Market Commentary

February 2020

Equity and Bond Market Update

(as of January 31, 2020)

Index	MTD	YTD
Dow Jones Industrial Average TR	-0.9%	-0.9%
S&P 500 Total Return Index	+0.0%	+0.0%
Russell 2000 Total Return Index	-3.2%	-3.2%
MSCI EAFE Index (net)	-2.1%	-2.1%
MSCI Emerging Markets Index (net)	-4.7%	-4.7%
Barclays US Aggregate Bond TR	+1.9%	+1.9%

Economic Indicators

	Statistic	Data as of
Unemployment Rate	3.6%	Jan 2020
Gross Domestic Product (GDP)	+2.1%	Q4 2019
Consumer Price Index (CPI)	+0.1%	Jan 2020
Consumer Confidence (1985=100)	131.6	Jan 2020
30-year fixed mortgage rate	3.69%	2/18/2020
Housing Starts (single family)	1,010,000	Jan 2020
10-Year Treasury Yield	1.51%	1/31/2020

All equity markets continued their advances from 2019 up until the last week of January, when heightened coronavirus concerns added risk to global markets, and the "risk-off" trade became apparent. With the exception of the aggregate bond market, all equity indices ended the month of January either unchanged or down from the end of December.

As of the writing of this commentary, there are now a cumulative ***75,779 confirmed cases and 2,130 deaths***. In mid-to-late January, the number of new cases was increasing by over 50% to 60% per day. As of the last week new cases are growing at a much lower 3% per day, and even up only 1% in the last 24 hours. So, at this moment, it does seem as if the spread is not accelerating, but rather decelerating but still growing. Outside of China's borders, there are 1,124 confirmed cases, or 1.5% of the total global cases.

For comparison purposes, between October 1, 2019 and February 8, 2020, the Centers for Disease Control and Prevention (CDC) estimates that there have been between ***26 million and 36 million*** cases of the common flu, between ***12 million and 17 million*** medical visits due to the flu, between ***250,000 and 440,000*** hospitalizations, and between ***14,000 and 36,000*** deaths. The Severe acute respiratory syndrome (SARS) outbreak in 2003 lasted eight months from November 2002 to July 2003. Total global cases were just over 8,000 and deaths approximately 774.

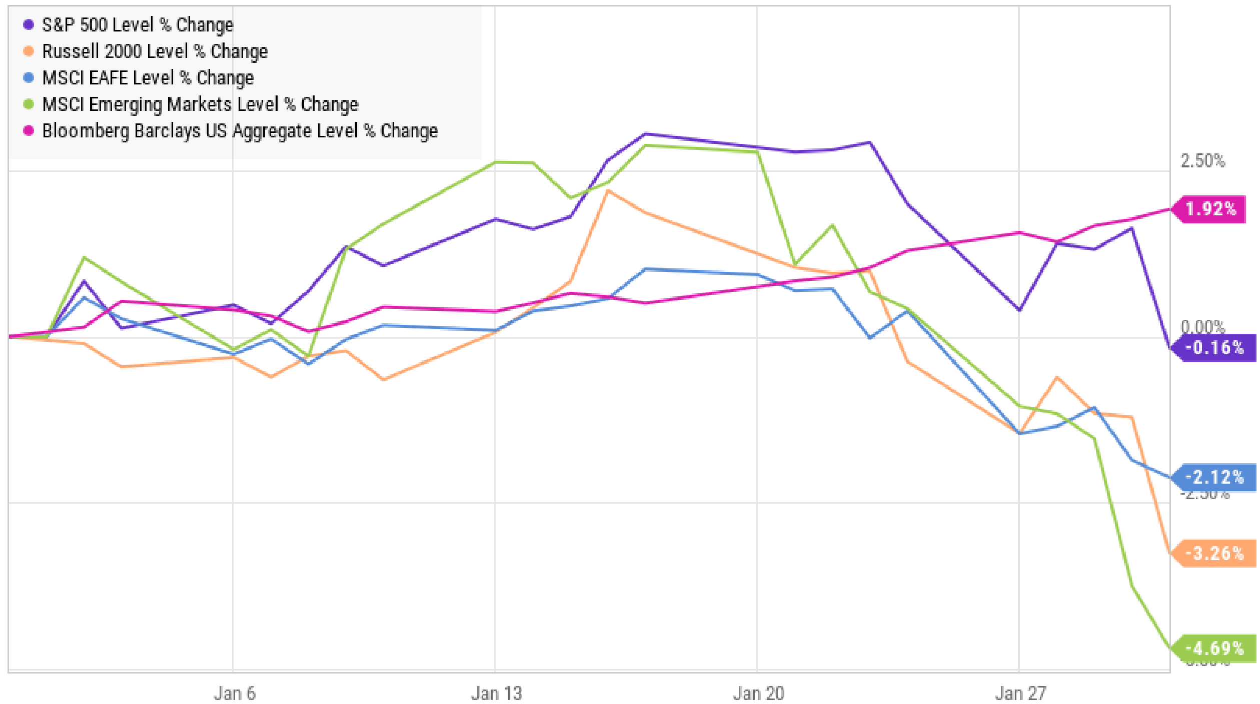
We are not saying there is no reason to be concerned about the spread of coronavirus, but do not think that it is prudent to make changes to portfolios at this early stage of the illness. Chinese, U.S. and other government authorities are working closely together and with pharmaceutical companies to come up with a vaccine quickly, and some are forecasting that the virus could be contained within the next couple of months. There are alternate views of the effects the virus will have on global growth. There is no doubt there is and will be lowering of expectations in the current and future quarters, especially in Asian regions, but to what extent the reality of this materializes is up in the air…they are currently only forecasts, predictions and estimates.

