

# Q4

Quarterly Market Review

Fourth Quarter 2019

# Quarterly Market Review

Fourth Quarter 2019

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.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

## Overview:

SAM Commentary: What Will the Next Decade Bring?

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Emerging Markets Stocks

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Commodities

Fixed Income

Global Fixed Income

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Quarterly Topic: Tuning Out the Noise

# What will the next decade bring?

Fourth Quarter 2019

Will it be another Roaring '20's? Time will tell, but making short-term predictions based on today's results and headlines typically leads to longer-term mistakes

Dear Partners,

We thank you for the trust you place in us to steward your financial Big Picture. We continue to work hard everyday to make you feel like SAM is part of your family (Your SAM Fam, if you will) and to build your long-term trust.

With 2019 behind us, we continue to emphasize the longer term mindset. While most in the industry try to get people to think day-to-day, quarter-to-quarter, and maybe at best year-to-year, we want our clients to focus on the multi-decades and multi-generations ahead.

2019 was a great reminder to look ahead and focus on the Big Picture. If investors had focused on a single quarter, 4Q 2018 for example, they would have seen global markets (as represented by MSCI All World Index) drop -12.75%, with a peak to trough drop of -17.5% into January 2019. This might have led some people to change course and sell equity-oriented assets. However, the year ended with global markets up +26.6% by December 31st. This demonstrates that focusing on short-term data points and being caught up "in the moment" often leads to irrational decision making. It's often best to take a step-back, remain calm, and focus on your Big Picture.

The end of 2019 also represented the end of a decade. Naturally we might wonder what the '20's will look like – but be weary of any short term predictions since most market prognostications & prognosticators are wrong.

## A QUICK PEAK INTO ONE'S OWN MIND...

Can one even predict what will take place over a decade given that by most measures it is a fairly long-term horizon?

From our experience, typically not, as most human beings suffer from behavioral cognitive biases. A couple of such biases most prevalent in the wealth management realm are: **recency bias** and **confirmation bias**.

Recency bias occurs when a person most easily remembers events that occurred recently to predict what will happen in the immediate future.

Confirmation bias is the tendency for a person to search for and then interpret information in a way that confirms or strengthens one's prior personal belief. A person then tends to favor and recall that information.

An example of this is when we hear from clients, "I am sitting in cash because everyone is saying a recession is coming. Don't you read the news? The markets are at a top!"

This mindset and belief is formed by the behavioral biases referenced, and one is just searching for information to justify this belief

## SO, LET'S CHECK SOME FACTS...

What were the headlines and predictions at the end of the last decade (2000-2009) for the decade just concluded (2010-2019)?

As we recall, the end of the last decade brought on the depths of the financial crisis across the globe, which was a very painful time for most.



# What will the next decade bring?

(continued from page 3)

Below are the returns from the decade prior (2000-2009) for various asset classes in client portfolios:

| Annualized Returns                       |               |
|--|---------------|
| 12/31/1999 - 12/31/2009                  |               |
| Description                              | Entire Period |
| S&P 500 (US Equities)                    | -0.9%         |
| MSCI EAFE (Developed Non-US)             | 1.6%          |
| Russell 2000 (US Small Caps)             | 3.5%          |
| DJ US Select REIT (Real Estate)          | 10.7%         |
| DJ World Emerging All (Emerging Markets) | 9.2%          |
| US Aggregate (Fixed Income)              | 6.3%          |

Source: Factset

In the previous decade, investing in US equities would have lost you money at a rate of about 0.9% a year. So, if you invested \$10,000 at the start of the decade, you would have had about \$9,135 (an \$865 loss!) at the end of 2009.

A few other observations from the last decade:

- Developed Non-US Equities outperformed US
- From Oct 2002-July 2007 (bottom of tech bubble to top of pre-crisis) developed Non-US was up 24%/year vs. 14.8% for US Equities (almost a 10%/year spread!)
- Real Estate had the best performance, followed by Emerging Markets
- Emerging Markets were up an astounding 36%/year from Oct 2002-July 2007
- Fixed income did well as the 10-year Treasury dropped from ~6.7% at beginning of decade to 3.8% at the end

Noting the cognitive behavioral biases introduced earlier, during the painful times of the Great Recession most market prognosticators fell into the recency trap and recalled what was currently happening to reflect what would happen in the future.

And as individuals were going through pain they searched for information to confirm their biases.

Below are some of the headlines and predictions that were taking place towards the end of the last decade:

## Stock Investors Lose Faith, Pull Out Record Amounts

### Art Cashin: Markets Face 'Long, Hard' Climb — No V-Shape Recovery

#### Stocks Tarnished By 'Lost Decade'

U.S. Shares in Longest Funk Since 1970s; Credit Crunch Could Prolong Weakness

## Emerging Markets Soar Past Their Doubters

### *Interest Rates Have Nowhere to Go but Up*

CNBC in Oct 2009 (<https://www.cnbc.com/id/33326855>):

Wall Street Journal in March 2008 (<https://www.wsj.com/articles/SB120649226977964203>)

Wall Street Journal Dec 2008 (<https://www.wsj.com/articles/SB122990642933825357>)

New York Times Dec 2009 (<https://archive.nytimes.com/www.nytimes.com/2009/12/30/business/global/30emerge.html>)

NY Times April 2010 (<https://www.nytimes.com/2010/04/11/business/economy/11rates.html>)

# What will the next decade bring?

(continued from page 4)

By reading the headlines on the previous page, and falling into the **recency** and **confirmation bias** traps of a short-term minded focus, it would be fair to make the following predictions for the decade 2010-2019:

*Don't own US equities as nobody has faith in them with "no sharp recovery insight."*

*Don't own fixed income as interest rates "have nowhere to go, but up," which is bad for prices.*

*Let's just stick to non-US equities and especially emerging markets as they are "soaring past doubters."*

## AND, THE RESULTS ARE IN!

Below you will find the results of the same asset classes shown on the previous page for the previous two decades (2000-2009 & 2010-2019)

| Annualized Returns<br>12/31/1999 - 12/31/2009 |               | Annualized Returns<br>12/31/2009 to 12/31/2019 |               |
|---|---------------|--|---------------|
| Description                                   | Entire Period | Description                                    | Entire Period |
| S&P 500 (US Equities)                         | -0.9%         | S&P 500 (US Equities)                          | 13.6%         |
| MSCI EAFE (Developed Non-US)                  | 1.6%          | MSCI EAFE (Developed Non-US)                   | 6.0%          |
| Russell 2000 (US Small Caps)                  | 3.5%          | Russell 2000 (US Small Caps)                   | 11.8%         |
| DJ US Select REIT (Real Estate)               | 10.7%         | DJ US Select REIT (Real Estate)                | 11.6%         |
| DJ World Emerging All (Emerging Markets)      | 9.2%          | DJ World Emerging All (Emerging Markets)       | 4.3%          |
| US Aggregate (Fixed Income)                   | 6.3%          | US Aggregate (Fixed Income)                    | 3.7%          |

Source: Factsset

So what actually happened? US Equities had one of their better decades with a return of 13.6%/year! If you invested \$10,000 at the beginning of the decade, you would have had \$35,792 at the end (more than tripling your investment)! That certainly seems like a "V-shaped" recovery to us.

Non-US equities trailed by almost 6.6%/year, and Emerging Markets certainly did not soar with a miniscule 4.3% return. Which was fairly close to the 3.7%/year return one saw from fixed income where rates were supposed to rise (the 10-year Treasury actually fell from 3.83% to 1.92% during the previous decade), which would have caused a negative return for fixed income in the decade.

## WHERE DO WE GO FROM HERE?!?

What will happen in the '20's? Well you will not fall into that trap of trying to make a prediction despite what the current headlines are telling you. Just keep focusing on the long-term, taking a globally diversified approach of owning the best businesses, with a slight bias towards small caps, and own just enough fixed income to match your need, ability, and temperament.

