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Trade Clarity and Interest Rate Cuts Lead to Big Returns in 2019

Markets welcomed the positive resolution of several key macroeconomic unknowns in the fourth quarter, and that improved clarity sent the broader stock market higher over the past three months. The solid fourth quarter gains helped the S&P 500 index achieve its best annual return since 2013.

At the start of the fourth quarter, markets were facing four significant macroeconomic uncertainties: Could the U.S. and China strike a trade deal? Would the Fed cut interest rates for a third time in 2019? Could U.S. and global economies stabilize? Would Brexit get passed? Each of these unknowns, which had weighed on markets earlier in 2019, saw positive progress throughout the final three months of the year.

By far, the most important event for markets during the fourth quarter was the agreement to a "phase one" trade deal by the U.S. and China. Since early 2018, the U.S.-China trade war, and the tariffs that came with it, pressured the global economy and weighed heavily on investor sentiment. Twice in 2019, first in May and again in August, tariff increases caused a significant spike in market volatility.

But in mid-October, after intensive negotiations, both the U.S. and China agreed, in principle, to a phase one trade deal that would result in the reduction of some existing tariffs, the promise of no additional tariffs, and increased imports of American goods by China. Anticipation of this "in principle" deal being formally agreed to powered stocks higher from mid-October through mid-December. And then on December 13th, more specific details of the phase one deal were announced, and that clarity helped stocks extend the 2019 rally into year-end.

Improvement in U.S.-China trade relations wasn't the only positive event in the fourth quarter though. The Federal Reserve met market expectations by cutting its benchmark interest rate by another 25 basis points at the meeting on October 30th. That cut brought the total reduction in interest rates in 2019 to 75 basis points, the largest annual reduction in over a decade. Additionally, at the December policy meeting the members of the Federal Open Market Committee showed they do not expect to raise interest rates in 2020. That added

clarity for Fed policy expectations, specifically that the market can expect rates to stay low for the foreseeable future, also helped power stocks higher in the fourth quarter.

The global and U.S. economies also showed signs of stabilization in the fourth quarter after losing positive momentum for much of 2019. First, in the United States, concerns were growing that sluggish business spending and investment would potentially cause a broader economic slowdown. But the market's preferred measure of business spending and investment, the monthly Durable Goods report, rebounded in the fourth quarter, easing some of those growth concerns. Internationally, measures of Chinese manufacturing activity, which had shown the industry was in contraction for the past several months, turned positive again in December, and that implied activity was stabilizing. So, while concerns remain about the next direction of the global economy, these signs of progress in the fourth quarter helped stocks rally.

Finally, after three-and-a-half years of Brexit uncertainty, investors can finally expect some progress as the mid-December elections in the United Kingdom resulted in a strong conservative (or Tory) party majority. As a result, the Brexit agreement with the EU is expected to pass Parliament in early 2020.

In sum, the fourth quarter of 2019 was a reminder that macroeconomic fundamentals matter, and the positive news on four key macroeconomic fronts fueled a broad rally in the stock market and makes it more likely, but not certain, that we will see improved global economic growth and better earnings in 2020.

4th-Quarter and Full-Year 2019 Performance Review

The major U.S. stock indices were all solidly higher in the fourth quarter led by the tech-heavy Nasdaq which handily outperformed thanks to rising optimism on U.S.-China trade and expectations for a rebound in economic growth. The S&P 500, Dow Jones Industrial Average and Russell 2000 (the small-cap index) all had smaller, yet positive, quarterly returns. The performance of the major indices in the fourth quarter mirrored the full-year performance, as the Nasdaq easily outperformed the other three indices in 2019 as investors sought the secular growth potential of the tech sector amidst macroeconomic uncertainty.

By market capitalization, large caps outperformed small caps for the full year. That reflected investor concerns about a potentially slowing global economy, as large caps are historically less sensitive to slowing growth than small cap stocks. Notably, however, small caps did narrow the performance gap in the fourth quarter, which implied rising optimism towards the global economy in 2020, following the announcement of the U.S.-China trade deal. From an investment style standpoint, growth outperformed value again in the fourth quarter due to strength in large-cap tech. That widened the performance gap for the full year 2019, as growth considerably outperformed value, again thanks mostly to strength in the tech sector.

