

DeMarche Dashboard

Data and Commentary for Periods Ended 12/31/18

Global Overview

- **Markets** – Equity markets were hit hard in the final month of 2018 as slowdown worries mounted worldwide. Daily volatility during December nearly doubled the yearly average for 2018, as investors saw sharp reversals in intra-day returns on a number of occasions. Commodities continued to be hit hard as oil prices continued their decline due in part to rising stockpiles. REITs completely reversed the strong year they were having, following other interest rate sensitive sectors into negative territory. Global Treasury/Sovereign Bonds (particularly on the long end of the curve) and Investment Grade Corporate Bonds provided the best returns for investors during an otherwise abysmal month.
- **Developed markets** – Both non-U.S. developed and U.S. markets had one of their worst one-month periods since the Great Financial Crisis. Within the U.S., negative performance was more extreme in smaller market capitalization companies, as the Russell 2000 finished 2018 down more than 11% for the month and year. There was even wider dispersion between large cap and small cap stocks in developed non-U.S. markets than in the U.S. ECB President Mario Draghi downgraded his expectations for Eurozone growth, citing geopolitical risks and market volatility. Yields in most of the major developed markets fell as investors sought stability in government debt.
- **Emerging Markets** – Though hampered by a strengthening U.S. Dollar and continued trade uncertainties, emerging market stocks performed better relative to other major equity markets during December. For the month and quarter the MSCI Emerging Markets Index declined roughly half as much as the developed markets. Local currency emerging markets debt had a positive month due to falling sovereign yields and provided one best sources of return for investors in December.

U.S. Economy and Markets

- The S&P 500 Index lost over 9% in the month of December, wiping out gains generated earlier in 2018. The Index ended the year down 4.4%, the worst annual return since the Great Financial Crisis in 2008. Large cap growth stocks continued to outperform large cap value stocks, as the Russell 1000 Growth Index finished the year down 1.5% while the Russell 1000 Value Index finished down 8.3%.
 - All 11 S&P 500 sectors posted negative results in December with energy (-12.7%), financials (-11.3%), and industrials (-10.7%) as the leading detractors. Health care, utilities, and consumer discretionary were the only sectors to finish 2018 in positive territory, while energy and materials were the year's biggest losers.
- The Russell 2000 Index dropped 11.9% in December, resulting in a quarterly return of -20.2% and a loss of 11.0% for the year. Small cap stocks were hit hard by falling oil prices, continued Fed policy rate increases, and the reversal of biotech that occurred over the year. Consistent with large cap stocks, small cap growth continued to outperform small cap value.
 - Each of the small cap sectors were negative for 2018 except for the utilities sector, up 1.5%. Health care and technology, which had returned over 20% for the year through October, ended 2018 down 6.5% and 0.9%, respectively. Energy continued its decline in December, losing 20.8% for the month and over 36% for the year.

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- The 10-year U.S. Treasury yield fell from 3.0% to 2.7% during the month of December, pointing to investor's flight to quality due to heightened volatility and poor performance in domestic equity markets. The Bloomberg Barclays Aggregate Index finished up 1.8% and the Bloomberg Barclays Corporate Bond Index finished up 1.5% in the month of December. On the flipside, widening high yield spreads (particularly in the energy and financials sectors) and falling treasury yields hurt high yield and bank loan investors, as the BofA Merrill Lynch High Yield Index was down 2.2% and the S&P/LTSA Leveraged Loans Index ended December down 2.5%.
- Despite the poor results from U.S. equity markets, the December jobs report blew past expectations, as total non-farm payrolls increased by 312,000 versus the consensus expectation of 176,000. Jobs gains primarily occurred in the health care, food service/drinking places, and construction industries. Revisions from both October and November showed a greater increase in new jobs (58,000 combined) than previously stated. The unemployment rate grew to 3.9% from its previous level of 3.7%, though this can be seen as a positive due to more workers joining the labor force. Year-over-year wage growth rose to 3.2%, one of the largest annual increases seen since the Great Financial Crisis. The December jobs report was possibly strongest of 2018 – in juxtaposition with a number of economist's predictions and some economic data suggesting a slowing U.S. economy. All eyes will be on the Federal Reserve's handling of interest rates following employment data that would suggest continued growth in the United States.

International Markets

- The MSCI EAFE Index (USD) fell 4.9% in December and ended the year down nearly 13.8%. Japan, France, Germany, and Switzerland, four out of the five largest country weights within the Index, were all down over 5%. The United Kingdom returned -3.8% despite Prime Minister Theresa May surviving a vote of no confidence surrounding the handling of the Brexit deal. Both the MSCI EAFE and the MSCI EAFE Small Cap indexes went on to have their worst calendar years since 2008. Much of the blame for poor performance during 2018 can be attributed to slowing GDP growth prospects in the Eurozone and Japan, poor performance from European banks, trade tensions affecting multinational corporations, the strengthening U.S. dollar, and the lack of action regarding Brexit. British Prime Minister Theresa May faces a vote on her newly proposed Brexit deal in mid-January as she hopes to keep her plan on track to have the U.K exit the European Union by March 2019.
- Despite returning -14.6% in 2018, the MSCI Emerging Markets Index (USD) proved to be the best broad index for equity investors during the month of December and throughout the entirety of the fourth quarter. Emerging market stocks were not as heavily impacted by the worldwide equity sell-off during the month, as countries like Mexico (3.3%), Malaysia (1.6%), and Indonesia (0.9%) were able to provide investors with positive results. The heaviest weight in the Index, China, performed more in line with the developed markets. Chinese technology stocks have suffered the same fate as large technology companies in the U.S. as the two biggest companies in China, Alibaba and Tencent, each lost over 25% of their value in 2018 due to factors like margin compression and valuation concerns. Furthermore, the slowdown of discretionary spending in the Chinese market is trickling over to large companies like Apple and Foxconn, (Taiwanese computer parts) which sell technology hardware products.

