ADVISER INVESTMENTS

Adviser Outlook

FIRST QUARTER 2020

QUICK TAKES

- ✔ U.S. stocks and bonds finished 2019 with above-average gains; the S&P 500 index returned 31.5% and the investment-grade bond market was up 8.7% for the year
- ✔ Geopolitical hotspots (Iran, North Korea), the fate of Brexit, trade-war developments, a Senate trial of President Trump and the U.S. presidential election are potential market and economic disruptors
- ✔ Staying disciplined, diversified and focused on clients' long-term investment objectives should mollify near-term fears; please contact us for a free portfolio review and discussion of your risk tolerance and income needs

While it never really felt like it, 2019 was a great year to be an investor, particularly after the near-bear market we experienced in 2018's final quarter. For all of the headline drama, market volatility remained low and neither recessions, corrections nor crashes materialized. "Remarkable" is one word for it. "Resilient" is another. However you describe it, 2019 was a profitable year so long as you stayed the course.

Out of 2020's starting gate, stocks have continued to post new highs despite a sudden and dramatic flare-up between the U.S. and Iran in the year's first week. For an in-depth look at the situation with Iran and some historical perspective—which tells us that tensions and conflict in the Middle East are nothing new and typically not a reason to make wholesale changes to a well-defined investment strategy—please review our January 14 weekly update (**adviserinvestments.com/weekly-update/no-time-to-panic-nor-get-complacent**), as well as our podcast (**adviserinvestments.com/podcast/iran-impacts-how-middle-east-tension-affects-markets**).

Rest assured that when crises arise (and they always do), our response is to head in their direction to research, analyze and communicate any recommended investment moves to our clients. So far, our advice is to be watchful and cautious.

Meantime, our biggest concerns, outside of an escalation of conflict with Iran, are the presidential election's ability to impact market stability and many of the same factors that were with us all through 2019: Brexit, North Korea's posturing, the Trump administration's legal woes and the trade war with China, among others.

Overall, we are seeing relatively stable conditions for ongoing economic expansion. By the numbers, we do not believe we are headed for a recession in the near term, but we are aware that any of a number of risks could trip us into one. A strong consumer, rebounding corporate earnings, low interest rates and the Fed *en garde* all suggest that the U.S. economy will maintain its slow-growth, not no-growth trajectory for much, if not all, of 2020.

Fourth Quarter Review

After double-digit gains in the year's first quarter and moderate gains in the next two, U.S. stocks finished

QUARTER REVIEW

- ✔ The S&P 500 index hit 22 record highs in the fourth quarter
- ✔ Reduced trade tensions and positive earnings helped technology and health care stocks lead the sector performance pack in Q4
- ✔ Stock market benchmarks around the globe ended the year with robust double-digit gains, while bonds advanced as yields fell

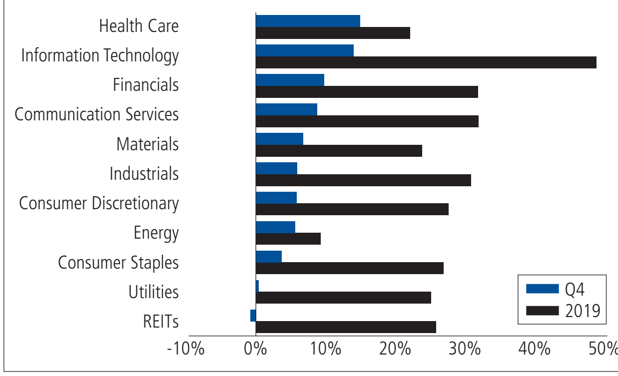
the final three months of 2019 strong. The S&P 500 and the MSCI U.S. Broad Market Index each returned 9.1% during the fourth quarter. The Dow Jones Industrial Average gained 6.7% over the same period. We credit the easing of trade-war tensions as well as improved trader sentiment for the surge.

For the year, the S&P 500 returned 31.5%, the Dow gained 25.3% and the MSCI broad market index was up 31.1%. Against a sea of emotional uncertainty, market volatility was notably absent.

And it was not just U.S. stocks that generated strong gains. The MSCI EAFE index of developed foreign markets returned 8.2% in the fourth quarter and 22.0% for the year. Meanwhile, the MSCI Emerging Markets index, which lagged for most of 2019, ended the quarter with a solid 11.8% gain, returning 18.4% for the year. Signs of economic improvement drove stocks higher in Europe, while higher oil prices in Q4 and the news of a "phase one" trade deal between the U.S. and China boosted returns and sentiment in the emerging markets. We continue to view select international investments as a critical part of a diversified portfolio and are particularly confident in the managers we're invested with.

