

Q4

Quarterly Market Review

Fourth Quarter 2015

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This report features world capital market performance and a timeline of events for the past quarter. It begins with our topic of the quarter, “*The Rise of Short-Term Rates*”, followed by a global overview, and 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.

Quarterly Topic: The Rise of Short-Term Rates

Market Summary

Timeline of Events: Fourth Quarter 2015

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Fixed Income

Real Estate Investment Trusts (REITs)

Quotes

The Rise of Short-Term Rates

Fourth Quarter 2015

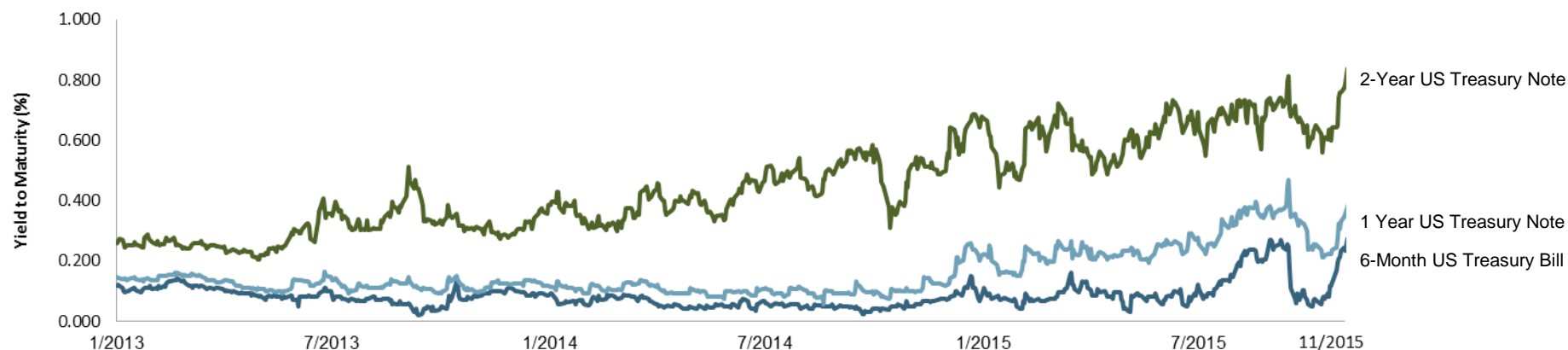
While many market participants were waiting for the “inevitable” rise in short-term interest rates expected when the Federal Reserve tightened its monetary policy, some investors may have missed the increase in short-term rates already underway as a result of market forces.

Looking at the zero- to two-year segment of the yield curve—the segment that many believe will be most affected whenever the Fed “normalizes interest rates”—it may be surprising to see how much rates have increased since 2013.

In fact, the yield on the 2-Year US Treasury note has nearly doubled since the beginning of 2015, rising from 0.45% in January to almost 0.90% in late November.¹ The yield on the 1-Year US Treasury note more than tripled, from 0.15% to more than 0.50% over the same period. The 6-Month US Treasury bill’s yield rose from a low of 0.03% in May to over 0.30% in late November. Yet, despite the higher rates, we have not experienced the conjectured financial storm in the fixed income market.

The question of how far the Fed will go in raising its overnight target rate is still open. Similarly, we can ask ourselves a more complex question: Will the market lead the Fed or is the Fed leading the market through setting expectations?

US Treasury Yields, January 2013 to November 2015



Past performance is no guarantee of future results. Source: Barclays Bank PLC.

1. As of November 18, 2015. Source: Barclays Bank PLC.







Adapted from “The Rise of Short-Term Rates,” Issue Brief, November 2015. Dimensional Fund Advisors LP is an investment advisor registered with the Securities and Exchange Commission.

Fixed income securities are subject to increased loss of principal during periods of rising interest rates and may be subject to various other risks, including changes in credit quality, liquidity, prepayments, and other factors. Sector-specific investments can increase these risks.

