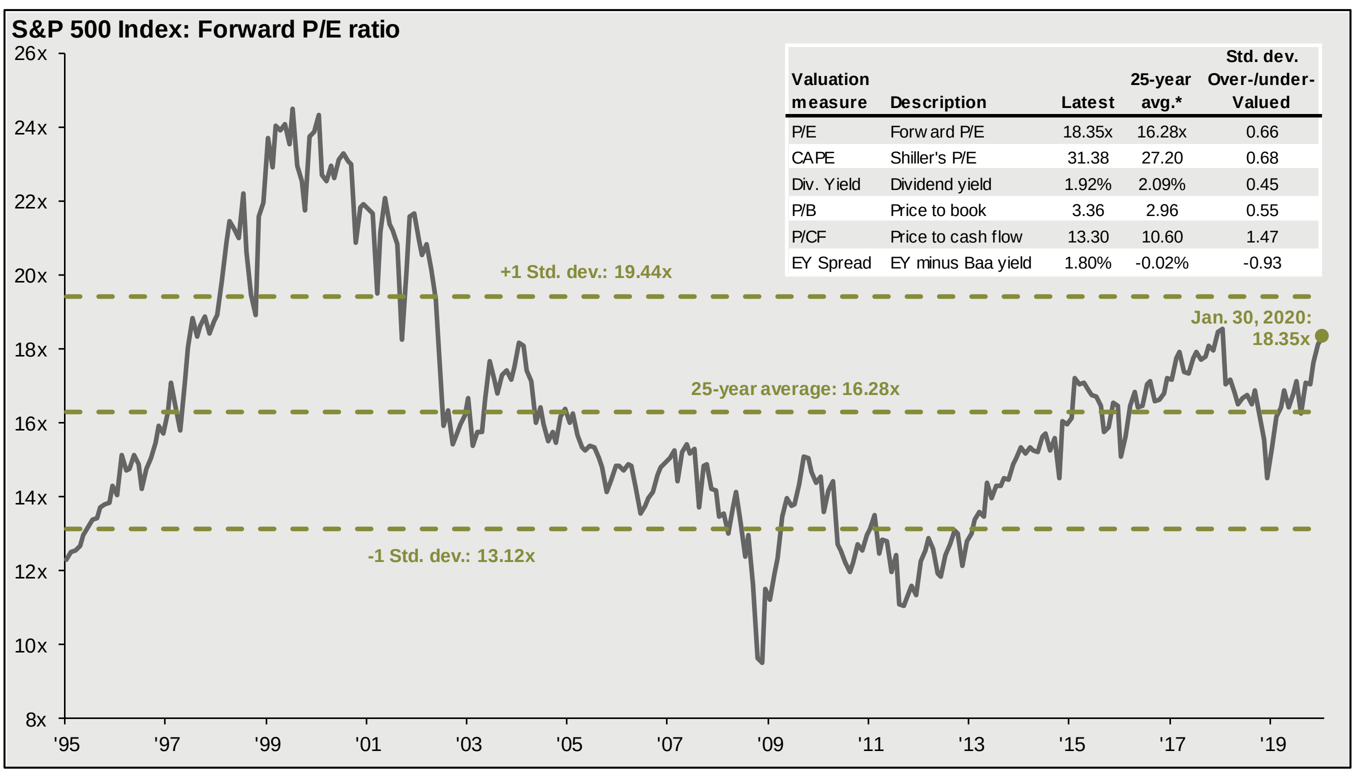
Monthly Investment Update

February 3, 2020

Markets started January on solid footing with the S&P rising as much as 3% before ending the month relatively flat. International markets fared worse with developed and emerging foreign equity indices declining 2% and 5%, respectively. Oil prices and interest rates also significantly declined during the month, potentially saving money for businesses and consumers that could drive future spending growth.

