



Q1

Quarterly Market Review

First Quarter 2021

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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 impact of globally diversified portfolios and features a quarterly topic.

Quarterly Topic: YOLO, Meme, and EMH: What's Your Investment Style?

Quarterly Market Summary

Long Term Market Summary

Timeline of Events: First Quarter 2021

World Asset Classes

US Stocks

International Developed Stocks

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Fixed Income

Real Estate Investment Trusts (REITs)

YOLO, Meme, and EMH: What's Your Investment Style?

Marlena Lee, PhD, Global Head of Investment Solutions

You only live once! Social media investors have banded together on unconventional platforms to drive up the prices of a handful of “meme stocks,” seemingly without traditional evaluation of investing risks and rewards. They made headlines with their “short squeeze” of GameStop (GME), and, as they garner media attention, their tactics continue. While it’s not the intended victim of the YOLO traders, will the efficient market hypothesis be a casualty of these events? The answer depends a lot on your definition of efficient markets. Perhaps long-term investors would be better served questioning the potential impact on their investment philosophy.

Fama (1970) defines the efficient market hypothesis (EMH) to be the simple statement that prices reflect all available information. The rub is that it doesn’t say how investors should use this information. EMH is silent on the “correct” ways investors should use information and prices should be set. To be testable, EMH needs a companion model: a hypothesis for how markets and investors should behave. This leaves a lot of room for interpretation. Should asset prices be set by rational investors whose only concerns are systematic risk¹ and expected returns? It seems implausible to link recent meme-stock price movements to economic risks. Rather, they seem fueled by investor demand to be part of a social movement, hopes to strike it rich with a lucky stock pick, or plain old schadenfreude.

There is a vast ecosystem of investors, from individuals investing in their own accounts to governments and corporations who invest on behalf of thousands. Ask investors why they invest the way they do, and you’ll likely get a range of goals and approaches just as diverse. It’s this complex system that generates the demand for stocks. Another complex system fuels the supply of stocks. Supply and demand meet at the market price. People may contend that the market is not always efficient, or rational, but the stock market is always in equilibrium. Every trade has two sides, with a seller for every buyer and a profit for every loss.

There are plenty of well-studied examples that show supply and demand at work. The huge increase in demand for stocks added to a well-tracked index often creates a run-up in the stock price. Some of this price increase can be temporary and reversed once the tremendous liquidity demands at index reconstitution² are met. Index reconstitution is just one example; instances of liquidity-driven price movements happen all the time. It is well documented that liquidity demands can produce temporary price movements.³ Investors may wonder if temporary price dislocations motivated by users of r/WallStreetBets differ from those caused by changes to an index. Lots of buying puts temporary upward pressure on prices, which later fall back to “fundamental value”—it sounds familiar. The more relevant observation may be that markets are complex systems well adapted to facilitate the supply and demand of numerous market participants.







There are numerous reasons people may be willing to hold different stocks at different expected returns. Can all those differences be explained by risks? Doubtful. To quote Professor Fama, “The point is not that markets are efficient. They’re not. It’s just a model.”⁴ EMH can be a very useful model to inform how investors should behave. We believe investing as if markets are efficient is a good philosophy for building long-term wealth. Trying to outguess markets might be a quick way to destroy wealth.

It’s true, you only live once. The good news is that investors can look to market prices, not internet fads, to pursue higher expected returns. Theoretical and empirical research indicate higher expected returns come from lower relative prices and higher future cash flows to investors. Long-run investors can be better served by using markets, rather than chatrooms, for information on expected returns.

1. Systematic risk is the possibility of an investor experiencing losses due to factors that affect the overall performance of the financial markets in which he or she is involved. 2. Reconstitution involves the re-evaluation of a market index. The process involves sorting, adding, and removing stocks to ensure that the index reflects up-to-date market capitalization and style. 3. For example, see “Tesla’s Charge Reveals Weak Points of Indexing” (Dimensional, 2021). 4. “Are markets efficient?” – Interview between Eugene Fama and Richard Thaler (June 30, 2016). Eugene Fama is a member of the Board of Directors of the general partner and provides consulting services to Dimensional Fund Advisors LP.

