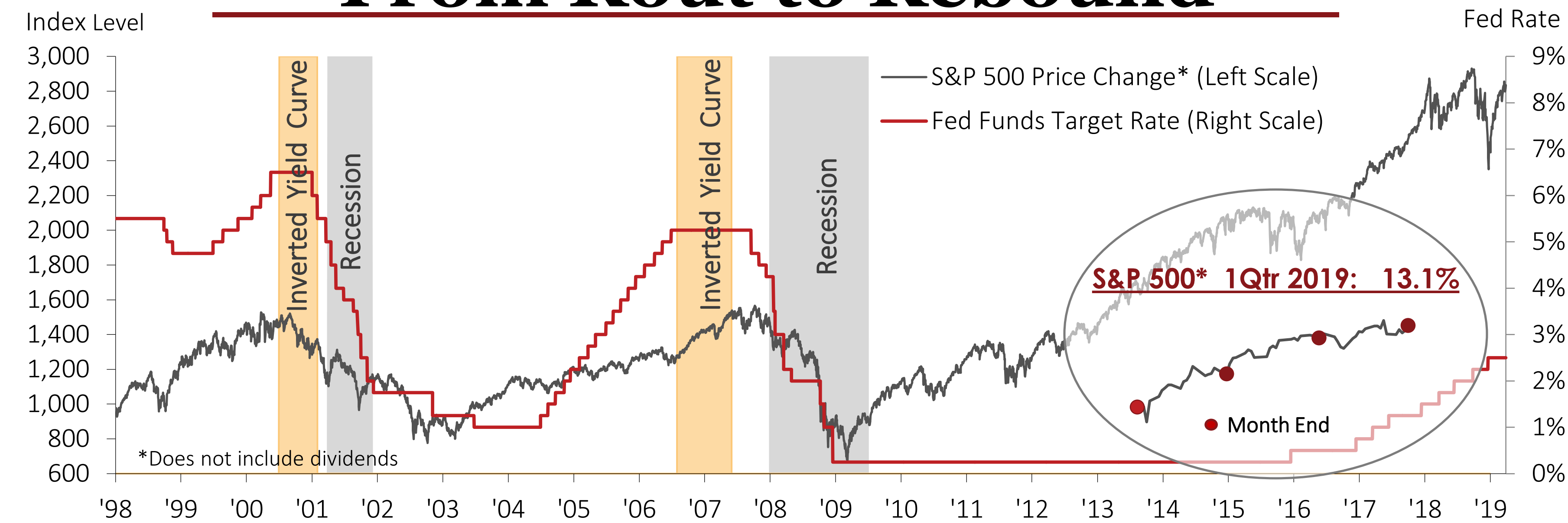
Capital Market Review

March 31, 2019

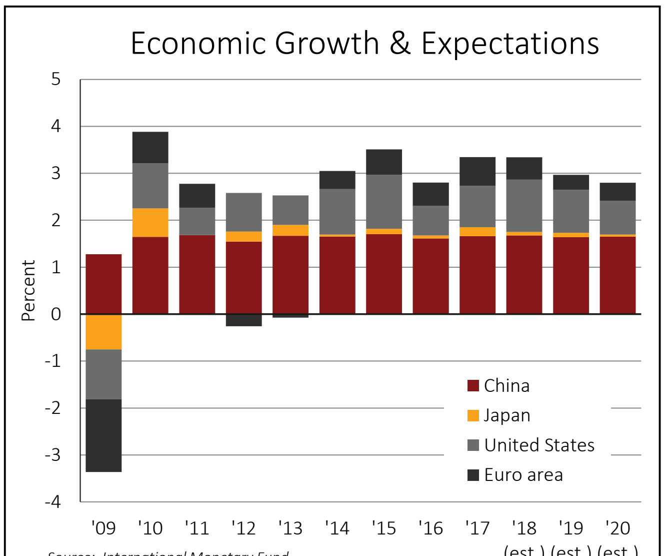



DeMarche

From Rout to Rebound



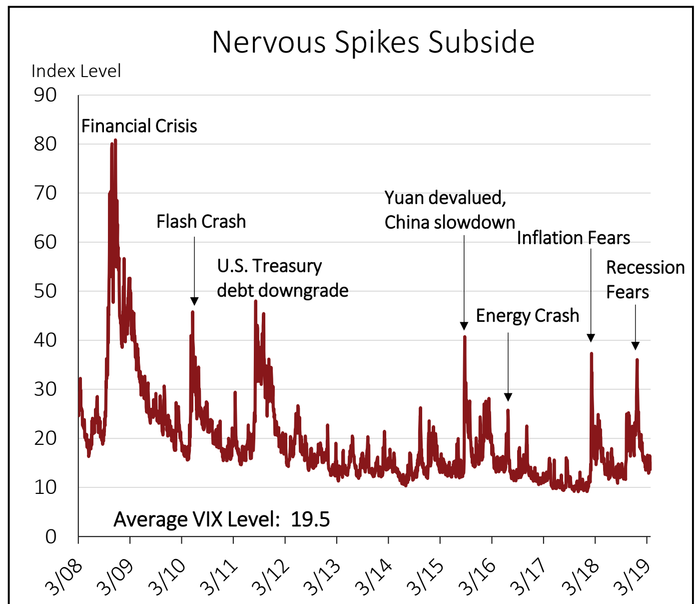
Source: Standard & Poor's, Federal Reserve



Source: International Monetary Fund
Annual GDP Growth weighted by GDP in current U.S. Dollars

Reacceleration or Recession?

Markets across the globe rebounded in a big way in the 1st quarter as recession fears subsided. The Federal Reserve backed off interest rate hikes that many feared would put the economy into a recession. The chart to the left suggests growth prospects have been moderating for major economies compared to last year but global recession is not expected. In response to growth fears, Europe and Japan have been providing monetary stimulus, and China is cutting taxes and