ROUND TABLE
WEALTH MANAGEMENT

QUARTERLY REVIEW

FOURTH QUARTER 2019

Dear Clients,

What a great year for investors! During 2019, capital markets erased the memory of 2018's negative performances and moved on to record-setting index levels. In a complete turnaround, every asset class generated a positive return, whereas in 2018 nearly every asset class was at a loss.

U.S. large cap equities rallied over 30% in 2019, while U.S. small cap and non-U.S. equities generated impressive returns of 25.5% and 23.2%, respectively. The equity market's year-long rally was driven by investors' willingness to pay greater valuation premiums for stocks. As we have stated previously, investors generate gains in stocks through a combination of earnings growth, dividends and price-to-earnings multiple expansion. In 2019, earnings growth was negligible, and dividends provided around the historical average yield of 2%. It was in fact multiple expansion that generated nearly all the market's return, propelled by investors' willingness to pay higher prices despite numerous geo-political and economic risks. Growth stocks in particular benefitted from that dynamic. Since valuations drove the market higher and not earnings, we must remain aware as to whether the bull market's return drivers remain viable in the year ahead. As we discuss later in this letter, we believe 2020 has the potential to again generate positive equity returns, albeit significantly less than those achieved in 2019.

Fixed income, as we stated in our third quarter letter, generated exceptional returns and benefited from three rate cuts by the Federal Reserve. From an investor's view, it is unusual to have so much capital appreciation in bonds. In the year ahead, sector rotation may be important as the premium bond prices driven by the Fed's rate cuts will ultimately decline as all bonds mature at par *(barring default)*.

We remain optimistic for 2020, but continue to view valuation expansion as an unsustainable source of returns—ultimately earnings must support equity valuations. We therefore continue to maintain various risk management strategies within portfolios to mitigate market volatility when it arrives again.

Benchmark Returns through December 31, 2019

	QTD	YTD	1 Year	2 Years	3 Years	5 Years	10 Years
S&P 500	9.1%	31.5%	31.5%	12.1%	15.3%	11.7%	13.6%
Russell 2000	9.9%	25.5%	25.5%	5.7%	8.6%	8.2%	11.8%
MSCI World Ex. US Index	7.9%	23.2%	23.2%	3.1%	9.9%	6.0%	5.8%
MSCI Emerging Markets	11.9%	18.9%	18.9%	1.0%	12.0%	6.0%	4.0%
iShares Core U.S. Aggregate Bond ETF	0.1%	8.5%	8.5%	4.2%	4.0%	3.0%	3.6%
iShares National Muni Bond ETF	0.6%	7.1%	7.1%	3.9%	4.2%	3.1%	3.9%
iShares iBoxx High Yield Corporate Bond ETF	2.5%	14.1%	14.1%	5.7%	5.8%	5.0%	6.3%
FTSE Nareit All REITs	0.5%	28.1%	28.1%	10.8%	10.3%	8.4%	12.5%

Source: Bloomberg *Periods greater than one year are annualized

The Big Picture (click here for full article)

The U.S. economy grew at a 2.1% annualized rate in the third quarter of 2019.[1] The Bureau of Economic Analysis's third and final release underscored the continuing strength of the U.S. consumer, which contributed

100% of the economy's growth rate (government spending, investment and net exports all summed to zero). The strength of the U.S. consumer is supported by a 50-year low in unemployment that remains at 3.5%. We believe the consumer will continue to be a large contributor to the U.S. economy in 2020. According to a recent Quinnipiac University Poll, approximately 73% of those polled believe the economy is either "excellent" or "good," an 18-year record high for the poll.[2] Furthermore, the same poll stated that 79% of respondents are "optimistic about their own financial future."

Geopolitics made headlines in 2019 with much attention on the President's impeachment in the U.S House of Representatives and the U.S.-China trade negotiations. Markets have not reacted noticeably to the impeachment of President Trump, likely due to the fact that Senate republicans hold 53 seats and a Senate guilty verdict requires 67 votes for Trump's removal. Currently we don't suspect this dynamic will change going forward, however, we acknowledge anything is possible in Washington these days.

The U.S.-China trade negotiation signed a Phase One agreement as a first step to a larger trade deal. We expect this development will be a positive catalyst for the markets in 2020, as corporations with international supply chains may have a bit more clarity as to the new rules of trade. Phase Two negotiations, according to President Trump, are expected to commence soon but no date has been announced.

