

# MARKET & ECONOMIC REVIEW

For Period Ending 12/31/2019

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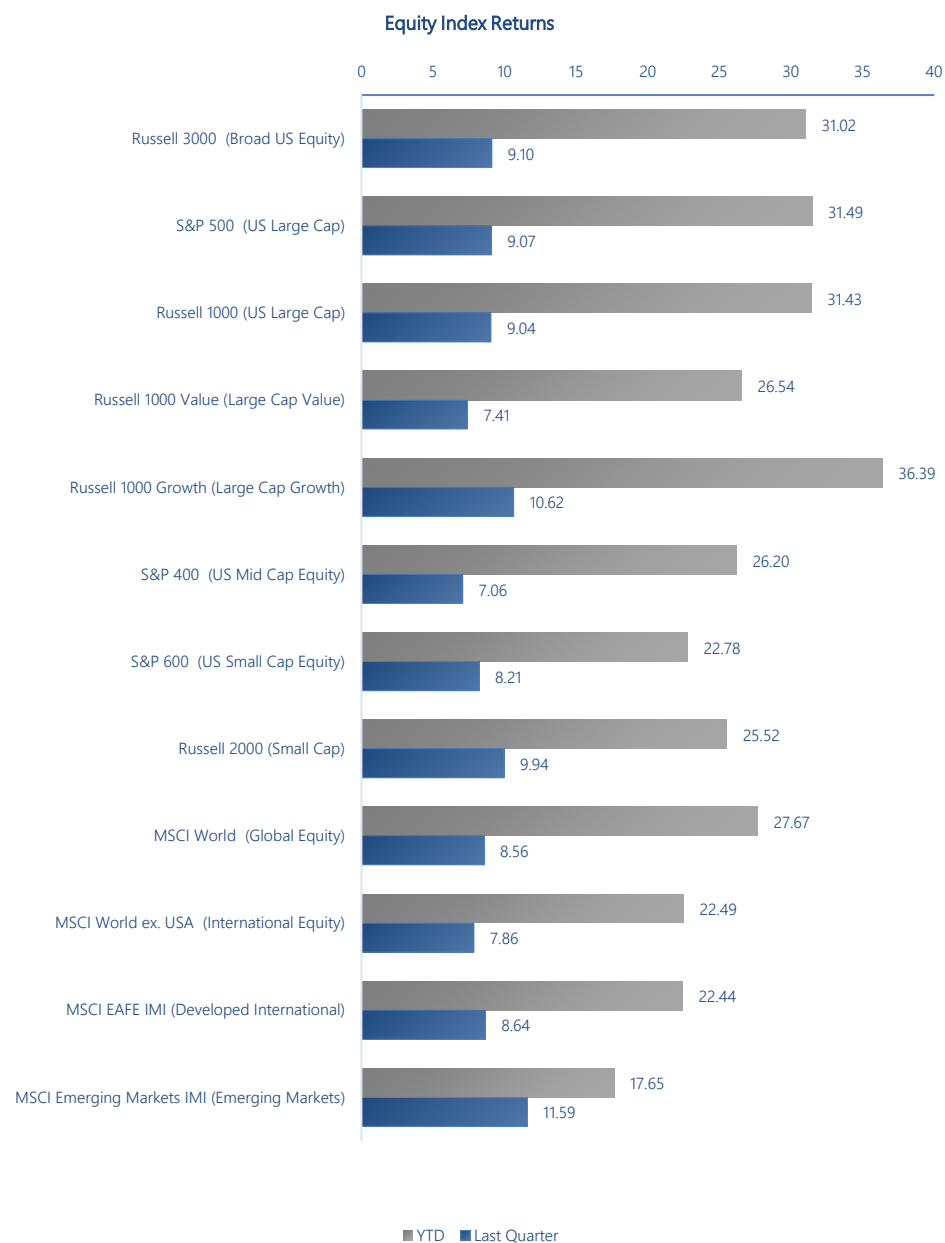
# EQUITY REVIEW

