

## Economic and Capital Markets Commentary

### ***Hindsight is “20/20”***

As we begin the third decade of the 21<sup>st</sup> century, it is useful to briefly look back at the ten years that just ended: a decade that changed the way we interact with both technology and each other and one that produced investment returns that few would have predicted.

Ten years ago, unemployment was close to 10%, equity market returns were negative for the prior ten years, and the effects of the Financial Crisis were still being felt throughout the economy. Consumer and business anxiety were high and many economists predicted more of the same over the coming decade – a sluggish recovery with low growth and low returns.

Few expected central bank-fueled stimulus would continue for the next ten years. In the U.S., forceful intervention by the Federal Reserve and aggressive efforts by banks and consumers to fix their balance sheets helped fuel a lasting recovery and sent equity markets to new highs, culminating in very strong returns in 2019 that fully reversed and eclipsed the slide in the fourth quarter of 2018. At the same time, bond yields fell steadily over the decade (historically bond yields would rise with rising stock markets) as inflation remained stubbornly low.

At the start of the new year, the U.S. economy remains on a sound footing. Unemployment is at its lowest level in decades and consumer confidence flirts with the highest readings seen since the 90s. In response to uncertain global growth, U.S. manufacturing and services activity slowed during 2019, but looked more positive heading into 2020. Likewise, many companies we follow reported slower growth in 2019, but have expressed renewed optimism based on their look ahead to the second half of 2020.

Risk and uncertainty are a constant companion for investors, and we begin the 2020s with the usual suspects as well as a few new concerns:

- Geopolitical - There is an argument to be made that geopolitical risks, fueled by populism and nationalism, are greater today than they were at any point in the last ten years.



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- Trade -The trade war is not simply a U.S. / China issue; globalization has been turned on its head by protectionist policies and a middle-class backlash.
- Stagnation - Will Europe, and possibly the U.S., follow Japan's seemingly endless cycle of low growth bordering on stagnation and deflation ('Japanification').
- Technology - Can technology lead to significant gains in productivity, boosting gross domestic product (GDP); will artificial intelligence upend whole industries or professions.
- Valuation - With the U.S. stock market ending 2019 near all-time highs, stock valuations are currently sitting at above average levels, setting a high bar for future returns.

While we are mindful of these risks, we are aware that bull markets frequently “climb a wall of worry.” Put another way, markets typically rise in the face of risks, so long as the underlying fundamentals of the economy have potential for growth, as they do today.

We look forward to the coming decade – studying the economy, researching and evaluating the stock market and publicly-traded companies, constructing and managing investment portfolios based on our clients' specific needs, and interacting with our clients – amidst all the uncertainty to come.



