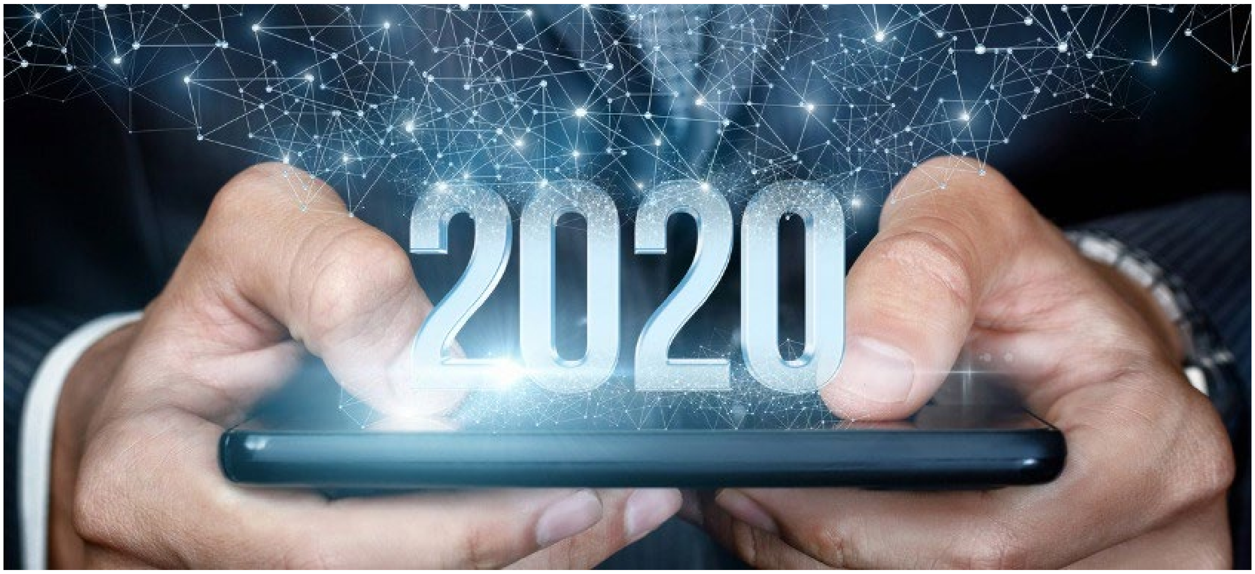


Forecast: 2020

The Trend is your Friend

When Ne'er the Twain shall meet…

A confluence of opinions are out there in terms of 2020's investment outlook. There are **4** main scenarios. Of course, the news-driven reactions and risk/reward catalysts will create the need to stay fluid… staying focused in fundamentals and respectful of market emotions because volatility does matter and give us windows of opportunity to Buy or Sell. Being a Presidential Election year will up the ante and heighten the intensity (and the VIX)… but what we have experienced over the past few years is a resiliency to bounce back.

That tendency seems to remain intact and reinforces a recovery that's not over.

With over 1,000 economists/economic strategists polled recently… 75% say no recession in 2020.This is the dire opposite of only a year ago when the polls and press heavily predicted a recession for 2019. The recession narrative proved to be wrong. So, you could conclude that this poll doesn't mean very much… or is maybe due to be right or wrong again… hence, ne'er the Twain shall meet.

Let's look at Wall Street and observe the opinions of the 12 largest institutions (money center banks and brokerage firms)… in short: 6 bullish, 1 stagnant or neutral, 5 bearish… so a mixed bag and not decisively anything.

Thesis #1: A recession takes root as domestic and global conditions worsen… tariffs take a greater toll and geopolitical tensions increase. Explicit details lacking for this prediction and recessionary symptoms for this thesis seem non-descript at this point in time. The blur created by slowed Corporate earnings, slowed GDP's here and around the world, and the domestic political divide have emotional and visceral expectations which are negative. Geopolitical stress is a real factor too. Likelihood of the recession outcome is 15%.