Quarterly Market Summary

Index Returns



















| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | | US Bond Market | Global Bond Market ex US |
|---------|---|---|---|---|--|---|---|
| 1Q 2021 | STOCKS | | | | | BONDS | |
| | 6.35% | 4.04% | 2.29% | 6.22% | | -3.37% | -1.90% |
| |  |  |  |  | |  |  |

| Since Jan. 2001 | | | | | | | |
|-----------------------|----------------|----------------|----------------|----------------|--|----------------|----------------|
| Avg. Quarterly Return | 2.4% | 1.6% | 3.0% | 2.5% | | 1.1% | 1.1% |
| Best Quarter | 22.0% | 25.9% | 34.7% | 32.3% | | 4.6% | 4.6% |
| | 2020 Q2 | 2009 Q2 | 2009 Q2 | 2009 Q3 | | 2001 Q3 | 2008 Q4 |
| Worst Quarter | -22.8% | -23.3% | -27.6% | -36.1% | | -3.4% | -2.7% |
| | 2008 Q4 | 2020 Q1 | 2008 Q4 | 2008 Q4 | | 2021 Q1 | 2015 Q2 |

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 [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2021, all rights reserved. Bloomberg Barclays data provided by Bloomberg.

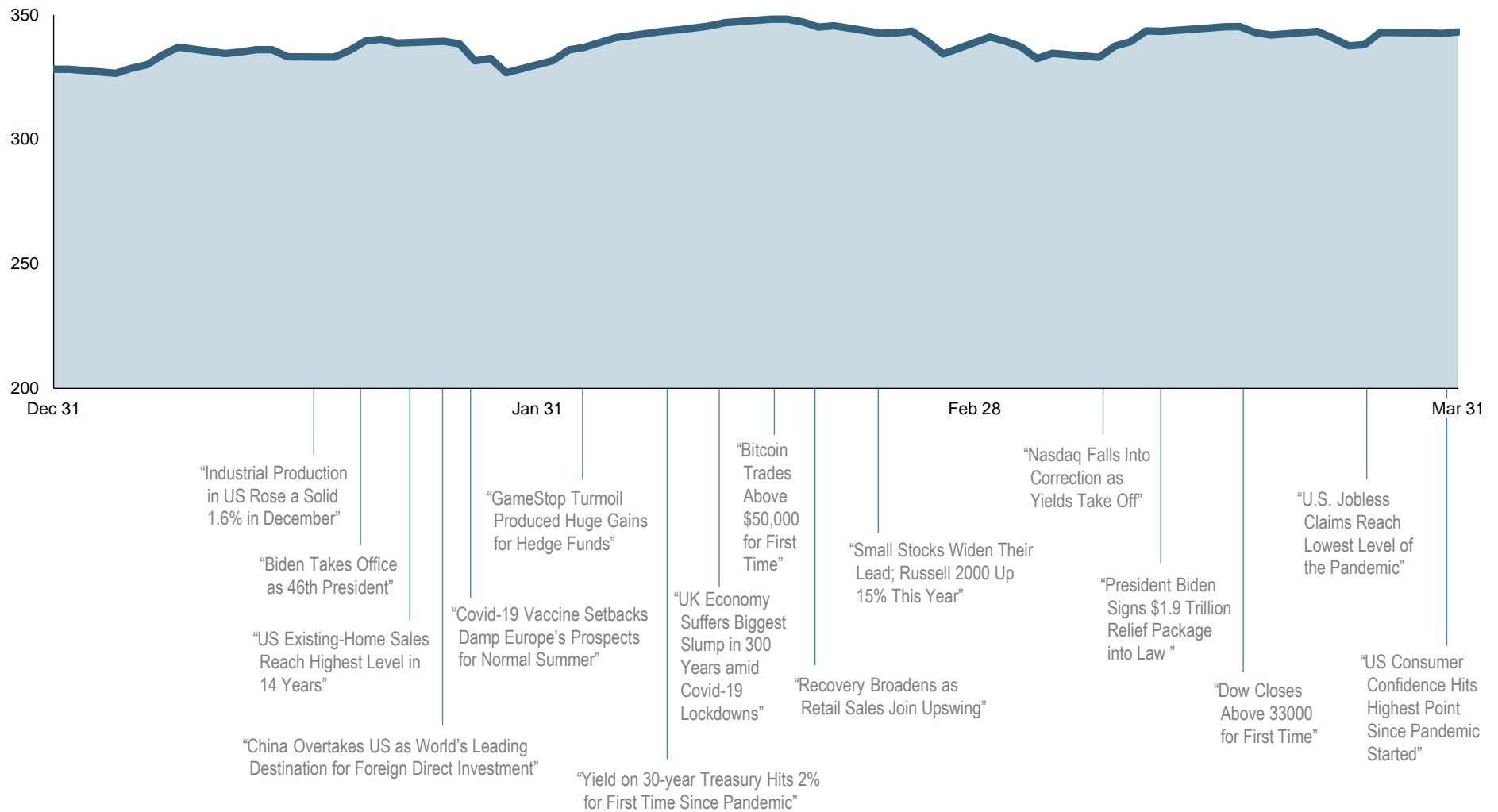
Long-Term Market Summary

Index Returns as of March 31, 2021

| | US Stock Market | International Developed Stocks | Emerging Markets Stocks | Global Real Estate | US Bond Market | Global Bond Market ex US |
|----------|---|---|--|---|---|---|
| 1 Year | STOCKS | | | | BONDS | |
| | 62.53% | 45.86% | 58.39% | 36.05% | 0.71% | 1.45% |
| |  |  |  |  |  |  |
| 5 Years | | | | | | |
| | 16.64% | 8.92% | 12.07% | 3.52% | 3.10% | 3.28% |
| |  |  |  |  |  |  |
| 10 Years | | | | | | |
| | 13.79% | 5.21% | 3.65% | 6.23% | 3.44% | 4.22% |
| |  |  |  |  |  |  |

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Timeline of Events: First Quarter 2021



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.

