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Fearless Forecast Intro

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What you are about to read has been compiled in bits and pieces over the past 5 weeks. I am sharing the link to interviews I have done in January where some of the forecast has been discussed.

https://www.wtnh.com/on-air/gmct-at-nine/financial-forecast-for-2020/

https://tdameritradenetwork.com/video/rB4AoW9uHMGBb3wyvQYBhA

https://tinyurl.com/w74kfma

Each and every year, I spend some time collecting my thoughts about how I see the next 12 months unfolding in the financial markets. Given how much media I end up doing in December and January, almost all of my forecast is already in the public domain by the time I get around to sending this email.
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While I do really enjoy looking into my crystal ball, I also know that it's a fairly futile exercise. First, we do not manage client portfolios according to my opinion in any time frame. And second, based on the evidence at hand, I am certainly not arrogant enough or dumb enough to dig my heels in on any forecast.

I will say this, though. Whether by luck or skill, I haven't seen anyone achieve the hit rate that I have with annual forecasts. I will put my Fearless Forecasts against any of the Wall Street clowns. I don't mind putting myself out there with the possibility of falling flat on my face nor do I ever run from a poor call or forecast. It's all part of the game. Nevertheless, it's a fun issue to write and I always look forward to grading last year's forecast.

Grading Fearless Forecast 2019

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Let's start with the highlights and lowlights from my 2019 Fearless Forecast.

Stock Market:

2019 is the third year of Donald Trump's first term which was historically the strongest year of the 4 or 8 year presidential cycle. That was, until 2011 where Barack Obama saw the worst stock market year of his 8 year reign.

After the 20% collapse in Q4 2018, the bulls and bears are both out loudly proclaiming new bull and bear markets. Unless I am wrong about the economy holding on for a while longer, 2019 should be the year of the bull with volatility elevated but significantly lower than 2018.

Stocks saw a very rare "V" bottom at Christmas which is more characteristic of a bear market than bull, however the stock market also experienced a number of "thrusts" which usually occur at the beginning of new bull markets legs. I think the downside risk on the Dow Industrials is roughly 21,500 with the upside being well above 27,000.

Regardless of whether stocks need to revisit the Christmas lows, the bulls should easily tack on another 10%+ year with the risk being to the upside and new all-time highs achieved during the second half of 2019.
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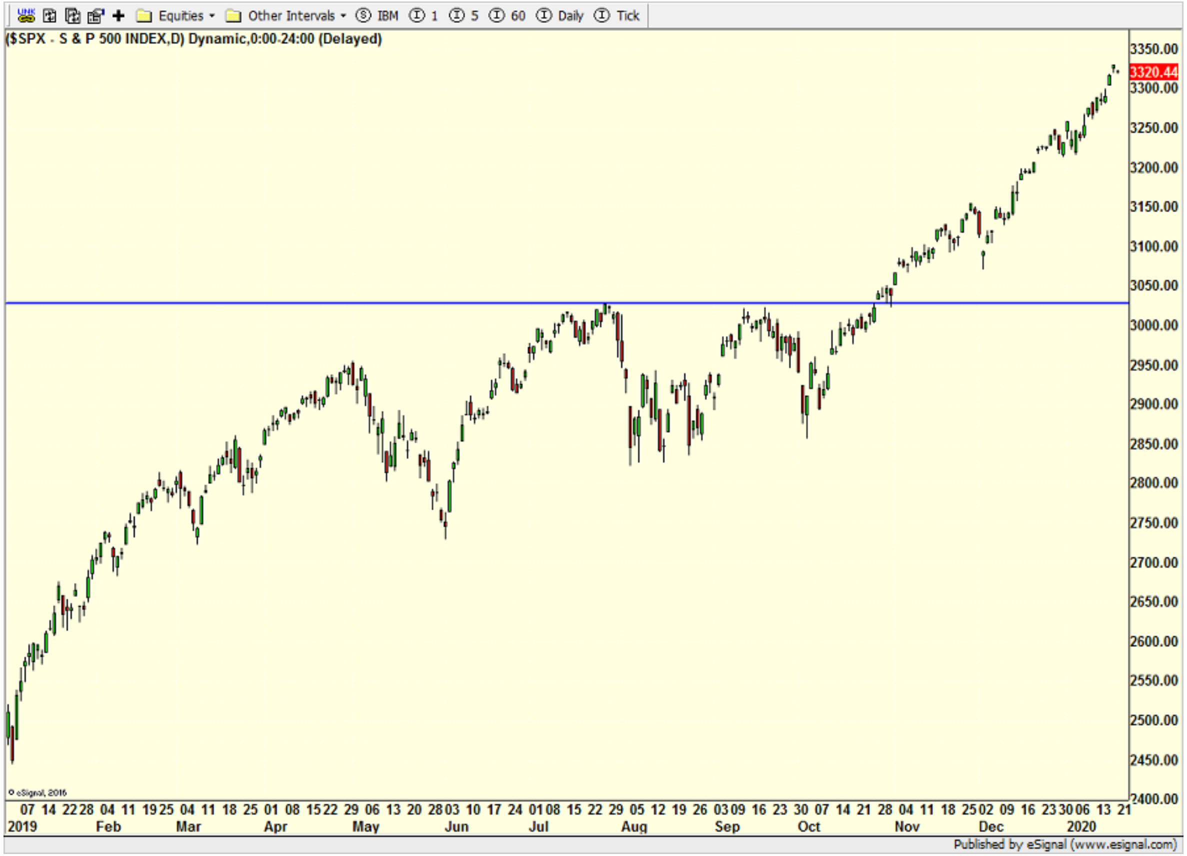


