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Monthly Market Commentary
December 2019

ECONOMY: Momentum for 2020…

TRUMP THE 3RD
President Trump became the third president in U.S. history to be impeached by the House of Representatives. The House Judiciary Committee approved two articles of impeachment against President Trump: obstruction of justice & abuse of power. The next step is for the issue to go to the Senate.

TRADE DEALS APPROVED
President Trump announced that the Phase 1 trade deal with China will be signed on January 15th. Rumblings of a possible deal have been anticipated for months, but the actual passage of a deal exemplifies the first true de-escalation in the trade war. The deal slashes U.S. tariffs on Chinese goods and increases Chinese imports of U.S agricultural products. (The House also passed USMCA.)

YOU'RE HIRED!
The economy added 145,000 jobs in December, falling just shy of economist expectations of 160,000. December's figures mark the 9th straight year that the economy has added more than 2 million jobs. However, employment gains for 2019 represent the slowest annual pace since 2011.

TRADE IMPACTING MANUFACTURING?
The latest ISM manufacturing survey showed the manufacturing index declined to 47.2 in December—the lowest since 2009. The trade war has certainly weighed on the sector, and the continued de-escalation in trade tensions would be a welcome development for manufacturing.

INFLATION REMAINS MUTED
Inflation, as measured by core personal consumption expenditures, came in at about 1.6% in November, well below the Federal Reserve's 2% target. Wage pressures, which peaked at 3.4% in February, have eased as of late.

CONFIDENCE DOWN TO END YEAR
The Conference Board Consumer Confidence Index decreased marginally in December, following a slight increase in November. "*Consumer confidence declined marginally in December, following a slight improvement in November. While consumers' assessment of current conditions improved, their expectations declined, driven primarily by a softening in their short-term outlook regarding jobs and financial prospects. While the economy hasn't shown signs of further weakening, there is little to suggest that growth, and in particular consumer spending, will gain momentum in early 2020.*"

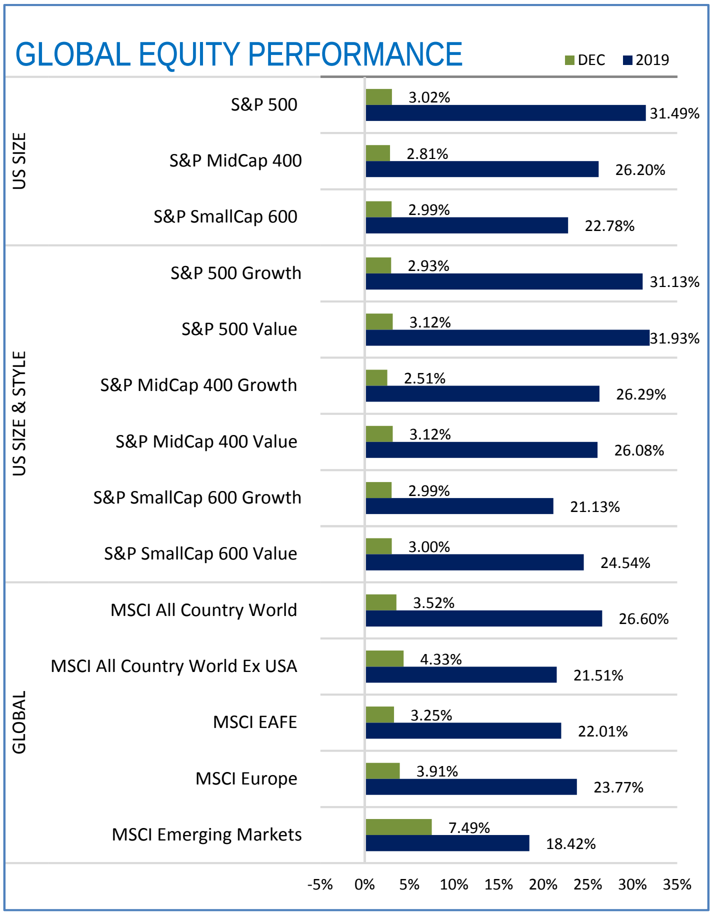
NOT "MADE IN EUROPE"
The Eurozone manufacturing PMI fell again November, returning to its October level of 45.9. The Eurozone manufacturing sector spent 11 months in 2019 below 50, the level that signals contraction.

