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Stock performance was volatile throughout much of January as most indices started strong but then retreated. Large stocks in the S&P 500 index closed the month down a modest -0.04%, while small cap stocks in the Russell 2000 index had a monthly loss of -3.21%. International stocks in the MSCI EAFE index were down -2.09% and emerging market stocks had a monthly loss of -4.66%.

Reports regarding economic activity indicated US GDP grew 2.1% in the fourth quarter which was the same as third quarter and brings the full year to 2.3% GDP growth. Economists expect similar growth in 2020. Some analysts continue to expect that a recession is near because this is the longest period of economic expansion. Strategas Research thinks that we may not be as late in the cycle as the consensus believes because the things that create recessions are not present. They specifically mention that the Fed Funds real rate is 0%, the savings rate is high and unemployment is at lows.

However, even if a recession is not imminent, stocks are not cheap. Good recent returns have pushed stock valuations to higher levels and now stand slightly above long-term averages. Several analysts cite that we may have borrowed returns from the future so future returns will be more muted. Many are expecting US large cap stocks to have returns in the mid-single-digits range on average for the next decade.

Stock markets will likely see volatility in 2020. Election years normally have more volatility even though they typically end in positive territory. The recent coronavirus outbreak has caused some of the recent volatility in the markets. (However, based on past incidences, these negative periods are usually very short-term and not likely to have any long-lasting effects.) With valuations high and news rapidly changing, consumer sentiment may have more impact on market direction.

Trade tensions between the U.S. and China have begun to ease as both nations signed a phase one trade deal to start the new year. This eight-part agreement will act as a ceasefire between the two nations and will likely lead to increased sales of U.S. goods and services to China as well as new protections for trade secrets and intellectual property. Discussions regarding tariff reductions will be left to future negotiations. This deal does not solve all the issues built between these countries over past years, but it does remove some of the trade uncertainty that previously existed.

The start of the Democratic Party's presidential nomination process has begun. Hopefully, investors will soon have a better indication of who will face off against President Trump in the fall. According to Strategas, Trump's reelection odds are currently high but if his re-election appears to be in question, the market will react. The magnitude and direction of market's reaction may depend on who the Democratic candidate is.

We continue to believe that diversification is prudent and that allocations should be in line with the client's risk tolerance. Now is still a good time to make changes to lower risk in portfolios if accounts have more risk than can be tolerated. If you have any questions about your account, please do not hesitate to contact us.

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