The declines in risk assets, commodities, and interest rates in January are largely being attributed to the potential economic impact of the coronavirus. Recognizing the terrible loss of life caused by the virus, the steps being taken by the Chinese government and international companies doing business there have been swift and significant. Millions of people in China have been effectively quarantined, and US companies like Disney, Apple, McDonalds, General Motors, Ford, and Starbucks have shuttered operations in certain parts of the country. China has become more integrated into the global supply chain producing more complex goods (e.g., iPhones) than it was in the early 2000s during the outbreak of SARS. It seems likely that the coronavirus will have at least some impact on global GDP and corporate earnings in the first quarter of 2020, but hopefully the steps being taken by governments and companies are mitigating the human impact as much as possible.

Chart 1: U.S. Equities Appear Modestly More Expensive than the 25 Year Average



Valuation measure	Description	Latest	25-year avg.*	Std. dev. Over-/under-Valued
P/E	Forward P/E	18.35x	16.28x	0.66
CAPE	Shiller's P/E	31.38	27.20	0.68
Div. Yield	Dividend yield	1.92%	2.09%	0.45
P/B	Price to book	3.36	2.96	0.55
P/CF	Price to cash flow	13.30	10.60	1.47
EY Spread	EY minus Baa yield	1.80%	-0.02%	-0.93

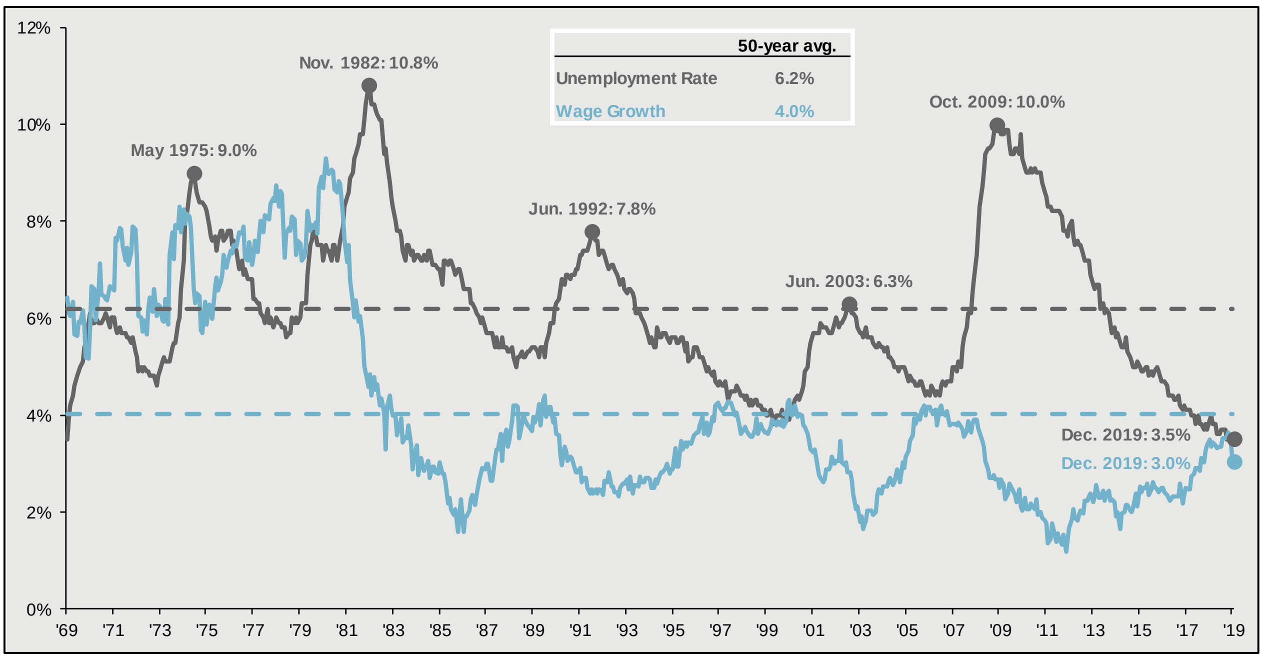
Source: JPMorgan Guide to the Markets

Economy

In January, we received the first report of fourth quarter 2019 US GDP which indicated that the economy grew by 2.1% since the fourth quarter of 2019. The result was approximately in-line with the average during the recovery since the global financial crisis, but consumption growth slowed to 1.8% and business investment declined by 1.5%. Increases in residential investment (5.8%) and government spending (2.7%) helped to shore up overall GDP.

