

# 2018 Annual Market Review

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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

Why Should You Diversify?

# Market Summary

## Index Returns

|                        | US Stock Market   | International Developed Stocks  | Emerging Markets Stocks   | Global Real Estate  | US Bond Market  | Global Bond Market ex US  |
|------------------------|---|---|---|---|---|---|
| <b>2018</b>            | <b>STOCKS</b>   |   |   |   | <b>BONDS</b>  |   |
|                        | <b>-5.24%</b>   | <b>-14.09%</b>  | <b>-14.58%</b>  | <b>-5.90%</b>   | <b>0.01%</b>  | <b>3.17%</b>  |
|                        |  |  |  |  |  |  |
| <b>Since Jan. 2001</b> |   |   |   |   |   |   |
| Avg. Annual Return     | 7.6%  | 5.8%  | 13.1%   | 10.1%   | 4.5%  | 4.4%  |
| Best Year              | 33.6%<br><b>2013</b>  | 39.4%<br><b>2003</b>  | 78.5%<br><b>2009</b>  | 37.4%<br><b>2006</b>  | 10.3%<br><b>2002</b>  | 8.8%<br><b>2014</b>   |
| Worst Year             | -37.3%<br><b>2008</b>   | -43.6%<br><b>2008</b>   | -53.3%<br><b>2008</b>   | -45.7%<br><b>2008</b>   | -2.0%<br><b>2013</b>  | 1.2%<br><b>2013</b>   |

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.

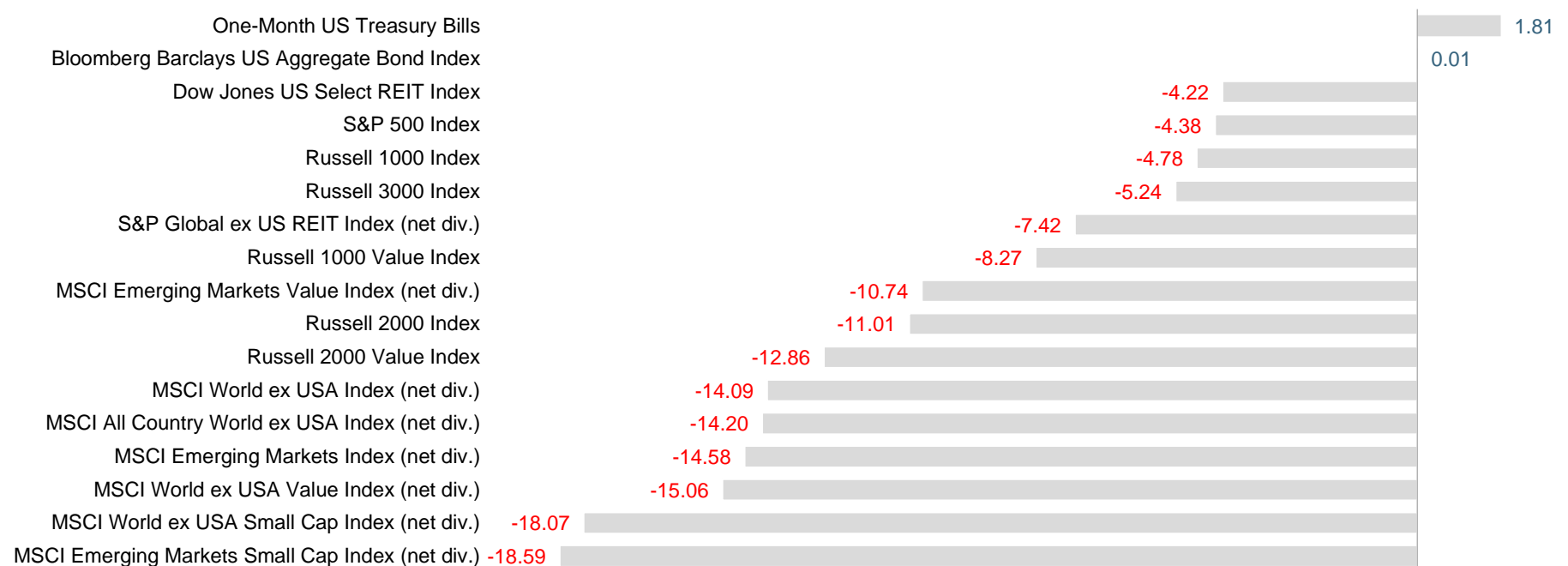
# World Asset Classes

## 2018 Index Returns (%)

Equity markets around the world posted negative returns for 2018. Looking at broad market indices, the US outperformed non-US developed and emerging markets.

