4Q19 REVIEW & 2020 OUTLOOK

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SUMMARY: U.S. Victory lap! Bull Market Decade!

As we closed the 2000s the market appeared to have bottomed in 2009, but that was far from certain. Banks were still weak, unemployment was high and Greece appeared to be on the edge of default threatening the EU and the global financial system. Market pundits bemoaned the lost decade for U.S. investors, predicted a future of low single digit returns for U.S. stocks and heralded the rise of the BRICs and other emerging markets. Boy did they get it wrong. At the end of 2009, the Blackberry was the king of Personal Digital Assistants (What's a smartphone?), Facebook was still "in college", Netflix delivered DVDs and Google was still Google, not Alphabet, the world's largest advertising platform and a conglomerate of cutting edge skunkworks that may one day give humanity the flying car, if not the self-driving car. Capped by a 31.5% return in 2019, the S&P 500 delivered 13.6% compounded annual returns for the last decade (please see Table 1). The S&P 500 recorded the longest bull market in U.S. history beating all other major indices for the decade, outperforming international and emerging market equities by a factor of almost three and four, respectively.

To the surprise of most investors, the 2010s marked only the fourth decade where the returns of U.S. indices surpassed international indices. The other three decades were the 1900s, when the U.S. shifted from a rural to urban society, the 1910s, which were buoyed by a boom in manufacturing led by autos, and the 1990s, a decade when personal computing and the internet became ubiquitous. The 2010s were dominated by mobile and cloud computing as well as digital and social media. As previously mentioned, U.S. large cap stocks dominated all major indices led by the technology, healthcare and consumer discretionary sectors, which includes Amazon and other internet retailers (please see Table 2).

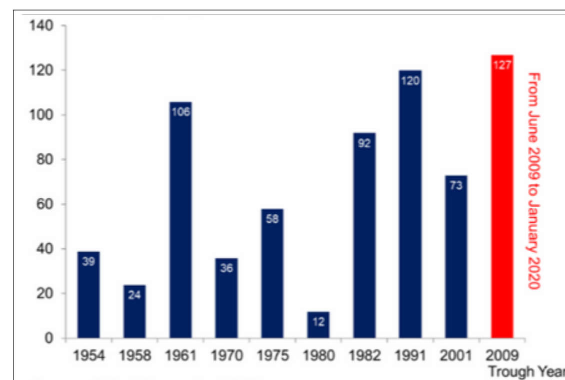
Midway through, Mad Money host, Jim Cramer, dubbed it the "FANG" decade naming it for the four stocks dominating market returns: Facebook (FB), Amazon (AMZN), Netflix (NFLX) and Google (GOOG, GOOGL), which later split into two stock classes and renamed itself Alphabet. In the last three years Microsoft (MSFT) and Apple (AAPL) were added to create the acronym, "FAANG+M". These innovators created entirely new business ecosystems of growth for the U.S. and global economies. Collectively their innovations and platforms

Table 1: Index Returns

Index Returns as of 12/31/19	Last 3 Months	Last 12 Months	Last 3 Years	Last 5 Years	Last 10 Years
S&P 500	9.07%	31.49%	15.26%	11.68%	13.55%
Russell 2000 (Small Cap)	9.94%	25.52%	8.59%	8.23%	11.83%
MSCI EAFE (International)	8.17%	22.01%	9.56%	5.67%	5.50%
MSCI EME (Emerging Markets)	11.84%	18.42%	11.57%	5.61%	3.68%
BBG BARC Aggregate Bond	0.18%	8.72%	4.03%	3.05%	3.75%
Oil bbl. Price Changes	12.93%	34.46%	4.36%	2.77%	-2.59%
Gold Returns	3.04%	18.31%	9.75%	5.08%	3.29%
Commodities Returns (CRB Index)	6.81%	9.41%	-1.18%	-4.17%	-4.13%

*Source: Informa & Bloomberg

Figure 1: Longest Bull Market



Source: WSJ The Daily Shot

Table 2: Sector Returns

Index Returns as of 12/31/19	Last 3 Months	Last 12 Months	Last 3 Years	Last 5 Years	Last 10 Years
S&P 500	9.07%	31.49%	15.26%	11.68%	13.55%
Communication Services	9.00%	32.69%	4.67%	7.93%	9.66%
Consumer Discretion	4.47%	27.94%	16.65%	13.13%	17.23%
Consumer Staples	3.51%	27.61%	9.89%	8.31%	12.16%
Energy	5.49%	11.81%	-3.21%	-1.85%	3.30%
Financials	10.44%	32.09%	11.95%	11.13%	12.25%
Healthcare	14.37%	20.82%	16.23%	10.31%	14.76%
Industrials	5.50%	29.23%	10.69%	9.45%	13.43%
Info. Tech	14.40%	50.29%	27.65%	20.19%	17.50%
Materials	6.38%	24.58%	9.58%	7.06%	9.20%
Real Estate	-0.54%	29.01%	11.82%	8.62%	13.44%
Utilities	0.75%	26.35%	13.81%	10.28%	11.80%

