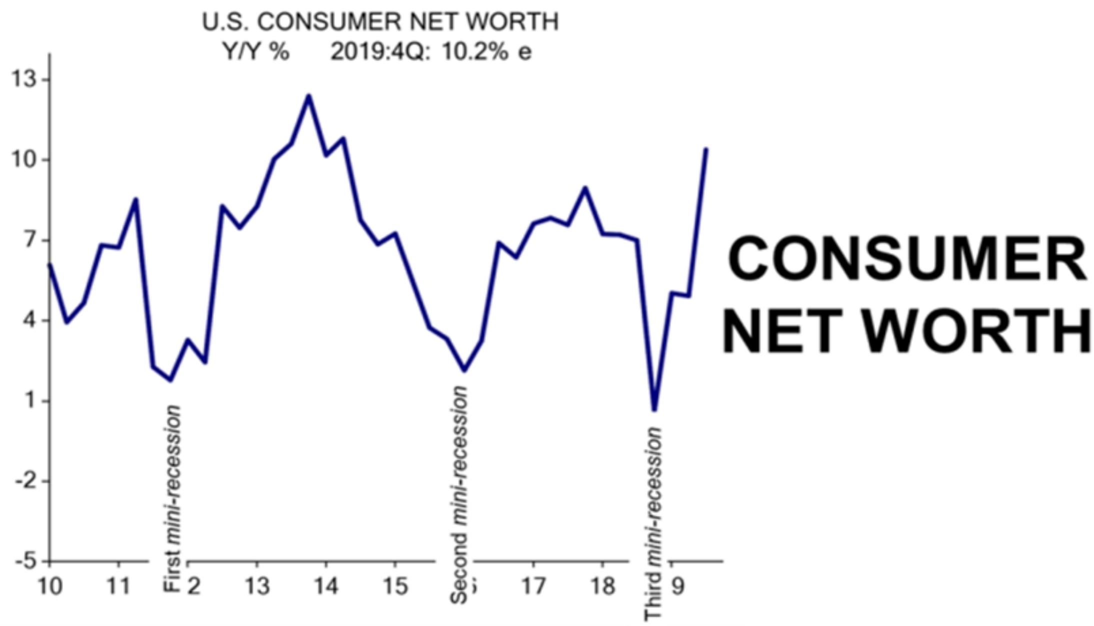
As we enter a contentious presidential election year with tensions mounting in the Middle East, it is becoming ever important to shift attention away from headline risk and towards fundamental drivers. Doing so should give investors a balanced, more constructive view of the current investment environment.

The natural starting point is to ask the question: *will the US economy grow in 2020?* Research shows that consumer net worth (CNW) is a strong leading indicator for the US economy, which makes sense—the US consumer accounts for nearly 70% of total US GDP. When consumer net worth accelerates, as seen in the chart below, higher growth rates have historically followed. Based on this indicator, Evercore ISI Research pegs US GDP growth in 2020 at +2.5%, marking an acceleration from 2019.

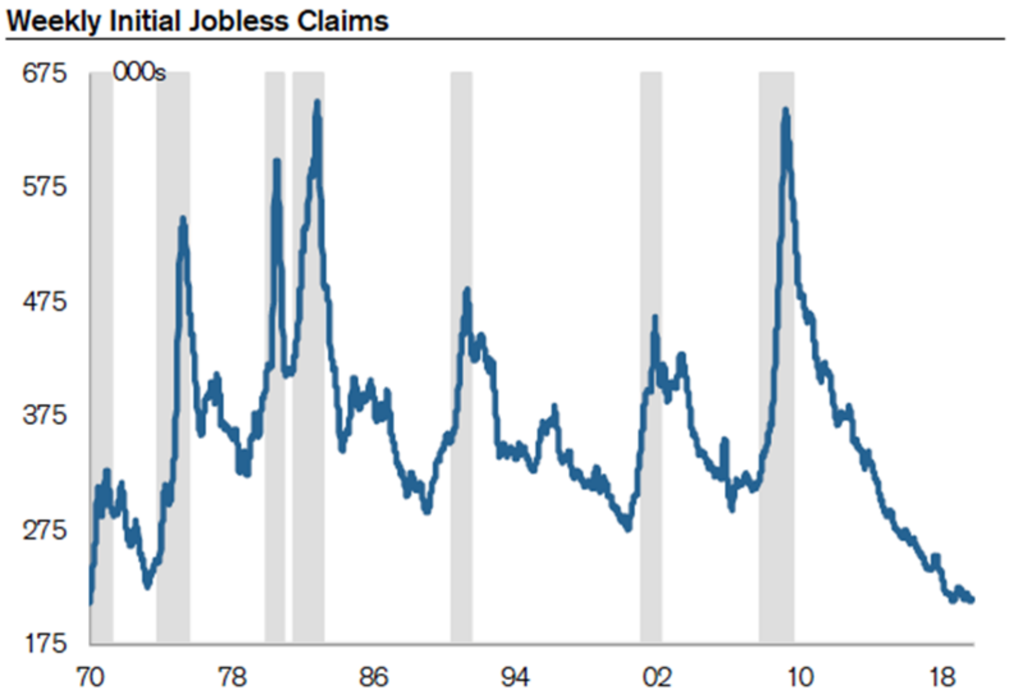
Figure 1. Consumer Net Worth is Rising—A Leading Indicator for Economic Growth



