LongView
ASSET MANAGEMENT

2019 Fourth Quarter Review and Outlook

Global financial markets enjoyed an exceptionally strong year in 2019, with positive returns from every asset class. US markets led the way, as they have done over the past several years. The S&P 500 Index has only done better five times in the last 40 years, and only once since 1999. Though trade tensions contributed to a global manufacturing slowdown, these negative effects were offset by fiscal and monetary stimulus around the world. Healthy consumer spending helped to balance a drop in corporate investment. US unemployment fell to levels last seen in the 1960's and GDP growth clocked in at a steady 2%+ rate. Not even Brexit or impeachment could derail momentum.

PORTFOLIO NOTES

With the MSCI All-Country World Index gaining +26.60% in 2019, returns were driven primarily by Equities. Our core sustainable funds beat their benchmarks, contributing to strong absolute gains. In Fixed Income, we have maintained a defensive position, with shorter maturity and higher quality holdings than the benchmark. While this caused our returns to lag the +8.72% gain of the Bloomberg Barclays US Aggregate Bond Index, we believe this stance will help shield your portfolio in the event of an economic slowdown or rising inflation. Alternative Strategies posted gains well ahead of the BofA Merrill Lynch 3-month Treasury Bill Index return of +1.81%.

OUTLOOK

Markets rose strongly in 2019 despite sluggish economic and earnings growth. For equities, this means that most of the gains came from investors bidding up stock prices. Low bond yields are a sign that fixed income markets are also priced at premiums. For these and other reasons, investors should have measured expectations for the coming year.

Nevertheless, the overall picture is one of slow but continuing growth. Though we are now in the eleventh full year of recovery since the financial crisis, the US economy shows few signs of the excesses that typically mark a peak. Cyclical indicators like auto sales, home building, capital spending and inventory growth are muddling along with little evidence of boom and bust behavior. With the initial boost from tax cuts and deregulation behind us, and with wage costs gradually rising, corporate profit growth in 2020 could be unexciting but still modestly positive.

Barring an unexpected surge in inflation or a geo-political crisis, the Federal Reserve will likely tread carefully during this election year and keep rates near their current low level. We would not be surprised if trade tensions continue to ease as we approach November. Inflation is near the Fed's target of 2% annually, but is holding steady despite a shortage of workers and rising wages.

As always, there are risks to this benign scenario. Tensions between the US and Iran could escalate into a conflict with grave consequences. Trade relations could deteriorate, and fractures within and between the US, Europe, the Middle East and Asia could deepen. Investors have benefited from continued growth and market gains despite recent years' tumult. We won't try to forecast how markets would greet a progressive Democratic election victory built on promises of tax increases, wealth redistribution, and vastly expanded social programs. Instead, we enclose a recent article discussing the futility of market predictions from our core fund managers at DFA, which we think you may find interesting.

Looking back several years, markets had strong gains in 2017, fell sharply in 2018, and rebounded to new highs in 2019. Throughout, our clients have benefited by having portfolios that are well-diversified across asset classes, with appropriate allocations to stocks for growth, and to bonds and other assets for capital preservation and income. This is what enables us to weather the inevitable but unpredictable storms that sink those who are unprepared or who panic.

Looking forward, we welcome any questions you have and are happy to schedule time to discuss your portfolio allocation and any changes in your circumstances.

LONGVIEW NEWS

We would like to share a few highlights of what was a remarkable year for LongView. In March, our partner Doug Lynam published his book, "From Monk to Money Manager." Reflecting his commitment to helping people and building financial literacy, Doug also launched a weekly radio show and podcast in July ("Your Money Matters", on Santa Fe's KSWV 99.9 FM), and a monthly newspaper column ("The Holy Trinity of Finance", in the Santa Fe New Mexican), in November.

As mentioned in our July letter, LongView became a Certified B-Corporation last year, and we continue to advocate for a more inclusive and sustainable economy. Our activities included participating on panel discussions at the University of New Mexico Anderson School of Business and the 30th annual SRI Conference in Colorado Springs, and enhancing socially responsible retirement plans for educational institutions. We also continue to support local nonprofits including Adelante, ArtSmart, Conservation Voters New Mexico, Santa Fe Conservation Trust, St Elizabeth's Shelter, The Food Depot, and The Historic Santa Fe Foundation.

We look forward to welcoming you in the freshly restored Hovey House, home of our new offices since November. In the meantime, we feel enormous gratitude for your trust and send our warm wishes for 2020. We hope the new year brings peace, prosperity and happiness to you and your loved ones.

David Cantor | Harlan Flint