



THE DANA VIEWPOINT

December 23, 2019

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What a Difference a Year Makes

We are in for a much more pleasant holiday season than we faced last year at this time. A year ago, the market was down almost 20% in the fourth quarter through Christmas Eve and had dropped over 10% in just the middle two weeks of December. Jerome Powell had just led the Federal Reserve to the fourth interest rate increase of 2018. Regardless of the market drop, Powell seemed to have a ‘what, me worry?’ attitude. He said that the balance sheet reduction was on autopilot. Throughout 2018, we feared that the Fed was an unwitting enemy of both the markets and the economy, and that became clear at year end. Powell tempered his tone, and the Fed embarked on what seemed like an interminably long pause until it cut rates at the end of July. During that period, the ten-year Treasury yield fell below short-term rates in late May and remained there until early October. The equity markets traded in a range through the summer and fall, and only moved to new highs just before the last Fed cut in October. Since then, the move upward has continued with markets gaining more than 5% in the last nine weeks. The Fed has since telegraphed an ‘on hold’ policy going forward.

Our operating hypothesis through this tightening cycle was that the Fed was the problem, and now they have become the solution. This rate cycle has taught them that we can have growth, low unemployment, and low inflation simultaneously. This scenario would seem to be the economic holy grail, and now with the Fed on hold, we can see what that looks like. Powell’s new framework for rate policy moves inflation front and center; we believe this should always be the focus of the Fed. Powell has recently said that they might be willing to let inflation run above their 2% target for a period of time and that he sees no scenario where they would undertake a rate increase if inflation stays below 2%. Let’s hope he means it.

Even with this year’s Fed issues, it has been a strong year for financial assets. U.S. equities are up 25-35%, with large growth companies being the leaders. Fixed income has been a strong contributor as well, with rates falling 50-100 basis points across the curve and yield spreads tightening throughout the year. Fixed income portfolios have delivered total returns of 5-10% on the

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mid and long end of the curve. The S&P 500 Index has not had a correction of over 7% this year. Foreign markets have enjoyed good 15-25% returns, but generally are well behind U.S. markets.

Market valuation and overall growth are two concerns going forward. S&P 500 Index earnings are close to flat this year, so valuation levels have increased as the market has delivered a significant gain in price. Economic growth has slowed to 2016 levels after a bump up from the tax cuts, and trade policy has been a drag on capital investment. Nevertheless, there are good signs as well. Commodity prices have been stable. The dollar is now drifting lower, which should be a tailwind for the exports of U.S. companies. Oil has moved up to the \$60 level, which helps capital investment and bond spreads in the energy sector. The yield curve has also been steepening slowly, which we see as a positive sign for risk-taking going forward. Two areas we watch closely for signs of stress are credit spreads and the housing market, and both are performing as well as they have in recent years.

We wish all the best to you in the holiday season. We are grateful for your trust and will continue to work towards delivering superior service and performance. We are thankful for the intellectually challenging yet collegial environment provided at Dana, and respectful of the diverse skills embodied in our team. We look forward to the challenge of 2020 and will work toward continued success.

Happy New Year to all!

Random Thought for December 2019 - “Love the giver more than the gift”

-Brigham Young

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