



Economic & Market Commentary

Market Update – December 2019

The last month of the year was positive for global stocks (+3.5%), closing +26.4% for the year. U.S. bonds gained slightly throughout the month, pushing year-end gains to +6.8% for U.S. intermediate-term and +3.1% for short-term bonds. Alternative asset classes were mixed with commodities and reinsurance posting gains of 5.0% and 0.7% for the month, while managed futures and REITs fell by 0.6% and 0.1%, respectively.

Economy

- Unemployment fell to 3.5% in November, matching 50-year lows experienced in September.
- Data released in December indicated November housing starts increased to a 1.37 million-unit pace (up 3.1% from October).

Stocks

- U.S. small cap value (+3.5%) and U.S. large cap (+3.0%) displayed strong gains within the month, bringing their year-to-date returns up to +22.3% and +31.5%, respectively.
- Small cap and small cap value stocks led returns in international developed markets, both posting gains (+4.6%), followed by large value (+3.7%) and large cap (+3.2%).
- Emerging markets closed the year with strong gains of 7.5% during December. Brazil and South Korea led the way with returns of 12.5% and 10.4%, respectively.

Bonds

- U.S. bond returns continued to inch higher with short-term and intermediate-term bonds gaining 0.1%. TIPS also posted gains of 0.4%.
- International bonds fell 0.6%, closing out 2019 with a positive return of +8.0%.

Alternatives

- Global REITs (-0.1%) and managed futures (-0.6%) both posted losses for the month while commodities (+5.0%), and reinsurance (+0.7%) pushed higher to close out the year with positive returns of 7.7% and 4.4%, respectively.

International Markets: Staying the Course

Over the past few years, investors have experienced an array of different emotions and market behaviors. One trend that many have noticed lately is U.S. stock market outperformance compared to international markets. Over the past five years, the IA SBBI U.S. Large Stock Index has outperformed the MSCI EAFE Index (large cap international stock index) all but one year (2017). While U.S. stock markets have shown recent outperformance, there are some important factors to consider when deciding how to allocate investments between U.S. and international markets.

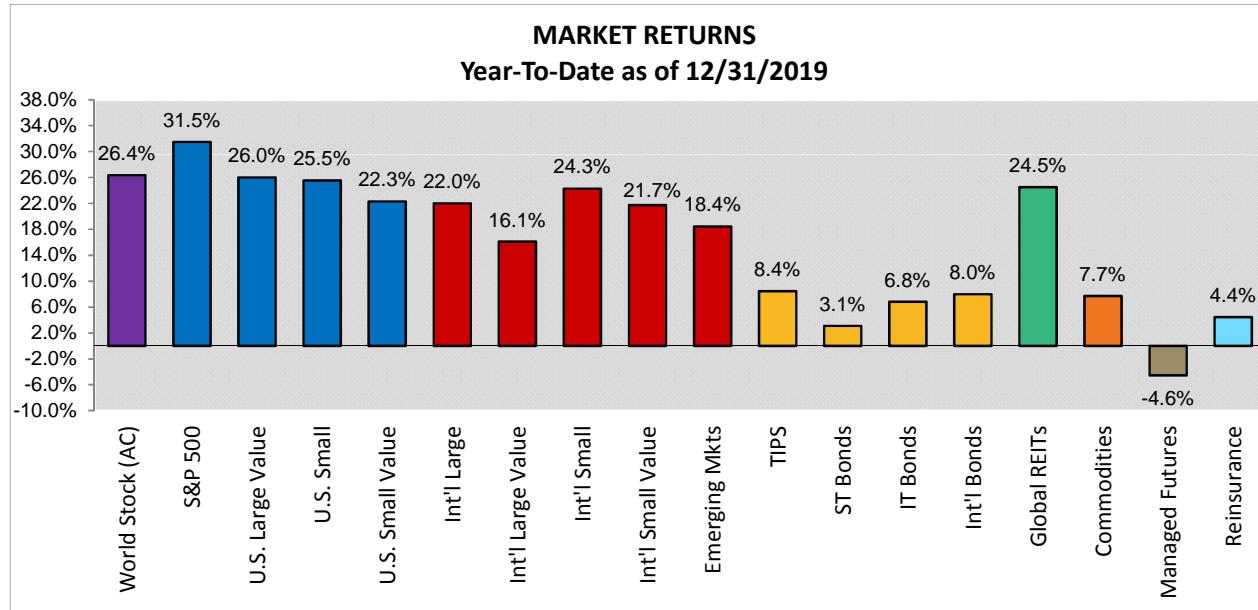
- 1) **We Live in a Global Economy:** Consumers in the U.S. continuously rely on international trade partners to bring affordable, competitive goods to market. Investors should be reminded that the U.S. economy only makes up about 24% of global GDP as of 2018. Being part of a global economy, investors can further diversify by adding exposure to international markets and gaining access to foreign economies with different opportunities.
- 2) **International Stock Markets are Significant:** When looking at the investable universe for publicly traded stocks, U.S. companies only make up about 55% of global market cap. As international economies continue to build upon their own financial markets, it's possible that U.S. market cap could fall on a relative basis compared to the rest of the world.
- 3) **Recency Bias:** The past five years of U.S. outperformance may have led some investors to invest solely in U.S. stocks. However, if we expand our timeframe back 50 years to 1970, the IA SBBI U.S. Large Stock Index outperformed the MSCI EAFE index just 26 times or about 52% of the time, with extended streaks of outperformance in international and U.S. markets alike.

