



VERTEX PLANNING PARTNERS  
LLC

# Quarterly Market Review



# Q4

Fourth Quarter 2019

# Economy

## Monetary Policy



### What's Happening:

- A tale of two Feds: After years of easy monetary policy under Janet Yellen and Ben Bernanke to deal with the after effects of the Global Financial Crisis, Fed President Jerome Powell attempted to strengthen the Federal Reserve's ability to help soften the impact of the next recession (lowering short term interest rates) by attempting to hasten the normalization of interest rates. After bottoming out in 2014, the Fed had raised rates 6 times in 3 years. In 2018 the Fed raised rates 4 times, along with reducing their balance sheet from \$4.5 trillion in securities to \$4 trillion. This tightening of financial conditions had ripple effects in global equity and bond markets, culminating in a sharp market selloff in November and December of 2018. 2019 was a sharp reversal from 2018, where the fed cut rates 3 times well as reflating their balance sheet in the 4th Quarter.
- The Fed's cuts are viewed by the market as a reaction to slowing global growth as well as the drop in longer-term interest rates (10-year bonds), which have created yield curve inversions domestically (long-term rates lower than short term rates). Tightness in the repo market (overnight interbank lending) forced the fed to provide liquidity for what is considered the plumbing of the lending market.

### What does this mean?

By reducing interest rates, there has been less pressure of financial markets as money became looser and risk appetite increased. With lower US interest rates, foreign assets, particularly emerging market debt and European and Japanese equities rallied.



# Economy

## Fiscal Policy



### What's Happening:

The US Government has continued to run a large fiscal deficit, which has been additive to US GDP. With low rates due to global demand of safe assets, the historic deficit levels have not had major impacts of Treasury demand. US municipalities have also witnessed significantly increased obligations due to pension and medical obligations that are not funded with current assets.

### What does this mean?

The federal and state budgets historically enjoy a surplus this late in a market cycle in prior expansions. Although the spending has not been penalized by higher interest rates, the large amount of expenditures should rapidly grow the amount of treasury and municipal bonds needed to be issued in the future, which may lead to an explosion in costs if interest rates ever rise in the future. The biggest risk to investors purchasing these bonds is the lack of protection if inflation picks up in the future.

## Geopolitics



### What's Happening:

After a year of China/US trade disputes dominating the headlines, the markets will turn their focus in 2020 on the US Presidential election and Impeachment Theater.

### What does this mean?

Although the impeachment trials may prove to have more bark than bite, the issues disclosed during the process will no doubt find their way into the upcoming televised debates. Much will be at stake, including the tax laws, trade treaties and rollback of regulations that could be attributed in the rise in both price and market multiples US stocks currently enjoy. Stay tuned.



# Economy

## GDP



### What's Happening:

Unrevised seasonally adjusted 2019 Q3 Real GDP growth (inflation adjusted) increased 2.1%, slightly higher than 2019 Q2 of 2% but lower than 2018 Q3 at 2.9%

### What does this mean?

The US economy is growing at a slower pace, with continued low unemployment and inflation. After hitting a low of 1.1% in 2018 Q4, there was a rebound in 2019 as financial conditions eased.

# Markets



### Equity

All major equity markets had strong returns in 2019, with sharp recoveries at the beginning of the year and a marked acceleration at the end. The strong price movement was fueled by both earnings gains as well as multiple expansion as interest rates fell throughout the year.



### Fixed Income

With the Fed actively reversing course and cutting interest rates, bond prices advanced as yields fell with both government and corporate bonds returning high single digit to low double digit returns. As yields have fallen, risks have risen in the bond market as the low coupons on today's treasury bonds and longer dated provided low compensation for their price risk if inflation begins to build due to rising prices of goods and services.



# Current Strategy

## Reasons To Be Optimistic



Although there have been many reasons to be worried (slowing GDP, contracting manufacturing, trade wars, politic turmoil in Washington, increasing public debt), the equity and fixed income markets (particularly in the US) have had some of their best performances in the last decade and corporate profits have been rising along with personal incomes. The tax breaks from the current administration have helped boost the corporate bottom line, and technological innovations keep powering the domestic economy. Easy financial conditions, low inflation, low unemployment provide as fairly goldilocks environment for equities, and the recent rally in value stocks could signal more gains ahead.

## Reasons To Be Cautious



Markets are not the economy, and prices are not determined by what is happening currently, but what market participants perceive may happen. This means equity markets don't peak during a recession, but proceeding a recession and can be caused when the rate of change in earnings or GDP turn negative or the rate of change in inflation or interest rates are positive. 2019 saw multiples (stock price to earnings) expand after contracting in the second half of 2018, and a lowering corporate bond spreads (additional interest earning on corporate debt versus comparable treasuries). Both stocks and bonds would be vulnerable to an unexpected inflation shock which could increase interest rates, as well as contract stock price multiples if there is any unexpected change in consumer spending.



# Current Strategy

## Strategy for 2020



Our opinion, along with several investment managers we follow, is the global economy is slowing, and in the US, we are in the later stages of the business cycle. This slowing growth environment is still positive for risk assets, and we have not made major changes to our portfolio allocations.

On the asset class level, we are wary of the risks within the bond market and have looked to diversify our holdings across intermediate high-quality bonds as well as higher yielding international bonds. We continue to tilt towards lower volatility equity strategies (particularly in international assets) as well as firms with high quality balance sheets.

Exposure to real assets (Global REITs and Equity Infrastructure) have particularly benefited from continued economic growth and lowering interest rates, and we expect to continue our exposure.

[See Full Market Review](#)

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# 2019 Annual Market Review

This report features world capital market performance for the last year.

