2019 MARKET REVIEW & OUTLOOK

Andrew Murphy, CFA

Director of Portfolio Management

109 State Street, 2nd Floor
Boston, MA 02109

info@winthropwealth.com

617.530.1010

www.winthropwealth.com

What a difference a year makes! In December of 2018 the equity markets were painting a dark story with the Dow and S&P 500 both posting the worst December since 1931, while the Nasdaq had the worst December on record. According to a Reuters article on November 30th, 2018, "international investors boosted allocations to safe-haven cash in November to the highest levels in almost two years, while further trimming equity exposure, especially in the United States." And, according to Morningstar's asset flow commentary "U.S. mutual funds and exchange-traded funds had an estimated $83 billion in net outflows in December, the largest monthly number since the financial crisis".

At a time when many wealth management firms were sounding the alarm bells about recession, gloom and doom, we remained steady, entering 2019 with a balanced approach. If history is our teacher, we know that making sudden large adjustments to client portfolios is value destructive over time. One of the key tenants of our Investment philosophy is NEVER TIME THE MARKET. Instead, we seek to invest our clients' hard-earned money according to their personal circumstances. The financial planning work that we do results in a risk-based approach where client portfolios are allocated to align with their capacity and willingness to take risk. Client portfolios that are invested this way allow clients to ride through difficult environments without reacting in a way that would compromise long-term returns; most importantly, it allows clients to sleep at night. This approach resulted in our clients participating in the strong market returns of 2019, the best return environment we have experienced since 2013.

Our commitment to our clients has never been stronger as we continued to invest heavily in our firm in 2019. The Wealth Management industry continues to change and consolidate at a rapid pace and our goal is to bolster firm continuity by staying on the cutting edge of advice and service. To accomplish this goal, we are investing to continually strengthen our internal expertise and our service capabilities which serves to enhance the quality of our advice, reduces key-person, and empowers our advisors to spend more time in the field meeting with clients.

Our first priority is the investment we make in our people who do the excellent work behind the scenes every day to deliver on our mission of a world-class client experience. The team and culture are paramount to everything we do, and we can't thank them enough for the passion and diligence they bring to the office. We were honored to receive the Best & Brightest of Boston award in the fourth quarter of 2019 – a testament to our focus on an inclusive and collaborative workplace.

Our second priority is the investment we make in our infrastructure and technology. The majority of the investment dollars that we directed into infrastructure and technology is behind the scenes, but it allows us to operate more efficiently than ever which has a direct impact on the client experience. Whether, faster account opening, expedited money movement, or other general service requests – they are all activities on which our clients rely. We are also excited to share our new portfolio reporting capabilities with our clients in 2020. This significantly improved reporting capability is industry-leading and will allow our clients to understand their financial position in a greater level of detail.

Finally, we would like to share an experience from our Boston office headquarters which showcases the value of our investment in our firm. In late June our Boston office was completely damaged by an early morning fire. Most importantly, nobody was hurt, but our space, equipment and personal belongings were destroyed. Our multi-year technology investment in moving our business and client data to the cloud turned out to be more than prescient. The fire occurred on a Friday morning and we were operating business as usual the following Monday. We are very proud of our team for rallying together to seamlessly take on this business continuity challenge with no downtime and no loss of client data or files. We now operate our Boston office from a beautiful new space in Boston's financial district. We look forward to 2020 with a strengthened resolve.

We are honored to be your trusted advisor and are committed to supporting you and your families in this new year. May 2020 be a healthy, happy, and prosperous one. Please enjoy the enclosed commentary.

Warmest Wishes for the New Year,

The Winthrop Wealth Team

OVERVIEW - 2019

2019 will be remembered as the year that most every asset class generated strong returns. In fact, 2019 was the only year of the last twenty where major global equity markets (S&P 500, MSCI EAFE, and MSCI Emerging Markets) and the US bond market (Bloomberg Barclays Agg) all returned greater than 8%. This year was in stark contrast to 2018 when most major global equity indices finished in bear market territory (declines of greater than -20%) and the US bond market was essentially flat.

In our writings and conversations with clients we always stress our total net worth approach and the power of combining a comprehensive financial plan with a structured, consistent, and repeatable investment process. We continue to believe this is the best approach for helping our clients navigate through financial markets and ultimately reach their goals and objectives.

Our goal with this piece is to provide a recap and analysis of major events that impacted global markets, answer our Client Question of the Month, and provide context for our 2020 market outlook.

• **2019 Market Returns:** Most major asset classes had positive returns for the year.

• **US Equity Markets:** The S&P 500 returned +9.1% in the fourth quarter and +31.5% in 2019 – the best calendar year since 2013 and the 16th overall since 1928. The market reached a new all-time high on December 27th when the S&P 500 hit 3,244.

• **US Fixed Income Markets:** Bonds produced positive results for the year as the decrease in interest rates was positive for fixed income returns (bond prices move inversely to interest rates). The Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, increased by +8.7% in 2019.

• **Interest Rates:** Treasury yields declined throughout the year due to low global interest rates and expectations of lower inflation and economic growth in the United States. The 10-Year Treasury yield ended the year at 1.92%.

• **Yield Curve Un-inverted:** The yield curve inverted during the year and returned to positive territory after the Fed cut rates three times.

• **US – China Trade War Update:** Negotiations took a major step forward in the last several weeks as the two sides agreed to a phase one deal. This first stage agreement is a welcome sign as the trade war has been a drag on the global markets and economy. While tariffs remain and there is a long way to go before a comprehensive agreement is finalized, the phase one agreement suggests that President Trump is looking to de-escalate the trade war heading into the 2020 election.

• **The Fed:** One of the biggest surprises of the year was the Fed pivot to accommodative monetary policy. The Federal Open Market Committee (FOMC) cut the federal funds rate by a total of 0.75% to a range of 1.50% to 1.75% and expanded the size of their balance sheet. The Fed also signaled that interest rates will remain at their present level through 2020.

• **US Economy:** The US economy is still doing well despite decelerating throughout 2019. According to the latest Bloomberg survey, GDP is expected to increase by 2.3% Y/Y in 2019 and 1.8% in 2020. The consumer is supported by a solid labor market while manufacturing data has been steadily decelerating since tariffs went into effect in mid-2018.

• **Developed International:** The MSCI EAFE index increased by +22.0% for the year. The European Central Bank (ECB) unveiled another round of monetary stimulus.

• **Emerging Markets:** The MSCI Emerging Markets index gained +18.4% in 2019. The main story in Emerging Markets continues to be the economic slowdown in China.

• **Key Risks:** A few things we are discussing internally as we balance short-term developments with our long-term outlook.

• **Client Question(s) of the Month:** How does the stock market's return in 2019 compare to previous years?

• **US Equity Market Outlook:** As we move into 2020, we are staying with a balanced outlook. We continue to weigh the impacts of accommodative monetary policy (positive) from the Fed and the economic drag caused by the US/China trade war (negative). Our outlook is primarily based on our viewpoints across economic growth, central bank policy, corporate fundamentals, and valuation. We will continue to opportunistically incorporate new market developments with long-term asset allocation targets as part of our overall investment process.

