Cherry Bekaert Wealth Management

Market Update: The Quarter in Review

Useful Information for Your Business & Financial Success

Summary

Third Quarter 2019

US. Stocks

US equities outperformed both non-US developed and emerging markets in the third quarter.

Value outperformed growth on a marketwide basis in the US. However, value underperformed growth across large cap stocks but outperformed in small caps.

Small caps underperformed large caps in the US.

REIT indices outperformed equity market indices.

International Developed Stocks & Emerging Stocks

In US dollar terms, developed markets outside the US outperformed emerging markets but underperformed the US market during the third quarter.

Small caps outperformed large caps in non-US developed markets.

Value underperformed growth across large cap stocks but outperformed in small caps.

In US dollar terms, emerging markets underperformed developed markets, including the US, in the third quarter.

Value stocks underperformed growth stocks.

Small caps underperformed large caps.

Fixed Income

Interest rates in the US Treasury market decreased during the third quarter.

The yield on the 5-year Treasury note declined by 21 basis points (bps), ending at 1.55%. The yield on the 10-year Treasury note decreased by 32 bps to 1.68%. The 30-year Treasury bond yield fell by 40 bps to 2.12%.

On the short end of the yield curve, the 1-month Treasury bill yield decreased to 1.91%, while the 1-year Treasury bill yield decreased by 17 bps to 1.75%. The 2-year Treasury note yield finished at 1.63% after a decrease of 12 bps.

In terms of total returns, short-term corporate bonds gained 1.17%. Intermediate-term corporate bonds had a total return of 1.74%.

The total return for short-term municipal bonds was 0.33%, while intermediate-term munis returned 1.02%. Revenue bonds outperformed general obligation bonds.

Global Fixed Income

Interest rates in the global developed markets generally decreased during the third quarter.

Longer-term bonds generally outperformed shorter-term bonds in the global developed markets.

Short- and Intermediate-term nominal interest rates are negative in Japan and entirely negative across the German government bond yield curve.

Source: MSCI. Past Performance is not a guarantee of future results. All non-US equity market returns are in USD, net dividends, unless otherwise noted. Index is not available for direct investment. Performance does not reflect the expenses associated with management of an actual portfolio..

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. Please see page 4 for additional footnotes and disclosures.

Timing Isn't Everything

Third Quarter 2019

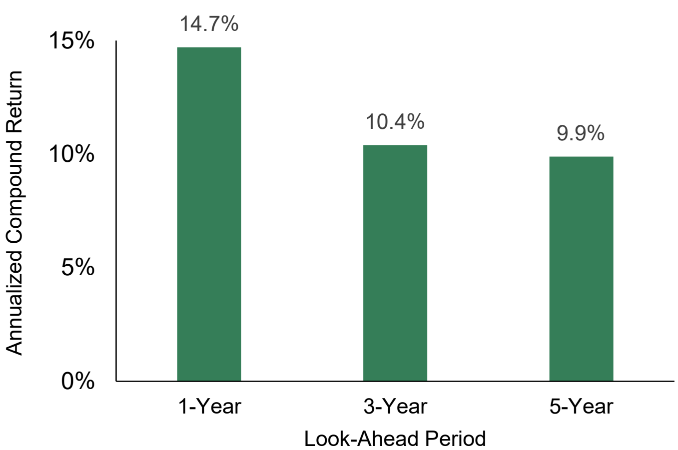
A neighbor or relative might ask about which investments are good at the moment. The lure of getting in at the right time or avoiding the next downturn may tempt even disciplined, long-term investors. The reality of successfully timing markets, however, isn't as straightforward as it sounds.

Outguessing The Market Is Difficult

Attempting to buy individual stocks or make tactical asset allocation changes at exactly the "right" time presents investors with substantial challenges. First and foremost, markets are fiercely competitive and adept at processing information. During 2018, a daily average of $462.8 billion in equity trading took place around the world.[1] The combined effect of all this buying and selling is that available information, from economic data to investor preferences and so on, is quickly incorporated into market prices. Trying to time the market based on an article from this morning's newspaper or a segment from financial television? It's likely that information is already reflected in prices by the time an investor can react to it.

Dimensional Fund Advisors recently studied the performance of actively managed US-based mutual funds and found that even professional investors have difficulty beating the market: over the last 20 years, 77% of equity funds and 92% of fixed income funds failed to survive and outperform their benchmarks after costs.[2]

Exhibit 1. Average Annualized Returns
After New Market Highs
S&P 500, January 1926–December 2018



In US dollars. Past performance is no guarantee of future results. New market highs are defined as months ending with the market above all previous levels for the sample period. Annualized compound returns are computed for the relevant time periods subsequent to new market highs and averaged across all new market high observations. There were 1,115 observation months in the sample. January 1990–December 2018: S&P 500 Total Returns Index. S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. January 1926–December 1989; S&P 500 Total Return Index, Stocks, Bonds, Bills and Inflation Yearbook™, Ibbotson Associates, Chicago. For illustrative purposes only. Index is not available for direct investment; therefore, its performance does not reflect the expenses associated with the management of an actual portfolio. There is always a risk that an investor may lose money.

