



Economic Review and Outlook

4Q19

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2019 Year-End Review

- The Federal Open Market Committee cut the Fed Funds target rate by 25 basis points in October 2019. After this third cut of the year, the Fed decided to pause. Meeting minutes confirmed their dot plot and comments from Fed officials that “another reduction in the federal funds rate was unlikely in the near term unless incoming information was consistent with a significant slowdown in the pace of economic activity.”
- Accommodative Fed policy continued to sustain the rally in financial markets during the quarter, as did a continuation of the valuation multiple expansion that began earlier in 2019. The S&P 500 finished the year at a P/E of 18.2.
- The prospects for a trade deal, albeit limited, was also greeted favorably by financial markets. The announcement of a Phase 1 deal, implying others to follow (which some analysts think unlikely due to structural issues associated with technology transfer), drove the S&P 500 to a record level at year end.
- While confidence declined marginally at the end of the year, the U.S. consumer continued to be supported by low unemployment and moderately rising wages. Fiscal policy was also supportive to growth.
- Global economic data appeared to be stabilizing at the end of the quarter, based on orders and survey data. U.S. and China manufacturing activity showed early signs of improvement, providing support to financial assets as well as commodity prices. Brexit concerns eased following Johnson’s decisive victory.
- By the end of 2019, high valuations and narrow credit spreads caused investors to wonder if returns in 2020 would be as attractive.

	4Q19 Return
S&P 500	9.07%
Russell 2000	9.94%
MSCI EAFE	8.17%
MSCI EM	11.84%
BBgBarc US Aggregate	0.18%
FTSE NAREIT	-0.76%
S&P GSCI	8.31%

SURVEY: Summary of 2020 Expectations from Global Investment Advisors

Recession risk is low: moderate growth, low inflation, and improved manufacturing support stable employment/rising wages.

2020 Forecasts	Global GDP	US GDP	US CPI	Fed Rate Increases	2020 Themes/Expectations
BlackRock	-	2.0%	2.45%	0	<ul style="list-style-type: none"> • Easy central bank policy will support a mild increase in global economic growth, but rising inflation and an escalation in trade tensions could suppress a recovery and manufacturing/capex spending. • The economic environment will favor risk assets and equity markets are reasonably valued. • No additional changes in Fed policy expected unless a significant growth slowdown.
Citibank	2.7%	2.0%	2.0%	0	<ul style="list-style-type: none"> • The global economy is stabilizing, along with trade tensions. Risks do remain (trade/geopolitical). Global manufacturing activity is expected to improve. • The Federal Reserve should hold interest rates through 2020. • The “bull market is expected to remain intact”; global equities could return 6.0-8.0% in 2020.
Goldman Sachs	2.7%	2.1%	1.8-1.9%	0	<ul style="list-style-type: none"> • Modest pickup in global growth. Risk of recession in 2020 is ~20%. Improved labor market conditions (rising wages) will help consumers, but corporate profit margins will be weaker. • Inflation will be below target; monetary policy remains accommodative, and no 2020 rate hikes. • The partial trade deal will be negotiated, but China growth will be below 6%, keeping global growth around 3.4%. Other geopolitical risks remain elevated.
JP Morgan	2.5%	1.7%	~2.0%	0	<ul style="list-style-type: none"> • Recession risks fade as the U.S. economy does not show signs of excesses typically accompanying a recession. The consumer is well positioned with good labor/wage market. • The Fed is expected to remain on hold for 2020. • Business sentiment should improve with Phase 1 of U.S./China trade agreement.
Morgan Stanley	3.2%	1.8%	-	-	<ul style="list-style-type: none"> • Global growth will be driven by emerging markets with some improvement in the EU. Global consumption should continue to improve and support growth. • While trade risks remain, which could decelerate growth, tensions should ease globally. • Global central bank easing/monetary accommodation will continue through mid-2020.
PIMCO	2.2-2.75%	1.5-2.0%	1.75-2.25%	-	<ul style="list-style-type: none"> • Global (especially U.S.) growth will slow in first half in 2020 due to continued trade tensions, increased political uncertainty in U.S., and ongoing global disruption. • “Cautiously optimistic” about signs of manufacturing improvements lead to a better second half. • Risks: Fed allows inflation overshoot, trade policy and fiscal policy uncertainty up to U.S. election. • Recession is not the base case, but the U.S. economy will be vulnerable as growth stalls.
Federal Reserve*	-	2.0%	1.9% (Core PCE)	0	<ul style="list-style-type: none"> • Economic activity continues to grow at a moderate pace, and the “labor market remains strong” despite some global risks; Fed projections as of end of 2019 show no rate hike in 2020. • The federal funds current range of 1.5 – 1.75% is appropriate to support the ongoing expansion. • Inflation will be monitored; suggests a willingness to allow higher inflation before raising rates.
Consensus**	-	1.9%	2.0%	0	<ul style="list-style-type: none"> • Risk of recession in 2020 is 14.3%, rising to 30.9% in 2021.