## Overview:

Market Summary

World Asset Classes

US Stocks

International Developed Stocks

Emerging Markets Stocks

Select Country Performance

Select Currency Performance vs. US Dollar

Real Estate Investment Trusts (REITs)

Commodities

Fixed Income

Global Fixed Income

Impact of Diversification



# Market Summary

## Index Returns

	US Stock Market	International Developed Stocks	Emerging Markets Stocks	Global Real Estate	US Bond Market	Global Bond Market ex US
<b>2019</b>	<b>STOCKS</b>				<b>BONDS</b>	
	<b>31.02%</b>	<b>22.49%</b>	<b>18.42%</b>	<b>23.12%</b>	<b>8.72%</b>	<b>7.57%</b>
<b>Since Jan. 2001</b>						
Avg. Annual Return	8.9%	6.7%	13.4%	10.8%	4.7%	4.6%
Best Year	33.6% 2013	39.4% 2003	78.5% 2009	37.4% 2006	10.3% 2002	8.8% 2014
Worst Year	-37.3% 2008	-43.6% 2008	-53.3% 2008	-45.7% 2008	-2.0% 2013	1.2% 2013

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: US Stock Market (Russell 3000 Index), International Developed Stocks (MSCI World ex USA Index [net div.]), Emerging Markets (MSCI Emerging Markets Index [net div.]), Global Real Estate (S&P Global REIT Index [net div.]), US Bond Market (Bloomberg Barclays US Aggregate Bond Index), and Global Bond Market ex US (Bloomberg Barclays Global Aggregate ex-USD Bond Index [hedged to USD]). S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved. Bloomberg Barclays data provided by Bloomberg.





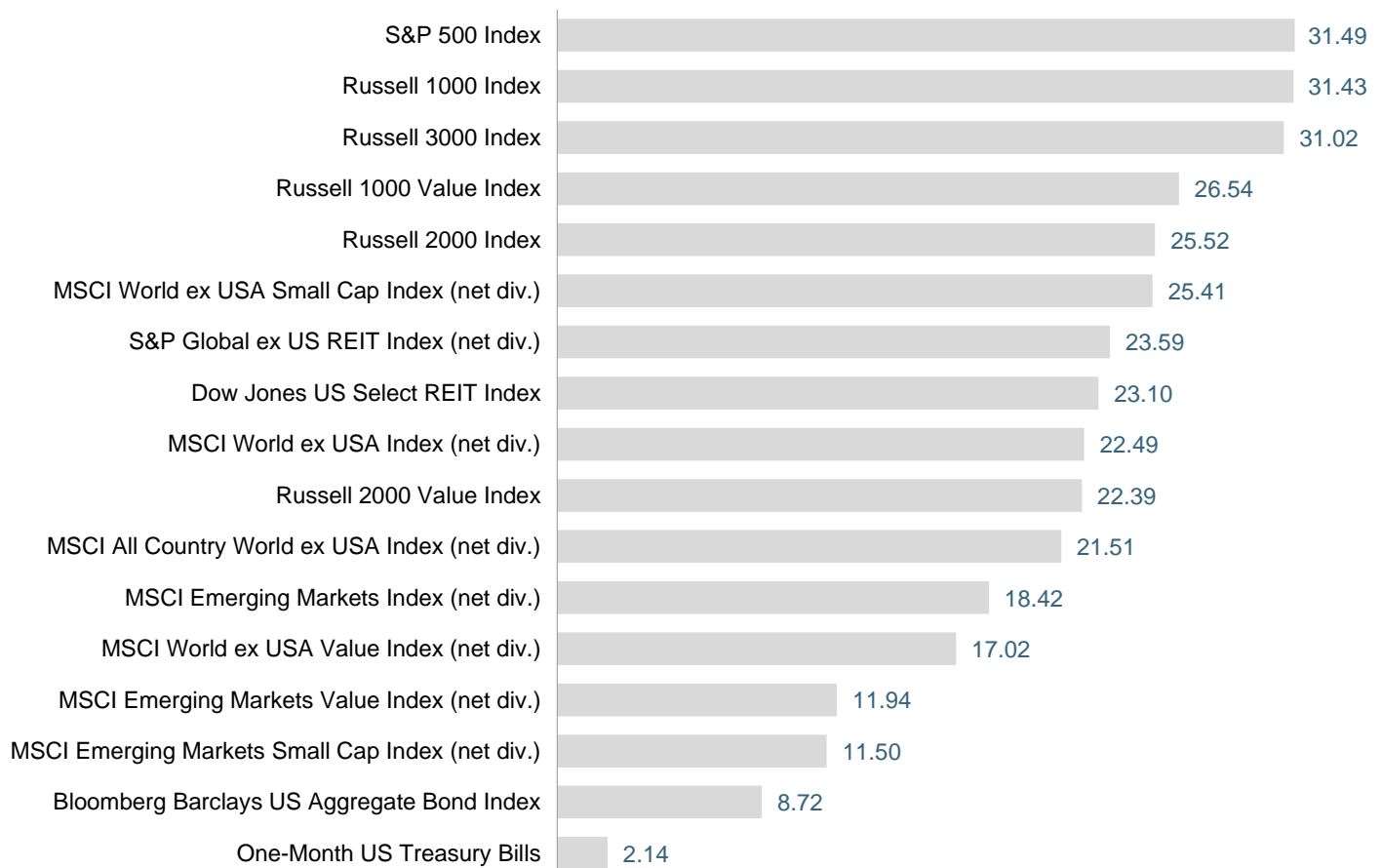
# World Asset Classes

## 2019 Index Returns (%)

Equity markets around the globe posted positive returns in 2019. Looking at broad market indices, the US outperformed non-US developed and emerging markets for the year.

The value effect was negative in the US, non-US developed markets, and emerging markets. Small caps outperformed large caps in non-US developed markets but underperformed in the US and emerging markets.

REIT indices outperformed equity market indices in non-US developed markets but underperformed in the US.





# US Stocks

## 2019 Index Returns

US equities outperformed both non-US developed and emerging markets equities in 2019.

