

Capital Region Chamber of Commerce

The Outlook for 2020 and 2021

Dow Jones Industrial Average 11,185



Dow Jones Industrial Average 13,008



**This is my twin brother
Stuie. He just heard
Grandpa's forecast for
2012**

Dow Jones Industrial Average: 28,174



REPORT CARD

VARIABLE	2018	FORECAST FOR 2019*	OUTCOME**
ODDS OF A RECESSION		No Recession	No Recession
US REAL GDP	2.9%	2.7%	2.3%
US NEW JOBS (per month)	223,000	194,000	165,000
US UNEMPLOYMENT RATE	3.9%	3.4%	3.6%
US CONSUMER SPENDING	3.0%	2.5%	2.6%
US INFLATION	2.1%	2.5%	1.8%
NEW YORK STATE GROWTH RATE OF EMPLOYMENT	1.3%	1.4%	1.0%
ALBANY MSA GROWTH RATE OF EMPLOYMENT	1.0%	1.1%	1.0%

*Forecast for Average for 2019

**Estimated Average for 2019. Bloomberg News (November Survey); Blue Chip Economic Indicators (November Survey); HJA

REPORT CARD

VARIABLE*	Q4 2018	FORECAST FOR Q4 2019*	OUTCOME**
FEDERAL FUNDS	2.2%	2.875%	1.69%
2-YEAR US TREASURY	2.8%	2.83%	1.58%
10-YEAR US TREASURY	3.0%	3.26%	1.76%
S&P 500	2692	2972	3050

* Average for Q4 2019 ** Average for October 4-November 29 2018

Worry #1

Dow Jones Industrial Average 128 months

US Economy 125 months

Previous Records

Dow Jones (1990-2000) 111 months

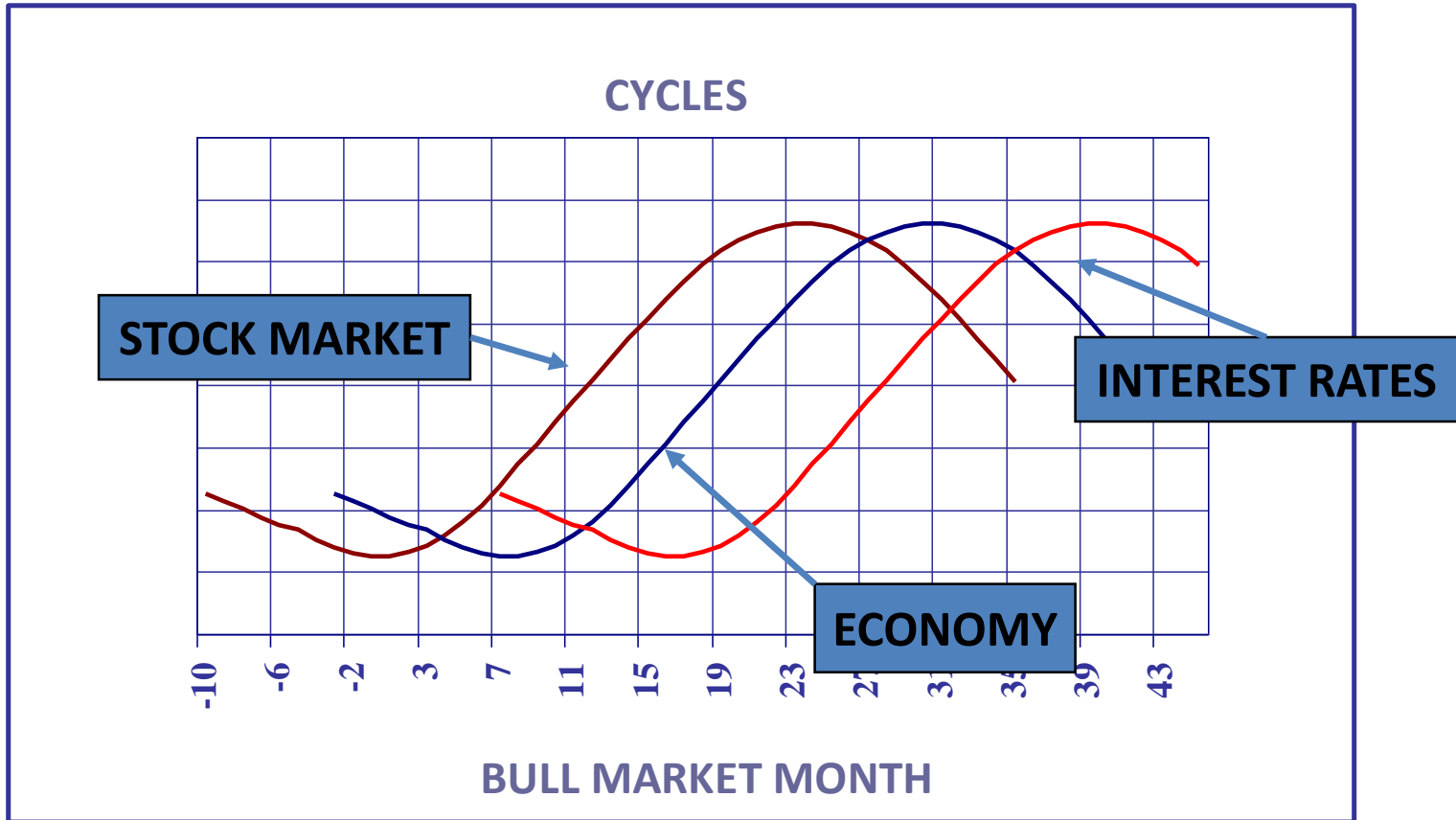
US Economy (1990-2000) 120 months

APPROACH

- **IDENTIFY MEANINGFUL TRENDS IN FINANCIAL MARKETS**
- **IDENTIFY MEANINGFUL TRENDS IN IMPORTANT MONETARY AND ECONOMIC VARIABLES**

(ARE FINANCIAL MARKET TRENDS RATIONAL?)

THE ANATOMY OF A CYCLE



Source: Hugh Johnson Advisors (HJA)

From Rational to “Something Less Than Rational”