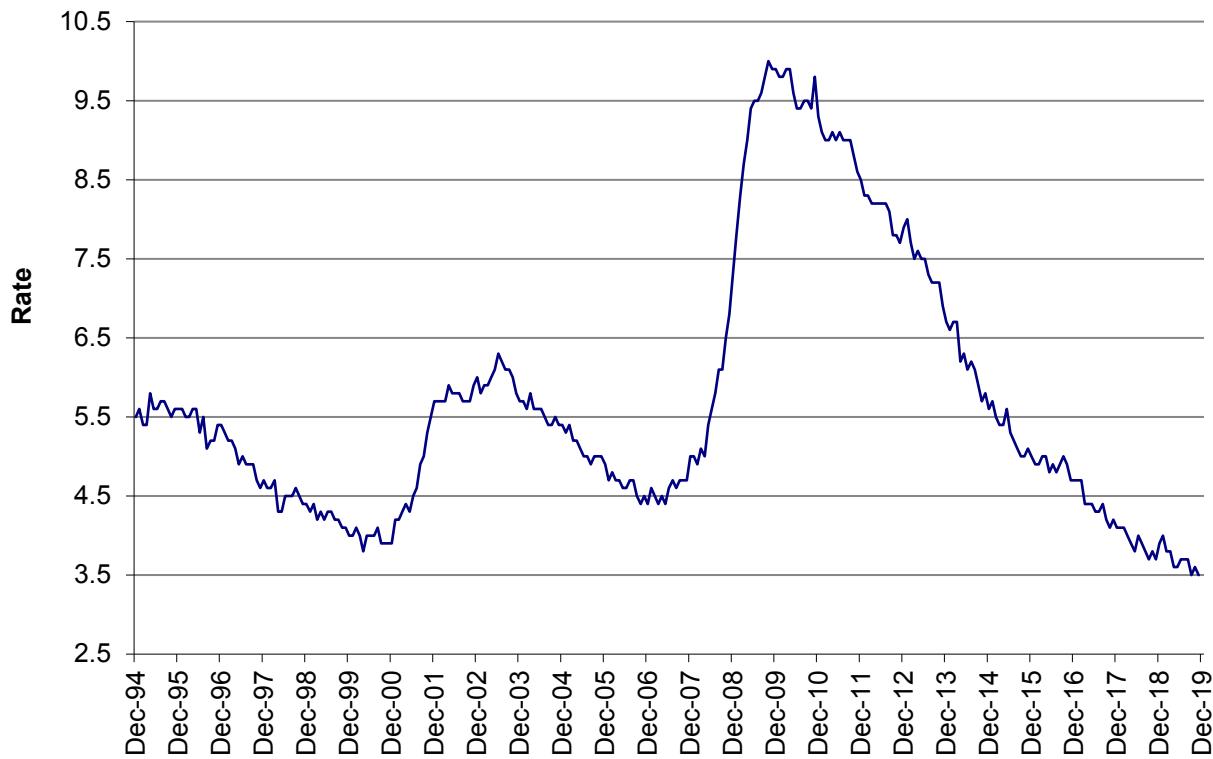
## Economic and Capital Markets Data

|                                    | December 31, 2019 | December 31, 2018 | December 31, 2014 |
|------------------------------------|-------------------|-------------------|-------------------|
| <b>S&amp;P 500 Index</b>           | 3231              | 2507              | 2059              |
| <b>Price / Earnings Ratio</b>      | 21.6x             | 16.5x             | 18.4x             |
| <b>Yield</b>                       | 1.82%             | 2.15%             | 1.95%             |
| <b>Federal Funds Rate</b>          | 1.75%             | 2.50%             | 0.25%             |
| <b>10 Year U.S. Treasury Yield</b> | 1.92%             | 2.69%             | 2.17%             |
| <b>Gold</b>                        | 1517              | 1282              | 1184              |
| <b>Oil (Brent)</b>                 | 66                | 54                | 57                |
| <b>GDP (Annualized)</b>            | 2.1%              | 1.1%              | 2.3%              |
| <b>Unemployment</b>                | 3.5%              | 3.9%              | 5.6%              |
| <b>Inflation (Annualized)</b>      | 2.3%              | 1.9%              | 0.8%              |



