

Last year produced compelling results for many investors. Global security market indexes of most types produced positive total returns in 2019. US markets offered leadership with double-digit total returns showing up in equities and high-quality bond categories. The gains enriched asset indicators in the best performing categories possibly priming asset rotation opportunities for some of the lagging groups. Risk-taking strategies still seem relevant today with the global expansion resuming and easier monetary accommodations.

One year ago, riskier assets were at their most depressed prices, likely based on reflections of decelerating economies and lessening monetary support. It may not have been obvious in the riskier assets' returns in 2019, but the global economy did enter a manufacturing and construction decline. The service sectors, however, remained in expansion and likely kept economies out of recession. Global manufacturing is still in a contractionary phase, but the trend appears to be moderating. Construction spending is returning on policies that have caused interest rates to fall.

Global central banks began to ease interest rate policy again when simultaneous recessionary signals developed in select economic sectors and in yield-curve slopes. The Federal Reserve became active in repo-markets and essentially reversed quantitative tightening by purchasing US Treasury bills. The European Central Bank and Bank of Japan remained active buyers of assets. Furthermore, the Peoples Bank of China recently announced a cut to reserves required on bank deposits. These new waves of stimulus have helped renormalize yield curves, lower interest rates, prevent the freezing of credit, and amplify the buying of riskier assets.

New monetary stimulus could increase speculative bubbles. In particular, US corporate debt markets might be considered a bit frothy right now given that their interest rate spreads over government interest rates are at multi-year record lows. At the same time, interest rate spreads are compressed when corporate debt has ballooned as a percent of the US economy's size and leverage appears significant relative to profits. The notional amount of debt that is rated investment-grade is extremely top-heavy which raises the risks of potential downgrades if something goes wrong. Of course, none of this may matter, for now, as long as corporations can continue to refinance at low rates of interest.

However, low interest rates continue to encourage growth in

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distributions paid to equity owners. US equities managed to move even higher in December, which made some technical analysts begin to worry about the overbought conditions that were showing up in large-cap stocks. Risk-buying patterns also forced selling in the US dollar and buying picked up in emerging-market stocks. Finally, the key Chinese stock index finally broke above previously held resistance levels.

Global growth may be better positioned in the new-year compared to 2019. Manufacturing output is still a concern but upturns in global shipments of freight and production of semi-conductors may indicate that the worst has moved into the background. As previously mentioned, trends in global construction have already improved, largely led by residential spending.

One of the biggest challenges the new year faces may be its political uncertainties. The US will likely be in the spotlight because of its election year. Resolution is still needed on the US-China trade war and the Chinese may simply be dragging negotiations out until the election is over. New military conflicts in the Middle East have the potential to disrupt oil markets where those risks could spill over into businesses that are sensitive to energy prices. However, higher oil prices could help lift the prices on the lowest-rated classes of debt security indexes that hold more energy exposures. Finally, the House's impeachment of the President is something of relevance for the upcoming election.

The new year is set to deliver on a whole array of outstanding questions. What will come of financial markets that stand at multi-year or all-time records? Will recessions start popping up around the world? How late is this cycle really? Which party will lead the US forward in the next four years? Plenty of details remain unresolved, which offers room for opportunities and, at the same time, presents reasons for prudent diversification.

Asset Categories	US STOCKS	FOREIGN STOCKS	US BONDS	FOREIGN BONDS	HARD ASSETS	HYBRIDS
Monthly	2.55%	4.83%	0.79%	1.70%	3.44%	1.83%
Year to Date	25.92%	21.07%	9.37%	9.55%	22.81%	19.33%

*DATA USED IS SOURCED FROM MORNINGSTAR®, DATE ENDING DECEMBER 31, 2019.



US STOCKS

US Stocks delivered again in December. The category average produced total returns of 2.6% in the month. Large-caps outperformed again. The broad category average finished the year with a 25.9% total return. Large-caps rose to total returns of 28.6% while small-caps closed at 23.3%. Mid-cap performance fell in between. Last year was a large-cap story that resulted in significant alpha for that particular market.



FOREIGN STOCKS

Foreign Stocks provided evidence of the popularity in risk-buying through year-end. The broad category hit total returns of 4.8% in the month of December! Emerging market stocks led last month with total returns gains of 6.4%. Developed large-caps generated total returns of 3.6% in the month. The whole category produced total returns of 21.1% last year led by small- and mid-cap stocks.



US BONDS

US Bonds punched higher in December on more risk buying. The broader category average was led by high yield bonds and leveraged loans. Both placed respective total returns of 1.7% and 1.4%. The year-end gains of 9.4% was boosted by corporate and high yield bonds. The two category averages' total returns exceeded 12.5% to finish the year.



FOREIGN BONDS

Foreign Bonds were led by the emerging market bond category in December. Purchasing risk was relevant in this broader category, a similar trend experienced by other markets. The emerging market bond category rose 2.2% last month. World bonds produced monthly total returns of 1.2%. It was a good year to be a buyer of emerging market bonds. The full year's total returns on that category average was 12.2%.



HARD ASSETS

Hard Assets produced a strong ending to last year. In December, the whole category was lifted by 3.4%. The category surged on precious metals and energy, which were volatile assets in the category during the year. New tensions in the Middle East brought 4.9% gains to precious metals and 7.6% lift to energy. However, US real estate assets were the best performers of 2019 with total returns of 27.4%.



HYBRIDS

Hybrids continued to perform well tracking with equities in December. The whole category made total returns of 1.8% in the month. Convertible bonds led in the month with gains of 2.1%. The same category average traded much like equity last year booking total returns of 21.0% to finish the year. Coupon-paying preferred stock performed well last year, too. That category average closed the year with gains of 17.7%.

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