MARBLE TRAIL ADVISORS

Financial Planning & Wealth Management

Market Update

4th Quarter 2019

Global Stock Market Highlights

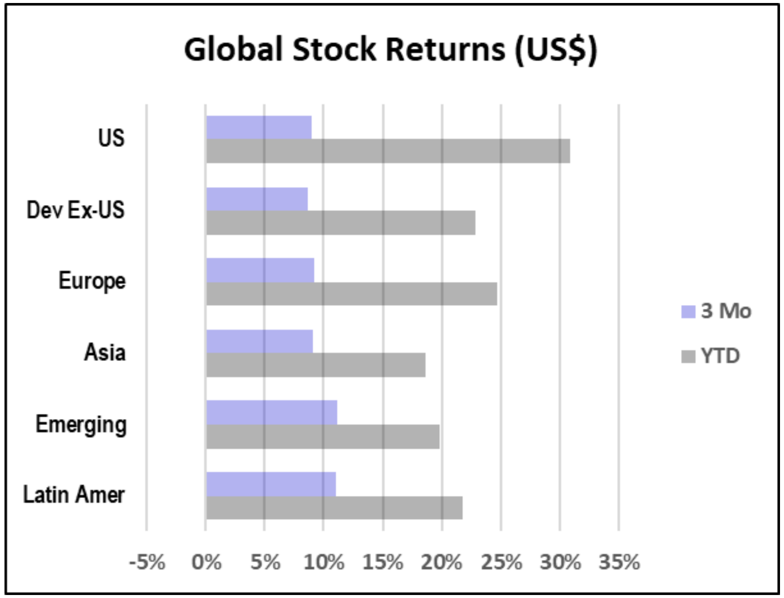
- Global markets surged in the fourth quarter, with every major region seeing near double-digit returns. The rally was fueled by positive developments on U.S. – China trade and Brexit. While both matters are far from solved, the market perceives progress sufficient to raise bullishness substantially.
- Increased optimism generally means more risk-taking, so emerging markets out-performed. Even in Latin America, where populist uprising have dinged a number of markets, including Argentina, Chile, and Peru, overall returns kept pace on Brazil, the strength of the region's market.
- For a change, investors in Europe shared in the enthusiasm, even as economic data suggests recession is a more imminent threat than inflationary growth.
- All in all, markets begin 2020 with more bullishness than at any point in the last two years.

Vix Volatility Index

Source: Yahoo Finance

P/E Ratios	Current	1 Yr Ago	3 Years Ago
S&P 500	22.6	17.1	19.8
Russell 2000 (Small)	18.5	14.0	21.4
Europe	17.8	13.6	16.6
Emerging Markets	13.5	12.8	14.4

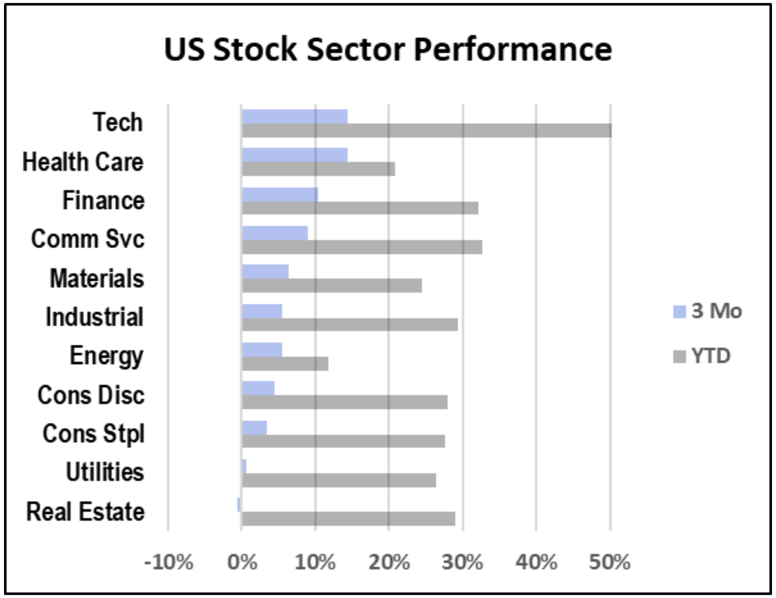
Source: Morningstar



Source: S&P Dow Jones

Stock Sector Highlights

- On a sector basis, previous laggards (health care, financials) surged alongside technology stocks, long the market darling. Other momentum plays like real estate and consumer companies, stumbled (relatively speaking), as stabilizing interest rates sapped investor enthusiasm for dividend payers.
- Stock price gains considerably outpaced earnings growth, both for the quarter and the full year. This makes most sectors of the market more expensive than at any time since the recovery began more than 10 years ago.