...And never focus on today's headlines, like this below from March 2007, as they typically lead to long-term mistakes:

## Apple should pull the plug on the iPhone

Published: Mar 28, 2007 7:18 p.m. ET









Commentary: Company risks its reputation in competitive business

Thank you,

Jason and Your SAM Team

# Quarterly 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>4Q 2019</b>         | <b>STOCKS</b>   |   |  |   |  | <b>BONDS</b>  |  |
|                        | <b>9.10%</b><br> | <b>7.86%</b><br> | <b>11.84%</b><br> | <b>0.80%</b><br> |  | <b>0.18%</b><br> | <b>-1.11%</b><br> |
| <b>Since Jan. 2001</b> |   |   |  |   |  |   |  |
| Avg. Quarterly Return  | 2.1%  | 1.5%  | 2.9%   | 2.6%  |  | 1.2%  | 1.1%   |
| Best Quarter           | 16.8%   | 25.9%   | 34.7%  | 32.3%   |  | 4.6%  | 4.6%   |
|                        | <b>2009 Q2</b>  | <b>2009 Q2</b>  | <b>2009 Q2</b>   | <b>2009 Q3</b>  |  | <b>2001 Q3</b>  | <b>2008 Q4</b>   |
| Worst Quarter          | -22.8%  | -21.1%  | -27.6%   | -36.1%  |  | -3.0%   | -2.7%  |
|                        | <b>2008 Q4</b>  | <b>2008 Q4</b>  | <b>2008 Q4</b>   | <b>2008 Q4</b>  |  | <b>2016 Q4</b>  | <b>2015 Q2</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 © 2020 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 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

# Long-Term Market Summary

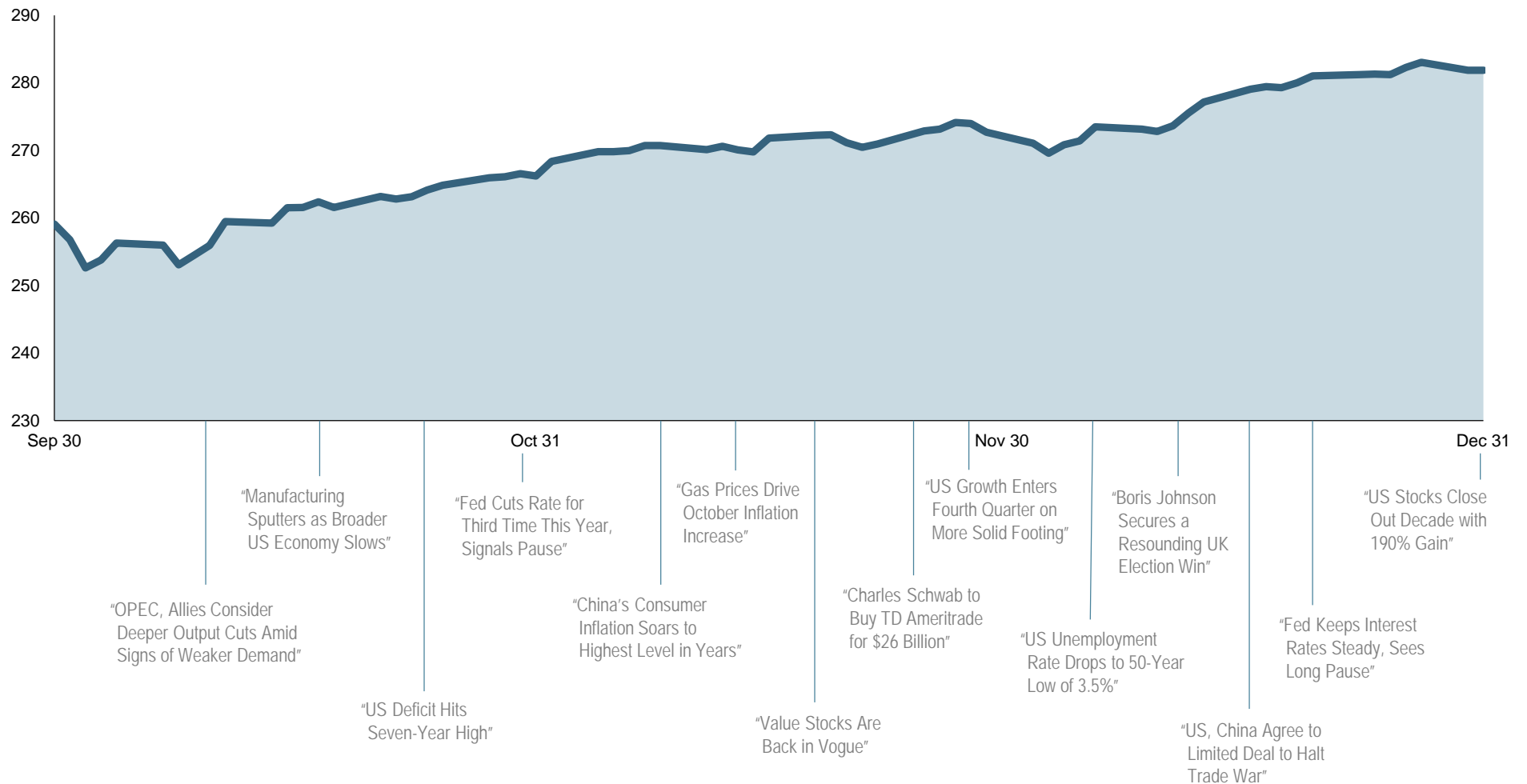
## Index Returns

|                 | US Stock Market   | International Developed Stocks  | Emerging Markets Stocks  | Global Real Estate  | US Bond Market  | Global Bond Market ex US  |
|-----------------|---|---|--|---|---|---|
| <b>1 Year</b>   | <b>STOCKS</b>   |   |  |   | <b>BONDS</b>  |   |
|                 | 31.02%  | 22.49%  | 18.42%   | 23.12%  | 8.72%   | 7.57%   |
|                 |    |    |    |    |    |    |
| <b>5 Years</b>  |   |   |  |   |   |   |
|                 | 11.24%  | 5.42%   | 5.61%  | 5.56%   | 3.05%   | 3.87%   |
|                 |   |   |   |   |   |   |
| <b>10 Years</b> |   |   |  |   |   |   |
|                 | 13.42%  | 5.32%   | 3.68%  | 9.31%   | 3.75%   | 4.29%   |
|                 |  |  |  |  |  |  |

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 © 2020 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 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

