

**Global Economy**

Following the robust returns of 2019, there has been much speculation as to what may precipitate heightened volatility in financial markets. Would it be the US impeachment process, a slowdown in global growth, earnings disappointments, conflict in Iran, or renewed tariff escalation with key trading partners? The first half of January was relatively calm, with US tech stocks leading the way as global equity markets maintained an upward trend. That said, the “unknown unknown” that arrived in the form of the coronavirus outbreak in China led to a volatile back half of the month. Fear and uncertainty stem from a likely slowdown in China as it works to contain the spreading of the virus from Wuhan, the city of its origin. Investor concern resulted in a “flight to quality” that saw the US dollar strengthen while government bonds yields retreated once again.

The Federal Open Market Committee (FOMC) met in January, leaving rates at 1.50% – 1.75%. Comments by Chairman Powell suggest the FOMC may focus on more globally-oriented metrics in determining the path of future interest rates. While the futures market is now pricing in nearly two rate cuts by year-end, with the FOMC presumably acting to offset a pandemic-related slowdown in growth, the relative strength of the US economy argues against any near-term response.

The advance estimate of 4Q-19 real GDP reported an annualized rate of 2.1%, the same rate as the third quarter. Personal consumption continued to be a driver, with contributions also coming from government spending and net exports. Private inventory investment and nonresidential investment were again detractors. The Atlanta Fed’s GDPNow estimate is projecting more robust 2.7% growth for 1Q-20, even as the analyst consensus estimate suggests roughly 1.5%.

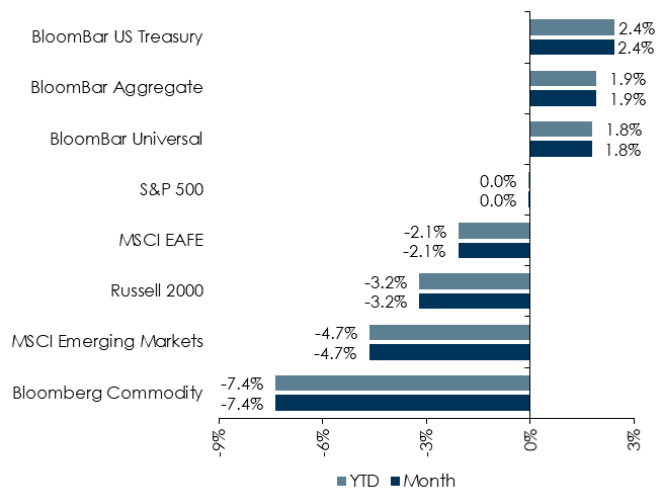
225,000 new jobs were added in January, above expectations, with minor revisions to prior months. The unemployment rate inched up to 3.6%, due in part to an increase in labor force participation. Average hourly wage gains remained moderate, advancing at a year-over-year pace of 3.1%. The Core CPI index remained at 2.3% year-over-year, while the FOMC’s preferred measure, the Core PCE index, continued to be anchored at 1.6% year-over-year through December.

	Current	Dec-19
US GDP (%)	2.10	2.10
US Unemployment (%)	3.60	3.50
CPI (Core) (%)	2.30	2.30
Fed Funds (%)	1.50 – 1.75	1.50 – 1.75
10 Year UST Yld (%)	1.51	1.92
S&P 500 Div Yld (%)	1.83	1.82
S&P 500 P/E (Trailing)	21.43	21.60
Gold/oz.	\$1,582.90	\$1,523.10
Oil (Crude)	\$51.56	\$61.06
Gasoline (Natl Avg)	\$2.60	\$2.66
USD/Euro	\$1.11	\$1.12
USD/GBP	\$1.32	\$1.33
Yen/USD	¥108.35	¥108.61

Source: Bloomberg

**Global Markets**

**Key Market Indices**



Source: Bloomberg

Returns for nearly all major sectors and indexes were negative to start 2020. The S&P 500, which represents large US-based entities, was a relative outperformer despite being essentially flat for the month. Among the benchmark’s economic sectors, Utilities (+6.6%), IT (+3.9%) and Real Estate (+1.4%) were the outliers in positive territory, while Energy (-11.2%), Materials (-6.2%), Health Care (-2.9%), and Financials (-2.8%) were notable laggards. Small cap stocks, as represented by the Russell 2000, were down in January (-3.2%), with Utilities (+2.8%) being the only major sector to finish in positive territory. Across the market capitalization spectrum, Growth continued to outpace Value.

