FULLEN FINANCIAL GROUP

Quarterly Market Summary – Q4 2019

Market Results as of the Fourth Quarter of 2019

Selected Index Results for Q4 – 2019

Index(1)	%Growth For FY 2018	%Growth For FY 2019	%Growth For Q4 2019
DJIA	-5.63%	22.34%	6.02%
Barclays Aggregate Bond Index (U.S. multi-sector bond)	-2.60%	5.52%	-0.71%
S&P 500 (large cap)	-6.24%	28.88%	8.53%
S&P 400 (mid cap)	-12.50%	24.05%	6.59%
Russell 2000 (small cap)	-12.18%	23.72%	9.52%
MSCI EAFE Index (developed international)	-16.40%	18.14%	6.49%
iShares MSCI Emerging Market Index	-17.11%	14.87%	9.79%
iShares Dow Jones US Home Construction	-31.29%	47.87%	2.56%
MSCI US REIT Index	-7.96%	18.74%	-2.21%
Amex Oil Index	-13.21%	9.62%	5.11%
Barclays Global Agg ex-US Corp Bond Index	-6.79%	3.70%	2.58%

These results do not include reinvesting dividends.

Q4 Quick Summary

- The Global equity markets rallied on the back of movement toward a Phase 1 U.S./China trade deal and what that might mean for a mid-cycle economic recovery.
- During Q4, the MSCI EAFE Index gained 6.5%, while the S&P 500 Index added 8.5%. While the Barclays Aggregate Bond Index dipped by 0.7%, core and non-core bond segments rose; led by a 2.6% lift in the Bloomberg Barclays U.S. High Yield Index and a 1.2% gain in the Bloomberg Barclays Investment Grade Corporate benchmark.
- For the year, the MSCI EAFE Index was up 18.1%, the S&P 500 Index gained 28.9% and the Bloomberg Barclays U.S. Aggregate Bond Index rose 5.5%. The major market catalyst for the year was likely the policy reversal by the Federal Reserve. After raising rates through late 2018, the Fed lowered rates by 0.75% in 2019.
- Despite considerable market gains, there was some economic handwringing, given the reduction in manufacturing activity and a drop-off in business spending. This was partially offset by conditions, both here and abroad, that were mostly favorable for stable or improving consumer spending trends. A still-improving jobs market also provided a boost.

S&P 500 Index Sector Returns – Q4 2019
Source: Bloomberg

Sector	Cyclical or Defensive	Total Return	Sector	Cyclical or Defensive	Total Return
Consumer Discr.	Cyclical	4.5%	Info Tech	Cyclical	14.4%
Consumer Stples	Defensive	3.5%	Materials	Cyclical	6.4%
Energy	Cyclical	5.5%	Real Estate	Cyclical	-0.5%
Financials	Cyclical	10.4%	Telecom	Cyclical	9.0%
Health Care	Defensive	14.4%	Utilities	Defensive	0.8%
Industrials	Cyclical	5.5%			

Cyclicals and EM Lead / Bank Stocks Recover / Valuations Reach Highs

Fourth quarter U.S. returns were again led by cyclical or higher-beta groups as investors rode the momentum of some positive news through the period. Technology stocks provided leadership for still another quarter and Health Care offset a previously lackluster performance year with a firm year-end rally. Energy stocks, in the doldrums since April, rebounded along with commodity prices. Notably, a steepening of the yield curve potentially relieved some pressure from bank net interest margins and allowed the Financials group to also finish the year strongly.

Relatively muted for the quarter were Real Estate, Utilities, and Consumer Staples; groups known for their “defensive” properties. Given the momentum and better economic hopes, investors found little value in the sectors, and the modest rise in market interest rates also curbed demand.

Internationally, a downtrend in the U.S. dollar and the uptick in risk appetite had investors turning their attention back toward emerging market equities. Recoveries in some economies, including Brazil and Russia, helped prompt investors to seek additional exposure. The most important fundamental variables were likely the improvement in U.S./China trade relations and another round of monetary policy easing by the Peoples Bank of China.

Meanwhile, U.S. and global equity valuations spiked back toward 10-year highs. While the momentum we have seen has caused some to overlook this occurrence, we believe the rally through Q4 and into January could be partially checked when investors eventually retrain their focus on rational asset-pricing practices.

Convergence of Positive Variables

The fourth quarter and the month of December were favorable for stocks and, as we indicated at the open of this commentary, the Federal Reserve was a key reason. However, other economic and political outcomes likely had favorable impacts as well. We highlighted the U.S. China trade talks, which proceeded toward the eventual Phase 1 trade deal that was signed in January. The good news for market participants is that both sides found common ground and the tenor of the conversations may lead to more progress (Phase 2, etc.). Importantly, the worst-case scenario was avoided; the negotiations in fact did not crumble and cause more severe divides in the trade relationship. Finally, the outcome of Phase 1 appears favorable for the U.S. given the potential for $200 billion in China imports from U.S. agricultural, banking services, and other industries.

Looking ahead, the U.S. China trade progress has allowed market participants to anticipate some eventual recovery in manufacturing and other economic activity, generally. Given the need to restock inventories and the more open lines of trade between the two parties, visibility has now cleared for the expectation of another mid-cycle economic recovery.

