

THE CAPITAL MARKETS



The Dow Jones Industrial Average (DJIA) finished December at 28,538, up +1.74% for the month, and +22.34% in 2019. The S&P 500 closed December 31 at 3,231, up +2.86% for the month, and +28.88% for 2019. The NASDAQ Composite gained +3.54% in December, and +35.23% for the year. Small-company stocks as measured by the Russell 2000, ended December at 1,668, up +2.71% for the month, and +23.72% for 2019. Technology was the best (+48.48%) and energy the worst (+9.34%) performing sectors in 2019.

"Stocks around the world closed out one of their best years over the past decade, defying money managers who began 2019 expecting the bull market to be upended by threats from the U.S.-China trade fight and a slowdown in growth." (The Wall Street Journal, *The Bull Market Is Charging Into 2020*, Akane Otani, Jan 01, 2020)

2019 - A Year in Review

Markets surprised most observers in 2019, ending the year with a rally to finish out the best year for markets since 2013. The calendar year returns were somewhat a matter of timing, however, since the period followed a -19% drawdown which, closed out 2018. Nonetheless, most investors are likely satisfied with their recent equity returns. The S&P 500 has gained over 44% in the three years ending 12-31-2019. The key factors that drove 2019's equity returns are expected to remain central themes in 2020, we'll recap a few of these issues below:

U.S.-China Trade - One of the more volatile drivers of market sentiment in recent years has been the ongoing trade negotiations/conflict/war between the U.S. and China. There were both dramatic escalations and signs of a potential truce, with the expectation for an imminent 'phase-one' trade deal driving the market rally in late 2019. The issue remains volatile and unpredictable. With markets mostly optimistic at the time of this writing, we view the downside risk as elevated should the headlines around negotiations turn negative.

Federal Reserve Interest Rate Policy - Following the -19% market correction in December 2018, triggered by their latest rate hike, the Federal Reserve mostly signaled accommodative monetary policy in 2019 and cut interest rates three separate times, moving from a target of 2.25%-2.50% to 1.50%-1.75%. Perhaps most importantly, their recent minutes have signaled an expected stability in rates, removing some of the uncertainty surrounding markets in the short-term.

Employment - It's not a stretch to call the labor market in 2019 historically strong, with the lowest unemployment rate since 1969 and persistently low unemployment claims. Throughout all the uncertainty and occasional panic over the past 24 months, a strong labor market has contributed to positive sentiment and driven high consumer confidence and spending. Any perceived deterioration in the labor market will be a troubling sign.

"Even before the attack, the stock market looked like an accident waiting to happen ... And with the index trading at 18.2 times forward earnings, there was little cushion for investors in case something went wrong." (Barron's, *The Trader*, Ben Levisohn, Jan. 03, 2020)

Looking Ahead

If 2019 offered any clarity it may be that investors should continue to expect sudden reversals, conflicting signals, and geopolitical tension as we head into 2020. The U.K.'s exit from the European Union, unrest in Hong Kong, North Korea, impeachment, a Presidential election, and now a highly escalated tension in the Middle East with Iran, are all material uncertainties facing investors in 2020, and those are just the *known* unknowns. It's more important than ever that investors and committees understand their level of equity exposure/risk and ensure it matches their time horizon. For investors with long-term or perpetual time horizons, we continue to encourage zooming out to a long-term, multi-decade perspective, and to otherwise ignore the day to day market swings and volatile headlines we're sure to face in the year ahead.

MARKET METRICS

INDEX OR METRIC	CLOSE AS OF 11/29/2019	CLOSE AS OF 12/31/2019	CHANGE PREVIOUS MONTH END	2019 YTD % CHANGE
Dow Jones Industrial Average	28,051.41	28,538.44	+487.03	+22.34%
S&P 500	3,140.98	3,230.78	+89.80	+28.88%
NASDAQ Composite	8,665.47	8,972.61	+307.14	+35.23%
RUSSELL 2000	1,624.50	1,668.47	+43.97	+23.72%
Fed Funds Rate	1.50%- 1.75%	1.50% - 1.75%	UNCHANGED	
2-Year Treasury	1.61%	1.58%	-0.39%	
10-Year Treasury	1.78%	1.92%	+0.14%	
Crude Oil \$ per Barrel	\$55.17	\$61.06	+\$5.89	+34.46%
Gold \$ per Troy oz.	\$1,472.70	\$1,523.10	+\$50.40	+18.87%
UK Pound in U.S. \$	\$1.2935 US = 1£	\$1.3248 US = 1£	\$ WEAKER	+4.02%
Euro in U.S. \$	\$1.1026 US = 1€	\$1.1225 US = 1€	\$ WEAKER	-1.81%
Canada \$ per U.S. \$	\$1.32825C = \$1.00 US	\$1.29675C = \$1.00 US	\$ WEAKER	-5.06%
Japan Yen per U.S. \$	109.51¥=\$1.00 US	108.675¥=\$1.00 US	\$ WEAKER	-0.95%



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