# World Stock Market Performance

MSCI All Country World Index with selected headlines from Q4 2019



*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.*

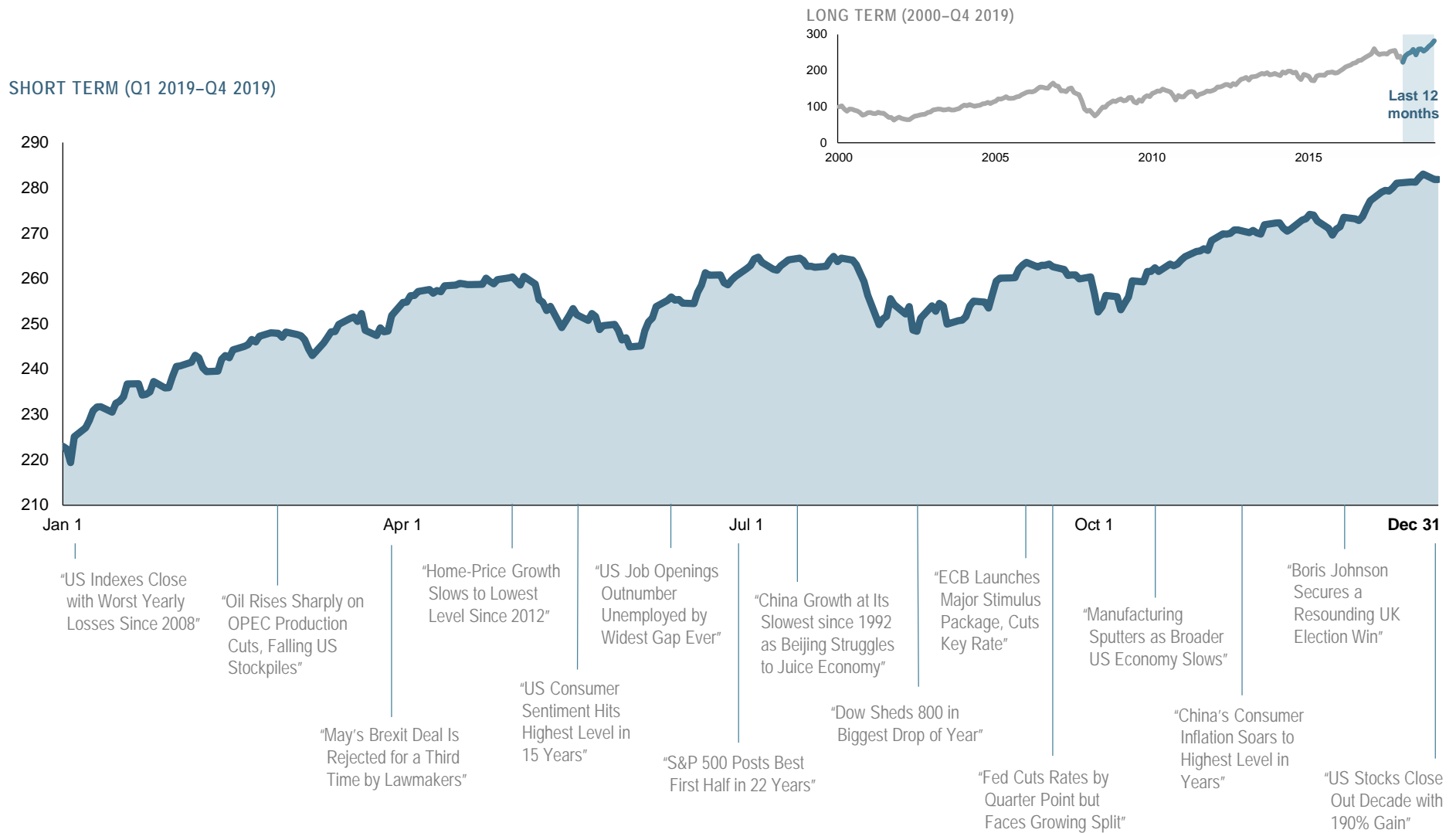
Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2020, all rights reserved.

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



*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 2020, 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.

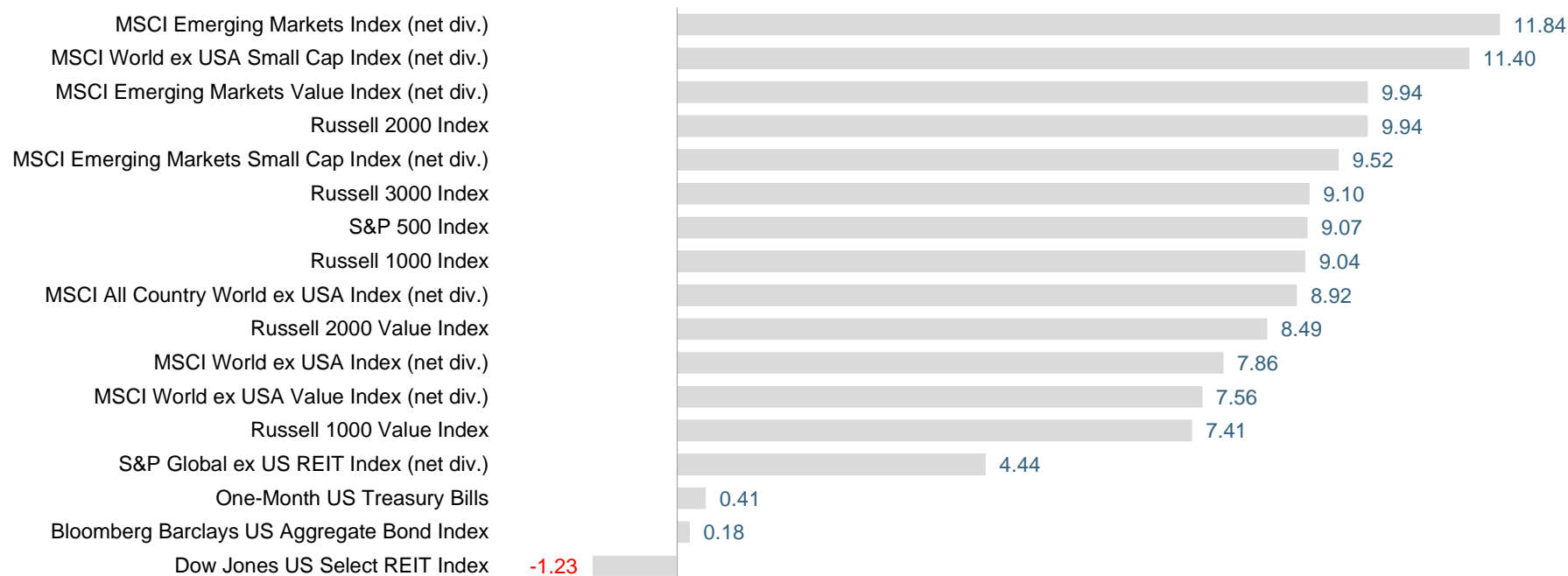
# World Asset Classes

## Fourth Quarter 2019 Index Returns (%)

Equity markets around the globe posted positive returns in the fourth quarter. Looking at broad market indices, US equities outperformed non-US developed markets but underperformed emerging markets.

Value stocks underperformed growth stocks in all regions. Small caps outperformed large caps in the US and non-US developed markets but underperformed in emerging markets.

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



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# US Stocks

## Fourth Quarter 2019 Index Returns

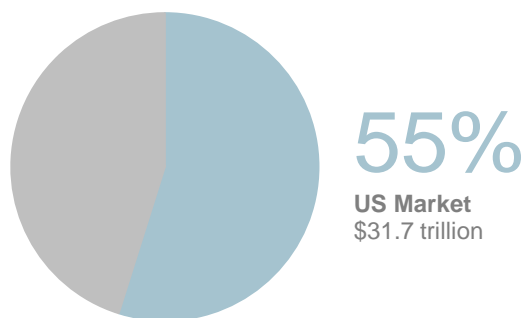
US equities outperformed non-US developed equities but underperformed emerging markets stocks in the fourth quarter.

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

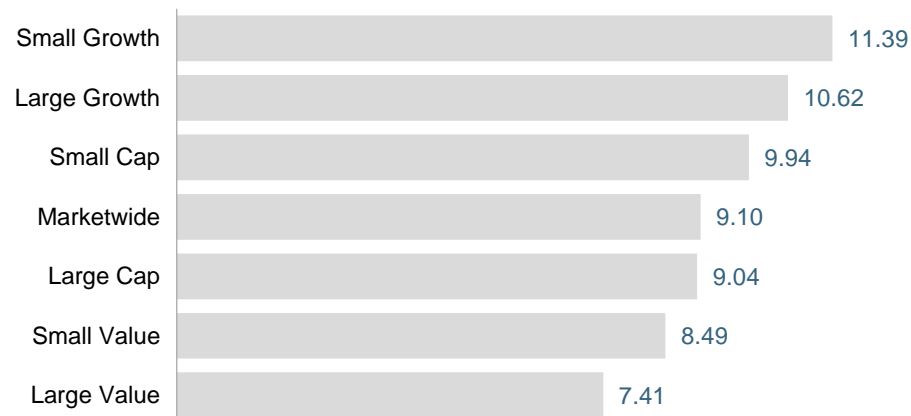
Small caps outperformed large caps in the US.

REIT indices underperformed equity market indices.

