

# MARKET COMMENTARY

## Q3 2018 in Perspective

*Loring Ward's Asset Class Investing portfolios are strategically invested with a focus on long-term performance objectives. Portfolio allocations and investments are not adjusted in response to market news or economic events; however, we evaluate and report on market and economic conditions to provide our investors with perspective and to put portfolio performance in proper context.*

Strong corporate profits, a healthy global economy, and the absence of major geopolitical issues in the third quarter resulted in developed stock market gains. For the quarter, U.S. stocks (as measured by the S&P 500 Index) advanced 7.7%, and non-U.S. developed market stocks (as measured by the MSCI World Ex U.S.) advanced 1.3%. Emerging market stocks (as measured by the MSCI Emerging Markets Index) declined -1.1% as stocks in China and Turkey struggled during the quarter.

As widely anticipated, the Federal Reserve increased its key policy rate by 0.25% in September. The new benchmark target rate is 2.00-2.25%, and that is the eighth rate-hike since December 2015. The Federal Reserve indicated that it is also targeting one additional interest rate increase this year. For the quarter, the 2-Year Treasury rose 0.29% to 2.81%, while the 10-Year Treasury advanced 0.20% to end at 3.05%. This is the highest quarter-end level for the 2-year Treasury since 2007, and the highest quarter-end level for the 10-year Treasury since 2011.

The U.S. Dollar Index, a measure of the value of the United States dollar relative to a basket of foreign currencies, advanced slightly in the third quarter — with the U.S. dollar appreciating by 0.15% compared to foreign currencies. The U.S. dollar is now 2.28% higher than it was 12 months ago.

### U.S. Economic Review

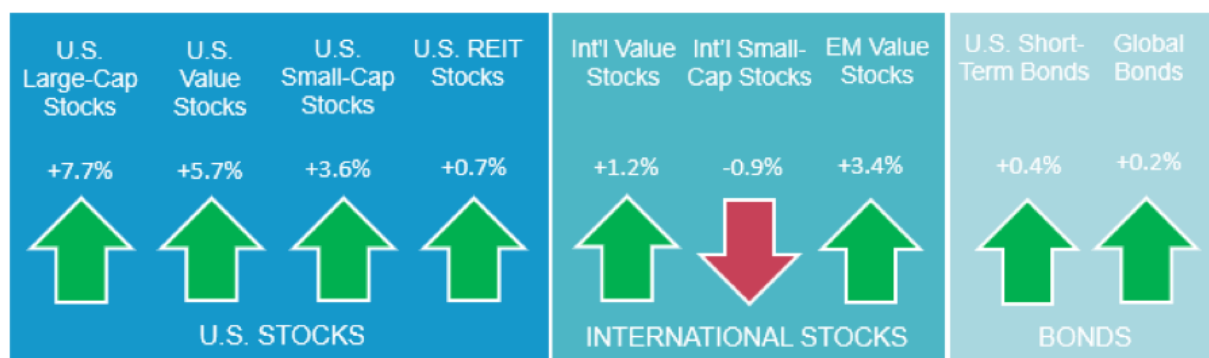
Economic growth in the U.S. picked up in the second quarter. The final reading from second quarter GDP showed an increase in economic growth of 4.2%. The September 2018 reading of the unemployment rate was a very low 3.7%, and the tighter labor market has been pushing wages higher. For the 12-months ending September 2018, average hourly earnings are up 2.8%. Domestic inflation remains tame as the Fed's preferred gauge of overall inflation, the core Personal Consumption Expenditures (PCE) index, reached the Fed's target of 2.0% in May 2018 and has remained there since.

Sources: Bureau of Economic Analysis, Bureau of Labor Statistics, Bloomberg Economic Calendar, U.S. Department of the Treasury, Morningstar Direct 2018.

