WINFIELD ASSOCIATES

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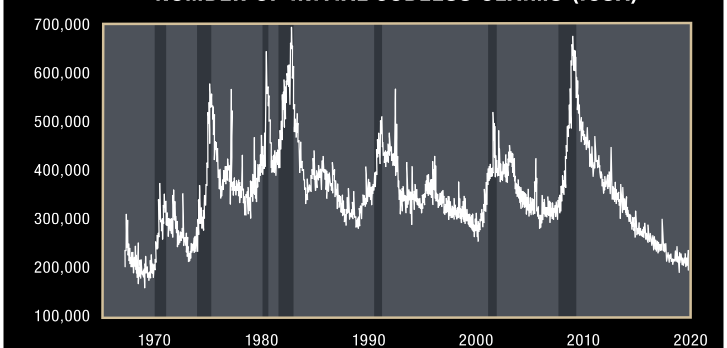
Customized Investment Portfolios and Private Wealth Advisory Services

MARKET COMMENTARY

What a difference a decade makes. Ten years ago, as the globe emerged from the depths of the Great Recession, US unemployment remained over 10%, and US GDP shrank -2.5% for all of 2009. After bottoming in March 2009, the stock market (as measured by the S&P 500) bounced a remarkable 26.5% that year in anticipation of a rapid economic recovery. In our January 2010 *Market Commentary*, we highlighted what we considered to be one of the most important forward-looking indicators of economic activity, US initial jobless claims. In our commentary, we stated, "weekly initial jobless claims fell to 434,000 during the week of January 2 (2010), down sharply from 665,000 during the week of March 28 (2009)." We went on to state that "initial jobless claims may provide a preview" of GDP expansion, and optimistically, a recovery had begun. While one indicator cannot by itself predict economic activity and financial market performance, weekly initial jobless claims correctly signaled the beginning of a new cycle of US economic expansion.

NUMBER OF INITIAL JOBLESS CLAIMS (ICSA)



Dark gray shaded areas indicate US recessions.
Source: U.S. Employment and Training Administration

Since the peak of 665,000 claims in March 2009, weekly initial jobless claims have steadily declined with only a handful of spikes in 2011 and 2012. Since July 2015, weekly initial jobless claims have remained below 300,000 with a brief drop below 200,000 in April 2019. As indicated in the graph above, the US has not experienced such a robust employment market since the late 1960s when weekly initial jobless claims dropped under 200,000. As we reflect on the remarkable performance of equity markets in 2019, we seek indicators to either confirm or question the continuance of the historic bull market run of the post-financial crisis era. While several other variables must be taken into consideration, we will continue to closely monitor initial jobless claims for signs of weakness.

And what a difference a year makes. During the fourth quarter of 2018, the S&P 500 suffered its sharpest decline since 2011 as tightening monetary policy and trade tensions punished equity investors. On Christmas Eve 2018, normally a quiet trading day leading to a long holiday week, the Dow Jones Industrial Average (DJIA) fell -653 points (-2.9%), representing its worst decline on the session before Christmas in the 123-year old index's history. From the peak on September 20, 2018, to the trough of 2,351 on December 24, the S&P 500 index fell a remarkable –19.7%. For the year, the S&P 500 finished 2018 down -4.4%. For most investors, 2018 was a year to forget.

2019, on the other hand, was a year for the record books. In the first quarter of 2019, the US Federal Reserve pivoted away from a tightening stance to a neutral position, thereby reducing the near-term risk of recession induced by monetary policy error. Equity markets leaped as investors concluded monetary policy would be looser for longer than previously expected. For all of 2019, the S&P 500 jumped 31.5%, the DJIA 25.3%, and the NASDAQ 36.7%. All three major market indexes finished at record highs with gains continuing into January 2020. International equity markets also surged as the MSCI EAFE finished 2019 up 22.0% after concluding 2018 down -13.8%.

Although Treasury yields touched levels last seen in the depths of the Depression and Great Recession, we do not believe yields reflect weakness in the US economy. Rather, as we discussed in our October *Market Commentary*, foreign investors fearing ex-US global weakness crowded into Treasuries, driving yields down. As global investors embraced Treasuries as the insurance of choice, the yield of the US 10-Year Treasury bond fell to within 10 basis points (bps) of the all-time low of 2016, finishing 2019 at 1.92%.

