SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

Another Decade

A decade ends and another begins. There is nothing fundamentally notable about a change in decade other than the numerical shift in the calendar. Yet decades are used to define periods of change for such things as fashion style and athletic achievements. For investment purposes, decades are useful as periods of enough length to capture trends. Unless, of course, notable trends begin and end mid-decade. For the seven full decades of the post-World War II period, data is available for many economic and financial measures. A review of some key measures can provide context for investment activity as the decade of the 2020s begins.

PERSPECTIVE

Economic well-being provides a foundation for investment activity and outcomes. Chart I shows annualized rates of real economic growth and inflation for the U.S. economy by decade from the 1950s through the 2010s. Growth peaked in the 1960s and moved lower by decade through the 2000s. The impact of recessions was greatest for the 2000s with two recessions covering a combined 26 of 120 months. The 2010s was the only post-war decade without a recession yet growth was among the slowest. The trend of lower inflation since the 1970s is clear and continued through the 2010s. The actual peak 10-year period of inflation for the U.S. economy ended December 1982 at an annualized rate of +7.6%.

Employment and earnings measures provide both economic and investment perspective. Chart II displays two important measures. The widely followed unemployment rate reached an annual rate of 3.5% in three months of 2019, the first time that level had been reached in 50 years. Yet the average unemployment rate for the 2010s was second only to the peak decade of the 1980s. This reflects the 2010s' modest pace of economic recovery following the Great Recession. It took over seven years of the 2010s to undo unemployment added in less than four years of the 2000s. Real, after-tax corporate earnings are a key determinant of stock market returns. In theory, higher earnings growth begets higher stock returns. The data-by-decades reality is less supportive.

Chart III displays annualized rates of return for the bond market as measured by 10-year U.S. Treasury notes, and for the U.S. stock market as measured by the Dow Jones Industrial Average. Stock returns were notable in the 2010s in view of the lower earnings growth rate. Falling interest rates were part of the reason. Even though U.S. Treasury yield levels generally were low throughout the 2010s, a downward trend across the decade added bond price appreciation to these lower yields.

INVESTMENT IMPLICATIONS

The 2020s follow a decade of modest economic growth, lower inflation, downward trending unemployment, anemic earnings growth, middling bond market returns and robust stock market returns. Prior decade-over-decade comparisons provide little guidance for the new decade. Nevertheless, with money market and bond yields remaining near historical lows and with a favorable outlook for economic growth and inflation ahead, stocks remain appropriate when allocations are properly aligned with goals, horizons and tolerance for risk. Money market and bond investments will continue to play important portfolio risk-reduction roles even in a low interest rate environment.

CHART I

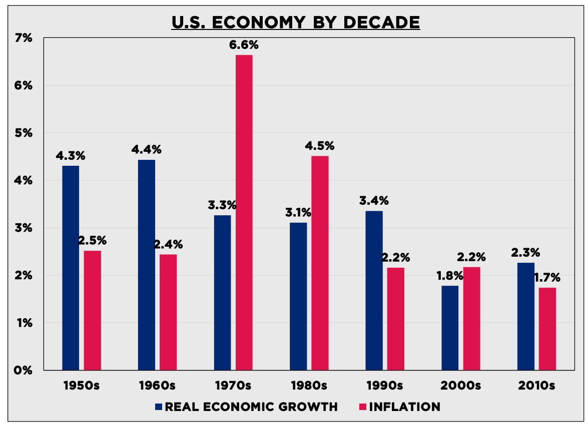

CHART II

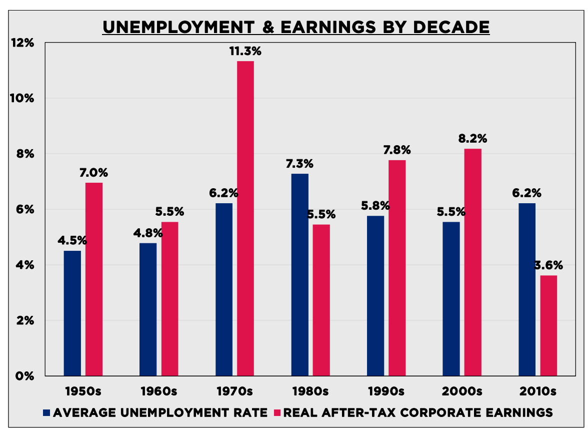

CHART III