## Domestic Equity

- S&P 500 posted a 9% gain for the quarter and ended the year up 31.5%, the best performance for the index since 2013.
- Small Cap (Russell 2000) outperformed Large Cap (Russell 1000).
- Growth (Russell 1000 Growth) outperformed Value (Russell 1000 Value).
- Healthcare, Technology, and Financial Services were the best performing sectors while Utilities, Real Estate, and Consumer Staples lagged.
- Volatility was relatively muted throughout the quarter.
- Optimism about the economy improved over the course of the quarter as the U.S. China trade negotiations appeared to show signs of progress, the Federal Reserve remained accommodative in their policy, and economic data showed signs of improvement.

## International Equity

- MSCI World ex. US posted a 7.9% gain for the quarter.
- Domestic equities outperformed international equities.
- Emerging market equities outperformed developed market equities.
- Developed international markets had a strong quarter boosted by the United Kingdom and Germany as uncertainty around Brexit diminished and economic data appears to have bottomed and began turning around.
- Japan returned 7.6% during the quarter as the country absorbed a consumption tax increase, the continued effects of the ongoing U.S. China trade dispute, and persistent disinflationary pressures.
- In emerging markets, tech-heavy Taiwan posted another return of 18% followed by a 17% quarterly gain by Russia.
- Over the course of the year international growth outpaced international value, the largest deficit for international value ever.



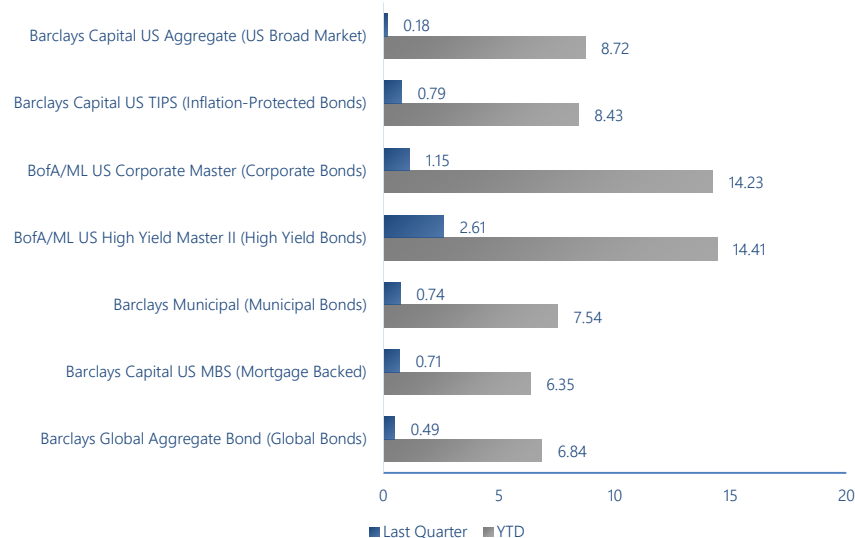
Source: Index Factsheets as of 12/31/2019 from the following index providers: MSCI Indices ([www.msci.com](http://www.msci.com)), S&P Dow Jones Indices ([www.us.spindices.com](http://www.us.spindices.com)), FTSE Russell Indices ([www.ftse.com](http://www.ftse.com)).

