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QUARTERLY MARKET INSIGHTS
4TH QUARTER 2019

SMB Trust Services

SPOTLIGHT

REAL ESTATE WINNERS AND LOSERS IN THE E-COMMERCE ERA

Online shopping is changing the way consumers purchase products, and in the process, the commercial real estate market is undergoing a transformation. Retailer bankruptcies and store closures have become a regular topic in the news as brick-and-mortar retailers lose market share to e-commerce competitors such as Amazon. Retail store closures spiked around 60% in 2019 to more than 9,300 stores, marking an annual record. The pain of store closures is being felt most in shopping malls where the vacancy rate reached an eight-year high of 9.4% in late 2019. While many traditional brick-and-mortar retailers are struggling in the e-commerce era, another area in the commercial real estate market is thriving.

The rapid growth in online shopping has created an immense demand for industrial real estate used for logistics infrastructure such as fulfillment centers and warehouses. The e-commerce driven bifurcation in the commercial real estate market, with retail and industrial on opposite ends of the spectrum, was on full display in the stock market in 2019. Industrial REITs were one of the top performing industries in the S&P 500 index in 2019 with a 52.2% return. Meanwhile, the Retail REIT industry was among the S&P 500's worst performing industries with a 4.4% return in 2019.

In recent years, the booming industrial real estate market has expanded at a record pace to support e-commerce's double-digit annual growth. According to Deloitte, between 2014 and 2018, the U.S. industrial real estate market's supply of space expanded by almost 1.4 billion square feet. That new space is more than the combined square footage of all Walmart, Target, Costco, and Home Depot stores. As e-commerce sales continue to grow at a healthy rate, more logistical infrastructure will likely be needed including regional distribution centers, last-mile fulfillment centers, and warehouses. Commercial real estate investment and services firm CBRE estimates that each $1 billion growth in e-commerce sales requires an additional 1.25 million square feet of logistics space. Based on current trends in online sales, Deloitte projects demand for industrial real estate to increase by 850 million square feet by 2023.

Another e-commerce factor driving the need for industrial real estate is customer returns. Online magazine, *Fast Company* reports that of the 165 billion packages shipped in the U.S. by online retailers, 33 billion were returned. According to Shopify, online retailers are plagued by a 20% return rate which is double the rate for brick-and-mortar retailers. One reason for the higher online return rate is that an estimated 41% of customers buy multiple product variations with the intention of returning some of the products. Other reasons for higher online returns include damaged products, shipping incorrect items, and differences in products' digital and physical appearances. Returned packages often end up in warehouses where employees unpack them, inspect for damage, and either send them on to their next location or store them. Increased demand for warehouses has led to the national vacancy rate reaching a 20-year low in 2019 at 4.3%. Warehouses account for around 5% of the industrial real estate market, or 700 million square feet, according to CBRE.

Underutilized properties intended for non-industrial purposes such as retail or offices are receiving a second life by being converted into last-mile fulfillment centers. One of the world's largest underground parking garages, Millennium Parking Garage in downtown Chicago, was partially converted into a last-mile shipping and warehouse center. The Chicago parking garage has 3.8 million square feet across two floors. Locations that are near the end comsumer, such as this garage, are needed in densely populated areas to ensure packages are delivered quickly and efficiently. The *National Real Estate Investor* magazine estimates that 270,000 e-commerce packages are delivered each day in Chicago.

Online sales in the U.S. are projected to maintain their double-digit growth rate for the next few years based on a survey by market research firm, eMarketer. In addition, online sales' percent of total retail sales is expected to rise from 10.7% in 2019 to 16.2% in 2023. As e-commerce continues to grow at a strong pace and captures more of the overall retail market, the shift in real estate demand away from retail and toward industrial will likely persist.

ECONOMY

U.S. ECONOMIC CONDITIONS REMAIN FAVORABLE

Third quarter U.S. GDP increased at an annual rate of 2.1%, in the final revision from the Commerce Department. Consumer spending, the main component of U.S. economic growth, was raised to a 3.2% annual pace from 2.9%, which was not quite as strong as the second quarter's 4.6% rate, but still very robust. This was offset by a downward revision to the value of inventories. Economists expect a modest deceleration in the fourth quarter of 2019 to an annualized rate of 2.0%. Business investment, which has declined the last two quarters, is expected to continue to be a drag on GDP.

