

## Market Overview

2019 was a remarkable year for risk assets, with virtually all asset classes delivering positive returns for the full calendar year. It is important to remember where risk assets began the calendar year, merely a few days into a recovery from the volatility of December 2018. The Federal Reserve's (Fed) whiplash-inducing reversal from regime of higher short-term interest rates and quantitative tightening ("QT") to one of rate cuts demonstrated to the markets the "Fed put" remained firmly in place. Against this backdrop, equities spent the first four months of 2019 steadily recovering from the near-bear market of late-2018. It was not until April that the S&P500 Index (S&P500) would retest the highs reached in the third quarter of 2018. At the same time, calm returned to the risk markets with implied volatility (as measured by the CBOE Volatility (VIX) Index) moving steadily back to quiescent levels below 15. Similarly, traditional fixed income assets rose in price, benefiting from both a fall in Treasury yields and a narrowing of credit spreads.

By spring, the steady rise in equities stalled out as the markets turned their focus to the continuing Trade War, weakening macroeconomic data, and decline in corporate earnings estimates. The inversion of various portions of the yield curve over the summer spurred fears of an imminent recession. The VIX Index spiked, reflecting the growing concerns about both growth and policy.

By the beginning of the fourth quarter, however, the stars seemed to align for risk assets with the outbreak of Trade Peace, an accommodative Fed, and improving macroeconomic indicators all providing a tailwind. The Fed's commitment to lower short-term interest rates was well understood by the market, in light of the mid-September  $\frac{1}{4}$  point cut (to be followed in late October by another  $\frac{1}{4}$  point). Yet to be discounted was the Fed's commitment to inject substantial amounts of liquidity into the financial markets via the wholesale funding markets. While officially "not Quantitative-Easing", the fourth quarter growth of the Fed balance sheet was larger (in dollar terms) than any quarter during the periods of official QE. Only during the Global Financial Crisis of 2008-2009 did the Fed balance sheet grow faster (in dollar terms). Additional positive policy news for risk assets – and equities in particular – followed in early October with the announcement of a "Phase I" trade pact between the U.S. and China.

By late October, the S&P500 was again closing at new all-time highs. As the year came to a close, the S&P500 had posted a total return of 31.48%, while the Bloomberg Barclays U.S. Aggregate Bond Index's total return for the year was 8.72%. For equities, this calendar year return consisted largely of multiple expansion, as there was little earnings growth during the year. Entering 2019, consensus estimates for the companies of the S&P500 (per FactSet) predicted earnings would grow by 6.9% during the year, with revenue growth of 5.5%. These estimates were not to be fulfilled as, if year-end consensus estimates are accurate, earnings will have growth by a fraction of a percentage point (+0.2%) with revenue growth of +3.9%.

Source for all figures above: DoubleLine Capital

## Fund Overview

The 1290 DoubleLine Dynamic Allocation Fund pursues its investment objective, to seek to achieve total return from long-term capital appreciation and income, by investing under normal circumstances, in a diversified range of securities and other financial instruments, including derivatives, which provide investment exposure to equity and fixed income investments. In the fourth quarter of 2019, the Fund gained 4.40%, while the Fund's benchmark – a blend of the S&P500 (60%) and Bloomberg Barclays U.S. Aggregate (40%) – gained 5.46%. During the period, the S&P500 gained 9.06% and the Bloomberg Barclays U.S. Aggregate gained 0.18%.

## Fund Highlights

### What helped performance during the quarter?

The return of the Fund's fixed income investments was positive in the quarter and exceeded that of the Bloomberg Barclays U.S. Aggregate's return. High yield, global bonds, and bank loans delivered the highest returns.

The Fund's active equity investments outperformed the S&P500 in the fourth quarter of 2019, due largely to security selection. Security selection was strong in the energy, Consumer discretionary, and consumer staples sectors.

Technology, communication services, and materials delivered the best returns while constituents of the the Shiller Barclays CAPE U.S. Sector Index (the "CAPE Index") .

### What hurt performance during the quarter?

The Fund's allocation to the CAPE Index underperformed the S&P500 in the fourth quarter. During the quarter, the Shiller Barclays CAPE U.S. Sector Index the CAPE Index was allocated to six sectors: communication services, consumer staples, healthcare, industrial, materials, and technology. Technology, communication services, and materials delivered the best returns while constituents of the CAPE Index. The weakest returns were earned in the industrial, consumer staples, and healthcare sectors. The industrial sector was the only sector with negative returns while a constituent of the CAPE Index.

In the active equity sleeve security selection in the industrial and financials sectors was a drag on returns relative to the S&P500.

In the fixed income sleeve the weakest returns were in government bonds, Agency mortgage-backed securities, and non-Agency mortgage-backed securities.

Source: DoubleLine Capital

**An investor should consider the investment objectives, risks, charges and expenses of the Fund carefully before investing. To obtain a prospectus containing this and other information, please call 1-888-310-0416 or download the file from [www.1290funds.com](http://www.1290funds.com). Read the prospectus carefully before you invest.**

1290 DoubleLine Dynamic Allocation Fund seeks to achieve total return from long-term capital appreciation and income. The Fund's allocations may change at any time. Performance may be affected by one or more of the following risks. Fixed income investments are subject to credit risk and interest rate risk. The fund is subject to the risk that the issuer of a fixed income security or the counterparty to a transaction is unable or unwilling to make timely interest or principal payments, or otherwise honor its obligations, which may cause the Fund's holding to lose value. In addition, changes in interest rates may affect the yield, liquidity and value of investments in income producing or debt securities. When interest rates rise, the value of the Fund's debt securities generally decline. Conversely, when interest rates decline the value of the Fund's debt securities generally rises. In general, the value of stocks and other equity securities fluctuate, and sometimes widely fluctuate, in response to changes in a company's financial conditions as well as general market, economic and political conditions and other factors. To the extent the Fund invests more heavily in particular sectors, its performance will be especially sensitive to developments that significantly affect those sectors.

The Fund's Index is a blend of 60% S&P 500® Index and 40% Bloomberg Barclays U.S. Aggregate Bond Index. The **S&P 500® Index** is an unmanaged index which contains 500 of the largest U.S. industrial, transportation, utility and financial companies deemed by Standard and Poor's to be representative of the larger capitalization portion of the U.S. stock market. The **Bloomberg Barclays U.S. Aggregate Bond Index** is an unmanaged index considered representative of the U.S. investment-grade fixed-rate bond market. Includes government and credit securities, agency mortgage pass through securities, asset-backed securities, and commercial-backed mortgage securities. The **CBOE Volatility Index, or VIX**, is a real-time market index representing the market's expectations for volatility over the coming 30 days. Investors use the VIX to measure the level of risk, fear, or stress in the market when making investment decisions.

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