building infrastructure to boost growth. Of note, over the previous 10 occurrences when the S&P 500 rose by more than 10% in the first quarter, the second quarters' gains have averaged a modest 2.6%.



Source: Federal Reserve of St. Louis

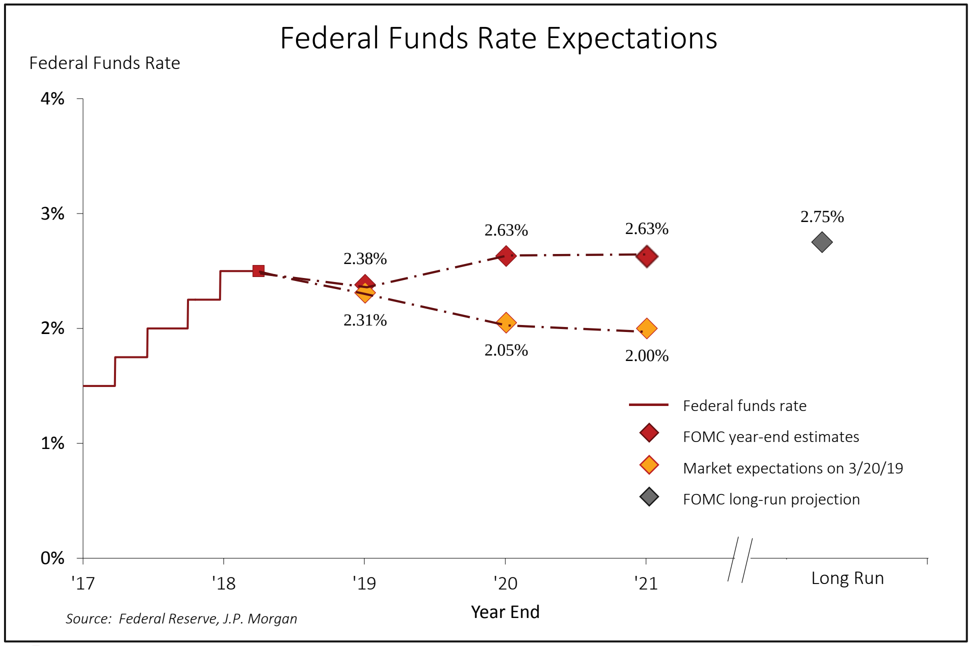
Broad Market Overview

March 31, 2019

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	12.5	4.0	10.7	6.8	12.4
DeMarche World*	12.0	1.5	10.2	6.1	11.8
DeMarche 3000	13.2	6.1	11.9	8.2	13.5
Russell 3000	14.0	8.8	13.5	10.4	16.0
S&P 500	13.6	9.5	13.5	10.9	15.9
DeMarche International	10.6	-3.9	7.8	3.8	9.8
MSCI EAFE USD	10.0	-3.7	7.3	2.3	9.0
BlmBarc Aggregate	2.9	4.5	2.0	2.7	3.8
FTSE Non-US Gov't Bond	1.5	-4.5	0.9	-0.1	2.0
BlmBarc Global Aggregate	2.2	-0.4	1.5	1.0	3.1
NCREIF (Private RE)	1.8	6.8	7.1	9.1	8.5
Bloomberg Commodity	6.3	-5.3	2.2	-8.9	-2.6

*Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized. *Does not include Canada or Brazil.*

Indicator Year Ending 3/31	2019	2018	2017	2016	50-Year Average
GDP Annual Growth Rate	3.2	2.6	1.9	1.6	2.8
Unemployment	3.8	4.1	4.5	5.0	6.2
Inflation (CPI)	1.9	2.4	2.4	0.9	4.0
10-Year Interest Rates	2.4	2.7	2.4	1.8	6.4



Source: Federal Reserve, J.P. Morgan

- Stocks around the globe rebounded in the 1st quarter, continuing a long-term trend. Ten years ago, markets across the globe hit their nadir during the financial crisis of 2008 and 2009. Since that time, the S&P 500 has roared ahead, posting a 15.9% annualized return. To put this number in context, stocks have returned an annualized 6.0% for the past 20 years, meaning the S&P 500 posted a negative 3.0% annualized return from April 1999 to March 2009.
- International stocks have also posted strong returns for the past 10 years with an annualized return of 9.0%, but this is pale when compared to U.S. stocks. International stocks (as measured by MSCI EAFE) hit their low point on February 27, 2009, just 2 short weeks before the S&P 500 hit its low point on March 9, 2009.
- Bonds rebounded during the quarter as interest rates fell in response to moderate and slowing GDP growth and a compliant Fed. Longer-term returns for the last 10 years represent mostly coupon return. To illustrate, the 10-year Treasury (constant maturity) yield was 2.4% at the end of the quarter, and was 2.7% at the end of March 2009.
- Concerned about slowing growth, the Federal Reserve changed its outlook, signaling no rate increases were anticipated in 2019, and the market responded. The chart to the left shows the Fed expectations for interest rates, and shows the Fed keeping rates steady to slightly increasing over the next 2 years. However, the market does not believe it. Futures traders are betting that the Fed begins cutting rates by 2020, most likely in response to a slowing economy.

DeFact

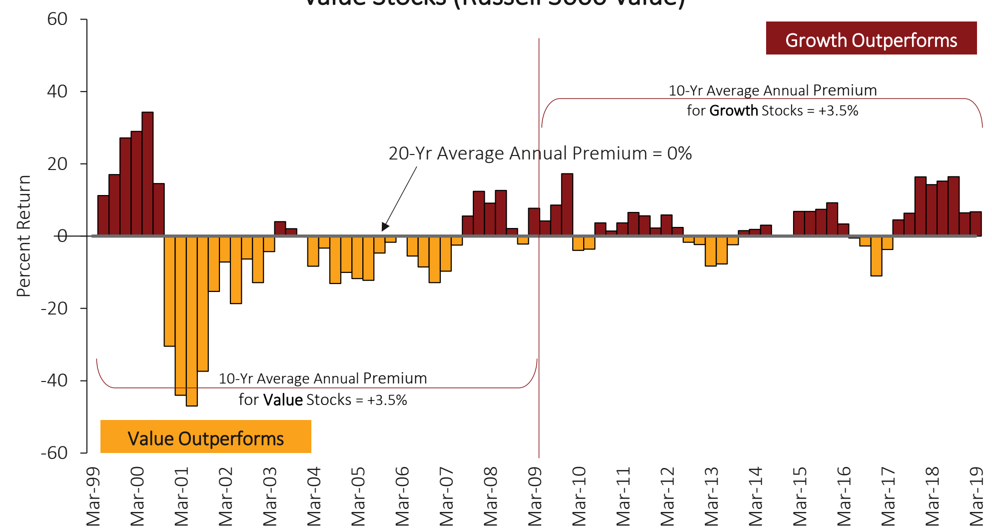
The Fed's decision in March to cease raising interest rates this year was driven by concerns over the strength of the U.S. and global economies and by subdued inflation. Additionally, the Fed announced that by September, they would stop selling assets from its $4 trillion portfolio. Also noted, "Most participants indicated that they did not expect the recent weakness in [consumer] spending to persist beyond the first quarter." ~FOMC Minutes

