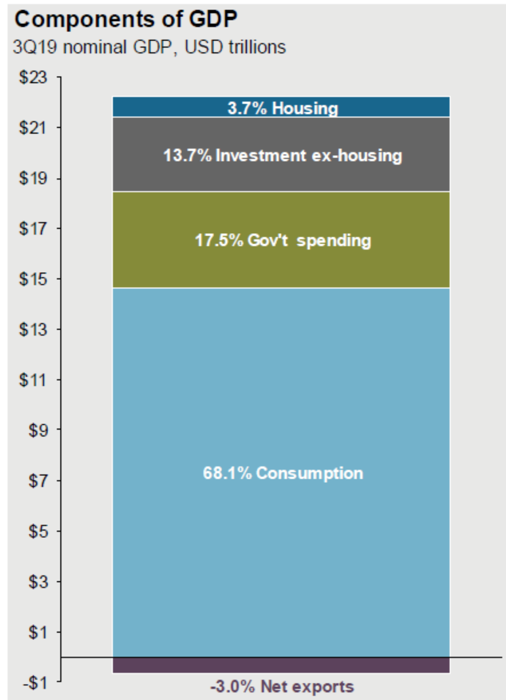
January 9, 2020

The Big Picture and Key Takeaway – December 2019

- There wasn't much that happened in December that could stop the global stock market freight train in 2019, leading to the best year of performance for the U.S. market since 2013. Unlike 2013, where international stock and bonds did not join the party, both asset classes produced excellent returns in 2019. The combination of a Federal Reserve, which cut interest rates, receding economic slowdown fears, and incremental progress between the U.S. and China on the trade front, provided a triumvirate of positivity for global stocks in December, and indeed, for most of 2019.

- On the economic data front, the consumer, the most significant component of U.S. GDP (see chart, light blue), will be an increasingly important factor for the positive economic narrative to be sustained, as business investment (dark grey) has slowed markedly on a year-over-year basis, due to a weakening manufacturing sector. If rosy corporate earnings forecasts are to be met for 2020, it will likely be on the back of the resilient U.S. consumer and sustained momentum in a very tight job market.



Source: BEA, FactSet, J.P. Morgan Asset Management.

- On the geopolitical front, while the Trade War has turned out to be the "dog that hasn't barked yet" for markets, much remains to be resolved as the "Phase 1" deal is quite limited. The newest geopolitical fear, however, has shifted to Iran after the U.S. killed one of the nation's highest-level generals. With oil prices already spiking by nearly 35% in 2019, any additional price increases due to geopolitical concerns in the Middle East may start to pinch the pockets of consumers globally.

- The one consistent positive force for the markets, at least since the Fed initiated its interest rate policy U-turn in early 2019, had been the easing of global monetary policy. As we shift to 2020, it seems clear that central banks across the globe remain content with incredibly low borrowing costs for the foreseeable future. China recently kicked-off the New Year with a fresh interest rate cut on bank reserves. While in the U.S., the Federal Reserve has been intervening in the short-term funding markets, to keep banking liquidity flush. Many believe this is simply another form of "Quantitative Easing" or balance sheet expansion, without calling it by name.

The Key Takeaway

2019 was a fantastic year for nearly all investment classes, which we believe was powered primarily by interest rates being driven lower by global central banks, in response to economic slowdown fears. As we ended the year, expectations for the global economy swung from negative to modestly positive, expectations for earnings growth are higher, and trade war fears have subsided, for now. We believe that the strong market performance of 2019 largely reflects these positive expectations, with above-average valuations still present across stocks and bonds. While momentum is strong and may continue to carry markets higher, any disappointment to the now rosier economic and earnings expectations may have an outsized impact going forward. We'll happily put a year like 2019 in the bank, but not with the hope that it will come around again soon. We think it's prudent to prepare for more volatile, and likely, less rewarding days ahead.

