JANUARY 2020 RECAP

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Equities were slightly negative in January as the S&P 500 decreased by -0.1%, this was the first negative month since August. The market reached a new all-time high on January 22nd (S&P: 3,338) before pulling back toward the end of the month as the coronavirus became front page news. A pullback in the equity market was somewhat expected after an increase of +31.5% in 2019. We will use this as an opportunity to remind our clients that despite last year's far above-average return, the equity market does not usually go up in a straight line, and some volatility is perfectly normal. Please see our previous Client Question of the Month pieces (**November 2018**, **February 2019**, and **January 2019**) for our thoughts on market volatility, risks, and market timing.

We will also highlight that concerns surrounding the coronavirus caused part of the yield curve to invert again as the spread between the 10-Year and 3-Month Treasury yield ended the month at -5bps. Our thoughts and analysis on the yield curve inversion can be found **here**.

Going forward we are continuing with a balanced outlook for the US equity market with modest defensive positioning. As always, we will continue to incorporate new market developments with long-term asset allocation targets as part of our overall total net worth approach to comprehensive financial planning and investment management.

We'd like to highlight three key events in January 2020:

Coronavirus Outbreak

Fears over the coronavirus outbreak gripped the global markets toward the end of January. The coronavirus is a respiratory illness that originated in Wuhan China in early December. While most confirmed cases have been in China, the disease has spread to other parts of the world, including the United States and Europe. On January 30th, the World Health Organization (WHO) declared a "public health emergency of international concern" and stated they would help to contain the outbreak.

Of course, we acknowledge the anxiety for everybody and the tragedy for those impacted by the coronavirus. As of now, it is too early to assess the impact on global markets and economies. We will point out that recent health scares, including Avian Flu (1997), SARS (2003), Swine Flu (2009), and Ebola (2014), did not have a lasting impact on the US stock market.

FOMC Keeps Rates Steady

At the January 29th meeting, the Federal Open Market Committee (FOMC) kept the federal funds rate steady at 1.50% to 1.75%. Recall that the Fed lowered interest rates by 0.75% total in 2019. The Fed's messaging did not change much since last December. The meeting statement continues to say that the current stance of monetary policy is appropriate to sustain the economic expansion. The Fed's current outlook is for a continued economic expansion, a strong labor market, and inflation returning to the 2% objective.

Going forward, the Fed has set the bar high for future rate hikes. In December, Chairman Powell stated that he would want to see "persistent" and "significant" increases in inflation before raising interest rates. Given that recent inflation readings remain well below the Fed's 2% target, our review remains that an interest rate increase is unlikely this year. The Fed's preference to keep interest rates low will continue to provide a tailwind to the economy and risk assets.

Q4 2019 GDP

The United States economy continued at moderate pace as Q4 GDP increased by a +2.1% seasonally adjusted annual rate – better than the +2.0% consensus estimate. However, the underlying GDP components were a bit weak as consumption slowed faster than expected. Consumer spending, which accounts for close to 70% of GDP, decelerated to +1.8% in Q4 from +3.2% in Q3. While the consumer is still supported by a strong labor market, a slowdown in spending is something to monitor. Net trade (exports – imports) contributed +1.5% to GDP growth, however, this measure was likely impacted by the ongoing trade war and may reverse in the future. For the full year 2019, the economy grew by +2.3%.

Consensus estimates for US GDP Growth-> 2020: +1.8% 2021: +1.9%

The Gross Domestic Product (GDP) report is released by the Commerce Department's Bureau of Economic Analysis (BEA). The BEA defines GDP as the value of the goods and services produced by the nation's economy less the value of the goods and services used up in production. GDP is also equal to the sum of personal consumption expenditures, gross private domestic investment, net exports of goods and services, and government consumption expenditures and gross investment. The BEA releases three estimates for each quarter's GDP – the first estimate occurs about a month after the quarter ends.

