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December 2019: Market Review

The rally in global equity prices continued in December as the U.S. and China agreed to finalize Phase One of the trade deal, marking the first major step towards de-escalation since the conflict's inception in summer 2018. Additionally, the Federal Reserve voted unanimously to keep rates constant during its December meeting. For the calendar year, recession worries in earlier months were mitigated by central bank easing, improving economic data, and better-than-expected corporate profits. The S&P 500 Index added +3.0% during the month and rose +31.5% for the year, the strongest yearly performance since 2013. The Dow Jones Industrial Average increased +1.9% (up +25.3% in 2019) while the tech-heavy NASDAQ Composite rose +3.6% (up +36.7% for the calendar year). Technology stocks were significant contributors to the S&P 500's surge as 15% of its yearly gains were attributable to Apple (+85%) and Microsoft (+54%) alone.

In economic news, the first steps toward a resolution of the trade conflict came to fruition as the U.S. and China announced their plans to sign the first phase of a trade agreement. Additionally, the House passed the United States-Mexico-Canada Agreement, the Trump administration's replacement for NAFTA, and the Senate is expected to follow suit. As anticipated, the Federal Open Market Committee held rates steady at its December meeting and indicated that any future rate hikes would require a persistent and significant rise in inflation. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up +0.1% in October, while on a year-over-year basis, prices were +3.3% higher than a year ago. Among commodities, WTI crude oil ended December at $61, higher than November's close price of $55 and up 35% from 2018's close of $45. Gold rose from $1,465 at the end of last month to $1,520 at the end of the 2019. Gold posted its strongest results since 2010 after increasing 19% for the year.

Within domestic equities, growth stocks outperformed relative to value stocks in large-cap but trailed in mid- and small-capitalization sizes. Within large cap stocks, the Russell 1000 Growth Index added +3.0% versus a +2.8% return for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index gained +1.2% for the month while the Russell Midcap Value Index increased +3.0%. In small cap stocks, the Russell 2000 Growth Index rose +2.3% during the month while the Russell 2000 Value Index added +3.5%.

Major international indexes also posted gains for the month and calendar year, bolstered by the de-escalation of trade tensions, Brexit deal progress, and improving economic data. The MSCI EAFE Index added +3.3% for the month and gained +22.0% for the year while the MSCI Europe Index increased +3.9% in December (up +23.8% in 2019). The MSCI Pacific Index rose +2.2% during the month, returning +19.3% in 2019. The MSCI Emerging Markets Index posted the strongest results, returning +7.5% in December, ending the year with an +18.4% gain. Emerging market monthly returns were positively impacted by strength in Brazil (+11.7%), Korea (+8.9%), and China (+8.3%).

In this risk-on environment, U.S. fixed income markets were mixed. The yield on the 10-Year Treasury closed at 1.92%, a modest increase from last month's close of 1.78%. The spread between the 10-year and 2-year yields ended the month at 34 bps, a sharp increase from a spread of 17 bps at the end of November. The Bloomberg Barclays U.S. Aggregate Bond Index fell -0.1% for the month but added +8.7% for the year. High yield bonds were positive as the Bloomberg Barclays Corporate High Yield Index rose +2.0% for the month, ending 2019 with a +14.3% gain. The Bloomberg Barclays U.S. Treasury Index declined -0.6% but added +6.9% for the calendar year. Long-dated bonds were the worst performers in December as the Bloomberg Barclays Treasury 20+ Year Index fell -2.9% (up +15.1 for the year).

U.S. equity indexes continued to set record highs during the month as concrete steps toward a trade deal and improving economic data boosted market enthusiasm. The yield curve's widening spread indicates investors' belief that central bank stimulus mitigated the risk of a global growth slowdown. Despite some warning signs from manufacturing data during the calendar year, non-manufacturing data continues to indicate economic expansion. Consumers' balance sheets are healthy and the unemployment rate remains low. Despite the House approving two articles of impeachment against President Trump, low volatility persisted and equity prices marched higher. However, risks remain with lofty valuations in developed market equities and ongoing uncertainty with regards to a longer-term trade agreement between the U.S. and China.