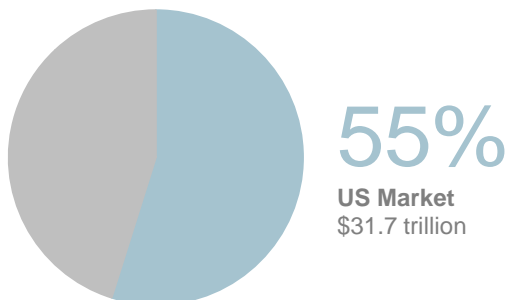
Value underperformed growth in the US across large and small cap stocks.

Small caps underperformed large caps in the US.

### Ranked Returns for 2019 (%)



### World Market Capitalization—US



### Period Returns (%)

Asset Class	* Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
Large Growth	36.39	20.49	14.63	15.22
Large Cap	31.43	15.05	11.48	13.54
Marketwide	31.02	14.57	11.24	13.42
Small Growth	28.48	12.49	9.34	13.01
Large Value	26.54	9.68	8.29	11.80
Small Cap	25.52	8.59	8.23	11.83
Small Value	22.39	4.77	6.99	10.56

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Marketwide (Russell 3000 Index), Large Cap (Russell 1000 Index), Large Cap Value (Russell 1000 Value Index), Large Cap Growth (Russell 1000 Growth Index), Small Cap (Russell 2000 Index), Small Cap Value (Russell 2000 Value Index), and Small Cap Growth (Russell 2000 Growth Index). World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. Russell 3000 Index is used as the proxy for the US market. Frank Russell Company is the source and owner of the trademarks, service marks, and copyrights related to the Russell Indexes. MSCI data © MSCI 2020, all rights reserved.



# International Developed Stocks

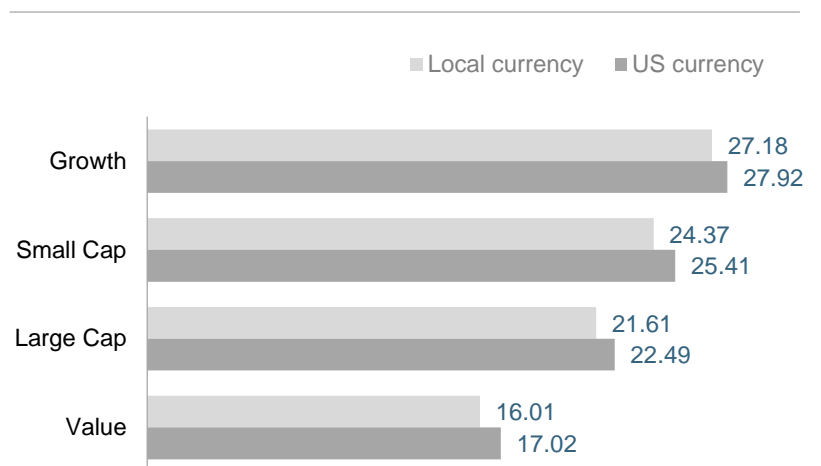
## 2019 Index Returns

In US dollar terms, developed markets outside the US outperformed emerging markets but underperformed the US during 2019.

Value underperformed growth across large and small cap stocks in non-US developed markets.

Small caps outperformed large caps in non-US developed markets.

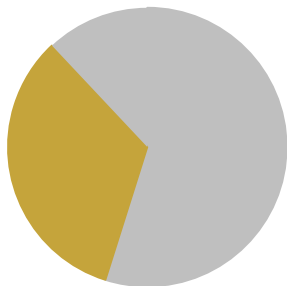
### Ranked Returns for 2019 (%)



### World Market Capitalization— International Developed

33%

International  
Developed Market  
\$19.2 trillion



### Period Returns (%)

\* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Growth	27.92	12.34	7.18	6.51
Small Cap	25.41	10.42	8.17	8.04
Large Cap	22.49	9.34	5.42	5.32
Value	17.02	6.36	3.59	4.05

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI World ex USA Index), Small Cap (MSCI World ex USA Small Cap Index), Value (MSCI World ex USA Value Index), and Growth (MSCI World ex USA Growth). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI World ex USA IMI Index is used as the proxy for the International Developed market. MSCI data © MSCI 2020, all rights reserved.



# Emerging Markets Stocks

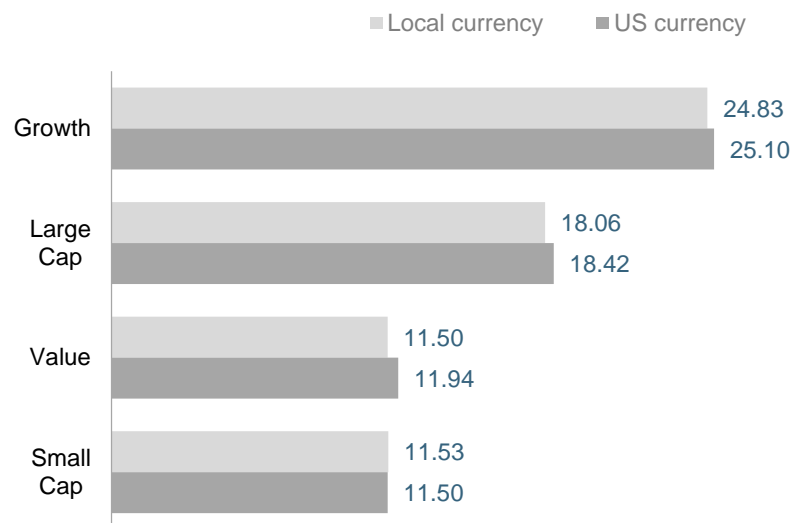
## 2019 Index Returns

In US dollar terms, emerging markets underperformed developed markets, including the US, in 2019.

Value underperformed growth across large and small cap stocks in emerging markets.

Small caps underperformed large caps in emerging markets.

