

Fourth Quarter 2019 Commentary

January 2020



2019 was a banner year for equities and fixed income as both asset classes posted impressive returns, despite a flurry of geopolitical headlines and several uncertainties that sparked fears of a global slowdown. However, the continued strength of the consumer, a dovish pivot by the Fed, and positive momentum around a trade deal with China helped boost investor sentiment as the growth outlook improved.

Fourth Quarter 2019 Review

Domestic equity markets ended the year near all-time highs as global monetary policy remained accommodative and several uncertainties that had been weighing on sentiment received some clarity. Most noteworthy is that the US and China agreed on the details of a Phase One trade deal that averted new tariffs and modestly rolled back some existing duties. The strength of the US consumer continues to drive economic growth thanks to consistent job creation, rising incomes, and low interest rates that have bolstered spending.

Non-farm payrolls averaged 162k in 2019 as the job market continues to tighten, albeit at a slower pace. Wage growth has also picked up with the most recent reading near 3% (as of 12/31/19) and personal income growth approaching 5% year-over-year (as of 11/30/19), paving the way for the consumer to continue to be the main driver of overall growth. We expect to see an uptick in business spending as the uncertainty overhang surrounding the trade war has decreased.

With an improvement in the growth outlook, longer yields increased throughout the 4th quarter, and the yield curve also steepened. The 10-year Treasury, which started the year at a yield of 2.69% reached a low of 1.46% in August before ending the year at 1.92%. Even with the pick-up in yields throughout the quarter, yields still ended the year approximately 75 basis points lower, as easier monetary policy and a sustained lack of inflation have kept yields low.

US Treasury 10-Year Yield (%)



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Index Returns

	2019	4Q19
Equity Index Returns		
S&P 500	31.48%	9.06%
MSCI EAFE	22.01%	8.17%
MSCI Emerging Markets	18.42%	11.84%
Fixed Income Index Returns		
Bloomberg Barclays Intermediate Aggregate	6.67%	0.47%
Bbg. Barc 1-10 Year Municipal	5.63%	0.86%
BofAML High Yield	14.40%	2.59%
BofAML Fixed Rate Preferreds	17.71%	2.00%

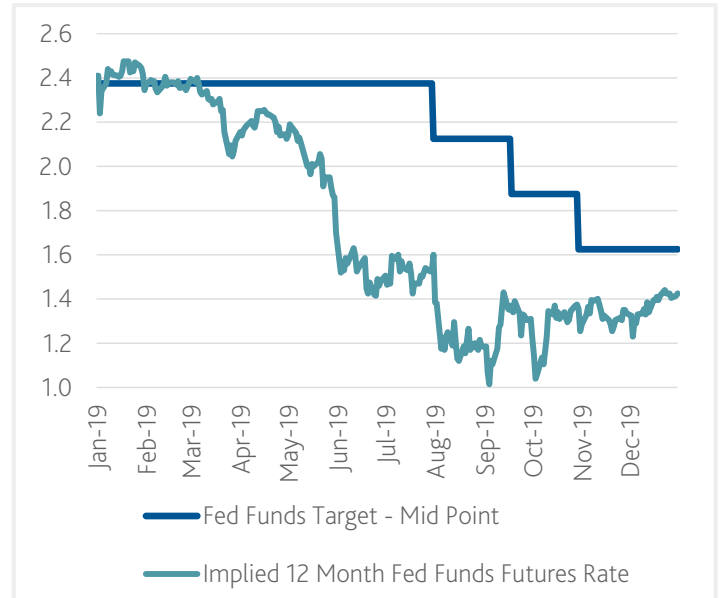
*Please see important disclosures at the end of this commentary.

Sources: Bloomberg as of 12/31/2019.

Central Bank Policy

The Fed, along with other central banks, pledged their support in response to the erratic macro landscape in 2019. After three consecutive rate cuts, the Federal Reserve has reiterated that both the economy and monetary policy are in a “good place” – suggesting that policy makers are comfortable staying on hold in 2020. The Fed stated it would take a material reassessment of that outlook for further easing to be warranted. Policy makers have also reiterated that they will tolerate higher, above-target inflation to compensate for years of missing the mark – which suggests that the bar for a move in either direction remains high, although inflation readings and future expectations remain subdued.

