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ASSET MANAGEMENT

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In this week's Highlights, Ryan Grabinski believes there is evidence of a bottoming in global growth, suggests investor focus is shifting toward the 2020 elections and would not be surprised if the market pulled back in the near-term.

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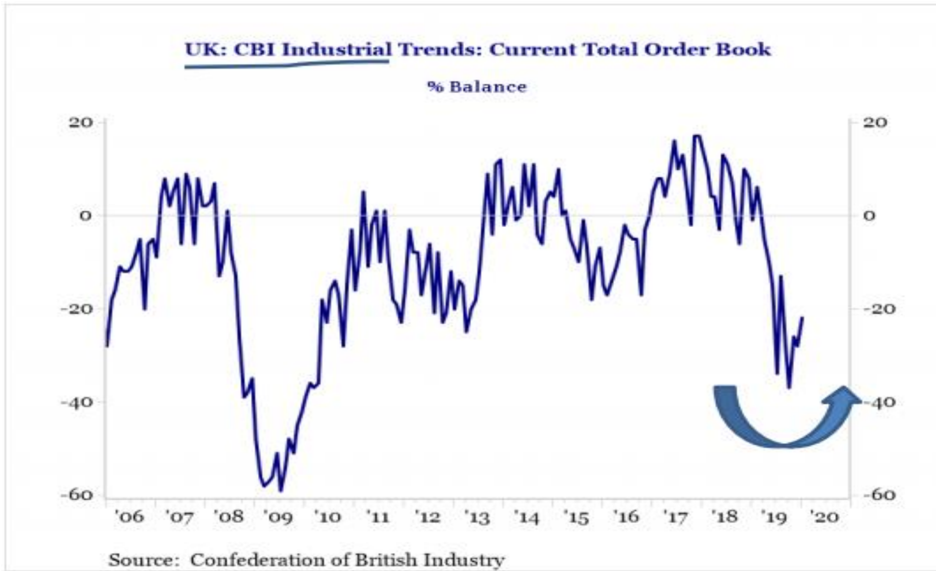
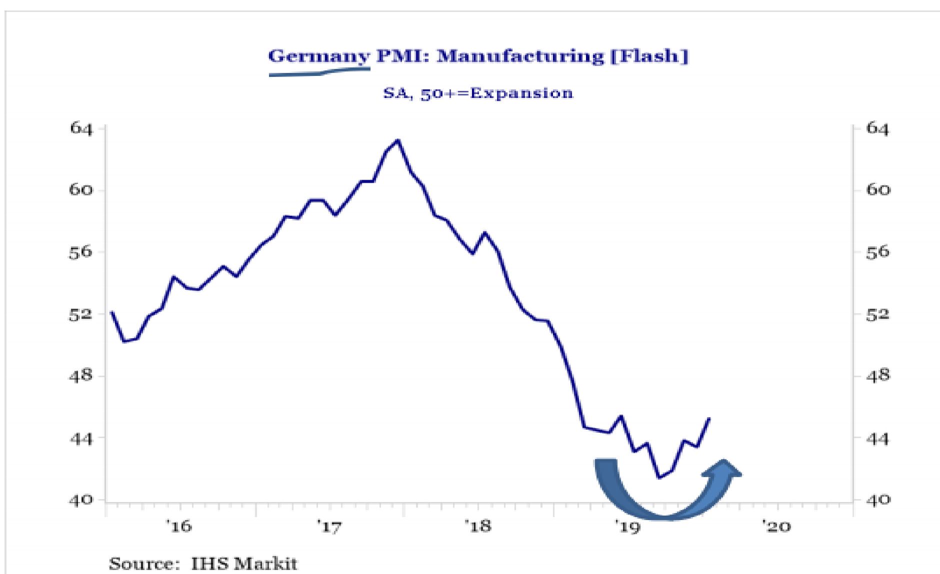
Evidence of Global Growth Bottoming Is Emerging