# FIXED INCOME & ALTERNATIVES REVIEW

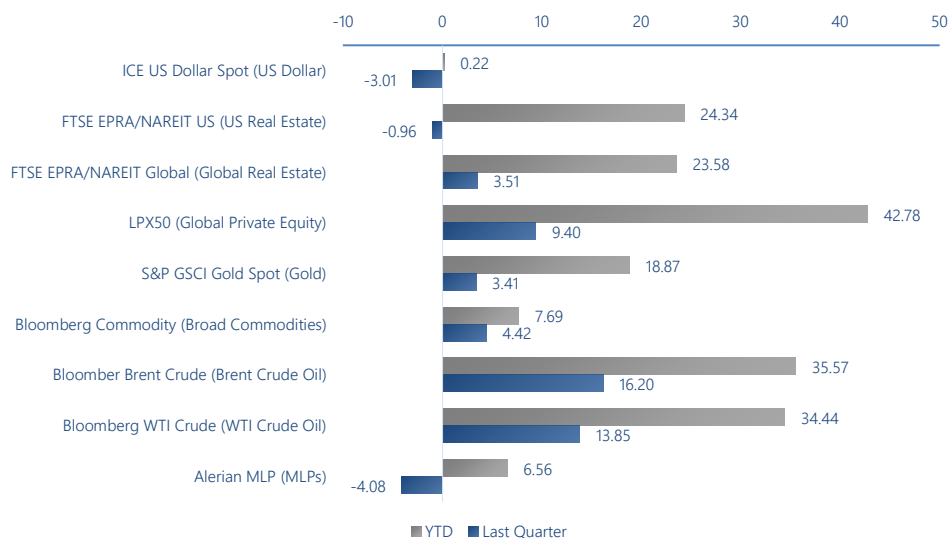
## Fixed Income

- Interest rates decreased on the short end of the yield curve while increasing on the intermediate and longer end as the Federal Reserve continued to cut rates and as fears of a looming recession were reduced.
- The yield on the 10-year Treasury note rose by 24 bps to 1.92%.
- The Federal Reserve cut interest rates by another 25 basis points following their October FOMC meeting and stated they are comfortable with a pause in rate cuts unless a material deterioration occurred in the economy.
- Investment grade corporate and high yield bonds were some of the strongest categories, gaining 1.2% and 2.6% respectively.
- In international bond markets, corporate and high yield bonds outperformed government bonds as moderately better economic data and positive developments around trade negotiations supported a stronger risk sentiment.
- Emerging market bonds saw healthy returns during the quarter driven primarily by strong returns in December, led by a rebound in Argentina.

Fixed Income Index Returns



Alternative Investment Index Returns
















## Alternative Investments

- Commodities gained 4.4% during the quarter. The top performers were coffee (24.3%), soybean oil (17.6%), and Brent crude (15.7%). The worst performing commodities were nickel (-18.0%), natural gas (-17.8%), and lean hogs (-15.3%).
- The US dollar fell against most currencies this quarter as appetite for risk drove investors away from the dollar.
- Brent crude and West Texas Intermediate (WTI) crude oil had a strong quarter gaining 16.2% and 13.9%, ending the year up 35.6% and 34.4% respectively.
- While U.S. REITs struggled, falling 1%, Global REITs had a modest 3.5% gain during the quarter.
- Private Equity was the strongest performing asset class in 2019, gaining 42.8%.

Source: Index Factsheets as of 12/31/2019 from the following index providers: Bloomberg Barclays Indices ([www.bloomberg.com](http://www.bloomberg.com)), BofA Merrill Lynch ([www.bofam.com](http://www.bofam.com)), Intercontinental Exchange ([www.theice.com](http://www.theice.com)), LPX Group ([www.lpx-group.com](http://www.lpx-group.com)), Credit Suisse ([lab.credit-suisse.com](http://lab.credit-suisse.com)), FTSE Russell Indices ([www.ftse.com](http://www.ftse.com)). All other data was sourced from Morningstar.

