

Quarterly Market Outlook

February 2020

Strong Equity Markets in 2019

Global equity markets ended 2019 on a high note, producing gains of nearly 9% in the quarter and 26.6% for the year. US stocks were the largest contributor to the annual gain (+31.5%), powered by a resilient US economy, progress on Chinese trade negotiations and 75 basis points of interest rate cuts from the Federal Reserve.¹

Phase I Agreement Completed

The “Phase I” agreement between US and China was signed by President Trump and Chinese Vice Premier Liu He on January 15, 2020. China pledged to increase its purchases of US agricultural, energy and manufacturing goods and reduce tariffs on US imports. In exchange, the US cancelled tariffs on \$156 billion in Chinese imports that were set to take effect in mid-December and reduced existing tariff rates on \$120 billion of Chinese goods. The agreement also included Chinese promises to open its financial sector and better protect American intellectual property, but it was unclear how these elements would be enforced. Both sides hope to start work on a “Phase II” agreement before the presidential election. Buoyed by the progress, emerging markets stocks surged 11.8% during the quarter, their strongest since 2012.¹

Paradigm Shift Among Central Bankers

Central banks around the world have committed to maintaining easy monetary policy in the hopes of generating above target inflation, making it unlikely we will see higher short-term interest rates until inflation rates meaningfully increase. This policy shift is helping to extend the current US economic expansion, which is already the longest on record.² Interestingly, most historical recessions have been the result of central bank tightening, so the next downturn will likely start with a different driver. We are keeping a close eye on potential political changes, middle east tensions, the outbreak of the new Coronavirus, and corporate sector leverage as areas that present risk to the outlook.

President Trump is Impeached and then Acquitted

On December 18, 2019, the House of Representatives, in a vote largely along party lines, impeached President Trump for abusing power in his dealings with Ukraine and obstructing Congress in their investigation. He became the third sitting president to face a Senate trial. As expected, a Republican majority in the Senate produced a swift acquittal, though one Republican Senator, Mitt Romney, broke with party ranks to vote in favor of a conviction.

US Presidential Election Cycle Heats Up

The Democratic primary season is upon us with the completion of Iowa Caucuses. With the votes still being counted, Pete Buttigieg and Bernie Sanders are neck and neck atop the Iowa delegate count. A recent surge by Bernie Sanders now makes him the betting favorite for the nomination. Despite skipping the Iowa caucuses, Michael Bloomberg’s record

¹ Source: Bloomberg. Global stock performance references the MSCI All Country World Index. US stock performance references the S&P 500 Index Emerging market stock performance references the MSCI Emerging Markets Index.

² Source: National Bureau of Economic Research

spending spree now gives him the second highest odds.³ Among the Democratic candidates, Bernie Sanders' "democratic socialist" agenda would represent the largest change from the current pro-business policies of President Trump.

Brexit has Arrived

Prime Minister Boris Johnson's Conservative party won a resounding victory in the UK's recent election, paving the way for the UK to officially exit the European Union on January 31, 2020. The EU and UK now have 11 months to negotiate a trade agreement to govern the terms of the long-term relationship, which is an aggressive timeline that is likely to meet delays and produce continued volatility.

Increasing Middle East Tensions

In early January, President Trump ordered a drone strike which killed Iranian major general Qasem Soleimani, marking a significant escalation in tensions between the US and Iran. Iran responded by firing more than a dozen missiles at two Iraqi bases housing US troops (with no reported casualties). In the aftermath, the Iranian military mistakenly shot down a commercial airliner, which led to widespread protests and further pressure on Iran's leadership.

Coronavirus Threatens to Become a Global Pandemic

The world's seventh recorded Coronavirus, officially called "2019-nCoV," broke out in the Chinese city of Wuhan in late December. As of February 7th, there have been more than 31,000 confirmed cases (with many more unreported) and over 600 deaths. While the outbreak is primarily impacting China at this stage, the illness has been found in more than 25 other countries and is nearing global pandemic levels. The near-term impact to growth has been significant, with the Chinese instituting strict travel bans to contain the spread of the virus. Long-term impacts are less certain as the number of cases continue to increase rapidly.

