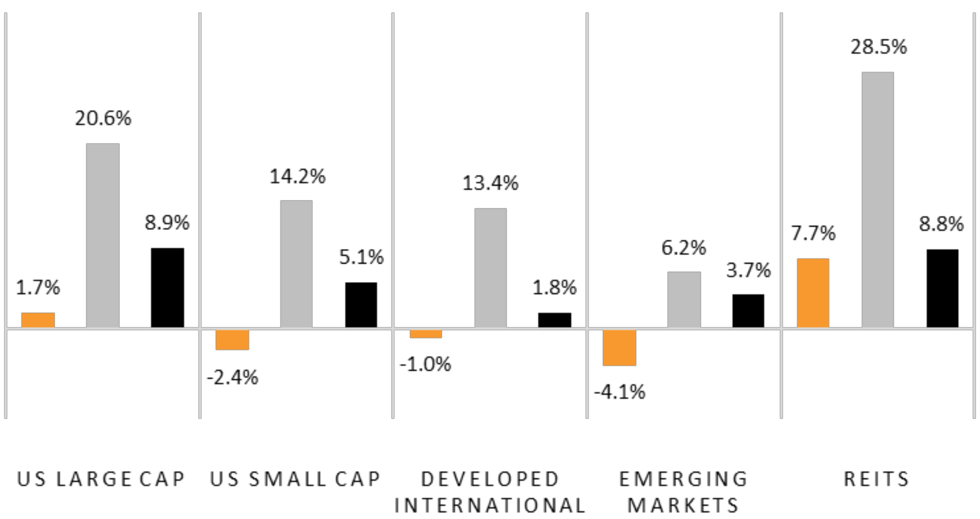
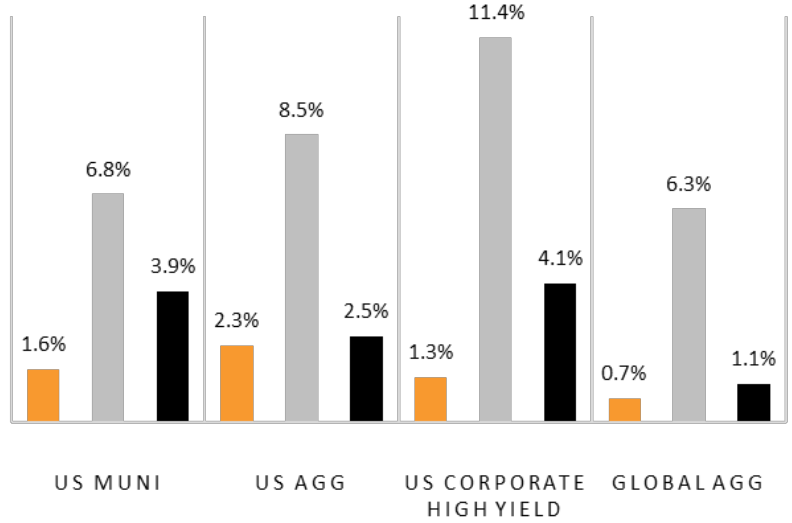
# 3Q’19 Market Review

## EQUITY MARKETS

3Q'19 YTD 5 Yr Avg.




## FIXED INCOME MARKETS




- 3Q’19(Q3) ended up with varying returns across equity assets. Recession fears spurred weakness in small caps, while emerging markets were hit as China moved the trade war to a currency war when it devalued the yuan against the dollar in August.
- **Large Cap** equites were up +1.7% in Q3, adding to the gains on the year, although most of the gains were experienced in Q1. As for valuations, the index remains close to the historical average of 16.2x forward EPS, trading at a current multiple of 16.8x.
  - **Utilities** were the top performing S&P 500 sector, up +9.3%, as recession fears moved investors to the safe-haven sector, while **Energy** was again the worst performer, down -6.3%.
  - Regarding sector valuations, **Energy** looks to be the most attractive sector trading at only 16.1x fwd EPS, vs. the 20-year average of 17.1x. **Utilities** continue to be one of the most expensive sectors, trading at 20.1x fwd EPS vs. the 20-year average of 14.3x.
- The price level of **Small Caps** relative to large caps is at the lowest level since the trough of the recession. For Q3, small caps again underperformed their larger peers, as they were down -2.4%. The continued relative underperformance to large caps highlights potential long-term opportunity for the asset class.
- **International** equities fell for Q3 as the focus on the trade war dragged down the asset class by -1.0%. The trade war had a larger impact on **Emerging Market** equities, which were down -4.1%.
- **REITs** were the best performing equity asset class yet again, up +7.7% in Q3, as future rate cuts are anticipated from the Fed.

