Data updated through
January 31, 2020

GENERAL ECONOMY

- Confidence measures and the wage growth of U.S. consumers remains at very healthy levels, but geopolitical issues, trade disputes and tepid global economic conditions have caused business confidence and spending to remain lackluster. Global economic growth may remain weak as monetary policy, coronavirus, and trade disputes remain as issues.
- Trade tensions, slowing global economics, Middle East Tensions, fading tax reform benefits, and modest U.S. corporate profit growth remain as concerns but we expect a solid job market and steadfast consumer spending will keep the U.S. economy moving forward.
- While the U.S. remains prosperous, European, Japanese and Chinese economies are struggling to make the necessary changes needed to emerge from their long term and extreme monetary and fiscal policies. Global growth woes will slow U.S. growth, but not precipitously.
- We continue to have concerns about the ability of Europe to deal with structural problems including Brexit, increasingly unstable banking and political structures, anemic growth, and high debt loads.

STOCK MARKET

- We remain constructive but cautious on stocks as solid U.S. economic and labor conditions will face the headwinds of slowing global growth and robust stock valuations. We expect geopolitical factors to cause stock market volatility in 2020. We have reduced risk in equity portfolios and in some cases, raised cash/short term bond fund levels slightly as we expect corporate profit growth to be muted.
- Although we expect U.S. stock returns to be modest over the next several years, they will probably still outpace cash, bond and foreign stock returns. We will focus on domestic companies with solid balance sheets that can grow dividends and earnings without financial engineering.
- We will continue our decade-long underweighting of foreign equity due to the unprecedented & potentially destabilizing financial policies of the European Central Bank, European financial system woes and a slowdown in China and other regions.

BOND MARKET

- Interest rates fell dramatically in 2019 as the Fed dropped their anti-inflation bias, with the yield curve inverting in spots. While an inverted yield curve has sometimes been seen as a predictor of recession, we believe the prospects of a near-term recession still remain low.
- Higher wage inflation, better economic growth and solid job creation moved the Fed to hike rates four times in 2018, but slowing global growth conditions led to three rate cuts in 2019. Barring extraordinary events, we expect the Fed to keep monetary policy steady in 2020.
- Globally, high debt levels of corporate and government issuers, geopolitical flare-ups, uncertain trade policies, lingering foreign banking troubles and the possible unwinding of extreme monetary policies all demand caution in the global bond markets.
- Total return prospects for bonds remain modest, but bonds still serve an important role in reducing portfolio risk, especially with today's full stock valuations.

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