

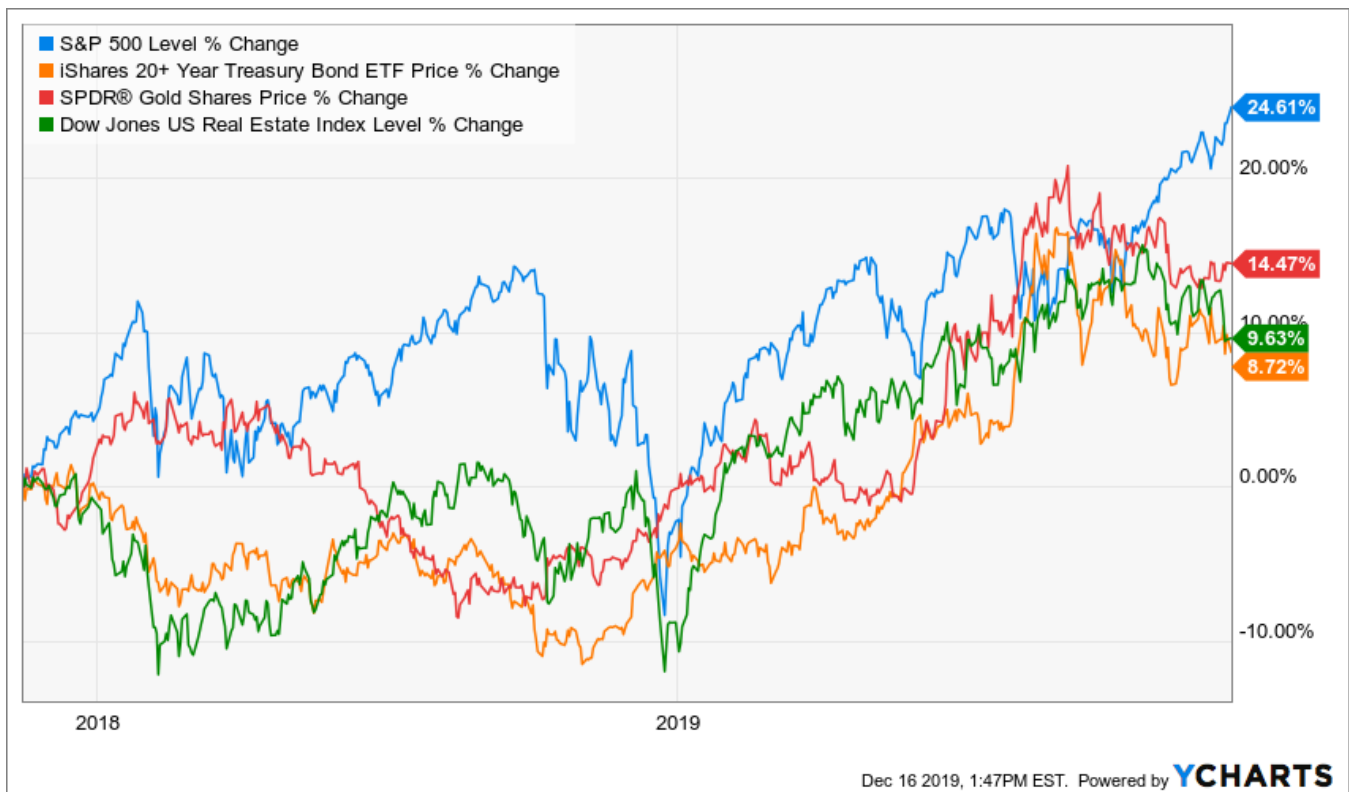
Market Update

December 16, 2019

China Phase One Deal. USMCA Deal Done and 2020 Outlook

- The highly anticipated Phase One China trade deal has been agreed to, easing some trade tensions between the U.S. and China.
- The House of Representatives signed off on USMCA, which will replace NAFTA, for trade, between the U.S., Canada and Mexico.
- Impeachment does not seem to be impacting the markets and sentiment, at this time, and likely won't, as an election year in 2020 will certainly be more front and center for investors and traders.
- American consumption remains healthy. While retail sales were soft in November, spending on services continues to be robust, leaving consumption tracking at 2-2.5% for the fourth quarter of 2019.
- The Conservative party won a majority in the UK election, paving the way for Brexit in January 2020. The next step of securing a trade deal with the EU will likely be more challenging.

US equity markets continue making new all-time highs, and asset prices have been stable and less volatile, as the chart below shows. The chart below shows that the overall year-long direction of these asset classes has been in concert. However, there is some divergence starting to appear toward year end, as the equity markets appear to be strengthening and the long-term fixed income, real estate and gold markets have come off highs and contracted slightly.

