



Monthly Market Review

U.S. Equity

- Domestic equity markets, as represented by the S&P 500 Index (S&P), decreased -9.03% in December.
- Sector performance within the S&P during December was negative in all 11 sectors. The Utilities and Materials sectors were most resilient, returning -4.02% and -6.90%, respectively. Energy and Financials lagged during the month, returning -12.67% and -11.29%, respectively.
- By market capitalization, large-caps (Russell 1000 Index) held up best during the month, returning -9.11%. Mid-caps (Russell Midcap Index) followed with a return of -9.93%. Small-caps (Russell 2000 Index) lagged during the month with a return of -11.88%. Growth stocks outperformed value stocks across all market capitalizations.

Non-U.S. Equity

- Non-U.S. equity markets, represented by the MSCI ACWI ex-U.S. Index, ended the month down -4.53%. Developed markets, represented by the MSCI EAFE Index, finished down -4.85%, while emerging markets (EM), represented by the MSCI Emerging Markets Index, returned -2.66% in December.
- Within the MSCI ACWI ex-U.S. Index, 10 of 11 sectors posted negative returns. Utilities and Materials were the best performers in December, returning 0.62% and -1.78%, respectively. Healthcare and Energy lagged the index in December, returning -6.70% and -5.56%, respectively.
- EM Latin America and Europe, Middle East and Africa were the best-performing regions in December, returning -0.82% and -1.60%, respectively. Canada and Japan were the worst-performing regions, returning -8.37% and -6.68%, respectively in December.

Fixed Income

- The Bloomberg Barclays U.S. Aggregate Index (Aggregate) returned 1.84% in December.
- Investment grade (IG) credit within the Aggregate returned 1.50%. Within the IG credit spectrum, returns were positive across all qualities. AAA-rated bonds returned 1.58%, AA-rated bonds returned 1.86%, A-rated bonds returned 1.67% and BBB-rated bonds returned 1.28%. High Yield (HY), represented by the Bloomberg Barclays U.S. Corporate HY Index, returned -2.14% in December, continuing a selloff based on fears of slowing global growth, declining oil prices and disappointing views of the Federal Reserve's (Fed's) outlook.
- Yields flattened across the U.S. Treasury yield curve in December. Yields for three-month bills increased two basis points (bps). Two-year and 10-year yields decreased by 30 bps, while 30-year bond yields decreased by 28 bps.

Alternatives and Other Asset Classes

- Real estate investment trusts (REITs), represented by FTSE Nareit All Equity REITS Index, returned -8.23% in December, bringing the year-to-date (YTD) return to -4.62%. Returns were negative for all nine real estate sectors. Self-Storage, Residential and Healthcare REITs were the strongest performers returning -4.67%, -6.14% and -6.44%, respectively. The worst performer of the month was Lodging/Resorts, which had a return of -12.49%, followed by Office, which returned -10.55% in the month. Healthcare continued as the best-performing sector in 2018 with a return of 7.58% YTD.
- Commodities, represented by the Bloomberg Commodity Index, posted a -7.08% return. The active contract for the West Texas Intermediate (WTI) Crude Index closed at \$45.41/barrel, down from \$50.93/barrel in November.

