Q4 2018

WealthStone®

Quarterly Market Review

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Fourth Quarter 2018

This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the impact of globally diversified portfolios and features a quarterly topic.

Overview:

WealthStone Client Letter

Market Summary

World Stock Market Performance

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Select Currency Performance vs. US Dollar

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Global Fixed Income

Impact of Diversification

Executive Summary

In tennis, the concept of an "unforced error" refers to a basic mistake, such as an easy missed shot, that is entirely a result of the player's own blunders. Unforced errors span multiple disciplines and are, by definition, avoidable. While we may groan when our favorite sports team or player commits an unforced error, the consequences are limited. ***In financial markets, however, unforced errors can have dramatic portfolio consequences, at least in the short run***.

The fourth quarter of 2018 was abysmal for the global stock market, exacerbated by a series of unforced errors. As investors, we aspire to be apolitical because our goal is to see things purely through a market perspective. The current administration has enacted policies that have generally been positive for markets, such as the new tax bill, deregulation, and pro-growth initiatives. On the other hand, as with all administrations, there have also been some missteps that we consider "unforced errors".

For example, the Treasury Secretary's statements about meeting with bank CEOs conjured up unnecessary parallels to the 2008 Financial Crisis, when then-Treasury Secretary Henry Paulsen reassured markets that the banking system was solid.[i]

Repeated criticism of a surprisingly hawkish Federal Reserve, including rumors that Fed Chairman Jerome Powell was on the hot seat,[ii] was another unforced error. The Federal Reserve has a reputation as an independent financial authority, and undermining that credibility hurts rather than helps markets.

On top of these unforced errors, we have additional market uncertainty because of the government shutdown, trade war with China, and a tightening Federal Reserve. Thus, it is not altogether shocking that markets finally had a large decline, which through the lens of history is not nearly as scary as it might feel in the moment. Negative feelings that accompany this recent decline are amplified by high expectations built over one of the strongest bull markets.

Thus, it is important to keep these severe short-term declines in perspective and stick to your long-term investment plan. ***While we will be making some adjustments to your portfolio this year, we recommend sticking to your current strategic and tactical asset allocation because we believe:***

1. There is no sign of an imminent banking crisis
2. Stocks are not significantly overvalued based on fundamentals
3. Economic fundamentals look relatively healthy

Risk Type	Asset Class	Asset	QTD	YTD	1-Yr
Risk Asset	*Equities*	MSCI ACWI	-12.7%	-9.0%	-9.0%
		S&P 500 Index	-13.5%	-4.4%	-4.4%
		MSCI ACWI ex-US Index	-11.4%	-13.8%	-13.8%
		MSCI EAFE Index	-12.5%	-13.3%	-13.4%
		MSCI Emerging Markets Index	-7.6%	-14.5%	-14.5%
		MSCI AC Asia Pacific Index	-11.0%	-13.3%	-13.3%
	Commodities	S&P GSCI TR Index	-22.9%	-13.8%	-13.9%
		WTI Crude Oil TR Index	-37.9%	-20.5%	-20.5%
Risk Mitigator	*Fixed Income*	Barclays Agg Index	1.6%	0.0%	0.0%
		Muni Bond Index	1.6%	1.0%	1.0%
		Barclays US Treasury TR Index	2.6%	0.9%	0.9%
		Barclays TIPS Index	-0.4%	-1.3%	-1.3%

Quarterly Commentary: *Should We Be Selling Stocks Right Now?*

After a tumultuous quarter of double-digit losses in both US and International stocks,[iii] many clients are asking, *"Should we be selling stocks right now?"* This question is a short-term *tactical* one. Market corrections can occur for many reasons, including:

- Corporate earnings coming in lower than expected
- Unexpected tightening by the Federal Reserve
- Geopolitical shocks
- Major political and regulatory shifts

Longer-term, we have already *strategically* put each client in what we believe is the most appropriate risk-taking allocation for them. Then, for each given level of risk, we try to maximize wealth creation. Strategically, there will be no changes to your portfolio based on current market fluctuations.

What about tactically? We are not technical traders, so we would need a fundamental reason to reduce risk assets in the portfolio. ***Based on current valuations and earnings outlook, we believe sticking to the current tactical and strategic model is the most prudent decision***.

Critical Issue: *Market Risk Factors*

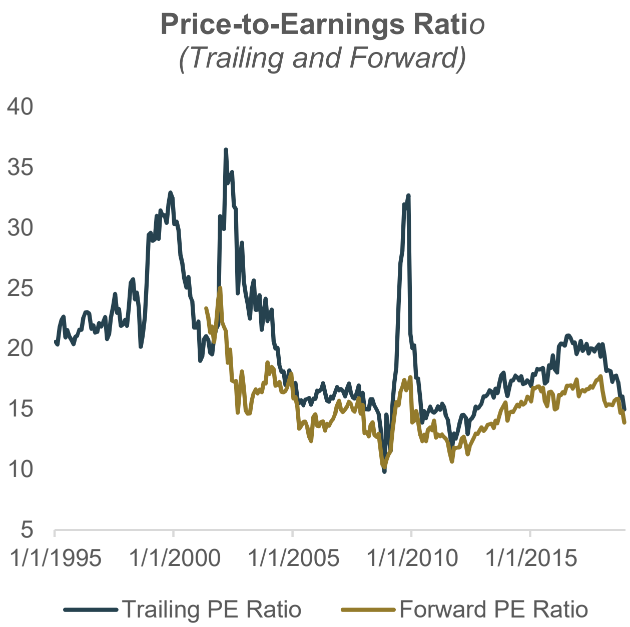
To understand the above decision, ***we observe three primary risk factors for major market corrections*** and ***then identify their likelihood in the near future:***

- Financial and banking crisis, as experienced in the 2008 Great Financial Crisis
- Paying too much for any given level of earnings, as illustrated by the 2000 Dot-Com Bust
- Paying a fair price for stocks, but then recession hits and earnings unexpectedly decline

Despite the odd delivery of Treasury Secretary Steven Mnuchin's statement about banks, the message still stands: the banking system is quite liquid and relatively healthy. It does not appear we are on the edge of a banking crisis.

The Federal Reserve's most recent banking system report notes that two measures of profitability—return on equity (ROE) and return on average assets (ROAA)—have steadily grown over the past few years and hit a ten-year high in Q2 2018. Additionally, the reserve coverage ratio has also steadily increased over most of the past decade, indicating an improved ability to absorb future loan losses. Thus, according to the Federal Reserve's most recent banking system report, ***"the financial condition of the U.S. banking system is generally strong."*** [iv]

The second point concerns valuation. We prefer to observe where we are in the cycle through multiple lenses with the understanding that each measure of market valuation has its flaws.



