FINANCIAL SERVICES DEPARTMENT

Staff Report

To: **Honorable Mayor Cheney and the Frisco City Council**

Thru: **George Purefoy, City Manager**
Nell Lange, Assistant City Manager

From: **Anita Cothran, Director of Financial Services**

Date: **January 14, 2020**

Re: **Monthly Financial Report for December 2019**

Financial reports are provided for your review. For the third month of our fiscal year, revenues & expenditures are tracking as expected.

I have also attached a separate report this month, a Recap of our Department for FY2019, outlining our accomplishments and lean improvements.

As always, if you have any questions, let me know.

972-292-5510, acothran@friscotexas.gov.

FINANCIAL SERVICES DEPARTMENT
COUNCIL REPORT
DECEMBER 31, 2019

FY 2020

Budget Summary for December
Fiscal Year 2020
(Compare to 25%)

	Approved Original FY20 Budget	Revised FY20 Budget	Monthly Actual	% of Bdgt	YTD Actual	% of Bdgt	Preliminary FY 19 Actual	Monthly Actual	% of YTD Act	YTD Actual	% of YTD Act	% Inc /(Dec) 19/20
Gen Fund Rev												
Property Tax	88,405,137	88,405,137	45,658,692	52%	52,473,591	59%	81,753,878	31,744,199	39%	47,406,908	58%	11%
Sales Tax	44,660,806	44,660,806	3,789,722	8%	11,625,189	26%	44,452,378	3,422,356	8%	10,786,557	24%	8%
Beverage Tax	1,033,081	1,033,081	0	0%	0	0%	1,132,892	0	0%	0	0%	0%
Franchise Tax	9,827,538	9,827,538	1,825	0%	1,825	0%	10,571,572	95	0%	95	0%	1821%
Licenses & Permits	11,969,141	11,969,141	901,970	8%	2,546,819	21%	11,845,079	1,051,843	9%	2,846,012	24%	-11%
Intergovernmental	2,209,741	2,209,741	-168	0%	40,376	2%	2,929,614	144,302	5%	162,477	6%	-75%
Charges for Services	9,734,690	9,734,690	698,132	7%	2,078,582	21%	9,233,215	649,317	7%	1,873,783	20%	11%
Fines	2,343,260	2,343,260	149,471	6%	465,491	20%	2,511,949	197,713	8%	550,128	22%	-15%
Interest Income	1,996,400	1,996,400	120,494	6%	364,024	18%	2,110,752	141,727	7%	380,911	18%	-4%
Contributions	100,455	100,455	23,585	23%	126,326	126%	69,347	5,350	8%	10,586	15%	1093%
Rental Income	1,272,518	1,272,518	129,066	10%	292,695	23%	1,348,823	109,542	8%	268,176	20%	9%
Other Fees/Misc	650,843	650,843	116,228	18%	151,140	23%	1,633,839	70,910	4%	358,585	22%	-58%
Transfers In	3,674,894	3,674,894	0	0%	0	0%	2,995,312	0	0%	0	0%	0%
Total	177,878,504	177,878,504	51,589,017	29%	70,166,058	39%	172,588,650	37,537,354	22%	64,644,218	37%	9%
Gen Fund Exp												
Administration	6,590,183	6,600,805	438,255	7%	1,266,737	19%	5,369,808	639,510	12%	1,359,061	25%	-7%
Financial Services	13,338,754	13,565,168	545,053	4%	1,861,738	14%	11,724,228	561,507	5%	1,607,885	14%	16%
Police	46,571,949	46,689,351	3,419,602	7%	10,638,098	23%	41,854,020	3,017,047	7%	8,810,632	21%	21%
Fire	41,412,433	41,472,121	2,971,572	7%	8,525,710	21%	39,770,485	2,966,203	7%	8,300,521	21%	3%
Public Works	12,489,757	12,753,504	838,224	7%	2,189,535	17%	12,412,007	752,744	6%	2,076,414	17%	5%
Human Resources	3,732,997	3,757,461	170,352	5%	454,350	12%	2,289,582	170,668	7%	465,087	20%	-2%
Administrative Serv	10,580,865	10,795,618	700,353	6%	2,860,897	27%	10,149,090	1,112,186	11%	3,039,240	30%	-6%
IT Serv	8,317,855	8,598,969	423,256	5%	1,472,715	17%	7,605,179	668,922	9%	1,183,940	16%	24%
Library	5,920,341	5,988,782	361,931	6%	1,215,078	20%	4,879,190	368,250	8%	1,069,870	22%	14%
Parks & Recreation	17,964,673	17,769,427	1,177,539	7%	3,479,673	20%	16,413,117	1,155,079	7%	3,069,607	19%	13%
Engineering Serv	2,398,958	2,659,723	262,099	10%	544,346	20%	2,243,778	160,640	7%	403,463	18%	35%
Development Serv	7,545,854	7,993,516	541,429	7%	1,563,113	20%	7,634,341	539,115	7%	1,584,001	21%	-1%
Non-departmental	996,910	1,329,543	68,533	5%	208,695	16%	3,731,430	55,180	1%	166,688	4%	25%
Total	177,861,529	179,973,988	11,918,198	7%	36,280,685	20%	166,076,255	12,167,051	7%	33,136,409	20%	9%
Rev-Exp	16,975	(2,095,484)	39,670,819		33,885,373		6,512,395	25,370,303		31,507,809		

