INVESTMENT COUNSEL

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Quarterly Commentary

By now everyone is aware of the strong market returns in 2019; less appreciated is that much of the performance was simply getting back to prior levels. Over the past 5 quarters (since Sep 30, 2018) the S&P500 has increased by 14% - above average but not excessive. We favor equities going forward and consider it reasonable for equities to continue to appreciate along with underlying earnings growth.

As recently as last summer, many strategists were predicting a mid-2020 recession and investor confidence was much lower. While equity prices were rising during the year, money was still being pulled out of equities. This past quarter saw continued strong consumer trends that seemed to finally offset the fear manufacturing weakness would drag the economy into recession. Money flows into stocks turned positive (helped along by trading algorithms) as there was a growing fear of missing out on this year's market returns. This technical pattern which helped drive the 9% return during Q4 could set the stage for a small pullback in early 2020. However, underlying fundamentals do seem more stable and sustainable; and most analysts expect 2020 US GDP near 2% with corporate earnings growth of 6%-8%.

It appears that agreement has been reached for the first phase of the trade deal with China. This should benefit growth in the US and China, but also provide indirect growth to Europe and the rest of Asia as well. As a result, global growth rates are expected to be higher in 2020 than in 2019. However, the Federal Reserve has all but stated that short term rates will remain at current levels through next year's election. This policy will support economic growth with continued low interest rates but may also benefit US business competitiveness globally if it causes the US$ to weaken. Low interest rates along with a solid jobs market will continue to bolster consumer spending.

Given that 2020 is an election year and that we're about to enter the impeachment trial of President Trump, uncertainty and volatility could produce stock price swings during the year. There are plenty of potential catalysts. We recognize the inevitability of such volatility and will be positioning our portfolios at times to address both the higher risks / lower returns this environment may bring, and the resulting opportunity a pullback would present. Our conclusion remains that equities are more attractively valued than bonds and, should hold that advantage through the year.