Hamilton-Bates

Market Update

December 11, 2019

P.O. BOX 270 Newtown Square, PA 19073 877.768.4247 www.hbir.com

Recession? What's a Recession?

We are rapidly heading into the final weeks of the year, and the final weeks of the 2010's. The economy has not only avoided the recession fears that tipped the yield-curve negative a few months ago, but has also avoided a recession this decade for the first time in US history—and that is a long time. This says a lot more about the power of the Fed than it does about the Economy, as the Fed has been the driving force behind the feat. We are not sure they will be able to repeat the feat in the next decade.

New Highs, Bull Markets, and Recessions

The stock market continues to hover near its highs, and we continue to believe the path of least resistance over the next few months is higher. Fundamental, seasonal, and historical tendencies all point to higher stock prices ahead. Technical conditions also remain positive, with the bull trend intact and advance-decline ratios favorable. We look for higher prices into early 2020.

Economics & the Fed

Last week saw a lot of economic data, with ISM Manufacturing and ISM Services Index being posted on Wednesday. Manufacturing fell a little and remains in contraction. The services index also fell, but remains above 50. Either way, neither is proving particularly strong right now. November's automobile sales numbers offered a glimmer of hope. Sedan/car as well as truck purchases were up a bit from October's levels, and more important, holding steady rather than peeling back further. It's not super encouraging, but it does suggest consumers are feeling confident enough about their job security and incomes to buy new automobiles. In that same vein the first look at the University of Michigan Sentiment Index showed another nice increase in optimism.

The big news for the week was of course Friday's jobs report for November. Payroll growth was far better than expected, driving the unemployment rate back down to a multi-decade low of 3.5%. That strength wasn't a stroke of mathematic luck either. All the other related indicators of employment strength were up. Unless and until job growth starts to really fall off, a recession is unlikely. We consider the economy out of critical condition and into stable condition.

This week the Federal Reserve kept interest rates where they are at its last FMOC meeting of the year. More significant than rates right now however is liquidity, with the Fed adding money back into the economy in the form of repo operations. The only thing that matters is that this liquidity will invariably find its way to risk assets. Needless to say this remains very supportive for the financial markets and with the repo operation set to continue into 2020 it is likely to boost the market into early next year.

Market Outlook

After a very brief correction that held at the breakout level, the major averages have moved higher once again on the back of last week's jobs report. Last week's price action revealed some very interesting shifts in market leadership with small-caps starting to show some life. Small-caps had been lagging, a move to 52-week highs and into a leadership role bodes well for stocks. We'll continue to watch small-caps to see if this shift becomes a trend.

While not making new highs, the other major averages moved up and the trend remains bullish. Volume was light however on the rise, so we could see some bumpiness until more data is seen. Healthcare and Biotech looks like potential leaders for the months ahead, and even energy and energy services have started to shape up after a dreadful year. Market internals suggest that the recent pullback may have been enough of a rest for the market to push higher. But while December has a reputation of being a bullish month, it's often a bumpy ride. As long as the markets stay above last week's low and the key 10-month average—the bulls remain in control.

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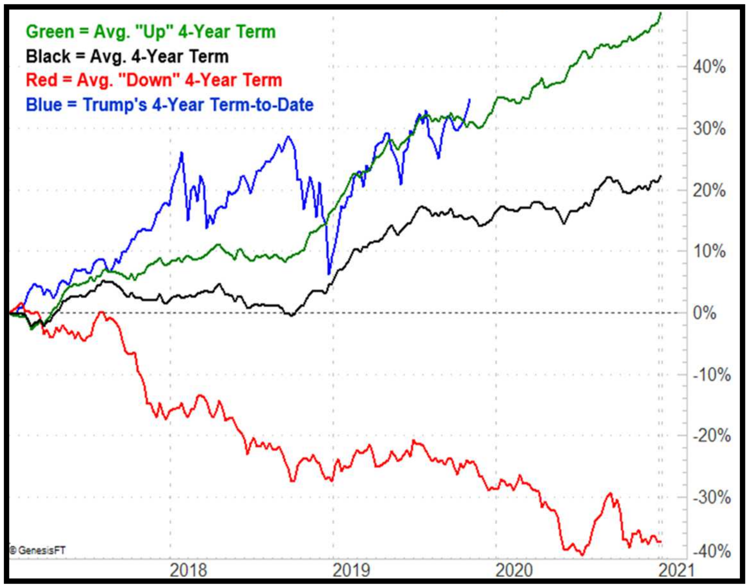
Notable Charts



Holdover Chart—We thought this one was worth repeating since attention will soon focus in on the election. The top chart is the **S&P plotted against the presidential cycle**—the avg cycle in black, the 'up' cycles in green, and the 'down' cycles in red. The Blue line is the S&P since Trump's inauguration. What will be a very contentious election cycle would seem to run counter to that. But historical precedent bears noting, and if the market follows history there is 10-18% gains still to come into 2020.

Rather than the election determine the market—the market may predict the 2020 the election results.

S&P 500

Market action remains favorable, with the S&P now above the upper trendline boundary that has held it in check for most of two years. So we have a bullish trend (the **S&P 500 is above its 10 month avg in red), and now a technical breakout.**

It may be hard to believe but the technical outlook is very positive, with a target area of 3300-3500 for the S&P 500 over the next 12-15 months. That does fit in with historical election year patterns shown above-a quite Interesting situation.