ENTASIS ASSET MANAGEMENT

QUARTERLY NEWSLETTER

4Q2019

Every year in January it is natural to take time to review the year in the markets. It is convenient to pack up commentary and numbers and then restart a new discussion after New Year's. The reality is that investing and financial planning have little to do with the calendar.

Investing is impacted by business earnings, economic cycles and other factors that evolve over time. As small business owners we see this on a very practical level. Our business revenues grow as assets grow either through portfolio gains or new client additions. We do not only establish new relationships in January every year. The decision to invest with us is up to clients that have lives and responsibilities. As a result, the value of our business will vary with the timing of those decisions. The same is true for all businesses, but size and reporting sometimes distort that practical reality. Value should be assessed over a horizon, not on calendars.

Financial planning obviously has a lot of parallels. We help people plan for retirement. Or to live in retirement. Or for college expenses. Or for a new house. Or a variety of other reasons. We do not work with any of our clients on their goals in the confines of a pre-determined period. Most are long-term decisions that are made over many years, not on calendars.

So, why does our industry do it? Why is it such a standard? Outside of conformity we are not entirely sure. None of our investing decisions or portfolio changes are structured in one-year windows. None of our planning with clients is packaged in twelve-month bundles. We will continue to rely on the time horizon that is relevant to each of our investments and work with our clients on goal horizons that are relevant to their unique circumstances.

We hope you find a portion of this newsletter useful.

Thank you for taking the time to read it. If you have any feedback, it is always appreciated.

Bob Chet Mark

Market Performance

Market Notes

Equity Portfolio Comments

Fixed Income Portfolio Comments

Research Focus

Client Focus

Click on any button to skip to a new section.

Market Performance

Annualized % Returns (As of 12/31/19)

Source: Morningstar Direct

Index Name	Index Category	1 year	3 year	5 year	10 year
S&P 500 Index	Large Cap Stocks	31.49	15.27	11.70	13.56
Russell 1000 Index	Mid/Large Cap Stocks	31.43	15.05	11.48	13.54
Russell 1000 Growth Index	Growth Stocks	36.39	20.49	14.63	15.22
Russell 1000 Value Index	Value Stocks	26.54	9.68	8.29	11.80
Russell 2000 Index	Small Cap Stocks	25.52	8.59	8.23	11.83
MSCI EAFE Index	Non-U.S. Developed Market Stocks	22.01	9.56	5.67	5.50
MSCI Emerging Markets Index	Emerging Markets Stocks	18.42	11.57	5.61	3.68
MSCI ACWI Ex USA Small Cap Index	Non-U.S. Small Cap Stocks	22.42	9.65	7.04	6.92
BofAML Preferred Stock Fixed Rate Index	Preferred Stocks	17.71	7.58	6.51	7.44
Barclays Municipal Bond Index	U.S. Municipal Bonds	7.54	4.72	3.53	4.34
Barclays Aggregate Bond Index	U.S. Bonds	8.72	4.03	3.05	3.75
Barclays Intermediate U.S. Gov/Credit Index	Government/Corporate Bonds	6.80	3.24	2.57	3.05
BofAML U.S. Treasury Master Index	Treasury Bonds	6.99	3.37	2.41	3.21
BofAML U.S. Mortgage Backed Securities Index	Mortgage Backed Bonds	6.51	3.29	2.60	3.18
BofAML U.S. Corporate Master Index	Corporate Bonds	14.23	5.94	4.60	5.60
BofAML U.S. High Yield Master II Index	High Yield Bonds	14.41	6.32	6.14	7.48
BofAML Convertible Bonds Index	Convertible Bonds	23.06	12.86	9.73	10.85
BofAML Euro Broad Market Index	European Bonds	4.11	4.49	0.76	1.56
BofAML Local Debt Market Plus Index	Emerging Markets Bonds	16.44	8.30	3.55	3.24

Calendar Year % Returns (QTD, YTD as of 12/31/19)

Source: Morningstar Direct

	QTD	2019	2018	2017	2016	2015	2014
S&P 500 Index	9.07	31.49	-4.38	21.83	11.96	1.38	13.69
Russell 1000 Index	9.04	31.43	-4.78	21.69	12.05	0.92	13.24
Russell 1000 Growth Index	10.62	36.39	-1.51	30.21	7.08	5.67	13.05
Russell 1000 Value Index	7.41	26.54	-8.27	13.66	17.34	-3.83	13.45
Russell 2000 Index	9.94	25.52	-11.01	14.65	21.31	-4.41	4.89
MSCI EAFE Index	8.17	22.01	-13.79	25.03	1.00	-0.81	-4.90
MSCI Emerging Markets Index	11.84	18.42	-14.57	37.28	11.19	-14.92	-2.19
MSCI ACWI Ex USA Small Cap Index	11.01	22.42	-18.20	31.65	3.91	2.60	-4.03
BofAML Preferred Stock Fixed Rate Index	2.00	17.71	-4.34	10.58	2.32	7.58	15.44
Barclays Municipal Bond Index	0.74	7.54	1.28	5.45	0.25	3.30	9.05
Barclays Aggregate Bond Index	0.18	8.72	0.01	3.54	2.65	0.55	5.97
Barclays Intermediate U.S. Gov/Credit Index	0.37	6.80	0.88	2.14	2.08	1.07	3.13
BofAML U.S. Treasury Master Index	-0.89	6.99	0.80	2.43	1.14	0.83	6.02
BofAML U.S. Mortgage Backed Securities Index	0.66	6.51	1.00	2.45	1.67	1.46	6.07
BofAML U.S. Corporate Master Index	1.15	14.23	-2.25	6.48	5.96	-0.63	7.51
BofAML U.S. High Yield Master II Index	2.61	14.41	-2.27	7.48	17.49	-4.61	2.51
BofAML Convertible Bonds Index	8.34	23.06	0.68	16.03	11.94	-1.15	9.97
BofAML Euro Broad Market Index	0.72	4.11	-4.39	14.61	0.37	-9.30	-2.48
BofAML Local Debt Market Plus Index	5.19	16.44	-4.90	14.71	6.53	-12.02	-4.50

How should you use the information provided in the table?

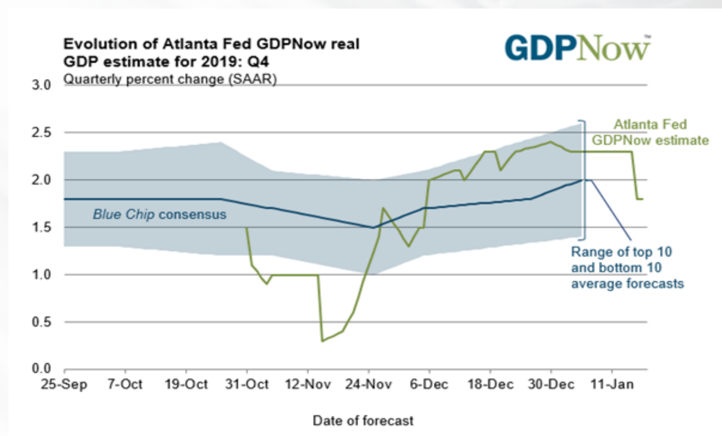
- The returns are not projections. They are historical. Future returns will vary.
- Annualized returns can generally be used to understand historical return trends.
- Calendar returns provide a general understanding of year-by-year return volatility.

