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36th DeMarche
Client Conference
Kansas City, MO
September 25 – 27, 2019
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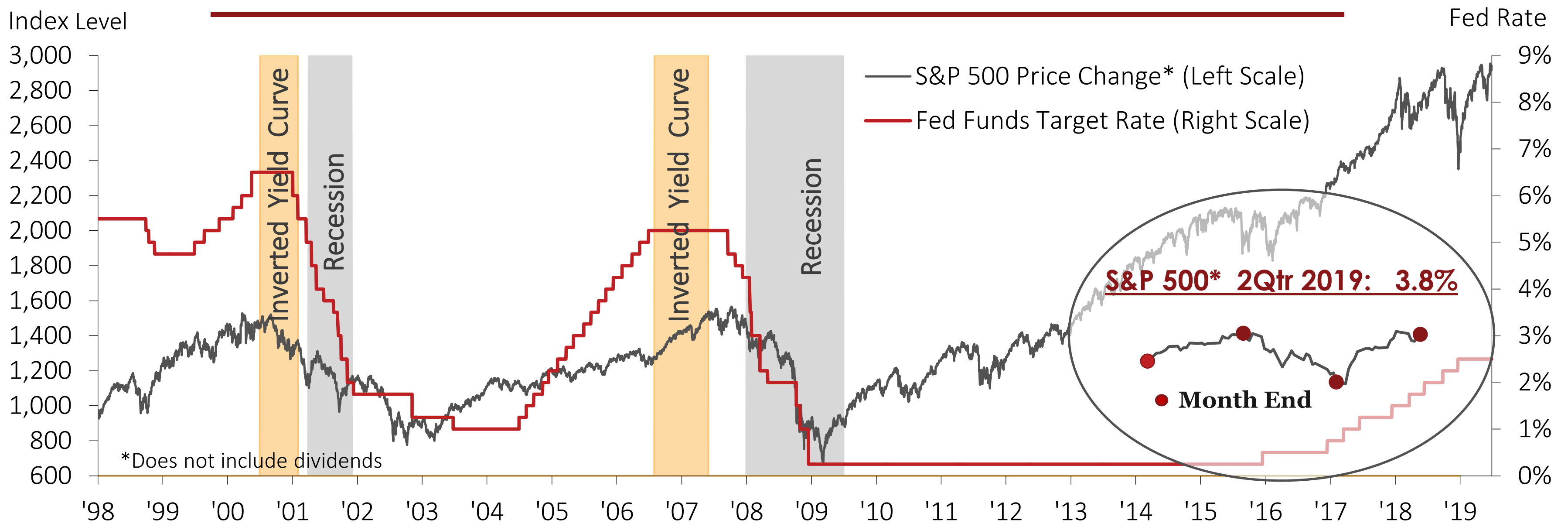
Capital Market Review




June 30, 2019

DeMarche

Reality Check: Pendulum Swings between Fear and Greed



Source: Standard & Poor's, Federal Reserve

Yield Curve Inversion

Yield Curve Inversion Period	Number of Months	Average* Yield 3 Mo T-Bills	Average* Yield 10 Yr Treas	Average Spread	Start of Inversion to Start of Recession (Months)
July 2000 - Jan 2001	7	6.07	5.65	0.42	9
Aug 2006 - May 2007	10	5.03	4.70	0.33	17
June 2019**	36 days	2.24	2.10	0.14	?

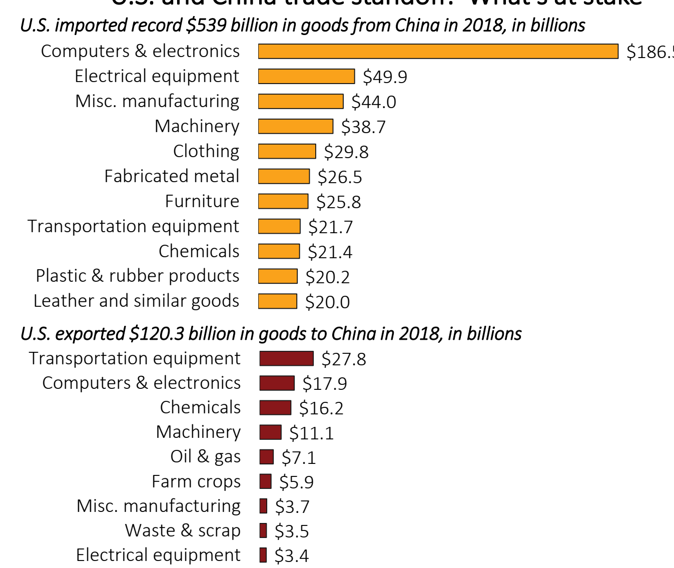
Source: DeMarche

*Average month-end yield over inversion period.