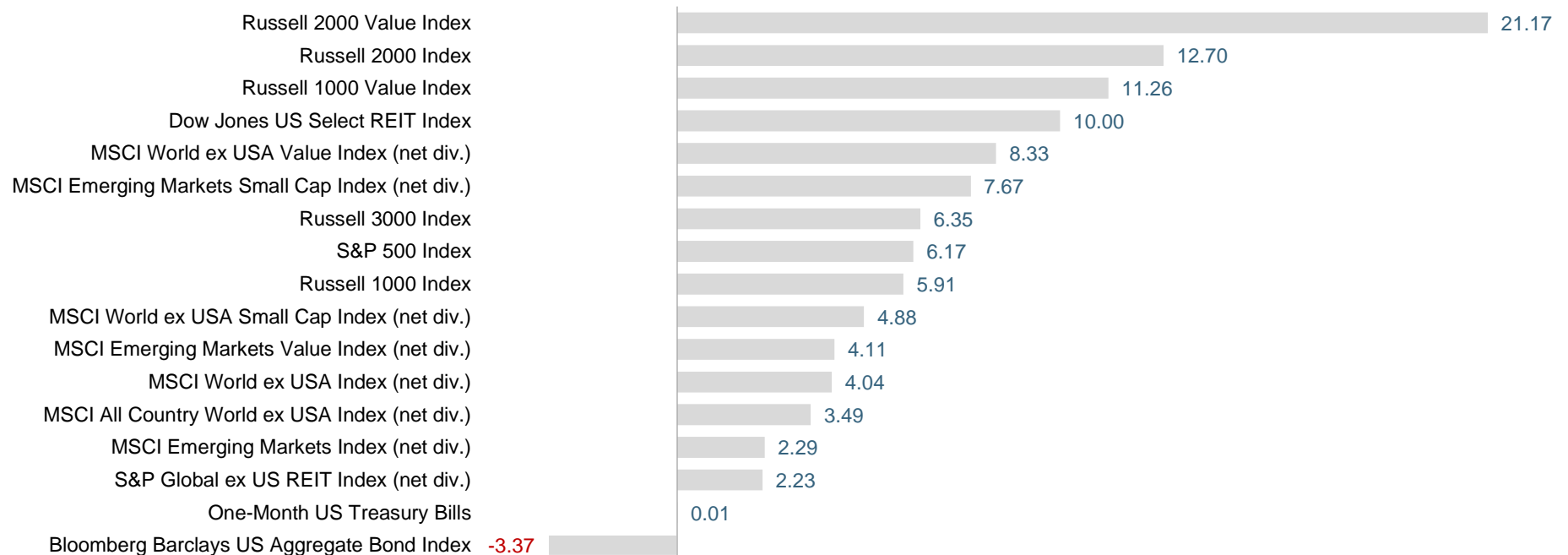
World Asset Classes

First Quarter 2021 Index Returns (%)

Equity markets around the globe posted positive returns in the first quarter. Looking at broad market indices, US and non-US developed markets outperformed emerging markets.

Value outperformed growth across regions. Small caps outperformed large caps across regions as well.

REIT indices outperformed equity market indices in the US and underperformed in non-US developed markets.



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US Stocks

First Quarter 2021 Index Returns

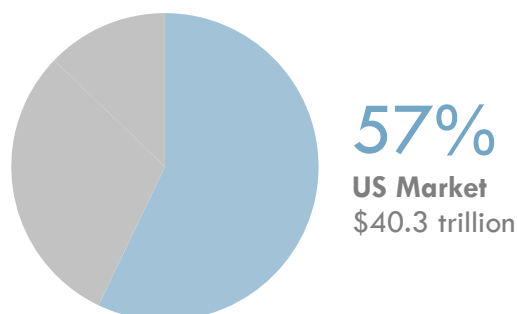
The US equity market posted positive returns for the quarter and outperformed non-US developed markets and emerging markets.

Value outperformed growth across large and small cap stocks.

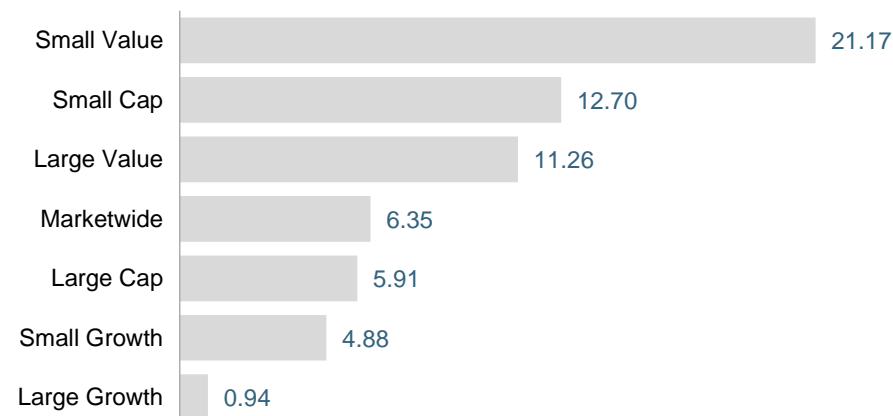
Small caps outperformed large caps.

REIT indices outperformed equity market indices.

World Market Capitalization—US



Ranked Returns (%)



Period Returns (%)

* Annualized

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--------------|-------|--------|----------|----------|-----------|
| Small Value | 21.17 | 97.05 | 11.57 | 13.56 | 10.06 |
| Small Cap | 12.70 | 94.85 | 14.76 | 16.35 | 11.68 |
| Large Value | 11.26 | 56.09 | 10.96 | 11.74 | 10.99 |
| Marketwide | 6.35 | 62.53 | 17.12 | 16.64 | 13.79 |
| Large Cap | 5.91 | 60.59 | 17.31 | 16.66 | 13.97 |
| Small Growth | 4.88 | 90.20 | 17.16 | 18.61 | 13.02 |
| Large Growth | 0.94 | 62.74 | 22.80 | 21.05 | 16.63 |

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International Developed Stocks

First Quarter 2021 Index Returns

Developed markets outside the US posted positive returns for the quarter, underperforming US equities but outperforming emerging markets.