Further complicating matters, for investors to have a shot at successfully timing the market, they must make the call to buy or sell stocks correctly not just once, but twice. Professor Robert Merton, a Nobel laureate, said it well in a recent interview with Dimensional:

"Timing markets is the dream of everybody. Suppose I could verify that I'm a .700 hitter in calling market turns. That's pretty good; you'd hire me right away. But to be a good market timer, you've got to do it twice. What if the chances of me getting it right were independent each time? They're not. But if they were, that's 0.7 times 0.7. That's less than 50-50. So, market timing is horribly difficult to do."

Time And The Market

The S&P 500 Index has logged an incredible decade. Should this result impact investors' allocations to equities? **Exhibit 1** suggests that new market highs have not been a harbinger of negative returns to come. The S&P 500 went on to provide positive average annualized returns over one, three, and five years following new market highs.

Conclusion

Outguessing markets is more difficult than many investors might think. While favorable timing is theoretically possible, there isn't much evidence that it can be done reliably, even by professional investors. The positive news is that investors don't need to be able to time markets to have a good investment experience. Over time, capital markets have rewarded investors who have taken a long-term perspective and remained disciplined in the face of short-term noise. By focusing on the things they can control (like having an appropriate asset allocation, diversification, and managing expenses, turnover, and taxes) investors can better position themselves to make the most of what capital markets have to offer.

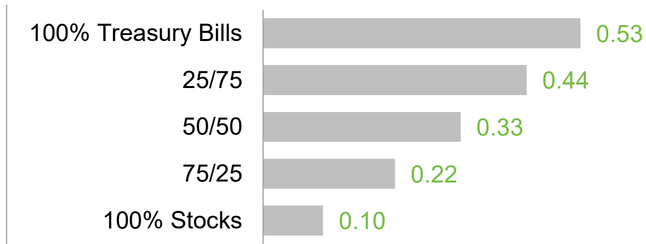
1. In US dollars. Source: Dimensional, using data from Bloomberg LP. Includes primary and secondary exchange trading volume globally for equities. ETFs and funds are excluded. Daily averages were computed by calculating the trading volume of each stock daily as the closing price multiplied by shares traded that day. All such trading volume is summed up and divided by 252 as an approximate number of annual trading days.
2. Past performance is no guarantee of future results. US-domiciled open-end mutual fund data is from Morningstar. The sample includes funds at the beginning of the 20-year period ending December 31, 2018. For further details, see the Mutual Fund Landscape 2019.

Impact of Diversification

Third Quarter 2019

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 (%)

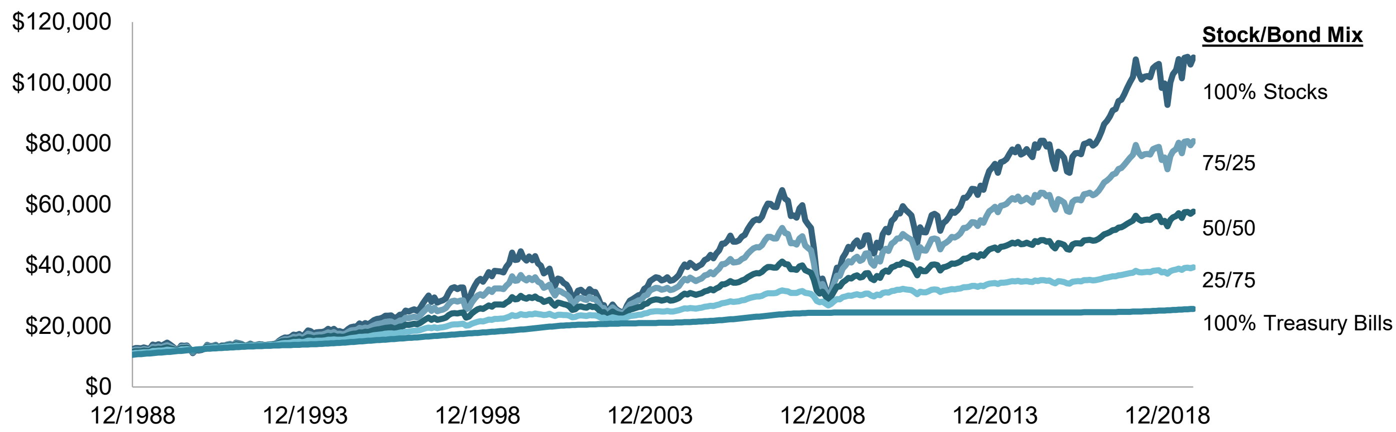


Period Returns (%)

** Annualized*

Asset Class	YTD	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV[1]
100% Stocks	16.71	1.95	10.30	7.23	8.93	13.20
75/25	12.94	2.30	8.15	5.75	6.93	9.90
50/50	9.18	2.48	5.96	4.20	4.85	6.60
25/75	5.44	2.47	3.73	2.59	2.70	3.30
100% Treasury Bills	1.72	2.29	1.46	0.91	0.48	0.22

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).

Quarterly Market Summary

Third Quarter 2019 Index Returns

3Q 2019	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	1.16%	-0.93%	-4.25%	5.72%	2.27%	2.83%

Since Jan. 2001	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
Avg. Quarterly Return	2.0%	1.4%	2.8%	2.6%	1.2%	1.2%
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**	-21.1% **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]). Bloomberg Barclays data provided by Bloomberg.

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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.

Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

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