LUTHER KING CAPITAL MANAGEMENT
301 COMMERCE STREET, SUITE 1600
FORT WORTH, TEXAS 76102
817/332-3235
METRO 817/429-6256 FAX 817/332-4630

January 22, 2020

Dr. Greta Zeimetz
Executive Vice President
AAPL
800 Fournier Street
Fort Worth, TX 76102

Dear Greta:

Enclosed with this letter you will find the American Association of Professional Landman investment appraisals for the period ending December 31, 2019. This includes a listing of current holdings, recent transactions, asset mix, dividends, and portfolio yield. The summary page following delineates pertinent financial data for each portfolio.

Entering 2019 we were optimistic for stock market returns based on expectations for a modestly improved economy with slowing but positive corporate profit growth, and stabilization in the primary international economies. Most importantly we anticipated a more dovish Federal Reserve, leading to monetary stimulus, while maintaining the modest inflationary levels we had experienced in recent years. The pullback in stock prices during the fourth quarter of 2018 appeared to be a normal pullback within a bull market which left the stock market with depressed valuations entering this year, giving attractive upside to stocks for 2019.

The calendar year 2019 was a very good one for both stocks and bonds. The Technology, Consumer Discretionary, and Financial sectors led the market higher and only the Energy stocks had below normal annualized returns. Looking forward, we remain constructive but do not anticipate returns for 2020 to approach the levels of 2019. With that said, from a historic standpoint it's important to note that in the six years since 1949 when equity prices advanced at levels similar to last year the stock market has always followed with a positive year, averaging 19%, in each case with the economy accelerating. Additionally, Presidential re-election years (with an incumbent running) are typically much stronger than open election years. For those who are looking for a correlation between the stock market and Presidential election we would point out that historically if the market index is up for the three-months before the election the incumbent party has typically won but if that period has a stock market decline a change in the Party controlling the White House occurs, with an 87% accuracy since 1928.

Additional thoughts regarding the economy and capital market environment are more fully discussed in the attached "2019 Review" which is enclosed. Please contact me or any member of our team if you have any questions or comments regarding the enclosed material or our investment strategy.

Sincerely,

Paul W. Greenwell
Vice President-Principal

PWG/tlm

Enclosures

cc: Mr. Harold Carter
Ms. Amanda Johnson
Mr. Don Clark

AAPL LANDMAN
INVESTMENT PORTFOLIOS
December 31, 2019

ASSET ALLOCATION

	Market Value	Equities	% of Portfolio	Fixed Income	% of Portfolio
AAPL Operating Cash Custody	$ 31,828,632	$ 23,089,137	72.5	$6,348,163	19.9
AAPL Education Foundation Revocable Trust	4,355,615	3,278,923	75.3	843,896	19.4
Landman Scholarship Trust	7,994,164	5,979,467	74.8	1,676,874	21.0
NAPE Expo Charities Fund	1,259,819	894,119	71.0	280,466	22.3

*INVESTMENT PERFORMANCE**

	FOURTH QUARTER			YEAR-TO-DATE		
	Total Portfolio (10/01/19 - 12/31/19)	Equities Only (10/01/19 - 12/31/19)	Standard & Poor's 500 Index (10/01/19 - 12/31/19)	Total Portfolio (01/01/19 - 12/31/19)	Equities Only (01/01/19 - 12/31/19)	Standard & Poor's 500 Index (01/01/19 - 12/31/19)
AAPL Operating Cash Custody	5.7 %	7.9 %	9.1 %	23.2 %	31.1 %	31.5 %
AAPL Education Foundation Revocable Trust	6.3	8.3	9.1	23.5	30.8	31.5
Landman Scholarship Trust	5.8	7.6	9.1	23.1	30.2	31.5
NAPE Expo Charities Fund *(Inception Date: 07/10/2019)*	5.6	7.8	9.1	5.7	7.0	31.5

* *Investment performance results are gross of investment management fees and include realized and unrealized gains and losses and dividends and interest.*

Quarterly Statement

AAPL Operating Cash Custody

Quarterly Statement: 12/31/2019

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AAPL Operating Cash Custody

Summary of Investments

	Total Cost	Market Value	% of Total Portfolio	Est. Annual Income	Current Yield %
Cash Equivalents					
CASH INSTRUMENTS	2,391,331.65	2,391,331.65	7.5	36,827	1.5
Total Cash Equivalents	**2,391,331.65**	**2,391,331.65**	**7.5**	**36,827**	**1.5**
Equities					
COMMUNICATION SERVICES	577,271.80	1,077,310.20	3.4	26,000	2.4
CONSUMER DISCRETIONARY	1,128,683.12	3,158,439.50	9.9	37,420	1.2
CONSUMER STAPLES	605,326.74	912,324.00	2.9	23,294	2.6
ENERGY	709,835.19	882,465.00	2.8	22,985	2.6
FINANCIALS	1,785,269.20	3,358,315.54	10.6	92,941	2.8
HEALTH CARE	1,620,035.80	4,921,600.00	15.5	29,034	0.6
INDUSTRIALS	1,391,232.46	3,205,961.75	10.1	50,785	1.6
INFORMATION TECHNOLOGY	2,008,317.02	3,666,663.00	11.5	23,948	0.7
MATERIALS	1,065,524.03	1,882,860.00	5.9	30,120	1.6
Total Equities	**10,891,495.36**	**23,065,938.99**	**72.5**	**336,527**	**1.5**
Fixed Income					
MUTUAL FUNDS - BONDS	6,165,162.70	6,348,162.70	19.9	106,675	1.7
Total Fixed Income	**6,165,162.70**	**6,348,162.70**	**19.9**	**106,675**	**1.7**
TOTAL INVESTMENTS	**$19,447,989.71**	**$31,805,433.34**	**99.9%**	**$480,028**	**1.5%**
Accrued Interest		**0.00**	**0.0**		
Accrued Dividends		**23,198.50**	**0.1**		
TOTAL PORTFOLIO		**$31,828,631.84**	**100.0%**		

Quarterly Statement

AAPL Education Foundation Revocable Trust

Quarterly Statement: 12/31/2019

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AAPL Education Foundation Revocable Trust

