PRW WEALTH MANAGEMENT, LLC

Clarity for the Present ♦ Vision for the Future

Dear Valued Client:

"Impossible to see the future is" (Yoda, Star Wars II).

As we enter a new decade and Star Wars concludes its odyssey, Yoda's words continue to ring true. Looking back on 2019, even the most optimistic forecast fell significantly short of the glowing outcomes achieved by the financial markets. It was one of the best years of the decade.

2019 offered plenty of news that tossed and turned markets but ultimately followed the playbook offered up by the Fed whereby low rates promoted risk-taking. Trade renegotiation dominated the news cycle as did talk of manufacturing weakness and slowing earnings as harbingers of potential upcoming recession. Each negative story seemed to be offset by news of a solid labor market supporting a strong consumer topped off by an expectation of more fiscal stimulus on the way.

It has been 43 years since the first Star Wars movies captured our imagination. Space Force is now in motion and advancements in artificial intelligence are seemingly making a push to merge fantasy and reality. The promise of the new decade is one of significant opportunity and challenge.

Benjamin Zander, conductor of the Boston Philharmonic Orchestra, is the author of a book entitled "The Art of Possibility". In his book, he says "It's all invented. Everything is an invention. The way we see things. The way we measure things. The way we compete. The way we judge ourselves. His conclusion: If it's all invented, then you might as well invest a way of viewing life that benefits you. You might as well invent a frame of possibility." We hope that the 2020's are full of possibility, invention, and dreams fulfilled.

Fourth Quarter Market Review

December 2019 not only marked the end of a year, but also the end of a decade, and what a way to end the decade with US equities seeing a 31.5% return for 2019. US equities were up in 9 of the 10 years of the past decade and one of only two decades to not see a bear market and the first decade since 1850 that didn't see a recession. This was a very different experience to the prior decade and, some would say, helped by starting from a low base in 2010.

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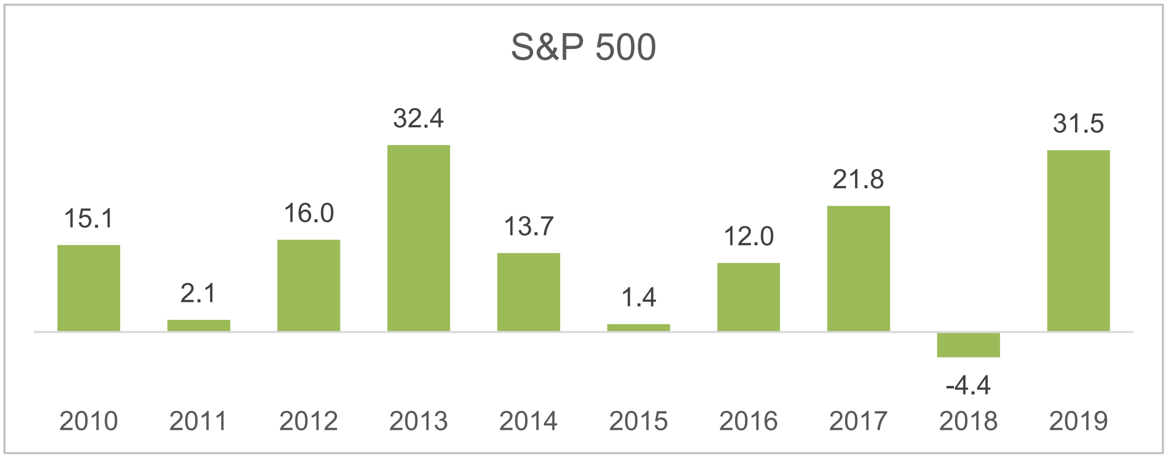
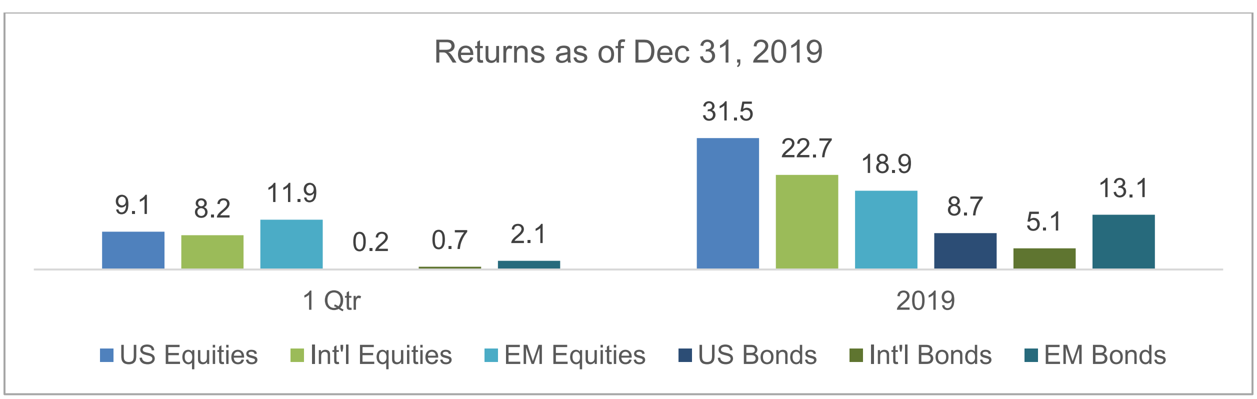


