BUILDING YOUR FUTURE

From the desks of William M. Giffin, CEO (left) and Kevin Rice, Investment Analyst (right)

WHAT MAY TIP THE SCALE?

Trade wars, a decline in global manufacturing, and the possibility of a recession weighed on economies in 2019, although central bank rate cuts and resilient consumers provided a positive stock market counterbalance.

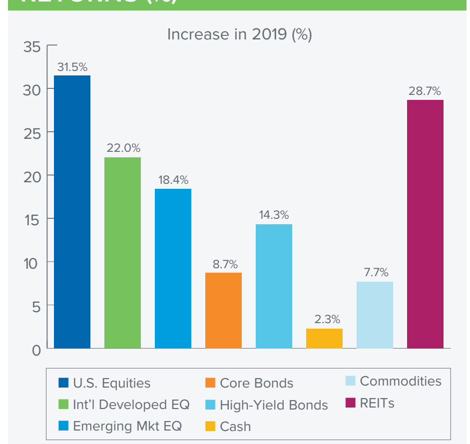
Unlike 2018 where almost every major asset class declined, in 2019 every asset class climbed higher (see Exhibit 1). The question heading into 2020 is this: What may tip the scale? Will ongoing trade uncertainty and weakened manufacturing hurt job growth? Will a geopolitical event, the impeachment trial or the U.S. election cause the markets to fall? Or will interest rate cuts and a resolution of the trade war spark a fresh round of global economic growth and cause the markets to rise?

In this commentary we review the issues that we believe could tip the scale and provide our insights on how they will impact the markets.

ECONOMY

The U.S. economy slowed from a robust pace of 2.8% growth in

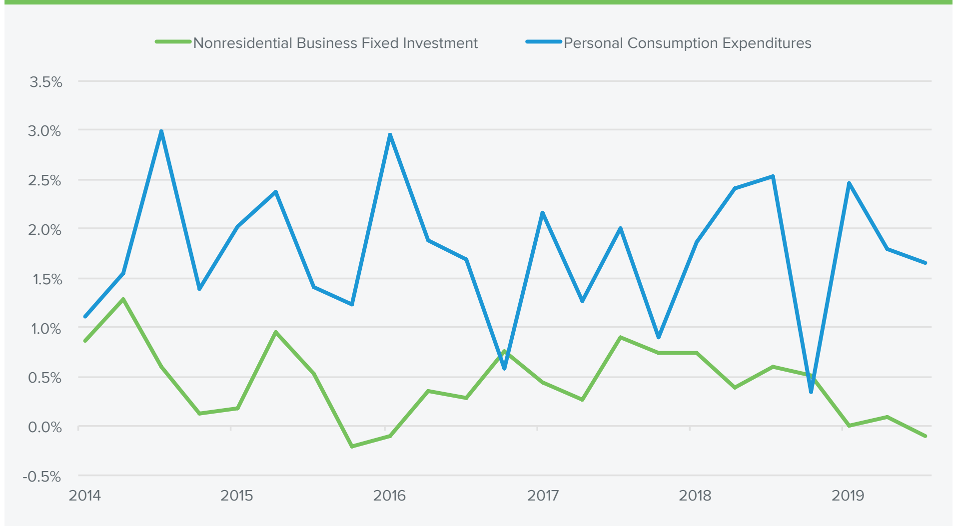
EXHIBIT 1: 2019 ASSET CLASS RETURNS (%)



Source: Morningstar Inc.

2018 to around 2.2% in 2019 in response to the Fed's rate hikes in 2018, the fading impact of the 2017 fiscal stimulus and the global manufacturing slowdown. Consumer spending was a pillar of strength in 2019, while business investment spending was a drag on growth. The contribution of business investment to GDP was at its weakest level since 2016, according to the Atlanta Fed's GDPNow Forecast Index (see Exhibit 2). The U.S. added 2.1 million jobs in 2019, fewer than 2018's additions, but more than enough to outpace population growth and enough to push the unemployment rate to 3.5%, a 50-year low.

