ASHTON THOMAS
PRIVATE WEALTH

2020 ECONOMIC OUTLOOK

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REPORT

CIO REPORT

2019 was an excellent year for the domestic equity markets and a solid year for high-quality US credit markets. We reached out to six of our key money managers to get their take on where we have been and where we are headed.

Like a container ship, once in motion, it takes considerable time and energy to change the course of the financial markets. Thus, for most of our managers, 2020 looks a lot like a continuation of 2019—the latter half, in particular.

KEY POINTS WE HEARD INCLUDE:

- US GDP estimates of roughly 2.5%, with one outlier at 3.3%
- The 10-year Treasury at or near where it started, with a yield of 2%
- Stable inflation and, thus, the likelihood of a stable Fed Rates rate, as well
- Continued modest growth in US equity EPS of 6-7%, with equity growth in the same range

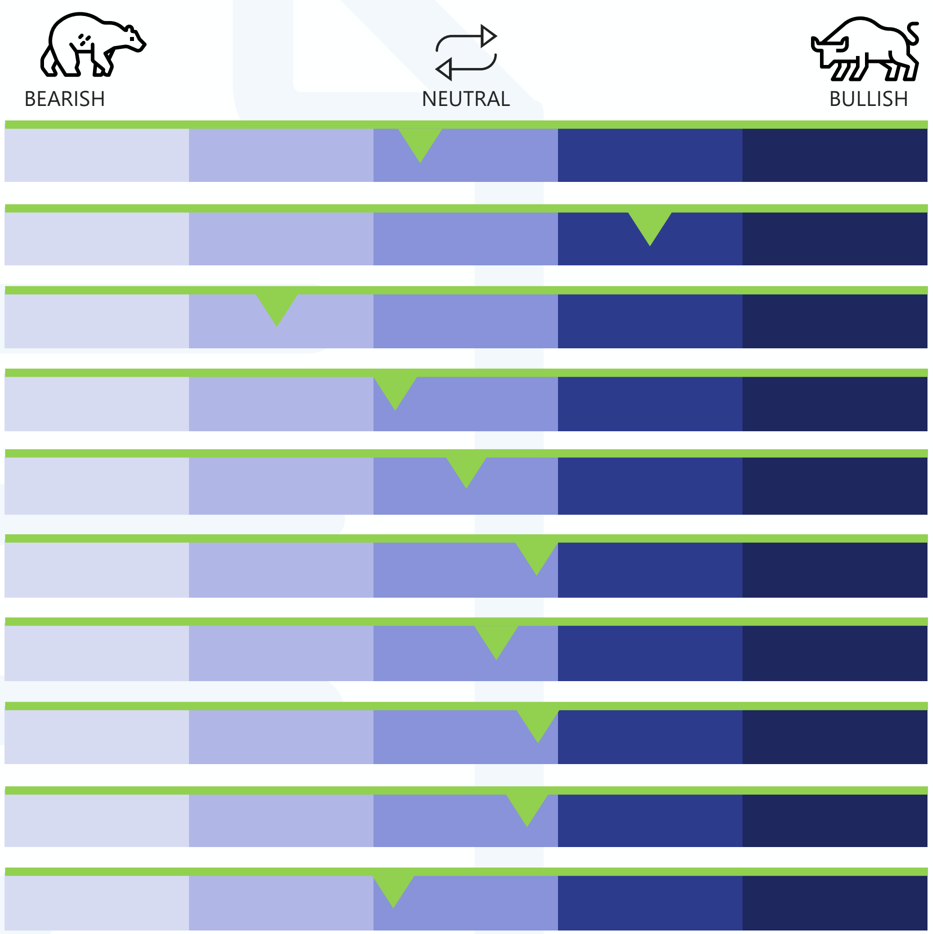
Kevin M. Churchill, CFA®, CFP®

Chief Investment Officer
Ashton Thomas Private Wealth

Potential issues outlined were election risk, ongoing geopolitical risk and repercussions from the trade war with China.

