Trumbower Financial Advisors, LLC
4th Quarter 2019
Investment Market Commentary

Cooling Trade Tensions Ignite Rally

Investors lit a fire under equity markets as hints of progress culminated in a phase-one trade deal with China halting the imposition of new tariffs. Financial markets sizzled impervious to impeachment and energized by bipartisan support for the North American trade accord (USMCA). Boris Johnson's victory iced down Brexit jitters – for the time being. The pound popped back up over $1.34 on news that the EU UK trading relationship will remain intact through the end of 2020 while they grind out other departure details.

A roaring 4th quarter rally turned 2019 into a bonfire year for financial markets. Small Cap US stocks sparked up 9.94%, ahead of Mid and Large Caps (+7.06% & +9.07%). 2019 was dominated, however, by Large Cap Technology. The S&P 500 advanced 31.49% and Tech heavy NASDAQ leaped up over 36.6% last year. Developed Foreign (+7.81%) and Emerging Market equities (+11.84%) finally ignited. Both indices raked in more than 18% in 2019 – still shy of 2008 peaks by -6.8% & -8%. Large and Mid Cap US equities set new records landing 13.1% and 2.2% ahead of previous highs. Small Cap US stocks need another 2.2% to summit.

As noted, Technology burned brightest up 14.4% in Q4 and 50.3% for the year. Energy simmered on the back burner offering 11.8% - even though Nymex Crude Oil was up 34.46%. Once again investors were seduced by the mega market caps that have been driving the S&P 500. Apple accounted for 1.2% of the Index's Q4 return. Apple, Microsoft, Facebook, Amazon and Alphabet were responsible for 23% of the S&P's 2019 blockbuster performance.

The Fed lowered rates steering the yield curve out of inversion and into a more upward slope. 10-year yields dropped from ~2.7% in Q1 to a low of ~1.5% in September before bouncing back to end the year at 1.9%. Fixed income funds, especially those with longer durations, profited from the dip. Prices rose across the board narrowing the spreads between Treasuries and both Investment-Grade/High-Yield Corporates. The

Selected Benchmark and Category Average Returns

Large Cap Equity

Benchmark Indx & Category Average*	(Total Return) 4th Q 2019	12 Mos.
S&P 500 Growth	8.32	31.13
Large Cap Gr Avg	9.54	32.36
S&P 500 Value	9.93	31.93
Large Cap Val Avg	7.26	25.00
S&P 500 Index	9.07	31.49
Large Cap Blnd Avg	8.12	28.03

Mid Cap Equity

Benchmark Indx & Category Average*	(Total Return) 4th Q 2019	12 Mos.
S&P MC 400 Growth	6.73	26.29
Mid Cap Gr Avg	7.91	33.92
S&P MC 400 Value	7.41	26.08
Mid Cap Val Avg	6.98	26.47
S & P 400 Index	7.06	26.20
Mid Cap Blnd Avg	6.83	27.69

Small Cap Equity

Benchmark Indx & Category Average*	(Total Return) 4th Q 2019	12 Mos.
Russell 2000 Growth	11.39	28.48
Small Cap Gr Avg	9.79	28.17
Russell 2000 Value	8.49	22.39
Small Cap Val Avg	8.11	21.79
Russell 2000	9.94	25.52
Small Cap Blnd Avg	8.09	23.75

International Equity

Benchmark Indx & Category Average*	(Total Return) 4th Q 2019	12 Mos.
MSCI EAFE	7.81	18.44
Intl Equity Avg	8.80	22.36

* **Category average** calculated using *Morningstar Direct*. Fund universe screened to include funds that meet the following criteria:

A. M-Star Category consistent with designated asset class and management style.
B. M-Star Style Box consistent with designated management style.
C. Fund's Objective consistent with asset class.
D. Excludes Index Funds.

We have not independently verified *Morningstar* data.

4th Quarter Equity Market Results

	4th Qtr. % Chg.	12-mo. % Chg.
S&P 500	9.07	31.49
S&P 400	7.06	26.20
Nasdaq	12.47	36.69
Russ 2000	9.94	25.52
MSCI EAFE	7.81	18.44
MSCI Emg Mkt	11.84	18.42

US Agg Bond Index returned 8.72% in 2019.