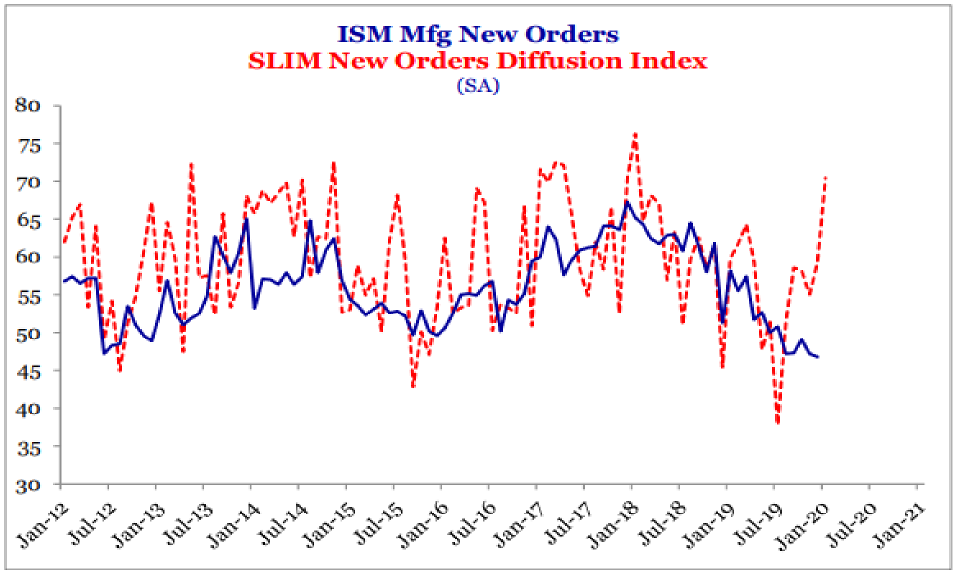
- The U.K. CBI industrial trends survey looks to be forming a bottom, with the total order book hooking higher in January.



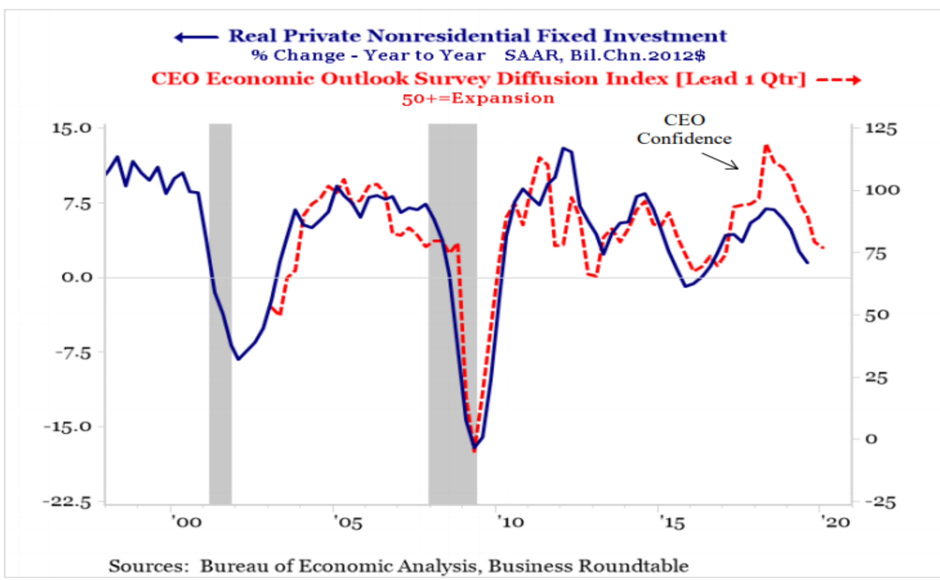
- The Germany PMI surged month over month in January, rising to 45.2. This matters because we continue to view Germany as a key leading indicator.



- Our leading indicator of manufacturing is showing some evidence that the U.S. may also be turning.

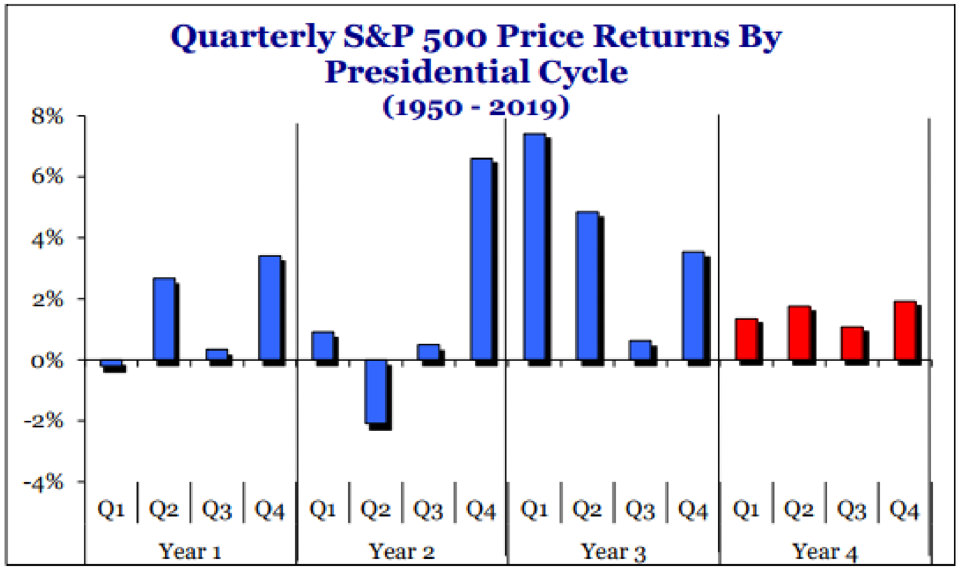


- CEO confidence was hit hard in 2019, but we are expecting a recovery in 2020. It may not be a "V" bounce but a partial resolution on the trade front should result in some improvement to investment.