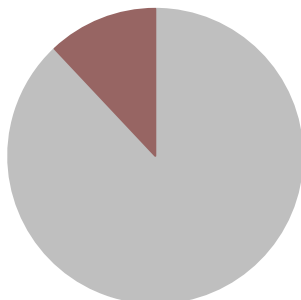
### Ranked Returns for 2019 (%)



### World Market Capitalization— Emerging Markets

12%

Emerging  
Markets  
\$6.9 trillion



### Period Returns (%)

\* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Growth	25.10	14.50	7.45	5.20
Large Cap	18.42	11.57	5.61	3.68
Value	11.94	8.57	3.67	2.08
Small Cap	11.50	6.70	2.97	2.95

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Market segment (index representation) as follows: Large Cap (MSCI Emerging Markets Index), Small Cap (MSCI Emerging Markets Small Cap Index), Value (MSCI Emerging Markets Value Index), and Growth (MSCI Emerging Markets Growth Index). All index returns are net of withholding tax on dividends. World Market Cap represented by Russell 3000 Index, MSCI World ex USA IMI Index, and MSCI Emerging Markets IMI Index. MSCI Emerging Markets IMI Index used as the proxy for the emerging market portion of the market. MSCI data © MSCI 2020, all rights reserved.

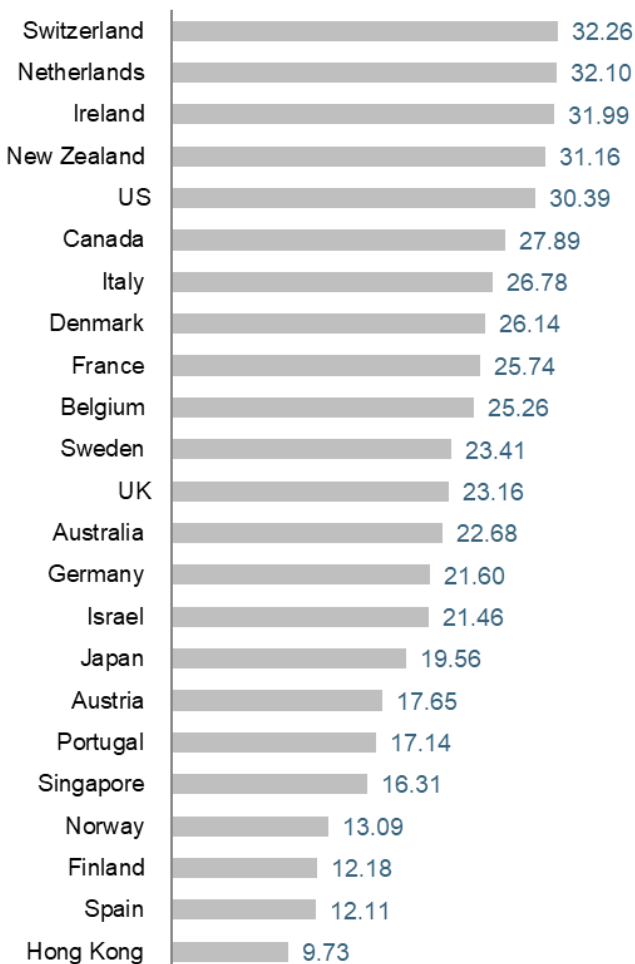


# Select Market Performance

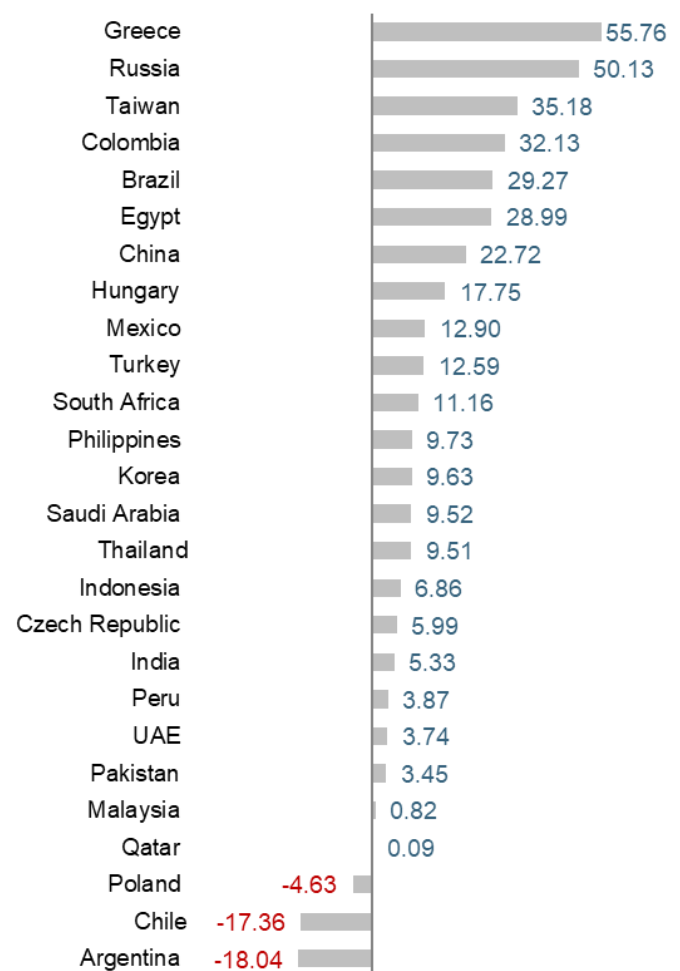
## 2019 Index Returns

In US dollar terms, Switzerland recorded the highest country performance in non-US developed markets last year, while Hong Kong posted the lowest return. In emerging markets, Greece was the top performer, while Argentina had the lowest performance.