Value stocks were positive vs. growth stocks in emerging markets but negative in the US and non-US developed markets. Small caps underperformed large caps in the US, non-US developed, and emerging markets.

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



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# US Stocks

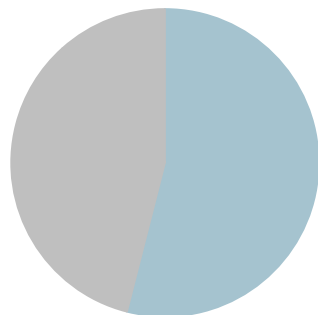
## 2018 Index Returns

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

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

Small caps underperformed large caps in the US.

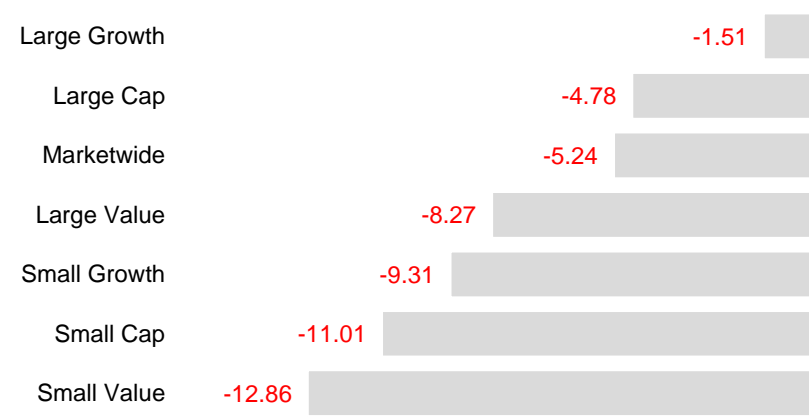
### World Market Capitalization—US



**54%**

US Market  
\$25.1 trillion

### Ranked Returns for 2018 (%)



### Period Returns (%)

\* Annualized

| Asset Class  | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--------------|--------|----------|----------|-----------|
| Large Growth | -1.51  | 11.15    | 10.40    | 15.29     |
| Large Cap    | -4.78  | 9.09     | 8.21     | 13.28     |
| Marketwide   | -5.24  | 8.97     | 7.91     | 13.18     |
| Large Value  | -8.27  | 6.95     | 5.95     | 11.18     |
| Small Growth | -9.31  | 7.24     | 5.13     | 13.52     |
| Small Cap    | -11.01 | 7.36     | 4.41     | 11.97     |
| Small Value  | -12.86 | 7.37     | 3.61     | 10.40     |

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 the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2019, all rights reserved.

# International Developed Stocks

## 2018 Index Returns

In US dollar terms, developed markets outside the US outperformed emerging markets but underperformed the US during 2018.

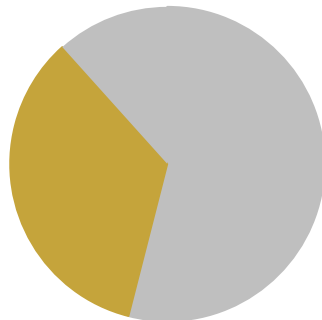
Value underperformed growth across large and small cap stocks in non-US developed markets.

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

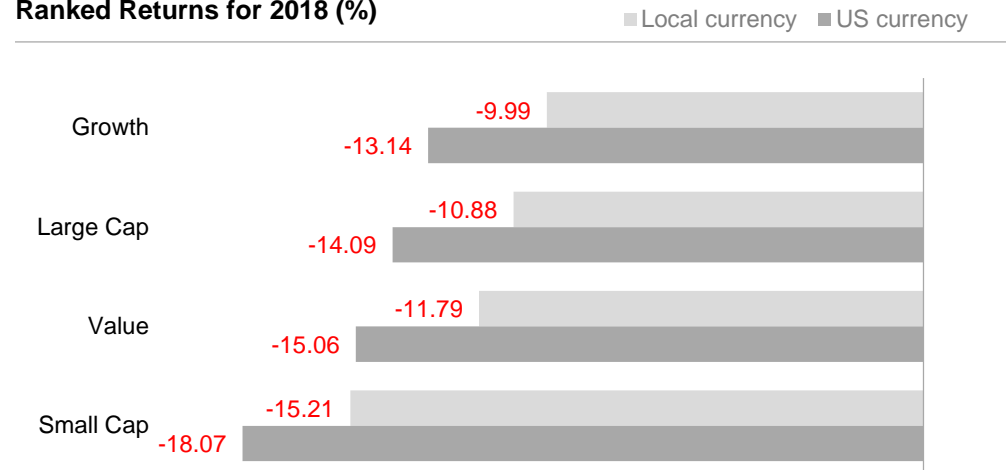
### World Market Capitalization—International Developed

