

2017

2017 Market Review

2017 Annual Market Review

This report features world capital market performance for the past year.

Overview:

Market Summary

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Real Estate Investment Trusts (REITs)







Commodities

Fixed Income

When the Index Beats the Algorithms

Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
2017	STOCKS				BONDS	
	21.13% 	24.21% 	37.28% 	7.41% 	3.54% 	2.06% 
Since Jan. 2001						
Avg. Annual Return	8.4%	7.0%	14.8%	11.0%	4.8%	4.5%
Best Year	33.6% 2013	39.4% 2003	78.5% 2009	37.4% 2006	10.3% 2002	9.8% 2014
Worst Year	-37.3% 2008	-43.6% 2008	-53.3% 2008	-45.7% 2008	-2.0% 2013	1.4% 2013

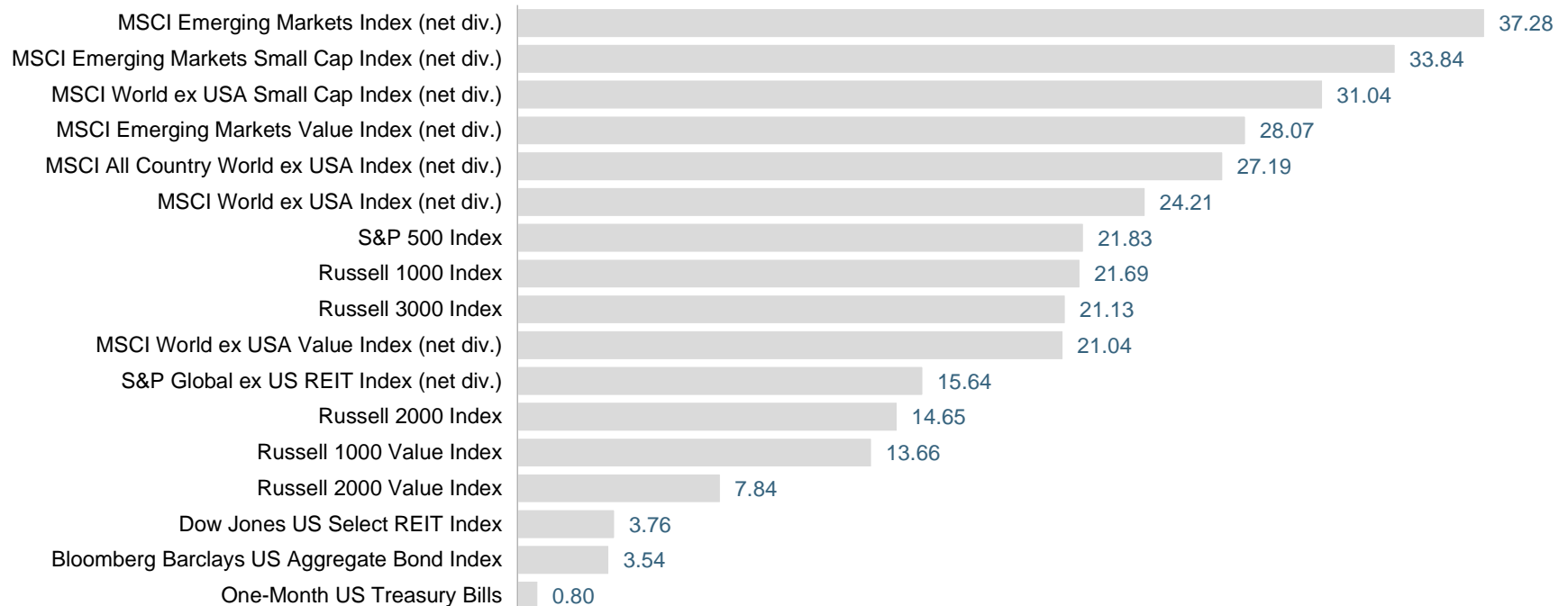
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International 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 ex US Market (Citi WGBI ex USA 1-30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. 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. Citi fixed income indices © 2018 by Citigroup.

World Asset Classes

2017 Index Returns (%)

Looking at broad market indices, emerging markets outperformed US and non-US developed markets in 2017.