STAGES

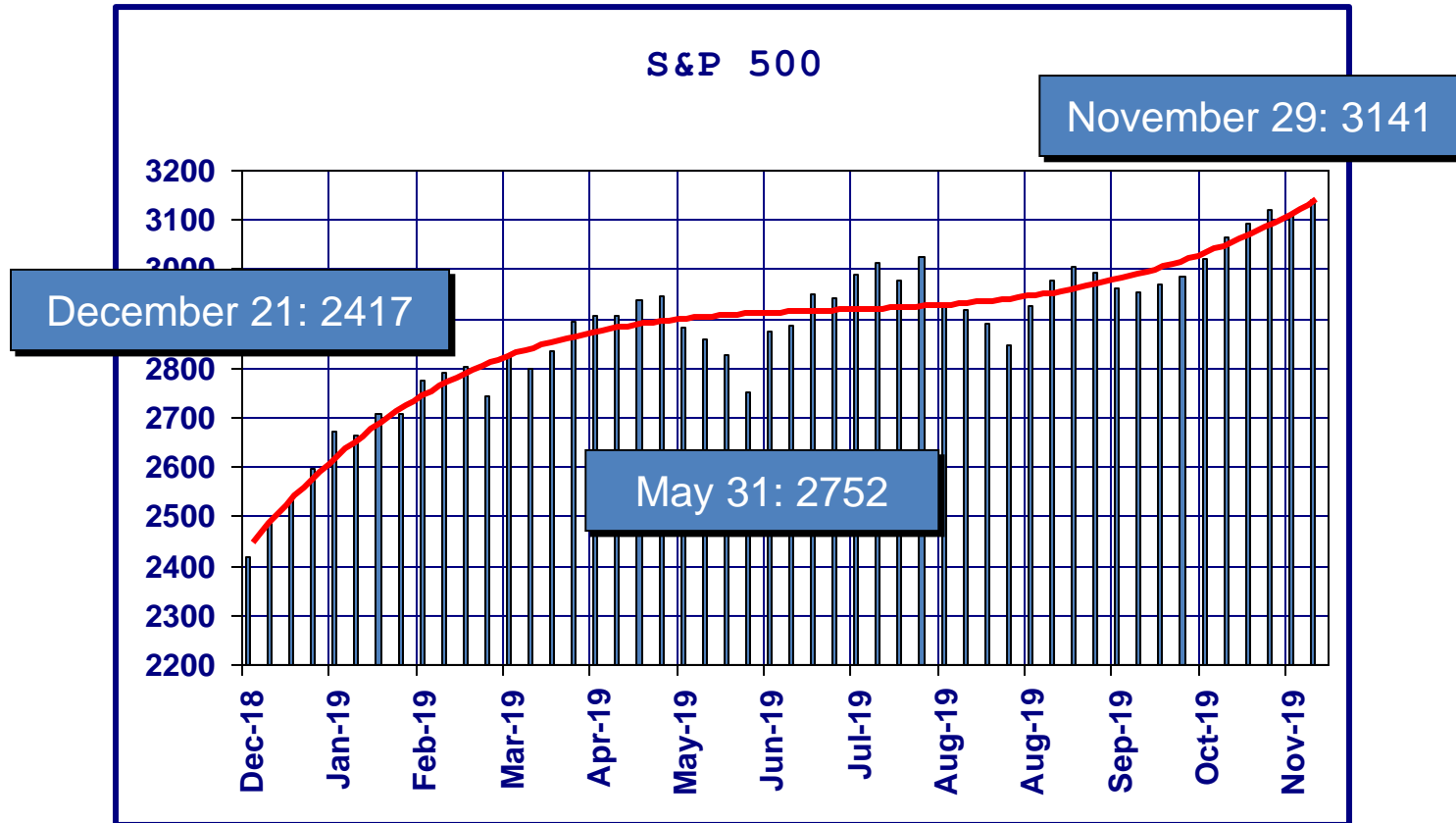
- Investment
- Speculation
- Financial Distress
- Revulsion

When the rest of the world has gone mad it is wise to imitate them in some small measure...monkey see; monkey do

**“We have a risk of a melt-up, not a meltdown here.”
Despite where the markets are in equities, we have not seen money being put to work. We have record amounts of money in cash.**

Larry Fink, CEO, BlackRock Inc.

May 31st to November 29th S&P 500 +14.1%.



Source: Bloomberg News; Hugh Johnson Advisors

May 31st to November 29th “bull market sectors” have outperformed “bear market sectors”

Sector	5/31/19-11/29/19
Technology	22.6%
Finance	15.9%
S&P 500	14.1%
Healthcare	14.1%
Basic Materials	13.9%
Industrial	13.9%
Communications Services	13.2%
Consumer Staples	11.3%
Consumer Discretionary	9.4%
Utilities	8.3%
Real Estate	6.4%
Energy	-0.2%

Source: Bloomberg News; Hugh Johnson Advisors. *Bear Market Sectors in Red and Italicized*

May 31st to November 29th large capitalization stocks outperformed mid and small capitalization stocks...but the gap has narrowed

Index (Capitalization)	5/31/19 to 11/8/19
<i>S&P 500 (Large)</i>	<i>14.1%</i>
S&P 400 (Mid)	11.1%
S&P 600 (Small)	10.9%

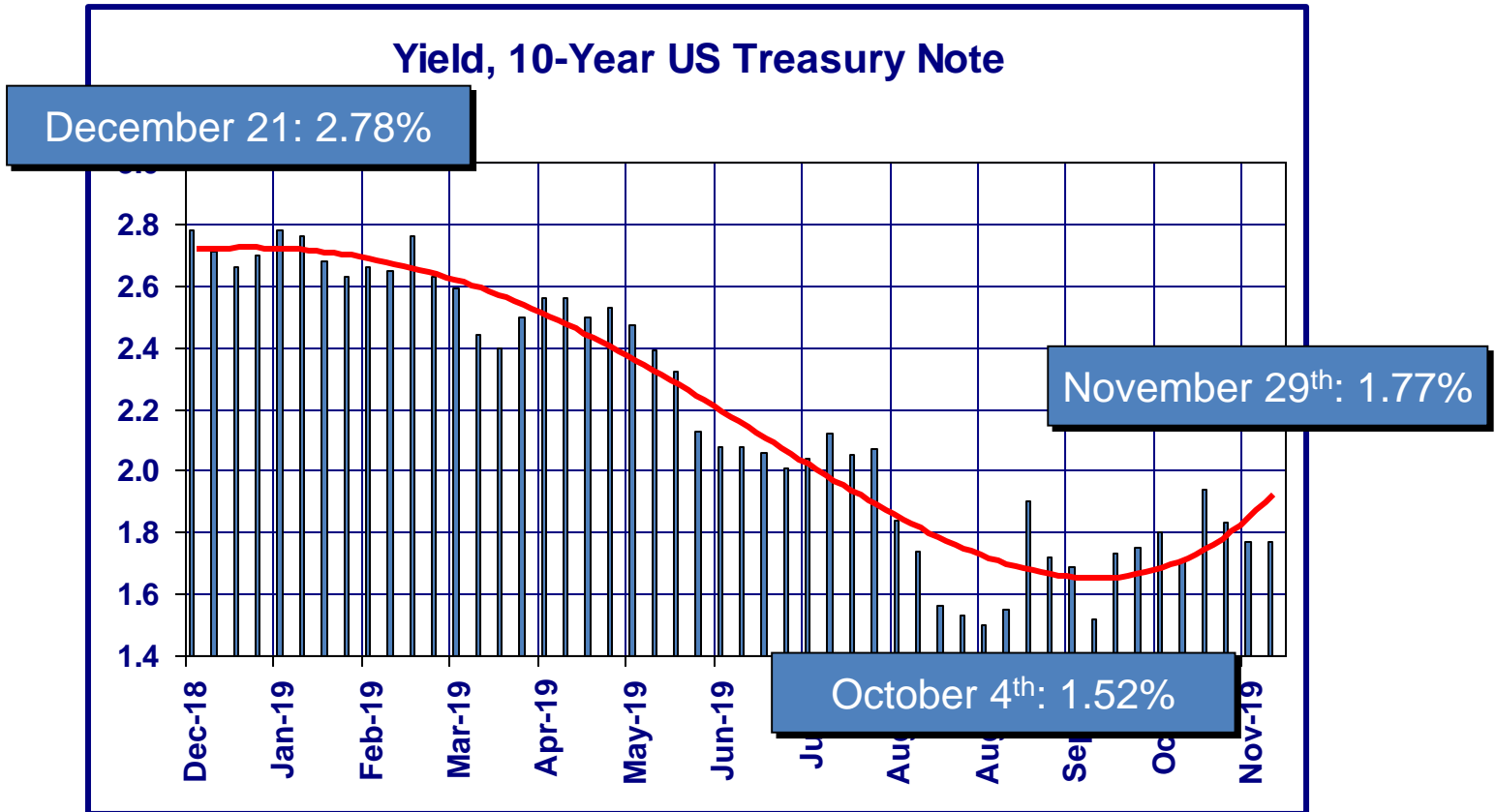
Source: Bloomberg News; HJA

May 31st to November 29th value stocks outperformed growth stocks

Index (Capitalization)	5/31/19 to 11/8/19
<i>Large Value</i>	<i>15.9%</i>
Large Growth	10.7%
<i>Mid Value</i>	<i>12.1%</i>
Mid Growth	10.0
<i>Small Value</i>	<i>13.4%</i>
Small Growth	10.2%