## U.S. Unemployment Rate

Twenty Five Years



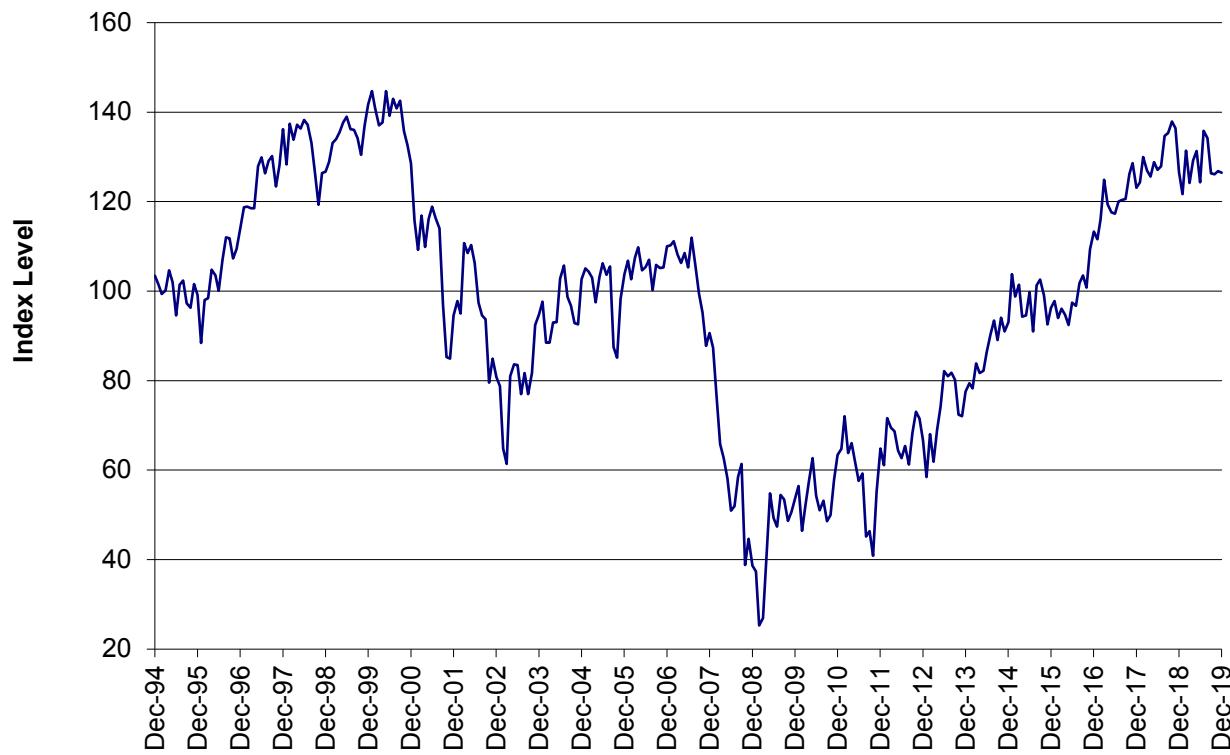
Courtesy of Bloomberg



First Quarter 2020

## Consumer Confidence Index

Twenty Five Years



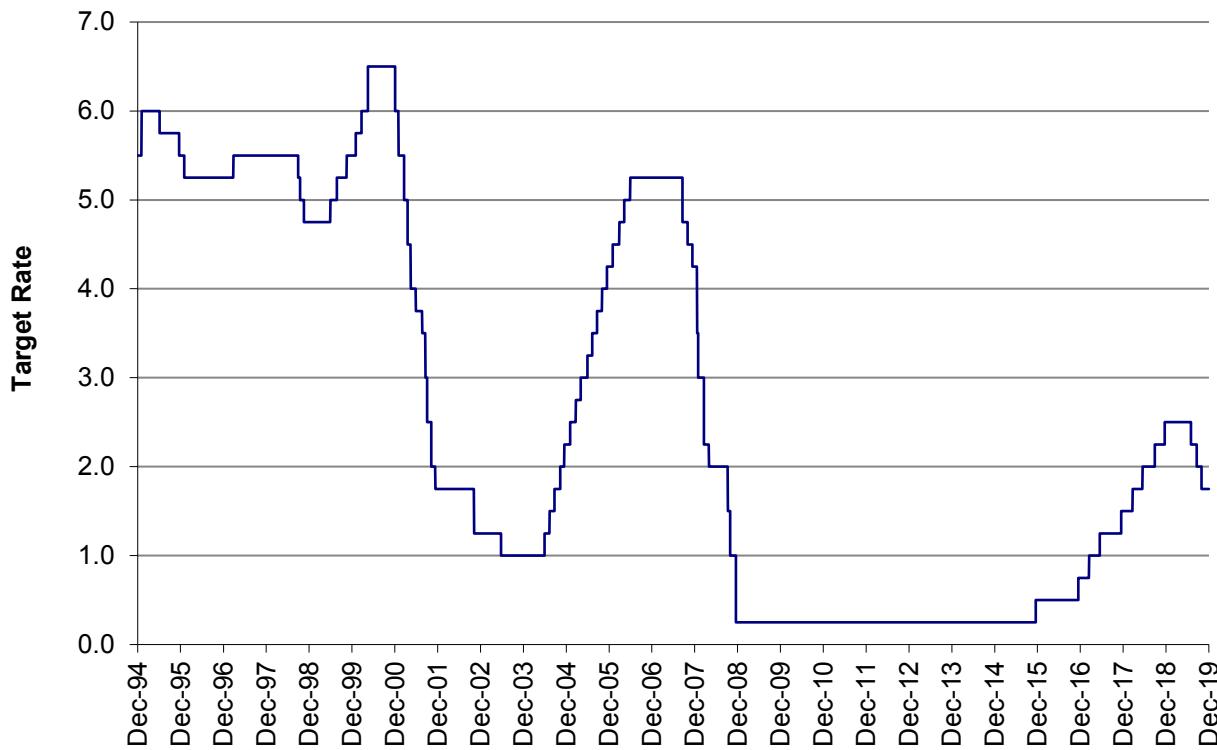
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## Federal Funds Target Rate