MARKET RETURNS

US Equity

Index	January	2019	2018	2017	2016	2015	2014	3-Year	5-Year	10-Year	20-Year
S&P 500	-0.06%	31.48%	-4.39%	21.82%	11.95%	1.37%	13.68%	15.00%	12.59%	14.09%	6.35%
Russell 3000	-0.20%	31.01%	-5.25%	21.12%	12.72%	0.47%	12.55%	14.28%	12.07%	13.95%	6.63%
Dow Jones Industrial Average	-0.91%	25.34%	-3.48%	28.11%	16.43%	0.21%	10.04%	15.97%	13.64%	13.90%	7.48%
Nasdaq	2.03%	36.74%	-2.81%	29.73%	8.97%	7.11%	14.83%	18.80%	15.77%	16.94%	5.26%
S&P 400	-2.61%	26.17%	-11.10%	16.23%	20.73%	-2.18%	9.74%	8.90%	9.42%	13.18%	9.67%
Russell 2000	-3.21%	25.49%	-11.03%	14.63%	21.28%	-4.41%	4.90%	8.68%	9.07%	12.34%	7.69%
Russell 1000 Growth	2.17%	36.39%	-1.51%	30.21%	7.07%	5.67%	13.05%	19.77%	15.25%	15.87%	5.45%
Russell 1000 Value	-2.27%	26.52%	-8.28%	13.64%	17.33%	-3.84%	13.45%	9.69%	9.32%	12.21%	7.24%

International Equity

MSCI Index	January	2019	2018	2017	2016	2015	2014	3-Year	5-Year	10-Year	20-Year
EAFE	-1.83%	22.01%	-13.79%	25.03%	1.00%	-0.81%	-4.90%	8.78%	5.66%	6.03%	3.67%
Europe	-2.16%	23.20%	-16.90%	28.06%	1.34%	-1.42%	-8.39%	9.20%	5.61%	4.86%	3.12%
Japan	-1.36%	19.61%	-12.88%	23.99%	2.38%	9.57%	-4.02%	7.83%	7.33%	6.44%	1.56%
China	-4.08%	23.46%	-18.88%	54.07%	0.90%	-7.82%	7.96%	13.46%	7.13%	6.35%	7.73%
Emerging Markets	-3.72%	18.42%	-14.57%	37.28%	11.19%	-14.92%	-2.19%	9.90%	5.58%	4.31%	6.68%
ACWI ex US	-2.18%	21.51%	-14.20%	27.19%	4.50%	-5.66%	-3.87%	8.86%	5.63%	5.54%	4.14%

US Fixed Income

Bloomberg Barclays Index	January	2019	2018	2017	2016	2015	2014	3-Year	5-Year	10-Year	20-Year
Aggregate	1.77%	8.72%	0.01%	3.54%	2.65%	0.55%	5.97%	4.08%	2.67%	3.62%	5.07%
Treasury Bills	0.12%	2.21%	1.83%	0.81%	0.26%	0.03%	0.03%	1.65%	1.04%	0.55%	1.67%
Corporates	2.21%	14.54%	-2.51%	6.42%	6.11%	-0.68%	7.46%	5.99%	4.05%	5.42%	6.10%
Securitized	0.74%	6.44%	0.99%	2.51%	1.77%	1.47%	5.88%	3.38%	2.48%	3.18%	4.86%
High Yield	0.04%	14.32%	-2.08%	7.50%	17.13%	-4.47%	2.45%	6.03%	6.10%	7.50%	7.19%
Munis	1.77%	7.54%	1.28%	5.45%	0.25%	3.30%	9.05%	4.63%	3.22%	4.32%	5.08%

US Equity Sectors

Index	January	2019	2018	2017	2016	2015	2014	3-Year	5-Year	10-Year	20-Year
Technology	3.96%	50.29%	-0.29%	38.83%	13.85%	5.92%	20.11%	26.68%	21.53%	18.69%	4.98%
Real Estate	1.41%	29.00%	-2.23%	10.85%	1.12%	1.24%	26.14%	12.21%	6.34%	11.90%	
Industrials	-0.47%	29.32%	-13.32%	21.01%	18.85%	-2.56%	9.80%	10.49%	10.45%	13.67%	7.45%
Energy	-11.09%	11.81%	-18.10%	-1.01%	27.36%	-21.12%	-7.80%	-2.09%	-0.89%	3.82%	6.49%
Consumer Discretionary	0.62%	27.94%	0.82%	22.98%	6.03%	10.11%	9.68%	15.49%	14.07%	17.67%	8.07%
Communication Services	0.91%	32.69%	-12.53%	-1.25%	23.48%	3.40%	2.99%	5.70%	8.30%	10.68%	1.29%
Consumer Staples	0.33%	27.61%	-8.39%	13.49%	5.38%	6.60%	15.98%	9.57%	8.70%	12.35%	9.03%
Utilities	6.64%	26.35%	4.11%	12.10%	16.29%	-4.84%	28.98%	13.77%	9.94%	12.48%	7.76%
Materials	-6.19%	24.58%	-14.70%	23.84%	16.69%	-8.38%	6.91%	8.18%	7.60%	10.20%	7.55%
Financials	-2.65%	32.09%	-13.04%	22.14%	22.75%	-1.56%	15.18%	12.23%	12.96%	12.49%	4.73%
Health Care	-2.74%	20.82%	6.47%	22.08%	-2.69%	6.89%	25.34%	15.86%	10.22%	14.83%	8.25%
	Calendar Year Returns							Annualized Returns			

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DISCLOSURES

The economic forecasts set forth in this material may not develop as predicted and there can be no guarantee that strategies promoted will be successful.

