

Quarterly Market Review

Third Quarter 2018

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

Overview:

Market Summary

World Stock Market Performance

World Asset Classes

Fixed Income







US Stocks

International Developed Stocks

Emerging Markets Stocks

Market Summary

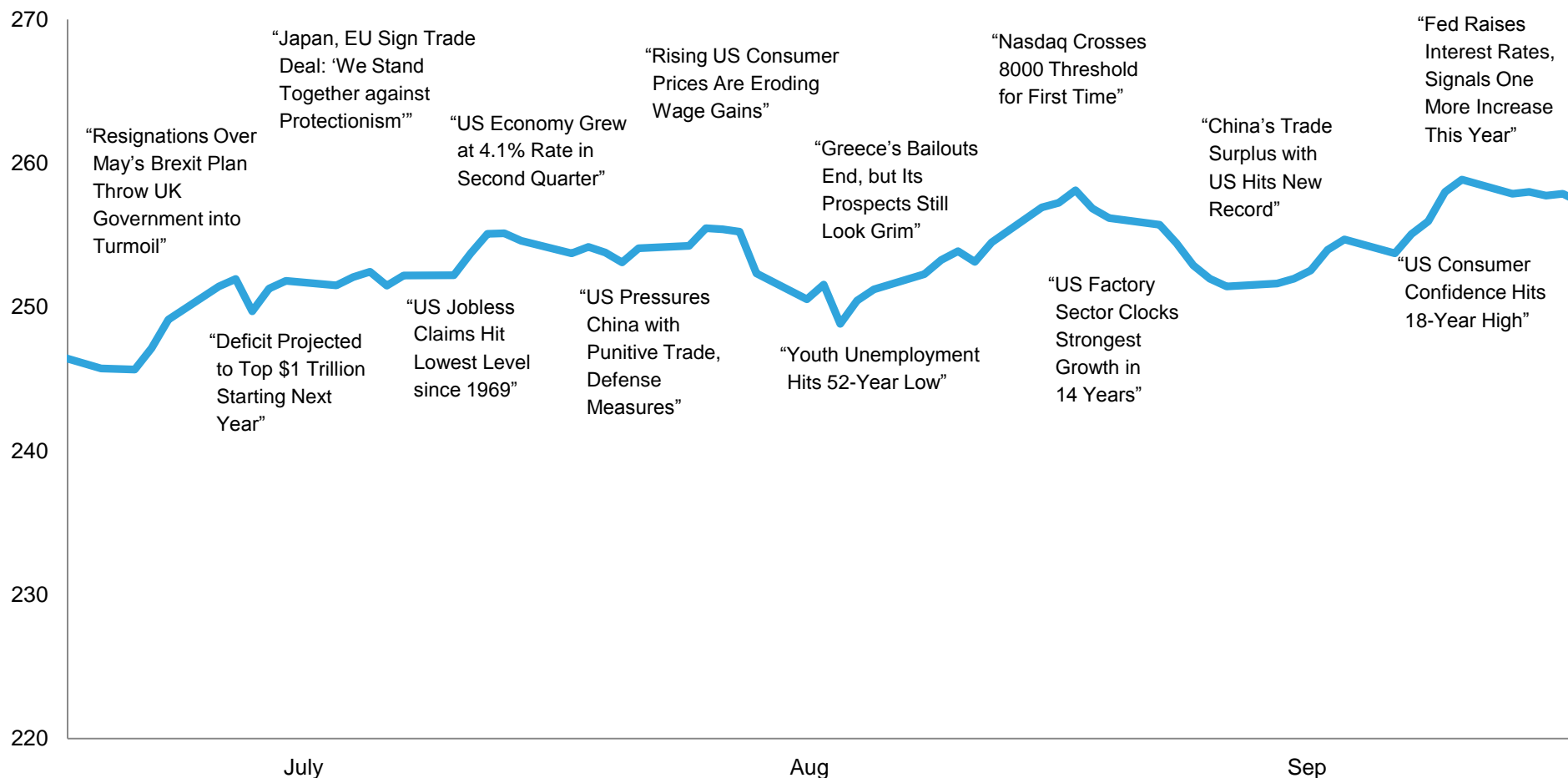
Third Quarter 2018 Index Returns

	U.S. Stock Market	International Developed Stocks	Emerging Markets Stocks	Gold	U.S. Taxable Bond Market	U.S. Muni Market
Q3 2018	7.12% 	1.35% 	-0.95% 	-5.00% 	0.21% 	-0.12% 
Since Jan. 2001	STOCKS				BONDS	
Avg. Quarterly Return	2.0%	1.5%	3.0%	2.2%	1.0%	0.7%
Best Quarter	16.8%	25.4%	34.8%	16.5%	4.8%	2.9%
	2009 Q2	2009 Q2	2009 Q2	2016 Q1	2008 Q4	2002 Q2