**34%**

International  
Developed Market  
\$16.0 trillion



### Ranked Returns for 2018 (%)



### Period Returns (%)

\* Annualized

| Asset Class | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|--------|----------|----------|-----------|
| Growth      | -13.14 | 2.84     | 1.36     | 6.74      |
| Large Cap   | -14.09 | 3.11     | 0.34     | 6.24      |
| Value       | -15.06 | 3.36     | -0.73    | 5.69      |
| Small Cap   | -18.07 | 3.85     | 2.25     | 10.06     |

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# Emerging Markets Stocks

## 2018 Index Returns

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

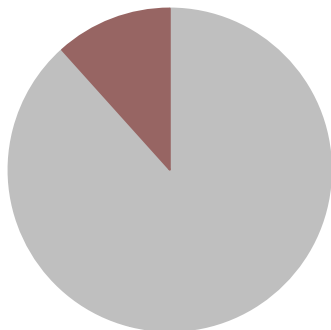
Value outperformed growth across large and small cap stocks in emerging markets.

Small caps underperformed large caps in emerging markets.

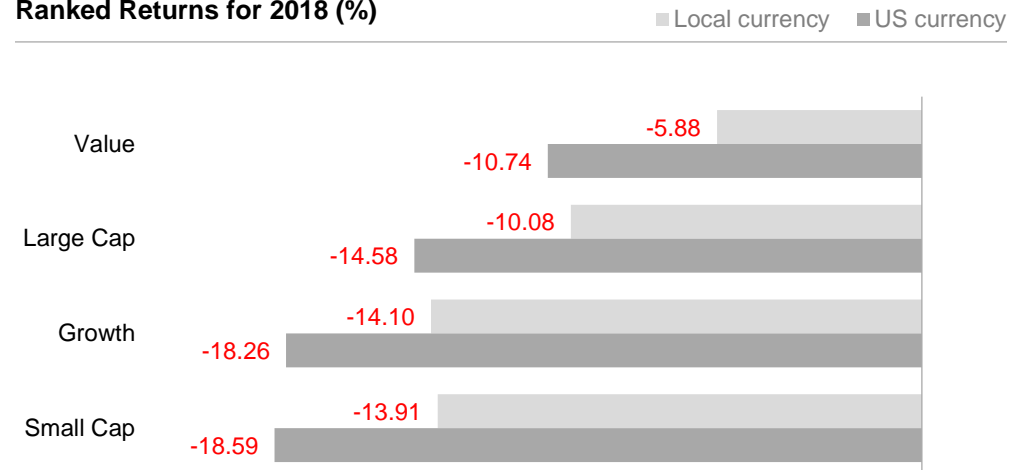
### World Market Capitalization—Emerging Markets

**12%**

Emerging Markets  
\$5.4 trillion



### Ranked Returns for 2018 (%)



### Period Returns (%)

\* Annualized

| Asset Class | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|--------|----------|----------|-----------|
| Value       | -10.74 | 9.52     | 0.51     | 6.99      |
| Large Cap   | -14.58 | 9.25     | 1.65     | 8.02      |
| Growth      | -18.26 | 8.89     | 2.67     | 8.97      |
| Small Cap   | -18.59 | 3.68     | 0.95     | 9.87      |

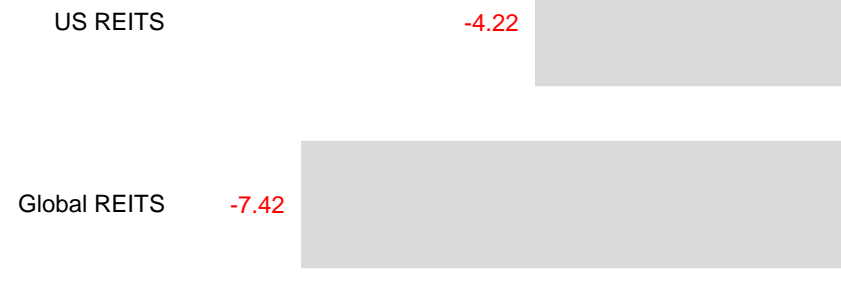
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market. MSCI data © MSCI 2019, all rights reserved.

