Investment Update

January, 2020

2019 Fourth Quarter Update and 2020 Outlook

Review: 2019 ended on a high note with the S&P 500 delivering a 9.1% return in Q4 and bringing the total return for the full year to 31.5%. Positive developments in US-China trade relations—delayed implementation of tariffs followed by a Phase 1 agreement—helped drive the rally. The improved economic sentiment led bonds to have their weakest quarter in what had been a strong year with the Barclays Aggregate Index delivering only 0.2% in Q4 vs. 8.7% for the full year.

Period	4Q19	3Q19	2Q19	1Q19	2019
S&P 500	9.1%	1.7%	4.3%	13.6%	31.5%
MSCI EAFE[1,2]	8.2%	-1.0%	4.0%	10.1%	22.7%
MSCI Emerging Markets[2]	11.9%	-4.1%	0.7%	10.0%	18.9%
Barclays U.S. Aggregate Bond	0.2%	2.3%	3.1%	2.9%	8.7%
Barclays Municipal Bond	0.7%	1.6%	2.1%	2.9%	7.5%

[1]Europe, Australia, Far East

[2]MSCI returns are in U.S. Dollars

2019: Slower Growth but Positive Developments by Year End

A year ago, we suggested that the Q4 2018 selloff was overdone given the healthy economic fundamentals in the US and that we did not see a recession coming in 2019. That thesis ended up being correct with the S&P 500 recovering its losses by May. However, US-China trade tensions escalated further than we had anticipated and had an impact on business spending and global trade, resulting in lower than expected US GDP growth (2.3% current consensus estimate for 2019 vs the 2.5% estimate as of a year ago).

As the chart on the next page illustrates, the deceleration in US economic growth was part of the third “mini-cycle” that we have seen since 2009. We believe these mini-cycles have helped prevent the economy from overheating during what is now the longest US economic expansion on record. There have been a number of developments over the past year that lead us to be believe that we could see a reacceleration of growth in 2020:

- Major central banks have become more accommodative, as global growth decelerated more than expected in 2019.
- US-China trade tensions have eased with a Phase 1 agreement to be signed this month
- A hard no-deal Brexit scenario is unlikely following the results of the December election in the UK.

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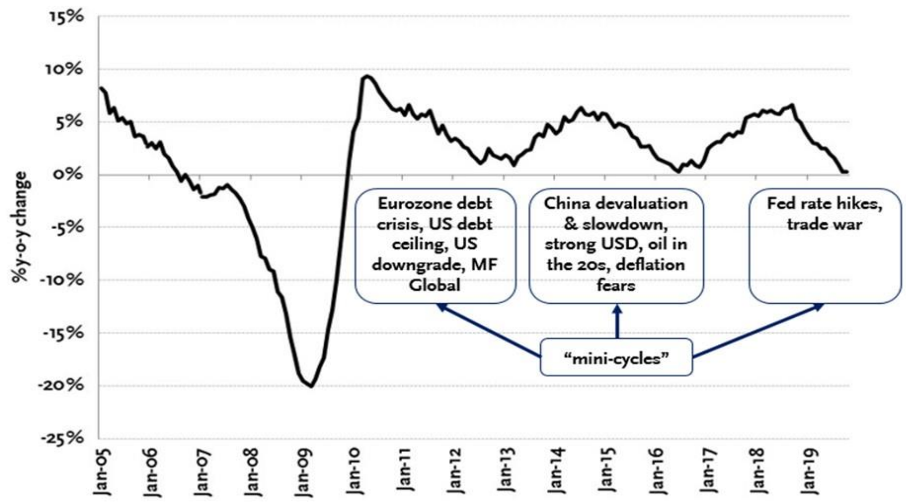
Conference Board US Leading Economic Index, %year-over-year change



Sources: FactSet, Wall Street Journal; data through Oct 2019

Outlook: We continue to be positive on the US economy and believe that business spending will reaccelerate in 2020 as some of the uncertainty from last year (e.g. China trade, Brexit) fades. We would caution that it may take a quarter or two to see improved trends since the US-China deal will only be signed this month with more work to be done to reach a more comprehensive agreement.

We are more positive on international growth prospects than we were a year ago. China stimulus efforts and reduced trade tension should begin to appear in the form of improved economic data, which should also benefit other economies. Additionally, Germany has been considering fiscal stimulus to counter weak growth since it is increasingly clear that monetary policy alone has not been successful in boosting European growth.

Potential risks to our 2020 outlook:

- Unsuccessful China stimulus efforts
- Renewed trade tensions (US-China or other major trading relationships)
- Escalation of US-Iran conflict
- US elections

Strategy: Given our economic outlook, we are more positive on equities than fixed income following the significant drop in bond yields last year. Earnings growth should reaccelerate to high-single digits, which would support valuations. We continue to have a bias towards domestic equities, particularly since many of the strongest and most innovative growth firms can be found here. However, given our expectations for improving global growth in 2020, increasing exposure to international equities may be warranted.