

Q4 - 2019

## Capital Market Outlook

Stocks capped off the best performance since 2013 with a strong Q4, as the S&P 500 increased 9.07% for the quarter and 31.49% for the full year. Some of the major overhangs for stocks were resolved beneficially during the quarter, and the year-end rally was relatively broad-based, with cyclical stocks joining high-flying technology companies moving indices higher.

The most significant development during the quarter for stocks was the announcement that the U.S. and China had reached an agreement in principle on a Phase 1 trade deal, which is now scheduled to be signed in mid-January. The agreement, which had been anticipated for some time, removed the largest overhang for equities during 2019 and allowed for a nice “Santa Rally”, with the S&P rising 5.87% in November and 3.01% in December.

The Fed has remained largely accommodative throughout 2019, recognizing that risks to growth remain. Early October saw the weakest ISM Manufacturing index since 2009 that showed a contraction in manufacturing activity, as well as an underwhelming employment report for September. The Fed responded with a 25 bps cut during its October meeting, and an indication that it would continue to be measured in its assessment of the U.S. economy moving into 2020.

Employment data improved in October, which saw the economy add 128K jobs, followed by a particularly strong 266K jobs in November. The economy also added 145K jobs in December, and all in, the economy added 2.1MM jobs in 2019, a very solid result given low levels of unemployment. Q4 GDP is projected to grow 2.1% in Q4, a pace that is expected to continue through 2020.

Apart from China trade, the clarity on Brexit and the consensus reached on a North American trade agreement clarified some of the other political risks to stocks. That said, the fourth quarter also saw increasing violence in Hong Kong, a tempest that remains unresolved as we move into 2020. The House of Representatives also voted to impeach President Trump during the quarter, which was largely ignored by investors but could become more relevant to equities especially as we hurtle towards the 2020 Presidential election.

### Firm Summary

- ❖ Founded in 1994
- ❖ Located in Los Angeles, CA
- ❖ Employee Owned
- ❖ Total Firm-Wide AUM: ~\$1.7 billion

### Portfolio Management Team



Christian Sessing, CFA  
Chief Investment Officer,  
Lead Equity Portfolio Manager



William Tanner, CPA  
Co-Founder & Chairman,  
Co-Equity Portfolio Manager



Andrew Zamfotis, CFA  
Co-Equity Portfolio Manager

**AMI**  
ASSET MANAGEMENT

**Point of Contact:** Matthew Dorband, Director of Sales & Marketing · 424-320-4007 · mdorband@amiassetmanagement.com

10866 Wilshire Blvd, Ste. 770, Los Angeles, CA 90024 · 424-320-4000 · [www.amiassetmanagement.com](http://www.amiassetmanagement.com)

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Following a strong 2019 that was driven more by P/E expansion than earnings growth, similar gains in 2020 will be unlikely in our view. Election years do tend to bring elevated volatility based on polling and primary results. However, economic growth remains stable and arguably, the outlook for earnings growth in 2020 looks brighter than it did just six months ago. We do view certain areas of the market as frothy especially after such a strong run this past year and will remain disciplined in finding growing companies that are attractively valued.

### Q4 2019 Standard & Poor's 500 Performance



#### IMPORTANT DISCLOSURES

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The S&P 500® index is widely regarded as the best single gauge of large-cap U.S. equities and serves as the foundation for a wide range of investment products. The index includes 500 leading companies and captures approximately 80% coverage of available market capitalization.