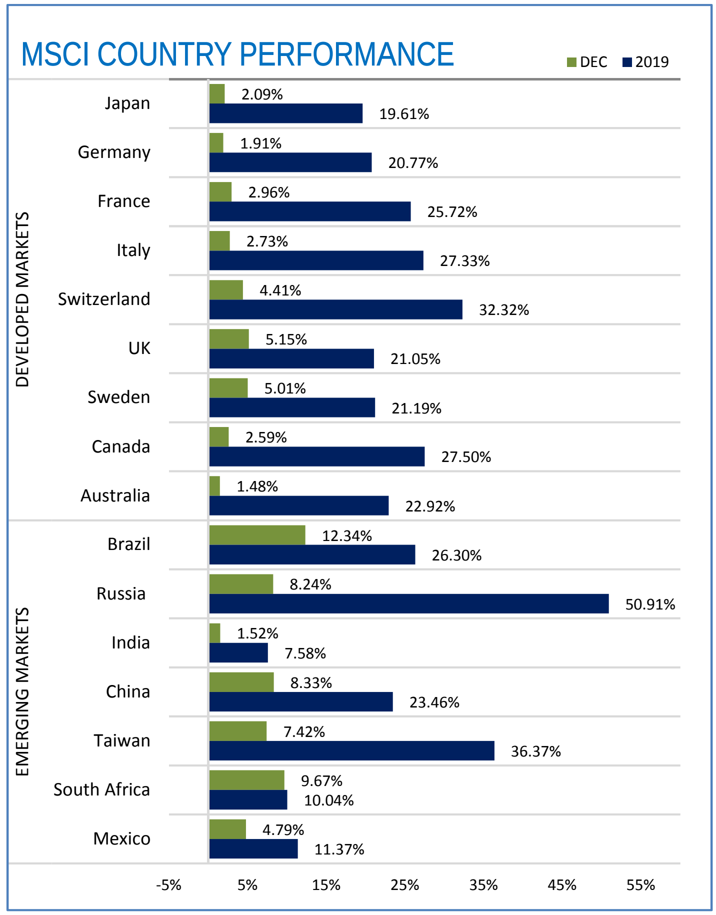
NEGATIVE TO POSITIVE
In Sweden, which was the first major country to implement negative rates in February 2015, Riksbank raised its rate to 0.00% from -0.25%, becoming the first country to end its negative interest rates. However, negative rates continue in Denmark, Japan, and Switzerland. The Bank of England and Bank of Japan both voted to keep its interest rates unchanged.

UNREST IN CHILE
Chile's economy continues to be disrupted by political protests, with the most recent data indicating the economy contracted for the second consecutive month. Given the updated data, it is likely Chile's economy contracted in Q4-2019 and could fall into a recession in 2020.

CHINESE DATA IMPROVING
For much of 2019, Chinese economic data had been underwhelming, highlighting a continued slowdown in China's economy in part due to persistent trade tensions with the U.S. However, economic data and sentiment indicators improved to close out 2019. Industrial production and retail sales were above forecasts in November, while the manufacturing sector held steady in December.