### World Market Capitalization—US



### Ranked Returns (%)



### Period Returns (%)

| Asset Class  | QTR   | 1 Year | * Annualized |          |           |
|--------------|-------|--------|--------------|----------|-----------|
|              |       |        | 3 Years*     | 5 Years* | 10 Years* |
| Small Growth | 11.39 | 28.48  | 12.49        | 9.34     | 13.01     |
| Large Growth | 10.62 | 36.39  | 20.49        | 14.63    | 15.22     |
| Small Cap    | 9.94  | 25.52  | 8.59         | 8.23     | 11.83     |
| Marketwide   | 9.10  | 31.02  | 14.57        | 11.24    | 13.42     |
| Large Cap    | 9.04  | 31.43  | 15.05        | 11.48    | 13.54     |
| Small Value  | 8.49  | 22.39  | 4.77         | 6.99     | 10.56     |
| Large Value  | 7.41  | 26.54  | 9.68         | 8.29     | 11.80     |

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. Dow Jones US Select REIT Index used as proxy for the US REIT market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved.

# International Developed Stocks

## Fourth Quarter 2019 Index Returns

In US dollar terms, developed markets outside the US underperformed both the US equity market and emerging markets equities during the quarter.

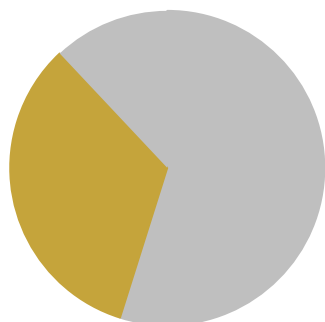
Small caps outperformed large caps in non-US developed markets.

Value underperformed growth across large and small cap stocks.

### World Market Capitalization—International Developed

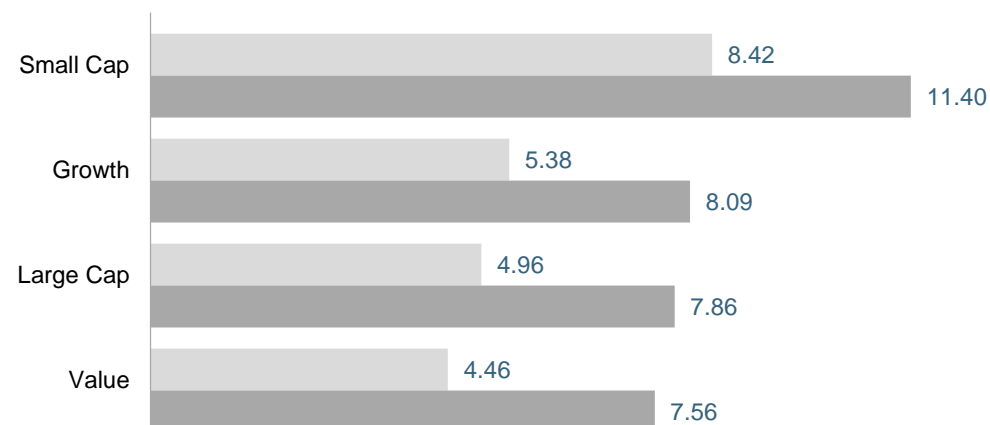
**33%**

International  
Developed Market  
\$19.2 trillion



### Ranked Returns (%)

■ Local currency ■ US currency



### Period Returns (%)

\* Annualized

| Asset Class | QTR   | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|-------|--------|----------|----------|-----------|
| Small Cap   | 11.40 | 25.41  | 10.42    | 8.17     | 8.04      |
| Growth      | 8.09  | 27.92  | 12.34    | 7.18     | 6.51      |
| Large Cap   | 7.86  | 22.49  | 9.34     | 5.42     | 5.32      |
| Value       | 7.56  | 17.02  | 6.36     | 3.59     | 4.05      |

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# Emerging Markets Stocks

## Fourth Quarter 2019 Index Returns

In US dollar terms, emerging markets outperformed developed markets, including the US, in the fourth quarter.

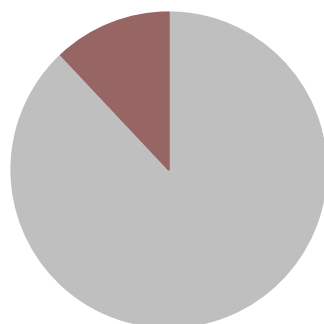
Value stocks underperformed growth stocks.

Small caps underperformed large caps.

### World Market Capitalization—Emerging Markets

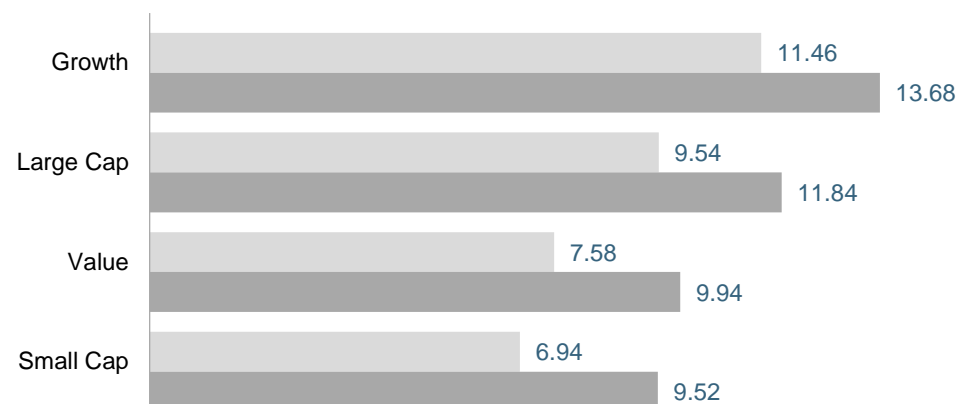
**12%**

Emerging Markets  
\$6.9 trillion



### Ranked Returns (%)

■ Local currency ■ US currency



### Period Returns (%)

\* Annualized

| Asset Class | QTR   | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|-------|--------|----------|----------|-----------|
| Growth      | 13.68 | 25.10  | 14.50    | 7.45     | 5.20      |
| Large Cap   | 11.84 | 18.42  | 11.57    | 5.61     | 3.68      |
| Value       | 9.94  | 11.94  | 8.57     | 3.67     | 2.08      |
| Small Cap   | 9.52  | 11.50  | 6.70     | 2.97     | 2.95      |

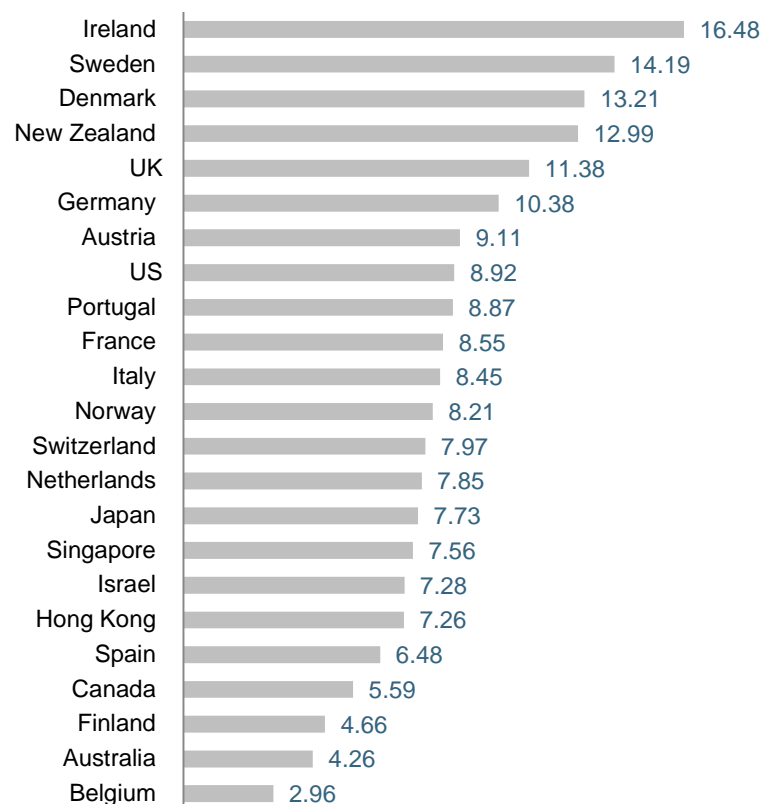
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small 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 2020, all rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes.