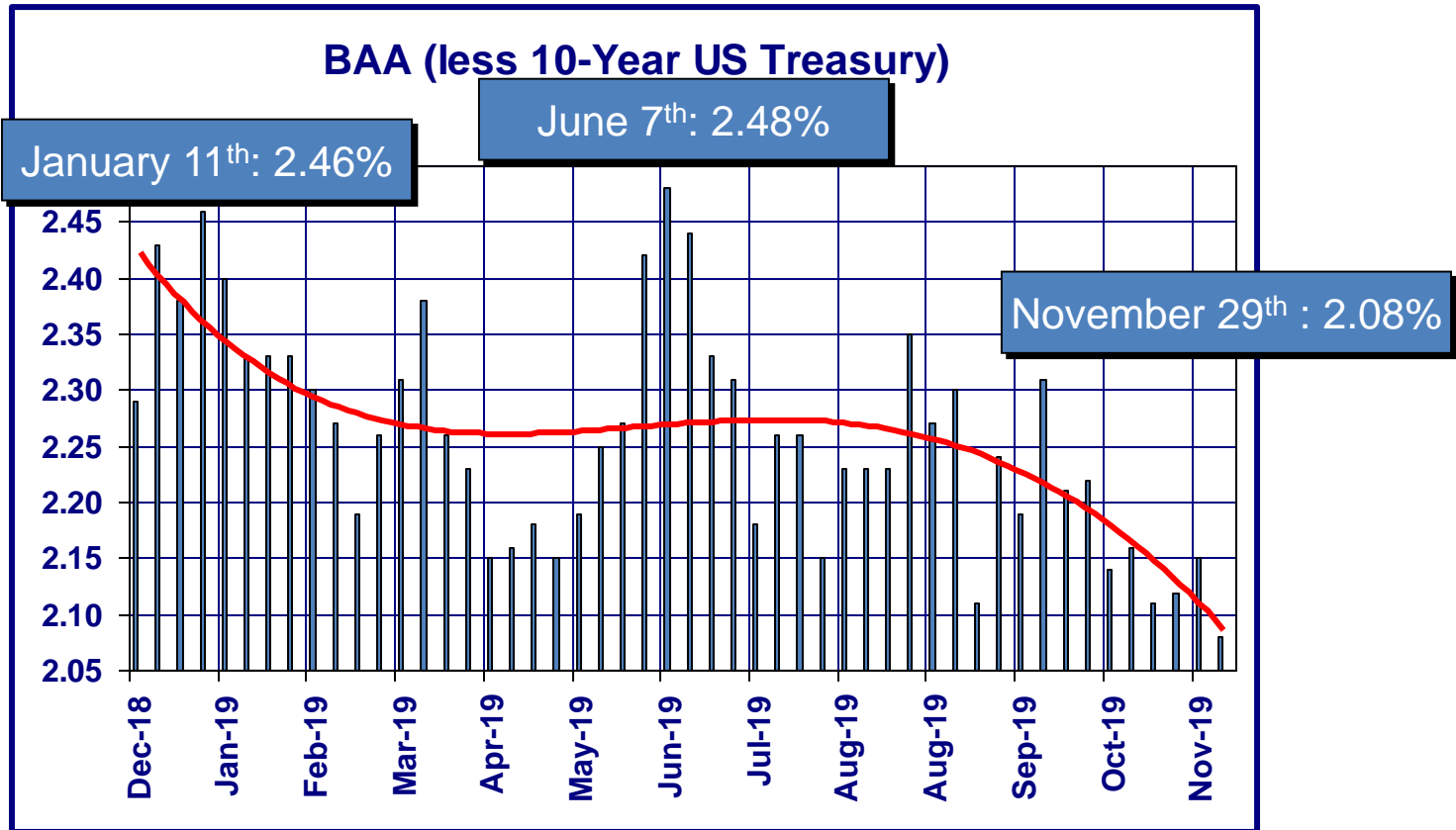
Source: Bloomberg News; HJA

Longer-term interest rates are moving (“inching”) higher



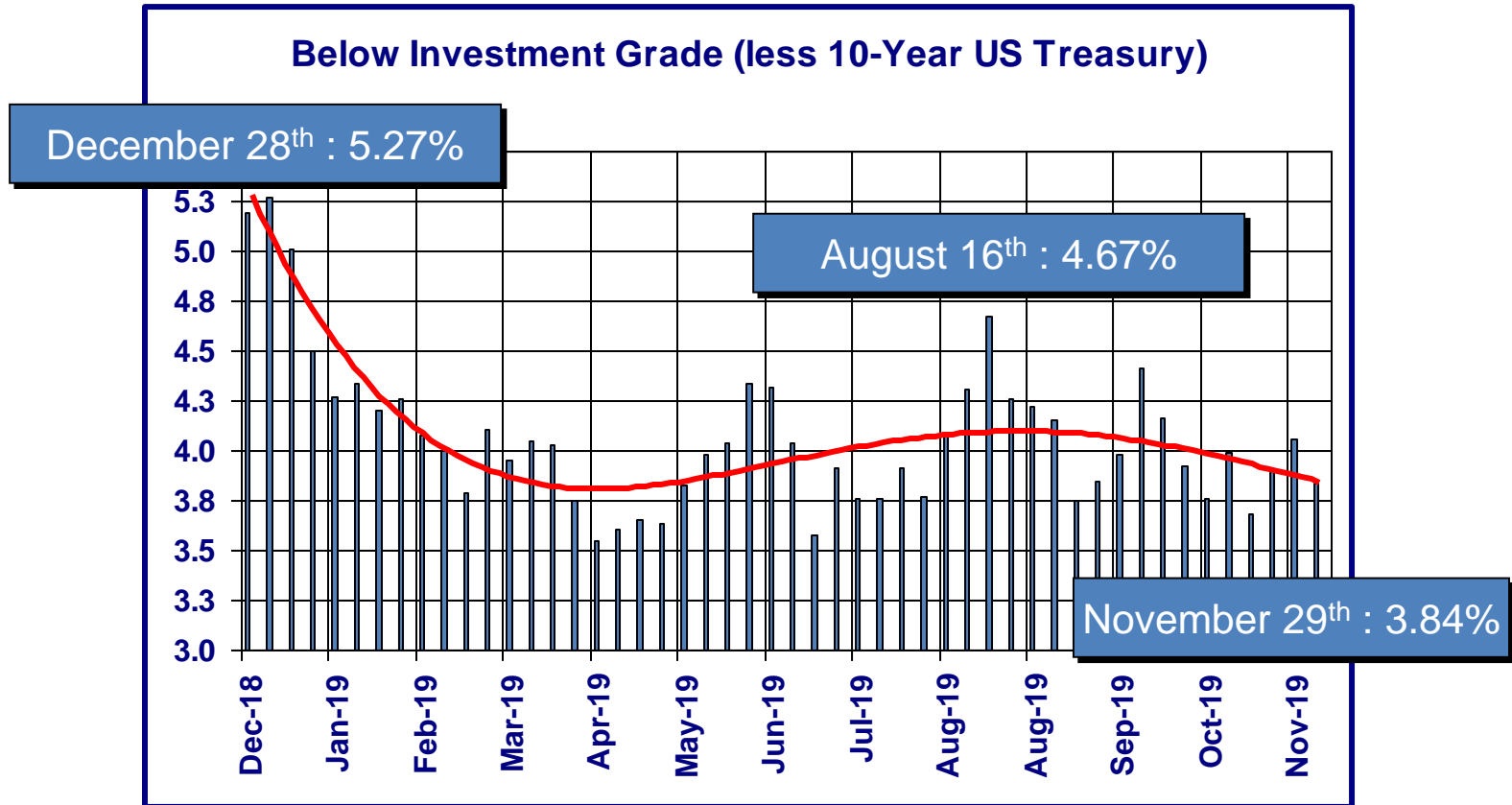
Source: Bloomberg News; Hugh Johnson Advisors

