RMH Investment Management, LLC

Market Watch with RMH

January 2020

Here is to a great 2020, may it be quiet and without obnoxious TV ads until November. Now that would be one of my surprises for the year!! Every year I like to see what Byron Wein and Joe Zidle from Blackstone put out in their list of top ten surprises, and this year is no different. A number of these I do not want to see happen. Below is the press release from Blackstone.

Byron Wien and Joe Zidle Announce Ten Surprises for 2020

New York, January 6, 2020 – Byron R. Wien, Vice Chairman together with Joe Zidle, Chief Investment Strategist in the Private Wealth Solutions group at Blackstone, today issued their list of Ten Surprises for 2020. This is the 35th year Byron has given his views on a number of economic, financial market and political surprises for the coming year. Byron defines a "surprise" as an event that the average investor would only assign a one out of three chance of taking place but which Byron believes is "probable," having a better than 50% likelihood of happening. Byron started the tradition in 1986 when he was the Chief U.S. Investment Strategist at Morgan Stanley. Byron joined Blackstone in September 2009 as a senior advisor to both the firm and its clients in analyzing economic, political, market and social trends. In 2018, Joe Zidle joined Byron Wien in the development of the Ten Surprises.

The Ten Surprises of 2020

1. The economy disappoints the consensus forecast, but a recession is avoided. Federal Reserve Chair Powell lowers the Fed funds rate to 1%. Without a comprehensive trade deal in hand, President Trump exercises every executive authority he has to stimulate growth and ward off recession. He cuts payroll taxes to put more money in the hands of consumers.
2. Concepts of inequality and climate change become important election themes, but centrist ideas prevail. The House of Representatives sends articles of impeachment to the Senate, but Donald Trump is not convicted or removed

from office. Enough information is revealed in the proceedings to cause some of his supporters, as well as many independents, to throw their support to liberal candidates in 2020 state races. The Democrats take the Senate in November.

3. There is no comprehensive Phase Two trade deal that limits China's ability to acquire intellectual property. National interests result in the balkanization of technology. The development of separate standards for 5G and other tech hardware proves to be bad news for the future of world economies. The move toward "decoupling" gains traction in negotiations with China. US economic co-dependence with China erodes. Both China and the US keep their hands off Hong Kong and let the protest settle down by itself.
4. The prospect of a self-driving car is pushed further into the future. A series of accidents with experimental vehicles causes a major manufacturer or technology company to issue a statement that they're no longer developing self-driving technology.
5. Emboldened by the pain of economic sanctions, Iran capitalizes on a lack of American leadership abroad by stepping up acts of hostility against Israel and Saudi Arabia. The straits of Hormuz are closed and the price of oil (West Texas Intermediate) soars to over $70/barrel.
6. Even though some observers believe valuations are stretched, a surge in investor enthusiasm pushes the Standard and Poor's 500 above 3500 at some point during the year. Earnings only increase 5%, and S&P 500 multiples remain elevated because monetary policy is easy and investors become more comfortable that intermediate interest rates will rise slowly. Volatility increases and there are several market corrections greater than 5% throughout the year.
7. Big tech companies face growing political scrutiny and social blowback. Once the market leaders, certain FAANG stocks underperform and the equal-weighted S&P 500 outperforms. There are popular plans proposed to break up the largest social media platforms and increase regulation and government oversight. This has greater success than prior government efforts against Apple, Microsoft and IBM, because it has widespread support from the American people. A millennial in New York City puts their phone down and makes eye contact with another human and finds it non-threatening and refreshing.

8. Having secured a workable Brexit deal, the United Kingdom turns out to be the winner in its divorce from the European Union. The equity market rises and the pound rallies. The U.K. benefits from a long transition period and growth exceeds 2% as foreign direct investment resumes now that the outlook is clarified. The EU economy remains soft, and European markets other than the UK underperform the US and Asia.
9. The bond bubble starts to leak, but negative rates continue abroad. Even though the U.S. economy is slowing, the 10-year Treasury yield approaches 2.5% and the yield curve steepens. Japan and China pull away from the Treasury auctions. Rather than economic fundamentals or inflation, supply and demand drive yields higher.
10. The problems with Boeing's 737 Max are fixed and deliveries begin. The plane becomes a fixture around the world, enabling airlines to operate more efficiently and increase profits. The stocks become market leaders.

