The NATIONAL INTEREST FOUNDATION

Stock Market Closes Out a Strong Year in 2019

2019 was a strong year for the American stock market, with all three major indexes rising by over 20%. The Federal Reserve adjusted rates multiple times, and President Trump's trade war with China failed to severely impact the overall condition of the markets. 2019 represented a return to health for the economy, following a downturn the previous year that had worried investors. However, for all the positivity that 2019 brought, observers are already warning that it will be difficult for 2020 to maintain the current pace.

Despite repeated attacks from President Trump, the Federal Reserve played a large role in facilitating the strong stock market throughout the year. Interest rates were cut in the summer for the first time since the 2008 recession, in order to stave off economic downturn. This marked a dramatic change from 2018, in which the Fed raised rates on four separate occasions. The Fed also ended the reduction of its $3.8 trillion asset portfolio two months ahead of schedule, in August. Chairman of the Fed Jerome Powell intimated that decisions were being made as a result of the trade war with China, but the Federal Reserve was preserving monetary independence despite the attempts by the President to influence fiscal policy.

In terms of the specific indexes, the S&P 500 rose 29% in 2019, which marks its best performance since 2013. One potential reason for this is although energy was the worst performing sector of the S&P 500, Saudi Aramco rolled out an initial public offering that helped it reach a $2 trillion valuation. The Nasdaq Composite index rose the most of the three indexes, with a 36% increase that also marked its best performance in a year since 2013. Finally, the Dow finished up by about 22%, which is its best performance in two years, and makes up for its losses from 2018.

For all the success in 2019, observers have warned that 2020 could be significantly different. Specifically, the 2020 Presidential Election could increase tensions as the competing candidates each have radically different approaches to fiscal policy. The lower taxes and loosening of regulations by the Trump Administration have helped the stock market, but President Trump's Democratic challengers could reverse these policies if elected. However, even if the market dips as expected, experts do not believe there will be a crash in the ilk of 2008. The expected downturn comes more from the fact that it will be difficult to keep up such strong growth, as opposed to an impending depression.

Moving forward, the United States and China agreeing to terms on a preliminary trade deal will assuage fears of investors over a potential global downturn in 2020. Additionally, the agreement between the United States, Canada, and Mexico to replace NAFTA with the USMCA will have a similar effect, provided it is ratified by Congress. As 2019 ends, there are not many indicators that would point toward a widespread, global downturn in the coming year.