Quarterly Investment Summary

DECEMBER 2018

Performance Summary (as of 12/31/2018)

	Target Allocation	Trailing Returns				
	Equity/Fixed	3 Months	YTD	1 Year	3 Year	5 Year
Fixed Income	0%/100%	0.73%	0.37%	0.37%	2.09%	1.73%
Conservative	25%/75%	-2.76%	-1.69%	-1.69%	3.56%	2.85%
Balanced	50%/50%	-6.35%	-3.90%	-3.90%	4.81%	3.66%
Growth	75%/25%	-9.73%	-6.15%	-6.15%	6.03%	4.54%
Equity	100%/0%	-13.09%	-8.72%	-8.72%	7.06%	5.43%

Market Commentary

- Financial markets experienced a bout of rather extreme volatility during the fourth quarter, sending U.S. stocks to their worst year since the 2008 financial crisis. Somewhat paradoxically though, current readings continue to suggest a mostly benign economic backdrop. While growth is expected to decelerate in the fourth quarter, it is anticipated the US will have its first calendar year of greater than 3.0% economic growth since 2005. The employment situation continues to show strength, with the most recent unemployment rate at 3.9%, a level last seen in the 1960s, and the economy adding roughly 200,000 jobs per month during the past year. Buoyed by the employment situation, consumer confidence remains elevated by historical standards, but December's reading dropped at a steeper than expected pace, slipping back to levels last seen in July. Importantly, the expectations component of the index fell sharply, indicating that while consumers are largely content with the current situation, more are growing concerned about the future. Alongside many risk assets, global oil prices tumbled during the fourth quarter, posting their biggest quarterly loss since 2014. Globally, the economic picture faces its share of challenges. Trade tensions, most notably between the U.S. and China, weighed on investor sentiment at a time when global economies are forecasted to slow.

- The aging bull market gave way to increasing worries of slowing global growth, while political instability, including the government shutdown going into the holidays, has added fuel to the volatile environment. Major market averages posted steep losses for the quarter, punctuated by a roughly 9% fall in December for each the Dow, NASDAQ, and S&P 500. The sell-off was the worst December for the S&P 500 and Dow since 1931, and the biggest monthly loss in nearly a decade. Turning to international equities, there was no shortage of political drama spanning from Brexit developments to global trade turmoil. While international stocks fared better than US equities on a relative basis for the month, both developed foreign and emerging market equities ended 2018 with double-digit losses.

- The 10-year Treasury yield hit a seven-year high of nearly 3.24% in early November before bond prices rallied amid the equity selloff, pushing its yield lower to close the year at 2.69%. This late-year rally pushed the broad bond market into positive territory for the fourth quarter resulting in an essentially flat total return for 2018. Credit spreads on both investment grade and high-yield bonds widened to their highest level in over two years amid economic jitters, pushing returns on corporate bonds into negative territory for the year. While the closely watched 2-year to 10-year Treasury yield curve has not yet inverted, investors will continue to monitor that relationship, as it has been a consistent indicator of a looming economic recession.