NEWSLETTER – JANUARY 2020

MARKET TRENDS 12.31.19

Asset Class	QTD	YTD
US Stocks		
Large Cap	8.97%	31.25%
Mid Cap	6.99%	26.10%
Small Cap	9.87%	25.39%
International Stocks		
Developed Markets	7.67%	22.03%
Emerging Markets	12.11%	18.20%
Fixed Income		
Taxable Bonds	0.13%	8.46%
Int'l Bonds	-1.27%	7.87%
Municipal Bonds	0.61%	7.06%
Alternatives		
EM Bonds	2.56%	15.48%
Energy MLPs	-6.31%	-2.04%
Floating Rate	0.71%	3.97%
Preferred	1.91%	15.93%
Gold	2.90%	17.86%
Real Estate	0.48%	28.19%

Source: Factset

Tim Vanech
tim@shorepointpartners.com

Luis M. Raposo, CFA
luis@shorepointpartners.com

John S. Barrett, CFA
john@shorepointpartners.com

Main 781 341 7250 | Fax 781 341 7246

220 Norwood Park South
Norwood, MA 02062

www.shorepointpartners.com

Shorepoint
Capital Partners

SHOREPOINT TURNS 10!

Happy New Year from Shorepoint, now age 10! What an incredible year it was for investors to cap off a prosperous decade. During the last 10 years our firm grew from a tiny firm of 3 to a small firm of 8! While we can't expect the markets of the next 10 years to be as rewarding as the last 10, we are optimistic in the simple commitment we make to our clients-to push hard on their behalf to achieve competitive returns with lower risk, and to be readily available, engaged, and thoughtful in helping them through all phases of their lives.

THE SECURE ACT PASSES

Congress actually completed tangible work at the end of 2019 with the passing of the SECURE Act which became law on January 1, 2020. There were several changes to the retirement landscape that are highlighted below:

<u>IRAs:</u>

1. Removal of the age limit for IRA contributions. The act repeals the previous maximum age cap of 70 as long as the IRA owner has earned income. This is a benefit to workers that elect to continue to work past the age of 70.
2. The age of required minimum distributions (RMDs) is raised from 70.5 to 72. This is effective for those who turn 70.5 after January 1, 2020. If you have already started taking your RMDs, you must continue taking them.
3. Elimination of the lifetime "Stretch provision" for non-spouse beneficiaries of inherited IRA and other retirement accounts. There will now be a 10-year distribution cap and as such, may require a review with your estate attorney and tax consultant. This applies only to those non-spouse beneficiaries who inherit a retirement account after January 1, 2020.

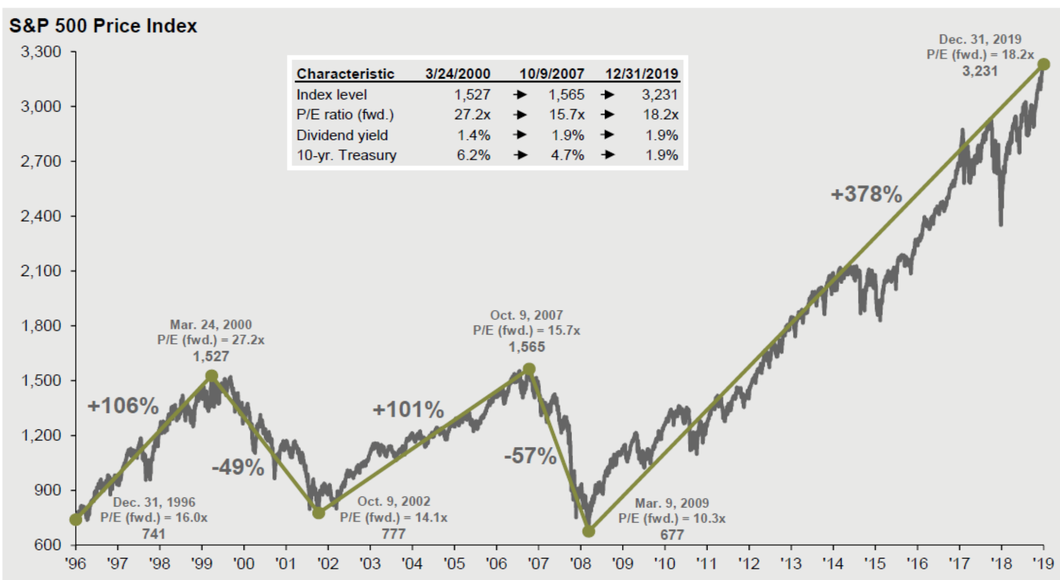
<u>Other:</u>

1. 529 Plans can now be utilized to pay for apprenticeship programs and student loans (subject to a $10,000 cap).

