The fourth quarter capped a very good year for the economy and markets. The economy remained strong although slowing somewhat. Manufacturing results slowed while service based business moved ahead. While corporate profits advanced this quarter, strong investor sentiment were a factor in increasing equity values as well. The Federal Reserve’s accommodative monetary policy kept interest rates low. (The Fed reduced rates by 25 basis points again in the quarter, the third reduction in 2019.) Employment and wage growth continued to be positive. The unemployment rate in total and in all major segments continues to be the lowest in years.

The global economy continued to move ahead while tariffs and trade issues continue to drive peaks and valleys of volatility. In mid-December the House signed a new, more favorable trade agreement, known as USMCA, with Canada and Mexico replacing NAFTA. The Senate approved this in January and the President is expected to sign this agreement in early 2020. As announced in the fourth quarter, meetings with China are scheduled to start in mid-January on the first phase of the new trade policies which is blunting China trade concerns at present.

On the negative side, North Korea and Iran continue to be significant issues (as proven with Iran in January). With the election of Boris Johnson in December, Brexit is now a certainty, but the details and implications are impossible to decipher at this point.

In general, bond yields in foreign developed markets are edging ahead indicating that the outlook for growth is good.

In the U.S., the impeachment saga continues within a fiercely divided Congress. The net result is that Washington struggles to get anything done as the election approaches.

Market results are detailed below.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 12/31/2019** | **12 MONTHS Ending** **12/31/2019** | **THREE YEARS Ending** **12/31/2019** | **FIVE YEARS Ending** **12/31/2019** |
| **DJIA** | 6.7% | 25.3% | 15.7% | 12.6% |
| **S & P 500** | 9.1% | 31.5% | 15.3% | 11.7% |
| **NASDAQ Composite** | 12.5% | 36.7% | 19.9% | 14.9% |
| **Barclay Agg. Bond** | 0.2% | 8.7 % | 4.0% | 3.% |
| *Mutual Funds* |  |  |  |  |
| Domestic |  |  |  |  |
|  *Large Cap* |  |  |  |  |
|  Growth | 9.4% | 31.9% | 18.1% | 12.1% |
|  Value | 7.4% | 25.0% | 10.0% | 8.0% |
|  *Small Cap* |  |  |  |  |
|  Growth | 9.5% | 27.7% | 13.7% | 9.9% |
|  Value | 8.0% | 21.4% | 3.7% | 5.4% |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **QUARTER Ending 12/31/2019** | **12 MONTHS Ending** **12/31/2019** | **THREE YEARS Ending** **12/31/2019** | **FIVE YEARS Ending** **12/31/2019** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| International |  |  |  |  |
|  Europe | 9.2% | 24.7% | 9.6% | 5.9% |
|  Latin America | 13.2% | 28.4% | 17.4% | 7.7% |
|  Japan | 8.0% | 18.9% | 8.7% | 8.8% |
|  Pacific ex Japan | 9.1% | 20.0% | 12.0% | 6.3% |
|  China Region | 12.1% | 25.9% | 12.0% | 6.1% |
|  India | 4.4% | 2.3% | 8.4% | 4.2% |
|  |  |  |  |  |
| Corporate Bond |  |  |  |  |
|  Long | 0.2% | 19.3% | 7.9% | 5.5% |
|  Intermediate | 0.1% | 8.1% | 3.6% | 2.7% |
|  Short | 0.6% | 4.7% | 2.5% | 2.0% |
| Government Bond |  |  |  |  |
|  Long  | -4.1% | 14.0% | 6.6% | 3.8% |
|  Intermediate | -0.1% | 5.9% | 2.6% | 1.9% |
|  Short | 0.3% | 3.3% | 1.7% | 1.2% |
| Municipal Bond |  |  |  |  |
|  Long  | 0.5% | 8.4% | 4.7% | 3.5% |
|  Intermediate | 0.6% | 6.9% | 4.1% | 2.9% |
|  Short | 0.5% | 3.1% | 2.0% | 1.3% |

**Market Outlook**

2019, all things considered, was a very good year for the general economy and the markets. A lot of things will be going on in 2020. We do not anticipate that this year will bring returns at 2019 levels which were boosted by the interest rate reductions. Continued economic growth will depend upon stable job growth, continued business investment and ongoing consumer confidence. Low inflation is also a positive factor along with a stable manufacturing environment. Progress on tariff and trade issues would also be a plus. Domestic political issues continue to be a jumble: presidential election, impeachment, trade/tariffs immigration, infrastructure, government dysfunction, etc. Internationally, European markets are moving forward at a slow pace. Brexit will have an impact that will be more readily deciphered as the year progresses.

Perhaps predictably, we are very cautious about 2020. The bull market has been with us for a record time. Uncertainties centering on nuclear arms with North Korea and Iran will persist. Trade issues involving China have improved but have not been fully resolved. Geopolitical conflict in the Middle Eastern region continues to present the potential for market destabilization . Therefore, we recommend you stick with your current allocation targets. If for whatever reason, you are anxious about your equity allocation, please let us know. Given our caution about 2020 performance, we do not advise any new equity investments, particularly during the first half and keep bond purchases to short or intermediate maturities

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