### Ranked Developed Markets Returns (%)



### Ranked Emerging Markets Returns (%)



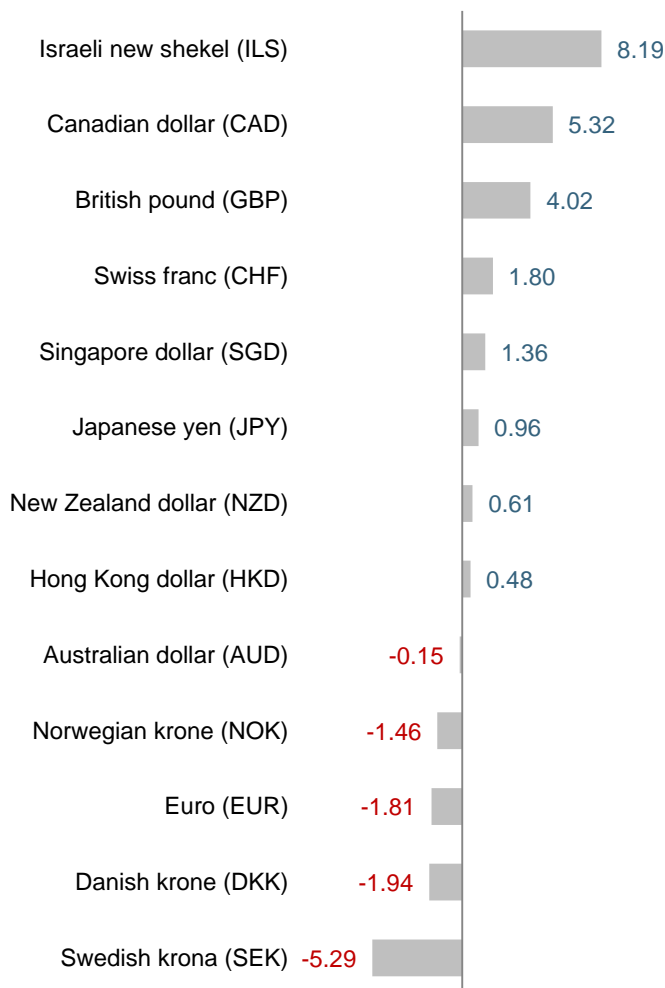


# Select Currency Performance vs. US Dollar

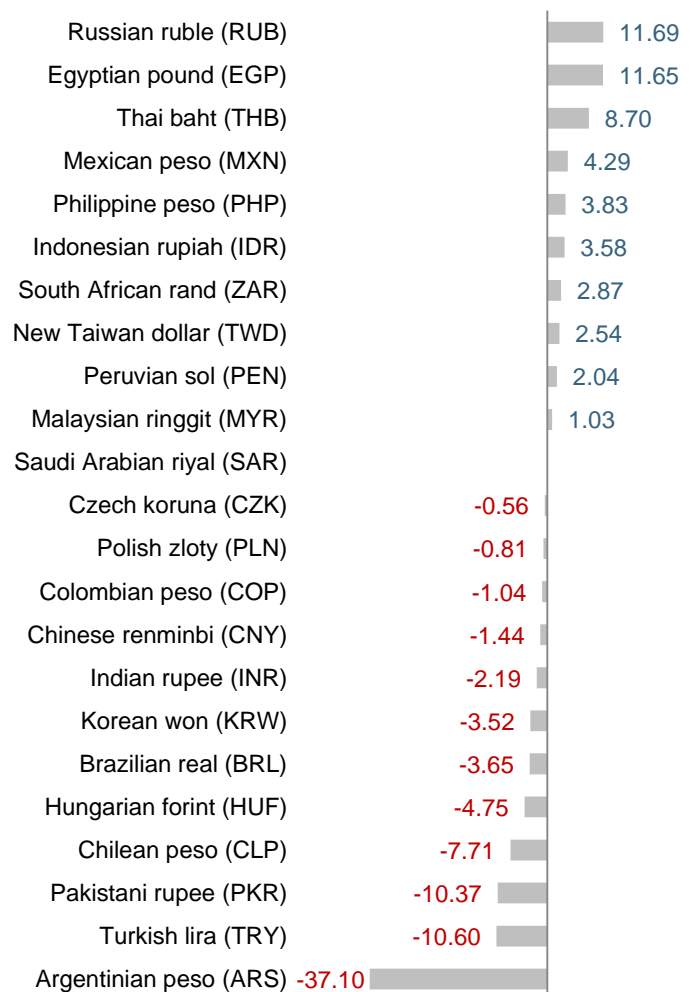
## 2019

In both developed and emerging markets, currencies were mixed against the US dollar in 2019.

### Ranked Developed Markets (%)



### Ranked Emerging Markets (%)





# Real Estate Investment Trusts (REITs)

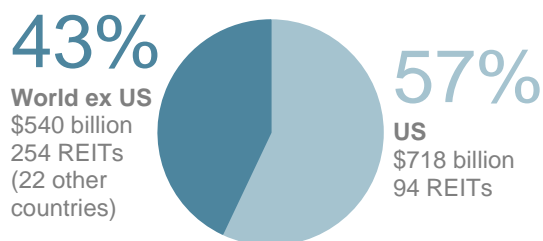
## 2019 Index Returns

US real estate investment trusts (REITs) underperformed non-US REITs in US dollar terms last year.

