EQUITABLE Trust

Trustees and Investment Advisors

THIS ISSUE

"Change is the process by which the future invades our lives."

– Alvin Toffler (1928-2016)
American writer and futurist

20/20 HINDSIGHT VS. THE YEAR 2020

Markets welcomed the positive resolution of several big macroeconomic unknowns in the fourth quarter of 2019. The clarity sent large-cap U.S. stocks 9% higher. These solid quarterly gains also helped the S&P 500 index achieve its best annual performance since 2013. Earnings growth was modest in the U.S. and negative overseas. The expansion of price/earnings multiples explains the positive returns worldwide.

Most remarkable, in a way, is that this rise has not been accompanied by the euphoric "new era" talk that has so often accompanied manic market phases. Few investors seem to believe the good times will last. Given the headlines in 2019 – a government shutdown, heightened trade tensions between the U.S. and China, a slowdown in global manufacturing, the specter of impeachment, Brexit, the WeWork debacle and problems in the repo market – one could be forgiven for being skeptical.

The last decade will be a tough act to follow for domestic stocks. The S&P 500 has provided a compound annual return over the last decade of 13.6%. International stocks returned a more modest 5% annual return. At the same time the 10-year U.S. Treasury yield fell to 1.9% from 2.9%.

There is no shortage of worries, e.g. the size and growth of our national debt, the disintegration of civility in our political and social discourse and the possibility of international conflicts, both hot and cold. While there does not appear to be any imminent danger of recession here or abroad, the true test in the next decade may be higher inflation and the higher (and more variable) interest rates that would likely accompany it.

While bond yields are low, and likely to stay that way until signs of inflation appear, many yield-seeking investors are still finding opportunities in the stock market. An elevated portion of S&P 500 stocks has yielded more than the 10-year U.S. Treasury since the beginning of the financial crisis in 2008 (see chart on top of next page). With payout ratios below the long-term average and cash on corporate balance sheets above the long-term levels, there is a decent chance that many firms will raise their dividends in coming years.

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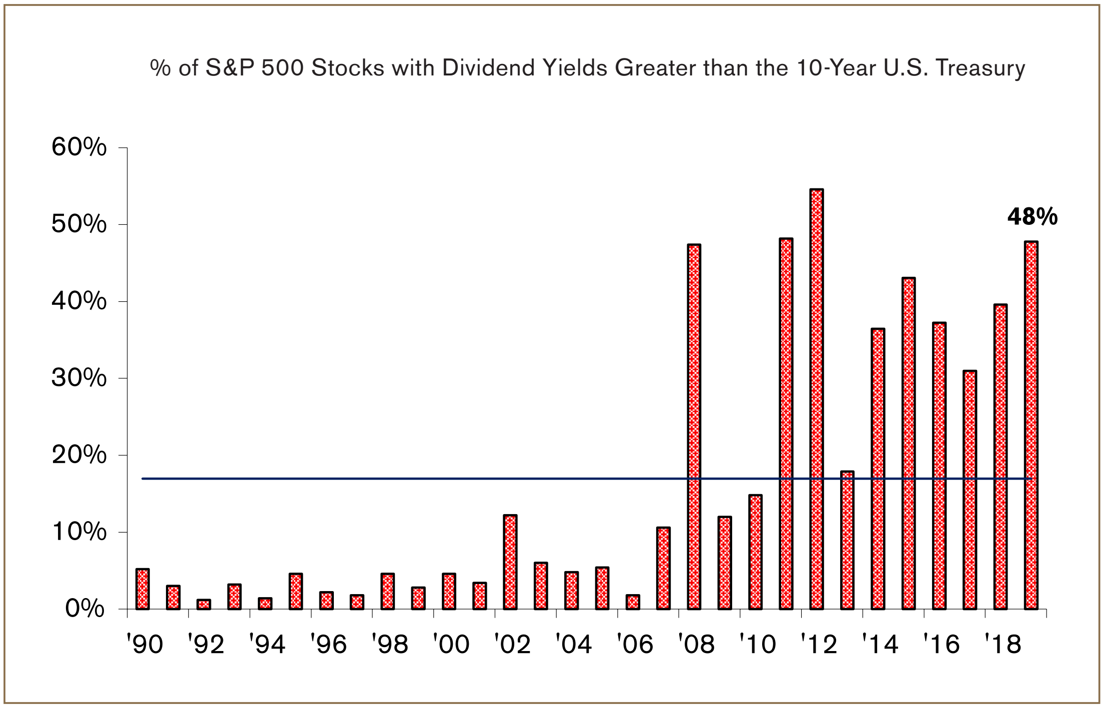
20/20 HINDSIGHT ... *(continued)*

Over 45% of S&P 500 Companies Have Dividend Yields Greater Than The 10-Year Treasury



Source: Strategas

The Fed cut its funds rate another 25 bps during the quarter, helping the yield curve to "uninvert." The reduction brought the total for the year to 75 bps, the largest in a decade. Since then, government yields around the world have trended higher, hinting at stronger global growth. Leading economic indicators in the developed world have bottomed of late. Rising earnings estimates are also confirming broad improvement.

