January 2020

2019 Recap and 2020 Outlook

The 2019 market year can be categorized most accurately as “resilient.” We saw 2019 start with a relief rally as markets recovered from a dismal Fourth Quarter of 2018. Next came fears of a global recession as manufacturing data deteriorated and trade concerns came to the forefront of headlines and investors’ minds in the Third Quarter. These concerns pushed the Fed to (in what we see as one of the most noteworthy developments of the year) reverse course from a 2018 tightening of monetary policy to actually cutting rates three times in 2019. Finally, in the Fourth Quarter optimism returned to the markets as trade concerns settled down and a year end rally pushed domestic equities markedly higher.

As we enter 2020, the broad market backdrop looks healthier than it did entering 2019. The US comsumer has been strong and the labor market is impressive. With strong consumer spending, low costs of debt, increasing wages in a strong labor market, tempered earnings expectations, and less concerns regarding Brexit and a trade war with China, the global economy appears to be on firmer footing than it was just a year ago. However, we are still cautiously optimistic going into 2020 as manufacturing data is still weak, a firm trade deal with China has yet to be inked, and rates continue to shift with the yield curve having a continued tendency to invert.

In 2020, we do not see the US or global economies slipping into recession, though we see continued stubbornly slow growth here at home. While economic and earnings expectations are tempered, we see some of the biggest risks in 2020 being headline and politically driven as we enter an election cycle—trade uncertainty being one of the biggest risks. For 2020, we see the Fed holding the line on rates, equity markets stubbornly moving modestly higher, and investors regaining an appetite for international markets which may outperform domestic equities. However, with profit margins at their peak and rich valuations (equity markets are sitting at all-time highs), stock selection will be important and we believe that active management could come back into favor winning out over passive indexing this year given market conditions.

Focused on Your Financial Independence

OUR 2020 MARKET PREDICTIONS

As we enter 2020, we have put together our outlook for the coming year. Looking back at 2019, not all of the market data has been populated yet to report on our final "scorecard" for the year, but we will of course report back on our year end scorecard in the near future.

1.	**The economy avoids recession, again.** We believe that growth will slow again in 2020 but that the domestic economy will continue to expand. Most recessions occur due to Fed tightening in response to rising wage or price inflation, or in response to a shock to financial conditions (banking crisis, oil shock, global trade war, etc.). None of these conditions currently exist. We may see a surprise negative growth quarter during the year, but we do not foresee the US entering recession in 2020.
2.	**Inflation will pick up and become relevant again in 2020.** Inflation has been muted (below the Fed's 2% target) for some time. We see inflation pressure becoming more relevant in 2020 as inflation picks up.
3.	**The Fed stays on hold, but rates drift modestly higher.** The Fed will likely stay on the sidelines without a change on rates through 2020 but we see the market moving rates modestly higher with the 10-year Treasury ending above 2%.
4.	**Domestic equity markets to post modest positive returns for the year.** With rich valuations and softening earnings we believe that domestic equity markets could move stubbornly higher this year yet posting only a modest single-digit return.
5.	**Value comes back into favor and may outpace growth in some time.** Since 2010, value has underperformed growth by a margin not seen in the last 70 years. Helped in large part by investors piling into growth oriented stocks chasing momentum and earnings growth. However, value stocks are showing significant price-to-earnings discounts to growth and to end 2019 value showed signs of life with a pick up in performance. We think this trend may continue and investors may bring value stocks back into favor as they seek companies with more stable cash flows.
6.	**International markets could outperform domestic equities.** For years, investors have largely been underwhelmed by international markets (especially the Emerging Markets). Going into 2020, we believe that a weakening US dollar could help international markets to shine and potentially outperform the domestic equity markets.
7.	**Active managers outperform passive indices.** With rich valuations and equity markets at all-time highs, we see stock selection as important in 2020. As stock selection becomes more important, we see the "rising tide lifts all boats" phenomenon coming to an end and active management becomes more meaningful and outperforms passive indexing.
8.	**Jobs market stalls.** The last year brought record employment data with the unemployment rate falling to 3.5% and wage growth rising to 3.7% year over year in November 2019 (most recent figures). We see the unemployment rate bottoming and wage growth peaking here in 2020 near their current levels.
9.	**Earnings growth will slow again in 2020.** Coming off a 2018 with record setting 22% earnings growth we predicted slower earnings growth in 2019 (which we saw). As companies continue to temper expectations moving into 2020 we see earnings growth slowing even further, potentially seeing a negative earnings growth quarter during the year—but we don't yet see an "earnings recession."
10.	**Political unrest and tensions continue around the globe.** Yellow Vest protests in France, unrest in Hong Kong, economic inequality protests in Chile, turmoil in Venezuela, a US-China trade war, and an impeachment inquiry in the United States were some of the highlights of 2019. As we enter 2020, and an election cycle here at home, we see continued political tensions that will likely create short-term bouts of volatility in domestic and international markets.

WE WILL REVISIT THESE PREDICTIONS AGAIN MID-YEAR

Bradley H. Bofford, CLU®, ChFC®, CFP®
Managing Director, Partner
973-582-1002
bbofford@hightoweradvisors.com

Michael Flower, CFP®
Managing Director, Partner
973-582-1004
mflower@hightoweradvisors.com

Daniel Trout
Partner
973-582-1006
dtrout@hightoweradvisors.com

Steven Gelber, AIF®
Associate Wealth Advisor
973-582-1015
sgelber@hightoweradvisors.com

Andrew Olivier, CFP®
Associate Wealth Advisor
973-582-1005
aolivier@hightoweradvisors.com

HIGHTOWER
FINANCIAL PRINCIPLES, LLC

FINANCIAL PRINCIPLES, LLC
A HIGHTOWER WEALTH MANAGEMENT PRACTICE

310 PASSAIC AVENUE, SUITE 203, FAIRFIELD, NJ 07004
505 FIFTH AVENUE, 4TH FLOOR, NEW YORK, NY 10017
973-582-1000
WWW.FINANCIALPRINCIPLES.COM

FOCUSED ON YOUR FINANCIAL INDEPENDENCE

Data sources: Economic: Based on data from U.S. Bureau of Labor Statistics (unemployment, inflation); U.S. Department of Commerce (GDP, corporate profits, retail sales, housing); S&P/Case-Shiller 20-City Composite Index (home prices); Institute for Supply Management (manufacturing/services). Performance: Based on data reported in WSJ Market Data Center (indexes); U.S. Treasury (Treasury yields); U.S. Energy Information Administration/Bloomberg.com Market Data (oil spot price, WTI Cushing, OK); www.goldprice.org (spot gold/silver); Oanda/FX Street (currency exchange rates). News items are based on reports from multiple commonly available international news sources (i.e. wire services) and are independently verified when necessary with secondary sources such as government agencies, corporate press releases, or trade organizations.