# A View from the Tower

## Fourth Quarter Summary 2019


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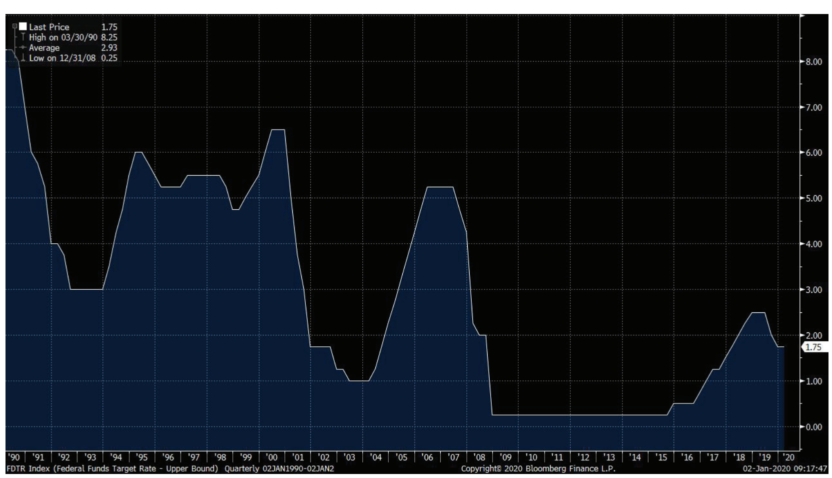
Just the opposite of 2018, the market continued to march higher during the fourth quarter of 2019 with the S&P 500 ending the year +31.48%. Additionally, the Dow Jones Industrial Average rose +25.34%, mid-caps (Russell Mid-Cap) +30.52% and small-caps (Russell 2000) +25.48%. While lagging U.S. equities throughout 2019, both developed (MSCI EAFE) and emerging international markets (MSCI EM) performed admirably in the fourth quarter returning 8.23% and 11.74% respectively (+22.77% and +18.63% for the year) as we saw positive developments surrounding potential tariffs with China. Bonds also saw a solid year with the Barclays Intermediate Government/Credit Index +6.80% as interest rates declined materially. The favorable market backdrop in 2019 was driven by several factors, which all saw further developments during the fourth quarter:

1. The Federal Reserve enacted its third and final rate cut for the year (0.75% in total) lowering the Federal Funds Rate from 2.50% to 1.75% (as depicted in the chart below), presenting a favorable tailwind for the economy. As stated last quarter, this stimulus usually has a positive impact on the economy within three to eight months. Therefore, this most recent rate cut should likely continue as a stimulus to the economy heading into the second quarter of 2020, and at this point at least, it seems unlikely that the Fed will raise rates in the coming year.

**Federal Funds Target Rate back to 1990:**




Source: Bloomberg



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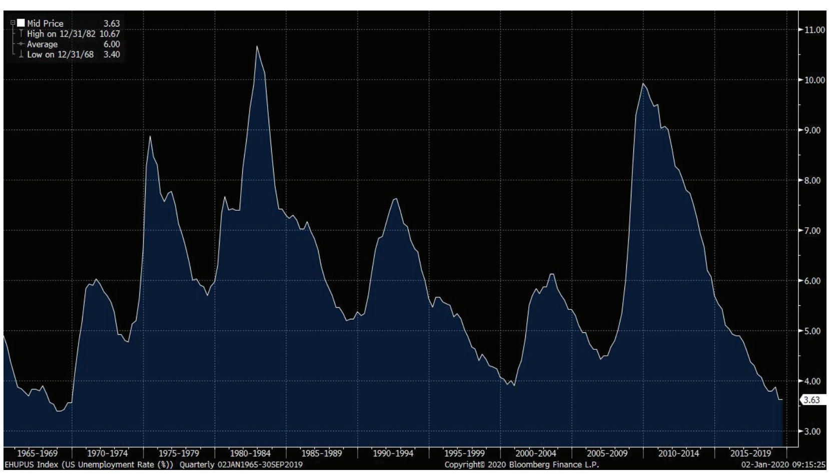
2. The market had been waiting all year for a resolution surrounding tariffs with China. We started to see what appears to be some positive movement in the fourth quarter. The U.S. decreased tariffs on $120B worth of Chinese goods from 15.0% to 7.5% and noted it would not add additional tariffs that were set to go into effect on 12/15/19. Additionally, China noted that it would reduce tariffs on over 850 products imported from all of its trading partners, coupled with buying an additional $200B in product from the U.S. over the next two years. Has a truce been achieved? Possibly, and we certainly hope so.