Health care stocks, which lagged early in 2019, rallied in the latter months of the year, in part due to higher earnings and revenues, to lead all other sectors with a 14.9% gain. This helped boost the sector to a 22.1% 2019 return. Stocks in the technology sector rose 14.0% during the fourth quarter, continuing an impressive year (up 48.8%).

U.S. Sector Performance
Ranked by Q4 Return



Source: Morningstar.

As bond yields rose in the fourth quarter, utilities stocks and REITs, both sensitive to changes in interest rates, lagged, with 0.4% and -0.8% returns, respectively. (For the year, the utilities sector returned 25.1%; REITs returned 25.8%). In 2019, energy stocks were relatively weak, generating a 9.3% gain, most of which came on the back of rising oil prices at year-end.

The bond market was essentially flat in the fourth quarter, with a slight gain of 0.2%. All told, the broad U.S. bond market gained 8.7% in 2019, its best calendar-year gain since 2002. Over the course of the year, the 10-year Treasury bond's yield fell from 2.69% to close 2019 at 1.92%. A low yield today means future bond returns will likely be muted, but bonds' value in a diversified portfolio is the relative stability they provide during periods of stock market volatility and the reliable stream of income they generate.

Durable Gains for Stocks and Bonds

	Q4	2019
MSCI Emerging Markets	11.8%	18.4%
S&P 500	9.1%	31.5%
MSCI U.S. Broad Market	9.1%	31.1%
MSCI EAFE	8.2%	22.0%
Dow Jones Industrial Average	6.7%	25.3%
Bloomberg Barclays U.S. Agg. Bond Index	0.2%	8.7%

Note: Ranked by Q4 returns. Performance numbers are total returns, reflecting reinvested dividends through 12/31/19. Source: Morningstar.

Our Outlook

Gains may be harder to come by in 2020, but there's no evidence that stocks can't move higher this year. When we analyzed over 500 rolling 12-month periods to see what happened to stocks following gains of 20% or more from 1976 through 2019, we

OUR OUTLOOK

- ✔ A big 2019 for stocks does not make 2020 gains less likely
- ✔ The presidential election will inflame passions—don't let your political views dictate your investment decisions
- ✔ Cracks have developed in the U.S. economy, but we believe it will stay on its slow-growth, not no-growth trajectory for much, if not all, of 2020

found that, on average, returns were about the same as the average over all periods (12.4%), and that returns were positive about 80% of the time—also essentially the same as the probability over all periods. We caution against expecting gains similar to 2019 but reject uninformed conjecture that prior gains make subsequent losses more probable.

The same could be said for the economy. We're in the midst of the longest (but far from the strongest) economic expansion in modern history. There are more cracks than there were several years ago, though. If they widen sufficiently or are joined by enough others, we'll have our next recession.

Potentially worrisome signs: The manufacturing sector is contracting, a partially inverted yield curve spawned recession calls (though as of year-end it was back to a more "normal" shape) and the uncertainty created by Brexit and our myriad trade wars has negatively impacted business investment.

The presidential election is underway and consumer confidence could take a hit as campaigning hits a fevered pitch. We'll be keeping politics out of our portfolio decision-making process—except when the lasting effects of policy moves could change our current views on the economy and the markets. For more, we encourage you to read our Special Report, *Focus on Market Cycles, Not Election Cycles* (**adviserinvestments.com/reports/marketcycles.pdf**).

Still, more signs of economic life and resiliency counterbalance the risks. Interest rates are low following three Federal Reserve cuts, making it easier for businesses and individuals to borrow and pay back their loans. (This also makes bonds less competitive with stocks.) Inflation continues to be a non-factor.

PERSONAL FINANCE FOCUS

AI Alert: Retirement Investing Rules Just Changed

THE RECENTLY ENACTED SECURE ACT has widespread ramifications for retirement savers. Our financial planning team has prepared a brief summary of some of its most important and impactful provisions.

■ **TAKE RMDs LATER.** If you reach age 70½ on or after January 1 this year, you don't have to take required minimum distributions (RMDs) from your tax-deferred retirement accounts until after your 72nd birthday. But if you hit age 70½ last year, you have to take your first RMD by April 1, 2020, and there is no reset button for people already taking RMDs.