Items to Watch

- The Federal Open Market Committee (FOMC) met in December and announced a fourth 25 bps rate hike for 2018. Fed Chairman Jerome Powell cited a solid, though moderating economy as he discussed the rationale for the increase and guidance moving forward. Chairman Powell has since reassured market participants by saying the Fed has "no preset policy path," and that the Fed "will be patient" with its policy prescriptions. The Fed has reduced its 2019 estimate for rate increases from three to two.
- The U.S. labor market surprised once again in December, outpacing expectations and delivering one of the strongest jobs reports of the current expansion. Nonfarm payrolls surged by 312,000, and average hourly earnings rose 3.2% from a year ago. The unemployment rate rose to 3.9% as more workers joined the labor force. The labor force participation rate is now up to 63.1%.
- Uncertainty surrounding Brexit continues to escalate as the UK approaches its EU exit deadline without a deal in place. Parliament's vote on Prime Minister Theresa May's plan, previously delayed in anticipation of defeat, is scheduled for mid-January. She faces an uphill battle, as lawmakers on both sides have expressed dissatisfaction with her plan.
- Trade talks between the U.S. and China resumed January 7 in Beijing. Any progress made is likely to ease fears of China's economic slowdown, as well as the vow from the White House to raise tariffs on \$200 billion of Chinese goods from 10% to 25% if no deal is made. China's 2018 gross domestic product (GDP) is estimated to settle at about 6.5%, down from 6.9% in 2017, and the Chinese stock market finished 2018 down -28% for the year, the world's worst performer. Both U.S. and Asia-Pacific stocks rebounded as negotiations kicked off.

Total Return of Major Indices as of 12/31/18

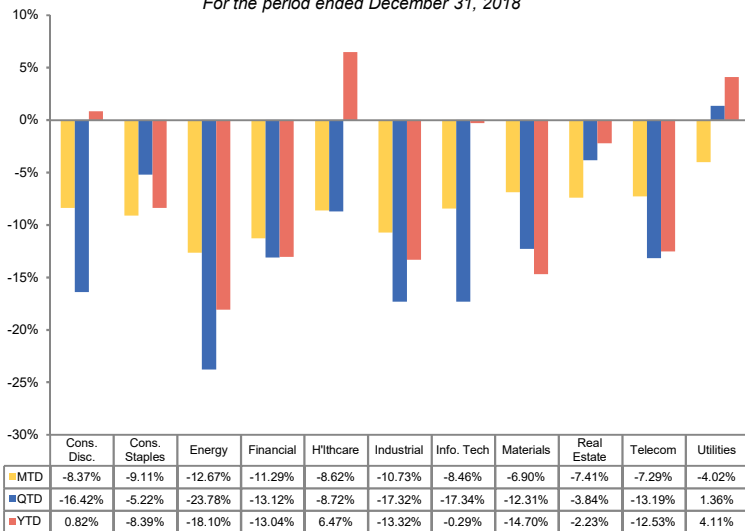
Domestic Equity	MTD	QTD	YTD	1 YR
S&P 500	-9.03%	-13.52%	-4.39%	-4.39%
Russell 3000	-9.31%	-14.31%	-5.25%	-5.25%
Russell 2000	-11.88%	-20.21%	-11.03%	-11.03%
Russell 1000	-9.11%	-13.83%	-4.79%	-4.79%
International Equity	MTD	QTD	YTD	1 YR
MSCI ACWI ex-U.S.	-4.53%	-11.46%	-14.20%	-14.20%
MSCI EAFE	-4.85%	-12.54%	-13.79%	-13.79%
MSCI Emerging Markets	-2.66%	-7.47%	-14.58%	-14.58%
Fixed Income	MTD	QTD	YTD	1 YR
Bloomberg Barclays U.S. Agg	1.84%	1.64%	0.01%	0.01%
Bloomberg Barclays Global Agg	2.02%	1.20%	-1.20%	-1.20%
Bloomberg Barclays U.S. HY	-2.14%	-4.53%	-2.08%	-2.08%
Alternatives	MTD	QTD	YTD	1 YR
FTSE NAREIT Equity	-8.23%	-6.73%	-4.62%	-4.62%
Bloomberg Commodity	-7.08%	-9.96%	-12.99%	-12.99%