One of the fundamental metrics used to evaluate stock valuations is the Price-to-Earnings ratio ("P/E Ratio") on a trailing and forward-looking basis.[v] The concept is quite simple. Companies generate earnings and they have a share price, and the multiple is simple the share price divided by the earnings. The trailing price-to-earnings ratio looks at current valuations divided by actual trailing earnings. The forward price-to-earnings ratio looks at current valuations relative to analyst earnings estimates over the next year. Both metrics have value, though the forward-looking estimates tend to be more relevant because they price in more current information. For example, Apple recently slashed revenue guidance based on slowing iPhone sales, which was then immediately reflected in a lower stock price and earnings estimates.[vi] ***Both the trailing and forward price-to-earnings ratios are <u>below</u> historical averages, which we believe indicates that stocks are <u>not</u> significantly overvalued.[vii]***

Another good metric for evaluating valuation is the Price/Earnings to Growth Ratio ("PEG Ratio"), which is the P/E ratio of a company divided by its expected earnings growth over a specified period. This adds an extra dimension to the P/E ratio and is considered to provide a more comprehensive portrait of valuation because it factors in a stock's earnings growth trajectory. Peter Lynch, who produced annual returns of 29% for Fidelity's Magellan Fund from 1977 to 1990, wrote that a PEG ratio of one indicates a stock is fairly valued. ***The PEG ratio for the US equity market is now at 0.85, a post-crisis low.[viii]***

To summarize up to now, neither of the first two risk factors (a bank crisis and excessive valuations) seem to be flashing warning signs. However, the third risk factor (recession) could hit markets in the next two years, causing major earnings and perhaps even multiple declines. A survey of economists indicated that the median chance of recession over the next 12 months is approximately 15%, while the probability of recession over the next two years ticked up to 35%.[ix] The Federal Reserve is in tightening mode, and the fear is that they tighten too quickly and cause unnecessary harm to the economy.

That said, markets are never riskless, and we make the best risk-adjusted decision based on the information available. For us to make a tactical shift in your portfolio, there must be a large market dislocation that we believe is irrational and temporary. This is usually driven by excessive short-term sentiment changes. Based on fundamentals, we do not see such a dislocation.

We currently see a lot of fear in a fairly-priced, if not relatively cheap, stock market. Therefore, we believe that sticking with your strategic asset allocation without any tactical changes this quarter is the best course of action.

2019 Portfolio Construction Update

As we noted in the last quarterly letter, WealthStone's investment team gained three new members with extensive portfolio management experience with both institutional and individual investors. Risk management and manager selection are primary areas of expertise, and thus you can expect portfolio adjustments beginning this year in an effort to preserve capital in what may continue to be a volatile environment.

You will begin seeing a few value-based active fund managers that use both quantitative and qualitative strategies that will complement your current portfolio. Your portfolio will continue to be built on the foundation of an evidence-based investment philosophy. ***Thus, the entire portfolio will continue to be tilted towards value, high quality, and small-cap investments.***

As always, we welcome any questions or comments you may have for us, so please do not hesitate to reach out.

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[i] https://www.cnbc.com/2018/12/23/treasury-secretary-mnuchin-held-calls-with-the-ceos-of-major-banks-to-discuss-the-market-turmoil.html

[ii] https://www.bloomberg.com/news/articles/2018-12-22/trump-said-to-discuss-firing-fed-s-powell-after-latest-rate-hike

[iii] The S&P 500 returned -13.5%, the MSCI ACWI ex-US Index returned -11.4%, and the MSCI ACWI returned -12.7%.

[iv] https://www.federalreserve.gov/publications/2018-11-supervision-and-regulation-report-banking-system-conditions.htm

[v] Forward PE Ratio is based off the Bloomberg "Best PE Ratio" data.

[vi] https://www.bloomberg.com/news/articles/2019-01-02/apple-cut-first-quarter-sales-forecast-on-weak-iphone-sales

[vii] Since 1995, the trailing PE ratio average was 20.1x, while the current PE ratio is just under 15x. Since 2001, the average forward PE ratio was 15.3x, while the current forward PE ratio is 13.9x.

[viii] https://www.bloomberg.com/news/articles/2018-12-30/peter-lynch-stock-peg-hit-a-crisis-level-low-in-last-week-s-rout

[ix] https://www.reuters.com/article/us-usa-economy-poll/us-recession-chances-edge-up-risk-fed-delivers-fewer-hikes-reuters-poll-idUSKCN1NP00E

Disclosures

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An index is a portfolio of specific securities, the performance of which is often used as a benchmark in judging the relative performance of certain asset classes. An investor cannot invest directly in an index. An index does not charge management fees or brokerage expenses, and no such fees or expenses were deducted from the performance shown.

Equities

The **MSCI ACWI (All Country World Index)** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets.

The **S&P 500 Index** is widely regarded as the best single gauge of the U.S. equities market. The index includes a representative sample of 500 leading companies in leading industries of the U.S. economy. The S&P 500 Index focuses on the large-cap segment of the market; however, since it includes a significant portion of the total value of the market, it also represents the market.

The **MSCI ACWI (All Country World Index) Ex-US** is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets, excluding the U.S.

The **MSCI EAFE Index (Europe, Australasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada.

The **MSCI Emerging Markets (EM) Index** is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

The **MSCI AC Asia Pacific Index Fixed Income (Australiasia, Far East)** is a free float-adjusted market capitalization index that is designed to measure the equity market performance of 5 developed market countries, and emerging market countries in the Asia Pacific region.

Commodities

The **S&P GSCI TR Index** is calculated primarily on a world production-weighted basis and measures the principal physical commodities that are the subject of active, liquid futures markets.

The **Bloomberg WTI Crude Oil TR Index** is a single commodity subindex of the Bloomberg Commodity Index composed of futures contracts on crude oil. It reflects the return of underlying commodity futures price movement.

Fixed Income

The **Bloomberg Barclays (BC) US Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and nonagency).

The **Bloomberg Barclays (BC) Muni Bond Index** measures the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.

The **Bloomberg Barclays (BC) US Treasury Index** measures US dollar-denominated, fixed-rate, nominal debt issued by the US Treasury. Treasury bills are excluded by the maturity constraint, but are part of a separate Short Treasury Index.

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Market Summary

Index Returns

Q4 2018	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
	STOCKS				BONDS	
	-14.30%	-12.78%	-7.47%	-5.79%	1.64%	1.89%

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	1.8%	1.3%	2.8%	2.4%	1.1%	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**

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	
	-5.24%	-14.09%	-14.58%	-5.90%	0.01%	3.17%
5 Years						
	7.91%	0.34%	1.65%	5.28%	2.52%	4.11%
10 Years						
	13.18%	6.24%	8.02%	10.05%	3.48%	3.98%

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]).