Federal Funds Rate vs. Implied Federal Funds Rate

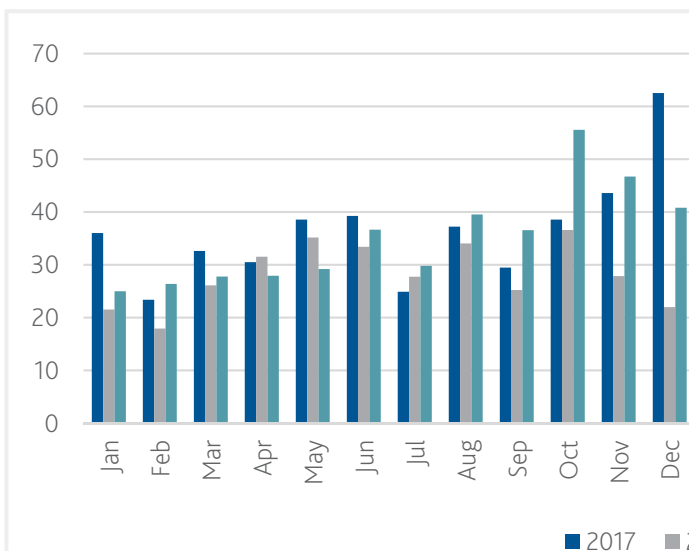


Sources: Bloomberg as of 12/31/2019.

Municipal Market Review

Municipals had another strong year as demand for municipals remains incredibly strong. During 2019, funds saw record inflows of \$94 billion, even as yields declined and issuance increased. Total issuance for the year was \$421 billion, approximately 22% higher than 2018. This increase was largely in taxable municipal bonds. Lower interest rates allowed issuers to advance refund tax-exempt debt with taxable municipals, as the tax reform ended advance refundings for tax-exempt municipals in 2018. Taxable issuance in 2019 totaled \$70.5 billion, the highest since 2010 when the Build America Bonds era ended.

2017 – 2019 Municipal Issuance (\$ Billions)



AAA 10Y Municipal Yields (%)

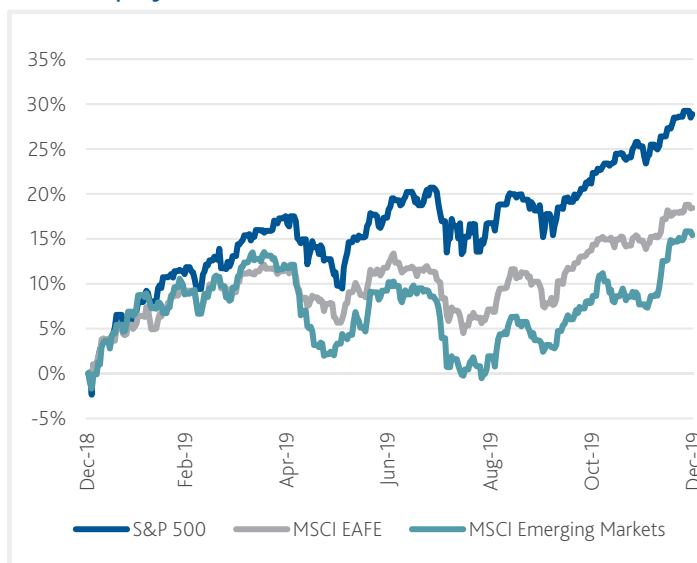


Source: The Bond Buyer as of 12/31/2019.