*Minutes of the Federal Open Market Committee, December 11, 2019 **Wall Street Journal survey of 77 economists, January 1, 2020

Themes and Risks for 2020

Many questions, with few answers.

- The Fed may be finished easing for the time being, but monetary policy in the U.S. and globally remains very accommodative. To keep growth accelerating, the Fed appears willing to let inflation run above target. Could this be a mistake if employment and wage pressures build? Is monetary policy as effective as it was post-2008, and will central bank policy re-ignite global growth? If not, are negative rates in our future?
- Can the economic expansion continue? Ten years in and the U.S. economy is still a key driver behind the global economic outlook. Easing trade tensions and China's economic stimulus have helped. The U.S. consumer, with a relatively strong balance sheet and optimism about job and wage prospects, also continues to be a source of support. Without key signals such as high inflation (tied to strong labor markets and rising wages) and financial market excess (housing price bubbles, or credit market excess), analysts have lowered their probability of recession in 2020.
- Did someone say there is a presidential election? Policy uncertainty could weigh on financial markets during the election-cycle. Will taxes and regulation increase under a change in political leadership? What does this mean for business confidence or earnings growth? Add high valuation to the mix and what is the impact on equity prices?
- Will the trade war escalate? For the time being it does not appear so, but a Phase II deal may have to wait until after the presidential election.
- Geopolitics remains a risk. Both Iran's and North Korea's economies have suffered under economic sanctions, but will this prompt an escalation in tensions? Also, slow economic growth and increasing income disparity in many parts of the world continues to drive dissent that is sustained on social media. Following a decisive U.K. election, Brexit risks have subsided but expect more periods of uncertainty leading up to the end of 2020 as the U.K and the EU negotiate through the transition period.

Global Economic Growth

- US and China manufacturing activity continued to improve modestly in the fourth quarter. Germany's manufacturing activity also improved from the end of the previous quarter, while Italy and Spain trended lower. UK manufacturing activity reflected business uncertainty leading up to Brexit and the election.