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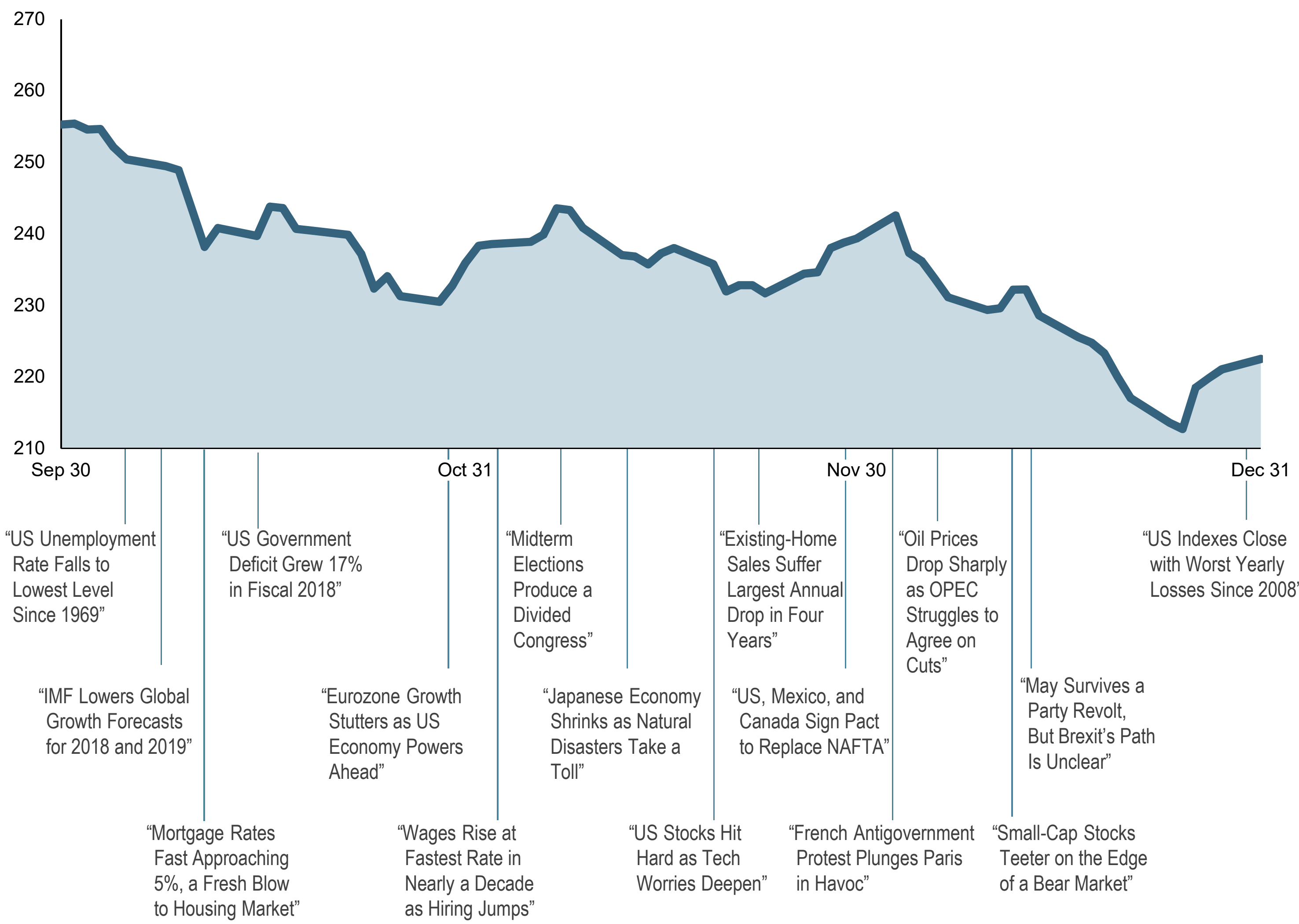
World Stock Market Performance

MSCI All Country World Index with selected headlines from Q4 2018

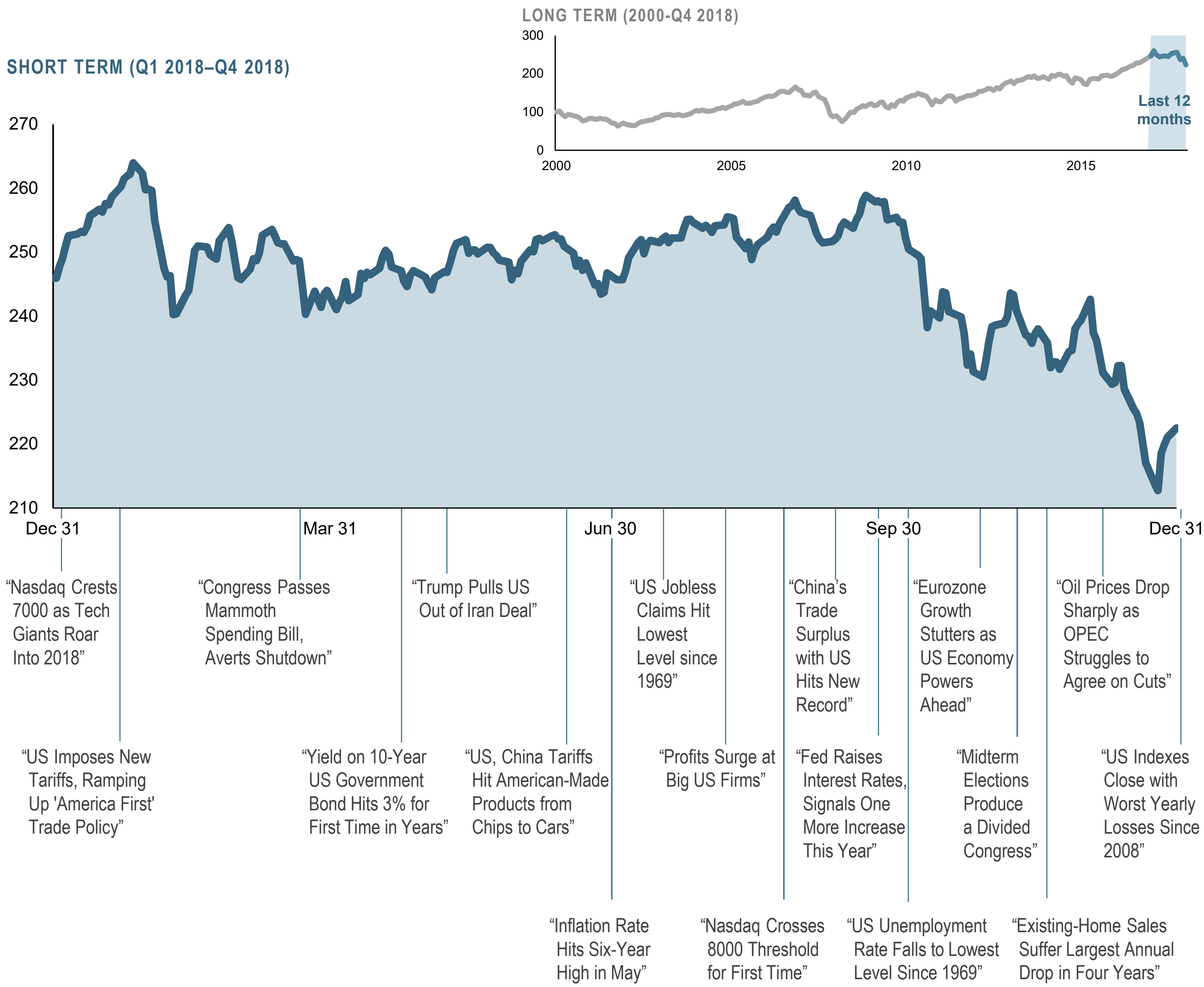


These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index [net div.].
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. **Past performance is not a guarantee of future results.**