**Yield as of 6/30/2019.

Solid gains came in the 2nd quarter despite a roller coaster through April, May, and June. The escalation of the trade dispute in mid-May led to concerns that earnings growth would slow, causing a stock sell-off. Oxford Economics reported that tariffs could negatively impact global growth by 0.3% by 2020. That pessimism turned to optimism in June, thanks to expectations that the Federal Reserve would cut interest rates in July. Typically, the inverted yield curve, which became a reality as the 10-year Treasury yield hit 2%, signals investor angst. However, short-term rates dropped during June, in anticipation of a Fed rate cut, keeping the inversion narrow. Stocks climbed a wall of worry to close the first half of the year with their best performance since 1997.

U.S. and China trade standoff: What's at stake



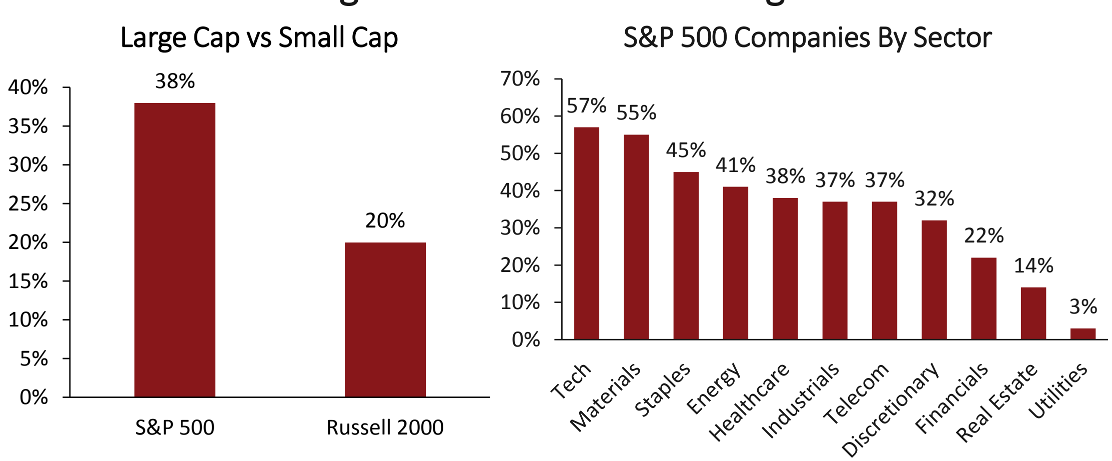
Source: Market Watch, U.S. Census

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
MSCI World	4.0	17.0	6.3	11.8	6.6	10.7
DeMarche World*	3.4	15.8	4.8	11.2	5.9	9.8
DeMarche 3000	3.6	17.3	7.2	12.3	7.9	12.0
Russell 3000	4.1	18.7	9.0	14.0	10.2	14.7
S&P 500	4.3	18.5	10.4	14.2	10.7	14.7
DeMarche International	3.1	13.4	1.1	9.2	3.4	7.2
MSCI EAFE USD	3.7	14.0	1.1	9.1	2.2	6.9
BlmBarc Aggregate	3.1	6.1	7.9	2.3	2.9	3.9
FTSE Non-US Gov't Bond	3.9	5.5	4.5	0.8	0.2	1.9
BlmBarc Global Aggregate	3.3	5.6	5.8	1.6	1.2	2.9
NCREIF (Private RE)	1.5	3.3	6.5	6.9	8.8	9.2
Bloomberg Commodity	-1.2	5.1	-6.8	-2.2	-9.1	-3.7

