Wealth Management

QUARTERLY PERSPECTIVE

WINTER 2020

The Year 2019, Reasonable Expectations, and the Election

The year 2019 was a classic example of the markets doing things most people didn't anticipate. Of all the forecasts made this time last year, the only one really worth counting is that things change. What's more, they often change in ways we least expect.

Imagine going back to the 4th quarter of 2018 when most of the major equity asset classes were down double digits, and many of the major indices closed out 2018 with their worst yearly losses since 2008. Looking back twelve months ago investor optimism was limited at best, and investor anxiety was at a surplus.

Unforeseen to most, here's how 2019 finished with some of the major indices.

2019 Performance

	Full Year 2019	
S&P 500	31.49%	U.S. Large Cap
Russell 2000 Index	25.53%	U.S. Small Cap
MSCI EAFE Index (Net)	22.01%	Developed Markets-non U.S.
MSCI Emerging Markets Index (Net)	18.44%	Emerging Markets
Dow Jones U.S. Select REIT Index	23.10%	Real Estate
Bloomberg Barclay's U.S. Aggregate Bond	8.72%	Broad U.S Bond Market

Source: Zephyr StyleADVISOR

Going forward, a question often asked is, what are the markets going to do this year? Sadly, nobody truly knows what the market will do in 2020, or each year thereafter, but we do have some general barometers to have reasonable expectations over the coming decade.

First, inflation as measured by the CPI is expected to be around 2%,[1] the World Markets as measured by the MSCI All Country World Index are yielding around 2%,[2] and global growth estimates in real GDP growth from the International Monetary Fund are around 3.5%.[3] Global equities, therefore, would have a reasonable expectation of returning somewhere in the 7% to 7.5% range over the coming decade.

A general measure for bond expectations would be the current yield on the 10 yr. Treasury, which as of this writing is 1.89%,[4] so bonds should have a reasonable expectation of around 2%.

One has to ask when constructing long-term asset allocation, how much of the 7%-to-7.5%, component and how much of the 2% component are desirable to hold. These returns will most certainly deviate from year to year, but they do provide a sensible starting point for deciding on an overall portfolio mix of stocks vs. bonds.

(continued on page 2)

JASON W. FITZGERALD, CFP®

Senior Vice President, Senior Wealth Advisor, Team Leader

Jason is a member of the Investment Committee, which is responsible for the oversight of CNB's Wealth Management process. He is also responsible for the daily management of client investment portfolios. He holds the professional designation of CERTIFIED FINANCIAL PLANNER™.

He may be reached at (585) 419-0670, ext. 50628 or JFitzgerald@CNBank.com.

Finally, a big question weighing on many is what will happen to markets this year with the pending Presidential election?

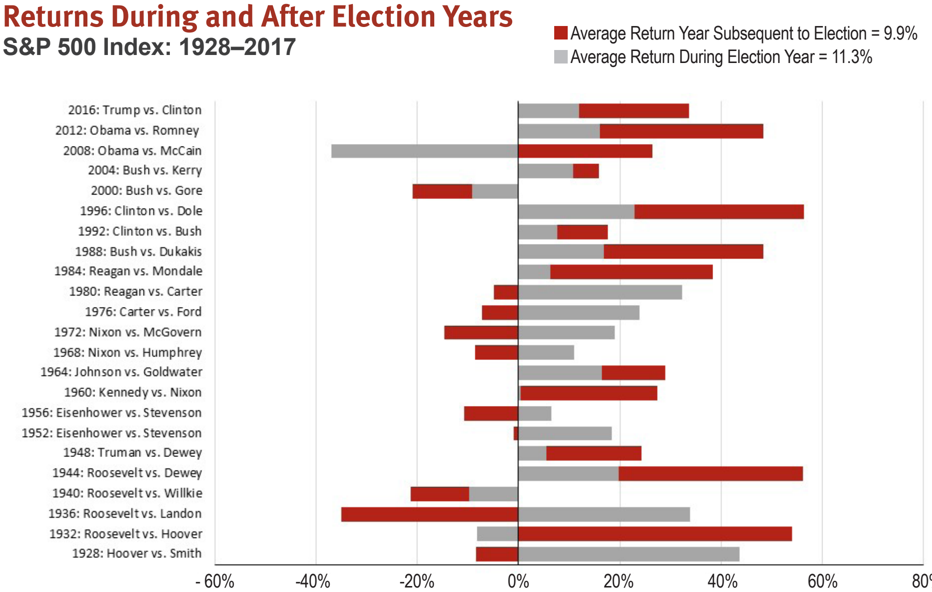
Again, nobody truly knows what markets will do, but we do have some data that highlight the importance of staying invested long-term no matter who occupies the White House.