World Stock Market Performance

MSCI All Country World Index with selected headlines from past 12 months



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Graph Source: MSCI ACWI Index [net div.]. MSCI data © MSCI 2019, all rights reserved.
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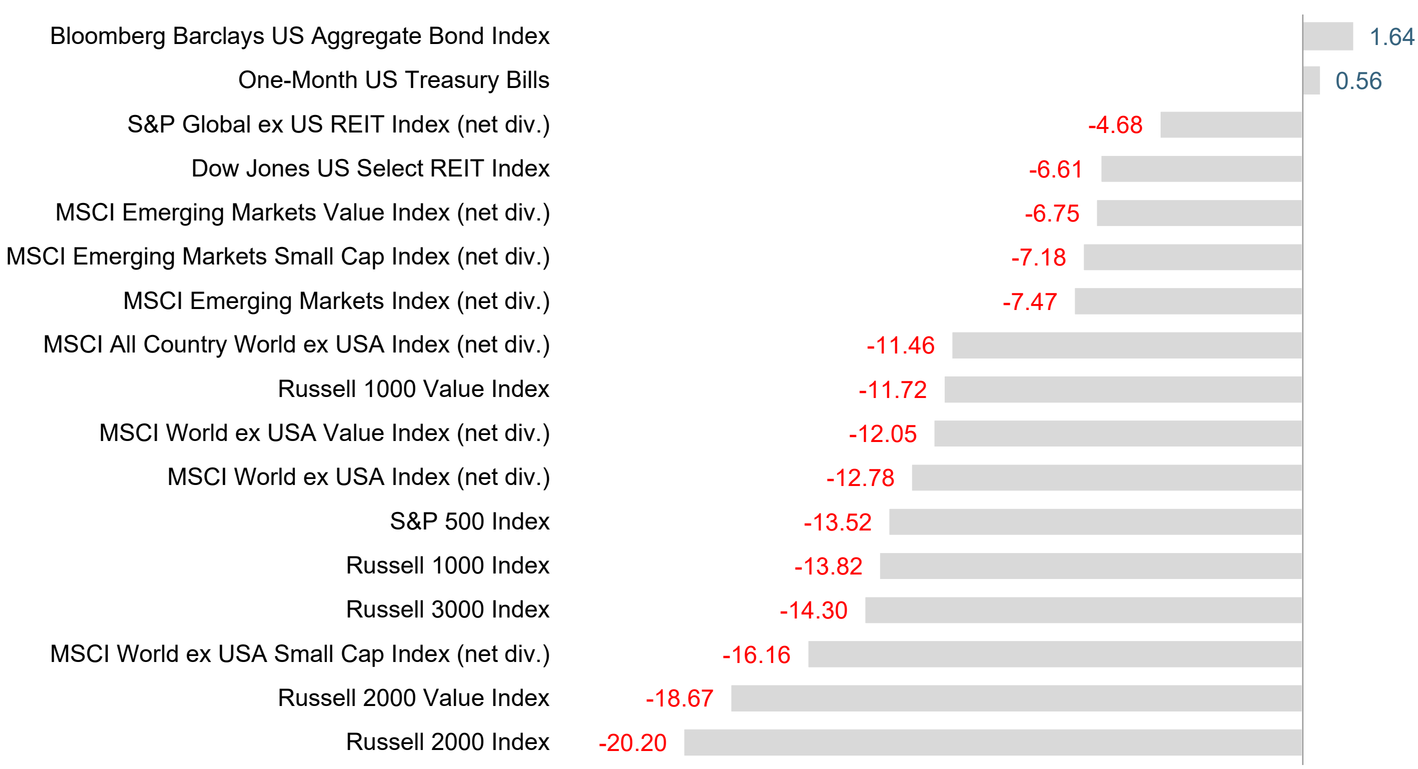
World Asset Classes

Fourth Quarter 2018 Index Returns (%)

Equity markets around the world posted negative returns for the quarter. Looking at broad market indices, emerging markets outperformed developed markets, including the US.

Value stocks were positive vs. growth stocks in all markets, including the US. Small caps underperformed large caps in the US and non-US developed markets but outperformed in emerging markets.

REIT indices outperformed equity market indices in both the US and non-US developed markets.



US Stocks

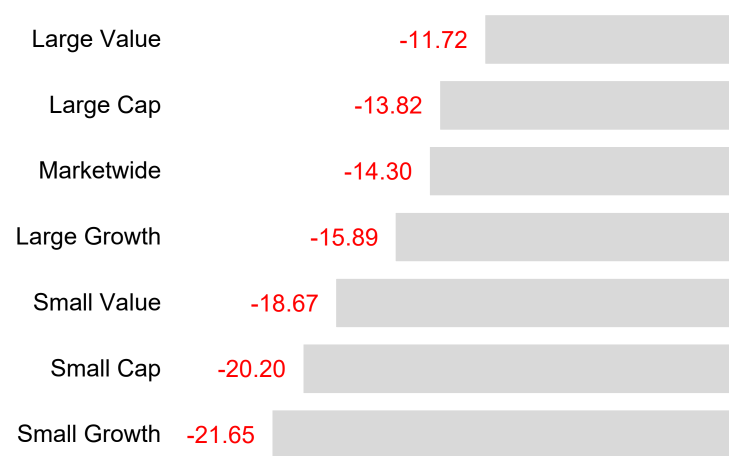
Fourth Quarter 2018 Index Returns

US equities underperformed both non-US developed and emerging markets.

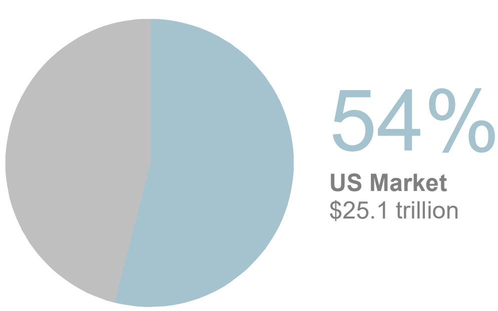
Value outperformed growth in the US across large and small cap stocks.

Small caps underperformed large caps in the US.

Ranked Returns for the Quarter (%)



World Market Capitalization—US



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	-1.51	11.15	10.40	15.29
Large Cap	-4.78	9.09	8.21	13.28
Marketwide	-5.24	8.97	7.91	13.18
Large Value	-8.27	6.95	5.95	11.18
Small Growth	-9.31	7.24	5.13	13.52
Small Cap	-11.01	7.36	4.41	11.97
Small Value	-12.86	7.37	3.61	10.40

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: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Frank Russell Company is source and owner of trademarks, service marks, and copyrights related to Russell Indexes.

International Developed Stocks

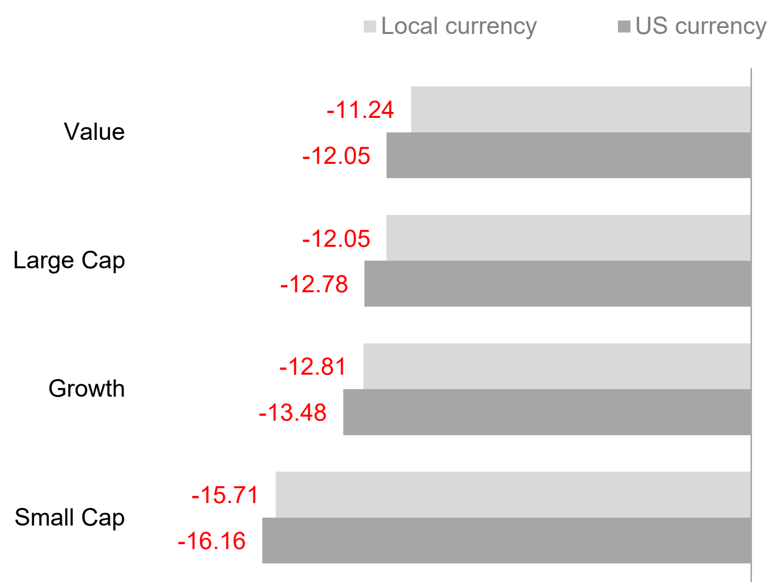
Fourth Quarter 2018 Index Returns

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

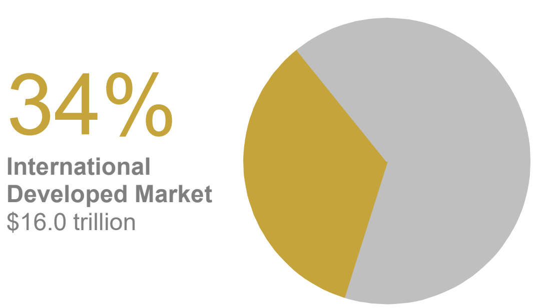
Value outperformed growth across large and small cap stocks.