Additional concerns include the real economic impact of the Coronavirus outbreak globally, as well as the Fed Repo market, which appears to have had some systemic issues for the past six months. If either of these disruptions ripple too far or wide, there could be greater impacts to the US economy and financial markets as a result.

Having said that, unless the container ship hits an iceberg, things appear to be "steady as she goes" for now.



	VALUATION	TECHNICALS
U.S. Equities	Expensive	Strong
U.S. Value	Cheap	Strong
U.S. Growth	Very Expensive	Very Strong
U.S. Large Cap	Expensive	Strong
U.S. Mid Cap	Expensive	Strong
U.S. Small Cap	Expensive	Good
Int'l Dev Equity	Fair Value	Good
Emerging Mkt Equity	Cheap	Neutral
High Quality Fixed Inc	Fair Value	Strong
Low Quality Fixed Inc	Expensive	Strong

We use two factors to drive our Asset Allocation weights: Valuation and Technicals. We don't want to fight the trend (technicals), but also don't want to disregard valuations. Cheap can get cheaper and expensive can get more expensive. So, while growth has outperformed value for a decade and has been expensive for a few years, it just keeps getting more expensive. Conversely, value just keeps getting cheaper, but has gotten so cheap that a slight overweight seems merited.

EQUITIES

EQUITIES

D. Andrew Shipman, CFA®
Principal

MANAGER'S COMMENTARY

Looking Back

- We had a 20% flush in 4Q2018, which helped set the stage for 2019
- Most surprising aspect of 2019 is how the market shrugged off the "inverted" yield curve

Looking Forward

- Wildcards are trade, the 2020 presidential election and geopolitical risk
- The resiliency of US large cap equities surprises them
- Distorted risk – i.e., a heavy bias toward equities – in retirees' portfolios could trigger some selling
- The traditionally defensive areas of the US stock market are not attractive at the moment
- It's been difficult for traditional value companies to demonstrate a reason for higher P/E multiples
- Value managers can't focus on buying "50-cent dollars," as they will miss out on opportunities
- They do not believe their portfolio is particularly sensitive to election risk

Conclusion

- 2020 feels a lot like a continuation of 2019

DAY HAGAN
ASSET MANAGEMENT

Donald L. Hagan, CFA®
Partner, Chief Investment Strategist
Day Hagan

Reagan S. Teague, CFA ®
Portfolio Manager
Day Hagan

Brian Sanborn, CFA ®
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Ned David Research

MANAGER'S COMMENTARY

Looking Back

- Stock buybacks in 2019 created more demand than hedge funds and/or ETFs on a standalone basis
- In early 2019, the US looked to be getting pulled into a recession by the rest of the world; then the US showed positive GDP growth in 2019 and may have pulled the rest of the globe out of a potential recession (note: the NDR Global Recession Model Indicator showed no real signs of recession in 2019)

Looking Forward

- Expecting US equities to lean toward "outperform" in 2020: targeting a 7% return for the S&P 500 and earnings growth of 6%
- Emerging market stocks may be a buying opportunity in 2020, as P/E ratios remain relatively low
- The majority of US industries remain healthy, with energy having adapted to lower oil prices and retail remaining relatively strong
- The pool of companies which fit their criteria for buying has contracted, as valuations move higher
- Bullish on gold in the near term

Conclusion

- Anticipating healthy GDP growth in 2020 (their forecast shows a high end of 3.3%, chart at the end illustrates our thoughts on this projection), but advise to watch out for the "Japanification" of the US in the long run

EQUITIES

SUNCOAST EQUITY MANAGEMENT, LLC

Donald R. Jowdy
President, Chief Investment Officer

MANAGER'S COMMENTARY

Looking Back

- We experienced meaningful earnings growth in 2018, but US equity prices declined in the fourth quarter; in 2019 earnings were relatively flat, but prices increased: this resulted in a scenario where US equities were fairly valued overall at the end of 2019