Source: Evercore ISI Research

The healthy consumer is arguably tied to a persistently strong labor market. In the last 50 years, recessions were triggered when weekly initial jobless claims spiked (chart below) and new hiring deteriorated. Today, neither of those recessionary conditions are present. Job growth continues each month, and firings continue to decline.

Figure 2. A Healthy Job Market Contributes to Strong Consumer Spending



Source: Credit Suisse

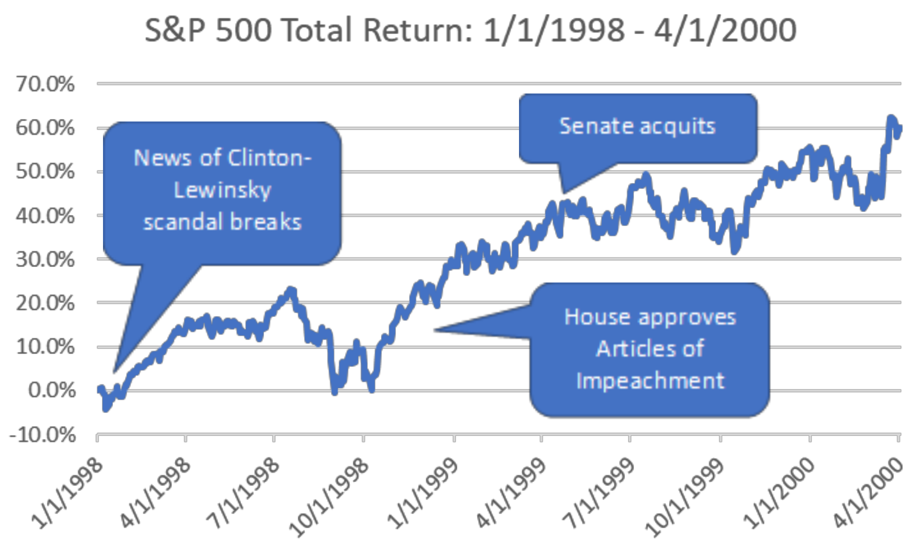
By many measures, the US economy remains on firm footing. Nevertheless, the Federal Reserve has indicated a willingness to remain accommodative. In the last four months, the Fed has expanded its balance sheet by over $600 billion, which we would argue was a major contributor to the stock market rally in Q4 2019. In 2020, it seems more likely that the Fed will cut interest rates versus raising them.

Central banks across the world also remain accommodative. As noted by Evercore ISI Research:

- Prime Minister Boris Johnson is likely to push fiscal stimulus in Britain
- Japan’s cabinet approved $120 billion stimulus
- The European budget implies a 40 basis point fiscal impulse in 2020
- South Korea to implement aggressive fiscal policy in 2020
- Hong Kong unveiled $500 million stimulus package

Not listed here is China, whose central bank (PBOC) surprised markets in the new year by announcing a 0.5% cut to commercial bank reserve ratios, releasing $115 billion of liquidity into the financial system. The PBOC’s move was signal-sending: as the trade war enters a make-or-break phase, China is showing global markets its commitment to goosing economic growth should the impasse continue.

Finally, a note about the impeachment proceedings. Given there have only been two presidential impeachments in US history—Andrew Johnson and Bill Clinton—market history is limited. A look at the Clinton impeachment timeline, however, shows that the market continued to rise compellingly even as political infighting gripped the country.



Source: Factset

CONCLUSION

As uncertainty persists in the US political and geopolitical spheres, short-term market volatility is likely to crop up in the equity markets. Taking an objective view of the US economy should provide a counterbalance to the negative, worrisome headlines that will likely characterize the entire year. US GDP growth is expected to hit at least 2% in 2020; corporate earnings growth is set to recover from low baseline comparisons in 2019[i]; and the Federal Reserve and central banks around the world are committed to accommodative monetary policy.

The news cycle is very noisy and short term – as long-term investors we find it more important than ever to tune out the noise and focus on the data. As we have noted above, the data continues to be constructive as we head into 2020.

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The S&P 500 Index is a capitalization-weighted index comprised of 500 stocks chosen for market size, liquidity and broad industry group representation within the U.S. economy.

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[i]Source: Factset