The third quarter of 2019 was highlighted by a number of macroeconomic concerns overwhelming global markets. Trade concerns were front and center, followed by an ongoing yield curve inversion, trouble in the overnight lending market, and contracting ISM manufacturing numbers. Market participants feared that slowing global growth could lead to the next global recession. The Federal Reserve, in an effort to combat slowing growth, implemented two 25 basis point interest rate cuts during the quarter.

The U.S. equity market, despite the macro headlines, finished the third quarter up 1.7%, with small cap stocks posting a loss of 2.4%. Developed Non-U.S. markets were down 1.1% for the quarter, while Emerging Markets stocks fell 4.2%.

Fixed Income had another stellar quarter given declines in interest rates. The 10-year Treasury note started the third quarter at 2%, falling to 1.68% by September 30. To put the move in interest rates in further perspective, the 10-year started October 1, 2018 at 3.05%. The dramatic decline in interest rates over the last one-year period left many market participants perplexed, with fear that the United States may join its developed markets counterparts (Europe, Japan) in a zero to negative interest rate environment.

**Endowment**

In the Endowment portfolio, results were mixed for the third quarter. The portfolio finished positive, up 0.3% for the third quarter and up 10.7% for the calendar year-to-date period. An overweight to US large cap equities was one of the primary contributors to results. Furthermore, the portfolio’s private real estate portfolio was up 2.7% for the quarter, representing the portfolio’s largest winner. While decline in fixed income yields strong absolute results, most fixed income managers were not positioned for falling rates, resulting in modest underperformance against the portfolio’s Policy Index. Private markets were another detractor for the quarter. Because building a mature private markets portfolio takes time, the Endowment’s private markets portfolio lagged its more mature benchmark.

**Non-Endowment**

The Long-Term Portfolio was up 0.3% for the quarter, slightly underperforming the Policy Index by 20 basis points. Like the Endowment, exposure to non-U.S. equities produced negative results for the quarter. The investment managers utilized to capture this non-U.S. equity exposure further underperformed broad benchmarks, partially driven by small amounts of exposure to Argentina or surrounding countries.

The Medium-Term Portfolio was up 1.0% for the quarter, slightly underperforming the policy index by 0.1%. As the Medium-Term Portfolio has far more exposure to fixed income, it benefited from the move to lower yields. However, many of the fixed income managers in the portfolio were not positioned for falling rates, resulting in some modest underperformance relative to the Policy Index.

The Short-Term Portfolio was up 0.5% during the quarter. With three consecutive interest rate cuts made by the Federal Reserve, we would expect money market rates to fall, resulting in a lower yield for the portfolio moving forward.