

COMMENTARY AND OUTLOOK

2020

2019 REVIEW:

- 2010-2019 was the only “round” decade in history that did not experience a recession¹.
- The longest economic recovery in U.S. history that began 7/1/09 remains in progress.
- Stocks and bonds performed well above their respective long-term average returns².
- A balanced portfolio of 60% stocks & 40% bonds experienced returns that exceeded the long term return for stocks alone².
- Unemployment rate was at the lowest level since before the Chiefs won their last Superbowl³.
- Volatility in 2019 typically resulted primarily from tweets, headlines and geopolitical events.
- Interest rate cuts by the Federal Reserve and a phase one trade deal drove stocks higher.

From the end of WWII to 1982, the U.S. experienced 8 economic recessions, or roughly every 5 years. Since 1983, the U.S. has experienced only 3 recessions, or every 12 years on average³. In return, we have experienced more “mid-cycle slowdowns” where the economy slows down but doesn’t fully put on the brakes⁴.

2019 was an exceptional year for the stock market with the S&P 500 returning 31.5%. However, the collective earnings (profit) growth of companies in the S&P 500 looks to be 0% +/- . This is opposite of one year ago when the stock market returns in 2018 were negative but earnings growth was over 25%. The stock market rebounded from the December 2018 sell-off and was helped by lower interest rates, better than expected economic growth and prospects of a trade agreement with China.

» 2020 Outlook:

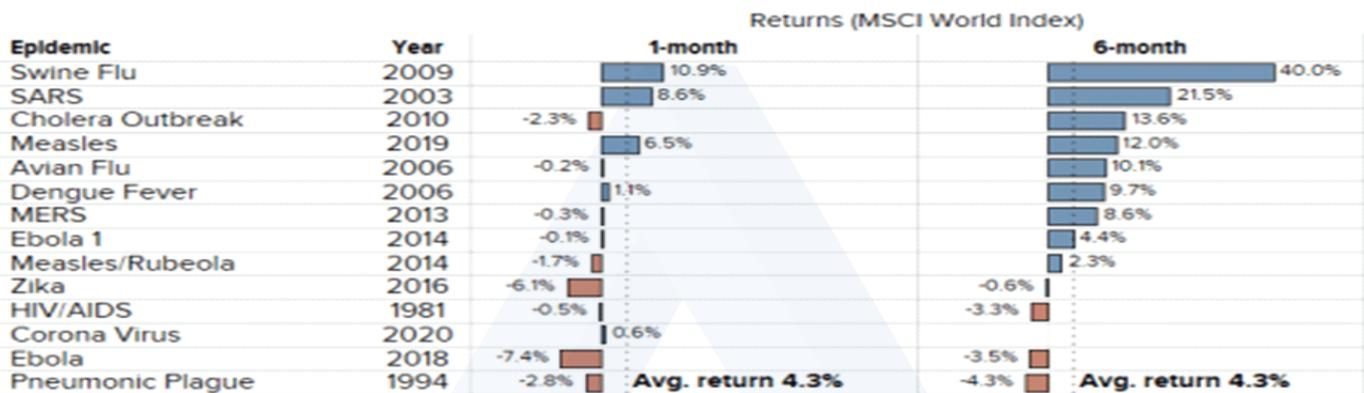
- Federal Reserve is expecting no changes to interest rates (up or down).
- Recession seems unlikely except for some unknown “shock.”
- Low unemployment creates a challenge for businesses as they struggle to find skilled labor.
- Stock returns for the next 5 to 10 years are expected to average 4-6% per year^{1,5}.
- Bond returns are expected to return 2-3% per year over the same time period^{1,5}.
- Stock market volatility will likely be elevated due to the 2020 election cycle.
- Since 1928, the S&P 500 has gained +12.9% (total return) during election years when the nation’s sitting president ran for re-election. Since 1928, the S&P 500 has gained just +4.5% during election years when the sitting president is not seeking reelection⁵.

We started 2020 with the economy looking like it did in 2019. The coronavirus scare is a “shock” that could impact the economy but it is difficult for anyone to precisely quantify. Like most non-financial events, prior disease outbreaks have had a minimal long-term impact on the stock market.

The combination of a slowdown in the economy, slow corporate earnings growth and higher stock valuations are expected to keep returns subdued below the prior 10-year and long-term averages. Despite the low return outlook, bonds still have a place in diversified portfolios to provide income and to reduce volatility in the event of a market sell off. At Legacy, we work side-by-side with our clients to plan your financial future. We strive to maintain portfolio risk level that is catered to your needs. If your personal or professional situation has changed recently, please call our office to visit with your financial professional.

Markets heal quickly from disease outbreaks

Disease outbreaks often weigh on global stock markets in the short term, but the impact fades over time.



SOURCE: Charles Schwab



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Chris Proctor

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1 JPMorgan Asset Management 12/11/19 / Long Term Capital Market Assumptions

2 Morningstar

3 FRED - St. Louis Federal Reserve

4 Charles Schwab

5 MFS research / Long Term Capital Markets Expectations – January 2020

6 BlackRock Capital Market Assumptions – April 2019