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"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, that has been lost in corrections themselves."
-Peter Lynch

Everything (Almost) Is Up!

Equities –

2019 was a blockbuster year for equities both international and domestic – whatever you invested in, worked out very well – stocks, bonds and precious metals. After an announcement by President Trump of an accepted Phase One trade agreement with China and reporting of very positive initial consumer spending results during the holiday season, we witnessed on December 27 eight record highs of the major indices we follow. From a fourth quarter 2018 low of 2346, the S&P 500 rose 37.51% to its new high last Friday, the 27th. The S&P 500 had gained 8.5% during the last two months of 2019.[1] For 2019, the S&P 500 gain came to 28.9%, its best return in six years.

The tech-heavy NASDAQ Composite which hit its low of 6193 late December 2018, and which was a drop of nearly 23% from its August 2018 high, had a spectacular recovery of 46.16% since then. For 2019, this index booked a 37.39% return with 12.2% coming in the fourth quarter 2019. Of some concern, nearly one-third of this index's weighting, and return comes from just five companies: Microsoft Corp with an 8.8% weighting, Apple Inc (8.4%), Amazon.com Inc. (7.1%), Facebook Inc. (3.5%)[2], and Alphabet Class C shares. Alphabet's Class A shares were sixth (3%).[3] How many investors and investment brokers/advisors predicted this kind of market performance? How many predicted the fourth quarter 2018 S&P 500 drop of 13.52%?

The Dow Jones Industrial Average (DJIA) gained 22.3%, led by Apple, Inc.[4] The three major indices set more record highs than in 2018 and kept the longest "bull" market for stocks going.[5] The DJIA's more than 170% rise from 2010 to 2020 marks the fourth-best decade by performance in the past 100 years.[6] Please refer to the following table:

Index	Close 12 /31/19	2019 Return (%)	3-Year Annualized Return (%) [7]
DJIA	**28,538**	**23.3**	**13**
DJ Transportation Index	**10,901**	**18.9**	**6.4**
DJ Utility Average	**879**	**23.3**	**10.1**
Total Stock Market	**33,035**	**28.4**	**12.4**
NASDAQ Composite	**8,972**	**35.2**	**18.6**
S&P 500	**3,230**	**28.9**	**13**
S&P MidCap 400	**2,063**	**24.1**	**7.5**
Russell 2000	**1,668**	**23.7**	**7.1**

International equity markets finished 2019 with impressive results. The Stoxx Europe 600 (a popular measure of markets in the EEC) finished the year up 29% - its best since 2013.[8]

Perhaps another surprise for investors and their advisors, the Shanghai Composite climbed 22%.[9] The Hang Seng Index (Hong Kong), due to months of disruptions between government and anti-government clashes still finished up a respectable 9%.[10]

Please review the following selected international equity markets:

Index/Country	2019 Year-to-Date (% Best to Worst)	Index/Country	2019 Year-to-Date (% Best to Worst)
Bovespa Index (Brazil)	**31.6**	**Nikkei Stock Average (Japan)**	**18.2**
FTSE MIB (Italy)	**28.3**	**Tel Aviv 35 (Israel)**	**15**
CAC-40 (France)	**26.4**	**S&P BSE Sensex (India)**	**14.4**
DAX (Germany)	**25.5**	**FTSE 100(United Kingdom)**	**12.1**
Taiwan Weighted Index	**23.3**	**Hang Seng (Hong Kong)**	**9.1**
Shanghai Composite (China)	**22.3**	**IPC Index (Mexico)**	**4.6**
S&P/TSX Composite (Canada)	**19.1**	**IPSA (Chile)**	**-11.3**

[1] Barron's The Dow Gets a Reason to Give Bad Gains p.M3 1/6/20
[2] Wall Street Journal Nasdaq Takes a Long Way to 9000 p.B9 12/27/19
[3] Ibid.
[4] The New York Times Markets Close Up on Year of Record Highs p.B2 1/1/20
[5] ibid.
[6] Wall Street Journal Stocks End the Year with Momentum
[7] Wall Street Journal Major U.S. Stocks Market Indexes p.B7 1/2/20
[8] Wall Street Journal Stocks End the Year with Momentum p.B1 1/2/20
[9] Ibid.
[10] Ibid.