Source: Zephyr Style Advisor

Within US equities, it was all about technology, as the sector surged during the fourth quarter with a return of 14.4%, leading to a full year return of 50.3%. With a weight of over 20% in the index, technology contributed to a third of the return of the S&P 500. The bond proxy sectors of real estate and utilities had a tough final quarter but still saw returns above 20% for the full year. Energy was the only sector not to see a return above 20% for the year.

In the cap-weighted index of the S&P 500, a few stocks have an outsized influence on returns. Heading into the decade, Apple, Amazon, Microsoft and Google had a combined market cap of $716 billion. Coming out of the decade that group's combined market cap rose to $4.1 trillion. Add to that Facebook, which rose from $80 billion in 2012 when it went public to $575 billion today, and these five companies comprise a little less than 17% of the index. Their success (or failure) has a large influence on the returns of the index.

Internationally, emerging markets finished the year strong with a final quarter return of 11.9%, outperforming US equities by 2.8% and developed international markets by 3.7%. For the full year though, emerging markets trailed the developed markets with a return of 18.9%, compared to 22.7% for the developed international markets. While for the full year there was little difference between the local currency and USD returns, for the quarter the weakness of the dollar improved the international returns for US investors.



Source: Morningstar

The fixed income markets also saw strong positive returns, with the US bond market up 8.7% for the year. Across the broad sectors, corporate credit was the market leader. For the year, investment-grade credit returned 14.5% with high yield at 14.3%.

A dramatic shift in the Federal Reserve's policy helped lift longer-term bonds during most of the year. Long-term Treasuries rallied for most of the year but saw their weakest return in the fourth quarter at -4.2% as rates gradually rose. For the full year, they still posted a strong return of 15.1%, outperforming short term Treasuries by 11.5%.

Emerging markets provided the best returns across the regional bond markets. With a return of 13.1%, emerging market bonds had their best year since 2012, with every month being positive in 2019. For the fourth quarter, international bonds outperformed US bonds by 0.5%, helped by the weakening dollar, but trailed the US markets for the year by 3.6%.

Mid- East Conflicts in Context

As we consider the big advance financial markets experienced during 2019, it is understandable that we might be hyper-sensitive regarding headlines that could upset this aging bull market. Reports earlier this month of the killing of Iran's General Qasem Soleimani caused a sharp but quick two-day reaction in the financial markets. Though counter to prevailing thought, even if the situation in the Middle East heats up again, this conflict may only have a limited impact on financial markets.

A look at the history of past Middle East conflicts indicates that short-term weakness tends to have only a transitory impact on markets. Here is what the market did the last nines time a war in the Middle East looked imminent:

S&P 500 Performance After Middle East Tensions Spiked

Event	Date	Three Months Later	Six Months Later	One Year Later
Suez Canal Crisis	10/31/1956	-3.8%	-0.1%	-11.5%
Arab Oil Embargo	10/17/1973	-13.2%	-14.4%	-36.2%
Iranian Hostage Crisis	11/3/1979	+11.6%	+3.8%	+24.3%
U.S.S.R. Invasion of Afghanistan	12/25/1979	-7.9%%	+6.9%%	+25.7%
Iraq Invades Kuwait	8/3/1990	-13.5%	-2.1%	+10.1%
Persian Gulf War	1/17/1991	+23.5%	+20.6%	+33.1%
World Trade Center Bombing	2/26/1993	+2.5%	+4.0%	+6.4%
9/11	9/11/2001	+2.5%	+6.7%	-18.4%
Iraq War	3/20/2003	+15.6%	+17.4%	+28.4%

