2019 Wrap-Up

To the delight of investors, 2019 marked a solid year in markets around the world, with strong equity and fixed income returns, paired with relatively modest volatility. Led by the technology sector, US stocks put in another robust showing, with the S&P 500 gaining 28.9% on a price basis, and 31.5% with dividends. Overseas markets trailed the US, but also logged solid gains. Spurred by falling interest rates, bonds also posted strong returns.

In many respects, 2019 reflected a classic "Wall of Worry" year in the markets. The year began with the US government in shutdown mode over a border wall spending impasse. Throughout the spring and summer, the US trade conflict with China escalated, with tariff punches and counterpunches flying between the countries as they wrangled over trade talks. The yield curve inverted briefly in August, amid increasing investor concerns over a looming economic slowdown. In late September, Congress commenced an impeachment inquiry against President Trump over military aid to Ukraine, concluding in an impeachment vote in December decided almost entirely along partisan lines.

There was good news, too, away from the din of headlines. Growth moderated in the second half of the year, but overall the economy remained on steady footing, especially in the consumer sector. Labor markets remained strong, with the unemployment rate touching 50-year lows at 3.5% and payrolls mostly surprising to the upside. Consumer confidence and spending were strong, and inflation remained muted. Energy costs stayed low, helping to boost disposable income. The housing market was firm, buoyed by the low level of interest rates.

We would be remiss in not mentioning the Federal Reserve as a prime actor in 2019's market. Reversing a three-year path of rate hikes, the Fed changed course in mid-year and cut its Fed Funds rate by 0.25%. Two more cuts followed, and were joined by other operations in September intended to bolster bank capital and support overnight lending between banks. The rate cuts came in response to growing concerns over economic slowing, driven in large part by trade conflicts, and were also reflective of a global environment of easy liquidity from other central banks. Considered in their total, the Fed's actions certainly provided a boost to both the stock and bond markets. The Fed is currently standing pat on rates, and is expected to gradually draw down its other liquidity operations in the new year, but broadly speaking, the central bank environment is accommodative globally and supportive for risk assets.

As we start a new year, there are some causes for optimism. The long-awaited "Phase One" trade deal is expected to be signed next week by the US and China, as is the USMCA trade agreement between the US, Mexico and Canada. While hardly a panacea to the trade conflict, the Phase One China deal reflects a standstill in hostile trade actions between the world's two largest economies. Central banks remain committed to supporting growth in their member countries. Corporate earnings, which were essentially flat in 2019, are also expected to resume growing in 2020.

Stock valuations are somewhat elevated following their strong 2019 advance. We would be unsurprised at one or more small corrections as investors protect profits and rebalance their portfolios, nor would we be surprised at a broadening of stock gains to be more inclusive of overseas markets, following several years of strong US outperformance. While markets have largely shrugged off geopolitical concerns in recent years, both North Korea and the Middle East remain potential near-term flash points that could impact investor confidence. On behalf of our investor clients, we will be watching the story in 2020 with great interest, and one hopes with clear vision!

We thank you for the confidence you have placed in Ascent.