



PERSPECTIVE

Equity markets rose in a steadfast manner during December. Volatility remained subdued despite a number of noteworthy events including U.K. elections, agreements on two U.S. trade deals, and the impeachment of President Trump. The lack of volatility despite these significant events is indicative of investors electing to take a wait and see approach, and thereby maintaining their positioning through year end. Bond markets were largely stable, while alternative investments had mixed results. Looking ahead, we would expect bouts of higher volatility and market preferences to shift as some of the key overhangs from 2019 have moved toward a resolution.

SLEEVE COMMENTARY

GROWTH

Equity markets generated steady gains throughout the month of December as volatility remained low. The S&P 500 gained a healthy +3.0% for the month and finished the year up a remarkable +31.5%.

Returns within the S&P 500 were led by the energy sector, as oil prices appreciated by +10.7%. Technology and health care also performed well, while Industrial stocks retreated -0.1%.

Large and small cap results were nearly identical for the month. Among large caps, growth continued to outpace value, although value stocks lead the way among small and mid cap equities.

The standout performer in December was emerging markets, returning +7.5%. A weaker dollar helped, along with strong performance out of Latin American stocks. Developed market returns, as measured by the MSCI EAFE, were up +3.3%, narrowly edging out returns of the broader U.S. market.

INCOME

Interest rates were generally stable, although there was a slight bull steepening of the yield curve during December. As a result, returns of long dated bonds lagged those of shorter maturity issues.

The impact of higher interest rates, and consequently lower prices, among longer maturities ultimately led to the Bloomberg Barclays U.S. Aggregate finishing down a mere -0.1% for the month. Corporate bond returns edged out comparable Treasuries. Mortgage backed securities were additive to results with a gain of +0.3%.

High yield bonds stood out with a +2.0% return on the month. Returns of emerging market debt were even stronger, returning +2.5%.

The performance of short-to-intermediate term municipal bonds were on par with their taxable peers. The municipal bond yield curve did not steepen like the Treasury curve. As a result, longer maturity municipal bonds experienced positive returns during the month.

DIVERSIFIER

Returns to most alternative investment categories were positive in the month of December.

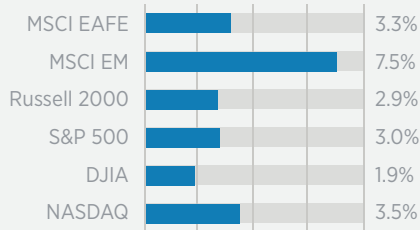
Commodities were notably strong as the Bloomberg Commodity index was up +5.0%. Oil prices rallied after OPEC and Russia agreed to cut oil output by 500,000 barrels a day. Precious metals gained +11.9% capping off a remarkable year where the Philadelphia Stock Exchange Gold/Silver index was up +51.3%.

The Alerian MLP index benefited from improving oil prices. After a sizable pullback in October and November, MLPs rebounded to finish up +8.8%.

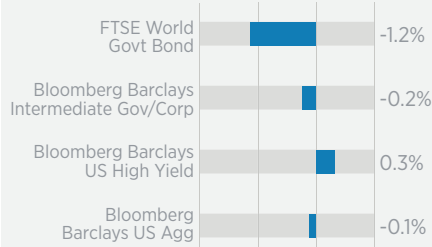
Real Estate results were not as robust. Within the U.S., returns of REITs, as measured by the Dow Jones US Select REIT index, were down -0.9%. Global real estate returns were up +1.2%.

Hedge fund results, on average, were modestly positive. Event driven and special situation funds were among the better performing categories. Alternatively, macro and market neutral strategies were among the laggards.

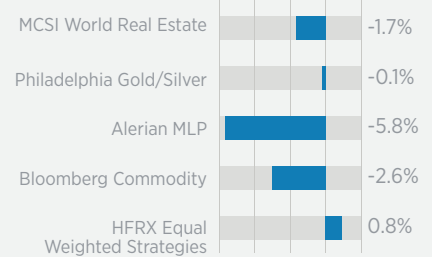
EQUITY INDEX RETURNS



BOND INDEX RETURNS



ALTERNATIVE RETURNS



ECONOMIC BACKDROP

POSITIVES

NEGATIVES

UNITED STATES

- A new trade agreement (USMCA) with Canada and Mexico brings clarity to industries such as autos and steel.
- The U.S. trade deficit declined in November as imports slowed.
- Initial holiday retail sales data from MasterCard indicated a healthy increase in retail sales of +3.4%, with online sales up +18.8%.

- While new home construction has been a bright spot in the economy, existing home sales have declined as affordability is becoming a challenge.
- Manufacturing activity has started to improve, but remains down on a year-over-year basis.
- Economic indicators around manufacturing orders have been trending lowering, a sign that economic activity in 2020 may start out soft.

DEVELOPED INTERNATIONAL

- Sweden's Riksbank increased interest rates back to 0%. They had been one of the first central banks to cut rates below zero, ultimately reaching a low of -1.25%.
- Business investment in the U.K. has begun to grow after having been in decline for the past two years.







- German industrial output continues to decline and is now down -5.3% on a year-over-year basis; the biggest drop in a decade.
- Japan's GDP growth slowed to +0.2%, well below expectations as a new value added tax impacted the economy. Industrial production is also down the most since 2013.

EMERGING MARKETS

- Saudi Arabia took an initial step in diversifying its economy, with an initial public offering of a 1.5% stake in Saudi Aramco.
- After declining for much of 2019, Asian economies of Taiwan and South Korea have seen manufacturing activity begin to expand.

- Power disruptions in South Africa are beginning to impact industries, including mining, and could push the economy into a recession.
- Mexico's industrial production has been deteriorating, declining -3% last month.

INVESTMENT COMMITTEE POSITIONING

	<div>UNDERWEIGHT</div> <div>NEUTRAL</div> <div>OVERWEIGHT</div>			
GROWTH				After a strong 2019, valuation multiples are slightly higher than long-term averages. Lower interest rates support current multiples, although we do not anticipate any further multiple expansion.
DOMESTIC				Stronger relative economic conditions leads to an overweight.
INTERNATIONAL				Below trend economic growth in many developed economies has resulted in an underweight.
INCOME				Interest rates are trending near the low end of their range. Bonds remain an important component to diversified portfolios. Going forward, we expect returns to come from current income with limited benefit from any price appreciation.
DIVERSIFIER				The moderate expected returns from alternative investments, along with their diversification benefits, are attractive at this point in the market cycle. Portfolios are currently emphasizing investments where we see attractive risk and reward characteristics.
CASH				Global monetary policy remains accommodative and hence we are looking to keep cash levels near their targets.

PORTFOLIO REVIEW

The significant progress made toward resolving key geopolitical risks, such as trade and Brexit, along with recent stabilization in economic conditions, serve as reasons for optimism heading into 2020. After a strong 2019, asset prices already reflect expectations for improving economic conditions. This ultimately leaves investors with the choice of trying to squeeze more returns out of a later stage economy, or reduce risk by becoming more defensive and chance not fully participating in any further upside. We view these possibilities as having an asymmetry in return outcomes, as the downside risks are greater than upside potential. Given this environment, we believe it's appropriate to maintain allocations in line with long-term strategic targets, but with a bias toward a defensive posture.

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