Global Market Drivers

Equity markets moved higher during the fourth quarter, primarily driven by an accommodative U.S. Federal Reserve (Fed) and signs of progress in the U.S. and China trade spat. The Fed cut interest rates in late October, which was the third rate cut since July, and took action to increase liquidity in lending markets through the purchase of Treasury bills. On the trade front, officials in the U.S. and China began to make progress towards a "Phase One" trade deal, which the market hoped would break the stalemate in discussions and lead to further progress. Others were not as optimistic because the "Phase One" deal largely dealt with less controversial topics while avoiding bigger issues, such as technology transfer. Nonetheless, the progress did lead to a cancellation in further tariff increases by the U.S. on Chinese goods, as well as a reduction in tariffs on certain goods from 15% to 7.5%. On the economic front, news was mixed, but most investors focused on strong U.S. consumer data that they hoped would prop up tepid U.S. GDP growth and overcome softness in the U.S. manufacturing sector, which weakened to its lowest level (as measured by PMI) since the global financial crisis in 2008-2009.

The Economy

Economists are projecting that U.S. GDP growth continued to slow in the fourth quarter of 2019. The Atlanta Fed GDPNow model is projecting 1.8% growth (see chart below) while the Federal Reserve Bank of New York is projecting 1.2%. For the year, the U.S. economy likely slowed from an above trend pace of 2.8% in 2018 to 2.2% in 2019. The slowing is largely attributed to the Fed's interest rate hikes in 2018 and the fading impact of the 2017 fiscal stimulus. Other contributing factors include slowing manufacturing, business investment and residential investment. From a big picture perspective, the deceleration from near 3.0% growth to 2.0% was expected. Stimulus cannot hold off economic gravity forever. Massive demographic and productivity shifts have kept real potential GDP at or below 2.0% since 2007. We can expect more of the same in the decade ahead, as real potential GDP is projected to range from 1.75% to 2.0% in the 2020's.



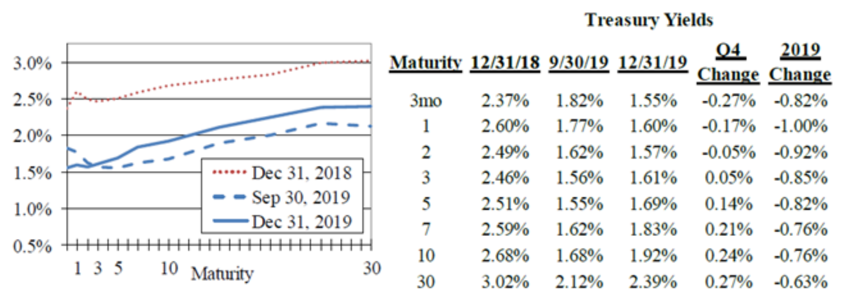
Source: Federal Reserve Bank of Atlanta 4Q19 GDPNow Estimate.

Global growth is projected to be 3.0% for 2019, which would be the weakest annual pace of the decade, and far below the 4.1% rate achieved in 2018. As is typically the case, growth was uneven with weakness in major developed regions and economies such as Europe and Japan, while some key emerging markets like Brazil, Mexico and South Africa rebounded. In aggregate, the U.S. and China trade tensions, a disorderly "Brexit" and other geopolitical concerns weighed heavily on the manufacturing and export sectors. Conversely, a strong consumer, supported by tight labor markets and moderate wage growth continued to backstop growth. With global growth decelerating and inflation running below targets, many major central banks shifted toward easing (lowering interest rates) and did so in a big way. For the year, the global economy received over 100 interest rate cuts by nearly 50 global central banks, which represented the largest cumulative easing since the global financial crisis.

Interest Rates

Growing recession fears compelled the Fed to pivot 180 degrees from continued policy tightening to a more accommodative stance, which caused yields to fall across the board in 2019. The 10-year U.S. Treasury Bond fell as low as 1.46% before trending higher to end the year at 1.92%. In January 2019, Chairman Powell said that the Fed would be "patient," signaling a prolonged pause to further rate hikes. However, as global growth slowed and trade tensions rose, the Fed made the first "insurance" rate cut in July and ultimately cut interest rates two more times, which brought the target range to 1.50%-1.75% by the end of October. For the year, the 2-year Treasury yield dropped -0.92% and the 10-year yield fell -0.76%, which led to a slightly steeper yield curve. (See chart below.)

Earnings



Treasury Yields

Maturity	12/31/18	9/30/19	12/31/19	Q4 Change	2019 Change
3mo	2.37%	1.82%	1.55%	-0.27%	-0.82%
1	2.60%	1.77%	1.60%	-0.17%	-1.00%
2	2.49%	1.62%	1.57%	-0.05%	-0.92%
3	2.46%	1.56%	1.61%	0.05%	-0.85%
5	2.51%	1.55%	1.69%	0.14%	-0.82%
7	2.59%	1.62%	1.83%	0.21%	-0.76%
10	2.68%	1.68%	1.92%	0.24%	-0.76%
30	3.02%	2.12%	2.39%	0.27%	-0.63%

Source: Baird Asset Management.

Corporate earnings growth (year-over-year) is expected to decline -2.1% (S&P 500® Index) for the fourth quarter. If the negative rate of growth holds, it will mark the fourth straight quarter of year-over-year earnings decline since the second half of 2015 into 2016. Revenue growth is expected to finish with a relatively paltry growth rate of +2.7% and the blended net profit margin is expected to end at 10.7%. If the net profit margin finishes at that level, it will be the first time the index has reported four straight quarter of year-over-year profit margin declines since the time in and around the great recession in the fourth quarter of 2008 through the third quarter of 2009.

Weakness in profit margins has been broad-based as 9 out of 11 U.S. economic sectors have experienced a decrease in year-over-year profit margins. Unfortunately, companies continue to grapple with rising input costs, along with higher wages and labor costs. The negative impact of a strengthening U.S. dollar cannot be understated either, and becomes apparent when reviewing current data broken out between two types of companies; companies with greater than 50% of their revenues generated overseas and companies with greater than 50% of their revenues generated in the U.S. For the former group of companies, earnings have declined by an average of -5.1%, while for the latter group of companies, earnings have declined by an average of -0.4%. A similar story can be told from a revenue perspective as companies with greater than 50% of revenues generated overseas have experienced negative revenue growth (on average) of -0.6%, while companies that generate a majority revenues in the U.S. have seen revenues grow by an average of +4.0%. While neither group of companies are "knocking the cover off the ball," companies with a domestic orientation have fared better (or less bad?) than companies with a foreign orientation, largely because of the U.S. dollar and relatively weaker economic growth abroad.

Full calendar year earnings growth for 2019 is expected to finish slightly positive at +0.2%, along with revenue growth of +3.9%. Looking ahead to 2020, quarterly earnings and revenue growth are expected to improve, especially over the second half of 2020. In fact, after two quarters of single digit earnings growth, earnings growth is expected to ramp sharply higher to +10.1% for the third quarter and +15.0% for the fourth quarter. Revenue growth over the second half of 2020 is not expected to be nearly as robust as current expectations are for companies to grow revenues by +5.7% in the third quarter and

+6.0% in the fourth quarter. This means that analysts are not expecting earnings to be driven by a broad-based improvement in revenue growth, but rather a meaningful rebound in profit margins.

How likely is this to play out? In the short run no one can say with any significant degree of certainty, but we find ourselves less optimistic than many pundits. In fact, we believe that we are in a potentially precarious spot for investors as earnings, revenue and profit margin weakness in 2019 was largely overlooked because of a potential rebound in 2020, driven by hope for relatively better economic growth, further intervention from the Fed and more progress towards a larger trade deal between the U.S. and China. Unfortunately, we do not view "hope" as an investment process, so we are left to rely on data and experience to drive our investment decisions. One of our primary concerns when looking at the current state of earnings is to determine how much latitude investors will give the market if earnings remain weak and we do not see the dramatic improvement that analysts are currently expecting. Will investors continue to look ahead and bid up stocks in the absence of meaningful earnings improvements? As we have experienced throughout our careers, risk tends to happen slowly at first, then all at once. With that in mind, we studiously examine data to determine the best path forward for our investments based on intermediate- to long-term market expectations.

