

**Global Economy**

Perhaps “Down-cember” would be a better name for the final month of 2018, as equity markets declined significantly, despite the largest one day point gain in the history of the Dow Jones Industrial Index (+1,086 on December 26<sup>th</sup>). Uncertainty continues to be the market’s nemesis with the US Government “shutting down” in late December and with no tangible outcome in the US-China trade discussions. The Trump White House continues to experience unprecedented turnover, with Secretary of Defense Mattis the latest departure, following the decision to remove US troops from Syria. On a positive note, consumer spending was robust during the holiday season and employment continues to be strong.

The Federal Open Market Committee (FOMC) achieved its projected path of normalization for 2018, taking short-term rates to a targeted range of 2.25% to 2.50%. The latest 25 bps hike in December was a unanimous vote, despite building volatility and calls for a pause by some market participants. The dots plot became slightly more dovish, now projecting only two more quarter-point hikes in 2019. The markets were apparently hoping for more, and much attention was given to Chairman Powell’s press conference comments that balance sheet reduction would remain on “autopilot.”

The third estimate of 3Q-18 GDP declined 0.1% to an annualized rate of 3.4%. Expenditures and exports were revised lower, while inventory was revised higher. The general outlook remains the same, with consensus expectations for 4Q-18 GDP between 2.5% and 3.0%, followed by mid-2% growth for 2019 as policy stimulus wanes.

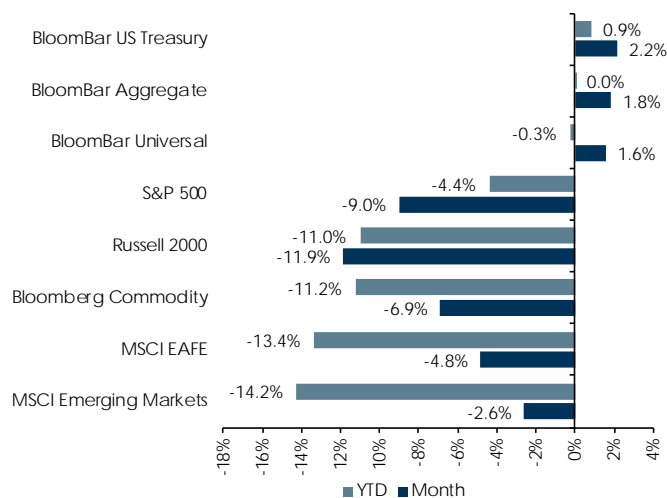
The unemployment rate increased to 3.9% in December, despite the robust addition of 312,000 jobs for the month. The increase in the labor participation rate reflects more people re-entering the workforce by actively looking for jobs. Average hourly wages rose at a healthy, but not explosive, year-over-year pace of 3.2%. That said, inflation expectations declined into year-end, and the FOMC’s preferred measure, the Core PCE index, stands at 1.9%.

	Current	Dec-17
US GDP (%)	3.40	3.20
US Unemployment (%)	3.90	4.10
CPI (Core) (%)	2.20	1.70
Fed Funds (%)	2.25 – 2.50	1.25 – 1.50
10 Year UST Yld (%)	2.69	2.41
S&P 500 Div Yld (%)	2.15	1.89
S&P 500 P/E (Trailing)	17.12	22.45
Gold/oz.	\$1,281.30	\$1,309.30
Oil (Crude)	\$45.41	\$60.42
Gasoline (Natl Avg)	\$2.36	\$2.59
USD/Euro	\$1.15	\$1.20
USD/GBP	\$1.28	\$1.35
Yen/USD	¥109.69	¥112.69

Source: Bloomberg

**Global Markets**

**Key Market Indices**



Source: Bloomberg

Across global equities, there was really no place to find cover as volatility reigned supreme and dampened holiday cheer. The S&P 500, which represents large US-based entities, declined by -9.0% in December and concluded the year down -4.4%. All major sectors in the domestic benchmark were down materially, except for the outlier, Utilities, which “outperformed” with a -4.3% monthly return. For the year, Healthcare was the sector leader at +4.7%, followed by Utilities which barely remained positive at +0.5%. At the other extreme, Energy was down -20.5%, with Materials and Communication Services both down -16.4%. Small cap stocks, as represented by the Russell 2000, entered bear market territory with a -11.9% loss for the month, and ended with a -11.0% return for 2018.