# Real Estate Investment Trusts (REITs)

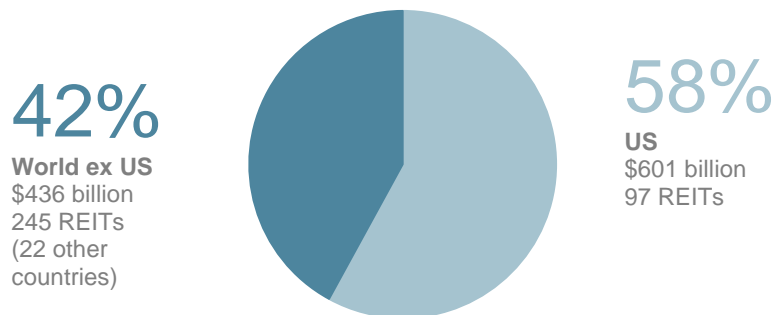
## 2018 Index Returns

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

### Ranked Returns for 2018 (%)



### Total Value of REIT Stocks



### Period Returns (%)

| Asset Class  | * Annualized |          |          |           |
|--------------|--------------|----------|----------|-----------|
|              | 1 Year       | 3 Years* | 5 Years* | 10 Years* |
| US REITs     | -4.22        | 1.97     | 7.89     | 12.05     |
| Global REITs | -7.42        | 3.35     | 3.39     | 8.94      |

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

## 2018 Returns

The Bloomberg Commodity Index Total Return declined 11.25% in 2018.

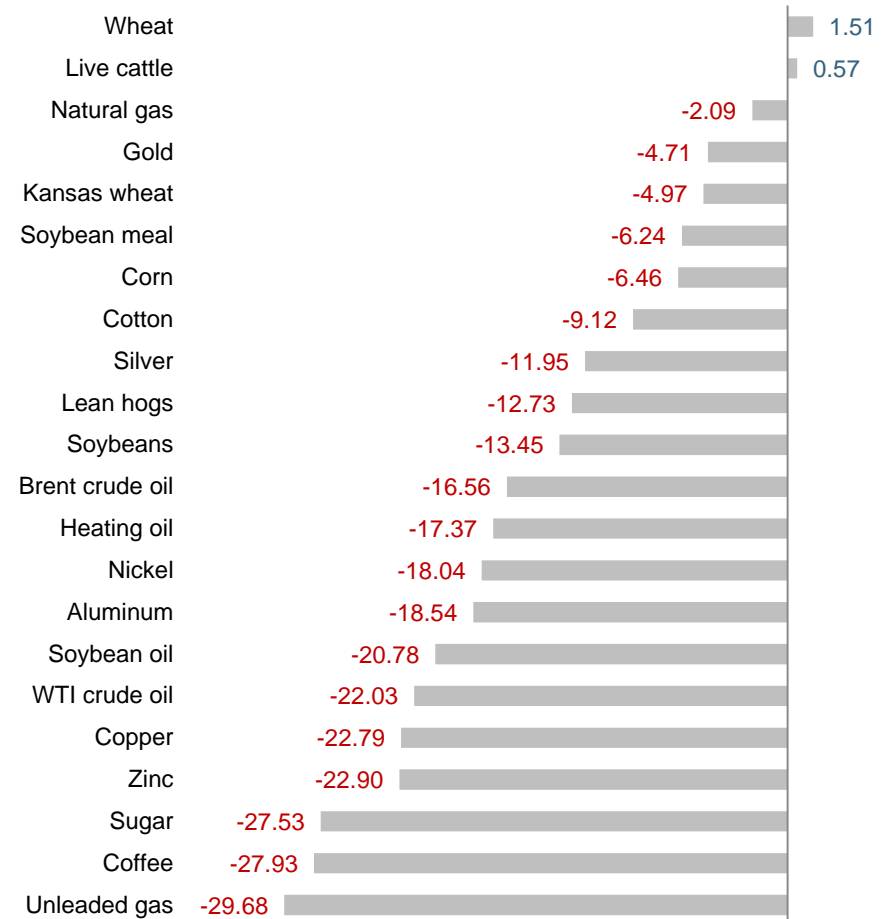
Wheat (Chicago) was the strongest performer, gaining 1.51%. Unleaded gas was the weakest performer, falling 29.68%. Coffee lost 27.93%, while sugar declined 27.53%.