These are a few of the provisions that we believe are most applicable. We are still assessing the impact of this new law, but please do not hesitate to reach out should you have additional questions about this significant piece of legislation.

A STRONG END TO 2019

U.S. equity markets surged higher in the fourth quarter and the S&P 500 and Russell 2000 indices finished 2019 with their second-best calendar year return for the decade (2013 was the highest). The S&P increased 29% in 2019 as investors were willing to pay more for stocks and markets shook off fears of an earnings recession. The fourth quarter of 2019 provided evidence of a sound economy and we expect a solid earnings season. For example, we saw robust results out of America's biggest banks just this week. In addition, the lifeless economies abroad, particularly in developed countries, are showing some signs of life as well after a long term swoon in growth.



Source: Compustat, FactSet, Federal Reserve, Standard & Poor's, J.P. Morgan Asset Management.

FED WORK

The Federal Reserve ("Fed") cuts that took place earlier in 2019 seemed to have come in time. The Fed eased three times and the cost of borrowing plummeted, for both investment grade and junk credits. Low high-yield bond spreads to U.S. Treasuries are an indication of the health of the economy – see the following chart. These spreads are near their lowest levels of this business cycle. The Fed, under Jay Powell, has experienced far less space in headlines of late, which we consider proof of their doing a good job. The Fed has indicated they will likely remain on hold for the intermediate time period, which markets like; whether that actually happens is not guaranteed.

"...markets shook off fears of an earnings recession."

"The Fed eased three times and the cost of borrowing plummeted..."

POLITICAL RISK MOVES INTO THE DRIVER'S SEAT

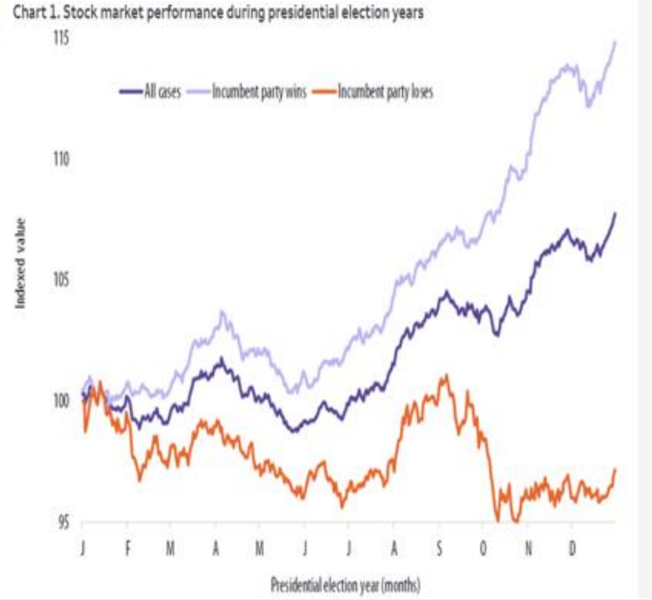
The market shrugged off the potential impeachment of President Trump and continues to move higher. The market seems to assume that the Senate will not remove the President from office prior to the November election. Political risk will not be new to 2020 but with the U.S. election added to the mix and central banks less able to mask this dysfunction, political risks could emerge as the primary drivers of market volatility and value opportunity. The average return of the S&P 500 over the last 60 years has been roughly 8%. See table below on how the market return has been above average for 14 out of the last 23 election years, especially when the incumbent party wins. Even a severe dust-up with Iran that brought us seemingly to the brink of war failed to deeply spook the market.