Worst Quarter	-22.8%	-20.6%	-27.6%	-23.4%	-2.5%	-1.2%
	2008 Q4	2008 Q4	2008 Q4	2013 Q2	2004 Q2	2004 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: U.S. Stock Market (Russell 3000 Index), International Developed Stocks (MSCI EAFE NR), Emerging Markets (MSCI Emerging Markets GR Index), Gold (S&P GSCI Gold TR), U.S. Bond Market (Bloomberg Barclays US Government / Credit Intermediate TR Bond Index), and U.S. Muni Market (Bloomberg Barclays Municipal 3 Year 2-4 USD Index). 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 Q3 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.

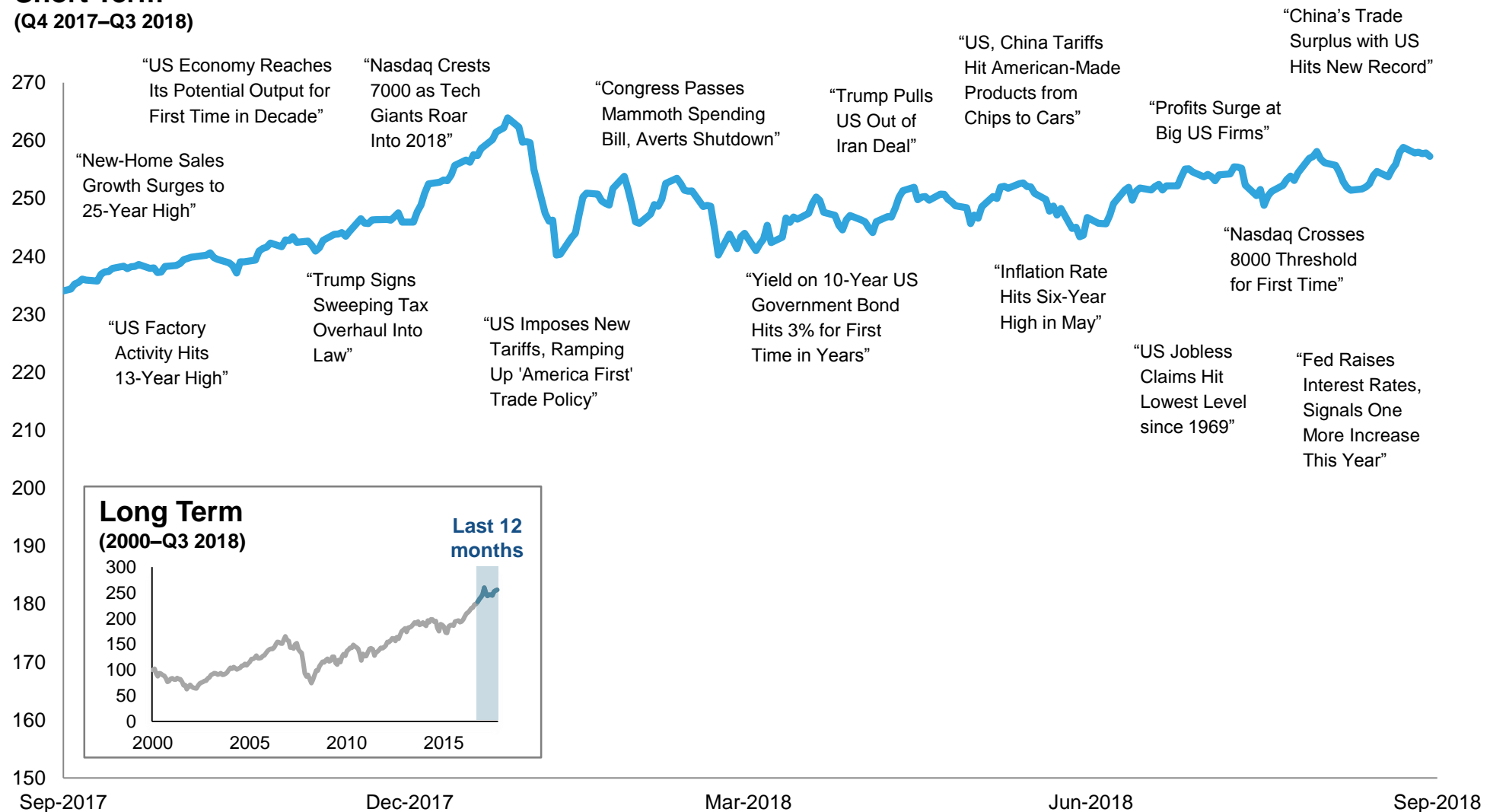
Graph Source: MSCI ACWI Index [net div.], MSCI data © MSCI 2018, all rights reserved.