Twenty Five Years



Courtesy of Bloomberg



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## U.S. Treasury Ten-Year Bond Yield

### Twenty Five Years



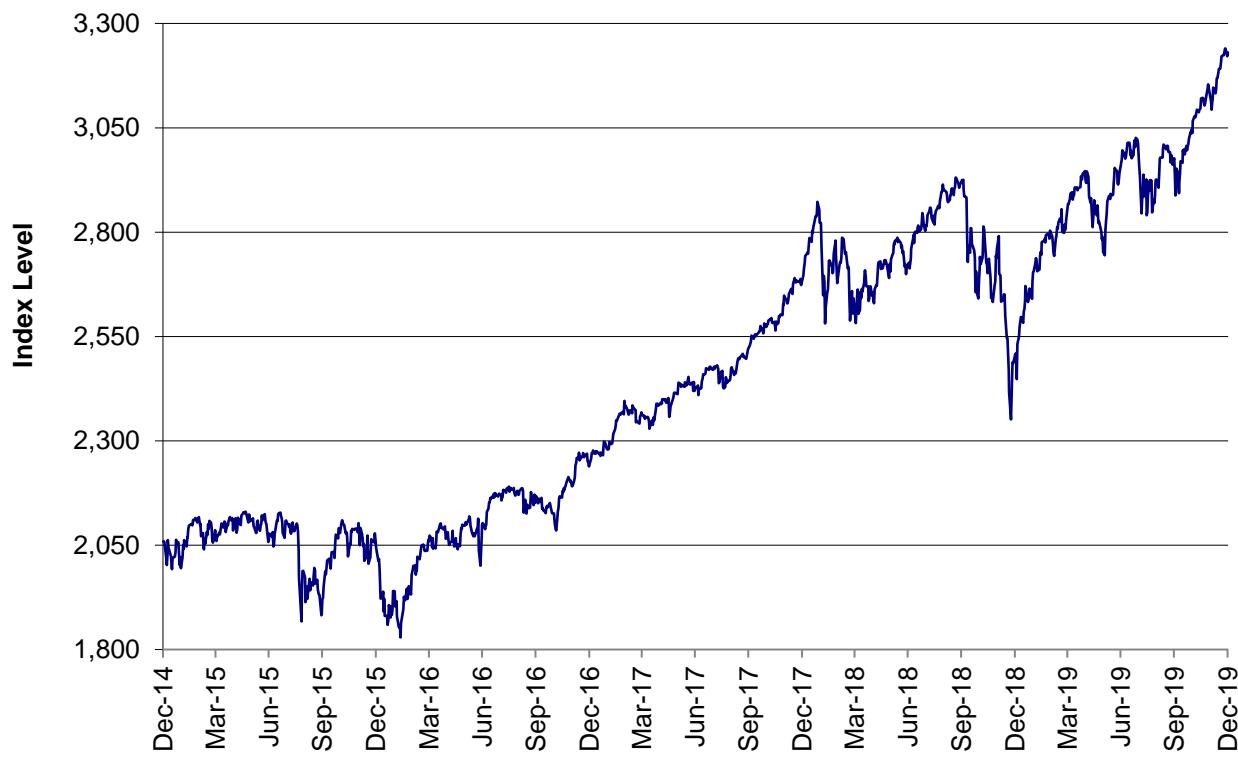
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## Standard & Poor's 500 Index

