



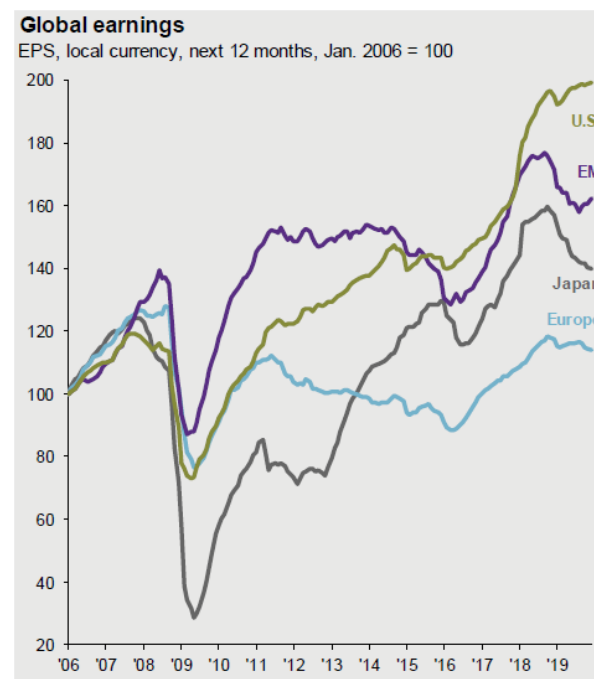
NEWPORT CAPITAL GROUP

**ECONOMIC AND CAPITAL MARKETS  
OVERVIEW**

**4TH QUARTER 2019**

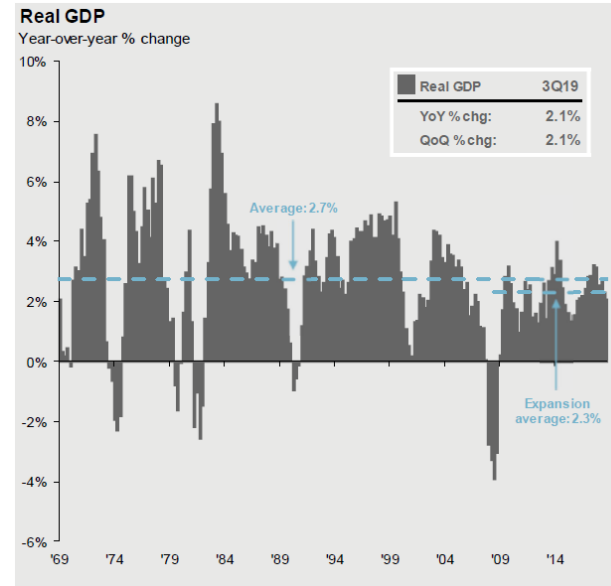
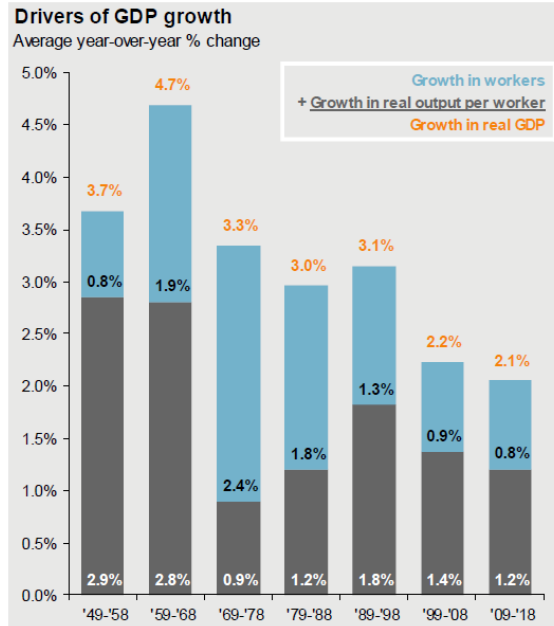
# U.S. ECONOMIC OVERVIEW