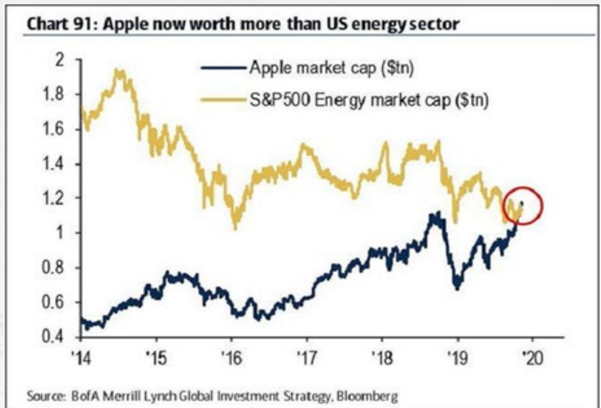
Equity Portfolio Comments

Equity Market Results

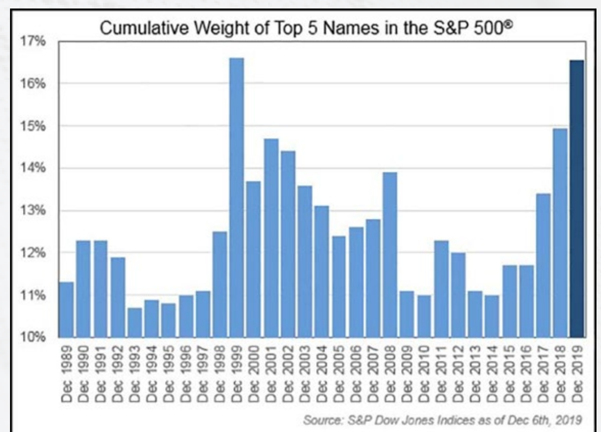
U.S. stocks finished the fourth quarter with a sizable gain of +9.07% (as measured by the S&P 500® Index). Growth stocks were the winner for the quarter in the domestic market (+10.62% Russell 1000® Growth Index) as they outpaced value stocks (+7.41% Russell 1000® Value Index) by a meaningful margin. From a market cap perspective, U.S. small-cap stocks finished with a slight advantage (+9.94% Russell 2000® Index) over U.S. large-cap stocks (+9.07% S&P 500® Index). Among economic sectors, technology and health care led the charge, while defensive sectors of the market such as utilities and real estate lagged. Developed foreign equity markets also performed well for the period (+8.17% MSCI EAFE® Index) as investors were optimistic that the United Kingdom would be able to finalize a "Brexit" deal before its scheduled departure from the European Union at the end of January. Emerging markets equities (+11.84% MSCI Emerging Markets Index) finished the quarter ahead of the U.S. equity market and developed foreign equity markets as the "Phase One" trade deal helped to alleviate concerns in many markets, including Asian markets such as China, Taiwan and South Korea.

Strong gains in the fourth quarter helped to push the S&P 500® Index to its largest calendar year gain since 2013 (+31.49%). Surely, 2019 will be remembered for the large gain in the S&P 500® Index. However, 2019 will likely also be remembered as a year of highly concentrated individual equity returns within the index. In fact, just two companies (Apple and Microsoft) accounted for one-sixth of the S&P 500® Index's 2019 return, while the top 10 contributors accounted for roughly one-third of the gain.

To demonstrate the scale of the gains in the largest U.S. companies relative to the rest of the market, investors need look no further than the chart to the right, which shows that Apple is now larger than the entire U.S. energy sector (S&P 500 energy sector).



The outsized gains in Apple and other large U.S. companies led some to draw comparisons between now and the late 1990's when mega-cap companies also dominated the U.S. equity market. The comparison is justifiable on many levels, one of which is the concentration in the S&P 500® Index's largest constituents. (See chart bottom right.)



The last time the top 5 companies in the S&P 500® Index accounted for over 16% of the total index was at the end of the last millennia in 1999. The question we cannot help but ask when looking at these charts and others is whether these companies can continue to drive overall market returns higher. Or, will these companies fall on hard times (relatively speaking) and follow a similar path as the mega-cap giants did in the years after 1999? Only time will tell, but as we have seen throughout history, things that appear unlikely to occur when looking forward, typically become all too obvious with the benefit of hindsight.

Equity Portfolio Comments

While the future path of U.S. equity markets can be debated ad nauseum, one thing is abundantly clear when looking backwards – the past decade has been one heck of a ride for U.S. equity investors! The chart below right plots the S&P 500® Index return to 1996, but also highlights the S&P 500 price return from the market bottom in 2009 through the end of 2019.

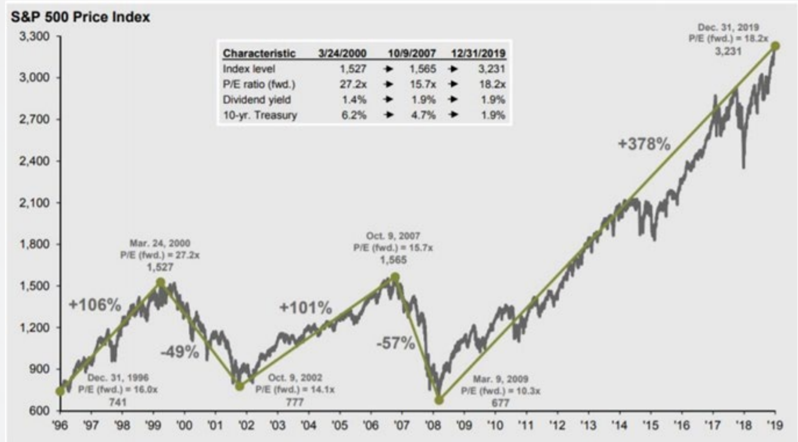


Chart courtesy of J.P. Morgan Guide to the Markets – U.S. 1Q 2020. *Note: Price only return was +378%; however, when factoring in dividends, the total return for the S&P 500 Index was +499%.*

The chart is particularly eye-opening when you consider that despite the seemingly endless flow of negative news around the globe over the past 10 years, the U.S. has never experienced a recession. It is the first time that has occurred in modern market history.

As we head into next year, and the next decade, most major market indices sit at, or near, all-time highs. Some believe the "ride" is far from over for U.S. stocks because borrowing is cheap due to historically low interest rates, the Fed is supportive, and the U.S. consumer is strong. Less optimistic investors point to the fact that corporate earnings and economic growth peaked 18 months ago, 2019 U.S. equity gains were driven entirely by multiple expansion (how much investors are willing to pay for earnings), inflation has begun to creep higher and third quarter U.S. GDP growth was driven entirely by personal consumption. Regardless of whether your glass is "half empty or half full", at this juncture, it is important to remember that bull markets do not simply "die of old age." Rather, the primary causes over time have been centered around economic downturns, uncertainty around government regulatory and policy efforts, Fed policy mistakes or extreme market valuations. While none of these factors are explicitly present today, we believe some "cracks" have begun to form. Whether these cracks can be repaired, or instead develop into larger breaks, is something we will be monitoring closely.

Equity Market Comments

We spent a fair amount of time in our last newsletter discussing profit margins, and while we cannot discuss all data points we review on a routine basis through this medium of communication, we did want to at least share three pieces of data that we view as particularly meaningful, which may support our more cautious view of future earnings.

