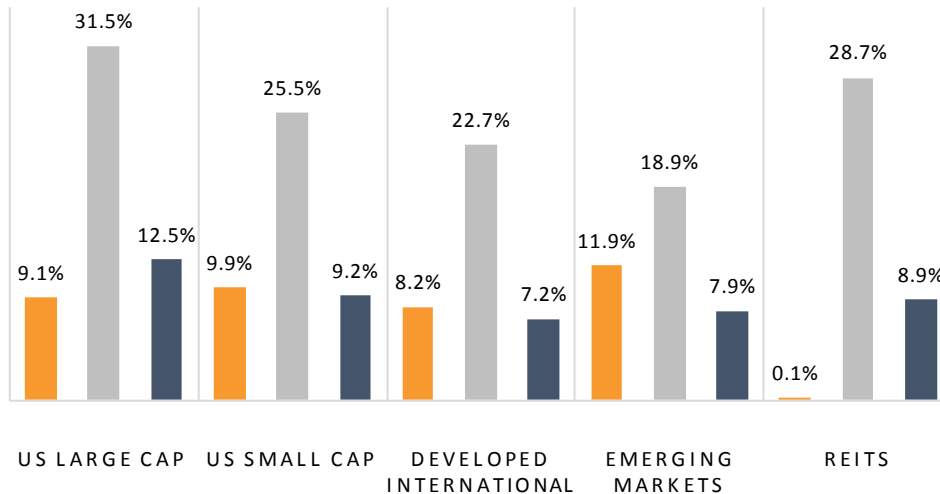




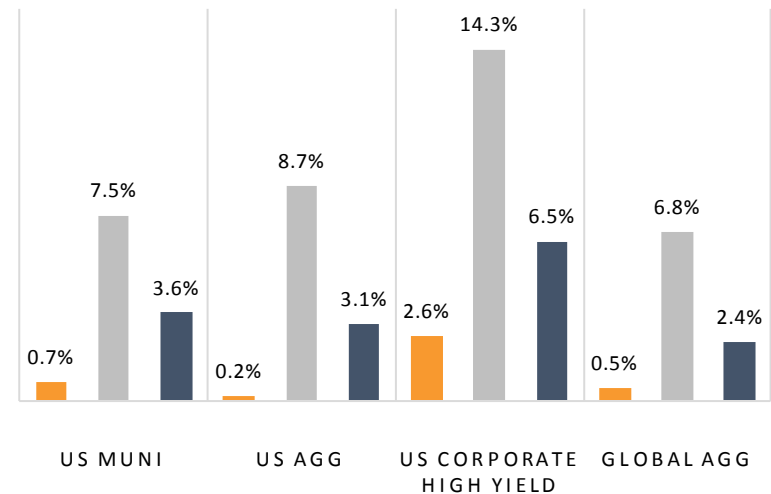
4Q'19 Market Review

EQUITY MARKETS

■ 4Q'19 ■ 2019 ■ 5 Yr Avg.



FIXED INCOME MARKETS



- ❑ 4Q'19(Q4) equity markets ended 2019 with fireworks, closing out one of the best decades for equities ever and the only decade in US history without an economic recession. A phase-one trade deal between the US and China and a flood of central bank liquidity helped stave off recessionary fears and lift equities in Q4.
- ❑ **Large Cap** equities were up +9.1% in Q4, capping off a +31.5% gain for the year, the best yearly gain since 2013. As for valuations, the gains on the year led the forward EPS multiple to expand to 18.2x, the highest level since the last peak in 2017 and still elevated in comparison to the 25-year historical average of 16.3x.
 - **Technology and Health Care** were the top performing S&P 500 sectors for Q4, both up +14.4%, while **REITs** were the worst performers, down -0.5%.
 - Regarding sector valuations, **Health Care** looks to be the most attractive sector trading at the 20-year average of 16.2x, while all other sectors are above their 20-year averages. **Utilities** continue to be one of the most expensive sectors, trading at 19.9x forward EPS vs. the 20-year average of 14.4x.
- ❑ Of all the major US equity segments, Small Cap Value is the only segment trading at a current EPS multiples less than the 20-year average (15.6x current vs. 16.2x historical). For the first time in 2019, **US Small Caps** outperformed other US equities in Q4, up +9.9%, assisted by the relative valuation opportunity in the small-cap value segment.
- ❑ **International** equities, while positive +8.2% in Q4, lagged **Emerging Markets**, which were up +11.9% in Q4, as the phase-one trade deal boosted EM equities. On the year, EM equities underperformed International Equities by nearly 4%.

