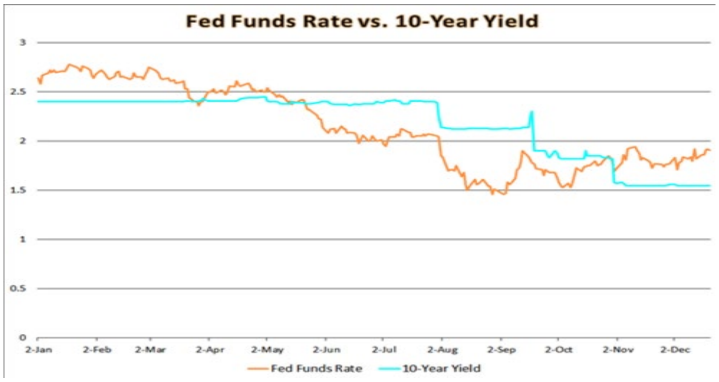
Macro View – A Critical Data Point

Jerome Powell has indicated that his intention is to keep rates steady in 2020. The St. Louis Fed chart below shows a very important data point — the Fed Funds Rate vs the 10 year yield. The Fed Funds rate is trending below the 10-year yield. Without stating the obvious, this reinforces sentiment of an accommodative Fed policy. The past decade has proven the benefits to the economy and market of an accommodative central bank. The chart also demonstrates low yields from treasuries, forcing investors to look to equities for greater returns and yield profiles given greater risk. The yield on the S&P 500 ETF, SPY, is 1.75% as of December 20th. A yield on equities greater than the 10-year yield will further drive investors to equities versus fixed income. This chart and the messages behind the chart certainly bode well for stock prices in 2020.



Taking Stock – Mega Cap Madness

The five top holdings in the S&P 500 (AAPL, MSFT, GOOGL, FB, AMZN) now make up nearly 17% of the S&P 500 as of December 2019 (S&P Dow Jones). The last December the S&P 500 was this top heavy was 1999. Apple, Microsoft and Facebook have dramatically outpaced the S&P 500 in 2019 performance. Furthermore, technology makes up over 20% of the index. In 1999, tech made up 29% of the S&P 500. According to Yardeni Research, S&P 500 forward P/E as of December 12, 2019 is approximately 18. Forward P/E ex-FAANGM is just above 16. FAANGM includes Facebook, Amazon, Apple, Netflix, Google, and Microsoft. For the same time period, forward price to sales for the S&P 500 was 2.2, while S&P 500 ex FANG was about 2.0 (Yardeni Research). Investors may be wise to consider alternatives to market cap weighting that result in overweighting over valued securities.