Intrinsic Investors

Timely Insights into Markets and the Economy

Investors Quarterly

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Equities

- Before diving into the markets, I wanted to mention that Intrinsic Investors celebrated its 20th anniversary in November. Time flies when you are having fun! We owe our success in no small part to the loyalty of our clients and the confidence they place in us. *Thank you!* It is a pleasure to be of service.

- Last December, investor's holiday viewing included "The Nightmare before Christmas." This year, we got "It's a Wonderful Life!" What a difference a year makes... attaboy Clarence!

- Historically, *December is one of the best months of the year for equity investors* and unlike last year, stock investors were not disappointed, seeing continuing new highs in all major markets. This was impressive, given the laundry list of uncertainty experienced during the year. At the end of the day, cooler heads (and earnings) have prevailed.

- While easier said than done, it is always good advice to try to ignore the noise (headlines) and pay attention to the bottom line (earnings). We have noted that continued strong employment and wage growth continue to bolster the case for continued, although slowing growth. This *should come as no surprise* as we get into the later stages of the longest recovery period on record.

- *Equities continued to charge higher* as we closed the books on a banner year. It might be argued that investor optimism is a function of *FOMO (Fear of Missing Out)*. You cannot win if you don't play. That may be true, but don't forget the numbers and what they say about Relative Value (click link to view). Upside potential for 2020 supports Dow 30,000, but not much more. However, I could be wrong!

Fixed Income

- Fed watchers had little to watch in the fourth quarter and all of the action seemed to go on behind the scenes. Quiet, except for that *liquidity thing*.

- We previously noted in this space that going into the end of the summer the credit markets were disrupted. Due to technical factors, that we need not go into, there was *liquidity issue in overnight lending (the repo market)*. This forced the Fed to provide funds to defuse the situation.

- The liquidity issue caused overnight lending rates to spike. This, in turn caused our Recession Predictor (click link to view) to spike over 95%. Remember that when this indicator hits or exceeds 100%, a recession tends to follow.

- It is worth noting that the *yield curve*, which is part of the Predictor, can invert for a variety of reasons. In this case, it was for technical, not fundamental reasons. I am willing to admit that this jump in the Predictor had me scratching my head, given the continued positive news on the economic front.

- Following the end of the liquidity crunch in November, the yield curve reverted to normal, effectively *ending talk of inversion and recession*. Our Predictor has continued to retreat and now sits at 62%. Dodged the recession bullet for now! It is interesting to note how liquidity in money markets affects equity prices. When liquidity is on the rise, so are stock prices. After liquidity peaks, we have seen declines in equities. Research on this goes back to 1927.

- I expect the *Fed to continue its neutral stance* on interest rates moving into 2020. Long-term *inflation expectations remain subdued*. This is due in part to technological progress as the world continues to transition from manufacturing to technology and service based economic growth. *The future keeps happening*.

Conclusions

- We have no complaints about year just ended and despite entering into another silly season in US politics and renewed geopolitical unrest, we are at peace (for now) and I get the sense that the economy can continue to move ahead into the new year.

- Our *cautious optimism* continues, but as always, we accept that things can turn on a dime. Our primary focus going into 2020 remains on 4Q2019 earnings and how they affect valuations moving forward. Stay tuned!

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