



3rd Quarter 2019

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Market Returns

**Domestic Large
S&P 500**
20.55%

**Domestic Small
Russell 2000**
14.18%

**Intl Developed
MSCI EAFE**
12.80%

**Emerging Markets
MSCI EM**
5.89%

**Fixed Income
BBgBarc US
Aggregate Bond**
8.52%

**Market data is from Morningstar and is through 09/30/19. All returns are with dividends reinvested.*

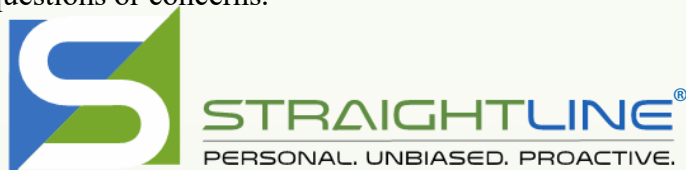
The story remains the same. The market narrative hasn't changed much this year, with solid returns across many asset classes, but geopolitical clouds loom large. We did see a pickup in market volatility in Q3, in both stocks and bonds, something we expect to remain over the coming quarters. There is a great deal of uncertainty surrounding the global economy and subsequently, the earnings outlook for stocks. The potential good news, however, as we've seen countless times during the run, is markets can climb that wall of worry and despite headwinds, still produce solid gains. We're hoping for some answers on the key issues around US/China trade and Brexit, both of which continue to drive headlines and market movements.

Stocks offered a mix bag during the recent quarter, with gains in domestic large caps, but losses in smaller caps and international markets. Despite the pickup in volatility and mixed returns during the quarter, stocks in general have done well this year and equity investors should be happy with the gains. Bonds, meanwhile, have continued to do remarkably well, with another quarter of strong returns. After a brief move higher in late summer, yields have once again been drifting lower, as global central banks remain in easing mode. While this has been good for fixed income investors there is some cause for concern.

Given what we've seen over the last year, it is easy to forget that the bond index spent most of 2018 in the red. Despite the recent strong performance, bond returns over the trailing three and five years still hover around 3% (in line with our longer-term view). This year we've seen a sizeable move out of equities and into fixed income. This piling into bonds, along with very low rates, continues to worry us. It wouldn't take much of a move higher in yields to wipe out a good chunk of the returns and recently we've seen some instances where the index is down more than 0.50% in a single day. In our view this is the new era for bonds, where volatility is higher and returns over shorter periods will vary greatly but long-term returns are fairly low.

Good news on the geopolitical front might be the trigger for the bond reversal, and there seems to be some hope that after months of speculation the issues around trade and Brexit could be coming to a head. On Brexit there appears to be a path forward for a deal that will satisfy all sides, though details are murky and the situation remains fluid. We'll know in the coming weeks, as the Oct 31 deadline approaches. In regard to trade, specifically the closely watched US/China negotiations, it appears that both sides are working on a partial deal that will be executed in phases. News recently broke that the framework for phase one of the deal may be in place. This first phase takes care of the low hanging fruit and won't address the more difficult business issues, but it would certainly be a step in the right direction and provide some hope for ensuing negotiations, which are likely to take place in November.

As we've progressed through the year a number of the key issues have been deferred, but now it appears that they are closer to being addressed. Markets have done well, in part buoyed by central banks. We will be watching closely and although the outcomes remain uncertain, we feel that there is more hope now than at just about any point this year. The fourth quarter is shaping up to be an important one, as it will set the stage for market expectations next year. We remain cautiously optimistic, and will adjust portfolios as necessary, as these difficult political issues are hopefully resolved. We hope you have a great end to the year and don't hesitate to reach out if you have any questions or concerns.



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