MONTHLY
MARKET REVIEW

12 2019

Strategic Investment Group®

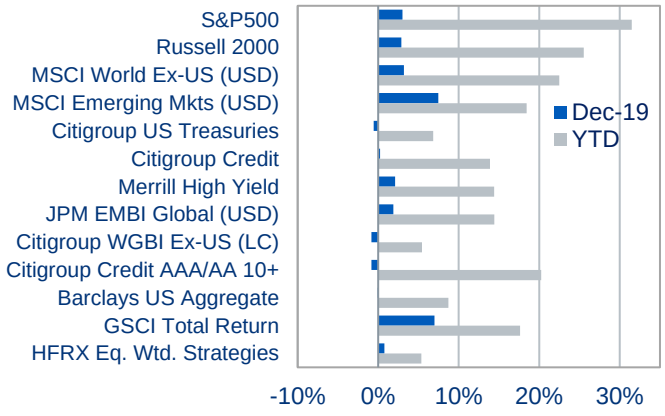
Global Market Review

Macro Summary

From stocks to bonds to commodities, virtually all markets rose strongly in 2019. U.S. equities reached record highs, led by tech stocks, stretching valuations further. Global bond markets also gained, notwithstanding a starting point of low yields and compressed credit spreads. From gold to oil, commodity prices rose. Easy monetary policies in major economies and continued, if slowing, global economic growth provided the main impetus for the gains. Returns, however, were punctuated by bouts of volatility triggered by on again off again trade tensions, declining trade and manufacturing growth, and geopolitical concerns.

Performance of Major Market Indices

Sources: S&P, MSCI, FTSE Russell, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, HFR, Bloomberg.



Indiscriminate increases across all markets in 2019.

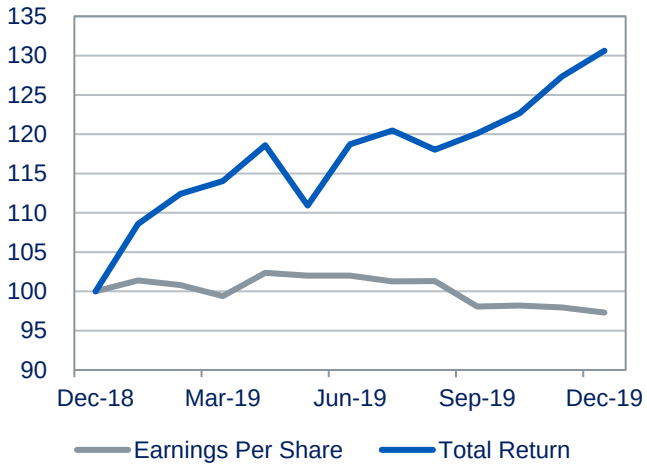
U.S. Stocks End 2019 on a High Note

U.S. equities continued their steady rise through December, with all three major indices hitting fresh highs to cap a bumper year. The S&P 500 surged over 31% in 2019, the best annual performance in six years. The year's gains were widely spread across all sectors, market capitalizations, and growth and value shares. Growth and large-cap stocks outperformed value and small, but all enjoyed returns above 25%. Tech stocks led all sectors, rising over 47% in 2019.

The foundation for the stellar performance of the U.S. equity markets in 2019 is not as solid as one might expect. The main impetus for the gains appears to have been a renewed turn to monetary ease by the Fed and other major central banks. U.S. equity market performance in 2019 reflects multiple expansion that further stretched valuations as corporate earnings growth was lackluster (exhibit below). In addition to sluggish earnings growth, the global economy grew at its slowest pace since the Great Financial Crisis, as trade barriers and policy uncertainty weighed on manufacturing output and trade volumes. Households worldwide cut back on expenditures on durable goods and corporations curtailed investment spending. However, consumer spending, especially in the U.S., was buoyant, as the jobless rate fell to low levels and wage growth picked up.

Equities Soar despite Earnings Weakness

Source: Bloomberg. Russell 3000 Index, Jan. 1 2019 = 100.



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Developed and Emerging Equities Also Gain

Non-U.S. equities also ended the year with a flourish, with the MSCI World ex-U.S. index gaining 3.2% in December to push the year's total return to 22.5%. Among advanced markets, European equities rose 23.8% with the support of continued easy conditions courtesy of the ECB and improved prospects for an orderly Brexit process. Prime Minister Boris Johnson's landslide election victory made it all but certain that the UK will leave the EU by the end of January, alleviating the uncertainty that had weighed on markets and seeing the pound leap 2.5% in response. Japanese equities also had a strong year, rising about 17% on signs of stronger economic growth.

