connieHORSTKOTTE, CFP®

Quarterly Economic Update- Fourth Quarter 2019

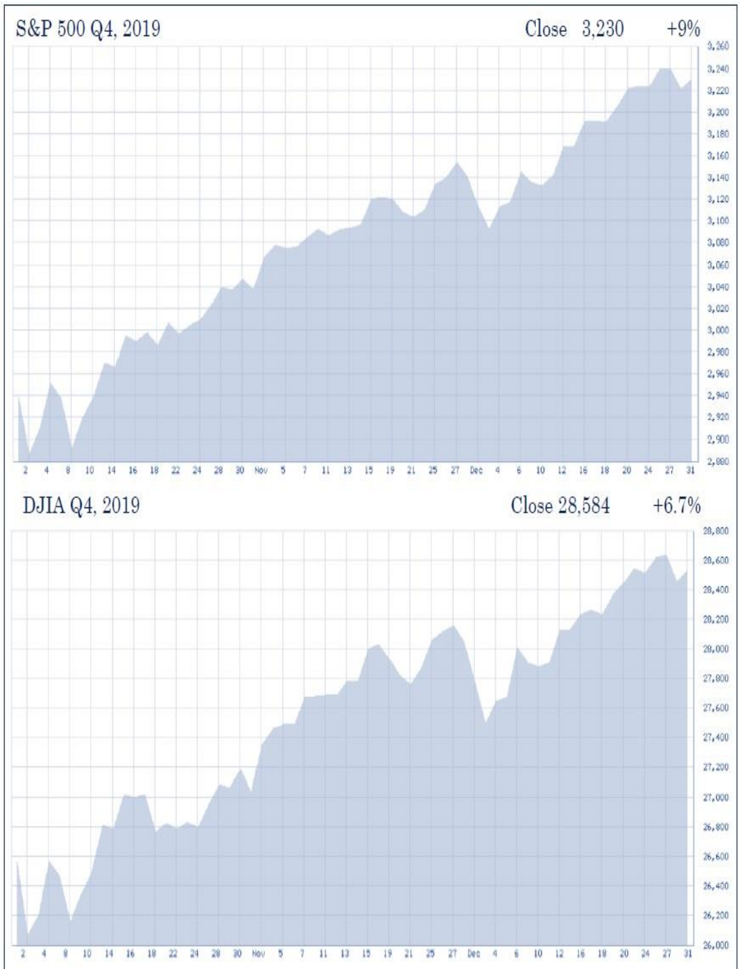
As we look back and reflect on what was predicted by many to be a year of worry and concern, equity markets advanced heavily in 2019 and investors were rewarded. The final month of the year brought several new highs for both the S&P 500 and the Dow Jones Industrial Average (DJIA). In the fourth quarter of 2019, the S&P 500 rose over 9% and for the year it turned in its best annual performance since 2013. The DJIA also had a strong quarter rising 6.7%. ***(Source: RWBaird.com 1/1/2020)***

If someone had told you on January 1st of 2019 that the year would start off with talk of a global economic recession that might take the U.S. economy down with it, add to that, that the U.S. would be in a trade war with China, and the President would get impeached, you might have wondered how much equity markets would retreat. Some feared that 2019 was going to be a challenging year for stocks with volatility taking center stage.

Well, there was no Bear Market in 2019, and for that matter, there wasn't even a correction. A correction or 10% drawdown isn't uncommon for the stock market. In a year that had no shortage of headwinds, the maximum pullback was less than 7%. The continual advancement of equities has kept the longest bull market of all-time intact. Both the S&P 500 and the DJIA posted many new highs in 2019 and all throughout the fourth quarter. Optimism about the U.S. economy improved and investors saw potential trade developments. During the fourth quarter, the U.S. reported that the economy grew just above 2% in the previous quarter, driven by healthy consumer spending.

Employment numbers continued to impress analysts with an average addition of 205,000 jobs per month in the quarter. Unemployment closed the year under 3.5% with limited wage pressure. On a negative note, businesses were reluctant to invest in 2019 and manufacturing contracted in December to its lowest level since 2009.

2019 ended on a high note for investors, unlike 2018, where just about everybody was questioning the stability and the possible end of the Bull Market. After this year of strong returns, analysts are still mostly bullish, but they are predicting modest gains for 2020.



Source: bigcharts.com

MONEY RATES (as posted in Barron's 12/30/2019)		
	LATEST WEEK	**YR AGO**
Fed Funds Rate (Avg. weekly auction -c)	**1.55%**	**2.36%**
Bank Money Market -z	**0.21%**	**0.22%**
12-month Cert -z	**0.73%**	**0.88%**

c- Annualized yields, adjusted for constant maturity, reported by the Fed Reserve on a weekly average basis. z – Bankrate.com (Source: Barron's; bankrate.com)

Key Points

1. **Equity markets made new highs again this quarter.**
2. **The bull market is over a decade old and is the longest on record.**
3. **Global economic conditions continued to be concerning in the fourth quarter.**
4. **Interest rates remained unchanged at 1.50% - 1.75% in December.**
5. **Trade wars and political concerns created market and investment uncertainty.**
6. **Many analysts are predicting modest growth for equities in 2020.**
7. **Focus on your personal goals and call us with any concerns.**

Global Economic Fears

While the U.S. economy did not experience a recession in 2019, the global economy showed signs of weakness. Global growth for the year recorded its weakest pace since the global financial crisis a decade ago, reflecting common influences across countries and country-specific factors.