And the Dow Jones Global ex U.S. closed the year up 18.35%.[11]

Despite the strong performance of 2019, the differences between the U.S. markets and the MSCI All Country World Index ex U.S. remains huge. Since 1988, when records started for this international index, the MSCI AllCountry ex U.S. delivered an 860% return whereas the MSCI USA returned over 2,700%.[12] The largest gain of U.S. equities over international has been since the financial crisis, which originated here in the U.S.!

The gains in Europe, Asia and Latin America may be in anticipation of the fruitful negotiations between the U.S. and China – the world's two largest economies. Brexit certainly may be a major factor as well since the ascension of Boris Johnson as U.K. Prime Minister along with the parliamentary election in December. The International Monetary Fund (IMF) anticipates global growth projected to rise to 3.4% in 2020 from 3.0% for 2019.[13] The report is projecting a slowdown in China despite the Phase One trade agreement. Global price pressures are largely and most likely will remain subdued to weak crude prices and mild growth. Gains that are not represented in the above table are represented by the MSCI Emerging Markets Index which rallied 11% in the fourth quarter.[14] We surmise that China is continuing to modify its economy focusing on its growing middle class. The IMF in October lowered its 2020 forecast for China's economic growth to 5.8%.[15] The IHS Markit reported a drop in the Chinese purchasing-managers index to 51.5 in December still showing some expansion activity – a positive for Asian and Latin American exporting markets.[16]

Fixed Income –

The Federal Reserve's about-face from raising interest rates in 2018 to lowering them three times in 2019 boosted not only equities but debt as well. Lower rates spur higher stock and bond valuations. The 30-Year Treasury hit its all-time lowest yield August 28 of last year at 1.90%. The 10-Year Treasury reached its low of the year September 3rd at 1.43% while the year-low for the 3-Month Bill was 1.51% on November 14. Yields have edged higher from their fourth quarter lows. Demand from foreign investors has been strong due to the relatively "high" rates of interest of U.S. debt obligations compared to foreign obligations where yields are still near zero and lower. Total return which is yield plus appreciation of U.S. debt obligations, may have had its best year in a decade. Please review the following tables with year-end yields:

Treasury Issue/Coupon (%)	Current Yield (%) [17]	Index Year-to-Date	Total Return (%)[18]
30-Year Bond / 2.375	**2.387**	**U.S. Govt./Credit**	**9.83**
10-Year Note / 1.75	**1.921**	**U.S. Aggregate**	**8.80**
5-Year Note / 1.75	**1.696**	**U.S. Corporate**	**14.68**
1-Year Bill / 0	**1.580**	**AA Rated Corporate**	**10.68**
6-Month Bill / 0	**1.591**	**Triple-B Rated Corp**	**16.39**
3-Month Bill / 0	**1.554**	**Ginnie Mae (GNMA)**	**5.85**
		Fannie Mae (FNMA)	**6.53**

The 10-year German government bond, Europe's benchmark for a risk-free investment yielded a negative 0.185% at year-end.[19] Fearing recession, the European Central Bank announced a rate cut in September. Since then, rates have moved up to near zero and some issues are in positive territory as investors anticipate increased fiscal spending and possible improving growth across Europe. For 2019, over $15 trillion of international sovereign debt was floated with negative yields.[20] On December 12, the European Central Bank (ECB) stated that it will keep its main deposit rate at a negative 0.5%. At the same time, the ECB announced that it will maintain its asset purchase program at 20 billion Euros per month which is quantitative easing.[21]

Commodities –

Gold ended 2019 with its strongest rally since 2010. As of year-end, the price is $1,519.50 per troy ounce.[22] Gold closed up 18.9% of which 3.4% of the gain was in December.[23] Support for gold and silver, which returned 15.3% for 2019, is attributed to low U.S. bond yields, geopolitical risks and ongoing U.S. economic uncertainty.[24]

Crude oil prices closed at $61.06 per barrel up 34.46% for 2019.[25] For December, crude oil rose 11% due to limited production by OPEC and hopes that a U.S.- China trade deal will help spur consumption.[26]

