

Cherry Bekaert Wealth Management

Market Update: The Quarter in Review

Useful Information for Your Business & Financial Success

Summary

First Quarter 2020

US. Stocks

The US equity market posted negative returns for the quarter but on a broad index level outperformed non-US developed markets and emerging markets. 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, for the quarter. Value stocks underperformed growth stocks and small caps underperformed large caps.

Fixed Income

Interest rates decreased in the US Treasury fixed income market during the 1st quarter. The yield on the 5-year Treasury note decreased 132 basis points (bps), ending at

0.37%. The yield on the 10-year Treasury note decreased 122 bps to 0.70%. The 30-year Treasury bond yield fell 104 bps to finish at 1.35%.

On the short end of the yield curve, the 1-month T-bill yield decreased to 0.05%, while the 1-year T-bill yield dipped 142 bps to 0.17%. The 2-year Treasury note finished at 0.23% after a 135 bps decrease.

In terms of total returns, short-term corporate bonds declined by 2.19%. Intermediate-term corporate bonds declined 3.15%.

Total returns for short-term municipal bonds was -0.51%, while intermediate munis returned -0.82%. General obligation bonds outperformed revenue bonds.

Global Fixed Income

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

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.

The Coronavirus and Market Declines

First Quarter 2020

The world is watching with concern the spread of the new coronavirus. The uncertainty is being felt around the globe, and it is unsettling on a human level as well as from the perspective of how markets respond.

It is a fundamental principle that markets are designed to handle uncertainty, processing information in real-time as it becomes available. We see this happening when markets decline sharply, as they have recently, as well as when they rise. Such declines can be distressing to any investor, but they are also a demonstration that the market is functioning as we would expect.

Market declines can occur when investors are forced to reassess expectations for the future. The expansion of the outbreak is causing worry among governments, companies, and individuals about the impact on the global economy. Apple announced earlier this month that it expected revenue to take a hit from problems making and selling products in China.¹ Australia's prime minister has said the virus will likely become a global pandemic,² and other officials there warned of a serious blow to the country's economy.³ Airlines are preparing for the toll it will take on travel.⁴ And these are just a few examples of how the impact of the coronavirus is being assessed.

The market is clearly responding to new information as it becomes known, but the market is pricing in unknowns, too. As risk increases during a time of heightened uncertainty, so do the returns investors demand for bearing that risk, which pushes prices lower.

Our investing approach is based on the principle that prices are set to deliver positive future expected returns for holding risky assets.

We can't tell you when things will turn or by how much, but our expectation is that bearing today's risk will be compensated with positive expected returns. That's been a lesson of past health crises, such as the Ebola and swine-flu outbreaks earlier this century, and of market disruptions, such as the global financial crisis of 2008–2009. You will find on the next page charts showing the market's response to past epidemics. Additionally, history has shown no reliable way to identify a market peak or bottom. These beliefs argue against making market moves based on fear or speculation, even as difficult and traumatic events transpire.

As an investment advisory firm, we are working with many clients impacted by COVID-19 (the coronavirus). Our thoughts go out to those impacted by the virus and our community at large that is being overwhelmed by this pandemic. The well being of our employees, clients, plan participants, partners and communities are of utmost importance to us.

While the world is full of uncertainty now, we will all get through this tough time together. Trusting, lasting relationships are forged going through difficult times together and we plan to build on our trusting, lasting relationships with all of you. It is an honor for Cherry Bekaert Wealth Management LLC to be your trusted advisor.