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

Ranked Returns for the Quarter (%)



World Market Capitalization—International Developed



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Growth	-13.14	2.84	1.36	6.74
Large Cap	-14.09	3.11	0.34	6.24
Value	-15.06	3.36	-0.73	5.69
Small Cap	-18.07	3.85	2.25	10.06

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Emerging Markets Stocks

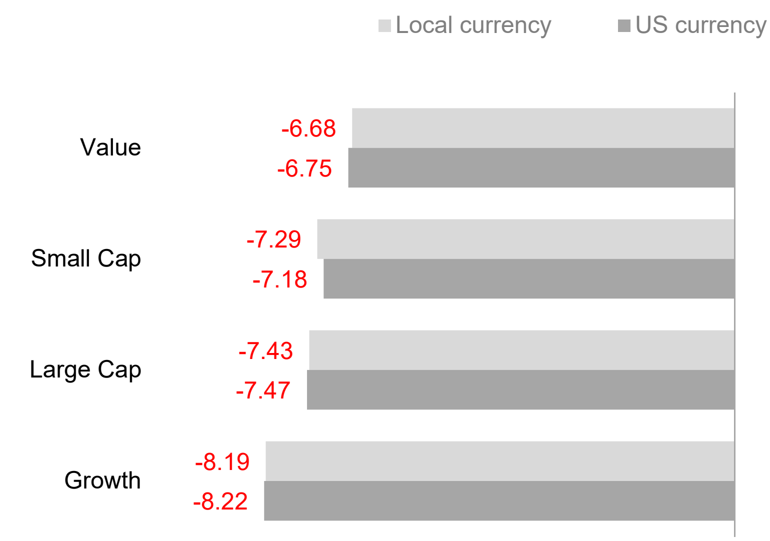
Fourth Quarter 2018 Index Returns

In US dollar terms, emerging markets outperformed developed markets, including the US.

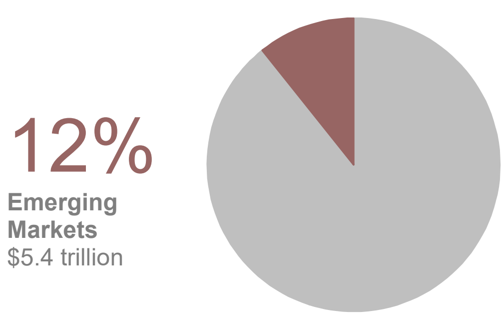
Value outperformed growth across large and small cap stocks.

Small caps outperformed large caps.

Ranked Returns for the Quarter (%)



World Market Capitalization— Emerging Markets



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Value	-10.74	9.52	0.51	6.99
Large Cap	-14.58	9.25	1.65	8.02
Growth	-18.26	8.89	2.67	8.97
Small Cap	-18.59	3.68	0.95	9.87

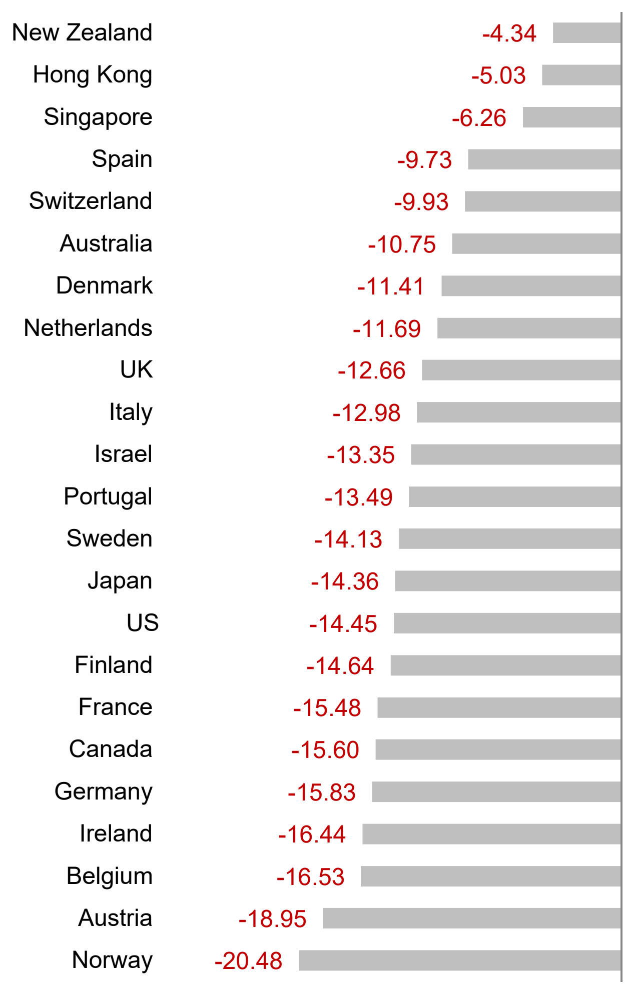
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market.

Select Country Performance

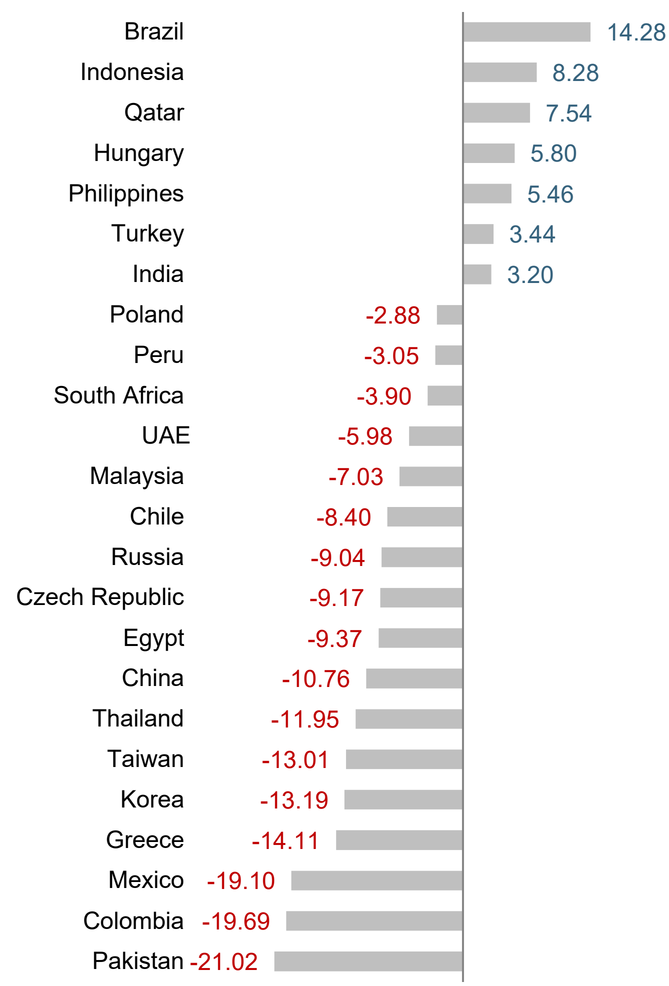
Fourth Quarter 2018 Index Returns

In US dollar terms, New Zealand and Hong Kong recorded the highest country performance in developed markets, while Austria and Norway posted the lowest returns for the quarter. In emerging markets, Brazil and Indonesia recorded the highest country performance, while Columbia and Pakistan posted the lowest performance.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