*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 6/30	2019	2018	2017	2016	50-Year Average
GDP Annual Growth Rate	2.3	3.2	2.2	1.3	2.8
Unemployment	3.7	4.0	4.3	4.9	6.2
Inflation (CPI)	1.7	2.9	1.6	1.0	4.0
10-Year Interest Rates	2.0	2.9	2.3	1.5	6.4

Percentage of Revenue from Foreign Sales



Source: FactSet, Seeking Alpha, FTSE Russell

Source: FactSet

- Stocks continued their upward trajectory in the 2nd quarter, despite a rocky patch in May. In early May, trade talks began to break down, tariffs were implemented, and markets struggled. But as trade tensions eased and the Federal Reserve suggested it would be ready to lower interest rates to support economic growth, domestic markets rallied in June.

- Bonds, as measured by the BlmBarc Aggregate, posted their best quarterly return since 3rd quarter 2011 and its best 12-month return since 2nd quarter 2010. Interest rates, as measured by the 10-year Treasury, are pricing in one or two Fed rate cuts, dropping from 2.41% to 2.00% during the 2nd quarter. Falling rates raise bond prices, thereby providing significant tailwind to total return.

- International stock returns were boosted by a weakening dollar during the quarter; however, they still did not keep up with domestic stocks. International markets faced their own issues from slowing economic growth to political uncertainty across Europe. Over the longer term, the dollar has strengthened versus other currencies, providing a headwind to international stock returns.

- The chart to the left shows the relative exposure of U.S. companies' sales overseas. Large cap companies show greater exposure than small cap companies and could be more vulnerable to currency fluctuations and trade war implications. Even with global uncertainty, that percentage of sales has been increasing and the stocks have been performing. In 2017 large cap companies earned about 30% of earnings overseas, now that percentage has grown to 38%. The second chart shows the percentage of earnings by sector. Big movers have been staples and healthcare companies increasing their share by 18% and 20%, respectively.

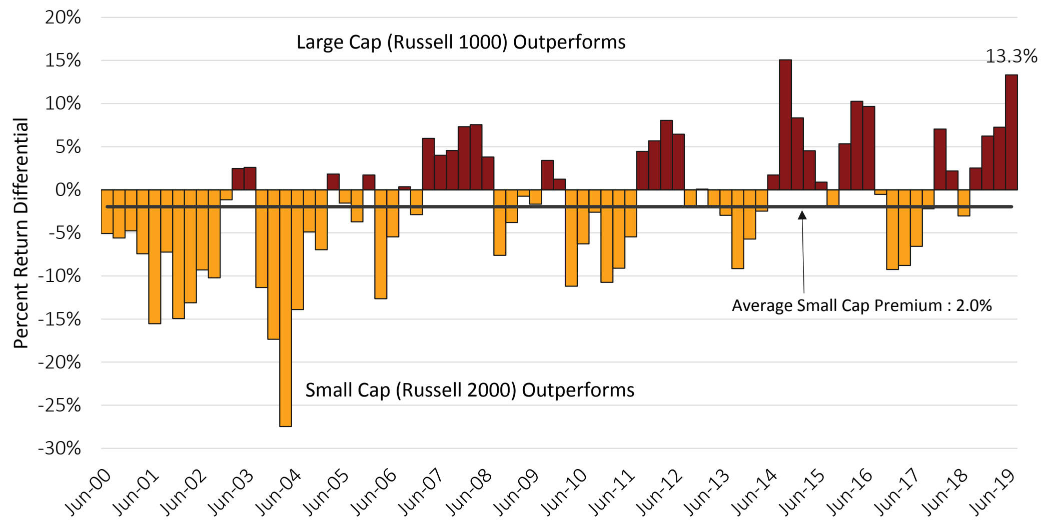
DeFact

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. In the beginning of June, Chairman Powell signaled an openness to cut rates if necessary. U.S. stocks surged on those remarks and interest rates fell. Powell reiterated, in July, on Capitol Hill that global uncertainties should weigh on the U.S. economy, further signaling the Fed's willingness to cut rates by the end of July. ~CNBC