Source: Informa & Bloomberg

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touch most of the world's 7 billion inhabitants daily. These six stocks accounted for 24% of the S&P 500's 31.5% return in 2019 and 20% of the 256% return for the decade (please see Table 3). By 2020 three of companies, Apple, Microsoft and Alphabet, reached valuations of over $1 trillion. Amazon could soon be valued over $1 trillion and may surpass the others this decade. Most of these companies have the ability to outpace the market for the next five years in our opinion. Furthermore, we believe Alphabet, Amazon and Apple have the opportunity to diversify from their core business and create new growth engines.

Table 3: The FAANG + M Effect

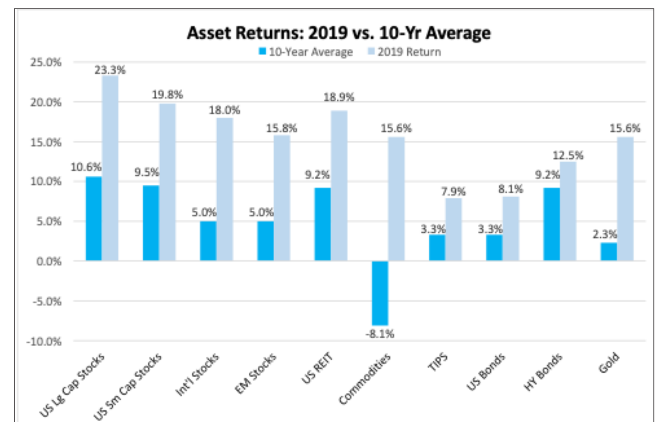
	Contribution Rank		Contribution %	
	2019	2010s	2019	2010s
Apple (AAPL)	1	1	2.9%	17.5%
Microsoft (MSFT)	2	2	2.1%	13.2%
Alphabet (GOOG, GOOGL)	3	4	0.9%	7.1%
Amazon (AMZN)	6	3	0.7%	8.0%
Facebook (FB)	4	5	0.8%	4.0%
Netflix (NFLX)	63	35	0.1%	1.5%
Total Contribution			7.6%	51.4%
S&P 500 Total Return			31.5%	256.4%
% Contributed by FAANG+M			24.0%	20.0%

Source: CB&T, Morningstar

One downside to the long, tech-dominated American decade is that well-diversified investors were punished for their prudence. Small and mid-cap, international and emerging market equities as well as alternatives, such as real estate, commodities, gold and hedge funds underperformed U.S. large cap stocks. Even though these diversifying asset classes lowered portfolio risk, the lower returns prevented risk-adjusted returns from beating the S&P 500. Furthermore, few active large cap managers beat passive indices. With few downturns in the decade, active managers had few opportunities to benefit from risk management.

4Q 2019 MARKET REVIEW: All Asset Classes Beat Decade Averages

Figure 2: 2019 Asset Class Returns Vs. 10-Yr Average



Source: WSJ The Daily Shot, CB&T

U.S. Stock Markets: The 2010s marked the first calendar decade that the S&P 500 was in a bull market for the entire period. The S&P 500 finished the decade with a 31.5% total return in 2019. After slumping in the third quarter, many investors feared a trade impasse would lead to a 4th quarter similar to last year's 13.5% pullback. In early October, however, the Trump Administration announced a Phase I trade deal, which set the market on a 9.1% run reaching new all-time highs during the quarter. The S&P 500 has rallied another 3% in 2020. The S&P 500 opened the decade at 1,115 and finished at 3,231 more than tripling including dividends (+256%) resulting in a compounded annual total return of 13.6%. The market return for the 2010s were much higher than the historical market return, so the gains of the 2010s brought "the lost decade" of returns (2000s) in line with historical averages over the 20-year period.