On the political front, visibility has improved as well, which has currently alleviated a near-term source of concern. By most accounts, the Trump impeachment process has proven to be less onerous for the president than previously feared, which could give the Trump Administration a fighting chance to argue for its capitalistic policies in the 2020 political year. While we, no doubt, expect 2020 to be politically contentious, it appears President Trump will still be the capitalist spearhead for the Republican Party.

Bond Market Expectations—Still Lower for Longer

While bond returns were relatively subdued in the fourth quarter, the asset class finished the year with notable gains, based in part on Fed policy action. The 10yr Treasury yield ticked higher in Q4; up 25 basis points to 1.92%, however negative yields across much of the developed world kept U.S. yields from moving higher. We believe this structural condition in the global bond market weakens any case for a sustained rise in U.S. yields. And while we anticipate the Fed's interest rate policy to remain unchanged this year, we do believe the central bank bias is to lower rates at the first sign of economic stress. On top of what is a slow-growth world, this implied policy by the Fed also anchors yield expectations. At this juncture we do not expect the 10yr Treasury yield to extend beyond 2.25% for any material period and we would suggest that the benchmark yield could finish 2020 within its current 1.5% to 2.0% range.

Outlook

The market outlook for 2020 should be a subdued one, in our view. With a material Q4 rally in the books and a robust start to January, we believe investors should tread a bit carefully at this stage. Valuations give us some pause and history indicates that material equity rallies are often followed by some form of return giveback. So despite the favorable environment in 2019, investors may seek to remain overweight in equities, but allocations toward risk assets (both equities and non-core bond) should be decidedly modest relative to strategic targets.

Fundamentally, we are anticipating some recovery in manufacturing and other economic conditions that could provide for some equity foundation. However, the risk for investors is that some of the anticipated economic recovery may have gotten pulled forward in the form of better 2019 equity returns, thus leaving 2020 with limited potential upside.

Meanwhile, 2020 is a year where investors should be on the lookout for more volatility; much of which could be politically induced. We fail to recall a past U.S. presidential election where such divergent policy outcomes are possible based on the election winner. Because of this dynamic we anticipate investors will be tempted to rein in their risk exposure as November approaches, but they should be wary of emotional influences.

Risks

Investors should be aware of the risks associated with all portfolio strategies and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance and the effectiveness of strategic and tactical portfolio approaches.

Conclusions

Our position continues to be one of caution and measured expectations. Despite continued strength in the U.S. economy and stock market, the possibility of a correction continues to exist. As we have stated previously, there is convincing evidence that over the next few years, investment returns will be lower and market volatility will be higher. Unfortunately, investors who choose to sit out to avoid volatility will likely lose what investment yields are available, even if reduced. While there will be periods of negative returns, history tells us that equity and fixed income yields should still be positive (over time) and are highly likely the best alternative for the vast majority of investors.

If we enter a period of higher volatility, maintaining investment discipline within a lower overall yield environment will be difficult emotionally. As tempting as it may be, trying to time the markets in a lower yield environment has a high probability of creating permanent loses. Compounding the problem, a less favorable investment environment will increase the “sales pitches” designed to appeal to your emotions. Avoid the temptation to act in an undisciplined and consequently damaging way– no matter how slick the advertisements. If a lower yield environment develops, no person or company is going to find a way around it – everyone is investing in the same lower yield environment.

Fullen Financial is always available to help sort out marketing claims so, if you have questions, don’t be concerned about asking us.

As always – stay with a consistent and disciplined investment strategy – it is the only course of action with any track record of success (in any investment market). There is no reason to believe that this disciplined approach to investments will be less effective than in the past at delivering the best possible relative returns.

At the most fundamental level, match your investment time horizon to your spending timeline – if you have short term cash needs, then those funds should be in short term investments. If you have long-term spending needs (like 10 or more years into retirement) then these savings should be in long-term equity investments. These are simple asset/liability matching principles practiced by the most sophisticated investment managers every day (but far too complex to explain in sound bites and not conducive to selling products). Additionally, don’t try to solve short-term financial problems with long-term equity exposure. If you try to chase returns, you may get lucky sometimes but, if pursued long enough, it always ends in extreme frustration and often with serious financial losses. The reality is that no one has ever consistently predicted investment markets and they never will - and there is always a consequence to continued unsound financial behavior.

As always, if your personal or family situation has changed (or is likely to) a discussion with us as to how this may impact your financial plan and your overall asset allocation is warranted. Or, if you simply feel a need to discuss any aspect of your portfolio and/or financial plan, or you haven't had a planning update within the last 12 months, please contact us to review your financial plan and investments.

Your financial plan is the most important financial document that you possess! Keep it updated and use it.

Please note that you are entitled to receive Fullen Financial's Form ADV whenever you would like to. This document outlines many details of who Fullen Financial is, their investment methodologies and their advisor's education and experience. You may do so by contacting Aigool Zhumasheva at aigool@fullenfinancial.com and requesting such. Alternatively, you can go to our website at www.fullenfinancial.com, click on Resources, then on Client Forms.

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Investors should consult with their investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

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