

# Market Update - Jan 2020

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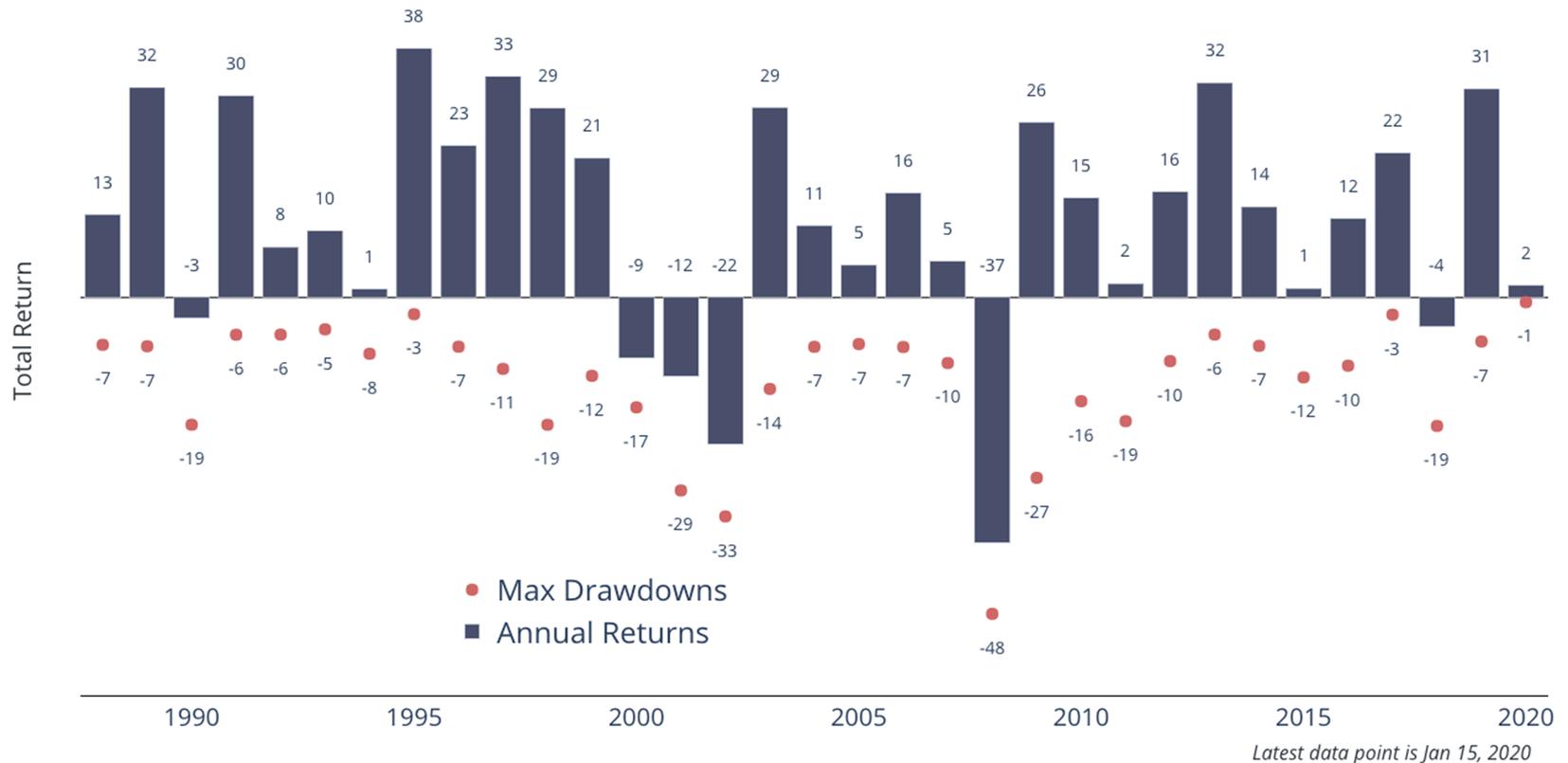
For actual results that are compared to an index, all material facts relevant to the comparison are disclosed herein and reflect the deduction of advisory fees, brokerage and other commissions and any other expenses paid by Kaizen Financial Strategies, LLC 's clients. An index is a hypothetical portfolio of securities representing a particular market or a segment of it used as indicator of the change in the securities market. Indexes are unmanaged, do not incur fees and expenses and cannot be invested in directly.

# Key Dynamics Impacting Markets

- Relatively stable economic outlook supports markets
  - Consumer spending, subdued inflation, tight labor markets
- We expect lower market returns in 2020
  - Above average valuations, US dollar strength, rising labor costs
- Positive sentiment subject to geopolitical risks
  - Trade tension easing, US election year, China economy improving
- Consider reassessing portfolio risks and rebalancing
  - Rotation toward high quality equities, value vs growth, need for withdrawals

# Total Returns and Pullbacks

S&P 500 Index total returns. Max drawdown represents the biggest intra-year decline

