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Fourth Quarter 2019 Newsletter

I would like to share exciting news from Bernard Wealth Management Corp. Deanna Harless, our Client Service Manager, earned her Certified Financial Planner (CFP) designation in December after more than one year of intensive self-study in the complexities of financial planning, as well as meeting the program's extensive experience requirements and ethical standards. Also, our long-time friend Barb Morasso joined BWM as a Client Service Associate. With over 26 years of investment industry experience, Barb has the skills and client-focused attitude we prioritize at BWM.

Fig. 1 – S&P 500

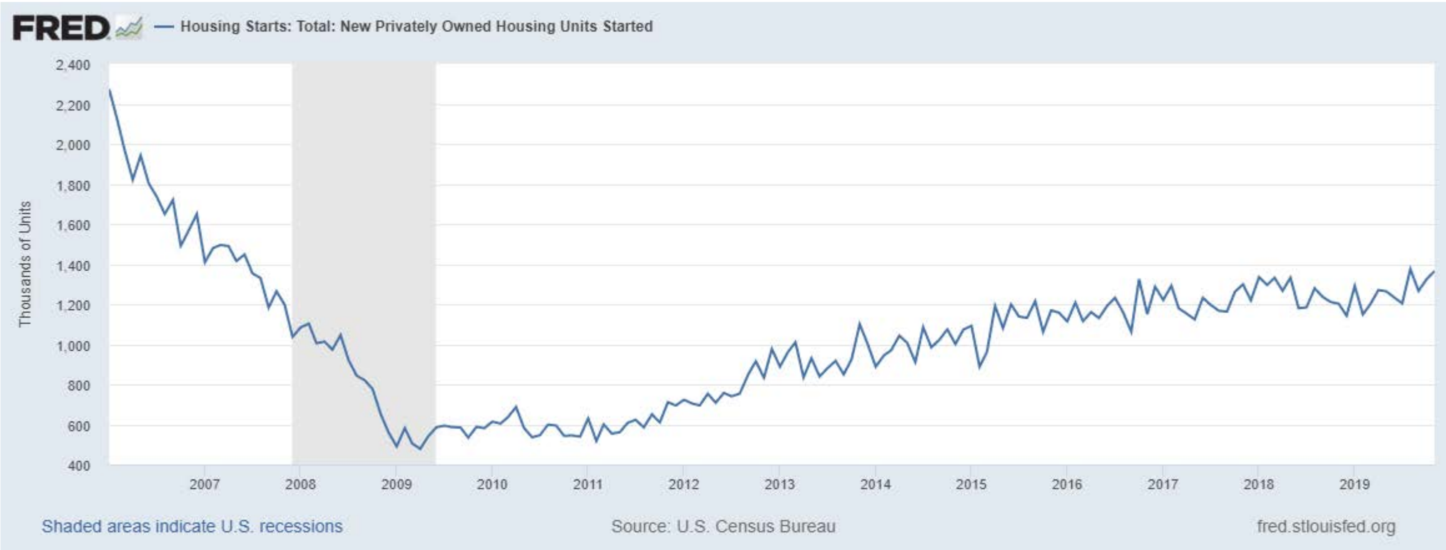
Fig. 2 – U.S. 10-Year Treasury Yield

Stocks finished 2019 with strong results in the fourth quarter. The large cap S&P 500 index (**Figure 1**) posted a total return of +9.1% and ended 2019 +31.5%, the best result since 2013. The Russell 2000 Small Cap index rose 9.9%, finishing the year +25.5%. International market returns were also strong, but full year results lagged U.S. indices materially. Emerging markets rose 11.8% and developed countries outside the U.S. added 8.2%, ending 2020 +18.4% and +22.0% respectively. Foreign stocks were helped in the quarter by improving news from the U.S. – China trade dispute, which has weighed heavily on investor sentiment overseas.

S&P 500 earnings dropped 2.2% in the third quarter after losing 0.4% in the second quarter, as U.S. stocks continued to suffer an earnings contraction. Analysts had expected a decline of 4.1% at the beginning of earnings season. Energy companies led the decline, as their earnings dropped 39.7%. This was also the case in the last earnings recession of 2015-2016. Consumer-facing sectors, including utilities and health care, posted solid growth in the quarter. According to research service Factset, 76% of S&P 500 companies topped earnings expectations, in-line with long-term trends. Fourth quarter earnings are now forecast to be flat or down slightly, but growth is expected to resume in the first quarter of this year. 2019's stock market gains were based in part on the expectation that corporate earnings growth would resume and accelerate. Market watchers will be following earnings season closely for clear signs of that improvement.

The economy expanded 2.1% in the third quarter, improving slightly over the 2.0% growth logged in the second quarter. Consumer spending continued to lead the economy while the decline in business investment slowed. Manufacturing activity continued to decline in the last three months of the year, as indicated by weak purchasing manager surveys. Although trade-related sentiment improved, exporters still suffered from weaker demand overseas, and some domestic manufacturers were hurt by tariffs on imported raw materials and other inputs. Housing data continued to exceed expectations. New housing starts continued their gradual climb from financial crisis lows and are now at levels last seen

Index returns taken from Morningstar.com in 2017 (**Figure 3**). The housing sector has benefited from low mortgage rates, steady employment data and increased consumer savings rates. The gradual increase in housing starts is emblematic of the economic expansion of the last ten years. Growth has been relatively slow compared to other expansions, but this may have helped in avoiding thus far the excesses that typically derail the economy and lead to recessions.



Interest rates rose in the last quarter (**Figure 2**) on expectations of better economic data. The Federal Reserve cut short-term rates in December but signaled their intention to maintain rates in the coming year. Fixed income investors enjoyed strong returns in 2019 as yields fell hard in the first half of the year. If the economy maintains its current level of growth, interest rates may rise slightly in 2020 on expectations of modest increases in inflation. Consequently, bond returns may be capped at current yields.

Figure 3 – Housing Starts 2006 – 2019

In the fourth quarter of 2019 I celebrated the twentieth anniversary of my entry into the investment profession, after fourteen years in information technology. At the outset, I was excited by the analytical investment work and (perhaps) the opportunity for higher earnings over time. It wasn't until I sat down with a worried older couple during the recession of 2001-2002 that I understood the significance of my role as advisor. I quickly learned that this work is primarily about taking care of individuals and their finances. This is something that my team and I take very seriously, and why we will always put our clients first.

The fourth quarter also marked the eighth anniversary of the start of Bernard Wealth Management Corp. I owe debts of gratitude to many people who supported me in starting this business, including my family, previous employers, and countless mentors and valued colleagues. Needless to say, I am most grateful for our clients, who put their confidence in us to do the right thing for them in caring for their finances. We will never take this confidence for granted.

I hope that 2020 is beginning well for you and your loved ones. We look forward to speaking with you soon.

Sincerely,

Kenneth M. Bernard

Kenneth M. Bernard, CFA