On a sector level, 10 of the 11 S&P 500 sectors finished the fourth quarter with positive returns. Technology, financials and healthcare stocks led markets higher in the fourth quarter, which is a reversal from the defensive sector outperformance we witnessed in the third quarter of 2019. Expectations that the U.S.-China trade deal would lead to better economic growth combined with higher bond yields helped power the rally in tech and financials, while healthcare gained on a reduction in political headwinds as candidates who favor expansion of the government healthcare programs, dubbed "Medicare for all," dropped in the polls. For 2019, the big fourth-quarter rallies by tech and financials helped those two sectors outperform on a full-year basis.

Sector laggards in the fourth quarter were the traditionally defensive market sectors. Real Estate was the only S&P 500 sector to finish negative in the fourth quarter, while utilities and consumer staples underperformed the S&P 500 as the U.S.-China trade deal caused investors to rotate into sectors that are more sensitive to a potential upswing in global growth. On a full-year basis, energy was the relative sector laggard as market worries about a slowing global economy combined with the potential oversupply of oil weighed on energy shares, although the energy sector still finished 2019 with a respectable annual gain.

S&P 500 Total Returns by Month in 2019											
Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
7.78%	2.97%	1.79%	3.93%	-6.58%	6.89%	1.31%	-1.81%	1.72%	2.04%	3.40%	2.86%

Source: Morningstar

US Equity Indexes	**Q4 Return**	**2019 Return**
S&P 500	9.07%	31.49%
DJ Industrial Average	6.67%	25.34%
NASDAQ 100	12.99%	39.46%
S&P MidCap 400	7.06%	26.20%
Russell 2000	9.94%	25.52%

Source: YCharts

Looking internationally, foreign markets saw positive returns in the fourth quarter thanks mostly to the U.S.-China trade deal, although most foreign markets still underperformed U.S. markets. Foreign developed markets posted solid gains in the fourth quarter but lagged emerging market returns. Emerging markets outperformed both foreign developed markets and the S&P 500 in the fourth quarter thanks to rising expectations for a global economic rebound, combined with some declines in the U.S. dollar. For the full year 2019, foreign markets registered solidly positive returns, with foreign developed markets modestly outperforming emerging markets. However, both underperformed the S&P 500 in 2019.

Commodities enjoyed strong gains in the fourth quarter, led higher by a rally in oil while gold saw a more modest rally over the past three months. Oil prices rose in the fourth quarter thanks to the decision by "OPEC+" to deepen production cuts this year, combined with the U.S.-China trade deal raising expectations for global growth and future oil demand. Gold, meanwhile, spent much of the fourth quarter in negative territory as investors rotated out of the safe-haven metal and into more risky assets following the de-escalation of the U.S.-China trade war. But, a late-year decline in the U.S. Dollar, combined with a mild increase in geo-political tensions, helped gold rally late in December and register a positive return for the quarter. For 2019, commodities produced positive returns which were driven by a large gain in the price of oil, although commodities as an asset class lagged the S&P 500 on a full-year basis.

Switching to fixed income markets, the total return for most bond classes were positive in the fourth quarter, although longer-dated Treasuries saw mild declines, which is not surprising given rising expectations for a rebound in global growth. The leading benchmark for bonds (Bloomberg Barclays US Aggregate Bond Index) experienced slightly positive returns for the fifth straight quarter.

Looking deeper into the fixed income markets, longer-duration bonds underperformed those with shorter durations in the fourth quarter which was a reversal from most of 2019. That is reflective of a market that is responding to the recent Fed rate cuts and beginning to expect a rebound in global economic growth going forward.

Confirming that improved sentiment, corporate bonds saw solidly positive returns in the fourth quarter as high yield debt outperformed investment-grade debt. The outperformance of lower-quality but higher yielding corporate debt also underscored rising optimism about future economic growth and corporate earnings.

1st Quarter and 2020 Market Outlook

The markets' performance in 2019 was a good reminder of the difference a year can make. In January 2019, the S&P 500 was coming out of its first negative year in a decade; worries about the global economy were surging due to the U.S.-China trade war and the Federal Reserve had just hiked interest rates the previous month.

Now, we begin 2020 on the opposite end of the spectrum.

The S&P 500 just registered its best annual return since 2013, worries about the global economy are receding thanks to the U.S.-China trade deal and the Fed cut interest rates three times in 2019.