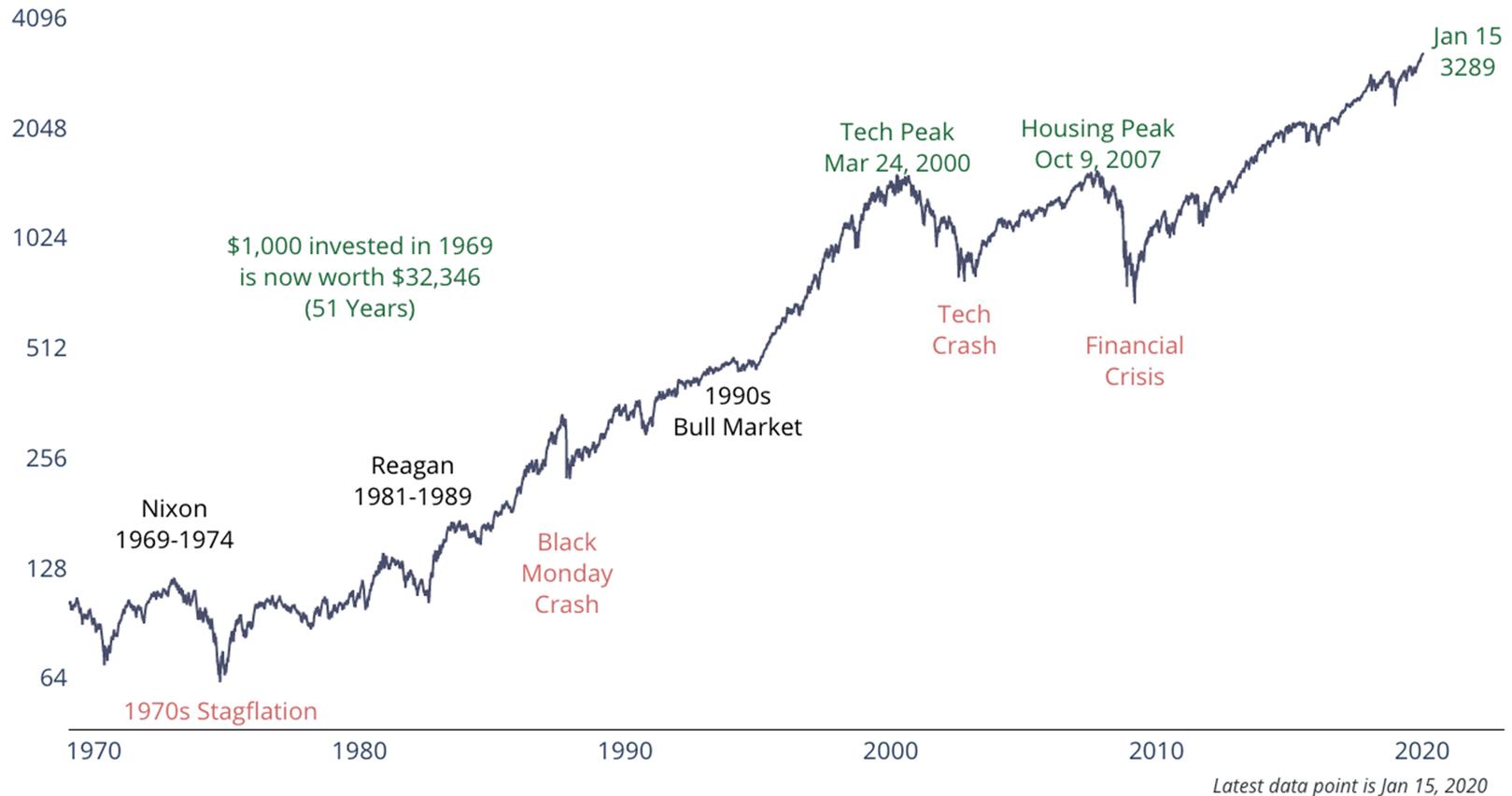


- This chart shows total returns of the stock market (bars) and the largest intra-year decline (dots) each year.
- The average year sees a significant intra-year drop. However, most years still end in positive territory, especially with dividends.
- Volatility in prices is a normal part of investing. It is important to not forget that investments also generate income.