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Looking Ahead

- Fed minutes from December suggest that members may be open to slower policy tightening going forward due to subdued inflation, slowing global growth, and recent market volatility. Federal Reserve Chair Jerome Powell said policy makers are “going to be patient and watching, and waiting, and seeing” before adjusting interest rates again, laying groundwork to take a break from raising short-term interest rates. When asked about the market’s projection of two rate increases in 2019, Mr. Powell stated “There is no preset path for rates...we’ll take into account tightening financial conditions, which we’ve seen, and we’ll also lower our rate path and try to have monetary policy offset weakness before it even happens.”
- Oil prices continued to fall in December. Forecasts of growth within U.S. shale oil production helped to offset concerns about supplies following the OPEC production cut. This led to many financial institutions slashing their estimates for oil prices in 2019, falling from \$77 a barrel to \$69 a barrel within the month. Precious metals also struggled for the most part during 2018, as silver, copper and platinum traded down or within narrow ranges throughout the year. However, palladium prices surged, with prices topping gold in early December for the first time in 16 years, driven by tight supply and anticipation of increasing demand for usage within automobiles.
- President Trump seems to be preparing the public for the longest government shutdown in history. The Internal Revenue Service will be able to pay tax refunds since the Trump administration reversed a longstanding policy that includes the IRS being part of a Federal Government shutdown. The Agricultural Secretary, Sonny Perdue, has stated enough funding is in place to ensure millions of Americans will continue to receive food stamps through February. With no scheduled White House meetings with congressional leaders in sight, it appears President Trump is seriously considering acting on his own and declaring a national emergency along the southern border that could potentially allow him to pay for the wall without a congressional approval.

Economic Indicators

	GDP			Unemployment Rate	Interest Rates <i>Sovereign Bonds, 10 Year</i>	Exchange Rates <i>per US \$</i>		Inflation ² <i>(Most recently available)</i>
	Latest	2018	2019 ¹			Current	1 Year Ago	
United States	3.00	2.90	2.71	3.70	2.69	-	-	2.18
China	6.50	6.60	6.30	3.80	3.28	6.88	6.53	2.50
Japan	(2.50)	1.10	0.96	2.50	0.09	110.34	112.85	1.39
United Kingdom	1.50	1.30	1.41	4.10	1.45	1.27	1.35	2.20
Euro Area	1.60	2.10	1.60	8.10	0.25	1.14	1.20	1.07
Germany	1.20	1.90	1.61	3.30	0.31	1.14	1.20	2.46
France	1.40	1.70	1.60	8.90	0.82	1.14	1.20	1.91
Italy	0.70	1.10	0.93	10.60	3.44	1.14	1.20	1.48
Canada	2.10	2.30	2.19	5.60	2.41	1.36	1.26	1.80
India	7.10	7.40	7.25	7.40	6.75	70.91	64.24	5.23
Mexico	2.50	2.10	2.53	3.30	9.11	19.65	19.72	4.72
Brazil	1.30	1.50	2.13	11.60	7.12	3.87	3.30	4.56

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, The Wall Street Journal, OECD, The World Bank, and *The Economist*

1. Euro Area data from The World Bank, all other data from OECD

2. In terms of CPI All Items



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Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(7.60)	(13.42)	(8.71)	(8.71)	6.30	4.56	9.67
	BBgBarc US Agg Bond TR USD	1.84	1.64	0.01	0.01	2.06	2.52	3.48
	Russell 3000 TR USD	(9.31)	(14.30)	(5.24)	(5.24)	8.97	7.91	13.18
	DJ Industrial Average TR USD	(8.59)	(11.31)	(3.48)	(3.48)	12.94	9.70	13.16
	NASDAQ Composite PR USD	(9.48)	(17.54)	(3.88)	(3.88)	9.84	9.70	15.45
	MSCI EAFE NR USD	(4.85)	(12.54)	(13.79)	(13.79)	2.87	0.53	6.32
	FTSE Treasury Bill 3 Mon USD	0.20	0.57	1.86	1.86	0.99	0.60	0.35
	Bloomberg Commodity TR USD	(6.89)	(9.41)	(11.25)	(11.25)	0.30	(8.80)	(3.78)
Domestic Equities	S&P 500 TR USD	(9.03)	(13.52)	(4.38)	(4.38)	9.26	8.49	13.12
	S&P MidCap 400 TR	(11.32)	(17.28)	(11.08)	(11.08)	7.66	6.03	13.68
	S&P SmallCap 600 TR USD	(12.07)	(20.10)	(8.48)	(8.48)	9.46	6.34	13.61
	Russell 1000 TR USD	(9.11)	(13.82)	(4.78)	(4.78)	9.09	8.21	13.28
	Russell 1000 Growth TR USD	(8.60)	(15.89)	(1.51)	(1.51)	11.15	10.40	15.29
	Russell 1000 Value TR USD	(9.60)	(11.72)	(8.27)	(8.27)	6.95	5.95	11.18
	Russell Mid Cap TR USD	(9.92)	(15.37)	(9.06)	(9.06)	7.04	6.26	14.03
	Russell Mid Cap Growth TR USD	(9.07)	(15.99)	(4.75)	(4.75)	8.59	7.42	15.12
	Russell Mid Cap Value TR USD	(10.50)	(14.95)	(12.29)	(12.29)	6.06	5.44	13.03
	Russell 2000 TR USD	(11.88)	(20.20)	(11.01)	(11.01)	7.36	4.41	11.97
	Russell 2000 Growth TR USD	(11.68)	(21.65)	(9.31)	(9.31)	7.24	5.13	13.52
	Russell 2000 Value TR USD	(12.09)	(18.67)	(12.86)	(12.86)	7.37	3.61	10.40
International Equities	MSCI ACWI Ex USA NR USD	(4.53)	(11.46)	(14.20)	(14.20)	4.48	0.68	6.57
	MSCI EAFE NR USD	(4.85)	(12.54)	(13.79)	(13.79)	2.87	0.53	6.32
	MSCI EAFE Growth NR USD	(4.82)	(13.33)	(12.83)	(12.83)	2.89	1.62	7.07
	MSCI EAFE Value NR USD	(4.89)	(11.70)	(14.78)	(14.78)	2.82	(0.61)	5.50
	MSCI Japan NR USD	(6.68)	(14.23)	(12.88)	(12.88)	3.41	3.06	5.33
	MSCI AC Asia Ex Japan NR USD	(2.71)	(8.66)	(14.37)	(14.37)	8.56	4.02	10.09
	MSCI Europe NR USD	(4.62)	(12.72)	(14.86)	(14.86)	2.10	(0.61)	6.15
	MSCI United Kingdom NR USD	(3.79)	(11.78)	(14.15)	(14.15)	1.60	(1.71)	6.84
	MSCI EAFE Small Cap NR USD	(6.45)	(16.05)	(17.89)	(17.89)	3.73	3.06	10.51
MSCI EM NR USD	(2.66)	(7.47)	(14.58)	(14.58)	9.25	1.65	8.02	
Fixed Income	BBgBarc US Govt/Credit TR USD	1.86	1.46	(0.42)	(0.42)	2.19	2.53	3.46
	BBgBarc US Govt/Credit Interm TR USD	1.34	1.65	0.88	0.88	1.70	1.86	2.90
	BBgBarc US Govt/Credit Long TR USD	3.70	0.78	(4.68)	(4.68)	4.03	5.37	5.88
	ICE BofAML US High Yield TR USD	(2.19)	(4.67)	(2.26)	(2.26)	7.27	3.82	10.99
	Credit Suisse HY USD	(2.28)	(4.77)	(2.37)	(2.37)	7.31	3.65	10.63
	S&P/LSTA Leveraged Loan TR	(2.54)	(3.45)	0.44	0.44	4.83	3.05	8.57
	FTSE WGBI NonUSD USD	2.54	1.31	(1.82)	(1.82)	3.32	0.28	1.27
	BBgBarc Gbl Agg Ex USD TR USD	2.22	0.91	(2.15)	(2.15)	3.15	(0.01)	1.74
REITs	FTSE Nareit All REITs TR	(7.73)	(6.11)	(4.10)	(4.10)	4.62	8.29	12.41
	Wilshire US REIT TR USD	(8.37)	(6.93)	(4.84)	(4.84)	2.06	7.87	12.19