## Financial Markets Review

U.S. Large-Cap stocks advanced the most during a quarter where all the U.S. stock indexes we track posted positive results. International Value Stocks and Emerging Markets Value stocks posted reasonable gains while International Small-Cap Stocks slightly declined. Focusing on Emerging Markets, we referenced earlier that the broad Emerging Markets stock index was down, but here we show that Emerging Markets Value stocks were positive. The main difference in the results was from China. Chinese value stocks performed well during the quarter, where as Chinese growth stocks had a very bad quarter.

Bond yields rose across the maturity curve during the quarter, which typically sends current bond prices lower. However, interest earned from the bonds was enough to offset any price declines from rising rates.



Source: Morningstar 2018. Market segment (Index representation) as follows: U.S. Large-Cap Stocks (S&P 500 Index), U.S. Value Stocks (Russell 1000 Value Index), U.S. Small-Cap Stocks (Russell 2000 Index), U.S. REIT Stocks (Dow Jones U.S. Select REIT Index), International Value Stocks (MSCI World Ex USA Value Index (net div.)), International Small-Cap Stocks (MSCI World Ex USA Small Index (net div.)), Emerging Markets Value Stocks (MSCI Emerging Markets Value Index (net div.)), U.S. Short-Term Bonds (BofA ML Corp&Govt 1-3 Yr TR), Global Bonds (FTSE WGBI 1-5 Yr Hdg USD).

In the U.S., large-cap stocks outperformed mid- and small-cap stocks in all style categories. Among the nine style boxes, Large Growth posted the largest gain of 9.2% for the quarter, and Small Value posted the smallest gain of 1.6% for the quarter.

### U.S. Stocks Q3 2018

	Value	Core	Growth
Large	5.7%	7.4%	9.2%
Mid	3.3%	5.0%	7.6%
Small	1.6%	3.6%	5.5%

Source: Morningstar Direct 2018. U.S. markets represented by respective Russell indexes for each category (Large: Russell 1000, Value, and Growth, Mid: Russell Mid Cap, Value, and Growth, Small: Russell 2000, Value, and Growth).

In developed international markets, stocks had mixed results. Large-cap and mid-cap stocks all outperformed small-cap stocks for the quarter. Value performed better than growth in mid- and small-cap stocks, and growth performed better than value among large-cap stocks.

Source: Morningstar Direct 2018. International markets represented by respective MSCI World EX USA index series (Large: MSCI World EX USA Large, Value and Growth, Mid: MSCI World Ex USA Mid, Value, and Growth, Small: MSCI World Ex USA Small, Value, and Growth).

<b>International Stocks</b>			
<b>Q3 2018</b>			
	Value	Core	Growth
Large	1.1%	1.5%	2.0%
Mid	1.3%	0.5%	0.2%
Small	-0.3%	-0.9%	-1.4%

With stocks advancing globally, a diversified index mix of 65% stocks and 35% bonds would have gained 2.6% during the third quarter.

65/35 Index Mix: 2% Cash (BofA ML 3M US Treasury Note TR), 16% ST U.S. Fixed Income (BofA ML Corp&Govt 1-3 Yr TR), 17% Global Bonds (FTSE WGBI 1-5 Yr Hdg USD), 15% U.S. Large (S&P 500 Index), 12% U.S. Value (Russell 1000 Value Index), 8% U.S. Small (Russell 2000 Index), 4% U.S. REITs (Dow Jones U.S. Select REIT Index), 14% Intl Large Value (MSCI World Ex USA Value Index (net div.)), 7% Intl Small (MSCI World Ex USA Small Index (net div.)), 5% Emerging Markets Value (MSCI Emerging Markets Value Index (net div.)).

Indexes are unmanaged baskets of securities that are not available for direct investment by investors. Index performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Foreign securities involve additional risks, including foreign currency changes, political risks, foreign taxes, and different methods of accounting and financial reporting. Emerging markets involve additional risks, including, but not limited to, currency fluctuation, political instability, foreign taxes, and different methods of accounting and financial reporting. All investments involve risk, including the loss of principal, and cannot be guaranteed against loss by a bank, custodian, or any other financial institution.