MARKET RETURNS

US Equity												
Index	**Q4 2019**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**		**3-Year**	**5-Year**	**10-Year**	**20-Year**
S&P 500	9.06%	31.48%	-4.39%	21.82%	11.95%	1.37%	13.68%		15.26%	11.68%	13.54%	6.05%
Russell 3000	9.09%	31.01%	-5.25%	21.12%	12.72%	0.47%	12.55%		14.56%	11.23%	13.40%	6.39%
Dow Jones Industrial Average	6.67%	25.34%	-3.48%	28.11%	16.43%	0.21%	10.04%		15.73%	12.57%	13.39%	7.18%
Nasdaq	12.49%	36.74%	-2.81%	29.73%	8.97%	7.11%	14.83%		19.91%	15.00%	16.14%	5.07%
S&P 400	7.05%	26.17%	-11.10%	16.23%	20.73%	-2.18%	9.74%		9.24%	9.01%	12.69%	9.47%
Russell 2000	9.93%	25.49%	-11.03%	14.63%	21.28%	-4.41%	4.90%		8.57%	8.20%	11.81%	7.56%
Russell 1000 Growth	10.62%	36.39%	-1.51%	30.21%	7.07%	5.67%	13.05%		20.49%	14.62%	15.21%	5.17%
Russell 1000 Value	7.39%	26.52%	-8.28%	13.64%	17.33%	-3.84%	13.45%		9.66%	8.27%	11.79%	7.03%

International Equity												
MSCI Index	**Q4 2019**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**		**3-Year**	**5-Year**	**10-Year**	**20-Year**
EAFE	8.17%	22.01%	-13.79%	25.03%	1.00%	-0.81%	-4.90%		9.56%	5.67%	5.50%	3.31%
Europe	8.17%	23.20%	-16.90%	28.06%	1.34%	-1.42%	-8.39%		9.45%	5.54%	3.98%	2.79%
Japan	7.64%	19.61%	-12.88%	23.99%	2.38%	9.57%	-4.02%		8.92%	7.70%	6.58%	1.33%
China	14.71%	23.46%	-18.88%	54.07%	0.90%	-7.82%	7.96%		15.56%	7.49%	5.34%	7.46%
Emerging Markets	11.84%	18.42%	-14.57%	37.28%	11.19%	-14.92%	-2.19%		11.57%	5.61%	3.68%	6.68%
ACWI ex US	8.92%	21.51%	-14.20%	27.19%	4.50%	-5.66%	-3.87%		9.87%	5.50%	4.96%	3.83%

US Fixed Income												
Bloomberg Barclays Index	**Q4 2019**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**		**3-Year**	**5-Year**	**10-Year**	**20-Year**
Aggregate	0.18%	8.72%	0.01%	3.54%	2.65%	0.55%	5.97%		4.03%	3.05%	3.74%	5.03%
Treasury Bills	0.44%	2.21%	1.83%	0.81%	0.26%	0.03%	0.03%		1.62%	1.02%	0.55%	1.69%
Corporates	1.18%	14.54%	-2.51%	6.42%	6.11%	-0.68%	7.46%		5.92%	4.60%	5.54%	6.06%
High Yield	2.61%	14.32%	-2.08%	7.50%	17.13%	-4.47%	2.45%		6.37%	6.13%	7.57%	7.14%
Munis	0.74%	7.54%	1.28%	5.45%	0.25%	3.30%	9.05%		4.72%	3.53%	4.34%	5.04%

US Equity Sectors												
Index	**Q4 2019**	**2019**	**2018**	**2017**	**2016**	**2015**	**2014**		**3-Year**	**5-Year**	**10-Year**	**20-Year**
Technology	14.40%	50.29%	-0.29%	38.83%	13.85%	5.92%	20.11%		27.66%	20.19%	17.48%	4.54%
Real Estate	-0.54%	29.00%	-2.23%	10.85%	1.12%	1.24%	26.14%		11.82%	7.43%	11.06%	
Industrials	5.50%	29.32%	-13.32%	21.01%	18.85%	-2.56%	9.80%		10.70%	9.45%	13.42%	6.91%
Energy	5.49%	11.81%	-18.10%	-1.01%	27.36%	-21.12%	-7.80%		-3.22%	-1.85%	3.31%	6.37%
Consumer Discretionary	4.47%	27.94%	0.82%	22.98%	6.03%	10.11%	9.68%		16.62%	13.11%	17.16%	7.57%
Communication Services	8.99%	32.69%	-12.53%	-1.25%	23.48%	3.40%	2.99%		4.65%	7.91%	9.65%	1.11%
Consumer Staples	3.51%	27.61%	-8.39%	13.49%	5.38%	6.60%	15.98%		9.88%	8.30%	12.12%	8.61%
Utilities	0.80%	26.40%	4.11%	12.10%	16.29%	-4.84%	28.98%		13.84%	10.29%	11.80%	8.29%
Materials	6.37%	24.58%	-14.70%	23.84%	16.69%	-8.38%	6.91%		9.59%	7.06%	9.12%	6.84%
Financials	10.44%	32.09%	-13.04%	22.14%	22.75%	-1.56%	15.18%		11.95%	11.13%	12.22%	4.54%
Health Care	14.37%	20.82%	6.47%	22.08%	-2.69%	6.89%	25.34%		16.23%	10.31%	14.75%	8.53%
	Calendar Year Returns								**Annualized Returns**			

US EQUITY MARKETS

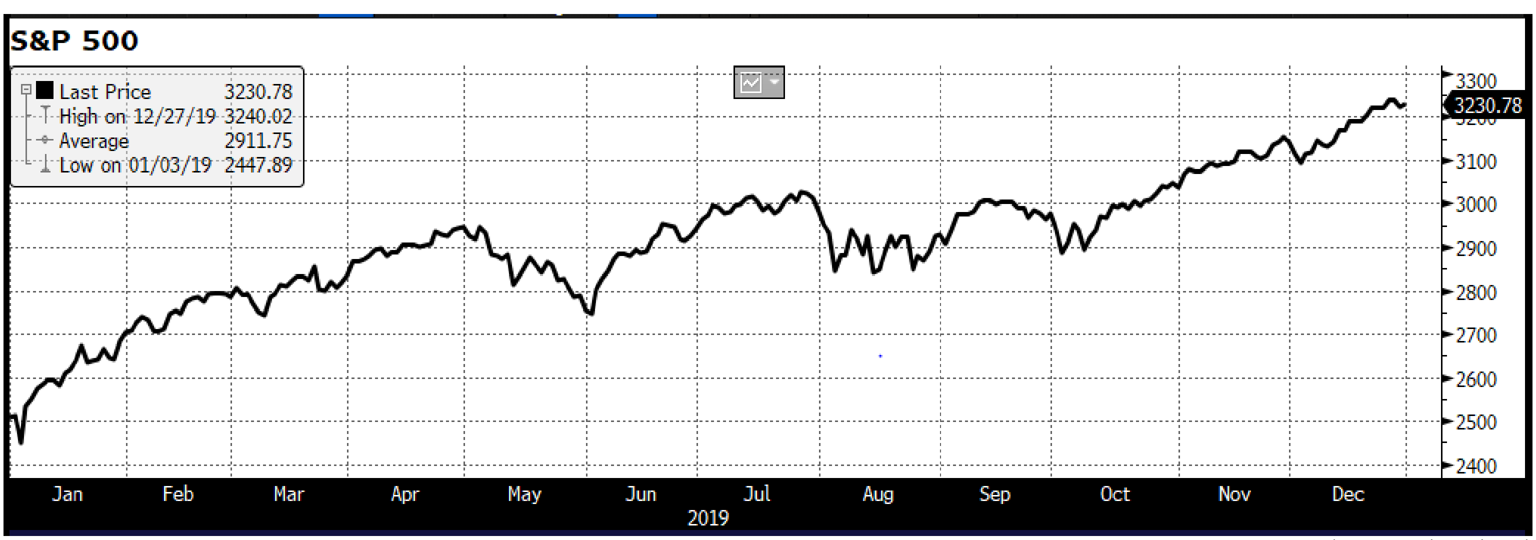
The S&P 500 returned +9.1% in the fourth quarter and +31.5% in 2019 – the best calendar year since 2013 and the 16th overall since 1928. Market volatility was muted as the largest intra-year price decline in 2019 was only -7%, well below the 40-Year average of -14%. The market reached a new all-time high on December 27th when the S&P 500 hit 3,244. We will point out that a lot of the strong performance in 2019 is partially just a rebound from the selloff we saw at the end of 2018 when the S&P nearly entered a bear market with a decline of -19.4% from 9/20/18 to 12/24/18, experienced the worst December monthly return since 1931 (-9.0%), and posted the first calendar year loss since 2008 (-4.4%).

