NOVEMBER 2019 IN REVIEW

December Update | As of November 30, 2019

ECONOMY:

MODERATING GROWTH AMID TRADE WORRIES

November data reflected moderating growth as the U.S. economy continued to battle trade worries.

The Conference Board's Leading Economic Index (LEI) rose 0.3% year over year in October, tying its slowest pace of growth since 2016. Even though LEI growth slowed, the gauge was still positive year over year, a good sign for the future of the economic expansion.

Nonfarm payrolls climbed higher than consensus forecasts in October, according to the data released in early November, and September and August payrolls growth were also revised upward. The 12-month average payrolls change through October was slightly higher than the expansion average **[Figure 1]**.

Consumer inflationary pressures looked healthy and manageable. The core Consumer Price Index (CPI), which excludes food and energy prices, climbed 2.3% year over year in October, around a cycle high. Wages, which comprise about 70% of business costs, rose 3% year over year in October, slightly below the cycle high. Still, producer price growth declined. The core Producer Price Index increased 1.6% year over year in October, the slowest pace of growth since February 2017.

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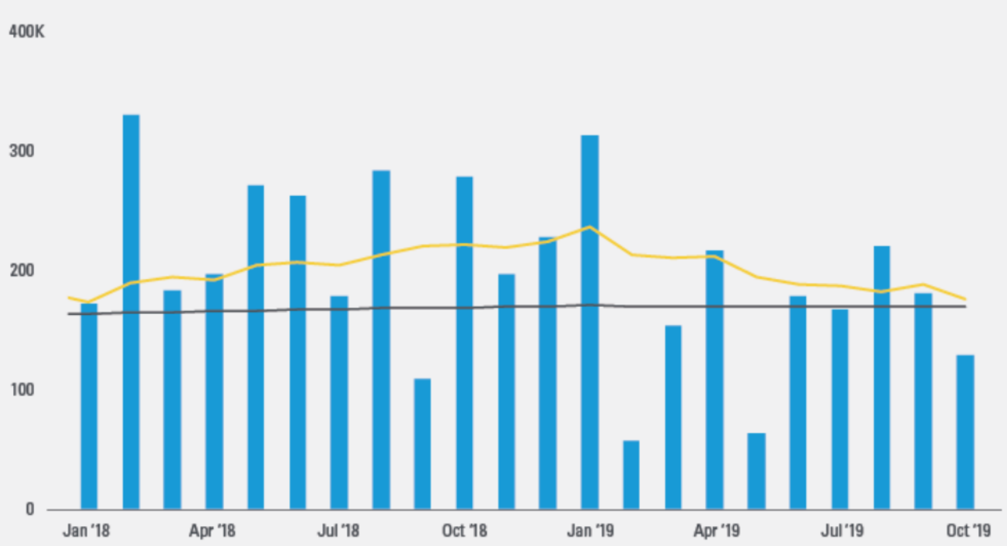
SLOWING, BUT SOLID PAYROLLS GROWTH



Source: LPL Research, Bureau of Labor Statistics 11/01/19

Core personal consumption expenditures (PCE), the Federal Reserve's (Fed) preferred inflation gauge, increased 1.6% year over year in October. Year-over-year core PCE growth remained slightly below the Fed's 2% growth target.

U.S. manufacturing data improved. The Institute for Supply Management's (ISM) Purchasing Managers' Index (PMI) rose in October from a 10-year low but still stayed in contractionary territory (below 50). On the other hand, Markit's U.S. manufacturing PMI remained just within expansionary territory in November.

Underlying data on the U.S. consumer was mixed. The Conference Board's Consumer Confidence Index slid for a fourth straight month in November, but the index is still elevated historically **[Figure 2]**.

Retail sales bounced back in October, even though spending fell for a swath of discretionary items.