GLOBAL EQUITIES: Strong End For Global Equity Markets





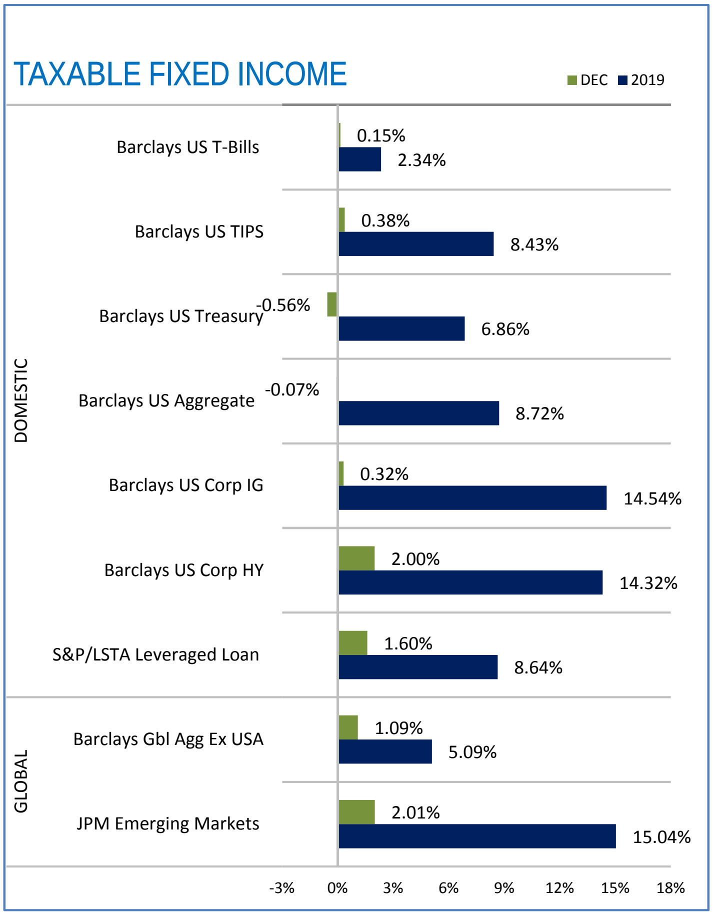
U.S. MOMENTUM CONTINUES

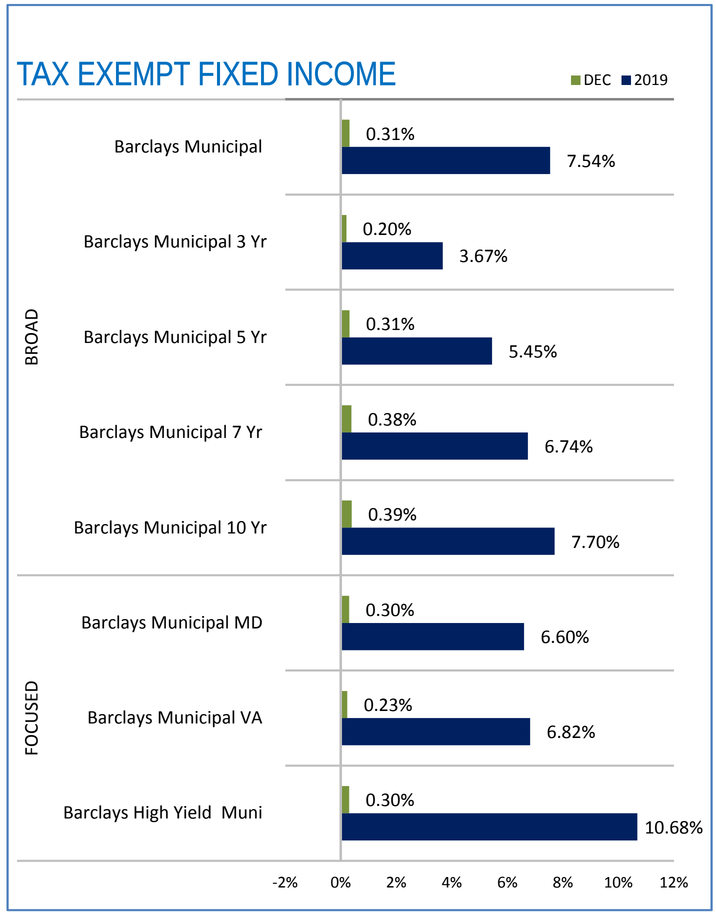
The U.S. equity market reached fresh highs in December to cap one of the best years of the past decade. The S&P 500 gained 3.02% in December and 31.49% in 2019. Stocks were buoyed by hopes that an interim trade deal between the U.S. and China was still on course to be signed in January. The agreement would see Washington reduce tariffs and Beijing increase purchases of U.S. farm goods. Mid and small cap equities also booked solid gains in December and ended the year up 26.20% and 22.78% respectively.

EM FINISHES STRONG

Emerging equity markets registered broad gains during December to cap off a successful year for the asset class as investors responded positively to news that the U.S. and China had reached agreement on Phase One trade negotiations. The easing in trade tensions represents the first tariff rollback since the inception of the trade war in July 2018. Higher commodity prices, a weaker US dollar and lower interest rates also provided a positive backdrop for emerging market investors. All 26 countries in the MSCI Emerging Markets Index gained in December, as the index was up 7.49% for the month and 18.42% for 2019.