Looking Forward

- As we move into 2020, US equity valuations have started to push just a bit above "fair" levels; however, to get to a place where valuations look historically high, their portfolio would have to increase in value by 25% with flat corporate earnings
- With the possible launch of a digital currency in China, they consider the payment services space potentially at risk
- Many value companies find themselves in eroding industries (fossil fuels, tobacco, pharmaceuticals, etc.); as people move toward more energy efficient and healthier lifestyles, these companies may not be as attractive in their current forms
- While geopolitical fears are a concern from a human factor perspective, they generally are not a major factor in their investment approach

Conclusion

- Forecasted earnings growth of 12-13% for 2020 in their portfolio holdings; where prices go remains to be seen

FIXED INCOME

FIXED INCOME

David Young, CFA®
Founder & CEO

Kevin Vanderbilt, CIMA®
Investment & Business Development Analyst

MANAGER'S COMMENTARY

Looking Back

- Admittedly, they were not on the favorable side of the US bond market trade/trend in 2019

Looking Forward

- Nothing in the US debt/credit markets has them broadly concerned; all possible worries look like low-probability events
- Seeing improvement and strengthening in the EU and the effects of Brexit are less of an unknown now
- The US consumer is holding up well, even though it may be late in the cycle
- US bonds appear to be overpriced at current levels; look for yields to tick slightly higher
- The most significant political impact to the debt markets would be a flip in the US Senate from a Republican majority to a Democrat majority

Conclusion

- 2020 is looking like a continuation of 2019: not much has changed

FIXED INCOME

Peter J. Eisenrich, CFA®
VP, Sr. Client Portfolio Manager

Mason Wev, CFA®, CMT
Portfolio Manager

MANAGER'S COMMENTARY

Looking Back

- Rotated between risk-on and risk-off twice in 2019; gave up some upside to play defense

Looking Forward

- The high-yield index is in the bottom third quartile for yield vs. historical trends and credit spreads are widening
- Risk management has come back to the forefront, but they do not anticipate any economy-driven issues in the credit markets
- High-yield companies have improved overall in terms of credit quality; low-credit-quality borrowers have been relying more on bank debt than the public markets
- Upgrades from junk bond status to investment grade have increased on the whole
- Wage growth has been most robust in the lowest quartile of income earners; this is helping drive the US economy, as they are generally the biggest spenders as a percentage of income
- Inflation driven by consumption could eventually become a concern; however, this factor has struggled to show any real signs of heating up in a meaningful way

Conclusion

- Generally, they are optimistic about 2020, particularly if the employment participation rate remains strong

FIXED INCOME

WASMER SCHROEDER

Justin Land, CFA®
President

MANAGER'S COMMENTARY

Looking Back

- 2018 set up the kind of year we experienced in 2019 in the debt markets
- Although the Fed claims to be "data dependent," it appears they focused more on the global economic outlook in 2019 than domestic economic fundamentals

Looking Forward

- The near-term effects of the new trade deal remains to be seen
- Still generally comfortable with the US economy, although their investment committee is forecasting higher US interest rates by the end of 2020
- 10-year US treasuries should continue to test lows
- The move to passive investing vehicles in the last decade has increased credit risk and raised liquidity concerns
- Chief concern in 2020 is geopolitical risk, with Iran, China and the EU at the forefront
- Demographics will continue to play a longer-term role: we will see those turning age 65 peak between 2022 and 2024; the number of high school graduates is declining vs. recent decades

Conclusion

- Believe US economic growth will be mediocre; demand for muni bonds should remain strong

