LEGACY & RESPONSIBILITY TO FAMILY

MACRO MUSINGS

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2019 YEAR IN REVIEW

SUMMARY

- **The positive MACROCAST™ score is being driven by strength in the Aggregate Economy indicators. The negatives are almost exclusively in the Valuation category.**
- **While 2018 saw muted returns across the board, 2019 will go down as the year that everything worked. Equities, bonds, and precious metals all saw higher than average returns.**
- **The market was up over 30% in 2019. Past instances of similarly strong market returns were followed by more gains in the next year.**

MINK WEALTH MANAGEMENT
LEGACY & RESPONSIBILITY TO FAMILY

2019: THE YEAR EVERYTHING WORKED?

If 2018 was the year nothing worked (see last January's Macro Musings), 2019 was the exact opposite. Risk assets across the globe were up double digits. US bonds had their best year since 2002. Even gold showed some life, returning over 18%; its best year since 2010.

Cash, which was the only major asset class with a positive return in 2018, was the worst performing asset class in 2019.

ASSET CLASS REVIEW

Asset Class Returns

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
EM 34.5%	REIT 35.1%	EM 39.8%	HG Bnd 5.2%	EM 79.0%	REIT 28.0%	REIT 8.3%	REIT 19.7%	Sm Cap 38.8%	REIT 28.0%	REIT 2.8%	Sm Cap 21.3%	EM 37.8%	Cash 2.0%	Lg Cap 31.5%
Int'l Stk 14.0%	EM 32.6%	Int'l Stk 11.6%	Cash 1.4%	HY Bnd 57.5%	Sm Cap 26.9%	HG Bnd 7.8%	EM 18.6%	Lg Cap 32.4%	Lg Cap 13.7%	Lg Cap 1.4%	HY Bnd 17.5%	Int'l 25.6%	HG Bnd 0.0%	REIT 28.7%
REIT 12.2%	Int'l Stk 26.9%	AA 7.6%	AA -22.4%	Int'l Stk 32.5%	EM 19.2%	HY Bnd 4.4%	Int'l Stk 17.9%	Int'l Stk 23.3%	AA 6.9%	HG Bnd 0.6%	Lg Cap 12.0%	Lg Cap 21.8%	HY Bnd -2.3%	Sm Cap 25.5%
AA 8.9%	Sm Cap 18.4%	HG Bnd 7.0%	HY Bnd -26.4%	REIT 28.0%	HY Bnd 15.2%	Lg Cap 2.1%	Sm Cap 16.4%	AA 11.5%	HG Bnd 6.0%	Cash 0.1%	EM 11.6%	Sm Cap 14.7%	REIT -4.0%	Int'l Stk 22.7%
Lg Cap 4.9%	AA 16.7%	Lg Cap 5.5%	Sm Cap -33.8%	Sm Cap 27.2%	Lg Cap 15.1%	AA 0.3%	Lg Cap 16.0%	HY Bnd 7.4%	Sm Cap 4.9%	Int'l Stk -0.4%	REIT 8.6%	AA 14.6%	Lg Cap -4.4%	AA 18.9%
Sm Cap 4.6%	Lg Cap 15.8%	Cash 4.4%	Lg Cap -37.0%	Lg Cap 26.5%	AA 13.5%	Cash 0.1%	HY Bnd 15.6%	REIT 2.9%	HY Bnd 2.5%	AA -1.3%	AA 7.2%	REIT 8.7%	AA -5.6%	EM 18.9%
Cash 3.2%	HY Bnd 11.8%	HY Bnd 2.2%	REIT -37.7%	AA 24.6%	Int'l Stk 8.2%	Sm Cap -4.2%	AA 12.2%	Cash 0.1%	Cash 0.0%	Sm Cap -4.4%	HG Bnd 2.7%	HY Bnd 7.5%	Sm Cap -11.0%	HY Bnd 14.4%
HY Bnd 2.7%	Cash 4.7%	Sm Cap -1.6%	Int'l Stk -43.1%	HG Bnd 5.9%	HG Bnd 6.5%	Int'l Stk -11.7%	HG Bnd 4.2%	HG Bnd -2.0%	EM -1.8%	HY Bnd -4.6%	Int'l Stk 1.5%	HG Bnd 3.5%	Int'l Stk -13.4%	HG Bnd 8.7%
HG Bnd 2.4%	HG Bnd 4.3%	REIT -15.7%	EM -53.2%	Cash 0.2%	Cash 0.2%	EM -18.2%	Cash 0.1%	EM -2.3%	Int'l Stk -4.5%	EM -14.6%	Cash 0.3%	Cash 1.0%	EM -14.3%	Cash 2.1%

