

Q2

Quarterly Market Review

Second Quarter 2016

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This report features world capital market performance and a timeline of events for the past quarter. It begins with a global overview, then features the returns of stock and bond asset classes in the US and international markets.

The report also illustrates the performance of globally diversified portfolios and features a quarterly topic.

Quarterly Topic: GDP Growth and Equity Returns

Market Summary

Timeline of Events: Second Quarter 2016

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Fixed Income

Real Estate Investment Trusts (REITs)

Quotes

GDP Growth and Equity Returns

Many investors look to gross domestic product (GDP) as an indicator of future equity returns

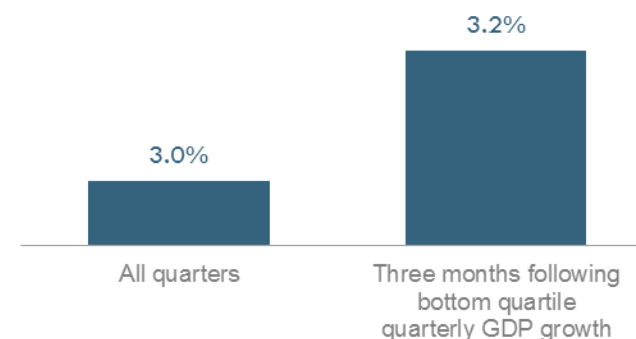
According to the advance GDP estimate released by the Bureau of Economic Analysis (BEA) on April 28, annualized real US GDP growth was 0.5% in the first quarter of 2016—below the historical average of 3.2%.¹ This might prompt some investors to ask whether below-average quarterly GDP growth has implications for their portfolios.

Market participants continually update their expectations about the future, including expectations about the future state of the economy. The current prices of the stocks and bonds held by investors therefore contain up-to-date information about expected GDP growth and a multitude of other considerations that inform aggregate market expectations. Accordingly, only new information that is not already incorporated in market prices should impact stock and bond returns.

Quarterly GDP estimates are released with a one-month lag and are frequently revised at a later point in time. Initial quarterly GDP estimates were revised for 54 of the 56 quarters from 2002 to 2015.² Thus, the final estimate for last quarter may end up being higher or lower than 0.5%.

Prices already reflect expected GDP growth prior to the official release of quarterly GDP estimates. The unexpected component (positive or negative) of a GDP growth estimate is quickly incorporated into prices when a new estimate is released. A relevant question for investors is whether a period of low quarterly GDP growth has information about short-term stock returns going forward.

Quarterly S&P 500 Index Returns, 1948–2016



From 1948 to 2016, the average quarterly return for the S&P 500 Index was 3%. When quarterly GDP growth was in the lowest quartile of historical observations, the average S&P 500 return in the subsequent quarter was 3.2%, which is similar to the historical average for all quarters. This data suggests there is little evidence that low quarterly GDP growth is associated with short-term stock returns above or below returns in other periods.

Sources: S&P Dow Jones Indices, Bureau of Economic Analysis. Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.

1. Source: Bureau of Economic Analysis.







2. 2002 to 2015 is the longest time period for which BEA provides data comparing initial to final estimates. The average difference between an initial and final estimate was 1% in absolute magnitude over this time period.

Adapted from "GDP Growth and Equity Returns," Issue Brief, May 2016. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

All expressions of opinion are subject to change. This information is intended for educational purposes, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services.