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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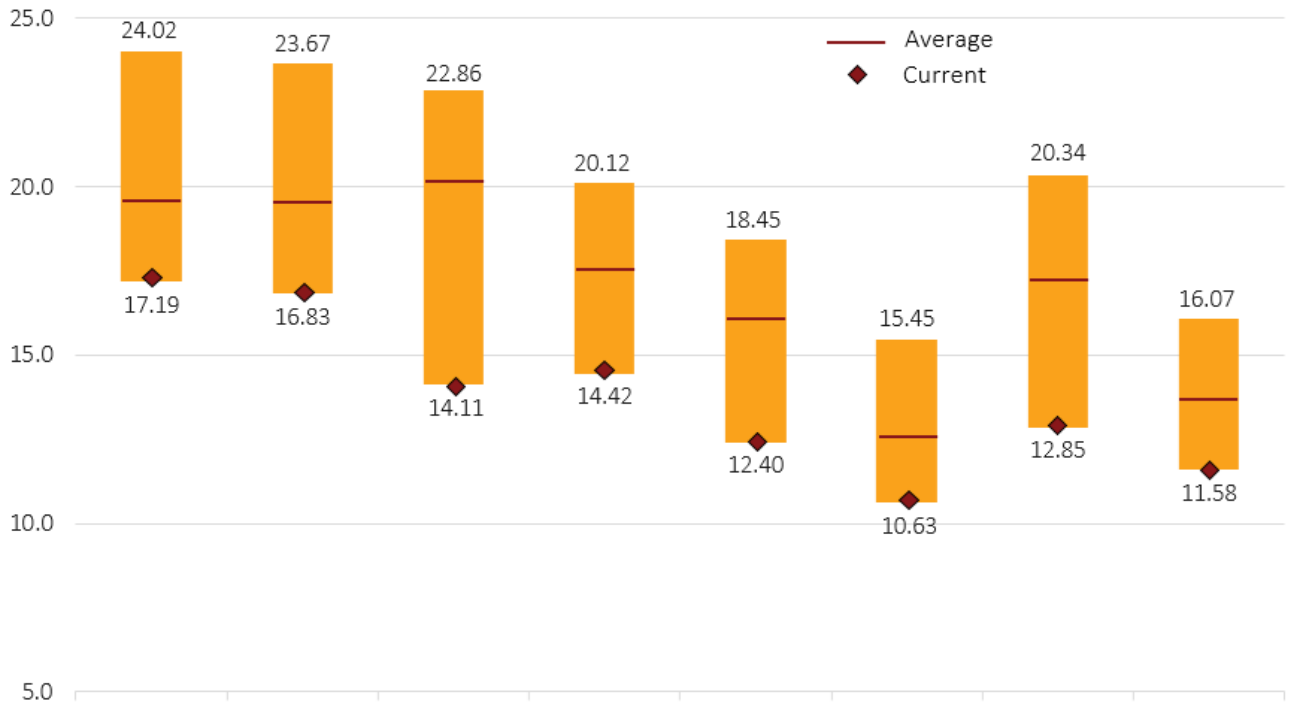
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S&P 500 Price Level



Source: Standard & Poors

Current P/E vs. Trailing 5-Year High, Low, Average



	S&P 500	Russell 1000	Russell 2000	MSCI AC World	MSCI EAFE	MSCI EM	MSCI Europe	MSCI AC Asia Pac
High Date	Jan-18	Jan-18	Nov-17	Jan-18	May-17	Jan-18	Mar-17	Jul-17
Low Date	Dec-18	Dec-18	Dec-18	Dec-18	Dec-18	Oct-15	Dec-18	Dec-18