# Select Market Performance

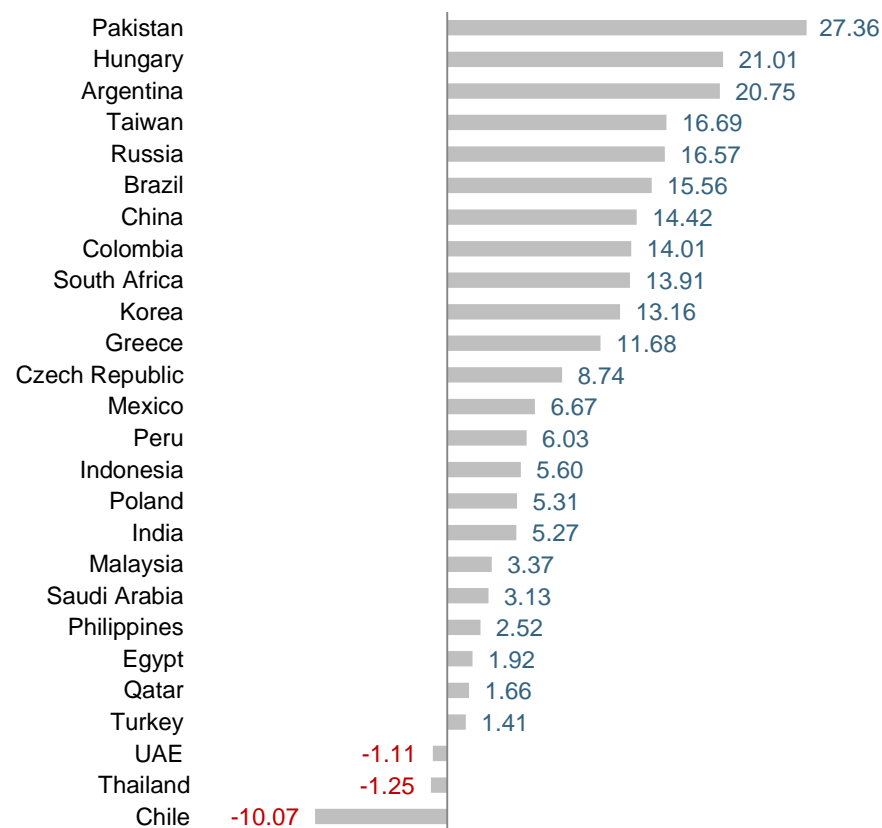
## Fourth Quarter 2019 Index Returns

In US dollar terms, Ireland and Sweden recorded the highest country performance in developed markets in the fourth quarter, while Australia and Belgium posted the lowest returns. In emerging markets, Pakistan and Hungary were the top performers, while Chile and Thailand posted the lowest performance.

### Ranked Developed Markets Returns (%)



### Ranked Emerging Markets Returns (%)



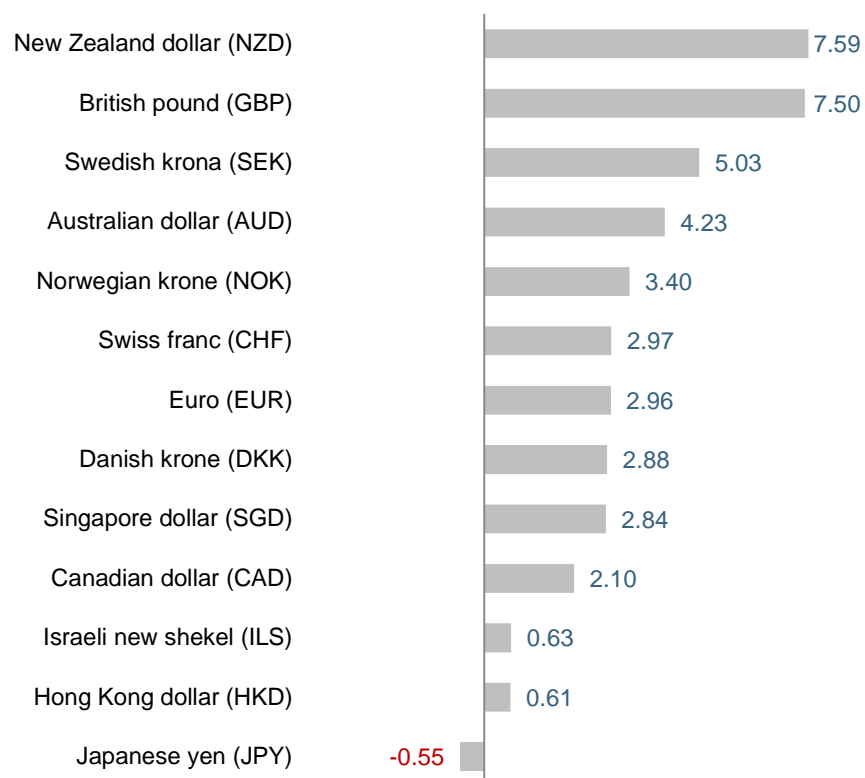
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), MSCI USA IMI Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. MSCI data © MSCI 2020, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014. Saudi Arabia and Argentina have been reclassified as emerging markets by MSCI, effective May 2019.

# Select Currency Performance vs. US Dollar

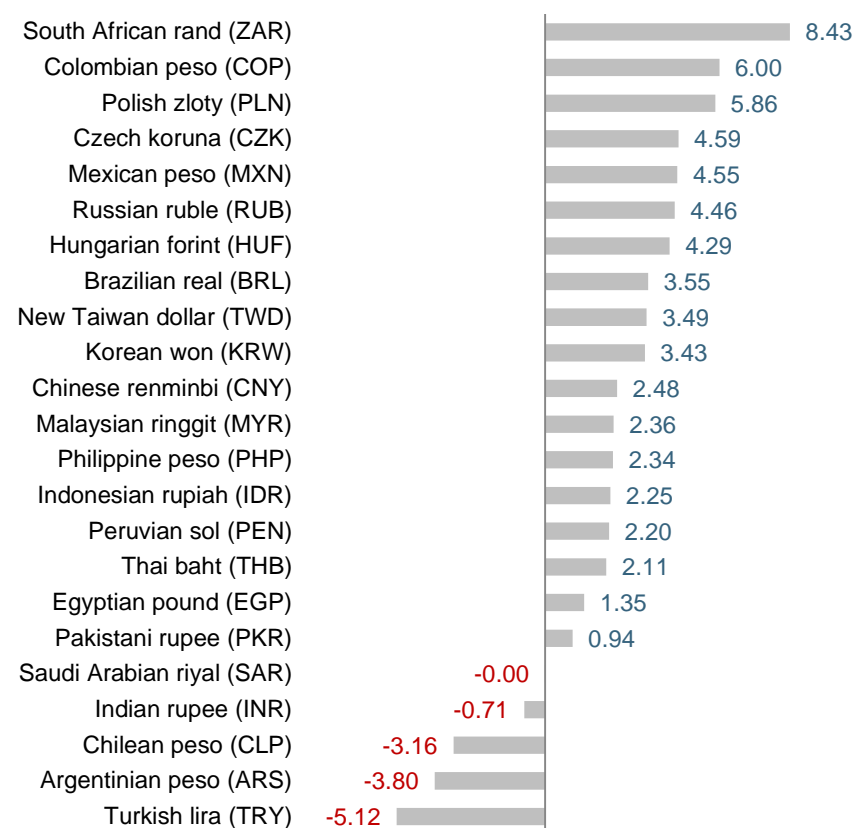
Fourth Quarter 2019

In developed and emerging markets, most currencies appreciated vs. the US dollar. The few exceptions included the Japanese yen and the Turkish lira.

