January 2020 Market Commentary

Please mark your calendars for the morning of Saturday, April 25th; this will be our annual Client Appreciation Day brunch which will be held again at The Golf Club at Lansdowne.

2019 has closed out and the markets had an exceptional year despite the persistent concerns caused by the US-China Tariff dispute that lasted most of the year. For 2019 the S&P 500 Index rose 28.88%.

We believe the economy will continue to grow through 2020. Additionally, we anticipate volatility leading up to the Presidential elections in November but anticipate a year of modest gains for the reasons listed below:

Since the passage of the Tax Cut and Jobs Act (TCJA) in November 2017, corporate earnings for the S&P 500 companies have increased nearly 23.5% over the 2-year period ending 2019 (2019 Q4 numbers are estimates). Despite the strong 2019 equity market gains, when looking over the same 2-year period mentioned above, the S&P 500 Index was only up 20.84%. Some pundits may say that the market has gone up ‘too far, too fast’ but our view is that the market action has been supported by the increase in corporate earnings.

Consumer Spending makes up 70% of the United States GDP and therefore a great deal of our economic strength relies upon them. A gauge for the ‘health’ of the US consumer is the measure of *US Household Debt Service as a Percent of Disposable Income* released by the Federal Reserve. This measure accounts for mortgage payments, car payments, credit card payments, and the student loan payments. This indicator has been hovering around 9.7% which is near the all-time low of the 40-year history of this measure. The consumer is strong with the potential to increase spending and propelling the economy further.

The Federal Reserve has continued to state their support for easy monetary policies allowing the economic expansion to continue. As of the December meeting, the Fed left rates unchanged and forecasted no changes in 2020 assuming inflation doesn’t dramatically increase.

The Housing segment is another major component of GDP and is viewed as a leading economic indicator. Home builders remain confident in the housing market and this segment shows a solid increase in strength as measured by the *NAHB/Wells Fargo US Housing Market Index*. As of December, this index has climbed to a new high not yet seen since mid-1999.

Looking ahead into 2020, the current estimates for the S&P 500 earnings is to grow 5.5% for the year. Given this growth estimate, we foresee a ‘normal’ year of market gains at around the same rate.

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