

Hindsight Is 20/20. Foresight Isn't.

December 2019

The year 2019 served up many examples of the unpredictability of markets.

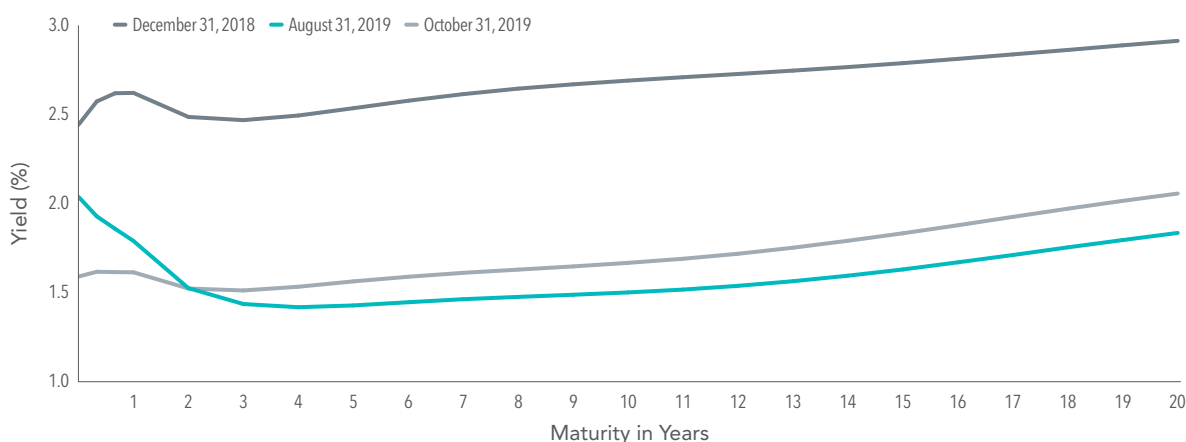
Interest rates that US policy makers expected to rise fell instead. American consumers' confidence weakened as the year began,¹ and news headlines broadcast fears of an economic slowdown. But investors who moved onto the sidelines may have missed the gains in the US stock market. As of the end of October, the S&P 500 was up more than 20% for the year on a total-return basis. That puts it on course for the best showing since 2013 should that gain hold through December.

The Greek stock market swung from a 37% decline last year to a 37% advance this year.

Outside the US, Greece—the site of an economic crisis so dire some expected the country to abandon the euro earlier this decade, and a country whose equity market

Exhibit 1: Shifting Curves

Yields on US Treasuries of various maturities since the end of 2018



Source: ICE BofAML fair value government spot yield. ICE BofAML index data © 2019 ICE Data Indices, LLC.

lost more than a third of its value last year—has had one of the most robust stock market performances among emerging economies in 2019. On top of that, Greece issued bonds at a negative nominal yield, which means investors paid for the privilege of lending the government cash.

Taken as a whole, it's a reminder that the prediction game can be a losing one for investors.

UP OR DOWN?

A closer look at interest rates and the bond market shows just how unpredictable asset performance can be. Going into 2019, Federal Reserve officials expected

economic conditions to support raising a key interest rate benchmark twice. Instead, policy makers lowered it three times.

In the market for US Treasuries—where market participants set interest rates—the yield curve that tracks Treasuries inverted for the first time in more than 10 years, as seen in **Exhibit 1**. Some long-term yields fell below some short-term yields over the summer. What's more, yields on medium- and long-term bonds were at historically low levels at the start of the year, but they fell even lower by the end of October. Investors who made moves based on the expectation yields would rise in 2019 may have been disappointed in how events ultimately transpired.

Exhibit 2: Changes in the Ranks

Performance of equity markets in 23 developed and 24 emerging economies

Developed Economies				Emerging Economies			
2018		2019 YTD		2018		2019 YTD	
Finland	-3.43%	Switzerland	25.19%	Qatar	29.84%	Russia	40.37%
New Zealand	-3.97%	Netherlands	24.45%	Peru	1.56%	Egypt	39.29%
USA	-5.04%	Ireland	24.37%	Russia	-0.39%	Greece	36.95%
Israel	-5.48%	Italy	23.22%	Brazil	-0.49%	Taiwan	25.04%
Hong Kong	-7.83%	USA	22.67%	Czech Republic	-4.45%	Colombia	22.67%
Norway	-8.63%	Canada	21.30%	Thailand	-5.53%	Brazil	17.61%
Switzerland	-9.08%	France	20.05%	Malaysia	-6.03%	Philippines	12.45%
Singapore	-9.41%	New Zealand	20.02%	Hungary	-6.12%	China	11.97%
Portugal	-11.09%	Australia	19.92%	India	-7.30%	Thailand	8.74%
Australia	-11.99%	Portugal	19.08%	UAE	-7.74%	Mexico	8.56%
France	-12.76%	Denmark	17.74%	Taiwan	-8.94%	Hungary	7.49%
Japan	-12.88%	Japan	16.51%	Indonesia	-9.21%	India	6.56%
Netherlands	-13.11%	Germany	16.40%	Colombia	-11.53%	UAE	5.57%
Sweden	-13.68%	Belgium	15.61%	Poland	-12.87%	Indonesia	4.84%
United Kingdom	-14.15%	Sweden	14.65%	Egypt	-14.00%	Korea	3.76%
Denmark	-15.43%	United Kingdom	13.18%	Mexico	-15.53%	Peru	2.25%
Spain	-16.19%	Austria	13.08%	Philippines	-16.52%	Turkey	1.96%
Canada	-17.20%	Singapore	12.84%	China	-18.88%	South Africa	0.35%
Italy	-17.75%	Spain	7.99%	Chile	-19.65%	Czech Republic	-1.11%
Germany	-22.17%	Hong Kong	7.67%	Korea	-20.94%	Malaysia	-3.84%
Ireland	-25.31%	Israel	6.15%	South Africa	-24.76%	Poland	-4.13%
Belgium	-26.93%	Finland	6.11%	Pakistan	-34.79%	Qatar	-4.95%
Austria	-27.44%	Norway	5.13%	Greece	-36.84%	Pakistan	-7.51%
				Turkey	-41.40%	Chile	-15.27%

Source: MSCI country indices (net dividends) in USD for each country listed. MSCI data © MSCI 2019, all rights reserved. 2019 YTD as of 10/31/19.

Note: Emerging economies do not include Argentina and Saudi Arabia, which MSCI classified as frontier and standalone, respectively, prior to May 2019.

TRADING PLACES

Events weren't any easier to anticipate in the global equity markets, where no evident link appears between markets that performed well last year and those that have excelled this year, as **Exhibit 2** shows.

Among the 23 developed market countries,² only one country was a Top 5 performer for 2018 and 2019: the US. Last year's strongest performing market—Finland—ranked 22nd this year through the end of October. Among emerging markets, Greece swung from a 37% decline last year to a 37% advance this year through the end of October.

PERENNIAL WISDOM

History has shown there's no compelling or dependable way to forecast stock and bond movements, and 2019 was a case in point. Neither the mainstream prognostications nor the hindsight of recent strong performance predicted outcomes in 2019.

Rather than basing investment decisions on predictions of which way debt or equity markets are headed, a wiser strategy may be to hold a range of investments that focus on systematic and robust drivers of potential returns. Investors who were broadly diversified across asset classes and around the globe were in a position to potentially enjoy the returns that the markets delivered thus far in 2019. Last year, this year, next year—that approach is a timeless one.

1. Based on readings from the Conference Board Consumer Confidence Survey and the University of Michigan Index of Consumer Sentiment.

2. Markets designated as developed or emerging by MSCI.

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