HB RETIREMENT®

FINANCIAL MARKET SNAPSHOT

Holiday Celebration

January 6, 2020

Equity gains accelerated materially in December; as better economic sentiment; U.S./China trade progress; and good, old-fashioned market momentum contributed to a holiday rally.

Global equity markets rolled through December with gains that were above most expectations. Central bank liquidity injections and signs of improved economies were some of the catalysts for the extended rally. Some better economic numbers in the U.S. and China likely had investors dialing-down anticipated trade risks. Meanwhile, a December U.K. election reduced Brexit tensions as it appears U.K. Conservatives lit a path toward a European Union exit. Tack on some notable market momentum and you get a recipe for the best December for the S&P 500 Index since 2010.

While U.S. equities rallied in the month, emerging market equities led the world through the period as the U S dollar maintained a modest downtrend. Additional Brexit clarity and a rebound in beaten-down European markets cleared the way for MSCI EAFE Index gains (+3.27) as well.

Table 1: Notable Returns / Yields / Spreads: September - December 2019

Source: Bloomberg

Note: BBG Barc = Bloomberg Barclays; 10Yr Treasury Yield figures as of the end of the month

High Yield Corp Spreads = Yield-to-Worst differential vs. 10Yr Treasury (end of month)

	Sept '19	Oct '19	Nov '19	Dec '19
S&P 500 Index	1.87%	2.16%	3.63%	3.01%
MSCI EAFE Index	2.89%	3.60%	1.16%	3.27%
MSCI Emerging Markets Index	1.90%	4.23%	-0.13%	7.35%
BBG Barc U.S. Aggregate Bond Index	-0.53%	0.30%	-0.05%	-0.07%
10-Year Treasury Yield	1.67%	1.70%	1.78%	1.92%
U.S. HY Corp Spread (10Yr)	3.97%	4.01%	3.81%	3.27%

Although the equity upside was well-received, the prevailing equity rally has now caused valuations to become a bit extended, and P/E ratios are above their long-term averages. Notably, valuations are materially higher than they were a year ago, when the substantial 2019 equity market performance (S&P 500 Index up 31.5% for the year) was just getting started.

Core bond markets, meanwhile, suffered a mild December downdraft as investors grew increasingly comfortable taking equity and non-core fixed-income risk. As evidence; U.S. corporate high yield and emerging debt markets finished to the upside. Commodity prices surged; paced by a lift in oil prices and gains across the agriculture complex. The latter was driven by an expected rise in China demand for U.S. agricultural products that would

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potentially follow improved trade relations. Oil prices moved higher on news of OPEC production cuts and the better U.S./China trade sentiment.

We maintained an equity overweight position through December, but carried some additional cash to buffer against a market that has become somewhat overbought.

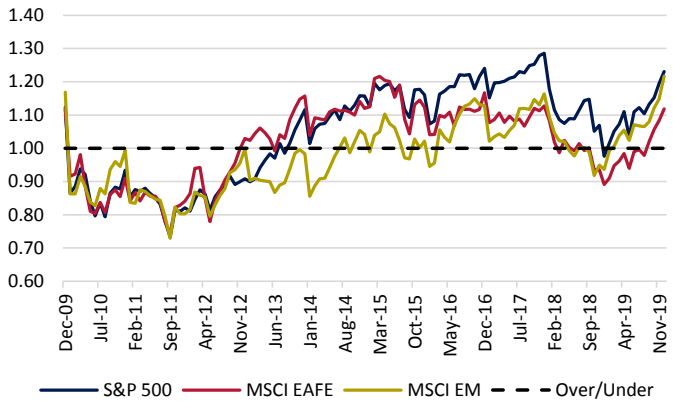
We remained overweight equities relative to bonds through the month of December, although we carried some additional cash along the way. Our modest, tactical cash position was driven by technical trend indicators that began to show a market that became a bit overbought. While we were positioned to capture the equity rally, we maintained cash as a buffer against the increased risk of a follow-on sell-off. Historically, the equity market has shown a tendency to give back some gains in the quarters following a substantial rally.

If we couple the modestly overbought equity condition with high valuations and recent additions to geopolitical risk (given rising U.S./Iran tensions), we believe investors should step carefully in the ensuing weeks/ months. Strategically, we will be looking to reduce our overall equity exposure while maintaining our essential tactical flexibility. While we are all glad to book material equity returns in 2019, we suggest investors avoid recklessly extrapolating that good fortune into the new year.

While the fourth quarter went largely as we anticipated, equities have gotten a bit stretched as historical valuations indicate.

Chart at Right: Numbers above one indicate price-to-earnings (PE) valuations are above their 10yr average.

Figure 1: Global Equity Indices - Forward PE / Rolling 10yr PE Avg. Ratio
Source: Bloomberg



Risks

Investors should be aware of the risks associated with all portfolio strategies, and variable market conditions. Monetary policy changes, military activity abroad, the level and change in market interest rates, corporate earnings, domestic and foreign governmental policies, global economic data, and other geopolitical events can have a substantial effect on portfolio performance, our macroeconomic theories, and the effectiveness of strategic and tactical portfolio approaches.

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Our judgement or recommendations may differ materially from what may be presented in a long-term investment plan. Investors should consult with an investment advisor to determine the appropriate investment strategy and investment vehicle. Investment decisions should be made based on the investor's specific financial needs and objectives, goals, time horizon and risk tolerance.

There is no guarantee that a diversified portfolio will enhance overall returns or outperform a non-diversified portfolio. Diversification does not ensure against market risk.

Stock investing involves risk including loss of principle.

The fast price swings in commodities and currencies will result in significant volatility in an investor's holdings.

Precious metal investing involves greater fluctuation and potential for losses.

Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price.

High yield/junk bonds (grade BB or below) are not investment grade securities and are subject to higher interest rate, credit, and illiquidity risks than those graded BBB and above. They generally should be part of a diversified portfolio for sophisticated investors.

The MSCI EAFE Index is a free float –adjusted market capitalization index that is designed to measure the equity market performance of developed markets, excluding the U.S. and Canada.

The MSCI EM (Emerging Markets) Index is a free float-adjusted market capitalization index that is designed to measure the equity market performance of the emerging market countries of the Americas, Europe, the Middle East, Africa and Asia.

The S&P 500 Index 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 the major sectors of the U.S. economy.

The Bloomberg Barclays U.S. Aggregate Bond Index is an index of the U.S. investment grade fixed-rate bond market, including both government and corporate bonds.

Except for the historical information contained in this report, certain matters are forward-looking statements or projections that are dependent upon risks and uncertainties, including but not limited to such factors and considerations such as general market volatility, global economic risk, geopolitical risk, currency risk and other country-specific factors, fiscal and monetary policy, the level of interest rates, security-specific risks, and historical market segment or sector performance relationships as they relate to the business and economic cycle.

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