For us, the takeaway from this is clear: What happened in the markets last year doesn't mean much for what could happen in the markets this year.

Put in more familiar phrasing: Past performance is not indicative of future results.

So, while the macroeconomic environment is favorable as we begin 2020, a new year always brings new challenges and uncertainties, especially when it's an election year.

More specifically, as we begin 2020, we are monitoring several unknowns that, with the market at historically high valuation levels, could cause volatility in 2020.

Regarding U.S.-China trade, markets are now wondering what's in the phase one trade deal. The text of the agreement should be released in early-January, and while sentiment towards the deal is clearly positive, specific details remain very light. At some point, the market will demand that the details of the trade deal meet now-elevated expectations.

Turning to the economy, markets are expecting a rebound in global economic growth. So, the upcoming economic data needs to continue to show signs of stabilization and, ultimately, a re-acceleration of economic growth not just in the United States, but globally.

Looking at domestic politics, markets have ignored the impeachment of President Trump and that's not likely to change as the odds he is removed from office by the Republican-controlled Senate are very low. But there is an election coming in November, and while many analysts don't expect it to begin to influence the

markets until later this summer, we could know who the Democratic nominee is by the end of March. Depending on who that person is, it could cause unexpected volatility. Meanwhile, on the geopolitical front, we have relative calm, although tensions with North Korea and Iran are potentially rising.

Bottom line, the fundamental outlook for the economy and asset markets has improved since the depths of the 2018 correction, and stocks have responded accordingly. But it's very important to realize that, despite the strong performance in 2019, markets still face significant uncertainties, and we are committed to monitoring these situations and their impact on the markets and your portfolio.

At Weiss Wealth Management, we've been through both good and bad markets, and those experiences ensure that we guard against complacency following a year of strong annual returns. We remain committed to helping you navigate this ever-changing market environment, with a focused eye on ensuring we continue to make progress on achieving your long-term investment goals.

Our years of experience in all types of markets (both positive and negative) have taught us that successful investing remains a marathon, not a sprint.

Therefore, it remains critical to stay invested, remain patient, and stick to a plan. That's why we've worked diligently with you to establish a personal allocation target based on your financial position, risk tolerance, and investment time horizon.

The strong market performance of 2019 notwithstanding, we remain vigilant towards risks to portfolios and the economy, and we thank you for your ongoing confidence and trust. Rest assured that our entire team will remain dedicated to helping you successfully navigate this market environment.

Please do not hesitate to contact us with any questions, comments, or to schedule a portfolio review.

Enclosure #1 – Our first enclosure is the Investment Strategy Quarterly piece from Raymond James. This provides a quick understanding of relevant themes in the investment world. Additionally it provides an economic snapshot as well as a tactical outlook. We like to include this in the Weiss Report as a handy two-page reference.

Enclosure #2 – Enclosure #2 comes from Chief Economist at First Trust Advisors Brian Wesbury. He writes about the growth after financial crises and whether we should be expecting faster growth. He aptly uses an analogy of a horse with a heavy jockey to discuss some of the challenges the economy has.

Enclosure #3 – Is there a Recession on the horizon? Lenny weighs in on this hot topic in our third Enclosure.

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The S&P MidCap 400 provides investors with a benchmark for mid-sized companies. The index, which is distinct from the large-cap S&P 500, measures the performance of mid-sized companies, reflecting the distinctive risk and return characteristics of this market segment. The Russell 2000 Index measures the performance of the 2,000 smallest companies in the Russell 3000 Index, which represent approximately 8% of the total market capitalization of the Russell 3000 Index.

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Investing in small cap stocks generally involves greater risks, and therefore, may not be appropriate for every investor.
The companies engaged in the communications and technology industries are subject to fierce competition and their products and services may be subject to rapid obsolescence.

Sector investments are companies engaged in business related to a specific sector. They are subject to fierce competition and the products and services may be subject to rapid obsolescence. There are additional risks associated with investing in an individual sector, including limited diversification.

*Prices of DJIA and NASDAQ as of 1/9/2020

INVESTMENT STRATEGY QUARTERLY QUICKVIEW

JANUARY 2020

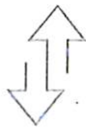
THEMES

Political:

2020 kicks off an election campaign cycle that will determine the trajectory of the Trump policy agenda and its associated impact on the market. Democrats will be looking to see if they can continue the momentum from the 2018 and 2019 elections, where suburban voters have swung away from Republicans and toward Democratic candidates. While the race for the presidency will dominate the headlines, the ultimate market and economic impact will be decided based upon the outcomes of the majorities in the House and Senate.

