THE BOSTON FAMILY OFFICE

Investment Update

Fourth Quarter 2019

The strong performance of the stock market in the fourth quarter of 2019 capped a strong year, which in turn capped an equally strong decade. The performances for the other metrics we track here were surprisingly uniform over those three time periods: bond prices rose and yields fell correspondingly, and large-cap US stocks outperformed small-cap, mid-cap, and foreign stocks. The S&P 500's increased this past quarter despite little progress on the trade conflict with China (until very late in the year), earnings that were flat to slightly down year-over-year throughout 2019, and a weak manufacturing sector. Outweighing those headwinds were globally accommodative monetary policies that have generally stabilized growth abroad, and a domestic economy that continues to show reasonable growth largely because of resilient consumer spending.

Equity Markets (Total Return)	**4Q'19**	**1-Year**	**10-Year**
Dow Jones Industrials	6.7%	25.3%	13.4%
S&P 500	9.1%	31.5%	13.6%
S&P Mid-Cap	7.1%	26.2%	12.7%
S&P Small-Cap	8.2%	22.8%	13.4%
MSCI All-Country World	9.1%	27.3%	9.4%
MSCI Foreign Developed Markets	8.2%	22.0%	5.5%
MSCI Foreign Emerging Markets	11.9%	18.9%	4.0%
US Bond Markets (Total Return)	**4Q'19**	**1-Year**	**10-Year**
Barclays US Govt/Credit Intermediate	0.4%	6.8%	3.1%
Barclays US Govt/Credit Long	-1.1%	19.6%	7.6%
BAML Municipal Intermediate	0.7%	5.6%	3.1%

10-Year returns are annualized

It is worth noting that annual returns of more than 20% are not necessarily exceptional, so returns like last year's should not in and of themselves be reason for trepidation about what 2020 might bring. They have occurred about every three years on average since 1926, as 2019 was the 35th instance during that time period. Even knowing that, it is often instructive to look at any seemingly notable return in the context of the prior period. For example, while the S&P 500's total return including dividends was over 31.5% in 2019, that followed the weakest annual return during the decade of –4.4% in 2018 making for a less remarkable 12.1% annualized return for the two years. Similarly, the 2010s' cumulative 257% return followed the -9% return in the 2000s, which was the first and only decade since 1928 to produce a negative return.

The past decade was exceptional not for its actual returns (as robust as they sound, it was only the 5th most rewarding decade for investors since the 1930s), but for absence of a recession, and for the bull market's stubborn climb up the proverbial wall of worry. Ed Yardeni, a strategist whose work we follow closely, has a running list of 62 distinct selloffs of varying degrees over the last ten years, none of which eclipsed 20%, but many of which at the time seemed destined to be the beginning of something worse.

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It is often tempting to think that the current moment is unique for having more existential threats to face than ever before, but there is always a list, and its constituents are ever changing. Looking back only as far as the earlier part of the decade, we are reminded by retrospectives in the press of several topics that were considered serious market risks but are now rarely mentioned. From the possibility that Greece might leave the Eurozone in a disorderly fashion or prognostications that the Fed's quantitative easing efforts would produce hyper-inflation, to the downgrade of US Federal debt by the rating agency Standard & Poor's and the unknown ripple effects of the Arab Spring protests, none of these concerns materialized despite vexing investors for years in some cases.

Looking forward to the coming decade we will mention just a few topics of interest in no particular order of importance. The Federal Reserve succeeded in suppressing inflation in the 1980s with aggressive monetary policy but now it and other central banks are finding that they cannot necessarily make it accelerate even with exceptionally easy monetary policy. This is problematic for the management of the business cycle going forward. Although most elected officials appear more tolerant of deficits than they traditionally were in the past, ballooning Federal debt levels will limit the government's ability to employ stimulative fiscal policy (the effects of which play out with a lag anyway) to boost the economy in times of need.

There are areas where we suspect meaningful change will occur in the next decade. Artificial intelligence and the deployment of 5G internet networks both have the potential to bring applications and functions to the market that we cannot even conceive of today. How we use energy and where it comes from promises to be driven by technological advances and consumer preferences. Lastly, the more slowly shifting demographics of various countries and around the world, again driven by technological advances in the healthcare industry as well as changing reproductive patterns, have interesting implications for consumption and growth.

The closing of a decade and a chapter in the market's history is an apt time to thank you for your relationship with the Boston Family Office, whether you are a client or an interested observer. The firm will turn 25 years old towards the end of next year and we hope to continue providing you with the sorts of measured advice needed to navigate markets both strong and weak. One person who will not be doing so though is our partner and colleague Pierre Ventur who is starting a well-earned retirement. We wish him all the best and thank him for his contributions over the last 20 years.

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