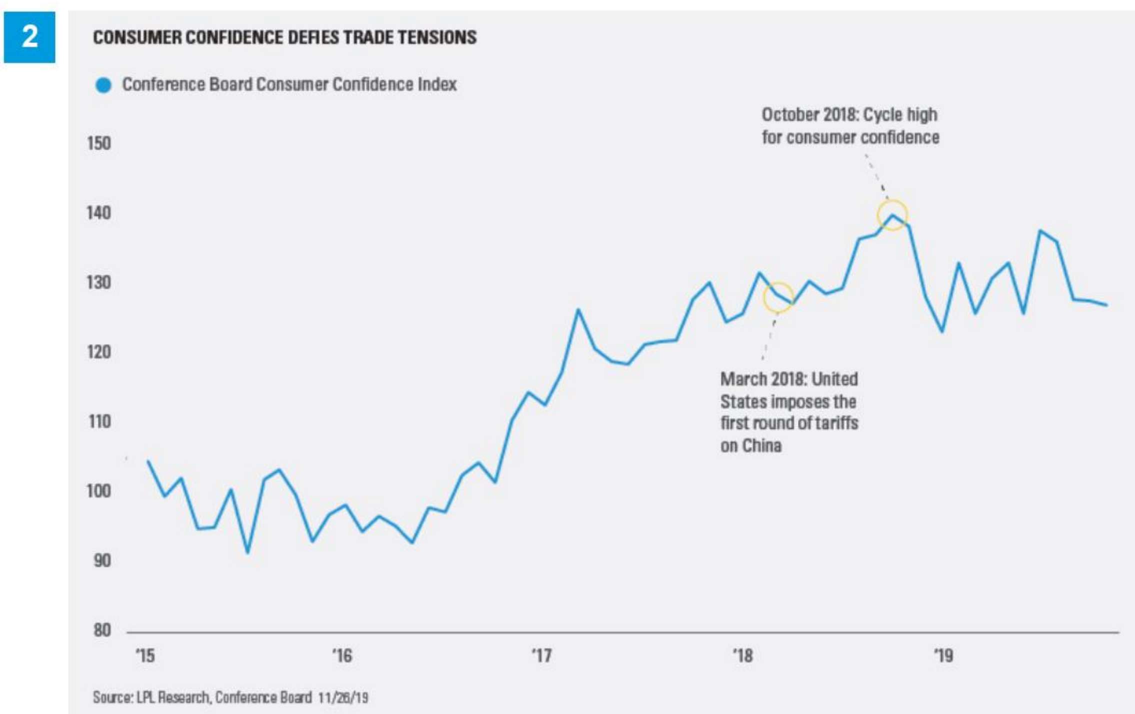
Business spending accelerated in October. Orders for nondefense capital goods (excluding aircraft) rose month over month at the fastest pace since January. However, capital goods orders declined year over year, showing the long-term trend was still mixed.

More Signals of a Rate Cut Pause

The Fed did not meet in November; however, minutes from the Fed's October meeting showed an improving economic outlook may be edging out elevated downside risks in policymakers' decisions. In the minutes, Fed policymakers discussed both dynamics at length, as they have at several meetings this year. The Fed ended up reducing the fed funds rate by 0.25%, citing low inflation and downside risks as reasons to lower the policy rate for a third time this economic cycle.

However, participants agreed to remove the "act as appropriate" language in the post-meeting statement. The change was seen as consistent with the view that current monetary policy was appropriate as long as the U.S. economy performs as expected, and policy could be changed if there is a "material reassessment of the economic outlook."

The October rate cut also was heavily contested among Fed members. Only two voters dissented, but the minutes showed that a "couple of participants," who ultimately voted for the cut, thought the decision was a "close call."