Source: Clearnomics, Standard & Poor's

# Stock Market Cycles

*S&P 500 Index over the past 50 years (Log Scale)*

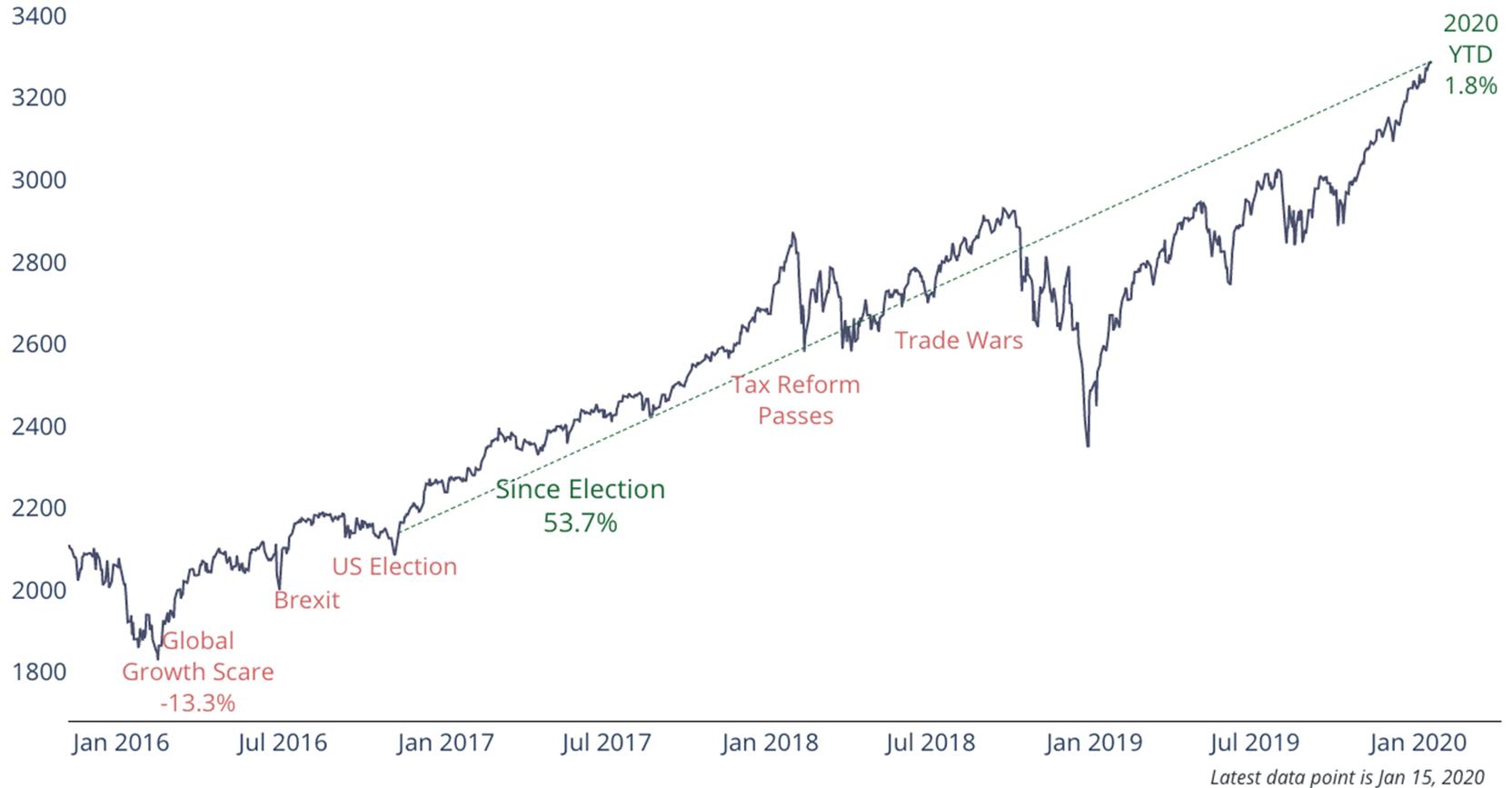


- As this chart shows (log scale), the stock market has performed well over the past 50 years. \$1,000 invested then would be worth over \$30,000 today.
- This occurred despite significant economic and political turmoil during those decades. The strength of economic growth propelled the market.
- This chart emphasizes the importance of staying invested over years, rather than focusing on days or months, especially as short-term volatility rises.

Source: Standard and Poor's

# Stock Market Performance

*S&P 500 Index, recent period*



- The stock market performed well in 2019 due to continued economic growth and the Fed.
- Uncertainty remains high as trade uncertainties, slowing global growth and low inflation hang over markets.
- For long-term investors, it is important to maintain the proper perspective and look past short-term volatility.

Source: Standard & Poor's

# Developed Market Recent Performance

MSCI EAFE Index (USD)



Latest data point is Jan 15, 2020

- Developed markets performed well over the past year despite concerns over issues such as Brexit and trade.
- While developed market economies have struggled over the past decade, many areas are showing signs of growth.
- These regions could stabilize further if policy uncertainty subsides.

Source: MSCI

# Emerging Market Recent Performance

MSCI EM Index (USD)



Latest data point is Jan 15, 2020

- Emerging markets performed well in 2020 after a difficult market period due to trade concerns and economic uncertainty.
- The asset class has recovered alongside other regions since the end of 2018. A healthy global economy could continue to help.
- Longer term, emerging markets still play a very important role in portfolio diversification.

Source: MSCI

# The Stock Market and Earnings

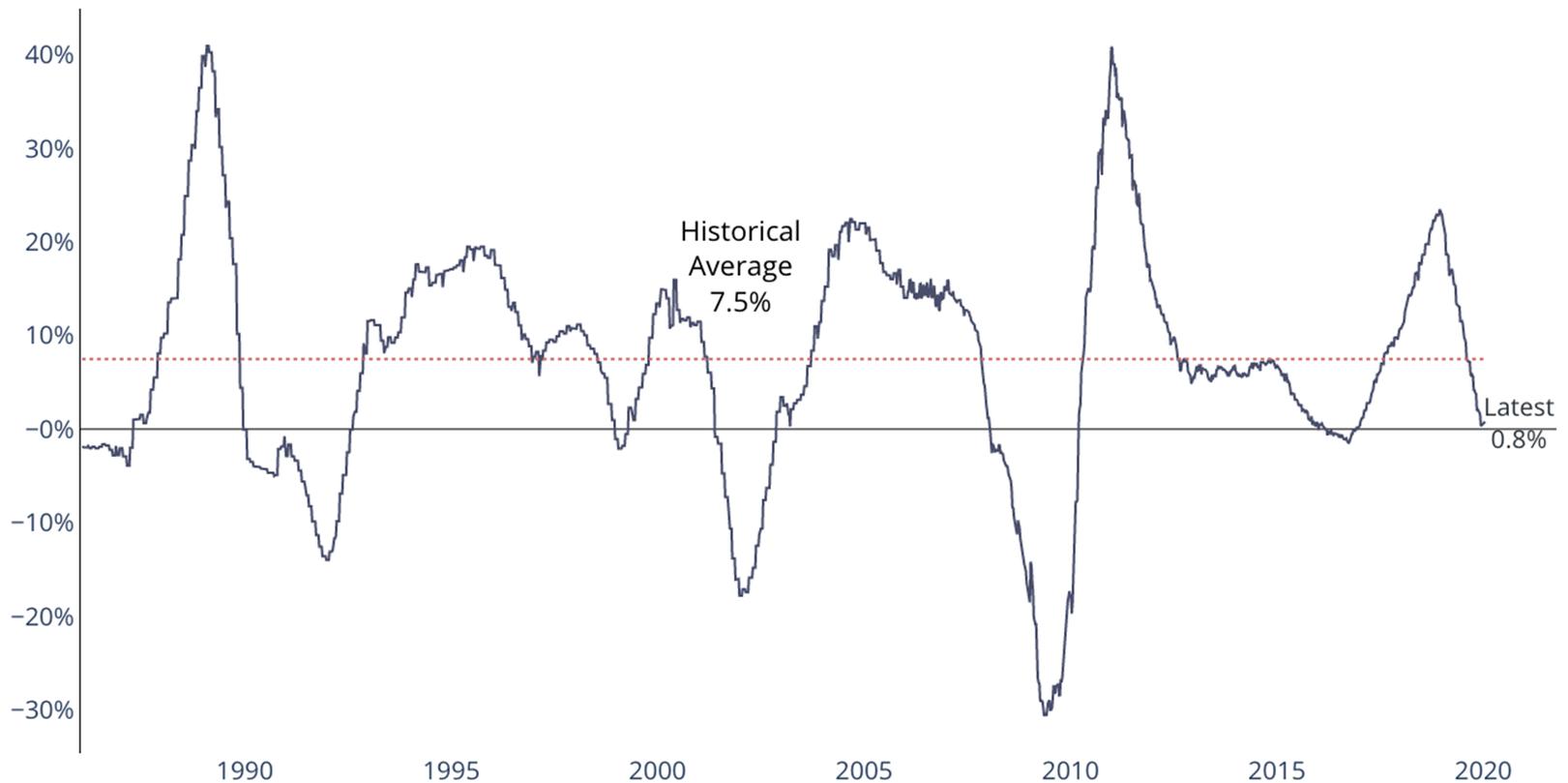
*S&P 500 Index price and trailing earnings-per-share since 1990*



