Cherry Bekaert Wealth Management

Market Update: The Quarter in Review

Useful Information for Your Business & Financial Success

Summary

Second Quarter 2019

US. Stocks
The US equity market outperformed both non-US developed and emerging markets equities. Value underperformed growth in the US across large and small cap stocks. Small caps underperformed large caps in the US.

International Developed Stocks & Emerging Stocks
In US dollar terms, developed markets stocks outside the US outperformed emerging markets equities but underperformed the US equity market during the quarter. Small caps underperformed large caps in non-US developed markets. Value underperformed growth across large and small cap stocks.

In US dollar terms, emerging markets underperformed developed markets, including the US. Value stocks generally outperformed growth stocks and small caps underperformed large caps.

Fixed Income
Interest rates decreased in the US Treasury fixed income market during the second quarter. The yield on the 5-year Treasury note declined 47 basis points (bps), ending at 1.76%. The yield on the 10-year Treasury note decreased 41 bps to 2.00%. The 30-year Treasury bond yield fell 29 bps to finish at 2.52%.

On the short end of the curve, the 1-month T-bill yield deceased to 2.18%, while the 1-year T-bill yield dipped 48 bps to 1.92%. The 2-year Treasury note finished at 1.75% after a 52 bps decrease.

In terms of total returns, short-term corporate bonds increased by 2.09%. Intermediate-term corporate bonds had a total return of 3.13%.

Total returns for short-term municipal bonds were 1.12%, while intermediate munis returned 1.98%. Revenue bonds outperformed general obligation bonds.

Global Fixed Income
Interest rates in the global developed markets generally decreased during the quarter. Longer-term bonds generally outperformed shorter-term bonds. Short- and intermediate-term nominal interest rates were negative in Germany and Japan.

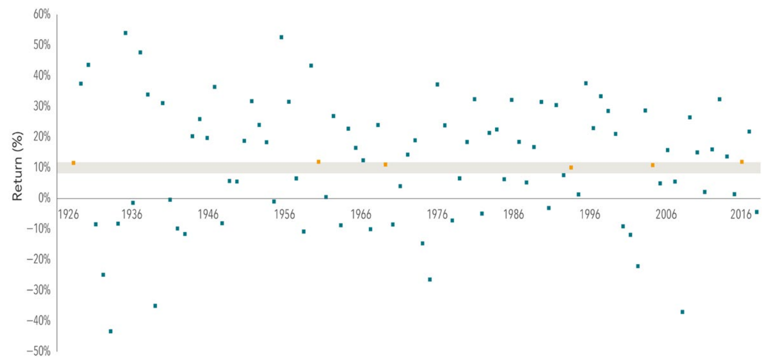
The Uncommon Average

Second Quarter 2019

The US stock market has delivered an average annual return of around 10% since 1926. But short-term results may vary, and in any given period stock returns can be positive, negative, or flat. When setting expectations, it's helpful to see the range of outcomes experienced by investors historically. For example, how often have the stock market's annual returns actually aligned with its long-term average?

Exhibit 1 shows calendar year returns for the S&P 500 Index since 1926. The shaded band marks the historical average of 10%, plus or minus 2 percentage points. The S&P 500 Index had a return within this range in only six of the past 93 calendar years. In most years, the index's return was outside of the range—often above or below by a wide margin—with no obvious pattern. For investors, the data highlight the importance of looking beyond average returns and being aware of the range of potential outcomes.

Exhibit 1. S&P 500 Index Annual Returns 1926-2018



Turning In To Different Frequencies

Despite the year-to-year volatility, investors can potentially increase their chances of having a positive outcome by maintaining a long-term focus. **Exhibit 2** documents the historical frequency of positive returns over rolling periods of one, five, and 10 years in the US market. The data show that, while positive performance is never assured, investors' odds improve over longer time horizons.

Exhibit 2. Frequency of Positive Returns in the S&P 500 Index Overlapping Periods: 1926-2018

In US dollars. From January 1926–December 2018, there are 997 overlapping 10-year periods, 1,057 overlapping 5-year periods, and 1,105 overlapping 1-year periods. The first period starts in January 1926, the second period starts in February 1926, the third in March 1926, and so on. S&P data © S&P Dow Jones Indices LLC, a division of S&P Global. Indices are not available for direct investment. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Past performance is no guarantee of future results. Actual returns may be lower.

Conclusion

While some investors might find it easy to stay the course in years with above average returns, periods of disappointing results may test an investor's faith in equity markets. Being aware of the range of potential outcomes can help investors remain disciplined, which in the long term can increase the odds of a successful investment experience. What can help investors endure the ups and downs? While there is no silver bullet, understanding how markets work and trusting market prices are good starting points. An asset allocation that aligns with personal risk tolerances and investment goals is also valuable. By thoughtfully considering these and other issues, investors may be better prepared to stay focused on their long-term goals during different market environments.