Abbr.	Asset Class – Index	Annual	Best	Worst
Lg Cap	Large Cap Stocks – S&P 500 Index	9.00%	32.4%	-37.0%
Sm Cap	Small Cap Stocks – Russell 2000 Index	7.92%	38.8%	-33.8%
Int'l Stk	International Developed Stocks – MSCI EAFE Index	5.33%	32.5%	-43.1%
EM	Emerging Market Stocks – MSCI Emerging Markets Index	7.85%	79.0%	-53.2%
REIT	REITs – FTSE NAREIT All Equity Index	8.35%	35.1%	-37.7%
HG Bnd	High Grade Bonds – Barclay's U.S. Aggregate Bond Index	4.15%	7.84%	-2.0%
HY Bnd	High Yield Bonds – BofAML US High Yield Master II Index	7.35%	57.5%	-26.4%
Cash	Cash – 3 Month Treasury Bill Rate	1.30%	4.7%	0.0%
AA	Asset Allocation Portfolio*	6.97%	24.6%	-22.4%

Past performance does not guarantee future returns. The historical performance shows changes in market trends across several asset classes over the past fifteen years. Returns represent total annual returns (reinvestment of all distributions) and does not include fees and expenses. The investments you choose should reflect your financial goals and risk tolerance. For assistance, talk to a financial professional. All data are as of 12/31/19.
*Asset Allocation Portfolio is made up of 15% large cap stocks, 15% international stocks, 10% small cap stocks, 10% emerging market stocks, 10% REITs, 40% high-grade bonds, and annual rebalancing.

Some additional insights:

1. ***US Stocks led equities (again).*** The rebound in risk assets was broad, with every major equity asset class up double digits.US large-cap stocks led the group for the 2nd consecutive year.
2. ***Despite the big rebound in stocks, bonds did great.*** The Aggregate Bond index returned close to 9% (its best year since 2002!) driven by strong returns in high yield and corporate bonds, as well as three rate cuts by the Federal Reserve.
3. ***Emerging markets were the worst performing equities in 2018 and 2019.*** Emerging markets went from being first to worst from 2017 to 2018. Often, you'll see the worst performing asset class rebound significantly in the following year (see emerging markets from 2008 to 2009), but that wasn't the case in 2019.
4. ***The S&P 500 outperformed Novel's Asset Allocation strategy for the 11th consecutive year.*** Novel Investor outlines a basic asset allocation portfolio (60% equities/40% fixed income), which is included in the above table under AA. We first highlighted the recent weakness of the Asset Allocation portfolio in 2015. In 2019, the S&P once again outperformed the AA portfolio. Even with a large bond allocation, the AA model consistently outperformed the S&P 500 from 2000-2008.

