OXFORD CHASE ADVISORS LLC

4600 Avocet Drive
Peachtree Corners
GA, 30092

Ph: (1)678-313-6265
Email: info@oxfordchaseadvisors.com
http://www.oxfordchaseadvisors.com/

Economy & Market Valuation

The US stock market as measured by the S&P 500 was up by 28% in 2019. This was its best one-year performance since 2013. Some of the reasons for the optimism that fueled the rally were:

- The Federal Reserve cut interest rates 3 times in 2019 and has given strong indication that the bar for raising interest rates is very high.
- Trade tensions with China have subsided. USA and China are expected to sign a Phase 1 trade deal in Jan 2020. It is expected that 2020 will not see any further escalations with China as 2020 is an election year in the US.

US economic growth has been propelled by consumer spending in 2019. Business investment has been missing as a contributor to growth. The hope is that with a thaw in the trade war and stabilization of the economy in China, US companies will gain confidence to start investing again. We expect the US economy to keep growing in 2020, although at slower pace as compared to 2019. With the stock market showing a strong growth in 2019, the question is – “Is the market is overvalued?”. It depends on what metric you use to benchmark the stock market valuation. Here are some of the metrics used to measure if the market is expensive:

Valuation model	Current Reading	Versus Historical Average
Market Cap to GDP	203%	Very Expensive
S&P 500 Forward P/E	18.9	Very Expensive
EV/Sales	2.6	Very Expensive
Yield Gap vs. 10-Year Treasury	3.4%	Inexpensive

As you can see the market is inexpensive if you use Yield gap vs. 10 Year Treasury Yield. The reason for this is that interest rates in the US are very low.

As we said in the last Quarterly newsletter, we saw the easing of monetary conditions with the start of Quantitative Easing and lowering of interest rates by the Federal Reserve. As a result, we decided to be almost fully invested in our Alpha Portfolio and it has served our clients well. We were at 20% cash and 10% defensive positions at the beginning of 2019. Based on the Federal Reserve actions and our read of the US economy, we moved to fully invested positions as the year progressed. We are watching economic conditions very carefully and we want to stay almost fully invested till the time monetary conditions are easy and there are no signs of inflation. Any pickup in inflation will force the Federal Reserve to start the move towards higher interest rates.

We want to thank all our clients who were able to attend Dec 7 annual meeting. We are always looking for feedback that will help us to better serve our clients. We got of plenty of good feedback from our interaction with you during the Dec 7 meeting.

If you are satisfied with our performance, we request you to refer us to your friends. Also feel free to compare our performance to the portfolios that you manage on your own or those that are managed by other advisors.