From Michael Gayed of the Lead Lag Report, (please see the chart on the next page), going back the last 10 years or so, we have had a number of themes that caused the markets major concerns:

- Trade war with China, almost 2 years, and not done, phase 2 to come
- Quantitative tightening in the United States, Fed raising interest rates
- China hard landing for their economy (twice), going into a recession
- Populism here (Trump) in the U.S. and abroad, (U.K. leaving the E.U.)
- U.S. fiscal cliff, once, and a second event, soon
- E.U. sovereign debt funding crisis, leading to negative interest rates
- Any number of geopolitical crisis's

Despite all of this the S&P 500 had a strong decade. If you allowed these worries to influence your investing and you stayed out of the market you missed strong returns in the past decade. The question to be answered is after the solid returns of the past three decades, can the S&P 500 repeat its performance for the next decade?

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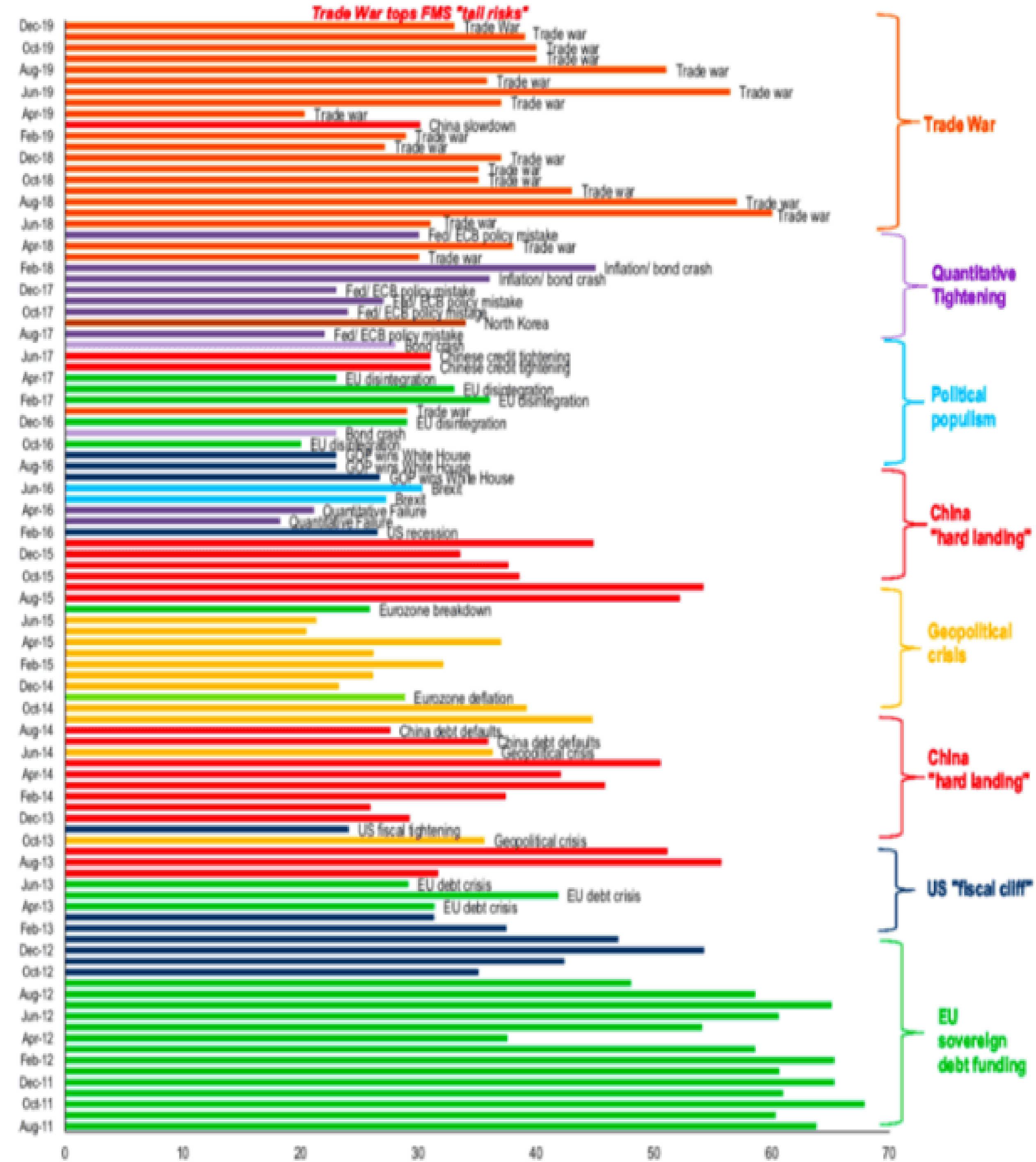
Exhibit 10: Evolution of Global FMS "biggest tail risk"