Across market caps, Large (S&P 500: +31.5%) outperformed Mid (S&P 400: +26.2%) and Small (Russell 2000: 25.5%) for the year. Across styles, Growth (Russell 1000 Growth: +36.4%) outperformed Value (Russell 1000 Value: +26.5%). All eleven sectors were positive in 2019 with Technology (+50.3%) and Communication Services (+32.7%) as the top performers, and Health Care (+20.8%) and Energy (+11.8%) as the laggards.

	Returns					Fundamental Estimates			
Index	Last Price	Q4 2019	2019	2018	2017	Forward P/E Ratio	2020 Revenue Growth	2020 Earnings Growth	Dividend Yield
S&P 500	3,231	9.06%	31.48%	-4.39%	21.82%	18.3x	4.9%	10.7%	1.8%
Russell 3000	1,892	9.09%	31.01%	-5.25%	21.12%	19.0x	7.3%	11.8%	1.8%
Dow Jones Industrial Average	28,538	6.67%	25.34%	-3.48%	28.11%	17.0x	4.5%	10.3%	2.3%
Nasdaq	8,973	12.49%	36.74%	-2.81%	29.73%	24.2x	8.1%	17.6%	1.1%
S&P 400	2,063	7.05%	26.17%	-11.10%	16.23%	18.0x	4.2%	11.5%	1.7%
Russell 2000	1,668	9.93%	25.49%	-11.03%	14.63%	25.3x	8.0%	22.6%	1.7%
Russell 1000 Growth	1,771	10.62%	36.39%	-1.51%	30.21%	23.0x	8.0%	14.3%	1.1%
Russell 1000 Value	1,348	7.39%	26.52%	-8.28%	13.64%	15.6x	3.4%	9.0%	2.5%

At the start of 2019 you would have received some funny looks (or worse) if you predicted that the S&P 500 would return over 30% despite the yield curve inverting, the US and China continuing to negotiate a trade deal with both sides implementing new tariffs, the ISM manufacturing measure falling to contraction territory, an earnings recession with three consecutive quarters of negative annualized growth, and the House voting to impeach President Trump. Yet that is exactly what happened. So why is the stock market back to all-time highs after returning the best calendar year since 2013? In our opinion, the major reasons for the market rally are the Fed pivot to accommodative monetary policy and (some) progress toward a US/China trade deal. The Fed provided a boost to the equity markets by cutting the federal funds rate three times, increasing the size of their balance sheet, and suggesting a high bar for future rate increases. While the US and China are still locked a trade war, the two countries did agree to a phase one deal toward the end of the year. The stock market reflects optimism that low interest rates and an eventual trade deal will boost economic and corporate earnings growth. See below for our thoughts on the US/China trade war, the Fed, and our market outlook.

S&P 500 - 2019



(Source: Bloomberg)

US FIXED INCOME MARKETS

Bonds produced positive results for the year as the decrease in interest rates was positive for fixed income returns (bond prices move inversely to interest rates). The Barclays US Aggregate Bond index (Agg), which acts as a proxy for the investment-grade bond market, increased by +0.2% in Q4 and returned +8.7% for 2019. Other areas of the fixed income market, including Treasury Bills, Corporates, Municipals, and High Yield also had strong returns for the year.

	Returns				Fundamental Estimates		
Bloomberg Barclays Index	**Q4 2019**	**2019**	**2018**	**2017**	**Yield to Worst**	**Option Adjusted Spread (bps)**	**Duration**
Aggregate	0.18%	8.72%	0.01%	3.54%	2.3%	39	5.9
Treasury Bills	0.44%	2.21%	1.83%	0.81%	1.5%		0.2
Corporates	1.18%	14.54%	-2.51%	6.42%	2.8%	93	7.9
High Yield	2.61%	14.32%	-2.08%	7.50%	5.2%	336	3.0
Munis	0.74%	7.54%	1.28%	5.45%	1.8%		5.3

INTEREST RATES

Treasury interest rates declined throughout the year due to low global interest rates and expectations of lower inflation and economic growth in the United States. The 2-Year Treasury yield declined from 2.49% to 1.57% while the 10-Year Treasury decreased from 2.68% to 1.92%.

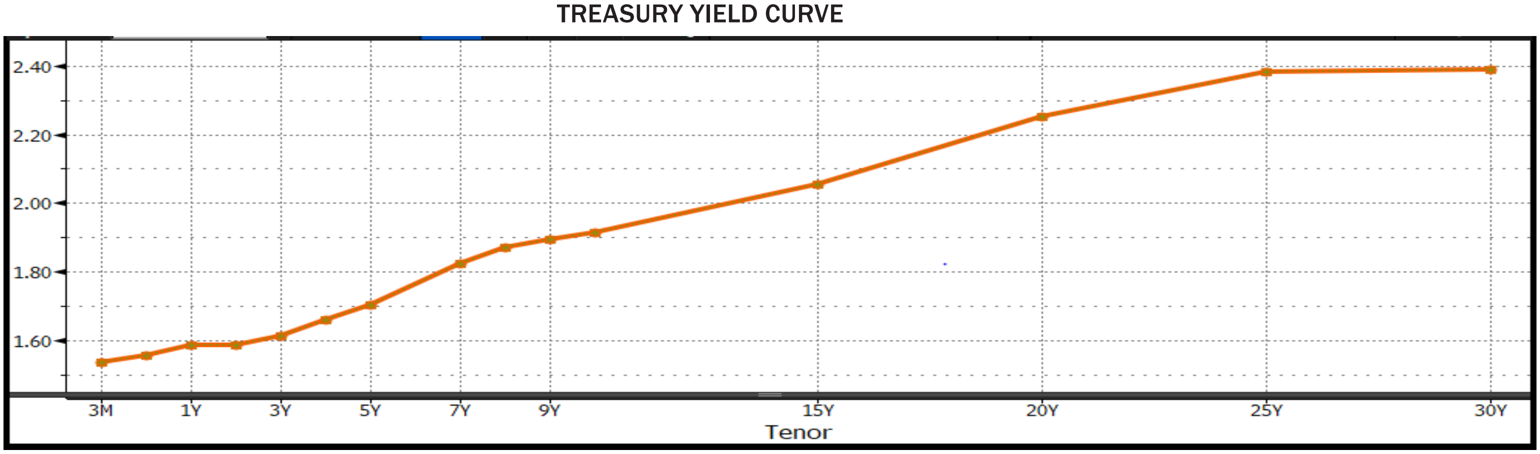
- Low global interest rates: Due to weak inflation and economic growth forecasts, and their own versions of quantitative easing, 10-Year yields in Japan and Europe are currently negative. The Japanese and German 10-Year yields ended the quarter at -0.01% and -0.19% respectively. Due to the ongoing Brexit saga, the 10-Year yield in the UK is 0.87%. Currently, there is an estimated $11 trillion in global debt with negative yields. Therefore, US yields are still comparatively attractive for global investors. Please see our **Client Question of the Month on Negative Yields.**

