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The bull market in common stocks, as measured by the S&P500 Index, began in March 2009 with an increase for the year of 26.5%. In every year since then, the S&P500 increased by at least 12%, except for 2011 (2.1%), when the European sovereign debt crisis shook global equilibrium; 2015 (1.4%), when crude oil collapsed and the Federal Reserve terminated its Quantitative Easing (QE) program (buying government bonds to stimulate the economy); and 2018 (-4.4%), when the trade war with China was initiated, and the Fed raised interest rates three times, even though inflation was below its 2% target.

These 2018 policies caused a global manufacturing recession, and in 2019 domestic corporate earnings growth slowed to a virtual standstill. Beginning in July, the Fed, to its credit, reversed its error and lowered interest rates at three successive meetings. In December, the Fed went even further and promised not to raise interest rates unless inflation solidified above its target for a prolonged period. The Fed has finally recognized that inflation has been perennially low in this expansion. Bond investors rewarded the Fed with a steepening Treasury yield curve (a wider spread between short and long-term interest rates), a positive sign for economic growth.

This historic shift in Fed policy to "lower for longer" interest rates should sustain strength in consumer spending, housing, and employment. Also, recent progress in trade negotiations should encourage businesses to re-start capital spending projects deferred in 2018-19 because of global uncertainty. These projects are necessary to sustain the expansion into the next decade. Investors celebrated the improved outlook and drove the S&P500 up 31% last year.

Some observers believe the stock market is now overvalued. However, in 2018 earnings per share were up 23%, even though the price level was down -4%. Looking at 2018 and 2019 together, most of the increase in price was driven by earnings, not valuation. The forecast for a 10% earnings increase this year would value the S&P500 at 18 times; this is high compared to the historical average of 15-16 times. However, interest rates are below their historical average, and corporations are still working hard to improve their profitability. Even after a strong year, the market looks forward, not back. With no recession in sight, the bull market should continue this year.

Of course, there are always reasons for caution - the global manufacturing sector remains soft, progress in trade negotiations is tentative, and Middle East tensions are rising. Finally, market leadership is narrowing to a few mega-cap stocks, and there has not been a correction (10% decline) in the S&P500 since December 2018.

Our investment thesis remains the same...a unique growth company's operating performance is more predictable than “macro” variables like trade negotiations, interest rates, or crude oil. This is why we focus on our companies' long-term growth prospects, not shifts in the economic outlook.  Even in an eleven-year bull market, there are opportunities to buy unique growth stocks at reasonable prices.

There were no material changes to our firm brochure (SEC Form ADV, Part 2A); however, if you would like a copy free of charge, please let us know.  Please call us with questions or comments, or if there are changes to your financial goals, investment time horizon, or risk tolerance.