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FIRST QUARTER 2020 NEWSLETTER

What a Difference a Year Makes!

Last December, the market was acting so poorly that the only sensible conclusion was that the US was headed for recession.

The way this year is ending makes it sensible to conclude that growth will reaccelerate, and the bull market party will carry on.

It will be interesting to see what happens.

Below are the numbers from 2019.

Review of Previous Quarters:

	<u>12/31/2018</u>	<u>09/30/2019</u>	<u>12/31/2019</u>	<u>YTD Change as of 12/31/2019</u>
S&P 500	2,506.85	2,976.74	3,230.78	+28.88%
Dow	23,327.46	26,916.83	28,538.44	+22.34%
NASDAQ Composite	6,635.28	7,999.36	8,972.60	+35.23%
MSCI EAFE	1,719.88	1,889.36	2,036.94	+18.44%
10-Year Treasury Note	2.68%	1.67%	1.92%	-76 basis points
3-Month T-Bill Rate	2.37%	1.83%	1.55%	-82 basis points
Price of Gold (COMEX)	\$1284.70	\$1,478.70	\$1,520.00	+18.32%
Crude Oil (NYMEX)	\$45.81	\$54.27	\$61.21	+33.62%

Inclusion of these indexes is for illustrative purposes only. Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results.

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- A **basis point** is 1/100th of one percentage point.
- **Treasury Bills** are certificates reflecting short-term (under one year) obligations of the U.S. government.
- **Treasury Notes** are marketable U.S. government debt securities with a fixed interest rate and a maturity between one and ten years.
- The **S&P 500** is an unmanaged index of 500 widely held stocks that's generally considered representative of the U.S. stock market.
- The **NASDAQ composite** is an unmanaged index of securities traded on the NASDAQ system.
- The **Dow Jones Industrial Average (DJIA)** commonly known as "the dow" is an index representing 30 stocks of companies maintained and reviewed by the editors of the Wall Street Journal.
- The **MSCI Europe, Australasia and Far East Index** is a market capitalization weighted selection of stocks from 21 developed nations excluding the US and Canada.

Economics & The Fed

At this time last year, the Federal Reserve was busy raising rates and was signaling several additional increases in 2019. Equities sold off sharply given the specter of an aggressive Fed.

It was hardly apparent at the time that the Fed would make a complete about face, cutting rates 3 times in 2019 over fears of the economic impact of trade uncertainty and it's dampening effect on global growth.

It now appears the Fed is on hold for the foreseeable future. The yield curve has returned to normal (long-term rates higher than short-term rates) as evidenced in the chart above.

At this point, the economic data is encouraging. Holiday retail sales soared this year. According to MasterCard, sales increased 3.4% over last year with online sales recording a whopping 18.8% rise! The consumer remains resilient and, as you may know, consumer spending accounts for almost 70% of US GDP.

The Kiplinger Letter anticipates the following outcomes for key economic indicators:

- GDP growth of 1.9% in 2020 following 2.3% growth in 2019.
- Inflation at 2.0% in 2020 after a 2.2% rise in 2019.
- Unemployment at 3.7% in 2020 after finishing at 3.6% in 2019.
- Wage growth holding steady at 3.4%.

A Tale of Two Trade Agreements

In mid-December the US and China announced a Phase One trade deal but provided little detail about the provisions of the agreement.

In broad terms, the US agreed to reduce some existing tariffs on Chinese goods and to suspend indefinitely planned duties set to take effect on December 15 that would have covered some consumer favorites such as smartphones and laptops.

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China agreed to significantly ramp up purchases of US goods and services over the next two years with a particular emphasis on US agricultural products.

China also consented to end its longstanding practice of requiring forced transfer of technology to Chinese companies. Beyond that, there was a commitment to transparency, fairness and due process. Finally, a dispute resolution mechanism is to be put in place.

Many contentious issues were not addressed in the agreement and Phase Two negotiations are to begin immediately.

Later in the month, the House overwhelmingly passed the United States-Mexico-Canada Agreement (USMCA), President Donald Trump's replacement for NAFTA. The agreement now goes to the Senate, which is expected to approve it with bipartisan support early this year.

The agreement would enhance tools to boost enforcement of labor standards, tighten rules of origin for auto parts and require a larger share of cars to be made by workers earning at least \$16 per hour, increase access to Canadian dairy markets for US farmers and update digital trade rules.

Canada and Mexico are the largest US export markets.

Major business groups largely backed the revised USMCA.

The deal will not take effect until all three countries ratify it. The Mexican Senate has approved the USMCA.

Brexit Will Happen

A landslide victory for Boris Johnson and his Tory Party on December 12 has sealed the outcome on Brexit. Johnson now has a secure mandate to ensure the UK's departure from the European Union (EU) on January 31, 2020.