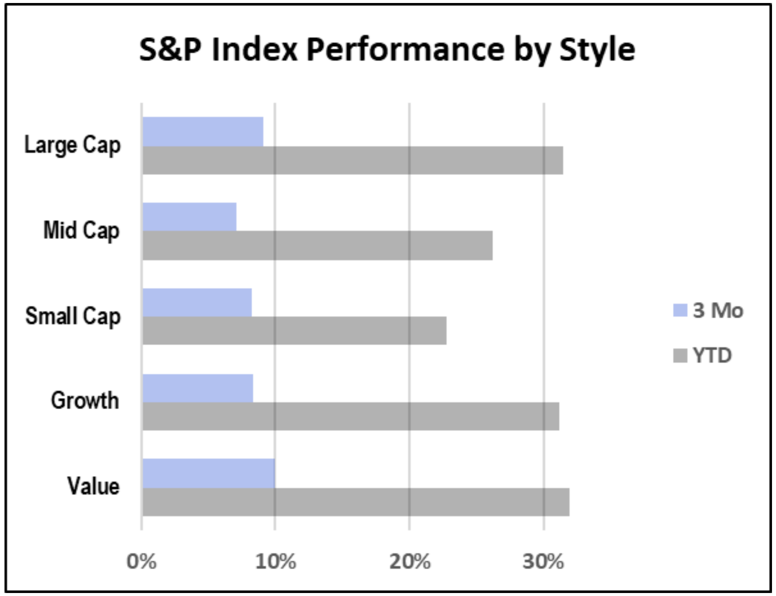
Source: S&P Dow Jones

	P/E Ratios			Yields	
Sector	**Current**	**1 Yr Ago**	**3 Years Ago**	**Current**	**3 Years Ago**
Communications Serv	21.5			0.8%	
Consumer Discretionary	24.9	21.2	19.7	1.3%	2.5%
Consumer Staples	25.9	18.8	22.6	2.6%	2.5%
Energy	16.8	12.1		3.7%	2.3%
Financials	14.7	11.0	15.6	1.9%	1.7%
Health Care	25.6	27.4	21.1	1.5%	1.6%
Industrials	21.8	15.7	20.6	1.9%	2.1%
Technology	27.5	20.8	19.8	1.2%	1.7%
Utilities	23.6	16.0	20.3	3.0%	3.4%
S&P 500	*22.6*	*17.1*	*19.8*	*2.0%*	*2.0%*

Source: Morningstar

Stock Market Performance by Style

- Value outperformed growth for the second straight quarter as fears of an imminent recession faded. For the year, value edged growth, but the outperformance was concentrated in the very largest companies. Growth outperformed value among small and mid-sized stocks.
- It seems like every year we say that large companies once again beat smaller ones and 2019 was no different. After this streak, large companies have become considerably more expensive than smaller ones, something that seldom occurred prior to 2018.



Source: S&P Dow Jones

Style Box Valuation (P/E)

