

## What's Ahead for 2020

As we wind down what will soon be the old year and complete our plans for the holidays, it's always a good idea to take stock of where we've been and what we have to look forward to. 2019 has been an interesting year, especially so for the financial markets, which have provided returns far in excess of what might have been expected.

The equity markets, primarily in the U.S., have registered gains more than double the typical rate. That said, however, it seems likely that the today's bonus will come at the cost of slimmer pickings over the next few years.

Indeed, the underpinnings for the recent advance are the result of the 2017 tax bill, which substantially reduced corporate taxes and raised earnings. And when earnings climb, stock prices also tend to move higher, over time. The hitch is that an important part of that earnings increase was a reflection of lower taxes, not of accelerated progress. So on an apples-to-apples basis, the rate of gain was considerably slower.

What's more, valuations have climbed more quickly than the real rate of growth and are, in fact, approaching the nosebleed level. Since stock valuations tend to expand and contract depending upon the underlying rate of growth, one has to wonder why valuations continue to expand when the overall pace of corporate earnings growth is moderating.

This scenario has several potential outcomes, including these:

If both valuations and earnings expand at the same rate, the advance may continue, but we would remain on thin ice.

If, on the other hand, earnings growth picks up while stocks take a breather and move sideways, valuations would settle back to a normal range.

If valuations continue to expand without a proportionate gain in earnings, there will be an increased likelihood of a sizable market pullback.

And then there's the possibility of recession. If stocks hold up while earnings slip, the one word I would think of is **TIMBER!**

The new year will be fraught with a myriad of concerns, including the upcoming elections, trade talks with China, prospects for interest rates, and the unknowns that always present themselves.

Let's hope for the best, but be prepared for surprises.