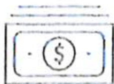
Economic:

The US economy is expected to expand moderately in 2020. Many of the 2019 uncertainties seem likely to continue into the first half of the year, but the downside risks to the growth outlook appear to be less worrisome than they did in the summer. Consumer spending is likely to grow at a moderate pace, supported by job gains and wage growth, but limited by slower growth in the labor force. Federal Reserve policy is expected to remain on hold until we get a material change in the economic outlook.



Equity:

In 2020, we expect the trade war to simmer, the slump in US and global manufacturing to improve, the global macro to benefit from central bank policy actions over the past year or so, while corporate profits will re-accelerate to the upside. All of the above paint a positive picture for the US and global equities. Despite our positive bias, we warn the path to equity gains will not be without typical periods of volatility.



Fixed Income:

While the market has been influenced significantly by the US/China trade talks, the most impactful factors for fixed income remain accommodative monetary policy and the lack of inflation. Continual quantitative easing (QE) has ultimately contributed to higher bond/stock prices and tightening of credit spreads. Interest rates will continue to face significant headwinds in 2020. Low interest rates abroad will keep demand for US bonds high.

For more information, refer to the full Investment Strategy Quarterly.

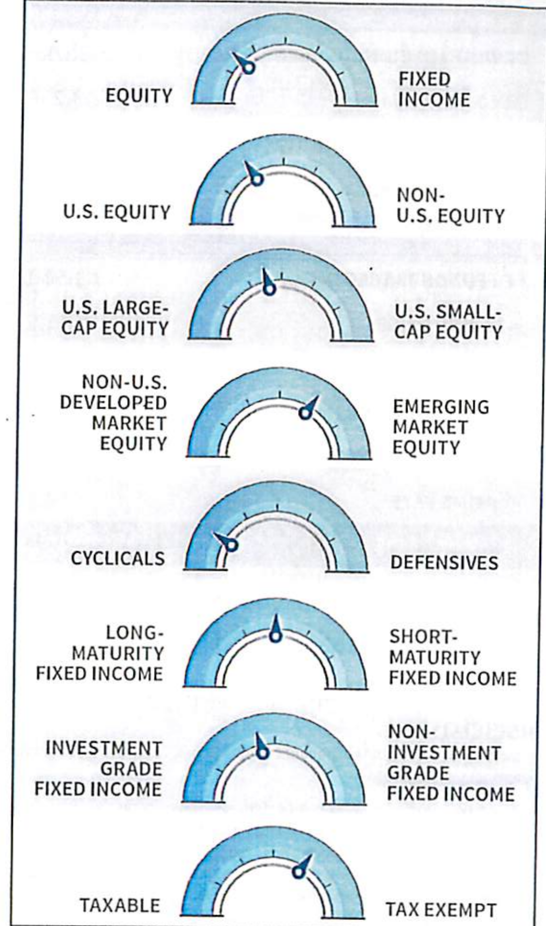
Economic Snapshot

Economic Indicator

From Scott Brown, Ph.D.,
Chief Economist

Tactical Outlook

(3-9 months)



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INVESTMENT STRATEGY QUARTERLY QUICKVIEW

JANUARY 2020

Capital Markets Snapshot

EQUITY	AS OF 12/31/2019*	4Q 2019 RETURN**	12-MONTH RETURN
DOW JONES INDUSTRIAL AVERAGE	28,538.44	6.02%	22.34%
S&P 500 INDEX	3,230.78	9.07%	31.49%
NASDAQ COMPOSITE INDEX	8,972.61	12.17%	35.23%
MSCI EAFE INDEX	2,036.94	8.21%	22.66%
RATES	**AS OF 12/31/2019**	**AS OF 9/30/2019**	**AS OF 12/31/2018**
FED FUNDS TARGET RANGE	1.50-1.75	1.75-2.00	2.25-2.50
3-MONTH LIBOR	1.91	2.08	2.81
2-YEAR TREASURY	1.57	1.62	2.48
10-YEAR TREASURY	1.92	1.68	2.69
30-YEAR MORTGAGE	3.74	3.64	4.53
PRIME RATE	4.75	5.15	5.50
COMMODITIES	**AS OF 12/31/2019***	**4Q 2019 RETURN****	**12-MONTH RETURN**
GOLD	$1,523.10	3.41%	18.87%
CRUDE OIL	$61.06	12.93%	34.46%

