ECONOMIC AND MARKET COMMENTARY

4th Quarter 2019

SMITH SHELLNUT WILSON

OUR MISSION

Smith Shellnut Wilson is a registered investment adviser* specializing in managing investment portfolios for banks, individuals, corporations, foundations and public entities. Smith Shellnut Wilson offers its clients skilled investment management and unremitting client service. Smith Shellnut Wilson is dedicated to the premise that client relationships and performance, not transactions, are the ultimate goals.

Ray Thompson
SSW Research Department
Office: (601) 605-1776
Website: www.ssw1776.com
Contact: rayt@ssw1776.com

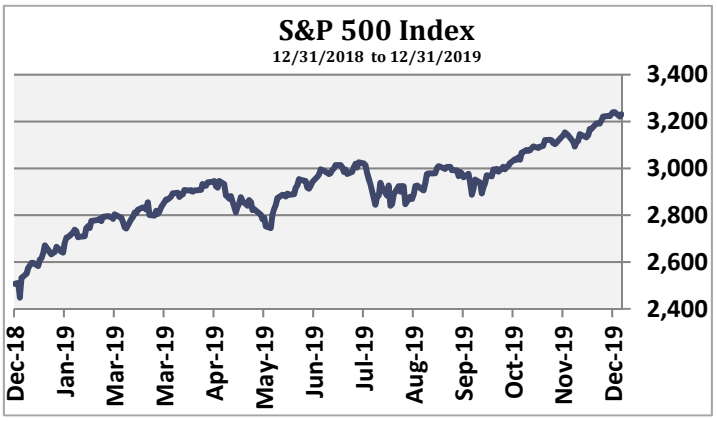
I. FOURTH-QUARTER EQUITY MARKET RECAP

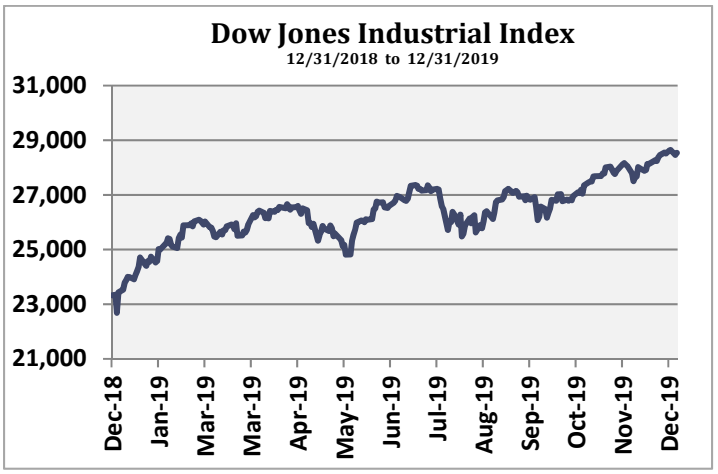
After a very positive year for equity investors in 2019, most market participants expect positive, but lower equity returns in 2020 as some headwinds appear/reappear. Consensus expectations are for equity returns in the 7-10% range in 2020.

By and large, market strategists don't expect a global or U.S. recession in 2020, and anticipate a modest growth and profits rebound now that worst-case trade outcomes may be avoided. Even so, high valuations, reduced effectiveness of monetary easing and rising corporate cost pressures will likely constrain equity markets in 2020.

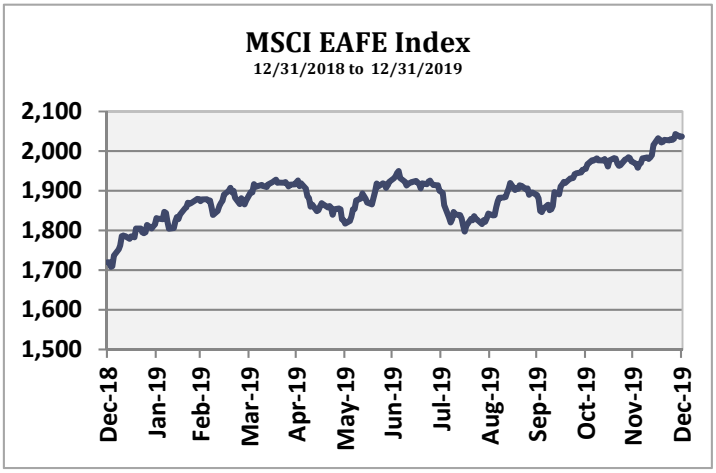
JPMorgan strategists cite two big issues that could adversely affect investors in 2020 should they materialize: a) a spike in inflation that forces the Fed to make a U-turn on monetary policy; and b) a comprehensive progressive restructuring of the U.S. economy after the 2020 election. Other strategists point to risks in certain frothy sectors of the credit markets, such as the leveraged-loan sector, should economic growth falter.

U.S. equity returns in the fourth quarter continued their positive trend during the year, with the S&P 500 Index and the Dow Jones Industrial Index advancing 9.1% and 6.7%, respectively, on a dividends re-invested basis. Both growth and value stocks posted solid returns in the fourth quarter, although value stocks have underperformed their growth counterparts on a cumulative basis since 2010. Foreign stocks, as measured by the MSCI EAFE Index, also posted an impressive return of 8.2% for the quarter, despite political headwinds and weakening economies. See graphs, below.