### Period Returns (%)

*\* Annualized*

| Asset Class | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|--------|----------|----------|-----------|
| Commodities | -11.25 | 0.30     | -8.80    | -3.78     |

### Ranked Returns for Individual Commodities (%)



# Fixed Income

## 2018 Index Returns

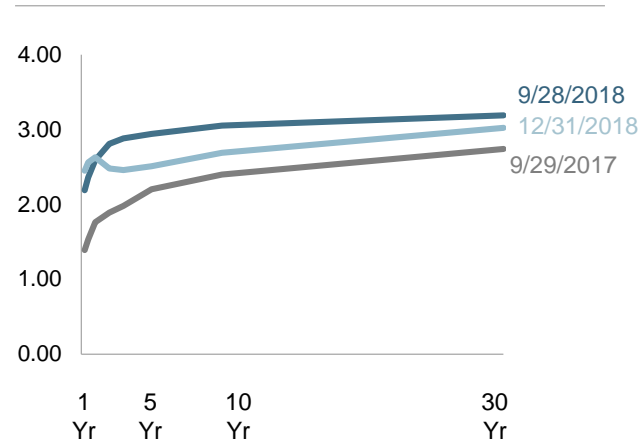
For 2018, yields on the 10-year Treasury note and 30-year Treasury bond increased 29 basis points (bps) and 28 bps, respectively.

The short end of the yield curve experienced the greatest increases. The yield on the 1-year Treasury bill increased 87 bps to end at 2.63%, while the 2-year Treasury note finished with a yield of 2.48% after an increase of 59 bps.

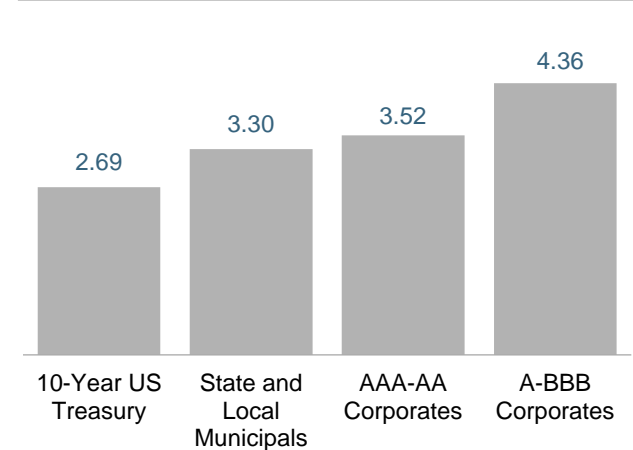
In terms of total returns, short-term corporate bonds increased 1.57% for the year. Intermediate-term corporate bonds declined 0.23%.

The total returns for short-term municipal bonds were 1.77%. Intermediate-term municipal bonds returned 1.57%. General obligation bonds outperformed revenue bonds.

**US Treasury Yield Curve (%)**



**Bond Yields across Issuers (%)**



**Period Returns (%)**

| Asset Class  | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--|--------|----------|----------|-----------|
| FTSE World Government Bond Index 1-5 Years (hedged to USD) | 2.12   | 1.58     | 1.53     | 1.69      |
| ICE BofAML US 3-Month Treasury Bill Index                  | 1.87   | 1.02     | 0.63     | 0.37      |
| ICE BofAML 1-Year US Treasury Note Index                   | 1.86   | 1.06     | 0.70     | 0.62      |
| Bloomberg Barclays Municipal Bond Index                    | 1.28   | 2.30     | 3.82     | 4.85      |
| Bloomberg Barclays US Aggregate Bond Index                 | 0.01   | 2.06     | 2.52     | 3.48      |
| FTSE World Government Bond Index 1-5 Years                 | -0.76  | 1.56     | -0.82    | 0.29      |
| Bloomberg Barclays US TIPS Index                           | -1.26  | 2.11     | 1.69     | 3.64      |
| Bloomberg Barclays US Government Bond Index Long           | -1.79  | 2.63     | 5.90     | 4.15      |
| Bloomberg Barclays US High Yield Corporate Bond Index      | -2.08  | 7.23     | 3.83     | 11.12     |

\* 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 ICE BofAML 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.

# Why Should You Diversify?

Fourth Quarter 2018

As 2019 approaches, and with US stocks outperforming non-US stocks in recent years, some investors have again turned their attention towards the role that global diversification plays in their portfolios.

For the five-year period ending October 31, 2018, the S&P 500 Index had an annualized return of 11.34% while the MSCI World ex USA Index returned 1.86%, and the MSCI Emerging Markets Index returned 0.78%. As US stocks have outperformed international and emerging markets stocks over the last several years, some investors might be reconsidering the benefits of investing outside the US.