- This chart shows the S&P 500 index alongside its trailing 12 months earnings-per-share.
- Over the long run, the stock market tends to follow earnings. If earnings are rising, investors are willing to pay more per share.
- Earnings, in turn, tend to track economic growth. Thus, a healthy economy tends to result in a rising stock market.

# S&P 500 Earnings Growth Rate

*Trailing 12 month earnings per share*



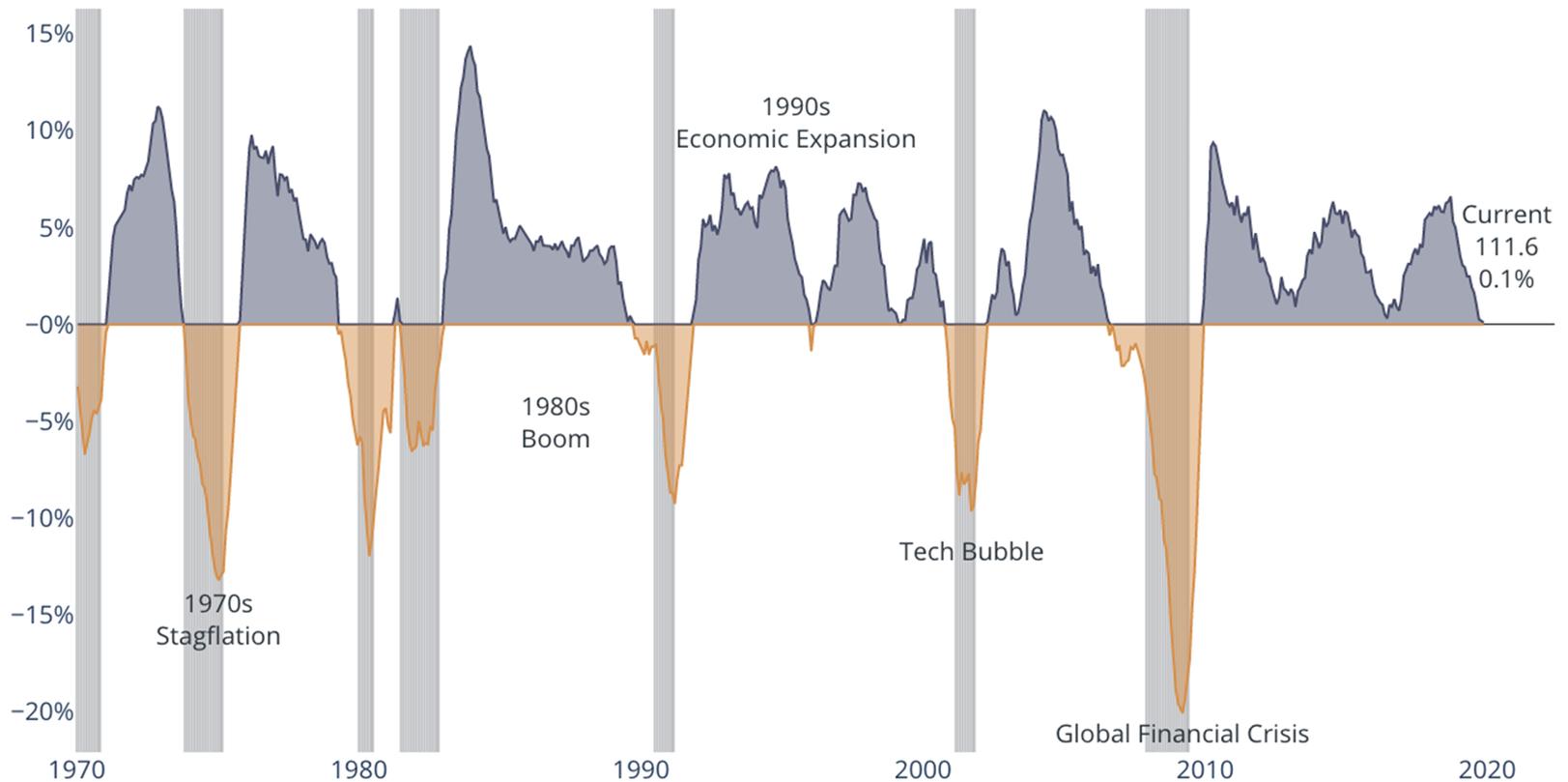
*Latest data point is Jan 14, 2020*

- Corporate earnings growth has been strong since 2009 due to strong profit margins and improving revenues.
- Although earnings growth slowed in 2019, many investors are hopeful it can pick up again in 2020.
- A strong economy could continue to drive company profitability and stock prices.

