DECEMBER 2019 IN REVIEW

January Update | As of December 31, 2019

ECONOMY:

U.S. ECONOMY'S PROMISING END TO 2019

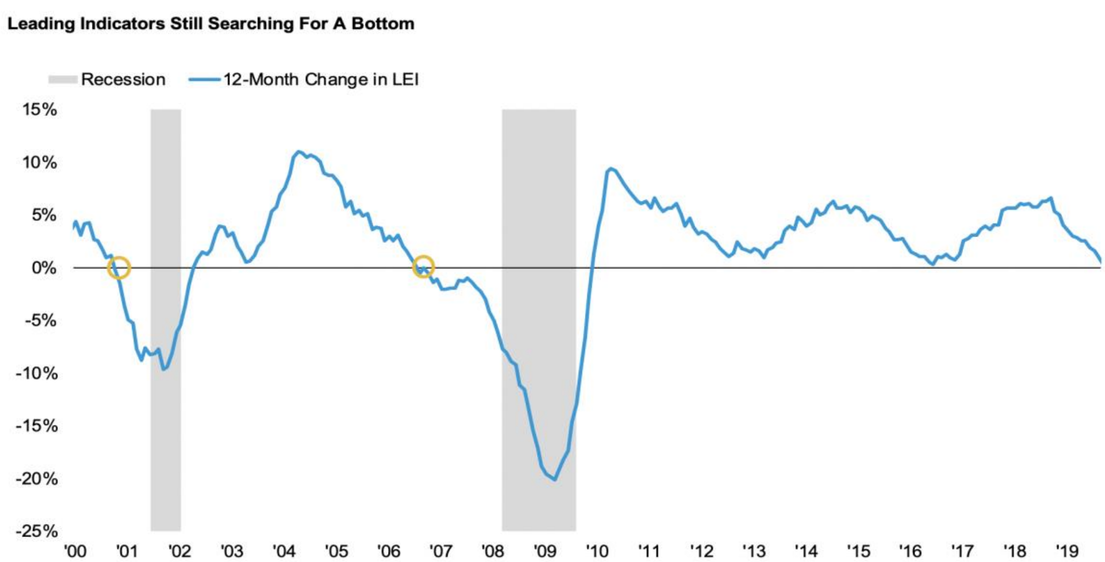
The U.S. economy wrapped up 2019 with a batch of generally promising data as U.S.-China trade tensions died down.

The Conference Board's Leading Economic Index (LEI) rose 0.1% year over year in November, its slowest pace of growth since 2009. Even though LEI growth has slowed, the gauge is still positive year over year [Figure 1].

Nonfarm payrolls growth rose to a 10-month high in November, according to the data released in early December. October and September payrolls growth was also revised upwards. The 12-month average payrolls change through October was noticeably above the expansion average [Figure 2].

Consumer inflationary pressures appeared healthy and manageable. The core Consumer Price Index (CPI), which excludes food and energy prices, climbed 2.3% year over year in November, around a cycle high. Wages, which comprise about 70% of business costs, rose 3.1% year over year in November. Still, producer price growth declined. The core Producer Price Index increased 1.5% year over year in November, the slowest pace of growth since September 2016.

Figure 1. Leading Indicators Still Searching for A Bottom



*LEI = The Conference Board's Leading Economic Index

Source: LPL Research, Conference Board, 12/19/2019

Horizontal (Value) Axis

Past performance is no guarantee of future results.

Core personal consumption expenditures (PCE), the Federal Reserve's (Fed) preferred inflation gauge, increased 1.6% year over year in November. Year-over-year core PCE growth is still below the Fed's 2% growth target.

U.S. manufacturing data sent conflicting signals. The Institute for Supply Management's (ISM) Purchasing Managers' Index (PMI) hovered around a 10-year low in November. On the other hand, Markit's U.S. manufacturing PMI, which is constructed differently and tends to be more forward looking, jumped to a seven-month high in November and has remained in expansionary territory.