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Growth	4.7	19.4	9.7	15.8	11.1	13.8
DeMarche Value	1.9	14.1	3.6	7.8	3.8	9.6
DeMarche Aggressive	1.0	18.4	-1.9	11.0	2.5	10.5
DeMarche Defensive	3.9	17.3	8.2	12.5	8.5	12.1
DeMarche Large Cap	3.7	16.9	8.6	12.5	8.2	11.4
Large Cap Growth	4.7	18.9	10.7	16.5	11.9	13.6
Large Cap Value	2.2	13.9	5.5	7.6	3.8	8.7
DeMarche Small Cap	-1.4	11.8	-12.3	10.8	4.4	12.5
Small Cap Growth	2.2	14.6	-7.7	12.9	5.2	11.9
Small Cap Value	-3.9	10.0	-15.5	9.2	3.8	12.9
S&P 500	4.3	18.5	10.4	14.2	10.7	14.7
S&P Mid-Cap 400	3.0	18.0	1.4	10.9	8.0	14.6
S&P Small-Cap 600	1.9	13.7	-4.9	12.0	8.4	15.0
Russell 1000	4.2	18.8	10.0	14.1	10.5	14.8
Russell 1000 Growth	4.6	21.5	11.6	18.1	13.4	16.3
Russell 1000 Value	3.8	16.2	8.5	10.2	7.5	13.2
Russell 2000	2.1	17.0	-3.3	12.3	7.1	13.4
Russell 2000 Growth	2.7	20.4	-0.5	14.7	8.6	14.4
Russell 2000 Value	1.4	13.5	-6.2	9.8	5.4	12.4

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

Large Cap vs. Small Cap Rolling One Year Performance



Source: DeMarche

- Growth stocks, both large and small, continue to outperform value stocks for all time periods reported in the table to the left. Across the spectrum, many industry sectors have good quarterly performance, but again Technology led the way. Tech makes up about 21.8% of the broad Russell 1000 index and 33.5% of the Russell 1000 Growth index. It has returned over 17% for the past 5 years which leads all sectors and further explains growth stock leadership.

- Small cap stock sectors have experienced significant dispersion to their large cap counterparts. The two largest sectors in small cap stocks, financials and healthcare, have dramatically underperformed their large cap brethren for the past 12 months by 13% and 16% respectively. For example, large cap medical device stocks have done exceedingly well while small cap device stocks struggled due to a lack of clear earnings growth guidance.

- Defensive stocks have demonstrated outperformance in almost all time frames and their outperformance to aggressive stocks in the past 12 months is significant. In the current environment of slowing global growth and trade tensions, this makes intuitive sense. Defensive stocks exhibit low leverage, good cash flow generation, less cyclical characteristics, and are typically large cap.

- Large cap stocks reestablished outperformance versus small caps during the quarter and the year. As the chart to the left shows, large caps have outperformed small caps by over 13% for the past year, primarily due to the disastrous 4th quarter 2018 when small caps trailed by 6.4%. Over the past ten years, small caps lag but not by much. However, over the past 20 years, small caps have established an average premium of 2%. The investment environment of the past decade has been very kind to large cap stocks.