*Registration of an Investment Adviser does not imply any certain level of skill or training.



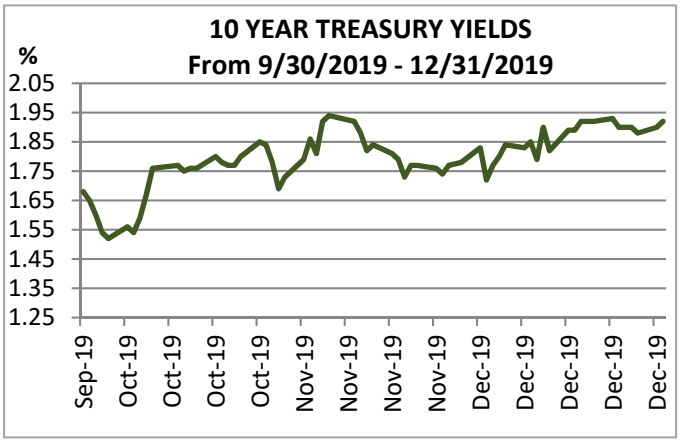
Expectations for U.S. economic growth in 2020 range from 1.8-2.0%, compared with an unexpected 2.2-2.3% pace in 2019. Continued strength in the consumer sector is anticipated to more than offset weakness in manufacturing and trade. Inflation, as measured by the core personal consumption expenditures index, is projected to increase slightly to 1.9% in 2020 from an estimated 1.6% in 2019, still in line with the Federal Reserve's 2.0% asymmetrical target. Given modest economic growth prospects and tame inflation, the Fed is expected to remain on hold for much of 2020, with fed funds futures suggesting a two-thirds probability of one additional rate cut towards the end of 2020.

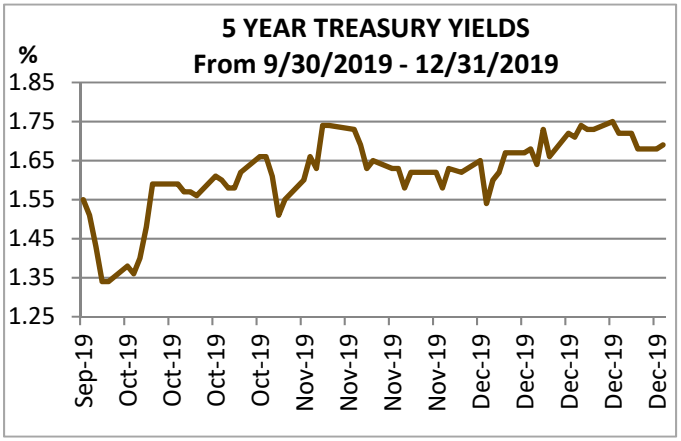
Against this backdrop, analysts are looking for 5-7% domestic earnings growth in 2020, supportive of single-digit equity returns even in the face of stretched multiples, with the tech sector leading the way.

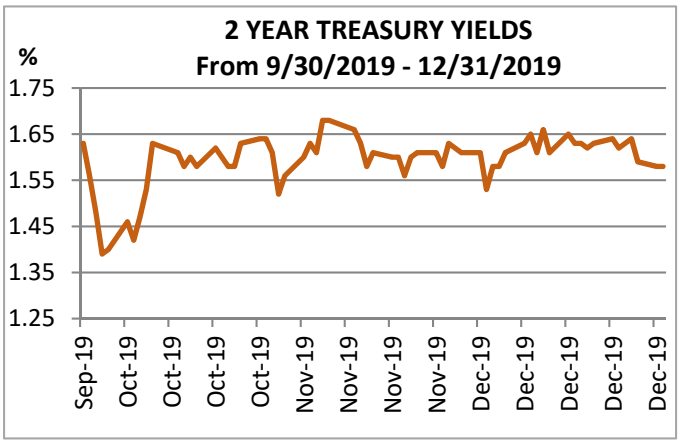
II. FOURTH-QUARTER BOND MARKET RECAP

After peaking in the first quarter of 2019, U.S. intermediate-term Treasury yields fell during the remainder of the year by 80-90 basis points across the curve, resulting in solid total returns in most bond sectors. The Bloomberg Barclays U.S. Aggregate Index, a proxy for the overall domestic bond market, returned 8.7% in 2019, reflecting the overall downshift in interest rates during the year.

