WIMMER ASSOCIATES

QUARTERLY REPORT

VOLUME 18, ISSUE 1 JANUARY 2020

LETTER FROM KATHY

Dear Friends:

2019 was a rewarding year in the equity markets, as the broad-based S&P 500 index climbed nearly 29% over the year, providing the best annual return since 2013. Continuing an enduring run, technology led the markets to new heights, as stalwarts such as Apple reached a $1.3 trillion market capitalization at year-end, closely trailed by Microsoft, with a $1.2 trillion market cap. Cloud leader Amazon, which is classified as a consumer discretionary stock owing to its web-based retailing behemoth, also recently joined the trillion dollar market capitalization club. Facebook and Google are now deemed to be communications firms, despite their leadership in technology. While not members of the trillion dollar club, Facebook and Google share prices rose 18% and 57%, respectively in 2019. These technology-social media stocks continue to drive the equity markets higher, with strong growth rates in revenues and earnings. Also, investors' shift to passive ETF index funds has created a buying bias toward large-cap stocks, because the major indices are weighted based on the size of a company's market capitalization. Despite the large-cap bias, the Russell 2000 Index of small-cap stocks also had a terrific year, with a return of 24% in 2019.

Europe, China and Brazil all enjoyed stellar equity returns in 2019, tallying gains of 23%, 22% and 32%, respectively. 2019 returns were remarkable, especially considering that the global economy faced numerous headwinds, including trade wars, economic sanctions, weakening manufacturing output, Brexit and higher oil prices (WTI oil rose 34% in 2019). Nevertheless, the world's central bankers continue to hold sway over equity prices with their loose monetary policy of low-to-negative interest rates and quantitative easing. The goal of lower rates is to stimulate economic growth, which, in turn, makes investors optimistic about the prospects for future earnings and increases demand for common stocks, resulting in higher prices.

The yield on a ten-year US Treasury Note was 1.92% at year-end 2019; not exciting, but better than the negative interest rate of -0.19% offered on the German ten-year Bund. In our view, the main reason to own bonds at these levels is risk reduction and diversification.

The January trade truce between the US and China, the signing of the USMCA trade agreement, low interest rates, the Brexit resolution, record low unemployment and strong wage growth augur well for 2020 prospects for market performance. Eventually, there may be a day of reckoning in the stock market for the years of easy monetary policies, but we think it improbable that it will be this year.

Cordially,

Kathy Wimmer, CFA, CIC
President

KEY FACTS FOR 2020

- *Annual gift exclusion $15,000*
- *Estate, gift and generation-skipping tax exemption $11,580,000 per individual*
- *Highest marginal estate tax rate 40%*
- *IRA contribution limits $6,000, plus another $1,000 for those over fifty*
- *SIMPLE IRA and 401(k) contribution limits $13,500, plus another $3,000 for those over fifty*
- *401(k) contribution limits $19,500, plus another $6,500 for those over fifty*
- *SEP IRA contribution limits 25% of compensation, max of $57,000*
- *Top Federal tax rate is 37% on income over $518,400 (single filers)*
- *Top Federal tax rate is 37% on income over $622,050 (married filers)*

INSIDE THIS ISSUE:

LETTER FROM KATHY	1
THE ECONOMY	2
CHIINA & THE CORONAVIRUS	3
2020 OUTLOOK	4

THE ECONOMY

On January 15, the Federal Reserve ("the Fed") released its "beige book," which is a qualitative review of economic conditions in the US as compiled by the twelve district banks of the Fed. Trade uncertainty and tariffs weighed down economic expansion in manufacturing and agriculture, but there was optimism cited that the US and China would soon sign a trade truce. US agriculture should also benefit from the congressional approval of the USMCA trade agreement between the US, Mexico and Canada. Labor shortages were reported as constraining expansion, but rising wages were not seen as a damper on growth. US manufacturers continued to bemoan continued tariffs on imported raw materials, which are forcing sellers to pass on increased costs to the ultimate consumer.

