Investment Perspective

FROM BRETHREN FOUNDATION FUNDS FEBRUARY 2018

Markets and the Economy

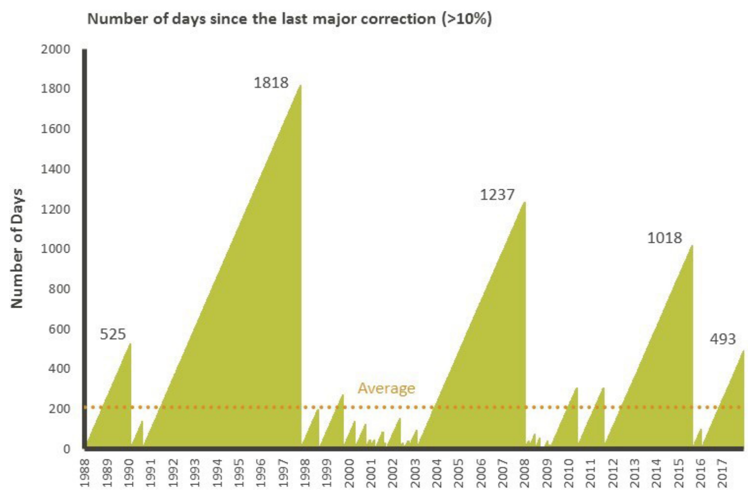
Better economic data, favorable earnings reports, the stimulative effects of sweeping tax cuts, and an accelerating global economy served as a backdrop to continued rising stocks. The S&P 500 Index rose 5.7 percent in January. In one of Janet Yellen's final acts as chair of the Federal Reserve, short-term rates were kept unchanged in a range from 1.25 – 1.50 percent. The first estimate for fourth quarter real GDP growth is 2.6 percent at an annual rate; the largest positive contribution was consumer spending and the largest drags were net exports and inventories. Real GDP is up 2.5 percent from a year ago. Job growth was strong in January, but the unemployment rate remained at 4.1 percent due to increase in the labor force. Average hourly earnings rose 0.3 percent in January, and are up 2.9 percent in the past year. The bond market, as measured by the Bloomberg Barclays U.S. Government/Credit Bond Index, declined 1.2 percent in January.

Eurozone GDP grew 2.5 percent in 2017 over the previous year; France's GDP increase of 1.9 percent contributed to Eurozone's strong growth. Inflation in the Eurozone was 1.3 percent higher in January than a year earlier; service prices rose at an annual rate of 1.2 percent. China's GDP rose 6.9 percent in 2017 over the prior year, in part due to infrastructure projects and a surging property market, along with pickup in trade from global economic recovery. Strong global demand drove Japan's factory output, rising 2.7 percent in December from the previous month. The gain was led by transport equipment and general-purpose-, production- and business-oriented machinery. Led by manufacturing, Canada's GDP advanced on an annualized basis of 3.5 percent in November. Strength of the economy supported Bank of Canada's decision to raise its benchmark interest rate a quarter percentage point to 1.25 percent in January. International equities, as measured by the MSCI EAFE Index, rose 5 percent in January.

Is the U.S. Equity Market Having a Major Correction?

Clients are reminded that predicting the market is utterly difficult, and their best course of action is to protect their portfolios.

At some point after an extended bull market, investors inevitably see a major correction in which the S&P 500 drops by at least 10 percent from its most recent peak. The chart examines the average duration between such market corrections.



Since 1988, there have been 35 major corrections in daily index levels and the average number of days between corrections is about 209 days. However, there is a large degree of variability when it comes to intervals between corrections. They have been as short as five days (a number of times in 2001-02 and 2008-09), and as long as 1,818 days. As of year-end 2017, 493 days have passed since the last major correction, making it the fifth longest interval between corrections since 1988. Is a major correction in the cards for 2018?

Certainly, the duration of this bull market, combined with current valuation levels, suggests that a correction in 2018 is more likely than not. Are we having one? Time will tell. However, continued strong earnings growth similar to what occurred in 2017, combined with additional benefits of tax reform, may preserve the bull market through 2018. If nothing else, clients are reminded that predicting the market is utterly difficult, and their best course of action is to protect their portfolios from a market correction by rebalancing in a disciplined manner and staying within the guidelines set forth by their investment policy statements.