Market Summary

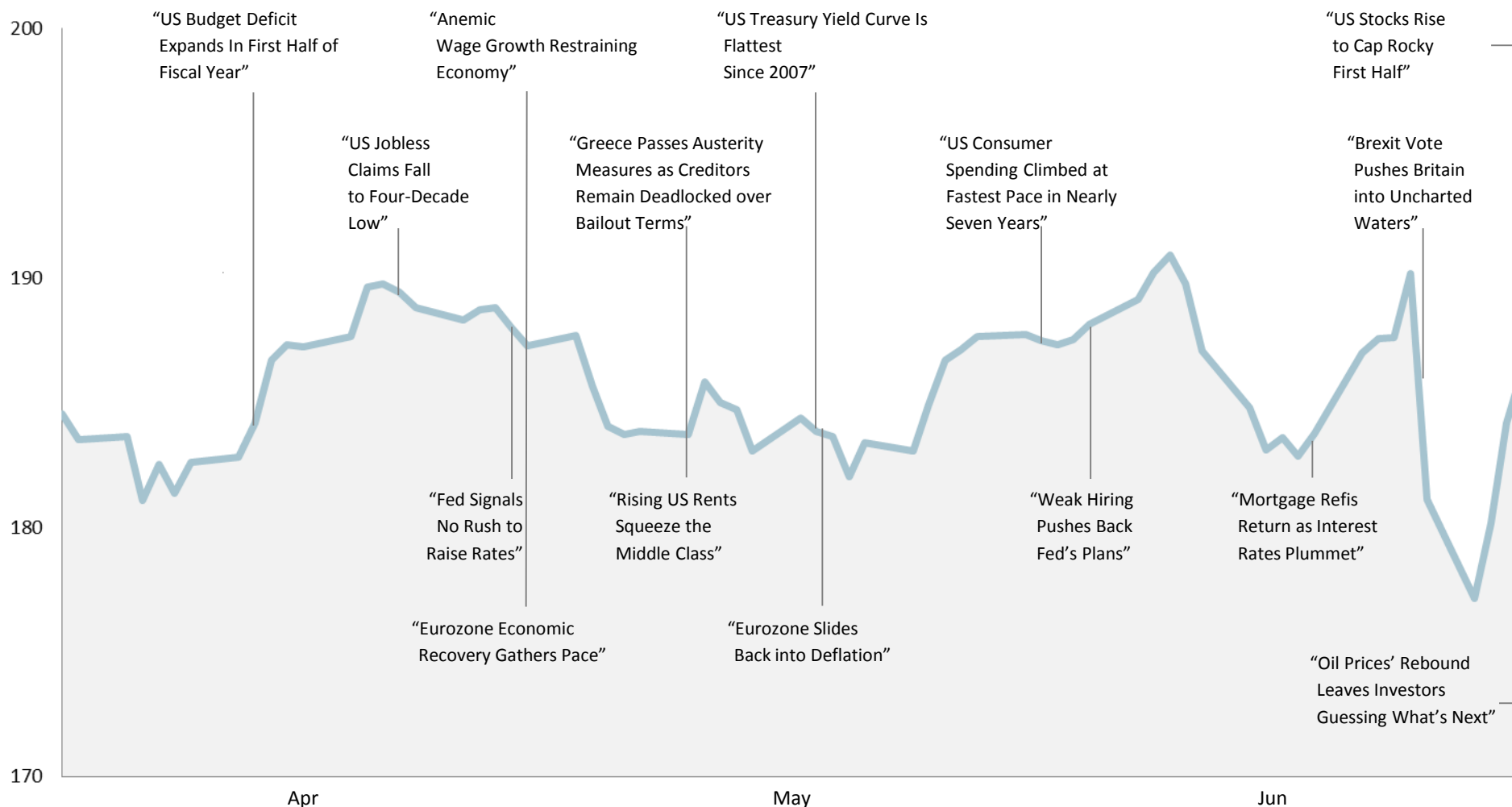
Index Returns

| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|------------------------|---|--|---|---|---|---|
| 2Q 2016 | STOCKS | | | | BONDS | |
| | 2.63%  | -1.05%  | 0.66%  | 4.48%  | 2.21%  | 3.11%  |
| Since Jan. 2001 | | | | | | |
| Avg. Quarterly Return | 1.7% | 1.3% | 2.9% | 2.9% | 1.3% | 1.2% |
| Best Quarter | 16.8% Q2 2009 | 25.9% Q2 2009 | 34.7% Q2 2009 | 32.3% Q3 2009 | 4.6% Q3 2001 | 5.5% Q4 2008 |
| Worst Quarter | -22.8% Q4 2008 | -21.2% Q4 2008 | -27.6% Q4 2008 | -36.1% Q4 2008 | -2.4% Q2 2004 | -3.2% Q2 2015 |

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index), US Bond Market (Barclays US Aggregate Bond Index), and Global Bond ex US Market (Citigroup WGBI ex USA 1-30 Years [Hedged to USD]). The S&P data are provided by Standard & Poor's Index Services Group. Russell data © Russell Investment Group 1995-2016, all rights reserved. MSCI data © MSCI 2016, all rights reserved. Barclays data provided by Barclays Bank PLC. Citigroup bond indices © 2016 by Citigroup.