EXHIBIT 2: CONTRIBUTION TO ATLANTA FED'S GDPNOW FORECAST INDEX



Source: TC Wealth Partners, Bloomberg. Atlanta Fed's GDPNow Forecast Index is a running estimate of real GDP growth based on data available to the Atlanta Fed for the current measured quarter.

▸ *TC Wealth Partners' View*

We expect the US economy to continue its longest expansion in history and to grow around 2.0% in 2020. As we have mentioned in previous commentaries, we believe that business investment will stay subdued, as policy uncertainty in the run-up to the U.S. presidential election is likely to weigh on investment spending. We anticipate the unemployment rate to finish at the same level that it is now and expect the average monthly job growth in 2020 to slow.

Chairman Jerome Powell mentioned that inflation would be the primary driver behind whether the central bank adjusts rates higher again and that a sustained rise in inflation is necessary before the Fed needs to increase rates.

FEDERAL RESERVE

The Federal Reserve did not change the fed funds rate during the December meeting and indicated that further increases are unlikely in 2020 so long as the economic data remains consistent. Following the meeting, Chairman Jerome Powell mentioned that inflation would be the primary driver behind whether the central bank adjusts rates higher again and that a sustained rise in inflation is necessary before the Fed needs to increase rates.

▸ *TC Wealth Partners' View*

In our view the Fed is not likely to cut rates again in 2020. We believe that the Fed will sit on its hands if economic data remains broadly consistent with moderate growth, the labor market remains strong and inflation remains near its 2% target.

TRADE

A preliminary phase one trade deal with China was announced on December 13, 2019. The trade agreement marks the first major de-escalation of the 18-month conflict and pauses any further escalation in the trade conflict. The deal was signed on January 15, 2020, and is heralded as a truce in the costly trade war between the world's two largest economies. The next phase of a trade deal is likely to come in stages and is yet to be determined, according to U.S. Treasury Secretary Steven Mnuchin.

▸ *TC Wealth Partners' View*

We believe that trade tensions between the U.S. and China will linger throughout 2020 as negotiations continue on to the *next phase of a comprehensive trade agreement; however, the signing of phase one could restore business confidence, which will be better for economic growth and the markets. We doubt that President Trump will further escalate the trade war and put the U.S. economy at risk in an election year.*

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IRAN

Tensions with Iran escalated in 2018 after Trump withdrew from the nuclear accord and again imposed sanctions that have crushed the Iranian economy. Tensions reached a new high after a December 27th rocket attack by Iran on a joint U.S. base, and Trump retaliated by ordering the killing of Iran's top general, Qassem Soleimani. Days after the attack Trump said he would impose additional economic sanctions on Iran and would keep the measures in place until Iran becomes less combative toward the U.S. and regional allies.

▶ TC Wealth Partners' View

We believe that the only thing more difficult than accurately forecasting a geopolitical event is accurately forecasting the market's response to a geopolitical event. The market reaction was modest and suggests that, in the absence of further retaliation by Iran, investors expect this period of tension will pass. In the past, these types of events would have impacted the oil market and U.S. economy. Because U.S. dependency on foreign oil has been declining for decades, it is unlikely that further events in this region will cause damage to the U.S. economy.

IMPEACHMENT

On December 18, 2019, the House voted to impeach President Trump, making him only the third president in U.S. history to receive this sanction. The Senate impeachment trial began on January 21, 2020, and could last up to five weeks. After the trial's conclusion, the Senate will vote on whether to convict the president and remove him from office. Given the Republican majority in the Senate, it is likely that President Trump will be acquitted and will remain in office.