Source: Marquette Associates, Jan. 12, 2018. Adapted with permission.

Please contact Steve Mason, director of Brethren Foundation, with questions or comments.

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Fund Performance Report for the period ending Jan. 31, 2018

All periods longer than one year are annualized.

Funds (Net of Investment Fees) *Benchmarks* (Gross)	Current Month	Three Months	Year-to-Date	Three Years	Five Years	Ten Years
SHORT-TERM						
Short-Term Fund	0.1%	0.2%	0.1%	0.5%	0.5%	0.9%
Merril Lynch 6-Month Treasury Bill Index [1]	*0.1%*	*0.3%*	*0.1%*	*0.6%*	*0.4%*	*0.4%*
COMMUNITY DEVELOPMENT						
Community Development Investment Fund [2]	0.1%	0.4%	0.1%	1.6%	1.8%	2.2%
No Benchmark	—	—	—	—	—	—
FIXED INCOME						
Bond Core Fund	(1.2)%	(0.7)%	(1.2)%	1.3%	2.4%	4.3%
Bloomberg Barclays U.S. Government/Credit Bond Index	*(1.2)%*	*(0.8)%*	*(1.2)%*	*1.1%*	*2.1%*	*3.8%*
Bond Fund	(1.2)%	(0.8)%	(1.2)%	1.5%	2.6%	4.4%
Bloomberg Barclays U.S. Government/Credit Bond Index	*(1.2)%*	*(0.8)%*	*(1.2)%*	*1.1%*	*2.1%*	*3.8%*
Treasury Inflation-Protected Securities Fund [3]	(0.8)%	(0.2)%	(0.8)%	1.5%	0.1%	—
Bloomberg Barclays U.S. Treasury Inflation-Linked Bond Index	*(0.9)%*	*0.2%*	*(0.9)%*	*0.7%*	*0.1%*	—
Bank Loans Fund [3]	0.9%	1.4%	0.9%	—	—	—
S&P/LSTA U.S. Leveraged Loan 100 Index	*1.1%*	*1.5%*	*1.1%*	—	—	—
High Yield Bond Fund [3]	0.5%	0.8%	0.5%	6.5%	5.7%	—
Bloomberg Barclays U.S. Corporate High Yield Bond Index	*0.6%*	*0.6%*	*0.6%*	*6.3%*	*5.6%*	—
Global Aggregate Fixed Income Fund [3,4]	—	—	—	—	—	—
Bloomberg Barclays Global Aggregate Index	—	—	—	—	—	—
DOMESTIC EQUITY						
Domestic Stock Large Cap Core Fund	5.1%	9.3%	5.1%	7.1%	9.4%	6.0%
S&P 500 Index	*5.7%*	*10.2%*	*5.7%*	*14.7%*	*15.9%*	*9.8%*
Domestic Stock Large Cap Core Index Fund [5]	5.5%	9.7%	5.5%	—	—	—
S&P 500 Index	*5.7%*	*10.2%*	*5.7%*	—	—	—
Domestic Stock Mid Cap Fund	4.3%	4.9%	4.3%	9.1%	13.6%	—
Russell Midcap Index	*3.8%*	*8.3%*	*3.8%*	*11.5%*	*14.3%*	—
Domestic Stock Growth Fund	6.4%	9.9%	6.4%	13.7%	13.6%	—
Russell 1000 Growth Index	*7.1%*	*11.2%*	*7.1%*	*17.0%*	*17.9%*	—
Domestic Stock Fund	5.3%	8.1%	5.3%	10.4%	12.5%	9.1%
S&P 500 Index	*5.7%*	*10.2%*	*5.7%*	*14.7%*	*15.9%*	*9.8%*
Small Cap Fund	7.7%	14.7%	7.7%	21.5%	17.8%	14.2%
Russell 2000 Index	*2.6%*	*5.1%*	*2.6%*	*12.1%*	*13.3%*	*9.8%*
INTERNATIONAL EQUITY						
International Stock Core Fund	5.1%	6.5%	5.1%	9.4%	7.5%	3.4%
MSCI EAFE Index	*5.0%*	*7.8%*	*5.0%*	*9.4%*	*7.8%*	*3.4%*
Emerging Markets Stock Fund [3]	8.5%	12.9%	8.5%	11.9%	4.9%	—
MSCI Emerging Markets Index	*8.3%*	*12.4%*	*8.3%*	*11.8%*	*5.7%*	—