- Expectations of future inflation and economic growth: Treasury securities are considered close to "risk free" because the principal and interest payments are backed by the US government. In general, when expectations for inflation and economic growth are poor investors will buy Treasuries for their perceived safety in a weak investment environment. This "flight to safety" pushes Treasury prices up and yields down. Core PCE inflation has averaged about +1.6% over the last 10 years (below the Fed's +2.0% target), which has helped to keep rates low. The US economy decelerated throughout the year as GDP growth declined from 2.9% in 2018 to an estimated 2.3% in 2019.

TREASURY YIELD CURVE

The yield curve is a graph of a Treasury bond's maturity and its rate of return for various time periods. The typical maturities referenced generally range from 3-Months to 30-Years. A yield curve inversion is the market's sign of a pessimistic economic outlook and occurs when short-term maturities have higher yields than longer-term maturities. There are two common interest rate spreads associated with a yield curve inversion: the 10-Year Treasury minus the 3-Month Treasury yield (10YR-3M) and the 10-Year Treasury minus the 2-Year Treasury yield (10YR-2YR). Both spreads inverted during the year but returned to positive territory after the Fed cut rates three times. Historically, a yield curve inversion has preceded the start of a recession has been about a year-and-a-half. We are closely monitoring the yield curve and other recession indicators, but for now our outlook is another year of decent economic growth. Please see our **Client Question of the Month** for more on a yield curve inversion.

TREASURY YIELD CURVE



(Source: Bloomberg)

US - CHINA TRADE WAR UPDATE

The ongoing US and China trade has been front page news and a major market risk for the last year and a half. Negotiations took a major step forward in the last several weeks as the two sides agreed to a phase one deal. The trade war has followed a cyclical pattern where discussions don't lead to agreements, tensions rise, tariffs are implemented, the two sides reset, tensions cool, and negotiations resume. However, the phase one agreement suggests that President Trump is looking to de-escalate the trade war heading into the 2020 election. The agreement is currently scheduled to be signed at ceremony at the White House on January 15th. The document is reportedly 86-pages and has not yet been made public. Here are the details we know so far:

- **Tariffs:** The US agreed not to implement the threatened 12/15 tariffs on $160 billion worth of consumer goods and to rollback the tariff rate on $110 billion worth of products from 15% to 7.5%.

- **Total Purchases:** China agreed to increase its total purchases of US goods and services by at least $200 billion over the next two years.

- **Agricultural Purchases:** China will increase its purchases of US agricultural products to $40 to $50 billion in each of the next two years.

- **Intellectual Property Protection and Forced Technology Transfer:** China agreed to end its policy of forcing foreign companies to transfer their proprietary technology to Chinese companies as a condition for receiving market access. In our opinion, this topic is the most complicated and important aspect of the trade deal. We will see if China lives up to their commitments

- **Enforcement:** Similar to other US trade agreements, there will be a dispute-resolution mechanism to enforce the deal. A working group will serve to resolve complaints of each country. Tariffs could be reinstated if complaints are not resolved – this is important as the threat of new tariffs may remain even after a full agreement is signed.

The trade war is a major issue due to the potential negative impacts on economic and corporate earnings growth. The Federal Reserve Bank of New York estimated that the current tariffs will cost the average US household $831 per year due to higher prices and reduced economic efficiency. Goldman Sachs estimated that the tariffs decreased US 2019 GDP by-0.4% (2019 GDP growth is estimated at 2.3%). The current consensus estimate for 2020 United States GDP growth is 1.8% Y/Y and Bloomberg estimates an increase of +0.3% to +0.7% if more tariffs are rolled back. JP Morgan estimates tariffs will impact 2020 S&P earnings by-5% to +5% depending on the rate and amount. Several companies have stated they will raise prices, accept lower margins, or shift their supply chains out of China in response to the tariffs.

The phase one agreement is positive as it avoids the worst-case scenario (full-blown trade war) and removes some of the uncertainty associated with current and future tariffs. Reduced uncertainty will allow businesses more clarity into their capital budgeting process. Phase two negotiations are supposed to begin immediately and will attempt to address several difficult issues, including Chinese subsidies to state-owned firms, digital trade, currency manipulation, and cyber theft. While we are pleased that the phase one agreement is effectively done, the trade war will remain a stock market risk and a drag on the global economy until an agreement is signed and most tariffs are eliminated. Although there is a long way to go before a full and comprehensive agreement, we remain optimistic that a deal will eventually be reached as it would be in the best economic interest of both countries.

TARIFF SCOREBOARD

CURRENT

25% tariffs on $250B worth of imports including semiconductors, aircraft parts, chemicals, and furniture.

7.5% tariffs on $110B worth of imports including clothes, shoes, and agricultural products.

5% to 25% tariffs on $110B worth of imports including oil, soybeans, beef, chicken, and fiber-optic cables.

THE FED

One of the biggest surprises of the year was the Fed pivot to a far more accommodative monetary policy than estimated at the end of 2018. In December 2018, the Fed projected two rate hikes in 2019 and did not even want to discuss the possibility of altering their balance sheet runoff policy of $50 billion per month (shrinking the balance sheet removes liquidity from the financial system and puts upward pressure on interest rates). At the time, the market takeaway was that the Fed would continue to increase both short and long-term interest rates, which would slow down the economy and potentially cause a recession. During 2019, the Fed completely reversed course and throughout the year ended up cutting interest rates three times and expanding the size of their balance sheet to nearly $4.2 trillion. This is an extraordinary shift in monetary policy in a relatively short amount of time. In our opinion, the Fed pivot is a major reason why the equity markets rebounded to new all-time highs after 2018's selloff.