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.

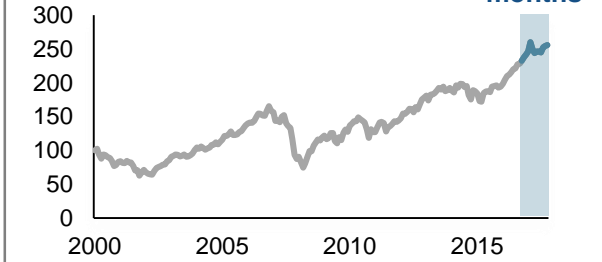
World Stock Market Performance

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

Short Term (Q4 2017–Q3 2018)



Long Term (2000–Q3 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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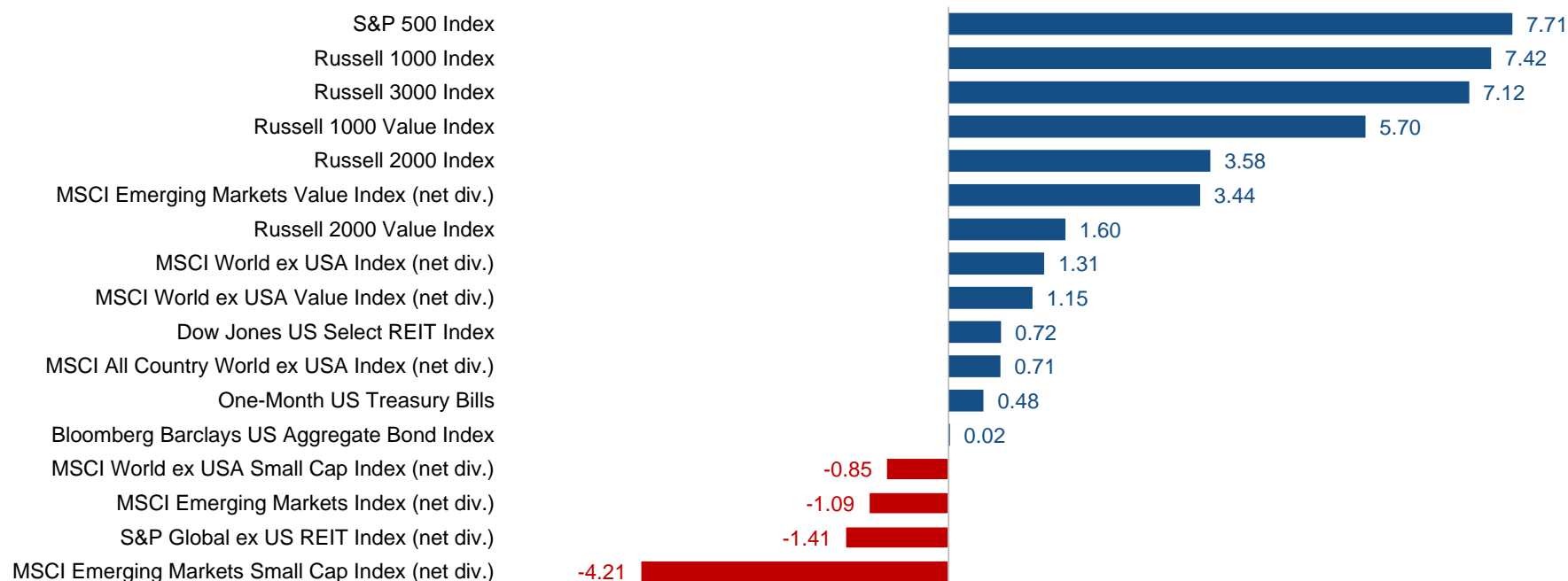
World Asset Classes

