"2020 Vision"

Clients,

Last December the S&P 500 nosedived almost 20% on the news of a trade war, worries of increasing expected inflation, and rising interest rates driven by the Federal Reserve. While the turbulence was unsettling, global equity markets headed due north shortly after in early January led by none other than technology stocks.

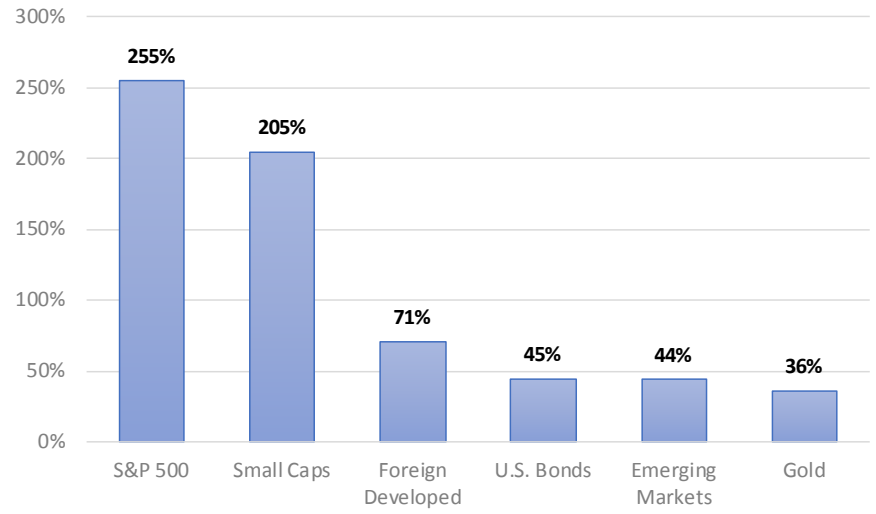
The resurgence in confidence was unsurprisingly after Federal Reserve Chairman Jerome Powell noted that the Fed would remain patient and flexible when considering future rate hikes, and progress was seemingly being made on the trade war front with China. Although, investors would later learn only a phase one deal would be agreed upon close to a year later!

This resurgence of confidence returned investors over 30% for the S&P 500 in 2019, and this is on top of roughly no earnings growth, a contractionary manufacturing industry as indicated by PMI, and an inverted yield curve. Given those data points a year before would most likely cause an investor to be bearish, but the market continued on.

If someone at the end of 2009 had predicted that the Nasdaq would return over 340%, interest rates would end up at 1.5%, the price of oil would stay close to $60 a barrel, unemployment would fall to 3.6%, and the leader of the free world would be Donald Trump they most likely would have been laughed at and even been ridiculed.

Now, as this decade comes to a close and we get ready to buckle up for the 2020s, here is a look back at what happened in the markets over the past decade that got us to this point.

Asset Class Performance, 2010s



Source: Bloomberg

The U.S. stock market, as represented by the S&P 500 index, trounced all other asset classes this decade on both an absolute and relative basis. In comparison, the 2000s actually had a -1% annualized return versus this decade with a 13.5% annualized return. The index was up 9 out of the last 10 years with its only down year in 2018, and this decade was the only other one on record besides the 1990s without a bear market (as defined by a loss of 20% or more from peak to trough).

Technological Changes

The world as we know it changes each and every decade, and it has never failed to innovate and problem solve time and time again. Using the U.S. stock market as our guide, the changes of the tide represented by turnover in the list of the largest U.S. public companies is shown below.

	Market Cap (Billions) 2009		Market Cap (Billions) 2019
ExxonMobil	$ 324	Apple	$ 1,298
Microsoft	$ 271	Microsoft	$ 1,198
Walmart	$ 204	Google	$ 921
Google	$ 197	Amazon	$ 914
Apple	$ 190	Facebook	$ 582
Johnson & Johnson	$ 178	Berkshire Hathaway	$ 550
Procter & Gamble	$ 177	JPMorgan Chase	$ 435
IBM	$ 172	Visa	$ 415
JPMorgan Chase	$ 171	Johnson & Johnson	$ 382
AT&T	$ 165	Walmart	$ 335

Source: YCharts

While the list is similar, it is also very different. Some of the more obvious inclusions are Amazon and Facebook, but this shouldn't come as surprise. Many of the names listed above are companies each and every one of us interact with on a daily basis, and the exciting part is wondering what new companies will be included or knocked off the list ten years from now.

In 2009, iPods were still something widely used by most people. Now these devices are widely irrelevant separate from our smart phones. Start-ups such as Uber and Lyft have changed the way we get from point A to point B, while companies such as Venmo allow us to transfer and request funds from one another in seconds. We can have restaurant food delivered in under 30 minutes using Grubhub or Postmates, and we can order off the internet using only our voice with the help of Alexa.

In 2010, Blockbuster officially filed for bankruptcy. Now, Netflix, Amazon Prime Video, HBO, and Disney+ have all allowed us to enjoy movies or shows without having to leave the house. Fracking technology has allowed the United States to become a more efficient and self-sufficient producer of energy, and the U.S. is currently a net exporter of energy for the first time ever.

We suspect as battery technology advances and reaches cost parity with ICE (internal combustion engine) vehicles, there will be more electric vehicles on the road as ever (maybe even ride sharing or autonomous). Along with autonomous technology comes the "internet of things". Each device linking with one another will need to be met with safer cybersecurity and faster data processing.

These are just a few of the changing trends throughout the past decade, but we suspect there will most likely be trends that emerge this upcoming decade that do not seem obvious as of now and will change the future as we know it.

Interest Rates and the Federal Reserve

Source: Board of Governors of the Federal Reserve System

The 10-year treasury yield depicted in the chart above has continued its downtrend ever since the double digit yields experienced in the 1980s. With a high just shy of 4% and a low of 1.38% this decade, it feels as if this is anything but normal. Each year economists and analysts forecast higher "normal" rates, but that never seems to come to fruition due to rate cuts by the Federal Reserve and lower inflation.

Around the world and particularly in Europe and Japan, there has actually been negative yielding bonds. Almost $11.2 trillion of it to be exact. Ludacris? Absolutely. It is a guaranteed loss if a negative yielding bond is held to maturity. This has caused foreign investors to flock to the United States for any type of positive yielding debt instrument, which has increased the prices of this debt and decreased yields.

We expect this environment of lower interest rates for longer to continue should inflation remain low. This is a harsh reality and a new reality for investors looking to supplement their salary with income during retirement. With the Federal Reserve now on pause from cutting rates, they are actually still remaining accommodative to the market by buying billions of dollars of treasury bills to keep liquidity ample for market participants. We continue to believe the actions of the Fed and inflation remain large drivers of the direction of the market going forward.

Wrapping up the Decade

Hindsight can be one of the many biases frequently used by investors to believe they should have known something before it happened or pretended they did know something before it happened. As investors, it's best to control what is possible to control and not worry about the rest, because we can almost guarantee not a single person can forecast or predict everything that is to come the next ten years. Most importantly as we venture into a new decade, we advise and recommend remaining diversified as well as staying aligned with your long-term financial goals and objectives.

As always, our quarterly market review will come out and will be emailed out in few weeks, and we wish you all a Happy New Year!

Please feel free to reach out with any questions,

Nova R Wealth Team

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