<u>NIPA Profits vs. S&P 500 Profits</u>

The first centers on the overall health of corporate profits in the U.S. We typically focus on data as it relates to the S&P 500® Index, in part because it is readily accessible and is generally a good barometer for corporate earnings. However, one other data series that we look at as it relates to broad-based corporate profits is NIPA data (National Income and Product Accounts). These are part of the national accounts of the U.S. and are produced by the Bureau of Economic Analysis of the Department of Commerce. The data is one of the main sources produced that provide good insights into general economic activity in the U.S. Over time, NIPA profits and S&P 500 profits data generally track one

another, albeit with some deviations. However, what we have seen now is that the gap between NIPA and S&P 500 profits has widened considerably (S&P 500 profits being higher) to levels last seen prior to the peak of the tech bubble (also widened considerably prior to the great recession in 2007). Our concern with the spread in the data is that the relative success of corporate heavyweights in the S&P 500 is masking the true health of corporate America.

U.S. Fiscal Policy

As we noted above, the last time S&P 500 earnings growth was as weak as it has been for the last four quarters was over the last half of 2015 into 2016. Following that timeframe, corporate America received a massive shot of stimulus from the government in the form of a $1.5 trillion tax reform package in 2017. The bar chart below shows the positive impact the tax reform package had on overall economic growth in the U.S. during the latter portion of 2017 into early 2019.

However, what can also be gleaned from the chart is that the one-off boost from the tax reform package began to fade in 2019, which begs the question, “What will be the next boost to the economy now that the impacts of the tax reform package have waned?” A divided Congress and an on-going impeachment trial make the prospects for another shot of stimulus from the government unlikely.

Stock Buybacks

The last piece of data that we will review is S&P 500 stock buybacks. We have discussed the positive impact of buybacks on earnings per share calculations in prior newsletters. An improvement in earnings per share is often attributed to a larger numerator – higher earnings. However, earnings per share can also improve by reducing the denominator – total number of shares outstanding. Buybacks have been around forever, but during the current bull market we have seen a spike in buyback activity. In many instances, what we have seen is that record low interest rates have spurred companies to take on debt to repurchase stock. This is not a great long-term strategy considering the debt will eventually need to be paid off and may constrain the business from investing in other areas to grow.

What the data shows (right) is that over $5 trillion dollars have flowed into S&P 500 companies in the form of buybacks, which is a staggering amount. One of the natural questions that surfaces when looking at the data is how long can corporations continue to repurchase stock at this rate, especially given weakening earnings growth?

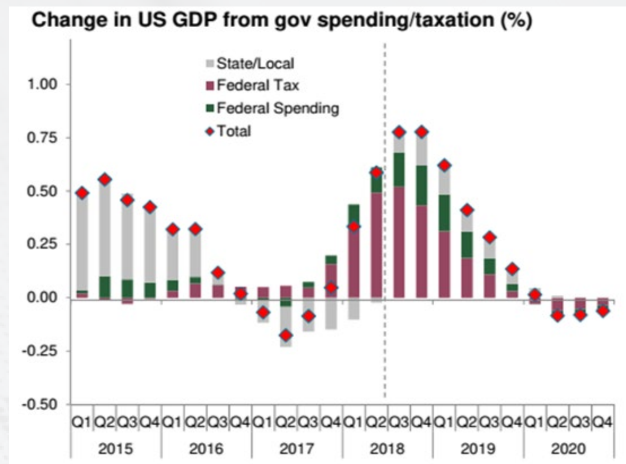


Chart courtesy of Allianz Global Investors: AllianzGI US Recession Monitor, November 18, 2019.

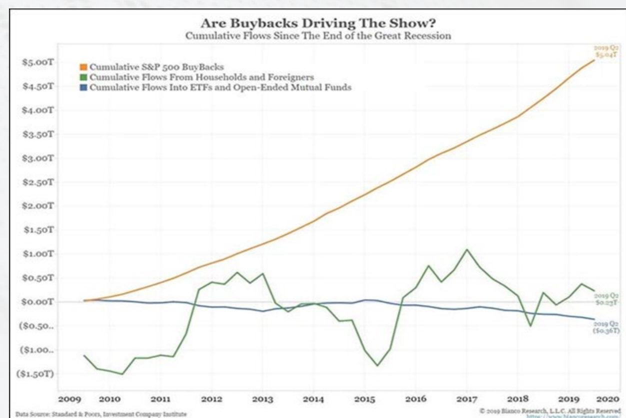
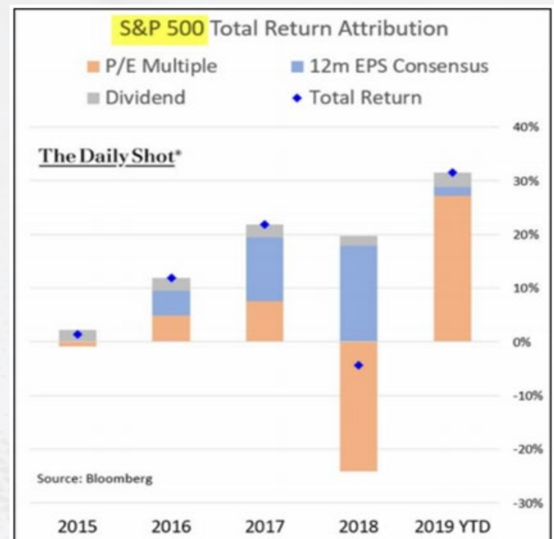


Chart courtesy of Bianco Research, LLC

We certainly do not want to be viewed as pessimists that only focus on potential negatives in relation to corporate earnings. There are a number of positives that may help to drive earnings higher, such as an overall improvement in global growth (particularly outside the U.S.), progress towards a broader U.S. and China trade deal that could result in a higher level of business investment to fuel growth, further Fed stimulus to jolt domestic economic growth and persistently low interest rates. However, when viewing the overall "mosaic" of information as it relates to corporate earnings, we believe a cautious stance is warranted at this point in the business cycle. So, while we remain fully invested per guidelines outlined in each client's investment policy statement, we are positioned more defensively at the sub-asset class level in the domestic equity segment of portfolios.

Equity – Valuation

The S&P 500® Index's forward P/E ratio (price-to-earnings ratio) was 18.2x at the end of the year. As a reminder, 18.2x is roughly the amount investors are willing to pay for $1 of future earnings. This is higher than the 10-year average of 14.9x and the 5-year average of 16.7x. P/E multiples expanded rapidly throughout 2019, from under 14.0x in December 2018 to approximately 18.6x as of January 17, 2020. The sharp rise in P/E multiples was the primary driver behind market returns in 2019, which is shown in the bar chart below (peach bar).



In 2018, multiples contracted in response to concerns over trade and fear that the Fed would tighten too much, or too quickly. As fears lessened, stock prices quickly recovered, but with virtually no support from earnings. This creates a higher level of uncertainty looking ahead because stock prices generally follow the path of earnings over the long term, even if the relationship diverges for shorter periods. As a result, we believe there is now very little in the way of "wiggle room" for the market to grind higher in the absence of a meaningful improvement in corporate earnings. If earnings do not improve as is currently forecasted for 2020, or disappoint relative to expectations, then we believe there is a risk that the disappointment leads to heightened volatility and challenged results for the market.

Returning to our comparison between the current market and the tech boom in and around 1999, we have already hit on some similarities, but there are also many differences. Valuation is one of them. In the tech boom, valuations were much more extreme as many speculative companies generated little in the way of actual earnings. There was also much more participation in the market from speculative investors ("day traders"), which drove valuations for certain segments of the market to astronomical levels.

So, why do we make these types of comparisons? It is not to prove that what happened in the past will happen again, or to generate angst. History is mainly important to serve as a reminder of past lessons learned in order to improve future decision-making. With this in mind, we would be remiss not to look at history for clues as to what may or may not happen in the future. As a famous quote from Mark Twain stated, "history doesn't repeat itself, but it often rhymes." We would agree.