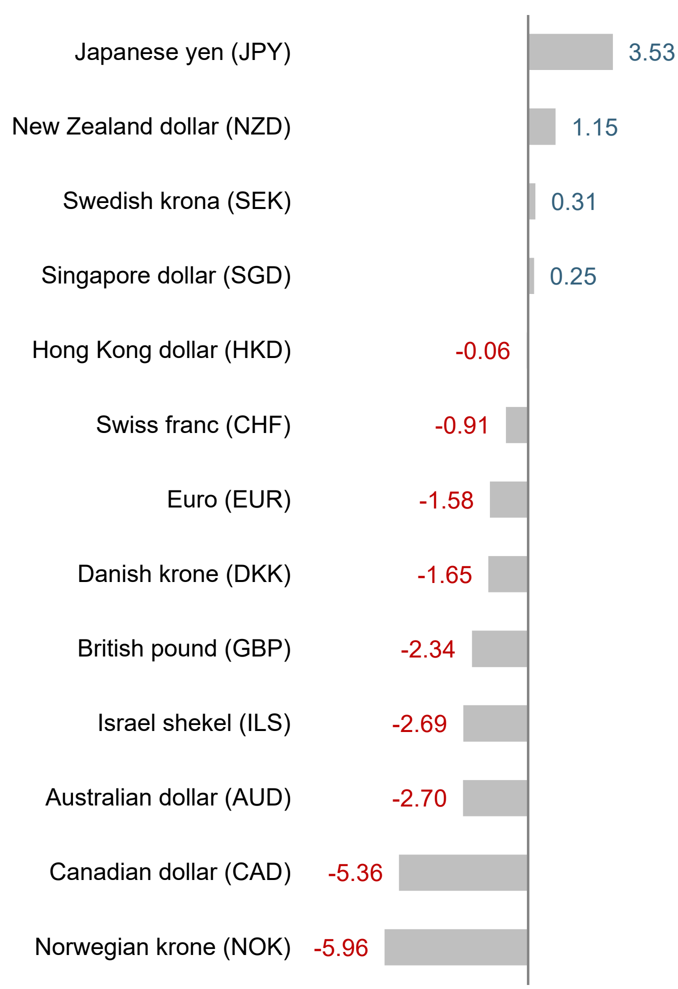
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Country performance based on respective indices in the MSCI World ex US IMI Index (for developed markets), MSCI USA IMI Index (for US), and MSCI Emerging Markets IMI Index. All returns in USD and net of withholding tax on dividends. MSCI data © MSCI 2019, all rights reserved. UAE and Qatar have been reclassified as emerging markets by MSCI, effective May 2014.

Select Currency Performance vs. US Dollar

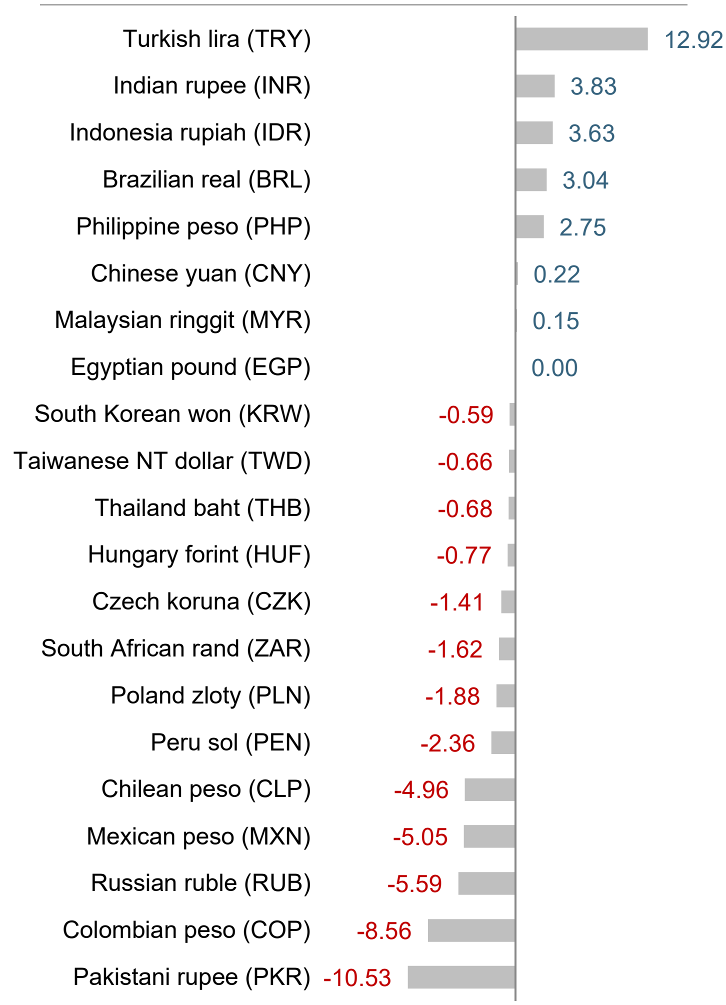
Fourth Quarter 2018

In developed markets, currencies mostly depreciated vs. the US dollar with a few exceptions, including the Japanese yen, which appreciated over 3.5%. In emerging markets, currencies were mixed against the US dollar, ranging from +12% to –10%.

Ranked Developed Markets Returns (%)



Ranked Emerging Markets Returns (%)



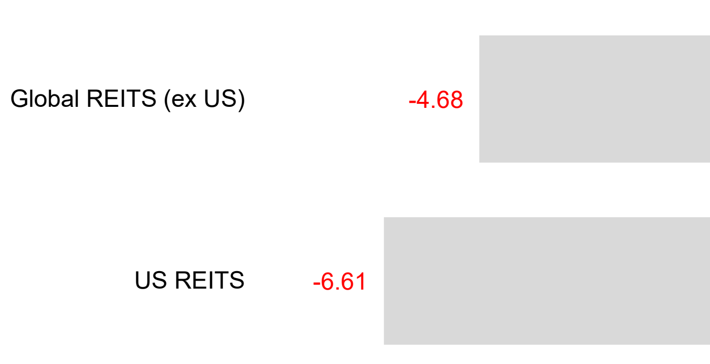
Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio.