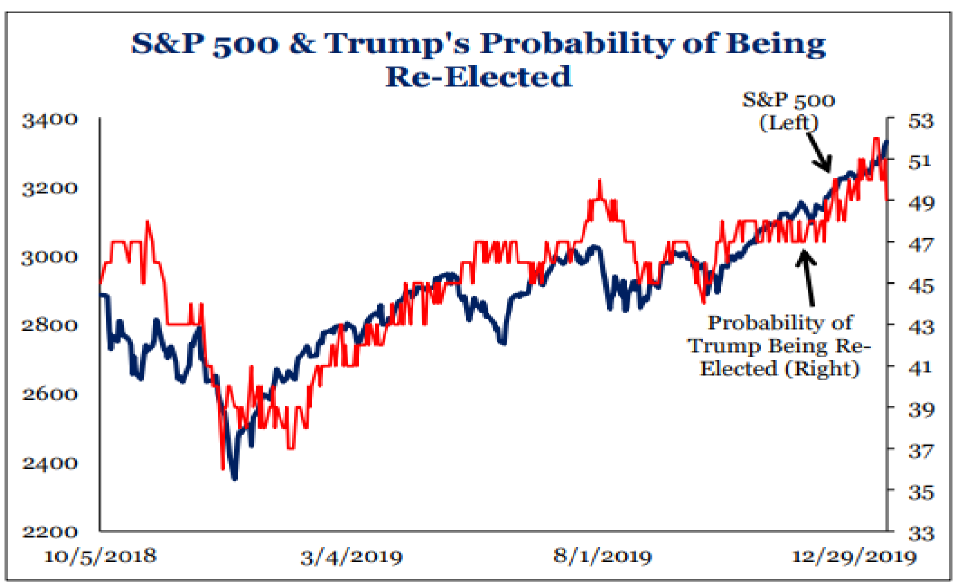


Attention Shifting Toward the 2020 Elections

- Stocks have generally performed well in presidential election years, despite the noise associated with an election. In fact, quarterly equity market returns are the most stable in the election year compared to the other three years in the cycle.

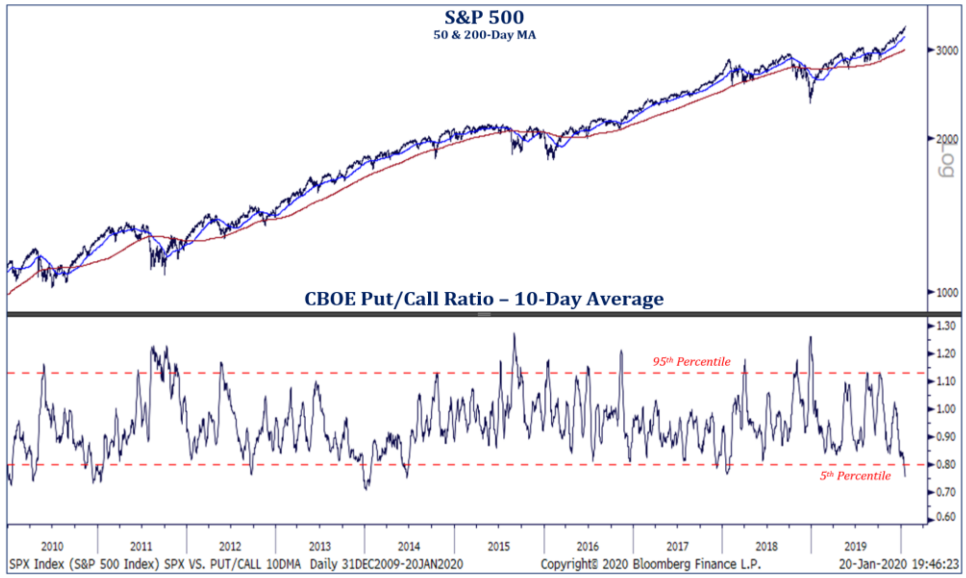


- An accommodative Fed and a president who wants to be reelected likely limit downside risks to stocks in the short term. Trump's odds of winning re-election are correlated with the S&P 500.