In the meantime, with approximately 84% of S&P 500 constituent companies reporting fourth quarter earnings, we are seeing earnings growth of +8.0% over the fourth quarter of 2018, and +2.8% higher for all of 2019 over 2018. Currently, broad market analysts are forecasting earnings growth of +11.6% this year over 2019, and growth of +11.9% in 2021 over 2020. These estimates tend to get lower and lower as we get closer to their actual quarterly periods.

GDP for both the third and fourth quarters of 2019 registered at +2.1%, and unemployment is still at long-term historic lows of 3.6%. The Federal Reserve kept short-term interest rates unchanged in their January 2020 meeting at 1.75%. This after raising rates three times in 2017, raising rates four times in 2018, and then lowering rates three times in 2019, after the correction (crash) we experienced in late 2018.

Our January call for returns in 2020 to revert to more average historical levels remains at this time intact. So far in February, equity markets have recovered from their late January year-to-date lows, with U.S. large-cap and small-caps in positive territory, and foreign developed and emerging markets teetering just below unchanged for the year. We are expecting volatile periods throughout the year, with short-term

Major Market Indices Price Return (YTD as of January 31, 2020)



disruptions such as the perceived and real effects of the coronavirus weighing on global markets, the U.S. presidential election season and its outcome, current valuations computed from trailing and forward earnings now higher than 25-year averages, and slower growing global earnings taking their tolls on stable markets. However, we still have a very strong backdrop of a stable and slowly growing economy that provides support for when we do go through potential corrections throughout the year.

Focus at this time is steering a little more towards foreign markets and small-cap stocks which have traded at much lower valuations than U.S. markets for some time now. In addition, with stability in economic conditions looking to provide some support for at least another 12 months, we have been extending duration and credit risk in the fixed income portions of our portfolios. We are still taking precautions in bonds overall, but elected to seek more return yield to enhance returns in the short-to-mid-term.

Always keep in mind that fear, panic and optimism are not investment strategies, but rather emotions that drive short-term markets.

Please contact Lifestyle Asset Management, Inc. at (281) 612-2035 or by email at **pjackson@lsaminc.com** should you have any questions or comments.

Sources:

S&P Dow Jones Indices website (us.spindices.com)
Bankrate.com (www.bankrate.com)
Bureau of Labor Statistics (www.bls.gov)
United States Census Bureau website (www.census.gov)
MSCI Barra website (http://www.mscibarra.com)
The Conference Board (www.conference-board.org)
Bureau of Economic Analysis (www.bea.gov)
JP Morgan Guide to the Markets