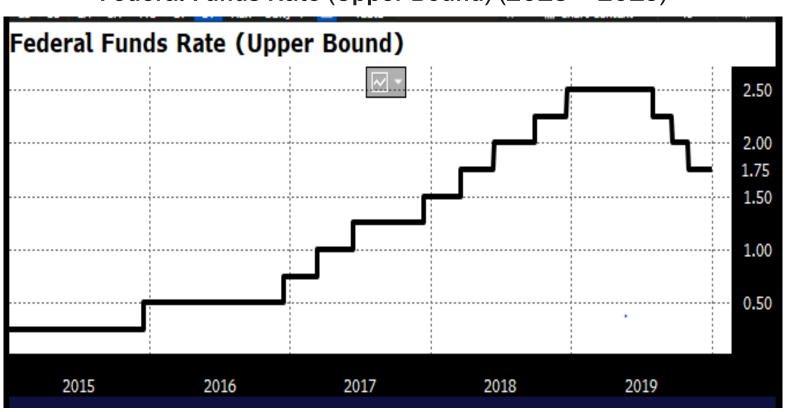
Interest Rates		Balance Sheet		Commentary
Federal Funds Rate	Federal Funds Rate 2019 Change	Fed Balance Sheet	Fed Balance Sheet 2019 Change	December FOMC Statement
150% - 1.75%	3 Rate Cuts (25bps each)	$4.2 Trillion	+ $0.11 Trillion	The Committee judges that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation near the Committee's symmetric 2 percent objective.

Throughout the year, the Federal Open Market Committee (FOMC) lowered the federal funds rate by 0.25% three times for a total decrease of 0.75%. The rate cuts took place at the July, September, and October meetings. The current federal funds rate now stands at a range of 1.50% to 1.75%. At the December meeting, Fed Chairman Powell stated that, "I think both the economy and monetary policy right now are in a good place." The Fed's current outlook still calls for a sustained economic expansion, a strong labor market, and inflation near 2%.

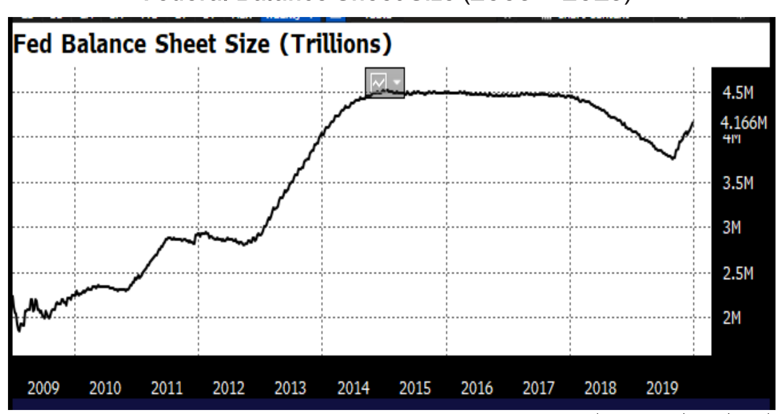
Regarding future interest rate moves, the Fed is expected to keep rates at their current level throughout 2020. Chairman Powell stated that he would want to see "persistent" and "significant" increases in inflation before raising interest rates. Given that inflation readings have been consistently below the Fed's +2.0% target for the last decade, Chairman Powell's comments suggest a high bar for future rate increases. Additionally, the latest FOMC Summary of Economic Projections (SEP), where each of the seventeen committee members individually and anonymously forecast the federal funds rate, displayed that most members predicted rates to remain the same through 2020. If the Fed does indeed keep interest rates at their present low levels, it would provide support to the economy and risk assets.

Our view remains that the ongoing US/China trade war and resulting economic weakness and uncertainty forced the Fed to lower interest rates to guard against a material slowdown in the United States. If the US and China trade talks did not fall apart in May and the two sides reached an agreement as most investors expected at that time, we highly doubt the Fed would have lowered rates at all. Going forward, we expect that trade policy will continue to drive monetary policy. If the trade talks break down, we expect more rate cuts will follow. If trade talks keep moving forward, we expect interest rates to remain at their present low levels or potentially increase depending on the agreement.

Federal Funds Rate (Upper Bound) (2015 – 2019)



Federal Balance Sheet Size (2009 – 2019)



(Source: Bloomberg)

US ECONOMY

OVERALL	TREND

The US economy is still doing well despite decelerating throughout the year. According to the latest Bloomberg survey, GDP is expected to increase by 2.3% Y/Y in 2019 and 1.8% in 2020. The economy remains bifurcated with the consumer driving growth while the manufacturing sector is still in contraction territory (ISM Manufacturing Index under 50.0). The consumer remains strong and is supported by a solid labor market (consumer spending accounts for close to 70% of GDP). The housing market has shown signs of acceleration due to the recent fall in mortgage rates. The manufacturing sector has been weak since tariffs went into effect in mid-2018. We are monitoring to see if the impact of low interest rates and a phase one trade deal with China will begin to boost economic growth from their current estimated levels.

LABOR MARKET

OVERALL	TREND

- **Unemployment Rate (November): 3.5%**

2019 Average: 3.7% 5YRAverage: 4.4% 15-Year Average: 6.1%

o The Bureau of Labor Statistics Unemployment Rate tracks the number of unemployed persons as a percentage of the labor force.

- **Change in Nonfarm Payrolls (November): +266,000**

2019 Average: 184,000 5YR Average: 202,000 15YR Average: 110,000

o The Bureau of Labor Statistics Nonfarm Payrolls measures the monthly change in the number of employees on business payrolls. ~150k businesses and government agencies representing 700k individual worksites are surveyed each month.

- **Average Hourly Earnings Wage Inflation (November): +3.1% Y/Y**

2019 Average: 3.2% 5YR Average: 2.7% 15YR Average: 2.5%

o The Bureau of Labor Statistics Average Hourly Earnings tracks total hourly compensation (in cash or in kind) paid to employees in return for work done (or paid leave).

CONSUMER

OVERALL	TREND

- **Retail Sales (November): +3.3% Y/Y**

2019 Average: 3.2% 5YR Average: 3.6% 15YR Average: 3.4%

o The US Census Bureau Retail Sales data tracks the resale of new and used goods to the general public for personal or household consumption. Data is adjusted for seasonal variation and calculated from a survey of approximately 5,500 retail and food services firms.

- **University of Michigan Consumer Sentiment (September):** 99.3

2019 Average: 96.2 5YR Average: 95.2 15YR Average: 83.2

o The University of Michigan collects data on consumer attitudes and expectations. The index is comprised of measures of attitudes toward personal finances, general business conditions, and market conditions or prices. A higher reading signals better sentiment.

- **Personal Spending (August):** +3.9% Y/Y

YTD Average: 3.9%. 5YR Average: 4.3%. 15YR Average: 3.9%

o The Bureau of Economic Analysis publishes Personal Income and Spending data. Personal Spending tracks consumer expenditures on goods and services. The data is designed to provide insight into the strength of the economy and consumers' buying trends.

HOUSING

OVERALL	TREND

- **Existing Home Sales (November): 5.35 million**

2019 Average: 5.3 5YR Average: 5.37 15YR Average: 5.14

o The National Association of Realtors Existing Home Sales tracks total existing home sales including single family homes, townhomes, condominiums, and co-ops. Data is adjusted for seasonal variation.

- **Case-Shiller 20-City Home Price Index (November): 2.2% Y/Y**

2019 Average: 2.6% 5YR Average: 5.0% 15YR Average: 2.3%

o The S&P Case-Shiller US National Home Price Index tracks the value of single-family housing within the United States. The index is a value-weighted average of 20 metro areas.

