

Economic & Market Commentary

Market Update – March 2019

Global stocks closed out a strong first quarter with mixed results in March. U.S. large cap stocks led the charge, rising 1.9%, while small caps struggled, down 2.1%. International developed (+0.6%) and emerging markets stocks (+0.8%) were up slightly.

Economy

- The Consumer Price Index fell for the fourth consecutive month, now at its lowest level in over two years.
- The latest release of unemployment data measured the unemployment rate at 3.8%. Nonfarm payrolls bounced back with a stronger than expected gain of 196,000 in March.
- The pace of wage gains slipped to 3.2% year over year.

Stocks

- The S&P 500 gained 1.9% while U.S. small stocks (-2.1%) finished down for the month. Both U.S. large and small cap stocks ended the first quarter with double-digit gains.
- International large (+0.6%) and small (-0.3%) continued the theme of mixed results.
- Year-to-date, U.S. small stocks (+14.6%) lead all stock asset classes with U.S. large (+13.6%) not far behind.

Bonds

- Bond returns were broadly positive in the month of March.
- International bonds (+1.9%) and TIPS (1.8%) led the way among fixed income asset classes.
- Intermediate-term bonds (+1.4%) outpaced short-term bonds (+0.3%) during March.

Alternatives

- Among alternatives, global REITs continue to have a strong start to 2019, up 3.0% for the month and up 14.4% for the quarter. Managed futures also had a positive month, up 2.5%.
- Commodities fell slightly, down 0.2% for the month, while reinsurance struggled to push higher (+0.1%).

Index Investing: Too Much of a Good Thing?

The merits of index investing are numerous with low fees, transparent rules, and minimal turnover among the most frequently cited advantages. However, not everyone views the rise of index investing as a good thing, and an increasingly popular debate has been the question of how much indexing is too much.

Since the global financial crisis, money has been flowing out of actively managed funds and into passive index funds. Estimates vary widely, but most sources put the share of total equity assets currently in index funds somewhere between 20% and 40%. A study by Moody's Investor Services predicts that assets in passively managed funds will overtake actively managed in the next five years. If true, what impact could this have on the stock market?

A common criticism of index investing is that too much of it will make markets less efficient and price assets incorrectly, ultimately hurting index investors. At the extreme this may be true. The father of index funds, Jack Bogle, has even admitted, "If everybody indexed... markets would fail." However, the reality is that total indexing will likely never happen and in the event index investing goes too far, active managers would quickly exploit any mispricing and drive markets back towards efficiency. Ultimately this argument around index investing is flawed because it focuses on the less relevant data point of total assets. The more important area to watch is the mechanism by which prices are actually set, the buying and selling of securities.

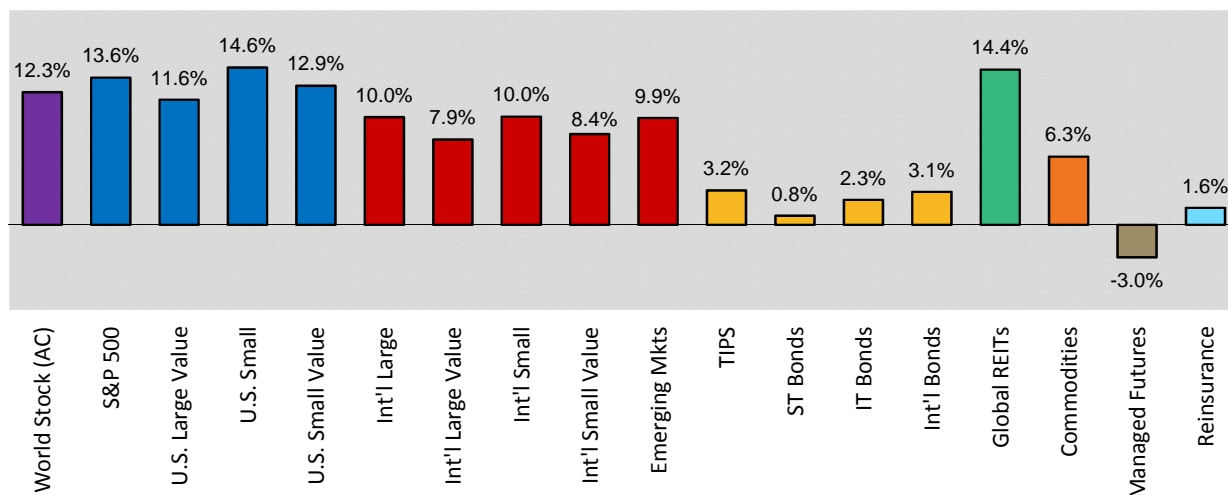
Despite nearly two decades of relentless asset growth, recent studies from Vanguard and BlackRock estimate that index funds still account for less than 10% of total trading volume in the stock market. Furthermore, total trading volume has more than doubled over this period which shows that the majority of buying and selling is still done by active market participants engaged in price setting. This evidence suggests that the growth of index funds has not distorted the market and is not close to doing so.

