MINK WEALTH MANAGEMENT
LEGACY & RESPONSIBILITY TO FAMILY

MACRO MUSINGS

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OUR 2020 OUTLOOK

SUMMARY

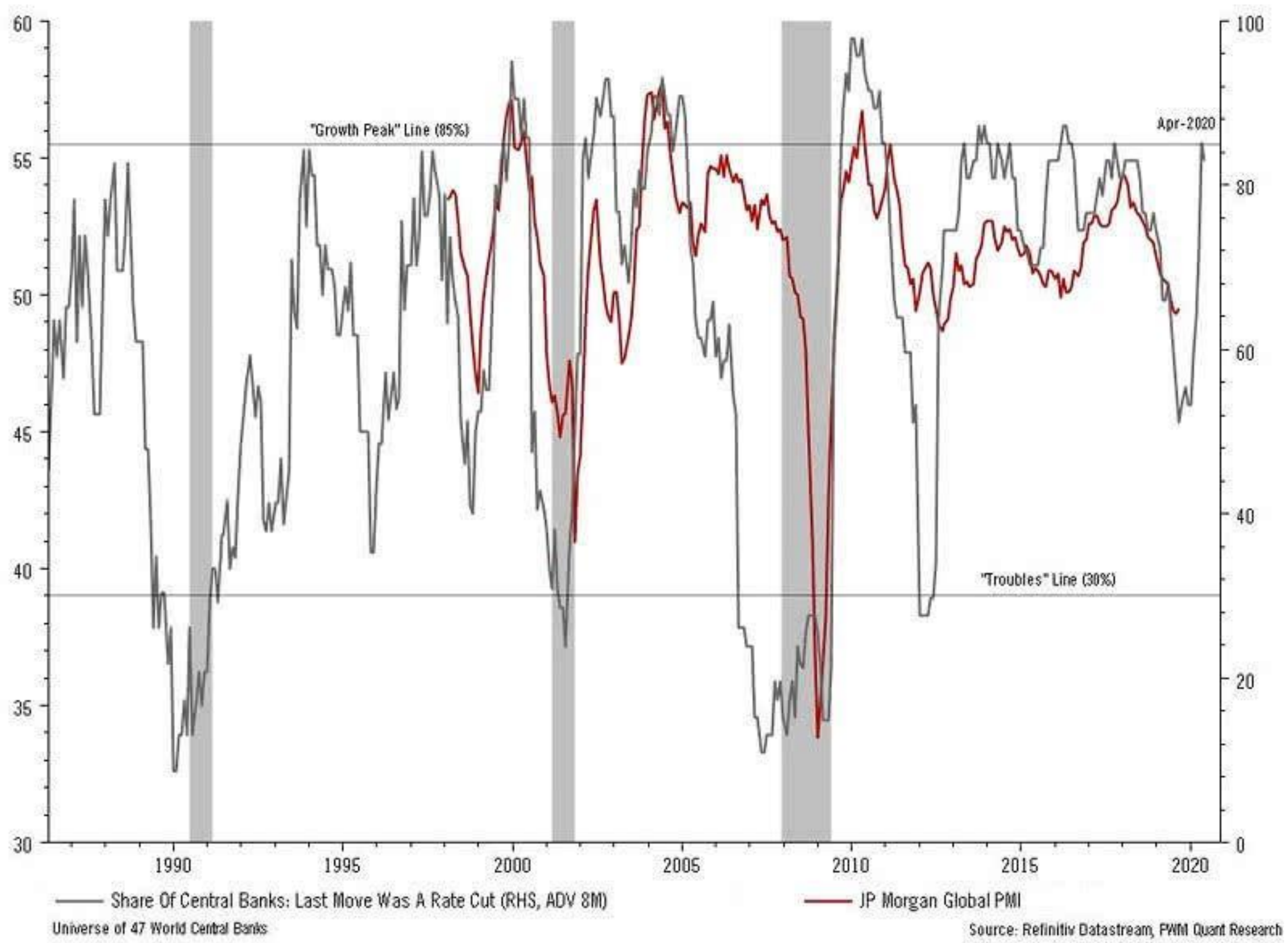
- **We expect global growth to rebound in 2020, the US consumer to remain strong, and the Federal Reserve not to raise rates before the 2020 elections.**
- **The S&P 500 is likely to finish the year with a gain of at least 20%. Historically, these strong annual gains have been followed by better than average returns in the following year.**
- **We do not anticipate a recession in 2020, which would be welcome news for the market. The S&P 500 has finished higher 87% of the time when the economy is growing.**