Source: Refinitiv

# Leading Economic Indicators

*Conference Board LEI year-over-year percent change*  
*Recessions are shaded*



Latest data point is Nov 2019

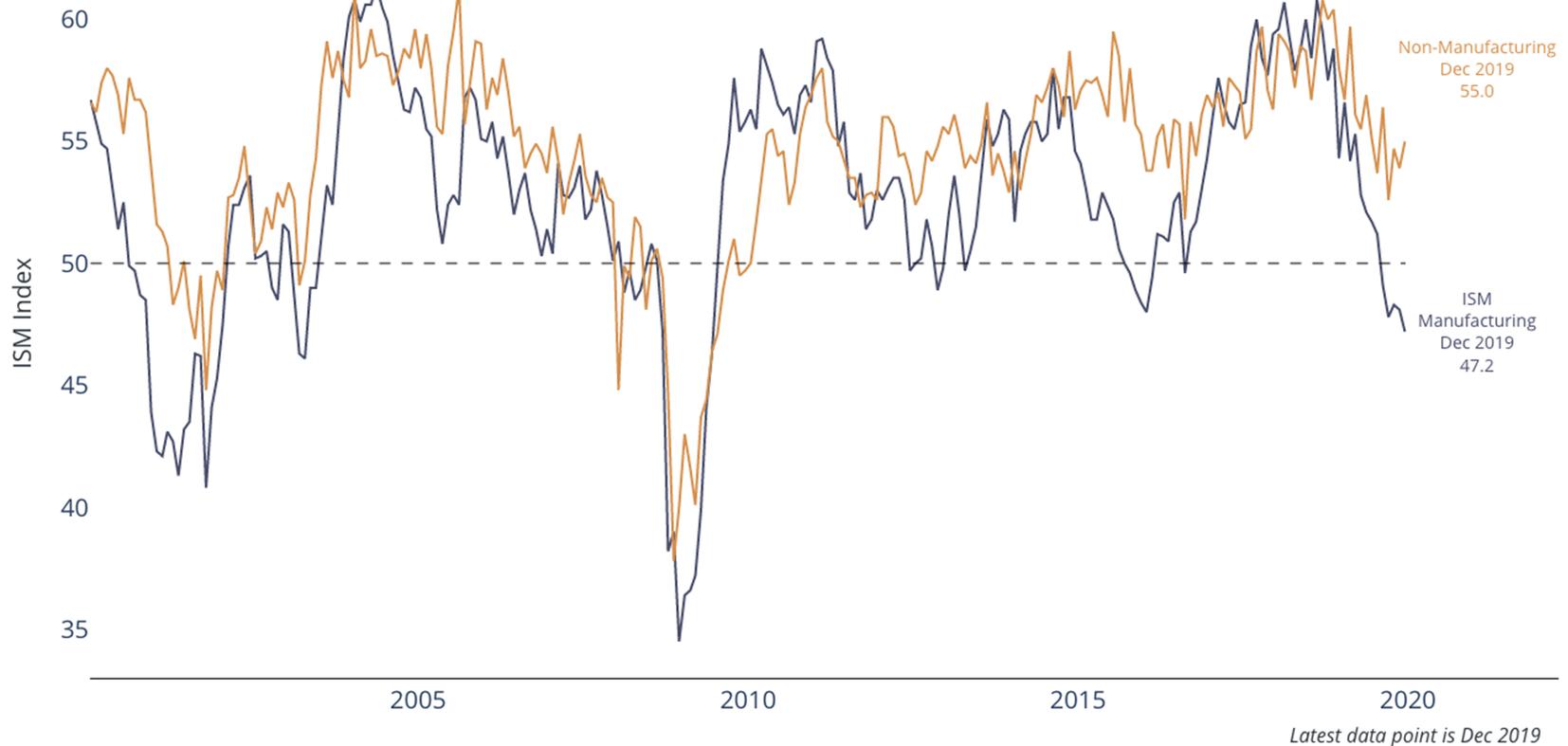
- This chart shows the year-over-year percent change in an index of leading economic indicators.
- This indicator usually turns negative several months before a recession. This can be seen in the seven recessions since 1970.
- At the moment, these leading economic indicators confirm the strength of the U.S. economy.

Source: Conference Board,  
NBER, Refinitiv

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# Economic Activity Indices

*ISM Manufacturing and Non-Manufacturing Indices*  
*Numbers above 50 represent economic expansion*



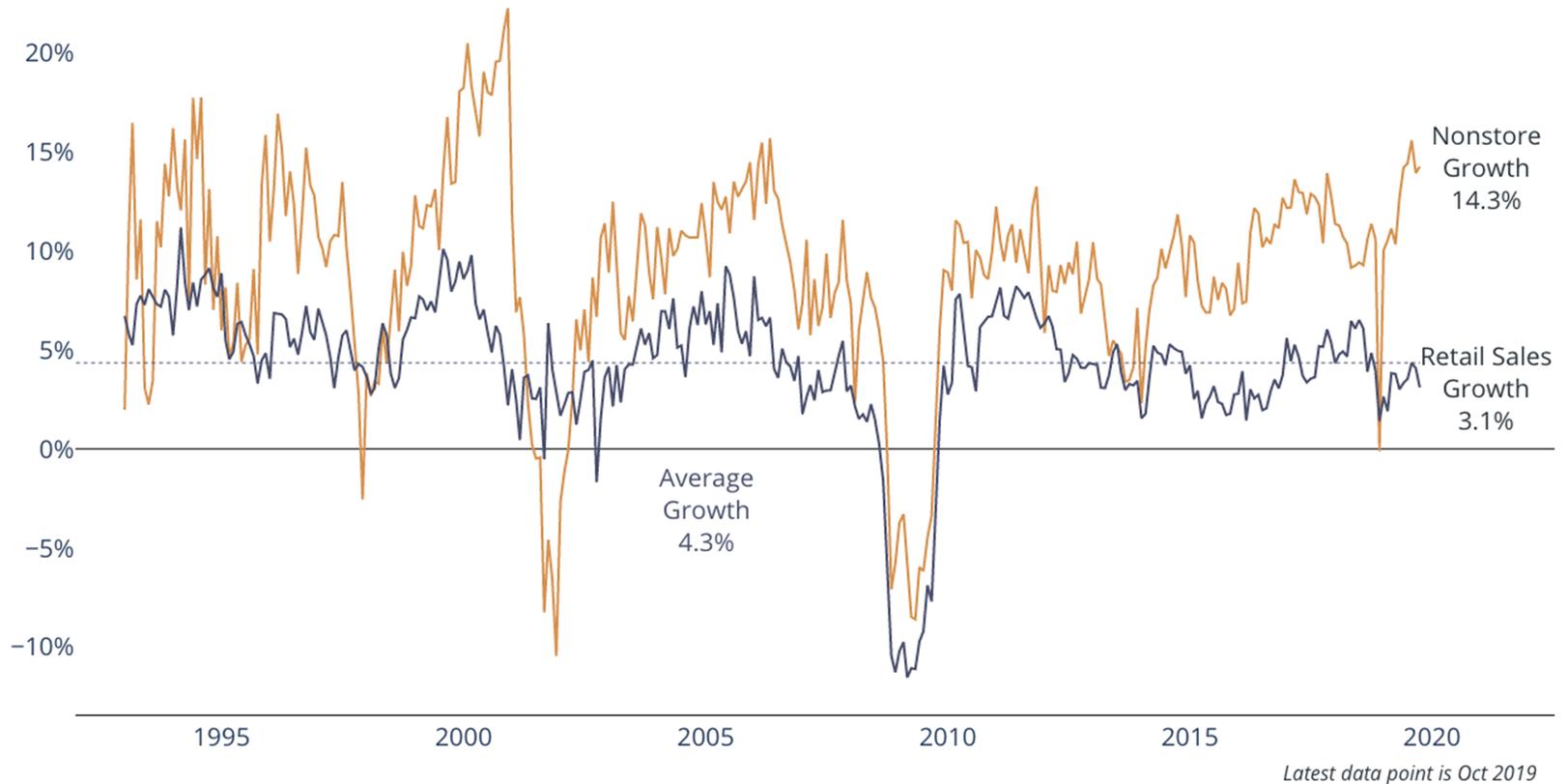
- This chart shows indices of economic activity - both manufacturing and non-manufacturing.
- Numbers above 50 represent economic expansion while those below 50 suggest contraction.
- The economy has decelerated somewhat recently, but is still growing at a healthy pace.