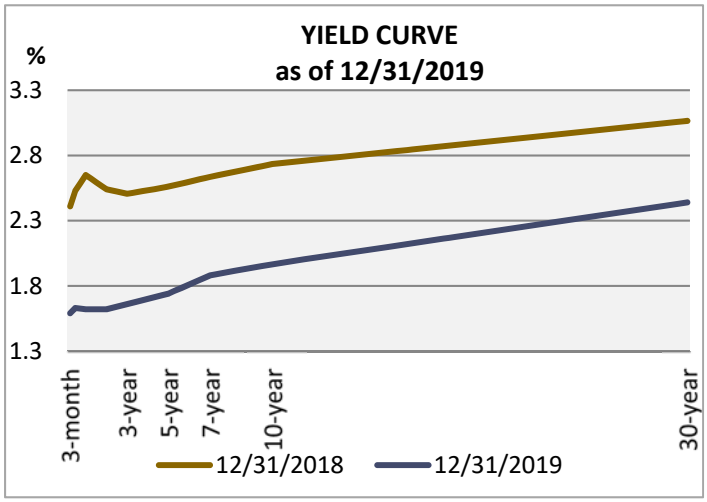
During the fourth quarter, the Treasury yield curve moved from inverted to positively-sloped as yields on Treasury benchmarks with a tenor of 3-years and longer increased in yield while shorter maturities decreased in yield. See graphs, below.





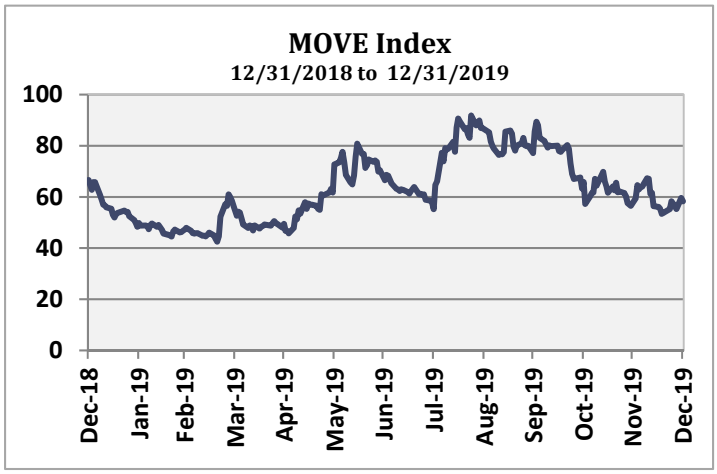


The yield curve steepened slightly (by 15 basis points) during the year, as shorter-term rates declined by more than their longer-term counterparts. See graph, below.



The forward Treasury curve suggests that the yield curve will steepen again in 2020, as two-year Treasury yields are expected to remain flat, while five- and ten-year Treasury yields increase by 10 basis points.

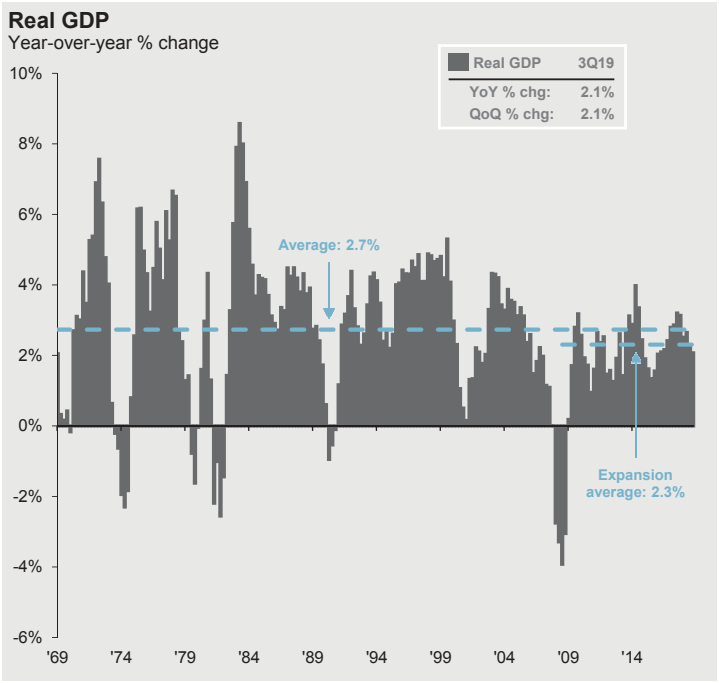
Absent a major geopolitical or economic shock, bond market volatility, as measured by the Intercontinental Exchange/Bank of America Merrill Lynch MOVE Index, is expected to remain relatively muted in 2020, after a brief spike last fall. See graph, below.

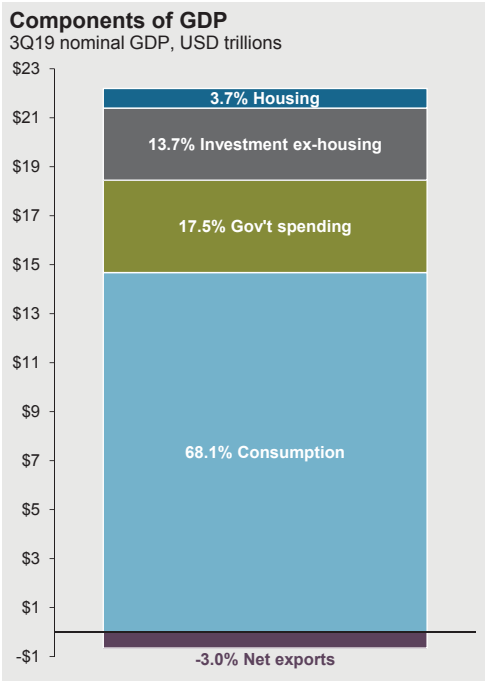


The source of the information in this commentary is SSW and Bloomberg unless otherwise noted.