GLOBAL ECONOMY SET TO REBOUND

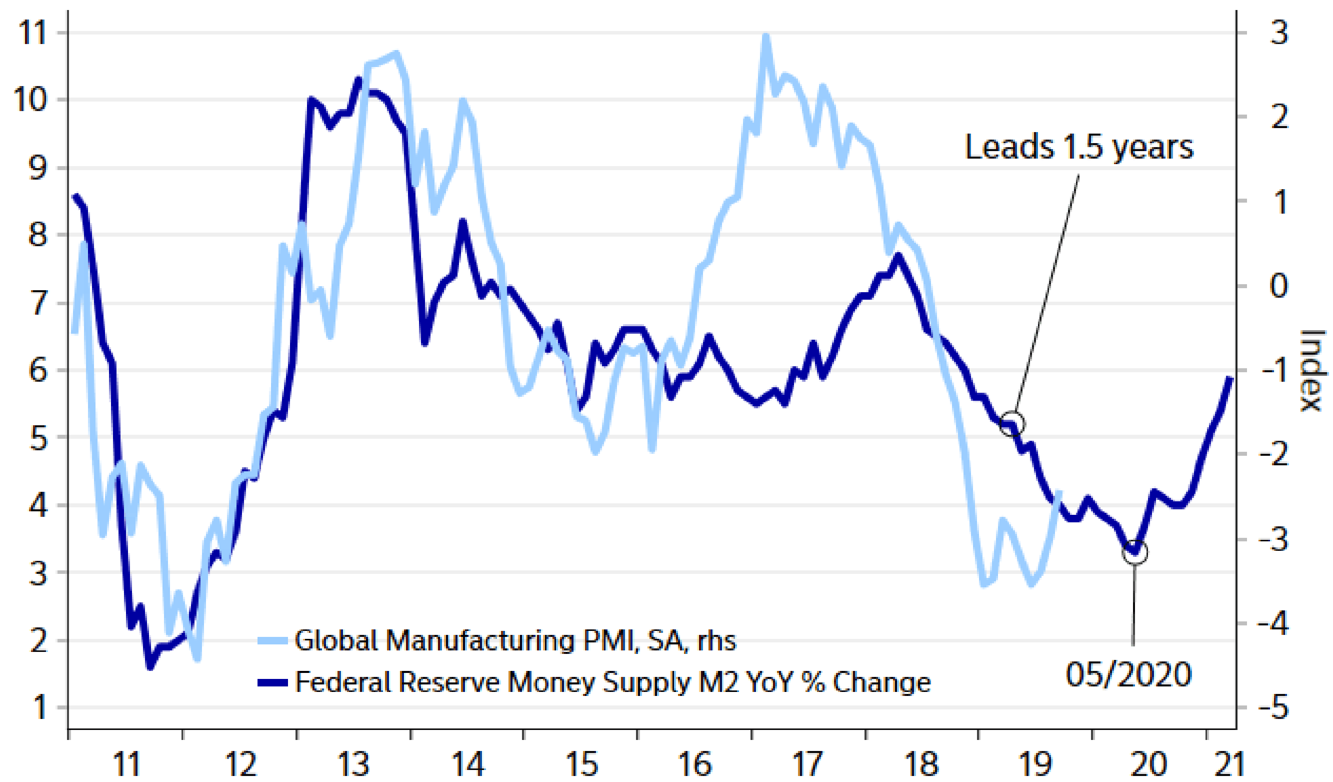
We believe that the global economy, which has struggled since early 2018, is set to rebound in 2020.

Leading indicators point to an improvement in economic growth ahead. Monetary policy has been aggressively easing, with central banks across the globe cutting rates after spending most of 2017 and 2018 raising them. Rate cuts tend to stimulate the economy.

The chart below shows the percentage of central banks around the world whose last action was a rate cut. It suggests that the more central banks cut, the better it is for the global economy, as measured by the JP Morgan Global PMI. The PMI measures the outlook for global manufacturing with a reading above 50 indicating expansion. The lead time is about 8 months (from Pictet Wealth Management):



In addition, changes in the US money supply tend to occur ahead of changes in the global economy. The chart below suggests changes in money supply lead the Global PMI by 18 months. We are less concerned with the exact timing of the indicator and more focused on the general trend, which implies a rebound ahead (from Nordea Bank):