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

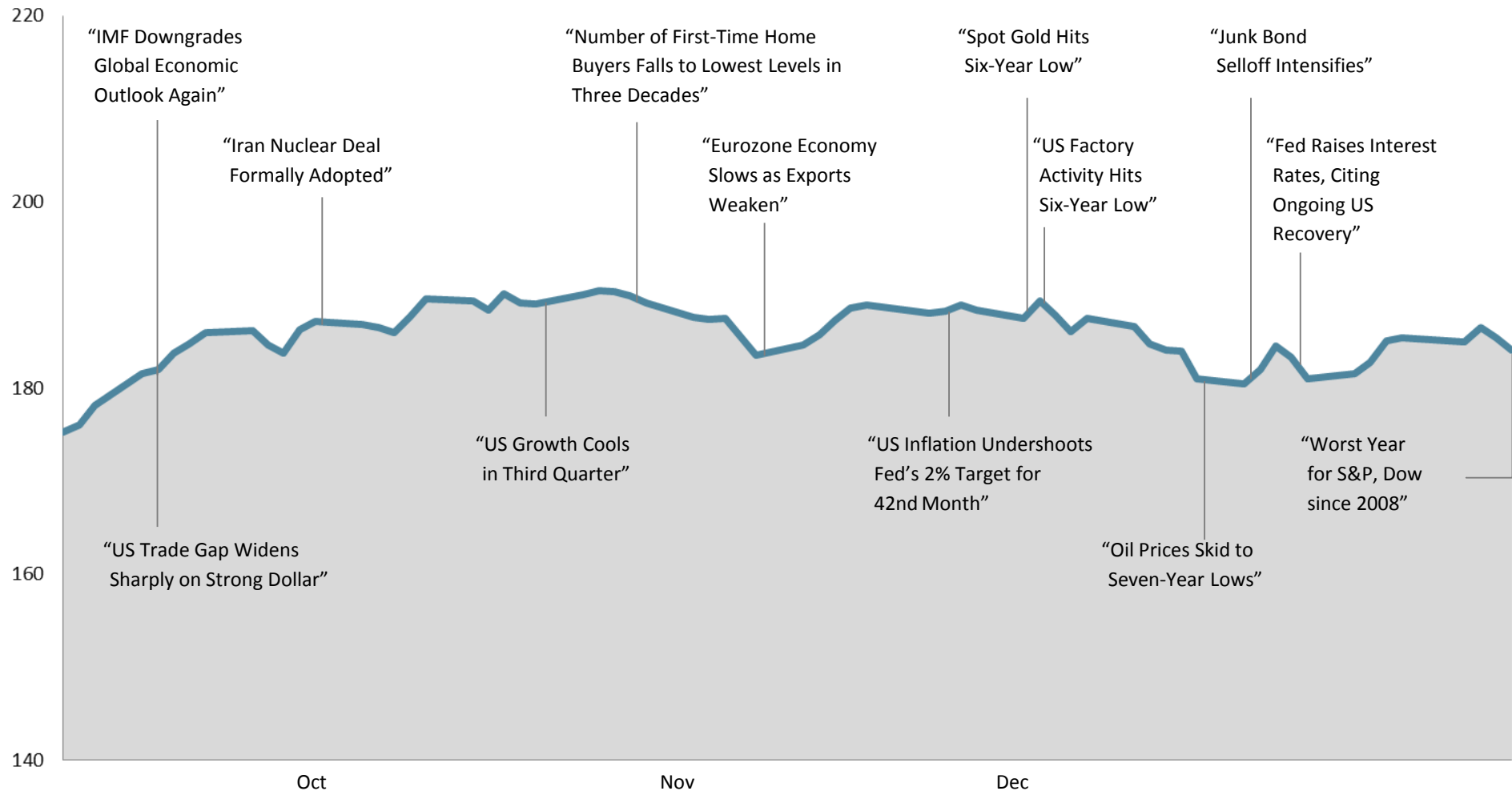
Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
4Q 2015	STOCKS				BONDS	
	6.27% 	3.91% 	0.66% 	4.89% 	-0.57% 	0.58% 
Since Jan. 2001						
Avg. Quarterly Return	1.7%	1.4%	2.9%	2.8%	1.2%	1.1%
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

Fourth Quarter 2015



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.