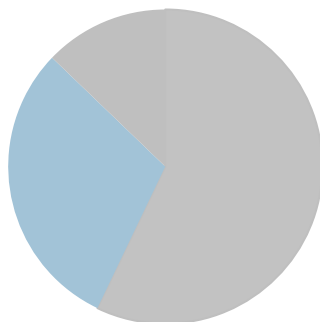
Value outperformed growth.

Small caps outperformed large caps.

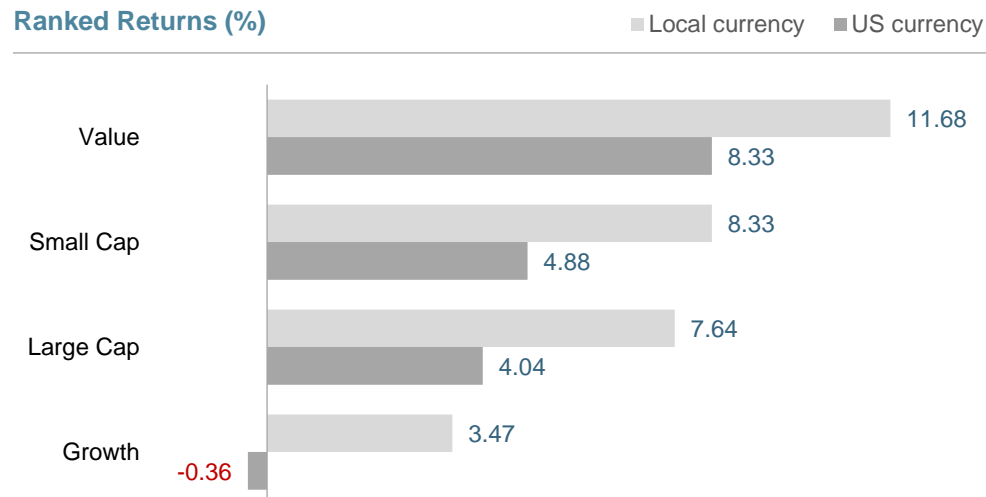
World Market Capitalization—International Developed

30%

International
Developed Market
\$21.2 trillion



Ranked Returns (%)



Period Returns (%)

| | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-----------|-------|--------|----------|----------|-----------|
| Value | 8.33 | 47.17 | 2.25 | 6.81 | 3.54 |
| Small Cap | 4.88 | 65.17 | 6.89 | 10.55 | 7.14 |
| Large Cap | 4.04 | 45.86 | 6.34 | 8.92 | 5.21 |
| Growth | -0.36 | 43.55 | 10.02 | 10.72 | 6.69 |

* Annualized

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Emerging Markets Stocks

First Quarter 2021 Index Returns

Emerging markets posted positive returns for the quarter, underperforming the US and developed ex US equity markets.

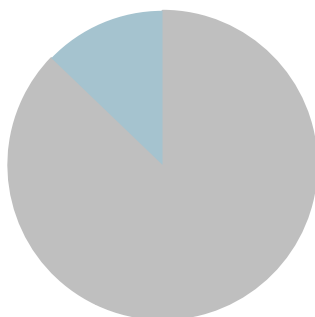
Value outperformed growth.

Small caps outperformed large caps.

