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Placing a rewarding bow on the decade, 2019 produced handsome returns for investors. The three major equity averages all posted returns exceeding 20%, led by the tech-heavy Nasdaq index, which increased more than 35%. Domestic economic strength reassured anxious investors. Internationally, progress towards a trade pact with China as well as a possible resolution to the much-debated Brexit delivered some calm to two storm clouds that had stubbornly loomed over the markets. Perhaps most important to the 2019 rally were the actions of the Federal Reserve. Three interest rate reductions coupled with stimulative monetary policies created a fertile landscape for economic growth and asset price appreciation. When contemplating the last ten years, many investors are hoping for a repeat performance as we head into the new decade.

From a psychological standpoint, investors are in a much different place today compared to one year ago. In the fourth quarter of 2018, the S&P 500® index declined 13.52%, and as 2019 began, many were forecasting an economic recession and making calls that this long-running bull market had concluded. The Federal Reserve had just raised interest rates and was poised to behave in a much more hawkish manner. Global economic growth was anemic as investors poured money into U.S. Treasury instruments. Many predicted corporate earnings to significantly decline in 2019, as they were compared to the 2018 tax-cut-fueled corporate profits. As 2019 proves, low expectations can be a powerful elixir for handsome returns.

Early into the new year, the Federal Reserve recognized that it had tightened too aggressively in late 2018. They commenced on an easing cycle featuring three rate cuts that served to ease investor fears. Fueled by the American consumer, domestic GDP growth continued unabated in 2019. Record-low unemployment continues with encouraging signs of wage growth throughout the employment continuum. Internationally, economic growth also delivered some encouraging signs and we are beginning to see some modest green shoots of growth in Europe and in some emerging markets. Corporate profits are expected to end up relatively flat in 2019. When considering the 20% plus profit growth of 2018, this is an impressive feat.

The past 10 years has been a truly remarkable decade for investors. For the first time on record, the U.S. economy has started and concluded a decade without entering a recession. During what is now the longest economic expansion in history, our economy has added over 20 million jobs and has featured low rates of unemployment, low levels of inflation, and improved growth in wages.

As we look ahead, many of the factors that propelled 2019 are still in place. Sometime in the first quarter, we should have the initial phase of a trade deal with China executed. The long-awaited removal of Britain from the Eurozone, known as Brexit, should be complete. Central banks around the world continue to take a stimulative posture. Investors also expect a resumption of corporate earnings growth. Unlike the beginning of last year, investors begin 2020 with a renewed sense of optimism.

While Riverbridge finds little value in attempting to forecast one-year returns, we will caution our readers that elevated market expectations are not always positive for investors. Regardless, we remain focused on identifying companies possessing the ability to excel over the context of the next decade. Our investment team searches for those companies possessing a competitive advantage that will persist over several years and growth prospects that are not dependent on macroeconomic strength. We are encouraged by the fundamental characteristics of our portfolio companies and are confident in their ability to compete effectively in their respective markets.

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