Last year market returns were particularly unusual. Every major asset class outperformed their 10-year averages and all but commodities outperformed their 20-year averages in 2019 (please see Figure 2).On December 24, 2018, the S&P 500 fell 20.2% below its most recent high in September 2018 as the market feared the Fed's "auto-pilot" rate increases would tilt the U.S. economy to recession. In the last week of 2018, however, the market rebounded over 6%. On January 4, Fed Reserve Chairman Powell seemed to capitulate to Trump's taunts and signaled a "pause" to rate increases. The S&P 500 erased the 13.5% it lost in 4Q18 by rallying 13.7% in the first quarter. The market posted gains in all four quarters, despite declining earnings estimates resulting in final estimates posting

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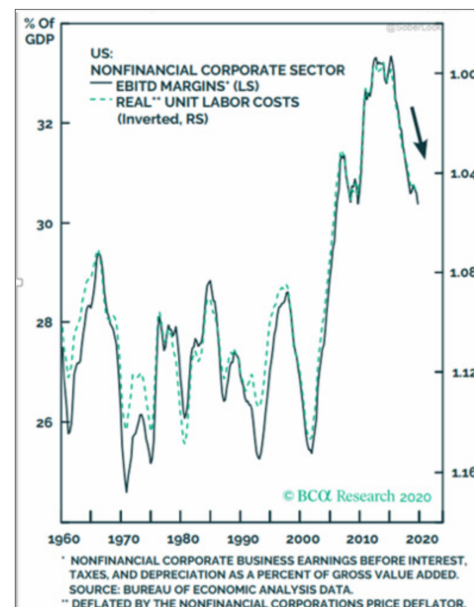
a slight -0.2% contraction over 2018.

When the S&P 500 goes on a big run, higher beta small and mid-cap stocks typically outperform their larger counterparts, particularly when growth outside of the U.S. is falling. The heavier weighted stocks in the S&P 500 generate 40% to 50% of their sales overseas, while small and mid-cap stocks generate more of their sales domestically. While large cap earnings were projected to decline slightly (-0.2%) earnings estimates fell -6.1% and -3.0% for mid-cap and small cap stocks, respectively, in 2019. Record low unemployment rates are resulting in higher wages and lower margins for smaller companies (please see Figure 3), meanwhile margins are still expanding for large cap companies. Small and mid-cap indices generated strong returns of 25.5% and 26.2%, respectively, in 2019, but trailed the S&P 500's 31.5% return. The small cap Russell 2000 exited the year outperforming the S&P 500 returning 9.9% versus 9.1%, respectively, in the 4th quarter.

Global Stock Markets: Returns from developed international and emerging market equities struggled for the last two years. After posting losses of -13.8% and -14.6%, respectively, in 2018, the MSCI EAFE developed international and EM indices posted gains of 22.0% and 18.4%, respectively in 2019. EU and EM manufacturing started to slump in 2H18 and the downturn was exacerbated by the trade conflict in 2019. Global growth was downgraded for 2019 from 3.9% to 3.0% – the lowest growth rate since the financial crisis. Additionally, the trade-weighted dollar rose 5% over the summer. International manufacturing and growth data started to turn around in the third and fourth quarters. By late summer key data points were signaling expansion in China and other emerging markets, while larger EU markets showed signs of bottoming. Aided by the announcement of an initial trade pact and a pullback in the dollar, EM equities (+11.8%) outperformed developed markets (+8.2%) and the S&P 500 (+9.1%) during the fourth quarter.

Global Bond Markets: Perhaps the most unforeseen outcome in 2019 was the strength in bond returns in the face of huge equity market rallies. Despite the strong equity rally, trailing 12-month bond returns were higher than equity returns for the first nine months of 2019, because of the 4Q18 equity market downturn. Rates started to drift lower after the Fed paused in January and signaled at the end of March it would likely be on hold. Rates steadily declined adding to bond returns as the Fed started to cut rates in the third quarter. The move to easier monetary policy enabled the U.S. bond market to post its best return of the decade at 8.72% in 2019 versus its 3.75% 10-year average. With many sovereign bonds still with negative yields, the developed international market underperformed the U.S. in local currency terms (+6.84%) and in U.S. dollars (+8.22%).