Most bondholders experienced positive returns in the quarter despite signals from the FOMC that it was finished cutting interest rates. Rising optimism for a stronger economy led corporates to outperform low-risk assets such as U.S. Treasuries. Meanwhile, the U.S. dollar weakened against most currencies as prospects for growth overseas improved and trade tensions eased.

Commodities, too, enjoyed strong gains in the recent quarter, led higher by both oil and gold. Crude rose on news that OPEC was cutting production, while a preliminary U.S.-China trade deal was expected to increase demand. Gold benefitted from a weaker dollar.

The events of the last quarter, the last year and the last decade don't necessarily prepare us for what could happen this year. Put in more familiar phrasing: Past performance is not indicative of future results. While the economic environment is favorable as we begin 2020, a new year always brings new challenges and uncertainties, especially when it's a presidential election year.

The strong performance of 2019 notwithstanding, we remain vigilant regarding risks to portfolios and the economy. We thank you for your confidence and trust. Rest assured that our entire team remains dedicated to helping you successfully navigate this market and achieve your goals.

Market Diary Period Ending December 31, 2019

RATES OF RETURN

FIXED INCOME	Last 3 Mo.	YTD	1 year	3 years	5 years	10 years
90 Day U.S. Treasury Bills	0.40	2.06	2.06	1.65	1.06	0.58
Barclays Aggregate	0.18	8.72	8.72	4.04	3.05	3.75
Barclays Municipals	0.86	5.62	5.62	3.58	2.61	3.15
Barclays High Yield	2.61	14.32	14.32	6.38	6.14	7.58
EQUITIES	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Global Stock Market (MSCI All Country World)	8.95	26.60	26.60	12.48	8.42	8.80
U.S. Stock Market (S&P 500)	9.07	31.49	31.49	15.32	11.72	13.58
U.S. Mid-Cap Stocks (S&P 400)	7.06	26.20	26.20	9.29	9.04	12.74
U.S. Small-Cap Stocks (S&P 600)	8.21	22.78	22.78	8.38	9.58	13.37
International Stocks (MSCI AC World ex US)	8.92	21.51	21.51	9.89	5.51	4.97
ALTERNATIVES	**Last 3 Mo.**	**YTD**	**1 year**	**3 years**	**5 years**	**10 years**
Hedge Funds (Wilshire Liquid Alternatives)	1.53	6.68	6.68	2.40	1.18	1.94
Commodities (Bloomberg Commodity)	4.00	5.44	5.44	-2.60	-4.97	-5.29
Gold (S&P GSCI Gold Total Return)	3.34	18.03	18.03	8.99	4.44	3.09

Rates of Return for periods longer than 12 months are annualized. Data is provided by Black Diamond.

THE SECURE ACT: NEW RULES FOR RETIREMENT SAVERS

On December 20th, the Setting Every Community Up for Retirement Enhancement (SECURE) Act was signed into law, implementing significant changes to the rules governing tax-advantaged retirement and educational savings accounts. Among the changes, the most noteworthy for individual taxpayers include:

- The Act increases the age at which Individual Retirement Account (IRA) owners must take Required Minimum Distributions (RMD) from 70 ½ to 72. The new rule is only applicable to IRA owners who did not reach age 70½ before January 1, 2020.

- Previously, individuals could no longer contribute to traditional IRA accounts after age 70½. The Act eliminates that age restriction, BUT contributions made after age 70½ can reduce the annual qualified charitable deduction allowance.

- The Act creates a new exemption from the 10% penalty on retirement plan early withdrawals of up to $5,000 for expenses related to the birth or adoption of a child. This exemption appears to apply per parent, per child. But relevant distributions can only be made after the qualifying event has occurred and within one calendar year.

- The SECURE Act expands the list of qualified educational expenses for which 529 plan proceeds can be used tax-free by providing that 529 plan accounts may be used for apprentiship and home-schooling expenses and qualified student loan repayments, up to $10,000 for each account beneficiary and his or her siblings. The $10,000 is an aggregate lifetime limit and is not adjustable for inflation. However, the limit is per beneficiary.

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- The Act relaxes some obligations and restrictions on retirement plan providers that should result in increased access to (and portability of) annuities as investment options in retirement plans.

Many of these are positive changes for individuals and families. However, there is a less-welcome revision that will significantly change estate planning strategies for retirement plans. Historically, beneficiaries of inherited IRAs have been able to "stretch" the RMDs out over their own life expectancies. With a few exceptions (most notably spouses), the SECURE Act has eliminated "stretch" distributions from inherited retirement plan accounts, and most beneficiaries of inherited IRAs will now have to take full distributions within 10 years. This includes trusts that may have been created to serve as look-through vehicles for stretch distributions from inherited IRAs. Beneficiaries of inherited IRAs who are already receiving "stretch" distributions are grandfathered in and may continue to use the life expectancy tables in determining their RMDs. However, the stretch will expire at the current beneficiary's death, and successor beneficiaries are subject to the new 10- year rules.

Everyone with a retirement account should review beneficiary designations in light of the SECURE Act changes. However, individuals who have named trusts as beneficiaries of their IRAs are especially encouraged to consult with their tax and legal advisors to minimize the potential tax impact of the new rules.

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