Five Years



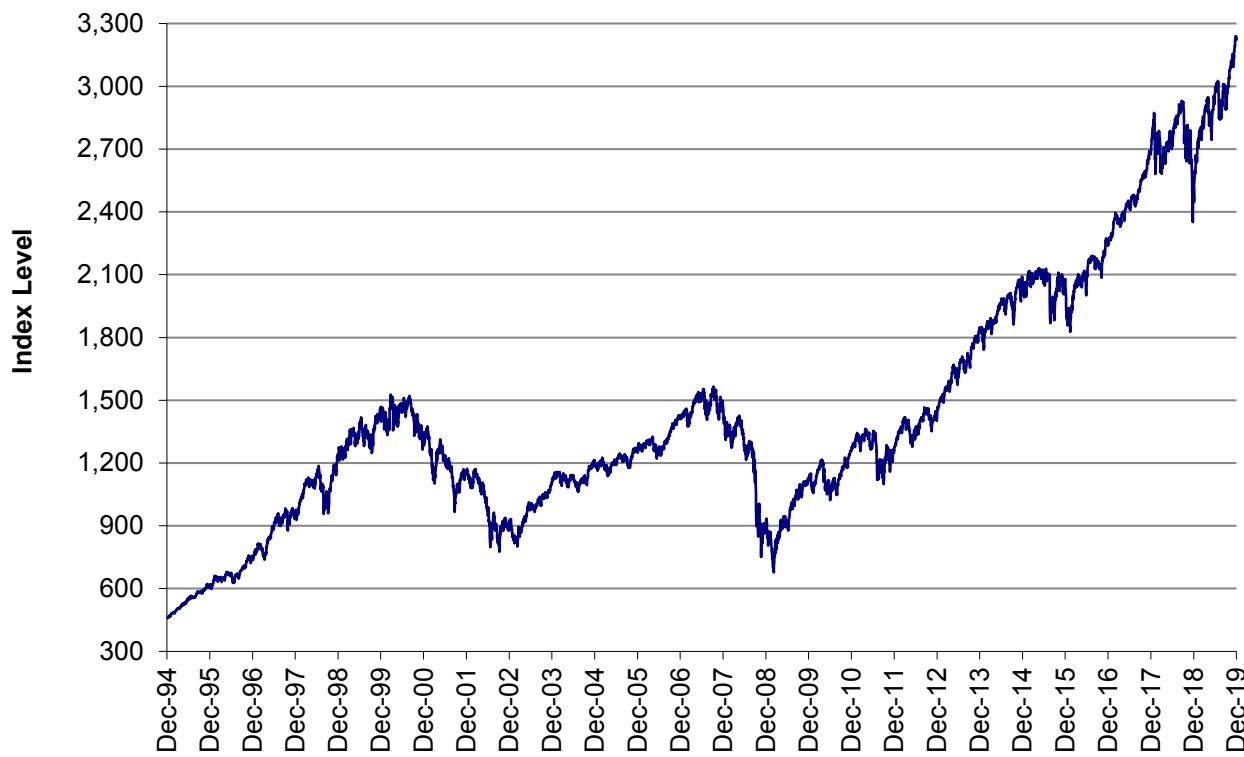
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## Standard & Poor's 500 Index

Twenty Five Years



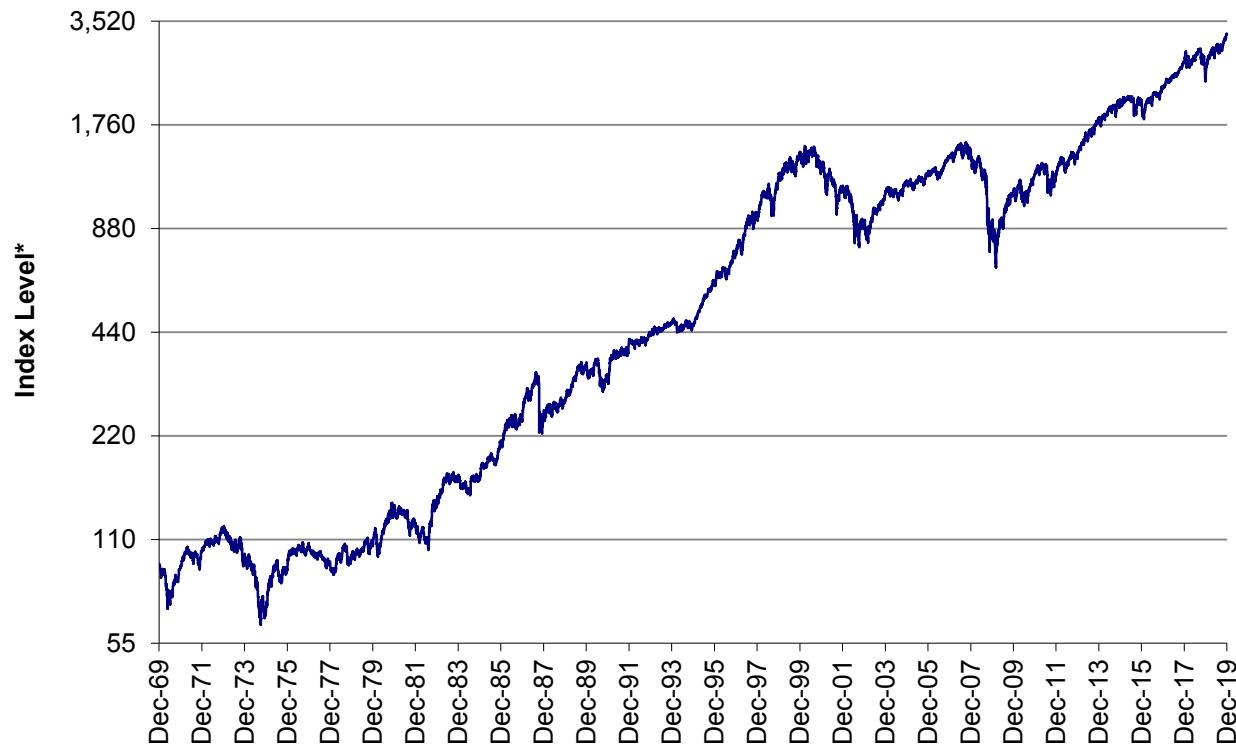
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## Standard & Poor's 500 Index