Figure 3: Tighter Labor Market Impacting Margins



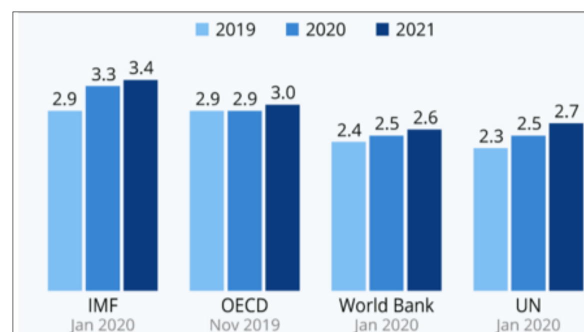
Source: BCA

Table 4: GDP Growth

	Q1	Q2	Q3	Q4	Year
2016	**0.6%**	**2.2%**	**2.8%**	**1.8%**	**1.5%**
2017	**1.2%**	**3.1%**	**3.2%**	**2.8%**	**2.5%**
2018	**2.2%**	**4.2%**	**2.9%**	**1.1%**	**2.9%**
2019	**3.1%**	***2.1%***	*1.8%*	*2.1%*	*2.3%*
2020	*1.6%*	*2.0%*	*1.9%*	*1.9%*	*1.9%*
2021					*2.0%*
2022					*2.0%*

Source: Actual (Bold) Bureau of Economic Analysis as of 9/19. Projected (Italics) WSJ Economic Survey October 2019

Figure 4: Global Growth Forecasts



Source: Statista, OECD, IMF, World Bank and UN

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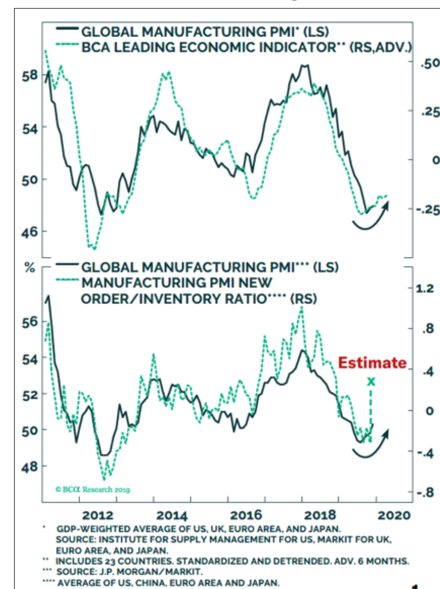
Emerging market bonds, on the other hand, started to flash signs of an economic recovery in the last few months of the year outperforming U.S. bonds in local currency terms (+10.24%) and in U.S. dollar terms (+13.11%).

2020 ECONOMIC OUTLOOK: Upgraded 2020 Outlook for U.S.

U.S. data started to show signs of improvement during the quarter and analysts upgraded the 4Q19 GDP outlook as well as forecasts for 2020 and 2021. Some of the same circumstances that have boosted market returns, such as low rates and a trade détente, are boosting leading indicators. A stable dollar and an increase in overseas activity have also helped the outlook. The fourth quarter estimate was raised from 1.8% to 2.1% pushing the calendar 2019 GDP forecast to 2.3% up from 2.2%. GDP for 2020 was expected to slump further to 1.6% and is now expected to grow 1.9%. We believe growth above 2.0% is more likely. The 2021 estimate was raised from 1.9% to 2.0%. We believe these moderate increases also bode well for low inflation expectations ranging between 1.8% and 2.2%. We believe the Fed will not raise rates as long as inflation remains below 2.5%.

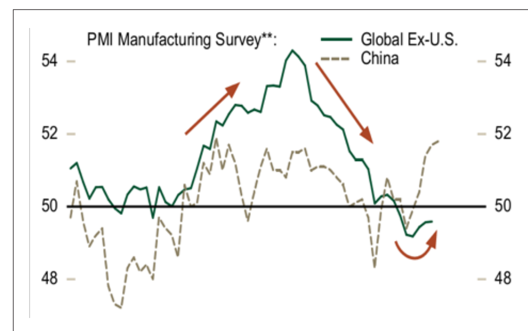
Figure 5: Global Manufacturing Rebounding



Source: BCA

Over the course of the last twelve months, the OECD and IMF steadily lowered their global growth forecasts from 3.9% to 2.9% - the slowest growth rate since the 2008-2009 financial crisis. Forecasts from the World Bank and the United Nations were lower as usual. The IMF pointed to several difficulties caused by the US-China trade conflict including an increase in direct input costs, market volatility, reduced business investment due to trade policy uncertainty and lower productivity caused by supply chain disruptions. As a result, manufacturing and global trade have deteriorated sharply, particularly for big ticket items such as trucks and autos, which has been estimated to have reduced global GDP growth by 0.5% over the last 12 months.