- ❑ A rapid reversal from the Fed's 2018 tightening policy in the face of weaker economic data and accommodating central banks in other major economies led to falling global bond yields and one of the strongest years for fixed income total returns in recent memory. The **Global Agg** was up +0.5% in Q4 and finished the year +6.8%.
- ❑ The **US Agg** added +0.7% in Q4, bringing the total return on the index to a staggering +8.7% for 2019. Municipal bonds saw strong inflows on the year as tailwinds from the 2017 tax act and low interest rates saw investor demand stay strong. For Q4, the **US Muni** index was up +0.7% while finishing up +7.55% for the year.
 - In the US, lack of liquidity in the overnight funding markets continues to be an issue. The Fed's balance sheet has grown to > \$4t after bottoming out earlier in the year at \$3.7t with Jerome Powell insisting the recent accommodations are "in no sense...QE. This is nothing like it."
- ❑ **US High Yield** finished both Q4 and 2019 with the best return of all fixed income classes, +2.6% and +14.3%, respectively. The current high yield spread has tightened to near cycle lows, indicating prospective returns may be low for the asset class.

Sources: Zephyr StyleADVISOR

Market conditions and trends will vary. Past performance is no guarantee of future results. Investments cannot be made in an index

Underlying indices are S&P 500® Index, Russell 2000® Index, MSCI EAFE, MSCI Emerging Markets Index, FTSE NAREIT All Eq REITs Index, Barclays Municipal Bond Index, Barclays U.S. Aggregate Bond Index, Barclays U.S. Corporate High Yield Bond Index and the Barclays Global Aggregate Bond Index.



4Q'19 Integrated Topic of Interest: A Dominant Decade

		ANNUAL RETURNS										ANNUALIZED RETURNS		
		2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	10 Year CAGR	25 Year CAGR	2008
BEST	Gold	29.3%	LT Corporate Bonds 17.2%	Emerging Markets 18.6%	US Small Cap 37.6%	REITS 30.1%	LT Municipal Bonds 4.0%	US Small Cap 18.2%	Emerging Markets 31.1%	Inflation 1.9%	US Large Cap 31.3%	US Large Cap 13.4%	US Mid Cap 11.6%	Gold 4.9%
	REITS	28.3%	LT Municipal Bonds 10.7%	Non-US Equities 18.6%	US Mid Cap 35.0%	LT Corporate Bonds 18.2%	REITS 2.2%	US Large Cap 11.8%	Non-US Equities 26.4%	Cash 1.8%	US Mid Cap 30.9%	US Mid Cap 12.9%	REITS 10.4%	LT Corporate Bonds 2.3%
	US Small Cap	27.7%	Gold 9.6%	US Small Cap 18.0%	US Large Cap 32.2%	US Mid Cap 13.6%	US Large Cap 1.3%	Emerging Markets 11.6%	US Large Cap 21.7%	LT Municipal Bonds 0.9%	REITS 28.8%	US Small Cap 12.7%	US Small Cap 10.2%	Cash 1.6%
	US Mid Cap	25.5%	Global Bonds 9.2%	REITS 17.5%	Non-US Equities 22.1%	US Large Cap 13.5%	Inflation 0.7%	High Yield Bonds 11.2%	US Mid Cap 19.1%	Gold -1.9%	US Small Cap 27.2%	REITS 11.8%	US Large Cap 10.1%	Inflation 0.1%
	Emerging Markets	18.9%	REITS 8.5%	US Large Cap 15.8%	High Yield Bonds 4.5%	LT Municipal Bonds 11.1%	Cash 0.0%	US Mid Cap 11.1%	US Small Cap 16.1%	High Yield Bonds -3.0%	Non-US Equities 22.1%	LT Corporate Bonds 8.0%	LT Corporate Bond 7.7%	Global Bonds -2.7%
	US Large Cap	14.9%	High Yield Bonds 7.1%	US Mid Cap 15.8%	REITS 2.3%	US Small Cap 7.4%	Non-US Equities -0.2%	REITS 8.3%	Gold 12.8%	Global Bonds -4.1%	LT Corporate Bonds 20.4%	High Yield Bonds 7.1%	High Yield Bonds 6.8%	LT Municipal Bonds -4.9%
	High Yield Bonds	12.4%	Inflation 3.0%	High Yield Bonds 14.4%	Inflation 1.5%	High Yield Bonds 4.6%	High Yield Bonds -1.4%	Gold 8.0%	LT Corporate Bonds 12.0%	US Large Cap -4.5%	Emerging Markets 20.1%	Non-US Equities 5.7%	Emerging Markets 6.2%	High Yield Bonds -21.3%
	Global Bonds	11.2%	US Large Cap 2.0%	LT Corporate Bonds 11.7%	Cash 0.0%	Global Bonds 2.4%	US Mid Cap -1.5%	LT Corporate Bonds 7.8%	Global Bonds 9.5%	LT Corporate Bonds -6.0%	Gold 17.9%	LT Municipal Bonds 4.8%	Global Bonds 5.8%	US Small Cap -36.1%
	LT Corporate Bonds	10.7%	Cash 0.0%	LT Municipal Bonds 8.1%	LT Municipal Bonds -3.0%	Inflation 0.8%	LT Corporate Bonds -2.2%	Global Bonds 4.0%	High Yield Bonds 7.0%	REITS -6.1%	High Yield Bonds 15.8%	Global Bonds 3.6%	LT Municipal Bonds 5.5%	US Large Cap -37.0%
	Non-US Equities	8.4%	US Mid Cap -2.1%	Global Bonds 7.4%	Global Bonds -5.0%	Emerging Markets 0.4%	Global Bonds -3.6%	Non-US Equities 2.5%	LT Municipal Bonds 6.4%	US Mid Cap -9.3%	LT Municipal Bonds 8.5%	Emerging Markets 3.3%	Gold 5.4%	REITS -37.1%
	LT Municipal Bonds	1.5%	US Small Cap -2.8%	Gold 6.6%	Emerging Markets -5.2%	Cash 0.0%	US Small Cap -3.8%	Inflation 2.1%	REITS 4.8%	US Small Cap -9.4%	Global Bonds 6.7%	Gold 2.9%	Non-US Equities 5.0%	Non-US Equities -41.3%
	Inflation	1.5%	Non-US Equities -12.5%	Inflation 1.7%	LT Corporate Bonds -5.9%	Gold -2.2%	Gold -10.7%	LT Municipal Bonds 0.6%	Inflation 2.1%	Non-US Equities -14.5%	Inflation 2.4%	Inflation 1.8%	Cash 2.3%	US Mid Cap -41.8%
Cash	0.1%	Emerging Markets -18.8%	Cash 0.1%	Gold -28.3%	Non-US Equities -5.7%	Emerging Markets -15.5%	Cash 0.2%	Cash 0.8%	Emerging Markets -14.7%	Cash 2.1%	Cash 0.5%	Inflation 2.2%	Emerging Markets -52.8%	
WORST														

