



MACRO MUSINGS

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THIRD QUARTER 2019 REVIEW

SUMMARY

- Our review of asset class performance shows continued leadership of US stocks over international, strength in “defensive” asset classes and sectors, and more weakness in the stocks of small companies.
- Through three quarters, the market has had its best performance in 22 years. When returns have been this strong through September, the results were bullish for Q4.

ASSET CLASS REVIEW THROUGH Q3: US LED RALLY AGAIN

The table below highlights the performance of major asset classes and sectors this year:

U.S. Equity Styles Total Return

| | Q3 | YTD |
|------------|-------|-------|
| Large Caps | 1.7% | 20.6% |
| Value | 1.2% | 17.5% |
| Growth | 1.1% | 22.7% |
| Mid Caps | 0.5% | 21.9% |
| Small Caps | -2.4% | 14.2% |

U.S. Equity Sectors Total Return

| | Q3 | YTD |
|------------------------|-------|-------|
| Utilities | 9.3% | 25.4% |
| Real Estate | 7.7% | 29.7% |
| Consumer Staples | 6.1% | 23.3% |
| Info Tech | 3.3% | 31.4% |
| Communication Services | 2.2% | 21.7% |
| Financials | 2.0% | 19.6% |
| Industrials | 1.0% | 22.6% |
| Consumer Discretionary | 0.5% | 22.5% |
| Materials | -0.1% | 17.1% |
| Health Care | -2.2% | 5.6% |
| Energy | -6.3% | 6.0% |

International Equities and Global Assets Total Return

| | Q3 | YTD |
|------------------|-------|-------|
| ACWI ex-USA | -1.8% | 11.6% |
| Japan | 3.1% | 11.1% |
| Canada | 0.5% | 21.6% |
| EAFE Small Cap | -0.4% | 12.1% |
| EAFE | -1.1% | 12.8% |
| Europe | -1.8% | 13.7% |
| EM Asia | -3.4% | 6.0% |
| Emerging Markets | -4.2% | 5.9% |
| Latin America | -5.6% | 6.3% |
| EMEA | -7.0% | 5.1% |
| Gold | 4.5% | 14.8% |
| Commodities | -1.8% | 3.1% |

U.S. Equity Factors Total Return

| | Q3 | YTD |
|----------------|-------|-------|
| Min Volatility | 3.3% | 23.5% |
| Yield | 2.7% | 14.5% |
| Quality | 1.5% | 18.3% |
| Value | 1.4% | 16.8% |
| Size | -0.2% | 16.5% |
| Momentum | -0.9% | 19.1% |

Fixed Income Total Return

| | Q3 | YTD |
|--------------------|------|-------|
| Long Govt & Credit | 6.6% | 20.9% |
| Credit | 3.0% | 12.6% |
| Treasuries | 2.4% | 7.7% |
| Aggregate | 2.3% | 8.5% |
| CMBS | 1.9% | 8.6% |
| Agency | 1.7% | 6.0% |
| Municipal | 1.6% | 6.7% |
| MBS | 1.4% | 5.6% |
| TIPS | 1.3% | 7.6% |
| EM Debt | 1.3% | 12.1% |
| High Yield | 1.2% | 11.5% |
| Leveraged Loan | 1.0% | 6.8% |
| ABS | 0.9% | 4.1% |

Past performance is no guarantee of future results. The aforementioned indices and indicators are not available for direct investment. All indexes are unmanaged. Please review disclosure page for important information used to represent the above asset categories. Source: Fidelity Investments, Quarterly Market Update Q4 2019.

Here are the most interesting findings on Asset Class performance through the first nine months of 2019:

1. **US still the global leader.** With few exceptions over the past 7 years, US Stocks have outperformed international ones, both in developed countries and emerging markets. We have seen periods of US outperformance before, but not for this long. Eventually, international stocks will enjoy a multi-year period of outperformance, but there is no set date this must happen. Trends can persist for longer than you expect.
2. **“Defensive” areas of the market performed best.** Whether you look at the asset class level or within individual sectors, securities whose performance is less tied to the business cycle performed the best last quarter. Utilities, Real Estate, and Consumer Staples led the way among equities. Long-term treasury bonds returned almost 7%, and Gold returned 4.5%.
3. **Small Caps struggled.** Small cap stocks tend to be more volatile than larger companies and were the only group of US stocks with a negative quarter. Year-to-date returns are positive but still lag their larger peers in the S&P 500.

THE S&P IS OFF TO ITS BEST PERFORMANCE SINCE 1997 AFTER Q3

Without a lot of fanfare, the S&P 500 just posted the largest gain through Sept 30 since 1997.