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



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US Stocks

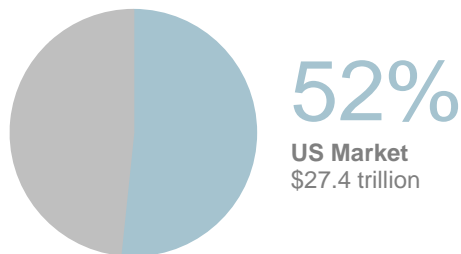
2017 Index Returns

The US equity market posted positive returns for 2017 but underperformed non-US developed and emerging markets.

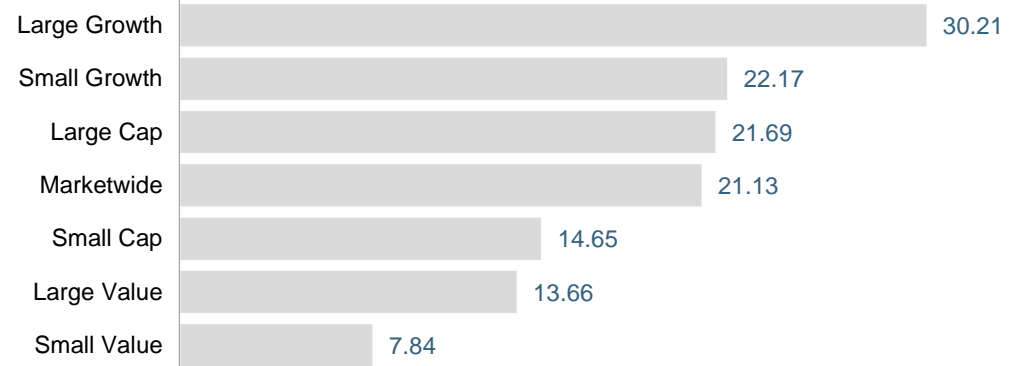
Value underperformed growth in the US across large and small cap indices.

Small caps underperformed large caps in the US.

World Market Capitalization—US



Ranked Returns for 2017 (%)



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	30.21	13.79	17.33	10.00
Small Growth	22.17	10.28	15.21	9.19
Large Cap	21.69	11.23	15.71	8.59
Marketwide	21.13	11.12	15.58	8.60
Small Cap	14.65	9.96	14.12	8.71
Large Value	13.66	8.65	14.04	7.10
Small Value	7.84	9.55	13.01	8.17

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International Developed Stocks

2017 Index Returns

In US dollar terms, non-US developed markets outperformed the US market but underperformed emerging markets during 2017.

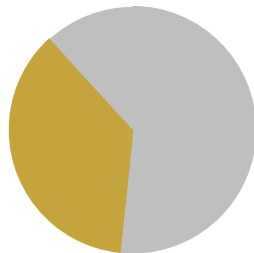
Looking at broad market indices, the value effect was negative.

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

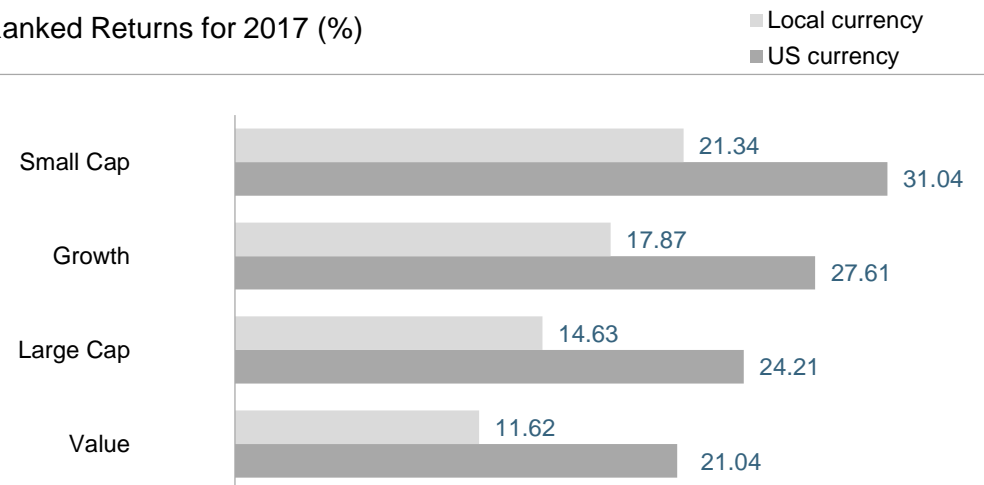
World Market Capitalization—International Developed

37%

International
Developed
Market
\$19.4 trillion



Ranked Returns for 2017 (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Small Cap	31.04	12.96	11.37	5.16
Growth	27.61	8.38	8.22	2.36
Large Cap	24.21	7.36	7.46	1.87
Value	21.04	6.26	6.64	1.32

* Annualized

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Emerging Markets Stocks

2017 Index Returns

In US dollar terms, emerging markets outperformed the US and non-US developed markets for the year.