Investment-Grade quality spreads have been narrowing



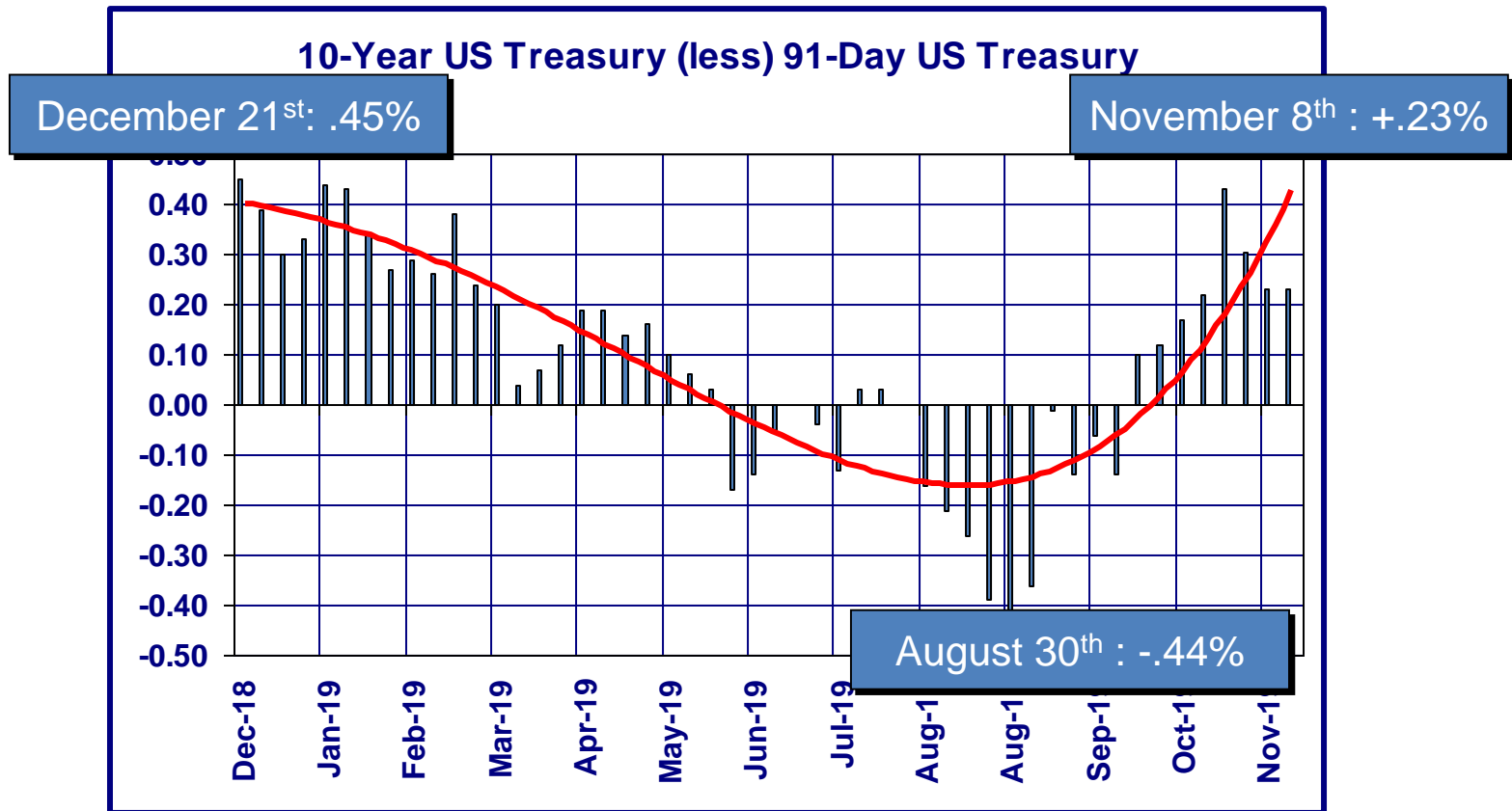
Source: Bloomberg News; Hugh Johnson Advisors

Below Investment Grade quality spreads have been narrowing



Source: Bloomberg News; Hugh Johnson Advisors

The yield curve. Yield curve has inverted...and un-inverted



Source: Bloomberg News; Hugh Johnson Advisors

The yield curve enables us to quantify the probability of a recession *starting* in 12 months. Worry #2

Month/Year	Probability of Recession
November-19	15.8%
December-19	21.3%
January-20	23.6%
February-20	24.6%
March-20	27.1%
April-20	27.5%
May-20	29.6%
June-20	32.9%
July-20	31.5%
August-20	37.9%
September-20	34.8%
October-20	29.0%

Source: Federal Reserve Bank of New York

Compare the current recession probability with the recession probability at start of 2008. When probability reaches 30%.....

Month/Year	Probability of Recession
Jan-08	37.8%
Feb-08	40.1%
Mar-08	41.7%
Apr-08	36.8%
May-08	32.0%
Jun-08	22.1%
Jul-08	28.5%
Aug-08	22.2%
Sep-08	19.1%
Oct-08	19.1%
Nov-08	14.8%
Dec-08	11.7%

Source: Federal Reserve Bank of New York

Important Monetary and Economic Variables

The message of the financial markets is we are not at the end of the current stock market-economic-interest rate cycle.

This message is confirmed by the message of important monetary and economic variables. (See What Follows)

So, a soft landing (slowdown and modest move higher in stock prices) not a hard landing (bear market and recession).

I think.

Maybe close, but not at the end.

Federal Reserve policy remains accommodative.

The “real” federal funds rate, the measure of Federal Reserve interest rate policy, is +.3% and remains *somewhat low*.

(The long-term average is 1.2%.)