Source: Barron's

Geopolitical Events And Stock Market Reactions

		S&P 500 Index		Calendar Days To	
Market Shock Events	**Event Date**	**One-Day**	**Total Drawdown**	**Bottom**	**Recovery**
Iranian General Killed In Airstrike	1/3/2020	-0.7%	?	?	?
Saudi Aramco Drone Strike	9/14/2019	-0.3%	-4.0%	19	41
North Korea Missile Crisis	7/28/2017	-0.1%	-1.5%	14	36
Bombing of Syria	4/7/2017	-0.1%	-1.2%	7	18
Boston Marathon Bombing	4/15/2013	-2.3%	-3.0%	4	15
London Subway Bombing	7/5/2005	0.9%	0.0%	1	4
Madrid Bombing	3/11/2004	-1.5%	-2.9%	14	20
U.S. Terrorist Attacks	9/11/2001	-4.9%	-11.6%	11	31
Iraq's Invasion of Kuwait	8/2/1990	-1.1%	-16.9%	71	189
Reagan Shooting	3/30/1981	-0.3%	-0.3%	1	2
Yom Kippur War	10/6/1973	0.3%	-0.6%	5	6
Munich Olympics	9/5/1972	-0.3%	-4.3%	42	57
Tet Offensive	1/30/1968	-0.5%	-6.0%	36	65
Six-Day War	6/5/1967	-1.5%	-1.5%	1	2
Gulf of Tonkin Incident	8/2/1964	-0.2%	-2.2%	25	41
Kennedy Assassination	11/22/1963	-2.8%	-2.8%	1	1
Cuban Missile Crisis	10/16/1962	-0.3%	-6.6%	8	18
Suez Crisis	10/29/1956	0.3%	-1.5%	3	4
Hungarian Uprising	10/23/1956	-0.2%	-0.8%	3	4
N. Korean Invades S. Korea	6/25/1950	-5.4%	-12.9%	23	82
Pearl Harbor Attack	12/7/1941	-3.8%	-19.8%	143	307
Average		**-1.2%**	**-5.0%**	**22**	**47**

Source: LPL Research, S&P Dow Jones Indices, CFRA, 01/06/20

As the above tables indicate, the S&P 500 was higher twelve months later in each instance where a recession did not occur. The days to recovery from major market shocks is encouraging. Currently, given today's robust economic readings, few economists are giving high odds to a recession over the next year.

In the past, spikes in the price of oil were a larger concern for the global economy. Today, ample strategic petroleum reserves are available to mute an oil shock. Higher oil prices also stimulate even more production from U.S. frackers. According to Deutsche Bank's Strategist Chris Snyder, U.S. oil producers will be the greatest beneficiaries of any increased disruption to Middle Eastern oil supplies as Iranian production had already been halved over the past two years due to U.S. sanctions. Oil pumped elsewhere would quickly make up for any production that might be lost in the Middle East, Snyder argued. "The conflict would likely need to spread into neighboring countries to drive more meaningful incremental tightening for the commodity," Snyder wrote. "Global oil markets have built up a buffer with over 2.5 [million barrels per day] of OPEC supply on the sidelines and continued growth in U.S. production which should cap gains in the oil price...[U.S.] producers have shown an ability to quickly ramp up production in response to commodity price moves."

Echoing these sentiments, Wharton professor Jeremy Sigel adds: The U.S. is "much less impacted by oil shocks than we were years ago," the professor said. "I suspect minimal economic impact from this," he believes that Saudi Arabia would also come into pump additional oil to deflate the price of crude. Today the US imports less than 15% of its oil and a big portion of our imports come from neighboring Canada.

The bigger phenomena from the recent strikes lies in the way in which the strike was handled and in the overall place that the US plays in the Middle East and the world. US policy is at best unpredictable, the impact of which is shaking up the status quo abroad.

In their year 2019 outlook, Morgan Stanley noted that "The vanguard of a democratic world order, the US, UK, France, and Germany, may have a weaker hand in advancing policy priorities domestically and internationally given the cross-currents of populism, antiestablishment sentiment, and anti-immigration nationalism". In 2020, these issues will continue to bring on geopolitical pressures that bear watching.

Outlook

The new decade is poised to start off with impeachment hearings in the Senate, heightened tension in the Middle East, Brexit, and phase one of a trade deal. As we were reminded in 2019, trading on headline news is not a reliable strategy, something we have discussed in prior communications.

Global economic growth over the past decade has been relatively mediocre compared to past expansions. US GDP is projected to decelerate further in 2020 from 2019's 2.2% down to 1.8%, just below the 1.9% longer-term US economic growth rate. In 2019, equity returns were driven by expanding valuation and not profit growth. In fact, underlying earnings growth has actually contracted for three consecutive quarters.

