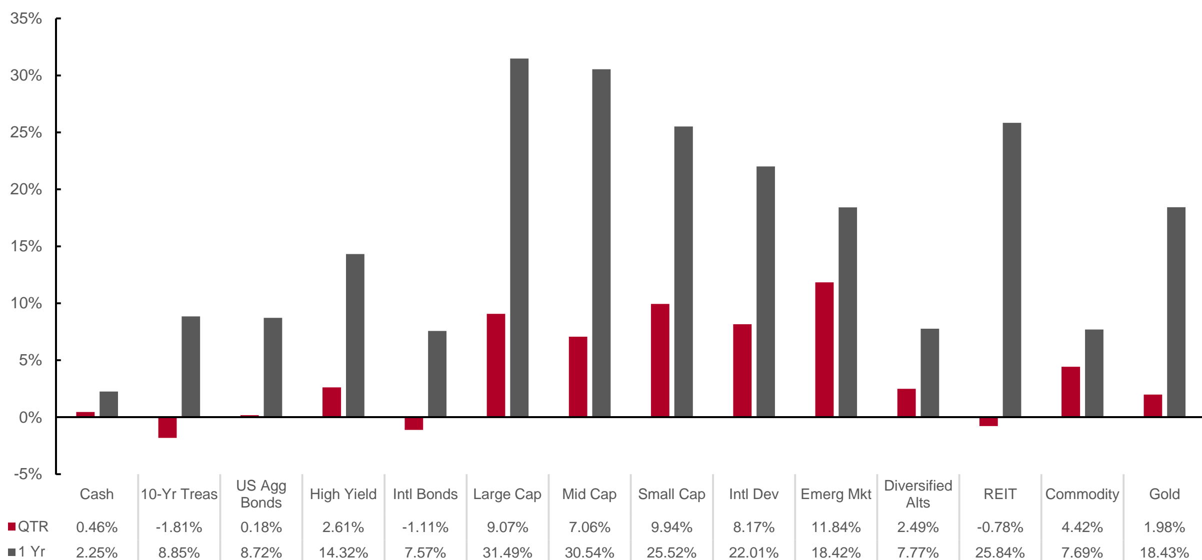
Quarterly Investment Perspectives

Q4 2019 Review & Outlook

The fourth quarter of 2019 capped off a terrific year for investors of all stripes. Unlike 2018, where returns were negative across most every asset class, 2019 saw a reversal of fortune as stocks, bonds, and commodities made up for 2018 losses and then some. As the year came to a close, the risks posed by trade tensions with China and an inverted U.S. Treasury yield curve had subsided which allowed the capital markets to produce strong returns and the chances of an economic recession to diminish. The Federal Reserve acted again to lower interest rates, their third reduction of the year, in response to slower, but still positive, economic growth. Global central banks were also active in lowering interest rates in an attempt to lessen the impacts of slowing trade. As we enter 2020, the Federal Reserve has indicated their outlook for interest rates is stable as growth expectations stabilize and trade risks lessen. Our outlook is for the current economic expansion, now the longest on record, to continue with slow, but positive, economic growth for the foreseeable future.

Capital Markets Summary – As of 12/31/2019



	Cash	10-Yr Treas	US Agg Bonds	High Yield	Intl Bonds	Large Cap	Mid Cap	Small Cap	Intl Dev	Emerg Mkt	Diversified Alts	REIT	Commodity	Gold
QTR	0.46%	-1.81%	0.18%	2.61%	-1.11%	9.07%	7.06%	9.94%	8.17%	11.84%	2.49%	-0.78%	4.42%	1.98%
1 Yr	2.25%	8.85%	8.72%	14.32%	7.57%	31.49%	30.54%	25.52%	22.01%	18.42%	7.77%	25.84%	7.69%	18.43%

U.S. growth, as measured by GDP, came in at 2.1% for the third quarter; and, while we do not have official measures for the fourth quarter, GDP is forecasted to be around 1.6%. The U.S. consumer has been the stalwart of growth in 2019. We expect this to continue as we have unemployment at a generational low of 3.5%, low interest rates, and relatively low energy prices. Consumer confidence measures remain very high, reflecting these factors. While manufacturing activity has slowed in the U.S., the consumer is responsible for some 70% of GDP, meaning the manufacturing slowdown, in and of itself, is not enough to tip the U.S. economy into a recession. As we have seen trade tensions diminish, it may be that measures of business confidence and capital expenditures (CAPEX) can improve and be additive to growth in 2020.

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U.S. equities dominated the performance of international equities for the year, but in the fourth quarter emerging market equities were the standout performer. To the degree that trade tensions had a bigger and more negative impact on international markets than the U.S., it may be that these markets and economies have more room to improve in 2020. The outlook for global growth has improved recently and we anticipate this improvement to continue. Within U.S. equities, large cap stocks were the best performer, and Information Technology was the best performing sector within large cap stocks, showing gains of 50.29%. On the other end of the spectrum, Energy stocks were only up 11.81% for the year. It would be difficult to expect a repeat of the performance we saw in 2019, but we still anticipate equities to provide positive performance as the economy continues to expand.

Declining interest rates provided an environment for positive total returns within fixed income markets as well. The Bloomberg Barclays U.S. Aggregate Index, a broad index of the bond market, was up 8.72% for the year. And indexes tied to corporate debt were up even more as credit spreads declined. Investment grade bonds returned 14.50% and lower quality high yield bonds were up 13.00%. The tightening of credit spreads is an important indicator for us as we observe the capital for clues about our economic outlook. Tighter credit spreads would indicate the bond market is expecting a better environment for corporations to service and repay debt. This environment occurs when economic growth is expected to be positive. Conversely, if we saw credit spreads widen we would view that as a message that economic growth could deteriorate.

Geopolitical risks are always present but are very difficult to forecast, and their impacts can be hard to gauge. Trade tensions were a headwind for growth and market performance in 2019 but we ended the year with a sense that an agreement, which at least will keep things from getting worse, is at hand. Likewise, impeachment headlines dominated the news cycle in the fourth quarter but they have had little impact on the markets to date as the ultimate outcome of the process seems relatively certain. It is still too early in the Presidential election process to begin considering investment implications. The range of ideas is very wide and much still needs to be settled before we know who the Democratic nominee will be. It would appear, however, that this election will provide an active platform for discussion as we decide who will be the next President of the United States.

As always, our goal is to make investment decisions to manage risk and pursue returns in a way which provides our clients the best opportunity to achieve their long-term financial goals. Our focus is on knowing your individual hopes, aspirations, dreams, and fears so we can provide advice and construct portfolios tailored to you. And, as fiduciaries, we always keep your interests at the forefront of what we do. We thank you for your continued trust and confidence.

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