

Global Economy

In the spirit of the coming New Year, significant progress was made in December to bring resolution to a number of ongoing uncertainties across the globe. Indeed, the last month of 2019 was ultimately peaceful and positive for equity and credit markets to complete an overwhelmingly strong year. Optimism surrounding a “phase one” trade accord between the US and China proved prescient, just in time to avert planned tariff escalation. Furthermore, the UK election provided Prime Minister Johnson the government needed to deliver a less-disruptive Brexit deal in the near future. Economic data releases continue to be mixed, though solid enough to support risk-on momentum across most asset classes. President Trump was impeached in the House of Representatives, but with little chance of removal by the Senate, the market has treated this as a non-event.

The Federal Open Market Committee (FOMC) met in November, leaving rates at 1.50% – 1.75%, after three rate decreases in 2019. The “dot plot” reflects a strong view that no action will be taken in 2020. The recent asset purchases designed to moderate the repo market seemed to be the right steps as there were no year-end challenges in the overnight lending markets as some had feared.

The third release of 3Q-19 real GDP again reported growth at an annualized rate of 2.1%, continuing to be led by personal consumption growth at 3.2%. Upward revisions to personal consumption and nonresidential fixed investment were offset by a downward revision to private inventory investment. Consensus estimates of 4Q-19 real GDP are coming in around 1.8%, lower than the GDPNow estimate by the Atlanta Fed of 2.3%.

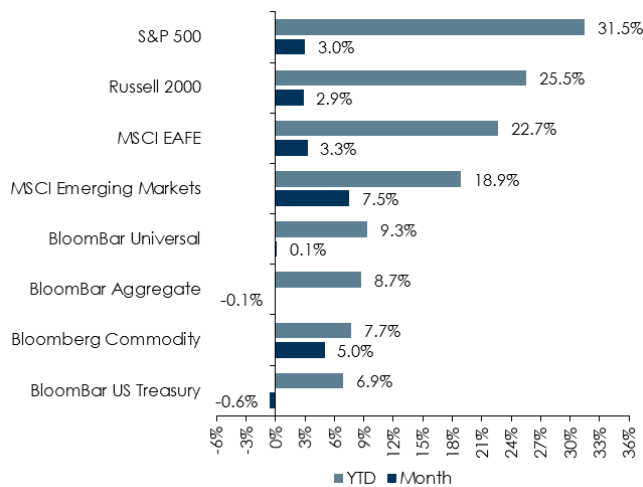
145,000 new jobs were added in December, slightly below expectations, and the prior two months were revised slightly down by 14,000. The unemployment rate remained at the 50-year low of 3.5%, matching September’s rate. Average hourly wage gains remained moderate, advancing at a year-over-year pace of 2.9%, the lowest rate in over a year. The Core CPI index declined slightly to 2.3% year-over-year, while the FOMC’s preferred measure, the Core PCE index, edged down to 1.6% year-over-year through November.

	Current	Dec-18
US GDP (%)	2.10	3.40
US Unemployment (%)	3.50	3.90
CPI (Core) (%)	2.30	2.20
Fed Funds (%)	1.50 – 1.75	2.25 – 2.50
10 Year UST Yld (%)	1.92	2.69
S&P 500 Div Yld (%)	1.82	2.15
S&P 500 P/E (Trailing)	21.60	17.12
Gold/oz.	\$1,523.10	\$1,281.30
Oil (Crude)	\$61.06	\$45.41
Gasoline (Natl Avg)	\$2.66	\$2.36
USD/Euro	\$1.12	\$1.15
USD/GBP	\$1.33	\$1.28
Yen/USD	¥108.61	¥109.69

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for nearly all major sectors and indexes were positive to finish off a very strong year. The S&P 500, which represents large US-based entities, again reached new all-time highs by appreciating +3.0% for the month and finished the year up 31.5%. Among the economic sectors, Energy (+5.8%), IT (+4.4%) and Healthcare (+3.4%) led the way with Industrials (-0.2%) and Real Estate (+0.8%) the notable laggards. Small cap stocks, as represented by the Russell 2000, nearly matched large stocks at +2.9%, finishing the year up +25.5%. As might be expected in a risk-on environment, Growth (+28.5%) outpaced Value (+22.4%) for the year.

