

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%.

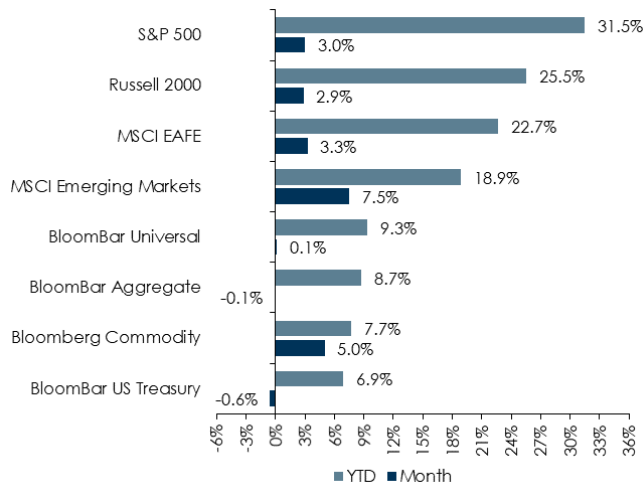
145,000 new jobs were added in December, slightly below expectations, and the prior two months were revised slightly down by 14,000. The unemployment rate remained at the 50-year low of 3.5%, matching September’s rate. Average hourly wage gains remained moderate, advancing at a year-over-year pace of 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

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