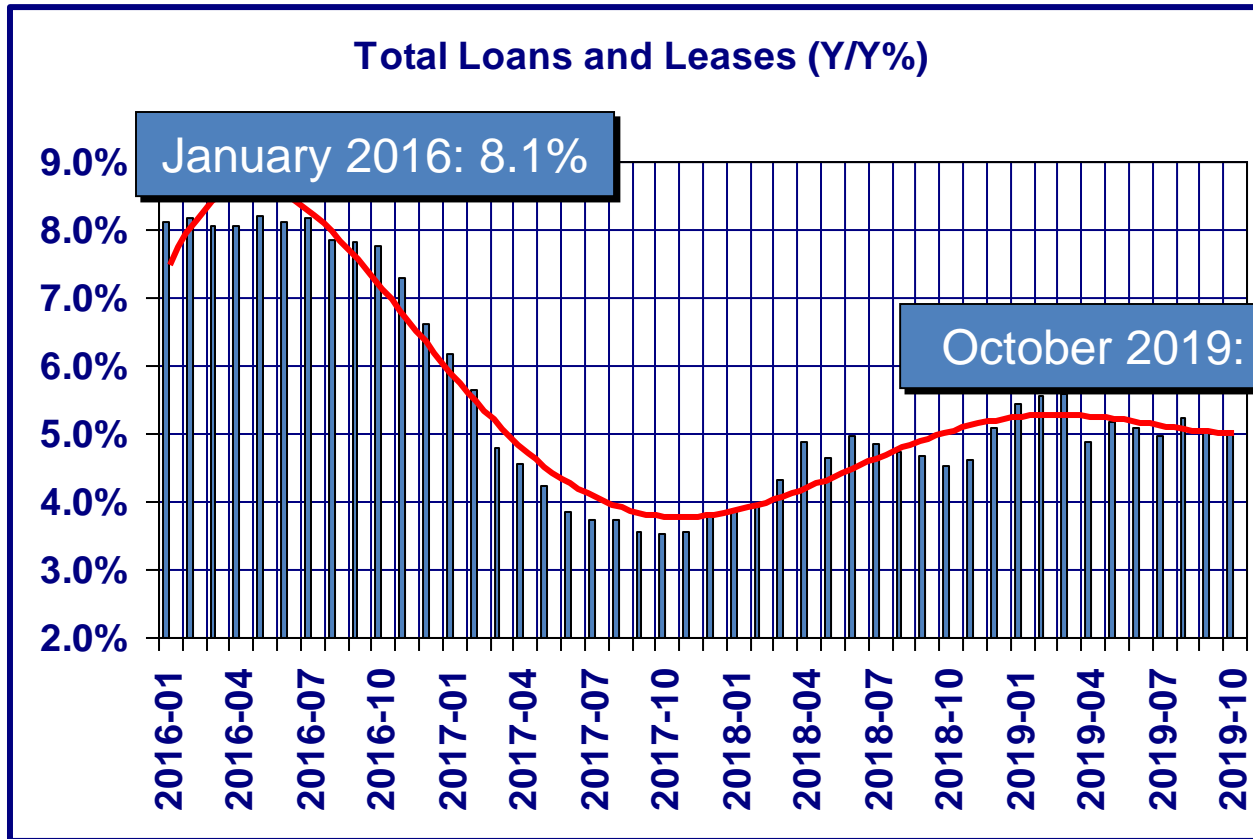
Between the end of 2017 (the end of quantitative easing) and the second quarter of 2019 the Fed reduced the level of reserves (i.e. its holdings of financial market assets) by \$618.6 billion.

Even so, the level of excess reserves is \$1.347 trillion which is high.

Total Reserves equals 69.1% of checkable and other checkable deposits. The longer term (pre-August 2008) average was 12.3%).

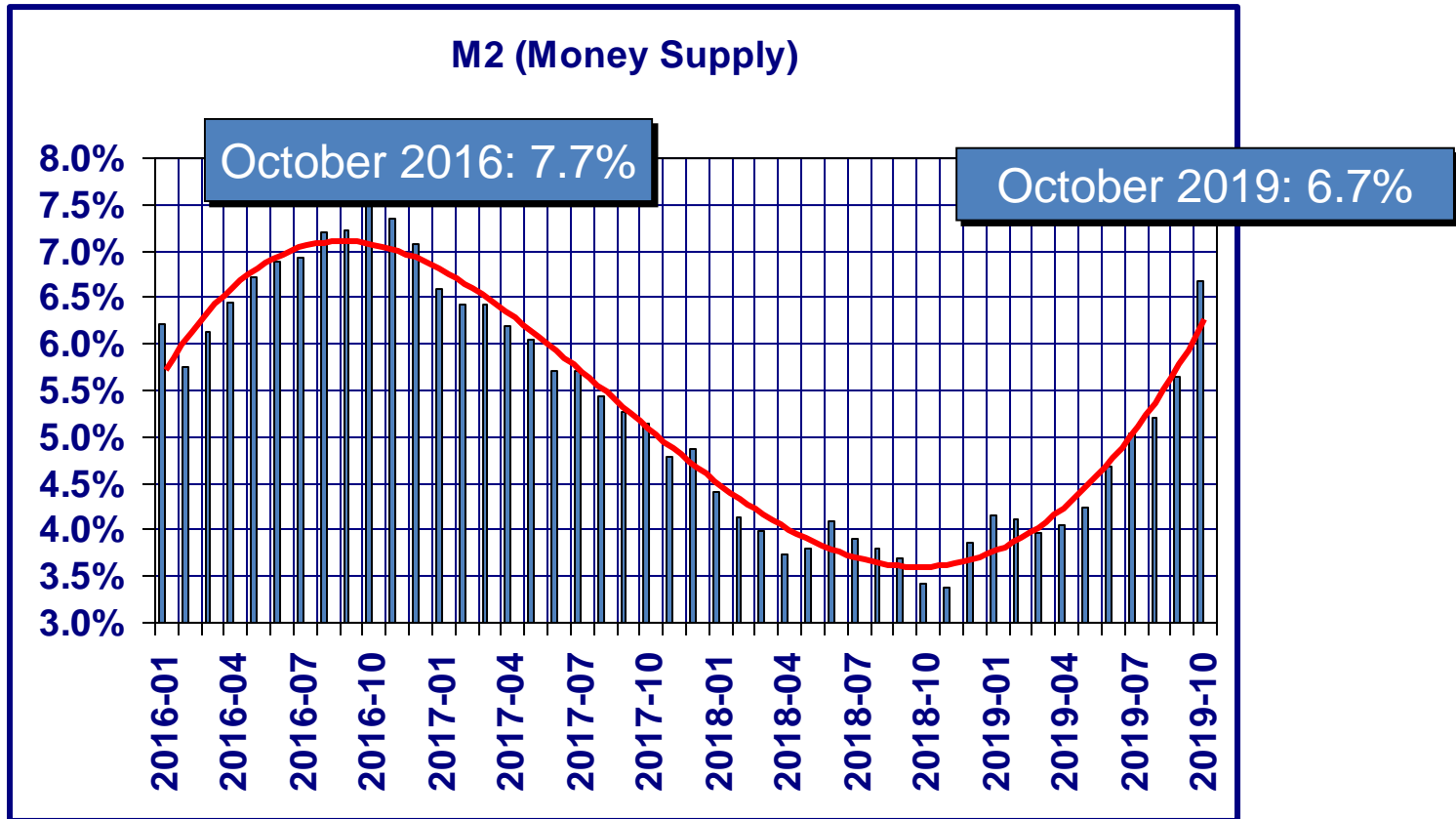
Accommodative.