Source: Standard & Poors, FTSE/Russell, MSCI

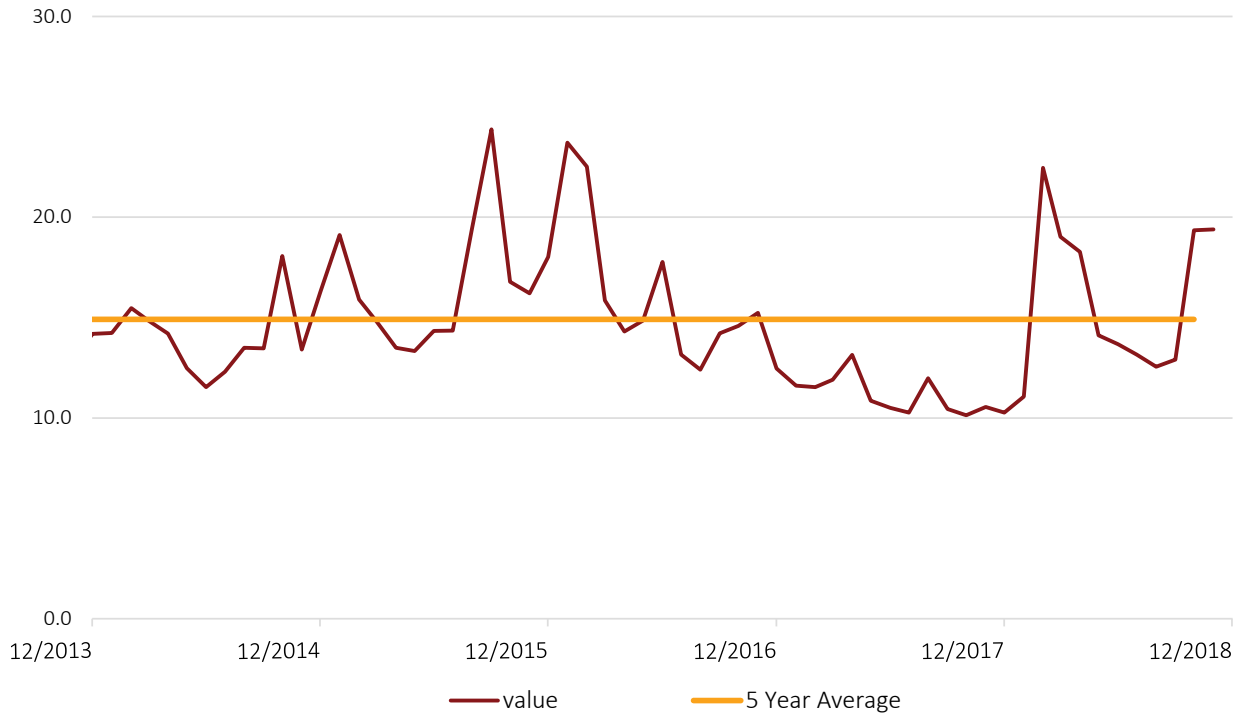
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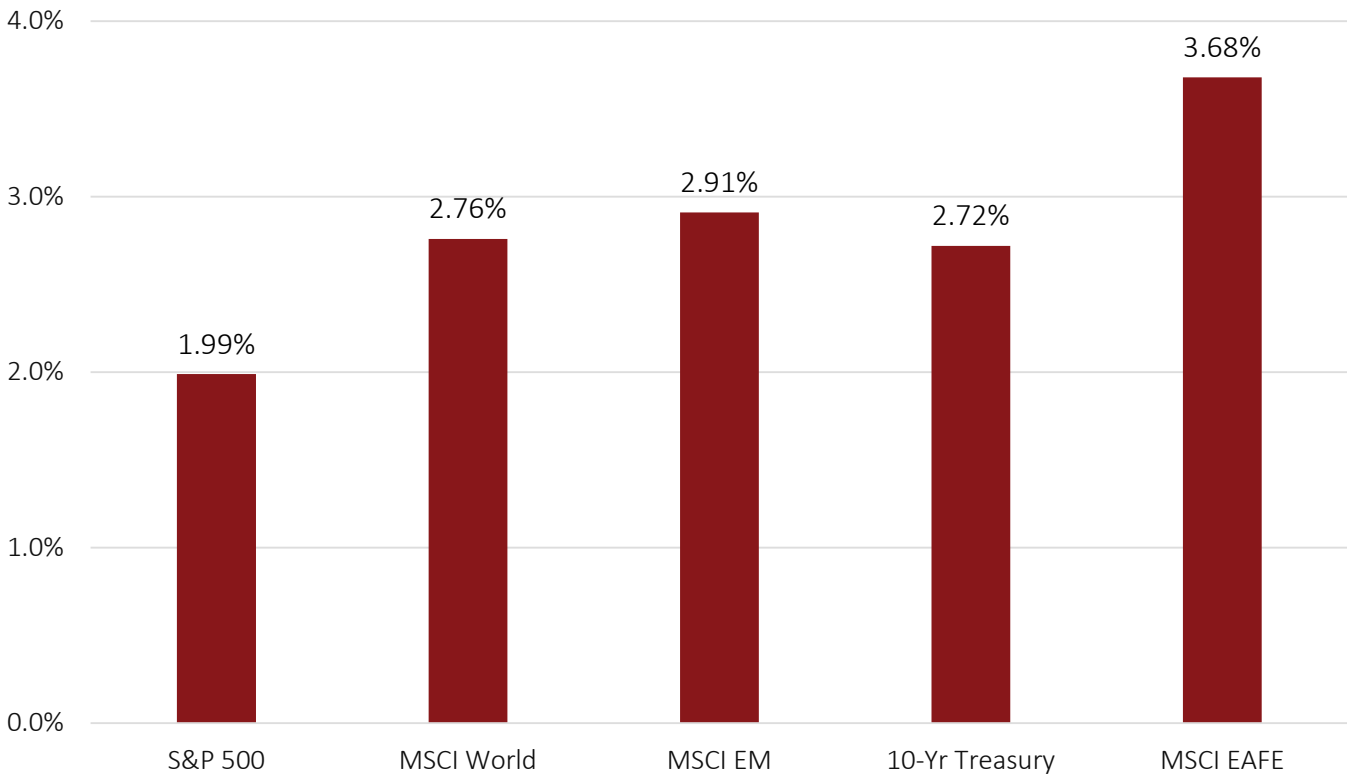
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CBOE Volatility Index: VIX



