



September 2018 Monthly Market Update

US stock performance was strong in August and several major US indexes reached all-time highs despite continued concerns around global trade and pressures in emerging markets (more on this later). Large-cap US stocks gained 3.2% in the month (Vanguard 500 Index) while small caps jumped 4.3% (iShares Russell 2000 ETF). Strong gains in recent months have brought year-to-date returns well into positive territory—with large-cap stocks now up 9.8% and small-cap stocks up 14.2%. Growth stocks and the technology sector continue to lead the market. The iShares Russell 1000 Growth ETF returned 5.4% in August and is up 16.2% this year, compared to the iShares Russell 1000 Value ETF's gain of 1.4% in August and 3.4% year-to-date return. Technology stocks are up 21% for the year.

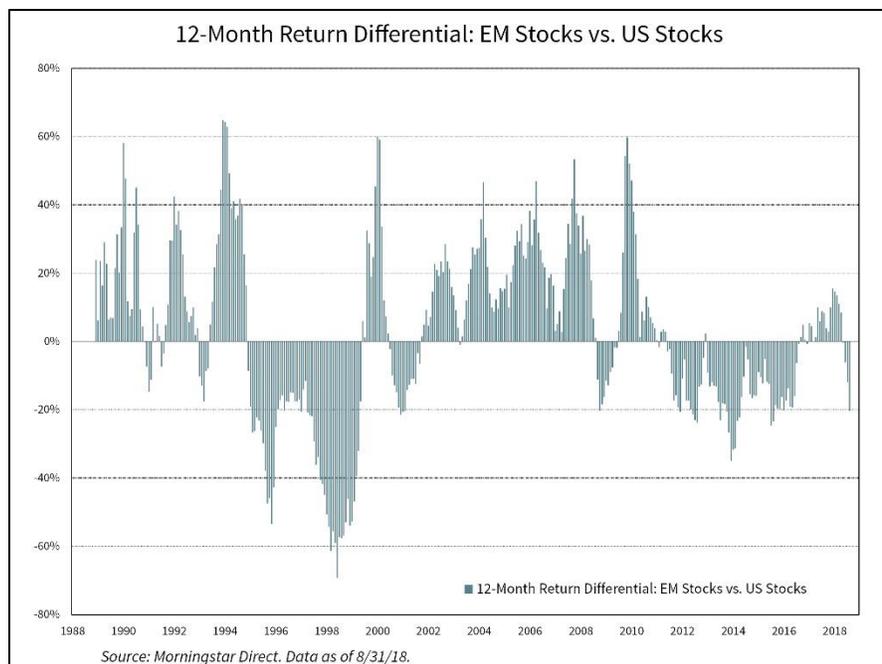
August Benchmark Returns			
	MTD	QTD	YTD
EQUITY BENCHMARKS			
Vanguard 500 Index	3.2%	7.1%	9.8%
iShares Russell 1000 ETF	3.4%	7.0%	9.9%
iShares Russell 1000 Value ETF	1.4%	5.3%	3.4%
iShares Russell 1000 Growth ETF	5.4%	8.5%	16.2%
iShares Russell 2000 ETF	4.3%	6.0%	14.2%
Vanguard REIT	2.5%	3.2%	3.1%
iShares MSCI ACWI ETF	0.7%	3.8%	3.5%
Vanguard FTSE Developed Markets ETF	-1.7%	0.5%	-2.3%
Vanguard FTSE Europe ETF	-2.8%	0.5%	-2.3%
Vanguard FTSE Emerging Markets ETF	-4.2%	-0.4%	-7.7%
FIXED-INCOME BENCHMARKS			
Vanguard Total Bond Market Index	0.5%	0.6%	-1.2%
Vanguard Intermediate-Term Tax-Exempt	0.2%	0.4%	0.1%
iShares TIPS Bond ETF	0.7%	0.1%	0.1%
ICE BofA Merrill Lynch U.S. High Yield Cash Pay Index	0.7%	1.8%	1.9%
S&P/LSTA Leveraged Loan Index	0.4%	1.1%	3.3%
ALTERNATIVE BENCHMARKS			
HFRX Global Hedge Fund Index	0.5%	0.3%	-0.6%
Bloomberg Commodity Index	-1.8%	-3.9%	-3.9%
SG Trend Index	3.9%	3.1%	-2.2%
3-Month LIBOR	0.2%	0.4%	1.3%

The US fixed-income market was positive in August. US Treasury yields on the long-end of the curve fell modestly over the month. US core bonds (Vanguard Total Bond Market Index) gained 0.5% in August but remain in negative territory this year (down 1.2%). US high-yield bonds returned 0.7% last month, while floating-rate loans were up 0.4% (the ICE BofA ML US High Yield Cash Pay Index and the S&P/LSTA Leveraged Loan Index). The often-watched spread between short rates and long rates continued to compress during August. The yield differential between three-month and 10-year US Treasury rates finished the month at 75 basis points (it started the year at a greater than 100-basis-point spread). The three-month US Treasury rate has moved above 2% for the first time since the financial crisis started a decade ago.

International stocks did not fare as well as domestic stocks last month. Developed international stocks dropped 1.7% (Vanguard FTSE Developed Markets ETF), European stocks fell 2.8% (Vanguard FTSE Europe ETF), and emerging-market (EM) stocks tumbled 4.2% in August (Vanguard FTSE Emerging Markets ETF). The strengthening US dollar adversely affected EM stocks more than developed foreign markets.

The performance gap between US stocks and EM stocks has widened in recent months. After hitting a post-financial crisis high in late January, EM stocks have tumbled and have been flirting with a 20%

drawdown (the industry's bear market definition). The performance differential so far this year now stands at over 17 percentage points (a gain of 9.8% for US stocks and a loss of 7.7% for EM stocks in the first eight months of 2018). The magnitude of the underperformance has been a headwind for our overall portfolio performance, but it is not outside of the norm for EM stocks to lag by this amount over short-term periods. The chart to the right shows rolling 12-month return differentials between EM stocks and US stocks over the last 30 years.



Underperforming by 20% is certainly painful in the short run; however, it is not out of the ordinary for a volatile asset class like EM stocks. We continue to believe EM stocks offer meaningfully better expected returns relative to US stocks over our longer term (five-plus-year) tactical investment horizon and maintain a modest overweight position.