We do expect a modest recovery in global economic growth in 2020 as trade fears abate, and a surge in central bank easing last year could lead to a manufacturing boost this year. It is possible that we get a pick-up in capital spending as well. These potential positives coupled with our outlook for a boost in earnings growth are factors that the markets may have already priced in or may set up for further gains in part due to the wealth effect and continued strength of the US consumer. According to the latest Federal Reserve report in Q3 2019, household debt as a percentage of disposable income continues to drop which is a healthy sign for the consumer.

We have outlined below an update on what we see as current tailwinds and headwinds for the markets.

Tailwinds:

- Accommodative monetary policy globally
- Phase one trade deal brings some relief.
- Consumer spending continues to be solid with consumer confidence elevated to its highest levels since 2000.
- Existing home prices are firming according to Case-Shiller as demand for homes is supported by low unemployment and low rates.
- Low unemployment
- Modest inflation
- Fiscal stimulus

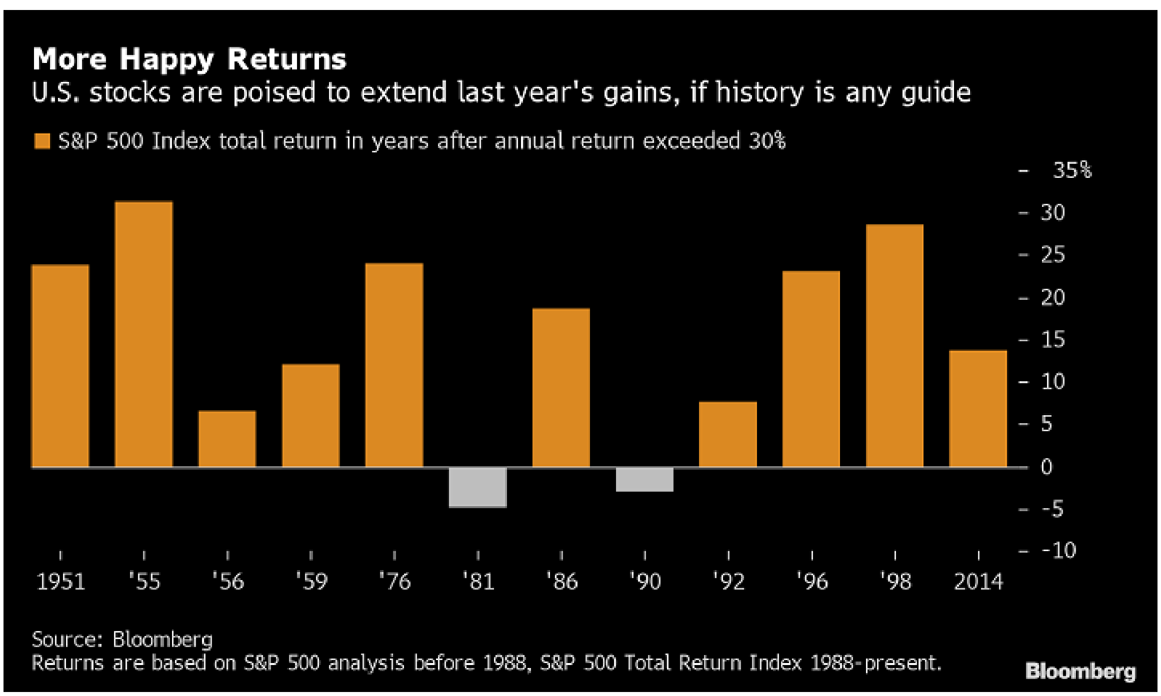
Headwinds:

- Slowing global economy

- Extended valuations, sharp dichotomy of returns between large and small-cap companies.
- Limited room for Central Bankers to help as negative yields overseas continue to rise
- Emergence of competing trade blocks
- Late cycle in the economy
- Impeachment proceedings and general polarization in Washington
- US election and other elections worldwide present uncertainty
- Trillion-dollar deficit and growing

In 2019, large-cap stocks outperformed small-cap stocks, growth stocks outperformed value stocks and US stocks outperformed international stocks. If this sounds like 2018 déjà vu, it should. Timing a turn in leadership of these broader themes is impossible. We have maintained a large-cap, growth oriented, domestic focused bias for the last few years and feel that this posture remains correct heading into the New Year. However, we are hedging our bets with the inclusion of a long/short small/mid value oriented manager, active global managers that can adjust the US/international allocations, and high conviction balanced managers that can adjust equity and sector exposure to help mitigate draw-downs in volatile markets. We are also considering the addition of exposure to other non-correlated and relatively attractive asset classes including emerging markets.

