SCHLINDWEIN ASSOCIATES
INVESTMENT COUNSEL

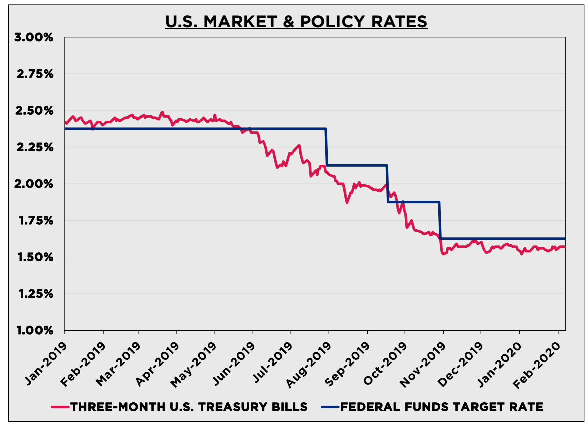
What Now?

Less than six weeks into the new year and investors have been confronted by quite an array of developments: from U.S. presidential campaigning to impeachment acquittal; from Brexit uncertainties to uncharted realities; from trade squabbles to new deals; from the common cold to coronavirus. A review of some recent trends can provide context for investment activity as we move on in 2020.

PERSPECTIVE

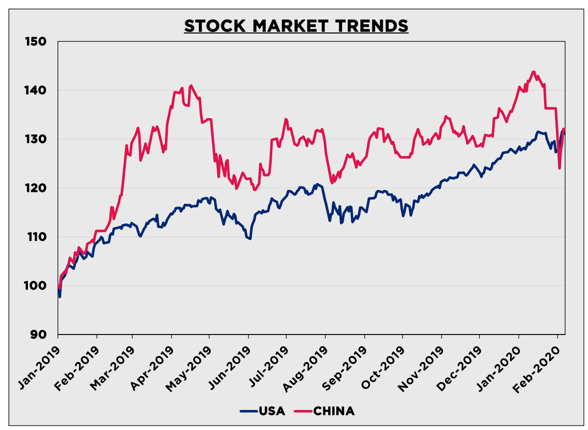
Originally intended to induce economic recovery from the Great Recession, the continuation of accommodative monetary policies and low interest rates has been deemed necessary to maintain growth. The Federal Reserve was on a path to higher rates in 2018, only to reverse course in 2019. Chart I shows the trends since the beginning of 2019 in both the targeted federal funds rate and the open-market yield for three-month U.S. Treasury bills. In late January, the Federal Reserve maintained the target federal funds rate, judging *"that the current stance of monetary policy is appropriate to support sustained expansion of economic activity, strong labor market conditions, and inflation returning to the Committee's symmetric 2 percent objective."* Both the Fed's policy stance and its favorable assessment of current economic conditions provide support for further market gains.

CHART I



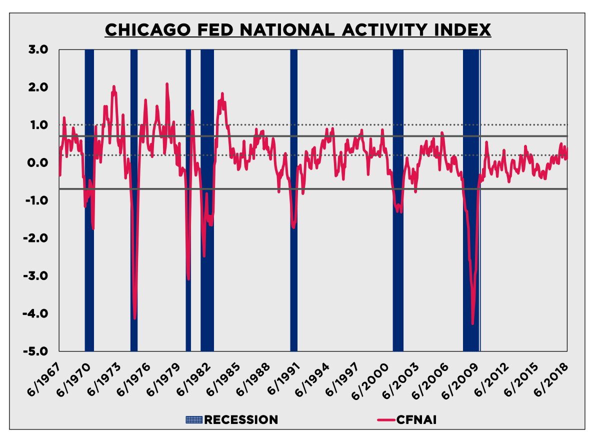
Stock market returns in 2019 generally were well-above average as evidenced by the USA (Wilshire 5000) at +30.2% and China (CSI 300) at 36.8%. Chart II shows these market trends as they continued into early February. Both markets were impacted at different times and to varying degrees by contentious trade talks and tariff enforcements. With a "phase one" tariff agreement in hand, both markets seemed poised to move higher. But then the coronavirus emerged. With its epicenter in China and with severe containment measures taken by that government, stock market trends have de-linked. Expectations are that the human toll will be contained and the economic impact will be temporary. Duration and magnitude remain unclear for both and add a near term element of market uncertainty.

CHART II



Concern arose toward the end of 2019 over the pace of economic activity ahead. Some key indicators pointed to weakness. At this time, U.S. growth is expected to remain favorable at a consensus growth rate near 2.0% throughout 2020. Chart III shows the trend in the Chicago Fed National Activity Index over time and relative to prior recessions. Throughout this decade of expansion, the CFNAI has remained within a favorable range and its current position underwrites prospects for continued growth with moderate inflation.

CHART III



INVESTMENT IMPLICATIONS

Extremely unlikely events are referred to as "black swans". However, very low interest rates no longer qualify and perhaps neither do unusual viruses. Unfortunately, neither do occasions of investors falling short of their goals. Black swan events with their potential adverse impacts on economies, markets and investor outcomes likely will surprise again. The impact of black swan events on investor outcomes can be mitigated. First, clear goals, investment horizons and risk tolerance can be identified. Then, all manner of investment risks can be addressed with appropriate asset allocations and strategies. As a result, the next black swan will be met with a disciplined process and rigorous due diligence.