Grade: A. Stocks were surging from a truly epic bottom in December 2018 as 2019 began and never looked back, not even revisiting that historic low as the odds favored. Three single digit pullbacks gave the bears opportunities to continue to look foolish as negative sentiment really built up, yet again.

On the sector side... I am going with REITs and technology

Grade: A+ Technology returned 50% while REITs grabbed 28%.

International Stock Market:

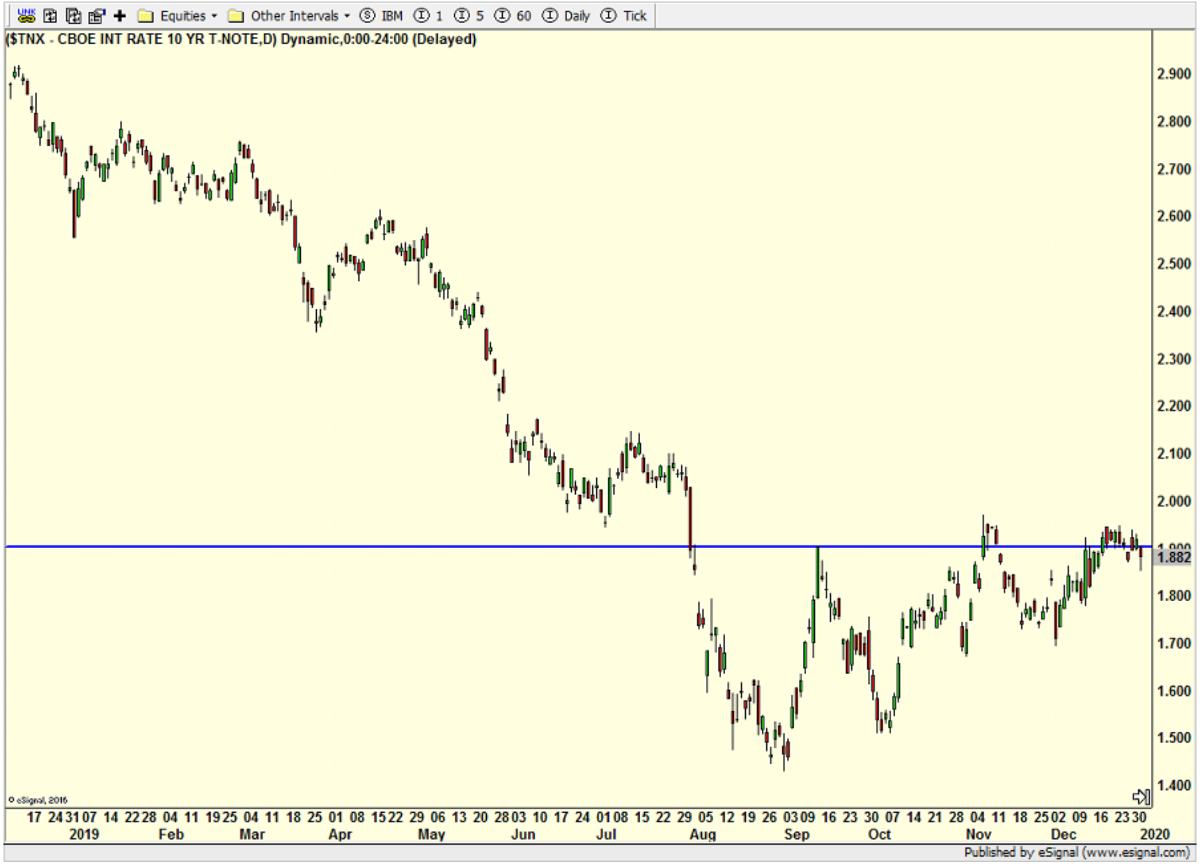
After an awful decade relative to the U.S. market, the developed stock markets see a fleeting ray of hope as the Euro currency temporarily gains against the dollar.