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[11] www.wsj.com/market-data Asia Stock Indexes 12/31/19
[12] Wall Street Journal Go Ahead, Put A Lot of Eggs in this Basket p.B12 1/4/20
[13] www.imf.org Full Report and Executive Summary 1/3/20
[14] Wall Street Journal Test News for Bets on Global Growth Rebound p.B10 1/6/20
[15] Wall Street Journal China Looks To Stave Off Stagflation p.A2 12/30/19
[16] Wall Street Journal U.S., Asia Factory Output Steadies p.A2 1/3/20
[17] www.wsj.com/market-data Overview 12/31/19
[18] www.wsj.com/market-data/bonds/benchmarks Tracking Bond Benchmarks 12/31/19
[19] Wall Street Journal European Bond Yields Advance p.B10 12/31/19
[20] Wall Street Journal Bond Gurus Predict Next Steps for Topsy-Turvey Sector p.R1 1/2/20
[21] www.marketwatch.com European Central Bank Keeps Key Deposit Rate Rate Count -0.5% 12/12/19
[22] Wall Street Journal Commodities p.B7 1/2/20
[23] Ibid.
[24] Ibid.
[25] Ibid.
[26] Wall Street Journal Crude Oil Posts Strongest Year Since 2016 p.B11 1/2/20

Economic Update –

As previously mentioned, on December 27 with only two more days of trading in 2019, eight all-time record highs were reached that we track – the DJIA; the DJ Total Stock Market; the S&P 500; the S&P MidCap 400; the NASDAQ Composite; the Russell 1000; the Russell 2000; and the DJ Global ex U.S. index. For the period starting December 2009-2019, the total return of the S&P 500 was 190.962%, annualized at 11.271%. This index with dividends reinvested shows a 251.491% or 13.394% per year total return.[27]

After a record-breaking year, we do have our concerns starting with investors' expectations, both "bullish" and "bearish". The best performing mutual fund benchmark last year, according to Morningstar, was "precious metals" with a return of 38.98%.[28] The 15-year annualized rate of return for precious metal funds was 3.33% - second worst bested only by "broad basket commodities", with a -2.43% per year return over the fifteen year period.[29] Precious metals - such as gold, silver, and palladium – are considered defensive assets.

The ECB, the Bank of Japan, and the Federal Reserve are all expanding their balance sheets to about $100 billion a month.[30] A consequence of Federal Reserve (and other central banks) easing is feeding failing businesses – ones that would be "out of business" now if it was not so cheap and easy to get credit. As we reported before, investors are reaching for yield, which includes low and non-rated obligations, issues that carry higher risk of default.

Corporate investment, which is an important component of Gross Domestic Product (GDP), indicating future productive capacity, has been weak. One measurement, the ISM Manufacturing Index, fell to 47.2 in December, its worst decline since June 2009.[31] In fact, fear of an economic decline is the highest concern among U.S. chief executives going into 2020, according to the Conference Board.[32]

The Conference Board Leading Economic Index was unchanged in November, after three consecutive declines.[33] Another key leading indicator is productivity. The latest report showed that nonfarm business sector labor productivity decreased 0.2% in the third quarter of 2019.[34] From third quarter 2018 to third quarter 2019, output did increase 2.3% and hours worked increased 2.5%.[35]

Inflation for November was 0.3%.[36] The concern here as we see it, is the cost of health care services, which rose by 5.1% over the last twelve months.[37] The Consumer Price Index (CPI) increase of 0.3% was the highest monthly rate in a year. The cost of living over the past twelve months rose to 2.1% from 1.8% - still within the range of the Federal Reserve's target.[38]

Federal Reserve chairman Powell recently reported that "the debt is growing faster than the economy – that's unsustainable….".[39] As of New Year's Day, U.S. national debt stood at $23.148 trillion up from $23.080 trillion November 29 and $22.933 trillion at the end of October.[40] Unfunded liabilities are currently at $75.286 trillion or $227,979 per citizen.[41] Deficit spending continues to shift away from productive investments which create jobs (infrastructure and development), to primarily social welfare and debt service. Interest on the debt is currently at $376.575 billion and counting.[42]

The "bullish" side of investors is anticipation of good news, starting with a follow-up to the U.S. – China Phase One trade deal to be signed this month. The positives, that have been instrumental in the market advance – equity and debt – are significant and solid. Starting with market indices the S&P 500 index is up 61% over the first five years. This compares to an 89% gain at the 2007 peak and a whopping 210% gains at the 2000 peak.[43] Afterwards, the gains of this "bull" have been gradual and steady, unlike the previous "bull" advances that then collapse.

