MESIROW WEALTH ADVISORS

Market Summary

4Q 2019

2019 was clearly a strong year for all asset classes. The strong returns were at least partly due to an advantageous starting point, as the market sold off precipitously just before the start of 2019. The S&P 500 Index now trades at a forward price-to-earnings ratio of just over 18x forward earnings, compared to a historical average around 16x, indicating that stock prices are now less attractive. And while non-U.S. stocks appear cheap relative to domestic equities, non-U.S. stocks are also trading at a premium to their historical average. Equity market gains were driven more by multiple expansion than earnings growth, suggesting optimism about future growth but also setting investors up for disappointment if that growth does not materialize. Given that the U.S. economy is now 126 months into the longest period of economic expansion in U.S. history, a cautious approach is the prudent course for investors.

Investors should also maintain lower expectations for bond markets going forward, given that interest rates are now much lower than in early 2019. Negative yields are still persistent in other parts of the world with $12 trillion in debt trading with negative yields; however, betting on a similar outcomes in the U.S. involves the expectation of continued irrational behavior by bond investors. In our opinion, bond markets are not currently pricing in any likelihood of higher rates, meaning that significant risk remains in bonds. Investors should avoid the temptation to reach for yield and instead focus on capital preservation.

Equities

The capital markets ended 2019 on a positive note, with most key sectors and asset classes posting positive returns during the fourth quarter. The S&P 500 Index returned an impressive 9.1% during the quarter, resulting in a total return of 31.5% during the full year 2019. The healthcare and technology sectors were the leading contributors to the strong S&P 500 during the quarter, as those sectors each rose 14.4%. For the year, technology stocks returned a staggering 50%. Utilities barely squeaked out a positive return of 0.8% during the quarter, while real estate stocks lost 0.5% during the quarter, as rising interest rates hurt both rate-sensitive sectors.

Strong performance from the technology sector helped the Russell 1000 Growth Index generate a 10.6% return during the quarter compared to 7.4% for the Russell 1000 Value Index. Small cap stocks performed in line with large caps during the most recent quarter, with the Russell 2000 Index (small cap) returning 9.9% in the quarter. That said, small caps lagged larger stocks for the full year as the Russell 2000 Index returned 25.5% for the year. Non-U.S. stocks posted strong absolute returns for the year but lagged the S&P 500 Index. The MSCI EAFE Index returned 8.2% and 22% for the fourth quarter and 2019, respectively. Emerging markets beat the S&P 500 Index during the quarter with a return of 11.8%, finishing 2019 at 18.4%.

Fixed Income

Fixed income markets experienced a quiet fourth quarter, but 2019 was a remarkable year for bonds overall. The Federal Reserve lowered its key federal funds rate to a range between 1.5% -1.75% causing short term rates to decline slightly. While the Fed lowered its short term fed funds rate, longer term rates rose during the quarter likely due to optimism about future economic growth. Ten-year treasury rates rose from 1.68% to 1.9% during the quarter, but are down from just under 3% at the start of last year.

The Bloomberg Barclays U.S. Aggregate Bond Index gained only 0.18% during the quarter, but rose 8.7% for the year, thanks to declining interest rates and a corresponding rise in bond prices through most of the year. The 2019 return reflects the best calendar year returns for the widely followed bond index since 2002. Corporate bonds benefitted immensely from increased economic optimism, as the Bloomberg Barclays U.S. Corporate Bond Index returned 1.2% during the quarter, while high yield bonds returned 2.6%. Investment grade corporate bonds and high yield bonds both generated returns near 14.5% for the year, thanks to a combination of increased economic optimism and lower interest rates. Municipal bonds returned 0.7% during the fourth quarter and 7.5% for all of 2019.

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Commodities

The Bloomberg Commodity Index grew 4.2% during the fourth quarter and 7.7% for the year. The LBMA Gold Price Index returned 2.4% during the quarter and 18.8% for 2019. Oil prices rose during the quarter from around $54 per barrel of WTI Intermediate Crude oil to end the year around just over $61.

Mesirow Wealth Advisors is committed to you

Mesirow Wealth Advisors understands the challenges and pressures that individuals face when trying to manage their personal wealth, throughout the many stages and events of a lifetime. We partner with you to understand your personal goals, and then together we develop a plan designed to accumulate, grow, protect and distribute your wealth as planned. We are dedicated to helping you make the best financial decisions that support your most important life decisions.

Mesirow Wealth Advisors is part of Mesirow Financial, an independent, employee-owned firm founded in 1937. As specialists in investment, risk management and advisory services, we are committed to helping our institutional, corporate and individual clients achieve their objectives. Our professionals are inspired by an entrepreneurial desire to develop tailored solutions designed to deliver measurable results.

Sources: MorningStar and Federal Reserve Bank of St. Louis

Important Information:
The **Standard & Poor's 500 Index**, often abbreviated as S&P 500, is an American stock exchange market index based on the market capitalizations of 500 large companies having common stock listed on the NYSE or NASDAQ. The S&P 500 index components and their weightings are determined by S&P Dow Jones Indices.
The **Russell 1000 Growth Index** is a broadly diversified index predominantly made up of growth stocks of large U.S. companies.
The **Russell 1000 Value Index** is a broadly diversified index predominantly made up of value stocks of large U.S. companies.
The **Russell 2000 Index** is a small-cap stock market index of the bottom 2,000 stocks in the Russell 3000 Index. The index is maintained by FTSE Russell, a subsidiary of the London Stock Exchange Group.
The **Russell Microcap Index** measures the performance of the microcap segment of the U.S. equity market. It includes 1,000 of the smallest securities in the Russell 2000 Index based on a combination of their market cap and current index membership and it also includes up to the next 1,000 stocks.
The **MSCI EAFE Index** is a stock market index that is designed to measure the equity market performance of developed markets outside of the U.S. and Canada.
The **MSCI Emerging Markets Index** is an index designed to measure equity market performance in global emerging markets.
The **Bloomberg Barclays US Aggregate Bond Index** is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market.
The **Bloomberg Barclays US Corporate Bond Index** measures the investment grade, fixed-rate, taxable corporate bond market. It includes USD denominated securities publicly issued by US and non-US industrial, utility and financial issuers.
The **Bank of America Merrill Lynch High Yield Bond Index** tracks the performance of below-investment-grade U.S. dollar-denominated corporate bonds publicly issued in the U.S. domestic market.
The **Bloomberg Barclays U.S. Municipal Index** covers the USD-denominated long-term tax exempt bond market. The index has four main sectors: state and local general obligation bonds, revenue bonds, insured bonds and prerefunded bonds.
The **LBMA Gold Price Index** is the global benchmark for unallocated gold and silver delivered in London.
The **West Texas Intermediate (WTI)** oil, also known as Texas light sweet, is a grade of crude oil used as a benchmark in oil pricing. This grade is described as light because of its relatively low density, and sweet because of its low sulfur content.
Bloomberg Commodity Index (BCOM) is calculated on an excess return basis and reflects commodity futures price movements.

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