Real Estate Investment Trusts (REITs)

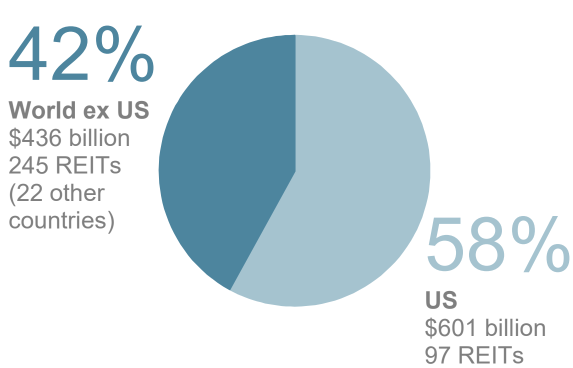
Fourth Quarter 2018 Index Returns

Non-US real estate investment trusts outperformed US REITs in US dollar terms.

Ranked Returns (%)



Total Value of REIT Stocks



Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
US REITS	-4.22	1.97	7.89	12.05
Global REITS	-7.42	3.35	3.39	8.94

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. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market.

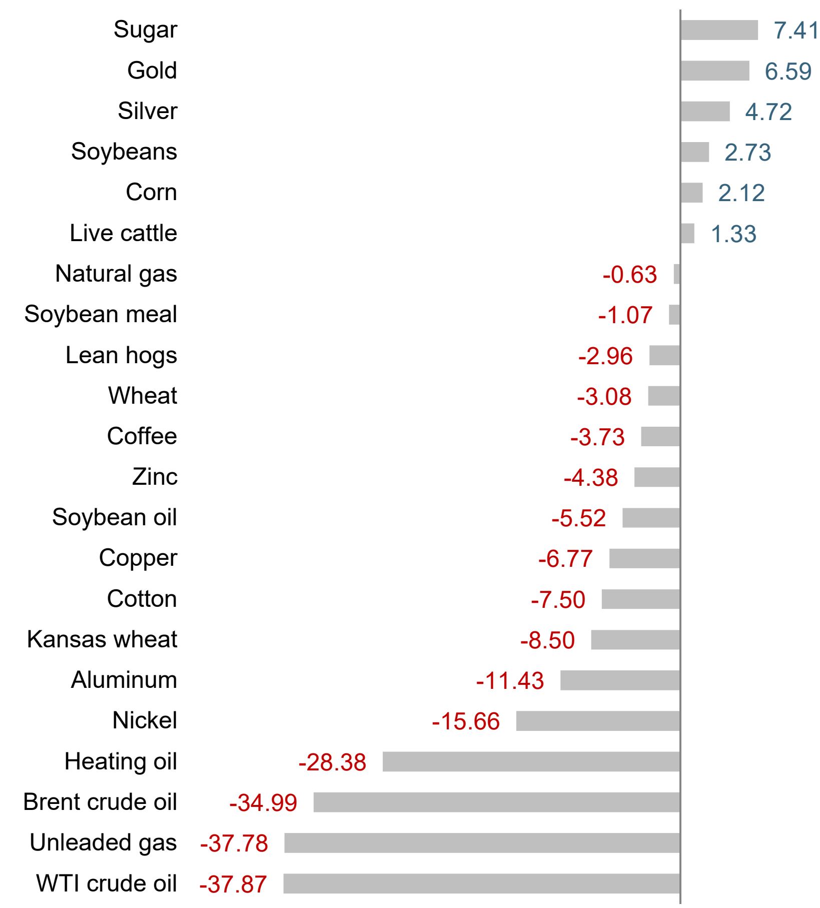
Commodities

Fourth Quarter 2018 Index Returns

The Bloomberg Commodity Index Total Return declined 9.41% during the fourth quarter of 2018, bringing the total annual return to –11.25%.

Sugar led quarterly performance with a gain of 7.41%. Energy was the worst-performing complex, with WTI crude oil and unleaded gas declining by 37.87% and 37.78%, respectively.

Ranked Returns for Individual Commodities (%)



Period Returns (%)

** Annualized*

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Commodities	-9.41	-11.25	0.30	-8.80	-3.78

Past performance is not a guarantee of future results. Index is not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Commodities returns represent the return of the Bloomberg Commodity Total Return Index. Individual commodities are sub-index values of the Bloomberg Commodity Total Return Index. Data provided by Bloomberg.

Fixed Income

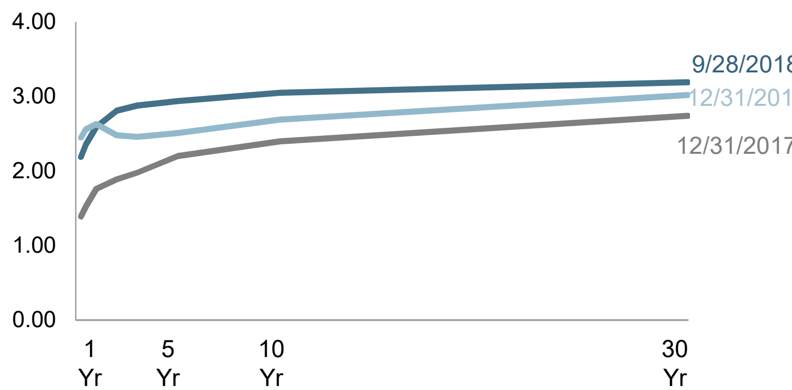
Fourth Quarter 2018 Index Returns

Interest rate changes across the US fixed income market were mixed during the fourth quarter of 2018. The yield on the 5-year Treasury note declined 43 basis points (bps), ending the quarter at 2.51%. The yield on the 10-year Treasury note decreased 36 bps to 2.69%. The 30-year Treasury bond yield decreased 17 bps to finish at 3.02%. For 2018, yields on the 10-year Treasury and 30-year Treasury increased 29 bps and 28 bps, respectively.

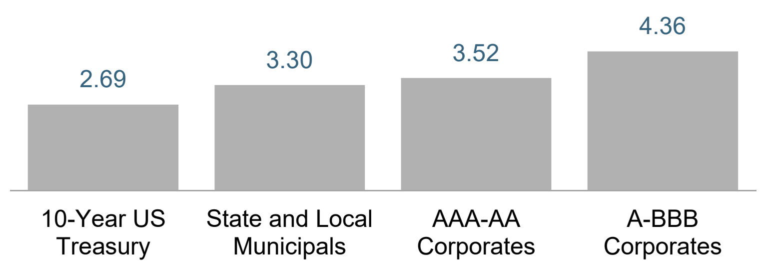
In terms of total returns, short-term corporate bonds increased 0.78% during the quarter. Intermediate-term corporate bonds had a total return of 0.58%.

Total returns for short-term municipal bonds were 1.10% for the quarter. Intermediate-term municipal bonds returned 2.00%.

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

* Annualized

Asset Class	QTR	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US Government Bond Index Long	4.16	-1.79	2.63	5.90	4.15
Bloomberg Barclays Municipal Bond Index	1.69	1.28	2.30	3.82	4.85
Bloomberg Barclays US Aggregate Bond Index	1.64	0.01	2.06	2.52	3.48
FTSE World Government Bond Index 1-5 Years (hedged to USD)	1.53	2.12	1.58	1.53	1.69
FTSE World Government Bond Index 1-5 Years	0.94	-0.76	1.56	-0.82	0.29
ICE BofAML 1-Year US Treasury Note Index	0.78	1.86	1.06	0.70	0.62
ICE BofAML US 3-Month Treasury Bill Index	0.56	1.87	1.02	0.63	0.37
Bloomberg Barclays US TIPS Index	-0.42	-1.26	2.11	1.69	3.64
Bloomberg Barclays US High Yield Corporate Bond Index	-4.53	-2.08	7.23	3.83	11.12

One basis point equals 0.01%. **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.** Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofAML US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofAML US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefield).