The Federal Reserve held interest rates steady in a target range of 1.50% to 1.75% following its two-day meeting in December and indicated no action is likely in 2020 amid persistently low inflation. In its statement explaining the decision, the committee indicated monetary policy is likely to stay where it is for an unspecified time, though officials will continue to monitor conditions as they develop. The decision to keep rates unchanged was unanimous, following several dissents in recent meetings.
Strong holiday retail sales suggest that consumer spending remains healthy. During the holiday period from November 1 through Christmas Eve, retail sales, excluding vehicles, rose 3.4% year over year. Online sales rose 18.8%, up from 2018's 18.4% growth, as consumers increasingly conduct more of their shopping online. The apparel category stood out with stronger-than-expected online sales growth of 17.0%. Online shopping accounted for 14.6% of total sales.

ECONOMIC INDICATORS	LATEST	3MO PRIOR	CHANGE*
REAL GDP (QoQ ANNUALIZED)	2.1%	2.0%	▲
TRADE BALANCE	-43.1	-53.5	▲
UNEMPLOYMENT RATE	3.5%	3.5%	-
NON-FARM PAYROLLS	145K	193K	▼
ISM MANUFACTURING	47.2	47.8	▼
ISM NON-MANUFACTURING	55.0	52.6	▲
RETAIL SALES (LESS AUTOS)	0.5%	-0.3%	▲
INDUSTRIAL PRODUCTION	1.1%	0.8%	▲
HOUSING STARTS	1365M	1375M	▼
CONSUMER PRICE INDEX (YoY)	2.3%	1.7%	▼
CONSUMER CONFIDENCE	126.5	126.3	▲
EXISTING HOME SALES	5.35M	5.5M	▼
CONSUMER CREDIT	12.51B	18.04B	▼
CRUDE OIL PRICE	61.06	54.07	▼

Source: Bloomberg. Past performance does not guarantee future results. *The change arrow is indicative of a positive or negative change in the economic nature of the data series. For example, a downward-pointing change arrow assigned to the crude oil price field will correspond with an increase in the actual price of crude oil over the last three months. This is because a short-term increase in the price of crude oil has historically been detrimental to U.S. economic growth.

EMPLOYMENT AND MANUFACTURING

U.S. employers added a monthly average of 184,000 workers to payrolls in the fourth quarter, slightly ahead of the 176,000 average monthly gain in 2019. For the full year, domestic payrolls expanded by 2,112,000, which was down from 2,520,000 in 2018. The unemployment rate declined to 3.5% in November and December to match a 50-year low. Meanwhile, year-over-year gains in average hourly wages cooled off in December to 2.9%, down half of a percentage point from a ten-year high of 3.4% in February. On a sector level, payroll increases in recent months have been spread

ECONOMY CONTINUED

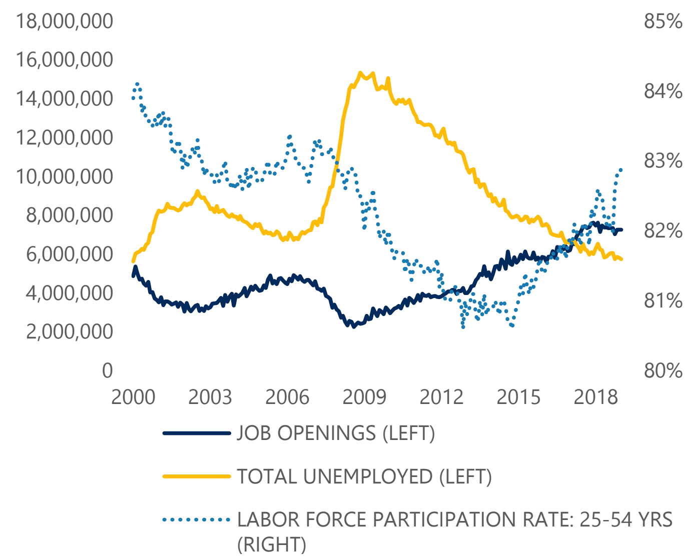
across the healthcare, leisure and hospitality, and professional/business services sectors. The end of the recent General Motors strike also boosted employment in the automotive industry. However, noticeable soft spots in the fourth quarter included the construction and retail sectors.

