

# Quarter Update

- The S&P 500 capped its best year since 2013, extending the longest bull market in history. The S&P 500 also posted its best December gain since 2010.
- Powered by tech stocks, the Nasdaq Composite also had its strongest annual gain in six years, up 36.69%. The Dow Industrials gained the most since 2017, up 25.34%.
- Risk-on buying prevailed into high yield corporate bonds, outperforming their investment-grade fixed income counterparts.
- Gold and silver rallied the most since 2010, finishing the year at \$1,517/oz. and \$17.85/oz. respectively.

U.S. stocks posted impressive gains in 2019, capping one of Wall Street's strongest years of the decade with the S&P 500 notching a near-31.5% annual advance including dividends. That's the second-largest percentage gain over the past decade. Since the beginning of 2010, the S&P 500 has surged nearly 190%, or over 256% including dividends. Optimism for a U.S.-China trade deal, dovish central bank rate policy, and an improving economic outlook fueled sharp gains. The year culminated with President Trump saying he will sign the phase one trade deal in the White House on January 15.

During the fourth quarter, all three major U.S. equity indices simultaneously surged to multiple new record-highs and the Nasdaq Composite briefly topped 9,000 for the first time. The S&P 500 had just two losing weeks in the fourth quarter. Moreover, the 2019 rally proved to be among the smoothest bullish rides in history. For the year, the S&P 500 registered 149 positive trading days, the sixth highest number in any year dating back to 1929. The VIX, an index that measures investors' uncertainty, ended the quarter down over 15% and retreated nearly 46% from a year ago.

Equities also got a fourth quarter lift from strong holiday season shopping revenue, with record-setting online sales up 18.8% from a year ago. Stocks had emerged from a late summer slump prompted by fears that the U.S. and world economies were headed for recessions. Such fears were averted in large part to better-than-expected third quarter earnings and a third interest rate cut by the Federal Reserve that also energized the housing market.

By market capitalization, S&P 500 large cap stocks performed best in December, while Russell 2000 small caps slightly trailed. Russell mid cap companies underperformed, up 2.29%. A different picture emerged, however, on a quarterly basis, as small caps outperformed, up 9.94% and mid caps trailed, up 7.06%. The Russell 1000 Growth Index (+3.02%) outperformed Value (+2.75%) in December and more dramatically for the year, up 36.39% and 26.54% respectively -- nearly a 10-percentage point differential.

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W. James Steen, CFP®

jim@petrafin.com

(O) 937.294.9000

[www.petrafinancialsolutions.com](http://www.petrafinancialsolutions.com)

Top Performers – December	Bottom Performers – December <sup>1</sup>
Energy (+6.03%)	Industrials (-0.06%)
Technology (+4.49%)	Real Estate (+1.32%)
Healthcare (+3.59%)	Communication Services (+1.98%)
Top Performers – Fourth Quarter	Bottom Performers – Fourth Quarter <sup>1</sup>
Technology (+14.40%)	Real Estate (-0.54%)
Healthcare (+14.37%)	Utilities (+0.75%)
Financials (+10.47%)	Consumer Staples (+3.51%)
Top Performers – Full Year 2019	Bottom Performers – Full Year 2019 <sup>1</sup>
Technology (+50.29%)	Energy (+11.81%)
Communication Services (+32.69%)	Healthcare (+20.82%)
Financials (+32.13%)	Materials (+24.58%)

<sup>1</sup> Morningstar Direct (all performance percentages are total return based, which include reinvested dividend, interest)

As the preceding sector performance table shows, all 11 sector groups posted December gains, except Industrials. December gains were led by Energy companies, as OPEC and its allies cut their oil production quotas and a formalized trade deal emerged, boosting a healthy demand outlook. Technology was the clear sector winner in the fourth quarter and eclipsed a 50% gain for the year.

Internationally, foreign equity markets outperformed last month relative to the U.S. The MSCI EAFE, a measure of developed markets outside the U.S. and Canada, trailed the U.S. in the fourth quarter, while emerging markets markedly outperformed during the final three months of the year. Notably, in U.S. dollar terms, the Stoxx Europe 600 Index had its best annual performance in a decade, climbing over 25% to reach a new record-high. Globally, the MSCI All-Country World Index gained 8.95% in the fourth quarter and surged 26.60% in 2019, its fourth best performance of all time.