The table below contains an assortment of closely watched valuation measures for the S&P 500® Index compared to history.

Without defining every valuation metric in the table and how each is calculated, most valuation measures rank within the top 15% of the most expensive points in their history, with a combined median rank across all measures in the 89th percentile. So, even though current market valuations are not at the extremes witnessed in 1999, they are certainly not cheap relative to history either. Does this mean that stocks are bound to decline in the near term? Of course not. But it also does not mean that we need to completely disregard history, our investment process, or our experience in order to squeeze out every drop of potential gain from this point forward. As a result, we have structured portfolios to be relatively resilient in a potentially more challenging period for U.S. equity markets over the longer-term.

S&P 500 valuation metric	Current	Historical percentile
US market cap / GDP	199%	99th
Enterprise value / Sales	2.5x	99th
Enterprise value / EBITDA	12.7x	93rd
Price / Book	3.6x	90th
Cyclically adjusted P/E	27.8x	89th
Forward P/E	18.4x	88th
Cash flow yield	7.2%	85th
Free cash flow yield	4.1%	53rd
S&P earnings yield - 10Y UST	362 bps	28th
Median metric		**89th**

Source: Goldman Sachs Investment Research. EBITDA = earnings before interest, tax, depreciation, and amortization. December 16, 2019.

Client Portfolio Impact

Our positioning among equities remained relatively consistent in the fourth quarter as the sharp increase in stock prices left us with few opportunities to be active at the sub-asset class level. We continue to be relatively defensive among U.S. equities, focusing our investments in high-quality companies (financially strong companies with good balance sheets, low levels of debt and consistent earnings growth) that we believe will continue to participate in market advances, but would hold up relatively well (compared to the broad equity market) if stocks were to encounter increased volatility. It's important to note that we will not always be positioned conservatively in portfolios. Rather, we tend to follow the Warren Buffett mantra of investing, which is to be "fearful when others are greedy and greedy when others are fearful."

As a result, we generally invest a higher degree of assets in areas of the market that are out-of-favor but have solid underlying business fundamentals and solid long-term prospects. While this will inevitably lead us to be out of step with the market at times over the short run, we believe it positions our clients to achieve success over the intermediate- to long-term, along with a correspondingly lower level of volatility (as measured by the standard deviation of investment returns). Lower volatility may not seem exciting at the surface, but what it does do well is keep individuals invested during periods of tumult in order to avoid selling at inopportune times. Furthermore, by losing less during market drawdowns, individuals may also generate relatively more attractive risk-adjusted returns over the long-term. This is largely because whatever decline is endured over short periods must be overcome by that much larger of a gain before positive returns can be made over the combined period.

Looking ahead, two areas that we have not increased investment yet but are patiently waiting for more attractive entry points (combination of relative value and a catalyst to unlock the relative value) are U.S. value stocks and U.S. small-cap stocks. In the case of the former, value stocks have underperformed the broad U.S. stock market by a significant margin, yet they are also less expensive. The chart at the top of the next page examines the relative valuation spread of value stocks compared to the broad market.

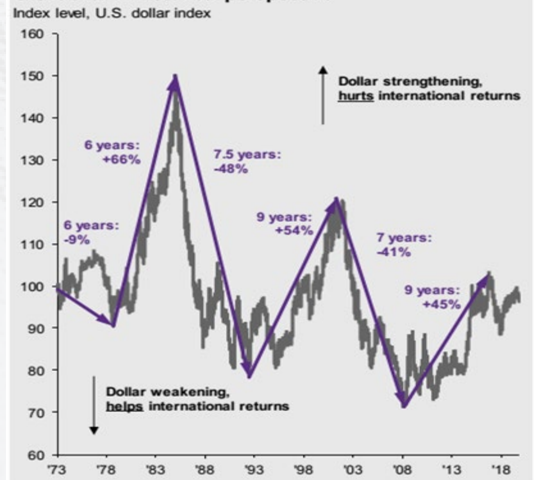
As can be seen in the chart, the current relative valuation spread has not been this wide since the tech boom in the late 1990's. A similar story can be told when viewing small-cap stocks relative to large-cap stocks. However, we are leery about small-cap stocks more broadly because approximately 37% of companies in the Russell 2000® Index are losing money. Based on index construction, which we will avoid going into significant detail here, these money losing companies are not adequately represented in index level valuation measures. So, while small-cap stocks may appear to be relatively attractive at the surface, we believe investors need to be careful prior to making passive, index-based investments in small-cap stocks since they may be more expensive than at first glance. We remain cognizant of the risks that lie below the surface.

Slide courtesy of 361 Capital – January 6, 2020. Data source: J.P. Morgan, Marketwatch

Outside of the U.S., we continue to have a meaningful investment in foreign equities, particularly foreign small-/mid-cap stocks and emerging markets equities. Some may question this affinity given the success of the U.S., but U.S. stocks have never outperformed foreign stocks by as much as they have in the 70-year history of the chart at the right. It is not often it is possible to highlight a 70-year anomaly.

We are not saying this relationship will immediately revert simply because there is a historically large gap between the two asset classes, but we do not believe this will last indefinitely. Markets have always been cyclical and will continue to be in the future. To be fair, just because something has performed relatively poorly does not mean that it will eventually perform well either. There needs to be a catalyst to cause a shift in the relationship. Along those lines, many foreign markets have troughed from an economic and earnings perspective, relative valuation levels are more attractive, and the U.S. dollar's historically long strengthening cycle may be nearing its end (see chart to the right). A weakening U.S. dollar would be additive to gains for unhedged U.S.-based investors in foreign markets.

We have yet to add to existing investments in foreign equities; however, there may be a time when this changes. In the immediate term we continue to monitor developments in China as it relates to the Coronavirus and the potential sustained, negative impact the virus may have on economic activity in the region.



Slide courtesy of J.P. Morgan Guide to the Markets – U.S. 1Q 2020

Fixed Income Market Results

Fixed income returns were impressive in 2019 as interest rates declined and bond spreads (difference in yield between a U.S. Treasury and another bond of similar maturity) tightened. Most sectors generated returns in the high single-digit range, although some pushed into double-digit territory. In general, low quality sectors and those with the highest sensitivity to falling Treasury yields performed the best. Investment grade corporate bonds, which have a nearly eight-year duration in aggregate, led the way with a +14.32% return. Other sectors that generated strong performance were high yield corporates (+14.41%) and emerging market debt (+16.44%). Mortgage-backed securities (+6.51%) posted solid gains, but lagged relative to other sectors.

After taking a brief pause in the third quarter, credit spreads resumed their rally in the fourth quarter. Emerging market debt (-39 basis points), high yield corporates (-37 basis points) and investment grade corporates (-22 basis points) tightened the most. On the other hand, asset-backed securities (+7 basis points), non-agency commercial mortgage-backed securities (+3 basis points) and agency commercial mortgage-backed securities (+1 basis point) all finished the quarter slightly wider. See table below.

2019 was also a very good year for municipal bonds, particularly those with longer durations and lower quality ratings. Credit spreads narrowed across the quality spectrum as investors searched for yield. The AAA curve flattened by approximately 20 basis points, as the 2-year, 10-year and 30-year yields were down 74, 84, and 94 basis points, respectively. The combination of favorable market dynamics and heightened demand from investors led to impressive returns. Both the high yield and long duration (maturities of 22 years and longer) segments of the market generated double-digit returns of +10.68% and +10.26%, respectively. Short maturity (1-5-year bonds, +3.66%) and AAA-rated bonds (+6.73%), underperformed.

