2020 Van Leeuwen & Company Market Outlook

Outlook Predictions	2019 Outlook Estimate	2019 Result	2020 Outlook Estimate
Risk of Recession	Low	No Recession	Low
Federal Reserve Actions	1 Rate Increase	3 Rate Cuts	No Fed Action
Inflation Expectation	2.50%	2.0%	2.0%
U.S. Gross Domestic Product Growth	+2.5%	+2.3% (estimated[1])	+2.2%
U.S. Earnings Growth	+8% - 10%	+.20% (estimated[2])	+5% - 8%
U.S. Stock Returns (S&P 500)	Mid-to-High Single Digits	+31.48	Mid-to-High Single Digits
Fixed Income Returns	Flat-to-Low Single Digits	+8.70%	Low Single Digits
Oil Prices (WTI Crude)	Mid $50's per Barrel	$61.06	Mid $60's per Barrel

After a great 2019 for U.S. Stocks, we continue to see the momentum continue in the early days of 2020. While we are generally positive about the U.S. stock market and overall economy, we do believe that there is potential for volatility in 2020. In 2019, there was a stark return difference in growth-oriented companies versus their more value-oriented counterparts. Areas such as technology really led the market gains last year. If volatility picks up in 2020, we may begin to see outperformance from companies that did not keep up in 2019.

The U.S. economy is still in growth mode even though we are in the late stages of the business cycle. Many Wall Street analysts and economists expect U.S. Gross Domestic Product (GDP) growth to increase slightly slower than it did in 2019, and closer to historical average growth. This could help market returns in a year where a presidential election, impeachment proceedings, and geopolitical issues could add to volatility throughout the year. Globally, the business cycle is not as mature and there may be more room for economic expansion compared to the U.S. economy. At Van Leeuwen and Company, we are focused on fundamentally strong companies that have time-tested track records of successfully navigating different economic environments.

We estimate that U.S. GDP growth will remain around the 2.2% level for 2019. Economic indicators suggest that our economy is still in an expansion mode, albeit slower than preferred. One of these economic indicators, the unemployment rate, is still at historically low levels since the Financial Crisis of 2008-2009. Consumer confidence, another economic indicator, is still very strong and has a large impact on domestic economic growth. We are expecting this gradual GDP growth slowdown to continue throughout 2020, but do not see a recession occurring this year.

We are optimistic that 2020 will build off 2019 and bring some resolution to several key political issues. One of the largest potentials for volatility for 2020 centers around the presidential election in November and the Democratic primary elections leading up to it. We will have more clarity as to who the Democrats will put up against the incumbent in February, and the results could cause market volatility through the November election.

The trade issues with China still remain even though we have entered into a "Phase I" agreement. 2019 offered some good news on the trade issues with China, but they still have a long way to go. It remains to be seen what the next steps will be with China, but we are expecting some progress in 2020. We still have not seen any meaningful and lasting effects from the tariffs that were imposed since the trade issues with China began.

There is a high probability that the USMCA will be signed by the U.S., Canada, and Mexico in 2020. This would help alleviate some of the trade issues between the 3 countries and could provide a boost to U.S. markets.

Expectations for U.S. Stock Market returns are mid-single digit growth among many Wall Street analysts. This would be a much lower return than the S&P500 enjoyed in 2019, +31.48. The U.S. economy still seems to be plugging along, and there are some encouraging signs. As mentioned before, one of the big unknowns that could cause volatility is the presidential election.

Many of the S&P500 gains from 2019 came from more growth-oriented companies, specifically in the technology sector. While it is expected that these companies will continue to do well in 2020, we continue to be mindful of the overall risk some of these companies can present in a portfolio.

Estimated 2020 earnings growth for U.S. companies of 5%-8% is much higher than 2019, where we saw little to no EPS growth. Last year, earnings growth for S&P500 companies was mostly flat due to such a high bar set in 2018. Many companies saw the effects of the new tax reform ware off in 2019. Because of the tax reform and the immediate effect it had on earnings, the year over year comparisons between 2018 and 2019 were mostly flat.

The U.S. economy is still strong and growing which should help push earnings growth higher in 2020.

Many analysts estimate fixed income markets to be flat or grow in the low single digits throughout 2020. U.S. Treasuries will be impacted the most by interest rates. 2019 was a great year for the bond index. It was unexpected that the Federal Reserve would begin lowering rates throughout the year which helped push the total return for bonds far past our expectations. Going into 2020, we do not see the same amount of total return potential for bonds. We expect low to single digit returns for the bond index. Interest rates are at or near historically low levels again, and there is not much room for interest rates to go lower. If rates stay flat, then investors can expect to see little price appreciation and will be focused more on the income the bonds produce.

It is estimated that the Federal Reserve will take no action in 2020. In 2019 there was an expectation of further interest rate hikes, but the Fed cut rates during the year. For 2020 there is an expectation that the Fed will pause on any significant monetary policy, at least until after the election. It could be argued that President Trump had an impact on interest rates going lower, and he wants them to go lower from here. It will be interesting to see how Federal Reserve Chair, Jerome Powell, will react through the year if the President pushes for lower rates again.

Many experts think higher interest rates are needed as a buffer to give the Fed room to introduce monetary policy as a means to fight any sort of recession that may be looming in the distance.

The general expectation for inflation for 2018 is hovering around 2.2%. This estimate is similar to the goals of the Fed. We barely got above the 2% mark in 2019, which is a slight concern given the strength of the economy. Inflation, partially due to low interest rates, has not been keeping pace with the growth of the economy since the Financial Crisis (2008-2009). A higher inflation rate will allow companies to charge more for goods and services. This will be a sign that company revenues should be growing and margins should be expanding. All of this points to higher earnings and may justify higher stock valuations going forward.

Oil prices are expected to stay in the range of mid $60's per barrel of West Texas Intermediate (WTI) Crude. In 2019, we saw mostly stable oil prices for the year. The only big spike in volatility last year came around the Iran attacks in the Middle East. It seems that tensions have subsided for the moment and expect a fairly stable price for oil going forward. For 2020, we are estimating prices of WTI Crude in the mid-$60's per barrel. Large, multi-national oil companies can still maintain a profit and maintain their dividends at these prices, but earnings are far from the days when WTI was over $100 per barrel.

In summary, we are entering 2020 on a generally positive note, but we do expect the potential for volatility through the election in November. Most analysts feel we are still in the late stages of economic recovery, but we are optimistic about having positive market returns in 2020. There is still some room for growth both domestically and internationally. Van Leeuwen& Company continues to favor fundamentally strong and financially stable companies that could withstand volatility that may creep up in 2020.