Summary of Investments

	Total Cost	Market Value	% of Total Portfolio	Est. Annual Income	Current Yield %
Cash Equivalents					
CASH INSTRUMENTS	232,796.30	232,796.30	5.3	3,585	1.5
Total Cash Equivalents	**232,796.30**	**232,796.30**	**5.3**	**3,585**	**1.5**
Equities					
COMMUNICATION SERVICES	71,219.85	118,519.38	2.7	3,744	3.2
CONSUMER DISCRETIONARY	212,750.49	508,526.20	11.7	5,640	1.1
CONSUMER STAPLES	73,440.88	105,805.00	2.4	2,805	2.7
ENERGY	116,258.00	134,613.00	3.1	4,022	3.0
FINANCIALS	276,131.05	496,021.44	11.4	13,784	2.8
HEALTH CARE	251,146.29	682,036.00	15.7	4,176	0.6
INDUSTRIALS	236,205.48	439,293.76	10.1	7,541	1.7
INFORMATION TECHNOLOGY	311,089.92	554,506.00	12.7	3,716	0.7
MATERIALS	139,220.28	236,075.00	5.4	3,752	1.6
Total Equities	**1,687,462.24**	**3,275,395.78**	**75.2**	**49,180**	**1.5**
Fixed Income					
MUTUAL FUNDS - BONDS	827,089.54	843,895.85	19.4	14,181	1.7
Total Fixed Income	**827,089.54**	**843,895.85**	**19.4**	**14,181**	**1.7**
TOTAL INVESTMENTS	**$2,747,348.08**	**$4,352,087.93**	**99.9%**	**$66,946**	**1.5%**
Accrued Interest		**0.00**	**0.0**		
Accrued Dividends		**3,527.50**	**0.1**		
TOTAL PORTFOLIO		**$4,355,615.43**	**100.0%**		

Quarterly Statement

Landman Scholarship Trust

Quarterly Statement: 12/31/2019

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Landman Scholarship Trust

Summary of Investments

	Total Cost	Market Value	% of Total Portfolio	Est. Annual Income	Current Yield %
Cash Equivalents					
CASH INSTRUMENTS	337,822.82	337,822.82	4.2	5,202	1.5
Total Cash Equivalents	**337,822.82**	**337,822.82**	**4.2**	**5,202**	**1.5**
Equities					
COMMUNICATION SERVICES	146,695.66	254,542.04	3.2	7,280	2.9
CONSUMER DISCRETIONARY	326,802.96	857,858.50	10.7	10,020	1.2
CONSUMER STAPLES	174,166.95	250,257.00	3.1	6,589	2.6
ENERGY	195,059.85	236,748.00	3.0	6,977	2.9
FINANCIALS	452,157.44	830,109.36	10.4	22,482	2.7
HEALTH CARE	456,746.39	1,279,277.00	16.0	7,622	0.6
INDUSTRIALS	384,223.93	782,078.25	9.8	13,435	1.7
INFORMATION TECHNOLOGY	538,887.93	999,394.50	12.5	6,696	0.7
MATERIALS	277,758.54	482,797.00	6.0	7,844	1.6
Total Equities	**2,952,499.65**	**5,973,061.65**	**74.7**	**88,945**	**1.5**
Fixed Income					
MUTUAL FUNDS - BONDS	1,691,828.69	1,676,873.96	21.0	28,178	1.7
Total Fixed Income	**1,691,828.69**	**1,676,873.96**	**21.0**	**28,178**	**1.7**
TOTAL INVESTMENTS	**$4,982,151.16**	**$7,987,758.43**	**99.9%**	**$122,326**	**1.5%**
Accrued Interest		**0.00**	**0.0**		
Accrued Dividends		**6,405.50**	**0.1**		
TOTAL PORTFOLIO		**$7,994,163.93**	**100.0%**		

Quarterly Statement

NAPE Expo Charities Fund

Quarterly Statement: 12/31/2019

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Period Ending: 12/31/2019

NAPE Expo Charities Fund

Summary of Investments

	Total Cost	Market Value	% of Total Portfolio	Est. Annual Income	Current Yield %
Cash Equivalents					
CASH INSTRUMENTS	85,233.49	85,233.49	6.8	1,313	1.5
Total Cash Equivalents	**85,233.49**	**85,233.49**	**6.8**	**1,313**	**1.5**
Equities					
COMMUNICATION SERVICES	46,735.00	54,143.80	4.3	1,456	2.7
CONSUMER DISCRETIONARY	116,224.98	120,010.60	9.5	1,488	1.2
CONSUMER STAPLES	32,455.50	32,990.50	2.6	871	2.6
ENERGY	49,650.95	44,707.00	3.5	2,532	5.7
FINANCIALS	107,646.22	123,935.26	9.8	3,442	2.8
HEALTH CARE	163,369.91	175,876.75	14.0	1,001	0.6
INDUSTRIALS	98,620.49	108,910.50	8.6	1,961	1.8
INFORMATION TECHNOLOGY	135,719.82	142,786.00	11.3	1,060	0.7
MATERIALS	82,640.33	89,318.25	7.1	1,459	1.6
Total Equities	**833,063.20**	**892,678.66**	**70.9**	**15,270**	**1.7**
Fixed Income					
MUTUAL FUNDS - BONDS	278,180.46	280,465.80	22.3	4,713	1.7
Total Fixed Income	**278,180.46**	**280,465.80**	**22.3**	**4,713**	**1.7**
TOTAL INVESTMENTS	**$1,196,477.15**	**$1,258,377.95**	**99.9%**	**$21,296**	**1.7%**
Accrued Interest		**0.00**	**0.0**		
Accrued Dividends		**1,440.75**	**0.1**		
TOTAL PORTFOLIO		**$1,259,818.70**	**100.0%**		

LKCM FUNDS

LKCM Fixed Income Fund

December 31, 2019

Fund Facts

CUSIP:	501885404	**Investment Objective:**	The Fund seeks current income.
Ticker Symbol:	LKFIX	**Managers:**	Joan M. Maynard, Scot C. Hollmann, CFA, CIC, Mark L. Johnson, CFA, CIC
Inception Date:	12/30/1997		
Minimum Investment:	$2,000	**Web:**	www.lkcmfunds.com
Portfolio Turnover Rate*	37%	**Phone:**	1-800-688-LKCM

LKCM Fixed Income Fund

About The Adviser

Luther King Capital Management Corporation was founded in 1979 and provides investment management services to investment companies, employee benefit plans, endowments, foundations, pension and profit sharing plans, trusts, estates, and high net-worth individuals.