Timeline of Events: A Quarter in Review

Second Quarter 2016



These headlines are not offered to explain market returns. Instead, they serve as a reminder that investors should view daily events from a long-term perspective and avoid making investment decisions based solely on the news.

Graph Source: MSCI ACWI Index. MSCI data © MSCI 2016, all rights reserved.

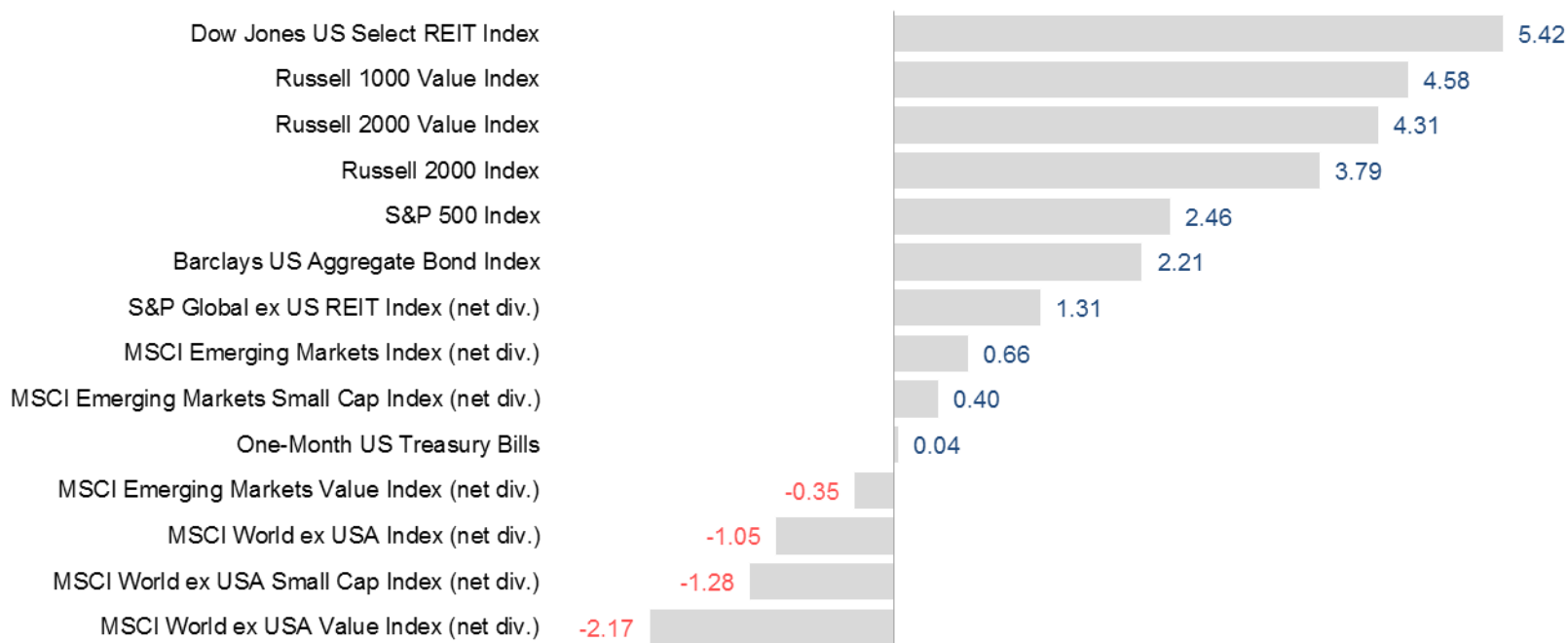
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Asset Classes

Second Quarter 2016 Index Returns (%)

Looking at broad market indices, the US outperformed developed markets outside the US and emerging markets. US REITs recorded the highest returns, outperforming the broad equity market.

The value effect was positive in the US but negative in developed and emerging markets. Small caps outperformed large caps in the US but slightly underperformed in the developed and emerging markets.



Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. The S&P data is provided by Standard & Poor's Index Services Group. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2016, all rights reserved. Dow Jones data (formerly Dow Jones Wilshire) provided by Dow Jones Indexes. Barclays data provided by Barclays Bank PLC.

US Stocks

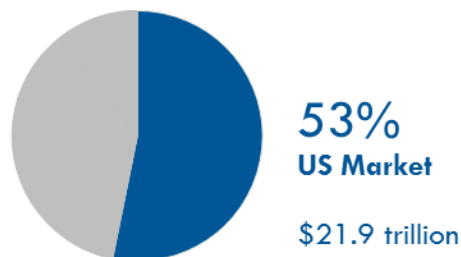
Second Quarter 2016 Index Returns

The broad US equity market recorded positive absolute performance for the quarter.

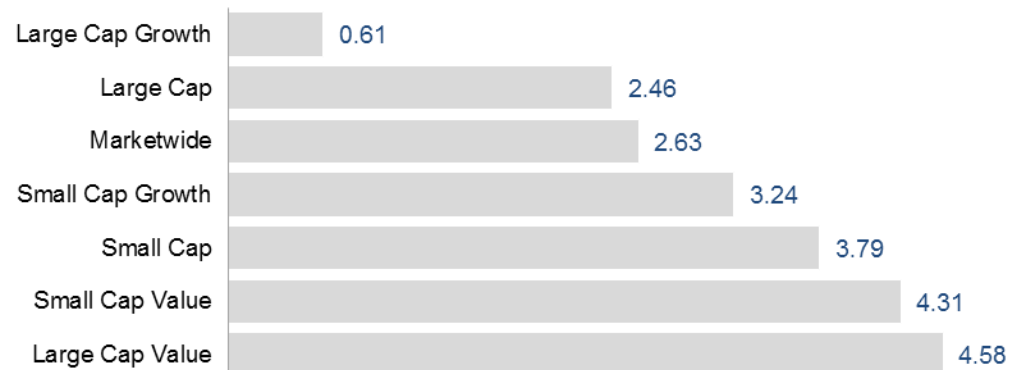
Value indices outperformed growth indices across all size ranges.

Small caps outperformed large caps.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

| Asset Class | YTD | * Annualized | | | |
|------------------|-------|--------------|----------|----------|-----------|
| | | 1 Year | 3 Years* | 5 Years* | 10 Years* |
| Marketwide | 3.62 | 2.14 | 11.13 | 11.60 | 7.40 |
| Large Cap | 3.84 | 3.99 | 11.66 | 12.10 | 7.42 |
| Large Cap Value | 6.30 | 2.86 | 9.87 | 11.35 | 6.13 |
| Large Cap Growth | 1.36 | 3.02 | 13.07 | 12.35 | 8.78 |
| Small Cap | 2.22 | -6.73 | 7.09 | 8.35 | 6.20 |
| Small Cap Value | 6.08 | -2.58 | 6.36 | 8.15 | 5.15 |
| Small Cap Growth | -1.59 | -10.75 | 7.74 | 8.51 | 7.15 |

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (S&P 500 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. The S&P data are provided by Standard & Poor's Index Services Group.

International Developed Stocks

Second Quarter 2016 Index Returns

In US dollar terms, developed markets outside the US lagged both the US equity market and emerging markets indices during the quarter.

Small caps slightly underperformed large caps in non-US developed markets.

The value effect was negative in non-US developed markets using broad market indices across all size ranges.

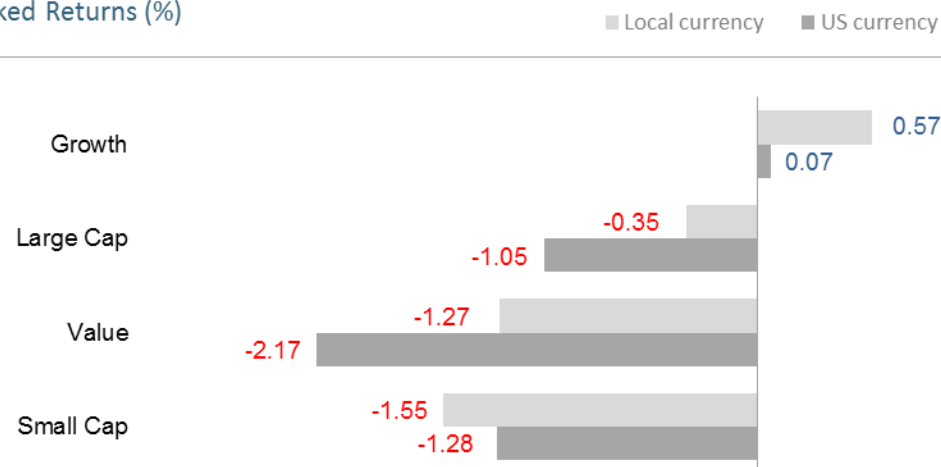
World Market Capitalization—International Developed