	Value	Blend	Growth
Large	17.6	22.1	29.8
Mid	17.2	21.9	30.7
Small	15.8	19.4	28.2

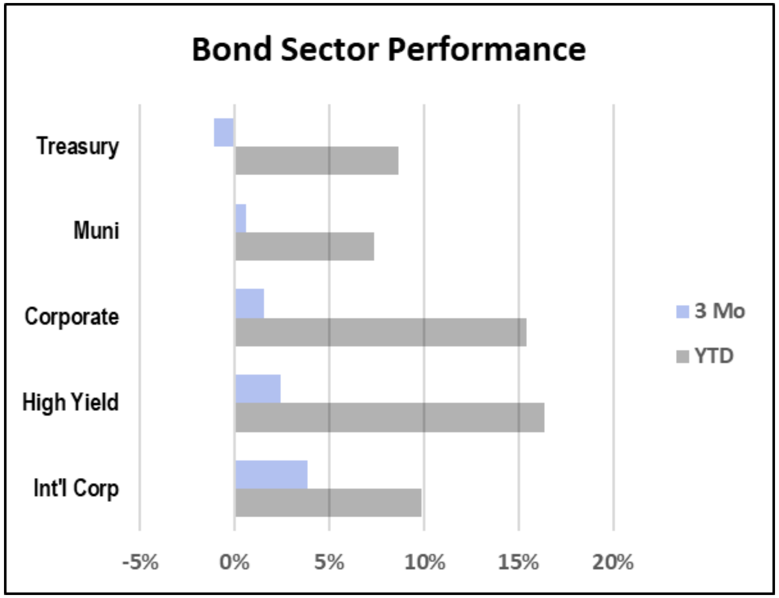
Source: Morningstar, Vanguard

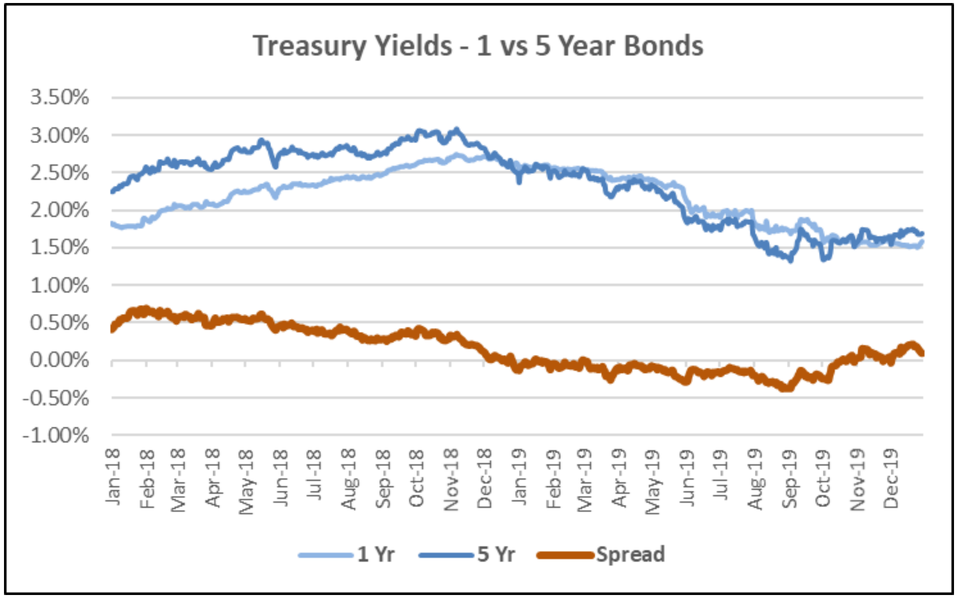
P/E Ratios	Current	1 Yr Ago	3 Years Ago
S&P 500	22.6	17.1	19.8
Russell 2000 (Small)	18.5	14.0	21.4
Large Growth	29.8	23.0	23.2
Large Value	17.6	16.0	18.4
Small Growth	28.2	19.7	26.3
Small Value	15.8	13.7	19.1