Source: Macrobond and Nordea

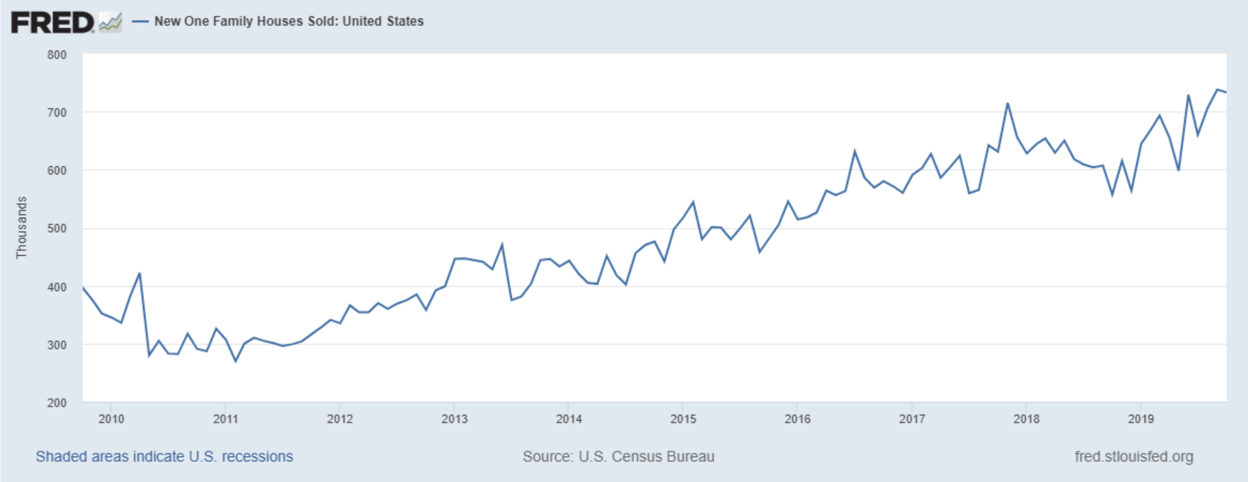
US ECONOMY SHOULD REMAIN CONSTRUCTIVE

We think that the US economy will continue to grow, supported by low unemployment, strong consumer spending, and a rebounding housing market.

Initial claims for unemployment remain near cycle lows:

Retail spending keeps rising. Remember that retail sales usually flatten before a recession occurs:

Lastly, new home sales have improved significantly after declining through 2018:



Although most home transactions involve existing homes, new home sales are crucial for the overall economy because they involve multiple industries and promote significant spending by the purchaser.

THE FED WILL PROBABLY NOT RAISE RATES UNTIL AFTER THE ELECTION

After an ill-advised rate increase last December which helped spark a 15% decline in the market, the Fed quickly reversed course and has now cut interest rates three times in 2019. Inflation remains low and the economy, while expanding, is not overheating. **We think the Fed is unlikely to raise rates before the election.** It does not want to get in the middle of politics and will err on the side of caution given low inflation expectations. If it takes any action, we think it will be another rate cut in the spring should the economic data underwhelm.