Savant takes an evidence-based, globally diversified approach to investing. When making decisions, our investment team puts more weight on global market fundamentals and less on market timing and streaks of recent outperformance.

Sources: The World Bank, Morningstar Direct, Dimensional Fund Advisors

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MARKET RETURNS - Longer Term Annualized as of 12/31/2019							
	1 Month	YTD	1 Year	3 Years	5 Years	10 Years	15 Years
STOCKS							
S&P 500	3.0%	31.5%	31.5%	15.3%	11.7%	13.6%	9.0%
U.S. Large Value	2.8%	26.0%	26.0%	10.5%	9.3%	11.9%	7.9%
U.S. Small	2.9%	25.5%	25.5%	8.6%	8.2%	11.8%	7.9%
U.S. Small Value	3.5%	22.3%	22.3%	5.2%	7.1%	11.2%	7.6%
Int'l Large	3.2%	22.0%	22.0%	9.6%	5.7%	5.5%	4.8%
Int'l Large Value	3.7%	16.1%	16.1%	6.3%	3.5%	4.0%	3.8%
Int'l Small	4.6%	24.3%	24.3%	10.8%	8.6%	8.7%	7.5%
Int'l Small Value	4.6%	21.7%	21.8%	8.6%	7.7%	8.4%	7.4%
Emerging Mkts	7.5%	18.4%	18.4%	11.6%	5.6%	3.7%	7.5%
World Stock (AC)	3.5%	26.4%	26.4%	12.1%	8.3%	8.9%	7.0%
BONDS							
TIPS	0.4%	8.4%	8.4%	3.3%	2.6%	3.4%	3.8%
Short-Term Bonds	0.1%	3.1%	3.1%	1.6%	1.0%	0.6%	1.6%
Interm-Term Bonds	0.1%	6.8%	6.8%	3.2%	2.6%	3.1%	3.6%
International Bonds	-0.6%	8.0%	8.0%	4.5%	4.1%	4.5%	4.6%
ALTERNATIVES							
Global REITs	-0.1%	24.5%	24.5%	8.8%	6.7%	10.5%	6.9%
Commodities	5.0%	7.7%	7.7%	-0.9%	-3.9%	-4.7%	-2.6%
Managed Futures	-0.6%	-4.6%	-4.6%	-3.7%	-0.8%	1.0%	4.3%
Reinsurance	0.7%	4.4%	4.4%	2.6%	3.7%	6.0%	6.9%

Source: Morningstar Direct. Indices used in above graphs: S&P 500 Index, U.S. Large Value-MSCI U.S. Prime Market Value Index, U.S. Small-Russell 2000 Index, U.S. Small Value-MSCI U.S. Small Value Index, Int'l Large-MSCI EAFE Index, Int'l Large Value-MSCI EAFE Value Index, Int'l Small-S&P EPAC Small Index, Int'l Small Value-S&P EPAC Small Value Index, Emerging Mkts-MSCI Emerging Markets Index, World Stock Index-MSCI All Country World IMI Index, TIPS-Barclays Gbl Infl Linked US TIPS Index, Short-Term Bonds-Ibbotson 1 Yr Treasury Const Mty Index, Inter-Term Bonds-Barclays Inter-Term Govt/Credit Index, International Bonds-JPM GBI Global Ex US Hdg, Global REITs-S&P Global REIT Index, Commodities-Bloomberg Commodity Index, Managed Futures-Credit Suisse Mgd Futures Liquid Index, Reinsurance-SwissRe Global Cat Bond Index.