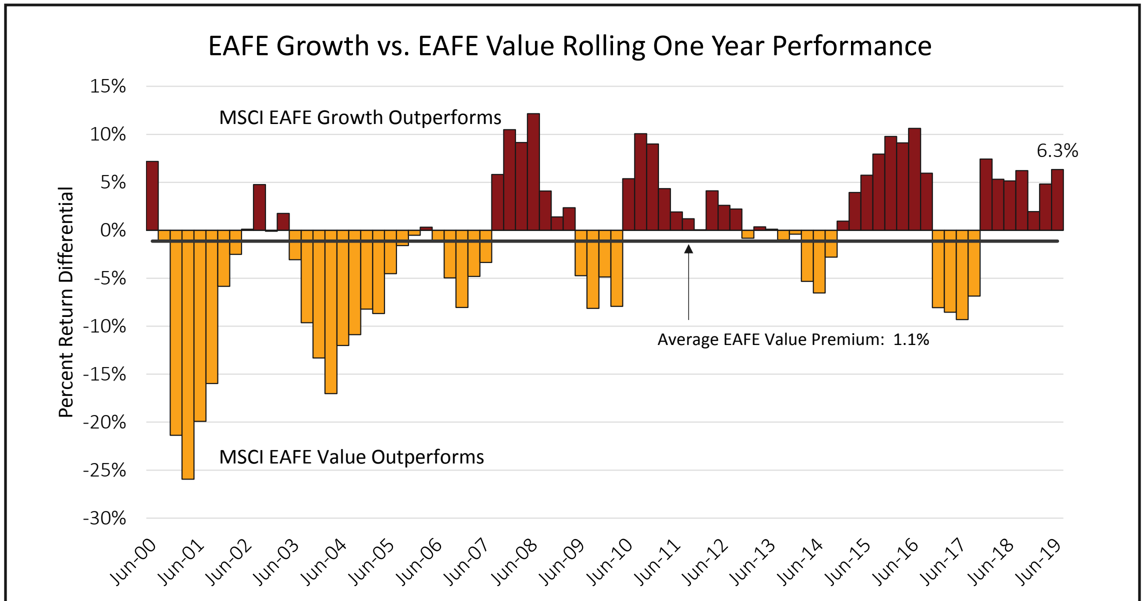
DeFact

The U.S. is still proving to be the king of IPOs and M&A activity. Four of the largest five IPOs this year – Uber, Avantor, Lyft and Pinterest – are U.S.-based. In addition, the U.S. is home to four of the five largest merger deals – United Technologies/Raytheon, Bristol Myers Squibb/Celgene, Occidental/Anadarko and AbbVie/Allergan. Political tensions and slowing global growth outside the U.S. have weighed upon deal making. International deal volume fell 11% in the first half of the year as compared to the first half of 2018.

~ WSJ

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
DeMarche Int'l	3.1	13.4	1.1	9.2	3.4	7.2
Growth	3.9	16.5	3.0	8.8	4.0	7.7
Value	1.9	10.5	-0.5	10.2	2.2	6.4
DeMarche Int'l Small Cap	3.6	19.1	1.0	9.5	3.9	8.3
DeMarche EM	-0.5	12.3	1.5	8.7	3.5	5.8
MSCI EAFE Local	2.8	13.7	2.2	9.8	5.9	8.3
MSCI EAFE USD	3.7	14.0	1.1	9.1	2.2	6.9
Growth	5.7	18.5	4.2	9.7	4.4	8.2
Value	1.5	9.6	-2.1	8.5	0.1	5.5
MSCI Japan	1.0	7.7	-4.2	8.1	4.5	5.8
MSCI AC Asia-ex Japan	-0.7	10.7	-0.5	11.5	4.8	7.9
MSCI Germany	7.1	14.5	-3.8	8.3	0.3	7.1
MSCI France	6.5	17.9	3.0	13.2	3.6	7.0
MSCI UK	0.9	12.9	-2.0	6.9	-0.3	6.8
MSCI EAFE Small Cap	1.7	12.5	-6.3	9.1	4.4	9.7
MSCI EM	0.6	10.6	1.2	10.7	2.5	5.8
MSCI All Country-ex US	3.0	13.6	1.3	9.4	2.2	6.5

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



Source: DeMarche

- The U.S. dollar weakened against a trade weighted basket of currencies in the quarter, boosting international returns in dollar terms. Over the longer term, dollar strength has proven to be quite a headwind to international stock performance.

- Markets around the globe continued their rebound from the 4th quarter 2018. Over the past 12 months developed international stocks, as measured by the MSCI EAFE, have returned 1.1%, but for the first six months of 2019 have returned 14.0%. Slower economic growth, a much smaller technology sector than in the U.S. and political uncertainty have all weighed on developed international stock markets in their effort to keep up with domestic stocks.

- Emerging market stocks also posted positive returns for the quarter. Emerging market stocks have been impacted adversely by trade tensions and tariffs. Over the past year Asian stocks led by China (trade) and South Korea (geopolitics), which together are 43% of index, have lagged other countries. Taiwan, India, Brazil, South Africa and Russia (37% of index) have all outperformed in the past 12 months.