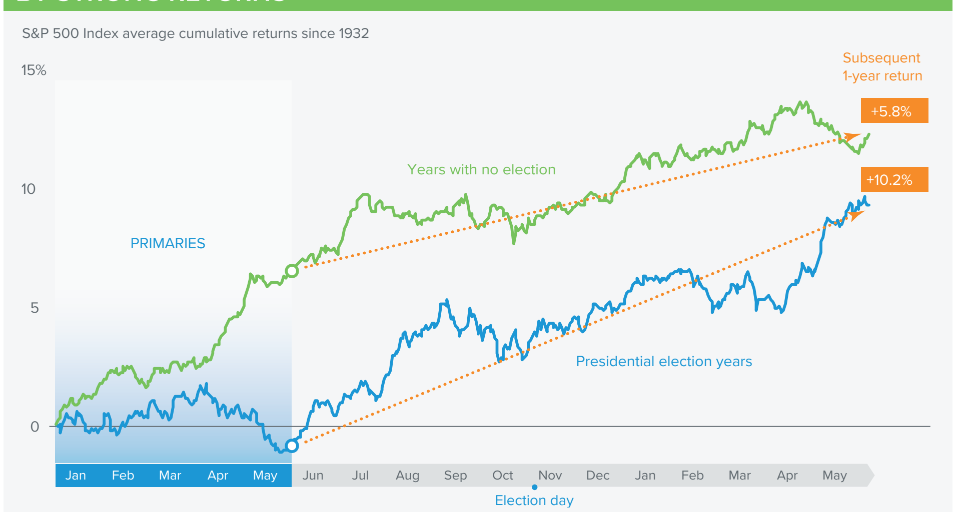
▶ TC Wealth Partners' View

We believe that there is a very low probability that the Senate will convict President Trump when the Senate trial eventually concludes. As it stands now the Senate votes will be very partisan and we believe that has largely been priced into market expectations, making it a complete nonevent for stocks and the economy.

ELECTION

With less than 300 days until the U.S. heads to the polls to decide the next president, the political picture looks cloudy. No first-term president in history has ever been impeached, acquitted, and ran for election again. Yet this is the most likely outcome today, as there is not an overwhelming popular demand to remove Trump from office. It is difficult to determine how this will impact the election. Risks related to the outcome of the U.S. presidential election will likely weigh on investor sentiment until election day. Historically speaking, however,

EXHIBIT 3: VOLATILITY DURING PRIMARIES IS OFTEN FOLLOWED BY STRONG RETURNS



Source: Capital Group

elections have made essentially no difference when it comes to long-term investment returns. Looking at election results back to 1932, U.S. stocks have typically trended up during an election year regardless of whether a Republican or Democrat won the White House (see Exhibit 3) and have an average return of 10.2% one year after the primaries.

▶ *TC Wealth Partners' View*

We believe that it is still too early to predict who is going to win the election. We are monitoring some indicators that have a good track record of predicting the election, like the presidential approval rating and S&P returns. Trump's approval rating is currently around 45% and likely needs to get to 48% in order to win the Electoral College. As it gets closer to November, we will be keeping a close eye on the three-month return of the S&P 500. Since 1928, if the S&P 500 has a positive three-month return before election day, the incumbent party has remained in the White House; if negative, the incumbent party has lost the election. Regardless of who wins the presidency, we believe that Congress will continue to remain divided. Since 1933, the S&P 500 has had an average annual return of 10.8% when Congress was divided and there was a Republican president.

EQUITY MARKET

It did not seem possible that just over one year ago – shortly after the S&P 500 dropped 9% between the Fed's last meeting of the year and Christmas Eve – that the S&P would have its best year since 2013, returning more that 30% (see Exhibit 6). In 2019, the combination of Fed rate cuts and reduced trade tensions were tailwinds for a strong market rally throughout the year. Volatility remained depressed with the S&P 500 experiencing only seven daily moves (up or down) of 2% or more in 2019, compared with an average of 19 over the past 20 years.