Total bank lending is turning higher



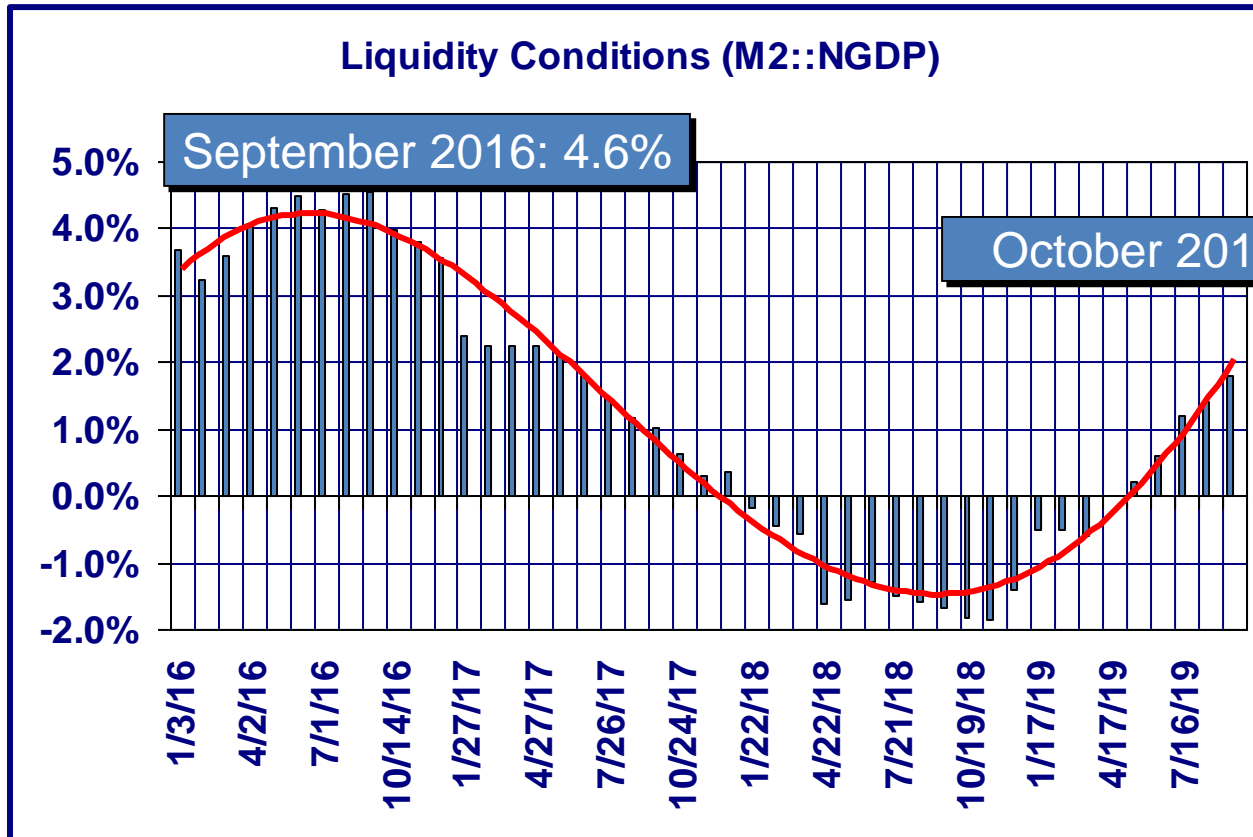
Source: Federal Reserve

As a result, the growth rate of the money supply turning sharply higher.



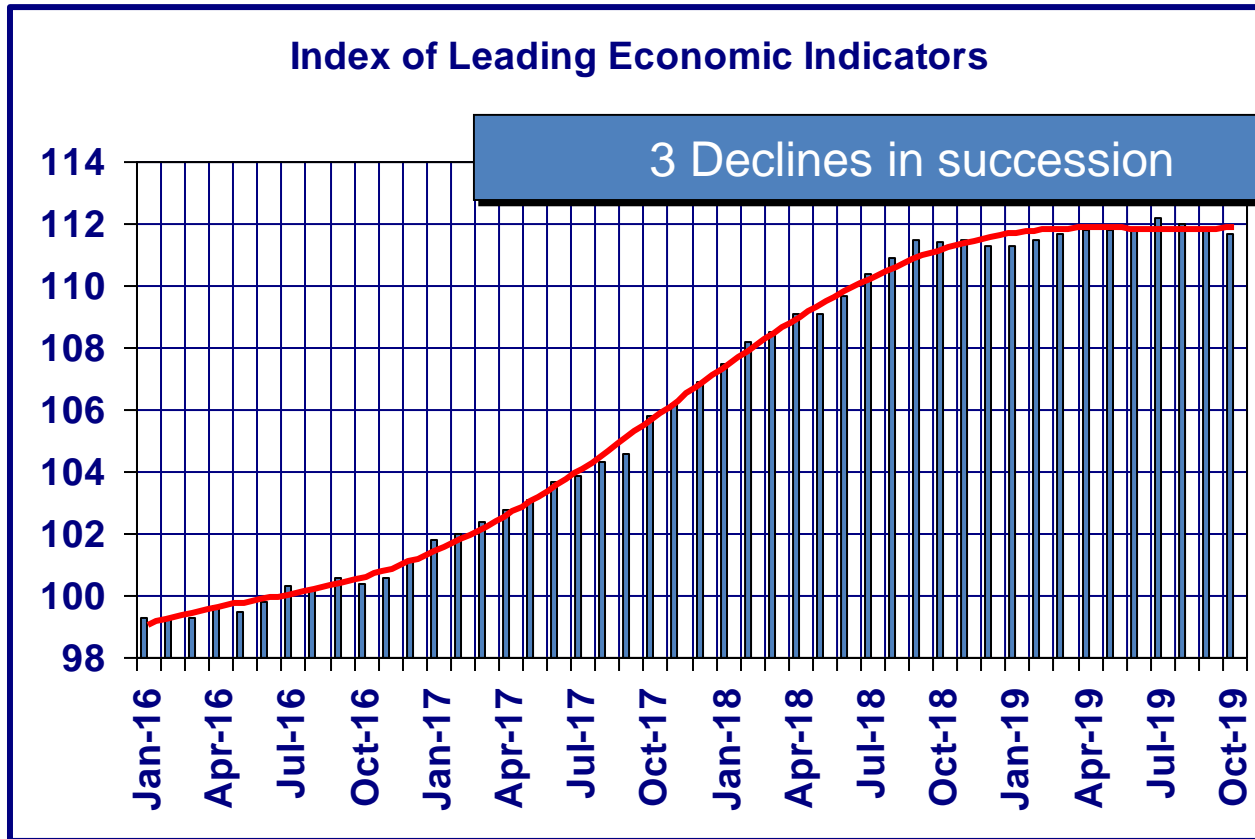
Source: Federal Reserve

As a result, domestic liquidity conditions turning sharply higher



Source: Bureau of Economic Analysis; Federal Reserve

Leading Economic Indicators: Worry #3



Source: Conference Board

Real Gross Domestic Product

Quarter	Consensus-Real GDP	HJA-Real GDP
2019-01	3.1%	3.1%
2019-02	2.0%	2.0%
2019-03	1.9%	2.1%
2019-04	1.7%	1.7%
2020-01	1.7%	1.7%
2020-02	1.9%	1.8%
2020-03	1.8%	1.7%
2020-04	1.8%	1.6%
2018 Average	2.9%	2.9%
2019 Average	2.3%	2.3%
2020 Average	1.8%	1.8%
2021 Average	1.9%	1.9%

Source: Bloomberg Monthly Survey; HJA

The Secular Problem

Variable	1980-2009	2009-2018
The Growth Rate of Economy (1)	3.6%	2.3%
The Growth Rate of Population (2)	1.1%	0.8%
The Participation Rate (3)	65.9%	63.4%
The Growth Rate of Labor Force (3)	1.3%	0.6%
Growth Rate of Employment (3)	1.5%	0.9%
The Growth Rate of Productivity (3)	2.2%	1.3%

(1) Growth rate of economy during quarters of positive growth.

(2) Calculated from employment/population ratio Bureau of Labor Statistics.

(3) Bureau of Labor Statistics

The Cyclical Problem

Year	Unemployed (Mlns)	Unemployment Rate
2012	12.5	8.1%
2013	11.5	7.4%
2014	9.6	6.2%
2015	8.3	5.3%
2016	7.8	4.9%
2017	7.0	4.4%
2018	6.3	3.9%

Source: Bureau of Labor Statistics

A Synchronized Global Slowdown

Real Gross Domestic Product			
Country	2018	2019	2020
US	2.9%	2.3%	1.8%
Euro Area	1.9%	1.1%	1.0%
China	6.6%	6.1%	5.8%
Japan	1.0%	0.9%	0.3%
Germany	1.7%	0.5%	0.7%
India	7.5%	5.8%	6.6%
United Kingdom	1.3%	1.2%	1.0%
Brazil	1.3%	0.9%	1.9%
Russia	1.7%	1.1%	1.6%
France	1.6%	1.3%	1.2%

Source: Blue Chip Economic Indicators; HJA

A Synchronized Global Slowdown: Growth Rate of Exports

Country	2017	2018	2019
US	3.9%	4.3%	0.9%
Euro Area	5.1%	3.1%	2.1%
China	9.0%	3.6%	2.3%
Japan	6.8%	3.4%	-1.6%
Germany	5.8%	2.4%	0.4%
India	5.3%	5.1%	4.0%
United Kingdom	5.3%	5.1%	4.0%
Brazil	13.5%	8.5%	0.2%
Russia	3.1%	4.2%	3.1%
France	5.0%	3.6%	3.5%

Source: International Monetary Fund

Trade Policy

“I don’t have a deadline. I like the idea of waiting until after the election for the China deal. But they want to make a deal now and we’ll see whether or not the deal is going to be right.”