Source: Refinitiv, ISM

# Consumer Spending

Retail Sales, YoY % Growth, SAAR

Consumers

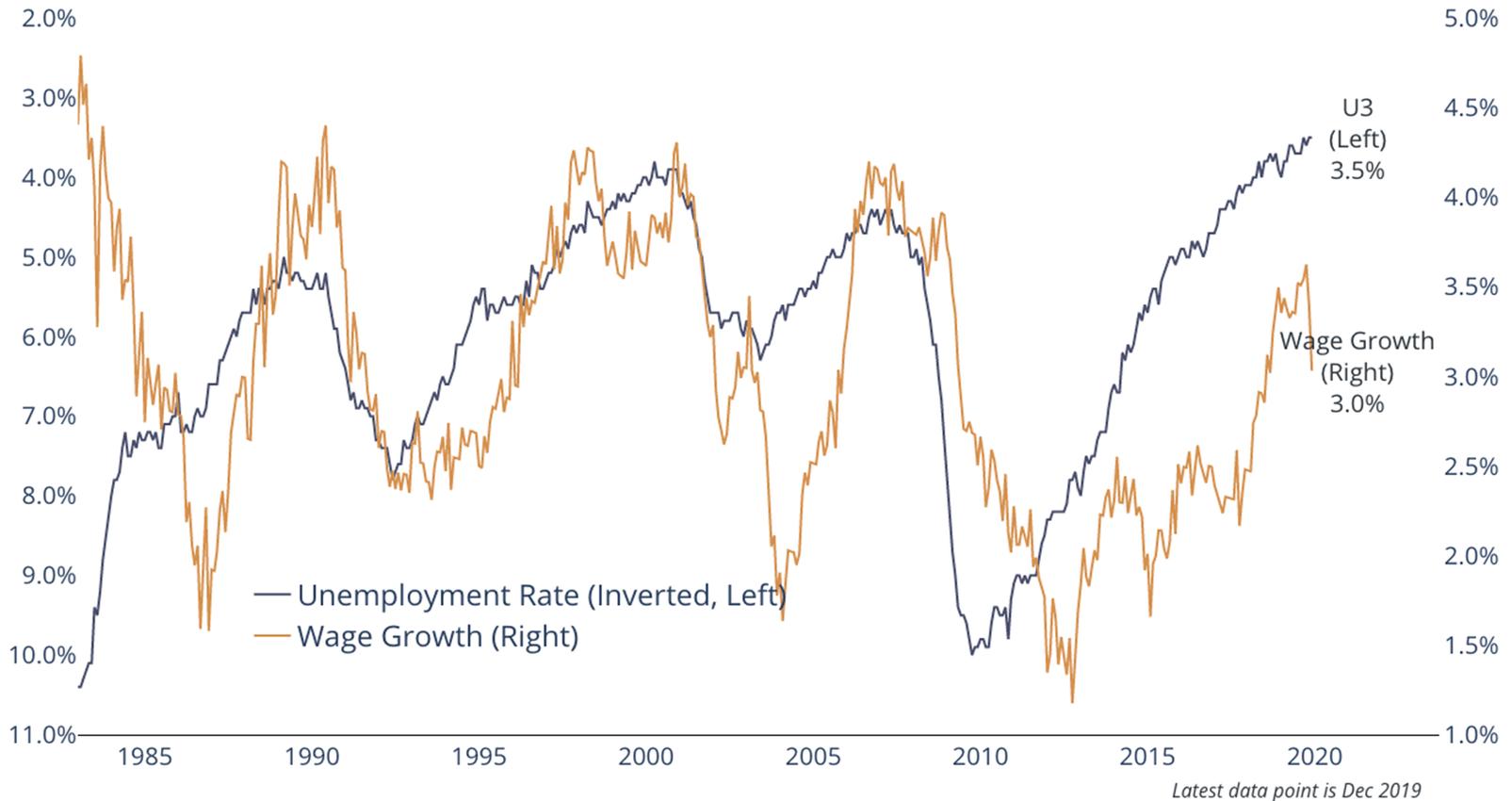


- Retail sales are an important way to measure consumer spending.
- The strong consumer balance sheet and healthy labor market should continue to fuel retail sales.
- An important trend is the shift to non-store retailers, such as Amazon. This segment has seen far faster growth than traditional retail.