Lastly, the U.S. Federal Reserve lowered interest rates three times in 2019 and is now expected to keep rates at current levels for the near-term. Chairman Powell stated that the Fed will now consider the level of inflation over the course of a business cycle rather than the prior twelve months. Market participants theorize that the new language will allow inflation to "run a little hot" prior to the Fed increasing rates again. Lower rates helped support equity market valuations in 2019, however, we believe this dynamic will not provide the same benefit in 2020 and that corporate earnings need to underscore valuations.

International economies experienced slower growth in 2019. Germany, which experienced an economic contraction in the second quarter of 2019, delivered very modest economic growth through the remainder of the year. Strategists stated that the export-focused economy suffered due to trade tensions between the U.S. and China. If true, the Phase One agreement between the U.S. and China may provide a positive economic catalyst to Germany and the EU more broadly. The World Bank expects European growth to reach 1.4% in 2020. It seems that Christine Lagarde, who was recently named Chairperson of the European Central Bank, agrees based on her comments that the bank's rate will remain at current levels until inflation reaches the ECB's target level. As we look to 2020, the outlook for non-U.S. developed markets has improved at the margin but remains fragile. EU banking authorities remain accommodative, and a détente in global trade relations and the potential for Euro appreciation against the U.S. Dollar all are positive developments. Risks to developed markets include the UK and Japan, which constitute about 38% of the MSCI World ex-U.S. Index. The UK is moving to transition the Withdrawal Agreement into law, which sets a hard deadline for exiting the EU on December 31, 2020. This deadline is seen by many, including the EU, as aggressive. Any negative developments in the UK could contribute negative pressures on passive developed market exposure.

Japan recently implemented an increase in a consumer tax on all purchases excluding food items, from 8% to 10%. According to The Japan Times, the tax increase has not had a material near-term impact on consumer spending, unlike prior sales tax increases. As consumer spending accounts for about 60% of Japan's economy, perhaps a longer time period should be reviewed prior to making any definitive conclusions as to changing spending habits.

Throughout 2019, emerging market (EM) index returns have trailed developed market indices in large part due to the heightened risks associated with the U.S.-China trade negotiations. Now that Phase One has been signed and the two countries commence work on Phase Two negotiations, we expect EM's performance to continue from the strong 11.9% fourth quarter performance *(about 63% of the 2019's total performance)*. Economic growth in emerging economies is projected to be 4.6% in 2020, which is strong relative to developed markets.

Furthermore, emerging markets interest rates are higher relative to developed markets, which provides the ability to lower rates should economic growth slow. A recent positive catalyst for the Index is China, which comprises approximately 34.2% of the EM Index. The country again lowered its banking reserve ratio by 50 bps, the consequence of which is to provide an additional $115 billion of liquidity into the Chinese economy.[3] We have become more optimistic towards EM investments, but are cognizant of the ongoing risks in the asset class including the recent outbreak of the Corona Virus in China. If the Corona Virus continues to spread, it could have a material impact on the economy and productivity in the region due to the quarantines and travel restrictions.

Summary of Allocation Recommendations

Asset Class	Recommendation	Comment	Asset Class Summary Link
U.S. Large Cap	Neutral/Underweight	Earnings growth estimates likely too optimistic; valuation risk; look to value, hedged or reduced allocation	U.S. Large Cap Review
U.S. Small & Mid Cap	Neutral/Overweight	Lower rates, positive developments on trade and continued domestic growth should bode well for small caps in 2020	U.S. Small Cap Review
Non-U.S. Developed	Neutral/Underweight	European economic growth remains subdued and ECB reducing rates to stimulate growth; U.S.-China impacting Germany, Japan	International Equity Review
Emerging Markets	Neutral	U.S./China trade deal reaches a "Phase One" and 2020 economic growth projected to exceed that achieved in 2019	International Equity Review
Fixed Income	Neutral	Maintain short duration and floating rate as yield curve has steepened. Diversify corporate risks while maintaining yield.	Fixed Income Market Review
Tactical	Neutral	Thematic active management	
Alternative	Hedge Funds & Private Equity	For appropriate allocations; liquid hedge strategies in ETF format; private credit funds and private equity	Contact your Wealth Advisor

The Outlook

We recommend a neutral/underweight allocation to U.S. Large Cap Equities. At year-end of 2019, S&P 500 earnings for the year are now estimated to grow 0.2%, well off the projected 6.9% growth at the start of the year.[4] Analysts' 2020 consensus earnings estimates project S&P 500 companies to collectively increase earnings by 9.4%. Our view is that earnings estimates are likely to be reduced, although not erased as the year-over-year comparison is easier given the 2019 growth rate. Our key concern remains valuation. We believe the upside to equity markets due to valuation increases is limited and that companies will need to deliver earnings to maintain the respective valuations investors have placed upon them. Earnings disappointments and negative earnings guidance could push the market to re-rate valuations and incite market volatility. We therefore recommend within the large cap allocation to include value-style and hedged-style equities that allow investors to maintain long-term allocations with estimated volatility lower than the S&P 500.