The emerging markets complex not only fairs well against the U.S. but has a very strong year in absolute terms, closing up by more than 20%. I am going out on a limb to say that the Chinese stock market somehow regains its footing and is a leader in 2019.

Grade: B+. The developed markets added close to 25% last year, slightly trailing the S&P 500. Emerging markets gain 19%.

Bond Market:

With global growth clearly slowing and Jay Powell and the Fed doing an about face on interest rates, I forecast 2019 to be a trading range year for yields on the 10-year Treasury Note. I do not believe yields will hit anywhere near 3.5% and the floor could be pushed even below 2.5% earlier than later in 2019.



Grade: B+. Bond yields, already falling as the year began, collapsed straight to the middle of Q3 as they tested the 2016 all-time lows. I got the direction correct, but not the magnitude.

Federal Reserve:

I forecast a single FOMC rate hike in 2019 which comes later than sooner in 2019.

Grade: D. The FOMC cut rates in August, September and October, first as "mid-cycle insurance" before morphing into a mini-cutting cycle.

Economy:

Q1 could end up being the low point for economic growth in 2019 or it could be a barbell year with Q1 and Q4 showing softer conditions than Q2 and Q3. I do see the economy growing more strongly in the middle of the year than earlier in the year. However, I stand by my proclamation made on CNBC's Squawk Box after Q2 2018 GDP printed 4.2% that any acceleration from that point would be almost impossible.

Grade: C As we await the Q4 2019 GDP print which will struggle to hit 2%, Q1 was the strongest quarter of the year at 3.1%.

Inflation:

The core inflation scare has passed for this cycle, even though wage growth has finally upticked. With bond yields in a range and global growth slowing, I do not believe we will see any worrisome inflation until the other side of the next recession.

Grade: A. Inflation was totally under wraps in Goldilocks territory. Wages continued to rise.

Unemployment:

With the economy at full employment and weekly jobless claims at historic lows, it's not a stretch to forecast a reversal in 2019. If my thesis is correct about a mild recession coming by the 2020 election, we should see higher initial jobless claims and then higher unemployment long before it starts. That means that the historic unemployment rate should begin to tick up in the first half of 2019.

Grade: F. Arguably the strongest jobs market in history just kept on plugging away with 50+ years lows seen and minority unemployment at the lowest levels in recorded history.

Energy:

Crude oil needs to repair itself from the carnage and that takes time. I expect to see sideways action during the first half of the year with the bulls having an opportunity to see the mid $60s during the second half of the year.

Grade: A- Crude saw the mid-$60s during both the first and second half, but it did not need much time to repair itself from the carnage of 2018.