Domestic Equities

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	14.1	8.5	14.4	11.2	15.1
DeMarche Value	11.9	2.6	8.7	4.4	11.9
DeMarche Aggressive	17.2	2.3	11.8	3.1	13.9
DeMarche Defensive	12.9	6.5	12.0	8.7	13.5
DeMarche Large Cap	12.7	7.1	11.9	8.5	12.9
Large Cap Growth	13.5	9.8	15.0	12.1	14.8
Large Cap Value	11.4	3.5	8.3	4.3	10.7
DeMarche Small Cap	13.4	-2.3	12.6	4.7	16.1
Small Cap Growth	12.1	-2.2	13.0	4.6	14.7
Small Cap Value	14.5	-2.5	12.2	4.7	17.2
S&P 500	13.6	9.5	13.5	10.9	15.9
S&P Mid-Cap 400	14.5	2.6	11.2	8.3	16.3
S&P Small-Cap 600	11.6	1.6	12.6	8.5	17.0
Russell 1000	14.0	9.3	13.5	10.6	16.0
Russell 1000 Growth	16.1	12.7	16.5	13.5	17.5
Russell 1000 Value	11.9	5.7	10.5	7.7	14.5
Russell 2000	14.6	2.0	12.9	7.1	15.4
Russell 2000 Growth	17.1	3.9	14.9	8.4	16.5
Russell 2000 Value	11.9	0.2	10.9	5.6	14.1

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.

Growth Stocks (Russell 3000 Growth) vs. Value Stocks (Russell 3000 Value)



Source: DeMarche

- Small cap stocks led the rebound this quarter, beating large cap by 0.6% as measured by Russell. Small caps significantly trailed large caps in the 4th quarter by 6.4% and over the last 12 months by 7.3%. Despite lagging large cap for annualized periods through 10 years, when viewed over the last 20 years, there has been 1.9% premium of return for small cap stocks.

- The best performing sector for the quarter in small cap was biotechnology, followed closely by information technology. These two sectors have led the strong returns of small cap growth stocks over the past few years. After posting the worst value sector results for the 4th quarter, energy reversed course to lead the index in the 1st quarter.

- Large cap, led by growth stocks, also rebounded in the quarter. Growth stocks suffered more than value in the 4th quarter, but came back in a big way. Apple and Facebook both outperformed the broader growth index while the other large cap tech and discretionary names (Alphabet and Amazon) were more in-line with the growth index.

- Value stocks trail growth for the past 10 years. Occasionally, in the 4th quarter or in the year 2016, for example, value stocks have led. Since the financial crisis, growth has been dominant. The chart to the left shows that over the past 10 years, (all cap) growth has outperformed by 3.5%. However, over the longer haul (i.e., 20 years), the premium is 0%. Leadership reversals appear to take a long time to take hold.

DeFact

Ten years has given us quite a shake-up in stock market leadership. The top three stocks by market cap (in billions) are Microsoft at $904.9 (up from $163.3 and from third to first place); Apple at $895.7 (up from $93.6 and from 14th to second place); and the big mover of the bunch, Amazon at $874.7 (up from $31.5 and from 50th to third place). On March 31, 2009, the largest stock in the S&P 500 was Exxon at $336.5 billion market cap, now in 8th place with a $342.2 market cap. In second place was Wal-Mart at $204.4, now in 33rd place with a $278.0 market cap.