2 CONSUMER CONFIDENCE DEFIES TRADE TENSIONS

Source: LPL Research, Conference Board 11/26/19

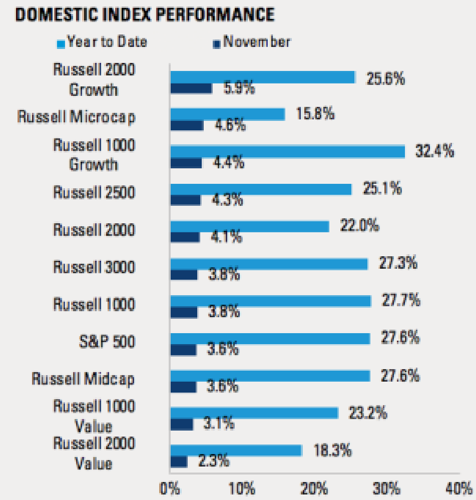
GLOBAL EQUITIES

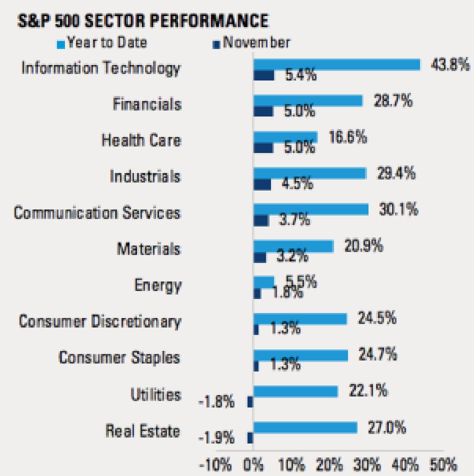
MORE NEW HIGHS AMID TRADE UNCERTAINTY

The S&P 500Index returned a solid 3.6% in November, eclipsing 11 new records for the index along the way as the month lived up to its reputation as a strong seasonal performer. An unusually calm month for stocks, November included only six down days, and on November20culminated a streak of 30 trading days without back-to-back declines in the S&P 500. The Dow Jones Industrials and Nasdaq Composite fared even better during the month with returns of 4.1% and 4.7%, respectively. The S&P 500 has posted gains in 9 of 11 months this year, returning 27.6%, ahead of the Dow's 23.1% advance but behind the 31.9%return for the Nasdaq.

The month started off on a positive note following the third Federal Reserve (Fed) rate cut of 2019 on Halloween and a better than expected October jobs report. Subsequent gains were driven by a combination of encouraging trade headlines, better than feared corporate results during third quarter earnings season, and less worrisome signals from the bond market. Among the positive headlines, China tightened intellectual property protections in late November in an attempt to meet a key U.S. demand in trade negotiations.

The market's steady march higher came despite lingering skepticism about whether a "phase one" trade agreement between the United States and China could be reached by year-end. Those concerns intensified after the United States passed a law in support of anti-government protesters in Hong Kong, which drew the ire of the Chinese government.





Source: FactSet 11/30/19
Indexes are unmanaged and cannot be invested into directly. Past performance is no guarantee of future results.
Stock investing involves risk, including loss of principal. Because of its narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

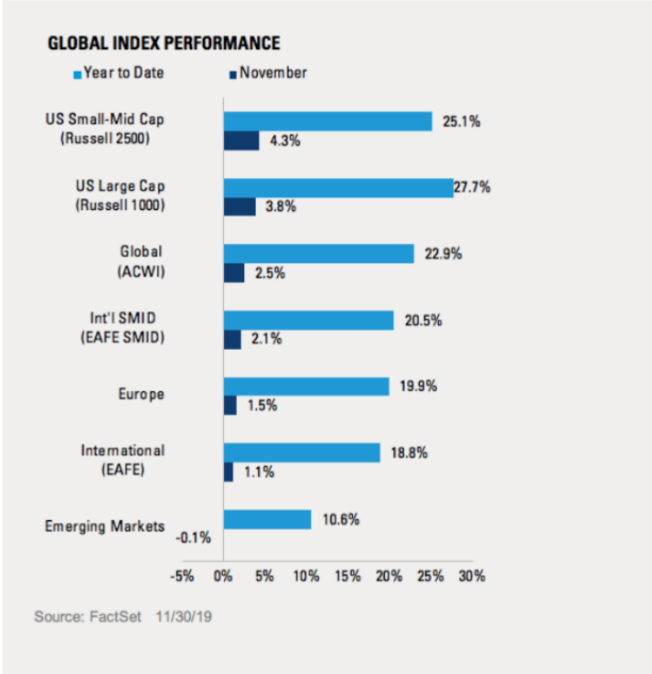
Cyclical Leadership

Stock market leadership was pro-cyclical during the month, with technology and financials topping sector performance rankings, while industrials also outperformed. On the flipside, only the defensive real estate and utilities sectors finished in the red. Technology has topped the year-to-date sector rankings with a stellar 43.8% return, while no other sector has come close; communication services, industrials, and financials have each returned between 28% and 30%.Among the S&P GICS sectors, only energy has failed to deliver double-digit returns thus far in 2019.