Economic growth and the composition of GDP

Economy

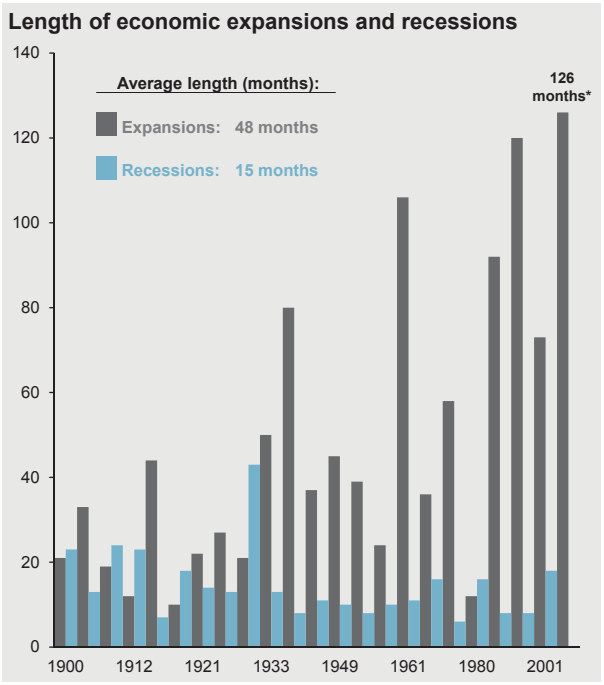


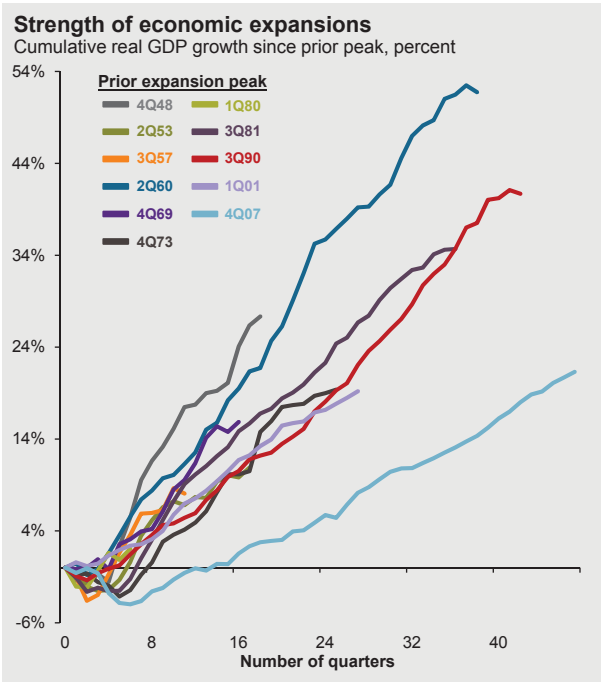


Source: BEA, FactSet, J.P. Morgan Asset Management.
Values may not sum to 100% due to rounding. Quarter-over-quarter percent changes are at an annualized rate. Average represents the annualized growth rate for the full period. Expansion average refers to the period starting in the third quarter of 2009.
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The length and strength of expansions

Economy





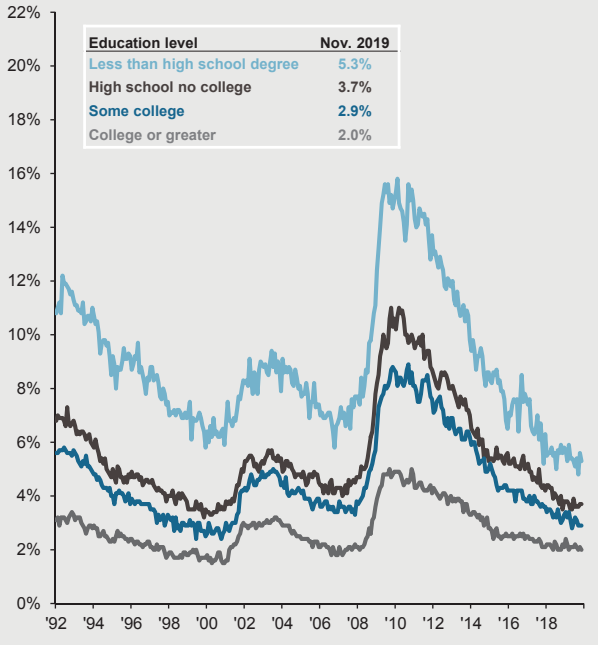
Source: BEA, NBER, J.P. Morgan Asset Management. *Chart assumes current expansion started in July 2009 and continued through December 2019, lasting 126 months so far. Data for length of economic expansions and recessions obtained from the National Bureau of Economic Research (NBER). These data can be found at www.nber.org/cycles/ and reflect information through December 2019. Past performance is not a reliable indicator of current and future results.
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Employment and income by educational attainment

