



Q1 2020 – Market Overview Newsletter

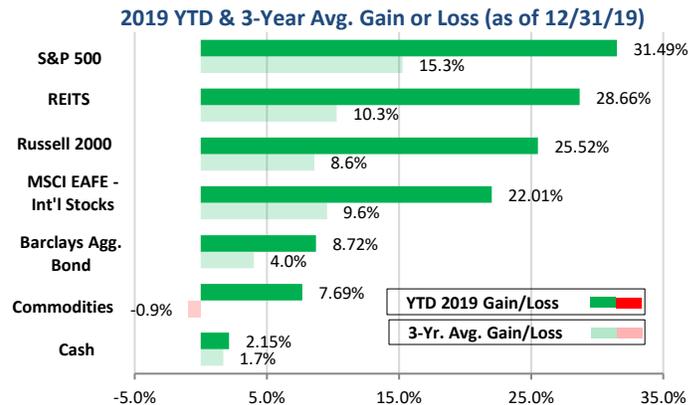
Economic Update

What a difference one year makes! 2019 was a year of moderate economic growth and excellent stock market returns with the U.S. stock market up 31.5%, as measured by the S&P 500 index. This marks the best year for U.S. stocks since 2013 (+32.4), and before that was 1997 (+33.4%). Much of the returns in 2019 were a “make-up” from the market declines in December 2018, so it is important to maintain perspective of robust short-term returns. Nevertheless, the S&P 500 index has averaged 15.3% over the last three years.

We are now in the midst of the longest economic expansion in U.S. history. Although economic growth slowed in 2019, we expect to see a slight improvement in economic growth in 2020 with no significant threat of recession. The Leading Economic Index (LEI) is used to predict the direction of global economic movements. The LEI remains positive but provided evidence of the slowing economic environment during 2019. In December we saw a flattening in the LEI, suggesting stability and perhaps an improvement moving forward.

Global growth is also likely to improve. International equities rose in 2019 but have now lagged the S&P 500 Index eight times in the past decade. The U.S. market has certainly dominated overall but 74% of the top 50 stocks since 2010 have been based outside of the United States. In today’s global economy, where a company is domiciled is not necessarily where it does business. With so many top companies located outside of the U.S., we believe that maintaining international exposure in portfolios is important.

As we head into 2020, political headlines will be abundant. Time will tell what surprises await us in 2020 but they will likely be met with heightened market volatility. Investors may have strong preferences for one candidate or political party when it comes to the direction of the country, but when it comes to the



Past performance does not guarantee future results. All indices are unmanaged. It is not possible to invest directly in an index. Please see Chart Definitions for important index information. REITS - NAREIT Equity Index, Cash – ICE BoAML 0-3 month US Treasury, Commodities – Bloomberg Commodities Index. See disclosure pages for index descriptions. Source: Morningstar, Inc 2019

direction of markets, history suggests that the election outcome will make little difference. Of the last 23 elections, we have had 14 different Presidents, seven of which were Democrat and seven were Republican. The S&P 500 index was positive in 19 of these 23 election years. Let’s not get caught up in the moment, but rather be patient and stay the course.

The strength of the U.S. labor market, consumers spending, fair valuations, and an accommodating Federal Reserve, should lead to continued economic growth and modest stock market returns in 2020. The key risks that could derail our economic momentum are trade tariffs and the continued political dysfunction, as well as the potential of corporate earnings disappointments. Although the economy is on stable ground, the unstable geopolitical risks could cause business and consumer sentiment to change abruptly. Therefore, having diversification among investments remains important.

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See back page for information on the SECURE Act.

The SECURE Act - Setting Every Community Up for Retirement Enhancement Act of 2019: On December 20th, President Trump signed into law the SECURE Act. Below are a few of the key provisions from the SECURE Act effective January 2, 2020:

- **Required Minimum Distributions (RMDs)** – Under previous law, an individual must begin receiving RMDs from his or her IRA and/or retirement plan in the year he or she attains age 70.5. The SECURE Act increases the RMD age from 70.5 to age 72. Note if you turned the age 70.5 in or before 2019, you are still required to take an RMD for the 2020 tax year and beyond.
- **Required Minimum Distributions for “Inherited” Retirement Accounts** – Rules relating to the timing of RMDs have been modified for beneficiaries, other than spouses, of inherited retirement accounts. Non-spouse beneficiaries will be required to withdrawal in full the account balance within 10 years of the date of the decedent’s death.
- **IRA Contributions Beyond Required Beginning Date (RBD)** – Previously, once an individual hit their RBD and was required to take distributions from their IRA, they would no longer be permitted to make IRA contributions. The new law permits an individual to continue making contributions even beyond their RBD.
- **Expansion of College 529 Withdrawals** – The new law expands 529 education savings account to cover costs associated with registered apprenticeships and up to \$10,000 of qualified student loan repayments.