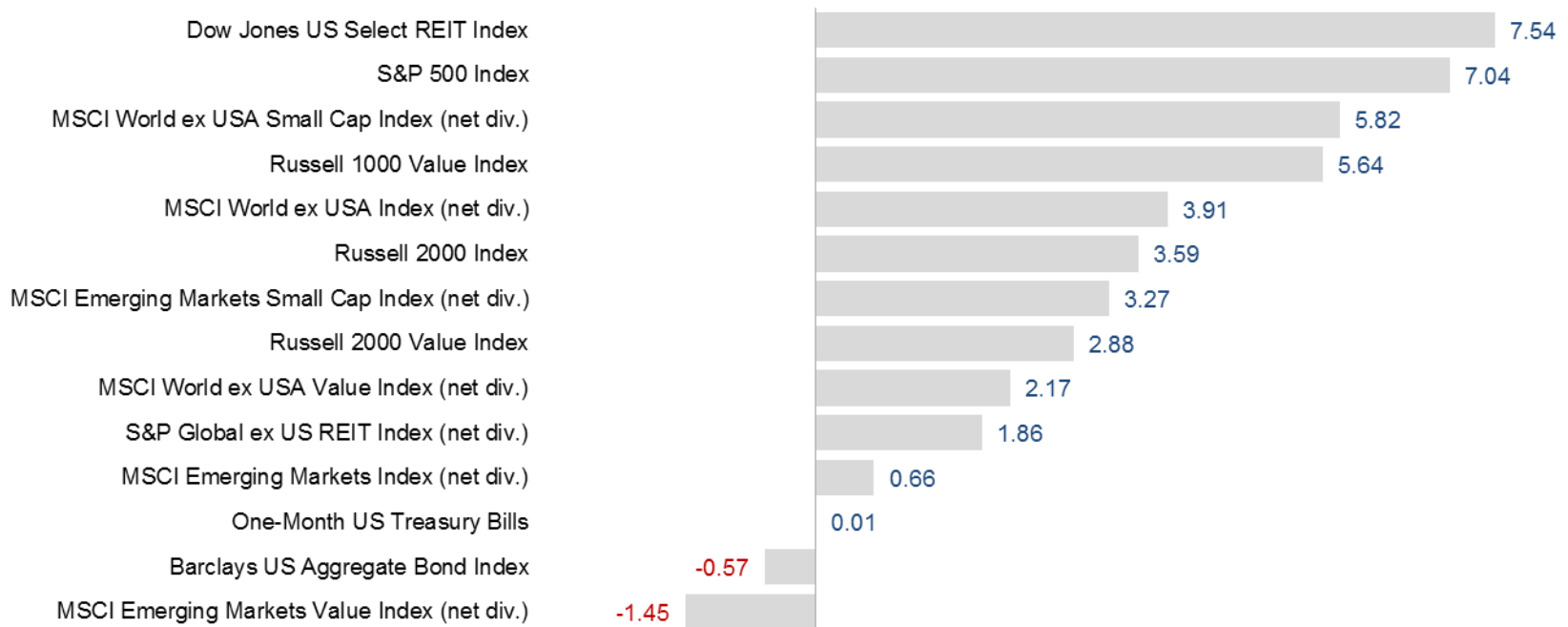
It is not possible to invest directly in an index. Performance does not reflect the expenses associated with management of an actual portfolio. Past performance is not a guarantee of future results.

World Asset Classes

Fourth Quarter 2015 Index Returns (%)

Looking at broad market indices, the US equity market again outperformed both developed ex US and emerging markets during the quarter. In a repeat from the third quarter, US REITs recorded the highest returns, outperforming equity markets.

The value effect was negative in the US, developed ex US, and emerging markets. Small caps outperformed large caps in both developed ex US and emerging markets but underperformed in the US.



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. Russell data © Russell Investment Group 1995–2016, all rights reserved. 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.