*Price Level
**Total Return

Sector Snapshot

	SECTOR	S&P WEIGHT
OVERWEIGHT	INFORMATION TECHNOLOGY	22.8%
OVERWEIGHT	HEALTH CARE	14.1%
OVERWEIGHT	FINANCIALS	13.1%
OVERWEIGHT	COMMUNICATION SERVICES	10.5%
OVERWEIGHT	INDUSTRIALS	9.3%
EQUAL WEIGHT	CONSUMER DISCRETIONARY	9.8%
EQUAL WEIGHT	ENERGY	4.2%
UNDERWEIGHT	CONSUMER STAPLES	7.2%
UNDERWEIGHT	UTILITIES	3.3%
UNDERWEIGHT	REAL ESTATE	3.0%
UNDERWEIGHT	MATERIALS	2.7%

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INDEX DESCRIPTIONS: Please note that all indices are unmanaged and investors cannot invest directly in an index. An investor who purchases an investment product which attempts to mimic the performance of an index will incur expenses that would reduce returns. Standard & Poor's 500 (S&P 500): Measures changes in stock market conditions based on the average performance of 500 widely held common stocks. Represents approximately 68% of the investable U.S. equity market. The Dow Jones Industrial Average is an unmanaged index of 30 widely held securities. The NASDAQ Composite Index is an unmanaged index of all stocks traded on the NASDAQ over-the-counter market. The MSCI EAFE (Europe, Australia, Far East) index is an unmanaged index that is generally considered representative of the international stock market.

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First Trust
Monday Morning OUTLOOK

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January 6, 2020

Blame the Overweight Jockey

The longest economic recovery on record continues, with January being the 128th consecutive month of growth. The first seven years, from mid-2009 through 2016 saw average real GDP growth of 2.2%. Since the start of 2017, US real GDP growth accelerated, to an average annual growth rate of 2.6%, while the unemployment rate now stands at the lowest level in 50 years (and is likely headed lower).

We attribute the acceleration to a combination of better regulatory policy and lower tax rates. These changes reduced impediments to growth, kind of like putting a lighter jockey on the horse. Steps forward for sure, but it could be better. The US grew at a 3.1% annual rate during the 1980s and a 3.4% rate in 1990s, both decades that saw recessions.

What gives? The US has not grown more than 3.0% for any calendar year (Q4/Q4) since 2005. Larry Summers, former Treasury Secretary, former head of the National Economic Council, and a possible Fed chief if the Democrats take the White House, says it's "secular stagnation." Summers thinks the US and other economies are in a long-term funk because of slower population growth, more inequality and low investment – which in economic terms means a shortage of demand.

The best way to address this, according to the secular stagnationistas, is to keep monetary policy loose and run large budget deficits. So, Summers was OK with the Fed's cuts in short-term interest rates in 2019, and, although he opposed the Trump tax cuts, he has not loudly opposed budget deficits. Those who claim we're in secular stagnation support more government spending on things like infrastructure, for example.

To sum it all up, secular stagnation theory means we should inject the economic horse with government-provided steroids.

An alternate theory comes from economists Carmen Reinhart and Kenneth Rogoff, who, in their book "This Time is Different," argue that, after financial crises (such as 2008-09), economies grow slower. But here we are 11 years later, with consumer and corporate balance sheets in much better shape, and inflation and growth have still not returned to normal. The economic effects of the financial crisis should be past us by now.

We never believed this theory and to see it fail isn't a surprise. After all, the S&L crisis, Latin and South American debt defaults, and oil and ag bank problems, hit in the 1980s. In fact, adding up all the losses (and bank failures) from that period shows it to be worse than the 2008 crisis. But Reinhart and Rogoff ignored it because it didn't fit their theory – the economy grew rapidly in the 1980s.

The reason their model didn't work in the 1980s is because, contrary to other crises, President Reagan's administration did not respond with massive increases in spending, regulation and easy money. Rather, the US cut tax rates, regulation, and non-defense spending, while running a tight money policy.

The economic horse accelerated, not by jacking it up with steroids, but by making the jockey (the size of government it must carry) lighter.