FIXED INCOME: Credit & Duration Rewarded in 2019





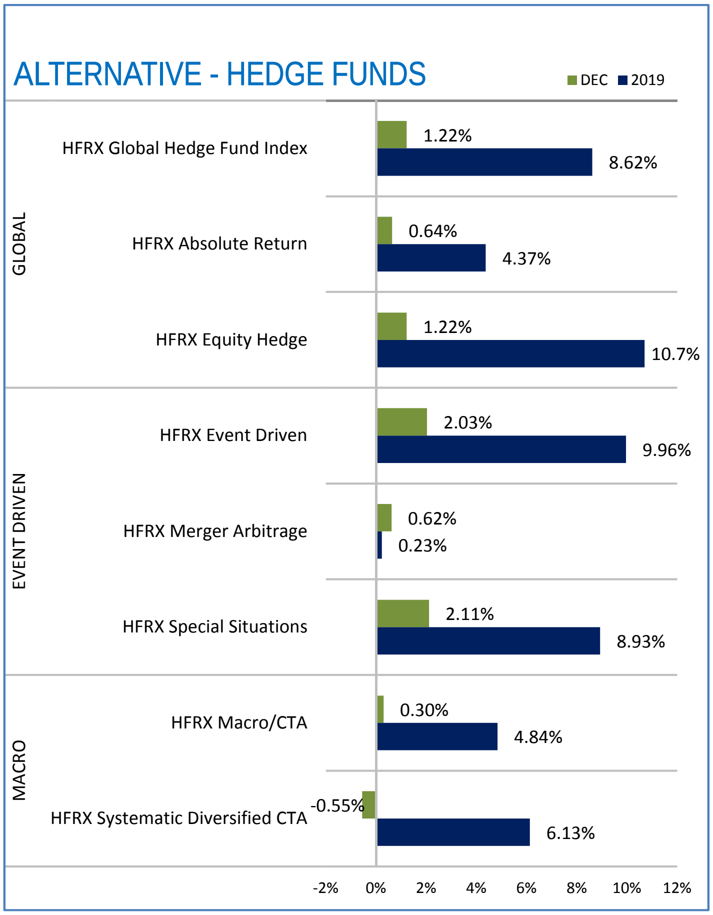
Credit Sectors Outperform

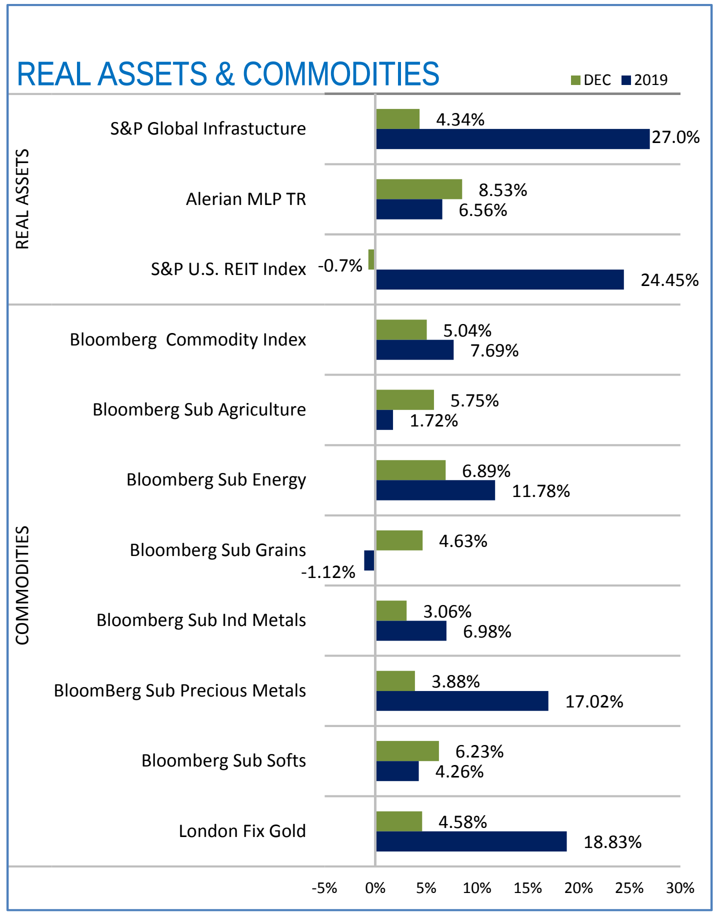
The returns in the U.S. fixed income market were strong in 2019, despite the Barclays U.S. Aggregate Bond Index falling 0.07% in December to end the year up 8.72%. Both credit risk and duration risk were rewarded in 2019. U.S. Investment Grade Corporates posted the strongest overall returns in 2019 (+14.54%), and returns on longer maturities were substantially higher than those on shorter maturities. The benchmark 10-Year U.S. Treasury yield ended the year at 1.92%, down from 2.68% at the end of 2018.

Strong Demand & Strong Returns

Following the taxable market, 2019 was also a strong year for municipal bond investors. The tax free yield curve flattened for most of 2019, before slightly steepening in Q4. Municipal funds/ETFs had consistently positive flows this year, with $94B of inflows, easily surpassing the previous record of $79B in 2009. Credit and duration strategies also worked in the municipal market. Long maturities outperformed the short and intermediate curve segments, while lower-quality credits also outperformed higher-quality issues for the quarter and full year.

ALTERNATIVES: Gold Glitters For The Year





Hedge Funds Follow Markets Higher

Hedge funds followed the global equity markets higher, as many strategies posted their best returns in years. The HFRX Global Hedge Fund Index gained 1.22% in December, for an 8.62% annual gain and its best yearly performance since 2009. The HFRX Equity Hedge Index gained 1.22% for the month and 10.71% for the year which was its best yearly performance since 2013. The HFRX Event Driven Index posted a gain of 2.03% for December and 9.96% for 2019 which marked its best yearly performance in 3 years.

Gold Shows Its Luster

Gold proved to be one of the most popular assets for investors in 2019. Gold prices rose 4.58% in December and 18.83% in 2019, posting the precious metals best annual return since 2010. Gold was driven higher by safe haven buying due to escalating geopolitical tension, a protracted global trade war, and continued quantitative easing by major central banks. As more and more government bonds began trading at a negative yield, gold was well positioned as a safe haven alternative for investors.