Source: Morningstar

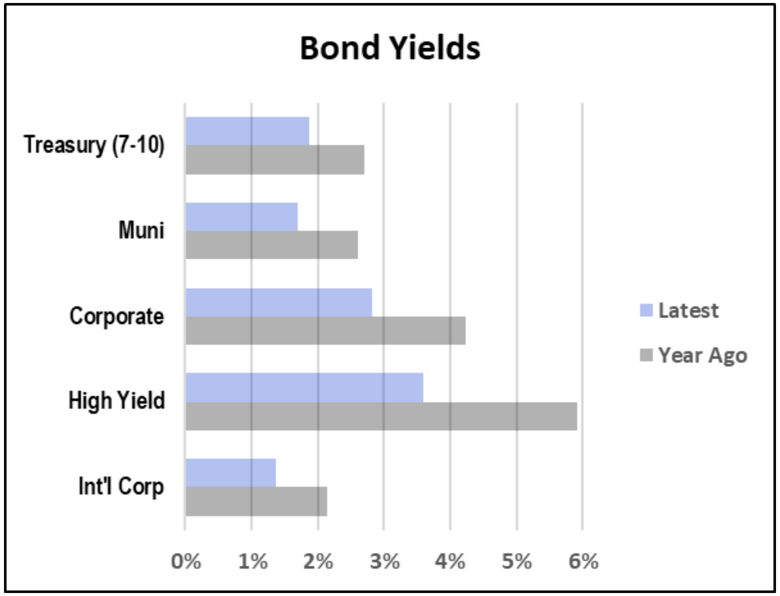
Bond Market Highlights

- The optimistic turn of events led to only a moderate sell-off of safe haven assets like treasury bonds and the Dollar. Investor preference for risk assets favored high yield bonds, narrowing the spread with investment grade to less than 1%.
- Not surprisingly, the yield curve no longer remains inverted. The spread between one and five-year treasury yields turned positive in October, after having been negative since December 2018. As an indicator of imminent recession, we may have to chalk that up as a false positive.





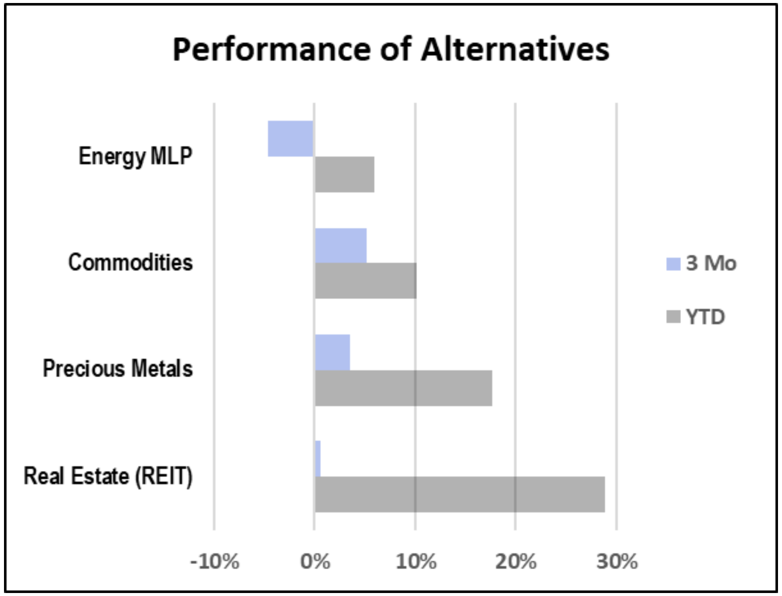
Source: St. Louis Fed



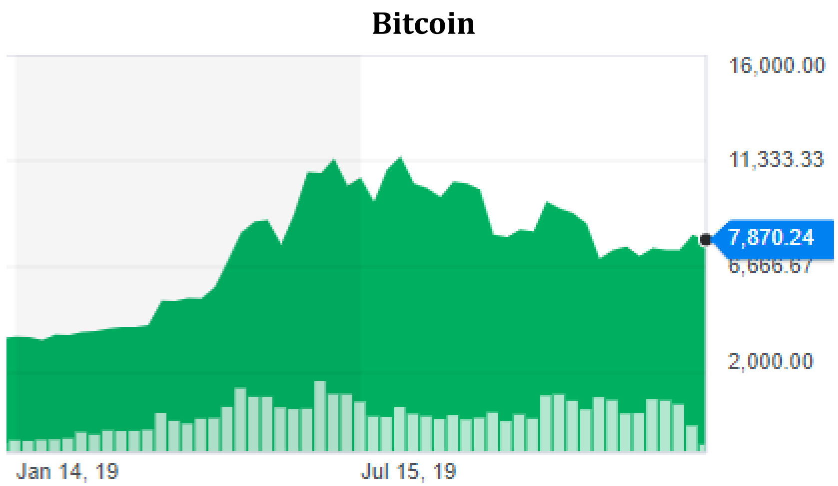
Source: S&P Dow Jones

Alternative Investments

- Returns for alternative investments were more muted and mixed than earlier in the year. The gold rally continued despite a lowering of geopolitical tensions, rising 2% in Q4 and 15% for the year. unsurprisingly, gold has rallied another 2% in 2020 following heightened tension between the U.S. and Iran.
- Those tensions also triggered a sharp but short-lived spiked in crude oil prices. Overall, 2019 was a solid year for the oil market, with prices per barrel rising 28% to close the year at more than $61.
- While the overall market may reflect bullishness, many of the most speculative investments have failed to rally. Bitcoin lost nearly 15% in Q4. Venture-backed companies have also largely disappointed, with some of the most hotly anticipated IPOs (Uber, Dropbox) tumbling since going public or failing to even launch (WeWork). Clearly, this is not a 1990's bull market.