Third Quarter 2018 Index Returns (%)

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

Small caps underperformed large caps in the US, non-US developed, and emerging markets. The value effect was positive in emerging markets but negative in the US and non-US developed markets.

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



Fixed Income

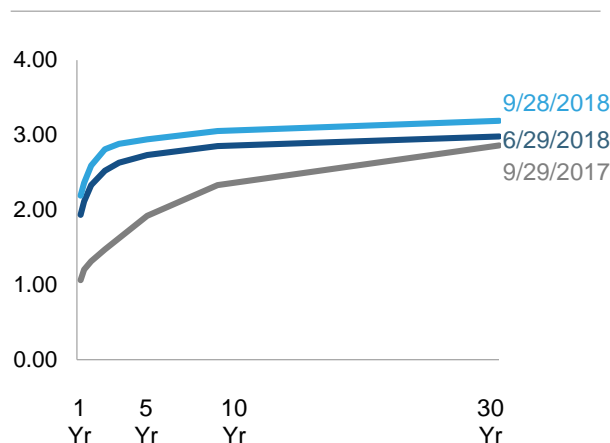
Third Quarter 2018 Index Returns

Interest rates increased in the US during the third quarter. The yield on the 5-year Treasury note rose 21 basis points (bps), ending at 2.94%. The yield on the 10-year Treasury note increased 20 bps to 3.05%. The 30-year Treasury bond yield rose 21 bps to 3.19%.

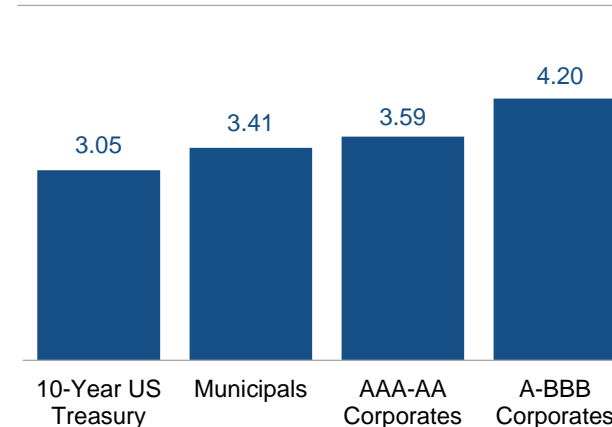
On the short end of the yield curve, the 1-month Treasury bill yield increased 35 bps to 2.12%, while the 1-year Treasury bill yield rose 26 bps to 2.59%. The 2-year Treasury note yield finished at 2.81% after an increase of 29 bps.

In terms of total return, short-term corporate bonds gained 0.71%, while intermediate-term corporates returned 0.80%. Short-term municipal bonds declined 0.11%, while intermediate-term munis dipped 0.06%. Revenue bonds (-0.16%) performed in line with general obligation bonds (-0.14%).