We are recommending a neutral/overweight allocation to U.S. SMID Cap Equities. We believe the worst may be behind small caps. Since 2019 was such a disappointing year for earnings, the bar for year-over-year growth in 2020 is relatively low. Additionally, leading indicators are suggesting that the slowdown in the global economy has bottomed and that growth (albeit still low) is expected to increase. This is encouraging as small caps are estimated to have generated sales growth of 3.1% in 2019, and higher economic growth could mean upside to the anticipated sales growth of 3.4% for 2020. Add to this the progress made on the U.S.-China trade deal, which should give reprieve from higher input costs as well as a continued low interest rate environment, and small caps appear to be set for a relatively attractive year.

We recommend a slight underweight allocation to developed markets. We have grown modestly more optimistic in developed markets as economic activity has steadied in recent months. However, we still find it difficult to identify meaningful catalysts that would lead to sustained outperformance relative to the U.S. While lower valuations and attractive dividend yields may help support non-U.S. equity markets, the fundamental growth prospects are not nearly as attractive. As such, we remain focused toward high-quality, value-oriented and dividend-paying companies.

We upgrade our recommendation to a neutral allocation within emerging markets. We view the stabilization of the global economy in addition to various developing tailwinds as catalysts for the region. Early indications of renewed interest in emerging markets were seen in the fourth quarter as EM equity returns exceeded those of their developed market peers. While we have upgraded our allocation, we still believe a more defensive approach is warranted. As such, our emerging markets exposure favors dividend and ESG-integrated strategies, which have helped weather increased volatility inherent in the market.

We are recommending a neutral allocation to fixed income. As we enter 2020, investors are faced with lower yields and the likelihood of more challenging real returns. With the Federal Reserve on hold from either increasing or decreasing short-term rates, investors should see less volatility across the rate market. However, the trend of a steepening yield curve may continue if inflation or growth surprise to the upside. We continue to favor the short end of the yield curve to be defensive if this steepening occurs, but we would look to extend duration following a more dramatic steepening to benefit from higher yields.

Our Tactical recommendations continue to include investments in robotics and cybersecurity, but we have altered our approach to these investments. We see a multitude of thematic opportunities, in addition to cybersecurity and robotics, and therefore we are recommending an active approach to thematic investments rather than passively through ETFs. Please speak with your Wealth Advisor regarding our altered approach to thematic investments.

Tax and Financial Planning News

On December 19th, the SECURE Act (Setting Every Community Up for Retirement Enhancement Act of 2019) was passed as part of a year-end spending bill. This recently passed legislation will impact how retirement plans work for many individuals and companies. Specific provision changes include those affecting the timing of required minimum distributions, the extended ability to contribute to individual retirement accounts (IRAs), limitations as to the duration of inherited IRAs, and the use of trusts as IRA beneficiaries. The effective date for the new law is January 1, 2020. These new provisions may have a material impact on your current financial plan and we recommend a review during 2020 to ensure your plan meets your financial objectives. We urge you to read our firm's review of this legislation: "The Secure Act: What You Need to Know"

Firm News

The closing of 2019 brought with it a milestone for two of Round Table's most tenured professionals—Congratulations to Mariella Foley and Marcia Paltenstein on being made the Firm's newest Partner and Chief Operating Officer, respectively. Mariella has been with Round Table for 19 years and is the architect of the Firm's *Women of Clarity*™ initiative. Marcia has been with Round Table for 16 years and was instrumental in managing and upgrading the Firm's technology and accounting systems in addition to key client relationships.

Further congratulations to Lauren Gooding, who was promoted to Director in December. Also, please join us in welcoming Steven Dardanello to Round Table as an operations analyst.

Respectfully submitted,
Round Table Wealth Management

[1] Bureau of Economic Analysis Release, December 20, 2019.

[2] Quinnipiac University Poll, December 16, 2019.

[3] Bloomberg, January 2, 2020.

[4] Factset Earnings Insight, January 11, 2019 and January 10, 2020.