Portfolio Managers

Joan M. Maynard is the lead portfolio manager of the LKCM Fixed Income Fund and oversees the investment team responsible for the LKCM Fixed Income Fund. Ms. Maynard joined Luther King Capital Management in 1986 and serves as Principal, Vice President and Portfolio Manager.

Scot C. Hollmann, CFA, CIC, is a member of the investment team reponsible for the LKCM Fixed Income Fund. Mr. Hollmann joined Luther King Capital Management in 1983 and serves as Principal, Vice President and Portfolio Manager.

Mark L. Johnson, CFA, CIC, is a member of the investment team responsible for the LKCM Fixed Income Fund. Mr. Johnson joined Luther King Capital Management in 2002 and serves as Principal, Vice President and Portfolio Manager.

Contact us at
1-800-688-LKCM
www.lkcmfunds.com

Performance

Returns as of 12/31/19

	Expense Ratio					Average Annual Total Returns			
									Since Incept
	Net¹	**Gross**	**3 Month**	**YTD**	**1YR**	**3YR**	**5YR**	**10YR**	12/30/97
LKCM Fixed Income Fund	0.50%	0.78%	0.57%	6.70%	6.70%	3.00%	2.50%	2.97%	4.25%
Bloomberg Barclays Interm. Gov/Credit Bond Index			0.37%	6.80%	6.80%	3.24%	2.57%	3.05%	4.47%
Lipper Short Intermediate Invest. Grade Debt Funds Indx			0.60%	5.67%	5.67%	2.86%	2.31%	2.83%	3.91%

Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Fund performance current to the most recent month-end may be lower or higher than the performance quoted and can be obtained by calling 1-800-688-LKCM. The fund imposes a 1.00% redemption fee on shares held less than 30 days, and if reflected, the fee would reduce the performance shown.

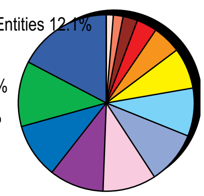
Top Ten Holdings**

			(% of Net Assets)
Danaher Corporation	3.35%	09/15/25	2.12%
Enterprise Products Operating, LLC	3.75%	02/15/25	2.11%
Emerson Electric Co.	3.15%	06/01/25	1.90%
Amazon.com, Inc.	2.50%	11/29/22	1.85%
Bristol-Myers Squibb Co.	3.63%	05/15/24	1.82%
Burlington Northern Santa Fe, LLC	3.00%	03/15/23	1.75%
Thermo Fisher Scientific, Inc.	4.15%	02/01/24	1.75%
Oracle Corp.	3.25%	11/15/27	1.73%
Trimble Inc.	4.15%	06/15/23	1.72%
Family Dollar Stores, Inc.	5.00%	02/01/21	1.69%

**Excludes Cash and Equivalents.

The composition of the Fund's holdings and sector weightings are subject to change and are not recommendations to buy or sell any securities.

Sector Weightings



- Financials 17.5%
- U.S. Government Sponsored Entities 12.1%
- Health Care 10.2%
- U.S. Government Issues 10.1%
- Communication Services 9.9%
- Industrials 9.8%
- Energy 8.9%
- Information Technology 7.6%
- Consumer Discretionary 5.3%
- Real Estate 3.8%
- Materials 2.7%
- Cash & Equivalents 1.8%
- Consumer Staples 0.3%

Fixed Income Quality Distribution

	(% of Net Assets as of 12/31/19)
BBB	34.4%
AA	30.5%
A	29.4%
BB	2.9%
B	1.0%
Non-Rated	0.0%

Portfolio Composition

	(% of Net Assets)
Fixed Income	98.2%
Cash Equivalents	1.8%

*Fiscal year to date from 1/1/19 to 12/31/19.

The fixed income quality distribution uses the Standard and Poor's scale. Bond ratings are expressed as letters ranging from 'AAA', which is the highest grade, to 'C' ("junk"), which is the lowest grade.

The Funds' investment objectives, risks, charges, and expenses must be considered carefully before investing. The Funds' summary and statutory prospectuses contain this and other important information about the Funds. Please read the summary and statutory prospectuses carefully before investing. To obtain a hardcopy, please call 1-800-688-LKCM. Read carefully before investing.

Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities.

¹Expense ratios above are as December 31, 2018, the Fund's prior fiscal year end, as reported in the Fund's current prospectus. Luther King Capital Management has contractually agreed to waive all or a portion of its management fee and/or reimburse the Fund through May 1, 2020 to maintain designated expense ratios. Investment performance reflects fee waivers in effect. In the absence of such waivers, total return would be reduced. Investment performance for the last quarter is based upon the net expense ratio.

The Bloomberg Barclays U.S. Intermediate Government/Credit Bond Index is an unmanaged market value weighted index measuring both the principal price changes of, and income provided by, the underlying universe of securities that comprise the index. The Lipper Short Intermediate Investment-Grade Debt Funds Index is an unmanaged index generally considered representative of short intermediate investment grade mutual funds tracked by Lipper, Inc. You cannot invest directly in an index.

The Fund is distributed by Quasar Distributors, LLC.

LUTHER KING CAPITAL MANAGEMENT

2019 REVIEW

The longest U.S. economic expansion on record, now in its eleventh year, also remains the most sluggish among the ten post-war expansions. This lack of robust growth has contributed to the longevity. In order for the economy to grow above trend, aside from the immediate aftermath of a recession, consumers, businesses, and government must employ credit to pull forward consumption. Such action often results in a cycle of rising debt burdens which crest just as the business cycle turns down, often driven by the Federal Reserve acting to squelch inflation by raising interest rates. The consumer, in particular, has been quite disciplined regarding leverage and savings during this expansion, which has contributed to both its moderate pace and sustainability.