Using the S&P 500 Index back to 1928 as a general gauge, we see that on average the market returns 9.9% in years subsequent to a Presidential election and 11.3% on average during years after an election.

Over the long-run, whichever party occupies the White House, the market has done quite well in growing investor capital.

Returns During and After Election Years

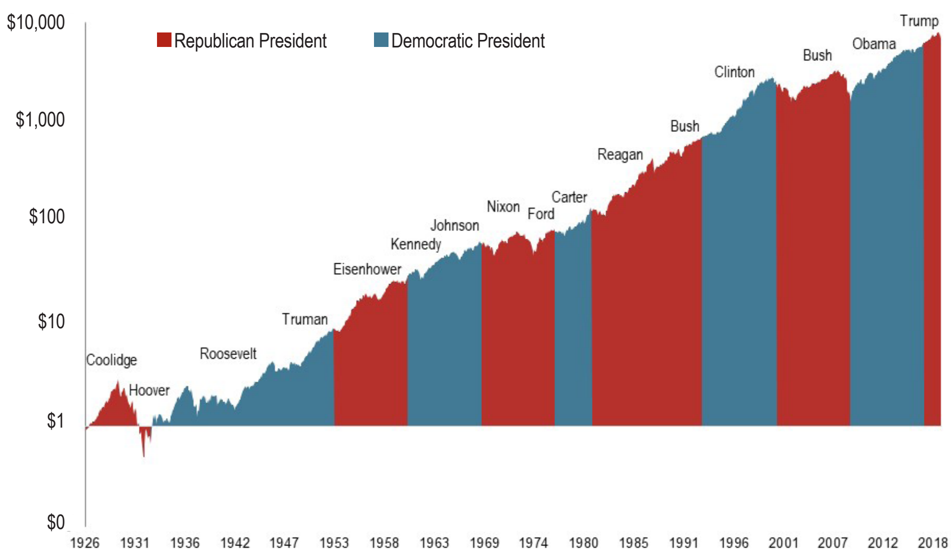
S&P 500 Index: 1928–2017



Indices are not available for direct investment. Their performance does not reflect the expenses associated with the management of an actual portfolio. Past performance is not a guarantee of future results. Index returns are not representative of actual portfolios and do not reflect costs and fees associated with an actual investment. Actual returns may be lower. Source: S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Markets Have Rewarded Long-Term Investors Under a Variety of Presidents

Growth of a Dollar Invested in the S&P 500: January 1926–December 2018



Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.
Source: S&P data © 2019 S&P Dow Jones Indices LLC, a division of S&P Global. All rights reserved.

Markets will continue with uncertainties in 2020 and beyond that will constantly test investor patience. Just look at the recent headlines with the Middle East tensions around Iran. Uncertainty is a constant. The "Good Old Days" didn't look that way when they were "good new days." Instead, people saw them as chaotic, uncertain and unpredictable.

At CNB Wealth Management, we've found that the best way to offer the highest probability of reaching your long-term financial goals is to stick with sensible strategies that are broadly diversified, have reasonable expenses, and employ a disciplined rebalancing process. Sticking to a good portfolio over the long-term is better than constantly trying to find the perfect portfolio in the near term.

As always, you can contact your Relationship Manager with any investment or financial planning questions you may have. Our knowledgeable and experienced team will work with you to ensure your plan stays on track to meet your goals - now and in the future.

[1]Source: https://www.philadelphiafed.org/research-and-data/real-time-center/survey-of-professional-forecasters/2019/survq419 [2]Source: https://www.morningstar.com/etfs/xnas/acwi/quote
[3]Source: https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/OEMDC/ADVEC/WEOWORLD [4]Source: https://www.bloomberg.com/markets/rates-bonds/government-bonds/us