Option-Adjusted Spreads (in bps)

	12/31/18	9/30/19	12/31/19	Q4 Chg	YTD Chg
U.S. Aggregate Index	54	46	39	-7	-15
U.S. Agency (non-mortgage)	16	11	10	-1	-6
Mortgage and ABS Sectors					
U.S. Agency Pass-throughs	35	46	39	-7	4
U.S. Agency CMBS	55	52	53	1	-2
U.S. Non-Agency CMBS	107	82	85	3	-22
Asset-Backed Securities	53	37	44	7	-9
Corporate Sectors					
U.S. Investment Grade	153	115	93	-22	-60
Industrial	157	121	99	-22	-58
Utility	144	113	97	-16	-47
Financial Institutions	147	103	80	-23	-67
Other Govt. Related	90	78	72	-6	-18
U.S. High Yield Corporates	526	373	336	-37	-190
Emerging Market Debt	560	612	573	-39	13

Source: Bloomberg Barclays Indices

Source: Baird Asset Management.

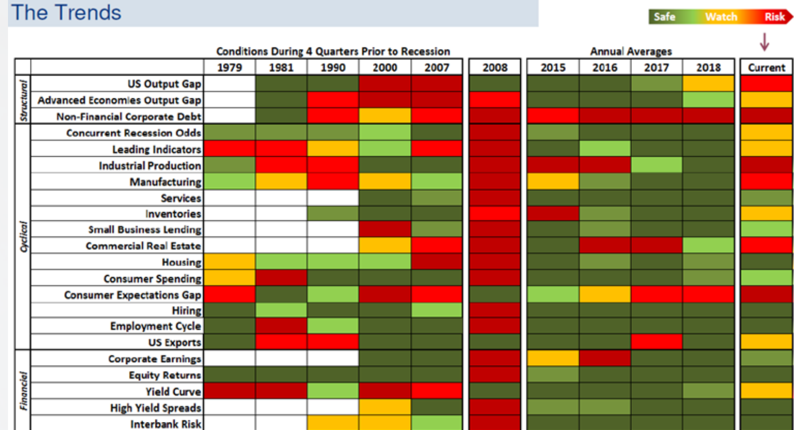
Fixed Income Market Comments

U.S. growth has slowed considerably since it peaked in the third quarter of 2018. The Fed's dovish (accommodative policy and lower interest rates) turn in early 2019 most likely kept the U.S. from entering a recession. For now, it appears as if growth is set to stabilize over the short-term (6-12 months). The base case for 2020 is that U.S. GDP growth will plod along in the range of roughly 1.75%-2.00%. A trade truce with China, accommodative monetary policy, robust consumer spending and a rebound in housing are likely to continue supporting growth. However, weak business investment and policy uncertainty in the run-up to the U.S. presidential election will likely act as offsetting factors. Even though growth is likely to stabilize over the short-term, intermediate-term (12-36 months) risks remain present. We still consider the U.S. economy to be in the latter stages of the current business cycle. As seen in the chart at the top of the next page, several indicators are consistent with late-cycle activity including leading indicators, the output gap and corporate leverage. These factors alone are not enough to create a recession but are typically present when one does occur. There typically needs to be an external catalyst that pushes the economy over the edge. Some examples of past catalysts include military conflicts, inflationary shocks, assets bubbles and restrictive monetary policy.

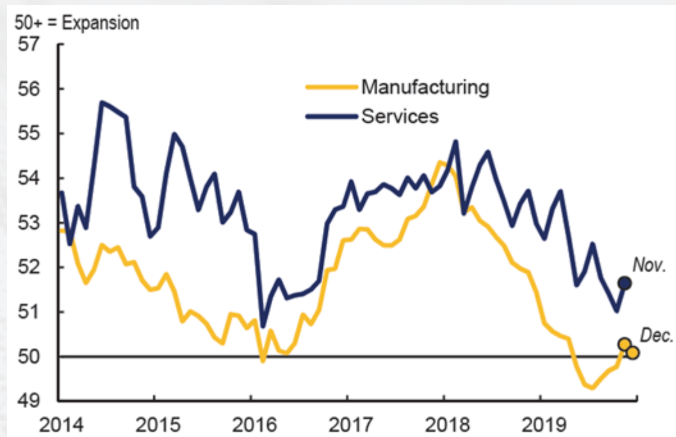
Fixed Income Portfolio Comments

It may be one of those or some other factor that ultimately ends the current business cycle. Predicting exactly when it will happen is extremely difficult. However, understating the characteristics of a late-cycle economy and positioning portfolios accordingly is something that is possible to manage.

The global economy seems poised to emerge from its third growth scare of the current cycle. All three have been driven by fears that policy errors would prematurely end it. However, better news on trade and accommodative central banks will likely end this scare. More specifically, recent data suggests the sustained downturn in global manufacturing may be bottoming out. (See chart to right.) This is an important development because it signifies the worst of the effects from the U.S.-China trade dispute may be behind us. Furthermore, if you add in a relatively strong global consumer and service sector, it supports the notion that global GDP growth may accelerate to 3.25%-3.50% in 2020. Over the intermediate-term (12-36 months) the global economy faces many of the same late-cycle pressures as the U.S. However, select countries exhibit better relative fundamentals, and therefore, more attractive investment opportunities.



Source: Allianz Global Investors U.S. Recession Monitor



Source: PGIM

U.S. Interest Rates

After a relatively big move upward in 2018 and an equally large move downward in 2019, it's likely we see more stable interest rates in 2020. The Fed signaled its intention to be on hold if the data remains broadly consistent with the outlook for moderate economic growth, a strong labor market and inflation near their 2.0% objective. If the Fed does indeed pause, and growth and inflation hover near 2.0% as expected, it could be a welcome boring year for interest rates.

Yield Curve

If the Fed stays on pause and does not move interest rates as it has signaled, the front end of the yield curve (short-term interest rates) will likely be anchored near current levels. Many economists are projecting a slight uptick in inflation over the next quarter or two, which could lead yields on the back end of the curve (long-term interest rates) to increase modestly. However, with the curve mostly flat and long-term U.S. Treasury valuations near fair value, any change in the shape of the curve should be muted.

Fixed Income Portfolio Comments

Sector & Quality Management

- **Corporate Credit –** Despite strong performance from corporate credit in 2019, the data continues to suggest a deteriorating fundamental backdrop as revenue and operating profit growth continue a declining trend, while debt levels rise. Earnings per share for large companies will likely decline for the fourth consecutive quarter. At the same time, increases in share buybacks and debt financed M&A activities have come at the expense of capital investments, which has weakened the future income generating capacity of companies.
- **Securitized Credit –** As the U.S. consumer continues to thrive, securitized sectors continue to provide attractive opportunities to generate stable returns with better downside protection than corporate credit. From a relative value perspective, mortgage-backed securities appear attractive.
- **Non-U.S. Credit –** Considering the recent signing of the Phase One agreement between the U.S. and China, many of the headwinds facing emerging markets seem to be lifting. Also, based on the incoming data, it appears growth in many regions is set to accelerate for the first time since 2017.
- **Alternative Credit –** Despite subpar performance the last few years, the uncorrelated nature of insurance-linked securities, combined with significantly higher premium income, make them an attractive long-term investment.
- **Municipal Credit –** It is likely that 2020 will see a continuation of many of the favorable themes that supported the municipal market in 2019. The technical backdrop for the municipal market remains favorable with supply expected to rise modestly along with strong demand. The economic outlook also remains supportive for municipal credit metrics for the foreseeable future; however, tight credit spreads largely have this view "priced in" already.

Investment Vehicle Selection

At this point in the economic and credit cycles, we continue to see idiosyncratic opportunities as the best way to add value in the credit sectors. We believe emerging market debt, non-agency mortgage-backed securities, mortgage-backed securities, asset-backed securities and private municipal bonds offer the best opportunities. We are also finding significant value in the illiquidity premiums offered in insurance-linked securities and infrastructure debt.