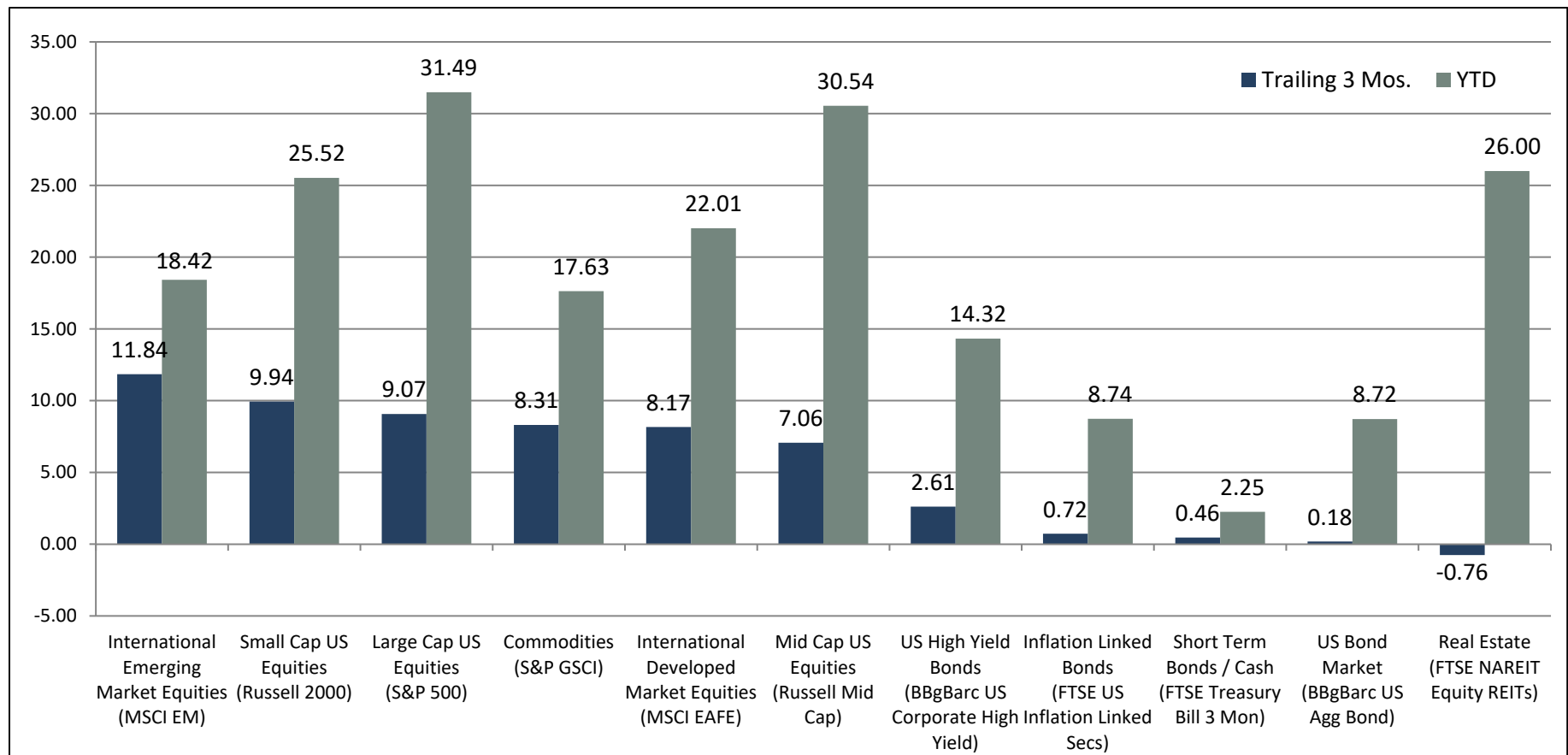
Global Purchasing Managers' Index for Manufacturing