- **30-Year Fixed Rate Mortgage: 3.75%**

2019 Average: 3.98% 5YR Average: 3.97% 15YRAverage: 4.63%

o SOURCE: bankrate.com

MANUFACTURING

OVERALL	TREND

- **ISM Manufacturing Index (November): 48.1**

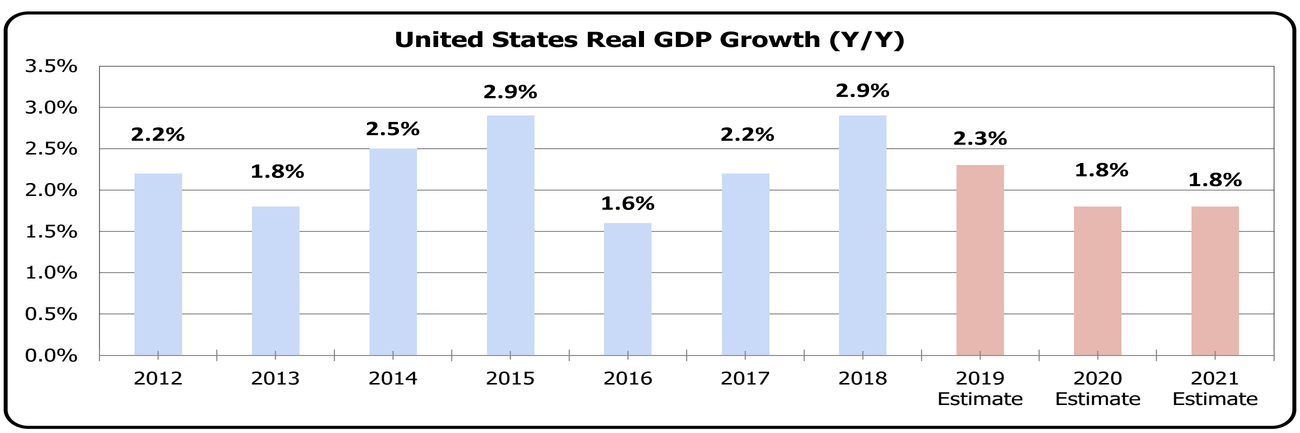
2019 Average: 51.8 5YR Average: 54.1 15YR Average: 53.1

o The ISM Manufacturing Index is based on a survey of more than 300 manufacturing firms - the index monitors employment, production, inventories, new orders, and supplier deliveries. A reading above 50 indicates that the manufacturing economy is generally expanding; below 50 indicates that it is generally contracting.

- **Durable Goods Orders (November): -0.3% Y/Y**

2019 Average: 0.9% 5YR Average: 1.5% 15YR Average: 2.1%

o The US Census Bureau Durable Goods New Orders Ex Transportation survey is a report that tracks the value of new orders received. Durable goods are manufactured products designed to last three years. The survey is based on ~5,000 reporting units representing ~3,100 companies in the Manufacturing Sector.



(Source: Bloomberg)

FOREIGN MARKETS

DEVELOPED INTERNATIONAL

The MSCI Europe, Asia, and Far East (EAFE) index increased by +8.2% in Q4 and returned +22.0% for 2019. The EAFE index includes a broad range of equities located in several international countries, including Japan, the United Kingdom, France, Germany, Italy, and others.

The main story in developed international markets was the economic slowdown in the eurozone and the subsequent monetary stimulus unveiled by the European Central Bank (ECB). The eurozone economy is expected to grow by 1.2% in 2019 and 1.0% in 2020. In 2019, the German economy was particularly weak and country leadership blamed the slowdown on uncertainty caused by the US/China trade war and Brexit. The German economy narrowly avoided a technical recession (two consecutive quarters of negative growth) after declining by -0.2% in Q2 and generating a small gain of +0.1% in Q3. The ECB responded by announcing further rate cuts and a new round of quantitative easing, which are designed to stimulate economic growth and boost inflation. The central bank moved interest rates further into negative territory by cutting their deposit rate by -0.1% to -0.5%. The ECB's asset purchase program restarted in November at a pace of 20 billion euros per month and will run indefinitely. The new QE program will increase the size of the ECB's balance sheet which now stands at about 4.7 trillion euros – the overall size increased from about 1.5 trillion euros before the financial crisis in 2008.

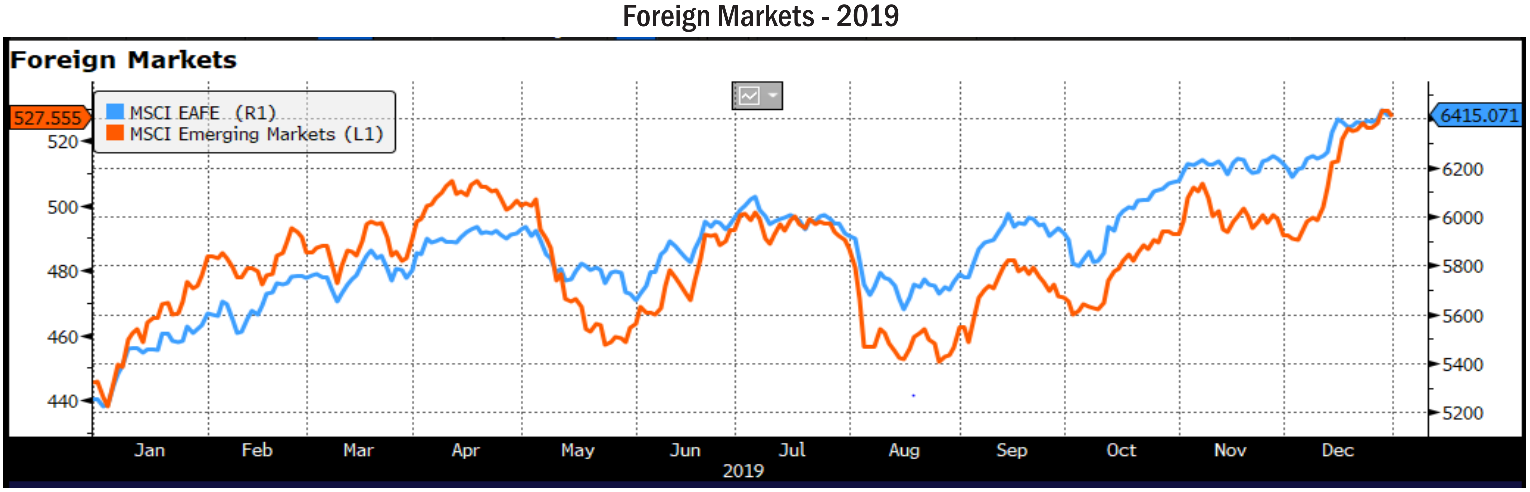
EMERGING MARKETS

The MSCI Emerging Markets index gained +11.8% in the quarter and returned +18.4% in 2019. MSCI classifies countries as Emerging Markets based on a balance between economic development and financial market accessibility. Some countries included in the Emerging Markets index are Brazil, Russia, India, China, and South Korea.