Thanks to tame inflation and an accommodative central bank, other asset classes had a winning year and additionally drew in foreign buyers. U.S. Treasuries, as measured by the Bloomberg Barclays U.S. Government Bond Index, returned 6.83% for the year while long-term U.S. Governments surged 14.75%. The yield on benchmark 10-year Treasury notes ended the year at 1.92%, down 77 basis points from where it ended in 2018.

In other fixed-income markets, investment-grade bonds of all types (as measured by the Bloomberg Barclays U.S. Aggregate Bond Index) outperformed safe-haven government debt in the fourth quarter and YTD. Municipal bonds underperformed relative to other investment-grade bonds last year. At the other end of the credit spectrum, the Bloomberg Barclays U.S. Corporate High Yield Index, the leading measurement of non-investment grade corporate bonds, outperformed in all three time periods.

In notable commodities, U.S. NYMEX West Texas crude oil capped its best annual increase since 2016, rising over 34% to top \$61/barrel. Gold climbed to a three-month high to cap its best yearly performance since 2010, up 18% to finish at just over \$1,517/oz. Silver rose 15%. Palladium was the top-performing metal this year, up 53%. The Bloomberg Commodity Index jumped 5.04% last month, extending 2019 gains to 7.69%.

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Taxable municipals, including Build America bonds and a small amount of foreign bonds traded in U.S. markets are also included. The Bloomberg Barclays US Municipal Bond Index covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds, and prerefunded bonds. Eligible securities must be rated investment grade (Baa3/BBB- or higher) by Moody's and S&P and have at least one year until final maturity, but in practice the index holdings have a fluctuating average life of around 12.8 years. The Bloomberg Barclays US Corporate High Yield Index measures the USD-denominated, non-investment grade, fixed-rate, taxable corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below, excluding emerging market debt. Payment-in-kind and bonds with predetermined step-up coupon provisions are also included. Eligible securities must have at least one year until final maturity, but in practice the index holdings has a fluctuating average life of around 6.3 years. The Barclays U.S. Government Bond Index is comprised of the U.S. Treasury and U.S. Agency Indices. The index includes U.S. dollar-denominated, fixed-rate, nominal US Treasuries and US agency debentures (securities issued by US government owned or government sponsored entities, and debt explicitly guaranteed by the US government). The Bloomberg Commodity Index is a broadly diversified index that allows investors to track commodity futures through a single, simple measure. It is composed of futures contracts on physical commodities and is designed to minimize concentration in any one commodity or sector. It currently includes 19 commodity futures in five groups. No one commodity can comprise less than 2% or more than 15% of the index, and no group can represent more than 33% of the index (as of the annual reweightings of the components). The Cboe Volatility Index® (VIX®) is a key measure of market expectations of near-term volatility conveyed by S&P 500 stock index option prices. The MSCI EAFE is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. The MSCI Emerging Markets is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index. The MSCI All-Country World Index (ACWI) is a market cap weighted index designed to represent performance of the full opportunity set of large- and mid-cap stocks across 23 developed and 26 emerging markets.1 As of December 2018, it covers more than 2,700 constituents across 11 sectors and approximately 85% of the free float-adjusted market capitalization in each market. 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 Index companies with higher price-to-book ratios and higher forecasted growth values. 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 Index companies with lower price-to-book ratios and lower forecasted growth values The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The Russell 3000 Index measures the performance of the largest 3,000 U.S. companies representing approximately 98% of the investable U.S. equity market. The Russell Midcap Index measures the performance of the mid-cap segment of the U.S. equity universe and is a subset of the Russell 1000 Index. It includes approximately 800 of the smallest securities based on a combination of their market cap and current index membership. The Russell Midcap represents approximately 31% of the total market capitalization of the Russell 1000 companies. The S&P BSE SENSEX Index is a free-float market-weighted index of 30 well-established and financially sound stocks on the Bombay Stock Exchange, representative of various industrial sectors of the Indian economy. The S&P 500 is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries. The Dow Jones Industrial Average is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange and the NASDAQ. The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based capitalization-weighted index. The U.S. Dollar Index is a weighted geometric mean that provides a value measure of the United States dollar relative to a basket of major foreign currencies. The index, often carrying a USDX or DXY moniker, started in March 1973, beginning with a value of the U.S. Dollar Index at 100.000. It has since reached a February 1985 high of 164.720, and has been as low as 70.698 in March 2008. West Texas Intermediate (WTI) is a crude oil stream produced in Texas and southern Oklahoma which serves as a reference or "marker" for pricing a number of other crude streams. WTI is the underlying commodity of the New York Mercantile Exchange's oil futures contracts.