HB RETIREMENT®

FINANCIAL MARKET SNAPSHOT

Further Momentum

December 4, 2019

With the backdrop of improved economic sentiment, U.S. equities have now put in three straight months of gains.

As we anticipated, equity markets have recovered from late-summer lackluster performance and continued to put in notable gains in November. Again, as expected, U.S. stocks outperformed the rest of the world as the S&P 500 Index rose 3.6% for the month. The primary catalyst for the better performance was the improvement in investor sentiment, prompted by early indications the U.S. economy is poised to recover from a mid-cycle slump. Low inventories (that need to be replenished) and a troughing of manufacturing activity now has investors believing we may indeed be witnessing another mid-cycle bump in the road rather than a full blown economic stall. This view has coincided with our line of thinking since September. Meanwhile, the U.S. and China seem to be moving toward some near-term trade resolution that could ease prevailing tensions.

In the bond market, the better sentiment caused U.S. corporate high-yield spreads to narrow (bond prices moved up), although volatility in that market was high. Demand for high-yield, emerging markets and other non

Table 1: Notable Returns / Yields / Spreads: August — November 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)

	Aug '19	Sept '19	Oct '19	Nov '19
S&P 500 Index	-1.58%	1.87%	2.16%	3.63%
MSCI EAFE Index	-2.56%	2.89%	3.60%	1.16%
MSCI Emerging Markets Index	-4.85%	1.90%	4.23%	-0.13%
BBG Barc U.S. Aggregate Bond Index	2.59%	-0.53%	0.30%	-0.05%
10-Year Treasury Yield	1.50%	1.67%	1.70%	1.78%
U.S. HY Corp Spread (10Yr)	4.22%	3.97%	4.01%	3.81%

-core areas of the market seemed orderly as investors kept their risk appetites somewhat in-check. Overall, the Bloomberg Barclays U.S. Aggregate Bond Index lost ground as Treasury yields moved up and Treasury bond prices fell slightly. Despite the better sentiment noted above, investors were not quick to stray too far from their core bond exposure. Meaning, we believe the structural downward pressure on interest rates remains predominant in the market and thus prevailing demand for Treasuries could stay with us for some time. This may keep interest rates capped over the intermediate term.

As we step through the early days of December, we begin to recall the

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phenomenon that this month is historically a good one for equity markets—December has been the third best month for the S&P 500 Index on average. When December is going well, the days just ahead and just after December 25 are notably bullish, historically. While U.S./China trade talks and Brexit uncertainty should keep folks on their toes, we do not expect a repeat of the dreadful December market we witnessed last year.

As we look more constructively toward the last trading days of the year, we are suggesting investors remain positioned for a potential continuation of the sentiment we have seen over the last three months. The basis for this is our view that the economy is indeed set to recover from its mid-year slump and we anticipate overall favorable news from U.S./China deliberations.

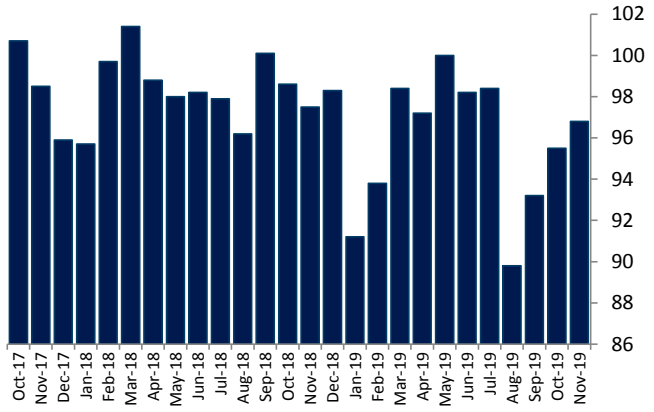
We have increased our tactical cash position slightly but remain overweight equities.

Meanwhile, our tactical equity model has called for us to take a few chips off the table, given the three month run in equity prices. Thus, we have raised our cash position just slightly. Importantly however, our overall equity position is still positive and suggests that we anticipate equities to outperform bonds through the end of the year.

Figure 1: U. of Michigan Consumer Confidence
Source: U. of Michigan

Consumer sentiment has recovered in conjunction with overall economic and market sentiment.

We believe this could help set the table for favorable holiday retail activity.



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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