

Mid-Quarter Market Update: February 2020

I wrote in the last Letter that I did not have much hope that Congress would be able to get much passed before the end of the session. Boy was I wrong! It seemed that both the House and the Senate wanted to avoid the tag of the “do nothing group”, that they showed success by passing a flurry of bills. The SECURE Act, the first significant retirement legislation in over a decade, did many things including extending the beginning age of required minimum distributions from IRA’s to age 72 and removed a real barrier to small 401(k) plans who wish to merge together to achieve discounted fees. The legislation to provide ongoing funding for Congress was passed without fanfare and even less media coverage. The most interesting action was the signing of the North American Trade Agreement between Mexico and the US. Canada needs to sign yet, and it is anticipated that they will do so in the next few weeks. What makes it interesting is that the back story to the passage was not well publicized. The original proposal put forward by President Trump was missing provisions that the Democrats wanted included before the House would ratify the pact. The Republicans listened and the missing conditions were added and presented to Mexico to sign. These are all clear examples of how both political parties can choose to work together to help to make a better America. Too bad these examples do not find much time in the media!

Why is the stock market still climbing? The markets see that business confidence is improving as the manufacturing sector is expanding. Consumers are also spending and wages slowly increase. Housing is always a good indicator of economic strength, and it is going strong. All of these factors create the backdrop for a continued bull market. World events may also create some optimism, as Brexit happened (now the work begins for Boris Johnson) and a “phase one” trade agreement between China and the US place a pause on the trade war.

What about the coronavirus?? It already sent the stock market into a big slide at the end of January, as the realization of the potential threat of a worldwide pandemic came to investors. What do we know? It is not as deadly as SARS, but it is very contagious and most likely will continue to spread. Officials are doing their best to slow the advance, as scientists race to find out more about the disease. Some immediate observations- China will most likely see their economy slow down, as quarantines and travel restrictions keep commerce from flowing smoothly. Flights out of China have been blocked and the shipment of parts obstructed. The potential of disruption to supply chains around the world is very real. As the disease spreads, the travel industry may take a hit, as fear will keep people home. We will make it through this threat, but it is the big unknown right now.

What else is ahead? Twenty three states will enact a raise in the minimum wage this year. Interest rates will most likely remain low. No one is talking recession (what a change from last summer!). The winter has not been too rough (yet?). Politics. Expect stock market volatility like we have seen in the last few weeks, but with an upward trend. Bonds should be steady, with interest rates remaining low.

Stay warm and enjoy the remainder of the winter!