36%

International
Developed
Market
\$14.9 trillion



Ranked Returns (%)



Period Returns (%)

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|-------|--------|----------|----------|-----------|
| Large Cap | -2.98 | -9.84 | 1.88 | 1.23 | 1.63 |
| Small Cap | -0.69 | -3.35 | 6.34 | 3.61 | 3.33 |
| Value | -4.68 | -14.35 | -0.24 | -0.17 | 0.43 |
| Growth | -1.29 | -5.25 | 3.94 | 2.58 | 2.75 |

* Annualized

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Emerging Markets Stocks

Second Quarter 2016 Index Returns

In US dollar terms, emerging markets indices underperformed the US but outperformed developed markets outside the US.

The value effect was negative in emerging markets using broad market indices. Large cap value indices underperformed large cap growth indices. The opposite was true among small caps: Small cap value indices outperformed small cap growth indices.

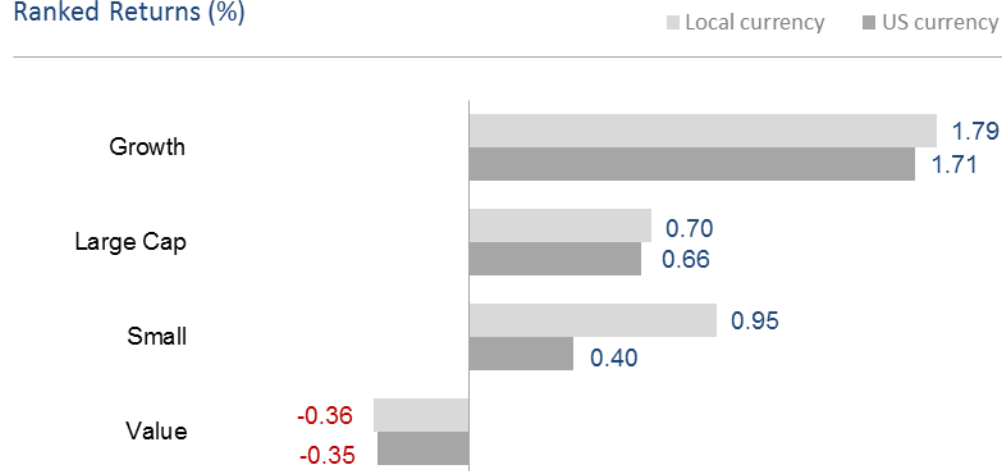
Small cap indices slightly underperformed large cap indices in emerging markets.

World Market Capitalization—Emerging Markets

11%
Emerging
Markets
\$4.4 trillion



Ranked Returns (%)



Period Returns (%)

| Asset Class | YTD | * Annualized | | | |
|-------------|------|--------------|----------|----------|-----------|
| | | 1 Year | 3 Years* | 5 Years* | 10 Years* |
| Large Cap | 6.41 | -12.05 | -1.56 | -3.78 | 3.54 |
| Small Cap | 1.38 | -12.76 | -0.01 | -2.29 | 5.98 |
| Value | 7.41 | -14.41 | -3.30 | -5.53 | 3.29 |
| Growth | 5.43 | -9.83 | 0.08 | -2.11 | 3.71 |

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market. MSCI data © MSCI 2016, all rights reserved.