Looking at it this way explains slow growth in the past decade. Federal spending (excluding national defense and net interest) averaged 13.3% of GDP in both the 1980s and the 1990s. But in the 2000s, it averaged 14.2% of GDP and in the 2010s it averaged 16.2%. Every one of the additional dollars the government spent sucked resources out of the private sector, allocating them the way politicians wanted, rather than through voluntary private exchange. That made the economy less efficient and less able to grow.

In other words, the jockey got fat and weighed down the horse. If they truly want faster growth, policymakers need to focus on slimming down the government, not growing it under the guise of boosting "aggregate demand." Tax cuts and regulatory relief help. More spending, more bank regulation and negative interest rates have failed to produce results. If we want 3-4% real growth in the future, spending restraint is the answer.

Date/Time (CST)	U.S. Economic Data	Consensus	First Trust	Actual	Previous
1-7 / 7:30 am	Trade Balance - Nov	-$43.7 Bil	**-$43.9 Bil**		-$47.2 Bil
9:00 am	ISM Non Mfg Index – Dec	54.5	**54.7**		53.9
9:00 am	Factory Orders – Nov	-0.7%	**-0.5%**		+0.1%
1-8 / 2:00 pm	Consumer Credit– Nov	$15.8 Bil	**$19.3 Bil**		$18.9 Bil
1-9 / 7:30 am	Initial Claims – Jan 4	220K	**222K**		222K
1-10 / 7:30 am	Non-Farm Payrolls – Dec	162K	**154K**		266K
7:30 am	Private Payrolls – Dec	154K	**149K**		254K
7:30 am	Manufacturing Payrolls – Dec	5K	**-5K**		54K
7:30 am	Unemployment Rate – Dec	3.5%	**3.5%**		3.5%
7:30 am	Average Hourly Earnings – Dec	+0.3%	**+0.3%**		+0.2%
7:30 am	Average Weekly Hours – Dec	34.4	**34.4**		34.4

Consensus forecasts come from Bloomberg. This report was prepared by First Trust Advisors L. P., and reflects the current opinion of the authors. It is based upon sources and data believed to be accurate and reliable. Opinions and forward looking statements expressed are subject to change without notice. This information does not constitute a solicitation or an offer to buy or sell any security.

The Weiss Report
Volume 23, Number 1
Enclosure #3

Recession: Probably Not. Accelerating Economy: Probably Yes.

In our last edition, I focused on the plethora of scary economic headlines about an eminent recession. The conclusion: excessive pessimism in bullish. When written, the DOW was 26,800. As of December 19th, 2019 the Dow stands at 28,300. We reiterate that we see excessive pessimism as bullish.

One way we can monitor the economy is to view the couple of dozen monthly reports from the Government and private sources that are released each month. These releases allow us have a finger on the pulse of the economy. Data from November 2019 indicated to us that the economy's growth is accelerating again! Here's what we see:

In early November, the Federal Reserve Bank of Atlanta estimated GDP growth for the current quarter should be a positive 0.5%. In mid-December they have raised their estimate to a full 2% growth. This is quite a jump.

Housing Starts after more than a year of soft growth has accelerated in the last few months (National Association of Homebuilders). Over the last few years, homebuilding trailed the growth in the population. Accelerating housing construction is a natural response to pent of demand. Building more houses creates even more jobs created.

Wage increases for 2019 are exceeding 4% (ADP Research). Considering that inflation as near 1.5% we see this as a sign that the "Wealth Creation Wave" is very healthy. And, the largest wage growth is seen in blue collar jobs like construction and manufacturing.

Confidence in the economy is near all-time highs. Whether it be consumer confidence (Univ. of Michigan survey) or small business confidence (National Federation of Independent Business NFIB survey), confidence in the economy keeps rising.

The number of available jobs exceeds the number of people seeking work! Each month the Job Openings and Labor Turnover Survey or JOLTS documents available jobs. In November 2018, there were approximately 6.7mm jobs available. In November 2019 this number rose to approximately 7.3mm jobs. This number has a huge impact on wages as there are only approximately 4.5mm people seeking work.

When added up, we see the economy in 2020 on the brink of accelerating GDP growth. NOT on the brink of recession. We repeat: excessive pessimism is bullish. We expect the stock market to do well in 2020.

Happy New Year.