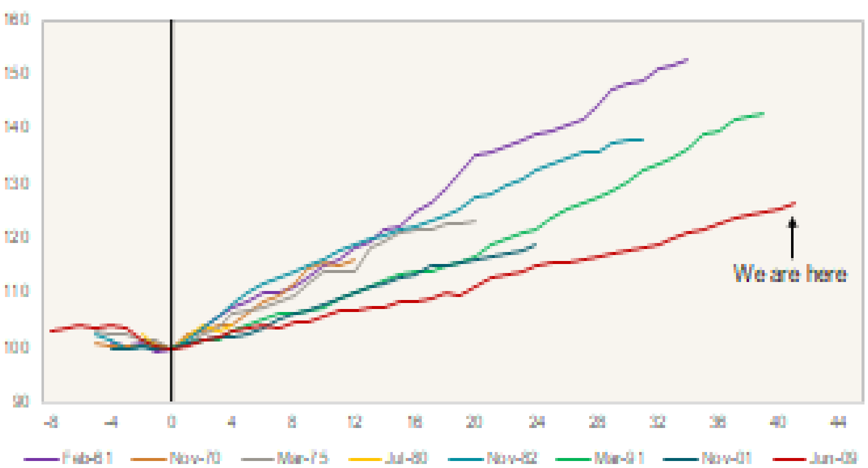


Source: BofA Global Fund Manager Survey

Recently, I listened to one of my favorite conference calls from "Epoch Investment Partners", and they as well as others have been discussing the longest economic expansion, and they shared the following:

Real Economy: The Longest and Flattest Recovery Ever!

Real GDP: Recoveries don't just die of old age



Source: Epoch Investment Partners, Bloomberg
Note: Date 0 measures the beginning of recovery, indexed to 100, with time measured in quarters.

Why has growth been so tepid this cycle?

1) Debt hangover (Rogoff)
2) Secular stagnation (Summers)
3) Slowing innovation (Gordon)
4) Tech mismeasurement (Brynjolfsson)

What causes recessions?

1) Fed tightening: To head off inflation
2) Bursting bubble: Reflecting a massive misallocation of capital (housing, tech)
3) Exogenous shock (1973 OPEC)

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In conclusion for all of the research I have read, and conference calls I have listened to this year, there seems to be a consensus, with almost zero dissent of the following:

- Small chance of a recession in 2020
- Small chance the Fed raises interest rates (election year)
- Unemployment staying strong, in fact a labour shortage
- Oil, natural gas prices to stay reasonably constant to down
- For the S&P 500 to go up, their needs to be earnings growth from the companies
- International and Emerging Markets offer better value, than the U.S.
- Consumer is earning more, and is in fact saving, and they make up 70% of the economy
- Trade agreements between U.S./Canada/Mexico, Japan, Korea, and phase 1 of the U.S./China trade deal will all add growth to the economy.
- Not one mention of the circus in Washington

Sources include the following:

Byron Wien and Joe Zidle Announce Ten Surprises for 2020
Michael Gayed, CFA – Lead Lag Report, Jan 9 , 2020
Epoch Investment Partners January 22, 2020 call

We thank you all for taking the time and reading "Market Watch." It is meant as an educational piece on the always evolving markets. It is something we plan on providing every month, and your feedback is very important to us. Please feel free to always reach out with questions, thoughts, or comments. If there are ever any topics you wish us to explore, please share.

On a personal note, RMH is now in the position to bring on new clients and please be sure to share this informational letter with whomever you wish. RMH's focus is on the customizable investment needs of individuals, families, and foundations. We enjoy working with our clients to better understand their goals, values, and passions for what is important in their lives. In expanding our client base, we look forward to working with people who share these same desires

Richard Mundinger, CFA

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