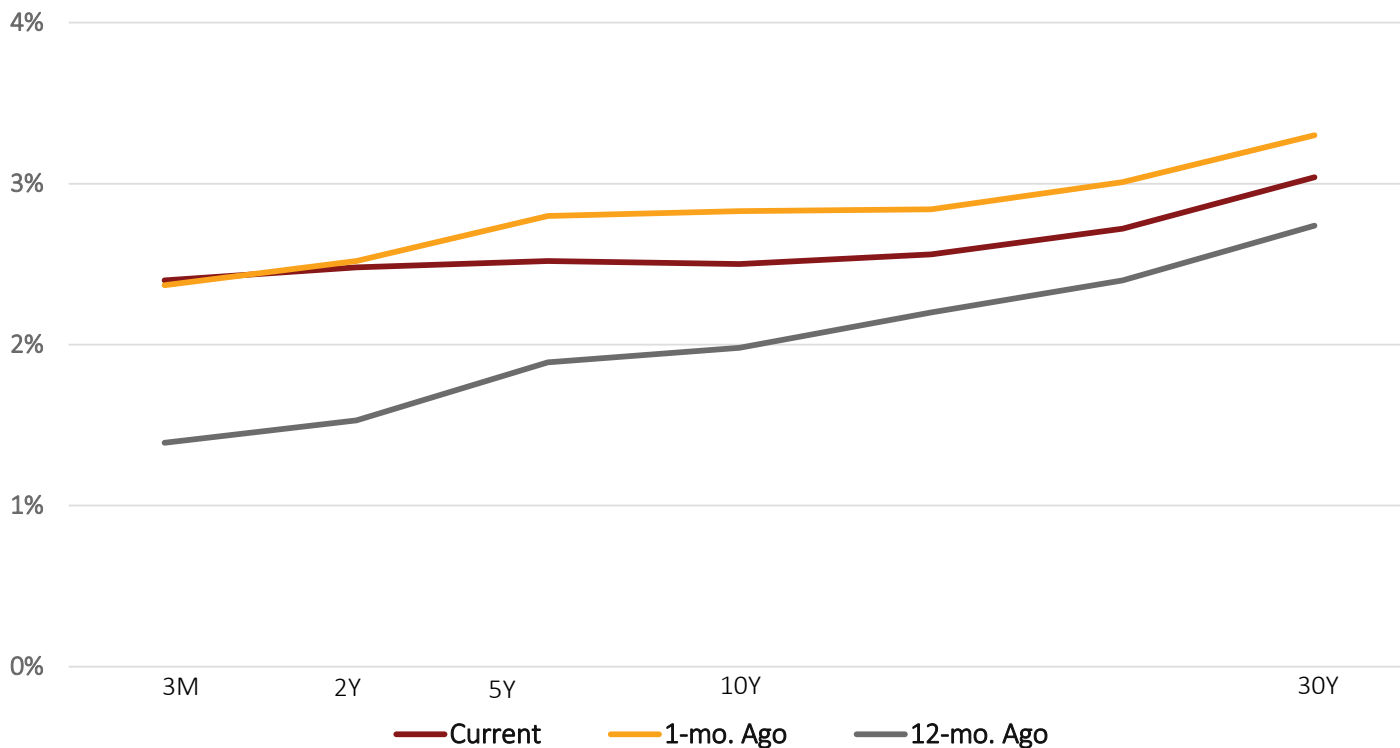
Source: CBOE Global Markets, Inc.

Current Yields



Source: Federal Reserve Bank of St. Louis, Standard & Poors, MSCI

U.S Treasury Yield Curves



Source: Federal Reserve Bank of St. Louis

U.S. Treasury Yields & Performance

Security	Yield (%)		
	Current	1-Mo. Ago	12-Mo. Ago
3-mo. Treasury	2.40	2.37	1.39
6-mo. Treasury	2.48	2.52	1.53
2-yr. Treasury	2.52	2.80	1.89
3-yr. Treasury	2.50	2.83	1.98
5-yr. Treasury	2.56	2.84	2.20
10-yr. Treasury	2.72	3.01	2.40
30-yr. Treasury	3.04	3.30	2.74