### Ranked Returns for 2019 (%)



### Total Value of REIT Stocks



### Period Returns (%)

\* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Global ex US REITS	23.59	9.79	5.65	7.74
US REITS	23.10	6.95	6.40	11.57

Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Number of REIT stocks and total value based on the two indices. All index returns are net of withholding tax on dividends. Total value of REIT stocks represented by Dow Jones US Select REIT Index and the S&P Global ex US REIT Index. Dow Jones US Select REIT Index used as proxy for the US market, and S&P Global ex US REIT Index used as proxy for the World ex US market. Dow Jones and S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



# Commodities

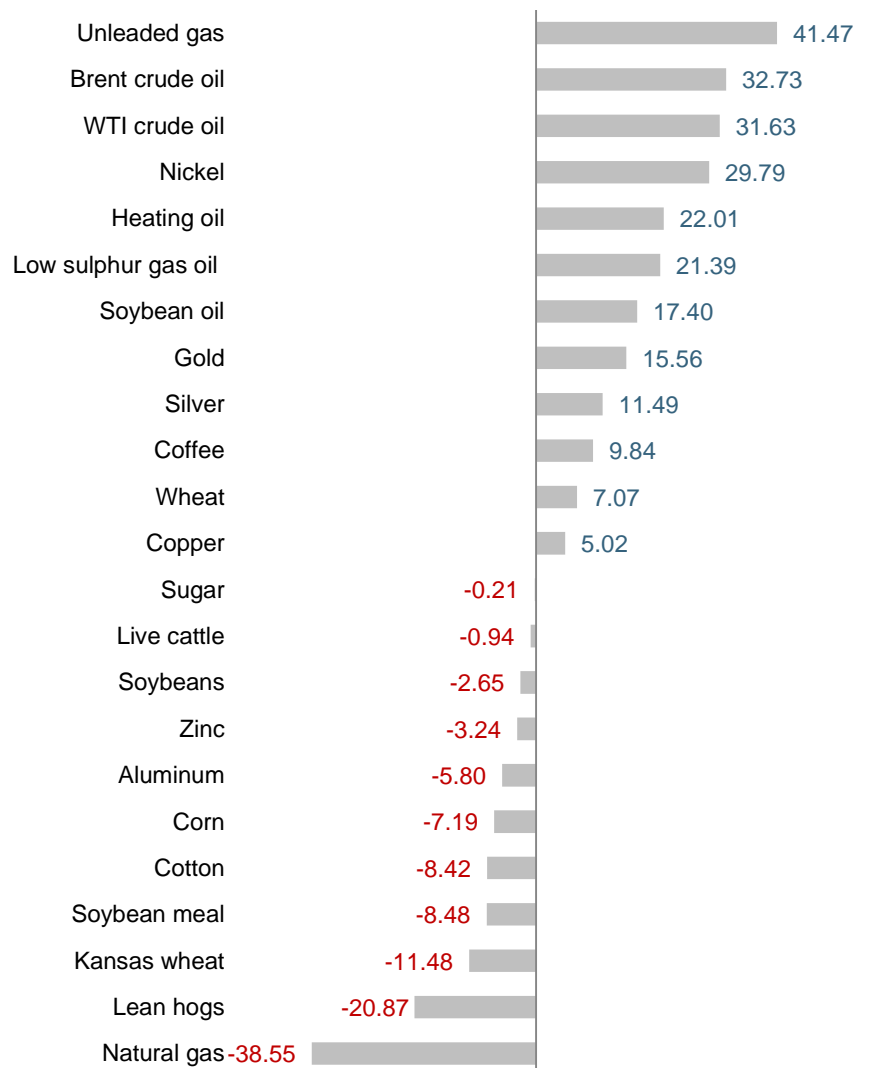
## 2019 Index Returns

The Bloomberg Commodity Index Total Return increased 7.69% in 2019.

Unleaded gas and Brent crude oil led annual performance, returning 41.47% and 32.73%, respectively.

Natural gas and lean hogs were the worst performers, declining 38.55% and 20.87%, respectively.

### Ranked Returns for Individual Commodities (%)



### Period Returns (%)

\* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*
Commodities	7.69	-0.94	-3.92	-4.73





# Fixed Income

## 2019 Index Returns

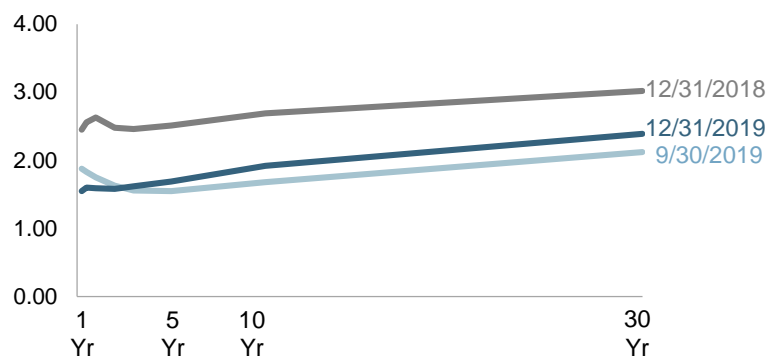
Interest rates decreased in the US Treasury market during 2019. The yield on the 5-year Treasury note declined 82 basis points (bps), ending at 1.69%. The yield on the 10-year T-note decreased 77 bps to 1.92%. The 30-year Treasury bond yield decreased 63 bps to 2.39%.

On the short end of the yield curve, the 1-month Treasury bill yield fell to 1.48%, while the 1-year T-bill yield decreased 104 bps to 1.59%. The yield on the 2-year Treasury note finished at 1.58% after declining 90 bps.

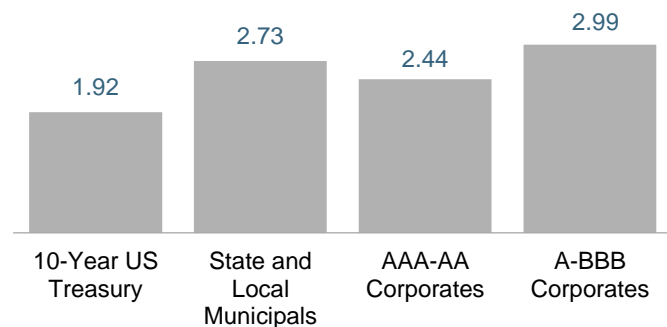
In terms of total returns, short-term corporate bonds gained 6.99%. Intermediate corporate bonds had a total return of 10.14%.

