2019 Weekly Portfolio Manager Commentary   December 6, 2019

ECONOMIC HIGHLIGHTS

The U.S Markit Manufacturing Purchasing Managers' Index came in at 52.6 for November, while the ISM Manufacturing Index was 48.1. Construction Spending was down 0.8% for October after having been down in September. The Services PMI Indexes came in at 51.6 and 53.9, both for November. Finally, The U.S. Unemployment Rate was 3.5% for November, down from 3.6% in October.

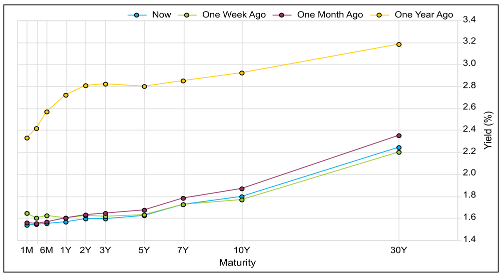
FIXED INCOME

One of the most popular talking points in the market lately has been that the employment report, widely recognized as one of the more important economic data releases on the broader health of the economy, is actually not as relevant as in the past. Instead, it's all about inflation, or lack thereof, central banks, or the latest tweets about the pending trade deal with China. But last Friday, bond traders were forced to deal with the relevance of the employment report, even if for one day. Payrolls surged in November by 266,000, the most since January and came in above all estimates in a Bloomberg survey which called for a gain of 180,000, according to a Labor Department report Friday. Also of note, the October jobs report was revised upward by 28,000 to bring the final total to 156,000 jobs created. Average hourly earnings rose 3.1% from a year ago, topping the expected 3%. The unemployment rate slipped to 3.5%, lower than the expected 3.6%. Benchmark ten-year note yields rose almost instantly to 1.86%, the highest since mid-November and the biggest reaction to the payroll data all year. The employment report was so impressive that futures traders have finally started to believe that the Federal Reserve will truly hold interest rates steady for the foreseeable future. Fed funds futures are now only pricing in 23 basis points of easing for all of 2020, or less than one typical fed move of a quarter-point cut. The jobs data should also calm any fears of an impending recession, and with that another yield-curve inversion. Also released last Friday was the preliminary December University of Michigan Consumer Sentiment Index which surged 2.4 points to 99.2, a seven-month high. The report did mention that "Nearly all of the early December gain was among upper-income households, who also reported near-record gains in household wealth largely due to increased stock prices." According to Grant Thornton economist Diane Swonk, "The jobs data pleasantly surprised but manufacturing was still weak even with the return of workers at GM." Fed Chair Powell will speak on Wednesday and the tone is expected to be fairly hawkish with the Fed continuing to be patient and data dependent.

CURRENT GENERIC BONDS YIELDS

TREASURIES		AGENCIES		CORPORATES		MUNICIPALS	
3 mo	1.51%	3 mo	1.53%	3 mo	1.88%	3 mo	1.14%
6 mo	1.54%	6 mo	1.56%	6 mo	1.86%	6 mo	1.16%
1 yr	1.55%	1 yr	1.52%	1 yr	1.82%	1 yr	1.16%
2 yr	1.62%	2 yr	1.65%	2 yr	1.77%	2 yr	1.17%
5 yr	1.66%	5 yr	1.66%	5 yr	1.99%	5 yr	1.31%
10 yr	1.84%	10 yr	2.05%	10 yr	2.44%	10 yr	1.70%
30 yr	2.28%	30 yr		30 yr	3.17%	30 yr	2.40%

CHANGE IN TREASURY YIELD CURVE



EQUITY

INDEX RETURNS	LAST WEEK	YTD
Dow Jones Industrials	0.91%	22.98%
S&P 500 (Large Cap)	1.04%	27.84%
S&P 400 (Mid Cap)	1.33%	23.51%
Russell 2000 (Small Cap)	1.64%	22.71%
NASDAQ Composite	1.06%	31.83%
MSCI EAFE (International)	1.25%	19.35%
iShares Real Estate	1.30%	26.81%

U.S. Equity finished the week positive as the S&P 500 Large Cap Index gained 0.93% on Friday. The strong labor market data, China waiving tariffs on some U.S. soybean and pork imports, and deeper OPEC+ production cuts were the focus with strong employment numbers being the main tailwind. Real Estate (+1.43%) and Utilities (1.33%) were the market's leading sectors, while Consumer Discretionary (-0.74%) struggled the most.

According to Reuters, citing sources, the OPEC+ is moving closer to agreeing to deeper production cuts on Thursday to support prices and prevent a glut. It is expected that they will discuss increasing current cuts of 1.2M bpd by more than 400K bpd; however, there seems to be some uncertainty as to whether the deeper cuts will simply come from better compliance from the likes of Iraq and Nigeria. In addition, Russia has yet to agree to extend or deepen cuts from its current pledge of 228K bpd. The article notes that one obstacle for Russia is how its output is measured. While Russia includes gas condensate in production figures, other producers do not.