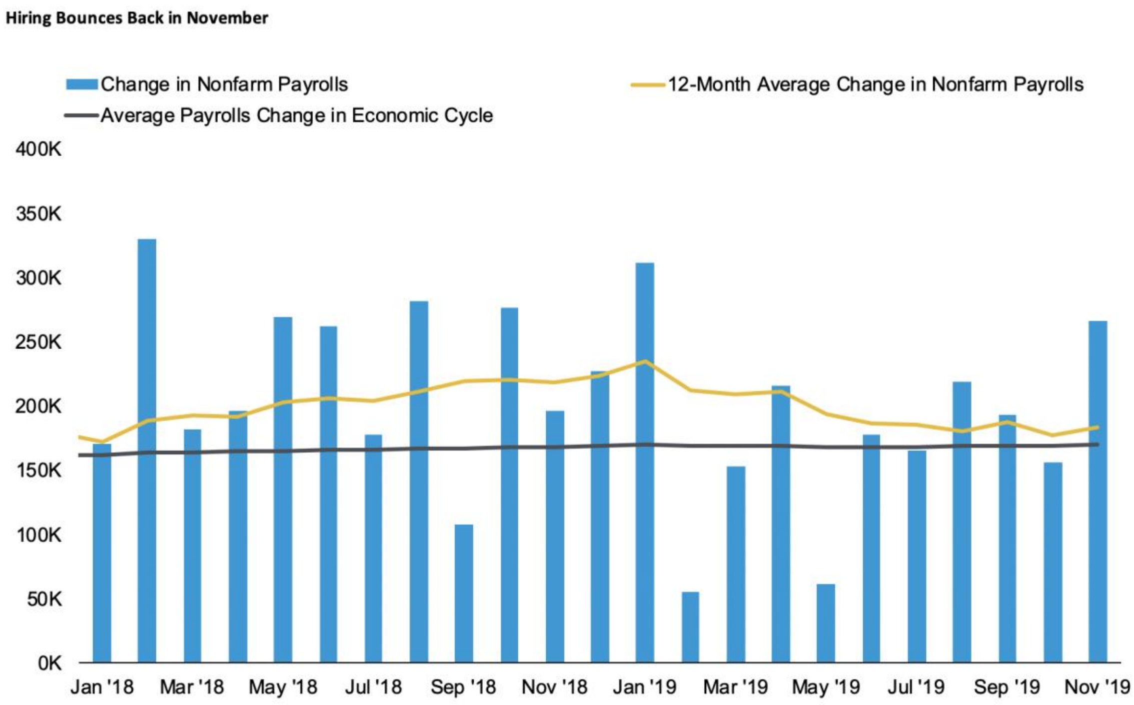
Underlying data on the U.S. consumer was mixed. The Conference Board's Consumer Confidence Index rose slightly in December, but retail sales growth slowed in November at the start of the holiday season.

Business spending stalled in November. Orders for nondefense capital goods (excluding aircraft) were unchanged month over month and declined 1.2% year over year.