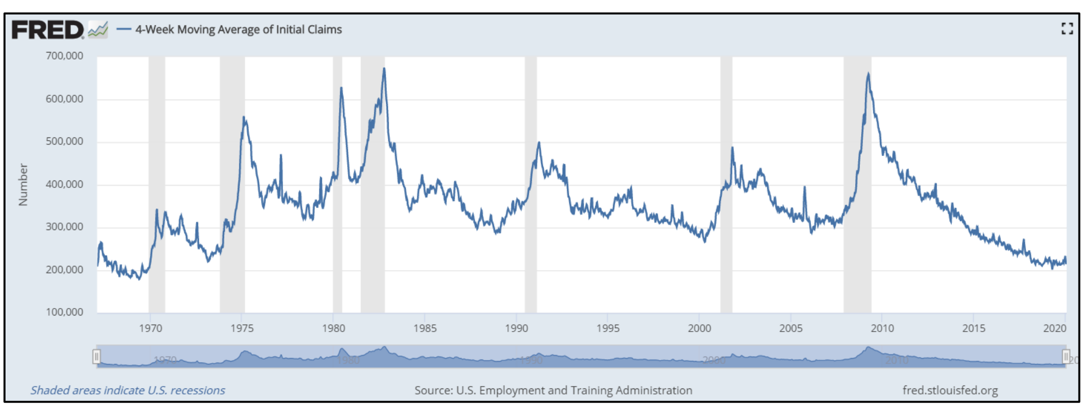
January's hiring results were solid at 145,000 growth in payrolls. Unemployment remained at 3.5%, and the growth in average hourly earnings was 2.9% year-over-year. Initial jobless claims remain low relative to history but have shown signs of bottoming since early 2018.