Corporate Debt Reaching Extreme Levels

Cheap money has driven a historic wave of stock buybacks, mergers, acquisitions, and private equity investing. As a result, nonfinancial corporate debt has reached an all-time high of nearly 50% of GDP, potentially amplifying a slowdown in economic activity (as companies are forced to de-lever).⁴

Most Investment Portfolios are Not Well-Balanced

The traditional 60/40 portfolio has delivered one of its strongest 10-year results in history, fueled by a historic bull market in the US stock market. Many of the drivers of this performance – expanding profit margins, falling interest and tax rates, deregulation – look unlikely to repeat themselves. With political volatility increasing and central banks running low on ammunition to reverse the next recession, we believe the next decade will look very different from the past one. This argues for portfolios that are better balanced to a wide range of economic outcomes, including the potential for an economic downturn and/or higher inflation. Historically, such environments have been challenging for 60/40 allocations and other equity-centric portfolios.

³ Betting odds are sourced from RealClearPolitics

⁴ Source: Federal Reserve Board of Governors; NBER

IMPORTANT INFORMATION

Past performance is not an indication of future results.

Advanced Research Investment Solutions, LLC ("ARIS") and Evoke Wealth, LLC ("Evoke Wealth") (collectively referred to hereinafter as "Evoke Advisors") are SEC-registered investment advisers that provide investment advisory services and investment consulting services to a select set of clients and pooled investment vehicles. None of Evoke Advisors' services are intended to represent a complete investment program.

This publication is for educational, illustrative and informational purposes only and does not represent investment advice or a recommendation of or as an offer or solicitation with respect to the purchase or sale of any particular security, strategy or investment product, or any Evoke Advisors investment product mentioned herein. Past performance is not indicative of future results.

Different types of investments involve varying degrees of risk, including possible loss of the principal amount invested. Therefore, it should not be assumed that future performance of any specific investment or investment strategy (including the investments and/or investment strategies recommended and/or undertaken by Evoke Advisors), or any non-investment related content, will be profitable, equal any corresponding indicated historical performance level(s), be suitable for a client's portfolio or individual situation, or prove successful. Nothing contained herein is intended to predict the performance of any investment. There can be no assurance that actual outcomes will match the assumptions or that actual returns will match any expected returns.

This publication does not constitute, and should not be construed to constitute, an offer to sell, or a solicitation of any offer to buy, interests in any Evoke Advisors-sponsored fund, which can only be made by means of an offering memorandum and other governing documents for the respective fund.

This publication does not take into account your particular investment objectives, financial situation or needs, should not be construed as legal, tax, financial or other advice, and is not to be relied upon in making an investment or other decision.

Certain information contained herein constitutes forward-looking statements (including projections, targets, hypotheticals, ratios, estimates, returns, performance, opinions, activity and other events contained or referenced herein), which can be identified by the use of terms such as "may," "will," "should," "expect," "anticipate," "project," "estimate," "intend," "continue" or "believe" or other variations (or the negatives thereof) thereof. Due to various risks, assumptions, uncertainties and actual events, including those discussed herein and in the respective analyses, actual results, returns or performance may differ materially from those reflected or contemplated in such forward-looking statements. As a result, you should not rely on such forward-looking statements in making any investment decisions.

Certain information contained herein has been obtained or derived from unaffiliated third-party sources and, while Evoke Advisors believes this information to be reliable, neither Evoke Advisors nor any of its affiliates make any representation or warranty, express or implied, as to the accuracy, timeliness, sequence, adequacy or completeness of the information.

The information contained herein and the opinions expressed herein are those of Evoke Advisors as of the date of writing, are subject to change due to market conditions and without notice, and have not been approved or verified by the United States Securities and Exchange Commission (the "SEC"), the Financial Industry Regulatory Authority ("FINRA"), or by any state securities authority.

This publication is not intended for redistribution or public use without Evoke Advisors' express written consent.