- The outperformance of growth relative to value is evident across the globe, not just in U.S. stocks. In the latest one year, growth stocks have outperformed by 6.3% (recall the outperformance is 13.3% in the U.S.). However, over the past 20 years, value stocks have outperformed. Interestingly, in the international sphere, growth stocks have larger weights in consumer staples (19%) and industrials (20%) than technology (10%). For comparison, the U.S. growth stock index has a 33.5% weight in technology.

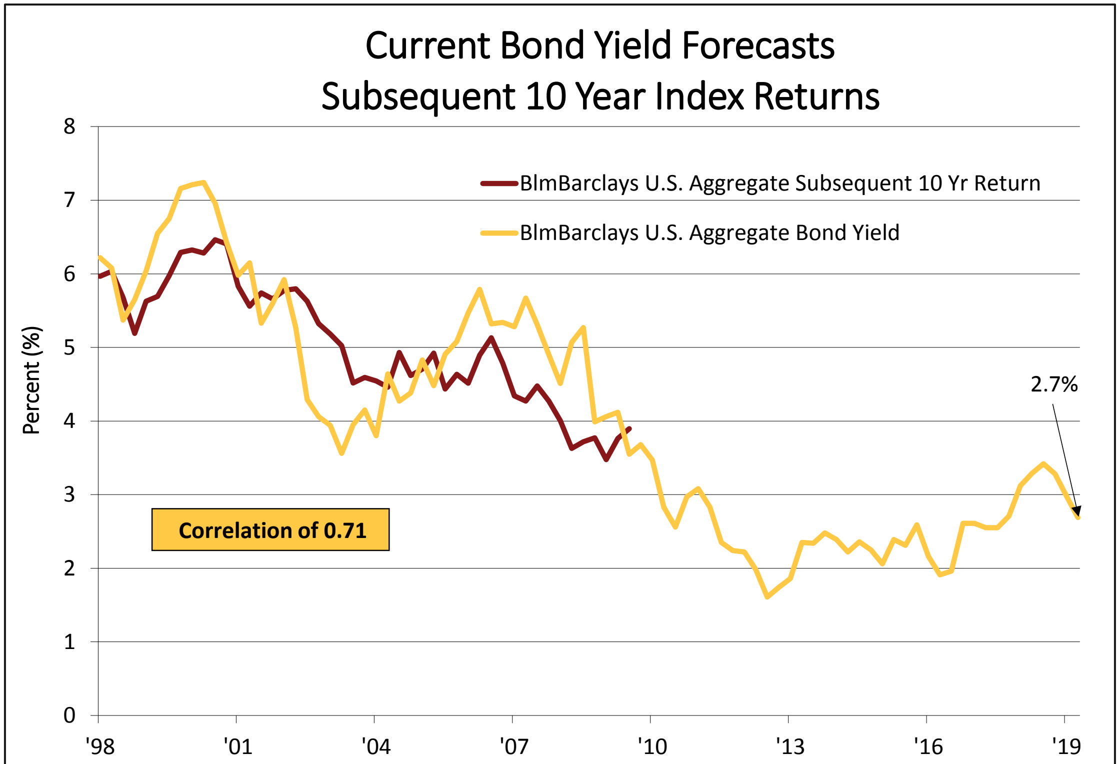
DeFact

With Brexit still weighing on U.K. economic growth, the pound has become a bargain, at least according to the "Big Mac" Index. The Big Mac Index was created by The Economist to study purchasing power parity by pricing the same product across the globe as compared to currency exchange rates. A Big Mac averages $5.74 in the U.S., but $4.18 in the U.K. (after conversion). This suggests that the British pound is 27% undervalued to the dollar. ~The Economist

Fixed Income

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
BlmBarc 1-3 Gov Credit	1.5	2.7	4.3	1.6	1.5	1.6
BlmBarc Aggregate	3.1	6.1	7.9	2.3	2.9	3.9
BlmBarc Gov Credit Long	6.6	13.5	13.8	3.8	5.7	7.6
BlmBarc US TIPS	2.9	6.2	4.8	2.1	1.8	3.6
ICE BofA Merrill Lynch High Yield	2.6	10.2	7.6	7.5	4.7	9.2
CSFB Leveraged Loan (bank loans)	1.6	5.4	4.1	5.4	3.9	6.3
BlmBarc Global Aggregate	3.3	5.6	5.8	1.6	1.2	2.9
JPM EmgMkt Bd Glbl Dvrsfd (hard)	4.1	11.3	12.4	5.5	5.3	7.8