Donald Trump (Tuesday)

“There’s always a chance of a breakthrough.”

Wilber Ross (Tuesday)

Fiscal Policy in an Election Year

“Nixon plans to pump about \$1 billion a month more than originally planned into spending programs designed to put money into the pockets of millions of currently unhappy voters....”

Time January 31, 1972

“EPA Administrator Carol M. Browner today announced President Clinton’s proposed fiscal year 2001 budget of \$7.3 billion for the United States Environmental Protection Agency...the largest increase in the history of the Clinton/Gore Administration in spending for EPA....”

EPA Press Release February 7, 2000

“Like many of his predecessors, the Bush White House used the machinery of government to promote the re-election of the president by awarding federal grants to strategically important States.”

NY Times May 18, 2004

Tax Policy

Federal Budget Estimates (billions)			
Fiscal Year	Revenues	Outlays	Deficits
2018	\$3,329.9	\$4,109.2	-\$779.3
2019	\$3,451.1	\$4,410.9	-\$959.9
2020	\$3,619.9	\$4,627.6	-\$1,007.7
2021	\$3,792.3	\$4,826.1	-\$1,033.9
2022	\$3,970.8	\$5,129.6	-\$1,158.8
2023	\$4,163.0	\$5,344.4	-\$1,181.5

Source: Congressional Budget Office

The Top 10 in 1990 and 2019

Company	1990 Revenues	1990 Employment	Company	2019 Revenues	2019 Employment
Exxon Mobil Corp	\$105.5	104,000	Apple Inc	\$265.6	132,000
Altria Group Inc	\$44.3	168,000	Microsoft	\$110.36	131,000
General Electric Co	\$57.7	298,000	Amazon	\$232.9	647,500
IBM	\$69.0	373,816	Alphabet	\$136.8	98,771
Wal-Mart Stores	\$25.8	271,000	Facebook	\$55.8	35,587
Merck & Co Inc	\$7.7	36,900	Berkshire	\$225.4	389,373
AT&T Corp	\$19.3	116,523	JNJ	\$81.6	135,100
Coca-Cola Co/The	\$10.2	24,000	Exxon	\$279.3	71,000
Bristol-Myers	\$10.3	52,900	JPMorgan	\$131.4	256,105
Cigna Corp	\$18.2	31,400	Wal-Mart Stores	\$500.3	2,300,000
Total	\$368.0	1,476,539		\$2019.6	4,196,436
Percent Change				449%	+184%

“Everybody who has a job wants a job”...George Bush.

Quarter	Consensus-Unemployment Rate	HJA-Unemployment Rate
2019-01	3.9%	3.9%
2019-02	3.6%	3.6%
2019-03	3.6%	3.6%
2019-04	3.6%	3.7%
2020-01	3.7%	3.8%
2020-02	3.7%	3.8%
2020-03	3.8%	4.0%
2020-04	3.8%	4.2%
2018 Average	3.9%	3.9%
2019 Average	3.7%	3.7%
2020 Average	3.7%	3.9%
2021 Average	3.8%	4.3%

Source: Bloomberg Monthly Survey; HJA

“Can’t get blood out of stone.”

Quarter	Consensus-NFP	HJA-NFP
2019-01	153	206
2019-02	178	146
2019-03	180	170
2019-04	146	137
2020-01	136	113
2020-02	140	95
2020-03	104	83
2020-04	114	72
2018 Average	204	221
2019 Average	161	165
2020 Average	125	91
2021 Average	113	91

Source: Bloomberg Monthly Survey; HJA

Hence, the growth rate of consumer spending should slow further

Quarter	Consensus	HJA
2019-01	1.1%	1.1%
2019-02	4.6%	4.5%
2019-03	2.9%	2.9%
2019-04	2.2%	2.1%
2020-01	2.0%	2.4%
2020-02	2.0%	2.2%
2020-03	2.0%	2.0%
2020-04	2.0%	2.0%
2018 Average	3.0%	3.0%
2019 Average	2.6%	2.6%
2020 Average	2.3%	2.4%
2021 Average	2.0%	2.1%

Source: Bloomberg Monthly Survey; HJA

Hence, consumer inflation should remain low

Quarter	Consensus-CPI	HJA-CPI
2019-01	1.7%	2.1%
2019-02	1.8%	1.6%
2019-03	1.7%	1.8%
2019-04	2.0%	1.9%
2020-01	2.2%	2.2%
2020-02	2.0%	2.1%
2020-03	2.0%	2.2%
2020-04	2.0%	2.2%
2018 Average	2.5%	2.4%
2019 Average	1.8%	1.8%
2020 Average	2.0%	2.2%
2021 Average	2.0%	2.1%

Source: Blue Chip Economic Indicators; Bloomberg News; HJA

Federal Reserve Policy (federal funds rate: 1.55%)

Quarter	Consensus Fed Funds Rate	HJA Fed Funds Rate
2019-01	2.50	2.40
2019-02	2.50	2.40
2019-03	2.00	2.20
2019-04	1.75	1.70
2020-01	1.65	1.63
2020-02	1.60	1.63
2020-03	1.60	1.63
2020-04	1.60	1.63
2018 Average	2.50	1.83
2019 Average	1.75	2.17
2020 Average	1.60	1.63
2021 Average	1.70	1.63

Source: Bloomberg April Survey; HJA

Short-Term Interest Rates (2- Year UST: 1.60%)

Quarter	Consensus 2-Year	HJA 2-Year
2019-01	2.26	2.49
2019-02	1.76	2.12
2019-03	1.62	1.68
2019-04	1.57	1.66
2020-01	1.59	1.87
2020-02	1.63	1.91
2020-03	1.65	1.97
2020-04	1.66	2.00
2018 Average	2.49	2.52
2019 Average	1.57	1.99
2020 Average	1.66	1.94
2021 Average	1.81	1.75

Source: Bloomberg April Survey; HJA

Longer-Term Interest Rates (10-Year UST: 1.77%)

Quarter	Consensus 10-Year	HJA 10-Year
2019-01	2.41	2.65
2019-02	2.01	2.33
2019-03	1.67	1.79
2019-04	1.71	1.84
2020-01	1.78	2.08
2020-02	1.86	2.08
2020-03	1.92	2.09
2020-04	1.95	2.09
2018 Average	2.69	2.91
2019 Average	1.71	2.15
2020 Average	1.95	2.08
2021 Average	2.17	1.86

Source: Bloomberg April Survey; HJA

Forecast for Stock Prices (S&P 500: 3140.98)

Quarter	S&P 500 Operating Earnings	Y/Y%	10-Year UST	Price-Earnings	S&P 500
2019-01	\$163.99	17.0%	2.65	16.6	2722
2019-02	\$164.30	10.6%	2.33	17.6	2889
2019-03	\$163.87	3.9%	1.79	18.1	2960
2019-04	\$163.52	0.4%	1.84	18.3	2988
2020-01	\$165.23	0.8%	2.08	18.2	3009
2020-02	\$167.90	2.2%	2.08	18.2	3064
2020-03	\$171.94	4.9%	2.09	18.2	3130
2020-04	\$177.46	8.5%	2.09	17.9	3183
2021-01	\$182.86	10.7%	2.00	17.7	3228
2021-02	\$186.36	11.0%	1.89	17.6	3282
2021-03	\$188.48	9.6%	1.76	17.7	3336
2021-04	\$190.55	7.4%	1.76	17.7	3381