Source: Federal Reserve Bank of St. Louis

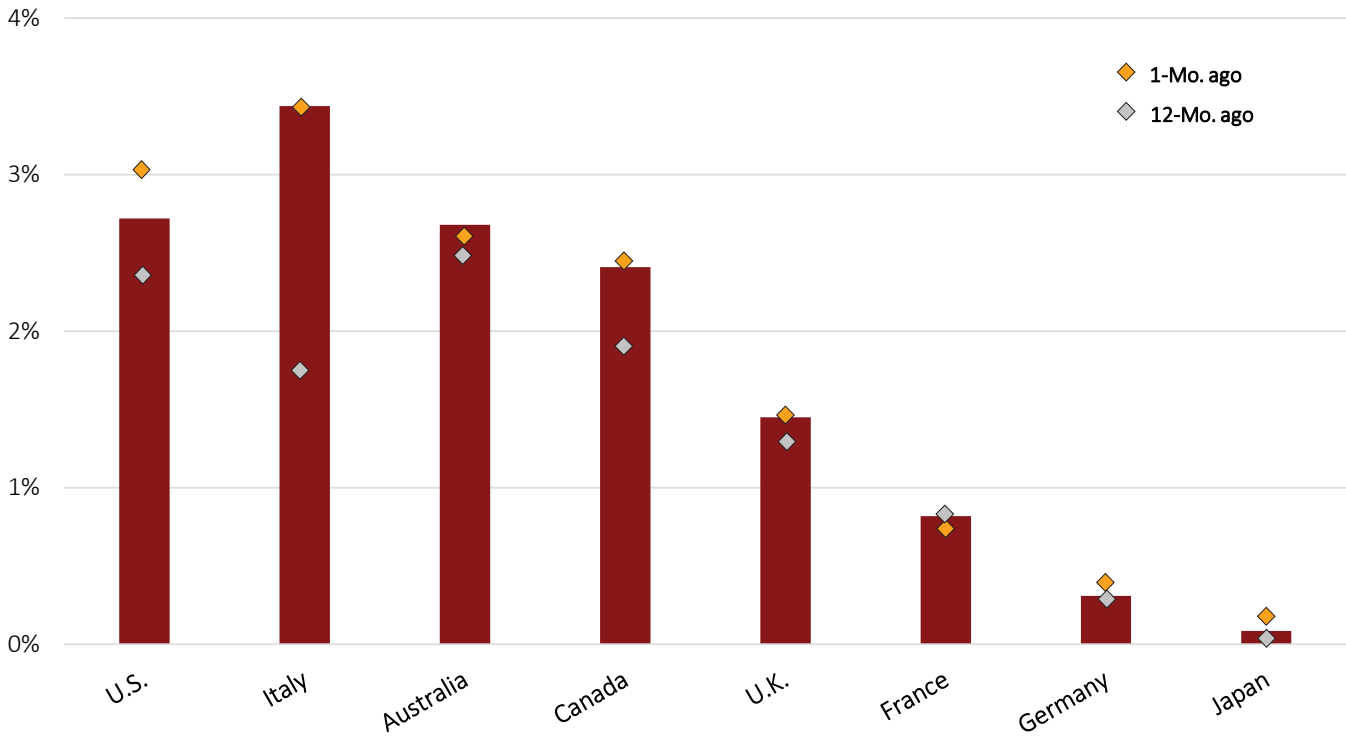
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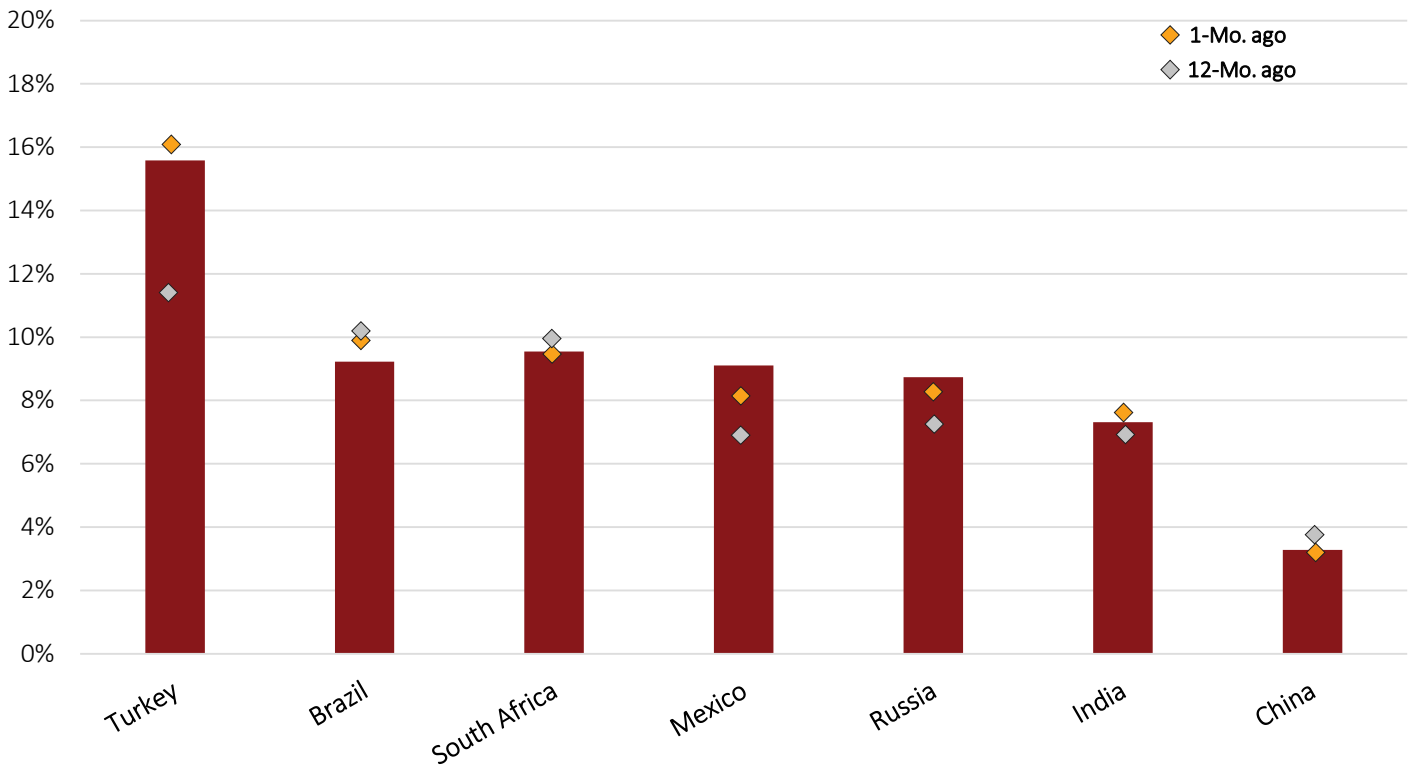
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Developed Markets 10 Year Sovereign Yields