1. Apple, February 17 press release. <https://www.apple.com/newsroom/2020/02/investor-update-on-quarterly-guidance/>

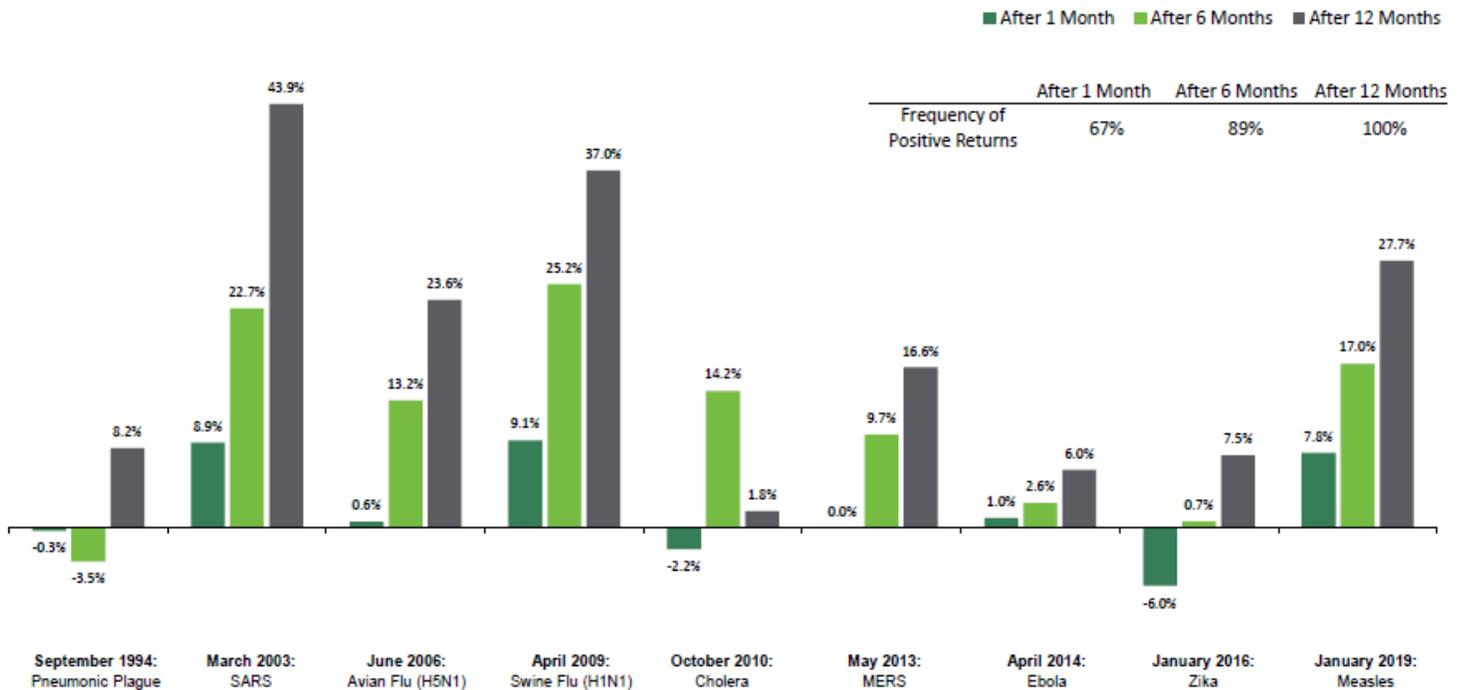
2. Ben Doherty and Katharine Murphy, "Australia Declares Coronavirus Will Become a Pandemic as It Extends China Travel Ban," *The Guardian*, February 27, 2020. <https://www.theguardian.com/world/2020/feb/27/australia-declares-coronavirus-will-become-a-pandemic-as-it-extends-china-travel-ban>

3. Ben Butler, "Coronavirus Threatens Australian Economy Reeling from Drought and Fires," *The Guardian*, February 5, 2020. <https://www.theguardian.com/business/2020/feb/05/coronavirus-threatens-australian-economy-reeling-from-drought-and-fires>; Ed Johnson, "Australia Says Economy to Take 'Significant' Hit from Virus," *Bloomberg*, February 5, 2020. <https://www.bloomberg.com/news/articles/2020-02-05/australia-says-economy-to-take-significant-hit-from-virus>

4. Alistair MacDonald and William Boston, "Global Airlines Brace for Coronavirus Impact," *Wall Street Journal*, February 26, 2020. <https://www.wsj.com/articles/germanys-lufthansa-makes-cuts-as-it-braces-for-coronavirus-impact-11582712819>

The Market's Response to Epidemics

Performance of MSCI World Index (net dividends) – Cumulative Total Return



In US dollars. Represents cumulative total returns of the MSCI World Index (net div.) invested on the first day of the following calendar month of the event noted. For illustrative purposes only. MSCI data copyright MSCI 2020, all rights reserved. Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not guarantee of future results.

