Quarterly Investment Summary

DECEMBER 2019

Performance Summary (as of 12/31/2019)

	Target Allocation	Trailing Returns				
	Equity/Fixed	3 Months	YTD	1 Year	3 Year	5 Year
Fixed Income	0%/100%	0.56%	7.20%	7.20%	3.43%	2.61%
Conservative	25%/75%	2.71%	11.81%	11.81%	5.68%	4.37%
Balanced	50%/50%	4.92%	16.58%	16.58%	7.84%	5.90%
Growth	75%/25%	7.09%	21.41%	21.41%	9.97%	7.44%
Equity	100%/0%	9.23%	26.51%	26.51%	11.95%	9.10%

Market Commentary

- There was no shortage of drama in 2019, with an ongoing trade war with China, uncertainty with Brexit, an inverted yield curve, and political rancor that ended with impeachment. What did not receive as much attention was that the longest expansion in US history continued, and because of the consistent economy, stocks and bonds had their best concurrent year in over two decades. The economy continues to be powered by strong consumer spending, with mixed data elsewhere. US GDP continued its solid path, and fourth quarter GDP is widely expected to show moderate growth, meaning 2019 GDP will likely end up with over 2.0% growth for the year. Most economists are forecasting a similar outlook for 2020, with slow growth, but no recession, as the prevailing expectation. Holiday sales rose 3.4% this year, with online sales unsurprisingly growing much faster than in-store sales. Employers added 266,000 jobs in November and unemployment remained at 3.5%, the 21st straight month with an unemployment rate below 4.0%. In all, the strength of the US consumer appears to have kept the US economy on track despite pressures from trade and slowing global growth. The housing market received a boost from lower rates with the NAHB/Wells Fargo housing Market Index, a measure of home builders' confidence, reaching its highest level since 1999. November housing starts increased 3.2% over the previous month, and it appears as if 2019 will be the strongest year for housing starts since 2007.

- A strong year for stocks was capped by a year-end rally that saw all-time highs reached for the S&P 500 and NASDAQ Composite Index in late December. It was the best year for those two indices since 2013, with the S&P 500 gaining 31.5% and the NASDAQ Composite advancing 36.7% during 2019. US Small and mid-cap stocks indices were up over 25% for the year, also participating in the broad rally. International stocks once again lagged their US counterparts for the year, but still posted robust gains of 22.8% for developed markets and 18.6% for emerging markets. Interestingly, the stock market enjoyed outsized gains in a year where earnings growth slowed sharply. In fact, earnings for 2019 are expected to finish barely positive, following greater than 20% earnings per share growth in 2018.

- A rise in bond yields towards year-end led to very modest bond market returns for the fourth quarter. However, the 10-year Treasury Note finished 2019 yielding 1.92%, or more than three-quarters of a percent lower than it started the year. This led to a strong year in returns for the broad bond market, as bond prices move inversely with interest rates. The broadly-diversified Barclays Capital U.S. Aggregate Index gained nearly 9% for the year, its best calendar year total return since 2002. Corporate and high-yield bonds posted double- digit gains for the year, as credit spreads reached their tightest levels in nearly two years. The December meeting of the Fed proceeded as expected, with the Fed Funds rate unchanged at its current range of 1.50%-1.75%.