According to the International Money Fund (IMF), rising trade barriers and associated uncertainty weighed on business sentiment and activity globally. In some cases (advanced economies and China), these developments magnified the cyclical and structural slowdowns that were already under way. Further pressures came from country-specific weakness in large emerging market economies such as Brazil, India, Mexico, and Russia. Worsening macroeconomic stress related to tighter financial conditions (Argentina), geopolitical tensions (Iran), and social unrest (Venezuela, Libya, Yemen) rounded out the difficult picture. ***(Source: IMF.org 1/1/2020)***

One of the more talked about international topics of quarter four was Brexit. After Boris Johnson was elected Prime Minister, on December 20th, the United Kingdom's parliament voted 358 to 234 in favor of his plan to leave the European Union on January 31. Brexit clarity is hopeful to have a positive effect on the UK economy, where investment expenditures in particular have been weak due to muted business confidence levels.

Central European banks have reacted aggressively to the weaker economic activity. To end the year, several banks, including the European Central Bank (ECB), cut interest rates and the ECB also restarted asset purchases. **A lackluster global economy and further slowdown can affect investors. In 2020, this is an area that needs to be monitored.**

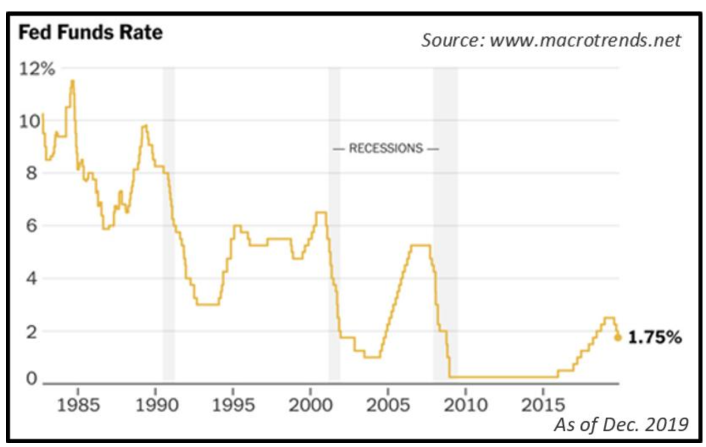
Interest Rates are Still Crucial

In 2019, many types of bonds have delivered some of their best returns in more than a decade. Bond prices rose because the Federal Reserve cut interest rates three times, after raising them in 2018 (bond prices rise when rates fall).

The fourth quarter saw a third rate cut in October and then the Federal Reserve held interest rates steady at 1.50% - 1.75% during its December meeting. In its statement explaining the decision, the committee indicated that monetary policy is likely to stay where it is for an unspecified time, though officials will continue to monitor conditions as they develop.
(Source: CNBC.com 12/11/2019)

There was much talk earlier in the year about an inverted yield curve (which meant that short-term rates were higher than long-term ones). Headlines pointed to the fact that before the last 7 recessions, the 3-month to 10-year yield curve inverted and then the recession followed 4 to 21 months later. Currently, the yield curve is no longer inverted. Historians also remind us that this inversion also happened in 1966 and 1998 without a recession afterward.

Interest rates are still near all-time lows, but clarity with the direction of interest rates can be a positive for investors. **For 2020, interest rates will continue to be on the forefront of our "watch" list.**



Trade Wars and Political Concerns

The Trump administration continued the trade dispute with China during 2019, in an attempt to address practices they said put U.S. companies at a disadvantage. After a year of struggle, in December 2019, the two sides agreed to pause and work on a trade agreement. As of the writing of this report, the two sides are on track to sign a "phase one" deal in early 2020. ***(Source: BusinessInsider.com 12/30/2019)***

The new year also brings a Presidential election in the United States. In December, Donald J. Trump became the third President to be impeached as the House of Representatives approved two articles of impeachment. The uncertainty around the timing of a Senate hearing and the U. S. political scene is concerning for investors. While the impeachment should not have any negative impacts on fiscal or monetary policy, any disruption of this magnitude can affect emotions and behaviors.

Also, as of the writing of this report, tensions with Iran were flaring. Politically speaking, there are still a lot of unknowns in the market. **For 2020, we will continue to watch how political and geopolitical events unfold.**

Where are Markets Headed?

Investors are still enjoying the longest bull market ever, but there are two directions of thought to consider. One is the fact that based on historical numbers, like price earnings, that equities continue to be overvalued and overpriced. The other thought process insists that we are still in a "**TINA**" market, meaning, **T**here **I**s **N**o **A**lternative to stocks. There are investors that look for growth and others that look for yield. With low to limited yield from fixed rates, some investors feel that there could be more upside in the current market. Equities are not cheap and even the savviest of investors need to have a watchful eye on risk. As financial professionals, we assist clients by providing ideas and suggestions based on their personal circumstances.