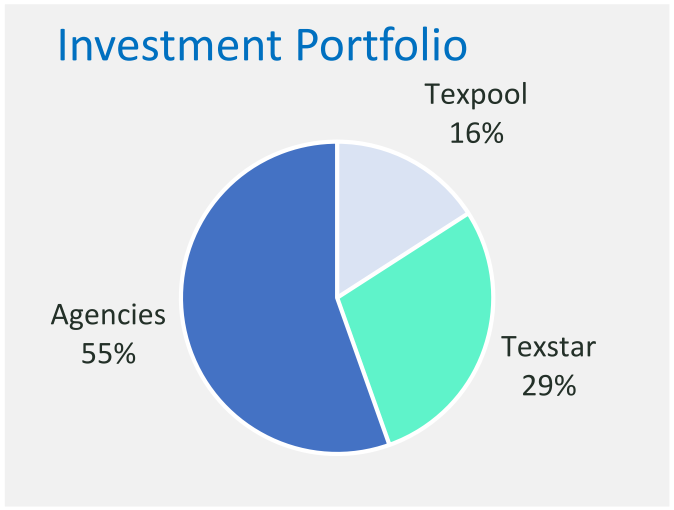
Budget Summary for December
Fiscal Year 2020
(Compare to 25%)

	Approved Original FY20 Budget	Revised FY20 Budget	Monthly Actual	% of Bdgt	YTD Actual	% of Bdgt	Preliminary FY 19 Actual	Monthly Actual	% of YTD Act	YTD Actual	% of YTD Act	% Inc /(Dec) 19/20
Utility Rev												
Water	54,941,684	54,941,684	3,538,132	6%	15,602,094	28%	53,529,132	3,298,341	6%	11,150,228	21%	40%
Sewer	42,299,629	42,299,629	3,212,607	8%	9,832,418	23%	38,451,104	3,169,347	8%	9,588,640	25%	3%
Licenses & Permits	1,252,400	1,252,400	121,024	10%	461,147	37%	2,989,710	158,664	5%	457,344	15%	1%
Interest	550,000	550,000	73,970	13%	227,079	41%	893,390	66,044	7%	196,001	22%	16%
Misc	720,000	720,000	110,031	15%	317,081	44%	1,214,586	62,847	5%	269,041	22%	18%
Transfers In	3,370,499	3,370,499	0	0%	0	0%	3,345,530	0	0%	0	0%	0%
Total	103,134,212	103,134,212	7,055,764	7%	26,439,819	26%	100,423,452	6,755,243	7%	21,661,254	22%	22%
Utility Exp												
Administration	136,000	136,000	0	0%	451	0%	350,115	13,036	4%	36,982	11%	-99%
Financial Services	1,956,424	1,965,754	189,927	10%	459,360	23%	1,771,394	138,533	8%	418,993	24%	10%
Public Works	74,311,026	75,765,530	6,502,948	9%	20,480,421	27%	71,764,810	5,676,685	8%	19,097,877	27%	7%
Administrative Serv	150,734	157,148	9,407	6%	35,741	23%	151,317	15,487	10%	44,531	29%	-20%
IT Serv	3,044,537	3,110,649	182,422	6%	658,819	21%	2,610,224	202,477	8%	664,967	25%	-1%
Engineering Serv	4,137,694	4,154,914	256,842	6%	778,315	19%	3,806,580	293,212	8%	922,969	24%	-16%
Non-departmental	17,711,483	17,711,483	0	0%	0	0%	19,487,596	0	0%	-1,769	0%	0%
Total	101,447,898	103,001,478	7,141,546	7%	22,413,107	22%	99,942,036	6,339,430	6%	21,184,550	21%	6%
Rev-Exp	1,686,314	132,734	(85,782)		4,026,712		481,416	415,813		476,704		
Utility Stormwater												
Revenue	4,127,806	4,127,806	343,259	8%	1,030,627	25%	3,985,368	329,090	8%	984,614	25%	5%
Expenses	3,939,939	4,256,199	317,405	7%	724,206	17%	3,217,281	153,179	5%	412,767	13%	75%
Rev-Exp	187,867	(128,393)	25,854		306,421		768,087	175,911		571,847		
Environmental												
Revenue	19,096,829	19,096,829	1,563,356	8%	4,679,740	25%	17,840,157	1,435,965	8%	4,270,063	24%	10%
Expenses	18,877,471	18,913,921	1,484,912	8%	3,868,259	20%	18,148,545	1,334,809	7%	3,627,243	20%	7%
Rev-Exp	219,358	182,908	78,444		811,481		(308,388)	101,156		642,820		

