Weekly Market Review

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The Week Ending January 4, 2020

Rather than review the shortened holiday week, let's look back at 2019. Last year saw gains in just about every asset class. Even commodities posted a positive return, marking only their fourth year of positive performance for the decade. Bonds produced their strongest year of the decade, benefitting from the 0.77% drop in the 10-Year U.S. Treasury yield (bond prices increase when yields fall). Showing how rare it is to have this strong of a broad-based rally, 2019 marked the first time in over 20 years that the stock market gained over 20%, and the 10-Year U.S. Treasury yield fell by at least 0.75%.

A couple of trends that continued for this bull market was growth outperforming value, and U.S. stocks besting their foreign counterparts. The Russell 1000 Growth Index outperformed the Russell 1000 Value by about 10% on the year, continuing a trend that has been consistent throughout the current bull market. U.S. equity markets maintained their dominance as they outperformed both developed and emerging markets in 2019. One takeaway from this was the momentum generated by emerging markets to end the year, presumably aided by the phase one trade agreement between the U.S. and China. Maybe 2020 is setting up to be the year for foreign stocks?

Looking at macroeconomic events of 2019, there are a couple of trends that stuck out, mainly trade and the Federal Reserve. The Federal Reserve cut short term interest rates three times in 2019, their first rate cuts since the Global Financial Crisis. Amid a summer of recession fears and the Fed cutting rates, tensions between the U.S. and China increased as both nations levied additional tariffs on each other, leading to the second 6% drawdown of the year in equity markets. During this time, the yield curve (10-Year Treasury minus 2-Year Treasury) inverted for the first time since before the Financial Crisis, further stimulating recession fears.

As we moved through the fourth quarter, the stock market regained its upward trend, and much of the macroeconomic uncertainty and recession fears began to fade. The Federal Reserve stated in December that they expect no interest rate changes in 2020, and the U.S. and China appeared to come to a phase one trade agreement, which is reported to be signed January 15, 2020. In other trade news, the U.S., Mexico, Canada Trade Agreement (USMCA) was approved by the House of Representatives and is expected to be passed in the Senate this quarter. Overseas, the U.K. seems poised to leave the European Union in a more civilized fashion later this year, which was not expected just a few months ago. Just when 2020 began with decreased volatility fears and complacent investors, a U.S. missile strike in Iraq reminded us volatility can come at any time, and it's important to remain diversified and prepared for anything the market throws our way.

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