WELLINGTON SHIELDS CAPITAL MANAGEMENT, LLC

WELCOME TO THE NEW YEAR

What a difference a year makes. A year ago market volatility, an escalating trade war, a hit to capital spending, and an inverted yield curve seemed to be moving simmering concerns about a global recession toward a full boil. Low inflation, however, gave the Federal Reserve and other central banks room to maneuver. The central banks eased monetary policies, liquidity surged with real U.S. GDP growth stable at roughly 2%, and the equity markets closed at an all-time high.

As we enter the new year, some uncertainties have been cleaned up—and replaced by new ones. As we asserted would be the case in our April 2019 letter, predictions of an imminent recession proved to be inaccurate. We also have more clarity as a result of a treaty soon to be signed between the U.S., Canada, and Mexico, a Phase I agreement with China, and a decisive vote on Brexit. That said, the possibility of making further progress with China remains unpredictable, impeachment proceedings and elections loom, and a new threat of conflict in the Middle East has emerged.

A U.S. soft landing, not a recession, remains our best forecast for 2020. First-quarter GDP will undoubtedly be weak in the U.S. as the announced Boeing production cuts reduce growth. We assume the Boeing hit to the economy will be temporary and the remainder of 2020 has enough strength to avoid further deterioration. Consensus is that GDP growth should again come in around 2% for the year, corporate profits should rise 6-to-8%, accelerating as the year goes on. The global economy outside the U.S. already shows some signs of picking up. Global bond yields are moving higher with Chinese industrial production and retail sales increasing year-over-year in November.

From an equity standpoint, the defining moment for us was the complete reversal of Federal Reserve policy from tightening to one of accommodation and a fresh injection of liquidity. This policy would also appear to be global with China's central bank lowering its reserve requirement ratio by 0.5 percentage points, effective January 6th. Easy money, rising profits, relatively full employment, and low inflation are the ingredients for rising equity prices, and we would expect further progress in the new year. Our biggest fear would be a rise in inflation which could cause central banks to reverse their current monetary policy.

We wish all our clients and friends a healthy, happy, and prosperous new year.

January 2020

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