

# OUTLOOK 2020

## EXECUTIVE SUMMARY

Read the full  
[Outlook 2020:  
 Bringing Markets  
 Into Focus](#)



### TAKING A LOOK

#### Hindsight is 20/20, but finding clarity in future uncertainty can be fuzzy.

At LPL Research as we look forward to the year 2020 and a new decade, some key trends and market signals will be important to watch, including progress on U.S.-China trade discussions, an encouraging outlook from corporate America, and continued strength in consumer spending.

Trade risk, slower global growth, and the impeachment inquiry have garnered a lot of the headlines recently, but behind the scenes the U.S. economy has remained resilient. Economic data has been meeting lowered economic expectations, indicating an expansion that is still enduring. Most recently, third quarter economic growth was consistent with the long-term trend of this current economic expansion, which is now more than 10 years old.

We expect the U.S. economy to continue to grow in 2020 and support gains for stocks, although we are increasingly mindful of our position in the business cycle. At some point in the future this record-long expansion will come to a close, leaving investors wondering what's next. Against this backdrop questions about the next potential recession and the 2020 U.S. presidential election continue to be top of mind for many investors. While we can't see into the future, one thing we can predict is that uncertainty in the markets is here to stay. And we are here to help. We offer our *Outlook 2020*, your guide to preparing for this dynamic—yet uncertain—market environment.

#### **YEAR-OVER-YEAR REAL GROSS DOMESTIC PRODUCT (GDP) GROWTH**

	2018	2019*	2020*
United States	2.9%	2.0%	1.75%
Developed ex-U.S.	1.9%	1.3%	1.5%
Emerging Markets	4.5%	3.9%	4.6%
Global	3.6%	3.5%	3.5%

#### **U.S. MARKETS**

	2019*	2020*
10-Year U.S. Treasury Yield	1.75–2%	2–2.25%
S&P 500 EPS	\$165	\$175
S&P 500 Fair Value	3,000	3,200–3,300

\*LPL Estimates

Source: LPL Research, Bloomberg, International Monetary Fund (IMF) 10/16/19  
 2019 U.S. economic data, U.S. GDP estimate, and global GDP estimate are LPL forecasts.  
 Other GDP estimates are IMF projections.

## 2020 FORECASTS

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### Economy

**Domestic:** We are expecting 1.75% U.S. GDP growth in 2020. Our forecast reflects the potential for continued trade and geopolitical uncertainties and the gradual slowing of the economy at this point in the economic cycle.

**Global:** While Europe and Japan continue to struggle with trade uncertainty, geopolitical concerns, and sluggish growth, we anticipate more growth opportunities in emerging markets' economies than developed, with countries outside China playing a growing role.

**Inflation:** Consumer inflation has picked up slightly, and we believe inflation will continue to grow at a healthy, but manageable rate.

**Employment:** U.S. job growth has been steady, although recently it has started to show signs of moderating. Some cooling down would be expected at this point in the economic cycle.

**Recession:** Prolonged trade uncertainty and a highly contested U.S. election campaign season lead us to believe that recession starting in the fourth quarter of 2020 or first quarter of 2021 could be possible, but we don't think it is probable.

### Bonds

Short-lived and shallow yield curve inversions are not worrisome in our view, and we continue to emphasize a blend of high-quality intermediate bonds in tactically oriented portfolios.

### Stocks

We look for solid U.S. equities performance to continue, and we see more potential upside in emerging markets than developed international markets. We continue to prefer cyclical sectors as the U.S. economic expansion endures, and a balance of growth and value styles.

**For more investment insights, read the full [Outlook 2020: Bringing Markets Into Focus](#).**

## IMPORTANT DISCLOSURES

The opinions, statements and forecasts presented herein are general information only and are not intended to provide specific investment advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, please consult your financial professional prior to investing.

Any forward looking statements including the economic forecasts may not develop as predicted and are subject to change based on future market and other conditions. All performance referenced is historical and is no guarantee of future results.

All information is believed to be from reliable sources; however, LPL Financial makes no representation as to its completeness or accuracy.

Investing involves risks including possible loss of principal. No investment strategy or risk management technique can guarantee return or eliminate risk in all market environments. Diversification does not protect against market risk. Investing in foreign and emerging markets debt or securities involves special additional risks. These risks include, but are not limited to, currency risk, geopolitical risk, and risk associated with varying accounting standards. Investing in emerging markets may accentuate these risks.

Gross Domestic Product (GDP) is the monetary value of all the finished goods and services produced within a country's borders in a specific time period, though GDP is usually calculated on an annual basis. It includes all of private and public consumption, government outlays, investments and exports less imports that occur within a defined territory.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

The Standard & Poor's 500 Index is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

Investing in stock includes numerous specific risks including the fluctuation of dividend, loss of principal and potential illiquidity of the investment in a falling market. Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

Bonds are subject to market and interest rate risk if sold prior to maturity. Bond values will decline as interest rates rise and bonds are subject to availability and change in price. Bond yields are subject to change. Certain call or special redemption features may exist which could impact yield. Government bonds and Treasury bills are guaranteed by the US government as to the timely payment of principal and interest and, if held to maturity, offer a fixed rate of return and fixed principal value. Corporate bonds are considered higher risk than government bonds but normally offer a higher yield and are subject to market, interest rate, and credit risk, as well as additional risks based on the quality of issuer coupon rate, price, yield, maturity, and redemption features. Mortgage backed securities are subject to credit, default, prepayment, extension, market and interest rate risk.

## FIXED INCOME DEFINITIONS

Credit Quality is one of the principal criteria for judging the investment quality of a bond or bond mutual fund. As the term implies, credit quality informs investors of a bond or bond portfolio's credit worthiness, or risk of default. Credit ratings are published rankings based on detailed financial analyses by a credit bureau specifically as it relates the bond issue's ability to meet debt obligations. The highest rating is AAA, and the lowest is D. Securities with credit ratings of BBB and above are considered investment grade.

Please read the full [Outlook 2020: Bringing Markets Into Focus](#) publication for additional description and disclosure.

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