Domestic manufacturing continued to slow as the December ISM manufacturing index registered its lowest level in over ten years and its fifth straight month of contraction. The index fell to 47.2 in December from 48.1 in November. The consensus estimate from economists expected a reading of 49.0. A reading of 50 or higher indicates expansionary activity while below 50 signals contraction. The December report also noted that there were signs that several industry sectors will improve as a result of the phase one trade agreement between the U.S. and China.

HOUSING

New home sales rebounded 1.3% in November from October to a seasonally adjusted annual rate of 719,000 units. Sales increased 17.0% from a year ago. The West region led the charge with new home sales up 48.0% from a year ago; sales in the South and Northeast regions increased 9.0% and 7.0%, respectively. The Midwest was the only region that experienced a decline from a year ago, with new home sales down 1.4% from a year ago. New construction in the housing market appears to be making steady improvement amid lower mortgage rates. In November, housing starts increased 3.0% over the prior month to an annual rate of 1.365 million units. Permits increased over 1.0% from the prior month to an annual rate of 1.482 million units. Some economic commentators have suggested that low mortgage rates, improved home affordability, a solid labor market and healthy consumer sentiment may be finally combining to boost the dormant U.S. housing market.

U.S. LABOR MARKET DYNAMICS
1980 THROUGH DECEMBER 2019



Source: Bloomberg. Past performance does not guarantee future results.

EQUITY

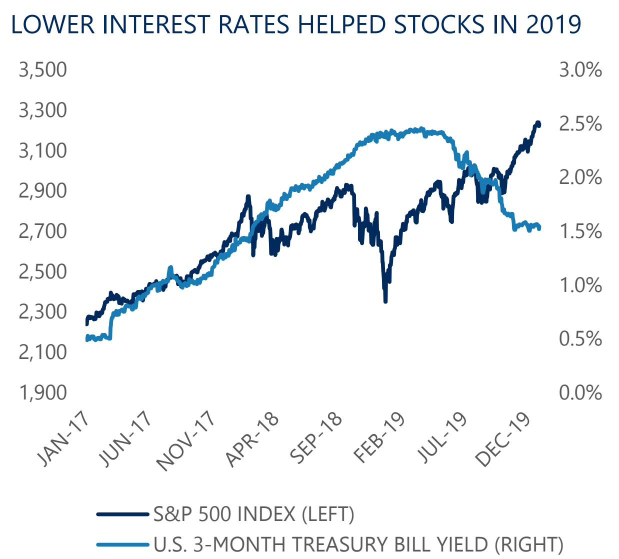
TRADE TRUCE PUSHES GLOBAL STOCKS HIGHER

What a difference a year can make when it comes to stock market sentiment. Whereas the market distress from the fourth quarter of 2018 was largely defined by problematic monetary policy and trade policy, both of those variables turned in a direction much friendlier to equity markets by October of 2019. The Fed's pivot to easier monetary policy during 2019, including three 0.25% rate cuts and its infusion of $60 billion into short-term funding markets, provided fuel to unwind the inverted U.S. Treasury yield curve and support equity prices. On the trade policy front, U.S. tariffs on approximately $150 billion of Chinese imports that were scheduled to increase on December 15 were delayed indefinitely by a pending "phase one" trade deal between negotiators from Washington and Beijing.

Surveys of manufacturing activity in both the U.S. and euro zone showed signs of rebounding, casting doubt on a key argument of many stock market bears that had suggested the global manufacturing contraction would spill over into consumer activity. Meanwhile, American consumers reminded investors during the holiday shopping season that they feel fine, although their purchasing habits continue to shift away from physical stores and towards online spending.

Emerging market stocks outperformed their U.S. counterparts in the final three months of 2019, as the MSCI Emerging Markets Index climbed 11.4% in the quarter compared to the Russell 3000 Index's 8.6% advance. This marked the first quarter since the fourth quarter of 2018 that emerging markets stocks posted better returns than their U.S. peers. An easing of global trade tensions helped the MSCI Indexes for China and South Korea move higher by 15.1% and 12.4%, respectively, during the quarter. Meanwhile a recovery in oil prices and moderate dollar weakness contributed to MSCI Indexes for Russia and Brazil climbing 15.2% and 12.9%, respectively.