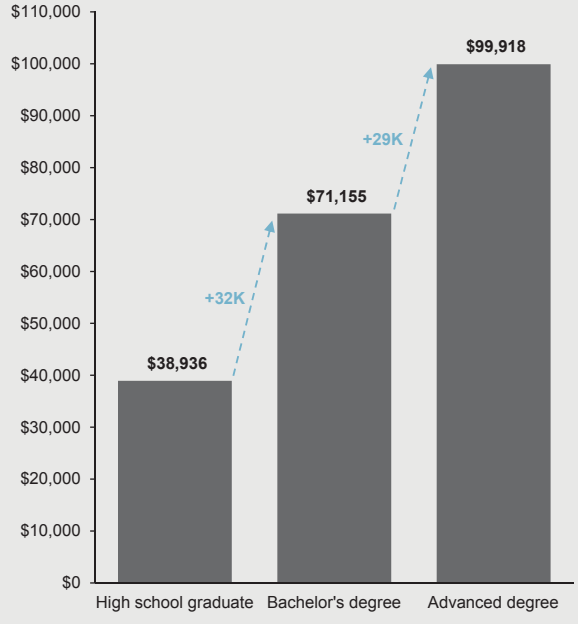
Economy

Unemployment rate by education level



Average annual earnings by highest degree earned

Workers aged 18 and older, 2018



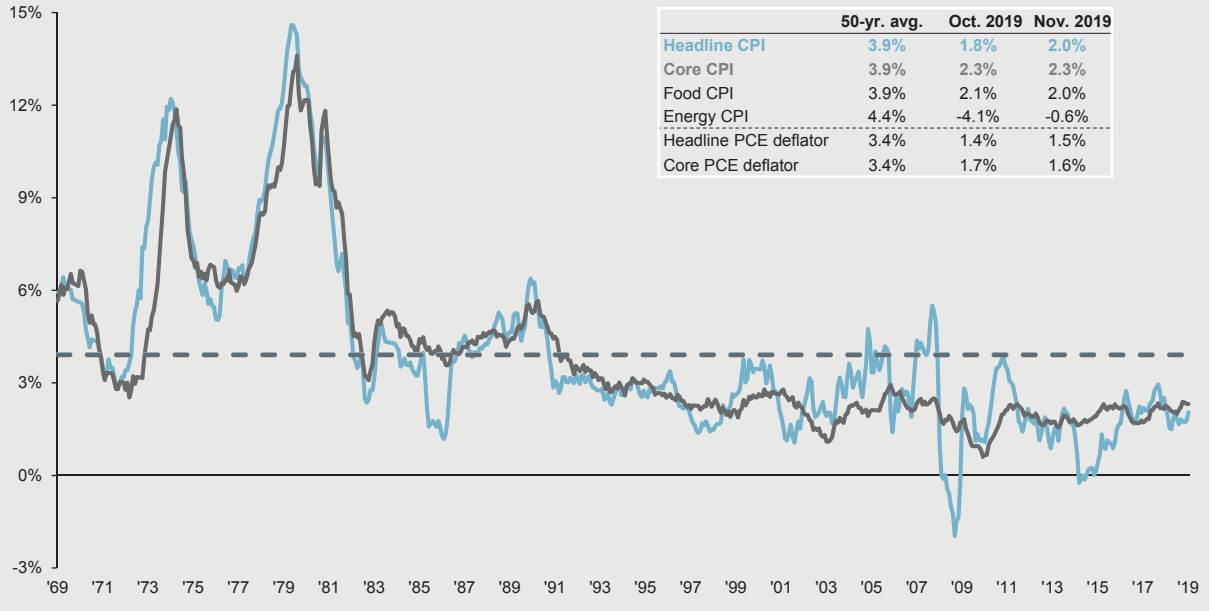
Source: J.P. Morgan Asset Management; (Left) BLS, FactSet; (Right) Census Bureau.
Unemployment rates shown are for civilians aged 25 and older. Earnings by educational attainment comes from the Current Population Survey and is published under historical income tables by person by the Census Bureau.
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Inflation

Economy

CPI and core CPI

% change vs. prior year, seasonally adjusted



	50-yr. avg.	Oct. 2019	Nov. 2019
Headline CPI	3.9%	1.8%	2.0%
Core CPI	3.9%	2.3%	2.3%
Food CPI	3.9%	2.1%	2.0%
Energy CPI	4.4%	-4.1%	-0.6%
Headline PCE deflator	3.4%	1.4%	1.5%
Core PCE deflator	3.4%	1.7%	1.6%