# MACROECONOMIC & GEOPOLITICAL REVIEW

Macroeconomic Variable	Latest Data	Previous Quarter	Change
Real U.S. GDP (% Q/Q Annualized)	<b>2.1%</b> (Q3 2019)	<b>2.0%</b> (Q2 2019)	 0.1%
Headline Inflation (% Y/Y)	<b>2.3%</b> (December 2019)	<b>1.7%</b> (September 2019)	 0.6%
Core Inflation (% Y/Y)	<b>2.3%</b> (December 2019)	<b>2.4%</b> (September 2019)	 0.1%
Unemployment (%)	<b>3.5%</b> (December 2019)	<b>3.5%</b> (September 2019)	 0.0%
Hours Worked (Average/Week)	<b>34.3</b> (December 2019)	<b>34.4</b> (September 2019)	 00.1
Average Hourly Wages (\$)	<b>\$28.32</b> (December 2019)	<b>\$28.09</b> (September 2019)	 \$0.21
Average Price of Gas (\$/Gallon - Regular)	<b>\$2.555</b> (December 2019)	<b>\$2.592</b> (September 2019)	 \$0.037
Dollar/Euro (\$/€)	<b>1.1227</b> (December 2019)	<b>1.0905</b> (September 2019)	 0.0322
Yen/Dollar (¥/\$)	<b>108.67</b> (December 2019)	<b>108.11</b> (September 2019)	 0.56
Yuan/Dollar (¥/\$)	<b>6.9618</b> (December 2019)	<b>7.1477</b> (September 2019)	 0.1859
Fed Funds Rate (% Range)	<b>1.50 – 2.75%</b> (December 2019)	<b>1.75 – 2.00%</b> (September 2019)	 0.25%
S&P 500 (Price Level)	<b>3,230.78</b> (December 2019)	<b>2,976.74</b> (September 2019)	 254.04
Ten Year Treasury Yield (%)	<b>1.92</b> (December 2019)	<b>1.68</b> (September 2019)	 0.24%

## Macroeconomic Review

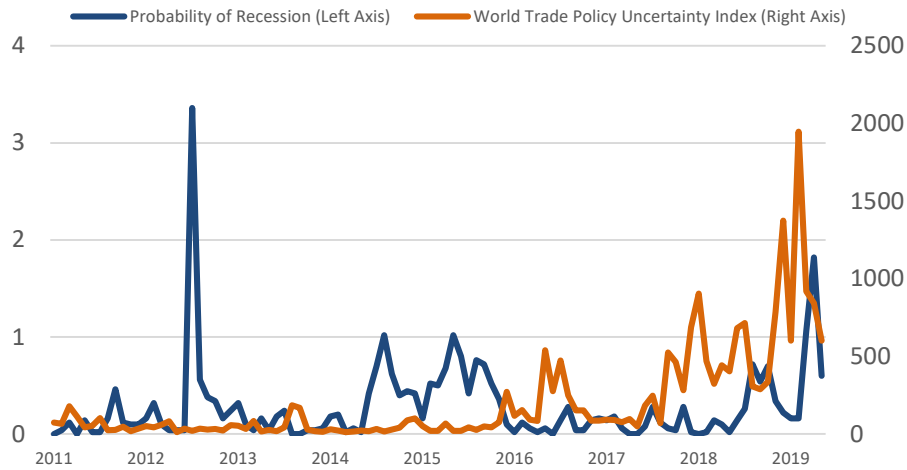
- Real GDP growth came in at 2.1% in Q3 helped primarily by strong consumer spending. Business investment remained weak as businesses remain uncertain of the outcome of trade negotiations.
- Headline inflation rose 0.6%, while core inflation fell 0.1%. The increase in headline inflation was boosted primarily by energy commodities such as gasoline. Core inflation remained strong due primarily to the 12 month increase in medical care services.
- The unemployment rate remained flat at 3.5% in December with average hourly earnings rising by 2.9%, below the 3.1% expectation, and the first time wage growth came in under 3% since July 2018.
- December marked the 111<sup>th</sup> consecutive month of job growth; continuing the longest streak in history.

## Geopolitical Review

- The U.S. and China continued to explore ways to deescalate trade tensions between the two countries with an agreement, in principle, on a “Phase 1” deal that will reduce tariffs and commit China to buying up to \$40 billion in agricultural products from the U.S.
- The U.S. House of Representatives voted and approved two articles of impeachment for President Trump, making him only the 3<sup>rd</sup> president in U.S. history to be impeached.
- Boris Johnson and his conservative party won an overwhelming majority of seats in parliament during the U.K.’s general election, giving the Prime Minister a strong mandate to move forward withdrawing from the European Union.
- Tensions among the U.S., Iraq, and Iran increased after U.S. airstrikes killed members of an Iranian-backed militia in Iraq leading to protesters breaking into the U.S. embassy in Baghdad and setting fires to the compound.