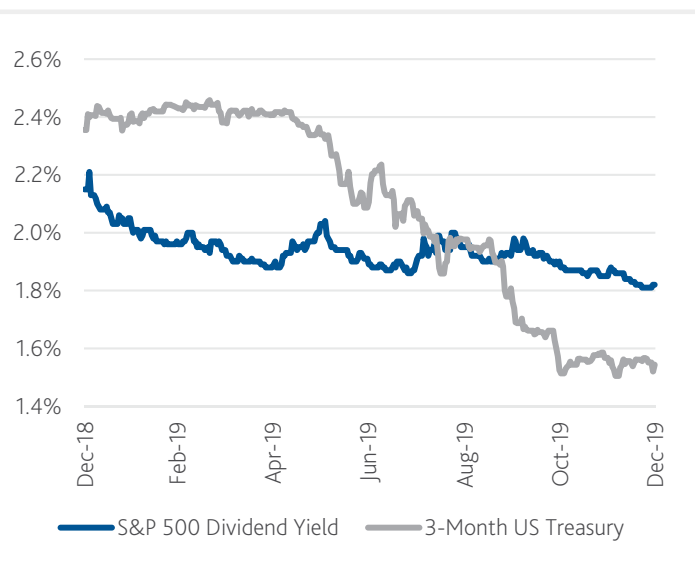
Equity Market Review

Global equity markets rallied strongly at the end of 2019 amid receding global trade tensions and central bank support. US equities advanced to record highs and closed out 2019 with the best annual performance in nearly a decade. Looking abroad, international markets also climbed higher, with European stocks posting their best year since 2009. Finally, investors flocked back into the emerging market space that assumed the brunt of the trade-related angst earlier on in the year, with the gauge of emerging market stocks soaring to an 18-month high. Looking ahead, we expect equity markets to continue grinding higher on the heels of both multiple expansion, modest earnings growth and dividend yields that are comparable to bonds.

Global Equity Market Returns



S&P 500 Dividend Yield vs. 3-Mo UST



Source: Bloomberg as of 12/31/2019.

Looking Ahead

Some of the headwinds that plagued growth and sentiment through 2019 have been resolved - most notably, the US-China trade war. Global central banks taking a more accommodative stance should help revitalize the global economy and extend the duration of the expansion, while fiscal stimulus in China should help bolster growth in China as well as other emerging markets.

Even with an improving growth outlook, volatility may increase as we approach the US elections. Furthermore, geopolitical risk, as well as persistent threats to impose additional tariffs to narrow the US trade deficit with other trading partners remain a risk to our outlook. As such, we continue to believe that an allocation to fixed income is important to mitigate against potential volatility. Given the benign inflation outlook and easier monetary policy, we expect interest rates to remain range bound, but we continue to have our portfolios positioned to take advantage of higher yields should we see an increase in yields from several factors including stronger growth, higher inflation expectations, or renewed focus on the US budget deficit.

IMPORTANT DISCLOSURES

Past performance is not necessarily indicative of future results. There is no guarantee that the strategy will achieve its investment objectives or comparable results. Inherent in any investment is the potential for loss.

Sources

All market data and indicators are sourced from Bloomberg.

Indices

The benchmarks (or reference indices) are determined in advance with clients and are employed to compare performance.

Any comparisons herein of the investment performance of the portfolio to a benchmark or an index are qualified as follows: (i) the volatility of such benchmark or index may be materially different from that of the portfolio; (ii) such benchmark may employ different investment guidelines and criteria than the portfolio, and, therefore, holdings in such portfolio may differ significantly from holdings of the securities that comprise such benchmark or index and (iii) the performance of such benchmark or index may not necessarily have been selected to represent an appropriate benchmark or index to compare the performance of the portfolio, but rather, is disclosed to allow for comparison of the portfolio's performance to that of a well-known benchmark or index. A summary of investment guidelines of such benchmark or index is available upon request. No representation is made as to the risk profile of any benchmark or index relative to the risk profile of the portfolio.

You cannot invest directly in an index.

The S&P 500® is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

The MSCI EAFE Index is a free-float weighted equity index. The index was developed with a base value of 100 as of December 31, 1969. The MSCI EAFE region covers DM countries in Europe, Australasia, Israel, and the Far East.

The MSCI EM (Emerging Markets) Index is a free-float weighted equity index that captures large and mid cap representation across Emerging Markets (EM) countries. The index covers approximately 85% of the free float-adjusted market capitalization in each country.

The Bloomberg Barclays Intermediate US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market with less than 10 years to maturity. The securitized sector is wholly included. The index includes Treasuries, government-related and corporate securities, MBS, ABS and CMBS.

Bloomberg Barclays Muni 1-10Yr Blend (1-12) Total Return Index Value.

The ICE BofA US Cash Pay High Yield Index tracks the performance of US dollar denominated below investment grade corporate debt, currently in a coupon paying period, that is publicly issued in the US domestic market.

The ICE BofA Fixed Rate Preferred Securities Index tracks the performance of fixed rate US dollar denominated preferred securities issued in the US domestic market.

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