In the U.S. equity market, the turnaround in healthcare stocks in the fourth quarter was notable amid toned down language regarding Medicare for All policy options from leading Democratic presidential candidate Elizabeth Warren. But it was technology stocks that remained the stars of the show, as the S&P 500 technology sector was the best performing group of the broad index in both the fourth



Source: Bloomberg. Past performance does not guarantee future results.

quarter and all of 2019. The technology-heavy Nasdaq composite climbed 12.2% in the period of October through December and 35.2% for the full year. Many consumer-oriented and software-driven technology sector companies seemed to benefit in 2019 from lower interest rates and a widely held view that their growth trajectories are aligned with durable, secular themes and not closely tied to the ebbs and flows of the global economic cycle. Some of these themes include the ongoing transition from on-premises server power to cloud-computing, the shift from paper to electronic payments and the forthcoming rollout of 5G networks.

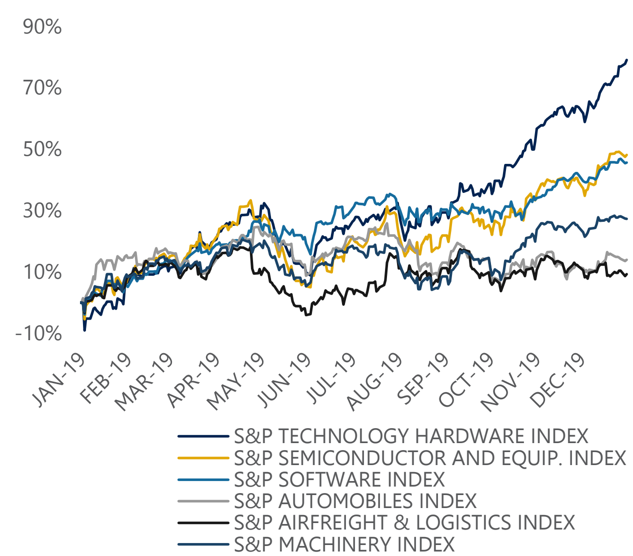
Turning to the 2020 outlook for stock markets, domestic equities are expected to cool off in the upcoming year with a modest mid-single-digit return. Year-end 2020 S&P 500 price targets from 21 Wall Street strategists imply an average return around 4.0%. Yet, history suggests equities are not destined for a low return just because the previous year had strong performance. The S&P 500 has posted 19 annual returns above 30% since 1926 and the average return for the year following the 30%+ return was 10.8%.

The consensus among the strategists is that modest stock market appreciation in 2020 will be driven by a rebound in earnings growth, accommodative global monetary policies, trade deal progress between the U.S. and China, and strong share buybacks. Key risks to the strategists' outlook include a reversal in the recent improvement in U.S.-China trade negotiations, a Federal Reserve policy shock, and presidential election uncertainty. The strategists view the presidential election as a potential downside catalyst because it is uncertain how leading Democratic presidential candidates would handle the delicate trade negotiations with China. In addition, a new president may create idiosyncratic policy risks for certain sectors including healthcare and technology, depending on the policies of the elected candidate.

A mid-single-digit return for the S&P 500 in 2020 may be an easily attainable goal given analysts' projection for the rebound in earnings growth. Analysts are forecasting a recovery in earnings growth for the coming year to 9.3% due to easier year-over-year comparisons and modestly better sales growth of 4.9%. The energy, industrials, materials and technology sectors are projected to lead the S&P 500 with double-digit earnings growth after each sector posted an earnings decline in 2019. Analysts also expect cost cutting to drive an expansion of the S&P 500's profit margin to 12.2% in 2020 from 11.2% at the end of 2019.

TECHNOLOGY VS. TRADE WAR-RELATED INDUSTRIALS

JANUARY 2019 THROUGH DECEMBER 2019



Source: Bloomberg. Past performance does not guarantee future results.