The next question is whether the strong performance that we've seen will lead to further gains or stocks coming back down to earth. Bespoke Investment Group looked at all the other times the market returned 20% or more through the third quarter:

| S&P 500 Performance After 20%+ Gains Thru 9/30 | | | |
|--|--------------------------|---------|--------|
| Year | S&P 500 Total Return (%) | | |
| | First 9 Months | October | Q4 |
| 1929 | 26.81 | -19.71 | -28.17 |
| 1933 | 47.60 | -8.71 | 3.58 |
| 1935 | 25.78 | 7.95 | 17.04 |
| 1936 | 22.46 | 7.93 | 8.44 |
| 1938 | 22.22 | 7.86 | 8.99 |
| 1943 | 28.47 | -0.90 | -2.10 |
| 1945 | 25.81 | 3.37 | 8.47 |
| 1950 | 22.16 | 1.04 | 6.89 |
| 1951 | 20.05 | -0.87 | 3.75 |
| 1954 | 35.34 | -1.55 | 12.61 |
| 1955 | 25.08 | -2.74 | 5.07 |
| 1958 | 28.91 | 2.83 | 11.20 |
| 1967 | 23.30 | -2.65 | 0.52 |
| 1975 | 26.30 | 6.53 | 8.65 |
| 1976 | 20.06 | -1.86 | 3.22 |
| 1980 | 21.02 | 2.02 | 9.49 |
| 1983 | 22.07 | -1.16 | 0.40 |
| 1987 | 35.85 | -21.54 | -22.53 |
| 1989 | 29.02 | -2.32 | 2.06 |
| 1991 | 20.37 | 1.34 | 8.38 |
| 1995 | 29.77 | -0.36 | 6.02 |
| 1997 | 29.64 | -3.34 | 2.87 |
| 2019 | 20.54 | | |
| Average | | -1.22 | 3.40 |
| Median | | -0.89 | 5.55 |
| % Positive | | 40.9 | 86.4 |
| All Years Since 1929 | | | |
| Average | | 0.70 | 3.31 |
| % Positive | | 62.2 | 76.7 |

While returns in October were nothing special, the entire quarter historically saw median gains of over 5%, with positive returns in 19 of 22 years. Two of the negative years are notable—the Crash of 1929 and the Crash of 1987—but only because these were such rare events. The important takeaway is that most years, when the market does well through 3 quarters, momentum continues to drive the market higher.

IN CASE YOU MISSED IT...

Our Fall 2019 podcast is now available. We discussed the current economic environment compared to previous recessions, our thoughts on the trade war, and how markets might react to impeachment. To listen, click on the link below:

<https://wealth.corbettroad.com/podcasts>

We are working to add our podcast to iTunes and other audio streaming services so you will receive them as soon as they are published if you are a subscriber.

A LOOK AHEAD: OUTLOOK 2020

We will publish our next edition of Macro Musings in early December, which will cover our firm's outlook for next year. Thank you for reading our latest thoughts and analyses.

Investing involves risk, including risk of loss. Index or benchmark performance presented in this document does not reflect the deduction of advisory fees, transaction charges, and other expenses, which would reduce performance.

Indexes are unmanaged. It is not possible to invest directly in an index.

Index returns on page 3 represented by: Growth—Russell 3000® Growth Index; Large Caps—S&P 500® index; Mid Caps—Russell MidCap® Index; Small Caps—Russell 2000® Index; Value - Russell 3000® Value Index; ACWI ex USA—MSCI All Country World Index

(ACWI); Canada—MSCI Canada Index; Commodities—Bloomberg Commodity Index; EAFE—MSCI EAFE (Europe, Australasia, Far East) Index; EAFE Small Cap—MSCI EAFE Small Cap Index; EM Asia—MSCI Emerging Markets Asia Index; EMEA (Europe, Middle

East, and Africa)—MSCI EM EMEA Index; Emerging Markets (EM)—MSCI EM Index; Europe—MSCI Europe Index; Gold—Gold Bullion Price, LBMA PM Fix; Japan—MSCI Japan Index; Latin America—MSCI EM Latin America Index; ABS (Asset-Backed

Securities)—Bloomberg Barclays ABS Index; Agency—Bloomberg Barclays U.S. Agency Index; Aggregate—Bloomberg Barclays U.S. Aggregate Bond Index; CMBS (Commercial Mortgage-Backed Securities)—Bloomberg Barclays Investment-Grade CMBS Index; Credit—Bloomberg Barclays U.S. Credit Bond Index; EM Debt (Emerging-Market Debt)—JP Morgan EMBI Global Index; High Yield—ICE BofAML U.S. High Yield Index; Leveraged Loan—S&P/LSTA Leveraged Loan Index; Long Government & Credit (Investment Grade)—Bloomberg Barclays Long Government & Credit Index; MBS (Mortgage-Backed Securities)—Bloomberg Barclays MBS Index; Municipal—Bloomberg Barclays Municipal Bond Index; TIPS (Treasury Inflation-Protected Securities)—Bloomberg Barclays U.S. TIPS Index; Treasuries—Bloomberg Barclays U.S. Treasury Index.

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