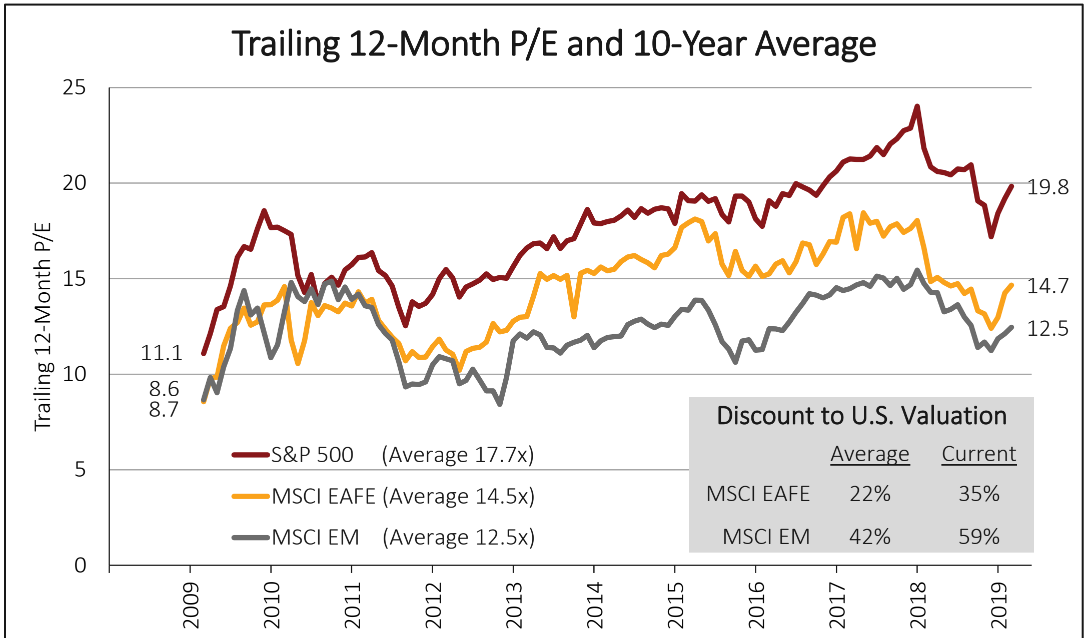
~DeMarche, FT Global, ycharts.com

International Equities

March 31, 2019

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Int'l	10.6	-3.9	7.8	3.8	9.8
Growth	12.2	-2.6	7.1	4.0	9.7
Value	8.6	-5.0	8.8	2.8	9.3
DeMarche Int'l Small Cap	13.1	-8.1	6.7	3.9	12.8
DeMarche EM	13.1	-6.2	8.7	4.8	9.0
MSCI EAFE Local	10.6	2.8	8.5	6.0	9.8
MSCI EAFE USD	10.0	-3.7	7.3	2.3	9.0
Growth	12.0	-1.3	7.6	3.9	9.7
Value	7.9	-6.1	6.9	0.7	8.1
MSCI Japan	6.7	-7.8	8.1	5.6	8.0
MSCI AC Asia-ex Japan	11.4	-5.2	11.9	6.5	11.2
MSCI Germany	6.9	-13.7	3.8	-0.7	8.6
MSCI France	10.7	-3.7	9.2	2.7	8.4
MSCI UK	11.9	-0.1	6.3	0.7	9.3
MSCI EAFE Small Cap	10.7	-9.4	7.5	4.5	12.8
MSCI EM	9.9	-7.4	10.7	3.7	8.9
MSCI All Country-ex US	10.3	-4.2	8.1	2.6	8.9

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.



Source: Morningstar Direct, DeMarche

- As with domestic stocks, the international stocks also rebounded from the 4th quarter. The easing of trade tensions during the 1st quarter lifted Chinese stocks. Chinese shares outperformed the broad index by almost 7% in the quarter. The countries with the next largest weights (Taiwan, South Korea, India) all underperformed the broad index. Investors have been concerned that tariffs have weakened Chinese growth too fast, but it seems that Chinese stimulus is taking root.

- The dollar strengthened slightly in the quarter, providing a headwind to international stocks expressed in dollar terms. Over the past 12 months, dollar returns from international stocks have been broadly negative while stock returns in local currency were positive. The dollar strength is evident over the past decade, as relative economic growth has favored the U.S. over developed international economies.

- Interestingly, the U.K. stock market posted relatively strong returns for the quarter compared to its European counterparts. The impact of Brexit has been negative for the longer time frames of 3 and 5 years, but the rebound suggests that most of the uncertainty may be behind the U.K. and that U.K. economic growth and the rest of Europe may continue in a positive direction.

- Last quarter we illustrated that domestic stocks have outperformed international stocks for the past decade. This quarter, we show that outperformance manifests itself in valuation. For the past 10 years, the U.S. has expanded its P/E ratio from 11.1 times to 19.8 times, and it is now about 12% over its 10-year average of 17.7 times. By contrast, international and emerging markets have also improved valuations, but their ending valuations are right on their 10-year averages.