Fixed Income

Second Quarter 2016 Index Returns

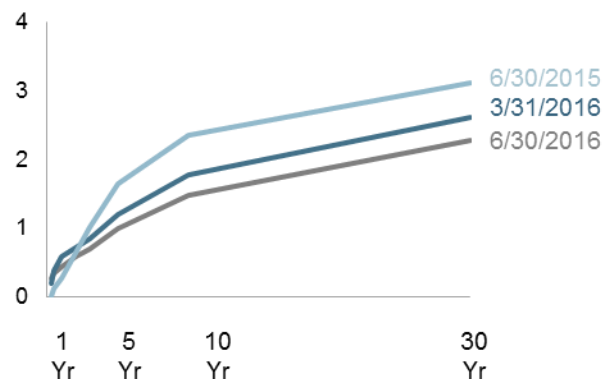
Interest rates across the US markets generally decreased during the quarter. The yield on the 5-year Treasury note fell 20 basis points (bps) to end at 1.01%. The yield on the 10-year T-note decreased 29 bps to 1.49%. The 30-year Treasury bond declined 31 bps to finish with a yield of 2.30%.

The 1-year T-bill ended the quarter yielding 0.45% and the 2-year T-note finished at 0.58%, for declines of 14 and 15 bps, respectively. The 3-month T-bill increased 5 bps to yield 0.26%, while the 6-month T-bill dipped 3 bps to 0.36%.

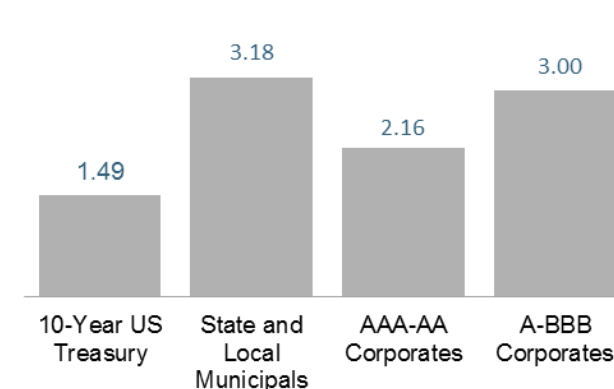
Short-term corporate bonds gained 1.05%. Intermediate-term corporates returned 2.24%, while long-term corporate bonds returned 6.64%.¹

Short-term municipal bonds returned 0.66%, while intermediate-term municipal bonds gained 1.84%. Revenue bonds slightly outperformed general obligation bonds.²

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

| Asset Class | YTD | * Annualized | | | |
|---|-------|--------------|----------|----------|-----------|
| | | 1 Year | 3 Years* | 5 Years* | 10 Years* |
| BofA Merrill Lynch Three-Month US Treasury Bill Index | 0.15 | 0.19 | 0.09 | 0.09 | 1.04 |
| BofA Merrill Lynch 1-Year US Treasury Note Index | 0.65 | 0.59 | 0.38 | 0.34 | 1.69 |
| Citigroup WGBI 1-5 Years (hedged to USD) | 1.86 | 2.36 | 1.82 | 1.84 | 2.98 |
| Barclays Long US Government Bond Index | 14.94 | 18.98 | 10.38 | 10.17 | 8.69 |
| Barclays US Aggregate Bond Index | 5.31 | 6.00 | 4.06 | 3.76 | 5.13 |
| Barclays US Corporate High Yield Index | 9.06 | 1.62 | 4.18 | 5.84 | 7.56 |
| Barclays Municipal Bond Index | 4.33 | 7.65 | 5.58 | 5.33 | 5.13 |
| Barclays US TIPS Index | 6.24 | 4.35 | 2.31 | 2.63 | 4.76 |

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1. Barclays US Corporate Bond Index. 2. Barclays Municipal Bond Index. Yield curve data from Federal Reserve. State and local bonds are from the Bond Buyer Index, general obligation, 20 years to maturity, mixed quality. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the Bank of America Merrill Lynch US Corporates, BBB-A rated. Barclays data provided by Barclays Bank PLC. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&P) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). Citigroup bond indices © 2016 by Citigroup. The BofA Merrill Lynch Indices are used with permission; © 2016 Merrill Lynch, Pierce, Fenner & Smith Incorporated; all rights reserved. Merrill Lynch, Pierce, Fenner & Smith Incorporated is a wholly owned subsidiary of Bank of America Corporation.