FIXED INCOME

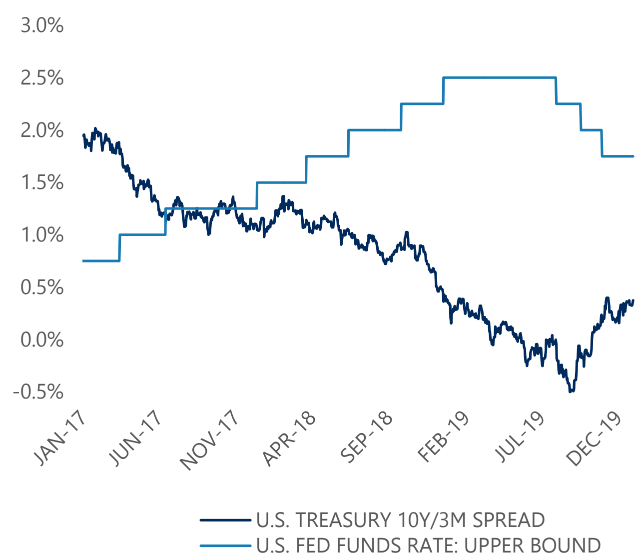
UNWINDING THE YIELD CURVE INVERSION

Some of the leading storylines of 2019 in fixed income markets were the U.S. Federal Reserve's pivot from tightening to loosening monetary policy, the U.S. Treasury yield curve inversion, low credit spreads and stubbornly low measures of inflation. Of these, however, it was the dovish shift in tone and action by Fed Chairman Jerome Powell and his fellow Federal Open Market Committee (FOMC) voters that reverberated the loudest across the bond landscape. By the time the fourth quarter began, Fed policymakers had already made two 0.25% cuts to the central bank's benchmark rate.

Turning back the calendar just twelve months presented a much different picture. On December 19, 2018, the FOMC raised the Fed Funds Futures rate 0.25% from a range of 2.00% - 2.25% to a range of 2.25% - 2.50%. In response to the hike, financial conditions quickly tightened, as market participants began to firmly view Fed policy as restrictive rather than neutral. Over the course of the next few months, policymakers belatedly began to change their tone when discussing interest rate policy. To rationalize their shift, Fed officials pointed to the unknown effects on the domestic economy of the escalating U.S.-China trade war, emerging signs of a global economic slowdown and manufacturing weakness in the U.S. By the spring, many market participants believed that the FOMC's next move would not be to resume hiking rates, but to begin cutting them. This belief materialized on July 31, as the policy-setting committee lowered interest rates for the first time since the global financial crisis of 2007-2008 by 0.25% in an effort to help stave off the possibility of an economic downturn. They eventually made two additional 0.25% cuts, on September 18 and October 30. In the news conference after the October 30 meeting, Fed Chairman Jerome Powell announced that the FOMC would need to see economic deterioration before cutting interest rates again.

Recession fears in the U.S. government bond market seemed to peak in the final week of August, as yields on the benchmark U.S. 10-year Treasury bond fell below 1.50% and within striking distance of the 1.36% all-time low reached in June 2016. Meanwhile, the yield differential between the 10-year U.S. Treasury bond and the 3-month note (the 3-month – 10-year yield curve) plunged deeper into negative territory and eclipsed -0.50% in the last days of August. As the third quarter gave way to the fourth quarter, however, economic and policy conditions began to improve. The FOMC was in the middle of its three quarter percentage point rate cuts, while the trade dispute rhetoric between the U.S. and China turned more positive

FED RATE CUTS UNWIND YIELD CURVE INVERSION



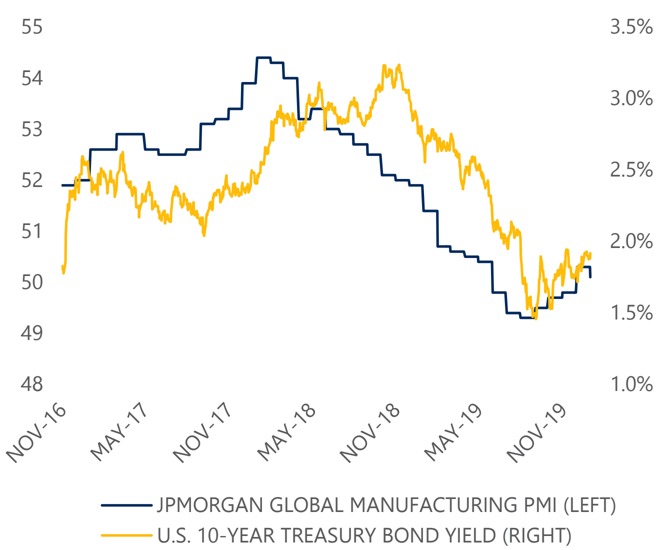
Source: Bloomberg. Past performance does not guarantee future results.

with President Trump's announcement of the "phase one deal" which would take away the mid-December round of tariffs. Additionally a stabilization in the worldwide manufacturing sector appeared, as the Global Manufacturing Purchasing Managers Index (PMI) November reading of 50.3 pushed it back above the 50.0 line dividing expansion from contraction for the first time since April. Finally, in October the Fed launched an expansion of its balance sheet by announcing its plans to purchase $60 billion of short-term U.S. Treasury bills each month through June 2020 in order to provide needed liquidity to short-term funding markets. These factors combined to unwind the yield curve inversion that had been present from May 23 to October 11, with the exception of one day in July. Given the growing signs of a stabilization in global growth and recent comments from policymakers, it appears that another Fed rate cut is unlikely in the near future. In their most recent projections, twelve of the fifteen assigned FOMC voting members project rates to stay neutral in 2020.