The risk tolerance that drove strong performance for the most economically sensitive sectors also propelled small cap stocks during November. The Russell 2000 Index outperformed the large cap Russell 1000 Index for the third straight month, but it still trails the large cap benchmark this year. Year to date, midcap and large cap stocks have each returned about 27.6%, while the small cap index has returned 22%. The strong performance for the growth style continued, as the Russell 1000 Growth Index outpaced its value counterpart for the month to bring its year-to-date 2019lead on value to 9 percentage points. Strength in the growth-heavy technology sector, particularly among software companies, and weakness in the value-focused energy sector contributed to growth outperformance.

International

Stocks in developed international markets rose in November but trailed the S&P 500. The developed international benchmark MSCI EAFE Index returned 1.1%for the month and has returned a respectable 18.8% year to date. As the month ended, the globally diversified MSCIACWI Index, which includes the United States, threatened to break out to new all-time highs set in January 2018.



Trade optimism played a role in gains in developed international markets, but evidence of firming global economic growth expectations also helped. Germany eked out marginal economic growth in the third quarter to narrowly avoid recession. The deadline for President Trump to put tariffs on European autos passed without action, suggesting trade tensions between the United States and Europe had eased. On the flip side, a strong U.S. dollar weighed on returns. Top country performers for the month based on MSCI country indexes included France and, despite ongoing political uncertainty, the United Kingdom.

Emerging markets stocks edged slightly lower in November, based on the MSCI Emerging Markets Index, and lagged slightly behind both the S&P 500 and the developed international benchmark (the MSCI EAFE). Based on the MSCI country indexes, Brazil and Korea detracted most from performance. Lackluster overall performance for emerging markets came despite solid performance for Chinese stocks, which benefited from trade optimism throughout much of the month, data pointing to stabilizing economic growth, and strength in several large cap technology stocks. Year to date, the MSCI EM Index has returned 10.6%.

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Investing in foreign and emerging markets securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

FIXED INCOME

10-YEAR YIELD CLIMBS IN NOVEMBER

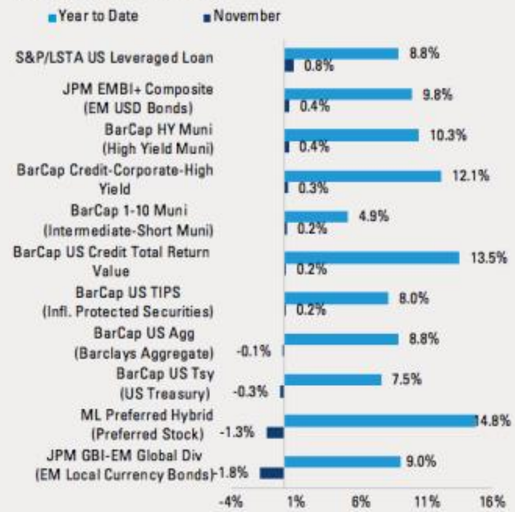
U.S. Treasury yields climbed in November as prospects fora limited U.S.-China trade agreement boosted risk appetite and led to a sell-off in Treasuries.

The 10-year yield increased 8basis points (0.08%) in November and climbed as high as 1.94%—a three-month high—on November 8 before falling to close the mon that 1.78%.

The yield curve stabilized in positive territory. The spread between the 2-year and 10-year yields remained unchanged, while the spread between the 3-month and10-year yields increased 5 basis points (0.05%).

Seven of 10 fixed income sectors we track rose in November, as shown in the Fixed Income Performance Table. Leveraged loans led with a 0.8% gain, while local-currency emerging-markets debt lagged with a 1.8% loss. The Bloomberg Barclays U.S. Aggregate Index (Agg) was unchanged during the month. The Agg climbed 8.8% year to date through November 30, poised for its best year since 2002.