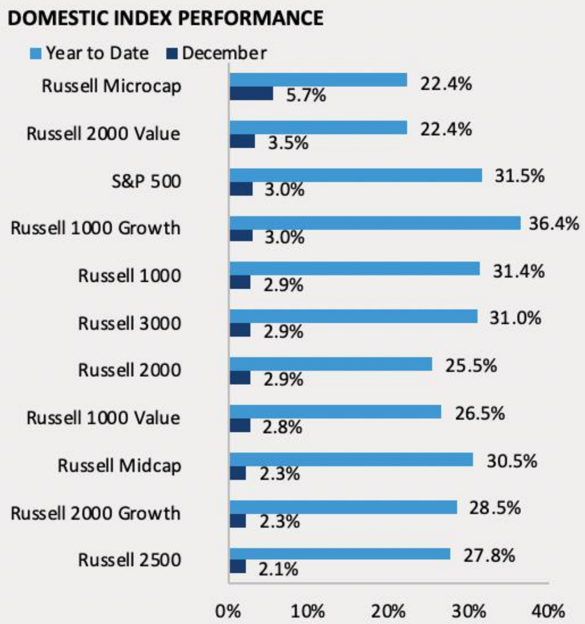
Another Fed Policy Pivot

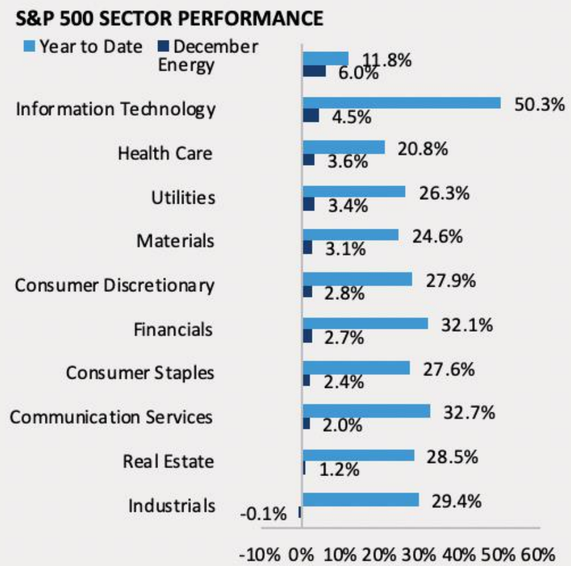
On December 11, the Fed announced it would leave rates unchanged, concluding a string of three 25 basis point (0.25%) rate cuts from July to October 2019. Policymakers also released updated rate projections, showing they now expect the fed funds rate to stay unchanged through the end of 2020 before moving higher over the following two years.

Figure 2. Hiring Bounces Back in November



Source: LPL Research, Bureau of Labor Statistics, 12/6/2019





Source: FactSet 12/31/19
Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
Stock investing involves risk, including loss of principal. Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

GLOBAL EQUITIES

STRONG 2019 ENDS ON A HIGH NOTE

The S&P 500 Index returned 3% in December, leaving the index near record highs as 2019 ended. December gains brought the S&P 500's total return in 2019 to an impressive 31.5%, its best annual performance since 2013. Gains were steady throughout the year, with stocks suffering only two down months and no decline larger than 7%. The Nasdaq Composite fared best in December and in 2019 among the major averages, with returns of 3.6% in December and 36.7% for the year. The Dow Jones Industrials lagged the S&P 500 but still posted a respectable 25.3% return for the year after gaining 1.9% in December.

Trade Remained the Big Story for Markets

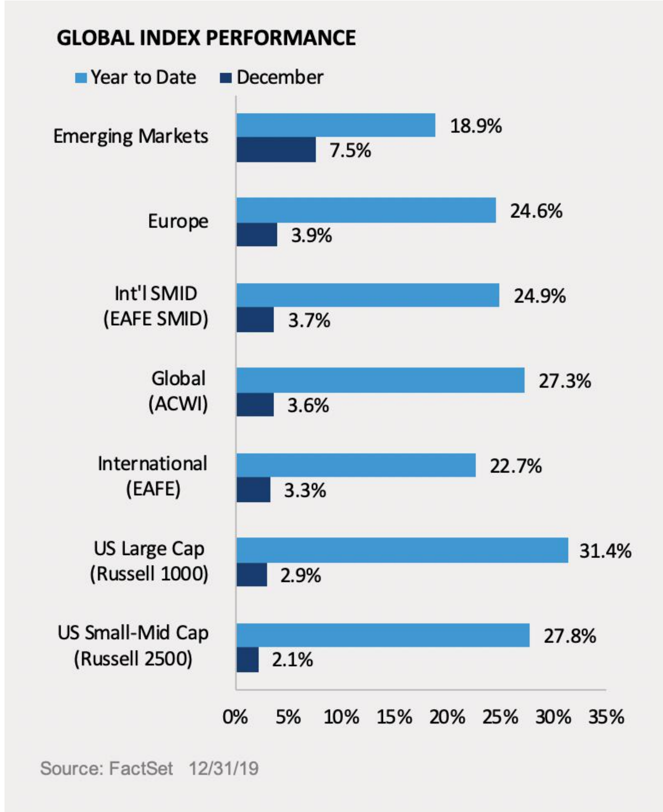
Trade tensions were again a big story for investors last month. Although the United States and China verbally agreed to a phase-one trade deal in mid-December, the month began with the United States placing steel and aluminum tariffs on Argentina and Brazil. Then, U.S.-China tensions escalated after the United States formally supported anti-government protesters in Hong Kong. Despite some bumps in the road, the stock market correctly anticipated a de-escalation of tensions, including the United States pulling back threats of additional tariffs.

Economic data during the month was generally supportive of continued steady economic growth, despite lingering effects from the U.S.-China trade dispute. Jobs data was particularly strong, which helped support a solid start to the holiday shopping season.

Convincing Technology Leadership in 2019

Energy topped December sector performers with a 6% return, spurred by a double-digit rally in oil prices amid heightened geopolitical tensions, stabilizing global economic growth, and a weaker U.S. dollar. The energy sector was still the worst performing sector in 2019 by a wide margin. In 2019, technology lapped the field with its 50.3% total return, including a 4.5% December advance. Industrials were little changed in December after losses in Boeing shares.