Client Portfolio Impact

- We plan to keep client portfolios close to their target benchmarks from a duration perspective over the short- to intermediate-term given that we believe yields are within our fair value range for the 10-Year U.S. Treasury Bond. Given our belief that the yield curve is likely to steepen slightly, we favor a more "bulleted" yield curve posture with a small preference to the 5- to 7-year part of the curve.
- Positioning generally remains defensive, particularly in relation to corporate debt. We continue to like higher quality and non-cyclical parts of the credit markets and favor securitized assets, mortgage-backed securities, insurance-linked securities and emerging market debt.
- Despite a solid fundamental backdrop, we are more inclined to reduce public market municipal exposure in our tax-aware strategies than add to existing positions because of rich valuations. Public municipal valuations continue to be historically expensive relative to Treasuries. Until this dynamic changes, we favor investments in the private and direct origination markets.
- We continue to partner with active managers that have expertise in these markets. We are also selectively investing in individual securities in the markets we can analyze and trade efficiently. As a result, we continue to de-emphasize the use of passive index-based mutual funds and exchange-traded funds on the credit side.

Research Focus

SECURE Act

In popular vernacular, the term "safe as Fort Knox" has become a metaphor to imply something is extremely secure. As home to half of the U.S. gold reserves, approximately $200 billion dollars at today's prices, it needs to be one of the most secure places on the planet. The building accomplishes this by using a combination of secure materials, cutting edge technology and clever protocols. The building contains approximately 16,000 cubic feet of granite, 4,200 cubic yards of concrete, 750 tons of reinforced steel and 670 tons of structural steel. The vault door itself is estimated to weigh over 20 tons. From a technological perspective, it uses a combination of electrified fences, bulletproof and fireproof windows and multi-focus surveillance cameras that capture every square inch of the facility 24/7. Security protocols include an armed guard box at each exterior corner of the building and a multifaceted vault combination that is comprised of several sub combinations from different staffers only known to them. In turn, I think it's safe to say the gold inside Fort Knock is 100% secure.

Apologies for the tangent, but Congress just recently passed a new law titled the SECURE Act, which is an acronym for "Setting Every Community Up for Retirement Enhancement." It is intended to strengthen retirement security for all Americans. It was attached to a broad appropriations bill at the end of 2019 and took effect on January 1, 2020.

The SECURE Act ushers in the largest retirement planning law changes in over a decade and has several important sections worth highlighting.

- Eliminates the commonly termed "stretch" IRA for non-spouse inherited IRAs and other retirement accounts. This provision allowed the beneficiary to withdraw from the account over their life expectancy. Beneficiaries will now have 10 years.
- Increases the cap under which employers can automatically enroll workers in "safe harbor" retirement plans, from 10% of wages to 15% of wages.
- Eliminates the restriction on contributions to a traditional IRA by an individual who has reached the age 70½.
- Allows two or more unrelated employers to join a pooled employer plan (PEP) and share administrative expenses.
- Provides a maximum tax credit of $500 per year to employers who create a 401(k) or SIMPLE IRA with automatic enrollment.
- Grants access to 401(k) plans for part-time employees who work either 1,000 hours throughout the year or have three consecutive years with 500 hours of service.
- Treats difficulty of care payments made to health care workers as compensation for determining contribution limits.

Mike Peters, CFA
Chief Investment Officer – Fixed Income

Summary

SECURE Act Highlights

- **Eliminates the Stretch Inherited IRA for non-spouse beneficiaries**
- **Eliminates the age restrictions on traditional IRA contributions**
- **Grants part-time employees access to 401(k) plans**
- **Increases the age for required minimum distributions from retirements plans to 72**

- Pushes back the age at which retirement plan participants need to take required minimum distributions (RMDs), from 70½ to 72, for those who are not 70½ by the end of 2019.
- Allows the use of tax-advantaged 529 accounts for qualified student loan repayments (up to $10,000 annually).
- Permits penalty-free withdrawals of $5,000 from 401(k) accounts to defray the costs of having or adopting a child.
- Reduces plan sponsor and employer liability if an annuity provider cannot meet its financial obligations.
- Encourages employers to include annuities as 401(k) plan options by removing their legal liability to choose the lowest-cost plan.

No retirement planning law can provide 100% security the way Fort Knox does for Americas gold reserves, but can it live up to its name?

I believe the law includes several positives developments for those planning for or in retirement. Granting more people access, extending the contribution age and providing tax incentives to businesses to promote participation will likely increase the total amount invested in qualified retirement plans. The tax deferred growth they will enjoy will likely provide greater retirement security for those affected by the specific provisions. The reduction in penalties should also have a similar effect – most notably the extension of the RMD age.

However, everything comes at a cost and this one will be paid for by qualified retirement plan beneficiaries. The one notable change for taxpayers that has negative implications is the elimination of the stretch provision, which historically allowed non-spouses that inherited retirement accounts to stretch out disbursements over their lifetimes. The new rules will require a full payout from the inherited IRA within 10 years of the death of the original account holder. This change is estimated to generate $16.3 billion in tax revenue from 2020-2029 according to the congressional budget office.

The natural question for most is how does this affect me? The extension of the RMD age and the repeal of the stretch provision are the two provisions most likely to affect the clients we serve. There are strategies we can help you implement, or modify, in your existing plan to lessen the impact of future taxes, which include Roth conversions, withdrawal sequencing and asset location. We would be happy to review your retirement plan to determine what, if any, changes are appropriate for your customized situation. Call us at any time to set up an appointment.

Fort Knox – United States Bullion Depository

Client Focus

This quarter our Client Focus is going to discuss Catalysts.

Catalysts are very simply events or things that unlock or unearth change. In science it can be a substance that causes a chemical reaction. In life it can be a friend that introduced you to your spouse. In investing it is that event that triggers a movement in markets or precipitates a change in market direction – positive or negative.

Some past catalysts that have influenced financial markets from a macro perspective include military conflicts, inflationary shocks, monetary policy changes, elections, trade disputes and asset flow trends, among many others. Great recent examples of this are the U.S. China trade discussions, the passing of the SECURE Act and the Iran conflict. At the company level, catalysts can be a merger, an acquisition, a new product launch, regulatory change or natural or human disasters. Examples of this could be the new iPhone 11, the opioid crisis impact on pharmaceuticals or the problems with the Boeing 737 MAX.

Those catalysts can have short-term implications, while others have lasting implications.

Over our careers we have learned that market catalysts are almost always discussed with certainty in hindsight even though they were often unpredictable before they occurred. Attempting to guess at the timing, impact or extent a catalyst will influence an investment decision is always, in our view, a loser's game. That reality obviously begs the question, if they are often highly unpredictable, how can catalysts be accounted for when making investing decisions?

The simple, though somewhat cryptic, answer is you plan for the unknown and the easiest way to do that is with unemotional decision making that is grounded in research.

We view the most important job we have as investors is assessing value and risk. If we can assign a value and understand the risk of holding an investment over our time horizon we will choose to invest. Some of the greatest investors of all time refer to this as creating a "margin of safety." Essentially creating a cushion between the price you pay for an investment and what you believe it is worth. Warren Buffett described margin of safety as "the three most important words in investing."

The application of this to understanding catalysts is very simple. If we were thorough in our research, the identification of the catalyst that will unlock the value of an investment is irrelevant. What's more, if we are wrong, the impact of a negative catalyst will be muted.

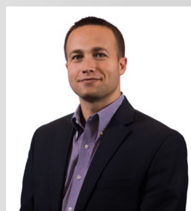
In our view, that is the nature of disciplined, repeatable investing, which drives long-term wealth compounding.

