2019 INVESTMENT REVIEW

It is said all bull markets climb their own wall of worry and 2019 proved that to be the case more so than any other year in modern times. Headwinds were strong across the global landscape including a weak global economy and manufacturing recession, flat to negative corporate earnings, yield curve inversion and recession risk, elevated geopolitical risks and social unrest, volatile and unresolved trade wars, and monetary policy uncertainty just to name a few. On December 18th the House of Representatives impeached the President of the United States but stocks continued to hit new daily highs in December and U.S. equities plowed ahead for their best year since 2013 driven by a resilient U.S. consumer and arguably more importantly a dovish pivot by the Federal Reserve.

Despite a record government shutdown (35 days) ending on January 25th, January was the stock market's best month in 2019 as equities were then rebounding from one of the worst Decembers on record and a 20% decline in the S&P500 in Q4'18. The U.S. – China trade war was the biggest story of the year and regular changes to its expected outcome added volatility to the markets. The rhetoric and fear hit extremes in early August when Trump responded to a hawkish rate cut by threatening to impose 10% tariffs on an additional $300B in Chinese goods. Equities reacted with a relatively modest pullback, but rates crashed and the long end of the curve saw its second biggest monthly decline in ten years. In the fall expectations rose for a watered down "Phase One" deal which is now expected to be signed on January 15th. Mixed in throughout the year were tariff threats against Mexico, Brazil, and Argentina. President Trump largely stifled the tariff rhetoric when it came to Europe, but that tweetstorm could come in 2020.

If trade wars were the biggest story for 2019, the Federal Reserve was a close second. After repeated hawkish commentary throughout Q4'18 contributed to the largest S&P 500 correction since the 2008 financial crisis, Chairman Powell did an about face (i.e. "dovish pivot") in early January by essentially saying the balance sheet reduction program was no longer on auto pilot. In the ensuing months, the increasing trade war rhetoric, falling inflation expectations, weakening economic data, and curve inversion drove the Fed into a "mid-cycle adjustment" of three 25bps rate cuts in as many meetings commencing on July 31st.

Corporate earnings faced tough 2018 comps and the S&P 500 is fresh off three straight quarters of negative earnings growth. According to FactSet, corporate earnings are expected to grow just 0.3% in FY 2019.

LOOKING FORWARD

The Fed, trade, the economy and corporate earnings – in roughly that order – have largely been the driver of market gains in 2019 and developments in these areas, with some geopolitics thrown in, will be the focus as we enter 2020.