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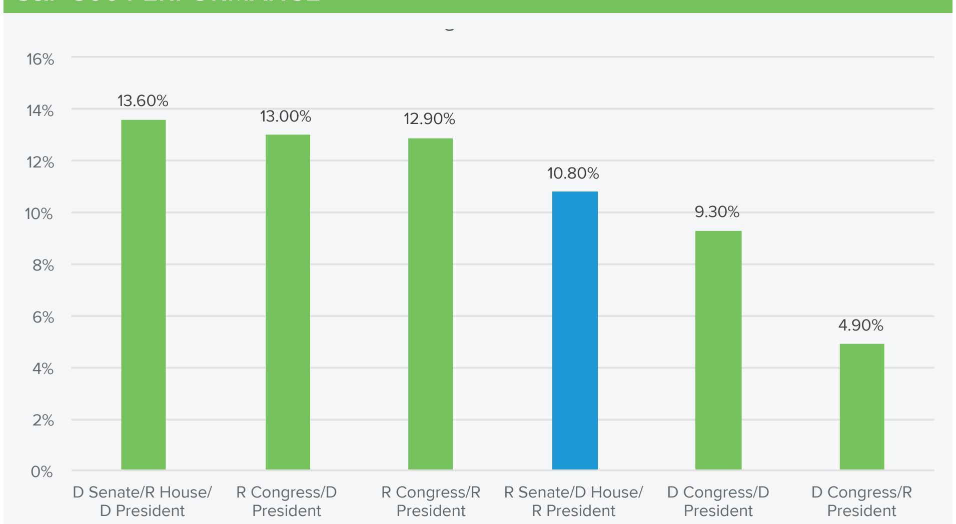
EXHIBIT 4: PARTISAN CONTROL & AVERAGE ANNUAL S&P 500 PERFORMANCE



Source: Strategas. The S&P Average Annual Performance is based on which party controls the House, Senate and Presidency. R – Republican D – Democrat.

TC Wealth Partners' View

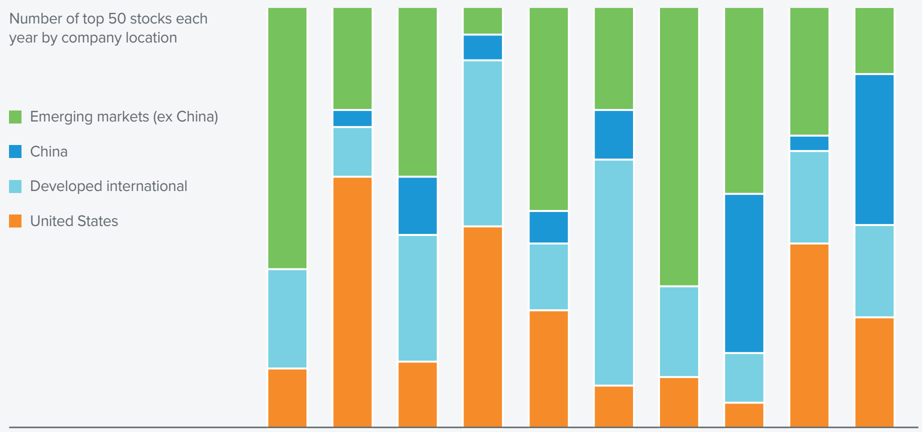
We expect the 2020 market to trail 2019's performance. The interest rate cuts that were a key driver of returns last year are unlikely to be repeated in 2020. With valuations being elevated, earnings growth will be necessary in 2020 to justify further equity market gains. We believe the combination of companies being great at managing expectations and overly pessimistic analyst estimates could lead to the potential for upside surprises to earnings. We expect a significant increase in volatility this year compared to last which will test many investors. In our view, portfolios that are well-diversified will be better able to absorb the negative impact of downward market swings and increased market volatility.

FIXED-INCOME MARKETS

The Bloomberg Barclays U.S. Aggregate Bond Index returned 8.72% for the year, its best year since 2002 (see Exhibit 6). The 10-year U.S. Treasury yield started 2019 at 2.72% and reached its lowest level since 2016 in September (1.45%) but recovered to finish the year at 1.91%.

