Quarterly Newsletter

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Market Comments

As the stock market closed the year, the bulls showed that they were still very much in charge. Even though this current bull market is now over 10 years old, more than double the normal length, the S & P 500 total return was up over 31% for 2019. Additionally, the rally was broad based, as all sectors were up by double digits at year end. The Information Technology sector won the race with a gain of over 50% for the twelve-month period. This solid performance was welcomed by, but surprised many, investors, albeit pleasantly.

Looking back at the events of the year, there were several clues that forecasted the potential for this stellar performance. The market closed out 2018 on a down note, which is not typically followed by another negative year. Additionally, the third year of a presidential term is usually positive, and the stock market has a history of finishing strong after good beginning months of January and February. Lastly, the Fed began a series of three interest rate cuts, which really got things moving.

Overall, the economy showed some positive signs both during and at the end of the year. Despite the drop in durable goods orders, lower new home sales, contractions in manufacturing activity and the effect of Boeing's production issues, consumer confidence is strong. The Fed, for the time being, is on the sidelines and remains accommodative. Progress also seems to be happening with Chinese trade tensions. New housing starts, non-manufacturing activity, industrial production and personal income are all showing signs of strength. Additionally, the U.S. trade deficit is improving, and employment numbers are good, with the unemployment rate remaining at long-term lows of 3.5%.

An old quote still holds true. "Bull markets don't die from old age. They die from fear, mainly of recessions."

	Close	Month	YTD	1 Year
DJIA	28,538.40	1.87%	25.34%	25.34%
S & P 500	3,230.78	3.02%	31.49%	31.49%
NASDAQ Comp.	8,972.60	3.54%	35.23%	35.23%

	Quarter end yield	Prior Year end yield	Yield 1 year ago
10 yr. U.S. Treasury	1.92%	2.69%	2.69%

Looking Ahead

The economy usually sends mixed signals, and the current situation is no different. The manufacturing data from the Institute of Supply Management is the lowest it has been since 2009 and is in contraction territory. There are also signs of weakening demand, coupled with a global slowdown. New vehicle sales have been weak, as well. The recent missile activity in Iran has certainly created some angst but does not seem, at this moment, to be escalating.

A recession is defined as 2 or more consecutive quarters of a decline in Gross Domestic Product (GDP.) Recessions usually occur about every 5 years, so one is overdue. With that being said, we do not currently forecast a recession in 2020. Most economists' forecasts are for growth in both U.S. and global GDP. Unemployment in the U.S. is expected to also remain at current low levels. Interest rates seemed to have stabilized and are expected to remain in the current ranges. Assuming some stability in the Middle East, oil prices are predicted to remain near current levels, as well.

Even though this bull market is well aged, we think that there are currently more positive reasons to keep the momentum going for 2020. Corporate profits are projected to grow at a steady pace this year and are poised to come in at levels that are higher than current analysts' estimates. Couple this with the current business friendly environment, the Fed's stable monetary policy, lack of inflationary threats and low level of interest rates, the economic picture looks compelling. We will certainly see more political bickering in this election year, but history also looks at this favorably.

Stocks are not cheap, but with the dividend yield of the S & P 500 hovering close to the 10-year treasury yield, stocks still look better than the alternative investments. The stock market's fundamentals are strong, and the current situation is likely to continue but no doubt with more volatility. We will continue to monitor portfolios for proper asset allocation levels and will take some profits where appropriate. Here's to a hopefully Happy New Year.

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