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Market Sentiment and Investor Wisdom

The S&P 500 Index had a total return of 9.07% for the fourth quarter of 2019 and 31.49% for the full year. The MSCI World Index (USD Net) increased 8.56% for the fourth quarter of 2019 and 27.67% for the year. The MSCI EAFE Index (USD Net) increased 8.17% for the fourth quarter of 2019 and 22.01% for the full year. Strengthening economies, resolution of some tariff disputes, and easy monetary policies have helped send the equity markets up for 2019. Equity valuations are elevated, but the market is not euphoric. Since 2007-2008, equity market participation in the U.S. has declined from 62% to 55% in 2019.[1]

Investor bullishness and consumer confidence have been strong going into the new year. According to a recent article in *Barron's*,[2] investors are thankful that ten years past the 2007-2008 Great Financial Crisis the world has not experienced another Great Depression as the one in the aftermath of the Great Crash of 1929. The wisdom of monetary policy in 2010 came from the analysis of the grave errors made by the monetary policies implemented in the 1930s, which strictly adhered to the gold standard of the Victorian era. While some monetary policy mistakes have been made this past decade, such as the development of negative interest rates, the efforts of monetary policy makers can be generally applauded. From the Great Crash of 1929, the Dow Jones Industrial Average did not return to its peak until 1954 while the equity market after the 2007-2008 Great Financial Crisis climbed back to its peak in a quarter of the time by 2013.[3]

While the monetary policies of the last decade have avoided the pitfalls of the 1930s, they have mainly benefitted equity and fixed income investors at the expense of bank depositors, earning very low rates on their savings. The near zero interest rate policies has resulted in stimulating inflation in financial asset prices.[4] The difficulty of returning to higher interest rates had been most apparent in the market turmoil in the last quarter of 2018. From December of 2016 to 2018, the Federal Reserve had increased interest rates seven times in three years. The Federal Reserve was humbled as the financial markets declined within a fraction of a 20% bear market at the end of last year. The market recovery of 2019 occurred in part because of the Federal Reserve's easier monetary policy and liquidity injections, and lowering interest rates three times, thereby, reversing nearly all of 2018's increases. While there are concerns going forward that asset markets are dependent on loose monetary policy in order to increase prices, stronger global growth is needed to lift inflation over the next few years, which will make very low or negative interest rates increasingly irrelevant.[5]

While the central bank's policies are favorable for the equity markets' multiples, better economic growth and meaningful progress in trade negotiations will be necessary for stocks to move higher in 2020. There is hope that preconditions will be realized for the bull market to continue. Some $32.5 billion was invested into equity funds over a three-week period ending November 13, 2019, the most since February 2018.[6] The market can continue to rise if investors pour money into it even as risks are present. There have been sixty stock market declines of 10% or more in the last 100 years making some people unrealistically fearful to invest in the market.[7] According to Peter Lynch, staying out of the market because of a possible correction may not be prudent. Headline risk can unfortunately negatively impact an investor's outlook.

Martin Investment Management, LLC believes the global equity gains of this year as exceptionally robust as the market benefitted from an easier monetary policy, trade war de-escalation, and positive leading economic indicators.[8] Although corporate earnings increases have lagged in compared to stock price gains, a positive mean reversion can likely occur in 2020 with corporate earnings reaccelerating. We continue to believe that investing in selected companies offers an opportunity for an investor to increase wealth over time regardless of market sentiment. Our firm tries to clearly identify those companies with profitable earnings and growing sales to increase wealth on the market upside and avoid companies with high debt-to-equity ratios and low growth rates on the market downside. Global markets look to expand in 2020 despite the world economies trudging along with below-target inflation and slower economic, wage, and productivity growth.[9] Equity markets are encouraged by hopes of progress in trade talks and continuing accommodative monetary policies by most central banks, which are supportive of economic growth.[10] We continue to see opportunities in equities.

Wishing you a healthy and happy 2020!

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1. Roberts, Lance. "The Stock Market Has Become A Private Club for the Elite," *Advisor Perspectives*, December 23, 2019.
2. Forsyth, Randall W. "Merry and Bright," *Barron's*, December 23, 2019.
3. Forsyth, Randall W. "Merry and Bright," *Barron's*, December 23, 2019.
4. Forsyth, Randall W. "Merry and Bright," *Barron's*, December 23, 2019.
5. Forsyth, Randall W. "Merry and Bright," *Barron's*, December 23, 2019.
6. "Bracing for Bear-Again," *Barron's*, November 25, 2019.
7. Norton, Leslie P. "Peter Lynch on Today's Market," *Barron's*, December 23, 2019.
8. Holmes, Frank. "The U.K. Just Said No to EU Socialism. Will U.S. Voters Do the Same in 2020?" *Advisor Perspective*, December 24, 2019.
9. ("A Decade of Lost Inflation: What Happened?" Zack Investment Management, *Advisor Perspective*, December 28, 2019)
10. Adams, Larry. "Equities Gained Ground Globally in November," *Advisor Perspective*, December 3, 2019.

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