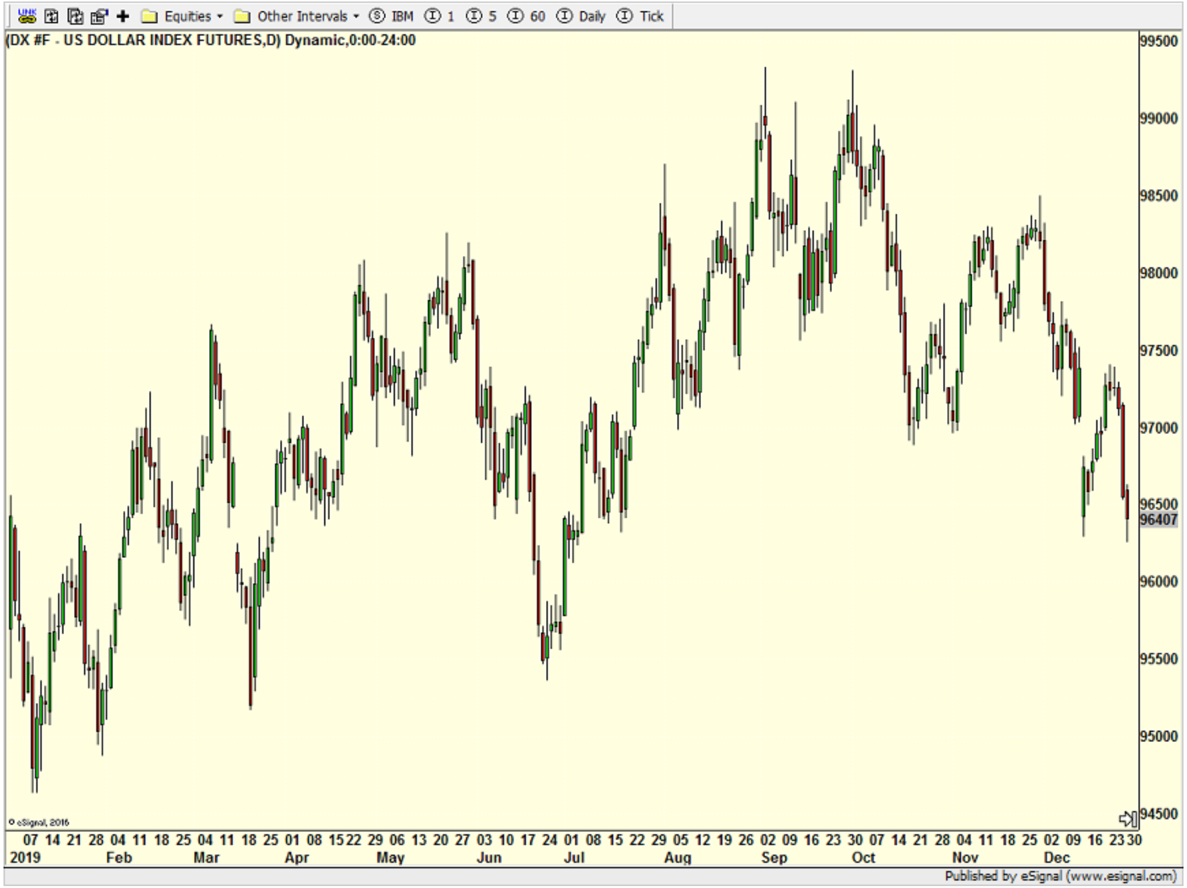
Gold:

$1400 is going to be a formidable ceiling, yet there is very strong support all the way down to $1100. Ultimately, patience should be rewarded in spades once the 2020s hit.

Grade: B The strong floor at $1100 was not tested in 2019, but gold did break above the ceiling at $1400, pulled back to revisit it and surged again. All the while the U.S. dollar rallied, once again debunking the myth that gold and the dollar always move inversely.