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



Source: DeMarche

- Interest rates fell in anticipation of Fed rate cuts in July and again in September. The 10-year Treasury fell to a 2.0% yield. The yield curve inverted around Memorial Day and stayed that way through the end of the quarter. The decline in interest rates drove bond performance for the quarter. The BlmBarc Aggregate returned 3.1%, the best quarterly performance since 2011.
- Emerging market debt continued its run of solid performance. The weakening dollar helped boost returns. Countries that issue debt in dollars must use local currency to buy dollars to make coupon and maturity payments. A weaker dollar makes this activity less expensive. In addition, falling interest rates helped as the emerging market debt index tends to have a longer duration than the BlmBarc Aggregate.
- Riskier yield strategies, such as high yield and bank loans, also performed well in the quarter, but did not keep up with the returns of indexes that have longer durations. Bank loan and high yield bond credit spreads to Treasuries have narrowed throughout the year but most of that benefit occurred in the 1st quarter. Investors in the 2nd quarter mostly received returns from coupon income.
- The chart to the left shows how closely 10-year bond returns track current yields. If the trend holds, 10-year bond returns, as measured by the BlmBarc Aggregate, will be about 3% annualized. The recent downward movement in interest rates over the past 12 months suggests that the lower returns of the past six or so years will remain the norm for investors.

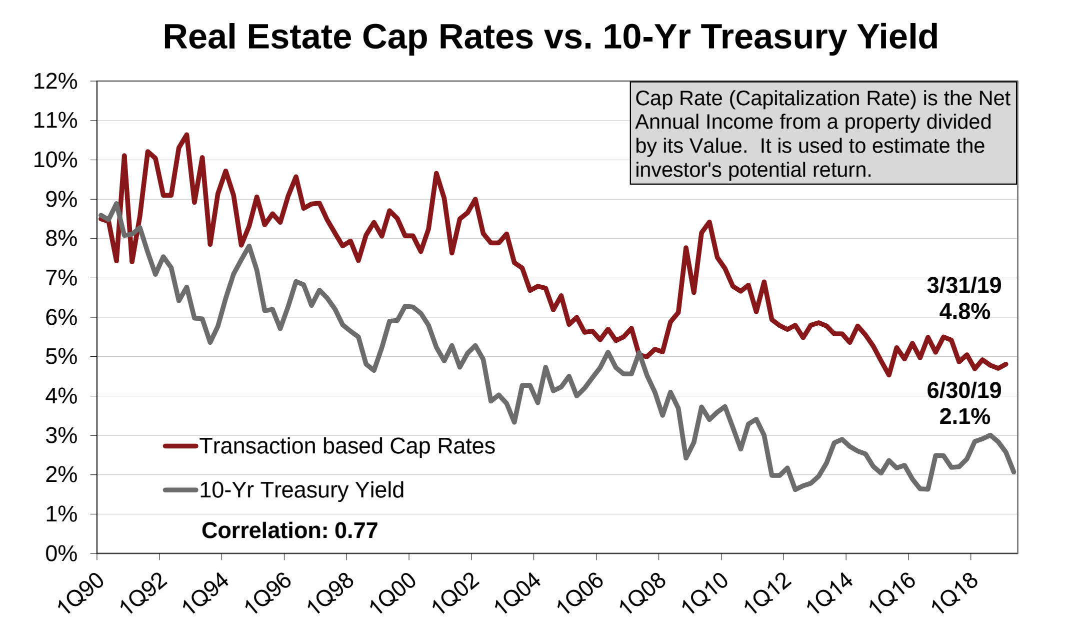
DeFact

Not only did interest rates fall in the U.S. during the quarter, they did so across the globe. Negative interest rates became an issue in 2015 and rapidly grew to just under $13 trillion of debt at the end of 2015. In June, the universe of negative yielding bonds pushed past $13 trillion for the first time according to the BlmBarc Global Aggregate Negative-Yielding Debt Index. Joining the club of government debt with 10-year yields below zero were Austria, Sweden and France. Japanese and German debt, already negative rates, hit new lows during June. ~Bloomberg