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

Asset Class	QTR	YTD	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US High Yield Corporate Bond Index	2.40	2.57	3.05	8.15	5.54	9.46
ICE BofAML US 3-Month Treasury Bill Index	0.49	1.30	1.59	0.84	0.52	0.34
ICE BofAML 1-Year US Treasury Note Index	0.41	1.07	1.08	0.74	0.55	0.71
FTSE World Government Bond Index 1-5 Years (hedged to USD)	0.17	0.58	0.64	1.04	1.26	1.90
Bloomberg Barclays US Aggregate Bond Index	0.02	-1.60	-1.22	1.31	2.16	3.77
Bloomberg Barclays Municipal Bond Index	-0.15	-0.40	0.35	2.24	3.54	4.75
FTSE World Government Bond Index 1-5 Years	-0.63	-1.68	-1.39	0.84	-1.16	0.88
Bloomberg Barclays US TIPS Index	-0.82	-0.84	0.41	2.04	1.37	3.32
Bloomberg Barclays US Government Bond Index Long	-2.82	-5.71	-3.50	0.78	4.41	5.45

*Annualized

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 (SBBBI) 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.

US Stocks

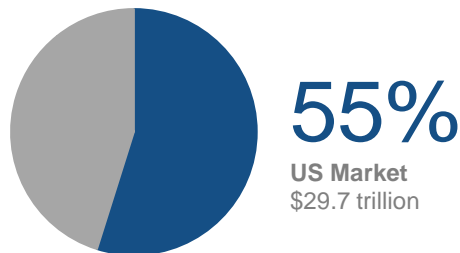
Third Quarter 2018 Index Returns

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

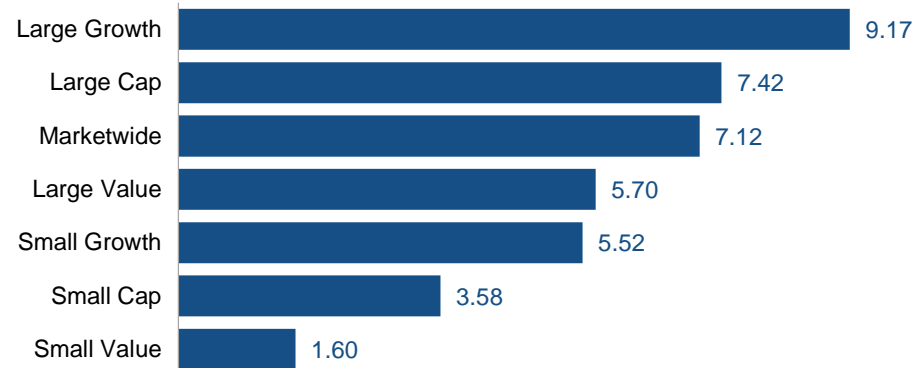
Large and small cap value stocks underperformed large and small cap growth stocks in the U.S.

Small caps in the U.S. underperformed large caps.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	17.09	26.30	20.55	16.58	14.31
Small Growth	15.76	21.06	17.98	12.14	12.65
Small Cap	11.51	15.24	17.12	11.07	11.11
Marketwide	10.57	17.58	17.07	13.46	12.01
Large Cap	10.49	17.76	17.07	13.67	12.09
Small Value	7.14	9.33	16.12	9.91	9.52
Large Value	3.92	9.45	13.55	10.72	9.79

* Annualized

International Developed Stocks

Third Quarter 2018 Index Returns

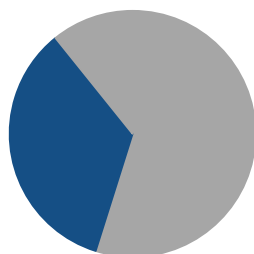
In US dollar terms, non-U.S. developed markets underperformed the U.S. but outperformed emerging markets during the quarter.

With broad market indexes used as proxies, growth outperformed value while small cap underperformed large cap in non-U.S. developed markets .

