

MARKET COMMENTARY

Q3 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 stock markets were mixed in the third quarter. U.S. large-cap stocks performed well, but U.S. small-cap and non-U.S. stocks struggled. While we never know for sure what caused market prices to move, continuing trade tensions, an attack on major Saudi oil facilities, slowing global economic growth, and falling interest rates were all potential sources of market volatility.

For the quarter, U.S. stocks (as measured by the S&P 500 Index) gained 1.7%, and non-U.S. developed market stocks (as measured by the MSCI World Ex U.S. Index) fell 0.9%. Emerging market stocks (as measured by the MSCI Emerging Markets Index) fell 4.3%.

The U.S. Dollar Index, a measure of the value of the U.S. dollar relative to a basket of foreign currencies, rose in the third quarter. Specifically, the U.S. dollar increased by 2.7% compared to foreign currencies. Over the past 12 months, the U.S. dollar has appreciated 3.6%. The increase in the dollar represents a headwind to non-U.S. investments held by U.S. investors.

U.S. interest rates fell during the quarter as the Federal Reserve implemented two reductions, each a quarter of a percentage point, to the federal funds rate. The Fed now targets a range of 1.75% to 2.00% for the federal funds rate. Because changes in interest rates and bond prices are inversely related, the decline in interest rates helped increase the quarterly return for many bond asset classes.

U.S. Economic Review

Positive economic growth in the U.S. continued into 2019's second quarter. The final reading for second quarter GDP showed an increase in economic growth of 2.0%. The unemployment rate reached its lowest level in 50 years with the September 2019 reading coming in at 3.5%. Domestic inflation remains tame, as the Fed's preferred gauge of overall inflation, the core Personal Consumption Expenditures (PCE) index, stayed below the central bank's 2.0% target with a reading of 1.8% in August 2019.

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

Financial Markets Review

U.S. large-cap stocks and real estate investment trust (REIT) stocks advanced during the quarter, whereas U.S. small-cap and all three non-U.S. stock categories we track were down for the quarter. The aforementioned strengthening U.S. dollar affected non-U.S. stock returns. During the quarter, U.S. REIT stocks were the best performing asset class while emerging market value stocks were the worst performing. U.S. and global bonds added some stability of return during the quarter by posting positive results.

U.S. Large-Cap Stocks	U.S. Value Stocks	U.S. Small-Cap	U.S. REIT Stocks	Int'l Value Stocks	Int'l Small-Cap Stocks	EM Value Stocks	U.S. Short-Term Bonds	Global Bonds
+1.7%	+1.4%	-2.4%	+6.8%	-1.4%	-0.3%	-6.5%	+0.7%	+1.0%
								
U.S. STOCKS				INTERNATIONAL STOCKS			BONDS	

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 Hdq USD).

In the U.S., large-cap stocks outperformed small-cap stocks in all style categories. Value stocks outperformed growth stocks in the mid- and small-cap categories. Among the nine style boxes, large-cap growth stocks performed the best, and small-cap growth stocks experienced the largest decline during the quarter.

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).

U.S. Stocks Q3 2019

	Value	Core	Growth
Large	1.4%	1.4%	1.5%
Mid	1.2%	0.5%	-0.7%
Small	-0.6%	-2.4%	-4.2%

In developed international markets, most of the nine style boxes were negative for the quarter. International small-cap value stocks were the lone bright spot. Similar to the U.S., mid- and small-cap value stocks outperformed mid- and small-cap growth stocks.

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).

International Stocks Q3 2019

	Value	Core	Growth
Large	-1.6%	-1.0%	-0.3%
Mid	-0.5%	-0.7%	-0.9%
Small	0.3%	-0.3%	-0.8%

A diversified index mix of 65% stocks and 35% bonds would have gained 0.3% during the third quarter

The logo for Deandorton Wealth Management features the company name in a blue, sans-serif font. The word "DEANDORTON" is positioned above "WEALTH MANAGEMENT". A blue horizontal bar is located below "DEANDORTON", and a blue L-shaped graphic element is positioned to the right of "DEANDORTON".

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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.

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