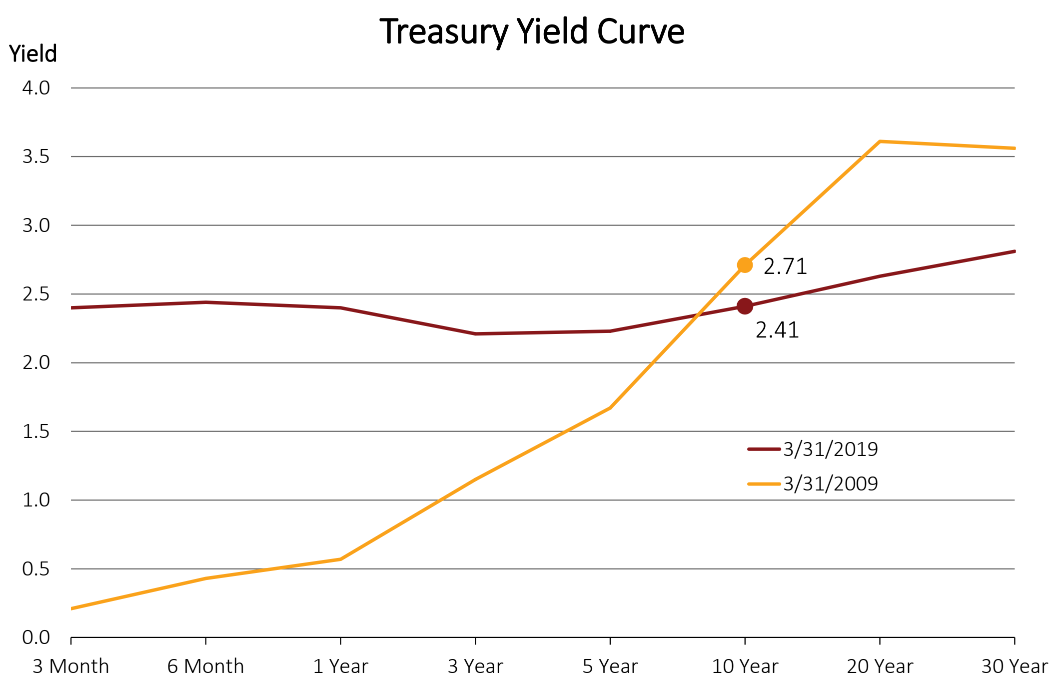
DeFact

China's weight in the Emerging Market index is about 33%, split up as 0.7% in China A-Shares and 32.3% in H-shares. A–Shares are listed on domestic stock exchanges in China, as compared to H-shares which are listed in Hong Kong. Increasing A-share inclusion in the index will occur in steps this year and early 2020 which will bring their weight to about 3.3%.

~MSCI, Reuters

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
BlmBarc 1-3 Gov Credit	1.2	3.0	1.3	1.2	1.6
BlmBarc Aggregate	2.9	4.5	2.0	2.7	3.8
BlmBarc Gov Credit Long	6.5	5.2	3.8	5.3	7.2
BlmBarc US TIPS	3.2	2.7	1.7	1.9	3.4
Merrill Lynch High Yield	7.4	6.0	8.6	4.7	11.1
CSFB Leveraged Loan (bank loans)	3.8	3.3	5.9	3.8	8.0
BlmBarc Global Aggregate	2.2	-0.4	1.5	1.0	3.1
JPM EmgMkt Bd Glbl Dvrsfd (hard)	7.0	4.2	5.8	5.4	8.5

Notes: Data are presented as percent returns. All 3, 5 and 10-year returns are annualized.



Source: U.S. Federal Reserve; Constant Maturity Rate

- The 10-year Treasury slid to its lowest level in a year as dovish signals from the Fed underscored the willingness to be patient in the face of low inflation. The ECB has further delayed its timeline for policy normalization and has announced additional stimulus. This backdrop of lenient central banks helped returns of bonds around the world during the quarter. The 1-year return for the Bloomberg Barclays Aggregate was above longer-term annualized returns due to a drop in yields.

- Riskier yield strategies, such as high yield and bank loans, performed well in the quarter, responding to the same factors pushing stocks higher. High yield positively correlates to equity risk, so when equities experienced a tough 4th quarter and strong 1st quarter, high yield mirrored those trends. Bank loans also followed suit.

- Emerging market debt also did well in the quarter for similar reasons. While global growth showed signs of slowing, recession is not considered imminent. The strengthening of the dollar has impacted returns for the longer time frames. Countries that issue debt in dollars must use local currency to buy dollars to make coupon and maturity payments. A stronger dollar makes this activity more expensive.