U.S. Dollar:

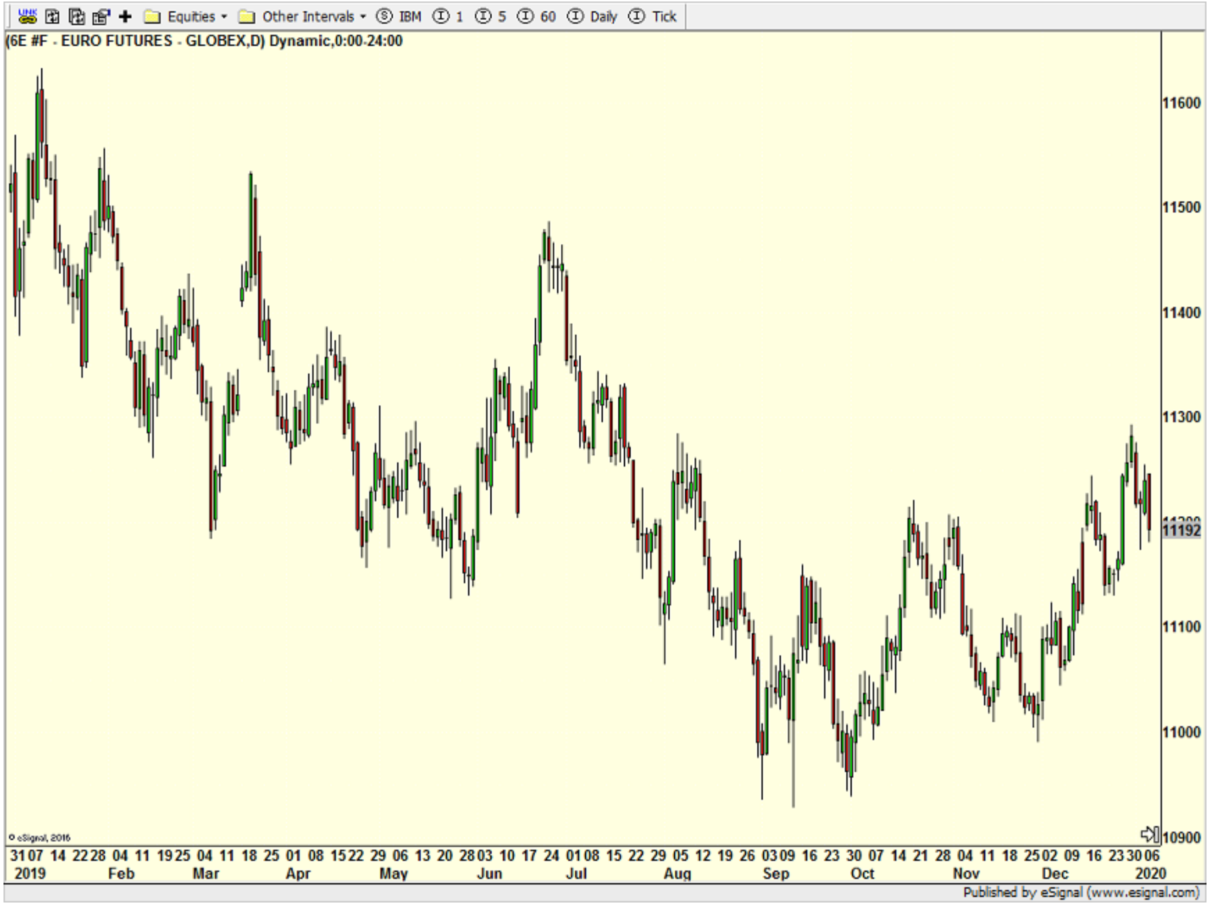
2019 could be the year where the greenback readies itself for the final assault higher to end the 10+ year old bull market which I was lucky enough to call in early 2008. I don't think the dollar has already started that last leg higher. I won't be surprised if the dollar index sees both 90 and 100 in 2019.



Grade: A- The greenback just about hit 100 but was not weak enough to see 90. It was definitely a rangebound year.

Euro Currency:

The odds favor the upside and at least 120, but if the momentum gets going to the downside, a significant decline towards 104 should be in the cards. With BREXIT and the Italian banking problem still in play along with weakening economic growth, it's hard to believe the currency the rally. But, perhaps that's already been priced in. Ultimately, I still have projections to 100, all-time lows at 78 and then lower in the 2020s as the whole European experiment struggles to survive.



Grade: C. I know. I hedged my bet a year ago, but that's what I saw.

Japanese Yen:

I do not have a strong opinion on the Yen in 2019. While the Bank of Japan continues to manipulate their bond market which has a direct impact on the currency, I think the Yen stays in between its 2018 high and low in 2019.