However, moderate economic growth of around 2.0% per year after inflation can lead to the perception that growth is relatively fragile. Investors spent a good portion of 2019 on recession watch as traditional warning signs, such as an inverted yield curve, slowing job gains, and contracting manufacturing activity, pointed to an elevated risk of a recession. Weakness in many other global economies also reinforced these recessionary concerns. Fortunately, weaker economic growth amid rising trade tensions spurred policymakers around the world into action as central banks lowered interest rates, reinstated quantitative easing, quickened the pace of money supply growth, and expanded fiscal spending.

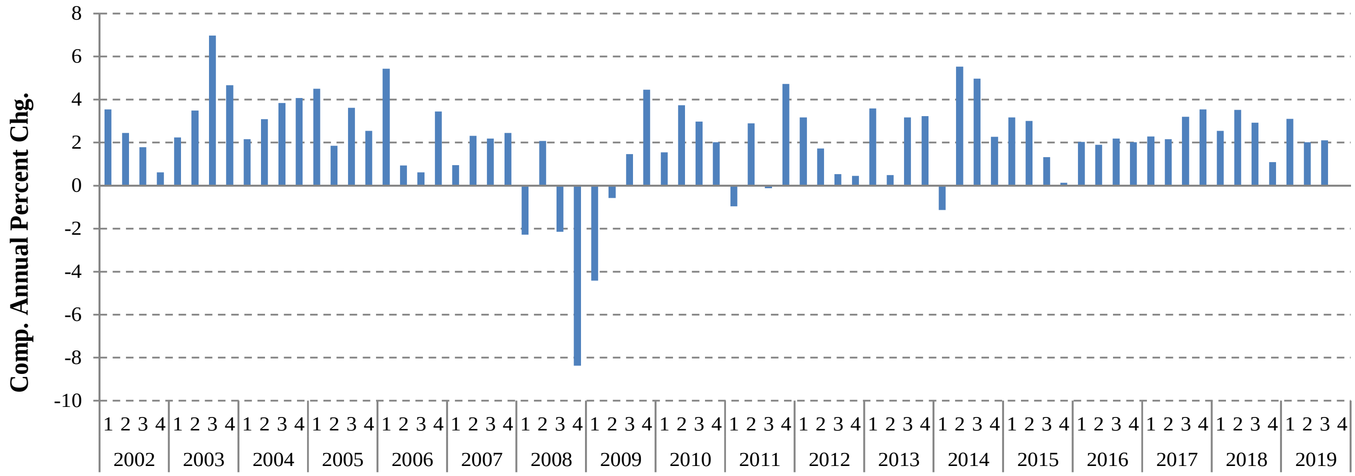
The 2017 Tax Cuts and Jobs Act boosted short-term demand in early 2018, laying the foundation for the strong capital market returns in 2019. The 2018 Bipartisan Budget Act of 2018, signed as the federal government entered its second government shutdown of the fiscal year, further lifted spending in 2018. As a result of these fiscal stimuli, real Gross Domestic Product (GDP) grew 2.9% in 2018, considerably above trend. The government shutdown from December 22, 2018 until January 25, 2019 temporarily depressed demand and added to uncertainty, which negatively impacted business spending in subsequent quarters. Business confidence sank further in response to the Trump administration's often unpredictable shifts in trade policy. Against this backdrop of uncertainty, the Federal Reserve continued to tighten monetary policy by hiking its benchmark interest rate nine times beginning in 2015, including four increases in 2018. The final interest rate hike in December 2018 unnerved investors, as the Federal Reserve appeared to be tone-deaf to weakening economic data and rising trade tensions. This interest rate increase contributed to a nearly 20% decline in the Standard & Poor's 500 Index from its peak during 2018.

The Federal Reserve then surprised markets in the first quarter of 2019 with a large and unexpected reversal in monetary policy. At the Federal Reserve's first interest rate policy meeting of the year and only six weeks into 2019, the committee signaled that it would refrain from further interest rate increases for the foreseeable future and suspend its balance sheet reduction at some point during the year. Several factors contributed to the abrupt change in the course for monetary policy, including the decline in global equity markets following the December interest rate hike, declining inflation expectations, and the impact of trade tensions on global growth. The sharp dovish tilt in monetary policy, combined with significant equity valuation compression during December of 2018, set the stage for valuation expansion as monetary conditions eased and trade tensions moderated as 2019 progressed. As a result, equities returned 31.5% including dividends for 2019 as measured by the Standard & Poor's 500 Index and bonds returned 6.8% as measured by the Bloomberg Barclays Capital Government/Credit Intermediate Bond Index.

Finally, the economy has achieved a unique milestone as we close the decade. The history of recessions in the U.S. illustrates that they are a natural, though painful, part of the business cycle. The National Bureau of Economic Research marks the beginning of the first business cycle of record during the fourth quarter of 1854. In every decade since the 1850s, the U.S. economy has experienced a recession, which is commonly defined as two consecutive quarters of contracting Gross Domestic Product (GDP). The most recent recession from December 2007 until June 2009 is well remembered for its significant job losses and historic rates of home foreclosures, the echo of which continues to shape the labor market and housing industry today. However, 2019 brought to a close the only decade over the past 165 years in which the economy did not experience a recession.

