



WASATCH

CAPITAL MANAGEMENT OF

RAYMOND JAMES®

Investments and
Financial Services



“The bad news is, I accidentally put all of your money into a hedgehog fund. The good news is, they’re cute little buggers!”

JANUARY 2020

INSIDE THIS NEWSLETTER

- ❖ **JANUARY COMMENTARY, HELLO NEW YEAR! PERCEPTION IS REALITY**
- ❖ **WASATCH TEAM UPDATE**

Perception is Reality -Article by Mark Lazar

What a difference a year makes. Unlike 2018; when markets finished the year in negative territory, virtually across the board, 2019 surprised to the upside—in a big way. Investors were richly rewarded, with equities finishing up generally between 15–30%. Even bonds had a banner year.

The headlines of the past month were a mixed bag:

- President Trump is impeached by the House
- Boris Johnson is reelected as UK’s prime minister.
- Brexit moves ahead; the UK will leave the EU at 11pm on January 31.
- Hostilities between the US and Iran escalated to a boiling but, but war was averted.
- US Christmas sales increased [3.4% YOY](#)
- The US is in its [127th](#) consecutive month of economic expansion—the longest in history.
- US household wealth is the highest in recorded history, increasing [82%](#) over the past decade.

- Phase One of the US-China trade deal is complete, the USMCA was approved by the Senate, and additional trade deals with Japan, South Korea, and Mexico are in the works.

Item	Data point
S&P 500 Return YTD	31.49%
Bond Index Return YTD	8.72%
Foreign Index Return YTD	22.36%
Emerging Market Index YTD	15.82%
U.S Forecast GDP 2020	2.10%
Unemployment Rate	3.50%

**All hyperlinked data as of 1/8/2020*

2019 gave investors a lot to fret about; impeachment proceedings, Brexit, UK elections, US/Iran meltdown, trade wars, PGE bankruptcy, and Boeing’s 737 debacle, just to name a few. But none were able to curtail the longest bull market in US history.

Investors often wonder what drives the stock market. How can there be such potentially calamitous events and yet the market does little more than yawn, if not move higher? It’s important to remember what a market is: a pricing mechanism. Every second of every day, millions upon millions of data points—retail sales, employment data, tax policy, trade policy, weather events, geopolitical events, Fed policy announcements, interest rate expectations, etc.—affect security prices. The stock market doesn’t care about Democrats or Republicans, it doesn’t care about politics in Washington, and it doesn’t care about CNN or Fox News headlines. What it does care about are factors that ultimately affect the earnings per share of Coca Cola, or Apple, or Proctor and Gamble, or Bank of America ... if it affects them at all.

While the hostilities between the US and Iran could have had disastrous consequences, Mr. Market—meaning hundreds of millions of investors, including individuals, institutions, and even central banks, from around the world—evaluated the situation as it was unfolding and correctly forecast the outcome would have no adverse impact on expected earnings, hence no effect on the market.

The same held true for the oil market. Iran is responsible for nearly [5%](#) of the global oil output. Historically, geopolitical incidents involving oil producing countries have had a significant effect on the oil market and, consequently, gas prices. However, as the chart below clearly illustrates, oil prices rose a meager 7% from the start of the war drums to peak, before falling 15% in the following few weeks.



[TradingView](#)

Markets are long-run efficient, but in the short-run, they're subject to the same emotions as individual investors: herd mentality, panic, euphoria, complacency, just to name a few. As tensions were nearing a boiling point between the US and Iran, the market assessed matters and correctly determined the impact on production would be negligible.

It's easy to get caught up in the headlines and political quagmire that seems to be the norm these days. But the nation's economy, and the market, isn't driven by Washington. Rather, it's Main Street. How are the shopping centers, restaurants, and local businesses doing? Are employers hiring? Is the airport busy? Everywhere I go, Main Street is alive and well, and the biggest concern I hear is from business owners who can't seem to find enough employees to hire. That's a good problem to have.

The next time you hear a dire prediction by a talking head on television or the newspaper, look to the stock market and listen to what it has to say. The market has no political agenda. Its only concern is the health and prosperity of the US economy, meaning you and me.

Wasatch Team Updates



Mark

Mark & Savina visiting friends in Colorado.



John

John & Shawn celebrating New Year's 2020!



Beth

Beth & her daughter celebrating winter!



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