Source: Federal Reserve Bank of St. Louis, Bloomberg

Emerging Markets 10 Year Sovereign Yields



Source: Federal Reserve Bank of St. Louis, Bloomberg, Wall Street Journal

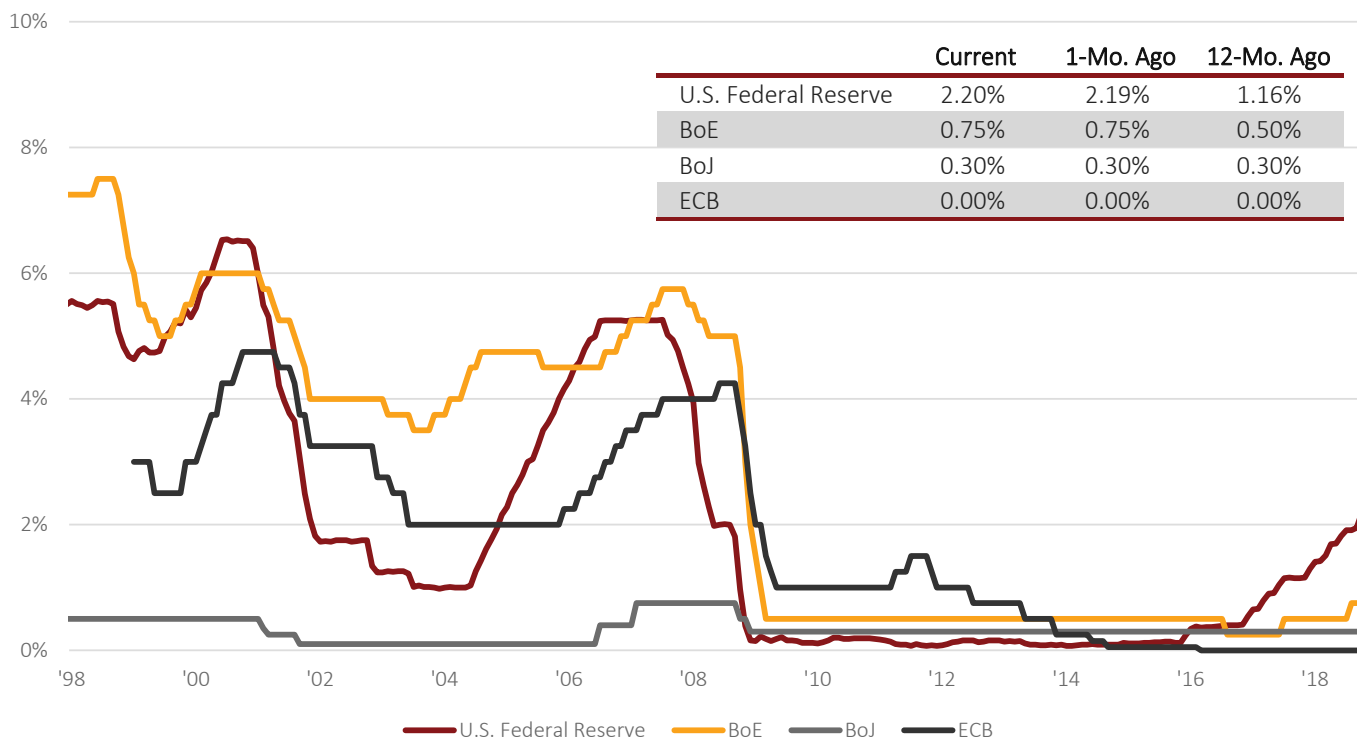
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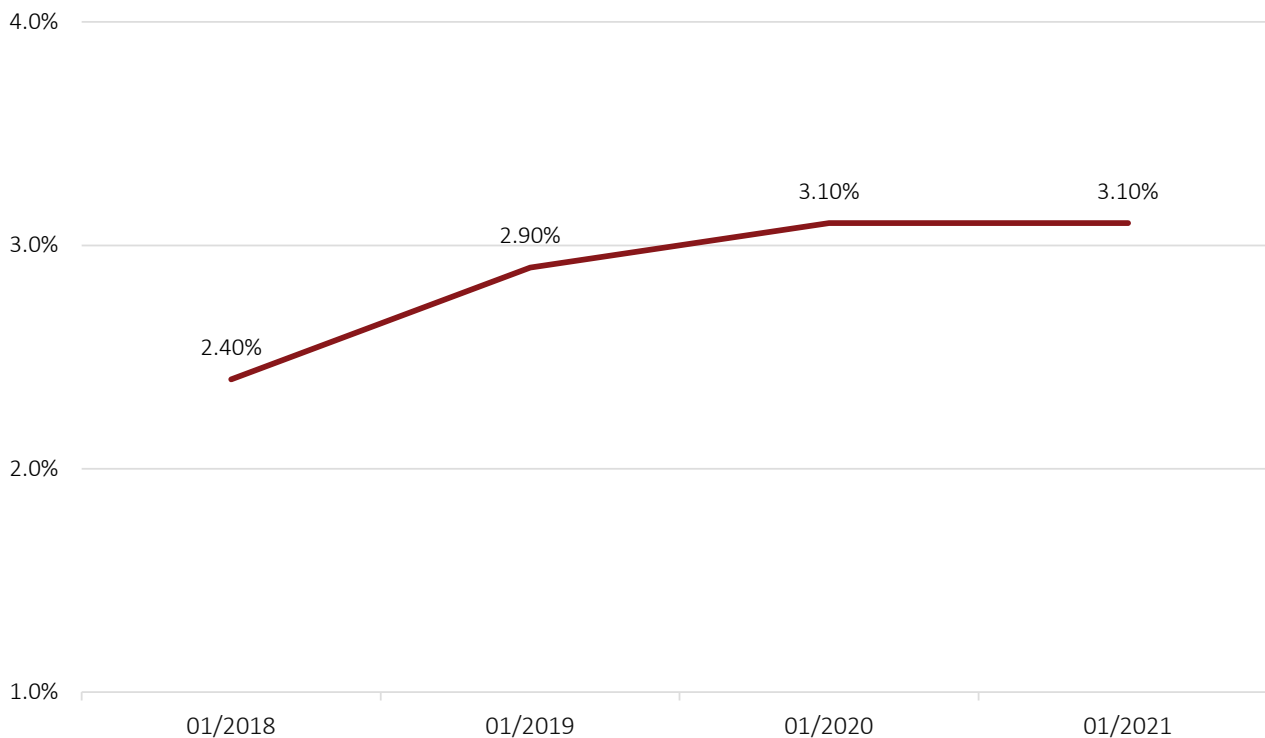
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Central Bank Policy Rates



