



## 1st Quarter 2020

2020 kicks off an election campaign cycle that will determine the trajectory of the Trump policy agenda and its associated impact on the market. The U.S. economy is expected to expand moderately in 2020.

### Charting the Course for the 2020 Elections

While the race for the presidency will dominate the headlines, the ultimate market and economic impact will be decided based upon the outcomes of the majorities in the House and Senate. The ability for any candidate to enact his or her agenda, especially through the confirmations of key cabinet and regulatory posts, runs through the Senate. Thirty-five total Senate seats are up for grabs in 2020. Republicans currently hold a 53-47 majority, which sets up Democrats for an uphill battle to make significant gains. Of the 35 races, six are considered 'competitive.' At this time, the most likely scenario for the Senate is a continued Republican majority.

### 2020 Economic Outlook

Many of the 2019 uncertainties seem likely to continue into the first half of the year, but the downside risks to the growth outlook appears to be less worrisome. Trade policy uncertainty and slower global growth, the two negative factors most widely cited across manufacturing industries, may continue to some extent. In contrast to consumer confidence, which has remained elevated, business sentiment weakened in 2019. Fed policy is expected to remain on hold until a material change in economic conditions occurs.

### 2020 International Outlook

While any trade angst is unlikely to be a helpful backdrop either in the U.S. or abroad, the prospects of positive progress remains encouraging. The Chinese economy will continue to grow impressively from an international perspective as the prowess of the local consumer continues to build. However, policymakers are increasingly having to manage new pressures. Aside from the fallout from trade wars, there remains burgeoning pressure for countries around the world to forge new diplomatic allegiances and strengthen trade ties.

In 2020, it is expected that the trade war will simmer, the slump in the U.S. and global manufacturing will improve, the global macro will benefit from the central bank policy actions over the past year or so, while corporate profits will re-accelerate to the upside. All of the above paint a positive picture for the U.S. and global equities. While the market has been influenced significantly by the U.S./China trade talks, the most impactful factors for fixed-income remain accommodative monetary policy and the lack of inflation. Interest rates will continue to face significant headwinds in 2020. Low-interest rates abroad will keep the demand for U.S. bonds high. Fixed-income assets mitigate risk by providing consistent cash flows, predictable income, and principal preservation. Fixed maturities, locked-in cash flows, and income all bode well when investing in a late business cycle environment.

# Economic Snapshot

The US economy was mixed in 2019 and is expected to remain mixed in the first half of 2020. Consumer spending growth should remain moderately strong, supported by job gains and wage growth. Business fixed investment has weakened, reflecting a decrease in energy exploration and problems at Boeing. The halt in the production of the 737 Max will subtract from growth. Trade policy uncertainty and slower global growth were also issues in 2019. The trade truce with China reduces (but does not eliminate) uncertainty. Global economic growth is likely to pick up.

ECONOMIC INDICATOR	COMMENTARY
FAVORABLE	EMPLOYMENT While the amount of labor market slack remains uncertain, constraints are expected to become more binding in 2020 – leading to a slower trend (ex-census hiring). Wage growth has remained strong (but mixed).
	CONSUMER SPENDING Job gains, wage growth, and consumer confidence remain supportive. Middle class households will face some headwinds from higher health care costs and a lack of affordable housing.
	HOUSING AND CONSTRUCTION Job growth and wage growth remain very supportive. Mortgage rates have remained moderate. Builders continue to note supply constraints and ongoing affordability issues.
	THE DOLLAR With Federal Reserve (Fed) policy expected to remain on hold, any pressure is likely to come from changes in the policy of other central banks.
	MONETARY POLICY The Fed lowered short-term interest rates three times in 2019, leaving monetary policy relatively accommodative. No change is expected, but the Fed would cut rates amid broader signs of economic weakness.
NEUTRAL	GROWTH Economic activity is expected to be mixed, but generally moderate in 2020. Risks to the growth outlook are weighted to the downside, but appear to be less severe than in the summer of 2019.
	BUSINESS INVESTMENT Ongoing problems at Boeing will weigh against business investment in the first half of the year. Business confidence weakened in 2019 and election-year uncertainty is likely to be a factor in 2020.
	MANUFACTURING Activity in the factory sector is expected to be mixed, but generally lackluster, partly reflecting weakness in aircraft production.
	INFLATION The sub-2% trend in the PCE Price Index is a significant concern for the Fed. Firms have had mixed, but generally limited, success in passing higher costs along.
	LONG-TERM INTEREST RATES Long-term interest rates have remained low outside of the US, putting downward pressure on US bond yields, but we may see some increase in 2020. Inflation is expected to remain low.
REST OF THE WORLD	FISCAL POLICY Government spending is set to expand roughly in line with the overall economy in 2020. The federal budget deficit has risen, but has not had much of an impact on bond yields or the overall economy.
	Global growth was weaker than anticipated in 2019. The advanced economies face demographic challenges. Emerging economies ought to be helped by the Fed's rate cut. However, protectionist policies have been on the rise and remain a notable risk.

Raymond James. "Economic Snapshot." *Investment Strategy Quarterly*. Pg. 29, Web.

Raymond James, "Investment Strategy Quarterly Recap." *Investment Strategy Quarterly*. Pg. 8,12,15,22, Web.

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One Oak Square | 8280 YMCA Plaza Drive, #4 | Baton Rouge, LA 70810  
225-763-7010 | 800-942-2777 | fax 225-763-7040  
www.shobe.com  

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