MONEY

Worried about the stock market? How to shield your 401(k) against a Trump impeachment, recession and trade war

Jessica Menton USA TODAY

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If you're feeling edgy about where your investments are headed next year, you're not alone. The professionals are anxious, too.

President Donald Trump has been impeached, and next year he mounts a re-election bid as candidates like Elizabeth Warren try to reverse his lower tax, lower regulation approach to governing. And while borrowing costs remain low and the job market is strong, a trade rift with China and sluggish economies in other parts of the world continue to fuel fears of a U.S. recession in 2020.

All those unknowns are leaving investors uncertain, and financial markets hate that. Analysts doubt that stock gains, which are currently at more than 20% for 2019, will remain in the double-digit percentage range in 2020. Even so, few banks are worried that the bull market will end next year.

Goldman Sachs and BMO Capital Markets project the Standard & Poor's 500 stock index will end at 3,400 in 2020, 6% above its record close of 3,205.37 on Thursday.

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Morgan Stanley and UBS Group are less bullish. Their base case is for the broad index to finish at 3,000 in 2020 on expectations that earnings growth will continue to slow.

So what are the forces that could shape your 401(k) in 2020?

First, there's the good news: Investors aren't rattled so far by Trump's impeachment by the House late Wednesday. A Republican majority in the Senate is likely to decide against removing him from office, analysts said.

"Although we expect U.S. political uncertainty to remain elevated, we don't see this process as a source of market risk," analysts at UBS said in a note.

Meanwhile, a trifecta of favorable developments over the past week – a partial trade accord with China, clarity on a long-delayed Brexit deal and steady interest rates in 2020 – have removed some angst that was hovering over the market.

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That's helped ease investors' fears in recent weeks. The percentage of people who believe stock prices will fall over the next six months remains low by historical standards – roughly 21% of those surveyed by the American Association of Individual Investors, which conducts a weekly survey that serves as a barometer of retail investor sentiment.

Plus, Wall Street's outlook on the economy is rosier. Robust consumer spending has helped offset weak manufacturing and muted business investment. Stocks clawed back gains this year to trade at records after fears about slowing global growth, higher rates and tariff concerns put the decadelong bull market run in jeopardy a year ago. The Dow Jones industrial average has rallied 22% in 2019, on pace for its best year since 2017.

"We're seeing economic trends improve," said Brad McMillan, chief investment officer at Commonwealth Financial Network. "For all of the recession worries out there, things are actually better than most people think."

Still, worries remain. The ongoing trade war between Washington and Beijing threatens to further slow global growth and crimp corporate profits. And U.S. and Chinese officials still need to sign a "Phase 1" deal. The Federal Reserve forecasts real U.S. gross domestic product growth to slow to a 2% annual pace in 2020, down from its current estimate of 2.2% for this year.

Where to invest in 2020?

It depends on your financial circumstances. Those planning to withdraw money over the next year for college tuition or buying a house should set aside money in a savings account, wealth

managers cautioned. They also advised clients to pay off debt, including credit cards, car loans or home-equity credit lines.

The conventional idea of allocating 60% toward stocks and 40% toward bonds might not work for everyone next year, experts say. With Americans living longer, they should invest more in stocks rather than piling money into traditional safe havens like bonds, says Patrick Healey, founder and president of Jersey City, New Jersey-based Caliber Financial Partners.

"You have to stay invested and continue to make money off your investments in retirement," Healey said. "If your strategy is to run out the clock or play defense, you may run out of money."

Traditional income sources like bonds are unlikely to thrive in a time of low-interest rates. Healey recommends having roughly 70% to 80% toward stocks in a portfolio and about 20% to 30% toward alternative assets including commercial real estate, oil and gas investments or private equity.

Having exposure to dividend-paying stocks like preferred shares or real estate investment trusts (REITS) will likely soften the blow in a downturn and still provide a better yield compared with bonds, he said.

Heading into 2020, some analysts say beaten-down value stocks and bonds are better options than trade-sensitive growth companies in the technology sector that have propelled the bull market.

Value stocks, or companies whose shares trade at a low multiple of their book value, include energy and financial shares that have underperformed the broader market in recent years.

Beaten-up cyclical assets that are tied to the health of the global economy are also poised to rebound. Japanese and emerging market stocks are expected to strengthen over the next six to 12 months amid a lull in U.S.-China trade tensions, according to BlackRock.

Search for yield

Experts also suggest looking beyond traditional fixed-income assets like U.S. Treasurys for potential yield in 2020.

Analysts at the Wells Fargo Investment Institute favor high-quality U.S. corporate bonds and "safety stocks" such as consumer staples, real estate and utilities, which typically pay high

dividends. They said investors can also find attractive yields among international stocks, which on average have higher dividend yields than U.S. stocks, according to the bank.

To be sure, investors should be wary of putting all of their long-term assets in safe-haven bonds amid recession fears, money managers said.

"Investors make mistakes trying to time the market," said Clark Kendall, president and chief executive of Maryland-based Kendall Capital. "That's where they end up shooting themselves in the foot."

Be ready for the long haul

Some experts warn that not being invested enough in the stock market over the long term would be a mistake, which could prevent potential gains down the road.

Election Day is less than a year away, and stocks are poised to keep rising over the next 12 months with an incumbent in office, analysts say. Meanwhile, the Federal Reserve has signaled that it won't raise interest rates in 2020 amid trade policy uncertainty, weak global growth and low inflation.

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An interim “skinny" trade deal that the U.S. and China are set to sign off on could temporarily relieve tariff concerns ahead of the election and pave the way for a mid-year boost in global growth, according to analysts at Bank of America Global Research.

“You should position your portfolio for good news, not just for bad news,” said Charles Lemonides, portfolio manager at ValueWorks. “You want to be greedy when others are fearful. People are fearful right now.”