It will be interesting to watch events unfold. It may well be some time before a new UK-EU trade agreement can be established.

Impeachment

On December 19, the House passed two articles of impeachment to remove President Trump from office – abuse of power and obstruction of congress – sending the case to the Senate for trial later this month. Interestingly, the announcement was not accompanied by any great disruption in the equity markets. In all likelihood, this reflects the low probability that the president will actually be removed from office, given the high hurdle of a two thirds vote to convict in the Republican controlled Senate.

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Market Comment & MCM Strategy

The market advance this year largely reflected an expansion of P/E (price/earnings) ratios rather than an increase in corporate earnings. Given some thought, it is not unreasonable that investors would pay more for stocks given the decline in rates over the course of the year.

While profit growth was sluggish in 2019, the good news is that profits are expected to improve markedly in 2020. This would put some ballast under a market trading at a somewhat elevated P/E ratio.

There are two catalysts that may help the market in 2020:

- The advance of 5G wireless technology
- The biggest iPhone upgrade in years

For those who worry about the aftermath of a strong market advance, there may be some comfort in the statistic that the S&P 500 has finished higher 2/3 of the time after gaining 25% or more in a single year.

One other consolation is that equities have been positive more often than not in presidential election years.

Regardless of any anecdotes, our approach at Mendham Capital remains the same through good markets and bad.

Our objective is to build balanced portfolios with both the return potential to achieve client goals and the risk level to allow clients to stay the course in challenging times.

The SECURE Act - Setting Every Community Up for Retirement Enhancement

The SECURE act was signed into law by President Trump on December 20.

A few key provisions are as follows:

- Allowing small employers to band together to offer a common defined contribution plan (such as a 401(k) plan) for their workers.
- Permitting IRA contributions to be made beyond age 70 ½.
- Approving the use of annuities inside retirement accounts.
- Increasing the age at which RMD's must be made from 70 ½ to 72.

The new law also puts limitations on the ability of a non-spouse beneficiary to stretch inherited IRA distributions. This is something Congress has been targeting for some time and represents a major acceleration of taxes on non-spouse beneficiaries.

A number of planning techniques are taking on increased significance, including Roth conversion strategies and the use of Qualified Charitable Distributions (QCD's) from IRA's.

We'll be in touch with ideas that pertain to you as we work together in 2020.

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MCM Notes

Dan Long, Investment Consultant, has embraced the MCM tradition of community involvement. He has been volunteering at his alma mater, Fairleigh Dickinson University, in a program called "Careers in My Major" where he has served as a panelist providing students guidance as they transition from campus to the workplace. Dan has also been involved as Vice Chair of the Young Professionals committee of the Morris County Chamber of Commerce. The committee is focused on encouraging participation in community improvement projects and on providing networking opportunities for young businesspeople. Dan promises many fun events for this group throughout 2020!

Kerry Mellott, Investment Consultant, dedicated a great deal of time this fall towards learning the tenets of the SECURE Act and building a presentation designed specifically for Certified Public Accountants. Kerry had the opportunity to take some time off this holiday season and enjoyed visiting with family members in Pennsylvania and Virginia.

It was an eventful fall for **Bob Burke**, Investment Consultant, as he took youngest child, Matt, to Moravian College to start his freshman year and delivered middle child, Erin, to High Point University for her senior year. Erin looks forward to a career in marketing. Son, James, is interning at MCM and passed his first securities industry exam with flying colors. Congratulations! James also completed the New York City Marathon with an excellent time. Bob and wife, Maureen, were thrilled to have the entire family together for the holidays!

In October, **Hilary Fagnani**, Investment Consultant, husband, Mark, and daughters, Alex and Kara, attended the amazing Vero Beach, FL wedding of wonderful clients and friends. Hilary also visited a client and friend in Austin, TX in November. The Fagnanis were lucky enough to have all 4 sons and daughters (and a boyfriend) together for the Holidays in Huntington, NY. This was the first time in 6 years that the entire family was in the same place at the same time since oldest son, Matthew, joined the Air Force.

Bill Burke, spent a good deal of time on the road throughout November. He had the opportunity to visit with clients and friends in Pinehurst, NC, Hilton Head and Savannah. He also attended an excellent Raymond James Practice Intelligence Workshop gathering ideas to enhance the effectiveness of the MCM team in 2020.

Thank you for your continued trust and support.

Best wishes for a happy, healthy and prosperous new year!

Sincerely,

January 3, 2020



William F. Burke, Jr.
Registered Principal/
Investment Consultant
Raymond James Financial Services, Inc.



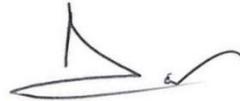
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