2020 Market Outlook

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Unless things change considerably tomorrow, 2019 is going to go down as the best year for U.S. equity markets since 2013. Who would have thought that the S&P 500® would fall by 4.4% in 2018, only to rebound by 31.8% in 2019 (through 12/27). Last January, many people feared that a too-strong economy would result in three or four market-killing interest-rate hikes in 2019. We soon saw the opposite. Worries of an impending recession surfaced. We ended up with a modestly-growing economy and three interest rate cuts, a perfect environment for equities. As the year ends, markets have hit new highs on a regular basis with few common signs of impending weakness such as declining volume, fewer stocks making individual highs or widely diverging results among small, mid and large-cap indices.

So we are going to try to keep this as simple as possible as we move into the new year.

Chances are way better than 50-50 that the S&P 500® will be up next year. Since 1928, the S&P 500® has risen 67 years, or 73% of the time. It has fallen 25 times or 27% of the time. It did not matter much whether the prior year was up or down. The market was up 73% of the time following up years and up 68% of the time following down years. The magnitude of the prior year's gain does have some impact on markets. Again, since 1928, gains of 10% of more in one year were followed by gains of 10% or more the next year 52% of the time and were followed by gains of less than 10%, or losses, 46% of the time.

As we all know, 2020 is a presidential election year. According to the Stock Trader's Almanac, equity markets have risen 67% of the time in election years since 1833 (31 of 46) with an average gain of 6%. This is not surprising; it is a number very close to the up percentage of markets in any year.

We expect the coming presidential election year to be more dramatic than normal. On one hand you have a president who has been impeached by the House of Representatives but is not likely, it seems, to be removed from office by the Senate. Thus, he will be the candidate and will run on economic policies over the past four years that have resulted in good job growth, low unemployment, growing wages and record equity markets.

On the other hand, we have several presidential challengers that are advocating for major change to the U.S. tax system, including higher income and capital gains rates and a wealth tax. It is hard not to believe that if these candidates gain traction markets won't fall in response.

After a flat year largely caused by slowing business due to trade and tariff issues, earnings are predicted to grow 9% in 2020 according to S&P/Capital IQ from $164.50 per share in 2019 to a consensus of $179.41 in 2020. This puts the S&P 500® at 18.1 earnings today (Dec. 27). This is above the long-term average of 14x-15x earnings (FactSet), but not excessively expensive especially considering 10-year U.S. Treasury rates remain below 2% after ending last year closer to 3%.

Most market experts predict an up, if only modestly so, 2020. We don't believe it. Although most surveys year-in and year-out generally predict modest market moves up (0-10%), markets don't behave that way. Since 1928 more than 68% of the time, markets move up more than 10% or down more than 10%. Only 16% of the time, do markets fall in the +0% to +10% range. Whatever the results, it should be an interesting 12 months!

Regards,

Peter

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The S&P 500® Index is a broad based unmanaged index of 505 stocks, which is widely recognized as representative of the equity market in general.

You cannot invest directly in an index.

Index performance is not indicative of fund's performance.

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The funds' investment objectives, risks, charges and expenses must be considered carefully before investing. The Statutory and Summary prospectuses (CHASX/CHAIX or CHAMX/CHIMX) contain this and other important information about the investment company, and may be obtained by calling (888) 861- 7556. Read carefully before investing.

Earnings growth is not representative of the fund's future performance.

EPS=Earnings Per Share.

Price earnings ratio (P/E) is the price of a stock divided by its earnings per share.

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