

# MARKET COMMENTARY

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## Q1 2019 in Perspective

*Our evidence-based investment approach focuses on investing for the long-term. Portfolio allocations and investments are not adjusted in response to market news or economic events; however, we evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in proper context.*

Global stocks rebounded from the late-2018 market correction in the first quarter of 2019. All major stock categories we track posted high single-digit to double-digit returns in the first three months. Bonds also advanced during the quarter as they continued to provide return consistency. While we never know for sure what caused such a swift recovery, reduced fears of a slowing economy, the Federal Reserve tempering interest rate increase expectations, and strong fourth quarter 2018 corporate earnings all seemed to help investors feel comfortable investing in stocks.

For the quarter, U.S. stocks (as measured by the S&P 500 Index) gained 13.6%, and non-U.S. developed market stocks (as measured by the MSCI World Ex U.S.) gained 10.4%. Emerging market stocks (as measured by the MSCI Emerging Markets Index) gained 9.9%.

After nine quarter-point (0.25%) increases to short-term interest rates since December 2015, the Federal Reserve announced it would stop increasing rates to see how the economy performs at the current levels. Additionally, the Fed announced it would stop reducing its balance sheet later this year. The Fed's balance sheet, which consists of government bonds and mortgage-backed securities and grew considerably through multiple rounds of quantitative easing, currently stands around \$4 trillion. The benchmark target rate remains at 2.25–2.50%.

The U.S. Dollar Index, a measure of the value of the United States dollar relative to a basket of foreign currencies, slightly advanced in the first quarter, with the U.S. dollar appreciating by 0.2% compared to foreign currencies. The U.S. dollar is now 6.7% higher than it was 12 months ago.

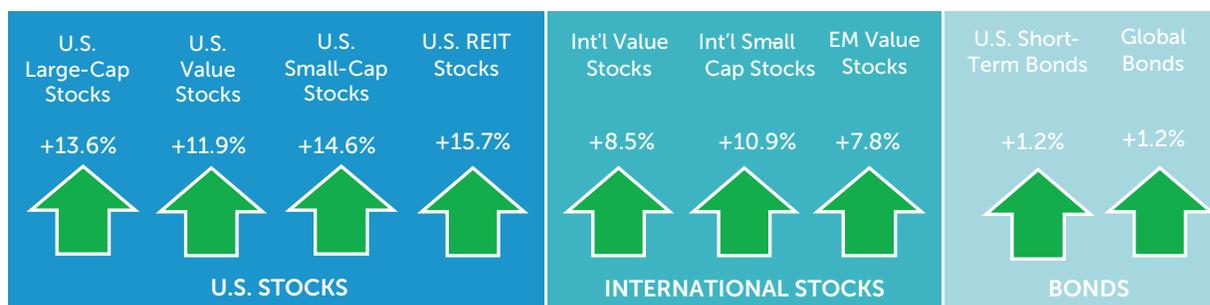
### U.S. Economic Review

Positive economic growth in the U.S. continued in the fourth quarter and for the 2018 calendar year. The final reading for fourth quarter GDP showed an increase in economic growth of 2.2%. For 2018, GDP grew 2.9%. The March 2019 reading of the unemployment rate remained near a 40-year low at 3.8%. Domestic inflation remains tame as the Fed's preferred gauge of overall inflation, the core Personal Consumption Expenditures (PCE) index, stayed below the Fed's target of 2.0% with a reading of 1.8% in January 2019.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, U.S. Department of the Treasury, Morningstar Direct 2019.

## Financial Markets Review

Investors who didn't give in to their fears and sell stocks in the fourth quarter were rewarded for sticking with their investment plan. U.S. stocks, which declined most in the fourth quarter of 2018, outpaced non-U.S. developed and emerging market stocks as part of a global stock rally in the first quarter of 2019. During the quarter, U.S. Real Estate Investment Trust (REIT) stocks performed the best followed closely by U.S. Small stocks. In diversified portfolios, U.S. Short-Term Bonds and Global Bonds both advanced 1.2%. Stock returns rarely come in a consistent fashion. Down-and-up stock movement is a normal part of investing.



Source: Morningstar 2019. Market segment (Index representation) as follows: U.S. Large-Cap Stocks (S&P 500 Index), U.S. Value Stocks (Russell 1000 Value Index), U.S. Small-Cap Stocks (Russell 2000 Index), U.S. REIT Stocks (Dow Jones U.S. Select REIT Index), International Value Stocks (MSCI World Ex USA Value Index (net div.)), International Small-Cap Stocks (MSCI World Ex USA Small Index (net div.)), Emerging Markets Value Stocks (MSCI Emerging Markets Value Index (net div.)), U.S. Short-Term Bonds (BofA ML Corp&Govt 1-3 Yr TR), Global Bonds (FTSE WGBI 1-5 Yr Hdg USD).

In the U.S., small-cap stocks outperformed large-cap stocks, and mid-cap stocks outperformed both in all style categories. Among the nine style boxes, mid-cap growth performed the best and posted a 19.6% gain, and the smallest gain occurred in Large Value and Small Value where both categories advanced 11.9%.

Source: Morningstar Direct 2019. U.S. markets represented by respective Russell indexes for each category (Large: Russell 1000, Value, and Growth, Mid: Russell Mid Cap, Value, and Growth, Small: Russell 2000, Value, and Growth).

In developed international markets, the results were similar to the U.S. with all stock categories recovering from last year's declines. Small-cap stocks outperformed large-cap stocks in the Value and Core categories.

Source: Morningstar Direct 2019. International markets represented by respective MSCI World EX USA index series (Large: MSCI World EX USA Large, Value and Growth, Mid: MSCI World Ex USA Mid, Value, and Growth, Small: MSCI World Ex USA Small, Value, and Growth).

### U.S. Stocks Q1 2019

	Value	Core	Growth
Large	11.9%	14.0%	16.1%
Mid	14.4%	16.5%	19.6%
Small	11.9%	14.6%	17.1%

### International Stocks Q1 2019

	Value	Core	Growth
Large	8.2%	10.3%	12.8%
Mid	10.1%	11.0%	11.5%
Small	9.2%	10.9%	12.7%

With stocks and bonds advancing globally, a diversified index mix of 65% stocks and 35% bonds would have gained 8.0% during the first quarter.



65/35 Index Mix: 2% Cash (BofA ML 3M US Treasury Note TR), 16% ST U.S. Fixed Income (BofA ML Corp&Govt 1-3 Yr TR), 17% Global Bonds (FTSE WGBI 1-5 Yr Hdg USD), 15% U.S. Large (S&P 500 Index), 12% U.S. Value (Russell 1000 Value Index), 8% U.S. Small (Russell 2000 Index), 4% U.S. REITs (Dow Jones U.S. Select REIT Index), 14% Intl Large Value (MSCI World Ex USA Value Index (net div.)), 7% Intl Small (MSCI World Ex USA Small Index (net div.)), 5% Emerging Markets Value (MSCI Emerging Markets Value Index (net div)).

Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting. Emerging markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign taxes, and different methods of accounting and financial reporting. All investments involve risk, including the loss of principal, and cannot be guaranteed against loss by a bank, custodian, or any other financial institution.