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summaries

SIGMA INVESTMENT COUNSELORS

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MARKET COMMENTARY

Equity investors focused on their long-term goals patiently rode through the dismal performance during the fourth quarter of 2018 and were richly rewarded in 2019. In the U.S., substantial gains were made in the S&P 500, NASDAQ and DJIA. Mid Cap and Small Cap indices also posted record results. International shares posted solid results but on average, were not able to match the performance on a relative basis.

Two factors contributed to much of the equity market's gains in 2019. First, there was a pause in the U.S.-China trade conflict as the two countries agreed to a "Phase One" trade deal. The other factor was an accommodative Federal Reserve that reversed nearly all of the 2018 rate hikes.

As the calendar turns to 2020, investors are now asking "what's next"? Candidly, there are so many variables that can influence the market, it is impossible to confidently predict outcomes. In fact, the fallout from the recent assassination of Iran's top military commander is unfolding now. It remains unclear how current and future events may impact future equity market valuations.

On a more positive note, U.S. corporate earnings experienced headwinds since 2018 as companies have been unwilling to pledge significant capital spending given trade uncertainties. Now, easing trade tensions between the U.S. and China should lead to a higher degree of corporate confidence. Greater confidence should lead to an improvement in capital spending. Combined with a rebound in productivity may lead to yet another year of strong earnings. Stock prices typically benefit from rising corporate earnings over time.

Additionally, the Fed is expected to leave rates unchanged for 2020. Low interest rates typically support strong share prices as well. Low rates tend to keep the cost of capital low, spur capital spending, and reduce the equity risk premium and thereby increase the P/E multiple.

The 2020 Presidential Election is likely to take center stage in the second half of the year. The market's reaction will be determined by who will come out as the Democratic nominee to challenge President Trump. Although election years historically have not been disruptive to equity returns, some candidate's fiscal and economic policy plans might derail the market's bull run.

The market could also be spooked by multiple geopolitical concerns such as how Brexit will turn out and as discussed above, growing tensions in the Middle East.

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While many investors are concerned about investing in the equity markets given recent all-time highs, we remain positive and recommend staying the course. True, the S&P 500 index recent strength is impressive. However, the 5-year gain for the S&P 500 is 57% versus an 89% gain at the 2007 peak and an overwhelming 210% return at the 2000 peak. Denise Farkas, CFA, Sigma's Chief Investment Officer stated on many occasions that Sigma is focused on market fundamentals, valuations, and long term trends. Based on our research and valuation metrics, we continue to like the overall outlook for equity markets and we continue to believe that equities remain the most attractive asset class versus cash and/or fixed income securities. Our challenge is to remain disciplined and not be swayed by constantly changing investor sentiment.

Thank you for allowing us the opportunity to serve as your investment advisors. We hope 2020 brings fortune, good health, and happiness to all!

Wenma Gorman, CFA, CFP®

Sigma Investment Counselors lost a dear friend this week when our former colleague, Bob Hague, passed away at the age of 93. Prior to joining Sigma, Bob rose through the ranks at Federal Mogul and became the firm's Chief Financial Officer. Following that highly successful career, he joined Sigma in the early 1990's and extended his professional life. Bob proved to be an astute investment professional and of course, his business management experience proved invaluable.

There were other aspects of Bob that we equally treasured including his keen wit, sharp intelligence, kind demeanor and a real love of people. His infectious belly laugh could be heard throughout our suite of offices on a daily basis.

Bob played a major role at Sigma as the firm was experiencing substantial growth in clients and employees. He helped guide me with the business acumen needed as Sigma morphed from a family practice to a corporation. On a personal level, Bob was a close friend and confidant, was a superb mentor and served as a father figure to me. He offered me both personal and business advice and helped me be a better husband, father, grandfather, advisor and manager.

Robert M. Bilkie, Jr., CFA

Please remember to contact Sigma Investment Counselors if there are any changes in your financial situation or investment objectives