In the broad international developed markets, the MSCI EAFE index was down at -2.1%, with returns challenged for US-based investors by increasing strength in the US dollar. Declines were broad based with most countries/regions experiencing declines. Among the major sectors, Utilities (+4.6%) and Health Care (+1.2%) were pockets of strength, with Energy (-8.2%), Materials (-5.2%) and Consumer Discretionary (-4.3%) the worst performers to start the year.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were down most significantly at -4.7% for the month. The medical crisis in China was a notable factor given local market impacts, indirect effects on other areas, and its contribution to risk-off investor sentiment. Chinese equities represent nearly 35% of the benchmark, and were down -4.8% for the month (minimized to an extent by market closures). Across the major sectors, Real Estate (-10.9%) and Energy (-8.4%) were meaningful underperformers, with no category achieving positive returns.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up for the month at +0.9%, buoyed by lower interest rates. The Alerian MLP index felt the impact of lower energy prices and was down -5.6%. The near-month NYMEX oil contract was down -15.6% for the month amid global growth concerns. Gold continued its upward momentum, gaining another +3.9% for the month. The diversified Bloomberg Commodity index was down -7.4% for the month as broad-based demand for most commodities expected to be diminished in the short run.

**Global Markets (continued)**

US Treasury (UST) yields declined across the board in January, with the most dramatic moves taking place in the second half of the month as concerns regarding China's coronavirus outbreak escalated. In what became a favorable environment for fixed income, the high-quality government bond complex returned +2.4% for the month. The yield curve flattened materially, with the 2-year UST yield falling 26 bps while the 10-year UST yield declined 41 bps and settled at its intra-month low of 1.51%. As yields for developed market sovereign bonds outside of the US followed a similar pattern, the global stock of negative yielding debt expanded back to nearly \$14 trillion.

The BloomBar US Aggregate Bond index underperformed risk-free US Treasuries on both an absolute and duration-matched basis. That said, with a gain of +1.9% in January, the benchmark's trailing 12-month performance of +9.6% has been quite remarkable given prevailing yield levels. Spreads for IG corporates were 9 bps wider for the month as investors stepped back slightly from credit risk. With the decline in UST yields overwhelming more modest spread widening, the benchmark's yield-to-worst moved 29 bps lower overall, and now resides at just 2.02%.

The BloomBar 1-15-Year Municipal index returned +1.5% in January. With investor cash still flooding into the market, and given the powerful interest rate rally more broadly, tax-exempt yields declined across the curve and established new all-time lows at several key maturity points. The 10-year municipal/UST ratio was relatively steady at ~78%.

The BloomBar US Corporate High Yield index was flat for the month, with results falling between IG bonds and higher-risk equities. Benchmark spreads were 54 bps wider on average, although the credit curve did flatten modestly. All-in yields were higher overall at just over 5.5%. With a relatively strong US dollar, unhedged international bonds underperformed. Local currency emerging market bonds were particularly weak, despite yields continuing to fall in several key countries.

**Selected Bond Yields**

10 Year Sovereign Bond Yields (%)		
	Current	Dec-19
Japan	-0.07	-0.02
Germany	-0.44	-0.19
France	-0.18	0.12
United Kingdom	0.52	0.82
Spain	0.23	0.46
United States	1.51	1.92
Italy	0.93	1.41
Mexico	6.61	6.89
Brazil	6.71	6.79