November's nonfarm payrolls report was released at 266K, ahead of the consensus of 184K. The prior two months revised up 41K, and the three-month average of 205K is up 29K. Private payrolls came in at 254K versus the 170K consensus. Manufacturing payrolls are up 54K, (estimate +20K) being helped by autos recovering 41K jobs post the GM strike. Federal payrolls of -1K improved over the October Census's 19K loss. Average hourly earnings of +0.2% are below the +0.3% consensus, unchanged from October 0.2% print. Annualized earnings of +3.1%y/y are a slight beat, and up a tenth from last month. The average workweek remains unchanged at 34.4, which is in line. The unemployment rate of 3.5% is lower by 0.1% versus the consensus and last month's (household survey added 83K jobs), helped as labor force participation rate is a tenth lower to 63.2%. Employment to population ratio of 61.0 remains unchanged. The report is strong though it is expected to have little Fed impact after a high bar was set for further policy rate changes.

Despite Chinese-U.S. trade dominating the headlines, including the recent pickup in complications related to U.S. legislation on Hong Kong and Xinjiang, not much has changed. The consensus expectations continue to revolve around a near-term phase one trade deal between the U.S. and China. This fits with comments from officials on both sides, who have repeatedly said that talks are continuing. As has been the case for a while, it seems as if the main hurdles are still related to Washington's insistence on specific and more meaningful ag purchase commitments from China and Beijing's insistence that any deal include some rollback of existing tariffs. There are logistical issues surrounding the former, while enforcement issues are an overhang on the latter.

The S&P 500 Index fell near the beginning of the week, yet Tuesday saw a strong rebound for the index. Throughout the week the Large Cap Index continued to rise to face slight resistance near previous highs of 3154. The S&P 500 closed at 3145.

ASSET ALLOCATION

CURRENT SENTIMENT	
Cash	Neutral
Short Fixed Income	Neutral
Intermediate Fixed Income	Neutral
Inflation-Adjusted Fixed Income	Unfavorable
High Yield Fixed Income	Neutral
International Fixed Income	Unfavorable
Equity Income	Favorable
Large Cap Equity	Favorable
Mid Cap Equity	Favorable
Small Cap Equity	Neutral
International Equity	Neutral
Emerging Markets Equity	Neutral
Real Estate	Neutral
Commodities	Unfavorable

Below is a summary of our current stance on most asset classes:

Cash - Neutral weighting now that Fed Funds rate is above 2%. Any exposure is for defensive positioning or liquidity needs.
Short Term Bonds - Relative to Intermediate Bonds, the reduced duration is preferable given the outlook for higher interest rates.
Intermediate Term Bonds - The current trading range of intermediate bonds warrants a neutral position with limited upside potential. Some opportunities still remain present in floating rate securities.
Inflation-Adjusted Bonds - Low inflation expected in near-term providing zero real return.
High Yield Bonds - Spreads have tightened considerably and do not warrant exposure to unnecessary credit risk when compared to Treasuries.
International Bonds - Foreign bonds offer good diversification qualities and higher yield opportunities, however, risks have been elevated recently and investment should be made cautiously.
Equity Income - High quality and higher-dividend-paying companies remain attractive for long-term investors given their favorable risk-adjusted profile and current yield curves.
Large Cap Stocks - A favorable weighting is recommended. Growth continues to be a more favorable style and should be overweighed versus Value.
Mid Cap Stocks - Mid cap exposure remains an attractive market capitalization. Mid cap stocks continue to provide the "sweet spot" of market capitalization - large enough to provide stability, but small enough to be more nimble.
Small Cap Stocks - In broad market corrections, small cap stocks will suffer most with increased volatility. However, a recent divergence of relative strength between small caps and large caps warrants a neutral exposure.
International Stocks - Given most foreign investment is in developed markets and European countries, until sovereign debt concerns are alleviated, an underweight to neutral weight is recommended.
Emerging Market Stocks - Stronger balance sheets, less debt, and better growth potential make emerging markets more fundamentally attractive than developed countries longer-term. However, trade uncertainty and dollar strength provide a headwind for EM in the near term.
Real Estate - Pricing has stabilized and long-term valuations appear attractive. Real Estate has performed well of late and should continue to be a strong alternative to other asset classes.
Commodities - Global demand should support higher prices if the global recovery remains on track. Volatility will be higher, and commodities will be susceptible to short-term price shocks, however, if used in conjunction with other asset classes, risk can be reduced substantially within a diversified portfolio. Used alone though is not recommended as the short-term outlook is not favorable.

Sources of statistical information are Bloomberg and Ned Davis Research.

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