While there are many reasons why a US-based investor may prefer a degree of home bias in their equity allocation, using return differences over a relatively short period as the sole input into this decision may result in missing opportunities that the global markets offer. While international and emerging markets stocks have delivered disappointing returns relative to the US over the last few years, it is important to remember that:

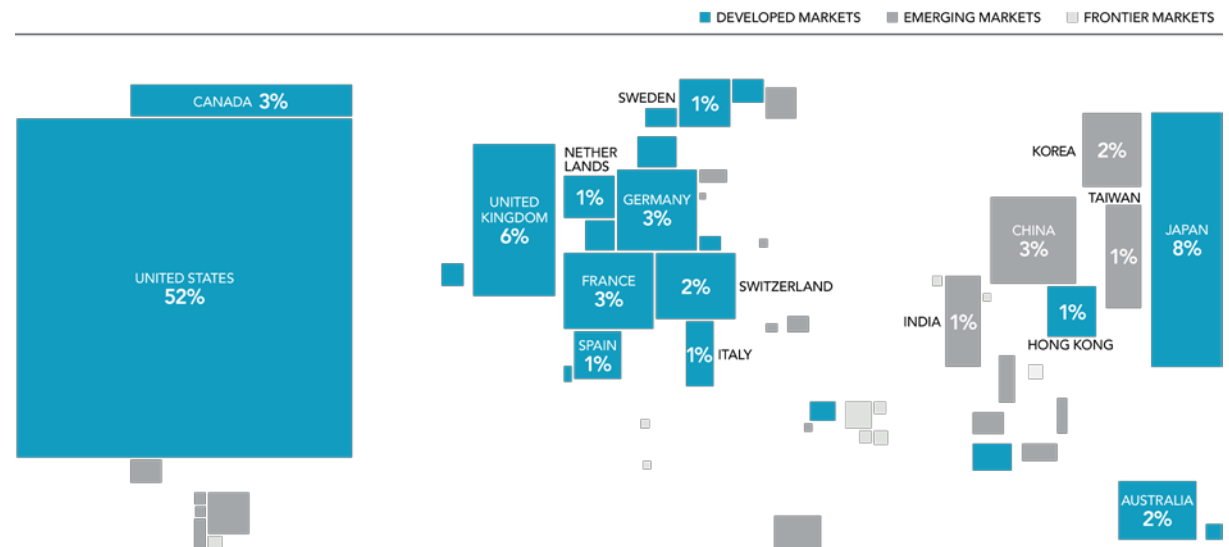
- Non-US stocks help provide valuable diversification benefits.
- Recent performance is not a reliable indicator of future returns.

## THERE'S A WORLD OF OPPORTUNITY IN EQUITIES

The global equity market is large and represents a world of investment opportunities. As shown in **Exhibit 1**, nearly half of the investment opportunities in global equity markets lie outside

the US. Non-US stocks, including developed and emerging markets, account for 48% of world market capitalization<sup>1</sup> and represent thousands of companies in countries all over the world. A portfolio investing solely within the US would not be exposed to the performance of those markets.

Exhibit 1. World Equity Market Capitalization



As of December 31, 2017. Data provided by Bloomberg. Market cap data is free-float adjusted and meets minimum liquidity and listing requirements. China market capitalization excludes A-shares, which are generally only available to mainland China investors. For educational purposes; should not be used as investment advice.

1. The total market value of a company's outstanding shares, computed as price times shares outstanding.

# Why Should You Diversify?

(continued from page 11)

## THE LOST DECADE

We can examine the potential opportunity cost associated with failing to diversify globally by reflecting on the period in global markets from 2000–2009. During this period, often called the “lost decade” by US investors, the S&P 500 Index recorded its worst ever 10-year performance with a total cumulative return of –9.1%. However, looking beyond US large cap equities, conditions were more favorable for global equity investors as most equity asset classes outside the US generated positive returns over the course of the decade. (See **Exhibit 2.**) Expanding beyond this period and looking at performance for each of the 11 decades starting in 1900 and ending in 2010, the US market outperformed the world market in five decades and underperformed in the other six.<sup>2</sup> This further reinforces why an investor pursuing the equity premium should consider a global allocation. By holding a globally diversified portfolio, investors are positioned to capture returns wherever they occur.

Exhibit 2. Global Index Returns, January 2000–December 2009

|  | Total Cumulative Return (%) |
|--|-----------------------------|
| S&P 500 Index                                | –9.10                       |
| MSCI World ex USA Index (net div.)           | 17.47                       |
| MSCI World ex USA Value Index (net div.)     | 48.71                       |
| MSCI World ex USA Small Cap Index (net div.) | 94.33                       |
| MSCI Emerging Markets Index (net div.)       | 154.28                      |
| MSCI Emerging Markets Value Index (net div.) | 212.72                      |

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## PICK A COUNTRY?