- ◆ Third quarter real U.S. GDP increased at an annual 2.1% pace primarily on strength in consumer and government spending, housing investment and exports offset by soft business spending and inventory investment. The third quarter rate compares with a 2.0% annual growth rate for the second quarter of 2019.
- ◆ By year-end, the economic expansion had reached its 126<sup>th</sup> month since the 2008-2009 financial crisis.
- ◆ The U.S labor market remained firm as unemployment ended the quarter at 3.5%, remaining at a fifty-year low. For the fourth quarter, nonfarm payrolls averaged a gain of 184K per month as compared with 193K in third quarter.
- ◆ The Consumer Price Index (CPI) rose 2.3% year-over-year through December, up from 1.7% in the prior quarter. Core PCE (excluding food and energy prices) rose at a sluggish 1.6% year-over-year in November which was again below the U.S. Federal Reserve's 2.0% annual inflation objective.
- ◆ Wage growth was flat in the quarter with hourly wages up 2.9% year-over-year in December, the same rate as of the end of the third quarter.
- ◆ The U.S. Federal Reserve's Open Market Committee lowered rates once during the fourth quarter, with the targeted rate reduced 25 basis points to 1.50% to 1.75%, as uncertainty from the Trump administration's trade war and slowing global growth continue to pose risks to the United States economy. The cut marked the third interest rate cut of 2019, following nine 25 basis point interest rate hikes which began in December 2015.
- ◆ Federal Reserve Chairman Powell indicated that the Committee would need to see economic deterioration before cutting rates again and rate increases were not likely unless inflation showed signs of moving higher.
- ◆ Trade tensions eased during the fourth quarter on reports of the U.S. and China coming to an agreement on a "phase one" trade deal.

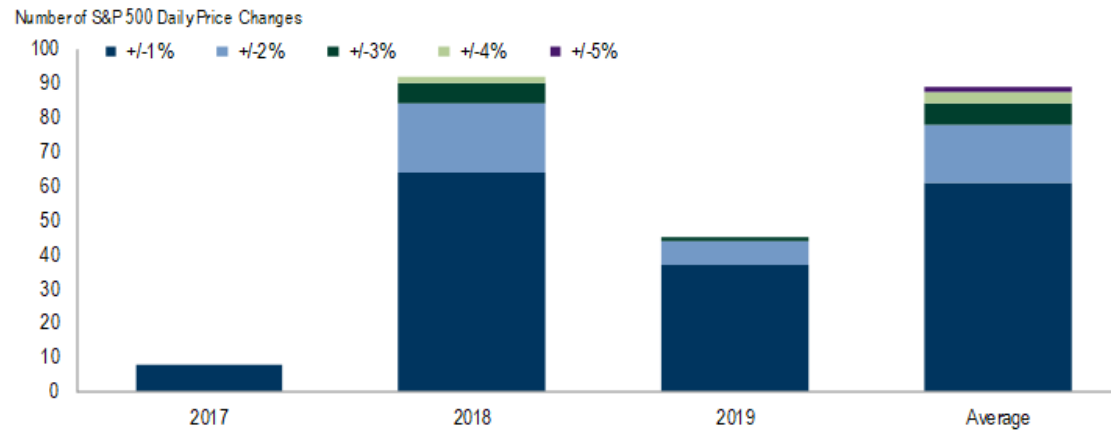


Source: JPMorgan Guide to the Markets as of Dec 31, 2019.