Presidential election years are always ripe with drama. We expect nothing less in 2020. Politics aside, the slide below certainly suggests that the odds are in favor of a positive market in 2020.



PRW Wealth Management News

We are pleased to announce the addition of Rob Reilly to the PRW team. Rob is a Senior Wealth Advisor at PRW Wealth Management LLC. His primary focus is advanced planning and investment management for high net worth individuals and families. Prior to joining PRW, Rob held senior positions as the Chief Investment Officer at a registered investment advisory firm and as an Executive Director at J.P. Morgan Private Bank. Rob has a passion for writing, investing and planning and has contributed to articles in Fortune, Forbes, US News & World Report, and Fiduciary News.

Rob earned a B.S. in Finance from Providence College and an MBA (Finance) from the F.W. Olin Graduate School of Business at Babson College. Rob also holds a Certified Investment Management Analyst (CIMA) designation, a Certified Market Technician (CMT) designation and is currently pursuing his Certified Financial Planning (CFP) designation.

He remains an active alumnus and has held several Providence College alumni leadership positions including a long tenure on the Providence College Business School Advisory Council. Rob is a member of the Boston Estate Planning Council and is on the Board of Trustees of the Norwell Visiting Nurse Association. He lives in Hingham MA with his wife and children where he is active in volunteer work and coaching.

In addition to Rob, we are thrilled to announce the arrival of Thaddeus Joseph "TJ" Dziuba IV to the world.

Congratulations to Wealth Advisor Jared Sweeney for passing the Certified Financial Planner exam and completing the other requirements to earn the CFP® designation.

One of our most rewarding efforts this year was the pro bono planning we did with special forces families. Some are still active, and others are veterans. It was very meaningful for us to give back to those who have sacrificed so much for our freedom.

Thank you and may the Force be with you!

Sincerely,

William A. Payne Richard A. Renwick Elliot B. Herman

Index Definitions

Bloomberg Commodity – measures the price of physical commodities futures contracts traded on US exchanges, except aluminum, zinc and nickel, which trade on the London Metal Exchange. Weightings are determined by rules designed to insure diversified commodity exposure.

Bloomberg Barclays Emerging Markets USD Aggregate - The index is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classification.

Bloomberg Barclays Global Aggregate - An index of global investment grade debt from twenty-four local currency markets including treasury, government-related, corporate and securitized fixed-rate bonds from both developed and emerging markets issuers. The index also includes Eurodollar, Euro-Yen, and 144A index-eligible securities, and debt from five local currency markets.

Bloomberg Barclays Global Aggregate ex USD - The index is a flagship hard currency Emerging Markets debt benchmark that includes fixed and floating-rate US dollar-denominated debt issued from sovereign, quasi-sovereign, and corporate EM issuers. Country eligibility and classification as Emerging Markets is rules-based and reviewed annually using World Bank income group and International Monetary Fund (IMF) country classification.

Bloomberg Sub Gold- measures the price of gold futures contracts, reflecting the return of underlying commodity futures contract price movements quoted in USD.

Bloomberg Barclays US Aggregate- measures the performance of USD-denominated, investment-grade, fixed-rate taxable bond market of SEC-registered securities. The index includes Treasury bonds, Government-related corporate, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS sectors.

Bloomberg Barclays US Corporate High Yield - The index measures the market of USD-denominated, non-investment grade, fixed-rate, taxable corporate bonds. Securities are classified as high yield if the middle rating of Moody's, Fitch, and S&P is Ba1/BB+/BB+ or below. The index excludes emerging market debt.

Bloomberg Barclays US Treasury Long - The index measures the performance of long-term government bonds issued by the US Treasury. It includes all publicly issued, US Treasury securities that have a remaining maturity of 10 or more years, are non-convertible, are denominated in US dollars, are rated investment grade, are fixed rate, and have $250 million or more of outstanding face value.

FTSE US NARIET all Equity REITs – measures the performance of publicly traded US real estate securities, such as real estate investment trusts (REITS) and real estate operating companies.

MSCI ACWI - A free float-adjusted capitalization weighted index that is designed to measure the equity performance of countries considered to represent both developed and emerging markets.

MSCI EAFE - A free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of countries considered to represent developed markets, excluding the U.S. and Canada.

MSCI Emerging Markets - A free float-adjusted, market capitalization index that is designed to measure the equity market performance of countries considered to represent emerging markets.

S&P 500 - An unmanaged index that is generally considered representative of the US equity market, consisting of 500 leading companies in leading industries of the US economy (typically large-cap companies) representing approximately 75% of the investable US equity market.