Although the growth backdrop improved in the fourth quarter, yields fell across the U.S. Treasury curve in 2019, headlined by a roughly 0.75% decline in yields on the 10-year bond. Yields declined more on the short end of the curve than the long end, given the former is more sensitive to Fed rate decisions than the latter. Yields on the two-year note fell 0.90% in 2019, while yields on the 30-year bond declined approximately 0.60%. In credit markets, investment grade corporate bonds performed particularly well as their spreads over Treasuries narrowed in 2019. The combination of falling yields and narrowing spreads allowed investment grade corporate bonds to outperform the duration-equivalent Treasury Index by over 600 basis points in 2019.

For large parts of the year, the U.S. government bond market was anticipating a forthcoming contraction in U.S. economic growth. The decline in yields on the 10-year U.S. Treasury bond from 2.75% on March 1 to 1.46% on September 3 could be read as market participants pricing in at least a shallow recession in 2020. Yet, as the curtain opens on 2020, a strong labor market, resilient U.S. consumers and increasingly accommodative central bank policies have made those pessimists in the bond market look more farsighted than clairvoyant.

GLOBAL MANUFACTURING AND U.S. TREASURY YIELDS
NOVEMBER 2016 THROUGH DECEMBER 2019



Source: Bloomberg. Past performance does not guarantee future results.

OUTLOOK

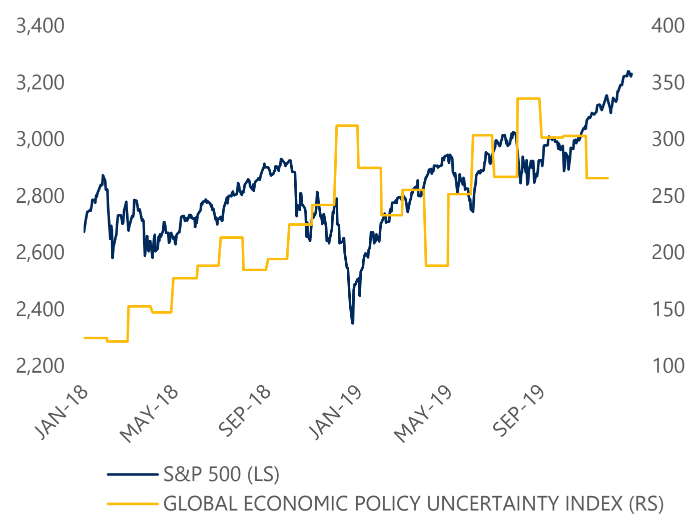
THE WALL OF WORRY

The adage that stocks climb a "wall of worry" conveys the notion that equity markets can often sidestep or even benefit from unfavorable events or headlines including transitory pockets of economic weakness, increased military tensions or political uncertainty in major economies. The general idea is that these types of concerns are almost always short-lived. Yet their presence alone keeps enough investors and traders on the sidelines so that a wave of overexuberance never develops. This kind of overly optimistic sentiment akin to the years leading up to technology stock bubble in the late 1990s or the housing market bubble several years later can be deadly for bull markets. Somewhat counterintuitively, then, the stock market almost needs a certain number of pessimists to continue moving higher in a durable manner.

In 2019, there was no shortage of bricks to construct such a wall of worry. In the arena of international relations, there was the escalating U.S.-China trade war, the Iranian attack on Saudi oil operations, the never-ending saga of Britain's exit from the European Union and a dramatic increase in military tensions between Washington and Tehran. Across financial markets, 2019 witnessed a nearly five-month inversion of the U.S. Treasury yield curve between the three-month and 10-year maturities. This was driven by a sharp decline in yields on the U.S. 10-year Treasury note from 2.75% in early March to 1.45% in early September. Often, though not always, an interest rate structure where short-term yields exceed their long-term counterparts has preceded economic contractions. In the world of always-exciting domestic politics, the conclusion of the Mueller investigation, the opening stages of the Democratic presidential nomination process and the forthcoming impeachment trial of President Trump dominated news coverage throughout the year.