Technology strength propelled growth stocks to another month of outperformance relative to value, a trend that continued throughout most of 2019. The Russell 1000 Growth Index return outpaced the value benchmark by about 10 percentage points overall in 2019, including outperformance in 10 of the 12 months.



Small cap stocks' performance matched large caps during December, based on the Russell indexes, while midcap stocks lagged both groups. The relatively greater market sensitivity of small caps helped the Russell 2000 small cap index outperform its Russell 1000 large cap counterpart over the last four months of 2019, reducing annual underperformance to 6 percentage points. For the year, the Russell 1000 Index returned 31.4%, ahead of the respective 30.5% and 25.5% returns for the Russell Midcap and Russell 2000 indexes. Large cap stock leadership, which was driven mostly by technology, was bolstered by stronger profit growth. The market showed its preference for large caps in 2019, as healthcare was the only S&P sector in which small caps outperformed.

International

Emerging market stocks topped broad global regional indexes during December as the MSCI EM Index returned 7.5%, more than doubling the S&P 500's monthly gain. Emerging market stocks benefited from the U.S.-China trade deal, the Fed's policy pause, and U.S. dollar weakness. Chinese stocks paced the gains, as the MSCI China Index returned more than 8%, while stocks in Taiwan and South Korea saw similar strength. Despite the strong finish, the MSCI EM Index's 2019 return of 18.9% still lagged the S&P 500 significantly.

Evidence of stabilizing global growth, progress on trade, and the weaker dollar helped boost developed international equities in December, as the MSCI EAFE Index returned 3.3% for the month. The United Kingdom (U.K.) was the strongest major country performer, benefiting from Conservative Party leader Boris Johnson's convincing victory in the December 12 general election. The election outcome opened up a path for the U.K. to exit the European Union (Brexit) and bring some clarity to an uncertain situation. Like the MSCI EM Index, the MSCI EAFE Index's 22.7% return in 2019 significantly lagged the S&P 500.

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Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

FIXED INCOME

10-YEAR YIELD RISES IN DECEMBER

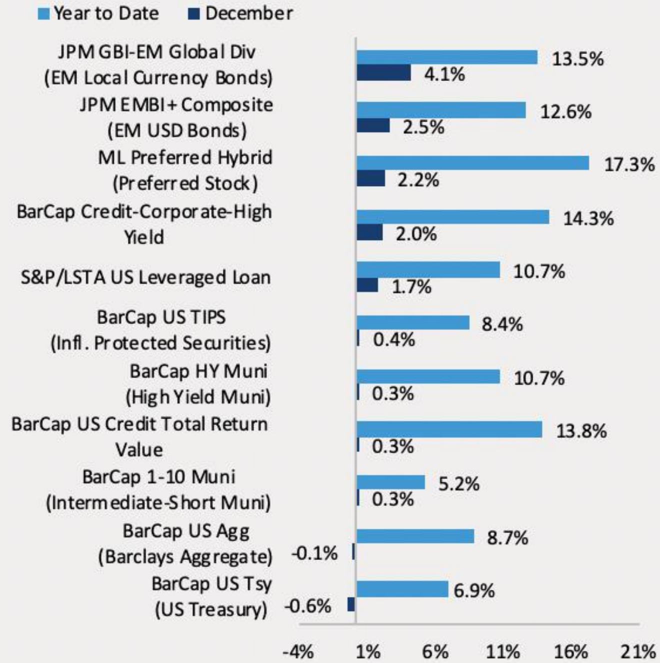
U.S. Treasury yields rose for a fourth straight month in December as prospects for a U.S.-China limited trade agreement boosted
risk appetite.

The 10-year yield increased 14 basis points (0.14%) in December to close the year near a seven-week high at 1.92%.

The yield curve steepened as long-term yields rose faster than short-term yields. The spread between the 2-year and 10-year yields climbed to 34 basis points (0.34%), a one-and-a-half-year high, while the spread between the 3-month and 10-year yields rose to 36 basis points (0.36%).

Nine of 11 fixed income sectors we track rose in December, as shown in the Fixed Income Performance Table. Emerging market debt led gains, while Treasuries lagged. The Bloomberg Barclays U.S. Aggregate Bond Index (Agg) was unchanged in December after a strong 2019. The Agg rose 8.7% last year, its best annual performance since 2002.