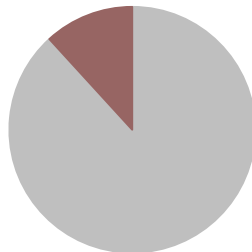
Across the large cap and mid cap space, the value effect was negative; however, in the small cap space, the effect was positive.

Overall, small caps underperformed large caps in emerging markets.

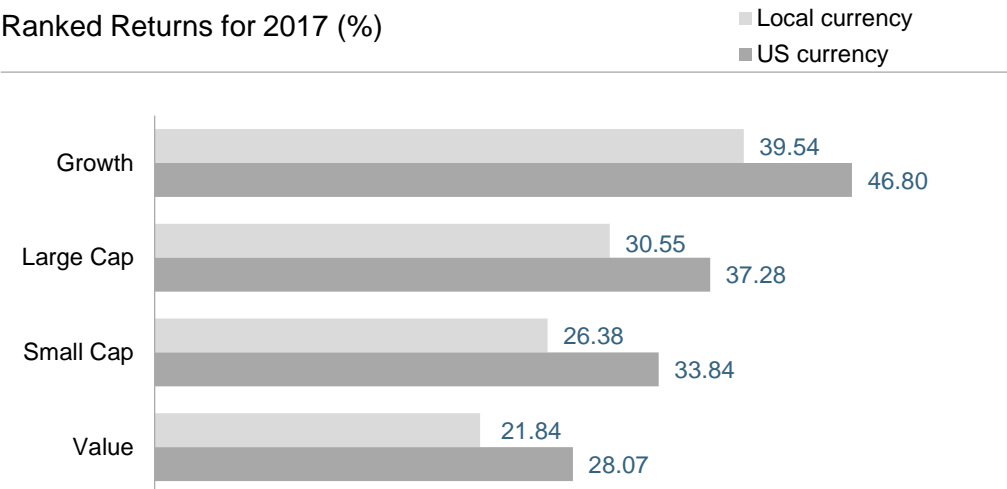
World Market Capitalization—Emerging Markets

12%

Emerging Markets
\$6.2 trillion



Ranked Returns for 2017 (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Growth	46.80	11.88	6.85	2.35
Large Cap	37.28	9.10	4.35	1.68
Small Cap	33.84	8.44	5.41	2.78
Value	28.07	6.21	1.75	0.91

* Annualized

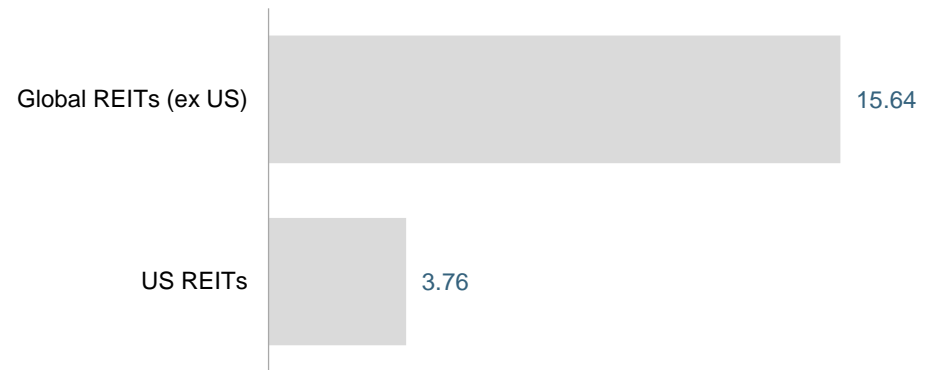
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Real Estate Investment Trusts (REITs)

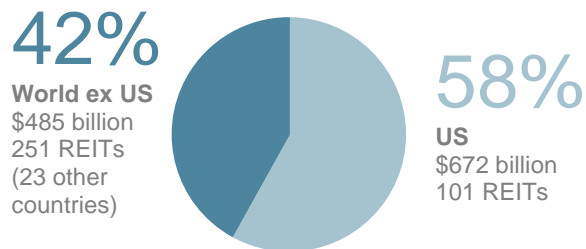
2017 Index Returns

Non-US real estate investment trusts outperformed US REITs in 2017.