■ **INHERITED IRAs MUST BE EMPTIED FASTER.** Previously, many beneficiaries could "stretch" distributions from inherited retirement savings accounts over their lifetimes. Starting January 1, beneficiaries must draw inherited accounts down to zero within a decade after the account owner's passing. A few key exceptions: Surviving spouses, disabled and chronically ill beneficiaries and minor children, among others, are exempt from this rule. (Note: This is not an exhaustive list of exemptions, and rules may also differ for certain types of trusts, so speak to an estate attorney or accountant about your specific situation.)

■ **ANNUITIES ENCOURAGED FOR 401(K)s.** In a concession to the insurance industry, there are new incentives for 401(k) plans to include annuities as investment options. Advocates claim that annuities will provide "guaranteed lifetime income," a replacement for the pension plans of yesteryear that are fading into obscurity. Annuities are useful for some, but we'd advise careful consideration of the risks before investing in them, as they are not a good fit for everyone.

■ **MORE OPPORTUNITIES TO SAVE.** The SECURE Act did away with rules preventing you from adding to a traditional IRA after reaching age 70½ (so long as you have "earned income"). In addition, part-time workers who have been at the same job for at least three years, working 500 hours or more annually are eligible for their company retirement plan.

■ **CHARITABLE DISTRIBUTIONS REMAIN.** Eligibility for making qualified charitable distributions is still age 70½.

The SECURE Act is a major piece of legislation and we can't come close to discussing all the specifics here—you can read more on the subject on our website (**adviserinvestments.com/adviser-fund-update/the-secure-act-whats-it-mean-for-your-retirement**) or tune in to hear our team's breakdown of the Act in *The Adviser You Can Talk To Podcast* (**adviserinvestments.com/podcast/unpacking-the-secure-act**). If you'd like to review your retirement savings or spending strategy, please call us. We're here to help.

Corporate earnings growth was mostly flat over the past year but may be poised to rise again in 2020. In contrast to the manufacturing sector, the much larger service side of our economy is expanding. Investor sentiment still leans cautious, which is typically a positive signal for stock market gains.

And then there's the consumer, the main driver of our economy and, to a large extent, the global one. From almost every angle, U.S. consumers are in good shape. The unemployment rate has hovered at or under 4% since 2018, suggesting that almost anyone who wants a job has one. Household debt is near historical lows, wages have gone up (if sluggishly) and spending has been steady. We think that it is a fool's errand to bet against a fully employed consumer.

In sum, our investment team continues to see reason for caution when measuring the tradeoff between risk and reward in 2020. As noted, although stock prices could finish the year higher, we think investors should be prepared for a correction along the way—not because we see evidence of one on the horizon, but because a decline could occur at any time for a variety of reasons, including those listed above. We believe the time-tested approach of diversification and risk management is our best means of safeguarding our clients' wealth while positioning their portfolios to meet their long-term goals.

ADVISER INVESTMENTS' QUARTERLY UPDATE
Listen to a replay of our *First-Quarter Update—2020 Conflicts: Impeachment, Tariffs & Global Dysfunction* at AdviserInvestments.com/webinar

COMPANY NEWS

Adviser Investments Rallies Holiday Food and Toy Drive

Adviser Investments' Women in Wealth Management Initiative recently partnered with Adviser Cares to benefit Prospect Hill Academy's (PHA—a public Boston-area charter school) THRIVE program, which provides two meals a day to students who may not otherwise have enough to eat over weekends or school breaks. Our employees donated and packaged a total of 1,000-plus servings of macaroni and cheese, fresh fruit and vegetables, milk, cereal, raisins, granola bars and much more to combat hunger and also gifted more than 100 toys to make the holidays brighter for PHA K–6 graders.

THIS QUARTER'S CONTRIBUTORS

Daniel P. Wiener *Chairman*
James H. Lowell III *Chief Investment Officer*
Kate Austin *Equity Research Analyst*
Jeffrey D. DeMaso, CFA *Director of Research*
Elizabeth Laprade *Research Analyst*
Christopher Keith *Senior Vice President*
Jennifer Zebniak *Research Analyst*
Brian Mackey, CFA *Deputy Director of Research*
Charlie Toole, CFA, CFP® *Vice President*
Steve Johnson, JD, CPWA®, CFP® *Vice President*