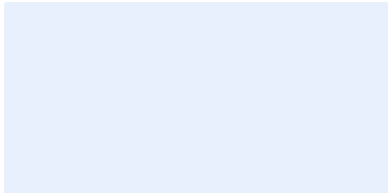


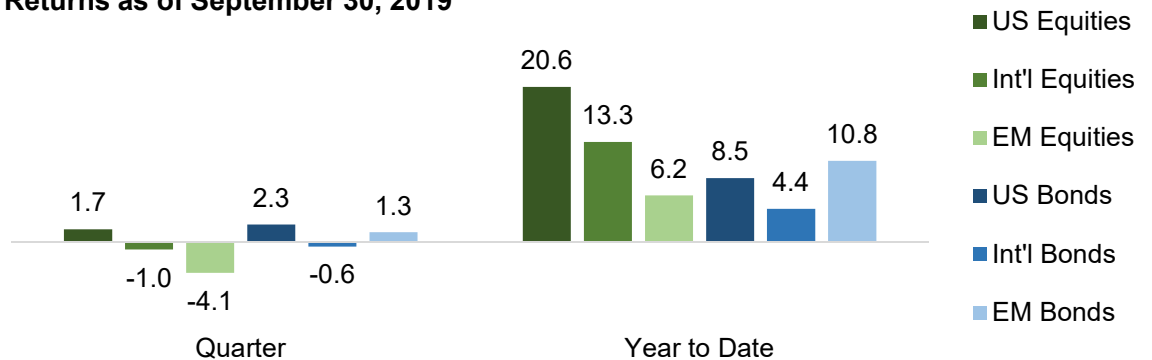
# QUARTERLY Market Review



## Market Review

The third quarter was a bit of a roller coaster ride in the markets with the flight to safety driving market returns. Bonds saw the stronger relative returns across the board for the quarter as investors sought safety amid the growing global tensions. Over the year-to-date period, however, equities continued their winning streak in the developed markets.

### Returns as of September 30, 2019



Source: Morningstar

US equities provided the strongest returns for the quarter and year-to-date at 1.7% and 20.6% respectively. In local currency terms, the international developed markets marginally outperformed the US markets for the quarter with a return of 1.8%. But the move in the dollar created a large headwind wiping almost 3% from the return for the quarter. Emerging market (EM) equities saw the weakest relative returns, with Latin America seeing the largest negative returns.

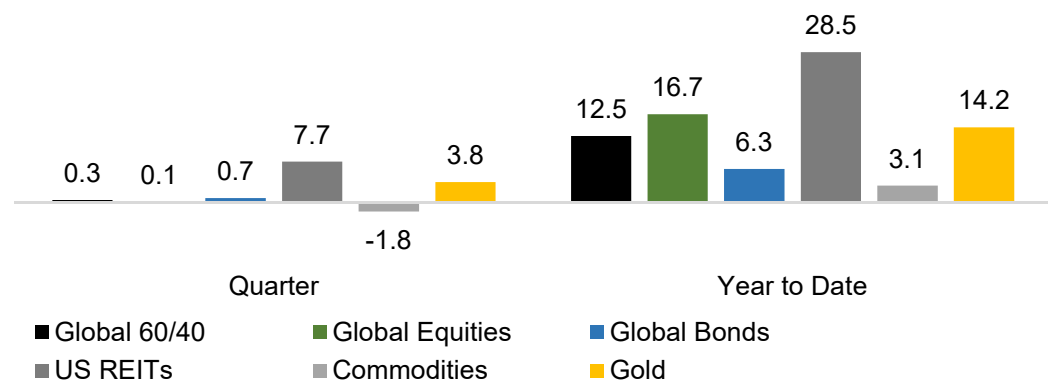
Within the US, there were rotations toward the more defensive sectors that tend to be impacted by shifts in interest rates. Utilities, real estate and consumer staples were the top performing sectors, each up over 6%. Despite seeing some sharp reversals in September, value continued to trail growth in the large-cap space for the quarter and year-to-date. However, in the small-cap space, the strength of the rally in value was enough to lift returns above growth for the quarter. But for the year, small-cap value continued to be the weakest style.