FIXED INCOME PERFORMANCE



US Treasury Yields

Security	10/31/19	11/30/19	Change in Yield
3 Month	1.54	1.59	0.05
2 Year	1.52	1.61	0.09
5 Year	1.51	1.62	0.11
10 Year	1.69	1.78	0.09
30 Year	2.17	2.21	0.04

AAA Municipal Yields

Security	10/31/19	11/30/19	Change in Yield
2 Year	1.17	1.17	0.00
5 Year	1.25	1.23	-0.02
10 Year	1.56	1.57	0.01
20 Year	2.08	2.06	-0.02
30 Year	2.20	2.18	-0.02

Source: FactSet 11/30/19

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

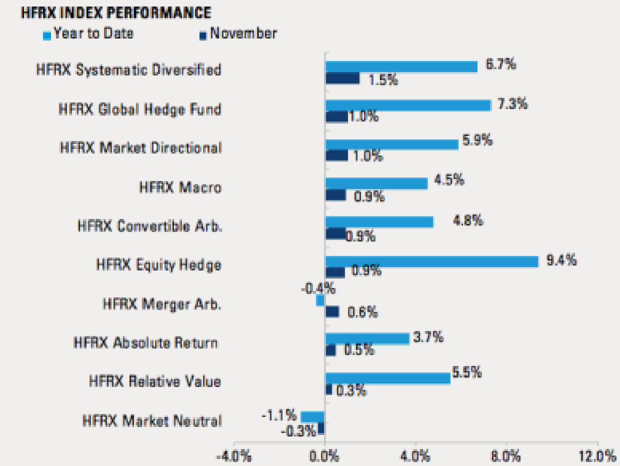
ALTERNATIVE INVESTMENTS

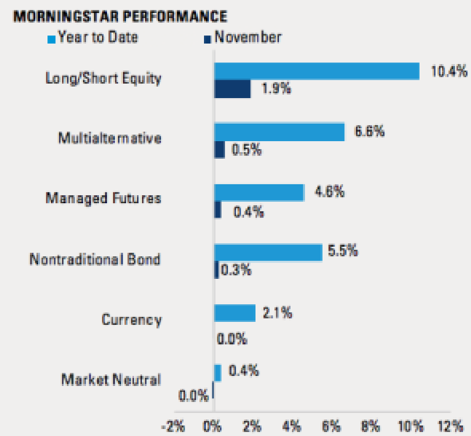
EVENT-DRIVEN STRENGTH CONTINUES

For a second month in a row, the HFRX Event Driven Index led alternative investment subcategory gains with a return of 2.1%, bringing year-to-date returns to 7.8%. Within merger arbitrage, strategies benefited from tightening deal spreads, and equity markets moving steadily higher. While global deal volume declined during the first three months of 2019 as compared to the same time frame in 2018, there has been a low deal-failure rate, and strong managers still have been able to provide attractive and steady risk-adjusted returns.

The HFRX Systematic Diversified Index (1.5%) performed well, as prevailing long positions inequity markets delivered profits. Unfortunately, losses in fixed income and currency trading offset these gains. As interest rates bottomed and briefly began to increase this fall, many strategies initiated short positions within their fixed income allocations. This exposure caused moderate losses during November, as interest rates once again began to fall. While commodity trading as a group weighed on overall performance, select trends in niche futures contracts, such as wheat and coffee, provided gains and diversification from traditional equity and bond benchmarks.

The HFRX Equity Hedge Index gained 0.9%, capturing less than 25% of the S&P 500’s 3.6%gain and marginally less than the indexes’ beta-adjusted exposure. Given the broad equity market gains, long exposure and having a higher net market exposure were beneficial. However, the hedge fund industry also held a large overweight to the health care sector, which gained 5.0% during November. Unfortunately, short exposure was a headwind for most portfolios, as all but two of the sectors were higher during the month.