The main story in Emerging Markets continues to be the economic slowdown in China partially caused by the ongoing trade war. China will officially unveil their 2020 GDP growth target in early March. Early reports indicate the target will likely be around 6.0%, down from 2019's target of 6.0% to 6.5%. China is also expected to increase infrastructure spending by allowing local governments to issue special bonds. Throughout the year, China announced further fiscal and monetary stimulus measures and devalued their currency (yuan) past the psychologically important 7.0 per dollar level. The currency devaluation is designed to boost exports and help offset the cost of tariffs. Despite the stimulus measures, the ongoing trade war and tariffs have had a negative impact as China's manufacturing gauge has mostly been in contraction territory all year.

	Returns						Fundamental Estimates			
MSCI Index	Last Price	Q4 2019	2019	2018	2017		Forward P/E Ratio	2020 Revenue Growth	2020 Earnings Growth	Dividend Yield
EAFE	6,415	8.17%	22.01%	-13.79%	25.03%		14.7x	2.8%	7.6%	3.3%
Europe	348	8.17%	23.20%	-16.90%	28.06%		14.3x	3.0%	8.9%	3.4%
Japan	6,814	7.64%	19.61%	-12.88%	23.99%		14.1x	1.7%	7.1%	2.4%
China	604	14.02%	22.87%	-18.75%	55.34%		12.3x	10.9%	12.9%	2.3%
Emerging Markets	528	11.84%	18.42%	-14.57%	37.28%		12.9x	7.6%	13.5%	3.0%
ACWI ex US	251	8.92%	21.51%	-14.20%	27.19%		14.2x	4.1%	9.3%	3.2%

Foreign Markets - 2019



(Source: Bloomberg)

KEY RISKS

This list is not designed to be comprehensive, but rather a few things we are discussing internally as we balance short-term developments with our long-term outlook.

US – China Trade War: While reaching a phase one trade deal is positive, tariffs remain in place and there still appears to be a long way until a comprehensive agreement is finalized. The US has implemented 7.5-25% tariffs on $360B worth of Chinese goods and China has placed 5-25% tariffs on $110B worth of US goods. The trade war will remain a stock market risk and a drag on the global economy until a full agreement is signed and tariffs are eliminated.

US Recession: A potential recession will always be part of our key risks given that 8 of the last 10 bear markets (declines of -20%) in the S&P 500 were caused by recessions. Our current view is that a US recession in 2020 is unlikely unless that US/China trade war escalates. We are monitoring data closely to evaluate how Fed policy, the ongoing US/China trade war, and global developments will impact the economy.

New Tariffs: President Trump has threatened or implemented tariffs on China, Europe, Japan, Mexico, Brazil, and Argentina for various social and economic issues. Tariffs will likely remain a key negotiating tool for the Trump Administration. New tariffs are always one tweet away.

Yield Curve Inversion: An inverted yield curve (short-term yields higher than long-term yields) has historically been a strong recession indicator. There are two common spreads associated with a yield curve inversion: the 10-Year Treasury minus the 3-Month Treasury yield (10YR-3M) and the 10-Year Treasury minus the 2-Year Treasury yield (10YR-2YR). Both spreads inverted during the year and returned to positive territory after the Fed cut rates three times. Historically, the average lag time between a yield curve inversion and the start of a recession has been about a year-and-a-half.

Brexit: The United Kingdom joined the European Union in 1973 and would be the first member state to withdraw. The Brexit situation has remained fluid since the country voted to leave in the summer of 2016. After Prime Minister Boris Johnson's Conservative Party won a parliamentary majority in their December elections, the UK is finally likely to leave the European Union by the end of January 2020. The UK will then enter a transition phase and will still need to renegotiate trade deals with the EU. Brexit will remain a global risk until the withdrawal is finalized.

Earnings Disappoint: S&P 500 earnings are expected to increase by 0.3% in 2019 and 10.7% in 2020. Earnings growth could disappoint if economic growth slows, new tariffs get implemented, or companies' lower guidance in fear of potential tariffs. Over long time periods, earnings drive stock prices.

Geopolitical Event: A potential military or economic conflict with Iran, North Korea, Russia, China, or another country. Geopolitical risks are always present, but the timing is unpredictable.

Repo Market Volatility: In October, the Fed announced a plan designed to calm volatility in the repo markets in part by purchasing $60 billion in Treasury Bills per month until at least the second quarter of 2020. Each day, trillions of dollars of short-term collateralized loans are traded in the repo market. The market allows companies who hold securities but are low on cash to borrow money. The Fed's actions will inject liquidity into the financial system and ultimately increase the size of their balance sheet. Any significant issues in the repo market could spill over to other areas.

Impeachment: The House of Representatives voted to impeach President Trump on December 18, 2019. According to Bloomberg, the House has initiated impeachment proceedings more than 60 times and voted to impeach 15 federal judges, 1 senator, 1 cabinet secretary, and 3 presidents (Andrew Johnson in 1868, Bill Clinton in 1998, and Donald Trump in 2019). In order to impeach a sitting president, the House must pass the vote with a simple majority and then the Senate needs to convict with a two-thirds supermajority. A conviction in the Senate remains unlikely. The political drama will continue for the next several weeks, but it probably won't impact markets.

DEBT

Corporate Debt Levels: Corporations have taken advantage of low interest rates by increasing their debt levels over the last decade. According to Bloomberg, the size of the corporate debt market increased to about $5.8 billion in 2019 and as a percentage of GDP has increased to 24% from about 18% in 2009. If interest rates materially increase, some corporations will likely have difficulty servicing their debts.

US Debt Levels: Total US national debt is currently over $23.2 trillion. The public debt to GDP ratio has risen to 82.3% and the 2020 budget deficit is projected at -4.8% of GDP. At some point high debt/deficit levels become unsustainable.

CLIENT QUESTION OF THE MONTH

How does the stock market's return in 2019 compare to previous years?

The S&P 500 returned +31.5% in 2019, which ranks as the 16th best calendar year ever. This year was a nice reversal after 2018's negative return -4.4%. While 2019 was a strong year, we will mention that the impressive returns were partially due to a rebound from the market selloff in late-2018. Going forward, we are encouraging our clients to be moderate with their market expectations. For our client question of the month, we thought we would provide some historical context the market's calendar year returns.

The following chart displays the S&P 500's annual returns since 1928. From 1928 to 2019, the stock market produced a total annualized return of +9.5%. We would also like to highlight that this data set starts right before The Great Depression where the market posted a total return of -29.0% throughout the entire 1930s. The total time period includes ten bear markets, fourteen recessions, and dozens of corrections and pullbacks.

Since 1928, the stock market produced positive results in 67 calendar years vs. 25 years with negative returns. The market went higher in 73% of years with an average return of +20.9% and declined in 27% of years with an average decline of -14.0%. As always, we remind our clients that the market goes up over time, but the returns are not linear. Volatility and negative periods are common, however the longer an investor remains invested in the market the greater the probability of a positive return.