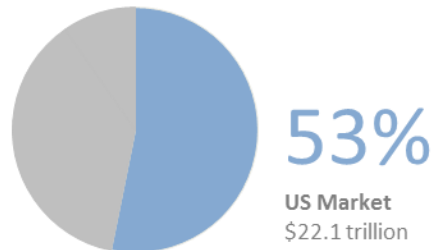
US Stocks

Fourth Quarter 2015 Index Returns

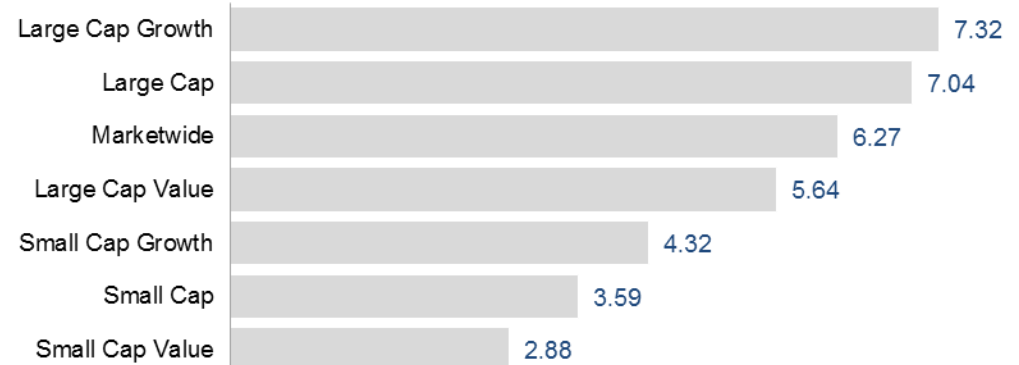
In a turnaround from the previous quarter, the US equity market recorded positive performance.

Small caps underperformed large caps, and value indices underperformed growth indices across all size ranges.

World Market Capitalization—US



Ranked Returns for the Quarter (%)



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Marketwide	0.48	14.74	12.18	7.35
Large Cap	1.38	15.13	12.57	7.31
Large Cap Value	-3.83	13.08	11.27	6.16
Large Cap Growth	5.67	16.83	13.53	8.53
Small Cap	-4.41	11.65	9.19	6.80
Small Cap Value	-7.47	9.06	7.67	5.57
Small Cap Growth	-1.38	14.28	10.67	7.95

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. Russell data © Russell Investment Group 1995–2016, all rights reserved. The S&P data are provided by Standard & Poor's Index Services Group.

International Developed Stocks

Fourth Quarter 2015 Index Returns

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

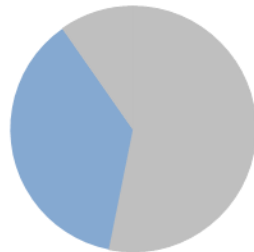
Small caps outperformed large caps in non-US developed markets.

Value indices underperformed growth indices across all size ranges in non-US developed markets.

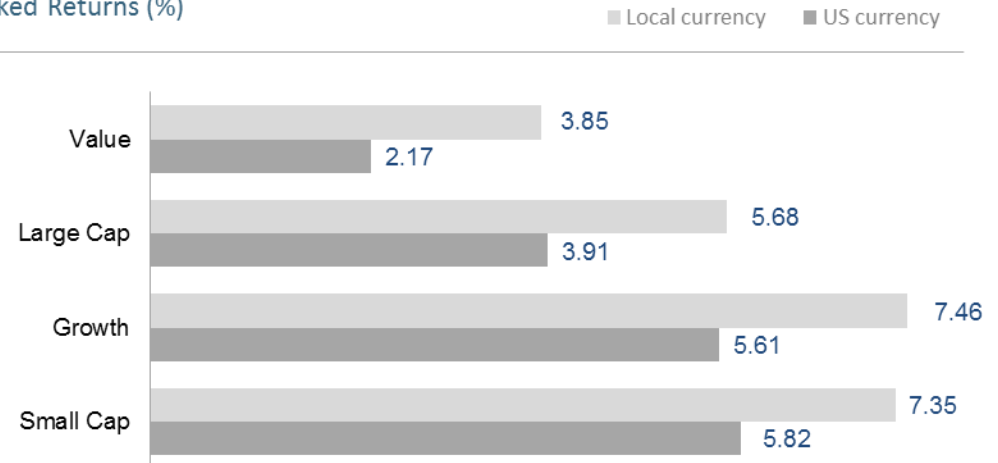
World Market Capitalization—International Developed

37%

International
Developed
Market
\$15.4 trillion



Ranked Returns (%)



Period Returns (%)

* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-3.04	3.93	2.79	2.92
Small Cap	5.46	7.82	4.39	4.09
Value	-7.68	1.99	1.90	1.95
Growth	1.65	5.83	3.62	3.81

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 World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth). 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 World ex USA IMI Index used as the proxy for the International Developed market. MSCI data © MSCI 2016, all rights reserved.