On balance, economists we follow anticipate the U.S. GDP growth to slow to an average of 1.9% in 2020, from about 2.3% for 2019 – still very far from a recession. Unemployment is at 3.5% and wage gains have accelerated during the last half of 2019. Consumer spending has been increasing, which represent about two thirds of the GDP. Americans have increased spending in November at the fastest rate in four months – up 0.4%.[44] Wages for rank-and-file workers are actually rising at the highest rate in over a decade. Pay for the bottom 25% of wage earners rose 4.5% in November from a year earlier.[45] With rising personal income and historic low (50 year) unemployment, consumers' assessment of current economic sentiment continues to rise. Personal income increased $101.7 billion or 0.5% in November.[46]

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27 Dqydj.com S&P 500 Return Calculator
28 Morningstar.com MIMI Categories 1/1/20
29 Ibid.
30 Barron's 2020 Outlook p.21 12/16/19
31 Investor's Business Daily Factory Decline Intensifies p.A2 1/6/20
32 Wall Street Journal Recession Tops List of US CEO Fears p.B1 1/3/20
33 Advisorperspectives.com CBLEI Undergod 12/19/19
34 Bls.gov Productivity and Costs 12/10/19
35 Ibid.
36 www.thebalance.com Current U.S. Inflation Rate Statistics and News 1/1/20
37 Ibid.
38 www.marketwatch.com Consumer Inflation Rises Again 12/11/19
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40 www.usdebtclock.org 1/1/20, 11/29/19, 10/31/19
41 Ibid.
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43 www.investors.com Stock Market Forecast 2020
44 www.marketwatch.com Consumer Spending in November 12/20/19
45 Wall Street Journal Workers Pay Rises p.A1 12/28/19
46 www.bea.gov Personal Income and Outlays 12/20/19

Going Forward –

The technology sector of the S&P 500 and of other indices led much of the advance last year. Of the S&P 500's eleven sectors this group rose 47% and is responsible for 31% of the index's total return.[47] Our thoughts regarding the technology sector, and with its inherent volatility, may lead the broader markets and global advancement for the next decade. For 2020, various high-tech companies may initiate a new "5G supercycle" – affecting not only communication, but every conceivable sector of the global economy including industry, health, education, and agriculture, etc.

With a broader approach, consider the cost of food in the U.S. between 1919 and 2019 where food prices for unskilled workers fell by 79%.[48] Blue-collar workers saw food prices decline by 87%.[49] Food production has increased far faster than global population. The 1.1 billion bushels of wheat the U.S. harvested in 1950 required 84 million acres – the 2 billion bushels harvested in 2015 required 5.5 million acres.[50] Advances in technology affect every successful business and aspect of life.

Regarding this nation, Warren Buffet has said "don't bet against the United States". For the new decade, we at Marathon will stand with Mr. Buffett and suggest clients stay the course.

Final Thoughts –

Comprehensive financial planning with implementation according to financial objectives go hand in hand with investment success. On balance, organized and thoughtful investors that follow their well-conceived goals are the ones with superior results. Regarding retirement planning, much has changed for the better. Contribution limits are less restrictive, and benefits have expanded. The IRS has lifted contributions for 401k and HSAs. The lawmakers are busy! Please contact Stephanie for details.

Denise, Genesis, Stephanie, and I wish you a healthy, happy, and successful 2020!

Yours,

George Gumbiner

"The stock market has predicted nine out of the last five recessions."
- Paul A. Samuelson

P.S. Reminder! Please access the Marathon website for monthly commentaries, tools and timely statements on the markets! Input www.MarathonInvestments.com .

Five Star Wealth Manager since 2009, without exception
A+ rating with BBB Accredited Business 2002

[47] Wall Street Journal Stocks Set to Clinch Best Year Since 2013 p.A1 12/31/19
[48] www.humanprogress.org Human Progress in 2019 1/2/20
[49] Ibid.
[50] www.aish.com What Was So Great About the 2010s? 1/1/20