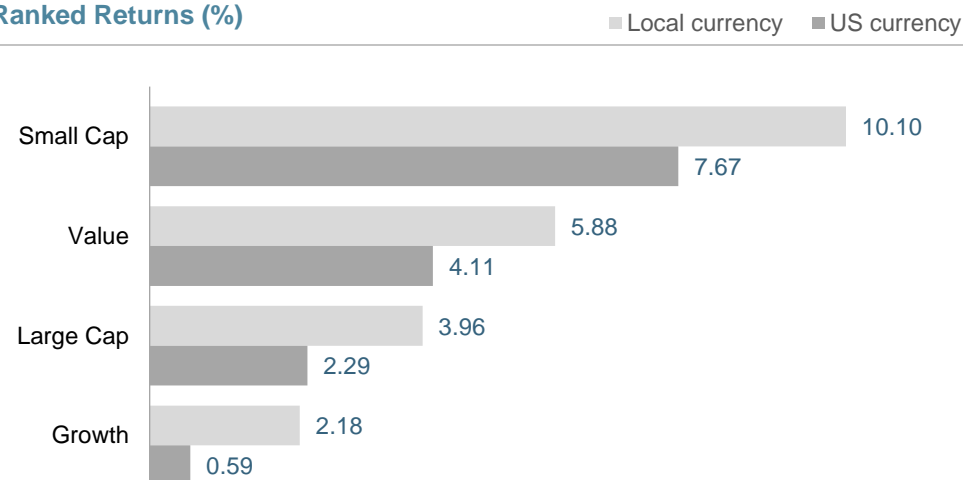
World Market Capitalization—Emerging Markets

13%

Emerging Markets
\$9.0 trillion



Ranked Returns (%)



Period Returns (%)

* Annualized

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|-------------|------|--------|----------|----------|-----------|
| Small Cap | 7.67 | 87.13 | 5.19 | 9.59 | 3.33 |
| Value | 4.11 | 52.53 | 2.60 | 8.42 | 1.03 |
| Large Cap | 2.29 | 58.39 | 6.48 | 12.07 | 3.65 |
| Growth | 0.59 | 63.78 | 10.10 | 15.53 | 6.15 |

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Fixed Income

First Quarter 2021 Index Returns

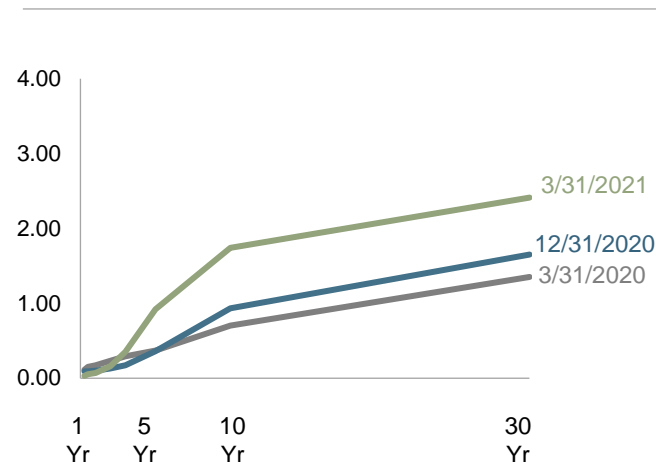
Interest rates generally increased in the US Treasury fixed income market during the first quarter. The yield on the 5-Year US Treasury note rose 56 basis points (bps), ending at 0.95%. The yield on the 10-Year T-note increased 81 bps to 1.74%. The 30-Year Treasury bond yield increased 75 bps to 2.39%.

On the short end of the curve, the 1-Month US Treasury bill yield decreased 3 bps to 0.05%, and the 1-Year T-bill yield fell 5 bps to 0.08%. The yield on the 2-Year US Treasury note climbed 6 bps to end at 0.15%.

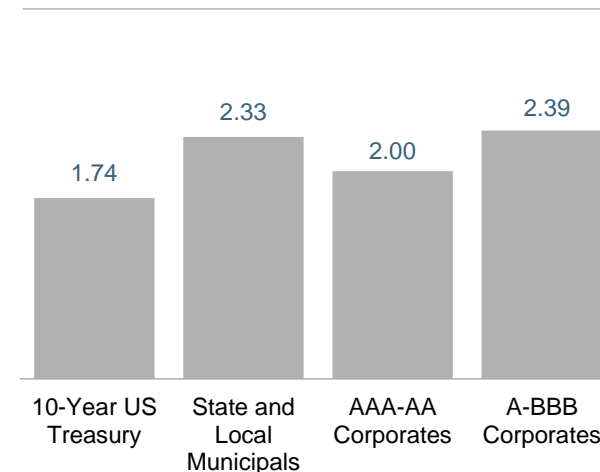
In terms of total returns, short-term corporate bonds declined 0.59%. Intermediate-term corporate bonds declined 2.19%.