<u>Thesis</u> #<u>2</u>: The recovery holds on but is slowly "dying on the vine" and results in a dull, lackluster year of little or no growth… synonymous with **stagnation**…flattening economic metrics and an economy that gets stuck in "neutral"… stalls with poor/mixed stock market results and <u>15% chance of occurring</u> (stagnant flat year).

<u>Thesis</u> #<u>3</u>: The recovery struggles and limps along with modest 0-2% GDP growth, "thinned" corporate earnings on the order of 0-2-6% expansion, more inverted yield curve warnings (last one did not predict the recession correctly) and this "long in the tooth" recovery slumps along because rates and inflation remain low. In other words, the <u>late cycle</u> <u>theme</u>… <u>15% chance of happening.</u>

<u>Thesis #4</u>: My most likely outlook is about <u>55% predictable to play out</u>. The case here is that our economy is **recharging**… because it's my view, I will elaborate…but please know that I'm in the camp that this is the prevailing view which will be peppered and interrupted by the themes 1,2,+ 3 along the way. The US-Middle East crisis or a fallout with NK can accentuate those other themes.

The Evidence….

✯ 3 rate cuts in the 2nd half of 2019 and a monetary policy that is likely to remain "as is" is the most probable playbook said Fed Chair Powell himself. He has repeatedly said there is no need to speed up or slow down and access to money and liquidity are "about right". Being an Election year, a neutral stance on rates (to show no favoritism or leaning) is most likely unless a financial crisis or emergency surfaces.

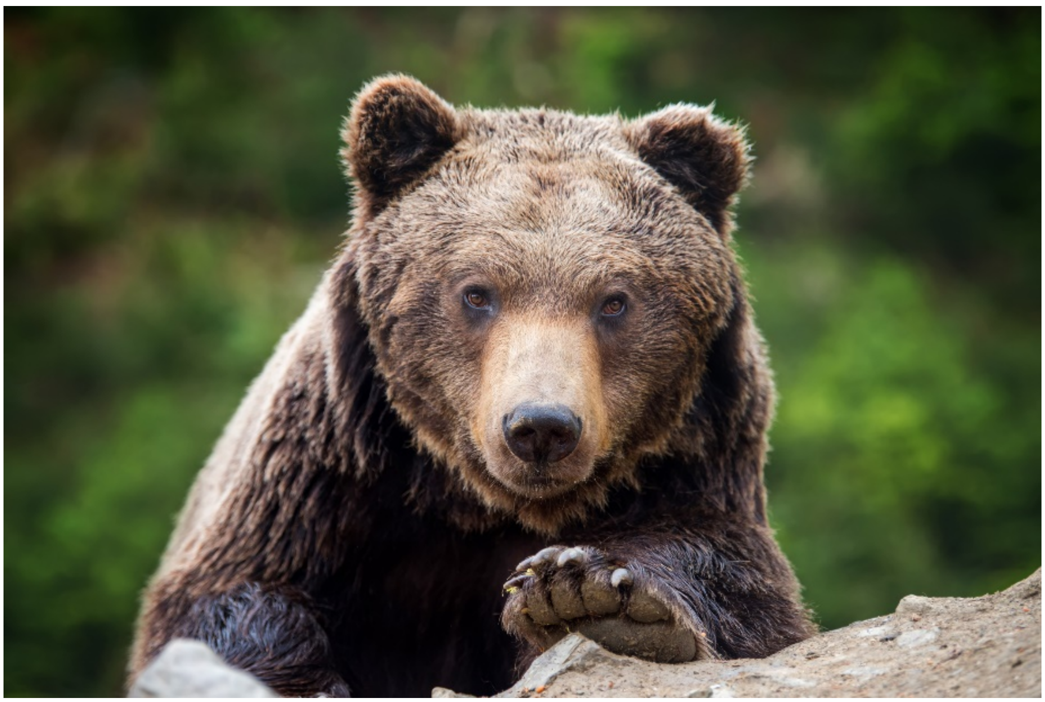
✯ I'm sure over the year you will hear some expert or talking head pontificating 1 of these 4 predictions and also many versions of them and even some fantastic extremes. It's all out there for your reading enjoyment and the sheer diversity of opinion.