Our Team

Bob Batchelor, CFA
CEO
Co-Founder

Bob J. Batchelor, CFA is Co-Founder and Chief Executive Officer of Entasis Asset Management. Bob has 20 years of experience in the investment industry. Prior to founding Entasis, Bob worked at Artisan Partners where he held a variety of roles including Head of Corporate Communications, Managing Director, Head of Marketing and Technology and Head of Marketing and Communications. He also served as a member of Artisan Partners Executive Committee. Before Artisan Partners, Bob worked at Strong Capital Management as Client Account Manager and Director of Investment Research and Communication.

Bob holds an M.B.A. from Marquette University and a B.B.A. from the University of Wisconsin-Madison. He has earned the right to use the CFA designation. Bob is a member of the CFA Institute and CFA Society of Milwaukee.



C.J. Batchelor, CFA
CIO – Equity
Co-Founder

Charles J. (C.J.) Batchelor, CFA is Co-Founder and Chief Investment Officer – Equity of Entasis Asset Management. C.J. has 15 years of experience in the investment industry. Prior to founding Entasis, C.J. worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Director of Investment Research. He also served as a member of Cleary Gull's Investment Policy Committee, Investment Committee and Equity Strategy Group.

C.J. holds a B.B.A. in Finance from the University of Wisconsin-Milwaukee. He has earned the right to use the CFA designation. C.J. is a member of the CFA Institute and CFA Society of Milwaukee, where he currently serves on the Board of Directors.

Mike Peters, CFA
CIO – Fixed Income
Co-Founder

Mike Peters, CFA is Co-Founder and Chief Investment Officer – Fixed Income of Entasis Asset Management. Mike has 15 years of experience in the investment industry. Prior to founding Entasis, Mike worked at Cleary Gull, a multi-billion dollar investment advisory firm, as Fixed Income Portfolio Manager. In his role he served as voting member of Cleary Gull's Fixed Income Strategy Group and Complement (Alternative) Strategy Group. Before Cleary Gull, Mike worked for several years at Madison Investment Advisors, a multi-billion dollar asset management firm, as a Fixed Income Analyst.

Mike holds a B.B.A. in Finance from the University of Wisconsin-Milwaukee. He has earned the right to use the CFA designation. Mike is a member of the CFA Institute and CFA Society of Milwaukee.

David LaCroix
Senior Financial
Advisor

David D. LaCroix is a Senior Financial Advisor at Entasis Asset Management. David has more than 45 years of experience in the investment industry. Prior to joining Entasis, David worked at Cleary Gull Advisors, a Johnson Financial Group Company, and Cleary Gull Inc., a prior affiliate of Cleary Gull Advisors, where he most recently served as Vice President, Relationship Manager responsible for high net worth clients. Before Cleary Gull, David worked in a variety of portfolio management and client relationship management positions with A.G. Edwards and M&I Capital Markets Group.

David received his M.B.A. and B.B.A. in Finance from the University of Wisconsin-Madison. He has served as a member of the Archdiocese of Milwaukee Investment Committee, as a Trustee for the Village of Shorewood and as Director/Treasurer of Milwaukee Summerfest.

IMPORTANT INFORMATION

Statements may be forward looking and are not intended as specific investment advice without further review of individual circumstances. Commentary, opinions, analysis, and recommendations may be subjective, do not guarantee future performance, and could change at any time without notice. Under no circumstances does the information contained within represent a recommendation to buy or sell any security. Charts and graphs provided are for illustrative purposes only.

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The **Dow Jones Industrial Average℠** is a price weighted index that measures the performance of thirty component large-cap U.S. stocks. The **S&P 500® Index** is a market capitalization weighted index that measures the performance of 500 leading companies in leading industries of the U.S. economy. The **Russell 1000® Index** measures the performance of roughly 1,000 U.S. large-cap companies. The **Russell 1000® Growth** Index measures the performance of U.S. large-cap companies with higher price/book ratios and forecasted growth values. The **Russell 1000® Value Index** measures the performance of U.S. large-cap companies with lower price/book ratios and forecasted growth values. The **Russell 2000® Index** measures the performance of roughly 2,000 U.S. small-cap companies. The **MSCI EAFE® Index** is a market capitalization weighted index that is designed to measure the performance of developed markets, excluding the U.S. and Canada. The **MSCI Emerging Markets Index** is a market capitalization weighted index that is designed to measure equity market performance of emerging markets. **The MSCI ACWI Ex USA Small Cap Index** is a market capitalization weighted index that represents the performance of smaller capitalization companies in developed and emerging markets excluding the U.S.

The **Barclays Aggregate Bond Index** tracks the performance of intermediate-term government bonds, investment grade corporate debt securities and mortgage-backed securities with at least one year to final maturity. The **Barclays Intermediate U.S. Gov/Credit Index** tracks the performance of intermediate U.S. government and corporate bonds. The **Barclays Municipal Bond Index** is considered representative of the broad market for investment grade, tax-exempt bonds with a maturity of at least one year.

The **BoAML Fixed Rate Preferred Securities Index** tracks the performance of fixed rate U.S. dollar denominated preferred securities in the U.S. domestic market. The **BoAML Treasury Master Index** tracks the performance of the direct sovereign debt of the U.S. Government. The **BoAML U.S. Mortgage Back Securities Index** tracks the performance of U.S. dollar denominated fixed rate and hybrid residential mortgage pass-through securities publicly issued by U.S. agencies in the U.S. market. The **BoAML U.S. Corporate Master Index** tracks the performance of U.S. dollar denominated investment grade corporate debt publicly issued in the U.S. domestic market. The **BoAML High Yield Master II Index** is a broad based index consisting of all U.S. dollar-denominated high-yield bonds with a minimum outstanding of $100 million and maturing over one year. The **BoAML All Convertibles All Qualities Index** measures convertible securities' performance of U.S. dollar denominated convertible securities not currently in bankruptcy with a total market value greater than $50 million at issuance. The **BoAML Euro Broad Market Index** gives exposure to euro-denominated investment grade debt publicly issued in the Eurobond or euro member domestic markets including government, quasi-government, corporate, securitized and collateralized securities. The **BoAML Local Debt Markets Plus Index** is a broad composite designed to track the performance of local currency sovereign debt of emerging markets countries.

Past performance is no guarantee of future results. All indices are unmanaged. Investors cannot invest directly in an index. Index returns do not include expenses.

Investment Terms

Valuation levels are typically shown by calculating the price level of an index or a company relative to any number of characteristics of an index or company. For instance, the price-to-earnings valuation metric looks at the price of an index (or stock) divided by the total earnings of an index (or stock). Based on the multiple (in this instance, the multiple is how much investors are willing to pay – the price – for a given amount of earnings), it provides investors with a general sense of how expensive, or cheap, the overall market is at the present time. While there are a significant number of valuation metrics that are used in practice, and many ways to vary/modify the calculation of the price-to-earnings ratio, in this summary we are focused on the price investors are willing to pay (the level of the S&P 500® Index) divided by earnings expectations for the equity market (S&P 500 Index) over the next 12 months. This valuation metric is referred to as the forward P/E. A **yield curve** is a line that plots the interest rates, at a set point in time, of bonds having equal credit quality but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt. A **basis point** is a common unit of measure for interest rates and other percentages in finance. One basis point is equal to 1/100th of 1%, or 0.01% (0.0001). **Interest coverage** is a measure of a company's ability to meet its interest payments on its debt. **Federal funds rate** is the interest rate at which a depository institution lends funds maintained at the Federal Reserve to another depository institution overnight. It is one of the most influential interest rates in the U.S. economy, since it affects monetary and financial conditions, which in turn have a bearing on key aspects of the broad economy including employment, growth and inflation.

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