Central banks around the world re-entered easing mode in 2019, with the top-10 central banks cutting rates eight times collectively after two years of increasing rates. This made it a difficult environment for global fixed income, but the Bloomberg Barclays Global Aggregate ex U.S. Bond Index still managed to return 5.09% for the year.

EXHIBIT 5: 74% OF THE TOP STOCKS SINCE 2010 HAVE BEEN BASED OUTSIDE THE U.S.



Index return	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019 YTD
U.S.	15.1%	2.1	16.0	32.4	13.7	1.4	12.0	21.8	–4.4	27.6
Non-U.S.	11.2%	–13.7	16.8	15.3	–3.9	–5.7	4.5	27.2	–14.2	16.5

Source: Capital Group

▶ *TC Wealth Partners' View*

We believe that the 10-year Treasury yield should move higher in 2020 as recession fears in the U.S. subside. We expect that the lagged impact of the Fed's interest rate cuts, signs of stabilization in the global economy and a modest uptick in inflation expectations will provide a boost to yields. Fixed income markets had a remarkable year in 2019, but a repeat in 2020 seems very unlikely based on where yields are starting at this year. We believe investors should have much more tempered return expectations in 2020 because rates would need to fall to around 1% to see similar gains as last year. We still think that it is crucial to have an allocation to fixed income in order to provide principal protection and diversification for an equity portfolio during market drawdowns (like in Q4 2018).

INTERNATIONAL MARKETS

In 2019, international equities lagged the S&P 500 Index for the eighth time in the past decade, but still returned a respectable 23.26%, as measured by MSCI AC World ex U.S. index (see Exhibit 6), International equities reacted to weakening economic growth trends, subpar earnings growth and uncertainty over trade and Brexit. Asia equities bounced back in the second half of the year, benefiting from the easing of trade war, but was still one of the worst performers for the year.

▶ *TC Wealth Partners' View*

Developed international market valuations are cheap, but we believe for good reason given the lack of growth. We are cautious of international markets because of weakening economic growth trends, subpar earnings growth and the continued uncertainty over a comprehensive trade deal. Within emerging markets, valuations have increased, but they remain at a substantial discount to developed markets. Earnings of emerging market equities should grow in 2020 and the shift from tightening to easing by global central banks should be positive for emerging markets. Even though international markets have underperformed in the U.S. we believe there are still attractive investment opportunities. In 2019, 37 of the top 50 stocks with the highest total return were based outside of the U.S., and since 2010 74% of the top returning stocks have been based outside the U.S. Yet another reason for a well-diversified portfolio that includes international companies.

Fixed income markets had a remarkable year in 2019, but a repeat in 2020 seems very unlikely based on where yields are starting at this year. We believe investors should have much more tempered return expectations in 2020.