On January 30, 2020, the Bureau of Economic Analysis released its preliminary GDP growth numbers for the fourth quarter and calendar year 2019 of 2.1 % and 2.3%, respectively. It would not be unusual for the numbers to be revised upward, which is usually the case through two follow-on revisions. 2019 GDP was tracking at a 2.4% real annual growth rate at the end of the third quarter; this augurs well for a higher revision of both the fourth quarter and year end numbers, considering the strong retail numbers in the end of the year. The falloff from 2018's US GDP of 2.8% is generally attributed to the initial boost of tax reform to 2018 economic activity and the continued uncertainty of tariffs and trade war throttling back the economy in 2019.

Perhaps the weakest sector of the economy in 2019 was manufacturing, with five continuous months of contraction as measured by the Institute of Supply Management's (ISM) Producer Manufacturing Index or (PMI). A major drag on the index is the continuing grounding of the Boeing 737 Max. Manufacturing only accounts for eight percent of the overall US economy and, therefore, is not a strong indicator of overall economic health in the consumer and services driven US economy. Consumer spending accounts for 70% + of US economic activity.

The Bureau of Labor Statistics reported that the unemployment rate was 3.5% in December of 2019, compared to 3.9% in December of 2018. The labor participation rate was marginally higher at year end 2019 at 63.2%, compared to 63.0% at year-end 2018. Average hourly wages rose 2.9% in 2019, versus a 3.2% gain in 2018, which was the strongest gain in over a decade. There is currently a backlog of open manufacturing positions for 500,000 workers. The labor market is quite strong, which bodes well for the US economy.

Initial January 2020 numbers showed a whopping addition of 225,000 workers, which, paradoxically, increased the unemployment rate to 3.6%. The jobless rate climbed in January because more people looked for work as "the share of Americans aged 25 to 54 working or looking for work ticked up to 83.1% from 82.9% in December ,the highest rate since 2008" according to the WSJ. The overall labor participation rate rose to 63.4% in January, which is the highest since 2013. Annual wage growth cooled to an annual pace of 3.1% at the end of January, after peaking around 3.5% in mid-year 2019.

The Consumer Price Index (CPI) rose 2.05% in 2019, which is considered moderate. The Fed prefers to use the Personal Consumption Expenditure Deflator (PCE) to target its preferred inflation rate of 2%. The latest available data reflect an annualized inflation rate of 1.60% for the twelve months ended December 31, 2019. Although current data approximates the Fed's target rate of inflation, Fed Governors have stated that they would allow the economy to "run hot" for a few quarters before initiating any interest rate tightening.

The consensus amongst analysts is that corporate earnings should rise by 9% in 2020. This would be a welcome rebound from the paltry earnings rise of 0.2% in 2019. A strong US dollar was cited by 40% of companies as a "headwind" to 2019 earnings. Others mentioned trade and tariff uncertainty and higher commodity prices as reasons for softer earnings gains. ~

China and the Coronavirus

The developing story of the coronavirus emanating from mainland China is the proverbial elephant in the room. There is still much unknown about the corona virus outbreak, including its geographic origin. The City of Wuhan is reported to be ground zero of the virus, but the exact date of discovery and how long the virus has been known to Chinese authorities remains shrouded in mystery. There is no point is being alarmist, but it is deadly clear that the Chinese government knew about the outbreak well before sharing the information with the rest of the world. US press reports that Chinese medical practitioners (aka whistleblowers) were censored and/or threatened by Chinese authorities when they sounded the alarm over the potential pandemic risk. As of February 10, 2020, the World Health Organization (WHO) reports 40,554 cases, with only 319 known cases outside of China spread amongst 25 different countries. Over 1,000 individuals have perished from the coronavirus. To put this into perspective, more than 61,000 Americans die from the flu annually. There have been 12 reported cases of coronavirus in the United States to date, with no known deaths. There is currently no vaccine for the coronavirus, but there seems to be some promising treatments with repurposed anti-retrovirals that are commonly used to treat HIV.

