SYMMETRY®

10 WORST FINANCIAL & ECONOMIC PREDICTIONS OF 2019

Forecasting short-term trends is notoriously difficult, yet every year Wall Street gurus, economists and leading financial institutions issue predictions about what they believe will happen in global markets over the next twelve months. Sometimes they get it right. But more often than not, they don't. And sometimes they make spectacularly bad calls. This would all be harmless fun if billions of dollars weren't often wasted trying to follow this flawed advice. This is why we at Symmetry Partners do not believe in short-term predictions or forecasting.

Here are 10 of some of the worst predictions about markets and economies in 2019.

1. Prediction:

According to *Fortune Magazine* in January of 2019: "Wall Street Says the Stock Market Will Soar This Year. Don't Fall for the Fantasy." Wall Street was not as pessimistic as *Fortune*, with every one of the 17 major Wall Street firms calling for an up year, though six firms slashed their 2019 stock forecasts in January 2019, including Barclays, Canaccord Genuity, Credit Suisse, Citi, and BMO Capital Markets.

What actually happened:

The S&P 500 ended 2018 at 2500 and 2019 at 3231. Of the 17 Wall Street firms, 16 predicted lower growth—some substantially lower growth. And only one firm, Deutsche Bank, came close with a forecast of 2350.

2. Prediction:

Jeffrey Kleintop, Charles Schwab's Chief Global Investment Strategist, forecast a gloomy year for the global economy and international stocks: "Global growth may slow in 2019 as the economic cycle nears a peak, with increasing drag from worsening financial conditions combining with full employment and rising prices. Global stock markets may peak in 2019 if leading indicators signal the gathering clouds of a global recession."

What actually happened:

In 2019, the S&P 500 rose 31.49%, while small Capitalization U.S. stocks (as measured by the Russell 2000) were up by 25.5%, and U.S. Bonds (as measured by the Bloomberg Barclays U.S. Aggregate Bond Index) increased by 8.7%. Developed International Markets (MSCI EAFE Index) appreciated by 22%, Emerging Markets (MSCI Emerging Markets Index) grew by 18.4%, and Global Bonds (Bloomberg Barclays Global Aggregate ex-USD Index) increased by 7.6 %. Through October, GDP growth continued, with world economies expanding at an average of 3.4% (according to the IMF), with Emerging Markets growing 4.6% and Developed Countries by 1.7%.

3. Prediction:

Morgan Stanley's equity strategist, Mike Wilson, anticipated "stagnant" performance in 2019, and predicted that the S&P 500 would end 2019 at around 2,750, just 3% above current levels. He said 2019 "will look a lot like 2018." And investors should expect "a choppy ride."

What actually happened:

The S&P 500 rose 31.49%. This result did not look a lot like 2018, when the S&P returned -4.38%. The standard deviation (a measure of volatility) of the S&P was 15.33% in 2018 but substantially lower at 12.89% in 2019.

4. Prediction:

Mark Yusko, founder, CEO and chief investment officer of hedge fund Morgan Creek Capital, predicted a "dreadful bear market" in 2019. Though he predicted a lot of "spiky" rallies throughout the year, he foresaw only disaster ahead: "It's like a rubber ball bouncing down a set of stairs. Each bounce is higher, that's just kinetic energy. The end of the trip is a bad place."

What actually happened:

There was no bear market.

5. Prediction:

In a January 4, 2019 *New York Times* article, "This Expert Called the Market Plunge. Here's What He Sees in 2019." James Stack, president of InvesTech Research—who had successfully predicted 2018's down markets -- called for more of the same in 2019. According to the article, "[Stack] believes that the worst isn't over and that the Dow and S&P 500 will soon be down 20 percent from their peaks, retreating into a bear market." He also believed that the U.S. was headed for a recession.

What actually happened:

There was no bear market. There was no U. S. recession.

6. Prediction:

Charles Schwab's Chief Fixed Income Strategist, Kathy Jones, thought the Fed would continue to raise interest rates, "We expect the Federal Reserve to raise rates two to three more times, bringing the federal funds target rate to the 2.75% to 3% area in early 2019."

What actually happened:

The Federal Reserve cut its benchmark rate three times in 2019 to a range of 1.5%-1.75%.

7. Prediction:

According to the 2019 Outlook published by Capital Group (the parent company of American Funds), "You may be worried about rising interest rates in the U.S., political instability in Europe or deflationary pressures in Japan. Those deserve to be on the top 10 list of investor concerns for 2019. But consider this for No. 1: China's slowing economy and the impact it has everywhere else, particularly on other emerging nations that supply the raw materials needed to support China's growth." In addition, "With the Fed tightening policy, debt levels elevated and tariffs starting to take a toll on companies, expect more volatility in 2019. Equity valuations remain stretched, so consider tempering return expectations." Several other firms, including Barclays, predicted that a slowdown in China would harm global stock markets.