The total return for short-term municipal bonds was 3.66%, while intermediate munis returned 6.86%. Revenue bonds outperformed general obligation bonds.

### US Treasury Yield Curve (%)



### Bond Yields across Issuers (%)



### Period Returns (%)

Asset Class	*Annualized			
	1 Year	3 Years*	5 Years*	10 Years*
Bloomberg Barclays US Government Bond Index Long	14.75	6.95	4.16	6.97
Bloomberg Barclays US High Yield Corporate Bond Index	14.32	6.37	6.13	7.57
Bloomberg Barclays US Aggregate Bond Index	8.72	4.03	3.05	3.75
Bloomberg Barclays US TIPS Index	8.43	3.32	2.62	3.36
Bloomberg Barclays Municipal Bond Index	7.54	4.72	3.53	4.34
FTSE World Government Bond Index 1-5 Years (hedged to USD)	3.86	2.37	1.92	1.85
ICE BofA 1-Year US Treasury Note Index	2.93	1.78	1.25	0.83
FTSE World Government Bond Index 1-5 Years	2.43	2.40	0.74	0.19
ICE BofA US 3-Month Treasury Bill Index	2.28	1.67	1.07	0.58

One basis point (bps) equals 0.01%. Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect the expenses associated with the management of an actual portfolio. Yield curve data from Federal Reserve. State and local bonds are from the S&P National AMT-Free Municipal Bond Index. AAA-AA Corporates represent the ICE BofA US Corporates, AA-AAA rated. A-BBB Corporates represent the ICE BofA US Corporates, BBB-A rated. Bloomberg Barclays data provided by Bloomberg. US long-term bonds, bills, inflation, and fixed income factor data © Stocks, Bonds, Bills, and Inflation (SBBBI) Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld). FTSE fixed income indices © 2020 FTSE Fixed Income LLC, all rights reserved. ICE BofA index data © 2020 ICE Data Indices, LLC. S&P data © 2020 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.



# Global Fixed Income

## 2019 Yield Curves

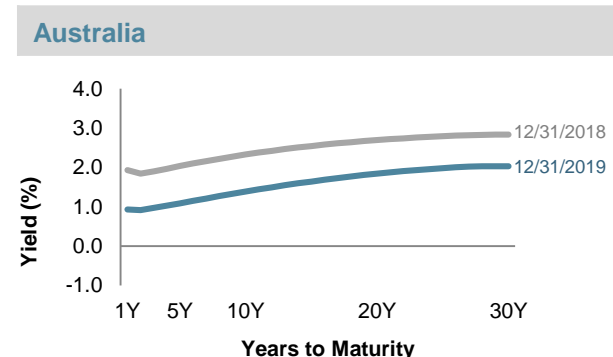
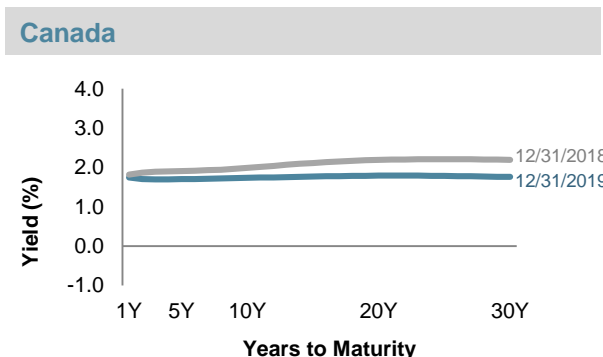
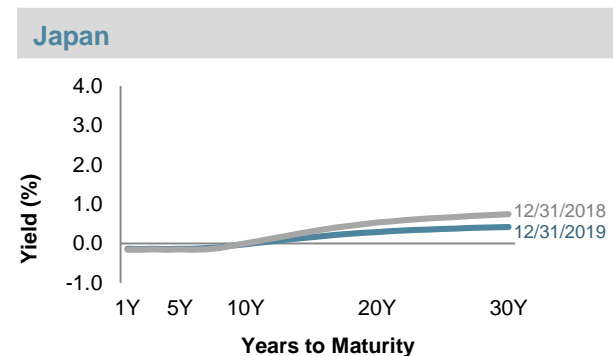
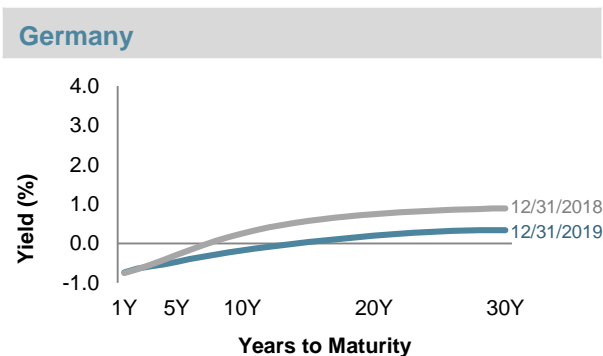
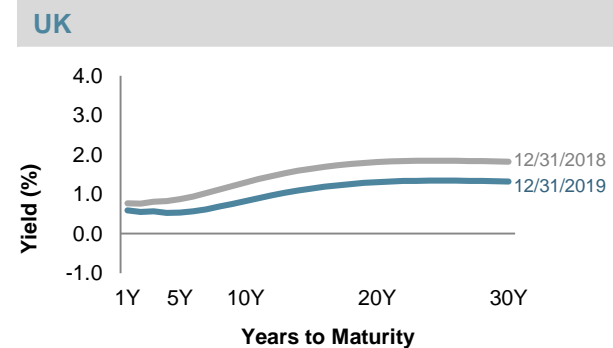
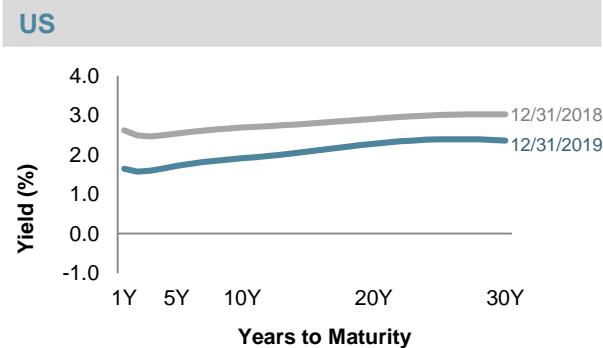
Interest rates in the global developed markets generally decreased in 2019.