Figure 6: International vs. China PMI Manufacturing



Source: MRB Partners

Over the course of the last three months, incremental global manufacturing and economic data has improved led by China and emerging market economies (please see Figures 5 and 6). European data seems to have stopped declining and appears to be bottoming and only slightly improving in some countries. The positive net effects related to China's monetary and fiscal policy appears to be outweighing the drag on the economy levied by market reforms to its shadow banking system and industries in oversupply unchecked by normal free market forces.

The latest IMF forecast expects global growth to pick up in 2020 to 3.3% from 3.0% growth in 2019. The IMF is pointing to slower growth in India as well as disruptions related to civil unrest in Hong Kong, Chile and elsewhere. We believe the forecast may be upgraded over the course of 2020. The pick-up in growth over 2019 is expected be aided by better performance in emerging market countries such as Brazil, Mexico, Russia and Saudi Arabia, which have shown signs of bottoming or initial signs of recovery. Starting in late 2018 emerging market central banks began to lower rates and depreciate their currencies to spur lending, trade and growth. Equity markets are signaling an expected recovery suggesting that emerging markets and U.S. stocks will outperform developed markets.

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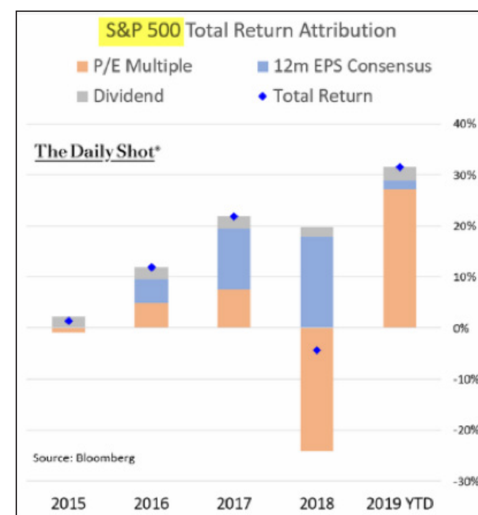
2020 MARKET OUTLOOK: What Assumptions are Investors Pricing into the Current Market Rally?

Figure 7: S&P 500 Total Return Attribution



Source: WSJ The Daily Shot

U.S. Stock Markets:

The 4Q19 and 2020 market rally suggests investors are making the following assumptions:

- **Rates: Low or Lower.** Sovereign interest rates, such as U.S. Treasuries or German Bunds, are a component of market discount rates. The risk-free sovereign rate and the equity risk premium, which remains relatively stable over time, make up the discount rate for equities. The inverse of the discount rate is a proxy for the market multiple. At January levels of 3290 for the S&P 500, the forward market multiple has increased to a new cycle high of 18.6x 2020's estimated earnings of $177 (representing earnings growth of 9.6%). Earlier in the cycle, the multiple ranged 16.5x to 17.5x the next year's earnings. Multiples are also rising overseas, but to a lesser extent. The market price action implies that the market expects rates to fall another 25bps to 50bps.
- **Trade Detente:** The high multiple also suggests that the Phase I trade agreement will hold and future action will take place without creating additional uncertainty. Greater trade policy certainty enables business managers to make greater investment to expand capacity, improve productivity and increase hiring, which leads to higher sales and earnings growth. We believe 9.6% EPS growth in 2020 and 10.7% growth is unlikely without greater certainty in trade policy.
- **Trump Re-election:** With expected earnings growth of 10% to 11% for 2020 and 2021 as well as a market multiple of 18.6x 2020 and 16.8x 2021 earnings, we believe that stimulative monetary and fiscal policy is expected. The current market level implies earnings growth expectations that would result from a Trump re-election that leads to greater deregulation and new fiscal stimulus to boost earnings in 2021 and 2022.

CB&T's View: Semi-irrational Exuberance:

Overall we believe the market has moved too far, too fast. Our take is more about the timing of the market rally and less about the overall expectations. We believe rates will likely remain at their current levels and have a higher probability of being cut than raised by the Fed. We also believe there is a high probability that Trump will be re-elected and attempt to introduce greater fiscal stimulus via additional tax cuts and spending in a lame duck Presidential term. We take exception with the trade détente assumption. While it would be pragmatic in an election year to maintain a cease fire in the trade war, in our opinion, we think it is likely that a trade war will flare up when talks begin again in earnest. We do not believe China will bend to Trump's policy and will try to extend meaningful concessions beyond his Presidency. Moreover, it is a strong possibility Trump will provoke hostilities if he believes it may charge up his base or become advantageous for his re-election bid. We think it is highly likely that the market will experience a mid-single digit pull back in the first half of the year for a few reasons. The market is likely to become spooked if Sanders or Warren make meaningful progress in the primaries. Currently, the February 6 New Hampshire is a four-way tie between Sanders, Warren, Biden and Buttigieg. A strong showing for either Sanders or Warren would create concern and uncertainty. We think EPS guidance is likely to be light in the first half of the year. Additionally we believe EU growth and monetary policy could negatively surprise, which would hurt global growth and earnings estimates for large cap U.S. stocks. Nevertheless, there are few obvious negative catalysts this year versus prior periods of the bull market, which helps the market continue to "melt up".

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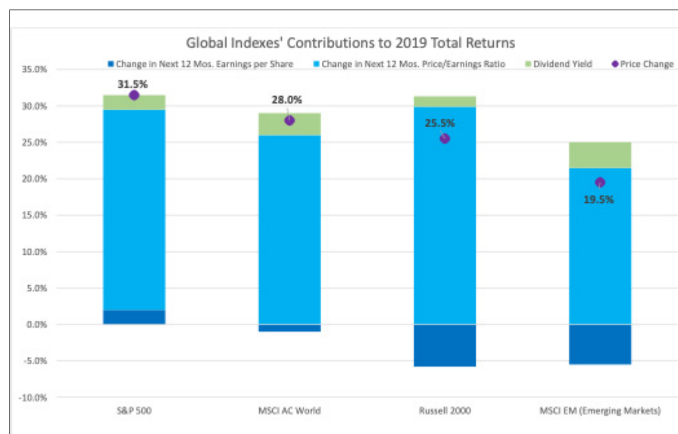
U.S. Bond Markets: After a stunning gain of 8.7% for the U.S. bond market we expect returns closer to 2% to 3% in 2020. As global growth estimates and data improve in 2020, we think international rates will continue to drift higher. Rising rates overseas takes pressure off of U.S. rates and lets longer term rates drift moderately higher. We think the yield curve is likely to steepen a little this year. While we think a rate cut from the Fed is more likely than a rate increase, we believe the Fed is more likely to remain on hold, because we do not think economic data will deteriorate enough or inflation will spike enough to result in a change to rates. In this scenario, returns will approximate yields which fall between 2% and 3% for the benchmark. If global growth improves materially or a second Trump administration seems more likely, we believe bond returns will be closer to 2%.

International Stock and Bond Markets: Both developed market equities and emerging market equities had strong years despite trade-challenged economic growth and a drop in earnings in 2019 over 2018. The developed international MSCI EAFE and emerging markets EM posted 22.0% and 18.4% returns in 2019, respectively. The EM index surged 12.7% in the fourth quarter. This supports our thesis that emerging market earnings are rebounding and developed international earnings may be bottoming. Earnings growth was negative across most geographies, so the strong equity returns were a result of multiple expansion on 2019 earnings and investors looking past 2019 earnings downturns and looking forward to an earnings rebound in 2020. EM and International stocks are still trading closer to their historical Price/Earnings multiples of 14x and 12x forward 2020 earnings, making them cheaper than U.S. stocks. We have been increasing our allocation to emerging market stocks as EM fundamentals are improving. Most developed international economic data has stopped sliding, but has not yet rebounded. Earnings for the EAFE, however, are expected to rebound and grow 8.5% in 2020. We think emerging market equities may outperform U.S. equities in 2020. We believe the dollar, which has pulled back from levels this summer, will remain near its current level with a strong chance to go lower as growth rebounds abroad. Last quarter our expectation that emerging market bonds would outperform U.S. bonds in 4Q19 proved correct (4.1% in local currency and 2.1% in U.S. dollars vs. 0.2% for the Barclays Bond Aggregate). We believe emerging market bonds will outperform U.S. bonds in 2020, but may not have a strong enough risk/return profile for a large weighting in portfolios.