Source: Bloomberg

**Indices Report (Periods Ending January 31, 2020)**

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
<b>Equity</b>							
S&P 500	-0.04	-0.04	21.68	14.54	12.37	13.97	9.18
Russell 1000	0.11	0.11	21.39	14.33	12.13	13.97	9.32
Russell 1000 Growth	2.24	2.24	27.94	20.04	15.49	15.99	10.91
Russell 1000 Value	-2.15	-2.15	14.88	8.63	8.70	11.87	7.60
Russell 2500	-2.03	-2.03	12.25	9.08	8.93	12.73	8.89
Russell 2000	-3.21	-3.21	9.21	7.28	8.23	11.88	7.99
Russell 2000 Growth	-1.10	-1.10	13.91	11.48	9.60	13.40	9.06
Russell 2000 Value	-5.39	-5.39	4.38	3.10	6.71	10.28	6.81
Wilshire 5000 Cap Wtd	0.01	0.01	20.60	13.85	12.01	13.84	9.30
MSCI ACWI	-1.08	-1.08	16.67	11.62	9.10	9.73	7.50
MSCI ACWI ex US	-2.67	-2.67	10.50	8.14	5.46	5.69	5.66
MSCI EAFE	-2.08	-2.08	12.68	8.30	5.63	6.25	5.31
MSCI EAFE Local Currency	-1.22	-1.22	14.55	7.72	6.35	7.98	6.15
MSCI EAFE Growth	-0.57	-0.57	19.95	11.83	7.74	7.74	6.34
MSCI EAFE Value	-3.60	-3.60	5.55	4.79	3.44	4.68	4.21
MSCI Emerging Markets	-4.66	-4.66	4.21	8.28	4.87	4.14	7.48
<b>Fixed Income</b>							
ICE BofA ML 1-3 Yr Treasury	0.54	0.54	3.83	1.98	1.40	1.20	2.19
BloomBar US Aggregate	1.92	1.92	9.64	4.62	3.01	3.79	4.24
BloomBar Govt Bond	2.42	2.42	8.90	4.05	2.34	3.13	3.76
BloomBar US Credit	2.34	2.34	13.99	6.45	4.29	5.40	5.21
BloomBar 10 Yr Municipal	1.94	1.94	8.61	5.36	3.66	4.76	4.70
BloomBar US Corp High Yield	0.03	0.03	9.40	5.87	6.00	7.44	7.21
FTSE World Govt Bond	1.62	1.62	6.12	4.33	2.42	2.00	2.94
BloomBar Global Aggregate	1.28	1.28	6.58	4.32	2.60	2.56	3.33
BloomBar Multiverse	1.19	1.19	6.61	4.40	2.79	2.76	3.48
<b>Real Assets</b>							
FTSE NAREIT US Real Estate	1.21	1.21	14.11	8.53	6.08	12.68	8.66
FTSE EPRA/NAREIT Dev RE	0.87	0.87	11.93	9.42	5.69	9.99	7.17
Bloomberg Commodity	-7.36	-7.36	-5.38	-3.47	-4.74	-4.74	-3.11
<b>Cash and Equivalents</b>							
US T-Bills 90 Day	0.13	0.13	2.22	1.70	1.10	0.59	1.40

## Definitions

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### **Bloomberg Barclays Capital Aggregate**

The Bloomberg Barclays Capital Aggregate index covers the U.S. investment grade fixed rate bond market, including government and corporate securities, agency mortgage pass-through securities, and asset-backed securities.

### **Bloomberg Barclays Capital Global Aggregate Index**

The Bloomberg Barclays Capital Global Aggregate Index provides a broad-based measure of the global investment-grade fixed income markets. The three major components of this index are the U.S. Aggregate, the Pan-European Aggregate, and the Asian-Pacific Aggregate Indices. The index also includes Eurodollar and Euro-Yen corporate bonds, Canadian government, agency and corporate securities, and U.S.D investment grade 144A securities.

### **Bloomberg Barclays Capital Muni 5 Yr**

The Bloomberg Barclays Capital Municipal Bond Index is a rules-based, market-value-weighted index engineered for the long-term tax-exempt bond market. To be included in the index, bonds must be rated investment-grade (Baa3/BBB- or higher) by at least two of the following ratings agencies: Moody's, S&P, and Fitch. They must have an outstanding par value of at least \$7 million and be issued as part of a transaction of at least \$75 million. The bonds must be fixed rate, have a dated-date after December 31, 1990, and must be at least one year from their maturity date.

### **Bloomberg Barclays Capital U.S. Credit Index**

This index is the U.S. Credit component of the U.S. Government/Credit Index. It consists of publicly issued U.S. corporate and specified foreign debentures and secured notes that meet the specified maturity, liquidity, and quality requirements. To qualify, bonds must be SEC-registered.

### **The Bloomberg Barclays U.S. Treasury Index**

The Bloomberg Barclays U.S. Treasury Index is a component of the Bloomberg Barclays U.S. Aggregate Index. This U.S. Treasury Index includes only public obligations of the U.S. Treasury with a remaining maturity of one year or more. U.S. Treasury bills are excluded due to the maturity constraint.

### **The Bloomberg Barclays Capital U.S. Universal Index**

The Bloomberg Barclays Capital U.S. Universal Index represents the union of the U.S. Aggregate Index, the U.S. High-Yield Corporate Index, the 144A Index, the Eurodollar Index, the Emerging Markets Index, and the non-ERISA portion of the CMBS Index. Municipal debt, private placements, and non-dollar-denominated issues are excluded from the Universal Index. The only constituent of the index that includes floating-rate debt is the Emerging Markets Index.

### **BofA ML High-Yield Index Master II**

The BofA ML High-Yield Index is an unmanaged index that tracks the performance of below investment grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.

