



January Monthly Recap and Year End Summary: Wall Street Caps Off Best Year Since 2013 as Fed Comes to the Rescue

The Dow and broader U.S. stock market surged to record highs in December, as easing trade tensions and fresh stimulus from the Federal Reserve boosted investor morale. The major U.S. indexes capped off one of their best years since the dot-com era, with Apple (NASDAQ:AAPL) leading all FANG and Dow constituents.

U.S. Stocks Surge

December was another record-setting month for Wall Street. The Dow, S&P 500 and Nasdaq rose between 2% and 4% during the month to cap off a stellar 2019. For the entire year, the Dow rose more than 22%, the S&P 500 29% and the Nasdaq 35%. Those were the largest annual gains since 2013.

In total, the S&P 500 set 35 record highs during the year. The Dow had 22 and the Nasdaq 31.¹

The record surge in U.S. stocks prompted a similar rally north of the border, with Canadian equities heading for their best year since 2009. Canada's benchmark TSX Composite Index rose 19% for the year.²

The equities rally shifted into higher gear in the second half of the year after the Federal Reserve cut interest rates for the first time since the financial crisis. The Fed would eventually lower rates three times in 2019 before resuming repo operations for the first time since 2008.³ In mid-December, the central bank announced its largest series of repo operations ever. For many strategists, Fed intervention in the repo market is cause for concern. In the short-term, however, it's providing the market with additional liquidity to drive up asset prices.⁴

U.S., China Finalize 'Phase One' Trade Agreement

Fed liquidity wasn't the only catalyst for equities last month. On Dec. 13, President Trump and Chinese officials announced they had reached a "phase one" trade deal that would see a rollback of some tariffs



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in exchange for more agricultural purchases of U.S. products. President Trump has since confirmed that the trade deal will be signed on Jan. 15.⁵

The president also said “phase two” negotiations, which aim to address more controversial issues like technology transfers and Chinese industrial policy, would start immediately.

The U.S.-China trade war, now in its second year, has put a damper on domestic and global manufacturers. PMI data out of China and the United States last year confirmed that manufacturing in both countries had entered recession.

Path to Brexit Secured

After years of political wrangling, the United Kingdom finally has a clear path to Brexit after Prime Minister Boris Johnson secured a shocking majority in British Parliament. Johnson’s Conservatives won 365 seats as Labour representation plunged to 203.

During the previous election, the Conservatives secured just 318 seats while Labour got 262.⁶

With a strong majority, Prime Minister Johnson has a clear path to exit the European Union on Jan. 31. All that is remaining is for European Parliament to approve Johnson’s Brexit deal, which passed British Parliament in December. According to the BBC, the UK and Brussels will have the rest of the year to formalize a new trade agreement.⁷

The Month Ahead

The usual economic data and monetary policy will headline market news over the next four weeks. Investors will also be watching out for details about the upcoming signing ceremony between President Trump and a member of China’s Communist Party. The South China Morning Post reported last month that Vice Premier Liu He would likely visit Washington to sign the deal.⁸

Until now, no version of the phase one trade deal has been made public.

Sincerely,

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¹ Alex Veiga (December 31, 2019). "Stocks close out best year since 2013; S&P 500 soars 28.9%." AP.

² The Globe and Mail (December 31, 2019). "The close: TSX slips on final day of 2019."

³ Wolf Richter (September 20, 2019). "Fed Admits Failure of 'Plan A' to Control Money Market Rates, Shifts Back to Repos (which was 'Plan A' till 2008)." Wolf Street.

⁴ Sam Bourgi (December 13, 2019). "The Fed Just Blew the Lid on the Next Financial Crisis." CCN.com

⁵ Niv Elis (December 13, 2019). "Trump, China announce 'Phase One' trade deal." The Hill

⁶ BBC News. UK results.

⁷ Peter Barnes (December 20, 2019). "Brexit: What happens now?"

⁸ Reuters (December 31, 2019). "Trump says U.S.-China trade deal will be signed on January 15."