Fifty Years



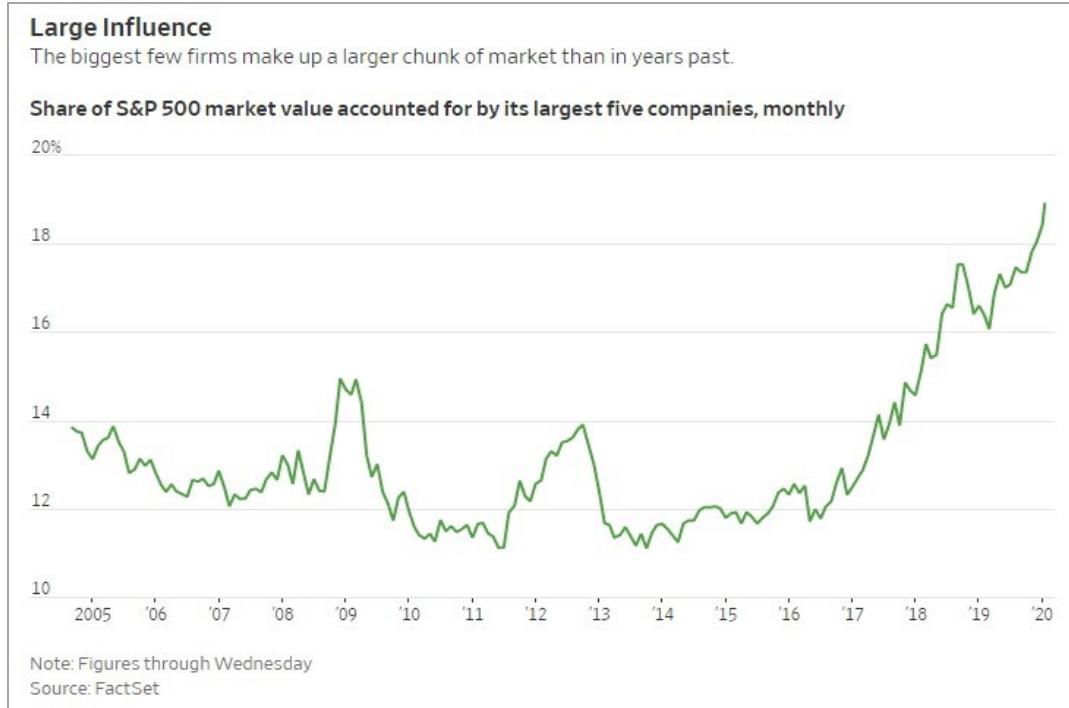
Courtesy of Bloomberg

*\*Please note that this chart is using a logarithmic scale*



First Quarter 2020

## S&P 500 Index Concentration



Source: The Wall Street Journal

As of December 31, 2019, the top five S&P 500 Index holdings were Apple (4.6%), Microsoft (4.5%), Alphabet (3.0%), Amazon (2.9%), and Facebook (1.9%).