Economic Indicators

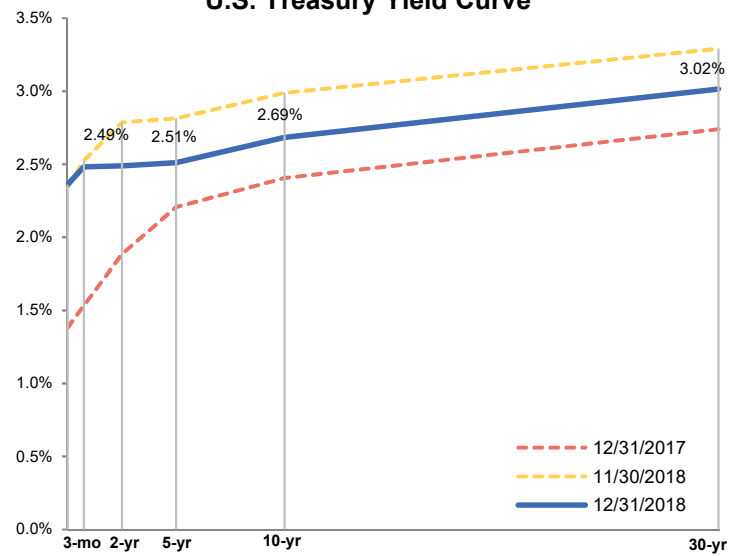
Domestic	Current	Previous
Unemployment Rate (%)	3.7%	3.7%
Initial Jobless Claims (4 week avg)	218 K	222.8 K
CB Leading Economic Indicators	0.2	-0.3
Capacity Utilization	78.5%	78.1%
GDP (annual growth rate)	3.4%	4.2%
University of Michigan Consumer	98.3	97.5
Confidence New Home Starts	544 K	597 K
Existing Home Sales	5.3 MM	5.2 MM
Retail Sales (YoY)	4.9%	6.0%
U.S. Durable Goods (MoM)	0.8%	-4.3%
Consumer Price Index (YoY)	2.2%	2.5%
Producer Price Index (MoM)	-0.8%	0.7%
Developed International*	9/30/2018	6/30/2018
Market GDP (annual rate)	1.5%	2.1%
Market Unemployment	4.7%	4.8%

Stock Market Sector Performance (S&P 500)

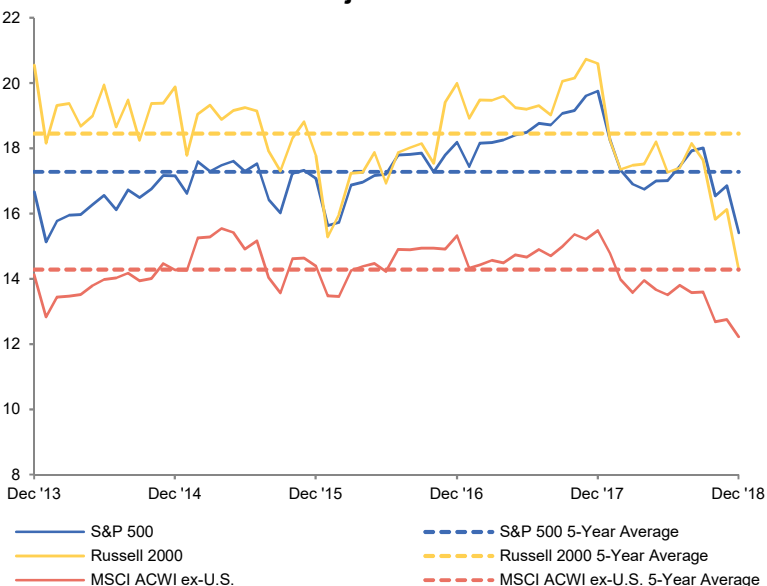
For the period ended December 31, 2018



U.S. Treasury Yield Curve



P/E Ratios of Major Stock Indices**



Source: Bloomberg. Data as of December 31, 2018, unless otherwise noted.
 *Developed market data is calculated with respect to the weightings in the MSCI World ex-U.S. index. Most current data is as of September 30, 2018 due to release dates of numerous countries.
 **P/E ratios are calculated based on one-year-forward estimates and adjusted to include only positive earning results for consistency.

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