The demand for safety saw yields plummet in longer term bonds, lifting the return of long-term treasuries to 7.9% for the quarter and an impressive 19.8% year-to-date. Corporate bonds fared reasonably well over the quarter and maintained their year-to-date strength with returns above 10% and the higher quality credits having the edge over both periods.

US REITs benefited from the fall in rates and saw a return of 7.7% for the quarter, lifting year-to-date returns to an impressive 28.5% making it the strongest performing asset class year-to-date. Market uncertainty helped lift gold to a return of 3.8% for the quarter and 14.2% for the year as people sought the safety of the yellow metal.

Relative to a globally balanced (60/40) stock/bond index, diversification into REITs has been a significant tailwind to returns for the year— as has exposure to gold— as investors sought safer assets amid global uncertainty. While lagging for the quarter, an overweight to equities has been beneficial for the year-to-date period, especially if the exposure was biased toward US markets. Longer term bond exposure has also been an area of strength in diversified portfolios as yields fell since the beginning of the year.

### Returns as of September 30, 2019



Source: Morningstar

## DEFINITIONS

**Bloomberg Commodity** – measures the price of physical commodities futures contracts traded on US exchanges, except aluminum, zinc and nickel, which trade on the London Metal Exchange. Weightings are determined by rules designed to insure diversified commodity exposure.

**Bloomberg Barclays Emerging Markets USD Aggregate** - The index is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classification.

**Bloomberg Barclays Global Aggregate** - An index of global investment grade debt from twenty-four local currency markets including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The index also includes Eurodollar, Euro-Yen, and 144A index-eligible securities, and debt from five local currency markets.

**Bloomberg Barclays Global Aggregate ex USD** - The index is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classification.

**Bloomberg Sub Gold**- measures the price of gold futures contracts, reflecting the return of underlying commodity futures contract price movements quoted in USD.

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**Bloomberg Barclays US Aggregate**- measures the performance of USD-denominated, investment-grade, fixed-rate taxable bond market of SEC-registered securities. The index includes Treasury bonds, Government-related corporate, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS sectors.

**Bloomberg Barclays US Corporate High Yield** - The index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

**Bloomberg Barclays US Treasury Long** - The index measures the performance of long-term government bonds issued by the US Treasury. It includes all publicly issued, US Treasury securities that have a remaining maturity of 10 or more years, are non-convertible, are denominated in US dollars, are rated investment grade, are fixed rate, and have \$250 million or more of outstanding face value.

**FTSE US NAREIT all Equity REITs** – measures the performance of publicly traded US real estate securities, such as real estate investment trusts (REITS) and real estate operating companies.

**MSCI ACWI** - A free float-adjusted capitalization weighted index that is designed to measure the equity performance of countries considered to represent both developed and emerging markets.

**MSCI EAFE** - A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of countries considered to represent developed markets, excluding the U.S. and Canada.

**MSCI Emerging Markets** - A free float-adjusted, market capitalization index that is designed to measure the equity market performance of countries considered to represent emerging markets.

**S&P 500** - An unmanaged index that is generally considered representative of the US equity market, consisting of 500 leading companies in leading industries of the US economy (typically large-cap companies) representing approximately 75% of the investable US equity market.

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**Investing involves risk, including the possible loss of principal. Past performance does not guarantee future results.** Asset allocation alone cannot eliminate the risk of fluctuating prices and uncertain returns. There is no guarantee that a diversified portfolio will outperform a non-diversified portfolio in any given market environment. No investment strategy, such as asset allocation, can guarantee a profit or protect against a loss. Actual client results will vary based on investment selection, timing, and market conditions. It is not possible to invest directly in an index.

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