# ECONOMIC TRENDS



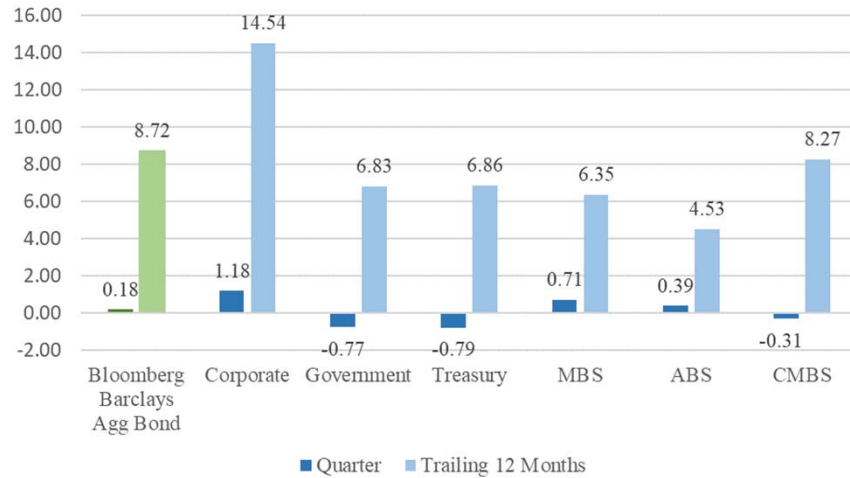
Source: JPMorgan Guide to the Markets as of Dec 31, 2019.



Source: Goldman Sachs 2020 Market and Economic Perspectives

# U.S. FIXED INCOME MARKET OVERVIEW

Bloomberg Barclays Aggregate Returns by Sector (%)  
as of December 31, 2019



Returns by Quality (%)

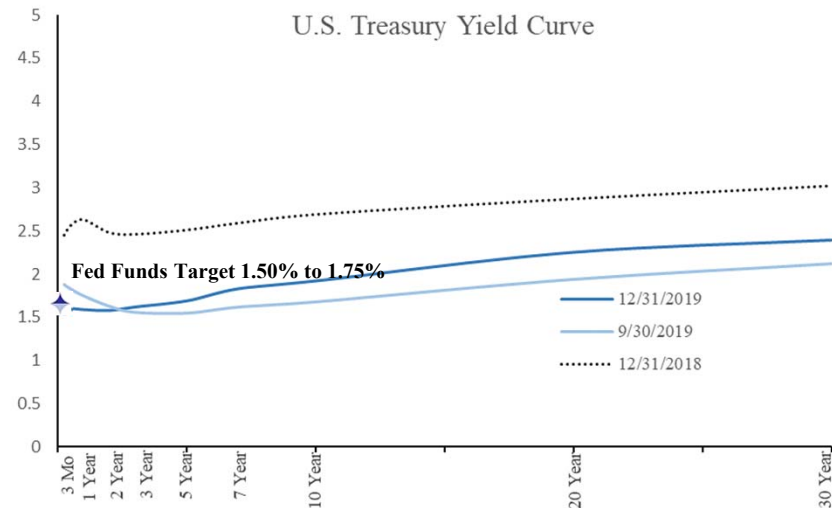
	Qtr	YTD	1 Yr	3Yr	5 Yr
Barclays Aggregate Bond	0.18	8.72	8.72	4.03	3.05
Aaa	-0.18	14.75	14.75	6.67	4.74
Aa	0.20	10.53	10.53	4.78	3.76
A	0.81	13.18	13.18	5.35	4.24
Baa	1.68	16.26	16.26	6.55	5.02
High Yield	2.61	14.32	14.32	6.37	6.13

Returns by Maturity (%)

	Qtr	YTD	1 Yr	3Yr	5 Yr
3 Month T-Bills	0.40	2.15	2.15	1.71	1.10
1-3 Yr	0.57	4.04	4.04	2.16	1.69
3-5 Yr	0.53	6.33	6.33	3.05	2.54
5-7 Yr	0.50	7.32	7.32	3.57	2.77
7-10 Yr	-0.03	9.77	9.77	4.41	3.33
>10 Yr	-1.12	19.57	19.57	8.03	5.40

- ◆ The yield curve steepened during the fourth quarter. The U.S. 2-year Treasury yield was down 5 basis points, ending the quarter at 1.58%. The ten-year Treasury bond saw yields move up 24 basis points, ending the quarter at 1.92%. For the full year, the U.S. 2-year Treasury yield was down 90 basis points with the ten-year Treasury yield down 77 basis points.
- ◆ The Bloomberg Barclays U.S. Aggregate Bond Index was up 0.2% in the fourth quarter led by Corporate Bonds (+1.2%). For the full year, the Bloomberg Barclays U.S. Aggregate Bond Index gained 8.7%, led by Corporates (+14.5%).
- ◆ Lower-rated bonds along with shorter-term maturities were relative outperformers in the fourth quarter.