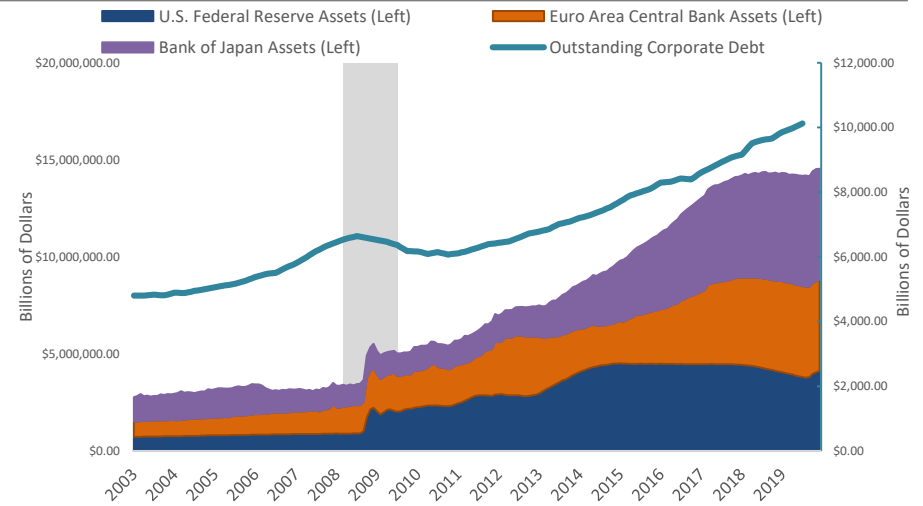
Source: Bureau of Economic Analysis ([www.bea.gov](http://www.bea.gov)), Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov)), U.S. Energy Information Administration ([www.eia.gov](http://www.eia.gov)), FRED Economic Data ([fred.stlouisfed.gov](http://fred.stlouisfed.gov)). Arrows depict the upwards, lateral, or downward change in direction for a given macroeconomic variable. The color of the arrow denotes the positive, neutral, or negative signal. Pensionmark perceives for the change in macroeconomic variable. It is educational in nature and not designed to be taken as advice or a recommendation for any specific investment product, strategy, plan feature or other purpose in any jurisdiction. This data does not contain sufficient information for any investment decision and should not be relied upon when considering an investment strategy.

# LOOKING AHEAD



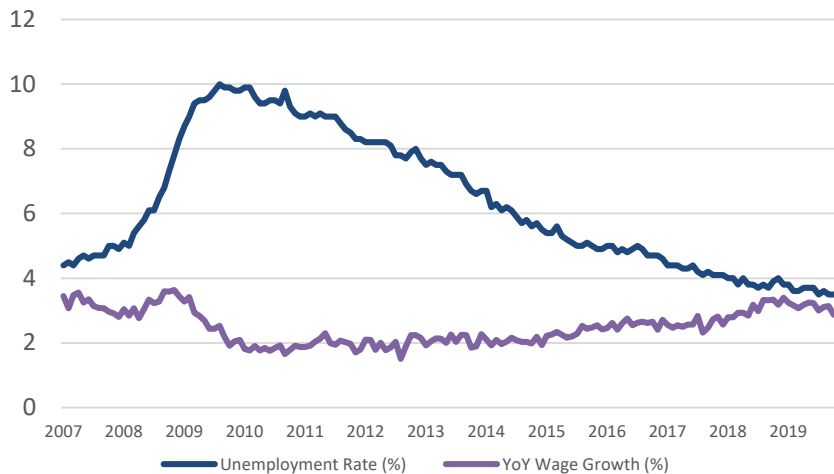
## Probability of Recession

Following some positive developments in the U.S. China trade negotiations, more certainty around Brexit, dovish central bank policies, and improving economic data, the probability of a recession in the near term has diminished.