Ranked Returns for 2017 (%)



Total Value of REIT Stocks



Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
Global REITs (ex US)	15.64	4.78	5.49	2.05
US REITs	3.76	4.97	9.09	7.07

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 US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's Index Services Group © 2018.

Commodities

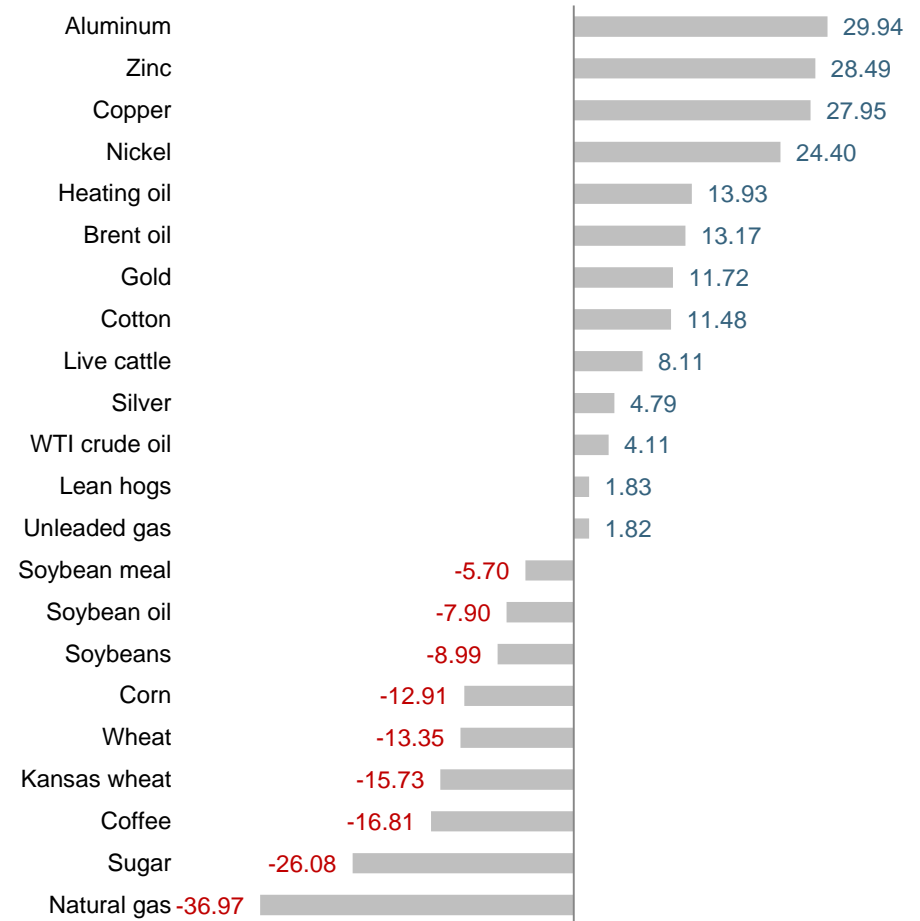
2017 Returns

The Bloomberg Commodity Index Total Return advanced 1.70% in 2017.

Aluminum was the strongest performer, posting a return of 29.94%. Zinc and copper followed with respective returns of 28.49% and 27.95%. Natural gas was the weakest performer, falling 36.97%.