Emerging Markets Stocks

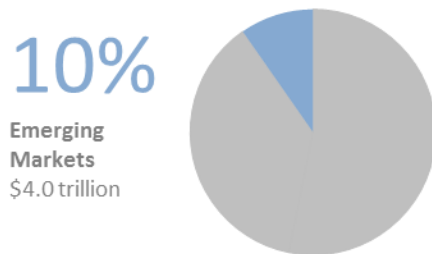
Fourth Quarter 2015 Index Returns

In US dollar terms, emerging markets indices underperformed developed markets, including the US, during the quarter.

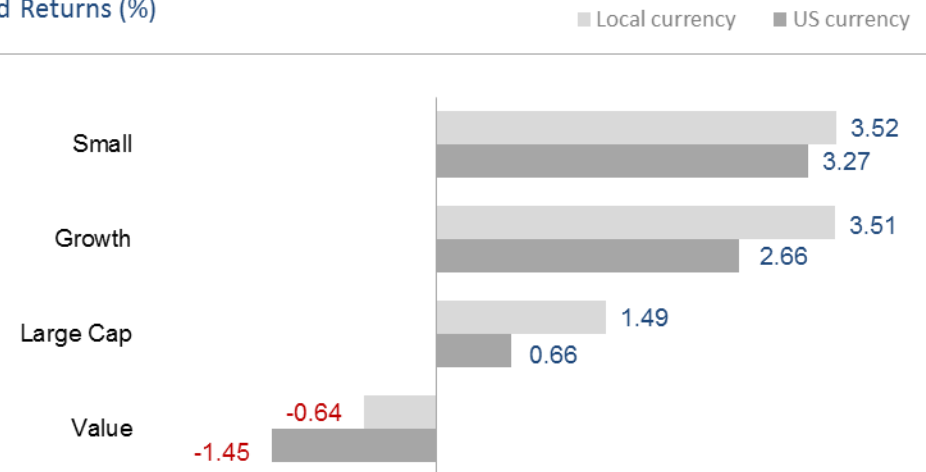
Small cap indices outperformed large cap indices in emerging markets.

Value indices underperformed growth indices in emerging markets across all size ranges.

World Market Capitalization—Emerging Markets



Ranked Returns (%)



Period Returns (%)

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Large Cap	-14.92	-6.76	-4.81	3.61
Small Cap	-6.85	-1.67	-3.29	6.11
Value	-18.57	-9.50	-6.74	3.39
Growth	-11.34	-4.10	-2.94	3.76

* Annualized

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Fixed Income

Fourth Quarter 2015 Index Returns

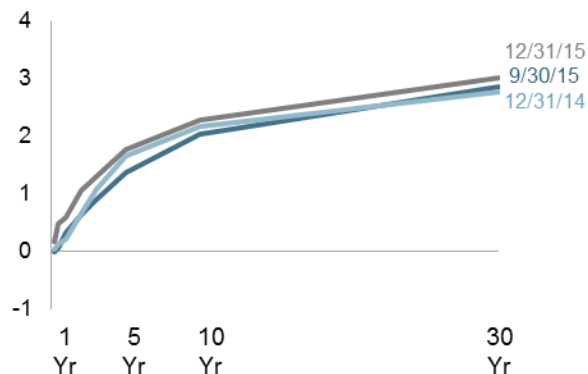
Interest rates across the US fixed income markets increased in the fourth quarter. The yield on the 5-year Treasury note gained 39 basis points to end the quarter at 1.77%. The yield on the 10-year Treasury note increased 22 bps to 2.27%. The 30-year Treasury bond added 14 bps points to finish with a yield of 3.01%.

The short end of the yield curve experienced the largest increase in yields during 2015.

