

# HUDSON ADVISOR SERVICES, INC

## OUR VIEW OF THE MARKET

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Forecasting the stock market is sometimes like trying to predict at the start of football season which team will clinch the Super Bowl. Few sports gurus get it right. Similarly, in 2019, very few Wall Street analysts foresaw the spectacular performance of the stock market.

What happened? In the words of one market professional: “When people look back at 2019, they’ll say the Fed did this!” Indeed, the Federal Reserve spun heads when it switched course, from raising interest rates to cutting them and pumping fresh money into financial markets. Investors were also comforted by the easing of trade tensions and reduced prospect of imminent recession.

So what happens next? Financial history provides guidance. Spectacular stock market years like 2019 are usually followed by a year of more modest equity gains – but not a retreat. That is the current consensus viewpoint on Wall Street and we share it at Hudson Advisors. The logic is pretty simple. The economy still has enough momentum to keep pushing the market higher. But that growth will be constrained because stock prices are now quite rich.

Our priority at Hudson Advisors will be to talk with clients about their portfolios. We likely will advise many clients to re-balance because the 2019 gains have driven their equity holdings above optimal asset allocation. We may need to focus on non-equity investments. As always, however, we will look at selective stock buying opportunities.

**Equity Market:** The market was strong in the first half of the year as the Federal Reserve announced its change in policy direction. The third quarter was flat as concerns about the U.S./China trade conflict and possible recession worried investors. Those worries faded, however, as the Trump Administration announced a “first phase” trade agreement with the Chinese. The Federal Reserve also said it would maintain accommodative monetary policies. The market rallied in October and kept climbing until year-end. Volatility was low. It was one of the best fourth quarters in more than a decade.

The Dow Jones Industrial Average was up 4.75% for the quarter and 21.74 % for the full year. The S&P 500 gained 8.53% in the quarter and 28.88% for the year. The Nasdaq Composite index was up 12.17% in the quarter and 35.23% for the year. The Russell 2000 index was ahead 9.52% for the quarter and 23.72% for the year.

**Fixed Income Market** Bond prices rose as the Fed announced its clear intent to keep interests rates low and as the outlook for inflation in the U.S. remained benign. The yield on the 10-year Treasury was 1.92% at the end of December versus 2.68% at the end of 2018. (Yields move inversely to prices.) High quality U.S. corporate bonds were up 14% -- their best showing since 2009.

### MARKET TRENDS

The accompanying chart summarizes stock and bond market prices for the full year of 2019. Equities had their best year since 2013 and the major indexes are near record levels. The bond market also rallied in the context of a good economy with subdued inflation. In fact, 2019 was a good year for every asset class including commodities and real estate. It was hard for investors to lose money.

### MAJOR MARKET INDEXES

	YTD Return
Dow Jones Industrials Composite PR	21.74
S&P 500 Index PR	28.88
Russell 2000 Index PR	23.72
NASDAQ Composite PR	35.23
EAFE Index NR	22.01
Barclays Aggregate Bond Index TR	6.86

Source: Morningstar® as of December 31, 2019

## THE OUTLOOK

**The Economy:** The current expansion in the U.S. economy began in June 2009 and is now the longest in our national history. But, despite its duration, this expansion has been somewhat anemic and paradoxical. Total growth in GDP over the period is only about 25%. Unemployment is now down to 3.6% but job growth is lower than in previous expansions. Workers have only seen increase in real wages in the last two years. Inflation is subdued.

This pattern is expected to continue in 2020. Annual growth in GDP is projected to be around 2% -- similar to 2019 and other recent years. It is a mixed story. The manufacturing sector is struggling. Business investment is weak and restrained. However, the economy is being driven by a confident consumer sector buoyed by the availability of jobs and measurable wage growth. The international economy also looks better than a year ago.

At Hudson Advisors we still believe in the idea of the "business cycle." The U.S. economy will face recession again at some point. But 2020 does not appear to be that time. Like much of our industry, we are reassured by the Federal Reserve statements that interest rates are "appropriate" for the foreseeable future. This policy will help achieve a stable economy.

### The Market:

Economic stability will keep the stock market positive. But stock prices are now rich. The S&P 500 is trading at about 18 times the 12-month forward earnings. That is up from a 14 times P/E ratio a year ago. Corporate earnings are expected to be flat to 2019 which does not help the E component of the ratio. These forces will constrain the market.

We expect the market to be more volatile than in recent months. There will be periods of pullback. But we anticipate the market to end the year with single digit percentage gains in the major indexes.

That said, we will keep careful watch on exogenous events: 1) new tensions in the long-term U.S./China trade struggle, 2) geopolitical crisis, especially in the Middle East, and 3) the political uncertainties from impeachment and national elections. Negative news or outcomes in these areas have potential to unsettle and set back the market.

## OUR STRATEGIES

**Asset Allocation:** Normally, for clients investing new money, we recommend 60% allocation to equities and the remaining portion to cash, bonds with maturities under two years, and alternative investments. Many existing clients may now have equity holdings well above the target 60% level and we will look at adjustments as necessary.

**Preferred Equities:** We remain focused on large cap companies with strong balance sheets, sustainable cash flows, and credible business models. Companies that pay attractive dividends are central to our strategy. The sectors getting our interest are similar to last quarter.

**HEALTH CARE:** The larger uncertainties regarding national health care policy make us cautious about much of this sector. But we like select names in bio-technology and medical devices.

**TECHNOLOGY:** We are also cautious about this sector -- given the huge run-up during 2019 in the big tech names. But areas such as communications equipment and semi-conductors have our interest.

**FINANCIALS:** Both large banks and regional banks did well in 2019. We think further opportunity exists in 2020. The strong consumer confidence is good for banks that serve individual customers.