The total return for short-term municipal bonds was flat, while intermediate-term municipal bonds lost 0.52%. Revenue bonds outperformed general obligation bonds.

US Treasury Yield Curve (%)



Bond Yield across Issuers (%)



Period Returns (%)

| Asset Class | QTR | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--|--------|--------|----------|----------|-----------|
| Bloomberg Barclays US High Yield Corporate Bond Index | 0.85 | 23.72 | 6.84 | 8.06 | 6.48 |
| ICE BofA 1-Year US Treasury Note Index | 0.07 | 0.17 | 2.14 | 1.52 | 0.92 |
| ICE BofA US 3-Month Treasury Bill Index | 0.03 | 0.12 | 1.49 | 1.19 | 0.63 |
| Bloomberg Barclays Municipal Bond Index | -0.35 | 5.51 | 4.91 | 3.49 | 4.54 |
| FTSE World Government Bond Index 1-5 Years (hedged to USD) | -0.36 | 0.57 | 2.88 | 2.05 | 1.96 |
| Bloomberg Barclays US TIPS Index | -1.47 | 7.54 | 5.68 | 3.86 | 3.44 |
| FTSE World Government Bond Index 1-5 Years | -2.39 | 3.20 | 1.29 | 1.43 | 0.09 |
| Bloomberg Barclays US Aggregate Bond Index | -3.37 | 0.71 | 4.65 | 3.10 | 3.44 |
| Bloomberg Barclays US Government Bond Index Long | -13.39 | -15.60 | 5.84 | 3.17 | 6.30 |

*Annualized

One basis point (bps) equals 0.01%. 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. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the Bank of America Merrill Lynch US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (S&BBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2021 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2021 ICE Data Indices, LLC. S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Real Estate Investment Trusts (REITs)

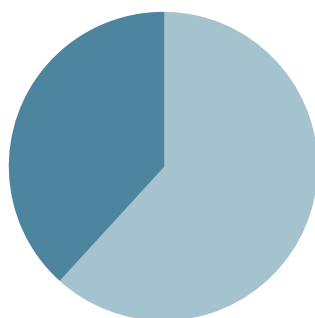
First Quarter 2021 Index Returns

US real estate investment trusts outperformed non-US REITs during the quarter.

Total Value of REIT Stocks

38%

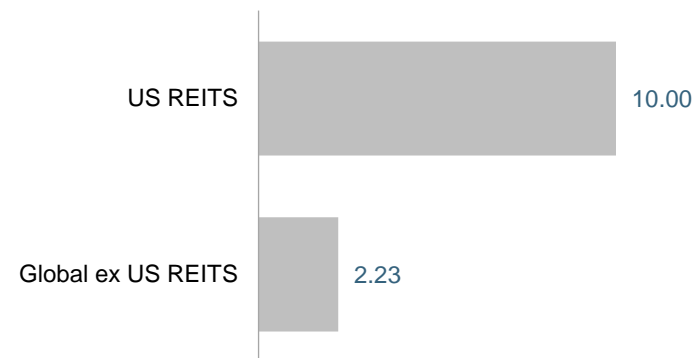
World ex US
\$523 billion
278 REITs
(25 other...)



62%

US
\$845 billion
114 REITs

Ranked Returns (%)



Period Returns (%)

** Annualized*

| Asset Class | YTD | 1 Year | 3 Years* | 5 Years* | 10 Years* |
|--------------------|-------|--------|----------|----------|-----------|
| US REITS | 10.00 | 36.66 | 7.55 | 3.94 | 7.89 |
| Global ex US REITS | 2.23 | 36.18 | 2.12 | 2.92 | 4.74 |

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 and S&P data © 2021 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.