Windrush Wealth Management

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January 10, 2020

Well, we made it to the end of the year and what a year it has been. We saw the impeachment of our President by the House of Representatives (not likely to be removed before election), we saw volatility of the markets due to trade disputes (China as well as the trade deal between the US, Canada, and Mexico) which significantly improved by the end of the year, inflation continued to be low, and the Federal Reserve going from increasing short term rates to actually reducing rates. We did see a very good US stock market from the standpoint of stock prices, but we also saw three consecutive quarters of negative growth. We need to remember though that those earnings were coming off of a record setting 2018 that were improved by the corporate tax cuts.

Outlook

So, due to the nice upside we received in 2019, are we entering a time for a market to take a significant step backwards? The technical analysis does not suggest that we have gotten carried away. Stocks from 2014 until the Trump election basically stood still and then due to the trade wars and Fed rate hikes, we were range bound and then moved downward at the end of 2018 by a significant amount. Over 5 years, we gained about 57% when not including dividends -near historical norms. Now let's look at valuations. As of Dec 20th, the S&P 500 was trading at a forward multiple of 18.2 times earnings. That is on the higher end but compared to 2002 at over 20, we still have room to go. Third reason for calm – the Fed easing rates over 2019 now matches what many global banks have been doing all along and thus we are now in concert with the rest of the world. With low rates, stocks look promising and the prospects of a global upturn looking better than at the start of 2019, international markets are starting to look attractive as well.

Risks to consider to the above scenario

During election years, stock markets due tend to be more volatile so we need to take that into considerations when evaluating where we put our money to work. Unemployment should stay low across all demographics, but this could drive up inflation and thus could see a threat of the Federal Reserve raising rates earlier than the forecasted 2021. Incumbent Presidents tend to do well during strong economies and thus Wall Street has no immediate reason to begin pricing a Trump loss. Stocks have done well under Democratic administrations in the past but the current candidates almost across the spectrum have recommended reversing the tax breaks to corporations (thus hurting earnings), increasing taxes revenues with some calling on a wealth tax, and some recommending "Medicare for all" which would impact providers, insurers, and millions of jobs. Lastly, the "Phase One" deal between China and the US has not been signed as of this letter. A setback to the China deal as well as the USMCA could put a significant hiccup in the markets just as those same forces showed up at the end of 2018.

Areas we like

We continue to be overweight on the US stock market compared to international, but we have begun to increase our exposure to those markets. We like investments that are US dollar hedged to minimize currency volatility and we strive to invest in companies privately owned compared to governmentally owned (stronger need in the emerging markets). We are diversified across the bond/fixed income investments but have increased the exposure to actively managed investments for greater flexibility.

Call me with questions, comments, or concerns.

Sincerely,

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