Major Funds Revenues & Expenses December 31, 2019	General	FY20 % of Budget	FY19 % of Budget	Utility Operating	FY20 % of Budget	FY19 % of Budget
Revenue Budget	$177,878,504			$ 103,134,212		
YTD Actual	$ 70,166,058	39%	37%	$ 26,439,819	26%	16%
Expense Budget	$179,973,989			$ 103,001,478		
YTD Spent	$ 36,280,686	20%	20%	$ 22,413,108	22%	18%
Revenues Over (Under) Expenses	$ 33,885,372			$ 4,026,711		

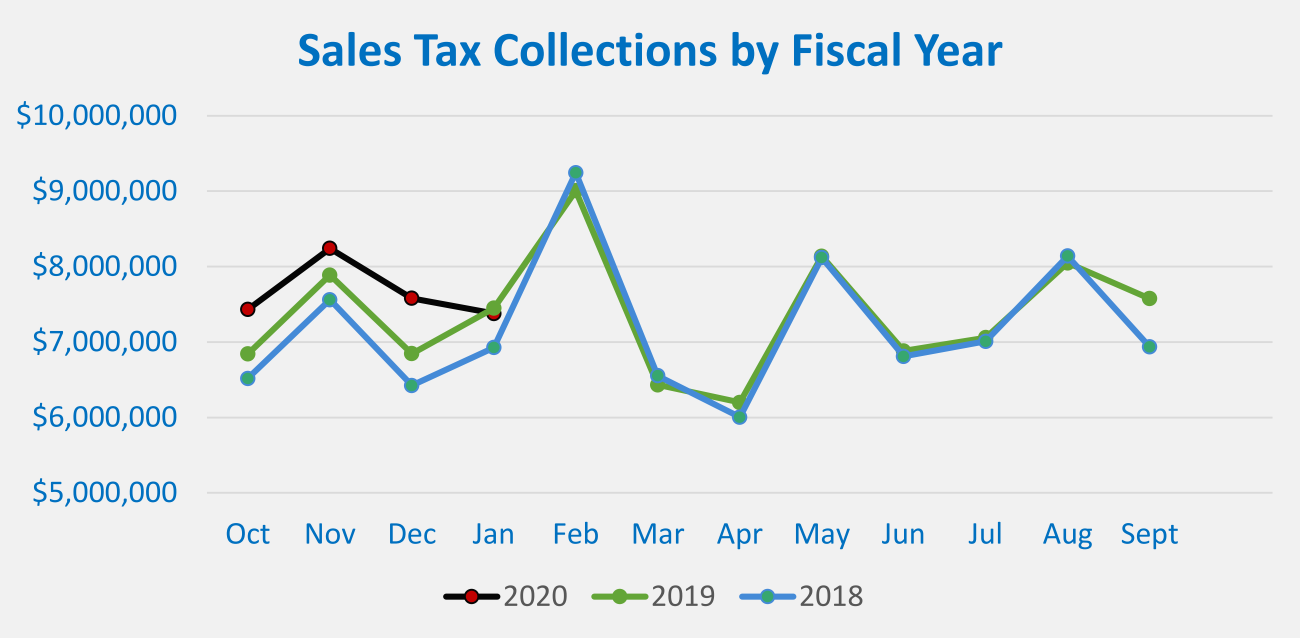
General Fund: Tax revenues are strong for December. Licenses & Permits and Fines collections are down slightly from prior year due to less activity. Expenditures are tracking as projected.