Source: Federal Reserve Bank, Bank of England, European Central Bank

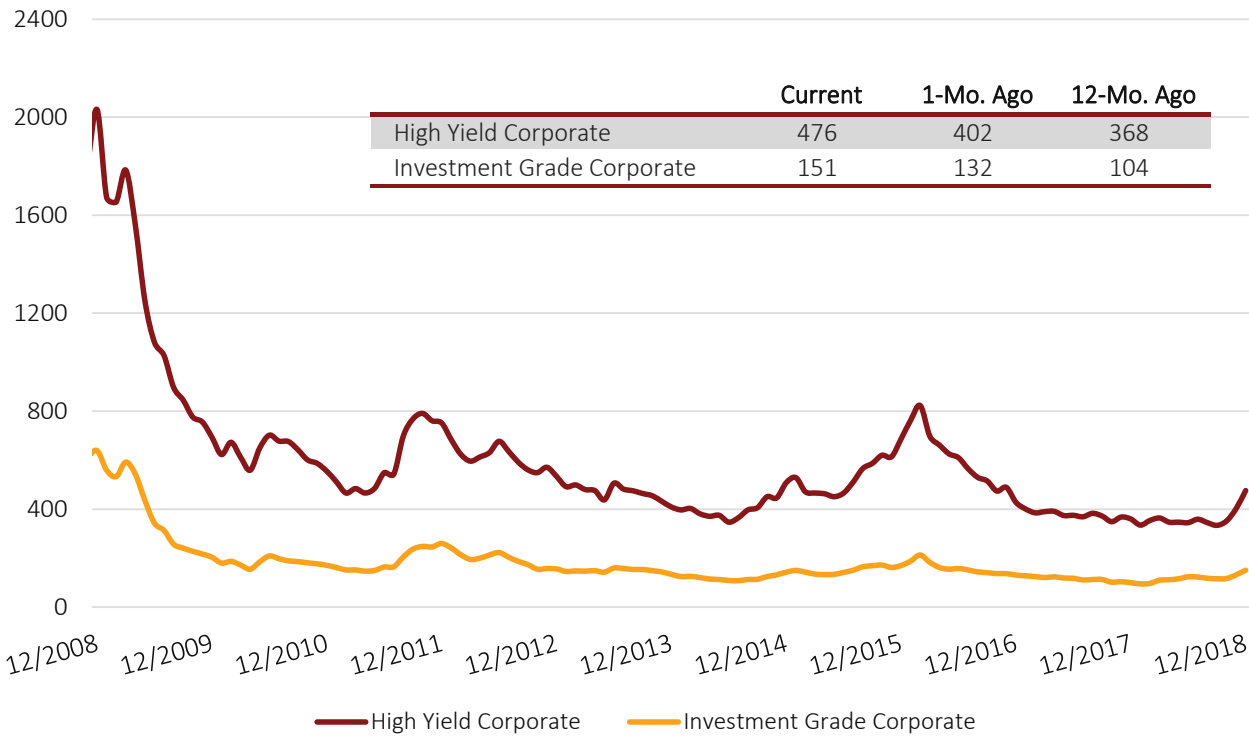
Summary of Economic Projections of Federal Funds Rate



Source: Federal Reserve Bank of St. Louis and U.S. Federal Open Market Committee (FOMC).

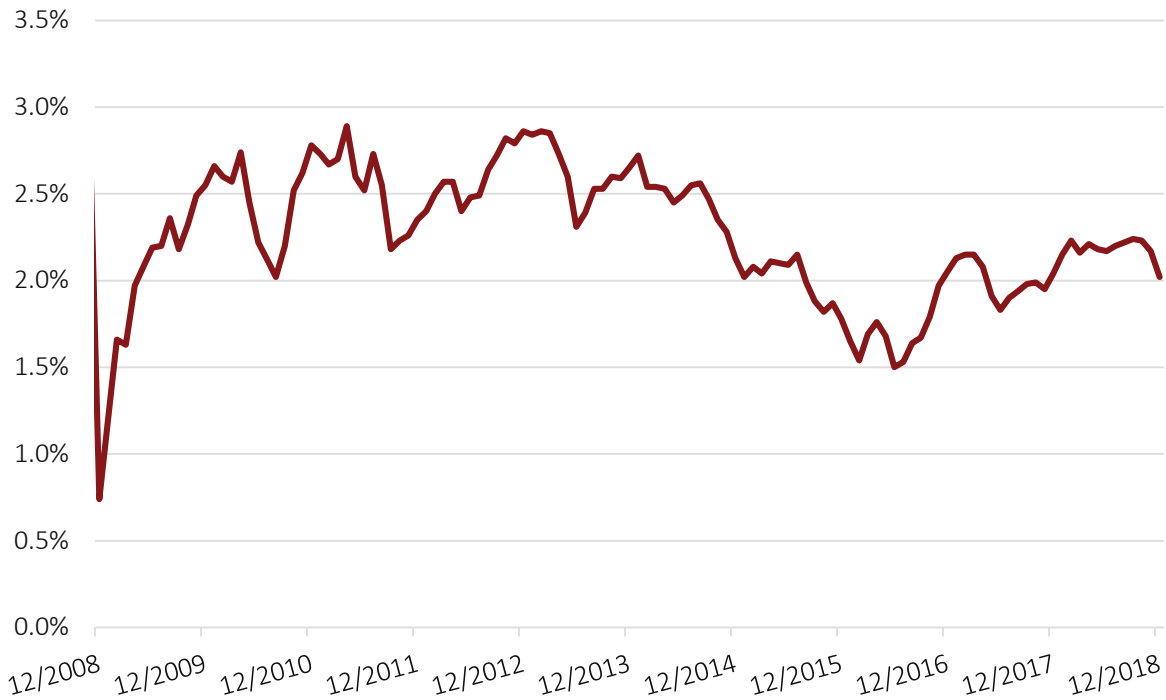
Represents the median value of the range forecast of the federal funds rate established by the FOMC.

Corporate Bond Average Spread (bps)



Source: Bank of America

5-Year Forward Inflation Expectation Rate



Source: Federal Reserve Bank of St. Louis. Measure of expected inflation, on average, over the next five year period.