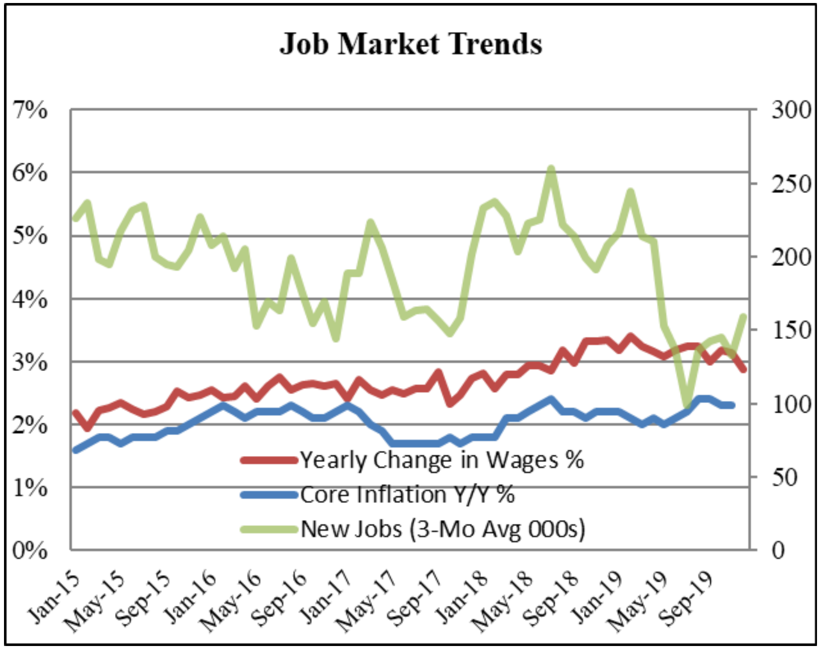
Source: S&P Dow Jones, Morningstar

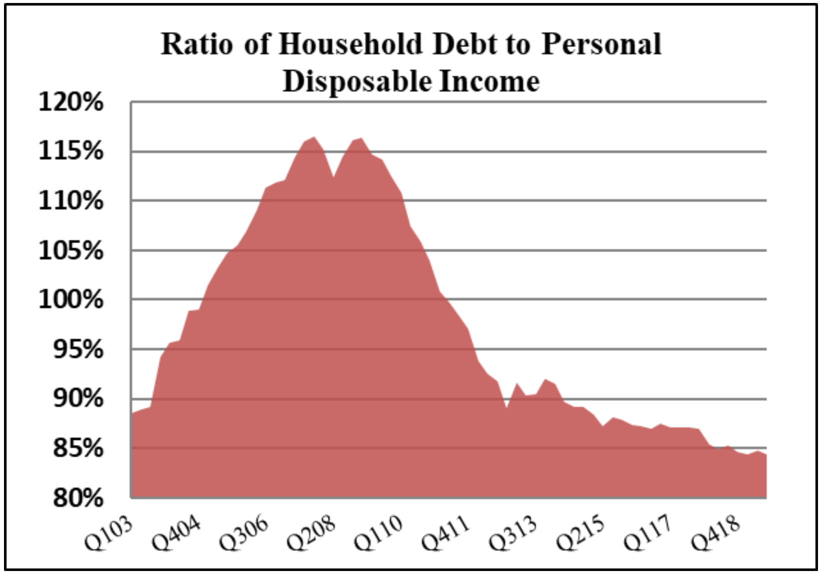


Source: Yahoo Finance

Economy

- U.S. economic growth ticked up from 2.0% in Q2 to 2.1% in Q3. Consensus forecasts call for similar growth in Q4, which would bring 2019 annual growth to 2.3%, in line with the average since the expansion began in 2009. This is well below last year's 3% growth and even further below the rate that would keep federal deficits from expanding further. If anyone still cares about deficits, it grew to $984 billion in FY 2019, a 50% increase over 2017. Such dismal fiscal performance is unprecedented at this stage of economic expansion.
- Unlike the federal government, households are generally keeping their finances in order, with debt as a percentage of income trending down.
- For the year, growth in private sector payrolls failed to surpass 2 million for the first time since 2010. This may be as much due to difficulty finding workers with the right skills as it is a lack of demand. The unemployment rate remained ay 3.5%. Annual wage growth, which had reached as high as 3.4% early in the year, is down to just 2.9%, even as core inflation has risen above 2%.
- With economic growth now hovering around 2% the economy becomes more vulnerable to other shocks and potential sources are not lacking (Iran, Brexit, trade).
- Recessionary risks are higher in Europe, where growth is only around 1%. Europe's manufacturers have been collateral damage in the conflict between the U.S. and China.





Sources: ADP, US Depts. of Labor and Commerce, & the New York Fed

Our Macro View

Region	Current Conditions	Long-term Outlook	Investment Implications
USA	Moderating growth; labor market at or near full employment; early signs of excesses that typically precede recession.	<u>Base</u>: Trade war simmers without boiling over. Trump or a moderate Democratic wins in 2020, leading to modest economic policy changes. <u>Downside</u>: Trump wins and restarts trade wars or social democrat wins and raises taxes; Either way, corporate profits suffer. <u>Upside</u>: Sensible policy increases investment and leads to extended rise in growth & productivity.	Stocks again fully valued to overvalued, but so is every other asset class. A moderately defensive posture is warranted.
Europe	Very slow growth; populist challenges throughout Euro zone; Brexit could *still* get ugly.	<u>Base</u>: Irreconcilable differences lead to slow dissolution of the EU in its current form. <u>Downside</u>: Nationalist sentiment hastens the process beyond the point of prudence. <u>Upside</u>: Germany takes more enlightened view toward providing fiscal stimulus.	Market consensus now more in line with our base case. Brexit and Euro zone now equally in focus. Raising weightings to near normal and maintaining only modest currency hedges.