Source: U.S. Census Bureau

# Unemployment and Wage Growth

*U3 (inverted) and average hourly earnings growth*

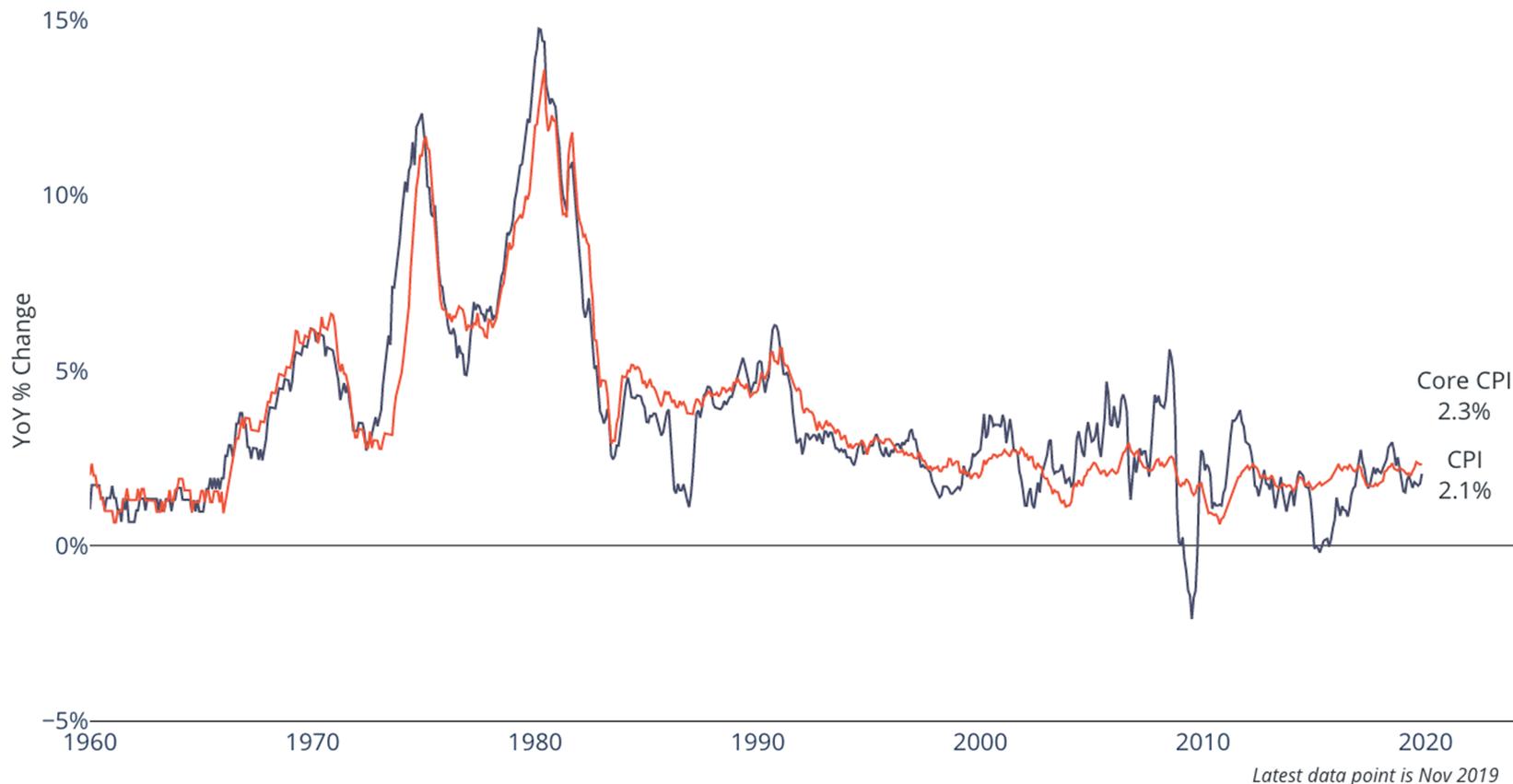


- The unemployment rate (shown inverted here) has fallen to the lowest level in decades. Wages, however, have not yet accelerated.
- Historically, there is a clear relationship between the two. This is because a tighter labor market results in workers receiving raises.
- This economic cycle is clearly different for a variety of reasons, including automation, workers giving up, etc.