In the broad international developed markets, the MSCI EAFE index outperformed US stocks, but was still down meaningfully at -4.8%. Monthly relative returns were helped by a modestly weaker US dollar, although this was not enough to reverse the year-long underperformance compared to the US markets. As expected, the ECB ended its bond purchase program at the end of the year. Rates are unlikely to increase in the near term, but the period of abnormally easy monetary policy is coming to an end even as global growth and earnings appear to be softening.

Emerging market stocks, as represented by the MSCI Emerging Markets index, “led the way” in December, posting a comparatively small loss of -2.6%. The asset class was still the laggard for the year, down -14.2%.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was down -5.4% during the month, and ended the year down -4.7%. The Alerian MLP index was down significantly for both the month (-9.4%) and the year (-12.4%). The near-month NYMEX oil contract was down -10.8% for the month, and ended 2018 with a loss of -24.8%. The more broadly diversified Bloomberg Commodity index (-6.9%) was down again in December, despite gold (+5.0%) being in favor during the latest risk-off episode.

**Global Markets (continued)**

With flight-to-quality behaviors in full force, US Treasury (UST) yields crashed lower in the final weeks of the year. Amid financial market volatility, the futures market became increasingly skeptical of additional monetary tightening by the Fed. In this somewhat ideal environment for high-quality fixed income, the overall government bond complex returned +2.2% in December. The commonly referenced 10-year UST yield ultimately ended 30 bps lower to finish at 2.69%. Despite a notable 55 bps decline following multi-year highs in early November, the benchmark rate increased 28 bps in 2018.

Having spent the entire year well underwater, the BloomBar US Aggregate Bond index became a reliable safe-haven as equity volatility spiked. Total returns were up +1.8% during December, which pulled 2018 returns essentially back to flat. Spreads for IG corporates widened by another 16 bps, and despite a virtual halt of new issue supply, credit continued to be the benchmark's worst performing sub-sector relative to risk-free US Treasuries. The tug-of-war between rates and spreads caused the all-in yield for the index to decline to 3.3%.

The Bloombar 1-15-Year Municipal index returned +1.1% in December, driving full-year returns to +1.6%, even as tax-exempt issues lagged taxable counterparts as base rates moved rapidly lower. The tax-exempt yield curve is notably steeper than that of US Treasuries, providing enhanced yield and better valuations for extended maturities.

The Bloombar US Corporate High Yield index declined another -2.2% in December, with riskier CCC-rated credits and energy-related names being hardest hit. Overall benchmark spreads widened by 108 bps, such that all-in yields finished the year at nearly 8.0%. Global yield moves were directionally consistent with US government bonds, such that unhedged international bonds were strongly positive. Local currency emerging market debt continued to recover, even as this was the worst performing category within fixed income for the year at -6.2%.

**Selected Bond Yields**

10 Year Sovereign Bond Yields (%)		
	Current	Dec-17
Japan	-0.01	0.04
Germany	0.24	0.42
France	0.71	0.78
United Kingdom	1.28	1.19
Spain	1.41	1.56
United States	2.69	2.41
Italy	2.74	2.01
Mexico	8.64	7.65
Brazil	9.24	10.26

