



VIZIONARY
WEALTH MANAGEMENT
"Perspective for the Decisions Ahead"

The Weekly Note

A Weekly Market Commentary

Monday, December 23rd, 2019

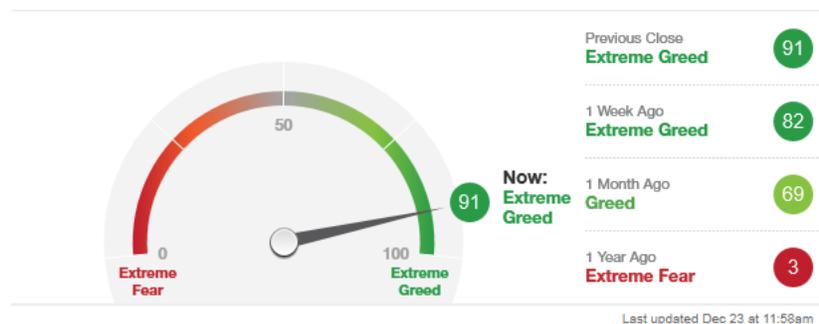
"From Fear to Merriment: A Tale of Two Christmases"

It has been a remarkable turnaround from the depths of last year's Christmas-Eve blues. At that time, the stock market was on track for its worst December since 1931, including a fall of nearly 8% in just the four trading days leading up to Christmas. The S&P 500 closed at 2,351 last Christmas Eve while the Dow Jones Industrial Average closed at 21,792. Both indices falling nearly 20% from peak to trough.

Just under a year later, the S&P 500 sits at 3,226 with the Dow at 28,572, returns of 37% and 31%, respectively, not including dividends. One year ago, CNN's Fear & Greed Index was at an extreme level of 3 (on a scale of 1-100), this year the index is at 91.

Fear & Greed Index

What emotion is driving the market now?



Looking back at it, the Christmas-Eve lows were one of the few gifts investors have received in recent years, even if it didn't feel like jolly St. Nicholas at the time. Unfortunately, the stock market is one of the only shopping spots in which buyer demand most often has an inverse relationship to price.

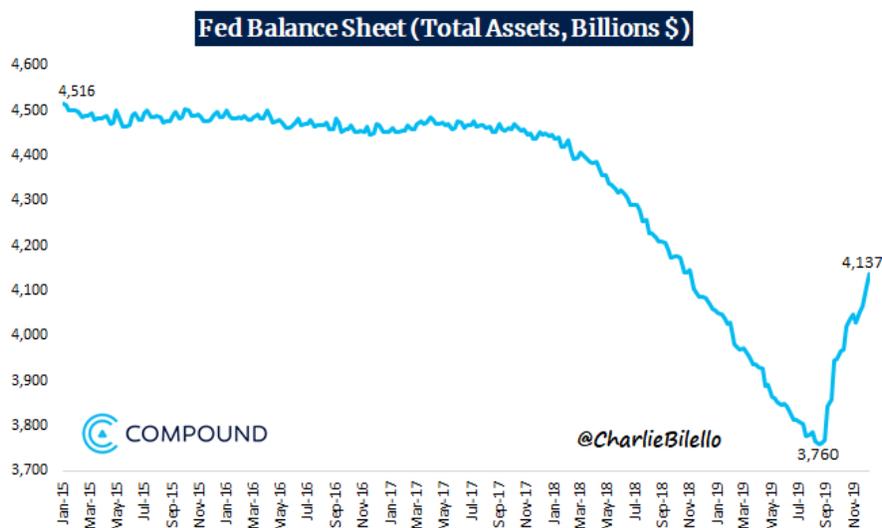
The last two years are befuddling when you just look at returns vs. the fundamental data. In 2018, corporate earnings were up over 20%, but stocks ended down close to 5%. This year, the markets are on pace for returns of close to 30%, while corporate earnings are expected to be roughly flat¹.

One stock embodies the theme of this year's rally. Apple's stock bottomed in on January 3rd at \$142 after the company issued its first negative revenue revision in over a decade. Since then, the stock is up over 100% despite revenue and earnings still expected to decline in 2019. It is hard to suggest that markets are efficient, while also showing how the largest company in the market, Apple, has seen its stock value cut by a 3rd and then double in the span of 15 months, with no substantive change in its business.

So while fundamentals are better than originally expected, they still aren't commensurate with this year's rally. The big shift has been in sentiment. Better sentiment leads to higher valuations. The S&P 500's forward price-to-earnings ratio sits around 18, above the 16.6 5-year average and 14.9 10-year average². On December 21, 2018, the forward P/E was at 14.2. We think that stocks went from cheap to fairly valued over the last year, given the current level of interest rates.

The major catalyst towards this shift in sentiment has been the sharp reversal in Federal Reserve accommodation. Last December, the Fed hiked rates for the last time. In January, they amended their language on accommodation and by July they were already cutting rates.

In addition to the three interest rate cuts thus far, the Fed has also been quietly expanding their balance sheet once again through their involvement in the overnight repo market. It may not be long before the balance sheet run off from last year is fully reversed.



From tightening to full-on accommodation. From fear to merriment.

Wayne Wagner Jr., ChFC Vizionary Wealth Management

Source:

1. <https://insight.factset.com/sp-500-earnings-preview-cy-2019>
2. https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_120619.pdf

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which Investment(s) may be appropriate for you, consult your financial advisor prior to investing. Information is based on sources believed to be reliable, however, their accuracy or completeness cannot be guaranteed. Statements of forecast and trends are for informational purposes, and are not guaranteed to occur in the future.

All indices are unmanaged and may not be invested into directly. Advisory services offered through WealthPLAN Partners. Securities offered through Securities America, Inc., Member FINRA/SIPC. WealthPLAN Partners, Vizionary Wealth Management, and Securities America are separate entities.