Table 1. S&P 500 Index total returns during presidential election years

Year	S&P 500 Index	Candidates
1928	43.6%	Hoover versus Smith
1932	-8.2%	Roosevelt versus Hoover
1936	33.9%	Roosevelt versus Landon
1940	-9.8%	Roosevelt versus Willkie
1944	19.8%	Roosevelt versus Dewey
1948	5.5%	Truman versus Dewey
1952	18.4%	Eisenhower versus Stevenson
1956	6.6%	Eisenhower versus Stevenson
1960	0.5%	Kennedy versus Nixon
1964	16.5%	Johnson versus Goldwater
1968	11.1%	Nixon versus Humphrey
1972	19.0%	Nixon versus McGovern
1976	23.9%	Carter versus Ford
1980	32.5%	Reagan versus Carter
1984	6.3%	Reagan versus Mondale
1988	16.6%	Bush versus Dukakis
1992	7.6%	Clinton versus Bush
1996	23.0%	Clinton versus Dole
2000	-9.1%	Bush versus Gore
2004	10.9%	Bush versus Kerry
2008	-37.0%	Obama versus McCain
2012	16.0%	Obama versus Romney
2016	12.0%	Trump versus Clinton

Sources: Morningstar and Wells Fargo Investment Institute, November 5, 2019. For illustrative purposes only. **Past performance is no guarantee of future results.** An index is not managed and not available for direct investment.

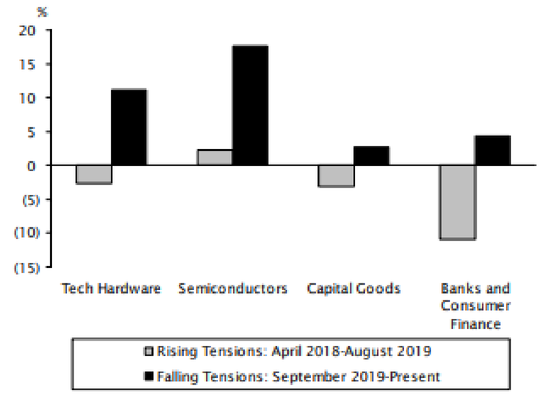
Chart 1. Stock market performance during presidential election years



GLOBAL NEWS: CHINA TRADE DEAL PROGRESS, BREXIT IS HAPPENING

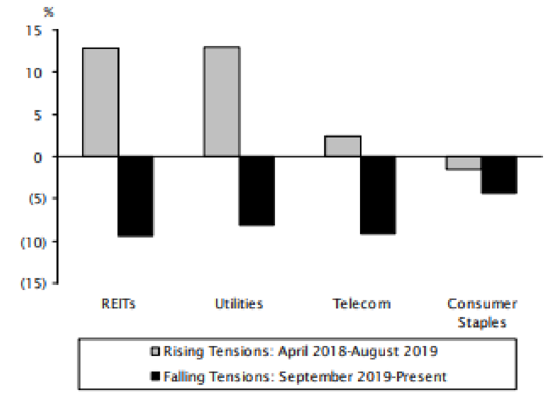
2019 stock market risks turned out to be mostly about the U.S./China trade war. Tensions intensified in the summer and reached a crescendo in August. When the economic data weakened in the manufacturing sector, investors and the Trump administration realized the only viable course of action was a truce. An agreement on a phase one trade deal with China provided optimism for continued progress on trade and the reduction of tariffs. Additionally, the U.K. Parliament elections all but confirmed that Brexit will likely move forward in 2020. Since September, the market has rotated back into industries levered to trade as safe havens lagged.

Exhibit 1: Winners When Trade Tensions Declined
Equally-Weighted Relative Returns
Monthly Data Compounded
April 2018 Through Early-January 2020



Source: Empirical Research Partners Analysis.

Exhibit 2: Losers When Trade Tensions Declined
Equally-Weighted Relative Returns
Monthly Data Compounded
April 2018 Through Early-January 2020



Source: Empirical Research Partners Analysis.

OUTLOOK

We are cautiously optimistic that U.S. equities, and in particular dividend growth stocks with high free cash flow, can continue to move higher in 2020. In an economy with modest growth, low interest rates and above average valuations, returns will likely be driven by earnings growth. Recall from last quarter's newsletter that we lowered our return expectations in September across stocks and bonds. We expect spikes in volatility through the year as investors assess the U.S. elections, trade negotiations and other geopolitical events. While developments in any macro category are nearly impossible to forecast, Shorepoint's process remains thoughtful and flexible as we deal with the lowest interest rates and political conditions we have not seen in years.

"...political risks could emerge as the primary drivers of market volatility and value opportunity."

"...agreement on a phase one trade deal with China provided optimism..."