In the broad international developed markets, the MSCI EAFE index was up solidly at +3.3%, with returns helped somewhat for US-based investors by decreasing strength in the US dollar. The returns were fairly broad based with most areas up modestly and Japan trailing at a very respectable +2.1%. Among the major sectors, Utilities (+5.0%) Materials (+4.6%) and Financials (+4.4%) showed particular strength, with Communication (+2.0%) and Real Estate (+2.1%) very respectable relative laggards.

Emerging market stocks, as represented by the MSCI Emerging Markets index, rocketed up +7.5% for the month, led by Latin America at +10.4%. While still the major index laggard, emerging markets closed the gap meaningfully to finish at +18.9% for the year, enough to be the top equity performer in some years. IT was up +11.0% for the month and +42.5% for the year, with Consumer Discretionary close behind at +6.5% for the month and +35.3% for the year.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up for the month at +0.6%, resulting in a final year-to-date performance of 23.1%. The Alerian MLP index was up strongly at +8.5%, moving the category back into positive territory for the year. The near-month NYMEX oil contract was up 10.7% for the month and finished the year up +34.5%. Gold continued its roller-coaster ride, back up +3.9% for the month and +18.9% for the year. The broadly diversified Bloomberg Commodity index was up +5.0% for the month and ended 2019 up +7.7%.

Global Markets (continued)

US Treasury (UST) yields dropped in early December across the board, but then generally rose in longer-dated instruments while the 2-year declined. The yield curve steepened in general, with the 30-year rising 18 bps and the 10-year up 14 bps. In this more difficult environment, the high-quality government bond complex returned -0.6% for the month. The 10-year UST yield traded within a roughly 20 bps intra-month range before settling near its high at 1.92%. While still notable at slightly over \$11 trillion, the global stock of negative yielding debt continued to contract as yields for developed market sovereign bonds outside of the US followed a similar upward pattern.

The BloomBar US Aggregate Bond index outperformed risk-free US Treasuries on both an absolute and duration-matched basis. With a slight loss of -0.1% in December, full-year performance of +8.7% was quite remarkable given prevailing yield levels. Spreads for IG corporates were another 12 bps tighter for the month, with BBB-rated issues leading in a more risk-on environment. The benchmark's yield-to-worst moved 1 bps higher overall, and now resides at 2.31%.

The BloomBar 1-15-Year Municipal index returned +0.3% in December, taking year-to-date performance to +6.4%. Record-setting mutual fund inflows continue to benefit the category, as tax-exempt yields dipped slightly at the short end of the curve. The 10-year municipal/UST ratio fell back to -77% with municipal outperformance.

The BloomBar US Corporate High Yield index advanced +2.0% for the month and +14.3% for calendar year 2019. Benchmark spreads were 34 bps tighter on average, with the less-liquid CCC-rated sleeve leading the rally. All-in yields were down slightly at 5.2% and the credit curve flattened. With US dollar declines, unhedged international bonds outperformed. Local currency emerging market bonds were particularly strong, with yields falling in several key countries.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-18
Japan	-0.02	-0.01
Germany	-0.19	0.24
France	0.12	0.71
United Kingdom	0.82	1.28
Spain	0.46	1.41
United States	1.92	2.69
Italy	1.41	2.74
Mexico	6.89	8.64
Brazil	6.79	9.24