U.S. Treasury Yield Curve



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# U.S. EQUITY MARKET OVERVIEW

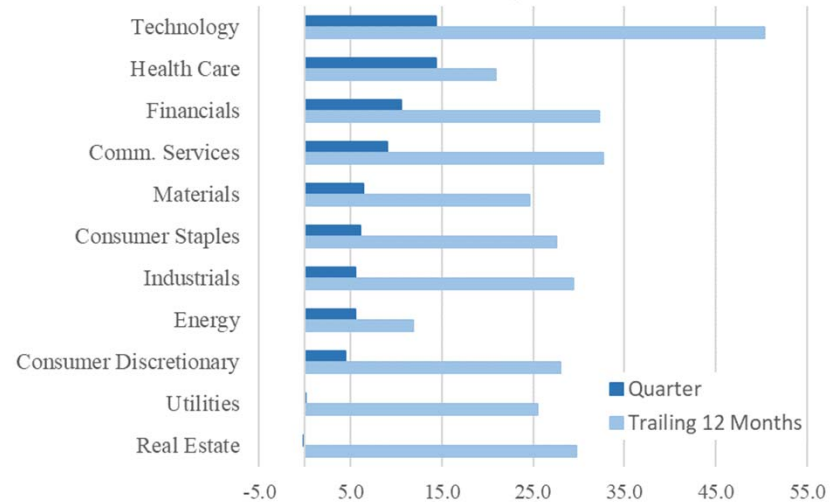
Domestic Equity Performance (%)

Large Cap	Qtr	YTD	1 Yr	3Yr	5 Yr
Russell 1000 Value	7.41	26.54	26.54	9.68	8.29
S&P 500	9.07	31.49	31.49	15.27	11.70
Russell 1000 Growth	10.62	36.39	36.39	20.49	14.63

Mid Cap	Qtr	YTD	1 Yr	3Yr	5 Yr
Russell Mid Cap Value	6.36	27.06	27.06	8.10	7.62
Russell Mid Cap	7.06	30.54	30.54	12.06	9.33
Russell Mid Cap Growth	8.17	35.47	35.47	17.36	11.60

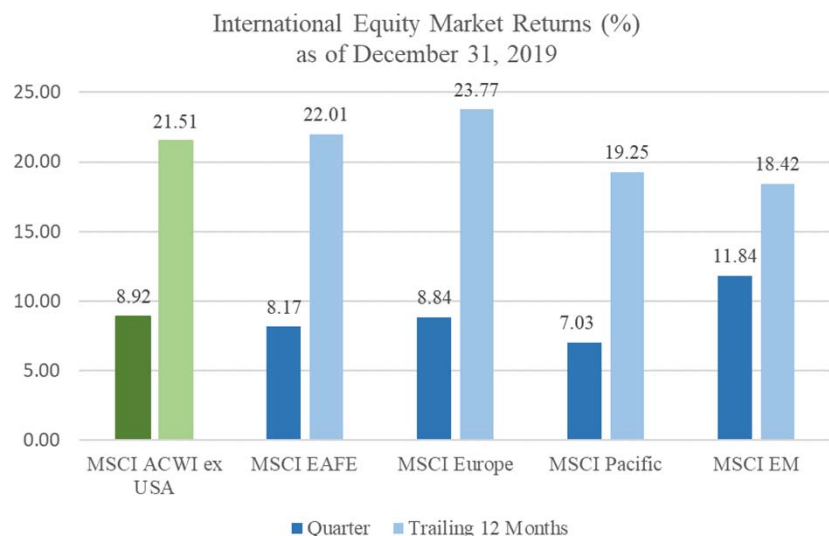
Small Cap	Qtr	YTD	1 Yr	3Yr	5 Yr
Russell 2000 Value	8.49	22.39	22.39	4.77	6.99
Russell 2000	9.94	25.52	25.52	8.59	8.23
Russell 2000 Growth	11.39	28.48	28.48	12.49	9.34