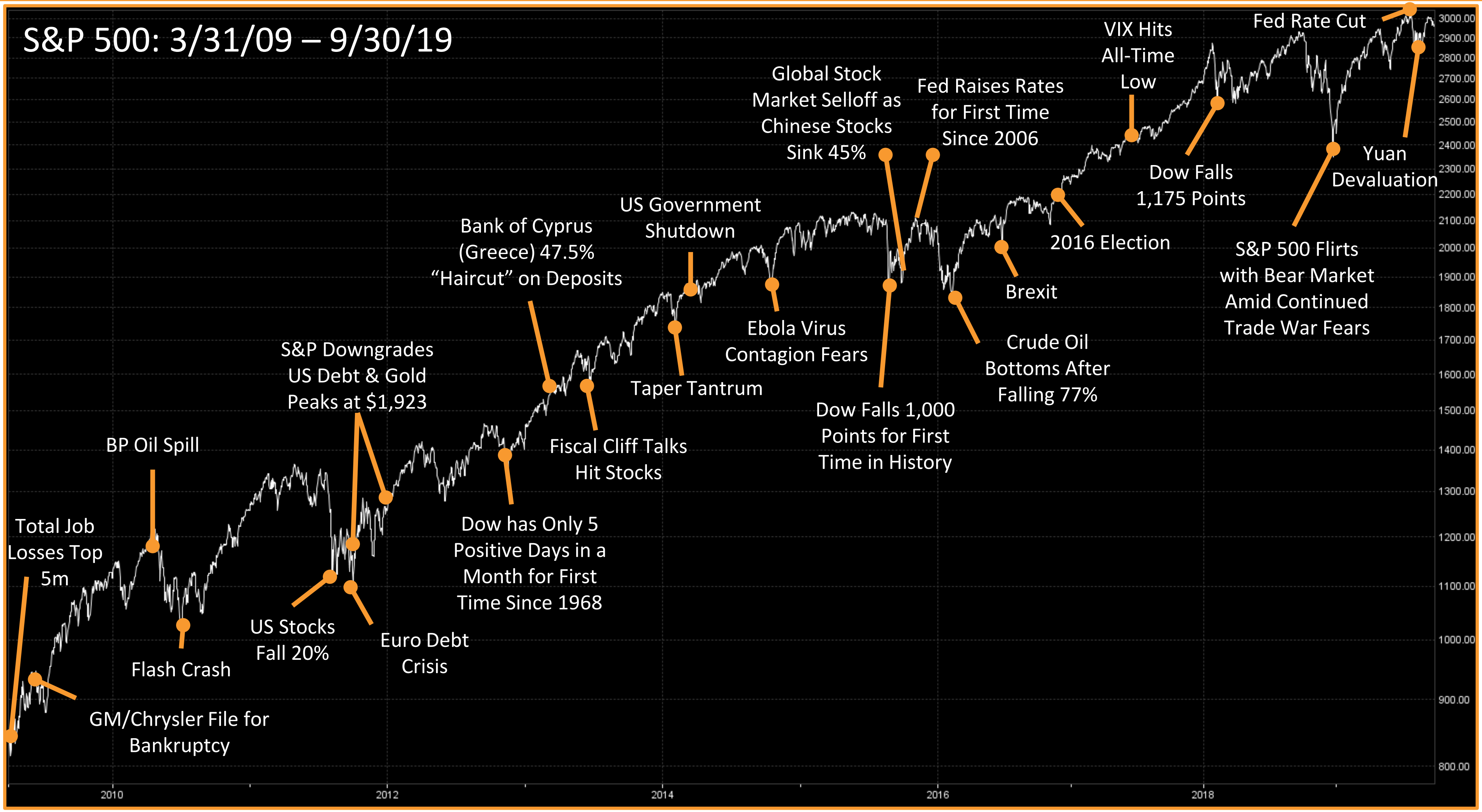
- A trade war that has created a downturn in global trade and manufacturing, easing Fed policy that saw another rate cut in September, and fears of an aging US expansion coming to an end sent global yields lower in 3Q’19 (Q3), which added to the already surprising returns year-to-date in fixed income assets. The **Global Agg** was up +0.7% in Q3.
- The **US Agg**, led all major fixed income asset classes in Q3, up +2.3% as the Fed cut rates in September and left the door open for more potential cuts before the end of the year. Lack of liquidity in the overnight funding markets between banks required the Fed to provide support. Most expected the overnight funding markets to improve before the end of Q3, but it was announced the Fed will continue overnight accommodations into November.
- Given that corporate high yield bonds have a lower duration than investment-grade debt, it wasn’t surprising to see **US High Yield** underperform their investment grade counterparts in Q3.
- Municipal bonds had been on a 10-month winning streak, until interest rate volatility and new issuance acceleration brought the streak to an end in September. Still, the **US Muni** index returned +1.6% for Q3, modestly underperforming taxable bonds.

*Sources: Zephyr StyleADVISOR*

*Market conditions and trends will vary. Past performance is no guarantee of future results. Investments cannot be made in an index*

*Underlying indices are S&P 500® Index, Russell 2000® Index, MSCI EAFE, MSCI Emerging Markets Index, FTSE NAREIT All Eq REITs Index, Barclays Municipal Bond Index, Barclays U.S. Aggregate Bond Index, Barclays U.S. Corporate High Yield Bond Index and the Barclays Global Aggregate Bond Index.*

# 3Q'19 Integrated Topic of Interest: There's Always Something




- The total cumulative return over this timeframe for the S&P 500 was 261.59% after inflation, for an average annualized return of 13.13%.
- While the average annualized return of this cycle is higher than the historical average, the point is not lost that every cycle will present bumps in the road and macro events to worry about.
- Sticking to a long-term diversified investment portfolio that includes non-correlated assets will provide better long-term risk-adjusted results than trying to time the market.

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*Sources: QuotestreamPro; www.DQYDJ.com*