FIXED INCOME PERFORMANCE



US TREASURY YIELDS

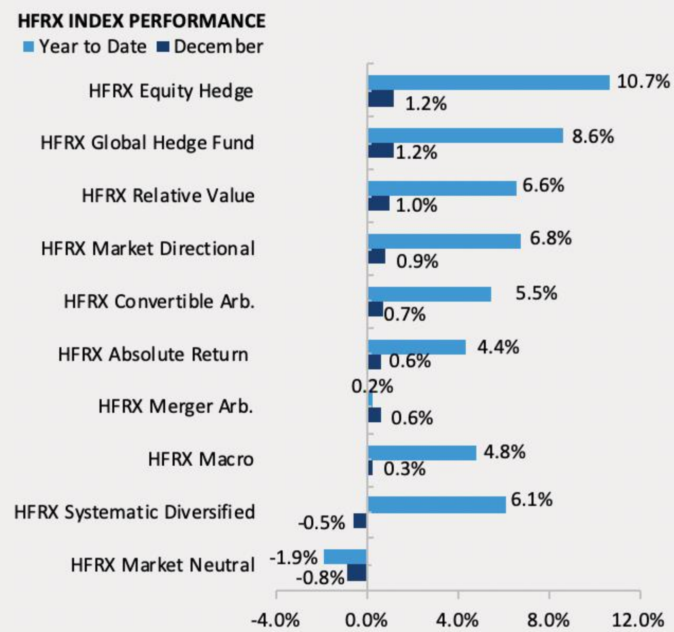
Security	11/30/19	12/31/19	Change in Yield
3 Month	1.59	1.55	-0.04
2 Year	1.61	1.58	-0.03
5 Year	1.62	1.69	0.07
10 Year	1.78	1.92	0.14
30 Year	2.21	2.39	0.18

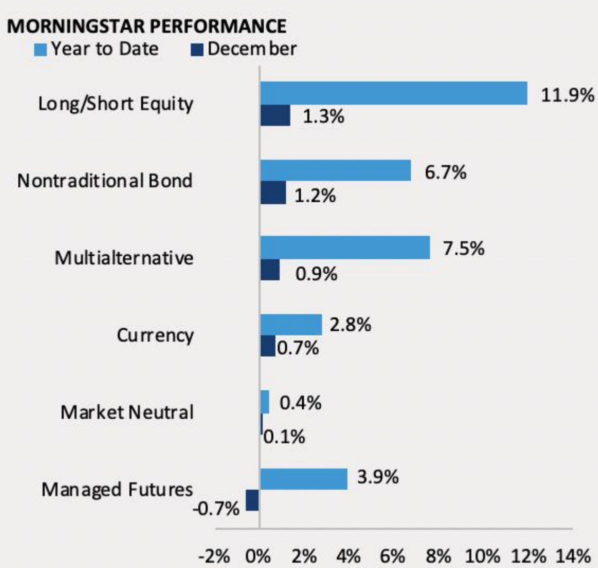
AAA MUNICIPAL YIELDS

Security	11/30/19	12/31/19	Change in Yield
2 Year	1.17	1.18	0.01
5 Year	1.23	1.23	0.00
10 Year	1.57	1.57	0.00
20 Year	2.06	2.06	0.00
30 Year	2.18	2.19	0.01

Source: FactSet 12/31/19

Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results. Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values and yields will decline as interest rates rise, and bonds are subject to availability and change in price.





Source: FactSet 12/31/19
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ALTERNATIVE INVESTMENTS

EVENT-DRIVENS CLOSE YEAR ON POSITIVE NOTE

The HFRX Event Driven Index led alternative investment returns (2.0%), as broad-based equity market gains and a rather sanguine market backdrop supported portfolios and existing deal spreads. For the year, the index gained 10% with a beta of only .18 and an annualized volatility of 4%. We continue to believe managers in the space may provide attractive and consistent risk-adjusted returns going forward. While uncertainty and specific detail regarding the U.S.-China trade deal remain, global deal volume has been persistent, and there has been a low deal-failure rate among announced deals.