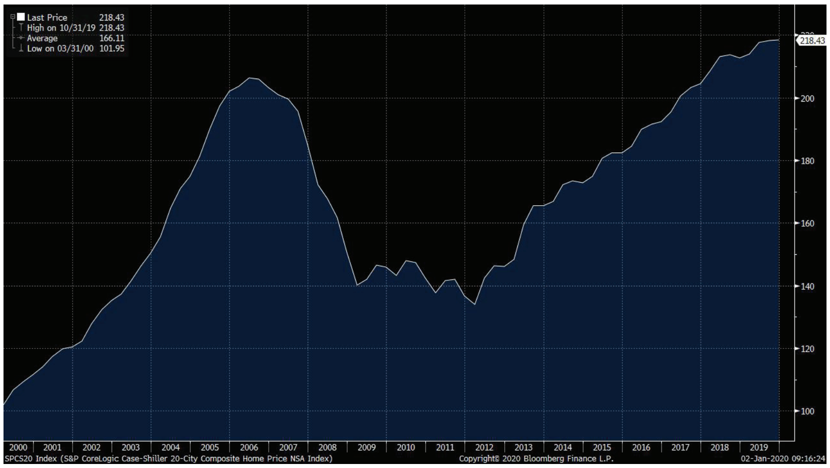
3. The U.S. consumer remains strong as the unemployment rate sits at a 50-year low (3.6% -- as depicted in the chart below). Further, inflation has continued to be tame despite a pick-up in wage growth and home prices, which have hit an all-time high according to the S&P CoreLogic Case-Shiller 20-City Composite Home Price Index (approximately 5% above the prior peak in 2006 – as depicted in the second chart below). U.S. holiday sales were strong as well with Amazon reporting record-breaking sales and Mastercard SpendingPulse (SpendingPulse provides market intelligence based on national retail sales across all payments types) reporting holiday sales increasing 3.4% in 2019 to over $850B. Online shopping in particular continued to grow with 2019's level 18.8% above that in 2018 and now representing 14.6% of total retail sales.

**US Unemployment Rate back to 1960:**




Source: Bloomberg

**S&P CoreLogic Case-Shiller 20 City Composite Home Price Index:**

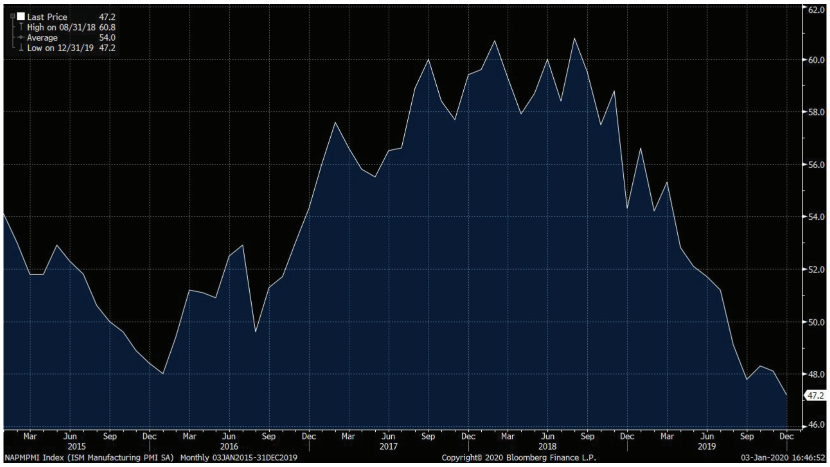



Source: Bloomberg

4. Finally, we continue to see signs of the industrial economy searching for a bottom as the ISM (Institute for Supply Management) Manufacturing PMI (Purchasing Managers Index) saw a slight improvement in October and November 2019, but weakened again in December (as depicted in the chart below). As a reminder, a PMI at 47.2 corresponds to a 1.3-percent increase in real gross domestic product (GDP) on an annualized basis. A comment from the December release:

"Global trade remains the most significant cross-industry issue, but there are signs that several industry sectors will improve as a result of the phase-one trade agreement between the U.S. and China. Among the six big industry sectors, Food, Beverage & Tobacco Products remains the strongest, while Transportation Equipment is the weakest. Overall, sentiment this month is marginally positive regarding near-term growth," says Timothy Fiore, Chair of the Institute for Supply Management (ISM) Manufacturing Business Committee.

**ISM Manufacturing PMI:**




Source: Bloomberg

As we mentioned last quarter, the domestic stock market historically tends to remain strong heading into an election year (witnessed again in 2019). An election year (2020) can experience a little more volatility, but history has shown only four of 23 observations posting a negative return. Typically, there will be ebbs and flows throughout the year and leading up to Election Day. As always, there are things to be concerned about, but at this point, we do not see any specific reasons to expect a recession in the near term. We are assuming the U.S. consumer remains strong with the unemployment rate, housing prices and fourth quarter holiday sales typically good indicators of strength in the consumer and we are hopeful the industrial economy finds a bottom in the first half of 2020. What appears to be somewhat of a truce in regards to tariffs with China is also a positive development and we should continue to see further benefits heading into the New Year from the recent rate cuts the Federal Reserve enacted. Lastly, the global economy has shown signs of bottoming but recent events in the Middle East have created a little more uncertainty on this front. This should be another interesting year.

*Thank you for your continued trust and confidence in Tower Wealth Managers.*
*We sincerely appreciate your loyalty and business. All of us at Tower Wealth Managers and Country Club Trust Company greatly appreciate the honor of serving you and your families.*
*We wish all of you a prosperous New Year in 2020.*
*Please do not hesitate to contact us any time we may be of assistance.*