4TH QUARTER 2019 RETIREMENT PLAN NEWSLETTER

Current Issues and Trends for Retirement Plan Participants

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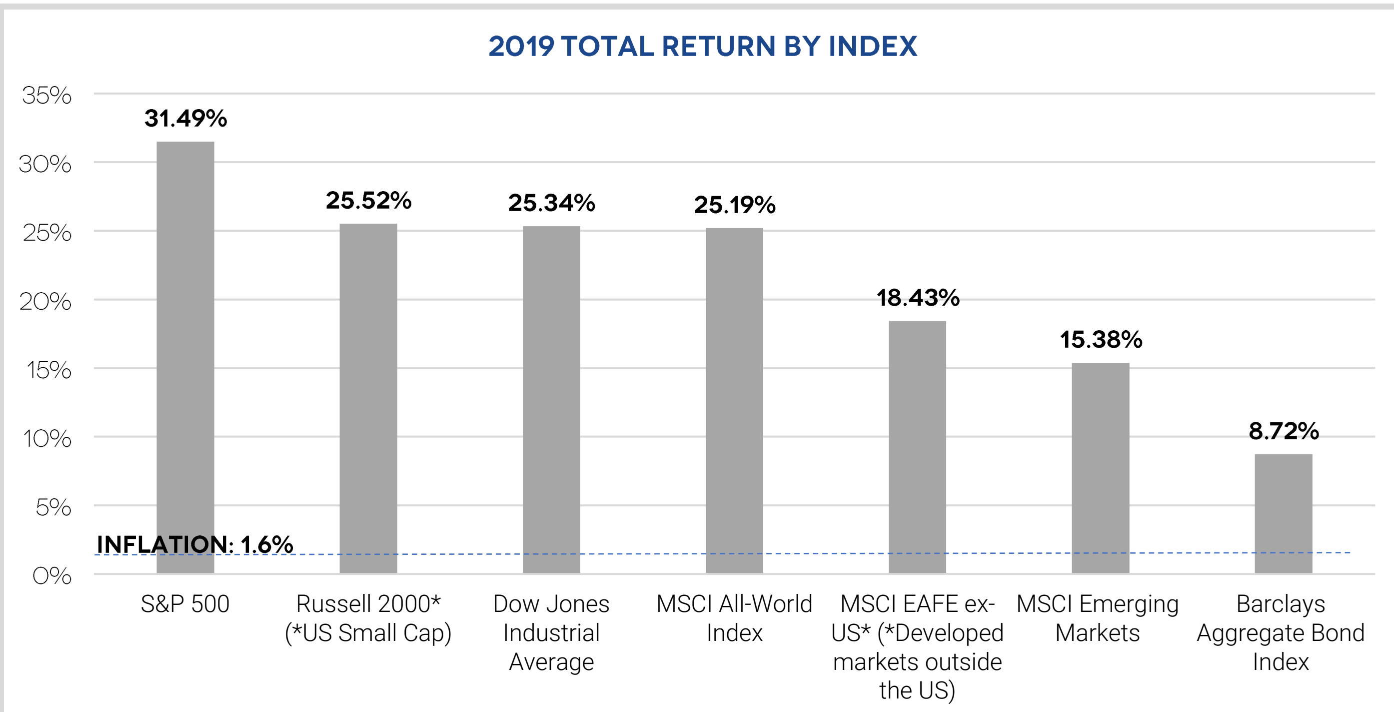
Do Bull Markets Die of Old Age?

HOW DID MARKETS PERFORM IN THE 4TH QUARTER?

After a volatile third quarter, US equity markets ended the year on a high note. The S&P 500 gained 9.07% to end the year up 31.49%, and the Dow Jones added 6.67% to end the year 25.34% in the green. Given the events of 2019—including, but not limited to—an on-again-off-again trade war with China, a presidential impeachment, and growing political unrest worldwide, domestic US equity markets have shown impressive stamina and resilience. International markets (see chart below) were not far behind, with the MSCI EAFE and Emerging Markets indices closing the year 18.43% and 15.38% higher, respectively.

In our last note, we commented on the growing bond market phenomenon of "negative-yielding" debt. In other words, the idea that investors are so risk averse that they are willing to *pay* trusted borrowers (like governments) to hold their money rather take on equity market risk. This trend has continued in the fourth quarter, with bonds looking expensive on a relative basis to stocks. The Barclays Aggregate bond index stayed relatively flat this quarter, returning 0.18% to end the year up 8.72%.



WHAT MOVED MARKETS IN THE 4TH QUARTER?

The fourth quarter was fairly quiet for markets, as trade tensions eased and the Federal Reserve cut interest rates. Political turmoil at home and abroad continued to create short-term shock waves, although the degree and magnitude of volatility remained relatively muted.

Tariffs scheduled for December 15th were postponed as trade talks with China made headway. The administration signaled a "phase one" deal is imminent, which bolstered investor sentiment heading into the new year. Central bank policy has added to that optimism, with the US Federal Reserve and the European Central Bank commenting that further rate hikes are a long way off.

The US consumer continues to look healthy: consumption is close to its highest share of global GDP since 2008, and consumer sentiment remains strong across the board. With unemployment still hovering around a 40-year low, the economy looks primed for another year of strong growth. Risks to this outlook include a resurgence of trade instability, a revision of the current "lower for longer" Federal Reserve doctrine, and a continued decline in manufacturing growth—though at the time of this writing, probability of these risk factors remains low.