CONDITIONS ARE MUCH MORE FAVORABLE HEADING INTO 2020

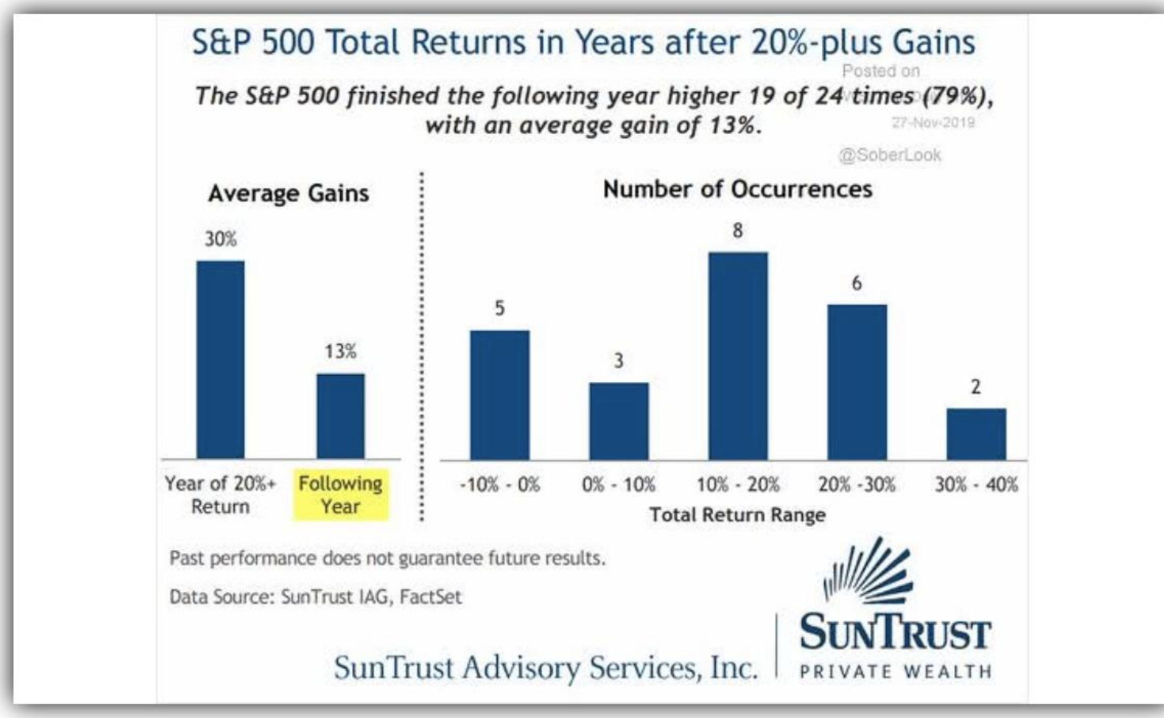
There is a stark difference between the backdrop heading into 2020 as compared to this time last year. We've taken many of the points above and summarized them for you in the table below:

Indicator	***This Time Last Year…***	***Today***
The Federal Reserve	4 rate hikes in 2018, 9 total since 2015	3 rate cuts in 2019
Long Term Treasury Bond Yields	Hit a 7 year high in November 2018	Sub 2.00% yield helped lower mortgage rates
The Global Economy	Manufacturing peaked in January 2018	Bottoming?
New Home Sales	Peaked in November 2017	New cycle high in September 2019
Trade War	Just ramping up	Progress towards Phase 1 deal

BIG UP YEARS FOR THE MARKET OFTEN LEAD TO FURTHER GAINS

Unless equities decline by more than 8% in December, the market will finish the year with an annual gain of over 20%. It will be the 4th time the S&P 500 has been up at least 20% since the global financial crisis (2009, 2013, and 2017 were the other years).

You may think that following a strong year, the market would take a breather or even be negative the following year, but this has not been the case. **Years in which the market was up 20% or more were followed by stronger than average performance, with positive returns occurring around 80% of the time** (from SunTrust via the Wall Street Journal):



Although subsequent annual returns were above average historically, we believe the most significant statistic is that there was not a single case that saw double digit declines after a big up year. This shows strong market performance doesn't reverse easily.

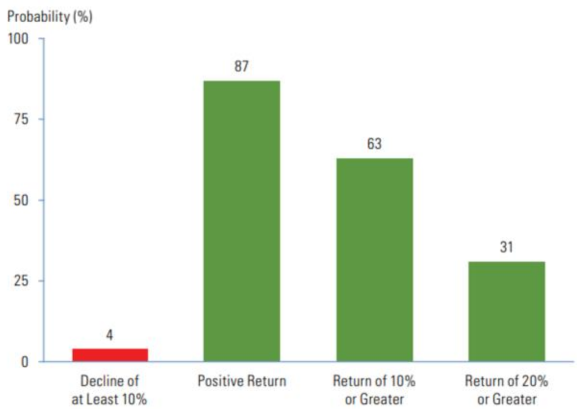
THE BASE CASE FOR 2020: CONTINUED ECONOMIC EXPANSION

In summary, we believe that the global economy will rebound next year, Fed policy will remain accommodative, and the consumer will continue to support the US economy. We expect that 2020 will represent the 12th consecutive year of overall economic expansion.

What are the implications for the market if our prediction comes true? As we outlined in our 2019 Outlook, a growing economy increases the probability of positive market returns. Stocks have generated positive returns in 87% of the years when the economy was growing (from Goldman Sachs):

Exhibit 19: Odds of Various S&P 500 One-Year Total Returns During US Economic Expansions

The likelihood of positive US equity returns is high when the economy is growing.



Data as of December 31, 2017.
Note: Based on data since 1945.
Source: Investment Strategy Group, Bloomberg.

HAPPY HOLIDAYS

This is the final Macro Musings of the year. We will publish our 2019 Year in Review next month.

From all of us at Corbett Road, we wish you a happy and joyous holiday season and a successful New Year. Thank you for your continued trust and business.

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