Global Fixed Income

Fourth Quarter 2018 Yield Curves

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

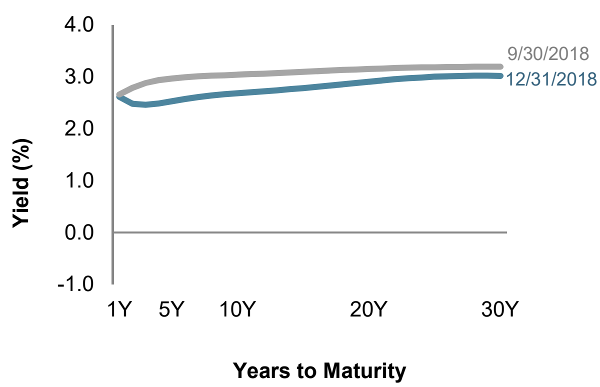
Longer-term bonds generally outperformed shorter-term bonds in the global developed markets.

For the year, longer-term bonds underperformed shorter-term bonds in the US but generally outperformed shorter-term bonds in the non-US developed markets.

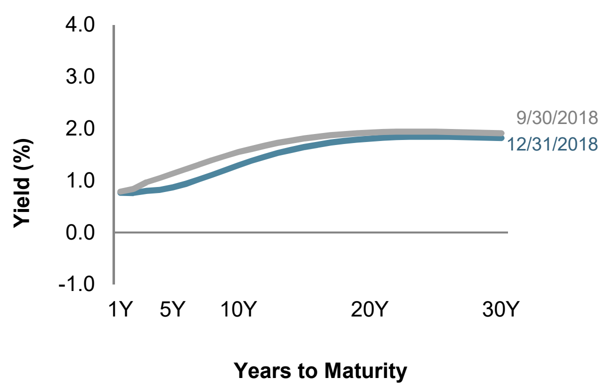
Changes in Yields (bps) since 9/30/2018

	1Y	5Y	10Y	20Y	30Y
US	-4.2	-44.0	-35.5	-24.4	-17.6
UK	-2.3	-26.9	-25.2	-11.6	-9.3
Germany	-15.2	-18.9	-21.8	-18.9	-19.6
Japan	-1.6	-9.3	-14.2	-14.6	-16.3

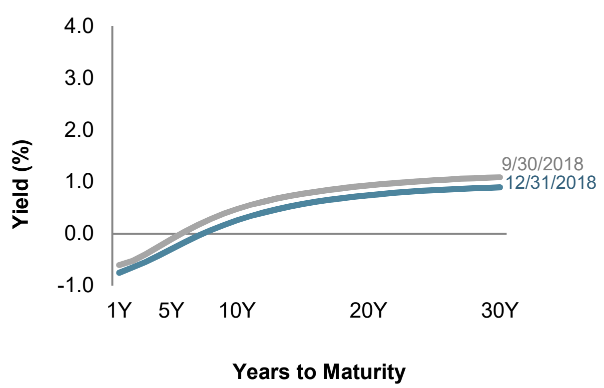
US



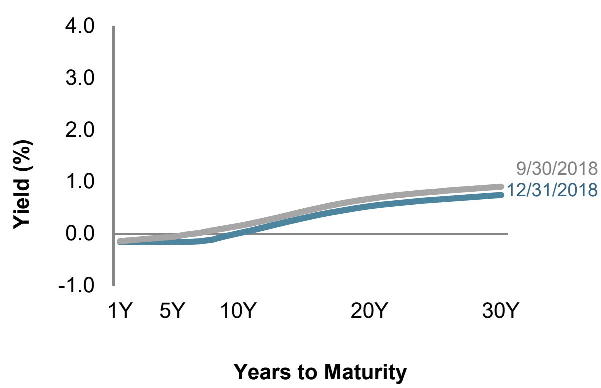
UK



Germany



Japan



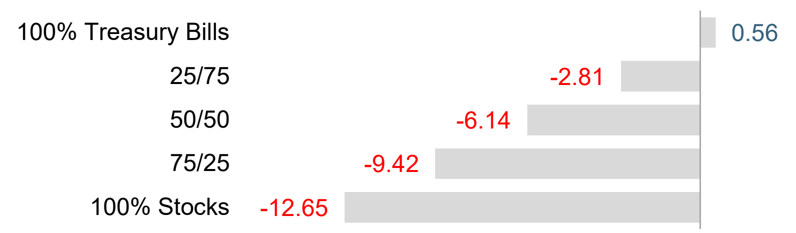
One basis point equals 0.01%. Source: ICE BofAML government yield. ICE BofAML index data © 2019 ICE Data Indices, LLC.

Impact of Diversification

Fourth Quarter 2018 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 (%)

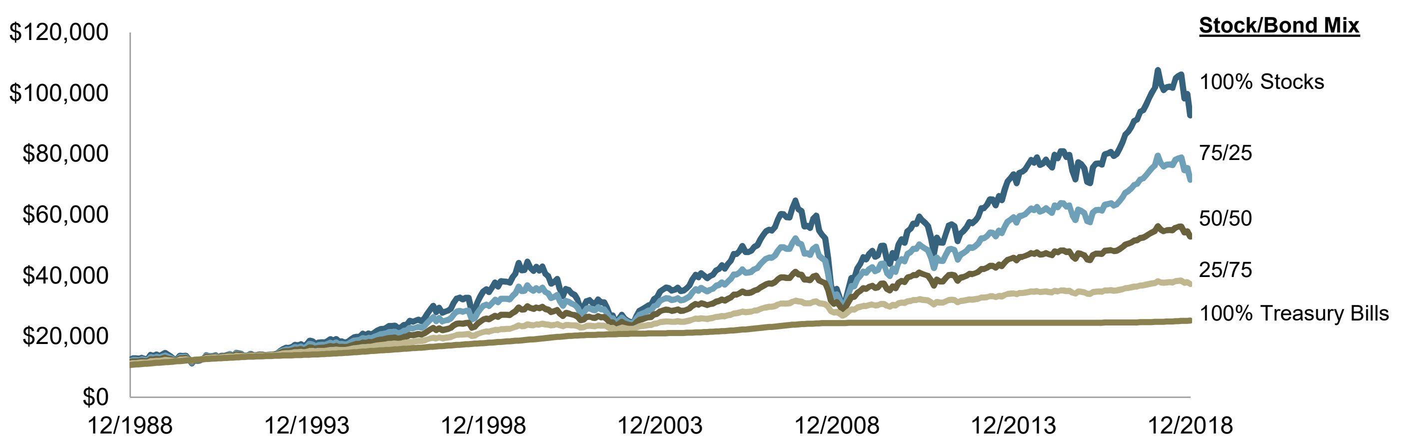


Period Returns (%)

** Annualized*

Asset Class	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV[1]
100% Treasury Bills	1.81	0.93	0.57	0.32	0.16
25/75	-0.82	2.57	1.73	2.88	3.65
50/50	-3.49	4.16	2.82	5.36	7.32
75/25	-6.19	5.70	3.86	7.75	10.98
100% Stocks	-8.93	7.18	4.82	10.05	14.65

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).