For more market details from the last quarter, see the IM&R Market Review in the commentaries page on our website at www.langdonshaw.com/commentaries

DISCLOSURE INFORMATION - The views and opinions expressed herein are those of the author(s) and may or may not represent the views of the Lincoln Investment Companies. The material presented is provided for informational purposes only, from sources deemed to be reliable, however, there can be no guarantee as to the accuracy of the information.

Nothing contained herein should be construed as a recommendation to buy or sell any securities. This material may include forward-looking statements that are subject to certain risks and uncertainties. Actual results, performance, or achievements may differ materially from those expressed or implied. All investments are subject to risk, including the risk of principal loss. Diversification does not guarantee a profit or protect against a loss. Investors cannot invest directly in an index. No person or system can predict the market. Past performance is no guarantee of future performance.

A recession is a significant decline in activity across the economy, lasting longer than a few months. It is visible in industrial production, employment, real income and wholesale-retail trade. The technical indicator of a recession is two consecutive quarters of negative economic growth as measured by a country’s gross domestic product (GDP).

The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy.

International investing involves special risks, including, but not limited to, the possibility of substantial volatility due to currency fluctuation and political uncertainties. The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. The Federal Reserve System is composed of 12 regional Reserve banks which supervise state member banks. The Federal Reserve System controls the Federal Funds Rate (aka Fed Rate), an important benchmark in financial markets used to influence the supply of money in the U.S. economy.

Leading Economic Index (LEI) is an index published by The Conference Board and is made up of 10 leading economic indicators that precede economic events.

Small cap stocks may be subject to a higher degree of risk than larger, more established companies' securities, including higher risk of failure and higher volatility.

The illiquidity of the small-cap market may adversely affect the value of these investments so those shares, when redeemed, may be worth more or less than their original cost. Large Cap refers to companies with a market capitalization value of more than \$10 billion. Large cap is an abbreviation of the term "large market capitalization." Market capitalization is calculated by multiplying the number of a company's shares outstanding by its stock price per share.

Chart definitions: S&P 500 Index: an index of 500 of the largest exchange-traded stocks in the US from a broad range of industries whose collective performance mirrors the overall stock market. Barclays U.S. Aggregate Bond Index is a composite of four major sub-indices: US Government Index, US Credit Index, US Mortgage-Backed Securities Index, and US Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least \$100 million. The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe.

The Russell 2000 Index is a subset of the Russell 3000® Index representing approximately 10% of the total market capitalization of that index. It includes approximately 2000 of the smallest securities based on a combination of their market cap and current index membership. The ICE BofAML U.S. T-Bill 0-3 Month Index tracks the performance of the U.S. dollar denominated U.S. Treasury Bills publicly issued in the U.S. domestic market with a remaining term of final maturity of less than 3 months.

Bloomberg Commodity Index: is a weighted total return index, including reinvested dividends, measuring investor returns from commodity futures investments. It currently represents 20 commodities, which are weighted to account for economic significance and market liquidity. Due to market fluctuation, the commodities represented by this index may experience loss of invested principal and are subject to investment risk.

MSCI EAFE Index: is the Morgan Stanley Capital International Europe, Australia, Far East index, a total return index, reported in U.S. dollars, based on share prices and reinvested gross dividends of approximately 1,100 companies (only those securities deemed sufficiently liquid for trading by investors) from twenty countries. The securities represented in this index may experience loss of invested principal and are subject to investment risk. In exchange for greater growth potential, investments in foreign securities can have added risks. These include changes in currency rates, economic and monetary policy, differences in auditing standards and risks related to political and economic developments. The FTSE Nareit All Equity REITS Index is a free-float adjusted, market capitalization-weighted index of the U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50 percent of total assets in qualifying real estate assets other than mortgages secured by real property.