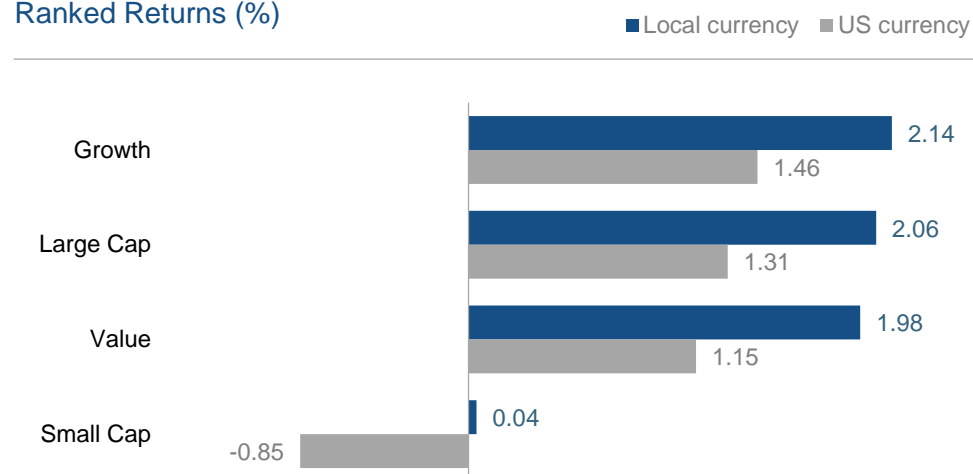
World Market Capitalization—International Developed

34%

International
Developed
Market
\$18.6 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Growth	0.39	5.47	9.91	5.37	5.78
Large Cap	-1.50	2.67	9.32	4.24	5.18
Small Cap	-2.28	3.42	12.23	7.07	9.04
Value	-3.43	-0.13	8.65	3.05	4.51

* Annualized

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Emerging Markets Stocks

Third Quarter 2018 Index Returns

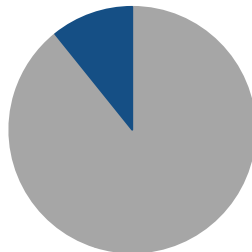
In U.S. dollar terms, emerging markets indexes underperformed developed market indexes, including the U.S., during the quarter.

With broad market indexes used as proxies, large cap outperformed small cap and value outperformed growth.

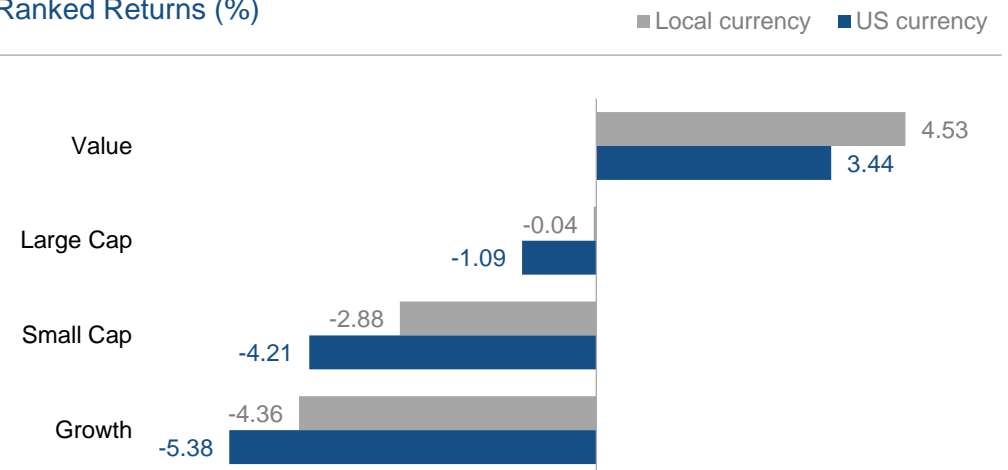
World Market Capitalization—Emerging Markets

11%

Emerging Markets
\$5.8 trillion



Ranked Returns (%)



Period Returns (%)

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*
Value	-4.28	2.27	11.55	2.04	4.53
Large Cap	-7.68	-0.81	12.36	3.61	5.40
Growth	-10.94	-3.89	13.03	5.08	6.18
Small Cap	-12.30	-4.20	7.43	2.72	7.43

* Annualized

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