Chart 2: U.S. Employment and Wage Growth



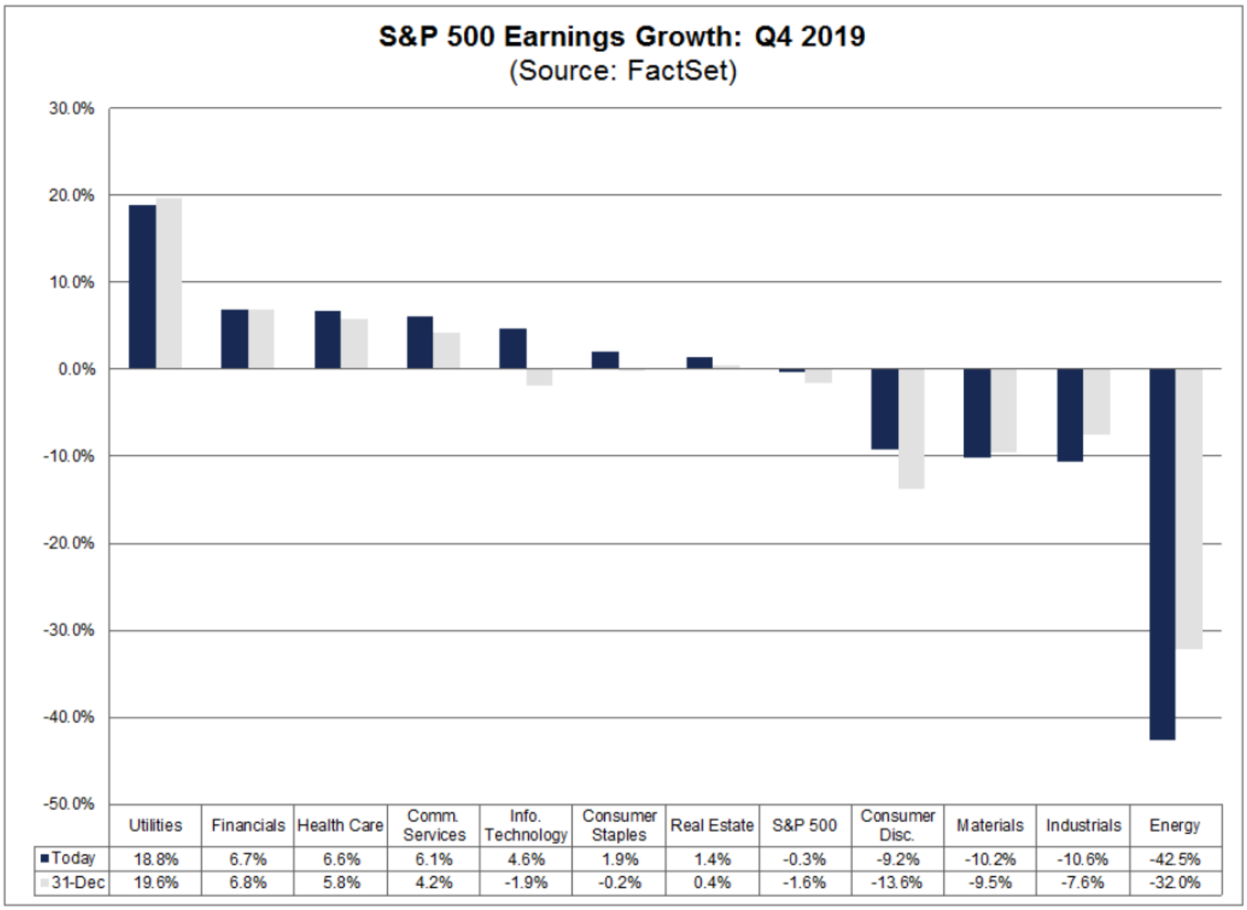
Source: JPMorgan Guide to the Markets

Chart 3: U.S. Initial Jobless Claims (Four-Week Average)



Earnings

Earnings season was in full swing last week with more than 100 companies reporting their fourth quarter results. As of Friday, 45% of S&P 500 companies published results. Of those, 69% outperformed analysts' consensus estimates for earnings and 65% of companies beat revenue estimates. Analysts had been expecting a 2% decline in fourth quarter 2019 earnings versus 2018, though positive surprises from the technology and consumer discretionary sectors have pushed the year-over-year results for the index to just -0.3% when combing actual reports and estimates for companies yet to report. The energy, industrials, materials, and consumer discretionary sectors are expected to lead the year-over-year declines in earnings.



	Utilities	Financials	Health Care	Comm. Services	Info. Technology	Consumer Staples	Real Estate	S&P 500	Consumer Disc.	Materials	Industrials	Energy
Today	18.8%	6.7%	6.6%	6.1%	4.6%	1.9%	1.4%	-0.3%	-9.2%	-10.2%	-10.6%	-42.5%
31-Dec	19.6%	6.8%	5.8%	4.2%	-1.9%	-0.2%	0.4%	-1.6%	-13.6%	-9.5%	-7.6%	-32.0%

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Asset Class Returns

Category	Representative Index	January 2020	Full Year 2019
US Large Cap Equity	S&P 500	0.0%	31.5%
US Small Cap Equity	Russell 2000	-3.2%	25.5%
Foreign Developed Equity	MSCI EAFE	-2.1%	22.0%
Emerging Market Equity	MSCI Emerging Markets	-4.7%	18.4%
US High Yield Fixed Income	ICE BofAML High Yield	0.0%	14.4%
US Fixed Income	Barclays Aggregate Bond	1.9%	8.7%
Cash Equivalents	ICE BofAML 3 Mo Deposit	0.1%	2.2%

Source: Morningstar, Bloomberg, US Treasury (total returns shown gross of fees)
As of January 31, 2020

Prices & Interest Rates

Representative Index	Current	Year-End 2019
S&P 500	3,224	3,231
Dow Jones Industrial Avg.	28,196	28,538
NASDAQ	8,998	8,973
Crude Oil	$51.46	$61.21
Gold	$1,583	$1,520
2 Year Treasury	1.33%	1.58%
10 Year Treasury	1.51%	1.92%
30 Year Treasury	1.99%	2.39%

Source: Morningstar, Bloomberg, US Treasury (total returns shown gross of fees)
As of January 31, 2020