Aside from the obvious health risk the coronavirus poses within China and in other countries, it is now evident that the outbreak will sap Chinese growth prospects, as well as throttling supply chains throughout the region and globe. Capital Economics projects that the epidemic will cost $280 billion in lost global growth in the first quarter alone. Oil experts are predicting that China's oil consumption will decline by 3 million barrels of oil a day, as flights are cancelled and transportation is halted amidst widespread travel quarantines. Foxconn, Apple's largest supplier of parts and manufacturing still has its doors shuttered in Shanghai. Auto-supply plants remain closed throughout China, while Fiat Chrysler and Hyundai have closed plants in South Korea due to the lack of parts from China. China is a major consumer of natural resources, including oil, minerals and timber; this will have an adverse economic effect on poorer, commodity exporting countries.

It now seems questionable whether China will be able to live up to its trading commitments with the United States under the first phase of the January 15, 2020 trade agreement. Bloomberg reports that "Chinese officials are hoping the US will agree to some flexibility on pledges in their phase-one trade deal, people familiar with the situation said, as Beijing tries to contain a health crisis that threatens to slow domestic growth with repercussions around the world." The agreement sealed on January 15 has a clause that states the US and China will consult "in the event that a natural disaster or other unforeseeable event' delays either from complying with the agreement." It's unclear whether China has formally requested such a consultation yet, but the people familiar with the matter said the plan is to ask for it at some point.

There are reports that the coronavirus was known to the Chinese government as early as mid-November 2019, which implies that the Chinese knew before the signing of the Phase I agreement that they would need to seek waivers or amendments shortly. Deception is not a good harbinger for the promised Phase II trade agreement, let alone the full implementation of Phase I. The mantra of global free trade that promised stronger supply chains, increased worldwide production and a larger economic pie for all is dying in the face of tariffs, sanctions and duplicity. The two largest economies in the world are "de-coupling" economically amid intellectual property theft, cyber-warfare and the militarization of the South China Sea. US-China relations are in need of a profound reset. ~

WIMMER ASSOCIATES

Investment Counsel

155 North Lake Avenue, Suite 440
Pasadena, California 91101
626-683-3150

www.wimmerassociates.com

We strive to optimize our clients' financial well being by coordinating investment decisions with other professionals in the fields of taxation and estate planning.

2020 Outlook

We see reasons to be positive about 2020. US unemployment is at a 50-year low of 3.6%, the US job market has grown for 112 consecutive months (an all-time high), US wage growth is 3.1% for the twelve months ended December 31, 2019, the US labor participation rate is climbing, as previously sidelined employees return to the workforce, the US economy has grown continuously for over 10.5 years, the US Federal Reserve is unlikely to raise interest rates before the 2020 presidential election, and the S&P 500, Nasdaq, Dow and home prices are at all-time highs.

The US economy continues to be driven by buoyant consumer spending, which accounts for 70% of GDP. According to Gallop's annual "Mood of the Nation" survey, "The current 59% of Americans who say they are better off financially than they were a year ago is essentially tied for the all-time high of 58% in January 1999. That was recorded during the dot-com boom, with conditions similar to the current state of the economy -- a stock market rocketing to then-record highs and unemployment at multi-decade lows -- though GDP growth was higher at that time."

"In addition to US adults' highly positive report on their current financial situation, Americans are also expressing peak optimism about their *future* personal financial situation. About three in four US adults (74%) predict they will be better off financially a year from now, the highest in Gallup's trend since 1977."

Headline risk and media hyperbole may distract investors' attention in the short term. We remain cautiously bullish, however, on US markets for the medium-to-long term. We continue to focus our investment strategies on the historically positive, robust underlying fundamentals of the US economy. ~