December & YTD Market Performance

Market Returns		Returns (%)	
Index	**Description**	**December**	**YTD 2019**
S&P 500 TR USD	**US - Large Company**	**3.02**	**31.49**
Russell 2000 TR USD	**US - Small Company**	**2.88**	**25.52**
MSCI ACWI Ex USA NR USD	**All International, excluding US**	**4.33**	**21.51**
MSCI EAFE NR USD	**International, excluding Emerging Markets**	**3.25**	**22.01**
MSCI Emerging Markets NR USD	**Emerging Market Stocks**	**7.46**	**18.42**
Bloomberg Barclays US Agg Bond TR USD	**High Quality US Bonds**	**-0.07**	**8.72**
ICE BofAML US High Yield TR	**Lower Quality US Bonds**	**2.09**	**14.41**
XAU Gold Spot $/OZ	**Gold**	**3.56**	**18.03**
***Through December 31, 2019 Source: Morningstar, MSCI, Bloomberg**			

Global Stocks

Stocks finished the year with strong momentum across both company size, investment styles, and geography. High-flying growth stocks, generally led by the information technology sector, continued to outperform value-oriented names. Growth investing dominance led to over a 9% performance advantage compared to value-oriented indexes in 2019. Within the U.S. markets, among individual sectors, Healthcare, Information Technology, and Energy led the way, the latter of which benefitted from a spike in oil prices to finish the year. On the negative side of the ledger, Real Estate lost money in December along with the Industrials sector, the latter hurt by a deceleration in manufacturing. While U.S. stocks performed admirably in December, International names fared even better. Outside the U.S., most major developed and emerging market currencies gained value for the month against the dollar, which provided a boost for international stock returns as compared to the U.S. Developed market stocks posted modest outperformance versus U.S. stocks while emerging market stocks were the big winners on the heels of the "Phase 1" trade deal announcement. The U.K. was one of the leading performers on possible Brexit fears receding, while New Zealand and Norway were also standout performing countries. China bounced back impressively as the trade war news turned slightly more positive, with South Korea also benefitting from a simmering of US-Chinese tensions.

Bonds

The yield curve steepened in December, meaning short-term bond yields declined while longer-term yields (5+ years) increased. Overall, the movement within the bond market led to very modest losses for the month, although bonds had an excellent overall year in 2019. The 10-year Treasury bond yield increased by 0.14% while the 30-Year Treasury Bond moved higher by 0.19%, as economic fears have subsided for the time being. Interest income did not offset the minimal price declines on longer-term bonds, and therefore, most high-quality bonds delivered small but negative returns. Agency mortgage bonds and investment-grade corporate bonds delivered the best returns, once again, while Treasury and Agency Bonds lagged on a relative basis. Credit spreads, a measure of the risk of default in the bond market, continued their persistent decline and led to additional positive performance for lower quality, high yield bonds – which produced double-digit returns for the year. The Fed Funds target is 1.75%, and future expectations are that rates will be moved lower by another 0.25% over the next 12 months.

Important Disclosure Information

This report is provided as information and commentary regarding the market. The views expressed in this report are as of the date of the report, and are subject to change based on market and other conditions. This report contains certain statements that may be deemed forward-looking statements. Please note that any such statements are not guarantees of any future performance and actual results or developments may differ materially from those projected.

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Index and Category Definitions

The S&P 500 Index *is a capitalization-weighted index of 500 U.S. stocks.* ***Russell 2000 TR USD*** *is a market cap weighted index* The Russell 2000 measuring the performance of approximately 2,000 smallest-cap American companies ***The MSCI All Country World ex-USA Index*** *is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI All Country World ex-USA Index consists of 22 developed and 24 emerging market country indices.* ***The MSCI EAFE Index (Europe, Australasia, Far East)*** *is a free float-adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. & Canada.* ***The MSCI Emerging Markets (EM) Index*** *is a free float-adjusted market capitalization index that is designed to measure equity market performance of 24 emerging markets countries.* ***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.* ***ICE BofAML U.S. High Yield Index*** *is an unmanaged index of below-investment grade U.S. corporate bonds.* ***XZU Gold Spot $/Oz*** *reflects the exchange rate of* ***Gold*** *against the US dollar* ***index***