Source: Bloomberg

**Indices Report (Periods Ending December 31, 2018)**

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
<b>Equity</b>							
S&P 500	-9.03	-4.38	-4.38	9.26	8.49	13.12	7.77
Russell 1000	-9.11	-4.78	-4.78	9.09	8.21	13.28	7.93
Russell 1000 Growth	-8.60	-1.51	-1.51	11.15	10.40	15.29	8.68
Russell 1000 Value	-9.60	-8.27	-8.27	6.95	5.95	11.18	7.04
Russell 2500	-10.96	-10.00	-10.00	7.32	5.15	13.15	8.23
Russell 2000	-11.88	-11.01	-11.01	7.36	4.41	11.97	7.50
Russell 2000 Growth	-11.68	-9.31	-9.31	7.24	5.13	13.52	7.96
Russell 2000 Value	-12.09	-12.86	-12.86	7.37	3.61	10.40	6.91
Wilshire 5000 Cap Wtd	-10.08	-6.08	-6.08	8.81	7.89	13.11	7.94
MSCI ACWI	-7.00	-8.93	-8.93	7.18	4.82	10.05	6.75
MSCI ACWI ex US	-4.49	-13.78	-13.78	4.98	1.14	7.06	5.69
MSCI EAFE	-4.83	-13.36	-13.36	3.38	1.00	6.81	5.22
MSCI EAFE Local Currency	-5.83	-10.54	-10.54	3.12	4.29	8.00	5.74
MSCI EAFE Growth	-4.81	-12.48	-12.48	3.28	2.00	7.46	5.53
MSCI EAFE Value	-4.86	-14.26	-14.26	3.43	-0.06	6.10	4.83
MSCI Emerging Markets	-2.60	-14.25	-14.25	9.65	2.03	8.39	8.26
<b>Fixed Income</b>							
ICE BofA ML 1-3 Yr Treasury	0.79	1.59	1.59	0.96	0.81	0.95	1.98
BloomBar US Aggregate	1.84	0.01	0.01	2.06	2.52	3.48	3.87
BloomBar Gov't Bond	2.13	0.88	0.88	1.41	1.99	2.12	3.42
BloomBar US Credit	1.50	-2.11	-2.11	3.16	3.22	5.52	4.56
BloomBar 10 Yr Municipal	1.36	1.41	1.41	2.34	3.87	4.85	4.39
BloomBar US Corp High Yield	-2.14	-2.08	-2.08	7.23	3.83	11.12	7.00
FTSE World Gov't Bond	2.39	-0.84	-0.84	2.69	0.77	1.52	3.01
BloomBar Global Aggregate	2.02	-1.20	-1.20	2.70	1.08	2.49	3.32
BloomBar Multiverse	1.90	-1.36	-1.36	2.99	1.20	2.77	3.48
<b>Real Assets</b>							
NCREIF Property	--	--	--	--	--	--	--
NFI ODCE Net	0.00	5.76	5.76	6.73	9.08	5.85	7.13
FTSE NAREIT US Real Estate	-8.23	-4.62	-4.62	2.89	7.90	12.12	8.25
Bloomberg Commodity	-6.89	-11.25	-11.25	0.30	-8.80	-3.78	-2.46
<b>Cash and Equivalents</b>							
US T-Bills 90 Day	0.18	1.88	1.88	1.02	0.63	0.38	1.34

## Definitions

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### **Bloomberg Barclays Capital Aggregate**

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

### **Bloomberg Barclays Capital Global Aggregate Index**

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

### **Bloomberg Barclays Capital Muni 5 Yr**

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

### **Bloomberg Barclays Capital U.S. Credit Index**

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

### **The Bloomberg Barclays U.S. Treasury Index**

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

### **The Bloomberg Barclays Capital U.S. Universal Index**

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

### **BofA ML High-Yield Index Master II**

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

### **Bloomberg Commodity Index**

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

### **CITI World Government Bond Index**

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

### **FTSE EPRA/NAREIT Developed Index**

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

### **HFRI Fund of Funds (FOF) Conservative Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

### **HFRI Fund of Funds (FOF) Strategic Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

### **MSCI ACWI Index (exU.S.)**

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

### **MSCI EAFE® Index**

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

### **MSCI EAFE Growth Index**

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

### **MSCI EAFE Value Index**

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

### **MSCI Emerging Markets Index**

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

### **Ncreif® Property Index**

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

### **Russell 1000® Growth Index**

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

### **Russell 1000® Value Index**

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

### **Russell 2000® Index**

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

### **Russell 2000® Growth Index**

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

### **Russell 2000® Value Index**

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

### **Russell Midcap® Index**

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

### **S&P 500**

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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