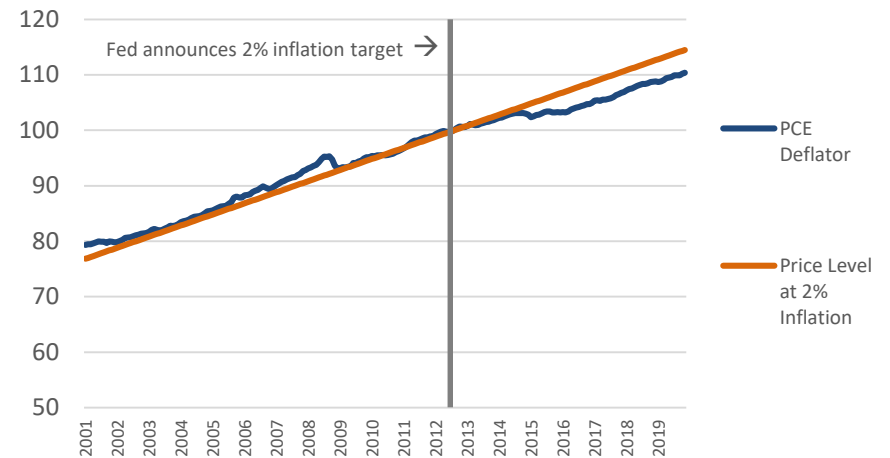
## Pain of Recession

Central banks may not have many tools left in their toolkits to boost growth in the event a recession does occur. Corporate debt levels also raise concerns as a recession may leave many companies with too much debt and little resources to service it.



## Unemployment & Wage Growth

Businesses have been very efficient at keeping wage growth relatively muted even as the unemployment rate has drifted down to historically low levels. As the labor markets continue to tighten, wage growth and inflation may pick up as a result.



## Inflation

Inflation has been persistently under the Federal Reserve's 2% inflation target for quite some time. Because of this, the Fed may let inflation rise above 2% for a period of time before employing any policy tools to reign it back in.

Source: Federal Reserve of St. Louis ([www.fred.stlouisfed.org](http://www.fred.stlouisfed.org)), Bureau of Labor Statistics ([www.bls.gov](http://www.bls.gov)), Markit ([www.market.com](http://www.market.com)), U.S. Treasury ([www.treasury.gov](http://www.treasury.gov)). This data does not contain sufficient information for any investment decision and should not be relied upon when considering an investment strategy.

# THE IMPORTANCE OF DIVERSIFICATION



- Large Cap
- Commodities
- DM Equity
- Asset Allocation
- Small Cap
- High Yield
- Cash
- EM Equity
- Fixed Income
- REIT

Large Cap: S&P 500; Small Cap: Russell 2000; EM: MSCI EM; Commodities: Bloomberg Commodity; High Yield: Barclays Global High Yield; Fixed Income: Barclays US Agg Bond; DM: MSCI EAFE; Cash: Barclays US Treasury Bill 1-3 Month; REIT: FTSE NAREIT; "Asset Allocation" portfolio assumes 25% S&P 500, 10% Russell 2000, 15% MSCI EAFE, 5% MSCI EM, 25% Barclays US Agg Bond, 5% Barclays Global High Yield, 5% US Treasury Bill 1-3 Month, 5% Bloomberg Commodity, and 5% FTSE NAREIT.

Source: Morningstar Direct. Please see the Important Disclosures section of this report for Index Definitions. This information is not intended as a solicitation or an offer to buy or sell any security or investment product. Past performance is not indicative of future returns. Information is solely intended for recipients in jurisdictions where the named advisor(s) are licensed to engage the investing public. Investments and strategies mentioned may not be suitable for all investors. The S&P 500 and other such indices are unmanaged, do not incur fees or expense, cannot be invested into directly and individual investor's results will vary. As with all investments, various risks may exist and Pensionmark Financial Group, LLC recommends you consult with your financial advisor prior to making any investment decisions.

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