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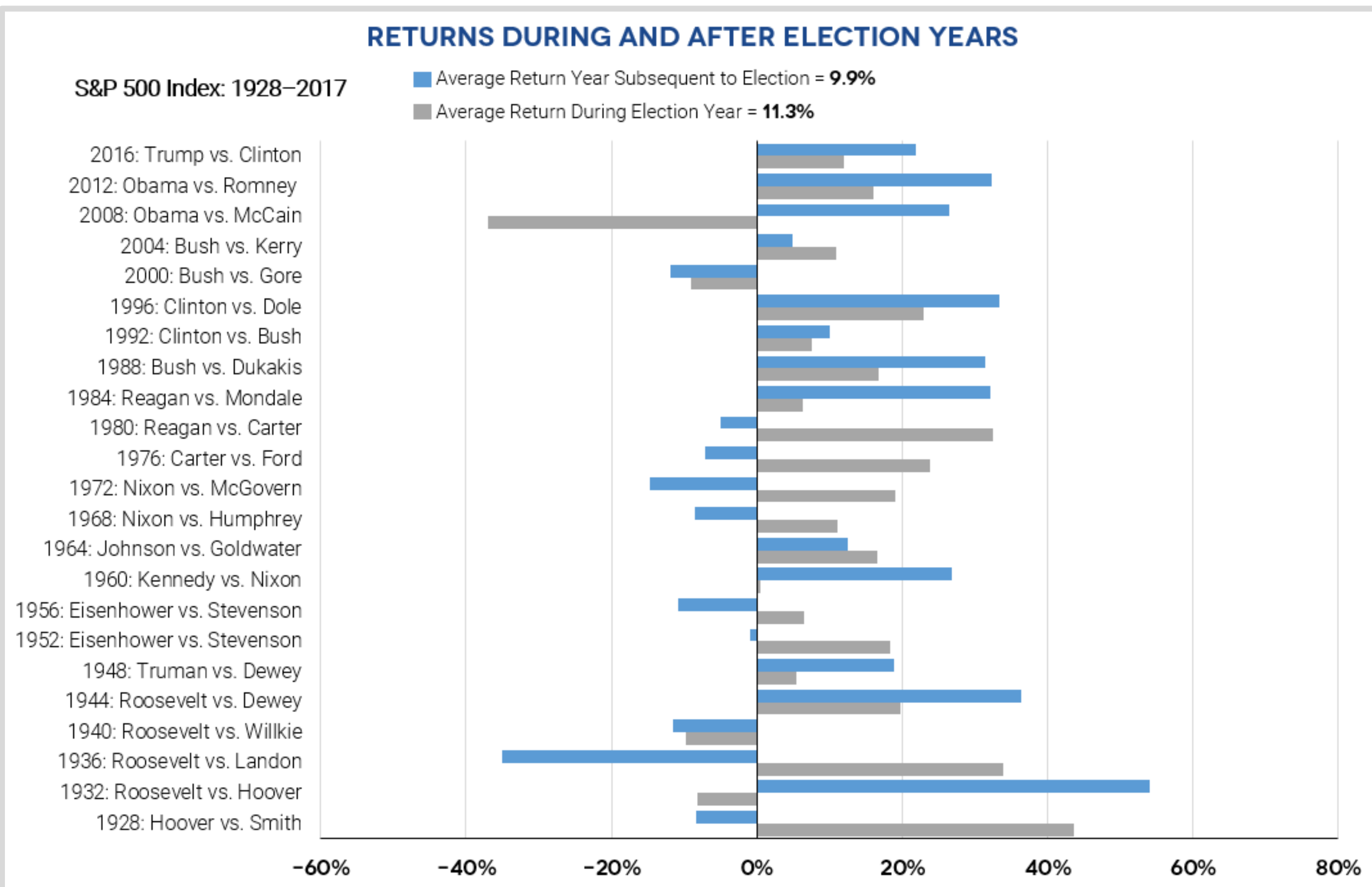
WHAT DOES THIS MEAN FOR RETIREMENT SAVERS?

Headlines in the financial press suggest that the market is headed for an imminent recession—that the march ever higher in equity markets simply cannot last. A 10-year bull market in an uncertain election year certainly *does* bring to mind, if not a recession, certainly an expectation of increased volatility. Amid so much uncertainty, is it wise to shift your retirement account to a more conservative allocation?

In short? No. To answer the question posed by our title: bull markets do not die of old age. As John Linehan, an equity CIO at T.Rowe Price, stated at a recent press conference: "rather than dying of old age, bull markets often succumb to one of four ills: an economic downturn, regulatory or policy uncertainty, Federal Reserve policy errors, or valuation excess." While "regulatory or policy uncertainty" increases during an election year, the recent interest rate cuts by the Federal Reserve should help to offset any expected volatility. In fact, as the chart below illustrates, equity returns both during election years and in the year following are quite high: 9.9% and 11.3%, respectively, for every election between 1928 and 2016.

One thing is for certain: the news cycle will not make remaining in equity markets easy or comfortable. But remember that fear sells papers, and that on the four metrics that matter (macro-economics, regulatory/policy environment, Federal Reserve actions, and valuation), we see no immediate cause for concern.
Still have questions? Just want to chat? Shoot us an email at questions@faircourtpartners.com.



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