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What Difference a Year Makes

Global Markets and Regions

	4th QTR	2019 YTD
US	9.00%	30.90%
Developed Europe	8.80%	23.80%
Asia	10.10%	18.80%
Emerging Markets	11.80%	18.40%

US Markets

	4th QTR	2019 YTD
Dow 30	6.70%	25.30%
Large Cap Cos.	8.98%	31.50%
Mid. Cap Cos.	6.91%	25.87%
Small Cap Cos.	8.25%	22.70%
Bonds	0.31%	8.52%

Last year was the "Winter of our Discontent". Even the "annual" Santa Claus Rally failed to materialize. Not that Santa Claus rallies are inevitable, but they are regular enough to be thought of as a reliable year end event. Fears of recession were dominating investor behavior. The decline in equity prices through the fourth quarter reached full scale Bear Market magnitude. The proximate cause was the ongoing trade disputes with China and the dampening effect on global economic growth. The fears were overblown. There was no recession. The economy hasn't necessarily boomed, but the worst outcomes have been avoided.

Prices have fully recovered and then some from that bleak fourth quarter of 2018. The trade disputes with China are still with us. This is actually a very long term issue and will be a market driver for years to come. Some progress is being made and it appears that at least some of that progress will result in signed agreements, giving the markets some certainty going into 2020. The Chinese economy has not weathered the process nearly as well as the US has. Their distress has contributed significantly to the sluggishness of growth in the rest of the world, though the positive developments during 2019 have benefitted everyone. This ongoing dispute has been running hot and cold. Don't expect this to change.

There has also been significant movement on other trade fronts. Agreements between the US, Canada and Mexico have been made. This has reduced trade issues on those fronts. The Europeans have made progress on reorganizing their trade union with the coming exit of the United Kingdom from the European Union. India and other developing and emerging economies are beginning to grow again.

The Federal Reserve Bank was a big headwind/threat to the market as they raised the Fed Funds rate four times in 2018. With the rest of the world pursuing aggressive monetary stimulus and negative

interest rates, it appeared the Fed was way too out of step with the rest of the world's policies. They have corrected that condition by reducing rates three times in 2019. It is pretty clear that the market likes lower rates, but markets are still trying to discern the long term impacts of this era of aggressively stimulative monetary policy. There has been very little evidence of general inflation, which has helped to justify their actions, but the longer term implications are not yet known.

Throughout 2019, lower taxes and less regulation have done their magic. The economy has grown at about a 1.8% to 2.5% rate. Going forward, growth toward the lower end of that range will weigh on the market and growth toward the higher end of the range will be supportive. If business investment begins to accelerate, employment and wage will growth will continue to benefit. The markets like employment and wage growth. Corporate earnings will be the scorecard. The virtuous cycle will continue.

The coming year is not without concerns. This is an election year and politics is entering the silly season. We may have entered a silly age. It can be hard to tell sometimes. At present, the market believes that the Democrat threats to the Trump administration are not real. The possibility that we will adopt their economic programs is remote. If it becomes less remote, expect market volatility.

Brexit, the disengagement of the UK from the European Union, will move forward. This is a source of optimism and concern. A relatively smooth transition could be a catalyst for increased trade with the US and the rest of the world. The UK is the fourth largest economy in the world. Renewed growth in their economy would be a good development for everyone. On the other hand, if it doesn't go smoothly, it could be a source of market volatility. Keep an eye on the Yellow Vest protests in France as an indicator.

The Middle East is starting to heat up again after a year of relative calm. This is, and will continue to be a long term problem. But the fact that oil is no longer in global short supply makes it less of a market threat. In addition to the strain on their economy from the ongoing trade disputes, China also has issues with internal unrest. The protests in Hong Kong have been a serious problem for the Chinese government and will continue to be if they are unable to peaceably transition Hong Kong. Their less than robust economy makes internal dissent more difficult to address. Markets don't like wars and unrest, so this could be a source of volatility.

There are plenty of reasons to remain optimistic going into 2020. There are also reasons to be concerned. We will see how things play out.