Real Estate Investment Trusts (REITs)

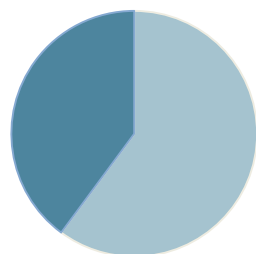
Second Quarter 2016 Index Returns

REITs in developed markets posted very strong performance for the quarter. US REITs outperformed broad market US equity indices.

Total Value of REIT Stocks

41%

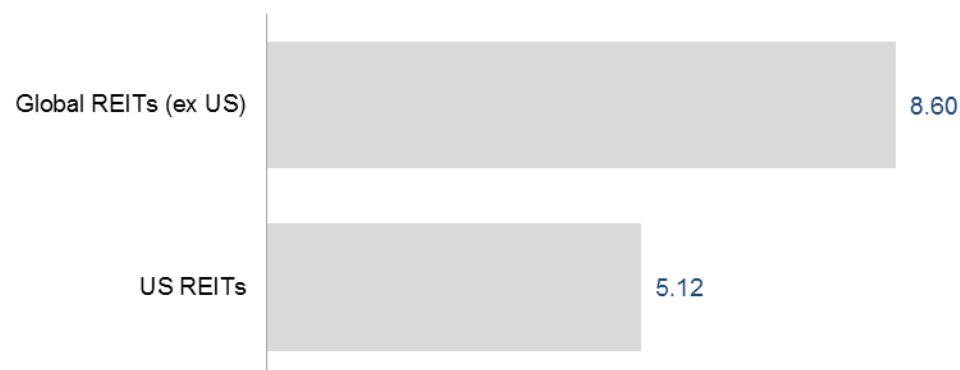
World ex US
\$432 billion
243 REITs
(22 other countries)



59%

US
\$625 billion
96 REITs

Ranked Returns (%)



Period Returns (%)

* Annualized

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|----------------------|------|--------|----------|----------|-----------|
| US REITs | 5.12 | 4.88 | 11.09 | 11.99 | 6.17 |
| Global REITs (ex US) | 8.60 | 2.53 | 3.46 | 6.58 | 3.49 |

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones US Select REIT Index data provided by Dow Jones ©. S&P Global ex US REIT Index data provided by Standard and Poor's Index Services Group © 2016.

Quotes

Second Quarter 2016

“It is not inequality which is the real misfortune; it’s dependence.”
-Voltaire

“A society that puts equality-in the sense of equality of outcomes-ahead of freedom will end up with neither equality nor freedom. The use of force to achieve equality will destroy freedom, and the force, introduced for good purposes, will end up in the hands of people who use it to promote their own interests.”
-Milton and Rose Friedman, *Free to Choose: A Personal Statement*

“Today’s ultralow, even negative, interest rates and apparently low inflation are taken for granted by the secular stagnation theorists, who believe the status quo will persist for years and years. It’s a view that seems implausible in light of the industrial world’s debts. The path may be crooked, but the way ahead seems clear: Governments will increasingly pay their bills and expand their spending not with the fruits of the productive labor of taxpayers but by printing money. Inflation is inevitable.”
-Holman W. Jenkins, Jr., “How the Malaise Will End,” WSJ June 21, 2016

“Value is currently cheaper than at any time other than the height of the Nifty Fifty (1972-73), the tech bubble (1998-2003), and the global financial crisis (2008-09).”
-Rob Arnott, Noah Beck, Vitali Kalesnik, and John West, *Research Affiliates, February 2016*

Did You Know? A human brain has 100 billion neurons. By 2026 or so, your computer will have more transistors.

\$67,700,000,000

Sixty-seven billion, seven hundred million dollars is the answer. Here’s the question:
 How much money have investors *yanked*-financial journalism’s universal verb for net equity withdrawals-from U.S. equity mutual funds and ETFs in 2016 through May 11?
 And here’s a corollary question, albeit one that’s much more difficult to answer: How is it possible for any sentient being with more than about 72 hours of investment experience to be bearish in the face of this number?
 The rest is silence.

-Nick Murray Interactive, June 2016

“All limits are self-imposed.”
-Icarus

“Always do right. This will gratify some people and astonish the rest.”
-Mark Twain