CHARTS

CHARTS

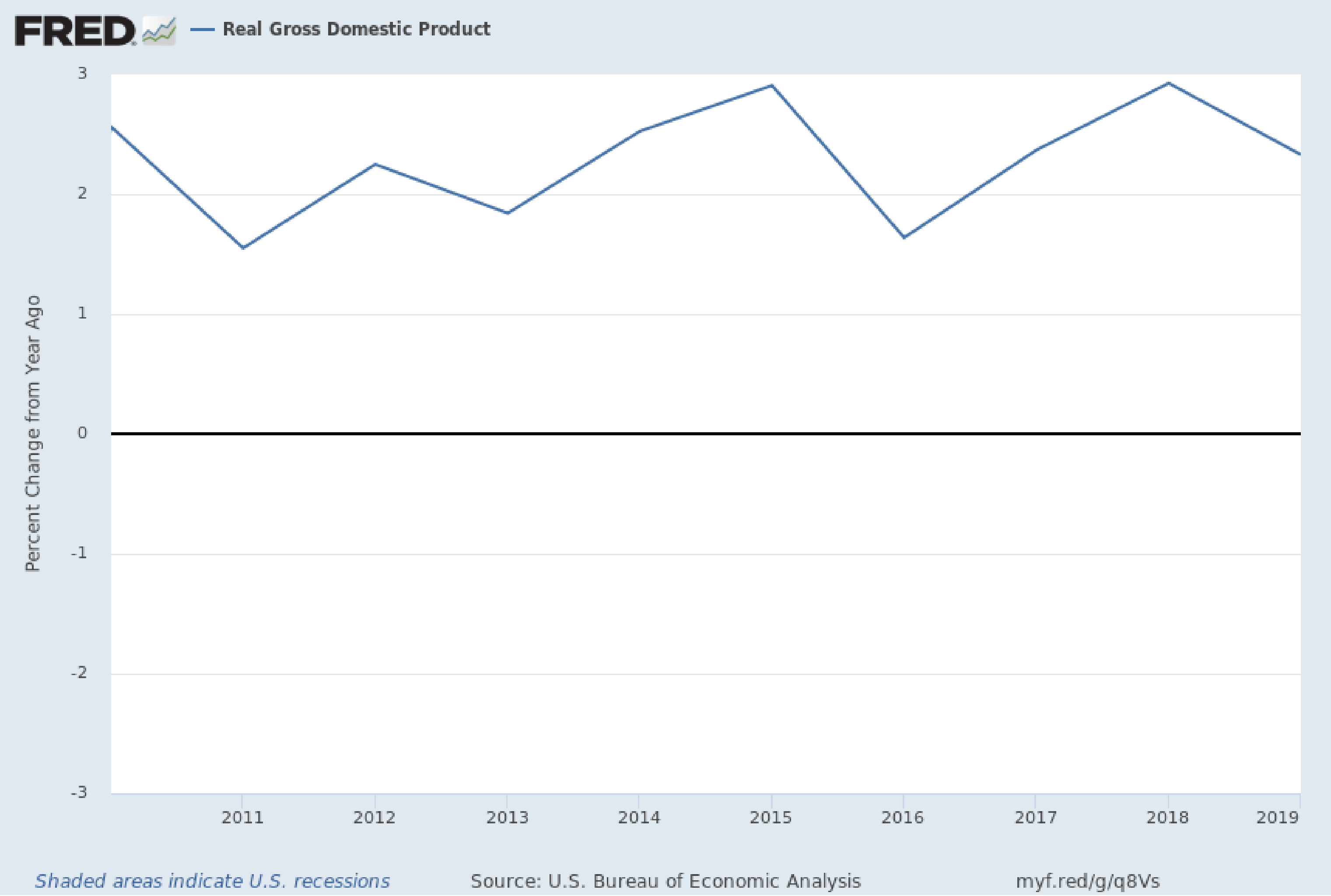
As was highlighted by several managers, without the context of 4Q2018, 2019 seems like a home run. Nonetheless, the two-year period posted solid results and shows a fuller perspective.

S&P 500 Weekly: 2018-2019

CHARTS

This chart illustrates that, since the Great Financial Crisis, real annual GDP growth has been hemmed between 1.5% and 3%. Continuing the “Container Ship” analogy, pushing growth over 3% seems unlikely.