Content in this material is for general information only and not intended to provide specific advice or recommendations for any individual.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

International investing involves special risks such as currency fluctuation and political instability and may not be suitable for all investors. These risks are often heightened for investments in emerging markets.

All indexes mentioned are unmanaged indexes which 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.
The Standard & Poor's 500 Index is a capitalization weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Russell 3000 Index is a market-capitalization-weighted equity index maintained by the FTSE Russell that provides exposure to the entire U.S. stock market. The index tracks the performance of the 3,000 largest U.S.-traded stocks which represent about 98% of all U.S incorporated equity securities.

The Dow Jones Industrial Average is comprised of 30 stocks that are major factors in their industries and widely held by individuals and institutional investors.

The NASDAQ Composite Index measures all NASDAQ domestic and non-U.S. based common stocks listed on The NASDAQ Stock Market. The market value, the last sale price multiplied by total shares outstanding, is calculated throughout the trading day, and is related to the total value of the Index.

The S&P Midcap 400 Stock Index is an unmanaged index generally representative of the market for the stocks of mid-sized US companies.

The Russell 2000 Index is an unmanaged index generally representative of the 2,000 smallest companies in the Russell 3000 index, which represents approximately 10% of the total market capitalization of the Russell 3000 Index.

The Russell 1000 Growth Index measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values.

Russell 1000 Value Index measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values.

The MSCI EAFE Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the US & Canada. The MSCI EAFE Index consists of the following developed country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the UK.

The MSCI Europe Index captures large and mid cap representation across 15 Developed Markets (DM) countries in Europe*. With 445 constituents, the index covers approximately 85% of the free float-adjusted market capitalization across the European Developed Markets equity universe.

The MSCI Japan Index is designed to measure the performance of the large and mid cap segments of the Japanese market. With 322 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in Japan.

The MSCI China Index is constructed based on the integrated China equity universe included in the MSCI Emerging Markets Index, providing a standardized definition of the China equity opportunity set. The index aims to represent the performance of large- and mid-cap segments with H shares, B shares, red chips, P chips and foreign listings (e.g., ADRs) of Chinese stocks. China A shares will be partially included in this index, making it the de facto index for all of China. It can be used as a China benchmark for investors who use the MSCI ACWI Index or MSCI EM Index as their policy benchmark.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia. The MSCI EM Index consists of the following emerging market country indices: Brazil, Chile, Colombia, Mexico, Peru, Czech Republic, Egypt, Greece, Hungary, Poland, Qatar, Russia, South Africa. Turkey, United Arab Emirates, China, India, Indonesia, Korea, Malaysia, Philippines, Taiwan, and Thailand.

MSCI ACWI: Morgan Stanley Capital International All Country World Index (MSCI ACWI) is an index designed to capture large and mid cap representation across 23 developed markets and 23 emerging market countries. The index covers approximately 85% of the global investable equity opportunity set. Represented countries are: Developed Markets: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, the United Kingdom, and the United States. Emerging Markets: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Peru, Philippines, Poland, Russia, Qatar, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment-grade fixed-rate bond market, including both government and corporate bonds.

The Barclays Capital U.S. Credit Bond Index measures the performance of investment grade corporate debt and agency bonds that are dollar denominated and have a remaining maturity of greater than one year.

The Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt
The Barclays Capital Municipal Bond Index is a broad market performance benchmark for the tax-exempt bond market, the bonds included in this index must have a minimum credit rating of at least Baa.

Financial planning is a tool intended to review your current financial situation, investment objectives and goals, and suggest potential planning ideas and concepts that may be of benefit. There is no guarantee that financial planning will help you reach your goals.

Likewise, it is important to remember that no investment strategy assures success or protects against loss. Asset allocation does not ensure a profit or protect against loss. There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not protect against market risk. All investing involves risk which you should be prepared to bear.