INVESTMENT COMMENTARY

The longest economic expansion in U.S. history continued through the fourth quarter, as the U.S. economy extended its winning streak for 127 consecutive months. In mid-December, Bank of America forecasted a late cycle "Risk Asset Melt-Up" through the first couple months of 2020 built on progress in the US-China trade deal, global monetary easing and some clarity around Brexit following a decisive victory by Boris Johnson and the Conservative party in the recent United Kingdom election. The Federal Reserve cut Fed Funds rate for the third time in 2019 to a target range of 1.50% to 1.75%. The Fed further signaled their plan to follow the traditional election year handbook and remain on the sidelines during 2020. Nonetheless, year-end Fed Futures priced in a 60% probability of at least one cut, while PIA suggests caveat emptor (buyer beware) regarding risk assets, given the slowing global economy, valuation concerns across U.S. markets and escalating geopolitical tensions in the Middle East. The yields on the 1-year and 2-year Treasury declined 18 and 5 basis points, respectively, while the yield on the 3-year Treasury increased by 5 basis points. The short end of the yield curve flattened.

Headline economic data reversed in the second half of 2019 after a first half downward trend. However, the PIA long-term economic outlook improved only modestly, as we continue to believe the risk of economic contraction outweighs the potential for reacceleration. As we've asserted since the onset of the trade wars, the greatest risk to this remarkably resilient, low-inflation, modest-growth U.S. economy is poor fiscal and/or monetary policy making. However, US policy makers gave the markets a lot to cheer about in the fourth quarter and market momentum continued strong through year-end. The Federal Reserve cut their overnight lending rate for the first time since December 2008, delivering three second half 0.25% rate cuts. Chairman Powell also provided an upbeat outlook for sustained expansion of economic activity, a strong labor market, and inflation near the Fed's symmetric 2 percent objective. Additionally, Chairman Powell indicated it's unlikely the Fed will adjust interest rates again anytime soon, so long as the economy remains on its present path. Market optimism accelerated even further on the announcement that Phase One of a US-China trade agreement had been reached and expected to be signed in January 2020.

The 2010's were the first decade ever without a recession, in spite of also delivering the slowest economic recovery in the post-WWII era. The Fed maintained their zero interest rate policy for 78 months after the 2007-08 Great Recession, while printing $4 trillion. The U.S. government added $12 trillion in new debt, while the corporate bond market doubled in size to $10 trillion, a record high and roughly 50% of U.S. Gross Domestic Product (GDP). This massive amount of added liquidity fueled the greatest stock market rally in U.S. history, with the S&P 500 appreciating over 470% since the end of 2008 through 2019. The robust recovery explains why consumer spending continues to drive GDP growth, in spite of historically high household savings outpacing recovery spending. Consumer spending represented more than 80% of GDP in the second half of 2019, and the real economy is now tethered to the U.S. stock market. Stock market holdings are now a greater percentage of household wealth than real estate, which has occurred only two times in U.S. history (1968, 1999).

Our cautious economic outlook is underpinned by the massive amount of new U.S. debt that has helped inflate U.S. risk assets, driven by multiple expansion and stock buy-backs in a period of declining corporate profits. The growing debt burdens continue to be fueled by artificially low interest rates caused by a low/flattish yield curve corrupted by the proliferation of global negative interest rates. Of even greater concern is the Fed denying the existence of any quantitative easing program while they've added $101.5 billion per month to their balance sheet since the end of August. To put that in perspective, the former QE3 program added $80 billion per month to the Fed's balance sheet. Additionally, we continue to doubt the efficacy of a U.S.–China trade resolution, while the global economy faces mounting political, geopolitical, and economic headwinds most notably in China, Iran and the Euro region.

In the fourth quarter, the fund's duration was shifted from 0.9-year to 1-year or neutral relative to our benchmark. We continue to maintain a corporate credit overweight focusing on high quality balance sheets, while we monitor the risks of potential economic weakness. Our credit focus is on industrial credits that provide incremental risk-adjusted yield and high quality, senior financial credits that we believe offer attractive compensation for the sector volatility. We increased our allocation to agency mortgage-backed securities during the quarter, as we believe the mortgage backed security (MBS) sector offers value on a risk-adjusted basis.

PIA Investment Strategy Group

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Mutual Fund investing involves risk. Principal loss is possible. Investments in debt securities typically decrease in value when interest rates rise. This risk is usually greater for longer-term debt securities. Investments in Asset Backed and Mortgage Backed Securities include additional risks that investors should be aware of such as credit risk, prepayment risk, possible illiquidity and default, as well as increased susceptibility to adverse economic developments. The Fund may invest in derivatives, which may involve risks greater than the risks presented by more traditional investments. The risk of owning an ETF or mutual fund generally reflects the risks of owning the underlying securities that the ETF or mutual fund holds. It will also bear additional expenses, including operating expenses, brokerage costs and the potential duplication of management fees. These risks are fully disclosed in the Prospectus.

Basis point (bp)- A unit that is equal to 1/100th of 1%, and is used to denote the change in a financial instrument.

Yield - The income return on an investment. This refers to the interest or dividends received from a security and is usually expressed annually as a percentage based on the investment's cost.

Inflation is the rate at which the general level of prices for goods and services is rising and, consequently, the purchasing power of currency is falling.

Fiscal Policy - The means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy.

Monetary - consists of the actions of a central bank, currency board or other regulatory committee that determine the size and rate of growth of the money supply, which in turn affects interest rates.

S&P 500 Index – The S&P 500 index includes 500 leading companies in leading industries of the U.S. economy. The S&P 500 is designed to be a leading indicator of U.S. equities and is meant to reflect the risk/return characteristics of the large cap universe. You can not invest directly in an index.

Yield Curve - A line that plots the interest rates, at a set point in time, of bonds having equal credit quality, but differing maturity dates. The most frequently reported yield curve compares the three-month, two-year, five-year and 30-year U.S. Treasury debt.

Duration - A commonly used measure of the potential volatility of the price of a debt security, or the aggregate market value of a portfolio of debt securities, prior to maturity. Securities with a longer duration generally have more volatile prices than securities of comparable quality with a shorter duration.

Benchmark - The ICE BofAML 1-Year US Treasury Note Index is comprised of a single issue purchased at the beginning of the month and held for a full month. At the end of the month that issue is sold and rolled into a newly selected issue. The issue selected at each month-end rebalancing is the outstanding Treasury note that matures closest to, but not beyond, one year from the rebalancing date. To qualify for selection, an issue must have settled on or before the month-end rebalancing date. You cannot invest directly in an index.

The fund held 0% of Bank of America as of 12/31/19.

Past performance is not a guarantee of future results.

Opinions expressed are subject to change, are not intended to be a forecast of future events, a guarantee of future results, nor investment advice.

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