Source: Bloomberg

Indices Report (Periods Ending December 31, 2019)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	3.02	31.49	31.49	15.27	11.70	13.56	9.00
Russell 1000	2.89	31.43	31.43	15.05	11.48	13.54	9.12
Russell 1000 Growth	3.02	36.39	36.39	20.49	14.63	15.22	10.50
Russell 1000 Value	2.75	26.54	26.54	9.68	8.29	11.80	7.63
Russell 2500	2.11	27.77	27.77	10.33	8.93	12.58	8.79
Russell 2000	2.88	25.52	25.52	8.59	8.23	11.83	7.92
Russell 2000 Growth	2.29	28.48	28.48	12.49	9.34	13.01	8.81
Russell 2000 Value	3.50	22.39	22.39	4.77	6.99	10.56	6.92
Wilshire 5000 Cap Wtd	2.93	31.02	31.02	14.52	11.38	13.44	9.11
MSCI ACWI	3.56	27.30	27.30	13.05	9.00	9.37	7.43
MSCI ACWI ex US	4.36	22.13	22.13	10.40	6.01	5.45	5.73
MSCI EAFE	3.27	22.66	22.66	10.11	6.18	6.00	5.33
MSCI EAFE Local Currency	1.36	22.31	22.31	8.20	7.25	7.74	6.30
MSCI EAFE Growth	2.87	28.43	28.43	13.28	8.13	7.34	6.22
MSCI EAFE Value	3.67	16.83	16.83	6.95	4.15	4.57	4.37
MSCI Emerging Markets	7.53	18.88	18.88	11.99	6.01	4.04	7.85
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.22	3.55	3.55	1.85	1.39	1.22	2.15
BloomBar US Aggregate	-0.07	8.72	8.72	4.03	3.05	3.75	4.15
BloomBar Gov't Bond	-0.55	6.83	6.83	3.31	2.36	3.03	3.64
BloomBar US Credit	0.29	13.80	13.80	5.75	4.39	5.32	5.10
BloomBar 10 Yr Municipal	0.39	7.70	7.70	4.95	3.68	4.64	4.62
BloomBar US Corp High Yield	2.00	14.32	14.32	6.37	6.13	7.57	7.20
FTSE World Gov't Bond	0.28	5.90	5.90	4.12	2.03	1.85	2.73
BloomBar Global Aggregate	0.58	6.84	6.84	4.27	2.31	2.48	3.17
BloomBar Multiverse	0.70	7.13	7.13	4.40	2.51	2.68	3.33
Real Assets							
FTSE NAREIT US Real Estate	-0.60	26.00	26.00	8.14	7.21	11.94	7.94
FTSE EPRA/NAREIT Dev RE	0.63	23.06	23.06	9.31	6.53	9.25	6.78
Bloomberg Commodity	5.04	7.69	7.69	-0.94	-3.92	-4.73	-2.55
Cash and Equivalents							
US T-Bills 90 Day	0.14	2.28	2.28	1.67	1.07	0.58	1.40

Definitions

Bloomberg Barclays Capital Aggregate

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

Bloomberg Barclays Capital Global Aggregate Index

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

Bloomberg Barclays Capital Muni 5 Yr

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

Bloomberg Barclays Capital U.S. Credit Index

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

The Bloomberg Barclays U.S. Treasury Index

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

The Bloomberg Barclays Capital U.S. Universal Index

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

BofA ML High-Yield Index Master II

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

Bloomberg Commodity Index

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

CITI World Government Bond Index

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

FTSE EPRA/NAREIT Developed Index

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

HFRI Fund of Funds (FOF) Conservative Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

HFRI Fund of Funds (FOF) Strategic Index

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

MSCI ACWI Index (exU.S.)

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

MSCI EAFE® Index

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

MSCI EAFE Growth Index

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI EAFE Value Index

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

MSCI Emerging Markets Index

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

Ncreif® Property Index

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

Russell 1000® Growth Index

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

Russell 1000® Value Index

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

Russell 2000® Index

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

Russell 2000® Growth Index

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

Russell 2000® Value Index

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

Russell Midcap® Index

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

S&P 500

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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