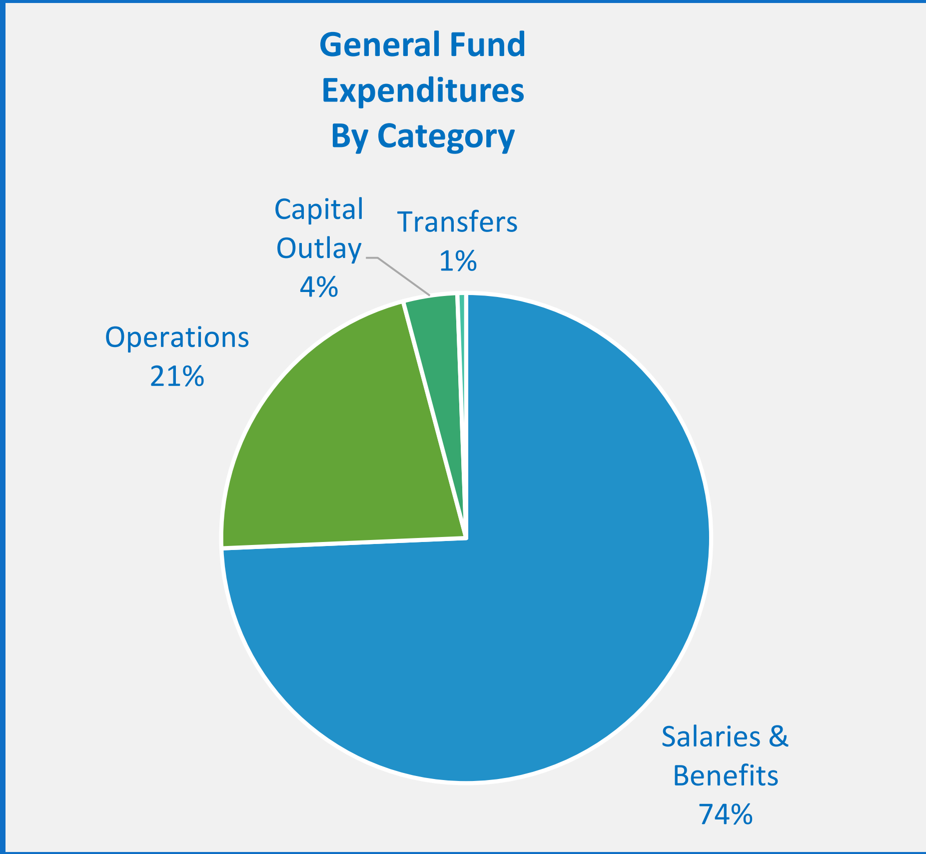
Utility Fund: Utility Fund sales and expenses are tracking as projected.