- The most recent decade likely will be looked back on as one of the greatest periods in market history. US Large-cap companies led the charge, compounding nearly 14% throughout the decade.
- It's important to remember that large drawdowns can happen. While we do not anticipate a 2008 financial crisis to surface, prospective returns for most asset classes are low, given the strong 10-year historical returns we have seen in most asset classes.

Market conditions and trends will vary. Past performance is no guarantee of future results.

Source: www.portfoliovisualizer.com/historical-asset-class-returns

Notes: Actual investable index funds used for proxy of asset class returns, actual index returns may differ; See disclosure page for detail

Disclosure Quilt Chart Returns



Equity Return Data:

US Large Cap

Professor Kenneth French's Research Data1 1972-1976
Vanguard 500 Index Fund (VFINX) 1977+

US Mid Cap

Professor Kenneth French's Research Data1 1972-1998
Vanguard Mid Cap Index Fund (VIMSX) 1999+

US Small Cap

Professor Kenneth French's Research Data1 1972-1989
Vanguard Small Cap Index Fund (NAESX) 1990+

Non-US Equities (EAFE)

AQR Global ex US MKT Factor (AQR Data Sets) 1986-1999
Vanguard Developed Markets Index Fund (VTMGX) 2000+

Emerging Markets

Vanguard Emerging Markets Stock Index Fund (VEIEX) 1995+

Real Estate (REITS)

DFA Real Estate Securities I (DFREX) 1994-1996
Vanguard REIT Index Fund (VGSIX) 1997+

Metals + Fixed Income Return Data:

Gold

Gold Fixing Price in London Bullion Market 3:00 PM (London time) 1972-2004
SPDR Gold Shares (GLD) 2005+

LT Corporate Bonds

Vanguard Long-Term Investment Grade Fund (VWESX) 1974+

High Yield Bonds

Vanguard High Yield Corporate Fund (VWEHX) 1979+

LT Municipal Bonds

Vanguard Long-Term Tax-Exempt Fund (VWLTX) 1978+

Global Bonds

PIMCO Global Bond Fund (PIGLX) 1994+

Inflation

Bureau of Labor and Statistics Consumer Price Index (CPI-U) 1972+

Cash

3-month Treasury Bills (FRED Data) 1972+