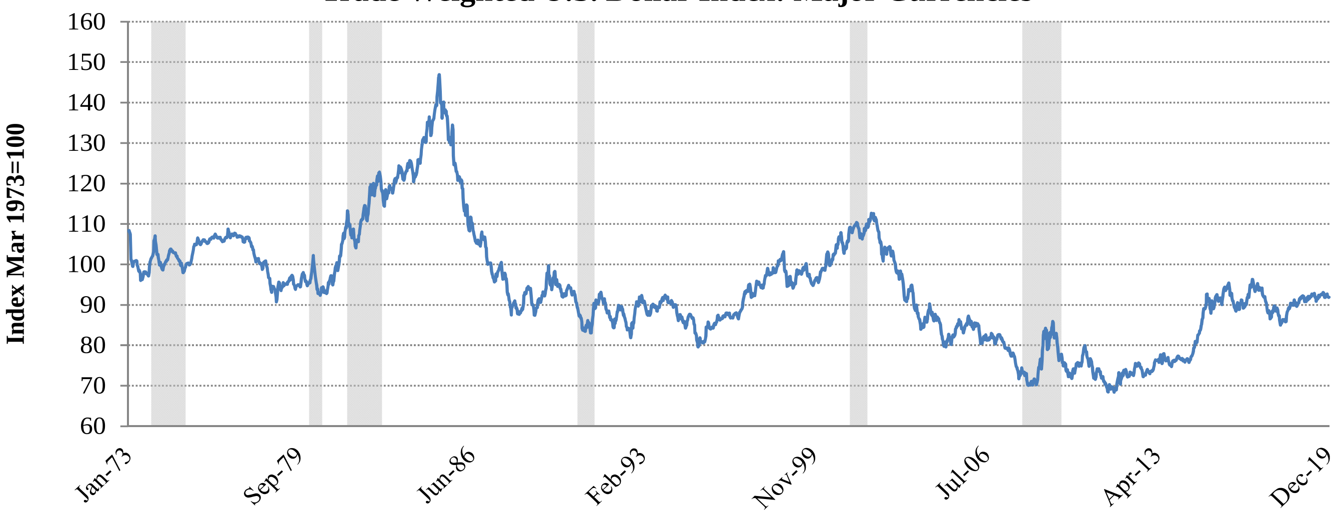
As we have in prior fourth quarter reviews, we have included the following compendium of economic and market related charts.

Real Gross Domestic Product



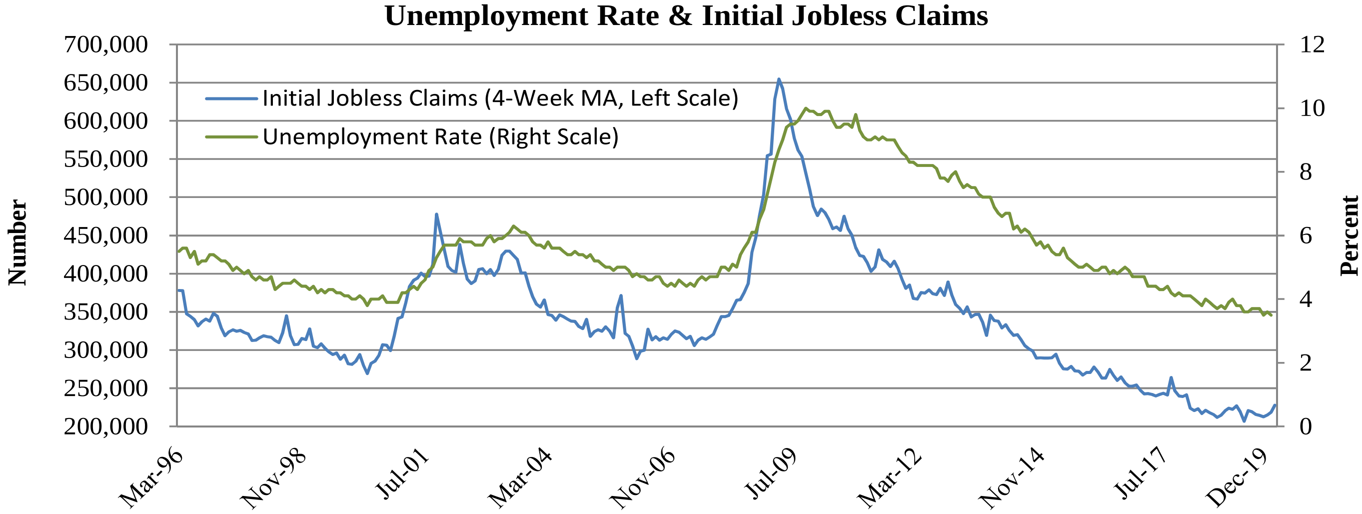
Source: U.S. Department of Commerce: Bureau of Economic Analysis

Trade Weighted U.S. Dollar Index: Major Currencies



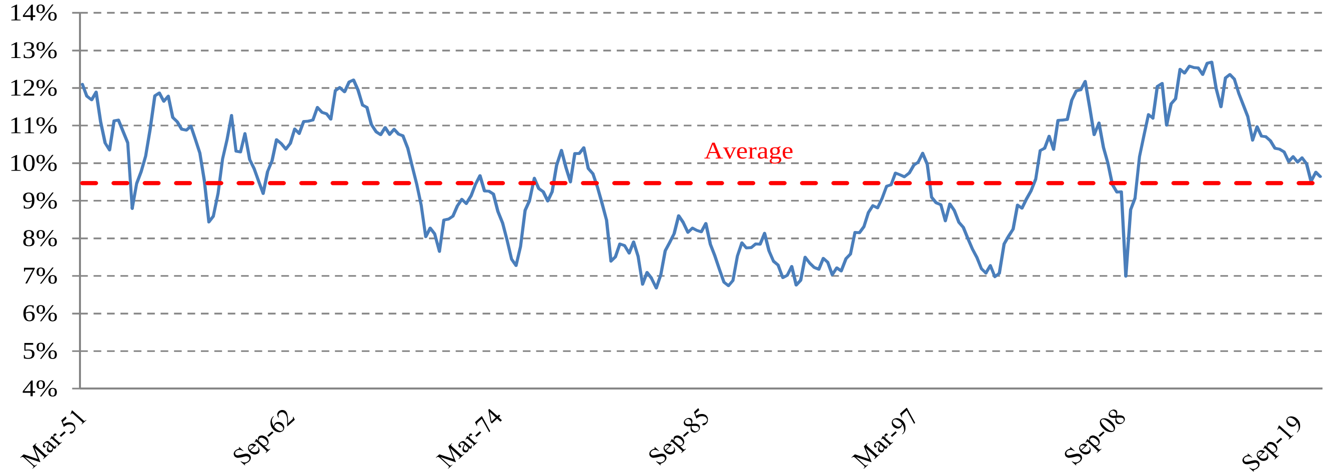
Source: Board of Governors of the Federal Reserve System; shaded areas represent recession periods.