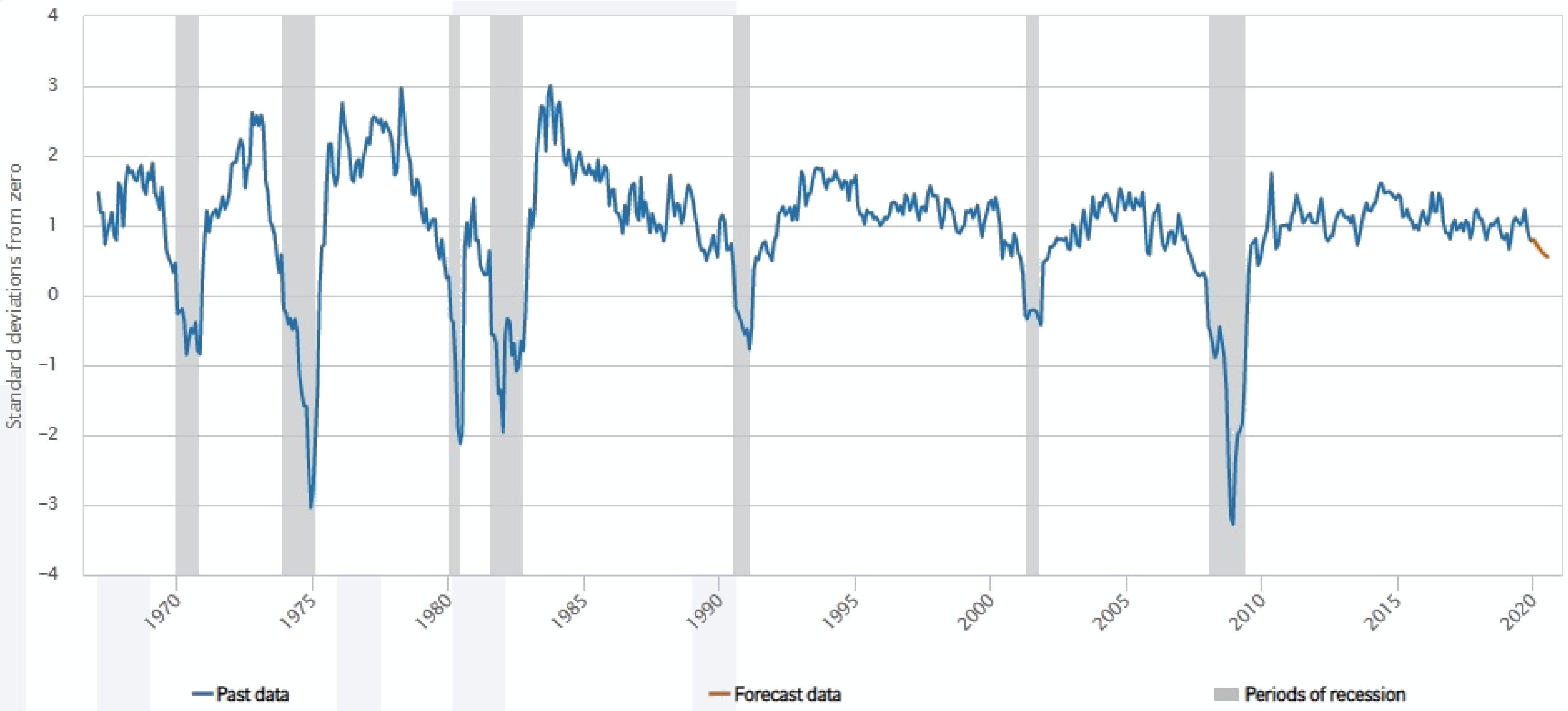
Real Gross Domestic Product: 2010-2019



CHARTS

The economy continues to chug along and the risk of recession is still relatively low. However, as this chart shows, the rate of growth is likely to continue slowing. Under the “Container Ship” analogy, with slowing growth comes higher risk of recession as we lose steam. If the trendline continues, the economy would be experiencing the weakest growth of the current cycle.

Business Cycle Index as of 12/31/2019



Source: Recession dates from National Bureau of Economic Research

Out of sample forecasts were calculated by simulating the time-series model into the future. The value shown is the median of the simulated value for the month.

Chart: Russell Investments

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