As seen on the chart of the S&P 500 performance from 1997 to 2019, in 16 of the 23 years the market ended the year with a positive return. However, those who took on significant equity exposure in 2007 or 1999 might not have fared well the following year. On the other side, if an investor was scared after 2008 or 2002 and avoided equities, they might have missed a great opportunity to grow their portfolio. Currently, short-term interest rates and cash equivalent yields are still historically low. Investors seeking returns need to consider owning equities. That could lead to volatility in 2020.

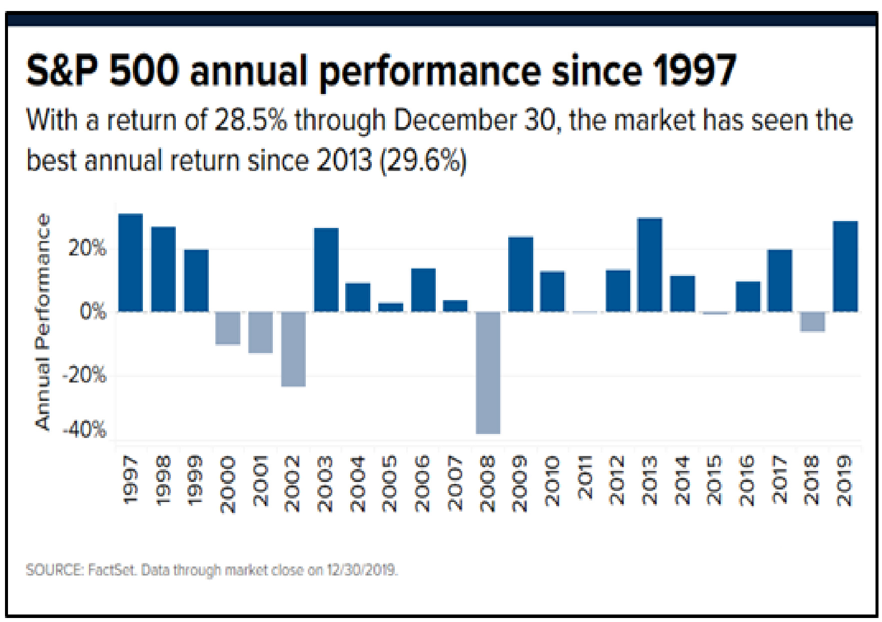
When creating a long-term plan, it can require you to avoid emotional decisions that may trigger you to make impulsive moves. **Our goal is to focus on each client's timeframes and goals.**

2020 Outlook

What a difference a year makes. In December of 2018, for 2019, analysts feared rising interest rates, an aging bull market, recession fears and trade wars. Equity markets proved these fears to be wrong, as they delivered record breaking highs and very positive results. Many analyst are being cautious with their 2020 forecasts. As we have already noted, they too feel interest rates are very low. They also acknowledge that there are old and new risks for investors on the horizon. They maintain that stock valuations are currently challenging and are looking for a "more muted outlook for 2020", according to the 10 strategists Barron's surveyed. They forecasted, "an average rise of 4% for the S&P 500 in 2020. Add to that a roughly 2% dividend yield, and stocks could deliver a total return of about 6% next year." ***(Source: Barron's 12/19/2019)***

"The stock market still has room to run," says Stephen Auth, Chief Investment Officer of Federated Investors. He adds that, "much of the uncertainty that has been problematic for the economy has dropped away." He shares that with low interest rates and high corporate earnings, the S&P 500 still has room to advance. ***(Source: Seeking Alpha 1/9/2020)***

Geopolitical uncertainties, headlines from the upcoming U.S. elections and trade tensions between the U.S. and China might continue to grab an investors attention. **Once again in 2020, we are suggesting that when you experience confusing times it is usually best to proceed with caution.**



Questions for Investors

With the start of a new year we think it could be helpful to repeat some questions for investors to consider annually.

- ✓ ***Is there a change in your financial goals or objectives?***
- ✓ ***Has your risk tolerance changed?***
- ✓ ***Are any of your time frames different?***

Investors should always put their primary focus on their own personal goals and objectives. If you have a change in your answer to any of these questions then contact us and we will be happy to discuss this with you.

We are here for you!

Our advice is not one-size-fits-all. We will always consider your feelings about risk and the markets and review your unique financial situation when making recommendations.

If you would like to revisit your specific holdings or risk tolerance, please call our office or bring it up at our next scheduled meeting. **If you ever have any concerns or questions, please contact us!**

We pride ourselves in offering:

- consistent and strong communication,
- a schedule of regular client meetings, and
- continuing education for every member of our team on the issues that affect our clients.

A skilled financial advisor can help make your journey easier. Our goal is to understand our clients' needs and then try to create a plan to address those needs.

Please share this report with others!

Our goal is to offer services to several other clients just like you! If you would like to share this article with a friend or colleague, please call me at (310) 325-7550 and we would be happy to assist you!

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Sources: Barron's, Businessinsider.com, IMF.org, CNBC.com, RWBaird.com, SeekingAlpha.com. Contents provided by the Academy of Preferred Financial Advisors, 2020