What actually happened:

While Chinese economic growth declined slightly in the first three quarters of 2019, by the end of the year most economic indicators suggested that the decline might be over—at least until the coronavirus outbreak (which no one predicted) led to 2020 Chinese market turmoil. After returning -18.9% in 2018, Chinese markets rebounded and enjoyed a 22.7% return in 2019. Major markets around the globe experienced strong growth. Japanese markets returned 19.56%, while Emerging Markets as a whole (as measured by the MSCI Emerging Markets Index) returned 18.4%. The S&P 500 had its best year since 2013. Moreover, interest rates fell.

8. Prediction:

Every year, financial magazines like *Forbes* publish lists of stocks to buy for the year. The results are often disappointing. *Forbes* relied on seven of its "top investment newsletter editors" to identify "12 Stocks to Buy For 2019." As Forbes noted, "Picking stocks for your portfolio during times like these is a bit more difficult than when the market produces gains week after week with little turbulence along the way, but in an environment of elevated volatility, there is also the opportunity to pick up outstanding bargains."

What actually happened:

Half the stocks Forbes chose suffered negative returns. B&G Foods (BGS) returned -43.64%, TPI Composites (TPIC) lost -37.70%, and Kraft Heinz Company (KHC) was down –32.48%. Only two companies-- KB Homes (KBH) up 69.39% and Global Blood Therapeutics (GBT) up 86.79%--managed to outperform the S&P 500. Overall, the 12 stocks to buy returned 6.5% as the S&P 500 returned 31.49%.

9. Prediction:

According to Russell Investment's 2019 Global Market Outlook: The Late-Late Cycle Show, "We believe 2019 will feature volatile equity markets that deliver mid-single-digit returns, with better potential in Europe and Japan than the U.S. We have an underweight preference for U.S. equities, mostly driven by expensive valuations.... We expect the U.S. Federal Reserve (the Fed) to follow its December rate rise with three to four additional hikes in 2019."

What actually happened:

The MSCI Europe Index returned 24.59% and Japan returned 19.56% The S&P 500 significantly outperformed Europe and Japan, returning 31.49%. The Federal Reserve cut its benchmark rate three times in 2019.

10. Prediction:

Macro and quant strategist Masanari Takada of Nomura Securities, got a lot of attention in August of 2019 with his bold call for a “Lehman-like” plunge. He believed there would be a huge sell-off, “The pattern in US stock market sentiment has come to even more closely resemble the picture of sentiment on the eve of the 2008 Lehman Brothers collapse that marked the onset of the global financial crisis….We would expect any near-term rally to be no more than a head fake, and think that any such rally would be best treated as an opportunity to sell in preparation for the second wave of volatility that we expect will arrive in late August or early September. We would add here that the second wave may well hit harder than the first, like an aftershock that eclipses the initial earthquake.”

What actually happened:

The S&P 500 ended August down 1.81% and was up 1.72% for September. It ended the year up 31.49%.

Data: Morningstar

Index Disclosure and Definitions

All indexes have certain limitations. Investors cannot invest directly in an index. Indexes have no fees. Historical performance results for investment indexes generally do not reflect the deduction of transaction and/ or custodial charges or the deduction of an Investment management fee, the Incurrence of which would have the effect of decreasing historical performance results.

S&P 500 Index: Widely regarded as the best single gauge of the U.S. equities market, this market capitalization-weighted index includes a representative sample of 500 leading companies in leading industries of the U.S. economy and provides over 80% coverage of U.S. equities.

MSCI Emerging Markets Index captures large and mid cap representation across 26 Emerging Markets (EM) countries*. With 1,194 constituents, the index covers approximately 85% of the free float-adjusted market capitalization in each country.

Russell 2000 index is a commonly used benchmark for mutual funds that identify themselves as "small-cap," much like the S&P 500 index is used to benchmark large capitalization stocks. Mutual fund investors favor the Russell 2000 index because it reflects the investment opportunity presented by the entire market rather than opportunities offered by narrower indices, which may contain bias or more stock-specific risk that can distort a fund manager’s performance.

MSCI EAFE (Europe, Australia, Far East) Index is a free float-adjusted market capitalization index that is designed to measure the developed equity market (as defined by MSCI) equity performance, excluding the U.S. and Canada. The Index consists of developed market country indexes.

Bloomberg Barclays U.S. Aggregate Bond Index covers the USD-denominated, fixed-rate, and taxable areas of the bond market. This is the broadest measure of the taxable U.S. bond market, including most treasury, agency, corporate, mortgage-backed, asset-backed, and international dollar-denominated issues, all with maturities of 1 year or more. Bonds with shorter maturities generally have less risk than bonds with intermediate or long maturities.

Bloomberg Barclays Global Aggregate Ex-USD Index measures the performance of global investment grade fixed-rate debt markets that excludes USD-dominated securities.

MSCI EU Index captures large and mid cap representation across 15 Developed Markets countries in Europe.

Standard Deviation is a measure of the risk of an investment that measures the dispersion of returns around the average return. The higher the standard deviation, the more volatile, or "risky" the investment has been based on historical returns.

IMF: International Monetary Fund

GDP: Gross Domestic Product