ROCKLAND TRUST | Investment Management Group

Happy New Year!

From everyone here at IMG we hope your Holiday season was a good one and you are off to a great start in this new decade. Each New Year offers an exciting opportunity to continue building on what you started and in other areas create a fresh start. We had a great year of growth and are already off to the races building on the areas that matter most to our clients and exploring new areas that will benefit our clients and our business.

2019 could be summed up as an unusually pleasant year in the markets due to both stocks and bonds performing well. Typically the relationship between stocks and bonds is when one is strong the other tends to be weaker and vice versa, however 2019 bucked that trend. This trend may not continue which is why it is very important to have a diverse mix of investments in your portfolio.

Before we look ahead to a new decade, let’s take a moment to look back and review the latest market and economic activities over the fourth quarter of 2019 from our team of experts. For additional in-depth analysis, you may view recordings of our team as they share insights on various local and national media outlets, as well as our latest monthly Market Watch at www.RocklandTrust.com/Wealth&Investments.

Key Takeaways from Q4 2019:

- The Fed was an important influence of 2019 with falling interest rates, low inflation, and accommodative central bank policy resulting in robust returns across all asset classes for investors
- Geopolitical uncertainty and trade tension were and are much bigger risks to the ageing bull market than the US economy, particularly the US consumer
- The early signs of the bursting Private Equity Unicorn bubble – WeWork, Uber, and Lyft all ended the year down more than 50% from their previous peaks, while the stock market was at an all-time high

US Economy

2019 marked another strong year for the US economy. Consumer spending remains very healthy, unemployment is at 50-year low levels (3.5%), inflation is holding steady, and the jobs market added an average of 205,000 jobs per month in Q4. On a more negative note, business investment spending declined in 2019 and manufacturing fell to its lowest level since 2009, caused to some extent by heightened trade tensions.

As 2019 progressed, the pace of year-over-year Real GDP growth decelerated from 3.1% to 2.1%, reflecting the impact from US/China trade tensions and the fading benefits from the Tax Cuts and Jobs Act. While the official numbers have not been released, early economic indicators suggest that the pace will remain around 2.0% in Q4 2019. This is in-line with the 2.3% average rate we have witnessed over this past decade.

We are entering an uncertain election year in 2020 and the 11th year of this record economic expansion. As 2020 unfolds, there are a number of uncertainties on the minds of investors, including US tensions with China and Iran, US Fed policy, global growth, and potential election outcomes. We can’t predict what the economy will do in 2020, therefore it remains extremely important for investors to ensure that their investments are appropriately positioned and well-diversified so that they can meet their financial goals regardless of the outcomes of future uncertain events.

Traditional Asset Class Returns Q4 2019

Asset Class	Benchmark	Q4	2019
US Stocks	S&P 500	9.07%	31.49%
US Gov’t Bonds	BbgBarc US Govt Intermediate	0.01%	5.20%
Cash	BbgBarc US Treasury Bill 1-3 Mon	0.44%	2.21%

US Stocks

Strength in the economy, easing trade tensions, and a dovish Fed that cut rates three times in 2019 were all catalysts that led to markets finishing sharply higher in 2019. The S&P 500 rose +9.07% higher on a total return basis in Q4 and +31.49% for the year. 10 out of the 11 S&P 500 sectors had positive returns in the quarter. Information Technology and Healthcare were the best performing sectors, both returning +14.4%. Information Technology was the big winner for the year returning +50.3%, due to strong performance from names such as Microsoft (+58%) and Apple (+89%). The laggards for the quarter were the bond proxy sectors, Real Estate and Utilities, who were hurt by rising bond yields and an increase in risk appetite. The worst performing sector in 2019 was the Energy sector, which returned 11.8%, despite a 34% increase in West Texas Intermediate (WTI) crude oil prices.

From a market capitalization perspective, Small Cap stocks (Russell 2000: +9.94% QTD, +25.52% YTD) outperformed Large Cap stocks (S&P 500: +9.07% QTD, +31.49% YTD) in the quarter, but Large and Mid-Cap US stocks outperformed over the past year. From a style perspective, Growth stocks (+10.67% QTD, +35.85% YTD) outperformed Value stocks (+7.48% QTD, +26.26% YTD) both in the quarter and over the past year.