S&P 500 Annual Return: 1928 - 2019

Total Annualized Return: 9.46%

Positive Annual Returns: 67 73%

Negative Annual Returns 25 27%

-50% to -40%	-40% to -30%	-30% to -20%	-20% to -10%	-10% to 0%	0% to 10%	10% to 20%	20% to 30%	30% to 40%	40% to 50%	50% to 60%
						1944 19.5%				
						1972 19.0%				
						1986 18.7%	2003 28.7%			
						1979 18.6%	1998 28.5%	1928 37.9%		
					1992 7.6%	1952 18.2%	1961 26.9%	1995 37.5%		
				1939 -0.1%	1978 6.6%	1988 16.6%	2009 26.4%	1975 37.2%		
				1953 -0.9%	1956 6.5%	1964 16.4%	1943 25.6%	1945 36.3%		
				1990 -3.2%	1984 6.3%	2012 16.0%	1976 23.9%	1936 33.7%		
				2018 -4.4%	1947 5.6%	2006 15.8%	1967 23.9%	1997 33.3%		
				1934 -4.7%	2007 5.6%	2010 15.1%	1951 23.8%	1950 32.6%		
				1981 -4.9%	1948 5.4%	1971 14.3%	1949 23.6%	1980 32.5%		
				1977 -7.2%	1987 5.3%	2014 13.7%	1996 22.9%	2013 32.4%		
			1957 -10.7%	1946 -8.0%	2005 4.9%	1965 12.5%	1963 22.8%	1985 31.7%		
			1941 -11.6%	1969 -8.4%	1970 3.9%	1959 12.0%	1983 22.6%	1989 31.7%		
			2001 -11.9%	1962 -8.7%	2011 2.1%	2016 12.0%	2017 21.8%	**2019 31.5%**		
		2002 -22.1%	1929 -11.9%	2000 -9.1%	2015 1.4%	1968 11.0%	1982 21.5%	1955 31.4%	1933 44.1%	
	1937 -34.7%	1974 -26.5%	1973 -14.7%	1940 -9.6%	1994 1.3%	2004 10.9%	1999 21.0%	1991 30.4%	1958 43.1%	
1931 -47.1%	2008 -37.0%	1930 -28.5%	1932 -14.8%	1966 -10.0%	1960 0.5%	1993 10.1%	1942 20.1%	1938 30.1%	1935 41.4%	1954 52.3%

CLIENT QUESTION OF THE MONTH

What about consecutive annual declines?

From 1928 to 2019, the S&P 500 has only had four periods that produced negative returns in consecutive years. We will point out that consecutive annual market declines have historically occurred in periods of severe economic distress. Note the following time periods:

Years	Period	Duration (Years)	Total Market Decline
1929-1932	Great Depression	4	-71.6%
1939-1941	Fed Tightening	3	-20.1%
1973-1974	Stagflation	2	-37.3%
2000-2002	Tech Bubble	3	-37.6%

After the market decline in 2018, there were no shortage of predictions for gloom-and-doom and another negative year. Going into the 2019, we thought that another annual decline was unlikely given that economic data at the time did not forecast a recession. The past few years are the latest examples of why we employ a long-term approach to investment management. We help our clients navigate through challenging markets by ensuring their short-term cash flow needs are covered, while managing the rest of their assets in globally diversified portfolios designed to meet longer-term goals.

EQUITY MARKET OUTLOOK

As we move into 2020, we are staying with a balanced outlook for the US equity market. We continue to weigh the impacts of accommodative monetary policy (positive) from the Fed and the economic drag caused by the US/China trade war (negative). Throughout the year we have defensively shifted portfolios, as the market increased and valuations became stretched, to help mitigate the potential tail risk of a market selloff if trade negotiations fall apart.

Our view is that the Trump Administration is simultaneously hitting the gas and brake on the stock market and the economy. The gas is lower individual and corporate tax rates, deregulation, high government spending, and low interest rates (from the Fed), which are supporting a strong labor market and consumer. The brake is the trade war and tariffs, which are leading to manufacturing sector weakness and business uncertainty. We would expect President Trump to take his foot off the brake before November 2020 as a recession would not help his re-election chances. However, if President Trump decides to ramp up the trade war it COULD lead to a recession and market pullback.

We would move to a more optimistic stance if the US and China agree to a trade deal where more tariffs are rescinded, the Fed remains accommodative, and/or economic and corporate earnings growth start to accelerate. We would turn more cautious if the trade talks breakdown and new tariffs are implemented, the Fed returns to restrictive monetary policy, and/or economic and corporate data begin to deteriorate.

Our overall outlook is primarily based on our viewpoints across four different categories. The difficulty in the current environment is that the trade war impacts each segment:

- **Economic Growth:** The US economy is still doing well despite decelerating throughout 2019. According to the latest Bloomberg survey, GDP is expected to increase by 2.3% Y/Y in 2019 and 1.8% in 2020. The economy has bifurcated with the consumer driving growth (consumer spending accounts for close to 70% of GDP) while the manufacturing sector has slowed to contraction territory. The consumer is supported by a solid labor market while manufacturing data has been steadily decelerating since tariffs went into effect in mid-2018.

- **Central Bank Policy:** In 2019, the Fed pivoted to accommodative monetary policy as they cut interest rates three times, expanded their balance sheet, and suggested that rates are unlikely to increase in 2020. This is an extraordinary shift in policy in a relatively short amount of time. Chairman Powell stated that he would want to see “persistent” and “significant” increases in inflation before raising interest rates. If the Fed does indeed keep interest rates at their present low levels, it would provide support to the economy and risk assets.

- **Corporate Fundamentals:** S&P 500 earnings are expected to increase by 0.3% in 2019 and 10.7% in 2020. Earnings have decelerated from 2018’s +20% level due to the diminishing effects of fiscal stimulus, tariffs, and slowing economic growth. Over long time periods, earnings drive stock prices.

- **Market Valuation:** The market valuation ended the year higher than its historical average. The S&P 500 Forward P/E is 18.3x, compared to the 25-Year average of 16.2x. The Forward P/E ratio calculated as the current price (3,231) divided by the estimated earnings-per-share over the next 12-months ($176.50). Keep in mind that there is no precise valuation level for the market. Valuation analysis is subjective and typically based on interest rates, earnings growth estimates, and historical or relative values.

Putting it all together, having a balanced outlook and maintaining flexibility is critically important. We will continue to opportunistically incorporate new market developments with long-term asset allocation targets as part of our overall investment process.

At Winthrop Wealth, we apply a total net worth approach to both comprehensive financial planning and investment management. Financial planning drives the investment strategy and provides a roadmap to each client’s unique goals and objectives. The comprehensive financial plan defines cash flow needs, optimizes account structures, considers tax minimization strategies, and continuously evaluates financial risks as circumstances and/or goals change. The investment management process is designed to provide well-diversified portfolios constructed with a methodology based on prudent risk management, asset allocation, and security selection. As always, please contact us if you have any updates to your personal or financial circumstances.

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.

Investing involves risk including loss pf principal.

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.

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.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

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 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 prices of small cap stocks and mid cap stocks are generally more volatile than large cap stocks.

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 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 Bloomberg 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 Bloomberg 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.

DISCLOSURES

The Bloomberg Barclays Capital US Corporate High Yield Bond index is an index representative of the universe of fixed-rate, non-investment grade debt

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 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.

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 Russell 3000 Growth Index is an unmanaged index comprised of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 3000 Value Index measures the performance of those Russell 3000 companies with lower price-to-book ratios and lower forecasted growth values.

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 ACWI ex USA Index captures large and mid cap representation across 22 of 23 Developed Markets (DM) countries (excluding the US) and 26 Emerging Markets (EM) countries*. With 2,206 constituents, the index covers approximately 85% of the global equity opportunity set outside the US.