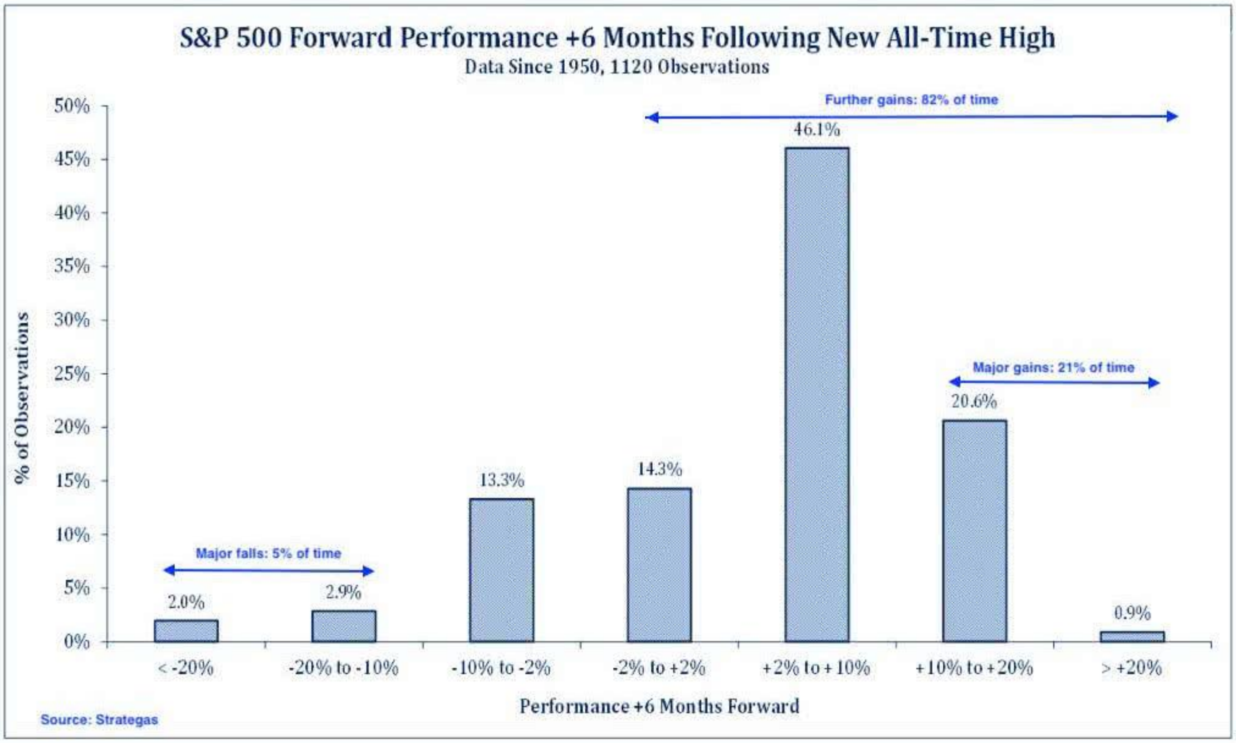
WHAT STRONG PERFORMANCE IN 2019 COULD MEAN FOR THE COMING YEAR

Strong performance often begets strong performance. The S&P 500 was up over 30% in 2019; and historically, big gains in a calendar year saw further upside the following year (table from Canaccord Genuity):

SPX ≥ 25%			Following Year		
Year	SPX	% Chg	Year	SPX	% Chg
12/31/1958	55.21	38.06%	12/31/1959	59.89	8.48%
12/31/1975	90.19	31.55%	12/31/1976	107.46	19.15%
12/31/1980	135.76	25.77%	12/31/1981	122.55	-9.73%
12/31/1985	211.28	26.33%	12/31/1986	242.17	14.62%
12/29/1989	353.4	27.25%	12/31/1990	330.22	-6.56%
12/31/1991	417.09	26.31%	12/31/1992	435.71	4.46%
12/29/1995	615.93	34.11%	12/31/1996	740.74	20.26%
12/31/1997	970.43	31.01%	12/31/1998	1229.23	26.67%
12/31/1998	1229.23	26.67%	12/31/1999	1469.25	19.53%
12/31/2003	1111.92	26.38%	12/31/2004	1211.92	8.99%
12/31/2013	1848.36	29.60%	12/31/2014	2058.9	11.39%
12/31/2019					
Source: Bloomberg/ Canaccord Genuity				Avg.	10.66%
				Median	11.39%
				% Pos.	81.8%

Note: the only two down years in this sample occurred either during or leading into a recession.

