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INVESTMENT SUMMARY

4th Quarter 2019

The U.S. equity market capped off a banner year in December with further strength in major stock indices. Benchmarks such as the Dow Jones Industrial Average and S&P 500 were up 25% and 31%, respectively, in 2019, despite member companies reporting negative earnings growth in the third quarter. Technology and Health Care stocks led the way and were rewarded for both their innovation and their ability to generate substantial profits for shareholders.

Looking at the broader U.S. economy, business results were mixed in the fourth quarter. The larger services sector continued to expand into year-end while the manufacturing sector reported in December a contraction in orders for the fifth straight month. Sluggishness in manufacturing could be attributed to tariffs on trade, which in turn dampened sentiment. On a positive note, investors were relieved by news of a Phase I trade deal which would lower existing U.S. tariff rates from 15% to 7.5%, while also cancelling tariffs on an additional $160 billion of Chinese goods. Looking ahead, Phase II of the trade deal is expected to be a far more difficult and contentious negotiation given the substantial political and economic divide between China and the United States.

With U.S. unemployment at a fifty-year low, and recent data on the housing market particularly strong (per the Commerce Department), the outlook for 2020 is encouraging. But as in the past, it will take more than strength in the U.S. economy to support already stretched stock prices around the world. With some economists forecasting U.S. economic growth below 2% in 2020, investors will be looking for a recovery in international business conditions to keep the global economic expansion on track. The greatest opportunity for rebound is in Europe, where a Brexit resolution combined with accommodative European Central Bank monetary policy has the potential to bolster GDP growth around the world.