Throughout 2019, numerous concerns disrupted global markets including trade tariffs, impeachment, Brexit, and Hong Kong turmoil. Most of these concerns seemed to be short-lived to market participants, and after the markets paused, US equities recovered to new highs. What did prevail throughout 2019 was a solid US economy, growing at a healthy annualized rate of 2-3%. Even after 2019's impressive gains, stocks are trading at reasonable valuations at 18x forward earnings. This is moderately above historic averages but is supported by the strength of the economy, mild inflation, and low interest rates. We expect corporate profits to increase 8-10% in 2020. Along with strong profitability, cash flow has added to corporate balance sheets with an estimated $5 trillion in cash and marketable securities in S&P 500 companies.

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This implies a continuation of the trend of increasing dividends and share buy-backs estimated to reach $1 trillion in 2020, up from $800 million in 2018. Our outlook is that US and global growth will stabilize at a relatively modest pace, with supportive central banks keeping interest rates low. We continue to believe that the best investment strategy is to remain overweight US equities, but to concentrate in companies with high, sustainable returns and attractive valuations. Accordingly, with domestic equities trading at elevated valuations, we are mindful of potential financial vulnerabilities and the need to offset allocations to risky assets with higher than usual allocations to short term fixed income and cash.

THE SECURE ACT

The Setting Every Community Up for Retirement Enhancement Act, better known as the SECURE Act, was signed into law on Friday, December 20. Some of the notable provisions of the law include:

- *Required Minimum Distributions (RMDs) Will Start at Age 72, not 70½*

  Starting January 1, 2020, individuals will need to start withdrawing money from traditional IRAs at age 72, a change from the current withdrawal requirement of age 70½.

  If you turned 70½ in 2019, you still need to take your RMD for 2019 no later than April 1, 2020. If you are currently receiving RMDs (or should be) because you are over age 70½, you must continue taking these RMDs. Only those who will turn 70½ in 2020 or later may wait until age 72 to begin taking required distributions.

- *Traditional IRA Contributions After Age 70½*

  Beginning in the 2020 tax year, the new law allows you to contribute to your traditional IRA in the year you turn 70½ and beyond, provided you have earned income. You still may not make 2019 (prior year) traditional IRA contributions if you are over 70 ½.

- *Inherited Retirement Accounts*

  Upon death of the account owner, distributions to individual beneficiaries must be made within 10 years. There are exceptions for spouses, disabled individuals, and individuals not more than 10 years younger than the account owner. Minor children who are beneficiaries of IRA accounts also have a special exception to the 10-year rule, but only until they reach the age of majority.

- *Adoption/Birth Expenses*

  The new law allows penalty-free withdrawals from retirement plans for birth or adoption expenses, up to $5,000. While income taxes will still apply to withdrawals from a traditional retirement account, the law allows new parents the ability to pay unexpected first-year child expenses.

There are many more aspects and provisions to the SECURE Act. Please contact us or your tax advisor for more information.

MARKET PERFORMANCE

	4Q 2019	2019
Dow Jones	6.7%	25.3%
S&P 500	9.1%	31.5%
Nasdaq	12.5%	36.7%
Russell 2000	9.9%	25.5%
MSCI EAFE	8.2%	22.0%
Barclays Agg	0.2%	8.7%

WHEN TO WORK WITH WINFIELD

PRIVATE INDIVIDUAL INVESTORS
- Manage accumulated wealth, inheritances and settlements

ENDOWMENTS AND FOUNDATIONS
- Manage assets with a long-term growth strategy while meeting investment policy requirements

BUSINESS OWNERS
- Customize investment portfolios to lessen risk of concentrated assets
- Defer taxable earnings in profit sharing plans
- Manage and advise 401(k) plans

BUSINESS PROFESSIONALS
- Customize investment portfolios, manage stock options and consolidate 401(k)/IRA plans to lessen risk of concentrated assets

RETIREES
- Customize investment portfolios with the option of drawing income
- Management of IRAs, trusts and taxable accounts

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