EXHIBIT 6: MARKET PERFORMANCE

S&P 500 SECTORS	Q4-2019	YTD	1Yr	3Yr	5Yr	10Yr
Utilities	1.06%	26.35%	26.35%	13.84%	10.29%	11.80%
Real Estate	0.46%	29.00%	29.00%	11.83%	7.44%	11.06%
Materials	8.88%	24.58%	24.58%	9.59%	7.07%	9.13%
Information Technology	15.38%	50.29%	50.29%	27.69%	20.20%	17.49%
Industrials	8.09%	29.32%	29.32%	10.71%	9.45%	13.42%
Health Care	15.49%	20.82%	20.82%	16.25%	10.31%	14.75%
Financials	12.78%	32.09%	32.09%	11.96%	11.13%	12.22%
Energy	7.97%	11.81%	11.81%	-3.22%	-1.85%	3.31%
Consumer Staples	3.81%	27.61%	27.61%	9.89%	8.31%	12.12%
Consumer Discretionary	5.29%	27.94%	27.94%	16.64%	13.11%	17.17%
Communication Services	10.07%	32.69%	32.69%	4.66%	7.91%	9.65%
DOMESTIC EQUITY INDEXES	**Q4-2019**	**YTD**	**1Yr**	**3Yr**	**5Yr**	**10Yr**
Russell 3000	10.52%	31.01%	31.01%	14.57%	11.23%	13.41%
Russell Midcap	8.66%	30.52%	30.52%	12.05%	9.32%	13.18%
Russell 1000 Growth	11.72%	36.39%	36.39%	20.51%	14.63%	15.21%
Russell 1000 Value	9.04%	26.52%	26.52%	9.67%	8.27%	11.79%
NASDAQ	13.77%	36.74%	36.74%	19.93%	15.01%	16.15%
S&P 500	10.41%	31.48%	31.48%	15.28%	11.69%	13.55%
FIXED INCOME INDEXES	**Q4-2019**	**YTD**	**1Yr**	**3Yr**	**5Yr**	**10Yr**
Global Aggregate ex. US	0.85%	5.09%	5.09%	4.36%	1.62%	1.50%
US Aggregate	0.01%	8.72%	8.72%	4.03%	3.05%	3.74%
Treasury	-1.01%	6.86%	6.86%	3.31%	2.36%	3.13%
High Yield	2.70%	14.32%	14.32%	6.37%	6.13%	7.57%
TIPs	0.45%	8.43%	8.43%	3.32%	2.62%	3.36%
Municipals	0.67%	7.54%	7.54%	4.73%	3.53%	4.34%
Asset Backed Securities	0.29%	4.53%	4.53%	2.61%	2.22%	2.72%
Mortgage Backed Securities	0.64%	6.35%	6.35%	3.25%	2.58%	3.15%
Commercial Mortgage Backed Securities	-0.52%	8.27%	8.27%	4.23%	3.42%	5.74%
INTERNATIONAL EQUITY MARKETS	**Q4-2019**	**YTD**	**1Yr**	**3Yr**	**5Yr**	**10Yr**
MSCI World	9.77%	28.44%	28.44%	13.24%	9.39%	10.12%
MSCI ACWI	10.04%	27.30%	27.30%	13.08%	9.02%	9.40%
MSCI ACWI ex US	9.48%	22.13%	22.13%	10.44%	6.06%	5.51%
MSCI EAFE	8.74%	22.77%	22.77%	10.20%	6.27%	6.09%
MSCI EM	6.40%	26.64%	26.64%	8.12%	8.12%	7.62%
MSCI Europe	7.18%	26.82%	26.82%	8.12%	7.24%	8.38%
MSCI Asia Pacific	9.02%	19.81%	19.81%	11.27%	7.42%	6.64%
MSCI North America	10.29%	31.48%	31.48%	14.89%	11.17%	12.91%
MSCI EM Asia	12.47%	19.31%	19.31%	13.20%	6.92%	6.06%
MSCI EM Latin America	11.44%	17.82%	17.82%	11.13%	4.51%	-0.37%
MSCI EM Europe & ME	10.59%	16.21%	16.21%	7.13%	3.55%	1.60%

Source: TC Wealth Partners, Bloomberg.

GUIDED PORTFOLIOS ALLOCATION UPDATES

The S&P Target Risk Indices are industry standard benchmarks used to measure the performance of target risk portfolios that have specific allocations to equities and fixed income. Since the Stock Focused portfolio does not have an allocation to fixed income the Investment Committee voted to use the MSCI ACWI index for its benchmark. We believe that these new benchmarks will provide our client's a more meaningful performance comparison than before and will help ensure that we are invested in a way that will help our client's meet their investment goals and objectives.

In the table below are the RPS Guided Portfolios along with their assigned benchmark and the equity/fixed income allocations of each benchmark.

To better align the portfolios with their new benchmarks the Investment Committee voted to change the equity and fixed income allocations of Conservative, Balanced and Growth portfolios. In the charts below you can see the new and old allocations.

Note: Allocations are approximate and as of mid-November. The weights represent allocations to manager/fund strategies. Cash levels will be part of the underlying manager strategies. Opportunistic strategies, such as MLPs and infrastructure, have been consolidated in the equity allocation for illustration purposes.