Despite all of the above, the S&P 500 Index navigated the major potholes and resolutely shook off naysayers from all directions on its way to a roughly 30% gain in 2019. The big question before us in the opening stages of 2020, then, is: Can stocks continue to climb a wall of worry in 2020? We think the answer is most likely yes, although gains in 2020 should be modest compared to 2019. Our rationale is driven by two major assumptions. First, Jerome Powell and his fellow FOMC voters eased monetary conditions in 2019 and have clearly signaled that they do not anticipate tightening any time soon. In our view, there is no good reason to doubt their intentions. In their most recent projections, 12 of the 15 assigned FOMC voting members project the central bank's benchmark rate to stay neutral in 2020. Over the course of 2019, the Fed enacted three 0.25% interest rate cuts, unwinding about 40% of its hikes from December 2015 through December 2018. Furthermore, in October, the Fed announced plans to purchase $60 billion of short-term U.S. Treasury bills each month through June 2020 in order to help stabilize short-term funding markets. We believe these actions have significantly increased liquidity across the U.S. financial system and are likely to create an

U.S. STOCKS AND GLOBAL POLICY UNCERTAINTY
JANUARY 2018 THROUGH DECEMBER 2019



Source: Bloomberg. Past performance does not guarantee future results.

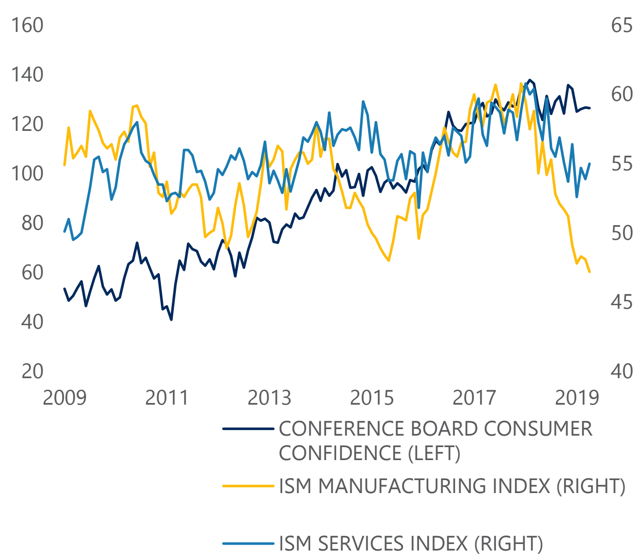
OUTLOOK CONTINUED

environment where stocks, real estate, high yield bonds and other risk assets can continue to grind higher.

Secondly, we believe the mindset of U.S. consumers remains positive amid a strong labor market, low interest rates and no clear signs of inflationary pressures. If stubbornly dormant housing prices, home building activity and overall home sales start to move higher, we could see an amplification of already positive consumer sentiment. We never want to underestimate the power of U.S. consumers as the largest component of the world's largest economy to affect overall global growth trends and markets in either direction. Readers may recall our observation last quarter that significant weakness in both domestic and global manufacturing activity indicators during 2019 did not seem to put much of a dent in U.S. consumer confidence. In fact, the 2019 holiday season set records for overall sales, while national retailers and consumer-oriented businesses including Target, Walmart, Costco and PepsiCo have generated impressive sales growth in recent quarters.

Given our views outlined above, we believe the equity portion of client portfolios should be positioned at the mid-point of its strategic range, while fixed income allocations should be moderately below targets. While the equity market can continue to climb higher in 2020 despite all types of concerns, we envision periods of elevated price volatility related to the U.S. Democratic party presidential primary and general election. Additionally, traditional valuation measurements of broad U.S. equity indexes are above historical averages. We continue to see limited upside in fixed income markets considering already low yields and a high probability that the Fed does not lower interest rates in 2020. We recommend that client portfolios maintain an overweight allocation to alternative investment strategies that have provided enhanced portfolio diversification and downside protection in previous periods of market stress.

CONSUMER SENTIMENT AND ECONOMIC ACTIVITY
SEPTEMBER 2009 THROUGH DECEMBER 2019



Source: U.S. Bureau of Economic Analysis. Past performance does not guarantee future results.