Figure 8: Attribution of Global Index Returns 2019



Source: CB&T and WSJ The Daily Shot

MARKET VALUATION, EXPECTED RETURNS & PORTFOLIO STRATEGY

We think the economic and earnings setup described herein leaves investors with few choices other than to remain in equities and hope that monetary policy will result in stronger growth in the U.S. and overseas markets will continue to recover and rebound. Over the course of 2019 S&P 500 earnings were revised downward from $178 (10% growth) to $162 (forecasting a slight -0.2% contraction - please see Table 5), which we believe is too conservative. Energy and materials, which are impacted by lower oil prices, experienced the sharpest revisions after the second quarter. With oil's return to the low $60s in December, we would expect $1 to $2 of earnings to be added back to 4Q19 results enabling positive earnings growth for the S&P 500 for 2019. Fourth quarter earnings are expected to fall 2% but appear to be coming in higher as are revenues based on ~15% of the S&P 500 companies that have announced earnings to date in January. EPS is expected to return to low single digit growth in 1Q20, which will be reported in April and May of 2020.

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We do not think the trade dispute will be fully resolved before the Presidential election in November 2020. Under this scenario, we expect earnings growth to be mid-single digits for the S&P 500 in 2020 and range between $170 and $175 per share versus the $177 consensus forecast. Returns for the S&P 500 are also likely to be in the mid-single digits (5% to 7%) for the calendar year. If the trade dispute is meaningfully resolved and a Trump re-election appears imminent, the market can break out higher. It will start to value companies based on 2021 earnings, which already project double digit growth rates. If that happens in 2020, the market could achieve double digit returns. As discussed above, while it would be pragmatic in an election year to maintain a cease fire in the trade war, in our opinion, we think it is likely that a trade war will flare up when talks begin again in earnest. We believe China will fight meaningful restrictions. This and uncertainty over the election outcome could lead the market to experience a mid-single digit pull back in the first half of the year. Additionally we think EU growth and monetary policy could negatively surprise, which would hurt global growth and earnings estimates for large cap U.S. stocks.

Figure 9: Earnings to Re-accelerate

Source: CB&T, Yardeni Research

Table 5: S&P 500 Valuation

- S&P 500 Value 12/31/19:	3,231
- S&P 500 Multiple 18A:	20.0x
- S&P 500 Forward Multiple 19E:	20.0x
- S&P 500 Forward Multiple 20E:	18.3x
- S&P 500 Forward Multiple 21E:	16.5x

		Growth %
- 2018 Actual:	$162	22.7%
- 2019 Estimate:	$162	-0.2%
- 2020 Estimate:	$177	9.6%
- 2021 Estimate:	$196	10.7%

Implied S&P 500 Valuation

	$165	$170	$175	$180	$185	$190	$195	$200
13.0x	2,145	2,210	2,275	2,340	2,405	2,470	2,535	2,600
13.5x	2,228	2,295	2,363	2,430	2,498	2,565	2,633	2,700
14.0x	2,310	2,380	2,450	2,520	2,590	2,660	2,730	2,800
14.5x	2,393	2,465	2,538	2,610	2,683	2,755	2,828	2,900
15.0x	2,475	2,550	2,625	2,700	2,775	2,850	2,925	3,000
15.5x	2,558	2,635	2,713	2,790	2,868	2,945	3,023	3,100
16.0x	2,640	2,720	2,800	2,880	2,960	3,040	3,120	3,200
16.5x	2,723	2,805	2,888	2,970	3,053	3,135	3,218	3,300
17.0x	2,805	2,890	2,975	3,060	3,145	3,230	3,315	3,400
17.5x	2,888	2,975	3,063	3,150	3,238	3,325	3,413	3,500
18.0x	2,970	3,060	3,150	3,240	3,330	3,420	3,510	3,600
18.5x	3,053	3,145	3,238	3,330	3,423	3,515	3,608	3,700
19.0x	3,135	3,230	3,325	3,420	3,515	3,610	3,705	3,800
19.5x	3,218	3,315	3,413	3,510	3,608	3,705	3,803	3,900
20.0x	3,300	3,400	3,500	3,600	3,700	3,800	3,900	4,000

Implied S&P 500 Price Change

	$165	$170	$175	$180	$185	$190	$195	$200
13.0x	-34%	-32%	-30%	-28%	-26%	-24%	-22%	-20%
13.5x	-31%	-29%	-27%	-25%	-23%	-21%	-19%	-16%
14.0x	-29%	-26%	-24%	-22%	-20%	-18%	-16%	-13%
14.5x	-26%	-24%	-21%	-19%	-17%	-15%	-12%	-10%
15.0x	-23%	-21%	-19%	-16%	-14%	-12%	-9%	-7%
15.5x	-21%	-18%	-16%	-14%	-11%	-9%	-6%	-4%
16.0x	-18%	-16%	-13%	-11%	-8%	-6%	-3%	-1%
16.5x	-16%	-13%	-11%	-8%	-6%	-3%	0%	2%
17.0x	-13%	-11%	-8%	-5%	-3%	0%	3%	5%
17.5x	-11%	-8%	-5%	-3%	0%	3%	6%	8%
18.0x	-8%	-5%	-3%	0%	3%	6%	9%	11%
18.5x	-6%	-3%	0%	3%	6%	9%	12%	15%
19.0x	-3%	0%	3%	6%	9%	12%	15%	18%
19.5x	0%	3%	6%	9%	12%	15%	18%	21%
20.0x	2%	5%	8%	11%	15%	18%	21%	24%