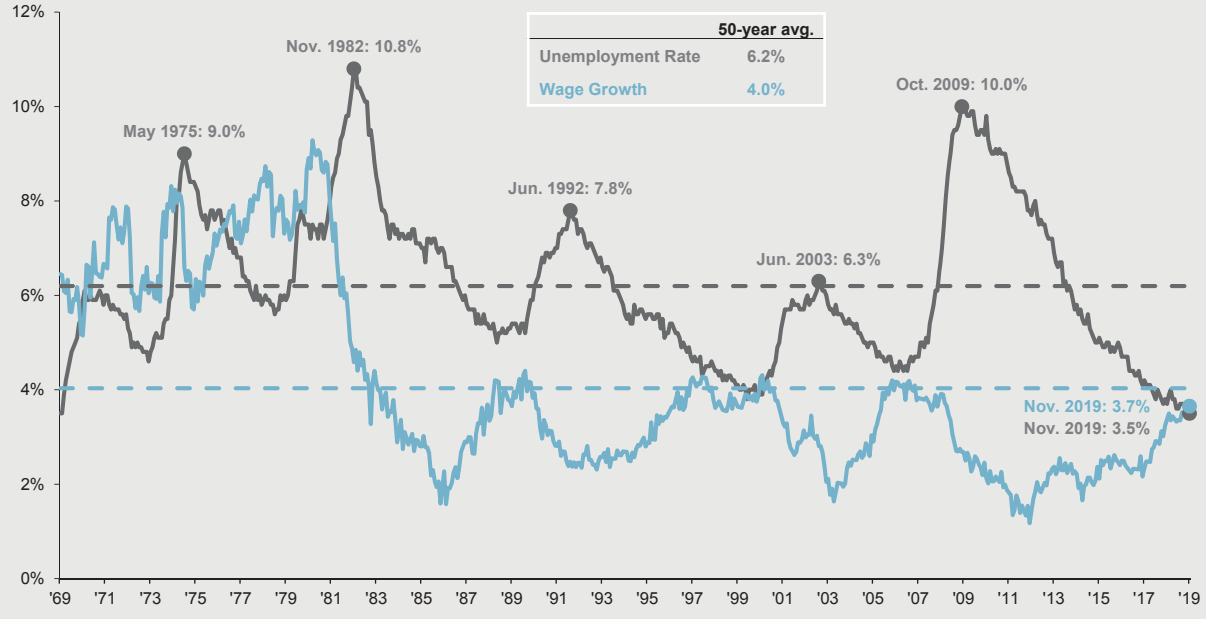
Source: BLS, FactSet, J.P. Morgan Asset Management.
CPI used is CPI-U and values shown are % change vs. one year ago. Core CPI is defined as CPI excluding food and energy prices. The Personal Consumption Expenditure (PCE) deflator employs an evolving chain-weighted basket of consumer expenditures instead of the fixed-weight basket used in CPI calculations.
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Economy

Unemployment and wages

Civilian unemployment rate and year-over-year wage growth for private production and non-supervisory workers
Seasonally adjusted, percent

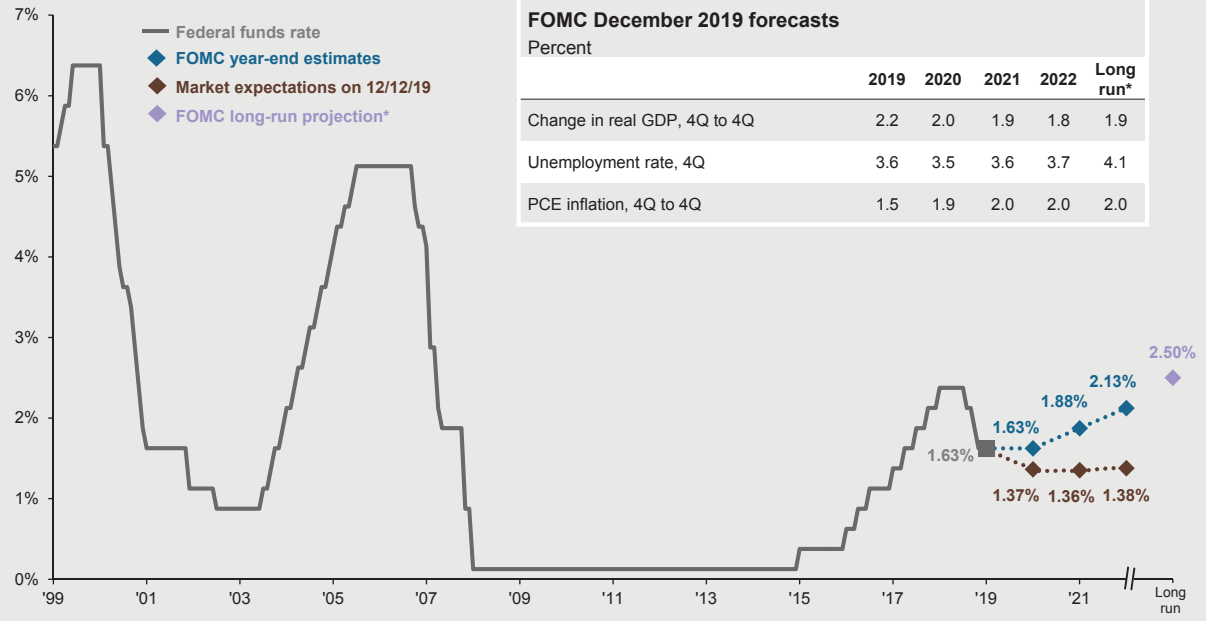


Source: BLS, FactSet, J.P. Morgan Asset Management.
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Fixed income

