January 6, 2019

Weekly Viewpoint

2020 Vision

Performance for Week Ending 1.3.20

The Dow Jones Industrial Average (Dow) dipped 0.04%, the Wilshire 5000 Total Market Index[SM] (Wilshire 5000[SM]) lost 0.11%, the Standard & Poor's 500 Index (S&P 500) finished off 0.16% and the Nasdaq Composite Index (NASDAQ) finished up 0.10%. Sector breadth was negative with 8 of the 11 S&P sector groups finishing lower. For the week, The Materials sector (-2.50%) was the worst performer followed by Consumer Staples (-1.45%) and Healthcare (-1.02%).

Index*	Closing Price 1/3/2020	Percentage Change for Week Ending 1/3/2020	Year-to-Date Percentage Change Through 1/3/2020
Dow	28634.88	-0.04%	+0.34%
Wilshire 5000	32943.17	-0.11%	+0.17%
S&P 500	3234.85	+0.16%	+0.13%
Nasdaq	9020.77	-0.16%	+0.54%

Market Observations: 12/30/19–1/3/20

The major market indices kicked off the New Year on a mildly positive note, although trading activity during the first two days of the year was extremely volatile. Upon returning from the New Year's Day holiday, stocks started the new year (and new decade) with sharp gains following fresh stimulus efforts from China to prop up its slowing economy. Adding to the optimism were further signs of easing trade tensions and the improving global economic outlook. Last Tuesday, President Trump indicated that "high level" officials from China would visit the White House on January 15 to sign the phase one trade agreement brokered last month following nearly a year and a half of negotiations. While details of the pact are scant - beyond pledges to roll back tariffs on China-made goods and increase the purchase of American-made agricultural products - investors have applauded the fact that the two sides are inching toward a conclusion to the 18-month dispute.

The trade truce has paralleled a brightening mood from some of the world's biggest economies, with manufacturing activity in Europe showing signs of improvement and data readings from China indicating ongoing expansion -- and improved confidence -- despite the lingering trade uncertainty. In the U.S., a solid labor market, low interest rates, and an accommodative Federal Reserve have been pillars to domestic equities.

On Friday, markets took a 180-degree turn south reflecting an uptick in geopolitical worries after a U.S. airstrike in Baghdad killed an Iranian military leader. Iran's Supreme Leader Ayatollah Ali Khamenei vowed “harsh revenge” after Qassem Soleimani, head of Iran's elite Quds Force, was killed in the air strike that was authorized by President Donald Trump. According to a statement from the Pentagon, "at the direction of the President, the U.S. military has taken decisive defensive action to protect U.S. personnel abroad by killing Qassem Soleimani," adding the general was "actively developing plans to attack American diplomats and service members in Iraq and throughout the region." While the escalation in geopolitical tensions will likely cause some near-term market uncertainly, historically the headwinds created by similar events have been related to surges in the price of oil due to fears of supply disruptions. However, since around mid-2018 the US has become the world’s largest producer of oil and is significantly less dependent on imported oil. Assuming that we don’t see a significant escalation in additional tensions, the impact should prove short lived.

Market View: Despite the strong gains over the past year, we continue to believe the Bull Market remains intact and that further upside is likely in the year ahead. While a repeat performance is not likely (the S&P 500 produced a total return of 31.5% during 2019), the macro environment should remain supportive of additional upside. The Federal Reserve is likely to keep monetary policy stable over the course of the year, inflationary pressure is likely to remain muted, and low unemployment/rising wages, should continue to support consumption – the main driver of our economy.

The rally over the past year has been driven almost exclusively by the expansion in the market’s P/E multiple, which in turn, has raised concern that valuation levels are looking a bit elevated relative to underlying earnings growth. After very little earnings growth during 2019, earnings will need to become the key driver of forward returns. According to Bloomberg earnings are expected to rebound in 2020 with current consensus expectations calling for 9.0% growth followed by 10.7% growth in 2021. While a bout of consolidation cannot be ruled out, the easing threat of a recession in the coming quarters, suggests the bull market should still have some room to run.

The Week Ahead: Overall it will be a relative quiet week on both the earnings and data front. Just four members of the S&P 500 will report earnings during the week, although Q4 reporting season will kick into high gear over the next several weeks. The highlight of the data calendar will be Friday’s monthly payroll report. According to Bloomberg, nonfarm payrolls in December are forecast to rise by 158K while the unemployment rate is expected to remain steady at 3.5%. Other economic reports of interest include; the December ISM nonmanufacturing index, November trade data, November factory orders, and the December

ADP employment report. Following the holiday lull, the Fed speaking calendar will pick up with five different Fed Heads scheduled to speak during the week.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Wilshire 5000 Total Market IndexSM represents the broadest index for the U.S. equity market, measuring the performance of all U.S. equity securities with readily available price data. The index is comprised of virtually every stock that: the firm's headquarters are based in the U.S.; the stock is actively traded on a U.S. exchange; the stock has widely available pricing information (this disqualifies bulletin board or over-the-counter stocks). The index is market cap weighted, meaning that the firms with the highest market value account for a larger portion of the index.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.