## Ranked Developed Markets (%)



## Ranked Emerging Markets (%)

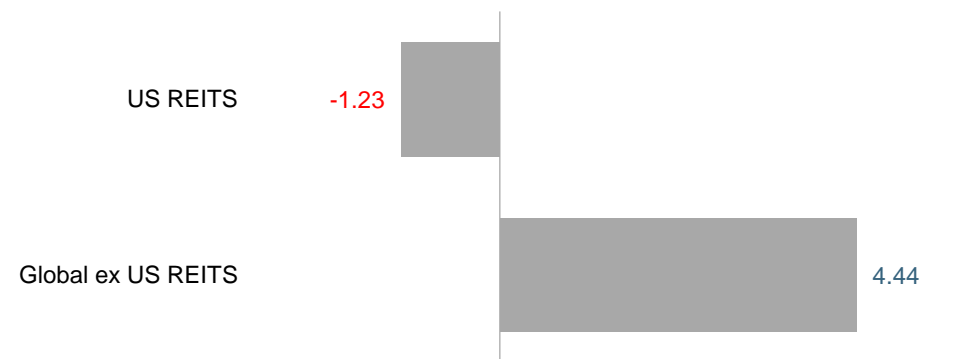


# Real Estate Investment Trusts (REITs)

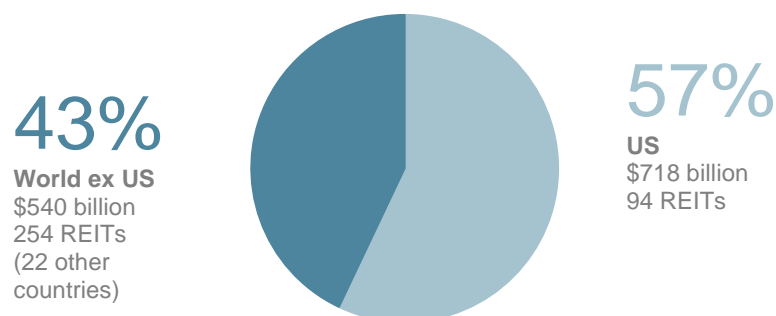
## Fourth Quarter 2019 Index Returns

US real estate investment trusts (REITs) underperformed non-US REITs in US dollar terms during the fourth quarter.

### Ranked Returns (%)



### Total Value of REIT Stocks



### Period Returns (%)

| Asset Class        | * Annualized |        |          |          |           |
|--------------------|--------------|--------|----------|----------|-----------|
|                    | QTR          | 1 Year | 3 Years* | 5 Years* | 10 Years* |
| Global ex US REITS | 4.44         | 23.59  | 9.79     | 5.65     | 7.74      |
| US REITS           | -1.23        | 23.10  | 6.95     | 6.40     | 11.57     |

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 © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



# Commodities

## Fourth Quarter 2019 Index Returns

The Bloomberg Commodity Index Total Return increased 4.42% in the fourth quarter.

Coffee and soybean oil were the top performers, gaining 24.33% and 17.62%, respectively.

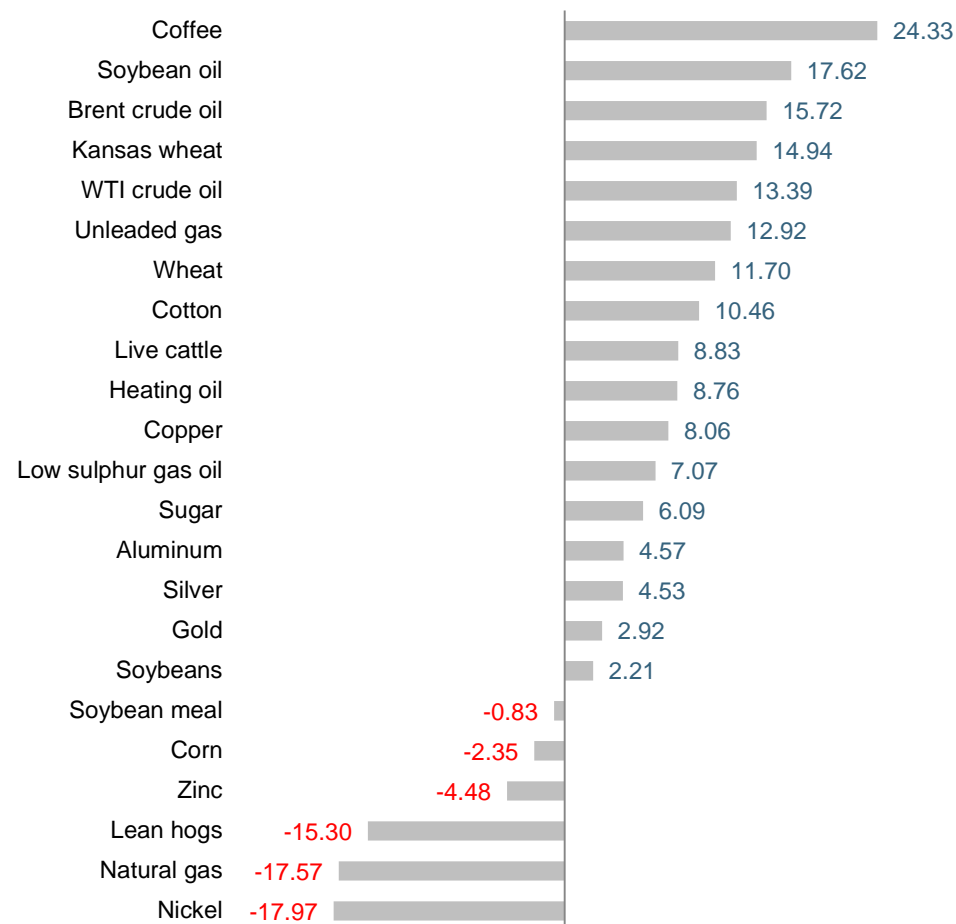
Nickel and natural gas were the worst performers, declining by 17.97% and 17.57%, respectively.

### Period Returns (%)

\* Annualized

| Asset Class | QTR  | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|------|--------|----------|----------|-----------|
| Commodities | 4.42 | 7.69   | -0.94    | -3.92    | -4.73     |

### Ranked Returns (%)



# Fixed Income

## Fourth Quarter 2019 Index Returns

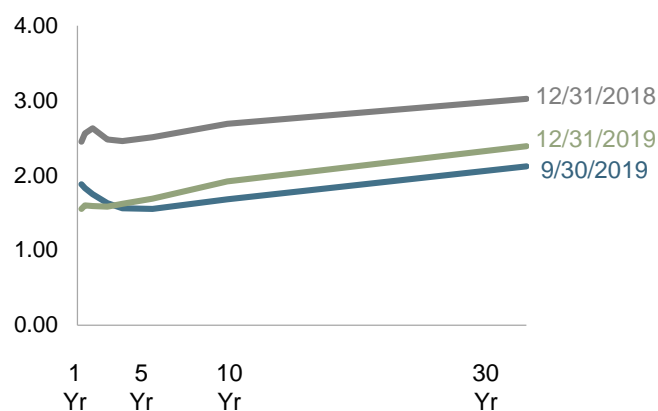
Interest rate changes were mixed in the US Treasury market during the fourth quarter. The yield on the 5-year Treasury note increased 14 basis points (bps), ending at 1.69%. The yield on the 10-year note rose 24 bps to 1.92%. The 30-year Treasury bond yield increased 27 bps to 2.39%.

On the short end of the yield curve, the 1-month Treasury bill yield decreased to 1.48%, while the yield on the 1-year bill dipped 16 bps to 1.59%. The 2-year note yield finished at 1.58% after a decrease of 5 bps.

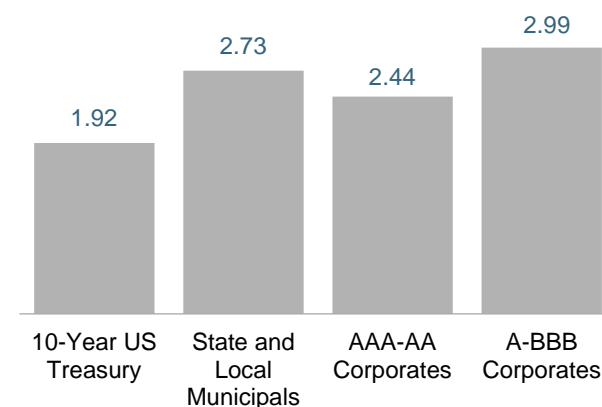
In terms of total returns, short-term corporate bonds gained 0.95%. Intermediate corporate bonds had a total return of 1.10%.