Further, the market achieved multiple all-time highs in the 4th quarter and several more at the start of 2020. Far from being a negative, markets reaching new all-time highs often see above average returns going forward (chart from Strategas):

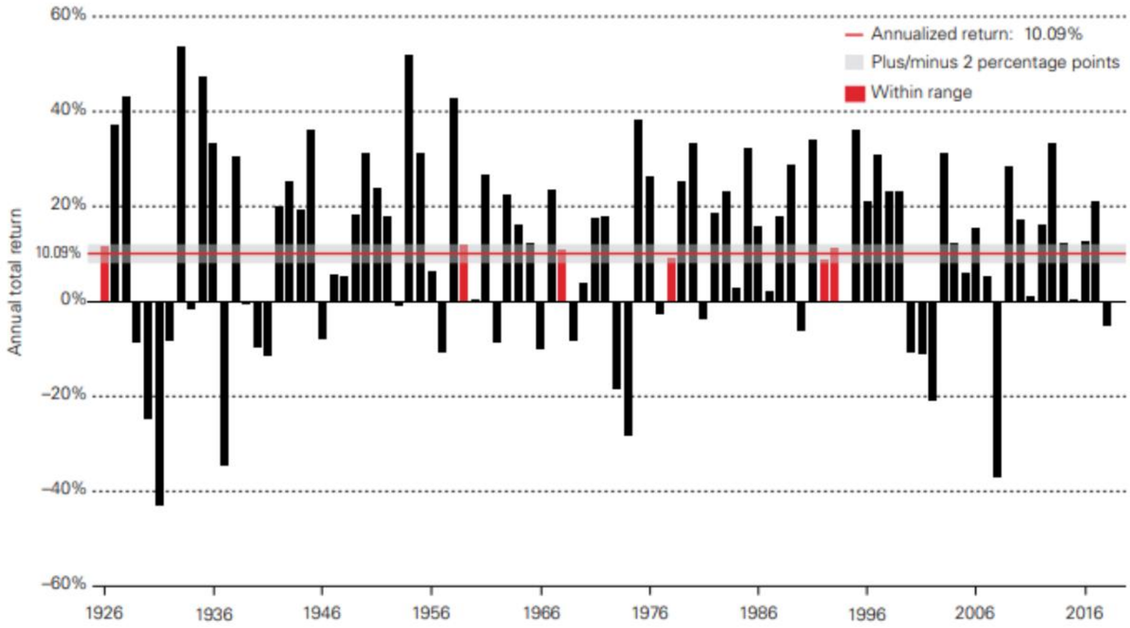


Six months after a new all-time high, stocks were up between 2% and 20%. More importantly, they were only down double digits 5% of the time. With momentum in our favor and a positive MACROCAST™ score, we are confident that a market decline similar to 2018 is unlikely in the coming months.

WHATEVER HAPPENS, AN "AVERAGE" RETURN IN 2020 IS UNLIKELY

The S&P 500 has averaged close to a 10% return per year since 1926. But that doesn't mean most years have been anywhere close to that number. Annual returns rarely come close to the average with the market rising between 8% and 12% in only 6 of the past 93 years (chart from Vanguard):

U.S. stock market, 1926–2018
Returns fell within 2 percentage points of the annualized return of 10.09% in only 6 out of 93 years.



U.S. stock market returns based on Standard & Poor's 90 Index from 1926 to March 3, 1957; S&P 500 Index from March 4, 1957, through 1974; Dow Jones Wilshire 5000 Index from 1975 to April 22, 2005; MSCI US Broad Market Index from April 23, 2005, to June 2, 2013; and CRSP US Total Market Index thereafter. Assumes all distributions were reinvested. Past performance is not a guarantee of future results. The performance of an index is not an exact representation of any particular investment, as you cannot invest directly in an index.

Source: Vanguard.

Source: Vanguard

IN CASE YOU MISSED IT

Be sure to listen to the latest episode of the Corbett Road Podcast where we discuss the year in review and our 2020 market outlook. It can be found on our website under Resources & Education.

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