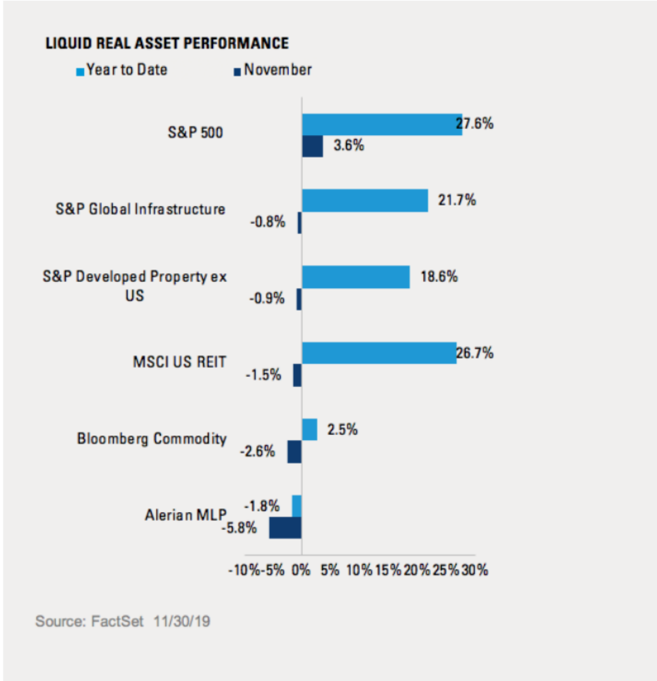


Source: FactSet 11/30/19
Indexes are unmanaged and cannot be invested into directly. Unmanaged index returns do not reflect fees, expenses, or sales charges. Index performance is not indicative of the performance of any investment. Past performance is no guarantee of future results. Alternative strategies may not be suitable for all investors and should be considered as an investment for the risk capital portion of the investor's portfolio. The strategies employed in the management of alternative investments may acelerate the velocity of potential losses.

REAL ASSETS

DIFFICULT MONTH FOR LIQUID REAL ASSETS

November was a difficult month for liquid real assets, with losses across all major categories that we track, particularly for master limited partnerships (MLP).



Master Limited Partnerships

The Alerian MLP Index slid nearly 6% in November, lagging behind the energy sector, oil prices, and the other liquid real asset categories we track. The market's preference for more economically sensitive sectors and related weakness in income sectors also played a role. Other factors included rising interest rates, falling natural gas prices, some partnership-specific issues, and early tax-loss harvesting activity. November's losses wiped out year-to-date gains for the Alerian MLP Index, which has lost 1.8%thus far in 2019.REITs and Global Infrastructure

REITs and Global Infrastructure

The MSCI U.S. REIT Index lost 1.5% during November, reversing October's gain. U.S. REITs trailed the broad U.S. stock market, as well as international real estate and global infrastructure. The REIT index has still returned a stellar 26.7% year to date and trails the S&P 500 by about one percentage point. Industrial REITs continued their strong 2019 performance in November and have returned over 50% year to date.

Lodging/resorts REITs rebounded from October's losses to place among the top-performing subsectors for the month. Those gains, however, were not enough to offset losses in the data centers, healthcare, and self-storage REIT subsectors, which all underperformed the domestic REIT benchmark. Subsector performance is based on the FTSE NAREIT REITs subsector indexes.

International real estate fared slightly better than domestic, but still lost 0.8% in November. The 21.8% return for the S&P Developed Property ex.-US Index year to date trails the U.S. REIT benchmark by 5 percentage points. The S&P Global Infrastructure Index performed similarly as international real estate slipped 0.8%.

Commodities

The Bloomberg Commodity Index fell 2.6% in November, paring the year-to-date advance for commodities to 2.5%, well behind U.S. and global equities. Oil prices rose during the month but fell sharply November 29 amid record-high U.S. output and doubt surrounding a "phase one" U.S.-China trade deal. Precious metals traded lower on improving economic sentiment. While copper was slightly positive, other industrial metals were generally lower for the month. Nickel fell 18%, the most in eight years, after gaining 57% year to date through October 31. Major agricultural prices were mixed on the month as the domestic harvest season drew to a close. Commodity performance is based on the Bloomberg Commodity Index and its components.

Investing in MLPs involves additional risks as compared to the risks of investing in common stock, including risks related to cash flow, dilution and voting rights. MLPs may trade less frequently than larger companies due to their smaller capitalizations, which may result in erratic price movement or difficulty in buying or selling.

Investing in Real Estate Investment Trusts (REITs) involves special risks such as potential illiquidity and may not be suitable for all investors.

Commodity-linked investments may be more volatile and less liquid than the underlying instruments or measures, and their value may be affected by the performance of the overall commodities baskets as well as weather, geopolitical events, and regulatory development

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