✯ For the last 2+ years, the irregular recovery was "too old" and because history told us so, then US economic expansion had over-stayed its welcome…it must be over soon. This is simply wrong. In the past economic panics since 1945 (WW2's end), the common end game was a recession or stagnant period. In my judgement, there is no correlative evidence here typical of a recession set-up…and that's why it's not so easy to call for a Recession.

Yes, it's not quite that simple. Several parts of our current recovery **remain in sync** and some have run **out of sync** at separate speeds. Some **indicators have a decidedly "good as it gets" look**, others retain a mid-cycle profile-and a few even resemble early parts a recovery rather than the end…and **what's more**: **technology and** bio-tech are more **innovative** and **exciting than ever**… "breathing new life" in to many emerging segments of our emerging future. Recent employment news (the Nov. 266K new jobs #) suggest we are not at full employment even when this deep in to the expansion.

Hopefully we can avoid the "irrational exuberance" Greenspan warned about in the past. We must admit that our stock markets have stalled, retreated, and even corrected several times along the way…keeping the risk appetite tethered and preventing excesses.

In the late cycle category, we do find a few broad, late trending data readings… Unemployment rates and jobless claims at a 50-yr. low, consumer confidence is sustaining a cycle peak at 96-99, and many believe Corporate earnings peaked in July '18 while auto sales (still good) peaked a few years ago. P/E's remain attractive VS. historic standards, but some seem toppy, while others are not that mature. Corporate credit conditions are sturdy and consumer households have not loaded up on debt this cycle, and housing (with rates so low) are feeding off of new dynamics (not typical of late stage)… and even the Fed (Powell himself) has referred to the 3 rate cuts and overnight Fed Fds. policy (to enhance instant liquidity) as a "mid-cycle adjustment" and the Fed plans to leave the plan "on hold" thru 2020. Some infer it summons happy memories of prior such Fed-enabled "soft landings" under the Johnson, Reagan, and Clinton periods. Even some Nobel economists track the current market performance since the 2008 crash as "mid-cycle minibear markets" that have infiltrated the long bull run…(only 6 of the 11 years up for stocks which does confirm a deviation from the normal mean).



In short, the year 2020 still holds "green" upside for stocks…even in a year of election cadence. The underlying resiliency shown after the 2018 4th Q flush out has the **ingredients of the re-charge I talked** about in recent "*From the Desk Of's*".

In quick Summary, the prevailing theme for 2020 is that a Recession is highly unlikely if that outcome is based on fundamental economic reasoning. It is possible that the favored thesis #4 gets intertwined with thesis 1, 2 + 3 to create another backdrop that is less bullish…where the economic landscape experiences pockets of weakness and uncertainty (esp. relative to growth expectations + momentum) and of course, changing the sentiment.

If an unclear path or a bearish tone/sentiment clouds the picture…perhaps more likely given the possibility for global headwinds and Election drama at home…we could see pullbacks in stocks along the way. Over the last 10-11 years, we have averaged about 3.8 corrections (pullbacks) per year…so that norm could play out.

A comprehensive Buy/outperform list of stocks and ETF's will be forthcoming in chart form soon. They will include selections in blue chip **value**, **total return** (income yield relevant), **conservative growth**, **aggressive growth** and even picks in favorite nichè areas of opportunity.

Some of the current predictions we hear on the Street and in other circles (including Vegas) are listed below:

- Chances of Donald Trump winning re-election is 7:2 or 3 ½ to 1 odds. Many believe it's Trump's to lose.

- Chances that Trump is impeached by both Houses of Congress and removed from the Oval Office is less than 5%.

- Chances that the House changes hands in 2020 Election from 'D' to 'R' is 30%.

- Chances that the Senate changes hands in 2020 is 15%.

● Chances of a "Brokered Convention" for the Democratic Nomination for President is now 36%.

● Chances that Interest Rates stay flat+ relatively unchanged in 2020 is high.

● Chances that Gold (up 25% in '19) + Silver (up 22% in '19) will continue to rally in 2020 are high. Chances of a weaker US $ are likely. A stable US economy and low bond yields contribute to fixed income softness.

