FINITY GROUP, LLC

4380 SW Macadam Avenue •Suite 245 • Portland, OR 97239

January 2020

Year End Market Update

For all intents and purposes, 2019 was a good year for investors as all the major asset classes posted positive returns and recovered from the end of the year sell-off in 2018. A strong underlying economy, coupled with a dovish stance from the Federal Reserve, created a year with not only strong performance, but also low volatility.

Smooth Sailing…?

At the end of the day, the domestic equity markets were a very pleasant ride for investors in 2019. The S&P 500 posted a return of 31.49%, well above the 25-year historical average of 11.89%. During the year, the market easily shook off headlines of impeachment and did not record a drop from peak to trough of over 7%. Putting that in perspective, we normally have at least a 14% drop each year in the S&P 500. While it is easy to stay invested when the markets seemingly go straight up, we would remind investors that it is not always that smooth of a ride.

The S&P 500 ended 2019 near all-time highs, trading at a forward price to earnings multiple of 18.2x. This is above the 25-year historical average of 16.28x. Some investors point to this fact as a sign that stocks are expensive and that we are set to have a pullback. While stocks are trading at elevated levels we believe that this premium is due to investors expectation that S&P 500 companies will resume earnings growth in 2020 after 2019, a year in which the index is expected to be flat to down slightly, the final results are not confirmed as of this writing. In our opinion, last year's earnings slowdown was more of a pause in growth as companies struggled to jump over the high bar created in 2018 when the index constituents reported earnings growth of approximately 20%. We see the slowdown as natural with some noise in the 2018 numbers from tax reform passed the prior year. We believe investors expect nominal growth to increase or resume in 2020 and this is the reason for the higher than historical average multiple.

In this type of market environment, one in which future growth is the justification for the elevated multiple, the risks to the market are twofold: even if the economy does not slow, the perception that it *could* slow may cause markets to stumble and retreat to their historical average multiple, or even further. When markets are trading at elevated prices like this, we would argue that negative headlines (geopolitical conflict, election news etc.) that spook investors are potentially a larger risk rather than a swift slowdown of the underlying economy. We note these market dynamics not to say that we expect domestic equities to decline in 2020. In fact, quite the opposite. With continued low interest rates from the Federal Reserve and a strong labor market, we think we will see another year of positive performance in domestic markets. It just may not be +30% or as smooth of a journey like what we saw in 2019.

Like their domestic counterparts, international developed and emerging markets had a strong 2019. International markets were up 22.66% and emerging markets finished the year up 18.90%. Also like their domestic counter parts, they too are trading above their historical multiples, albeit by not as much. The ACWI ex-US index finished the year trading at 14.2x relative to its historical average of 13.8x. Geopolitical risks remain overseas, but if Brexit is finalized this may remove a barrier for growth by reducing uncertainty in the Eurozone region. In a parallel fashion to our Federal Reserve, the European Central bank has kept interest rates low and also introduced a comprehensive stimulus package in the second half of 2019 which, combined with a reduction in uncertainty, create a solid foundation for growth in 2020.

Fixed income markets, measured by the Barclays Aggregate US bond index, were up 8.72%, making 2019 its best performing year in two decades. While the interest rate environment is expected to stay low, an unexpected pickup in inflation may put pressure on fixed income investments in the coming year.

Making predictions on which asset class will be the best performing is difficult. While we expect 2020 to be a mildly positive year, there are potential risks as outlined above. We encourage investors to remember that volatility is inherent in investing and to be prepared if it returns in 2020. After such a positive year in 2019, we would encourage investors to revisit their portfolios and rebalance if needed to ensure, as best as possible, that their allocations reflect their time horizons and risk tolerances.

4380 SW Macadam Avenue •Suite 245 • Portland, OR 97239

We are always ready to assist you and answer any questions regarding this newsletter or any other financial matter that may come up. If any changes to your situation have occurred, please contact us at your convenience.

Index	Closing Price: 12/31/2019	Closing Price: 9/30/2019	Q4 2019 Return	2019 Return	Trailing 12 Months
S&P 500	3,230.78	2,976.74	9.07%	31.49%	31.49%
S&P 500 Value	1,285.77	1,176.92	9.93%	31.93%	31.93%
S&P 500 Growth	1,952.62	1,809.42	8.32%	31.13%	31.13%
Russell 2000	4,146.56	3,785.97	9.94%	25.52%	25.52%
Russell 2000 Value	7,008.02	6,495.91	8.49%	22.39%	22.39%
Russell 2000 Growth	6,603.31	5,939.74	11.39%	28.48%	28.48%
MSCI EAFE	2,036.94	1,889.36	8.21%	22.66%	22.66%
MSCI EM	1,114.66	1,001.00	11.93%	18.90%	18.90%
BBgBarc US Agg Bond	2,225.00	2,221.00	0.18%	8.72%	8.72%

Written by Finity Group

Index & other data provided by Bloomberg.com, MSCI.com, S&P Dow Jones, Morningstar, Factset, & JP Morgan. You cannot invest directly in an index. This information should not be construed as investment advice regarding specific ETF's, funds or stocks in particular, nor should it be deemed as a recommendation to purchase or sell a security. Past performance is not a guarantee of future investment results. Diversification and asset allocation strategies do not assure profit or protect against loss. This report is written solely for clients of Finity Group LLC, and may not be reproduced or disseminated without the express written permission of Finity Group LLC. Tracking #280040 DOFU 20200115