Fed Chairman Powell said in November that the US economy is in a "very good place." Unemployment is near a 50-year low and inflation below 2%. Forecasts released by the Fed in December project GDP growth of ~2% over the next three years and stable employment levels.

In November the Fed highlighted global trade as a risk that has weighed on business investment and exports. CEOs have been plagued by uncertainty and hesitant to make capital commitments. The Conference Board Measure of CEO attitudes dropped to its lowest level in a decade during the 3rd quarter. In sync with investors the confidence score fired up to 43 in the 4th quarter (50 indicates more positive responses than negative). While less pessimistic, the most recent survey reveals concerns over improving but relatively weak global economic conditions.

Analysts' estimated consensus 2019 S&P 500 earnings per share stand at ~$162 and forecast $177 (+9%) for 2020. The 2019 estimate is up just 1% from 2018 when tax cuts injected profits with a temporary growth flare up. Sky rocketing prices combined with paltry earnings growth in 2019 expanded P/E multiples to over 18x at year-end. Valuations have yet to discourage investors but 2020 could easily flat line. One view suggests that stocks are fairly priced when P/E plus inflation equals 20 – which is just about where the S&P 500 is today. Stock prices are likely to languish unless rekindled by robust corporate earnings growth.

The Fed pledged to continue buying short-term Treasuries through Q2 of 2020 to avoid a repeat shortage of overnight collateral that disrupted repo markets and threatened money funds. As a result, its balance sheet expanded $400 billion during the last 4 months of the year. Chairman Powell insists this is not QE4. The Fed is not injecting liquidity to fuel growth. Purchases are concentrated at the short end of the curve and not expected to materially impact money supplies.

Investors poured a record $94 billion into municipals during 2019. The demand is particularly inflamed among residents of high tax states faced with a limited Federal deduction. The supply of tax-exempt debt shrank as borrowers have been forced to refinance with taxable notes. Pressure on prices was a windfall for existing owners. The US Muni Index returned 7.54% for 2019 outpacing the 1-5 Year Treasury benchmark by 3.29%. Yields available to new investors, however, are greatly diminished making higher risk longer term securities – largely in the form of mutual fund shares – more enticing. When shareholders start to withdraw, funds may have difficulty finding buyers for this debt especially since banks can't own as much of it as they used to. We have identified a handful of lower risk funds with reasonable upside potential, and we will shop selectively to find the highest taxable equivalent yields that meet our credit and maturity criteria.

With Brexit under control, attention turned to Germany. The country barely avoided recession in Q3. Business leaders view the situation much like US CEOs, improving but not out of the woods. Stagflation continues to toy with the Eurozone. The ECB recently lowered its 2020 growth forecast to 1.1%. Negative yields on central bank debt prevail encouraging institutions to lend and consumers/business to borrow. Negative yields weaken currencies, ideally boosting exports. It worked for Sweden, one of the first to end the policy by raising its rate from -.25% to 0. China eased into 2020 by reducing commercial bank reserves and releasing $800 billion into its economy. Growth sank to the lowest level in 30 years and Beijing is stepping up its game, but the challenges presented by global trade barriers will test their skills.

Lessons have been learned over the past two decades. Neither the dot-com bubble bust or the 07-09 crisis burst into a Great Depression. Unprecedented monetary stimulus is credited with warming up recoveries. Financial markets are now addicted to easy money. What happens when the flow is extinguished? Will global central bankers continue fanning flames or wean economies from artificial life support? We expect fallout but over the last twenty years our approach has allowed portfolios to rise up from the ashes of a correction.

Please welcome our new research director, Dan Rambert, CFA®. Dan joins us from Wilmington Trust and has 14 years of experience in securities analysis and portfolio management. We are also delighted to have Robert Speece, CPA, CFP® back from PWC. Rob is a tax and financial planning specialist. He sits on the Investment Advisory Committee and shares client service responsibilities with our other portfolio managers.

TFA is very proud of the expertise and credentials we offer our clients. Our team includes 3 CFA® Charterholders, 2 CPAs, an Enrolled Agent and 4 CFP® professionals.