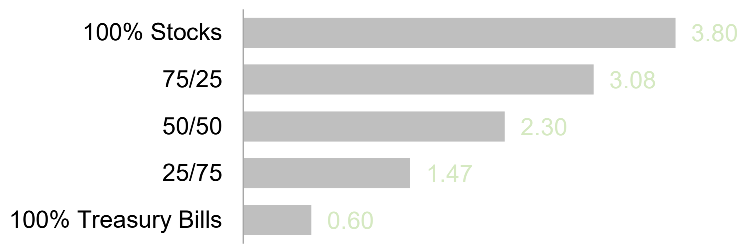
Source: Dimensional Fund Advisors LP. Past performance is no guarantee of future results. This information is provided for educational purposes only and should not be considered investment advice or a solicitation to buy or sell securities. There is no guarantee an investing strategy will be successful. Diversification does not eliminate the risk of market loss.

Impact of Diversification

Second Quarter 2019 Index Returns

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.

Ranked Returns for the Quarter (%)

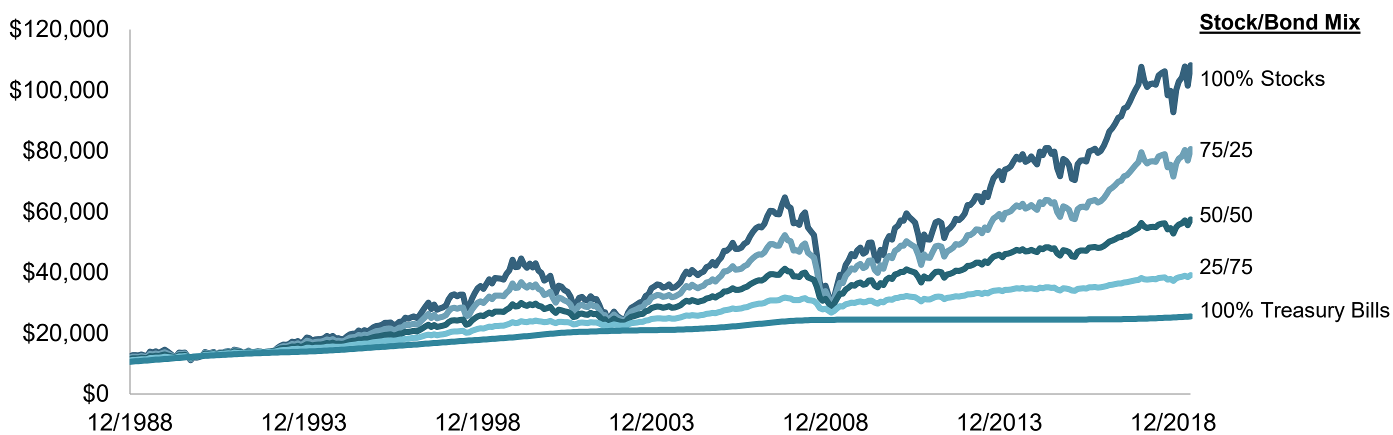


Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV[1]
100% Stocks	16.60	6.32	12.22	6.74	10.73	13.48
75/25	12.69	5.56	9.53	5.36	8.25	10.11
50/50	8.82	4.62	6.80	3.91	5.70	6.74
25/75	4.98	3.51	4.06	2.39	3.09	3.37
100% Treasury Bills	1.18	2.23	1.30	0.80	0.43	0.21

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 2019, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

Market Summary

Second Quarter 2019 Index Returns

Q2 2019	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	4.10%	**3.79%**	**0.61%**	**1.29%**	**3.08%**	**2.75%**
Since Jan. 2001						
Avg. Quarterly Return	2.0%	1.5%	2.9%	2.6%	1.2%	1.1%
Best Quarter	16.8% **2009 Q2**	25.9% **2009 Q2**	34.7% **2009 Q2**	32.3% **2009 Q3**	4.6% **2001 Q3**	4.6% **2008 Q4**
Worst Quarter	-22.8% **2008 Q4**	-21.2% **2008 Q4**	-27.6% **2008 Q4**	-36.1% **2008 Q4**	-3.0% **2016 Q4**	-2.7% **2015 Q2**

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 © 2019 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 2019, all rights reserved. Bloomberg Barclays data provided by Bloomberg. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

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Investing risks include loss of principal and fluctuating value. Small cap securities are subject to greater volatility than those in other asset categories. International investing involves special risks such as currency fluctuation and political instability. Investing in emerging markets may accentuate these risks. Sector-specific investments can also increase these risks. Fixed income securities are subject to increased loss of principal during periods of rising interest rates.

Fixed income investments are subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. REIT risks include changes in real estate values and property taxes, interest rates, cash flow of underlying real estate assets, supply and demand, and the management skill and creditworthiness of the issuer.

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