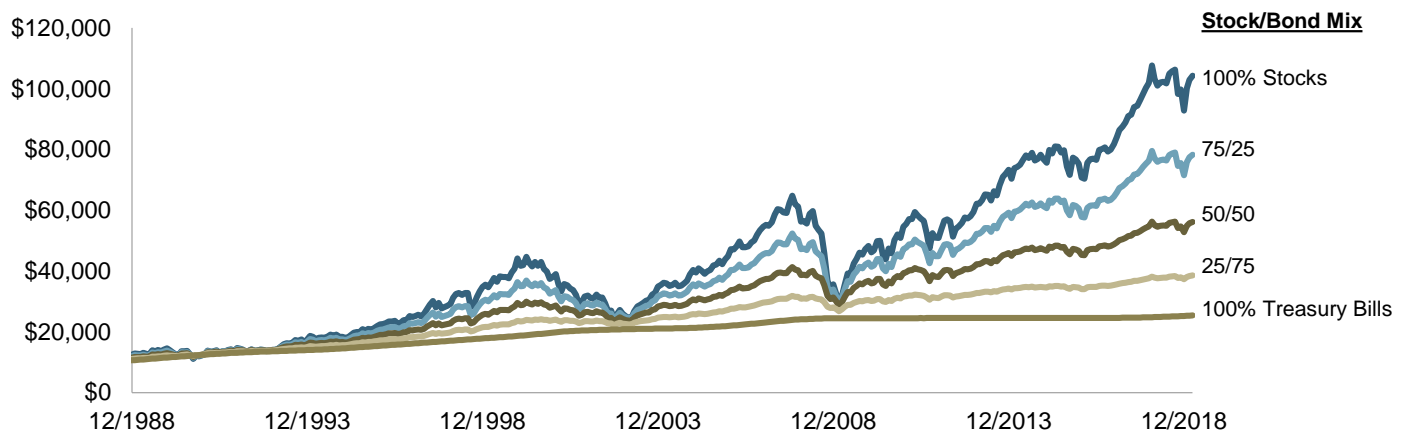


Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV ¹
100% Stocks	3.16	11.27	7.03	12.58	13.92
75/25	3.07	8.75	5.53	9.60	10.44
50/50	2.85	6.21	3.97	6.57	6.95
25/75	2.51	3.67	2.35	3.49	3.48
100% Treasury Bills	2.05	1.11	0.68	0.37	0.18

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 2019, 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).