Japan	Marginal gains in growth but inflation still non-existent.	<u>Base/Downside</u>: More of same until debt burden breaks view of Yen as safe haven asset, at which point inflation returns by way of devaluation. <u>Upside</u>: Nation implements structural reforms and immigration policy to inject dynamism.	Retreat of US & European central banks put them more in line with Japan, easing pressure on the Yen.
China	Growth slowing with even consumers more cautious. Phase one trade deal may mean more for confidence than provide tangible benefits as tariffs largely remain.	<u>Base</u>: Slowing of economy creates domestic issues absorbing central government resources, pressuring stocks and the currency. Conflict with US simmers without boiling over. <u>Downside</u>: Either government missteps or a trade war lead to rising unemployment & unrest; foreign investment moves to other emerging markets. <u>Upside</u>: Consumer economy grows fast enough to outweigh other problems.	Selectivity remains key; avoid state-owned enterprises, heavy industry; favor consumer, technology and healthy smaller companies.

Our Fundamental View

Fundamental	Medium- to Long-term Outlook	Investment Implications
Stock Market Valuation	Many assets remain quite expensive relative to historical averages, which suggests that investment returns for everything from stocks to bonds and real estate will be below long-term averages. The phase one trade deal between the U.S. and China represents more of a pause in tensions, than a path to a solution. Globalization provided a powerful tailwind to returns on capital over the past 30 years. A reversal towards protectionism and isolationism would tend to have the opposite effect. In addition, populism has taken hold of both parties and may portend a new era of anti-trust enforcement that challenges many previously unchecked corporate behemoths.	Achieving 5-7% annual returns over the next 5-10 years will require embracing stock market volatility to the extent afforded by your risk tolerance and portfolio withdrawal rate. Contrarianism and diversification will be key to generating decent returns while managing risk.
Interest Rates	The threat of an imminent recession has dissipated, stabilizing interest rates. The U.S. government continues to pile up unprecedented amounts of debt at the same time that central banks are trying to curtail bond purchases. As long as the job market stays strong, there is likely to be upward pressure on rates.	Continue to employ reasonable hedges against rising rates, including laddered bond portfolios, floating rate notes and cash. With short-term rates high relative to long-term, focus on the near-end of the yield curve and cash equivalents for now, but be prepared to take advantage of higher rates if they materialize, as they may not last.