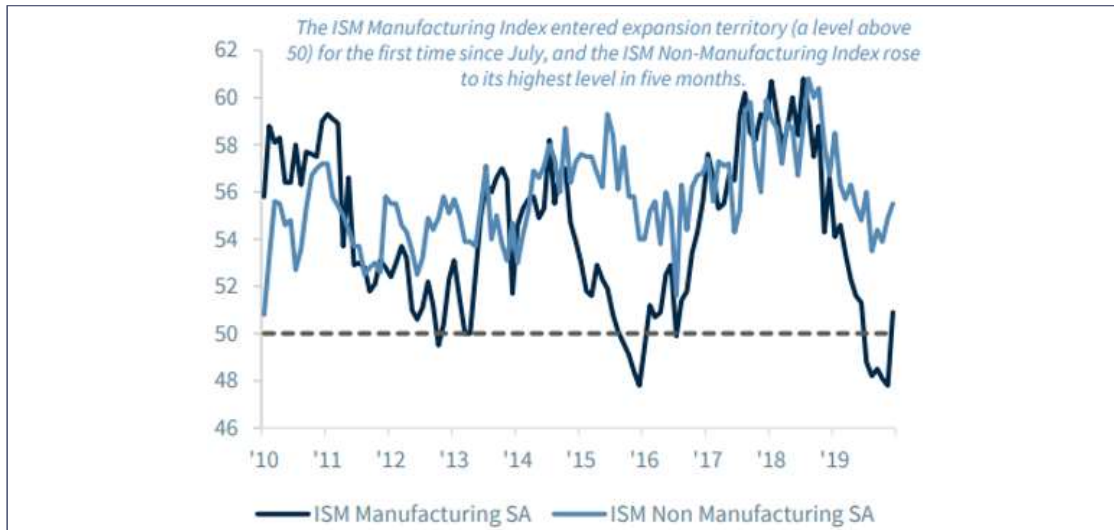


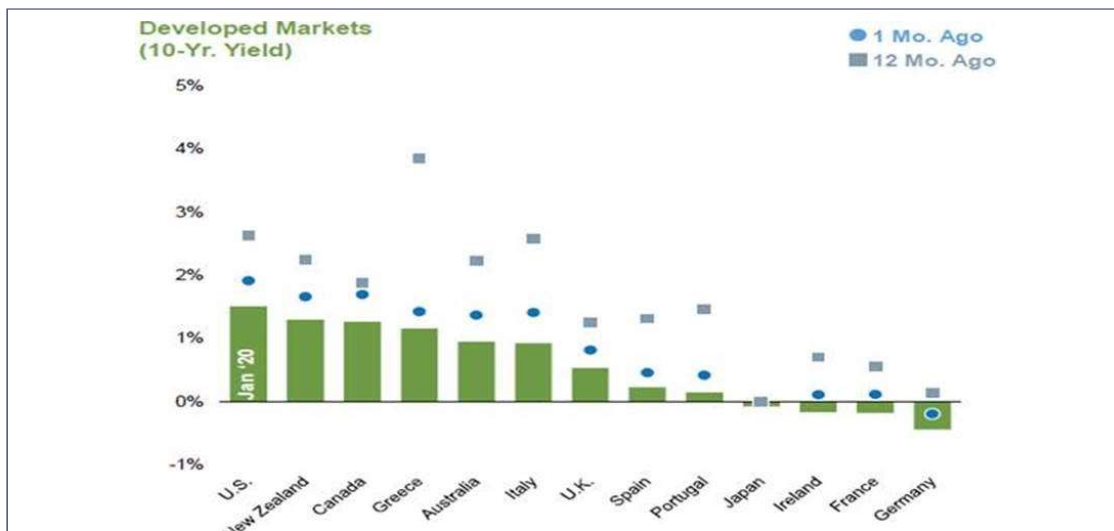
Market Recap

Green Shoots in the Old World Economy



Source: Raymond James

Just How Low Can Rates Go?