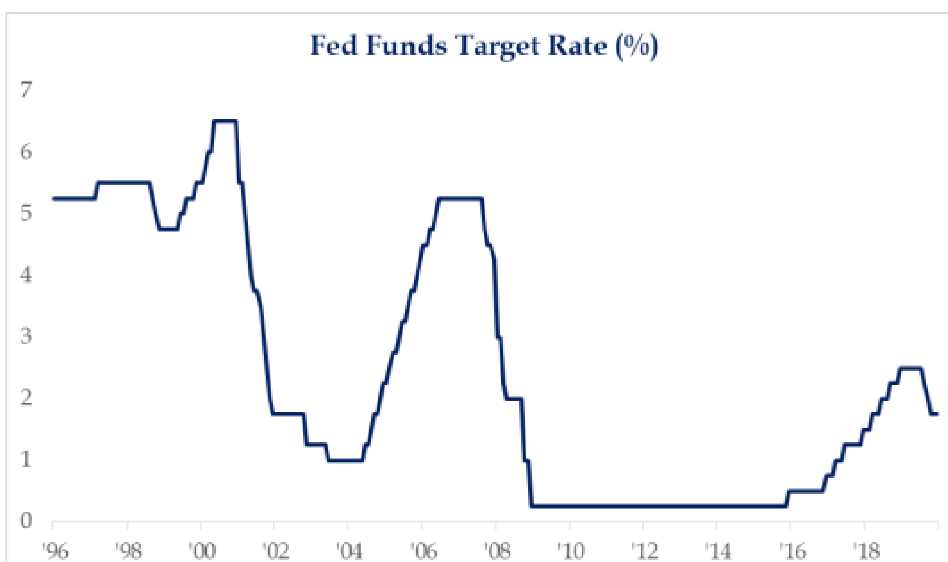


A Near-Term Correction Would Not Surprise Us

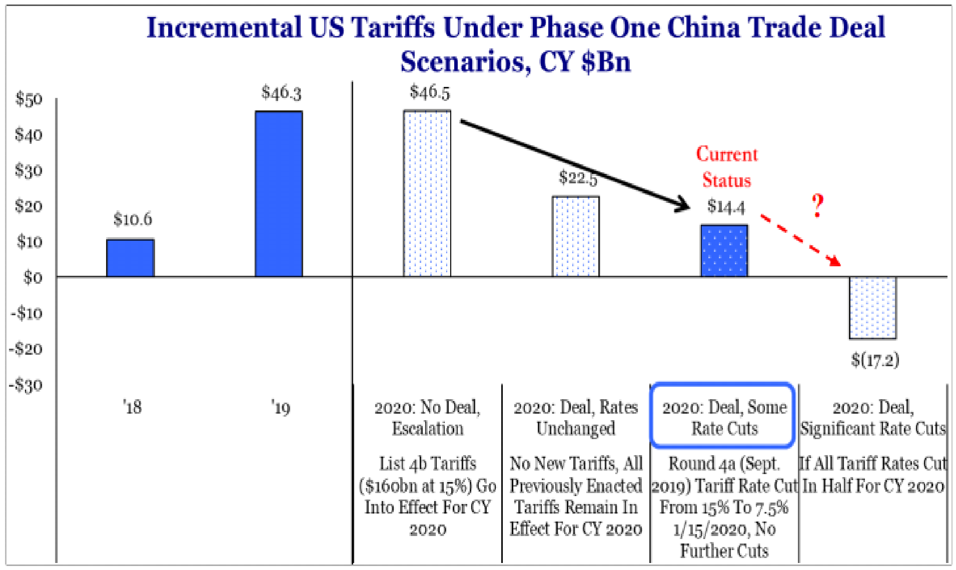
- While the coronavirus may or may not be the catalyst for a pullback, tactically sentiment remains a significant risk for stocks. The put/call data is getting pushed to the limit, which can leave the market vulnerable to a setback.



- With the S&P up nearly 500% since the bull market started a little less than 11 years ago and few signs that it's likely to stop any time soon, it is understandable that investors, institutional and individual alike, would start to wonder how long the party can last. Some have said that the current market reminds them of the heady days of 1999. One significant difference however is that, the Fed was tightening in 1999, while it eased in 2019.



- It seems reasonable to assume that the Fed is likely to be on the bench in 2020. Employment is strong but wage growth and inflation are quiescent. Whether by design or by accident, however, we believe it's important to note that the President, with the new trade deal with China, has given himself the flexibility of creating his own rate cuts – not in interest rates but rather in tariffs.



- Currently, we have most stocks above the 200-day since 2014, which is inconsistent with a significant top. The percentage of stocks above the 200-day often diverges in a meaningful way ahead of big trouble. Not the case today; pullbacks are buyable when trends are strong.

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