	Jan-18	Feb-18	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18	Sep-18	Oct-18	Nov-18	Dec-18	Jan-19	Feb-19	Mar-19	Apr-19	May-19	Jun-19	Jul-19	Aug-19	Sep-19	Oct-19	Nov-19	Dec-19
JPM Global	54.4	54.1	53.4	53.5	53.4	53.0	52.7	52.6	52.2	52.1	52.0	51.4	50.7	50.6	50.6	50.4	49.8	49.4	49.3	49.5	49.7	49.8	50.3	50.1
Developed	56.0	55.7	54.9	54.6	54.7	54.4	54.0	53.8	53.6	53.2	52.8	52.3	51.5	50.4	50.0	50.2	49.2	48.9	48.6	48.7	48.6	48.6	49.5	49.1
Emerging	52.0	51.9	51.3	51.2	51.1	51.2	51.0	50.8	50.3	50.5	50.8	50.3	50.0	50.6	51.0	50.5	50.4	49.9	50.1	50.4	51.0	51.0	51.0	51.0
US	55.3	55.3	55.6	56.4	56.4	55.4	55.3	54.7	55.6	55.7	55.3	53.8	54.9	53.0	52.4	52.6	50.5	50.6	50.4	50.3	51.1	51.3	52.6	52.4
Canada	55.6	55.6	55.7	56.2	56.2	57.1	56.9	56.8	54.8	53.9	54.9	53.6	53.0	52.6	50.5	49.7	49.1	49.2	50.2	49.1	51.0	51.2	51.4	50.4
Japan	54.1	54.1	53.1	52.8	52.8	53.0	52.3	52.5	52.5	52.9	52.2	52.6	50.3	48.9	49.2	50.2	49.8	49.3	49.4	49.3	48.9	48.4	48.9	48.8
UK	54.9	55.0	55.1	54.3	54.3	54.4	54.0	53.0	53.6	51.1	53.6	54.2	52.8	52.1	55.1	53.1	49.4	48.0	48.0	47.4	48.3	49.6	48.9	47.5
Euro Area	58.6	58.6	56.6	55.5	55.5	54.9	55.0	54.6	53.2	52.0	51.8	51.4	50.5	49.3	47.5	47.9	47.7	47.6	46.5	47.0	45.7	45.9	46.9	46.3
Germany	60.6	60.6	58.2	56.9	56.9	55.9	57.0	55.9	53.7	52.2	51.8	51.5	49.7	47.6	44.1	44.4	44.3	45.0	43.2	43.5	41.7	42.1	44.1	43.7
France	55.9	55.9	53.7	54.4	54.4	52.5	53.3	53.5	52.5	51.2	50.8	49.7	51.2	51.5	49.7	50.0	50.6	51.9	49.7	51.1	50.1	50.7	51.7	50.4
Italy	56.8	56.8	55.1	52.7	52.7	53.3	51.3	50.1	50.0	49.2	48.6	49.2	47.8	47.7	47.4	49.1	49.7	48.4	48.5	48.7	47.8	47.7	47.6	46.2
Spain	56.0	56.0	54.8	53.4	53.4	53.4	52.9	53.0	51.4	51.8	52.6	51.1	52.4	49.9	50.9	51.8	50.1	47.9	48.2	48.8	57.7	46.8	47.5	47.4
China	51.6	51.6	51.0	51.1	51.1	51.0	50.8	50.6	50.0	50.1	50.2	49.7	48.3	49.9	50.8	50.2	50.2	49.4	49.9	50.4	51.4	51.7	51.8	51.5
India	52.1	52.1	51.0	51.2	51.2	53.1	52.3	51.7	52.2	53.1	54.0	53.2	53.9	54.3	52.6	51.8	52.7	52.1	52.5	51.4	51.4	50.6	51.2	52.7
Brazil	53.2	53.2	53.4	50.7	50.7	49.8	50.5	51.1	50.9	51.1	52.7	52.6	52.7	53.4	52.8	51.5	50.2	51.0	49.9	52.5	53.4	52.2	52.9	50.2
Mexico	51.6	51.6	52.4	51.0	51.0	52.1	52.1	50.7	51.7	50.7	49.7	49.7	50.9	52.6	49.8	50.1	50.0	49.2	49.8	49.0	49.1	50.4	48.0	47.1
Russia	50.2	50.2	50.6	49.8	49.8	49.5	48.1	48.9	50.0	51.3	52.6	51.7	50.9	50.1	52.8	51.8	49.8	48.6	49.3	49.1	46.3	47.2	45.6	47.5

Source: Trading Economics and Markit Economics

Financial Market Performance Over the Quarter

Asset Class Return Data (%), as of 12/31/2019



Source: Morningstar

Financial Market Performance Over the Quarter

Asset Class Return Data (%) as of 12/31/2019

DOMESTIC EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
Broad Market	DJ Industrial Average	6.67	25.34	25.34	15.73	12.59	13.40
	S&P 500	9.07	31.49	31.49	15.27	11.70	13.56
	NASDAQ Composite	12.47	36.69	36.69	19.86	14.93	16.05
	Wilshire 5000 Total Market	9.08	31.02	31.02	14.52	11.38	13.44
Large Cap	Russell 1000	9.04	31.43	31.43	15.05	11.48	13.54
	Russell 1000 Growth	10.62	36.39	36.39	20.49	14.63	15.22
	Russell 1000 Value	7.41	26.54	26.54	9.68	8.29	11.80
Mid Cap	Russell Mid Cap	7.06	30.54	30.54	12.06	9.33	13.19
	Russell Mid Cap Growth	8.17	35.47	35.47	17.36	11.60	14.24
	Russell Mid Cap Value	6.36	27.06	27.06	8.10	7.62	12.41
Small Cap	Russell 2000	9.94	25.52	25.52	8.59	8.23	11.83
	Russell 2000 Growth	11.39	28.48	28.48	12.49	9.34	13.01
	Russell 2000 Value	8.49	22.39	22.39	4.77	6.99	10.56