Less Liquid Strategies

INDEX	2nd Qtr	YTD	1-YEAR	3-YEAR	5-YEAR	10-YEAR
NCREIF Property (Private RE)	1.5	3.3	6.5	6.9	8.8	9.2
Apartment	1.4	2.8	5.8	6.2	8.0	9.4
Industrial	3.4	6.5	13.9	13.4	13.7	11.4
Office	1.7	3.3	6.8	6.3	8.2	8.4
Retail	-0.1	1.6	1.8	4.4	7.7	9.2
NAREIT (Public RE)*	1.8	18.8	12.7	6.2	8.8	15.6
NCREIF Timberland	1.0	1.2	2.9	3.3	4.6	4.0
NCREIF Farmland	0.7	1.4	5.7	6.3	8.0	11.1
HFR FOF Composite	1.7	6.4	1.4	4.3	2.2	3.2
Conservative	1.7	5.0	2.4	3.9	2.2	3.1
Diversified	2.0	6.4	2.1	4.2	2.3	3.3
Strategic	1.4	7.7	0.1	5.0	2.3	3.5
Bloomberg Commodity	-1.2	5.1	-6.8	-2.2	-9.1	-3.7

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.*



Source: NCREIF, Federal Reserve, Prudential

- Broad commodity indexes fell in the quarter due to a drop in energy prices. However, agricultural prices rebounded in June from a low point in May. It turns out that flooding in much of the Corn Belt caused farmers to forgo planting crops. Coupled with an improving outlook on trade, corn and soybean prices picked up from mid-May through mid-June. Oil prices fell during the quarter despite a strong upward move in June due to the escalation in U.S./Iran tensions.

- REITs continued to perform in the 2nd quarter but did not keep up with other large cap and small cap stocks. Over the past year, REITs have benefitted from more stable to lower interest rates, high dividend payout ratios and undervaluation in a faster growing economy. Longer-term returns over 3- to 5- years have underperformed domestic stocks.

- Hedge funds posted broad gains in the quarter to conclude a strong first half of the year. Activist funds, trend–following and M&A funds benefitted from the strong equity market. The stronger 2019 has marked a rebound from a 2018 slump where hedge funds saw their worst performance since 2011.

- Industrial properties, which are primarily warehouses, continue to be stellar performers for the quarter and the year. Online shopping could be the catalyst, increasing demand for “last mile” warehouse space (helping the industrial sector) and at the same time hurting many traditional retailers.

- With the downtick in interest rates in the 2nd quarter, real estate cap rates can be expected to trend downwards. Lower trending rates in the past year may accelerate real estate price appreciation, but rental income can reset downward in lower inflationary times.

DeFact

Environmental, social and governance (ESG) is a term heard often in the real assets space. Per a 2018 Preqin study, about 75% of the infrastructure and natural resources fund managers have an active ESG investment policy. Conversely, only about 35% of hedge fund managers have an active ESG policy in place and the rest have no plans to implement one in the near future. ~Preqin, Private Advisors

36th DeMarche Client Conference

Reality Check: Change, Challenges and Opportunities

September 25 – 27, 2019

Register Online

http://client.news/demarche9

Venue Information

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Or reserve your rooms online at: http://group.hilton.com/DeMarcheClientConf

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Join us in Kansas City on September 25-27 for the 36th Annual DeMarche Client Conference - Reality Check: Change, Challenges and Opportunities. Together, we will explore the critical issues facing investors today and help everyone to take that honest look in the mirror to see the reality of how their investment portfolios are prepared for what markets may have in store. Our agenda for this year's conference will include:

Markets and Fiscal Policy

- Market outlook and economic forecast
- The Fed, interest rates and your portfolio
- Asset allocation and global investment opportunities

Portfolio Opportunities and Risks

- Reducing portfolio risk with alternatives
- Evolution of private equity investing
- Responsible Investing – Integration, establishing goals and evaluation metrics

Retirement Readiness in Turbulent Markets

- Defined Contribution decumulation strategies, "Retirement Income for life"
- Current trends in Target Date Funds and next generation glide paths
- Risk management strategies for Defined Benefit plans