Market Currents

- **A Solid Year.** 2019 was unambiguously a solid year for investors. Nearly all major asset classes reported strong returns, culminating in the best global equity total returns since 2009. US stocks continued their recent momentum, breaking out to the upside and setting new highs. Key drivers of the bullish move were the de-escalation in the US-China trade conflict, and accommodative interest rate cuts and other liquidity operations from the Federal Reserve.

- **US-China Trade Relations.** The "Phase One" US–China trade deal, and the rollback of some tariffs, have contributed significantly to the recent rally. A signing ceremony between the nations is imminent, and removes a degree of uncertainty from the trade conflict. The next, much more difficult phase of trade talks lies ahead, and likely will not conclude (if at all) until after the November election.

- **Trade Truce for 2020?** We are encouraged by the apparent standstill in the trade conflict between the nations. It is apparent that the hottest moments of the conflict inflicted damage to both countries' economies, and neither Chairman XI nor President Trump appear eager to continue with the harm. Elsewhere, the USMCA, a refresh of NAFTA, is nearing approval in the US Congress, de-conflicting another trade zone. A potential offset, however, is Europe. President Trump has long been discontented with trade terms between the US and Europe, and has threatened to impose tariffs. Such an action would likely be a sharp negative for the economies and asset markets in both regions.

- **The US Consumer Carries the Load.** US growth decelerated through 2020, but strong payroll growth, low unemployment, and firm consumer spending have continued to drive GDP. Manufacturing activity, in particular, weakened, exacerbated by a lengthy strike at General Motors and a production halt for the 737 Max at Boeing. Some forward-looking surveys are indicating contraction for the sector, while other data suggest a bottom is forming and better times lie ahead. The services side of the economy remains in expansion mode.

- **Tension in the Middle East.** Geo-political tension has flared in the Middle East once again. Responding to the attack on its Baghdad embassy, the US retaliated by killing a top Iranian general with a drone strike. Iran hit back with an ineffective missile strike at an Iraqi base housing US military personnel. At present, the US and Iran have ceased their attacks, though it remains a possibility that Iran will pursue additional action against US and/or Allied targets, likely in terroristic fashion or via cyber means.

- **Outlook for 2020**. Our market view remains cautiously optimistic that the current expansion can continue. The backdrop of low interest rates, combined with accommodative central bank policy, should provide a degree of support to risk assets. Sentiment, despite the bullish move over the past few months, is not overly lofty. However, much will depend on how the continuing trade negotiations with China play out. Despite Phase One being nearly complete, the situation remains fluid. Outside of trade, we are maintaining a close eye on how the services sector, which makes up the bulk of the US economy, reacts to the softening in manufacturing industry. The upcoming election season could lend to some volatility to markets, though we expect the impact to be relatively short-term.

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