**INTERNATIONAL:** Equity markets in Europe and emerging market countries look to be much improved in 2020. For many clients, we will recommend more international exposure through mutual funds.

**Fixed Income Investments:** Our repeated aversion to bonds with long maturities remains firm. We prefer to find higher yielding alternative investments such as municipal tax liens.

Dow Jones U.S. Sectors Total Return  
(Percent Change for YTD, Ending December 31, 2019)  
Source: Morningstar®

Oil & Gas	10.41	Consumer Services	26.93
Basic Materials	19.76	Telecommunications	27.88
Industrials	32.81	Utilities	24.94
Consumer Goods	28.69	Financials	32.56
Health Care	21.27	Technology	47.47

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**Top 25 Performing Stocks 2019 (YTD) - US Listed companies with a market cap above \$5 Billion. Source: Telemet ®**

Issue	Name	Last	Mkt Cap	Net Pct YTD (%)	Industry Group
ARWR	Arrowhead Pharmaceuticals, Inc	62.78	6,009	376.33	Biotechnology
MDCO	Medicines Co (The)	84.95	6,772	375.62	Biotechnology
ROKU	Roku, Inc. Class A	136.72	16,067	354.22	Household Durables
RETA	Reata Pharmaceuticals Inc. A	202.69	6,136	290.54	Pharmaceuticals
SE	Sea Ltd ADR	39.74	17,683	243.77	Software
SHOP	Shopify Inc.	404.85	45,783	211.93	IT Services
SNAP	Snap Inc	16.5	22,990	190.49	Communications Equipment
ASMIY	ASM International N.V	112.44	6,944	188.83	Semiconductors and Semiconductor Equipment
MRTX	Mirati Therapeutics, Inc.	119.59	4,716	173.96	Pharmaceuticals
OLED	Universal Display Corp	207.29	9,766	161.37	Semiconductors and Semiconductor Equipment
VIPS	Vipshop Holdings Ltd ADS	14.63	9,876	157.94	Internet & Direct Marketing Retail
COUP	Coupa Software Inc	151.49	9,665	157.81	Software
GDS	GDS Holdings Limited ADS	53.72	7,829	157.05	Diversified Telecommunication Services
ACAD	Acadia Pharmaceuticals	40.94	6,305	153.15	Biotechnology
AMD	Advanced Micro Devices	47.84	53,276	151.79	Semiconductors and Semiconductor Equipment
TTD	Trade Desk, Inc.	268.01	12,096	144.62	IT Services
AVLR	AVALARA INC	76.45	5,882	136.25	Software
GLPG	Galapagos NV Spon ADR	210.62	11,547	135.04	Health Care Providers & Services
NVCR	NovoCure Limited	75.11	7,433	135.01	Health Care Equipment & Supplies
TER	Teradyne Inc.	69.18	11,593	133.72	Semiconductors and Semiconductor Equipment
PODD	Insulet Corp	167.92	10,381	131.81	Health Care Equipment & Supplies
PAYC	Paycom Software, Inc.	268	15,651	130.04	Software
STM	ST Microelectronics NV	27.75	24,978	129.91	Semiconductors and Semiconductor Equipment
STNE	StoneCo Ltd. Cl A	42.31	9,385	127.94	Health Care Providers & Services
LRCX	Lam Research Corporation	295.38	42,853	124.42	Semiconductors and Semiconductor Equipment

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Issue	Name	Last	Mkt Cap	Net Pct YTD (%)	Industry Group
PCG	PG&E Corporation	10.84	5,737	-54.74	Multi-Utilities
CEPU	Central Puerto S.A. ADR	4.66	7,055	-48.39	Electric Utilities
M	Macy's Inc.	16.62	5,133	-44.17	Multiline Retail
ABMD	Abiomed Inc.	169.02	7,632	-44.09	Health Care Equipment & Supplies
BAK	Braskem SA	14.91	5,417	-42.70	Chemicals
TEVA	Teva Pharmaceutical	9.57	10,446	-42.00	Pharmaceuticals
CTK	CooTek Inc	5.03	15,836	-39.69	Health Care Providers & Services
LB	L Brands, Inc.	17.44	4,820	-37.08	Specialty Retail
DTSRF	Digital Shelf Space Corp	0.14	7,396	-37.03	
GPS	Gap Inc.	17.13	6,393	-35.55	Specialty Retail
DXC	DXC Technology	36.81	9,524	-32.71	IT Services
SWDBY	Swedbank AB Sponsored ADR	15.06	16,813	-31.63	Banks
EQM	EQT Midstream Partners LP Uts	29.45	5,904	-31.52	Oil Gas & Consumable Fuels
ADS	Alliance Data Systems Corp	111.9	5,154	-30.80	IT Services
OXY	Occidental Petroleum Corp	42.5	37,966	-30.60	Oil Gas & Consumable Fuels
NOK	Nokia Corp	3.87	22,324	-30.58	Communications Equipment
WF	Woori Bank	29.89	6,736	-28.95	Banks
PSO	Pearson PLC	8.47	6,903	-28.88	Media
NSANY	Nissan Motor Co. Ltd	11.64	23,675	-28.86	Automobiles
WES	Western Midstream Partners LP	20.27	9,182	-28.45	Oil Gas & Consumable Fuels
SQM	Chemical & Mining Co. Chile	26.93	6,993	-27.69	Chemicals
COG	Cabot Oil & Gas Corp	17	6,933	-27.31	Oil Gas & Consumable Fuels
KHC	The Kraft Heinz Company	31.66	38,660	-26.90	Food Products
SSL	Sasol Ltd ADR	21.52	13,580	-26.50	Oil Gas & Consumable Fuels
CXO	Concho Resources Inc.	86.17	17,323	-25.08	Oil Gas & Consumable Fuels