Are there systematic ways to identify which countries will outperform others in advance? **Exhibit 3** illustrates the randomness in country equity market rankings (from highest to lowest) for 22 different developed market countries over the past 20 years. This graphic conveys how difficult it would be to execute a strategy that relies on picking the best country and the resulting importance of diversification.

In addition, concentrating a portfolio in any one country can expose investors to large variations in returns. The difference between the best- and worst-performing countries can be significant. For example, since 1998, the average return of the best-performing developed market country was approximately 44%, while the average return of the worst-performing country was approximately –16%. Diversification means an investor’s portfolio is unlikely to be the best or worst performing relative to any individual country, but diversification also provides a means to achieve a more consistent outcome and more importantly helps reduce and manage catastrophic losses that can be associated with investing in just a small number of stocks or a single country.

## A DIVERSIFIED APPROACH

Over long periods of time, investors may benefit from consistent exposure in their portfolios to both US and non-US equities. While both asset classes offer the potential to earn positive expected returns in the long run, they may perform quite differently over short periods. While the performance of different countries and asset classes will vary over time, there is no reliable evidence that this performance can be predicted in advance. An approach to equity investing that uses the global opportunity set available to investors can provide diversification benefits as well as potentially higher expected returns.

# Why Should You Diversify?

(continued from page 12)