●Emerging Equity Markets (up only 12% in 2019) will be restrained again in 2020. Hopes of a 2nd Half 2020 pick-up in global GDP are there…positive headwinds from Asia and Eurozone (not so much in South America or Africa). Tariffs still a factor.

● Oil/gas prices stay boxed in a band and stay lagging other commodities (oil:$53-$73) with a global pick up improving demand metrics in 2nd H and push for new power sources, especially battery power…a big goal…

● Dow stocks (Apple dominated) of 30 companies were up 21.2 % in 2019 and China's Shanghai stock index was up 22 % and down 26% in 2018.

● Water purification became a key theme as Ecolabs and environmental Science take centerstage.

● Tremendous thrust to cure disease, new vaccines + medicines, new diagnostic equipment and surgical instruments + techniques…key 2020 theme will be: biotech, big pharma, intuitive surgery, blood therapeutics, immune response techniques, dementia…cancer, arthritis, renal and respiratory diseases, diabetes, inflammatory break throughs...once new organ production with the ability to do DNA markings to avoid rejection.

● IT…pure and simple…Technology.

● Food + Drink Themes…healthier diets and vitamins for better and longer life…Mergers + Acquisitions flourish + the need to better feed the world and all who are hungry through many avenues.

● Escalating costs in health care and medical management hopefully can be contained.

● Higher education costs hopefully stop rising at the pace they are. The 4 % average increase in tuitions year over year is not sustainable.

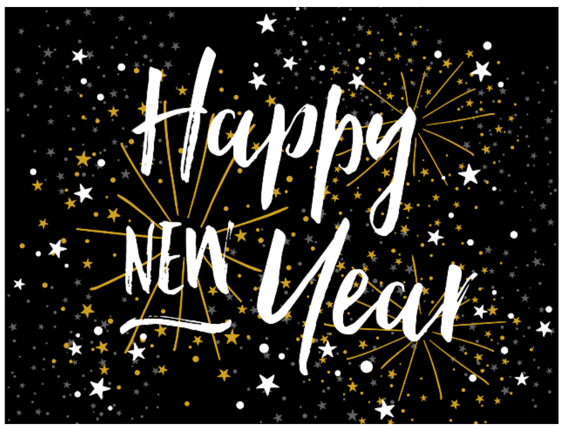
● Interest Rates charged at discount brokerage firms are outrageously high @11-14% levels. This should fix itself with Legislation or by shopping elsewhere.

● People at age 63-65 still have about 1/3rd of their investment life ahead of them. The 60 year span between age 24 (to start) to 84 years of age can be divided in to (3) 20 year categories (24,44,64,84)… …the Insurance actuarial tables (excluding Suicide) indicate that women have a life expectancy of 83-85 (over 50% who reach age 65 live to be 85 and about 33% of those reaching 70 will reach 90)…for men (excluding suicide) the life expectance is 80-82 years of age. Food for thought as we set guideposts.

So, in closing, let me add some remarks to this year end Newsletter. As you know, following and heeding to market predictions is no way to make your fortune in stocks. As I pen this I'm reminded that unpredictable events can pop up at any time…the Baghdad air strike by the US (to retaliate for an attack on our US Embassy) will trip up stocks and bother the "calm" sentiment (no doubt) . Oil and Gold jump up and volatility kicks in as some investors choose not to be "long" going in to a weekend. Throw in NK and the geo-political risks throttle up. So, not to sound too a cynical, but this can be reacted to in a lot of different ways…hence the need to best assess the severity of things and to determine if this just heats up or blows over (chalking it up as another flare-up). Does Russia and China (thru back channels) tell Iran to back off or does political wrangling in D.C. (here in the US) violate the war powers and add to Trump's impeachment woes somehow…Trump could simply respond by saying he has Executive Power to act after Iran provoked…so **there are no sure things**.

"*Apparently sure things are not so sure*", Larry Swedroe (a noted stock market historian) has said…or the quote from the famous physicist Neils Bohr "*It's very hard to predict, especially the future*". Need I say more!

Here's to a wonderful 2020…full of hope, health and happiness.



JC 01/02/2020