Unemployment Rate & Initial Jobless Claims



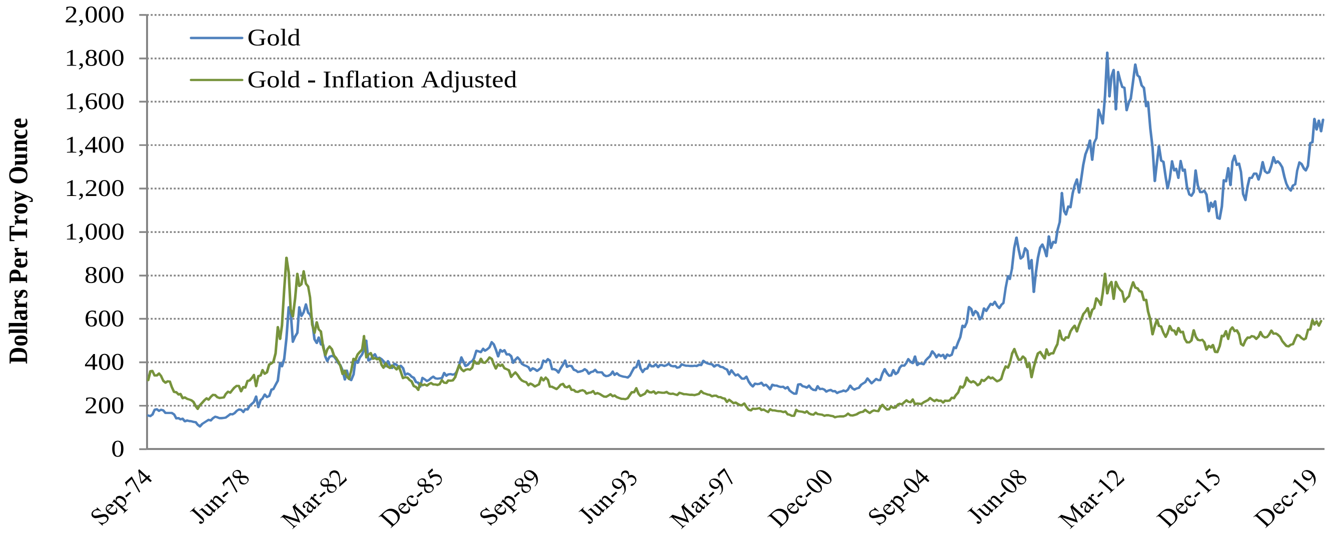
Source: U.S. Department of Labor: Employment and Training Administration/U.S. Department of Labor: Bureau of Labor Statistics

Corporate Profits as a Share of Gross Domestic Product



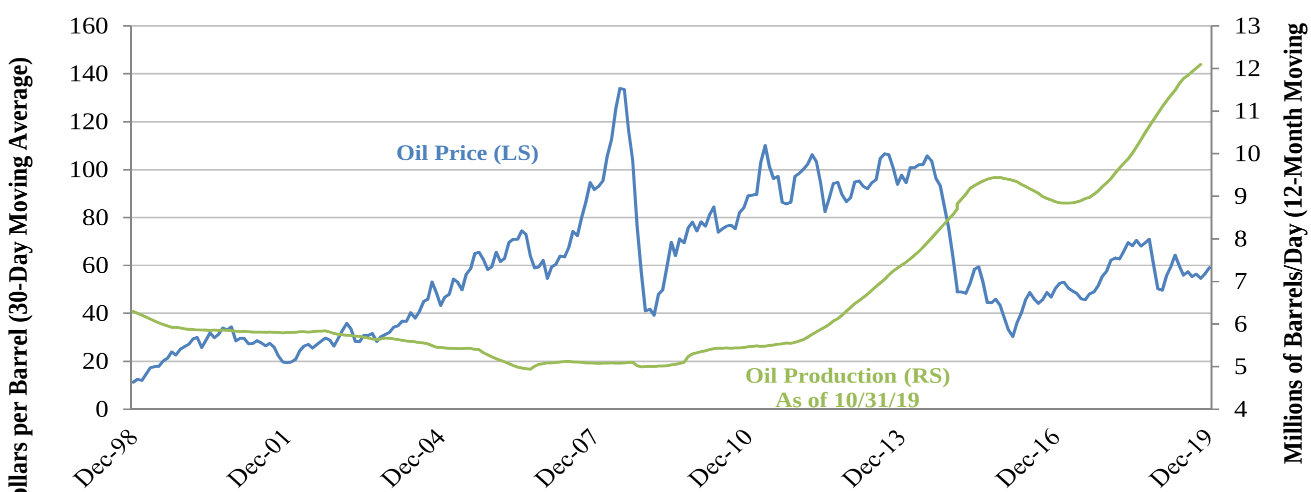
Source: U.S. Department of Commerce: Bureau of Economic Analysis

Price of Gold & Inflation Adjusted Price of Gold



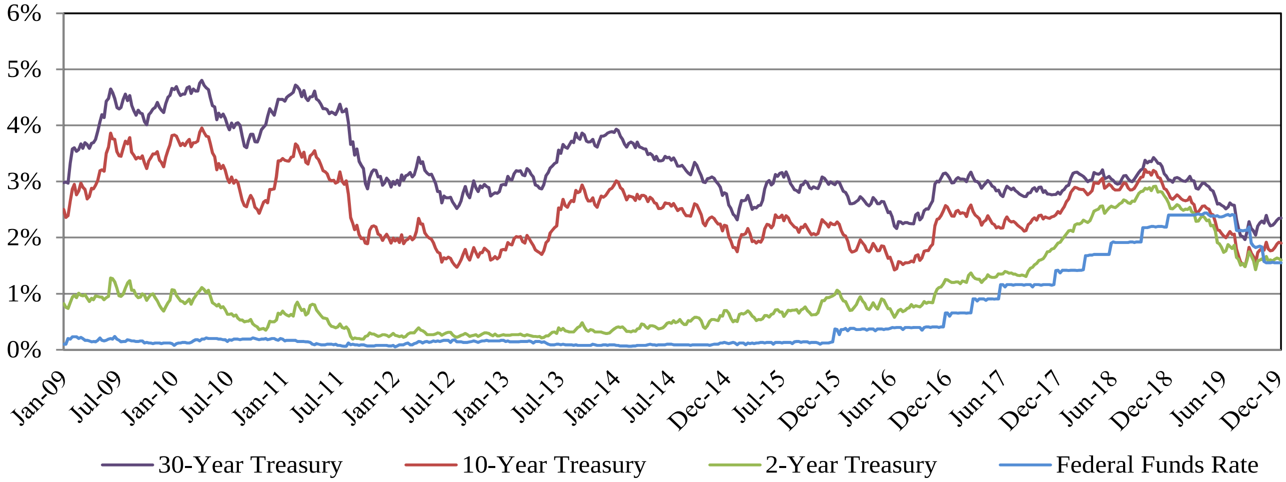
Source: Bloomberg, Inflation Adjusted Base 1984 = 100