Exhibit 3. Equity Returns of Developed Markets

|             | 1998  | 1999  | 2000  | 2001  | 2002  | 2003 | 2004 | 2005 | 2006 | 2007  | 2008  | 2009 | 2010  | 2011  | 2012 | 2013 | 2014  | 2015  | 2016  | 2017 |
|-------------|-------|-------|-------|-------|-------|------|------|------|------|-------|-------|------|-------|-------|------|------|-------|-------|-------|------|
| Finland     | 121.6 | 152.6 | 5.9   | 8.4   | 24.2  | 64.5 | 71.5 | 28.3 | 49.4 | 48.7  | -29.2 | 87.1 | 33.8  | 13.7  | 39.6 | 46.0 | 12.7  | 23.4  | 24.6  | 58.3 |
| Belgium     | 67.7  | 99.4  | 5.3   | 1.7   | 16.5  | 63.8 | 53.3 | 25.5 | 47.4 | 41.2  | -30.5 | 76.4 | 30.7  | 5.5   | 31.3 | 41.2 | 7.3   | 16.5  | 18.4  | 36.2 |
| Italy       | 52.5  | 79.7  | 3.4   | -2.8  | -1.3  | 58.5 | 43.5 | 24.6 | 46.8 | 35.2  | -37.6 | 74.0 | 23.2  | 1.4   | 31.0 | 31.8 | 6.2   | 12.1  | 13.3  | 35.6 |
| Spain       | 49.9  | 61.5  | -0.9  | -5.6  | -7.3  | 57.0 | 43.1 | 24.5 | 46.7 | 31.4  | -40.6 | 64.2 | 22.1  | -2.6  | 30.9 | 31.4 | 5.1   | 9.6   | 11.4  | 34.7 |
| France      | 41.5  | 59.5  | -1.3  | -10.9 | -7.3  | 55.4 | 36.3 | 24.3 | 45.1 | 29.6  | -43.3 | 60.2 | 20.5  | -6.8  | 29.3 | 31.3 | 4.1   | 3.5   | 11.3  | 32.2 |
| Ireland     | 35.3  | 53.7  | -4.1  | -11.4 | -10.3 | 54.6 | 35.2 | 16.7 | 43.4 | 28.4  | -45.5 | 57.5 | 15.4  | -10.0 | 28.3 | 31.3 | 3.0   | 2.3   | 10.9  | 28.7 |
| USA         | 30.1  | 31.7  | -4.3  | -12.2 | -10.3 | 49.5 | 32.5 | 16.3 | 38.8 | 28.3  | -45.9 | 56.2 | 14.8  | -10.6 | 25.9 | 27.6 | 2.3   | 2.0   | 4.9   | 28.4 |
| Germany     | 29.4  | 29.3  | -10.0 | -12.4 | -11.0 | 49.3 | 30.8 | 16.0 | 36.7 | 25.6  | -47.4 | 50.4 | 14.5  | -11.0 | 22.1 | 27.2 | 1.5   | 1.3   | 4.8   | 28.3 |
| Portugal    | 27.5  | 21.9  | -10.3 | -14.0 | -13.2 | 48.1 | 30.3 | 14.4 | 36.5 | 24.0  | -47.6 | 43.5 | 11.8  | -12.1 | 22.0 | 26.6 | -0.1  | 0.9   | 3.6   | 27.7 |
| Switzerland | 23.5  | 20.0  | -11.5 | -14.8 | -13.8 | 43.8 | 28.9 | 13.9 | 36.0 | 24.0  | -48.2 | 43.3 | 10.9  | -12.3 | 21.3 | 26.3 | -0.7  | 0.7   | 2.8   | 27.0 |
| Netherlands | 23.2  | 17.6  | -12.0 | -18.6 | -15.0 | 43.0 | 25.0 | 10.3 | 34.5 | 20.6  | -48.3 | 43.2 | 10.3  | -12.7 | 20.6 | 25.2 | -3.4  | 0.4   | 2.4   | 24.0 |
| UK          | 17.8  | 12.9  | -12.7 | -20.4 | -15.2 | 40.2 | 24.7 | 9.9  | 32.5 | 13.2  | -49.9 | 42.3 | 9.9   | -14.3 | 20.4 | 24.5 | -3.5  | -0.1  | 2.3   | 23.8 |
| Sweden      | 14.0  | 12.5  | -12.8 | -21.4 | -15.3 | 38.1 | 22.3 | 9.9  | 31.4 | 8.9   | -50.0 | 40.4 | 8.8   | -16.0 | 18.7 | 20.7 | -4.0  | -0.5  | 1.4   | 22.5 |
| Denmark     | 9.0   | 12.1  | -14.2 | -22.0 | -16.0 | 37.8 | 22.2 | 9.0  | 30.9 | 8.4   | -50.7 | 36.6 | 8.4   | -16.0 | 15.3 | 20.4 | -4.7  | -1.9  | 0.6   | 22.5 |
| Australia   | 6.1   | 6.9   | -14.7 | -22.1 | -17.8 | 37.6 | 19.6 | 8.4  | 30.6 | 6.1   | -51.2 | 31.8 | 8.3   | -16.0 | 15.3 | 13.4 | -5.4  | -5.0  | -0.1  | 22.3 |
| Japan       | 5.1   | 4.8   | -15.6 | -22.4 | -20.8 | 35.9 | 18.5 | 7.4  | 30.4 | 5.4   | -52.2 | 26.6 | 1.7   | -16.9 | 14.6 | 11.3 | -7.5  | -6.3  | -1.0  | 21.2 |
| Asia        | 0.4   | -0.3  | -15.9 | -22.4 | -21.2 | 35.3 | 16.2 | 5.1  | 31.4 | 5.3   | -53.8 | 26.3 | -0.4  | -17.9 | 12.5 | 11.1 | -9.5  | -7.6  | -4.7  | 20.6 |
| Hong Kong   | -2.9  | -7.0  | -16.8 | -23.4 | -23.1 | 34.1 | 15.9 | 4.4  | 27.4 | 2.2   | -55.2 | 25.3 | -4.1  | -18.1 | 9.1  | 11.0 | -9.9  | -10.0 | -4.9  | 19.9 |
| Canada      | -6.1  | -8.9  | -21.3 | -26.6 | -26.2 | 32.1 | 15.0 | 1.9  | 17.8 | 0.6   | -64.2 | 25.2 | -11.3 | -23.1 | 8.2  | 9.4  | -10.4 | -15.0 | -7.1  | 18.6 |
| Singapore   | -12.9 | -9.1  | -27.7 | -27.2 | -30.3 | 28.4 | 12.2 | 1.7  | 16.6 | 16.6  | -66.5 | 12.3 | -15.0 | -23.2 | 5.7  | 5.6  | -22.0 | -15.6 | -7.6  | 18.1 |
| New Zealand | -22.6 | -12.6 | -28.2 | -29.4 | -30.5 | 28.1 | 10.1 | -1.9 | 14.7 | -4.2  | -68.4 | 11.1 | -18.1 | -31.9 | 3.5  | 4.2  | -29.8 | -17.7 | -10.5 | 16.1 |
| Norway      | -30.1 | -14.3 | -33.5 | -38.2 | -33.2 | 19.4 | 6.1  | -2.3 | 6.2  | -20.1 | -71.9 | 6.3  | -22.0 | -36.4 | 3.0  | 1.7  | -38.2 | -24.2 | -15.8 | 11.7 |

Source: MSCI country indices (net dividends) for each country listed. Does not include Israel, which MSCI classified as an emerging market prior to May 2010. MSCI data © MSCI 2019, all rights reserved. Past performance is no guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

Source: Dimensional Fund Advisors LP.

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There is no guarantee investment strategies will be successful. Investing involves risks, including possible loss of principal. Investors should talk to their financial advisor prior to making any investment decision.

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