Sector Performance (%)  
as of December 31, 2019



- ◆ US stocks reached record highs during the fourth quarter with the S&P 500 up 9.1% for the quarter and 31.5% for the year. Growth outperformed Value for both the quarter and year. Small Cap Growth (+11.4%) was the best performing market segment for the quarter with Large Cap Growth (+36.4%) leading for the year.
- ◆ HealthCare (+14.4%), Technology (+14.4%) and Financials (+10.5%) were the best performing S&P sectors for the quarter; Real Estate (-0.5%), Utilities (+0.8%) and Consumer Discretionary (+4.5%) were the weakest relative performers. For the year, Technology was the strongest performer (+50.3%) while Energy was the weakest performer (+11.8%).
- ◆ The Technology sector was among the principal beneficiaries of the easing trade tensions. Energy stocks, which had lagged the broader S&P 500 index materially in 2019, rallied during the fourth quarter as crude oil prices rose (+12.9%) on lower-than-expected supply.

# INTERNATIONAL MARKETS OVERVIEW



	10-Yr Govt Bond Yield (%)	Exchange Rate	
United States	1.92	DXY	96.39
United Kingdom	0.83	Pound/USD	1.33
Germany	-0.19	Euro/USD	1.12
France	0.12		
Japan	-0.02	USD/Yen	108.62
China	3.19	USD/Yuan	6.97
Brazil	6.79	USD/Real	4.02
Data as of 12/31/19			

- ◆ International stocks were mixed relative performers as compared to the U.S. in the fourth quarter. The MSCI ACWI ex USA Index was up 8.9% while the MSCI Emerging Markets Index gained 11.8%. For the year, the MSCI ACWI ex USA gained 21.5% with the MSCI EM up 18.4%, both trailing the S&P 500 return.
- ◆ Emerging market stocks had the highest returns in the international space for the quarter while MSCI Europe had the highest returns for the year. Eurozone shares advanced, supported by signs of better economic data from Germany as well as optimism surrounding the US and China trade deal. The easing trade tensions benefitted China, South Korea and Taiwan. A pick-up in crude oil prices was supportive of the Russian and Colombian markets.
- ◆ Christine Lagarde took over as president of the European Central Bank on November 1st. In her first major speech she urged governments to boost public investment in order to increase domestic demand in Europe.
- ◆ The German 10-year yield increased from -0.57% to -0.19%, while France's rose from -0.27% to 0.12%. The UK 10-year yield rose from 0.49% to 0.83% amid a decisive election victory for the incumbent Conservative party and optimism around a Brexit solution.
- ◆ The US dollar (DXY) weakened by 3.0% in the fourth quarter offsetting year-to-date gains to finish flat year-over-year.

