

COMMENTARY

On the first day of Christmas ~~my true love~~ the equity market gave to me, a bullish stock market for 2019! If your house is like mine, the holiday music starts right after Thanksgiving so with that, we are going to review twelve topics (“The 12 Days of Christmas”) of 2019 before we jump into our 2020 outlook next month. No disrespect to any other holidays, it is strictly due to the fact that the song is stuck in my head.

1. 2018 4th quarter selloff is the end of the bull market – most investors were very cautious at the start of 2019 with the market pretty much in free fall from the last quarter of 2018. A quick recovery alleviated those fears.
2. FOMC reversing course – Federal Open Market Committee (FOMC) had been raising rates since 2015, but reversed course in 2019 and cut the Fed Funds Rate three times.
3. Trade War with China – A potential trade deal has been more whipsawing for you neck than a tennis match. On again and off again all year.
4. Growth vs Value – Growth again dominated Value with the Russell 1000 Growth Total Return (TR) Index return 32.40% and the Russell 1000 Value TR Index return 23.15% year-to-date (YTD). (Source: Morningstar Direct 12/4/2019 data)
5. Large Cap vs Small Cap – Small cap has been out of favor for a while and 2019 was no different. S&P 500 TR Index returned 27.63% and Russell 200 TR Index returned 22.01% YTD. (Source: Morningstar Direct 12/4/2019 data)
6. Brexit – the never ending story for Europe with no clear end in sight. The United Kingdom voted to leave the European Union in June 2016 and we are still waiting for a break from the EU to officially happen.
7. U.S. vs Non-U.S. – S&P 500 TR Index returned 27.63% and MSCI ACWI Ex USA Net Return Index returned 16.47%. (Source: Morningstar Direct 12/4/2019 data) Since the end of the financial crisis, the U.S. market has been the favorite for investors. The question is not “if” but “when” non-U.S. markets will start to outperform.

ECONOMIC HIGHLIGHTS

S&P 500	3,140.98
DIJA	28,051.41
NASDAQ	8,665.47
OIL	\$55.17/BARREL
GOLD	\$1,472.70/OUNCE
10-YEAR TREASURY FIELD	1.77%
UNEMPLOYMENT	3.60%
GDP	2.10% (Q3 2ND EST)
CONSUMER PRICE INDEX (CPI)	0.4% (12 MO CHANGE +1.8%)
CORE CPI	0.2% (12 MO CHANGE +2.3%)



The University of Michigan's US consumer sentiment index unexpectedly rose to 96.8, up from 95.5 last month. A strong US consumer is a good sign heading into the holiday season.



Housing starts came in at 1.314 million, slightly below expectations. However, permits came in well above expectations at 1.461 million. This is the strongest permits number since 2007 but is still nowhere near the pre-housing crisis permit numbers. (Sept 2005 permits was 2,263 million!)



November's ISM manufacturing index came in at 48.1 percent. This was lower than expected, and the fourth consecutive month of a sub-50 reading. Readings below 50 indicate a contracting manufacturing sector.



8. S&P 500 Sector Performance – all 11 sectors have positive returns YTD, but only four sectors have outperformed the S&P 500 – Technology, Industrials, Financials, and Communications Services. (Source: Morningstar Direct 12/4/2019 data)
9. Impeachment – President Trump is facing an impeachment proceeding on accusation of pressuring Ukraine’s President Volodymyr Zelensky to investigate Joe Biden and his son Hunter in exchange for U.S. foreign aid.
10. Fixed Income – Taxable bonds, municipal bonds, and money market funds have all seen positive flows over the last year (as of Oct. 31st) per Morningstar fund flow data.
11. Sentiment – for much of 2019, investors’ sentiment has been cautious concerning the market but as noted above, the S&P is having a really solid year.
12. Sneak peak of 2020 – we see some potentially concerning economic data points, but the market is telling us to be bullish and we’re going to listen to that.

Our long-term view (multiple years) of equity markets continues to be bullish. The market is still in the middle part of a secular bull market, with the previous two secular bull markets lasting 17 years. Inside of a long-term secular bull market, a bear market and a recession are expected, but we currently do not project a recession in the next 6-12 months. Our S&P 500 target at the beginning of the year was 2800 which we revised in our August newsletter to an S&P 500 target of 3200 (only one more month to get there!). Global equity markets have lagged the U.S. markets since the Great Financial Crisis, but we believe a well-diversified portfolio benefits investors over the long-term. Emerging markets has lagged throughout much of the year, but our long-term views are still bullish. According to J.P. Morgan Asset Management, 90 percent of all the future growth in the global middle class will come from Emerging Market investments. In Fixed Income, portfolios are starting to shift to a more core/investment grade allocation. In the coming months, we will be moving out of floating rate bonds and allocate more to investment grade quality bonds. This move will help us be more conservative and protect on the downside if our bullish call does not play out. Our research team is continually evaluating our products and tactical positions inside both the fixed income portfolio and equity portfolio by looking at both larger trends and short-term opportunities. With daily monitoring of individual accounts, we continue to rebalance accounts when they fall too far from their equity-to-fixed income ratio.

MARKET TRACKER

INDEX	3 MO	1 YR	3 YR	5 YR
S&P 500	7.86%	16.11%	14.88%	10.98%
MSCI EAFE	7.76%	12.44%	9.62%	4.26%
BAR AGG BOND	-0.28%	10.79%	4.10%	3.08%



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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks and is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange. The MSCI EAFE index 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 Barclays Capital U.S. Aggregate Bond Index, which used to be called the 'Lehman Aggregate Bond Index', is a broad base index, maintained by Barclays Capital, and it often used to represent investment grade bonds being traded in the U.S. Barclays Capital (BarCap) U.S. Aggregate Bond Index is made up of the Barclays Capital U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million.

JEN@GBAFINANCIAL.COM
217.498.8575 | 855.778.8883
FAX: 217.498.9299



ROCHESTER STATION
203 SOUTH WALNUT / PO Box 528
ROCHESTER, IL 62563