

## Executive Summary

The US economy continued to track at a 2.1% annualized growth rate in Q4, and posted 2.3% for the year; something we expect to be repeated in 2020. With employment and unemployment numbers still at or near record levels, continued wage gains, and consumer satisfaction at all-time highs, markets are re-testing the highs for the year. Impeachment was a bust for Dems, and Trump's post-acquittal numbers have risen sharply. The Dem primaries so far have been inconclusive, except for the fact that Biden is in trouble. As global central banks struggle to gauge what impact the Corona virus will have on global economies, the markets yawn.

## The Economy

The US economy continues to buck the global slowdown outside of the manufacturing sector, which has seen capacity utilization print the lowest mark since late 2017. Industrial Production continues the slide which began in late 2018, and has now been negative for four out of the last five months, driven mostly by a trade related drop in manufacturing output. Employment remains strong, wage growth is solid, inflation remains contained, and the Michigan Consumer Sentiment indicator regains the near-record highs last seen in 2018.

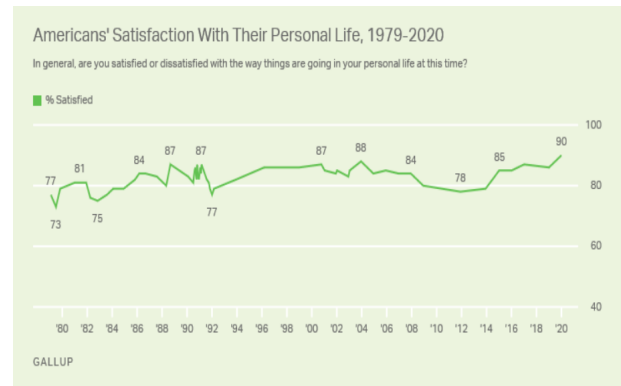
Even before any impact from China's Corona virus outbreak, both Germany and Japan are flirting with a recession, driven largely by a decline in the once dominant auto industry and a policy tax increase, respectively. Global economies continue to cool, with no expectations that 2020 will see a significant recovery in growth. We expect significant challenges as 2020 unfolds.

## The Fed

All expectations of a possible Fed tightening program in 2020 have been vanquished, with the Fed now playing defense in response to the potential global economic implications from the Corona virus. The flight to quality impact on US bonds has seen the 10-year price push back to 2019 highs, the yield curve flatten again, and the short end of the curve test the 2019 lows.

Overall inflation remains within a reasonable range, with consumer prices a bit firmer than producer prices. CPI is running around 2.5%, with the PCE closer to 2%, and the PPI finishing 2019 at 1.3%, constrained by the global weakness in manufacturing and industrial goods stemming from the ongoing China trade standoff. We expect Corona virus related weakness in China to exacerbate the situation for at least the first half on 2020.

## Legacy Update — February 2020



## Politics

With poor showings in IA and NH, Biden has dropped 15 points in the polls, while Sanders, Buttigieg and Klobuchar have risen. Warren's full embrace of *Medicare for All* correlates strongly with her peak and subsequent collapse. Biden's nomination hinges on a recovery in NV and SC, which we feel will be elusive, leading to a further decline in fundraising, and an eventual withdrawal from the race. Bloomberg continues to buy percentage increases in the polls, and *Super Tuesday* looms.

Trump has risen 10 points in some polls since the start of the impeachment process last fall, with his acquittal taking him back to challenge former poll highs. As the Gallup chart above shows, Americans are more satisfied with their personal life than at any point in the last 40 years. While a plurality of voters have long disapproved of Trump in a variety of polls, there is a long history of U.S. elections turning on job conditions and personal satisfaction, both of which continue in Trump's favor.

## The Markets

As expected, we saw a 3-4% pullback in early January in U.S. large cap indices, a nearly 5% decline in smaller cap and Europe stocks, and a nearly 10% decline in Emerging Markets, before equities started to recover. Domestic stocks have moved back to the prior highs, while other indices are laboring to get half-way back. In order for markets to continue with a healthy rally, we must see interest broaden over the next month or so.

Valuations on expected 2020 earnings remain elevated, especially since forward expectations continue to decline, and Price-to-sales and EV/EBITDA measure remain at all-time highs. With most Institutional investors "all-in", major U.S. indices approaching or exceeding most Wall Street 2020 targets, and global uncertainty concerning the potential impact of the Corona virus, we suggest an abundance of caution over the near-term.

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