Source: Bureau of Labor Statistics

# Consumer Price Index

*CPI and Ex Food and Energy, YoY % Change*

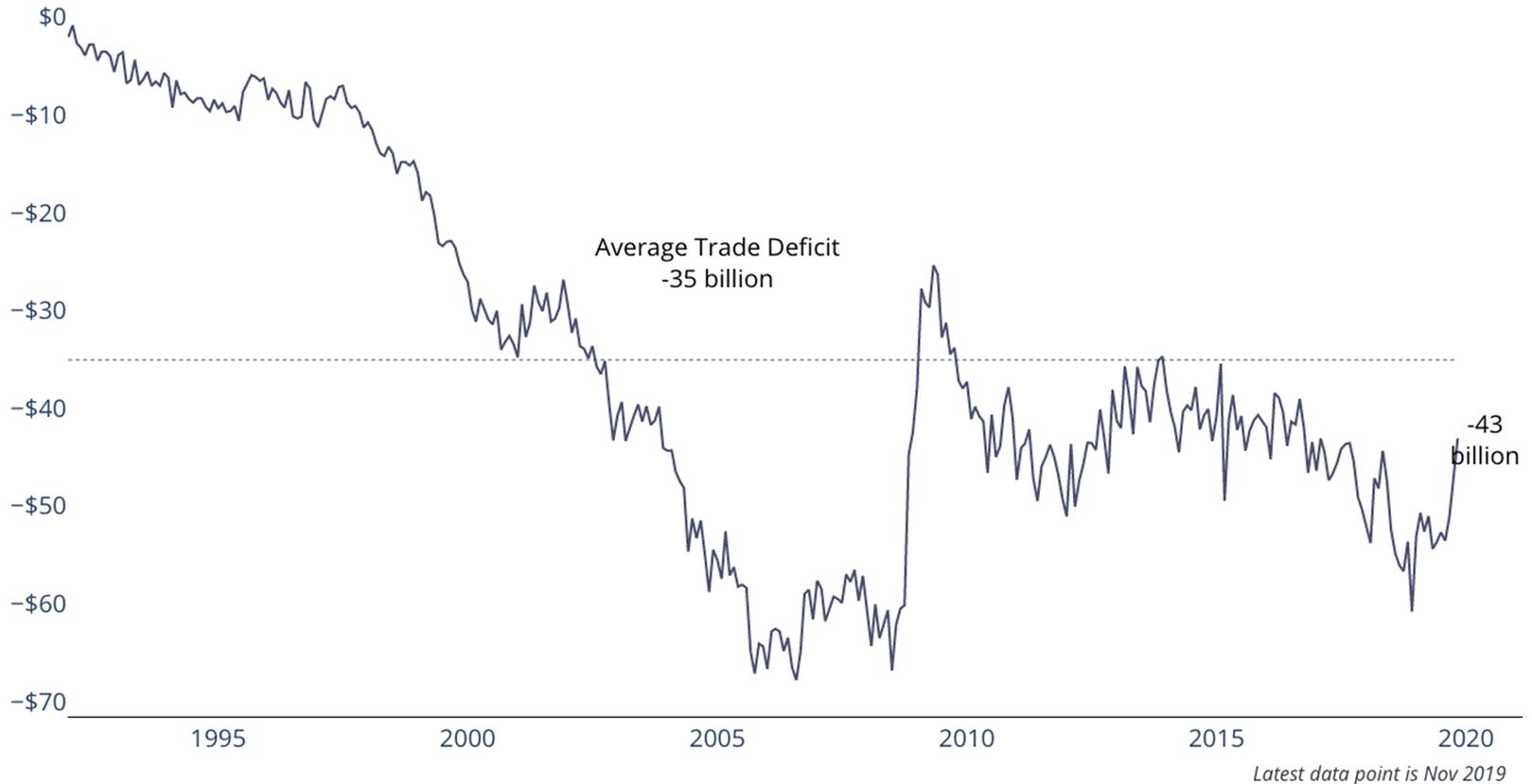


- CPI is a commonly cited measure of inflation. It uses a basket of goods and services to track price changes for consumers.
- In order to measure the underlying trend in inflation, rather than temporary shocks to food and energy, economists focus on Core CPI.
- Inflation has been low this business cycle but is beginning to rise.

Source: U.S. Bureau of Labor Statistics

# U.S. Trade Balance

*Goods and Services, Monthly*



- The U.S. trade deficit has expanded in recent years.
- This has become a politicized topic as many workers face the effects of automation and globalization.
- Unfortunately, these are long-term forces that are unlikely to be changed through one-off trade policies.

Source: U.S. Bureau of Economic Analysis

## Retirement Savings Update: New “SECURE Act” Law Takes Effect in 2020

- Change to RMD age: pushed out from 70 ½ to 72 years
- Contributions to traditional IRAs allowed after age 70 ½
- Change with Inherited IRAs; must be distributed within 10 years; does not affect existing inherited IRAs
- Penalty-free retirement account withdrawals for birth/adoption expenses
- Change to 529 accounts; assets can now be used to repay up to \$10K in student loans
- Provisions for small businesses and part time employees to offer/participate in retirement plans

# Save the date: Webinar on Cybersecurity Do's and Don'ts

- Option 1: Tuesday Feb 11, 2020 @5pm OR
- Option 2: Saturday Feb 22, 2020 @ 10am

# Definitions and Methodology

The **S&P 500** is a market capitalization-weighted index of large cap U.S. stocks. U.S. **mid cap** and **small cap** are the S&P 400 and S&P 600, respectively. **Value** and **growth** are the corresponding Standard and Poor's value and growth indices.

**MSCI EME** is an index of emerging market stocks. **MSCI EAFE** is an index of developed market stocks. **MSCI ACWI** is an index of global stocks.

The **forward P/E** is a ratio of the current market price of an index divided by an estimate of earnings over the next twelve months. The **Shiller P/E** is based on Robert Shiller's cyclically adjusted price-to-earnings ratio.

The **AAll Investor Sentiment** index is based on a weekly survey conducted by AAll.

Unless stated otherwise, **earnings** and **valuations** data are from Refinitiv indices.

The **LEI**, or Leading Economic Index, is produced monthly by the Conference Board.

**Consumer sentiment** indices are based on surveys conducted by the University of Michigan Surveys of Consumers.

## **Asset Class Performance and Asset Classes Relative to U.S.**

**Stocks charts:** The EM, EAFE, Small Cap, Fixed Income and Commodities are these indices, respectively: MSCI EM, MSCI EAFE, Russell 2000, iShares Core U.S. Bond Aggregate, Bloomberg Commodity Index.

The Balanced Portfolio is a hypothetical 60/40 portfolio consisting of 30% U.S. Large Cap, 10% Small Cap, 15% International Developed Equities, 5% MSCI Emerging Market Equities, 35% U.S. Bonds, and 5% Commodities.

The **Bloomberg Commodity Index** is a broadly diversified basket of physical commodities futures contracts.

The **DXY** is a U.S. dollar index based on a basket of currencies, including the Euro, Yen, Pound, Canadian Dollar, Swedish Krona and Swiss Franc.

**Portfolio Risk/Reward and Portfolio Drift Since 2009** charts: stocks and bonds are the S&P 500 and iShares Core U.S. Bond Aggregate, respectively. Each portfolio represents a hypothetical stock/bond asset allocation.

The **MSCI Factor** indices are created and maintained by MSCI to capture factor returns. They cover various factors including Quality, Size, Momentum, Volatility, Value and Yield. The Multi-Factor index tracks the performance of Value, Momentum, Quality and Size.

The **MSCI USA** index tracks large and mid cap U.S. stocks.