After a peak-to-trough decline of 20% in late 2018, 2019 marked the strongest year for the U.S. stock market since 2013. Despite some volatility in the summer, three Federal Reserve interest rate cuts, further quantitative easing by the Fed, and some resolutions around trade tensions with China contributed to the tailwind for U.S. stocks. In addition to strong stock market performance, a dramatic decline in U.S. interest rates led to a great environment for bonds. Fixed income, as measured by the Bloomberg Barclay’s Aggregate Index, was up 8.7% for the year.

In addition to strong returns from the U.S. stock and bond market, all asset classes posted positive returns from 2019. Other areas of strength included non-U.S. stocks, emerging markets stocks, real estate, and commodities. However, all of these areas underperformed U.S. stocks, making 2019 a tough year for diversification.

With the U.S. stock market leading the way in 2019, the valuation gap between U.S. stocks and non-U.S. stocks grew wider. We believe that valuation is one of the strongest predictors of future returns. As such, we continue to emphasize non-U.S. stocks and emerging markets stocks as a sizeable portion of our overall portfolio.

**Endowment**

The Endowment Portfolio posted a 5.7% return for the fourth quarter and a 17.0% return for the calendar year. Results were strong on an absolute basis and a relative basis, as both results outpaced the Policy Index for the portfolio. While U.S. stocks and bonds led the way, diversifying strategies such as hedge funds and private equity lagged the broader market. Relative to the Policy Index, an overweight to U.S. stocks, strong investment manager performance in non-U.S. stocks, and strong performance in real estate led to the outperformance for the quarter and the year.

**Non-Endowment**

The Long-Term Portfolio was up 5.7% for the quarter and 18.6% for the year, slightly outperforming its Policy Index. Like the Endowment portfolio, an overweight to U.S. stocks, strong manager selection in non-U.S. stocks, and strong manager selection in Commodities resulted in relative outperformance. Hedge funds were the biggest drag on performance for the year, though that segment of the portfolio is truly meant for capital protection rather than capital appreciation.

The Medium-Term Portfolio was up 3.2% for the quarter and 12.9% for the year, slightly outpacing the Policy Index over both periods. 2019 was a perfect storm for the Medium-Term portfolio, as falling interest rates resulted in very strong performance for the portfolio’s 65% exposure to bonds. A 12.9% return for this portfolio represents an outlier year and should certainly not be expected in the future.

The Short-Term Portfolio was up 0.4% during the quarter. With three consecutive interest rate cuts made by the Federal Reserve, we would expect money market rates to fall, resulting in a lower yield for the portfolio moving forward.