U.S. Oil Production & Spot Oil Price: West Texas Intermediate



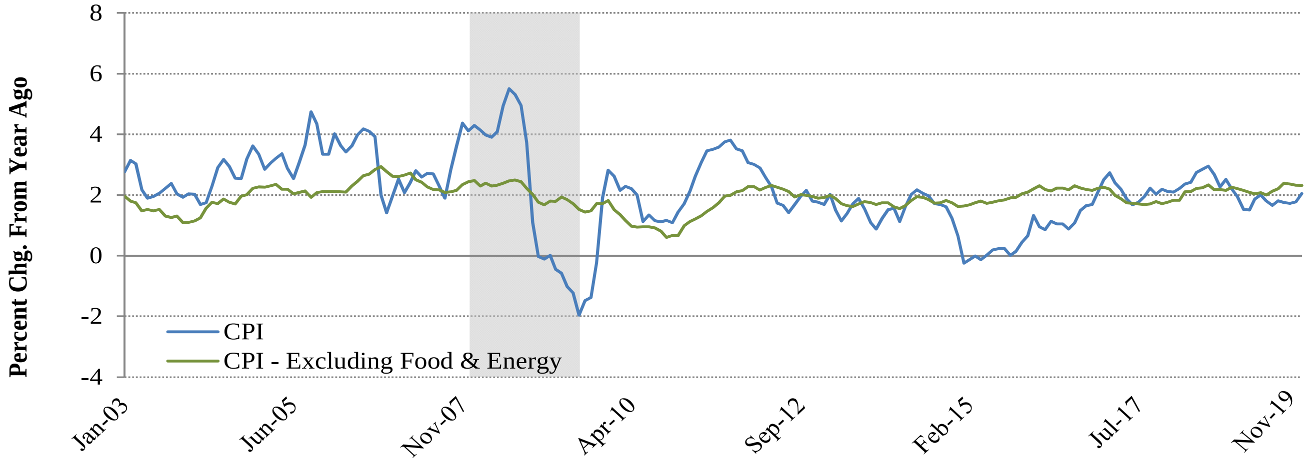
Source: Dow Jones & Company/Department of Energy

U.S. Treasury Rates & Federal Funds Rate



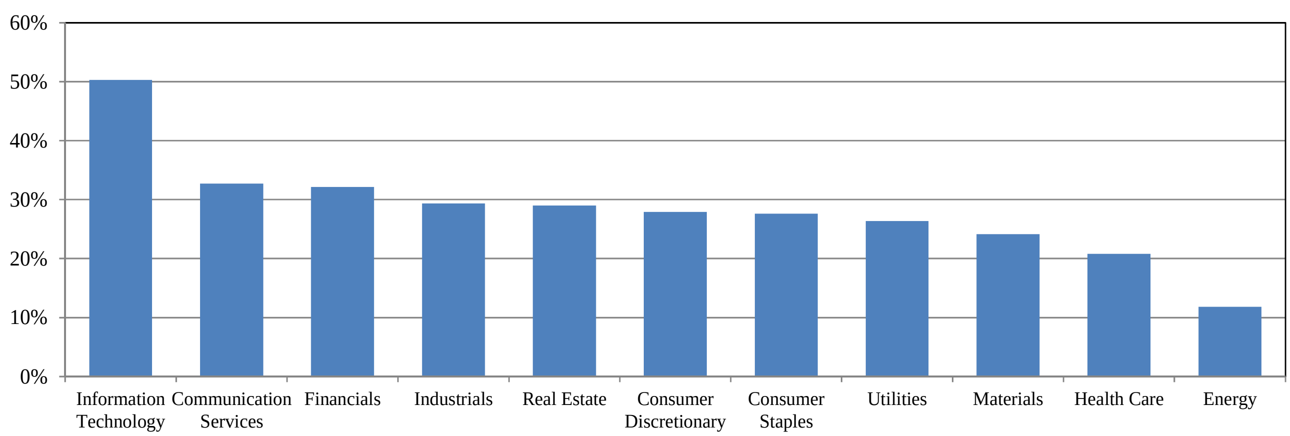
Source: Board of Governors of the Federal Reserve System

Consumer Price Index for All Urban Consumers: All Items
Consumer Price Index for All Urban Consumers: All Items Less Food & Energy



Source: U.S. Department of Labor: Bureau of Labor Statistics

Standard & Poor's 500 Index
2019 Sector Performance (Total Return)



Source: Thomson Reuters Eikon

2020 OUTLOOK

The domestic economic outlook has become incrementally positive, as the slump in manufacturing appears to be bottoming, labor markets are robust, monetary policy remains accommodative, and some political uncertainties have diminished. Personal consumption represents roughly 70% of the U.S. economy, and the consumer remains healthy. The economy created a surprisingly strong 266,000 new jobs in November, aided in part by the return to work of 49,000 striking General Motors employees. Labor market strength is also evident in the most recent November unemployment rate of 3.5%, the lowest since December of 1969. Tight labor markets are supportive of higher wages, which grew 3.1% in November compared with a year earlier. The lowest paid U.S. workers were the recipients of the biggest raises as earnings for nonsupervisory workers grew 3.7% from a year earlier, and this trend could continue. Twenty-two states have ushered in higher minimum wage levels around the New Year. Only seven of these increases relate to inflation adjustments, the balance are the result of state legislative actions or ballot initiatives passed by voters. This will impact an estimated 6.8 million workers with increases ranging from a $0.10 per hour inflation-related adjustment in Florida to a $1.50 per hour increase in New Mexico and Washington. Not surprisingly, strong labor conditions have helped lift consumer confidence back to recent highs.

