Hinds Financial Group, Inc.
Registered Investment Adviser

141 Union Boulevard Suite 350
Lakewood, CO 80228
P.303-985-9889

Hinds Financial Group Quarterly Economic Outlook and Review 4Q 2019

THE ECONOMY

The US economy's growth continued to slow modestly in the fourth quarter. The Bureau of Economic Analysis reported its third estimate of third quarter 2019 gross domestic product (GDP) of 2.1%, in line with the prior estimate, and slightly higher than the second quarter's 2.0% reading. The employment situation surged in the latest month, with an average of approximately 205,000 jobs added each month of the quarter. The unemployment rate dipped to 3.5%. The Fed modified its interest rate policy by lowering the federal funds rate target once during the quarter, to a range of 1.50% to 1.75%. Economists currently expect the Fed to maintain the fed funds rate at current levels through 2020.

The global economic environment continued to lose momentum, driven by ongoing trade uncertainty and developed markets economies experiencing the slowdown phase of the business cycle. Eurozone economic growth was resilient, with consumers again serving as the primary positive driver. Employment in the region remains robust, but further gains may be difficult to attain at this point in the cycle. China's economy continues to suffer, with both imports and exports declining. Exports to the US alone plunged 20% in recent months due to increased tariffs.

DOMESTIC EQUITIES

After battling through the adverse seasonal headwinds at the beginning of the quarter, equity markets provided consistent and steady gains throughout the quarter. September and October are often difficult months for stocks, and 2019 was not an exception, as broad-based indices declined roughly 3.5% in the first week of October. However, as economic data remained solid, and as the trade situation continued to thaw, markets recovered and established new all-time highs. Within that context, the S&P 500 Index finished the quarter with a gain of +9.1%. For the year, the S&P 500 delivered a total return of +31.5%.

Performance of the eleven primary economic sectors was positive during the quarter, with ten sectors delivering positive gains and only one producing a negative return. Health Care, Information Technology and Financials were the strongest performers on a relative basis, generating returns of +14.4%, +14.4%, and +10.5%, respectively. The Real Estate, Utilities and Consumer Staples sectors were the poorest relative performers, posting returns of -0.5%, +0.8%, and +3.5%, respectively

INTERNATIONAL EQUITIES

International stocks delivered strong gains during the quarter, and generally performed in line with US equities. As in the US, global growth has slowed in recent quarters, but has remained positive. The MSCI ACWI Ex-USA Index, which measures performance of world markets outside the US, rallied by +8.9%. The MSCI EAFE Index of developed markets stocks rose by +8.2%. Regional performance was positive across the board for the quarter. China was the strongest performer on a relative basis, with a return of +14.7%. The Pacific region ex-Japan was the poorest relative performer, gaining +5.8%. Emerging markets performance was quite strong, as the MSCI Emerging Markets Index was higher by +11.8%.

BONDS

The Treasury yield curve steepened during the fourth quarter, with yields on the shortest-term maturities declining relative to yields in the intermediate- and long-term segments of the curve. Overall, the Treasury curve moved higher from the prior quarter. Yields dropped by more than 30 basis points on short-term maturities, while rising more than 20 basis points on intermediate- and long-term securities. By the end of the quarter, the yield on the benchmark 10-year US Treasury note was higher, ending at 1.92%, compared to 1.67% on September 30.

Total returns on fixed income securities were generally positive across most of the market segments. The Bloomberg Barclays Treasury 5-7 Yr. Index declined by -0.4% for the quarter. The Bloomberg Barclays US Corporate 5-10 Yr. Index gained +1.3% during the three months. High yield securities, which often follow the performance of equities, climbed, posting a return of +2.6%. Municipals also rose, as the Bloomberg Barclays Municipal Bond Index gained +0.7% during the quarter.

OUTLOOK

The US economy is in the midst of the longest expansion on record at 126 months, and at this point in the cycle the slowing growth that has been experienced should be expected. But the economy is nothing if not resilient, continuing to deliver gains in the face of the continuing trade war with China and other significant trading partners, geopolitical tensions, and deep political fissures that have resulted in the impeachment of President Trump. By most accounts the Fed has seemed to have reversed the damage done by its decision in 2018 to raise interest rates too much and too quickly. The committee’s three rate reductions in 2019 seem to have been enough for the economy to remain on track for continued modest growth. Expectations among economists are that President Trump and China’s President Xi Jinping will continue to de-escalate the trade war, both because of the damage it has already inflicted on the Chinese economy and the fact that 2020 is a Presidential election year in the US. The consumer has been the linchpin of growth not only in the US but across world economies. Many analysts believe the outlook for consumers remains bright as a result of the combination of household deleveraging that has occurred over the past decade and growth in personal income. Economists warn that one risk to the US economy in 2020 may be that because there are stark differences in the economic policies of President Trump and his Democratic rivals, uncertainty about the election’s outcome may alter consumer behavior such that it adversely impacts the economy. Elections have historically had little impact on the economy, but some economists believe that with the prevailing deep political divide 2020 may be an exception.

S&P 500 Index: *"The S&P 500 is an index of 500 stocks chosen for market size, liquidity and industry grouping (among other factors) designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe."*

Russell 2000 Index: *"The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe and is a subset of the Russell 3000 Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership."*

NASDAQ Composite Index: *"The NASDAQ Composite Index includes all domestic and international based common type stocks listed on The NASDAQ Stock Market. The NASDAQ Composite Index is a broad-based index."*

Bloomberg Commodity Index: *"The Bloomberg Commodity Index is a broadly diversified index that measures 22 exchange-traded futures on physical commodities in five groups (energy, agriculture, industrial metals, precious metals, and livestock), which are weighted to account for economic significance and market liquidity. No single commodity can comprise less than 2% or more than 15% of the index; and no group can represent more than 33% of the index. However, between re-balancing, group weightings may fluctuate to levels outside the limits. The index rebalances annually, weighted 2/3 by trading volume and 1/3 by world production."*

MSCI All-Country World Ex-USA Index: *"The MSCI All-Country World Ex-USA Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The MSCI ACWI Ex-USA consists of 48 country indexes comprising 22 developed and 26 emerging market country indexes. The developed country indexes include: Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Hong Kong, Ireland, Israel, Italy, Japan, Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, and the United Kingdom. The emerging market country indexes included are: Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey, and United Arab Emirates."*

MSCI Emerging Markets Index: *"The MSCI Emerging Markets Index is designed to measure equity market performance in global emerging markets. It is a float-adjusted market capitalization index."*