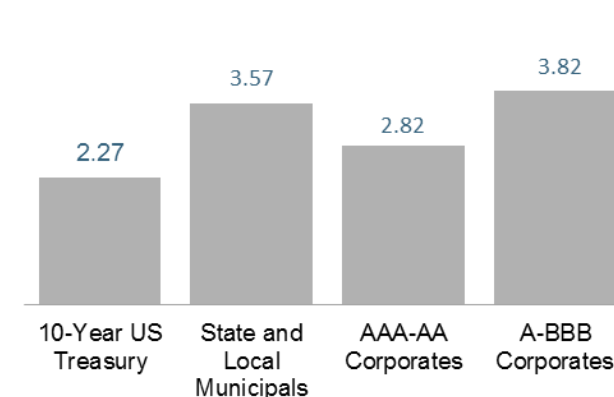
Short-term corporate bonds declined 0.14% during the quarter but gained 1.01% for the year. Intermediate-term corporates fell by 0.42% during the quarter but climbed 1.08% in 2015.¹

Short-term municipal bonds returned 0.08% for the quarter and 1.21% for the year. Intermediate-term municipal bonds returned 1.26% for the quarter and 3.28% for the year.²

US Treasury Yield Curve (%)



Bond Yields across Issuers (%)



Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
BofA Merrill Lynch Three-Month US Treasury Bill Index	0.05	0.05	0.07	1.24
BofA Merrill Lynch 1-Year US Treasury Note Index	0.15	0.20	0.28	1.78
Citigroup WGBI 1-5 Years (hedged to USD)	1.00	1.17	1.58	2.90
Barclays Long US Government Bond Index	-1.16	2.55	7.65	6.67
Barclays US Aggregate Bond Index	0.55	1.44	3.25	4.51
Barclays US Corporate High Yield Index	-4.47	1.69	5.04	6.96
Barclays Municipal Bond Index	3.30	3.16	5.35	4.72
Barclays US TIPS Index	-1.44	-2.27	2.55	3.94

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.

1. Barclays Short and Intermediate US Corporate Bond Indices. 2. Barclays Short and Intermediate Municipal Bond Indices. 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 (SBBBI) 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)

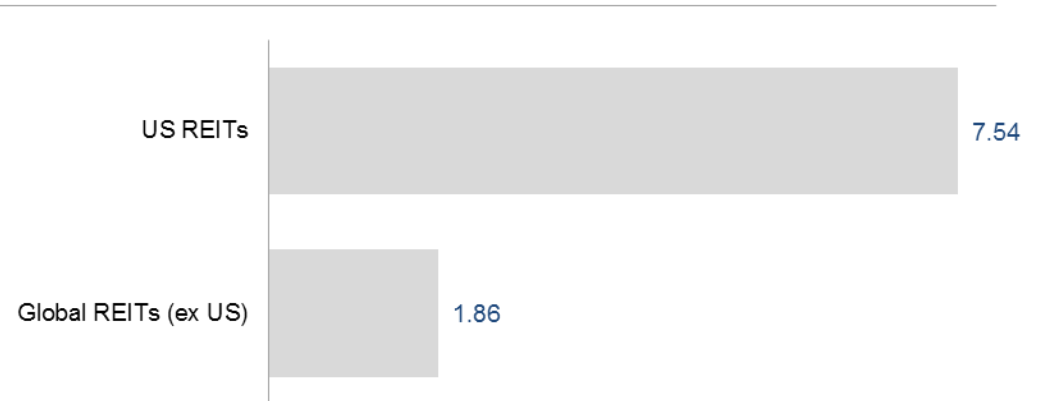
Fourth Quarter 2015 Index Returns

US REITs were one of the best-performing asset classes during the quarter, outperforming equities. But REITs outside the US underperformed non-US broad equity market indices.

Total Value of REIT Stocks



Ranked Returns (%)



Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
US REITs	4.48	11.76	12.32	7.20
Global REITs (ex US)	-3.54	3.08	5.72	3.32

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

Fourth Quarter 2015

“It’s irrational. It’s frankly illiterate to not be optimistic. We’re going to see a blossoming across essentially every front, unprecedented in human technological history. This is not something that’s hoped for. This is baked in the cake.”

-Lowell Wood, the man whose 1,085th patent surpassed Edison’s this year.

“Wall Street is the only industry where when things go on sale everybody runs out of the store.”

-Charlie Dreifus

“Permanent loss in a well-diversified equity portfolio is always a human achievement, of which the market itself is incapable.”

-Nick Murray, Behavioral Strategies Conference, October 9, 2015

“If you would know the value of money, go and try to borrow some.”

-Ben Franklin

“I, in my own mind, have always thought of America as a place in the divine scheme of things that was set aside as a promised land.”

-Ronald Reagan, in a commencement speech at William Wood College, 1952

“The best way to predict the future is to create it.”

-Abraham Lincoln