Sources: Morningstar, Vanguard, BlackRock, AQR, Moody's

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MARKET RETURNS
Year-To-Date as of 3/31/2019



MARKET RETURNS - Longer Term Annualized as of 3/31/2019

	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
STOCKS							
S&P 500	1.9%	13.6%	9.5%	13.5%	10.9%	15.9%	8.6%
U.S. Large Value	0.8%	11.6%	6.9%	11.1%	8.6%	14.6%	7.9%
U.S. Small	-2.1%	14.6%	2.1%	12.9%	7.1%	15.4%	8.0%
U.S. Small Value	-2.2%	12.9%	0.8%	9.8%	6.2%	15.5%	8.1%
Int'l Large	0.6%	10.0%	-3.7%	7.3%	2.3%	9.0%	5.1%
Int'l Large Value	-0.5%	7.9%	-6.1%	6.9%	0.7%	8.1%	4.5%
Int'l Small	-0.3%	10.0%	-9.9%	7.2%	4.5%	12.6%	7.7%
Int'l Small Value	-0.8%	8.4%	-11.8%	6.2%	3.6%	12.3%	7.9%
Emerging Mkts	0.8%	9.9%	-7.4%	10.7%	3.7%	8.9%	7.9%
World Stock (AC)	1.0%	12.3%	1.9%	10.6%	6.3%	12.3%	7.0%
BONDS							
TIPS	1.8%	3.2%	2.7%	1.7%	1.9%	3.4%	3.7%
Short-Term Bonds	0.3%	0.8%	2.2%	1.0%	0.6%	0.5%	1.5%
Interm-Term Bonds	1.4%	2.3%	4.2%	1.7%	2.1%	3.1%	3.3%
International Bonds	1.9%	3.1%	5.2%	3.3%	4.6%	4.2%	4.5%
ALTERNATIVES							
Global REITs	3.0%	14.4%	15.3%	5.7%	7.8%	16.1%	7.6%
Commodities	-0.2%	6.3%	-5.3%	2.2%	-8.9%	-2.6%	-2.8%
Managed Futures	2.5%	-3.0%	-2.3%	-3.4%	3.6%	1.3%	4.3%
Reinsurance	0.1%	1.6%	2.6%	3.4%	4.0%	6.9%	7.1%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mtg Index, Interm-Term Bonds-Barclays Interm-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdg, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

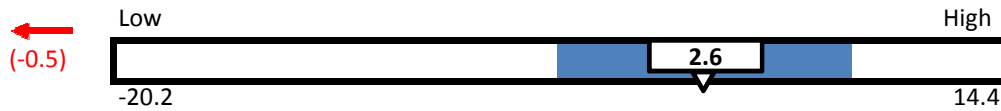
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Economic Indicators

Leading Economic Index Year over Year Change (%)



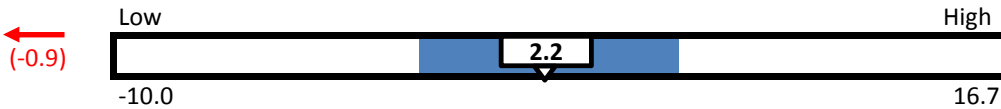
Unemployment (%)



Inflation CPI (YOY %)



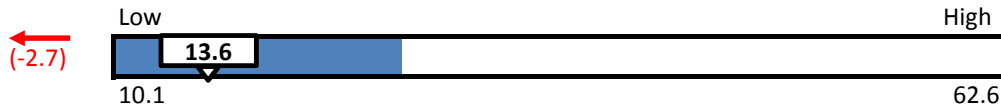
Real GDP Growth (%)



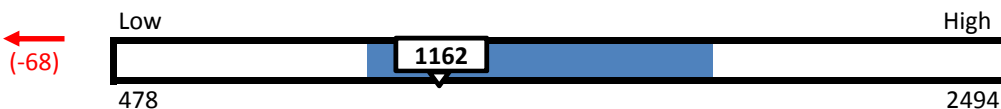
Consumer Confidence



VIX - Market Volatility



Housing Starts (000s)



10-year Treasury Yield (%)



Typical range (within 1 standard deviation of the median)

Current Value

Historical Range

Change in value since last month

**See appendix for sources and data ranges*

Appendix

Leading Economic Index Year over Year Change (%)

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. The value shown represents the 12-month change in the index level. *(Data Source: The Conference Board. Monthly data since 1/1/1959)*

Unemployment

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Inflation CPI (YOY)

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. *(Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948)*

Real GDP Growth

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. *(Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947)*

Consumer Confidence

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. *(Data Source: The Conference Board. Monthly data since 1/31/1991)*

VIX

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. *(Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990)*

Housing Starts

The number of housing starts (new construction) in the U.S. each year. *(Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959)*

10-year Treasury

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. *(Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962)*

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