US Bonds

Similar to the US equity market, the fixed income market experienced exceptionally strong returns in 2019. Throughout the year we saw interest rates decline as a result of concerns of slowing global growth, escalating trade tensions between China and the US, global political issues, and uncertainty regarding the Brexit deal. With growing recessionary fears, the Federal Reserve shifted its monetary policy to a more accommodative stance and cut the discount rate three times. The latest rate cut came in October, reducing the Federal Funds rate range to 1.50%-1.75%.

However, during the 4th quarter we saw the market sentiment begin to shift more positively as the Fed continued its accommodative policy and other global central banks took additional easing actions. Additionally, China and the US agreed to a phase-one trade deal in December which delayed any new tariffs from being implemented and reduced many of the existing tariffs bringing some relief to the market. Interest rates for the 4th quarter rose on these headlines with the 10-year Treasury finishing at 1.92% (76 basis points lower than where we started the year) and coming off a 2019 low of 1.46% in early September. Strong demand and positive headlines also drove both investment grade and high-yield spreads tighter, boosting the fixed income credit markets.

With both interest rates and credit spreads moving favorably for bond returns (bond yields move inversely to prices), we saw strong absolute returns across the fixed income spectrum. As we look to 2020, the Fed has stated that they are in a holding pattern as they continue to gauge both the domestic and global economy. We expect strong supply with Federal spending slated to increase and sustained demand, particularly from global investors as over $11 Trillion in global bonds remains priced at negative yields as of year-end. With strong global and domestic demand, long-term interest rates have continued to be held lower.

Diversifying Asset Classes

Given the strength in domestic equity markets, many diversifying equity asset classes failed to add value this year. While REITs, Managed Futures, Small/Mid Cap stocks, and MLPs all produced positive absolute returns, they all underperformed the S&P 500 in 2019. However, on the fixed income side, diversifying fixed income asset classes have added value as investor risk appetite increased. The most volatile fixed income sectors, such as Emerging Market bonds, High Yield bonds, and Convertible bonds all significantly outperformed Intermediate US government and corporate bonds in 2019.

Asset Class	Benchmark	Q4	2019
Foreign Stocks	MSCI EAFE	8.17%	22.01%
Emerging Markets Stocks	MSCI Emerging Markets	11.84%	18.42%

US Mid Cap Stocks	Russell Mid-Cap	7.06%	30.54%
US Small Cap Stocks	Russell 2000	9.94%	25.52%
REITs	MSCI US REIT	-0.78%	25.84%
Commodities	Bloomberg Commodity	4.42%	7.69%
MLPs	Alerian MLP	-4.08%	6.56%
Managed Futures	Morningstar US Managed Futures	-2.62%	4.67%
Foreign Bonds	FTSE WGBI Non-USD	-0.07%	5.32%
Emerging Market Bonds	JPM EMBI Global	2.09%	14.42%
US Inflation Protected Bonds	BbgBarc US Treasury TIPS	0.79%	8.43%
Floating Rate Loans	Credit Suisse Leveraged Loan	1.68%	8.17%
US High Yield Bonds	BbgBarc US Corp High Yield	2.61%	14.32%
Convertible Bonds	ICE BofAML Convertible Bonds	7.38%	23.15%

Conclusion

As we look ahead to 2020 here are few key takeaways we are keeping an eye on. All the major economic signs point to a continued global expansion lead by the following:

- Continued strength in the labor markets
- US Fed and Global Central bank monetary policy to remain accommodative
- A better than even chance that US/China trade negotiations continue on an improving path

With 2020 being an election there is a higher than average level of uncertainty. As is the case with any year, this year will have its own set of developments affecting both the markets and economy. Regardless of the outcome of any future event, our team is always available to answer any questions and committed to ensuring your investments are appropriately positioned and well-diversified so you can meet your financial goals.

Sincerely,

David B. Smith, CFA
Chief Investment Officer
Investment Management Group

NOTE: Due to our recent system conversion, year-to-date information on your 12/31/19 statements will have a beginning date of 9/01/19. As such, the information is not reflective of full year activity. If you have questions please contact your Relationship Manager.