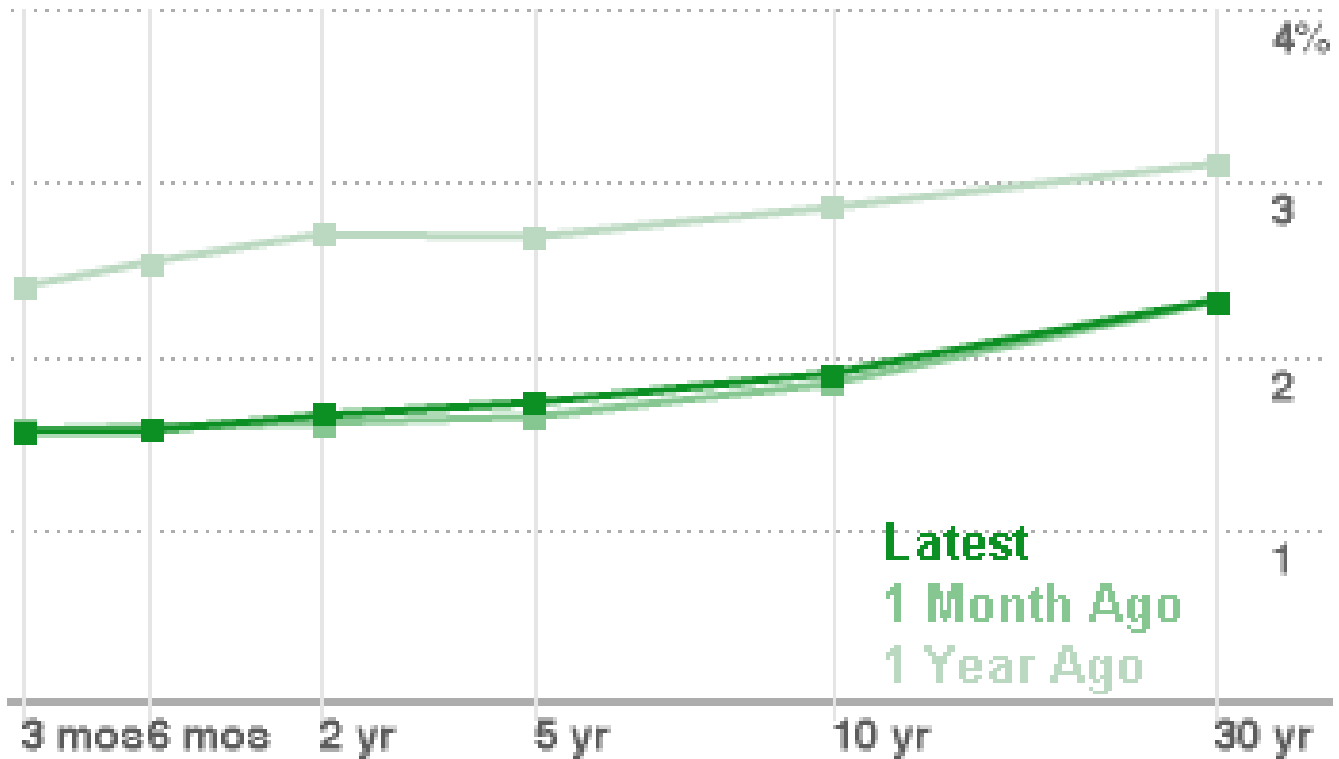


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The U.S. Yield curve has reversed its inverted appearance and is positively sloped. Yields remain close to all time lows. As stated last update, a positive aspect of the lower yields, is rates on mortgages are low, and re-financing debt obligations for those who can, still provides an opportunity for many.



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The Federal Reserve has recently indicated that it will continue to wait, as they left the target range for the fed funds rate unchanged at 1.50% to 1.75%. Median projection for the policy rate is unchanged for 2020, at this time.

- Wall Street's equity strategists see stocks posting far more modest gains next year compared to 2019, with the average S&P 500 target of 3,272 implying a little more than 5% gain.
- Morgan Stanley's Michael Wilson and UBS's Francois Trahan said that their forecasts for a decline in the S&P 500 stem from expectations of weak profits.
- Credit Suisse's Jonathan Golub, more bullish than his peers, told clients he sees "abundant" stock buybacks, smaller earnings headwinds and multiple expansion.

Our opinion is that 2020 could be another decent year for equities investors. We see the potential of a new trade deal with England becoming a bit easier to accomplish after the recent elections and continued negotiations with China, as key developments to look for. The 2020 Presidential race will certainly provide influence on traders and investors outlooks as we get closer to understanding who the candidates are and what

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their policy positions will be. There are some concerns with certain candidates' current stances on taxation and trade related issues, but ultimately it is too early in the process to make any determinations. One thing we believe is that once the front runner or runners are determined there will be plenty to compare and contrast with respect to current policy.

Having a disciplined investment and risk management process, regardless of market action, is the foundational elements to our portfolio designs. It is this portion of the approach of portfolio management, that helps consistently reduce the long run risk taken in a portfolio of investments. Speculating about near term directions in the markets can be and often is a difficult and risky proposition. We can control the risk and process we take in our portfolio construction, but we cannot control market performance.

Overall, we prefer domestic equities over international equities. We prefer more value-oriented stocks vs. growth stocks, currently. As we have stated in the past, value stocks tend to move more slowly in either direction, when the markets react to stimulus. In later stage economic environments, a tactical shift to overweighting value type stocks can reduce portfolio risk. As we watch interest rate policy decisions from the Federal Reserve and further developments on trade, we will be evaluating our stance and are looking at opportunities that exist in more of the growth areas, of the market. These are areas we are looking at, to continue to make tactical changes, over the course of the coming months. We are currently neutral on fixed-income and interest rates. It is important to maintain discipline regarding long-term strategic asset allocation. However, as market conditions dictate, we are looking at tactical opportunities to reduce risk in portfolios, if necessary.

If you have questions or would like to discuss this further regarding your personal portfolio, please contact me at 310-469-7254.



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