In our previous year-end correspondence, we highlighted the health of consumer balance sheets with the ratio of household debt to disposable income having fallen from a peak of 134% in December of 2007 to 97% currently. There is also an intriguing development in the savings pattern of consumers. From the 1980's through 2007, the ratio of personal savings as a percentage of disposable income typically rose following a recession as people paid down debt and replenished savings. As economic growth improved, consumer spending would rebound alongside consumer confidence, and the savings rate would fall. This pattern, however, has been upended in the current economic expansion. The personal savings rate rose from 3.7% in 2007 to 6.5% in 2010, the year after the recession ended. However, rather than declining, the personal savings rate through the first eleven months of 2019 averaged 8.0%, the highest level since 1992, with one exception. There are several factors contributing to the shift in this behavior, including lower personal tax rates, aging baby boomers saving for retirement, and the long shadow cast by the last economic recession and related housing bust. An implication of this persistently high savings rate is that it can act as a shock absorber for consumers in the event of an economic downturn.

Shifting from consumer spending to business spending, the U.S. has faced two recent downturns in manufacturing activity. The first occurred in 2015-2016, accentuated by a precipitous decline in energy prices, and the second began in mid-2018. After reaching a near-term high in August 2018, the Institute for Supply Management's (ISM) manufacturing index has steadily fallen to a level below 50, indicating contraction in the domestic manufacturing sector. The slowdown is broadly attributed to a combination of trade restrictions and business uncertainty about trade policy. The manufacturing slowdown is global and has also had a negative impact in Germany and China. However, we anticipate a rebound in U.S. manufacturing over the coming year as trade tensions deescalate with the signaling of a "Phase I" trade deal with China. In addition, steps the Federal Reserve took to loosen monetary policy in 2019 will begin to flow through the economy by mid-2020.

The U.S. dollar finished 2019 little changed from the beginning of the year; however, it could face three potential headwinds over the coming year. First, rising global bond yields have narrowed the excess yield spread offered by owning U.S. bonds, potentially resulting in a decrease in demand for U.S. dollars by foreign investors. Second, the U.S. dollar has historically been a counter-cyclical currency, meaning that it weakens as the economic growth between the U.S. and the rest of the world narrows. The heart of the European economy, Germany's large manufacturing base, has been particularly hard hit over the past year as auto manufacturing firms, still reeling from emissions scandals, have been heavily impacted by declining auto exports to China and significant retooling costs to develop more electric vehicles. However, European economic growth, aided by recent easing of monetary policy by the European Central Bank, should stabilize and show signs of recovery in the coming years. Finally, the U.S. dollar is sensitive to changes in inflation expectations, which fell from mid-2018 through the early part of the fourth quarter of 2019. If inflation expectations were to lift slightly from depressed levels in light of easing monetary policy, the U.S. dollar could weaken. Any weakening in the U.S. dollar would help boost corporate earnings of domestic companies with foreign sales.

We remain constructive on the outlook for domestic equities, despite their strong performance in 2019 and higher valuations, due to expectations of the lagged effect of easy monetary policy and marginally less trade policy uncertainty. Corporate earnings are expected to grow 5-7% in 2020 compared with around 2% for 2019, driven in part by a recovery of earnings within the energy sector. The Standard & Poor's 500 Index currently trades for 18.5X forecasted 2020 earnings, compared to a multiple of 15.4X as we entered 2019. We continue to favor equities over fixed income, particularly with 46% of the companies in the Standard & Poor's 500 Index trading with a dividend yield higher than the yield on the 10-Year U.S. Treasury Note of 1.92%. In fact, the recent sum of the equity market's dividend yield and the yield on the 10-Year U.S. Treasury Note was the lowest in at least half a century.

As the calendar turns to 2020, the U.S. presidential election features prominently in the year ahead. One way to think about the equity market is as a discounting mechanism that aggregates investors' collective expectations. As the election approaches, investors will parse unexpected developments, which will be rapidly reflected in market prices. One simple result could be higher volatility as November approaches, particularly if risk to the status quo is perceived to rise. Historically, the electorate has viewed the presidential election through the prism of the economy. Since Woodrow Wilson's second term in 1916, in all twelve cases when the incumbent presidents avoided a recession two years before seeking another term, they went on to win reelection. Conversely, in the six instances when a recession occurred in the two year run-up to a re-election year, the incumbent lost with one exception, Calvin Coolidge, who won the election in 1924 as the incumbent after the passing of President Harding.

In summary, our outlook for 2020 is for the economy to continue to expand around 2% in real terms, aided by easy monetary policy as well as healthy consumption supported by continued strength in the labor market and real wage growth. The trade tension fever may have finally broken, which should be positive for business confidence, a component of capital spending plans by businesses. As always, a market correction of approximately 10% could occur at any time. However, a bear market, defined as a decline of greater than 20%, appears less likely without an accompanying recession. We assign a low probability to this risk, absent a severe exogenous shock to the economy. The November elections will rightly capture the attention of investors, and there is considerable time for developments to occur in the interim. We remain committed to investing in what we view to be the highest quality, competitively advantaged companies for our clients.

*FINANCIAL MARKET TOTAL RETURN**

	Fourth Quarter 2019	Six Months Ending 12/31/19	One Year Ending 12/31/19	Annualized Return Two Years Ending 12/31/19	Annualized Return Three Years Ending 12/31/19	Annualized Return Five Years Ending 12/31/19
Standard & Poor's 500 Index	9.07%	10.92%	31.49%	12.13%	15.27%	11.70%
Russell 2000 Index	9.94%	7.30%	25.52%	5.69%	8.59%	8.23%
Value Line Composite Index	6.57%	4.58%	19.23%	1.10%	5.02%	3.97%
Dow Jones Industrial Average	6.67%	8.62%	25.34%	9.99%	15.73%	12.59%
NASDAQ (OTC) Composite	12.49%	12.70%	36.74%	15.24%	19.89%	15.00%
Bloomberg Barclays Capital Gov't/Credit Intermediate Bond Index	0.37%	1.75%	6.80%	3.80%	3.24%	2.57%

** Total Return Includes Income*

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