ALTERNATIVE INVESTMENTS						
Commodities-Based Fund [3]	4.0%	5.1%	4.0%	(2.5)%	(10.0)%	—
Bloomberg Commodity Total Return Index	*2.0%*	*4.5%*	*2.0%*	*(3.3)%*	*(8.5)%*	—
Public Real Estate Fund [3]	(0.7)%	4.3%	(0.7)%	0.5%	4.1%	—
S&P Developed Property Index	*0.0%*	*4.2%*	*0.0%*	*4.8%*	*7.3%*	—
Multi-Strategy Hedge Fund [3,4]	—	—	—	—	—	—
60% S&P 500 Index/40% Bloomberg Barclays U.S. Aggregate Bond Index	—	—	—	—	—	—
Global Inflation Protection Fund [3]	2.1%	3.6%	2.1%	6.7%	—	—
Bloomberg Barclays U.S. TIPS 1-10 Year Index + 2%	*(0.6)%*	*0.1%*	*(0.6)%*	*2.7%*	—	—
EQUITY AND FIXED INCOME						
Balanced Fund	2.7%	4.5%	2.7%	6.9%	8.6%	7.5%
Blended Balanced Index [6]	*3.0%*	*5.7%*	*3.0%*	*9.2%*	*10.3%*	*7.6%*
TACTICAL FUNDS (additional fees apply)						
Conservative Fund [3,4]	—	—	—	—	—	—
Blended Conservative Index	—	—	—	—	—	—
Income Fund [3]	1.5%	2.7%	1.5%	4.4%	—	—
Blended Income Index	*1.2%*	*2.8%*	*1.2%*	*4.9%*	—	—
BVI Income Fund [4]	1.2%	—	1.2%	—	—	—
Blended SRI Income Index	*1.6%*	—	*1.6%*	—	—	—
Income & Growth Fund [3]	3.2%	5.2%	3.2%	7.2%	—	—
Blended Income & Growth Index	*2.6%*	*4.8%*	*2.6%*	*7.4%*	—	—
BVI Income & Growth Fund	2.4%	4.2%	2.4%	—	—	—
Blended SRI Income & Growth Index	*2.6%*	*4.8%*	*2.6%*	—	—	—
Growth Fund [3]	4.1%	6.4%	4.1%	8.4%	—	—
Blended Growth Index	*3.3%*	*5.9%*	*3.3%*	*8.4%*	—	—
BVI Growth Fund	3.5%	5.7%	3.5%	8.4%	—	—
Blended SRI Growth Index	*3.6%*	*6.3%*	*3.6%*	*8.7%*	—	—
Aggressive Growth Fund [3]	4.6%	7.2%	4.6%	9.0%	—	—
Blended Aggressive Growth Index	*3.7%*	*6.5%*	*3.7%*	*9.4%*	—	—
BVI Aggressive Growth Fund [4]	4.2%	—	4.2%	—	—	—
Blended SRI Aggressive Growth Index	*4.6%*	—	*4.6%*	—	—	—
U.S. INFLATION						
Consumer Price Index (December 2017) [7]	*(0.1)%*	*(0.1)%*	*(0.1)%*	*1.6%*	*1.4%*	*1.6%*

[1]Changed May 1, 2009. 10-year blended with 90-day Treasury Bill. [2]CDIF interest accrues on a daily basis. [3]These investment funds may not meet Brethren Values Investing guidelines because they are invested in mutual funds. All other investment funds must meet Brethren Values Investing guidelines. [4] No assets invested in this fund. [5]Expected to match benchmark gross of fees. Typically, will not match benchmark net of fees and due to required cash position. [6]Weighted average of the S&P 500 Index (60 percent) and the Bloomberg Barclays U.S. Capital Government/Credit Bond Index (40 percent). [7]Most recent data available. CPI data are from the Consumer Price Index for All Urban Consumers. All items are not seasonally weighted.

Performance Report