The Fed and interest rates

Federal funds rate expectations
FOMC and market expectations for the federal funds rate



FOMC December 2019 forecasts
Percent

	2019	2020	2021	2022	Long run*
Change in real GDP, 4Q to 4Q	2.2	2.0	1.9	1.8	1.9
Unemployment rate, 4Q	3.6	3.5	3.6	3.7	4.1
PCE inflation, 4Q to 4Q	1.5	1.9	2.0	2.0	2.0

Source: Bloomberg, FactSet, Federal Reserve, J.P. Morgan Asset Management.
Market expectations are the federal funds rates priced into the fed futures market as of the following date of the December 2019 FOMC meeting and are through December 2022. *Long-run projections are the rates of growth, unemployment and inflation to which a policymaker expects the economy to converge over the next five to six years in absence of further shocks and under appropriate monetary policy.
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High yield bonds

Fixed income

Default rate and spread to worst
Percent

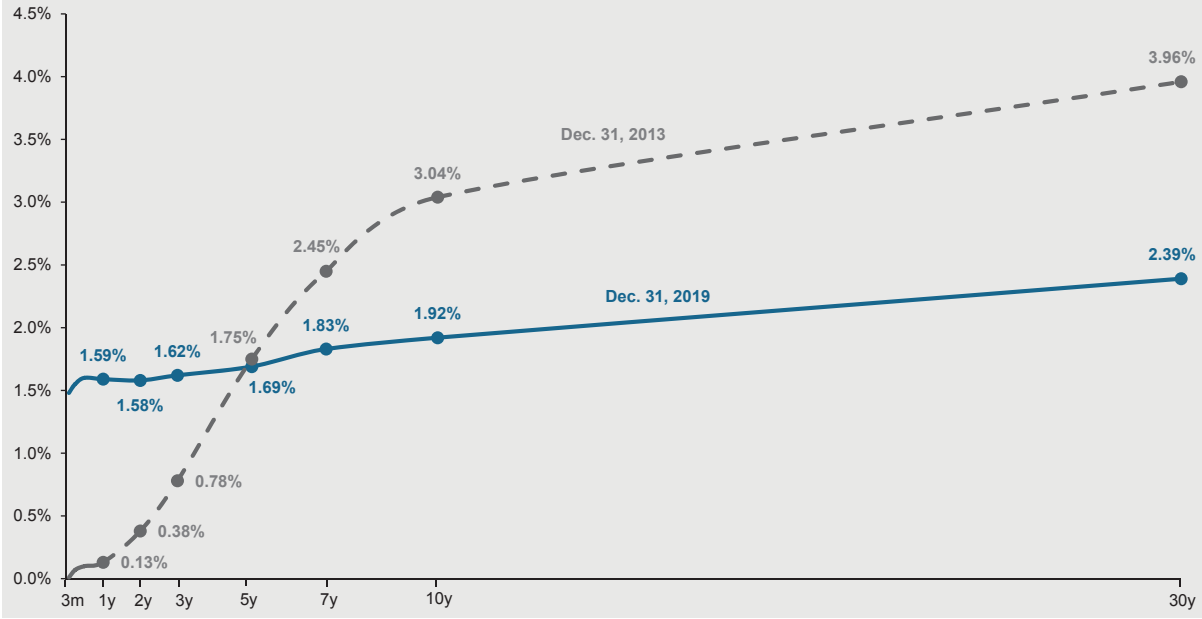


Source: J.P. Morgan Global Economic Research, J.P. Morgan Asset Management.
Default rates are defined as the par value percentage of the total market trading at or below 50% of par value and include any Chapter 11 filing, prepackaged filing or missed interest payments. Spread to worst indicated are the difference between the yield-to-worst of a bond and yield-to-worst of a U.S. Treasury security with a similar duration. High yield is represented by the J.P. Morgan Domestic High Yield Index.
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Yield curve