Source: Yardeni Research & CB&T. Note add ~2% in dividends for S&P 500 total return

Pink Shade - Bear Market from 3299 2020 peak; Yellow Shade - Expected Levels; Green Shade - Irrational Exuberance

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ASSET ALLOCATION OUTLOOK

LAST QUARTER			THIS QUARTER	
WE BELIEVED →	ACTIONS TAKEN →	RESULTS	WE BELIEVE →	ACTIONS WE ARE TAKING
DOMESTIC EQUITIES			DOMESTIC EQUITIES	
U.S. growth likely to continue sliding for 1-2 quarters, but cleanest dirty shirt in equity hamper.	Maintained weight in U.S. equities, with heavier allocation to large cap.	**Large Cap 9.1% in 4Q19 (31.5% YTD), Small 9.9% (25.5% YTD) and Mid cap 7.1% (26.2%).**	U.S. growth and earnings recovering. Likely to trim some large cap exposure at 19x forward 2020 EPS. Favor EM.	Maintaining weight to small trim in U.S. equities, maintaining heavier allocation to large cap.
INTERNATIONAL EQUITIES			INTERNATIONAL EQUITIES	
EM manufacturing and economies are improving. U.S. dollar still up. Developed international still sliding.	We increased our EM allocation on further improvement in EM data and dollar weakness.	**International equities underperformed U.S. 8.2% (22.0% YTD) v. 9.1% (31.5%). EM outperformed 11.8% in 4Q19 (18.4%). EM manufacturing improving helped by trade détente/ lower dollar.**	EM manufacturing and economies are improving. U.S. dollar fell back to prior 2-year range. We expect it to move slightly lower. Developed international bottoming?	We expect to increase our EM allocation on further improvement in EM data and dollar weakness. Fund from U.S. equities?
FIXED INCOME			FIXED INCOME	
We believe the Fed will continue to cut rates in October as well as either December or February, possibly both.	The Fed cut Fed Funds rates 0.25% in July, September and October to between 1.50% and 1.75% and is signaling that it is likely on pause.	**After Phase I trade deal, the 10-year Treasury yield rebounded from 1.60% and remained between 1.75% and 1.95% for 4Q19. The BBG Aggregate returned 0.2% (8.7% YTD).**	We believe the Fed is on pause for much of 2020. We think there is a higher propensity to cut vs. raise rates. Rate increase unlikely unless inflation hits 2.5%.	We remain underweight fixed income and believe much of the easy money has been made in bonds. We expect 2%-3% returns for bonds for the next 6-12 months.
We believed munis were at fair value.	We maintained an equal weight to munis.	**Munis outperformed core bonds in the quarter (+0.7% vs. +0.2%), but underperformed taxable bonds for the year (7.5% v. 8.7%) on an absolute basis, but outperformed adjusted for most tax brackets.**	We believe munis are overvalued for most durations. Some parts of the yield curve are at their highest value since 1956.	We are moving to underweight to munis at this time.
ALTERNATIVE ASSETS			ALTERNATIVE ASSETS	
We expect volatility to remain elevated in the back half of the year and into next year as long as the trade conflict overhangs markets.	We maintained a 10% allocation to alternative strategies.	**Equity market volatility spiked ahead of the trade announcement in early October and then remain subdued enabling a 9% market rally. Absent the volatility, Global macro/ Managed futures funds lost -2.2% (6.2% YTD).**	There are no major macro catalysts on the horizon other than the U.S. election and the possibility of a trade war flare up. We expect a first half volatility spike as the U.S. market looks overextended, but volatility may be muted in 2020 as long as the Fed remains accomodative.	We are maintaining our 10% allocation continuing to focus on strategies with no structural correlation to equities.
For more details on CBandT's investment outlook, please visit our Investment Commentary page at: https://cbandt.com/wealth-trust/resources/.				

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