### **Bloomberg Commodity Index**

The Dow Jones UBS Commodity Total Return Index aims to provide broadly diversified representation of commodity markets as an asset class. The index is comprised of futures contracts on physical commodities. Currently the index includes 20 commodity nearby futures contracts, which are weighted to account for economic significance and market liquidity

### **CITI World Government Bond Index**

The WGBI is a market-capitalization-weighted benchmark that tracks the performance of the 19 government bond markets of Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Japan, the Netherlands, Portugal, Spain, Sweden, Switzerland, the United Kingdom, and the United States.

### **FTSE EPRA/NAREIT Developed Index**

The FTSE EPRA/NAREIT Developed Index is designed to track the performance of listed real estate companies and REITs worldwide. The index constituents are free-float adjusted as well as screened for liquidity, size and revenue. The index incorporates Real Estate Investment Trusts (REITs) and Real Estate Holding & Development companies. Constituents are classified into distinct property sectors based on gross invested book assets as disclosed in the latest published financial statement.

### **HFRI Fund of Funds (FOF) Conservative Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as "Conservative" exhibit one or more of the following characteristics: seeks consistent returns by primarily investing in funds that generally engage in more "conservative" strategies such as Equity Market Neutral, Fixed Income Arbitrage, and Convertible Arbitrage; exhibits a lower historical annual standard deviation than the HFRI Fund of Funds Composite Index.

### **HFRI Fund of Funds (FOF) Strategic Index**

The HFRI Monthly Indices (HFRI) are equally weighted performance indexes, utilized by numerous hedge fund managers as a benchmark for their own hedge funds. FOFs classified as 'Strategic' exhibit one or more of the following characteristics: seeks superior returns by primarily investing in funds that generally engage in more opportunistic strategies such as Emerging Markets, Sector specific, and Equity Hedge; exhibits a greater dispersion of returns and higher volatility compared to the HFRI Fund of Funds Composite Index.

### **MSCI ACWI Index (exU.S.)**

The MSCI ACWI Index (ex U.S.) is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets outside the United States. The MSCI ACWI consists of 44 country indices comprising 23 developed and 21 emerging market country indices. The developed market country indices included are: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indices included are: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

### **MSCI EAFE® Index**

The MSCI EAFE Index (Europe, Australasia, Far East) is an unmanaged free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the U.S. & Canada. As of June 2006 the MSCI EAFE Index consisted of the following 21 developed market country indices: Australia, Austria, Belgium, Denmark, Finland, France, Germany, Greece, Hong Kong, Ireland, Italy, Japan, the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland and the United Kingdom.

### **MSCI EAFE Growth Index**

The MSCI-EAFE Growth Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

### **MSCI EAFE Value Index**

The MSCI-EAFE Value Index is an unmanaged index constructed from the constituents of the MSCI EAFE Index on a country-by-country basis for the 21 countries included in the index.

### **MSCI Emerging Markets Index**

The MSCI Emerging Markets Index is an unmanaged float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets. As of June 2006 the MSCI Emerging Markets Index consisted of the following 22 emerging market country indices: Brazil, Chile, China, Colombia, Czech Republic, Egypt, Hungary, India, Indonesia, Israel, Korea, Malaysia, Mexico, Morocco, Peru, Philippines, Poland, Russia, South Africa, Taiwan, Thailand, and Turkey.

### **Ncreif® Property Index**

Ncreif Property Index is a quarterly time series composite total rate of return measure of investment performance of a large pool of individual commercial real estate properties acquired in the private market for investment purposes only.

### **Russell 1000® Growth Index**

The Russell 1000 Growth Index measures the performance of the large-cap growth segment of the U.S. equity universe. It includes those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth rates.

### **Russell 1000® Value Index**

The Russell 1000 Value Index measures the performance of the large-cap value segment of the U.S. equity universe. It includes those Russell 1000 companies with lower price-to-book ratios and lower expected growth rates.

### **Russell 2000® Index**

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. The Russell 2000 Index is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index.

### **Russell 2000® Growth Index**

The Russell 2000 Growth Index measures the performance of the small-cap growth segment of the U.S. equity universe. It includes those Russell 2000 companies with higher price-to-value ratios and higher forecasted growth rates.

### **Russell 2000® Value Index**

The Russell 2000 Value Index measures the performance of small-cap value segment of the U.S. equity universe. It includes those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values.

### **Russell Midcap® Index**

The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe. The Russell Midcap Index is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities in the Russell 1000 Index based on a combination of their market cap and current index membership.

### **S&P 500**

Standard and Poor's 500 Index is a capitalization-weighted index of 500 large U.S. stocks. The index is designed to measure performance of the broad domestic stock market through changes in the aggregate market value of 500 stocks representing all major industries.

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