

Nauset Market Commentary Fourth Quarter 2019

Market Performance Recap: **Strong Finish**

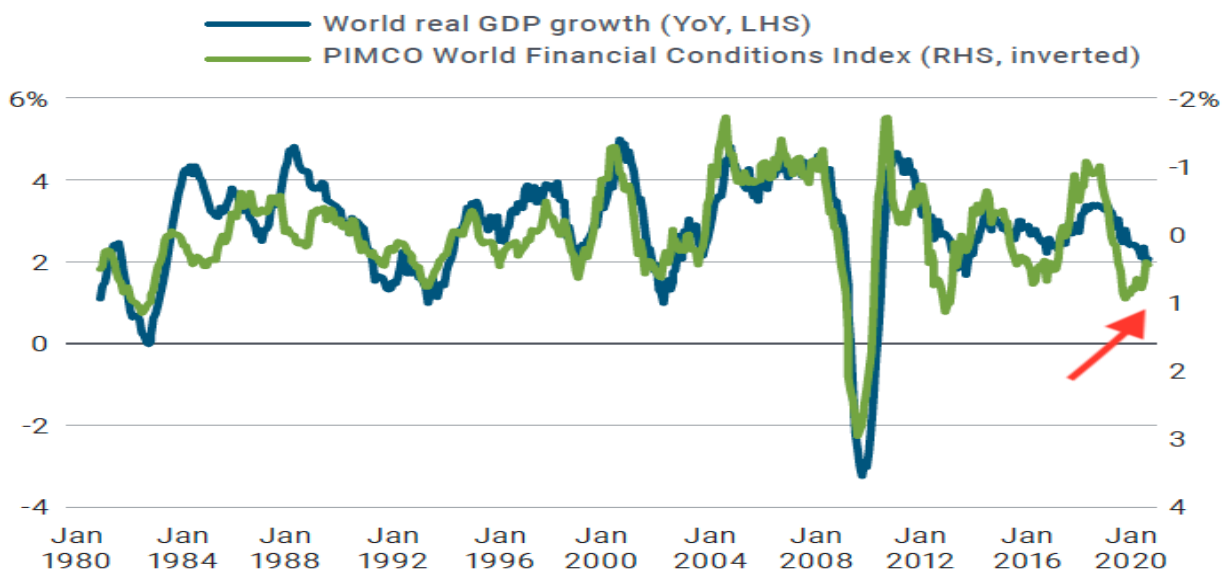
Stocks closed out an exceptional year with a Q4 flurry of gains for both US and international indices. Finalization of a limited trade deal and a third Fed rate cut boosted investor confidence as the Russell 1000 US stock index rose +9.0% in Q4 to finish the year at +31.4%. Tech and industrial stock sectors outpaced the market, while energy and telecom lagged. International stocks posted 2019 gains of +22.0% for EAFE and +18.4% for Emerging Markets indices. After a third Fed rate cut in 2019, bonds posted a slight gain of +0.4% to finish the year at +6.8% as measured by Barclays Intermediate Gov't/Credit bond index.

Economic & Market Discussion: **2020 Outlook**

We enter 2020 after a year of significant market gains. Despite modest economic growth and global trade tensions, the stock market rallied off a Q4 2018 tumble, and continued higher as the Fed cut rates three times last year. Can markets continue upward given current valuations, geopolitical issues and an upcoming Presidential election? Let's review the key factors affecting our 2020 outlook.

- Global Recovery to Help US Economy – During most of 2019, the impact of a global manufacturing slowdown was stoking fears of a US recession. Aided by some trade war relief, a recovery in global manufacturing is underway as indicated by the World GDP & Financial Conditions chart below. We expect this development to keep the US economy out of recession and help underpin single-digit corporate earnings growth. However, a return to heightened trade tensions remains a possible negative that we must monitor.

Look for Moderate Global Growth Recovery in 2020



Source: Haver Analytics, PIMCO calculations as of 1 November 2019. World includes approximately 240 countries. Data is interpolated where unavailable.

- Rates on Hold – The Fed has clearly indicated that it will stand pat on rates until either inflation moves up significantly or economic distress becomes evident. The promise of the latter is critical as the Fed stands ready to help with lower rates if needed. This sets the stage for continued rate accommodation to combat potential economic weakness, which bolsters investor and business sentiment and is largely all positive for economic stability and markets.
- Politics Here, There, Everywhere – As the recent US-Iran skirmish in Iraq shows, geopolitical events can occur quickly and create chaos. Expect more of the same in 2020 with potential turmoil from the US Presidential race, Brexit, border flare-ups and trade tensions. The key is to determine if any single event creates lasting implications for one of our key market factors – rates, credit conditions or

corporate earnings. We see the most potential for disruption in trade and the Presidential race, and will monitor both closely as the year progresses.

In summary, while we believe there may be room for markets to move higher in early in 2020, low earnings growth, less attractive valuations and a slew of political uncertainties will likely mute returns.

Portfolio Strategy: Keep Claim on the Upside

We are maintaining our large cap US equity positions despite above-average stock valuations. Within our basic portfolio strategy, we hold the following allocations to manage risk and offer diverse return streams.

- Income Overweight – We expect rates to be flat or slightly lower in 2020. This will benefit our expanded fixed income allocation that emphasizes multi-sector bond funds, preferred stock ETFs, and where appropriate, municipal bond funds.
- Lower-Risk Equity – Our slightly underweight stock allocations focus on large cap US equity, with reduced exposure to international and higher-risk small cap stocks. To further address equity risk, a portion of our equity is invested low-volatility large cap US ETFs to help buffer in the event of an equity downturn.
- Risk Buffers – In addition to our core risk management tools of fixed income and cash allocations, we also hold BlackRock Event-Driven Equity fund, a liquid alternative that seeks returns through merger arbitrage.

Market Index	Market Performance				
	% Change for Periods Ended 12/31/2019				
	Fourth Quarter	2019 YTD	1-Year	3-Year Annual.	5-Year Annual.
Russell 1000	9.04	31.43	31.43	15.05	11.48
MSCI EAFE – Non-US	8.16	22.01	22.01	9.56	5.67
Russell 2000	9.94	25.52	25.52	8.59	8.23
MSCI Emerging Markets Equity	11.84	18.42	18.42	11.57	5.61
DJ US Real Estate	0.79	28.92	28.92	8.34	11.96
NASDAQ 100	8.17	36.69	36.69	19.86	14.93
Barclays Gov't/Credit Intern. Bond	0.37	6.80	6.80	3.24	2.57
Wilshire Liquid Alternative	1.55	6.67	6.67	2.38	1.18
3-Month T-Bill	0.46	2.25	2.25	1.65	1.05