Source: Blue Chip Economic Indicators; Bloomberg Surveys; HJA

2020-2021 Returns

Fixed Income		
Year	10-Year UST	Total Return
Q4 2020	2.09%	.53%
Q4 2021	1.76%	3.00%

S&P 500		
Year	S&P 500	%Return
Q4 2020	3183	1.3%
Q4 2021	3396	7.6%

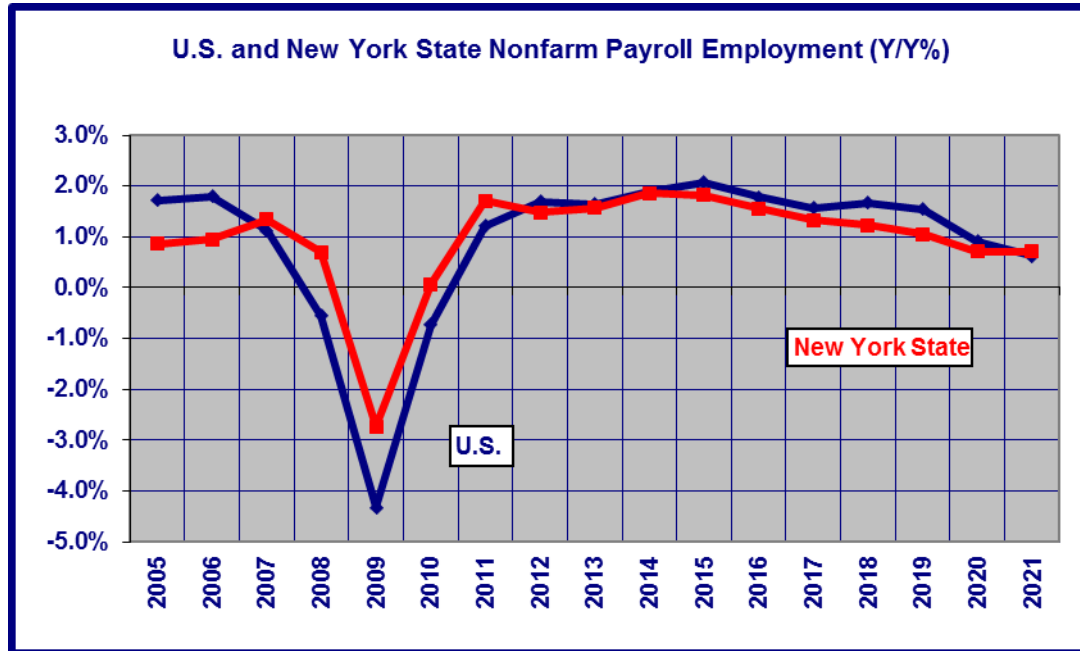
Should we start to build an arc?

The average annual return of the stock market since 1890, including 24 bear markets and 25 stock market corrections has been 5.0%. To that we might add an average dividend yield of 4.1%. That equals 9.1%. If we use a more realistic dividend yield of 2.6%, we get 7.6%.

Perhaps it's Time Not Timing that's the secret to market success.

New York State

New York State will track the National Economy



Source: Bureau of Labor Statistics; HJA

As measured by the growth rate of Gross State Product New York State is first among 7 New England states

Gross State Product (%)				
State	2018	2019	2020	2019-2020
Connecticut	1.0%	1.6%	0.0%	0.14%
Maine	1.9%	1.7%	0.8%	1.01%
Massachusetts	2.7%	2.1%	1.7%	1.86%
New Hampshire	2.2%	2.1%	1.6%	1.75%
New York	2.1%	2.3%	1.7%	1.94%
Rhode Island	0.6%	0.7%	0.9%	1.20%
Vermont	1.2%	1.7%	1.4%	1.55%
US	2.9%	2.6%	1.8%	1.93%
New England	2.0%	1.8%	1.0%	1.21%

Source: Bureau of Labor Statistics; HJA

As measured by the growth rate of employment New York State is first among 7 New England states

Employment %				
State	2018	2019	2020	2019-2020
Connecticut	0.1%	0.3%	-0.1%	-0.13%
Maine	0.7%	0.7%	0.5%	0.81%
Massachusetts	0.9%	1.0%	0.9%	1.02%
New Hampshire	0.8%	1.5%	1.2%	1.37%
New York	1.2%	1.1%	0.7%	0.84%
Rhode Island	0.6%	0.9%	0.5%	0.58%
Vermont	0.1%	0.8%	0.7%	0.65%
US	1.7%	1.5%	0.9%	1.00%

Source: Bureau of Labor Statistics; HJA

New York State Counties with Employment Over 50,000

County	2018	2019	2020	2021
Albany	-0.1%	-0.1%	0.2%	0.3%
Bronx	6.4%	1.7%	2.9%	2.9%
Broome	0.6%	-0.4%	-0.6%	-0.6%
Chattauqua	-0.8%	0.0%	0.3%	0.3%
Dutchess	1.0%	0.7%	0.1%	0.0%
Erie	0.6%	0.4%	0.1%	-0.1%
Kings	7.8%	3.3%	5.3%	4.3%
Monroe	0.9%	0.6%	1.2%	1.1%
Nassau	0.7%	-0.4%	-0.5%	-0.7%
New York	0.1%	2.5%	1.6%	1.2%
Niagara	0.7%	0.4%	0.3%	0.2%
Oneida	0.4%	0.4%	-0.3%	-0.8%
Onondaga	1.0%	1.2%	0.2%	-0.2%
Ontario	0.9%	0.5%	1.6%	1.6%
Orange	1.8%	1.4%	1.0%	0.7%
Queens	6.3%	2.0%	3.2%	3.1%
Rensselaer	1.9%	1.7%	1.5%	1.4%
Richmond	6.1%	4.0%	3.5%	3.6%
Rockland	2.0%	2.4%	0.7%	0.6%
Saratoga	3.1%	0.2%	0.6%	0.8%
Schenectady	-1.0%	-0.9%	0.3%	0.3%
Suffolk	0.1%	0.6%	0.1%	0.2%
Tompkins	0.8%	-0.1%	0.5%	0.4%
Ulster	1.1%	0.1%	1.4%	1.4%
Westchester	0.7%	0.9%	0.4%	

Albany Counties To Move Up The Rankings of 25 New York State Counties

Ranking Among 25 Counties with Employment Above 50,000				
County	2018	2019	2020	2021
Albany	23	21	19	14
Rensselaer	7	6	7	7
Schenectady	25	25	15	15
Saratoga	5	18	12	10

Source: Bureau of Labor Statistics; HJA

REPORT CARD

VARIABLE	FORECAST FOR 2020*	OUTCOME**
ODDS OF A RECESSION	No Recession (close call)	
US REAL GDP	1.8%	
US NEW JOBS (per month)	150,000	
US UNEMPLOYMENT RATE	3.9%	
US CONSUMER SPENDING	2.4%	
US INFLATION	2.2%	
NEW YORK STATE GROWTH RATE OF EMPLOYMENT	0.7%	
ALBANY MSA GROWTH RATE OF EMPLOYMENT	0.4%	

*Forecast for Average for 2020

**Estimated Average for 2020.

REPORT CARD

VARIABLE*	FORECAST FOR Q4 2020*	OUTCOME**
FEDERAL FUNDS	1.625%	
2-YEAR US TREASURY	2.00%	
10-YEAR US TREASURY	2.09%	
S&P 500	3183	

*Average for Q4 2020** Average for October-November 2020

Have a Great Holiday Season