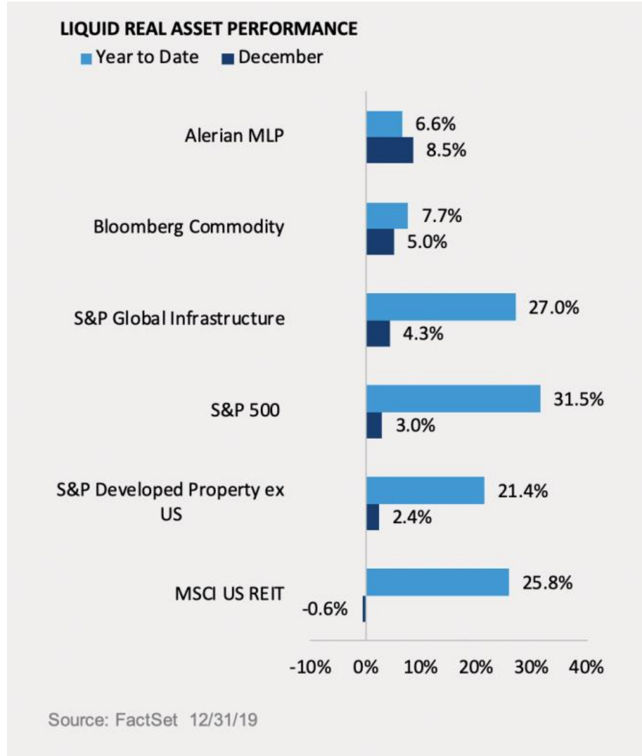
Long/short equity managers also ended the year on a positive note, with the HFRX Equity Hedge Index up 1.2%, and benefiting from the industry's information technology overweight and strong stock selection. Returns, however, were negatively impacted by the 6.9% rally in the energy sector, as many funds remain either underweight and/or hold short positions. For 2019, the index gained 10.7%, its best year since 2013. Over the course of the year, the long/short industry slowly increased its gross exposure (total of long plus short positions) as compared to the low levels seen at the end of 2018. Net exposure was marginally higher over the same time period, ending the year slightly above 45%.

The HFRX Systematic Diversified Index (-0.6%) and the HFRX Equity Market Neutral (-0.8%) lagged all other categories during the month, with the latter actually declining 1.9% for the year. Returns within managed futures were supported by their long equity positioning and select commodity trading. Specifically, long holdings in the energy and agriculture markets were profitable.

REAL ASSETS

DIFFICULT MONTH FOR LIQUID REAL ASSETS

Most of the liquid real asset categories we track produced gains during December, with the exception of U.S. real estate investment trusts (REIT). Commodities and commodities-linked asset classes were particularly strong.



Master Limited Partnerships (MLP)

The Alerian MLP Index gained 8.5% in December as higher oil prices and rallying energy stocks helped offset the impacts of lower natural gas prices and rising interest rates. MLPs also likely benefited from the end of year-end tax-loss harvesting activity. December's rally flipped the 2019 return positive, but MLP's 6.6% return for the year significantly trailed broad equity benchmarks.

REITs and Global Infrastructure

The MSCI U.S. REIT index fell for the second straight month, losing 0.6% during December to trail the broad U.S. stock market, international real estate, and global infrastructure, but still returning a solid 25.8% in 2019.

Industrial REITs cooled off in December with a 2.1% loss, but they still delivered a stellar 49.4% return in 2019, based on the MSCI U.S. Industrial REIT Index. Lodging/resorts REITs paced sub-sector gains for the month, while residential and office REITs also posted gains. Healthcare, residential, and retail REIT sub-sectors suffered losses. Winners in 2019 besides industrial REITs included residential and office REITs, while the healthcare, lodging/resorts, and retail sub-sectors lagged.

International real estate fared better than domestics with a 2.4% December gain, bringing its 2019 return to 21.4% based on the S&P Developed Property ex.-US Index. The S&P Global Infrastructure Index returned a solid 4.3% in December to bring its 2019 overall return to 27%.

Commodities

The Bloomberg Commodity Index finished the year strong, gaining 5% in December to bring its 2019 return to 7.7%.
Oil prices rose more than 10% during the month, benefiting from elevated Mideast tensions and an improving global growth outlook, bringing its 2019 advance to more than 30%. Similar catalysts boosted most industrial metals, as copper rallied 5% in December and ended the year higher by about that amount. Precious metals also produced solid December gains as the U.S. dollar weakened, pushing gold and silver's 2019 advances to 15.6% and 11.5%, respectively. Natural gas prices added to sharp 2019 losses in December on warmer than expected weather. Major agricultural prices rose in December on trade news but finished the year mixed. Commodity performance is based on the Bloomberg Commodity Index and its components.

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