1st Quarter 2020 Commentary

Stocks worldwide closed out one of their best years over the past decade, defying money managers who began 2019 predicting the bull market would be upended by threats from the U.S. trade fight and a slowdown in growth. The S&P 500 finished the year up 29% for its best showing since 2013, while the Dow Jones Industrial Average climbed 22% and the NASDAQ advanced 35%. (NY Times January 1st, 2020)

Stocks were not the only investment category to perform well, as prices for bonds, commodities and precious metals were also up. According to analysts at Ned Davis Research, 2019 was the first year since 2010 that all eight of the most heavily invested asset classes rose 5% or more. (Wall St. Journal January 2nd, 2020)

The cause of this across-the-board rally? The Federal Reserve Bank's policy on interest rates, which went from planning to raise rates to cutting them and pumping fresh money into the financial markets. The old investing mantra "Don't Fight the Fed" stands the test of time for a reason.

How long will the good times last? No one knows for sure, obviously, but positive signs abound. Record low unemployment, along with the stock market's surge, supports spending by consumers, the main driver of growth in our economy. The rally in bond prices, which move in the opposite direction from yields, has helped keep borrowing costs low for companies, municipalities and the Federal government. Even though the trade war isn't over, a phase one deal between the U.S. and China has been reached, and tensions most definitely have ratcheted down.

Maintaining a healthy skepticism towards favorable market narratives, however, is how prudent investors avoid the downturns that harm others. Factors not considered relevant today could become meaningful in the future. The removal of pro-stock market President Trump is dismissed as low-risk, although impeachment proceedings continue and the election is less than a year away. Trade tensions could flare up, renewing the pressure on global manufacturing that was the major drag on trade and economies in 2019. Inflation, virtually non-existent in January 2020, could reignite, as the U.S. government runs trillion-dollar annual budget deficits and worker wages increase.

When it comes to investing in the stock market, the times we feel the most complacent often coincide with times when the market has enjoyed a prolonged and/or substantial move upward and is primed for a fall. Re-balancing after a year of superior gains is the suggested course of action, and we recommend reducing your stock weighing, especially if it has strayed more than 5% from its target allocation.

We invite and encourage clients to contact us with questions and concerns and are available to meet at your convenience.