Source for the dates of the epidemics listed are detailed in "The Market's Response to Crisis Source Information" page in the Appendix.

Impact of Diversification

First Quarter 2020

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 (%)

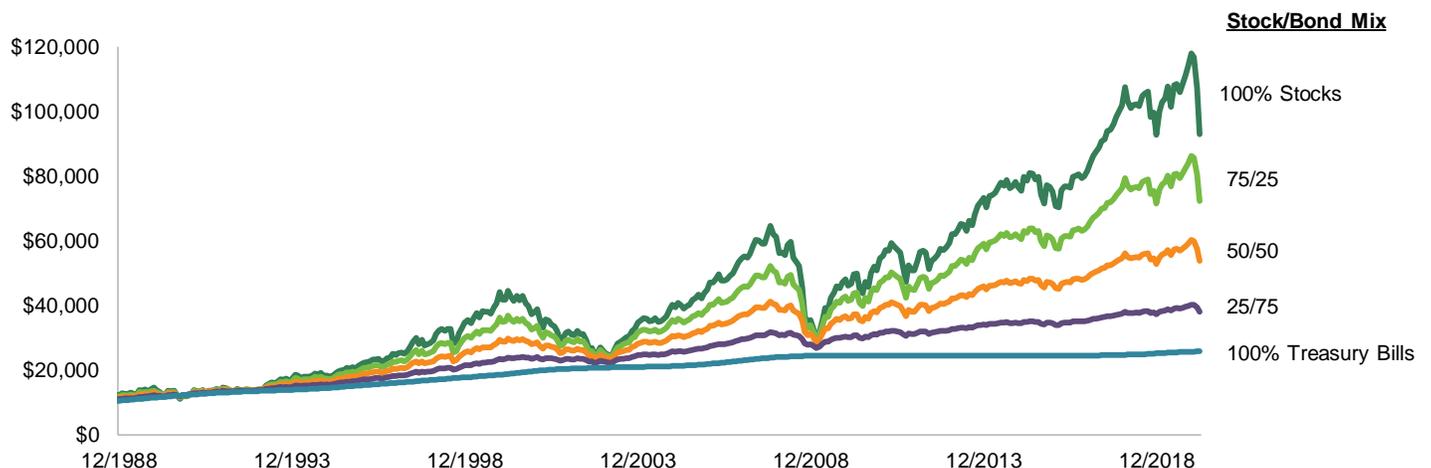


Period Returns (%)

* Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV ¹
100% Treasury Bills	0.37	1.93	1.67	1.06	0.56	0.23
25/75	-5.29	-1.03	1.98	1.83	2.19	3.50
50/50	-10.78	-4.14	2.15	2.48	3.72	7.00
75/25	-16.10	-7.39	2.17	3.01	5.14	10.50
100% Stocks	-21.26	-10.76	2.05	3.41	6.45	14.00

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 2020, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).

Quarterly Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate		US Bond Market	Global Bond Market ex US
1Q 2020	STOCKS					BONDS	
	-20.90%	-23.26%	-23.60%	-29.02%		3.15%	0.51%
							
Since Jan. 2001							
Avg. Quarterly Return	1.8%	1.2%	2.5%	2.2%		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	-23.3% 2020 Q1	-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 ex US Market (FTSE WGBI ex USA 1-30 Years [hedged to USD]). S&P data copyright 2018 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 2018, all rights reserved. Bloomberg Barclays data provided by Bloomberg. FTSE fixed income © 2018 FTSE Fixed Income LLC, all rights reserved. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Past performance is not a 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.

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.

Investment Advisory Services and insurance products are offered through Cherry Bekaert Wealth Management, LLC. Cherry Bekaert Wealth Management, LLC and Cherry Bekaert are affiliated companies.

Long-Term Market Summary

Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
1 Year	STOCKS				BONDS	
	-9.13%	-14.89%	-17.69%	-23.39%	8.93%	5.01%
						
5 Years	5.77%	-0.76%	-0.37%	-2.14%	3.36%	3.56%
						
10 Years	10.15%	2.43%	0.68%	5.12%	3.88%	4.17%
						

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. 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 © 2020 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 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.