Period Returns (%)		* Annualized		
Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Commodities	1.70	-5.03	-8.45	-6.83

Ranked Returns for Individual Commodities (%)



Fixed Income

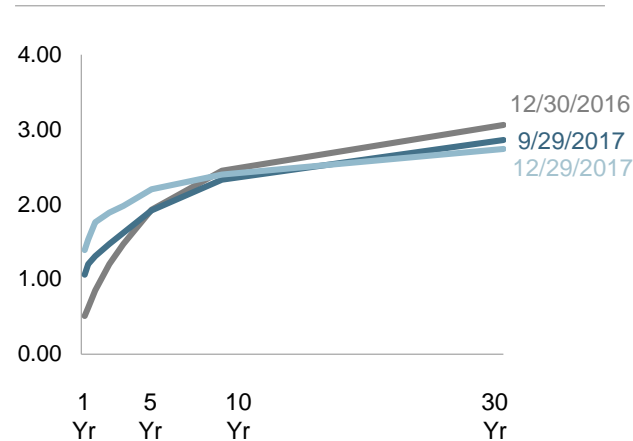
2017 Index Returns

Interest rate changes across the US fixed income market were mixed during the fourth quarter. The yield on the 5-year Treasury note rose 28 basis points (bps), ending at 2.20%. The yield on the 10-year Treasury note increased 7 bps to 2.40%. The 30-year Treasury bond yield decreased 12 bps to finish at 2.74%.

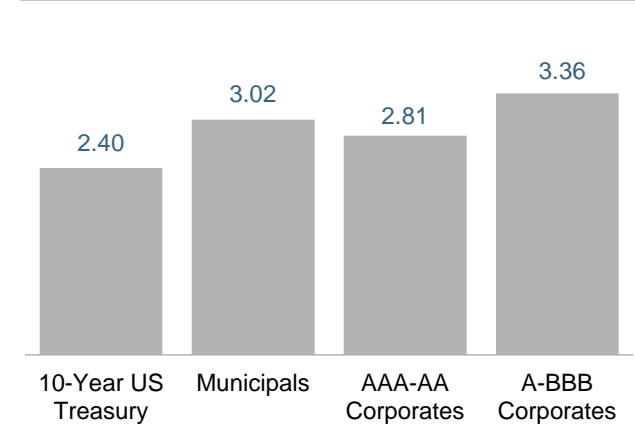
In terms of total returns, short-term corporate bonds declined 0.04% during the quarter but increased 1.85% for the year. Intermediate-term corporate bonds gained 0.17% for the quarter and 3.92% for the year.

The total returns for short-term municipal bonds were -0.65% for the quarter and 1.61% for the year. Intermediate-term municipal bonds fell 0.09% for the quarter but gained 4.70% for the year. Revenue bonds outperformed general obligation bonds for the year.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays Long US Government Bond Index	8.53	2.85	3.49	6.49
Bloomberg Barclays US Corporate High Yield Index	7.50	6.35	5.78	8.03
Bloomberg Barclays Municipal Bond Index	5.45	2.98	3.02	4.46
Bloomberg Barclays US Aggregate Bond Index	3.54	2.24	2.10	4.01
Bloomberg Barclays US TIPS Index	3.01	2.05	0.13	3.53
Citi World Government Bond Index 1-5 Years (hedged to USD)	1.13	1.21	1.23	2.13
ICE BofAML 3-Month US Treasury Bill Index	0.86	0.41	0.27	0.39
ICE BofAML 1-Year US Treasury Note Index	0.57	0.49	0.38	0.90

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). Citi fixed income indices © 2018 by Citigroup. ICE BofAML index data © 2018 ICE Data Indices, LLC. The S&P data are provided by Standard & Poor's Index Services Group.

When the Index Beats the Algorithms

You might wonder why there wasn't more media coverage of one of the most interesting bets ever made in the investment world. We're not talking about betting on a company; this bet was made between Berkshire Hathaway chairman Warren Buffet and a hedge fund called Protégé Partners, on whether a basket of hedge funds managed by algorithms and super investors would beat a simple S&P 500 index fund over a period of 10 years—which happened to include the Great Recession and one of the longest bull markets in history. Each side put about \$320,000 in 2007, with the proceeds—including all gains—going to charity.

The final score wasn't even close. The index fund gained 7.1%, compounded annually. The basket of hedge funds returned a below-average return of 2.2%.

The original intent of the bet was to prove a point: that it is usually impossible to outthink the market, no matter how smart you are, no matter how cleverly you use derivatives, hedging and futures contracts. Yes, Buffett has been outperforming the market for most of his career. But he has unusual access to deals, and extraordinary patience—which can be more powerful than algorithms when it comes to beating the market.

Bob Veres
Inside Information

Source:

<https://blogs.wsj.com/moneybeat/2017/12/30/biggest-winner-of-famed-buffett-bet-girls-inc-of-omaha/>