- The Treasury yield curve has flattened dramatically in the past 10 years as the Federal Reserve has increased short-term rates due to economic growth. The chart to the left shows that longer-term rates have actually fallen over the past 10 years. At the bottom of the recession, the yield on the 10-year Treasury was higher than it is now, despite 10 years of economic growth.

DeFact

Over the quarter, market participants have pointed to a possible yield curve inversion as a precursor to a coming recession. While the yield curve between 3-month T-bills and the 10-year Treasury is indeed flat, the curve was inverted for 5 days from March 22nd to March 28th as measured by the constant maturity rate. The curve inverted by a maximum of 5 basis points on March 26th and March 27th. It reversed March 29th, and the 10-year went higher by 1 basis point. ~ FRED

Less Liquid Strategies

INDEX	1st Qtr	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	1.8	6.8	7.1	9.1	8.5
Apartment	1.4	5.9	6.3	8.2	8.6
Industrial	3.0	14.0	13.2	13.7	10.4
Office	1.6	6.7	6.3	8.5	7.5
Retail	1.7	3.2	5.2	8.4	8.9
NAREIT (Public RE)*	16.7	19.9	8.1	9.9	18.3
NCREIF Timberland	0.1	2.4	3.3	4.6	3.7
NCREIF Farmland	0.7	6.1	6.4	8.2	11.1
HFR FOF Composite	4.6	0.1	3.9	2.2	3.5
Conservative	3.6	2.1	3.6	2.2	3.4
Diversified	4.3	0.8	3.7	2.1	3.5
Strategic	6.1	-1.4	4.8	2.3	4.0
Bloomberg Commodity	6.3	-5.3	2.2	-8.9	-2.6

Notes: Data are presented as percent returns. All 3-, 5- and 10-year returns are annualized.
**Public RE is not a less liquid strategy. It is listed for comparative purposes.*

Asset Class Performance In Recent Equity Down Markets

Calendar Year	S&P 500	MSCI EAFE	BlmBar Aggregate	Bloomberg Commodities	NCREIF Property	NCREIF Farmland	NCREIF Timber
2008	-37.0	-43.4	5.2	-35.6	-6.5	15.8	9.5
2015	1.4	-0.8	0.5	-24.7	13.3	10.3	5.0
2018	-4.4	-13.8	0.0	-11.2	6.7	6.7	3.4

Source: DeMarche

- REITs continued their strong relative performance in the 1st quarter and the past 12 months. REITs had trailed traditional large and small cap stocks for some time but have made up significant ground in a short amount of time. REITs only trail domestic stocks for the 3-year time period at this time.
- Commodities also posted positive returns for the quarter but have negative returns for longer time periods. Energy prices led the way as oil prices increased during the quarter. Other commodities also followed suit, except precious metals. Precious metals were flat as investors were more willing to take on risk as compared to the 4th quarter when precious metals outperformed other commodity sectors.
- Private real estate returns continue to be stable, but moderate with an annualized return of approximately 7% when viewed from a quarter, 1-year, and 3-year basis.
- The chart to the bottom left shows the diversification power of adding private real assets to a portfolio. In recent soft or down equity markets (by calendar year), real assets such as real estate, farmland and timber have held up and have provided higher returns than bonds (with one exception of real estate during the financial crisis of 2008). In addition, compared with liquid commodities (which are weighted towards energy and metals prices), these assets also can provide a buffer to volatile commodity prices.

DeFact

A blessing of unicorns is prancing their way toward initial public offerings in 2019. The "unicorn" nickname refers to private companies that have valuations in excess of $1 billion. Lyft led the way, and will be followed by Uber, Airbnb, Pinterest and a host of others. Should all of these companies go public, Goldman Sachs estimates that $80 billion would be raised, roughly double the past 20-year average. The concern among some market participants is that the amount is too large to digest smoothly and will lead to volatility too soon after the 4th quarter swoon.

~Fortune, Goldman Sachs, Bloomberg

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DeMarche Events

Month		Topic / Organization	Who	Where
May	21st	Reality Check: Making a Difference through Responsible Investing	DeMarche Hosted Workshop	Minneapolis, MN
June	18th	Reality Check: Retirement Readiness in Turbulent Markets	DeMarche and Voya Hosted Workshop	Philadelphia, PA

Industry Speaking Engagements

April	30th	Fixed Income Conundrum – Investing when Rates Rise *37th Annual Minnesota Association for Financial Professionals' (MNAFP) Conference*	James Dykstal, CFA Speaker	St. Paul, MN

Appearances and dates subject to change.