Grade: A. The yen stayed right in between its 2018 high and low, but that wasn't such a difficult call given how wide the range was in question.

Politics:

There should be a noticeable split among the Democrats with one group falling over themselves to get lefter than the others while the other group jogs towards the center to attract centrists. As I mentioned last year, I fully expect the far left candidates to run on a platform that includes universal basic income, universal healthcare and an annual tax on wealth instead of income.

Don't be surprised to see a number of independents consider entering the field as the alternative to mainstream politics. That will include Democrats and even a Republican!

Grade: A. I don't think my forecast was that tough to call, certainly not as difficult as what lies ahead for 2020. The Dems did split and the left did embrace some very socialistic programs. Bloomberg came off the sideline to run with the Dems, but he really is an independent. Some Republicans are trying to primary the President but their campaigns are going nowhere fast.

Fearless Forecast 2020

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U.S. Stock Market:

Stocks to finish 2020 up 11-14%.

The stock market returns 9% a year on average including dividends over the very long-term. However, it rarely returns 9% in any one given year. Since 1990 I have tracked the strategists at the larger firms and in most years, they are uniformly wrong. For the most part, they play things very close to the vest to keep their jobs. For 2020, the average Wall Street strategist is looking for mid-single digit returns with slightly higher bond yields. If we know they are usually incorrect, it's easy to begin the base case with anything but their view.

2020 is an election year with an incumbent running. This is similar to 2012, 2004, 1996 and 1984 with Obama, Bush, Clinton and Reagan. In those years, we saw returns of +13.41%, +8.99%, +20.26% and +1.40%.

Additionally, when the S&P 500 returns 30%+, years following typically produce above average returns. Since 1990, we saw -3.10%, +7.5%, +22.70%, +28.30% and +13.50%. The lone negative year saw Iraq invade Kuwait, the S&L Crisis and recession.

Finally, what typically leads to a bear market, the crumbling of the stock market's foundation, is largely absent today. While we do have an historic level of bullishness, giddiness and greed today, sentiment alone does not end a bull market.

Extreme sentiment is always corrected by sharp declines, not by going sideways. In that vein, a stock market decline by tax day should do the trick to restore a small wall of worry for a rally into the summer when the Democrats choose their candidate in Milwaukee.

The number one question I get pertains to the election's impact on the stock market. In short, I do not believe the stock market will care until it's crystal clear who is running against Donald Trump. If it is a perceived moderate candidate like Joe Biden, I think stocks will fare fine and in the realm of a single digit pullback, worst case. If it is a perceived far left candidate like Bernie Sanders, I think the market will ebb and flow with the polling numbers, declining more and more if Sanders' stake rises.

In a perfect world, whatever that is, stocks would see weakness early in the year, rally into the warmer months, pullback in the fall and rally into the election. Downside risk looks to be roughly 26,000 with upside reward around 34,000.

What could go wrong, you ask?
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Do you have a few hours for my list?

The economy could weaken and recess in spite of the massive 2018 tax reform and three Fed rate cuts. The Repo market could implode sending short-term rates spiking higher. Europe could see that full-fledged banking crisis I always worry about. Bernie Sanders could surge in the polls ahead of his fellow Dems and President Trump. Inflation could surge. China's economy could go into a tailspin. That's just a short list.

Stock Market Sectors & Stocks:

On the sector side, I found more sectors that I don't like than vice versa. Contrary to last year when I picked technology, I don't think 2020 will be a big winner. Best case, I think tech is on par with the market. If that's the case, it's hard to love the NASDAQ over the other major indices in 2020.

I am going with consumer staples and telecom. I picked REITs last year so I am trying to be different, but they could do well again. I do like the master limited partnership group (MLPs) as well as the pot group as both were decimated last year and sentiment is very poor. I really wanted to choose energy, but the set up just isn't there yet.

On the flip side, I do not like industrials, healthcare nor financials. There's just too much giddiness out there. It's an election year and the far left candidates are definitely out for blood in these groups.