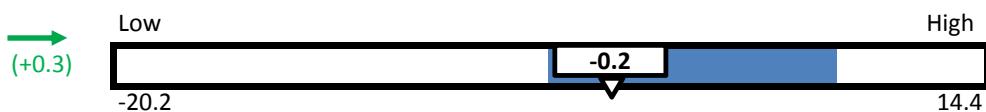
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Economic Indicators

Leading Economic Index Year over Year Change (%)



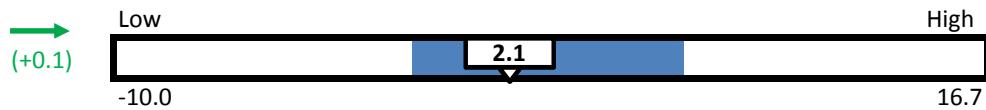
Unemployment (%)



Inflation CPI (YOY %)



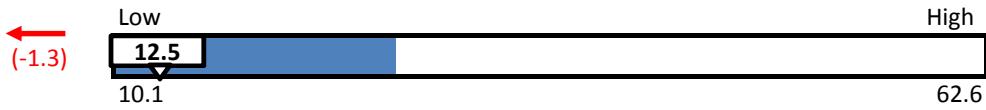
Real GDP Growth (%)



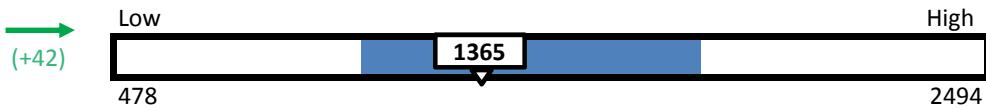
Consumer Confidence



VIX - Market Volatility



Housing Starts (000s)



10-year Treasury Yield (%)



Typical range (within 1 standard deviation of the median)

Current Value

Historical Range

Change in value since last month

*See appendix for sources and data ranges

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Appendix

Leading Economic Index Year over Year Change (%)

The Leading Economic Index is composed of 10 indicators used to forecast the direction of the economy. A fall in the index over three consecutive months is seen as a sign of a recession. The value shown represents the 12-month change in the index level. (*Data Source: The Conference Board. Monthly data since 1/1/1959*)

Unemployment

The unemployment rate measures the percentage of workers that are out of work in the U.S. labor force. (*Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948*)

Inflation CPI (YOY)

The Consumer Price Index (CPI) measures the change in the price level for a broad basket of goods in the U.S. economy. The value shown represents the percent change in the index from a year ago. (*Data Source: U.S. Bureau of Labor Statistics. Monthly data since 1/1/1948*)

Real GDP Growth

Real GDP Growth represents the change in the market value of all output in the U.S. economy. It is an annualized quarterly measure. (*Data Source: U.S. Bureau of Economic Analysis. Quarterly data since 4/1/1947*)

Consumer Confidence

The Consumer Confidence Index measures the level of optimism among U.S. consumers on the economy and their overall financial situation. (*Data Source: The Conference Board. Monthly data since 1/31/1991*)

VIX

The CBOE Volatility Index (VIX) measures the volatility of the S&P 500 index. An increase in the index level represents a spike in market volatility. Conversely, a decrease in the index represents a move towards stability. (*Data Source: Chicago Board Options Exchange. Daily data since 1/2/1990*)

Housing Starts

The number of housing starts (new construction) in the U.S. each year. (*Data Source: U.S. Bureau of the Census. Monthly data since 1/1/1959*)

10-year Treasury

The annualized return that would be realized for holding a 10-year Treasury bond to maturity. The 10-year Treasury yield is the primary benchmark for measuring interest rate movements. (*Data Source: U.S. Board of Governors of the Federal Reserve System. Daily data since 1/2/1962*)

Disclosure

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