The total return for short-term municipal bonds was 0.84%, while intermediate-term munis returned 0.93%. General obligation bonds outperformed revenue bonds.

### US Treasury Yield Curve (%)



### Bond Yield across Issuers (%)



### Period Returns (%)

| Asset Class  | QTR   | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--|-------|--------|----------|----------|-----------|
| Bloomberg Barclays US High Yield Corporate Bond Index      | 2.61  | 14.32  | 6.37     | 6.13     | 7.57      |
| FTSE World Government Bond Index 1-5 Years                 | 1.01  | 2.43   | 2.40     | 0.74     | 0.19      |
| Bloomberg Barclays US TIPS Index                           | 0.79  | 8.43   | 3.32     | 2.62     | 3.36      |
| Bloomberg Barclays Municipal Bond Index                    | 0.74  | 7.54   | 4.72     | 3.53     | 4.34      |
| ICE BofA 1-Year US Treasury Note Index                     | 0.59  | 2.93   | 1.78     | 1.25     | 0.83      |
| ICE BofA US 3-Month Treasury Bill Index                    | 0.46  | 2.28   | 1.67     | 1.07     | 0.58      |
| Bloomberg Barclays US Aggregate Bond Index                 | 0.18  | 8.72   | 4.03     | 3.05     | 3.75      |
| FTSE World Government Bond Index 1-5 Years (hedged to USD) | 0.18  | 3.86   | 2.37     | 1.92     | 1.85      |
| Bloomberg Barclays US Government Bond Index Long           | -4.06 | 14.75  | 6.95     | 4.16     | 6.97      |

\*Annualized

One basis point (bps) 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 BofA 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 © 2020 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2020 ICE Data Indices, LLC. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

# Global Fixed Income

## Fourth Quarter 2019 Yield Curves

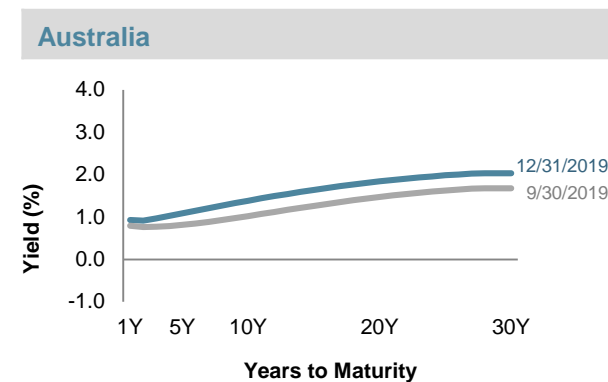
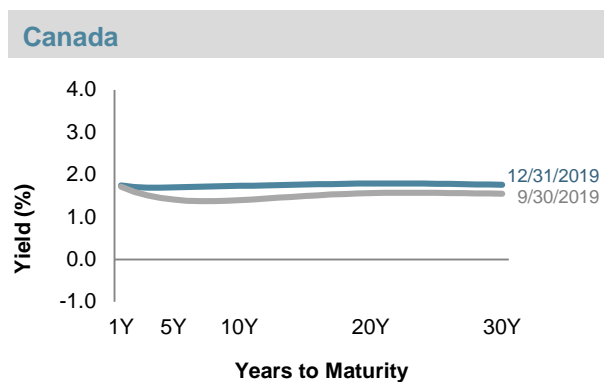
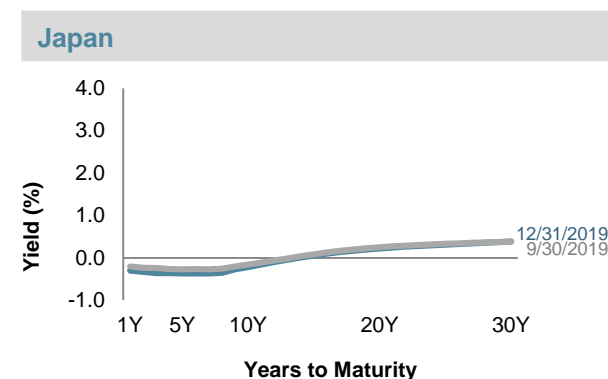
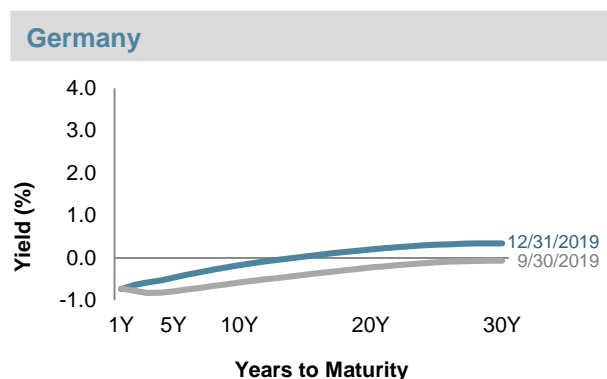
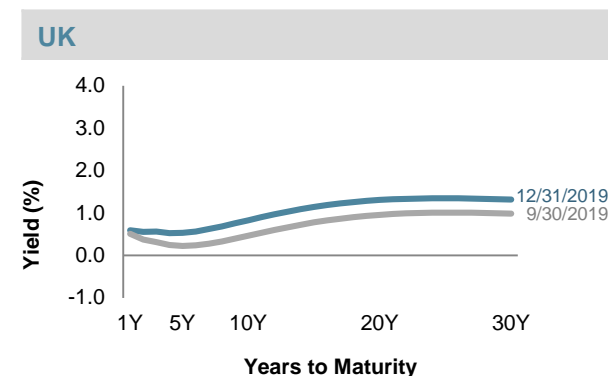
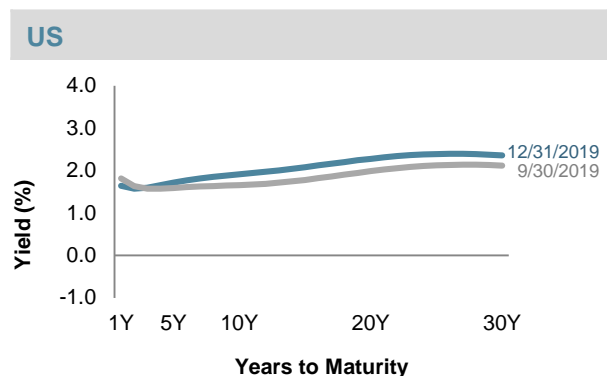
Interest rates in global developed markets generally increased during the fourth quarter.

Longer-term bonds generally underperformed shorter-term bonds in the global developed markets.

Short- and intermediate-term nominal rates are negative in Japan and Germany.

Changes in Yields (bps) since 9/30/2019

|           | 1Y    | 5Y   | 10Y  | 20Y  | 30Y  |
|-----------|-------|------|------|------|------|
| US        | -17.2 | 12.7 | 25.4 | 29.3 | 24.1 |
| UK        | 8.2   | 30.6 | 36.8 | 34.9 | 33.1 |
| Germany   | -1.4  | 32.2 | 40.9 | 42.7 | 40.3 |
| Japan     | 16.9  | 23.8 | 19.6 | 7.0  | 3.9  |
| Canada    | 3.0   | 29.0 | 33.7 | 22.7 | 21.0 |
| Australia | 13.7  | 27.4 | 36.2 | 36.7 | 35.3 |



# Impact of Diversification

Fourth Quarter 2019

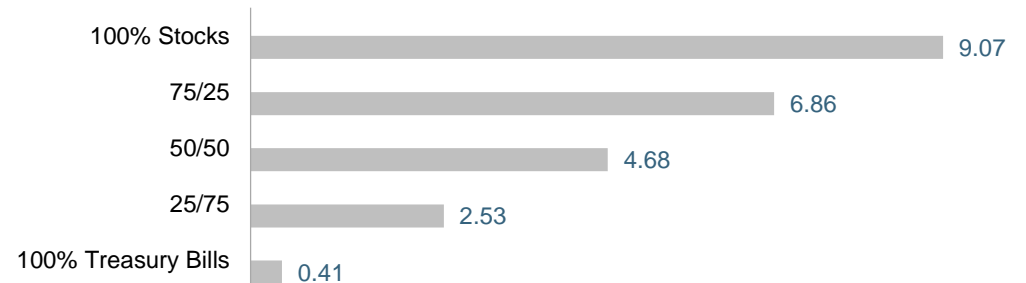
These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

