MISSOURI TRUST AND INVESTMENT CO

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FROM THE DESK OF OUR INVESTMENT POLICY COMMITTEE:

2020 Outlook – Everything in Moderation

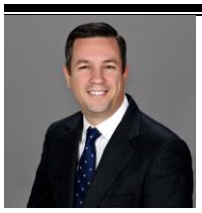
Despite a variety of geopolitical issues, 2019 was a banner year for stocks. Some investors are questioning if the rally can continue. Don't stock returns have to revert to the mean? Are we due a pullback just because of how far the market has climbed? Maybe…, but not necessarily. In the past 50 years, the S&P 500 has risen by more than 20% 17 times before 2019. In the year following those 17 years, the market was up 12 times and down 5 times with an overall average return of 11.52%. Last year's great returns do not automatically mean gloom for 2020.

We expect markets to focus on the tensions between organic economic growth and the risk associated with geopolitical uncertainties. Already this year we have seen the signing of the Phase 1 China Trade Deal. Undoubtedly, this is a positive development, however, it just stabilizes the relationship with China and most tariffs will remain in place at current levels. For the third year in a row, the United Kingdom will attempt to complete their withdrawal from the European Union. Iran and North Korea will likely remain a source of geopolitical uncertainty. And the United States will end the year with a presidential election.

On the economic front; growth may slow modestly, but we are still expecting approximately 1.5-2% GDP growth for the United States in 2020. Inflation has remained stubbornly low, and we expect that to continue. This will allow the Federal Reserve to remain on hold with no changes to the Fed Funds short term interest rate this year. Corporate earnings are projected to growth by 8-10% over last year, and this is likely a reasonable estimate of stock market returns. Absolute price-to-earnings multiples on stocks are somewhat elevated relative to history but aren't worryingly expensive when considering the interest rate environment.

We believe U.S. equities modest returns could be outperformed by non-U.S. equities – particularly Europe – although this prediction includes an elevated risk profile. We also continue to own real assets like global real estate, listed infrastructure, and natural resources for their attractive dividend yields and low correlation with traditional asset classes.

Sir John Templeton famously said, "*bull markets are born on pessimism, grow on skepticism, mature on optimism and die on euphoria"*. The equity and credit markets have spent some time in the optimistic camp over the last few years, but we do not believe they have reached euphoria.



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Raymond leads the investment management team at Missouri Trust & Investment Company and advises institutional, retirement plan and individual clients on portfolio management, strategic and tactical asset allocation, and financial planning and wealth management strategies