ECONOMIC OUTLOOK AND INVESTMENT POLICY

ECONOMIC FACTORS	CURRENT OUTLOOK
U.S. GDP Growth	The Bloomberg consensus economists' expectations for full-year 2020 U.S. GDP growth increased slightly in recent months to 1.8%.
Federal Funds Rate	Fed funds futures markets project a 60% probability of at least one quarter percentage point rate cut in 2020 as of January 13.
Inflation	Bond market participants' expectations for average annual inflation over the next five years rose to a seven-month high of 1.70% in late December.
Employment	The hiring plans of U.S. small businesses receded in 2019 amid soft manufacturing activity, yet remain significantly higher than in 2009 through 2016.
Consumer Confidence	A healthy labor market, contained energy prices and recent stock market gains should support U.S. consumer confidence in the first half of 2020.
Oil	Elevated military and political tensions between the U.S. and OPEC member state Iran could create a growing risk premium for oil prices in 2020.
Housing	A roughly 0.75% decline in the average U.S. 30-year fixed mortgage loan rate during 2019 could boost a sleepy housing market in 2020.
International Economies	In October, the IMF reduced its forecast for 2020 global GDP growth to 3.4% from its previous projection of 3.6% made in April.

	MINIMUM		NEUTRAL		MAXIMUM
FIXED INCOME		●			
Core Bonds			●		
TIPS				●	
Non-Investment Grade			●		
International	●				

CURRENT OUTLOOK

Heading into 2020, we believe client portfolios should be moderately underweight fixed income relative to the mid-point of our strategic range. Improvements in the direction of trade policy and monetary policy create a scenario where no clear signs of an imminent economic contraction are present. Meanwhile, historically low yield levels persist across most of the investment grade portion of our fixed income investment universe. While bond market participants project the Federal Reserve will most likely cut rates by another 0.25% in 2020, we believe the most likely outcome is that policymakers will keep rates steady given the 2020 presidential election year. Trends in credit spreads and corporate leverage appear largely benign to us, especially compared to periods before the beginning of the two most recent recessions.

	MINIMUM		NEUTRAL		MAXIMUM
EQUITIES			●		
Large Cap			●		
Mid Cap				●	
Small Cap			●		
Developed International		●			
Emerging Markets		●			

CURRENT OUTLOOK

In our view, the equity allocation of client portfolios should be positioned in a neutral stance relative to the mid-point of our strategic range. Current valuations of U.S. equity indexes are somewhat elevated, yet still within historical ranges. Meanwhile, most major global central banks have shifted their policies to promote easier financial conditions, creating a favorable environment for risk assets. Unresolved trade disputes, economic slowdowns in China and Europe and the current soft patch in U.S. corporate earnings growth justify a more cautious stance than we recommended in 2018 and the first half of 2019. A majority of our concerns would likely have a disproportionate effect on international economies. As such, an underweight to developed market international equities remains appropriate until we see signs of durable positive economic momentum in both China and Europe.

	MINIMUM		NEUTRAL		MAXIMUM
ALTERNATIVES*				●	

	CAP PRES	IWSG	BAL	GWSI	GROWTH
Global Real Estate			●	●	●
Global Infrastructure		●	●	●	●
Hedged Equity	●	●	●	●	●
Arbitrage	●	●	●		
Strategic Income	●	●	●	●	

CURRENT OUTLOOK

Equity market volatility perked up in the middle part of 2019 amid heightened trade tensions and signs of a global manufacturing contraction. Market choppiness during this period coincided with a steep drop in U.S. government bond yields and a surge in gold prices, two indicators of market participants' growing concerns about a potential deceleration of U.S. economic growth. Despite a recent thaw in the U.S.-China trade war tension, we expect risk asset volatility to return over the course of 2020. In our view, government bonds are most likely fairly valued, while the broad equity asset class remains exposed to trade policy uncertainty and soft economic growth outside of the U.S. As such, we recommend that client portfolios include an overweight to alternative investments that are able to provide enhanced portfolio diversification. Our diversified alternatives portfolios, as seen in the table to the left, are designed to decrease the risk profile of our five investment objective-based portfolios (CAP PRES, IWSG, BAL, GWSI, GROWTH).

The above minimum/neutral/maximum recommendations represent MainStreet Advisors' current positions relative to our Strategic Asset Allocation ranges. Views expressed have a 6-12 month horizon and are those of the MSA Investment Committee.
*Cap Pres: Capital Preservation, IWSG: Income with some growth, Bal: Balanced, GWSI: Growth with some income

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