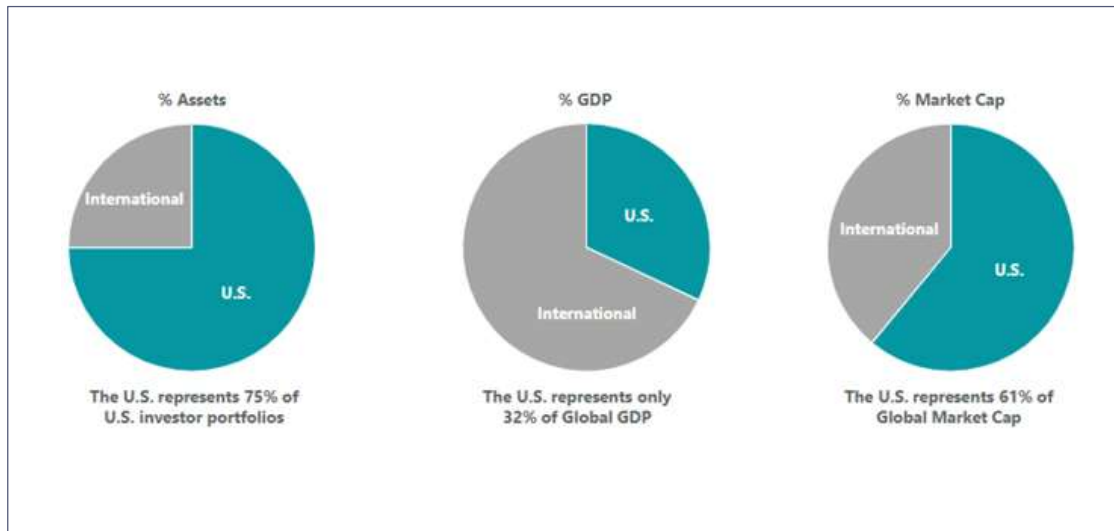
Source: Fidelity

With a January reading of 50.9 (up from 47.2 in December), the U.S. ISM Manufacturing index moved back into expansion territory for the first time in six months. Both the new orders and production components, good indicators of underlying demand, were also strong. While less robust than the U.S., overseas manufacturing data are also showing signs of life - The January ISM for Germany, the manufacturing powerhouse of Europe, ticked up to a "less bad" reading of 45.3. Taken as a whole, the January update provides some hard evidence that trade war-related concerns are now weighing less on factory-related business activity. Although the fallout from the coronavirus epidemic will likely cause a short-term setback, rebounding business confidence should drive further improvement in overall numbers through mid-year.

Investors often bemoan the paltry interest rates offered by bonds today. Sovereign bonds have the lowest yields and are considered "safe havens" and a proxy for the "risk-free rate." Investors use sovereign bond yields to derive expected returns for riskier assets such as corporate bonds and stocks. Although interest rates were low coming out of the last recession, the magnitude of the move lower now is shocking. In 2012, Greece saw the yield on its 10-year bonds skyrocket to over 40%. However, the country's 10-year bonds now yield less than 1%. Global investors continue flocking to U.S. Treasury bonds as the 10-year currently yields 1.5%. U.S. Treasury bonds offer a relatively high yield and excellent liquidity. Continued easing by central banks has led to \$14 trillion of negative-yielding debt worldwide. As such, there will be little room for effective stimulus via interest rate cuts during the next downturn.

Market Recap

Home Country Bias



Source: ClearBridge Investments

Investors often hear the phrase “diversification is the only free lunch.” Allocating capital to different regions and sectors can be an effective means to optimize risk and return. Although the United States represents 61% of global equity market value, investors here have allocated 75% of their portfolios to domestic stocks. Since the inception of the MSCI indices in the 1970s, U.S. stocks have outperformed Europe, Australasia and the Far East (EAFE) equities 57% of the time. However, now may be an opportune time to invest beyond our borders. The MSCI All Country World (ACWI) Ex-U.S. Index is trading at a 23% discount to the S&P 500 index, the widest gap in twenty years. Although the correlation between U.S. and foreign stocks has more than doubled over the past 30 years to 0.80, this measure has likely reached a ceiling.

Stiff Competition for Higher Learning



Source: J.P. Morgan

At the risk of crushing some parents’ dreams, the odds of students receiving enough grants and scholarships to cover the full cost of a four-year college are slim. This is largely due to a combination of tuition growth outpacing inflation and the competitive landscape for allocating scholarships and grants. Each year, there are more than 80,000 valedictorians and salutatorians. Moreover, thanks to the Common Application (which has partnered with over 800 programs), it is easier than ever to apply en masse. All that said, hope is not lost. When combining scholarships and grants, almost 20% of students receive enough awards to cover 50% of the cost of attendance. Applying for scholarships, grants, and FAFSA (Free Application for Federal Student Aid) is key, even for higher-income families.

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