## Period Returns (%)

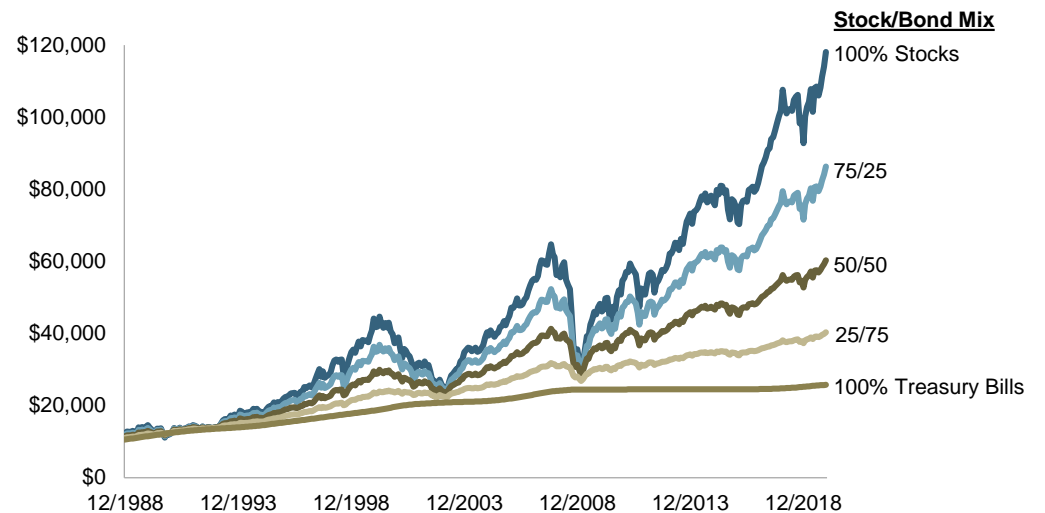
\* Annualized

| Asset Class         | QTR  | 1 Year | 3 Years* | 5 Years* | 10 Years* | 10-Year STDEV <sup>1</sup> |
|---------------------|------|--------|----------|----------|-----------|----------------------------|
| 100% Stocks         | 9.07 | 27.30  | 13.05    | 9.00     | 9.37      | 13.18                      |
| 75/25               | 6.86 | 20.69  | 10.21    | 7.08     | 7.27      | 9.89                       |
| 50/50               | 4.68 | 14.29  | 7.35     | 5.10     | 5.09      | 6.59                       |
| 25/75               | 2.53 | 8.11   | 4.47     | 3.07     | 2.83      | 3.30                       |
| 100% Treasury Bills | 0.41 | 2.14   | 1.58     | 0.99     | 0.52      | 0.22                       |

## Ranked Returns (%)



## Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio. Diversification does not eliminate the risk of market loss. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio. Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2020, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

# Tuning Out the Noise

Fourth Quarter 2019

When faced with short-term noise, it is easy to lose sight of the potential long-term benefits of staying invested.

For investors, it can be easy to feel overwhelmed by the relentless stream of news about markets. Being bombarded with data and headlines presented as impactful to your financial well-being can evoke strong emotional responses from even the most experienced investors. Headlines from the “lost decade”<sup>1</sup> can help illustrate several periods that may have led market participants to question their approach.

**May 1999:**

Dow Jones Industrial Average Closes Above 11,000 for the First Time

**March 2000:**

Nasdaq Stock Exchange Index Reaches an All-Time High of 5,048

**April 2000:**

In Less Than a Month, Nearly a Trillion Dollars of Stock Value Evaporates

**October 2002:**

Nasdaq Hits a Bear-Market Low of 1,114

**September 2005:**

Home Prices Post Record Gains

**September 2008:**

Lehman Files for Bankruptcy, Merrill Is Sold

While these events are now a decade or more behind us, they can still serve as an important reminder for investors today. For many, feelings of elation or despair can accompany headlines like these. We should remember that markets can be volatile and recognize that, in the moment, doing nothing may feel paralyzing. Throughout these ups and downs, however, if one had hypothetically invested \$10,000 in US stocks in May 1999 and stayed invested, that investment would be worth approximately \$28,000 today.<sup>2</sup>

When faced with short-term noise, it is easy to lose sight of the potential long-term benefits of staying invested. While no one has a crystal ball, adopting a long-term perspective can help change how investors view market volatility and help them look beyond the headlines.

**The Value of a Trusted Advisor**

Part of being able to avoid giving in to emotion during periods of uncertainty is having an appropriate asset allocation that is aligned with an investor’s willingness and ability to bear risk. It also helps to remember that if returns were guaranteed, you would not expect to earn a premium. Creating a portfolio investors are comfortable with, understanding that uncertainty is a part of investing, and sticking to a plan may ultimately lead to a better investment experience.

1. For the US stock market, this is generally understood as the period inclusive of 1999–2009.

2. In USD. As measured by the S&P 500 Index. A hypothetical portfolio of \$10,000 invested on April 30, 1999, and tracking the S&P 500 Index, would have grown to \$28,408 on March 31, 2018. However, performance of a hypothetical investment does not reflect transaction costs, taxes, or returns that any investor actually attained and may not reflect the true costs, including management fees, of an actual portfolio. Changes in any assumption may have a material impact on the hypothetical returns presented. It is not possible to invest directly in an index.

# Tuning Out the Noise

(continued from page 21)

However, as with many aspects of life, we can all benefit from a bit of help in reaching our goals. The best athletes in the world work closely with a coach to increase their odds of winning, and many successful professionals rely on the assistance of a mentor or career coach to help them manage the obstacles that arise during a career. Why? They understand that the wisdom of an experienced professional, combined with the discipline to forge ahead during challenging times, can keep them on the right track. The right financial advisor can play this vital role for an investor. A financial advisor can provide the expertise, perspective, and encouragement to keep you focused on your destination and in your seat when it matters most.

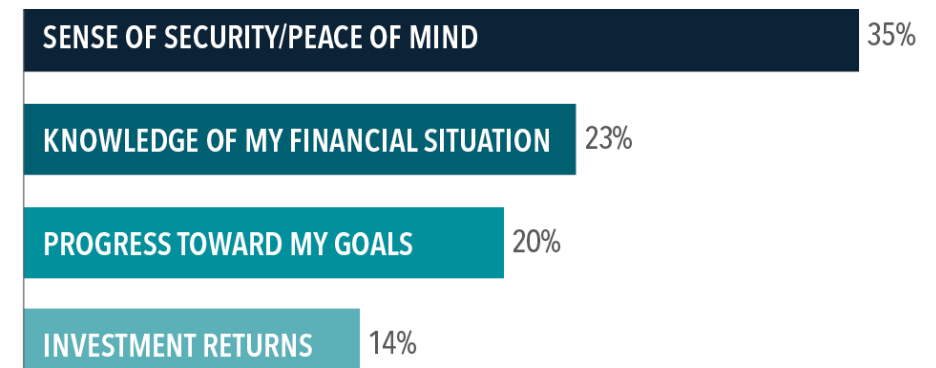
A recent survey conducted by Dimensional Fund Advisors (see **Exhibit 1**) found that, along with progress towards their goals, investors place a high value on the sense of security they receive from their relationship with a financial advisor.

Having a strong relationship with an advisor can help you be better prepared to live your life through the ups and downs of the market. That's the value of discipline, perspective, and calm. That's the difference the right financial advisor makes.

## EXHIBIT 1

### How Do You Primarily Measure the Value Received from Your Advisor?

*Top Four Responses*



Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. 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. There is always the risk that an investor may lose money. A long-term investment approach cannot guarantee a profit.

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January 2020

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