# ASSET CLASS RETURNS

														2005 - 2019		
2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Ann.	Vol.
EM Equity 34.5%	REITs 35.1%	EM Equity 39.8%	Fixed Income 5.2%	EM Equity 79.0%	REITs 27.9%	REITs 8.3%	REITs 19.7%	Small Cap 38.8%	REITs 28.0%	REITs 2.8%	Small Cap 21.3%	EM Equity 37.8%	Cash 1.8%	Large Cap 31.5%	Large Cap 9.0%	REITs 22.2%
Comdty. 21.4%	EM Equity 32.6%	Comdty. 16.2%	Cash 1.8%	High Yield 59.4%	Small Cap 26.9%	Fixed Income 7.8%	High Yield 19.6%	Large Cap 32.4%	Large Cap 13.7%	Large Cap 1.4%	High Yield 14.3%	DM Equity 25.6%	Fixed Income 0.0%	REITs 28.7%	REITs 8.3%	EM Equity 22.1%
DM Equity 14.0%	DM Equity 26.9%	DM Equity 11.6%	Asset Alloc. -25.4%	DM Equity 32.5%	EM Equity 19.2%	High Yield 3.1%	EM Equity 18.6%	DM Equity 23.3%	Fixed Income 6.0%	Fixed Income 0.5%	Large Cap 12.0%	Large Cap 21.8%	REITs -4.0%	Small Cap 25.5%	Small Cap 7.9%	Comdty. 18.6%
REITs 12.2%	Small Cap 18.4%	Asset Alloc. 7.1%	High Yield -26.9%	REITs 28.0%	Comdty. 16.8%	Large Cap 2.1%	DM Equity 17.9%	Asset Alloc. 14.9%	Asset Alloc. 5.2%	Cash 0.0%	Comdty. 11.8%	Small Cap 14.6%	High Yield -4.1%	DM Equity 22.7%	EM Equity 7.8%	Small Cap 17.7%
Asset Alloc. 8.1%	Large Cap 15.8%	Fixed Income 7.0%	Small Cap -33.8%	Small Cap 27.2%	Large Cap 15.1%	Cash 0.1%	Small Cap 16.3%	High Yield 7.3%	Small Cap 4.9%	DM Equity -0.4%	EM Equity 11.6%	Asset Alloc. 14.6%	Large Cap -4.4%	Asset Alloc. 19.5%	High Yield 7.2%	DM Equity 17.3%
Large Cap 4.9%	Asset Alloc. 15.3%	Large Cap 5.5%	Comdty. -35.6%	Large Cap 26.5%	High Yield 14.8%	Asset Alloc. -0.7%	Large Cap 16.0%	REITs 2.9%	Cash 0.0%	Asset Alloc. -2.0%	REITs 8.6%	High Yield 10.4%	Asset Alloc. -5.8%	EM Equity 18.9%	Asset Alloc. 6.2%	Large Cap 14.0%
Small Cap 4.6%	High Yield 13.7%	Cash 4.8%	Large Cap -37.0%	Asset Alloc. 25.0%	Asset Alloc. 13.3%	Small Cap -4.2%	Asset Alloc. 12.2%	Cash 0.0%	High Yield 0.0%	High Yield -2.7%	Asset Alloc. 8.3%	REITs 8.7%	Small Cap -11.0%	High Yield 12.6%	DM Equity 5.3%	High Yield 10.9%
High Yield 3.6%	Cash 4.8%	High Yield 3.2%	REITs -37.7%	Comdty. 18.9%	DM Equity 8.2%	DM Equity -11.7%	Fixed Income 4.2%	Fixed Income -2.0%	EM Equity -1.8%	Small Cap -4.4%	Fixed Income 2.6%	Fixed Income 3.5%	Comdty. -11.2%	Fixed Income 8.7%	Fixed Income 4.1%	Asset Alloc. 10.0%
Cash 3.0%	Fixed Income 4.3%	Small Cap -1.6%	DM Equity -43.1%	Fixed Income 5.9%	Fixed Income 6.5%	Comdty. -13.3%	Cash 0.1%	EM Equity -2.3%	DM Equity -4.5%	EM Equity -14.6%	DM Equity 1.5%	Comdty. 1.7%	DM Equity -13.4%	Comdty. 7.7%	Cash 1.3%	Fixed Income 3.4%
Fixed Income 2.4%	Comdty. 2.1%	REITs -15.7%	EM Equity -53.2%	Cash 0.1%	Cash 0.1%	EM Equity -18.2%	Comdty. -1.1%	Comdty. -9.5%	Comdty. -17.0%	Comdty. -24.7%	Cash 0.3%	Cash 0.8%	EM Equity -14.2%	Cash 2.2%	Comdty. -2.6%	Cash 1.0%



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