Brinker Capital

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Market review and outlook

Risk assets delivered exceptional returns for 2019. Central bank policy and trade were the primary drivers of performance but also accounted for the pockets of higher volatility we experienced throughout the year. Global monetary policy conditions eased with the Federal Reserve (Fed) cutting rates a total of three times in 2019. With inflation still benign, expectations are for the Fed to remain on hold in 2020. Trade tensions between the US and China decreased in December with the two countries moving closer to an agreement on a Phase 1 trade deal. The temporary truce helped spur a year-end rally across global equities, but much work remains. As we enter into 2020, a recession is not our base case, but a high degree of uncertainty remains in the market.

The S&P 500 Index was up 9.1% for the fourth quarter and returned 31.4% for the year. Information technology (+50.1%) led sector performance in 2019, followed by communication services (+32.6%) and financials (+32.0%). Healthcare (+20.7%) faced headwinds earlier in the year stemming from the upcoming election but had a strong fourth quarter as waning support for "Medicare for All" helped managed care stocks. Energy (+11.8%) relatively underperformed throughout the year but was up 6.0% in December due in part to higher oil prices. From a style perspective, large cap equities outpaced small and mid cap equities. Growth outperformed value equities by a large margin for the year but there were early signs of a rotation with small and mid cap value equities outpacing growth counterparts in December 2019.

Developed international equities, as measured by the MSCI EAFE Index, returned 8.2% for the fourth quarter and 22.6% for the year. International equities rallied in December, outpacing domestic equities, boosted by some resolution on trade and signs of improving growth. The MSCI Emerging Markets Index was up 7.5% in December as trade optimism and policy easing by China lifted global sentiment and led to robust returns in China and Latin America. Despite the recent positive news, the MSCI Emerging Markets Index returned 18.8% for 2019, lagging global equity markets.

The Bloomberg Barclays US Aggregate Index was flat for the month and returned 8.7% for the year. After reaching a low of 1.46% in September on concerns surrounding trade, slower global growth, and the impact of negative yields outside of the US, the 10-year Treasury yield rose to end the year at 1.92%. Some resolution on trade and increased growth expectations during the fourth quarter led to a resumption of a positively sloped US yield curve. Credit spreads sharply contracted in December and finished near one-year lows. Municipals underperformed taxable counterparts for the year.

As we continue moving through the business cycle, we still find several factors supportive of the economy and markets; however, we remain cognizant of the risks. In the short term, a number of factors are adding to global uncertainty and increasing the likelihood of additional market volatility.

The following factors should provide support to the economy and markets over the near term:

- **Accommodative global monetary policy:** After an extended pause, the Fed implemented three rate cuts to continue to support economic expansion. The ECB also moved to ease more aggressively.
- **Low inflation:** Inflation globally is low and slowing and inflation expectations have fallen recently. Lower inflation in the US provides the Fed greater flexibility to maintain easy monetary policy.
- **US relative economic growth:** US economic growth has moderated but is attractive relative to the rest of the world.
- **More optimism on trade:** Recent trade rhetoric has taken a more optimistic tone with the US and China moving toward a partial trade resolution, but much work remains before the countries can come to an agreement. Some resolution on trade would help to improve business confidence, which would, in turn, support economic growth.

However, risks facing the economy and markets include:

- **Global policy uncertainty and US election:** Uncertainty surrounding fiscal policy, monetary policy, and trade policy, as well as the potential for geopolitical missteps, are cause for market volatility. The upcoming US election will likely bring additional volatility to markets.
- **Global interest rate environment:** While most of the yield curve has moved away from inversion, it cannot yet be considered normal. In addition, the long-term impact of negative-yielding debt is a concern.
- **Slower growth ex-US:** Economic growth outside the US is weaker as the ongoing trade war, muted earnings, and political challenges have created meaningful headwinds for many international economies.

We continue to believe the weight of the evidence leans positive and fundamentals are supportive for risk assets over the near term. US economic growth, while moderating, is still positive and the Fed is likely to continue to support growth in the absence of rising inflation. However, we expect continued volatility due to global policy uncertainty and the actions of governments and central banks.

Brinker Capital Market Barometer

The weight of the evidence leans positive, in line with our modest overweight to risk across portfolios.

SHORT-TERM FACTORS (< 6 months)	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum				●	Market momentum still solid
Trend				●	Trend remains supportive
Investor sentiment			●		Survey data more optimistic but significant equity fund outflows
Seasonality				●	4Q tends to be the most constructive for equities

INTERMEDIATE-TERM FACTORS (6-36 months)	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Fiscal stimulus potentially offset by tariffs in 2020
Monetary policy				●	Fed likely to pause in December, but remain accommodative
Inflation				●	Global inflation low and inflation expectations muted
Interest rate environment			●		US yield curve has largely "un-inverted" but more progress is needed
Macroeconomic			●		Continued strength in US labor market; US/China trade war concerns
Business sentiment		●			CEO confidence has fallen sharply; small biz confidence ticked higher
Consumer sentiment				●	Measures have declined slightly but remain at elevated levels
Corporate earnings			●		US earnings growth slowing but positive; weaker ex-US
Credit environment				●	Credit spreads have tightened; little sign of stress in financial conditions

LONG-TERM FACTORS (36+ months)	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		US equity valuations at long-term averages; more attractive ex-US
Business cycle			●		Longest expansion on record but also the slowest
Demographics			●		Mixed (US and emerging markets positive; developed intl negative)

Information as of December 11, 2019.

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