Fixed income

Yield curve
U.S. Treasury yield curve



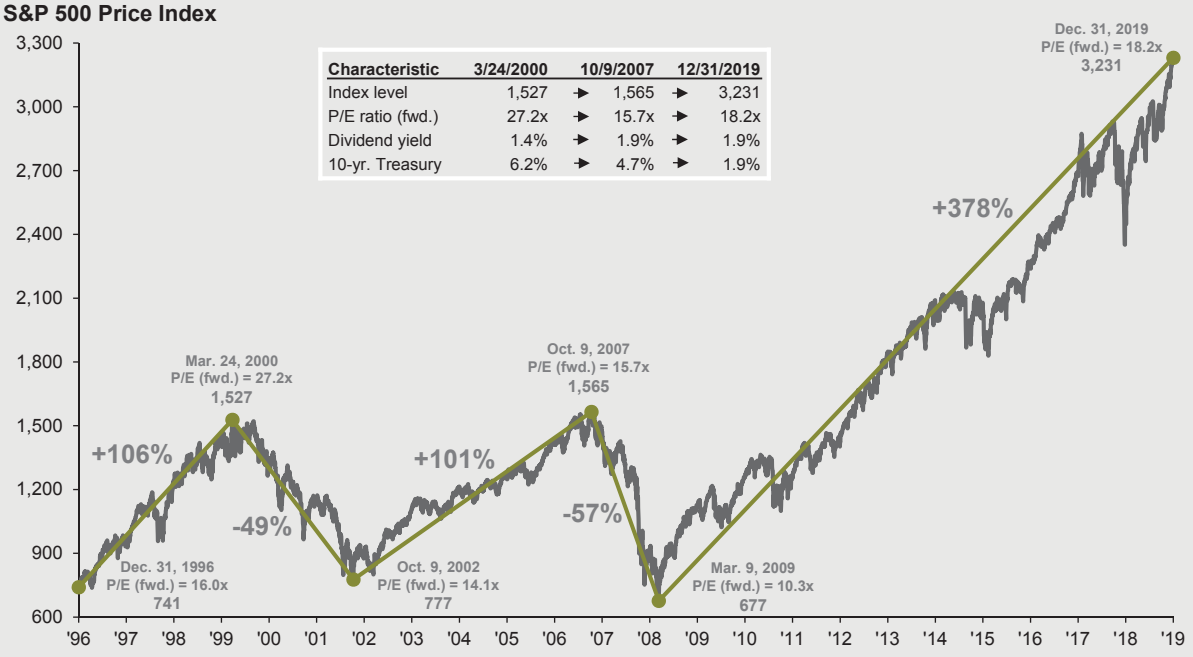
Source: FactSet, Federal Reserve, J.P. Morgan Asset Management.
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S&P 500 Index at inflection points

Equities

S&P 500 Price Index



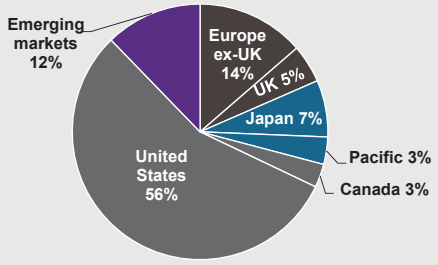
Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.
Dividend yield is calculated as consensus estimates of dividends for the next 12 months, divided by most recent price, as provided by Compustat. Forward price to earnings ratio is a bottom-up calculation based on the most recent S&P 500 Index price, divided by consensus estimates for earnings in the next 12 months (NTM), and is provided by FactSet Market Aggregates. Returns are cumulative and based on S&P 500 Index price movement only, and do not include the reinvestment of dividends. Past performance is not indicative of future returns.
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Global equity markets

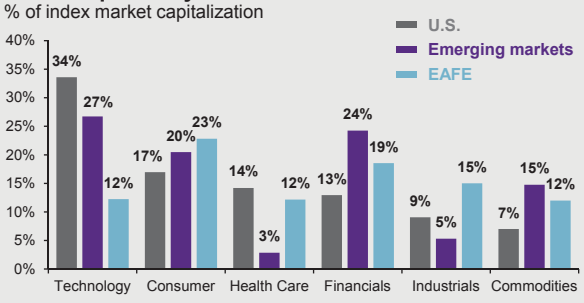
International

Returns	2019		2018		15-years	
	Local	USD	Local	USD	Ann.	Beta
Regions						
U.S. (S&P 500)	-	31.5	-	-4.4	9.0	0.87
AC World ex-U.S.	21.4	22.1	-10.2	-13.8	5.7	1.10
EAFE	22.3	22.7	-10.5	-13.4	5.3	1.06
Europe ex-UK	27.5	25.9	-10.6	-14.4	5.9	1.20
Emerging markets	18.5	18.9	-9.7	-14.2	7.8	1.26
Selected Countries						
United Kingdom	16.5	21.1	-8.8	-14.1	4.2	1.01
France	29.3	27.0	-7.5	-11.9	5.9	1.22
Germany	23.9	21.7	-17.7	-21.6	6.4	1.32
Japan	18.9	20.1	-14.9	-12.6	4.3	0.75
China	23.3	23.7	-18.6	-18.7	11.3	1.26
India	10.0	7.6	1.4	-7.3	9.2	1.31
Brazil	31.5	26.7	16.7	-0.1	9.5	1.49
Russia	38.8	52.7	18.1	0.5	7.4	1.53

Weights in MSCI All Country World Index
% global market capitalization, float adjusted



Global equities by sector
% of index market capitalization



Source: FactSet, Federal Reserve, MSCI, Standard & Poor's, J.P. Morgan Asset Management.
All return values are MSCI Gross Index (official) data. 15-year history based on U.S. dollar returns. 15-year return and beta figures are calculated for the time period 12/31/04-12/31/19. Beta is for monthly returns relative to the MSCI AC World Index. Annualized volatility is calculated as the standard deviation of quarterly returns multiplied by the square root of 4. Chart is for illustrative purposes only. Please see disclosure page for index definitions. Past performance is not a reliable indicator of current and future results. Sector breakdown includes the following aggregates: Technology (communication services and technology), consumer (consumer discretionary and staples) and commodities (energy and materials). The graph excludes the utilities and real estate sectors for illustrative purposes.
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