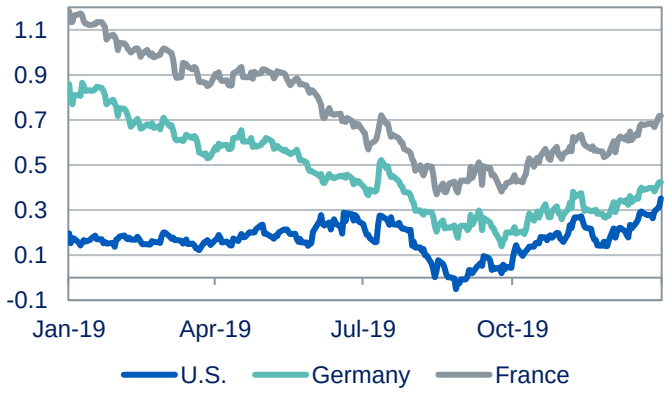
Despite slower economic growth in Brazil, India, Mexico, and Russia and financial crises in Argentina and Venezuela, emerging equity markets gained 18.4% in 2019, capped off by a surge of 7.5% in December. Hopes of easing trade tensions and a weakening U.S. dollar fueled the December spike. Among emerging markets, Chinese equities were the strongest performers, with China A-shares soaring 37.5% for the year. Reports that profits at China's industrial firms grew at a faster-than-expected pace abated investor concerns of a slowdown in the world's second largest economy. A solid forecast for Chinese retail sales growth in 2019 also supported investor sentiment.

Developed Market Bond Yields Edge Upward

The rally in risk assets tipped yields across developed sovereign bonds upward in December (exhibit below), although global bond markets generated positive returns for the year. The U.S. yield curve, which had been inverted for much of the year sparking recession concerns, steepened as investors sold off safe-haven assets. Elsewhere, the Riksbank in Sweden raised benchmark interest rates from minus 0.25% to zero, making it the first central bank of those around the world that had cut rates into negative territory to inch back to zero. The Riksbank, which was the first central bank to institute a negative policy rate, expressed doubts about the efficacy of negative rates, citing in particular their impact on bank profitability. With the general increase in yields, the global stock of bonds priced to have a negative yield declined to $12 trillion from a peak of over $17 trillion.

Global Sovereign Yield Curves Steepen

Source: Bloomberg. Government Bond 10 Year – 2 Year yields



Emerging market bonds outperformed their developed counterparts in December, rising 1.9%. The gains come on the back of a strong 2019 as investors flocked to emerging markets in search of yield, pushing the JP Morgan emerging markets bond index 14% higher, the index's best year since 2012. Bonds have been bolstered by central banks across developing markets shifting towards monetary easing in order to stabilize activity, pushing yields across emerging markets sharply lower.

Event Driven Hedge Funds Outperform

The HFRX Equal Weighted Index rose 0.8% in December, nudging its gains for the year to 5.4%. All sub-indices except equity market neutral strategies posted gains for the year. Directional strategies strongly outperformed market-neutral and relative value, as market beta dominated returns, and stock prices rose with little regard to relative valuations. Equity Hedge was the top performer in 2019, gaining 10.7%. Meanwhile, a strong appetite for mergers and acquisitions fueled by cheap debt and modest economic growth pushed the HFRX Event Driven index 10.0% higher for the year. Last year was the fourth-best year on record for merger and acquisition activity, with the combined value of global deals reaching $3.9 trillion, just 4% short of last year's total.

Energy Fuels Commodity Rally

Bolstered by news of the US-China trade deal and OPEC's support of future output cuts, oil prices soared 10.7% in December. U.S. crude inventories fell to their lowest level in two months, helping push oil prices over $65/barrel within the month for the first time since attacks on oil facilities in Saudi Arabia in September. Precious metals and gold in particular also enjoyed strong gains in 2019, with the S&P GSCI Precious Metals index gaining over 17% in 2019 as low yields on the dollar and other major currencies as well as geopolitical uncertainty fueled interest in the ultimate safe haven. With the devastating impact of swine flu on Chinese pig herds, hog commodity futures soared. Overall, the GSCI index rose nearly 18% in 2019, rounding out a year in which virtually all asset markets generated strong gains.

Performance of Major Market Indices through 12-31-2019

Sources: MSCI, FTSE, Barclays, Citigroup, Bank of America Merrill Lynch, J.P. Morgan, S&P GSCI, HFR, Bloomberg.

	1-Month	QTD	YTD	1-Year	3-Year	5-Year
S&P500	3.0%	9.1%	31.5%	31.5%	15.3%	11.7%
Russell 2000	2.9%	9.9%	25.5%	25.5%	8.6%	8.2%
MSCI World Ex-US (USD)	3.2%	7.9%	22.5%	22.5%	9.3%	5.4%
MSCI Emerging Mkts (USD)	7.5%	11.8%	18.4%	18.4%	11.6%	5.6%
Citigroup US Treasuries	-0.6%	-0.8%	6.8%	6.8%	3.3%	2.3%
Citigroup Credit	0.2%	1.0%	13.9%	13.9%	5.8%	4.5%
Merrill High Yield	2.1%	2.6%	14.4%	14.4%	6.3%	6.1%
JPM EMBI Global (USD)	1.9%	2.1%	14.4%	14.4%	6.1%	5.9%
Citigroup WGBI Ex-US (LC)	-0.8%	-2.4%	5.4%	5.4%	2.4%	2.5%
Citigroup Credit AAA/AA 10+	-0.8%	-0.6%	20.2%	20.2%	8.9%	6.4%
Barclays US Aggregate	-0.1%	0.2%	8.7%	8.7%	4.0%	3.0%
GSCI Total Return	7.0%	8.3%	17.6%	17.6%	2.4%	-4.3%
HFRX Eq. Wtd. Strategies	0.8%	1.9%	5.4%	5.4%	1.5%	1.3%