Source: Morningstar

INTERNATIONAL EQUITY

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year	
Developed	MSCI ACWI	8.95	26.60	26.60	12.44	8.41	8.79	
	MSCI ACWI Ex USA	8.92	21.51	21.51	9.87	5.51	4.97	
	MSCI EAFE	8.17	22.01	22.01	9.56	5.67	5.50	
	MSCI EAFE Growth	8.45	27.90	27.90	12.84	7.71	6.95	
	MSCI EAFE Value	7.82	16.09	16.09	6.31	3.54	3.98	
	MSCI EAFE Small Cap	11.52	24.96	24.96	10.92	8.85	8.74	
	MSCI Europe	8.84	23.77	23.77	9.77	5.06	5.17	
	MSCI Europe Ex UK	8.46	24.81	24.81	10.33	5.82	5.15	
	MSCI Pacific Free	7.03	19.25	19.25	9.35	7.00	6.33	
	MSCI Pacific Free Ex Japan	5.78	18.36	18.36	10.15	5.70	5.81	
	MSCI Japan	7.64	19.61	19.61	8.92	7.70	6.59	
	Emerging	MSCI EM	11.84	18.42	18.42	11.57	5.61	3.68
		MSCI BRIC	13.13	22.83	22.83	14.66	7.90	2.87
MSCI EM Latin America		10.48	17.46	17.46	10.74	4.18	-0.65	
MSCI EM Europe		13.05	32.56	32.56	12.01	8.50	1.08	
MSCI EM Asia		12.51	19.24	19.24	12.92	6.63	5.76	

Source: Morningstar

FIXED INCOME

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	BBgBarc US Agg Bond	0.18	8.72	8.72	4.03	3.05	3.75
	BBgBarc US Government	-0.77	6.83	6.83	3.31	2.36	3.03
	BBgBarc US Credit	1.05	13.80	13.80	5.75	4.39	5.32
	BBgBarc US Govt/Credit Interm	0.37	6.80	6.80	3.24	2.57	3.05
	BBgBarc US Govt/Credit Long	-1.12	19.59	19.59	8.07	5.42	7.59
	FTSE US Inflation Linked Secs	0.72	8.74	8.74	3.44	2.66	3.46
	BBgBarc EM USD Aggregate	2.09	13.11	13.11	6.07	5.84	6.62
	BBgBarc ABS	0.39	4.53	4.53	2.61	2.22	2.72
	BBgBarc US MBS	0.71	6.35	6.35	3.25	2.58	3.15
	FTSE Treasury Bill 3 Mon	0.46	2.25	2.25	1.65	1.05	0.56
	ICE BofAML 1-3Y US Trsy	0.51	3.55	3.55	1.84	1.39	1.22
	BBgBarc US Corp Aaa	-0.18	14.75	14.75	6.67	4.74	5.24
	BBgBarc US Corp A	0.81	13.18	13.18	5.35	4.24	5.22
	BBgBarc US Corp Baa	1.68	16.26	16.26	6.55	5.02	6.17
	BBgBarc US Corporate High Yield	2.61	14.32	14.32	6.37	6.13	7.57
	BBgBarc US HY Caa	3.74	9.52	9.52	5.15	6.08	7.74

Source: Morningstar

STABLE VALUE & MONEY MARKET

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	Median Taxable Money Market Fund	0.45	2.25	2.25	1.64	1.04	0.61
	Median Stable Value Fund	0.63	2.51	2.51	2.23	2.05	2.18
	Consumer Price Index	0.20	2.41	2.41	2.06	1.80	1.74

Source: PEI

REAL ASSETS

	Index	3 Mos.	YTD	1 Year	3 Year	5 Year	10 Year
	FTSE NAREIT Equity REITs	-0.76	26.00	26.00	8.14	7.21	11.94
	Bloomberg Commodity	4.42	7.69	7.69	-0.94	-3.92	-4.73
	S&P GSCI	8.31	17.63	17.63	2.35	-4.32	-5.44

Source: Morningstar

Survey Data: Outlook and Forecasts

Data as of 12/31/2019

	Fourth Quarter 2019*	First Quarter 2020*
U.S. GDP	2.07%	1.64%
Unemployment	-	3.55%
CPI	-	2.11%
Fed Funds	1.50-1.75%	1.50-1.75%

"These early signs of stabilization could persist and eventually reinforce the link between still-resilient consumer spending and improved business spending."

-IMF,
January
2020

Other Projections as of January 20, 2020

	4Q19 U.S. GDP	2020 U.S. GDP	2020 Global GDP
<i>Atlanta Federal Reserve Bank</i>	1.8%	-	-
<i>New York Federal Reserve Bank</i>	1.2%	1.7%	-
<i>International Monetary Fund</i>		2.0%	3.3%

*Source: The Wall Street Journal, January 1, 2020; survey average of 77 economists