EXHIBIT 7: RPS GUIDED PORTFOLIOS

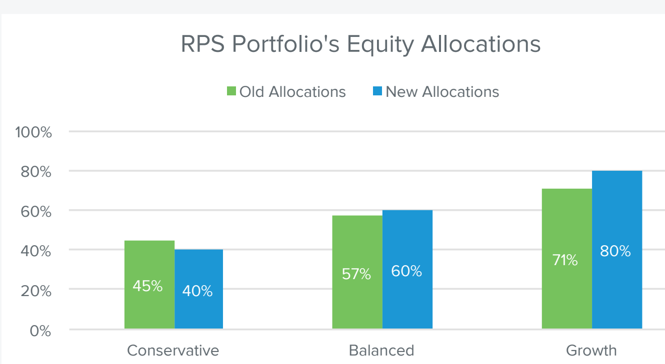
		Allocations	
Guided Portfolio	Index	Equity	Fixed Income
Conservative	Conservative	30%	70%
Balanced	Moderate	40%	60%
Growth	Growth	60%	40%
Stock Focused	MSCI ACWI	100%	0%

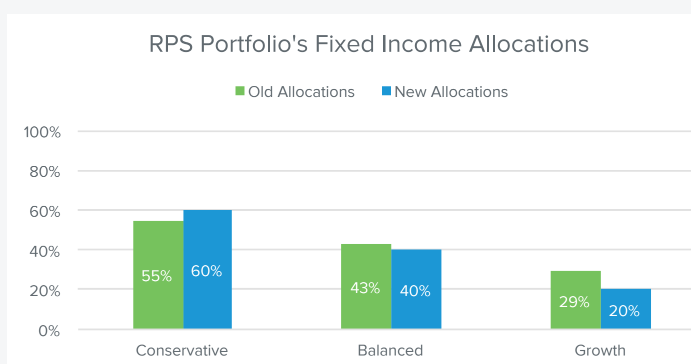
Source: TC Wealth Partners, Bloomberg.

DOMESTIC EQUITIES

In the domestic equities space, we believe that a passive index fund should be utilized as a core strategy and active managers should be utilized to try to boost returns by outperforming the benchmark. We have replaced both our passively managed small cap and mid cap managers with an actively managed Small-Mid (SMID) cap strategy. We believe that it is necessary to utilize a dedicated SMID cap manager because many SMID cap stocks are not well covered, and the dispersion of returns is wide; it is necessary to have a manager that is actively looking for SMID cap opportunities. Also, we replaced one of our actively managed domestic equity managers with another actively managed

EXHIBIT 8: NEW AND OLD ALLOCATIONS





domestic equity managers that we have a stronger conviction in.

INTERNATIONAL EQUITIES

Turning towards international equities, we believe that it is necessary to utilize actively managed strategies in international markets because the universe is large and active managers can uncover companies that are going to outperform. We eliminated the positions in two emerging market funds and replaced it with an actively managed emerging markets fund. The broad emerging markets exposure that one of our emerging market funds had was no longer compelling to us so we eliminated it from the portfolio. We also eliminated the actively managed Asian fund because we believe that the ongoing trade wars will continue to impact the Asian region and owning a dedicated Asia emerging markets fund is not compelling to us at this time. We selected another actively managed emerging market's strategy that aims to find high quality growth companies and has a very strong long-term track record.

FIXED INCOME

Finally, turning towards fixed income, we eliminated our short duration position and reallocated to the other fixed income managers in the portfolio. We believe that our other fixed income managers have more opportunities to perform well in this low interest rate environment. ■

IMPORTANT INFORMATION FOR 2019 TAX REPORTING

Tax information form 1099-R will be mailed by January 30th, 2020. All other tax information documents including 1099-DIV, 1099-INT and 1099-B will be available as soon as all fund allocation factors have been supplied by the mutual fund companies. The anticipated date is late-February.