Longer-term bonds generally outperformed shorter-term bonds.

Short- and intermediate-term nominal interest rates are negative in Japan and Germany.

Changes in Yields (bps) since 12/31/2018

	1Y	5Y	10Y	20Y	30Y
US	-97.6	-81.8	-77.9	-63.4	-66.1
UK	-17.6	-34.0	-46.9	-50.8	-50.3
Germany	2.1	-17.3	-43.3	-54.5	-55.4
Japan	2.6	2.0	-2.3	-23.9	-32.4
Canada	-6.9	-20.6	-25.4	-40.1	-43.7
Australia	-100.2	-94.6	-94.3	-85.4	-80.3



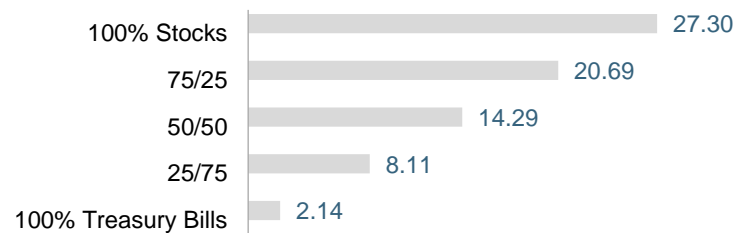


# Impact of Diversification

## 2019 Index Returns

These portfolios illustrate the performance of different global stock/bond mixes and highlight the benefits of diversification. Mixes with larger allocations to stocks are considered riskier but have higher expected returns over time.

### Ranked Returns for 2019 (%)

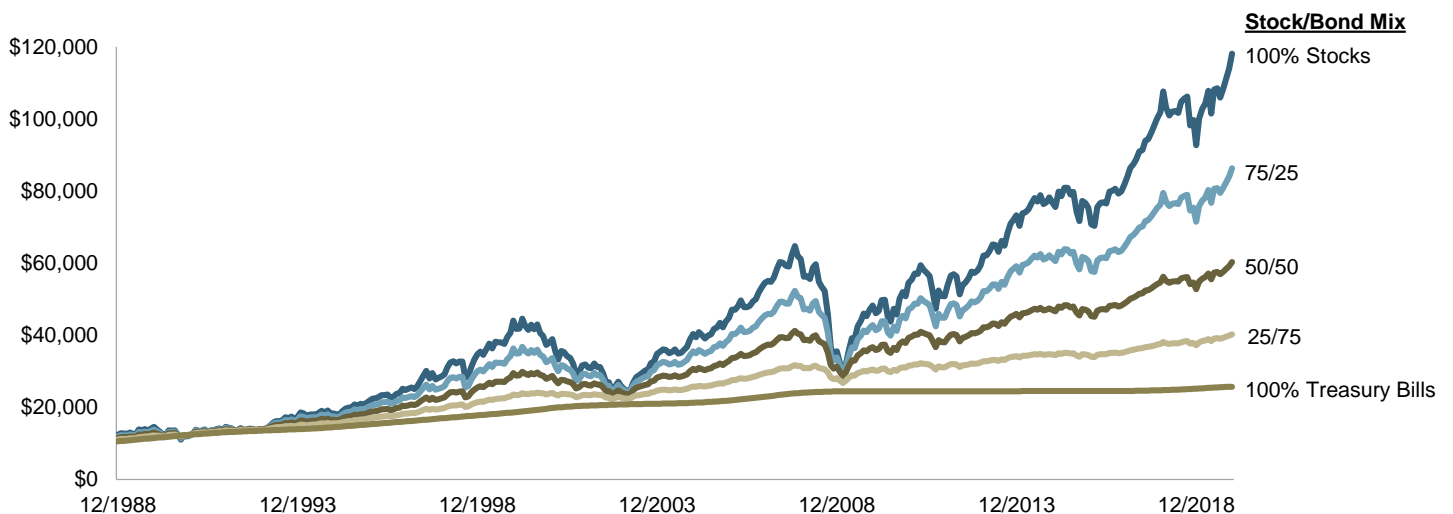


### Period Returns (%)

\* Annualized

Asset Class	1 Year	3 Years*	5 Years*	10 Years*	10-Year STDEV <sup>1</sup>
100% Stocks	27.30	13.05	9.00	9.37	13.18
75/25	20.69	10.21	7.08	7.27	9.89
50/50	14.29	7.35	5.10	5.09	6.59
25/75	8.11	4.47	3.07	2.83	3.30
100% Treasury Bills	2.14	1.58	0.99	0.52	0.22

## Growth of Wealth: The Relationship between Risk and Return



1. STDEV (standard deviation) is a measure of the variation or dispersion of a set of data points. Standard deviations are often used to quantify the historical return volatility of a security or portfolio.

Diversification does not eliminate the risk of market loss. **Past performance is not a guarantee of future results. Indices are not available for direct investment. Index performance does not reflect expenses associated with the management of an actual portfolio.** Asset allocations and the hypothetical index portfolio returns are for illustrative purposes only and do not represent actual performance. Global Stocks represented by MSCI All Country World Index (gross div.) and Treasury Bills represented by US One-Month Treasury Bills. Globally diversified allocations rebalanced monthly, no withdrawals. Data © MSCI 2020, all rights reserved. Treasury bills © Stocks, Bonds, Bills, and Inflation Yearbook™, Ibbotson Associates, Chicago (annually updated work by Roger G. Ibbotson and Rex A. Sinquefeld).