2020 Economic & Stock Market Outlook: Cyclical Strength Emerges Amid Ongoing Uncertainty
Supplemental Chart Pack

December 12, 2019
While below their long-term averages, both productivity and labor force growth trends are rising.
Real median household income reached a new high in 2018.
The weight of the evidence improved over the course of 2019, fueled by improving broad market trends.

**Macro Factors (What Could Happen)**

- Federal Reserve Policy: Bullish +1
- Economic Fundamentals: Neutral 0
- Valuations: Bearish -1

**Market Factors (What Is Happening)**

- Investor Sentiment: Neutral 0
- Seasonal Patterns/Trends: Neutral 0
- Tape (Breadth): Bullish +1

Weight of the Evidence = Bullish +1
Central bank rate cuts supported stocks in 2019 and this tailwind carries into 2020.
The latest dot plot from the Fed suggests the mid-cycle rate adjustment is over after three rate cuts.
The favorable stock market reaction to Fed rate cuts diminishes after the third cut

<table>
<thead>
<tr>
<th># Cases</th>
<th>22 Days</th>
<th>63 Days</th>
<th>126 Days</th>
<th>190 Days</th>
<th>252 Days</th>
</tr>
</thead>
<tbody>
<tr>
<td>1st Cut</td>
<td>20</td>
<td>4.00</td>
<td>7.05</td>
<td>11.74</td>
<td>10.48</td>
</tr>
<tr>
<td>2nd Cut</td>
<td>18</td>
<td>2.74</td>
<td>10.64</td>
<td>11.18</td>
<td>12.10</td>
</tr>
<tr>
<td>3rd Cut</td>
<td>14</td>
<td>3.05</td>
<td>6.55</td>
<td>6.20</td>
<td>9.24</td>
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<tr>
<td>4th Cut</td>
<td>10</td>
<td>2.71</td>
<td>5.79</td>
<td>2.43</td>
<td>1.03</td>
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<tr>
<td>5th Cut</td>
<td>9</td>
<td>0.99</td>
<td>-0.70</td>
<td>-2.35</td>
<td>-4.51</td>
</tr>
<tr>
<td>6th Cut</td>
<td>8</td>
<td>1.93</td>
<td>2.12</td>
<td>5.14</td>
<td>3.24</td>
</tr>
<tr>
<td>Mean</td>
<td>2.57</td>
<td>5.24</td>
<td>5.72</td>
<td>5.26</td>
<td>7.33</td>
</tr>
<tr>
<td>Buy/Hold</td>
<td>0.61</td>
<td>1.76</td>
<td>3.51</td>
<td>5.34</td>
<td>7.22</td>
</tr>
</tbody>
</table>

Days = Market Days

The number of Federal Reserve Rate cuts equals consecutive cuts until an intervening Federal Reserve Rate increase is encountered at which point the count is started over again.
Futures traders see the possibility of additional cuts in 2020.
While the Fed has discussed muted inflation, the median CPI moved to its highest level in a decade.
Bond yields and copper have moved off mid-2019 lows – further gains could keep the Fed on the sidelines.
Uncertainty will never go away entirely, but elevated levels (like we saw in 2019) can weigh on the economy.
Uncertainty seems to be weighing on CEO confidence, which is at its lowest level in a decade.
Domestic manufacturing data continued to weaken in 2019 and now show activity is contracting.
While the consumer has been resilient, growth in domestic demand is still at lowest level since 2014.
Globally there is (again) evidence of green shoots emerging.
Price gains in 2019 outpaced earnings growth, keeping valuations at elevated levels on a trailing basis.
Valuations are also stretched relative to forward earnings.
Expectations tend to fall as the year progresses, but earnings growth is expected to rebound in 2020.
As measured in the GDP data, corporate profits have not risen in 5 years while margins have deteriorated.
Labor costs outpacing inflation tends to weigh on earnings growth.
The latest fund flow data suggest recent investor skepticism may be fading.
After a decade of gains, elevated household exposure to equities reflects a deep-seated complacency.
If seasonal patterns hold, election uncertainty could add to volatility but not derail cyclical strength.
If President Trump’s approval rating holds steady, impeachment is likely to be more noise than news.
Stocks have tended to rally in advance of incumbent party victories in Presidential elections.
Breadth thrusts in early 2019 spelled an end to late-2018 weakness and have helped sustain the rally.
Rally participation has become a global trend – two-thirds of global markets have rising 200-day averages.
Domestics industry group trends have switched from making lower highs to making higher lows.
New lows have faded, but the number of stocks making new highs leaves room for improvement.
Industry group leadership is moving in the direction of small-cap strength.
Emerging markets have lost considerable ground to the S&P 500 over the past decade.
Gains in the S&P 500 over the past decade have not been matched by the rest of the world.
US valuations may be stretched, but global valuations appear less extreme.
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