Well another year has passed and it seems very fair to say that it did not turn out anything like most people predicted. There was a long list of known concerns such as North Korea, rising rates by the Federal Reserve, the trade war/tariffs and the economic expansion turning 10 years old. On top of these items there was a general overhang on the market held by many that good things couldn't possibly happen with the economy or the stock market in 2019. The S&P 500 being down 14% in the 4th quarter of 2018 helped set the stage for that outlook.

After a more restrictive monetary policy and four interest rate increases in 2018, the Federal Reserve reversed course in early 2019 and completed the year with three reductions in the Fed Funds rate. Also, by the end of 2019, 82% of all central banks' last move were cuts. As a result, asset price inflation in 2019 was the strongest since 2013. On a price only basis, the S&P 500 jumped 28.9% and it was the second best year of this century. Energy was the only S&P sector to not gain at least 18%. At plus 48%, information Technology was the top performing sector and contributed one-third of the S&P 500's gains for the year followed by the recently created Communication Services sector that was dominated by heavy weightings in Facebook and Alphabet. Rounding out the top five were Financials, Industrials and Consumer Discretionary. In the final quarter of the year Information Technology continued to dominate along with HealthCare, as both jumped over 13% and together contributed over half of the S&P 500's gains for the quarter.

As was the case for most of the decade, growth significantly outperformed value in 2019. According to the Russell Cap-Weighted Indices, large growth was up more than 36%, total return, with large value trailing by a full ten percent at 26%. Worst performing of the nine style boxes for 2019 was small-cap value, while its positive 22% demonstrates just how strong a year it was. On a global basis, the US market was again the top performing, major developed market in 2019. Other regions had positive returns, led by Europe ex-UK at plus 25.9% in dollars. For the quarter, Emerging markets lead all regions with a positive 9 percent with the US up 8.5%.

It was a difficult year to avoid positive returns. Even fixed income markets had a good year: The Bloomberg Barclays US Aggregate index gained 8.8%, led by investment grade corporates up a total of 14.5%. Due to the Feds rate Cuts during the year, the worst performing sector was the Floating Rate Note market, posting a positive 4.25% return.

Looking to 2020, as Yogi Berra is purported to have said "It's tough to make predictions especially about the future". But we believe the key to economic growth in 2020 will be most heavily influenced by the level of consumer sentiment. With the consumer contribution over 2/3 of the US GDP, an upbeat consumer will be critical to maintaining economic growth. As can be seen from the adjacent chart, the historically low unemployment rate and, after ten years of low or slower wage growth, we are finally seeing income growth approaching the fifty year average which is inflated by the very large growth rates of the 1970's. We believe the average consumer will be more focused on their personal financial statement and less about the positive and negative rhetoric emanating from the various presidential campaigns. Should employment stay robust across all of the various social and economic groups, consumer spending is likely to remain strong, and with it, solid economic growth.