I don't think I have ever gone beyond sectors, but I am feeling a little cocky as I type this. (Talk about a sign of too much greed!) I think Amazon outperforms in 2020 and Warren Buffett's Berkshire Hathaway regains some past glory and shines. I have plenty of other stocks that I like in 2020, but I will save them for my media segments.

Bond Market:

I am not onboard with the whole global growth re-acceleration story. I don't think it happens in 2020. As such, the only way I think bond yields rise is if somehow inflation heats up. The most likely path is stable to lower with a chance at seeing 1.5% or lower on the 10-year. If inflation does perk up, I still think yields will be capped around 2.25%.

Federal Reserve:

I think 2020 will be quieter for the FOMC than 2019 and I do not see any movement on rates for the first 9 months of the year. I give it a 50% chance of a cut in Q4. The Repo market is a different story and perhaps the biggest story of 2020 that few fully understand. Whether it's QE or not, the Fed cannot step away from supporting this vital banking market and I do not believe they will. Adding another trillion dollars to their balance sheet is certainly possible.

Economy:

I do not see the economy growing anywhere close to the 3% that is often cited by Trump and his minions. In fact, my concern is that as the year goes on, the economy slowly weakens. I still believe a mild recession is coming later in 2020 or 2021. If the economy makes it to election day without recessing, it will be the first time in history that a president succeeding a two-term president did not have recession during his first term.

Inflation:

The base case is more of the same. Manageable inflation. I don't know if it's later in 2020 or 2021, but I do see food inflation coming. We could also get wage growth sustainably above 3%.

Unemployment:

The jobs market sees a strong Q1 or even 1H, but the 50-year low in the unemployment rate ends. Weekly jobless claims begin to uptick and we even see layoffs begin to creep in by year-end.

Energy:

Crude oil peaks to begin 2020 as sentiment has become way too bullish. That leads to a Q1 pullback and consolidation. Eventually in 2020, crude tops $70 and possibly higher. For risk management purposes, if I am wrong and it closes below $50, it is probably heading another 20% lower.

Gold:

Like crude oil, gold sees an intermediate-term peak to begin the year as sentiment is too giddy for the rally to continue. There is a good floor at $1400, but I am not sure if the metal needs that big of a decline to get some negativity back. Ultimately, I think the first five years of the 2020s will be all about gold and at last $2500 an ounce.

U.S. Dollar:

When I first turned long, long-term positive on the dollar in early 2008, I think the run could be at least 5 years. I would have never thought I would still be positive more than 10 years later. I still believe the dollar index will see at least 120 during the next crisis before the bull market ends. However, I do not have strong conviction for the first part of 2020. I think 100 will be seen this year, but I do not have the sense that the next huge move is here just yet.

Euro:

As much as I like the dollar long-term, I hate the Euro and have railed against it since 1999 as unsustainable. I still have projections below 100 and all the way to new lows below 78. I just think the collapse isn't a 2020 story. I think any move back to 120 during the first half of 2020 is another good selling opportunity. Eventually, the Euro experiment will fail.

Politics:

Here we go again. Election year. As the media does with every election, I am sure it will be branded as the most important election in American history. As the Democrats move through their primaries and towards the convention in July, Bernie Sanders will battle Joe Biden for the nomination. If history is any guide, Biden is supposed to lose to Sanders, setting up a battle between two non-mainstream candidates. In the end, voters go with their wallets, the economy and markets and reelect Donald Trump by a razor thin margin. Wouldn't it make for great TV if the Democrats chose their candidate in Milwaukee instead?!?!

Much to Trump's dismay, while the GOP regains some seats in the House, it's not enough for Kevin McCarthy to become Speaker. In a surprise move, Nancy Pelosi does not run for Speaker again. Two members of the far left "Squad" lose their reelection bids. In the Senate, the GOP lose two seats, but retain control 51-49.

Don't forget. Our presidential election algorithm has called every election correctly with the exception of 1992. You can bet I will be updating that around November 1.

Finally, with all the talk of climate change and how to combat it, the climate cools in 2020, beginning a new trend.

And my New York Yankees lose in the playoffs, yet again...

Another Fearless Forecast in finally on paper. As always it will be interesting to see how this one plays out, the good, the bad and the downright ugly.

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