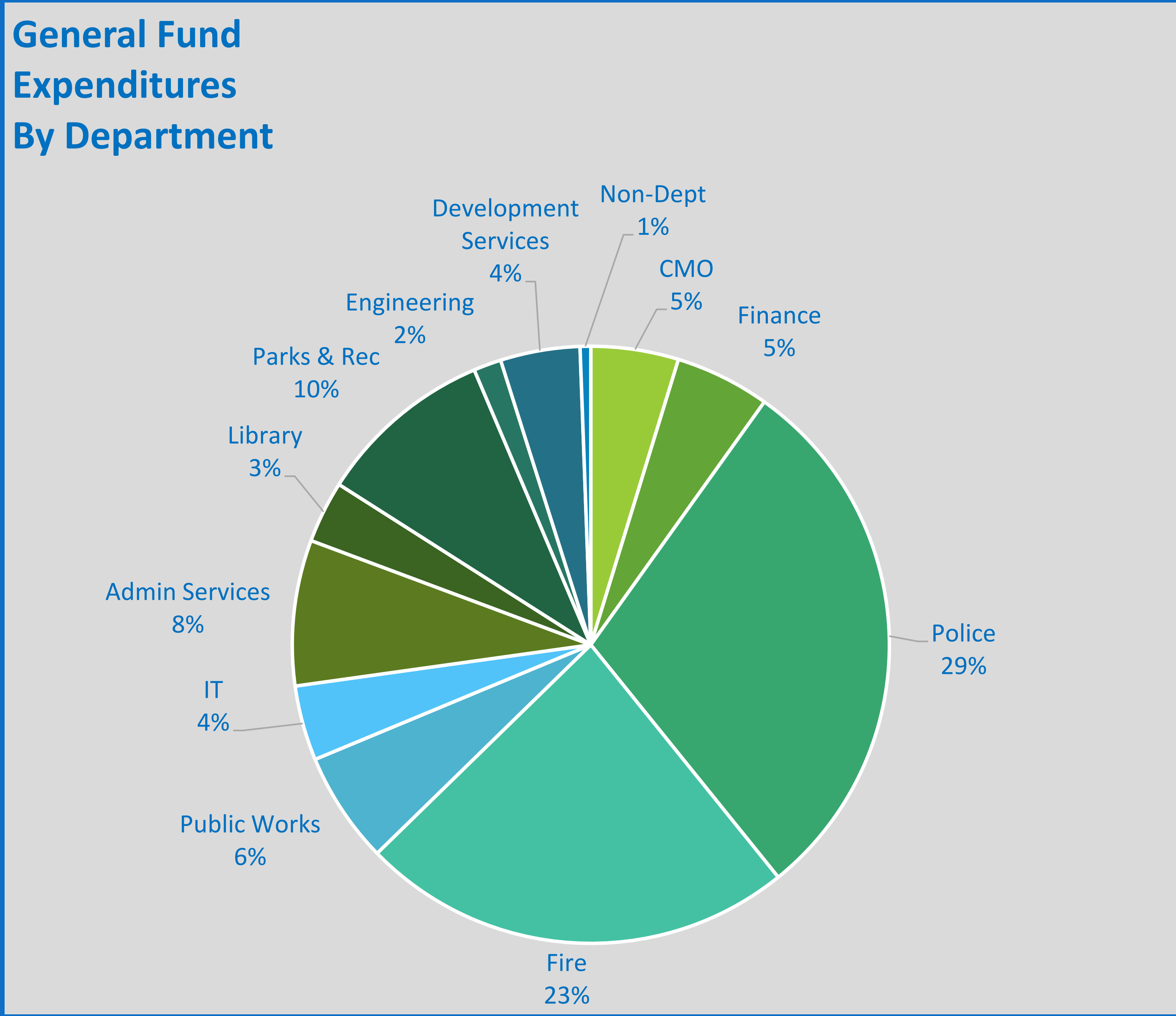


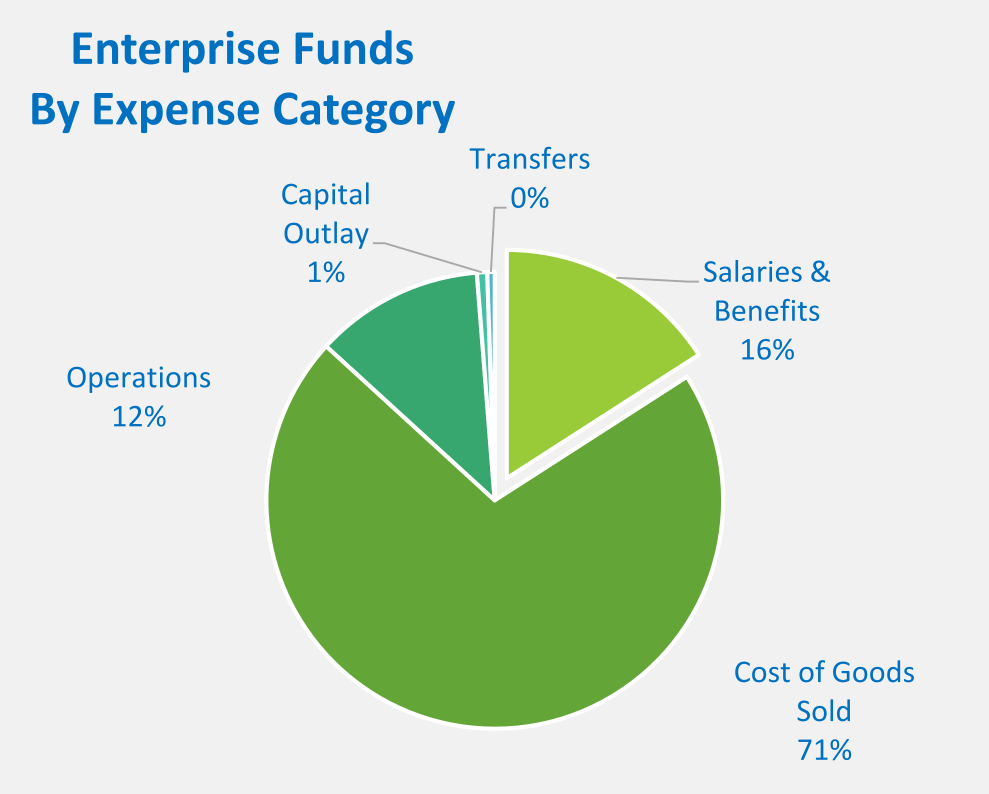
Key/Major *General Fund* Revenues	December Collections	YTD Collections	% of Budget
Property Tax	$45,658,692	$52,473,591	59%
Sales Tax	$ 3,789,722	$11,625,189	26%
Franchise Tax	$ 1,825	$ 1,825	0%
Licenses & Permits	$ 700,500	$ 2,546,819	21%
Charges for Services	$ 655,144	$ 2,078,582	21%

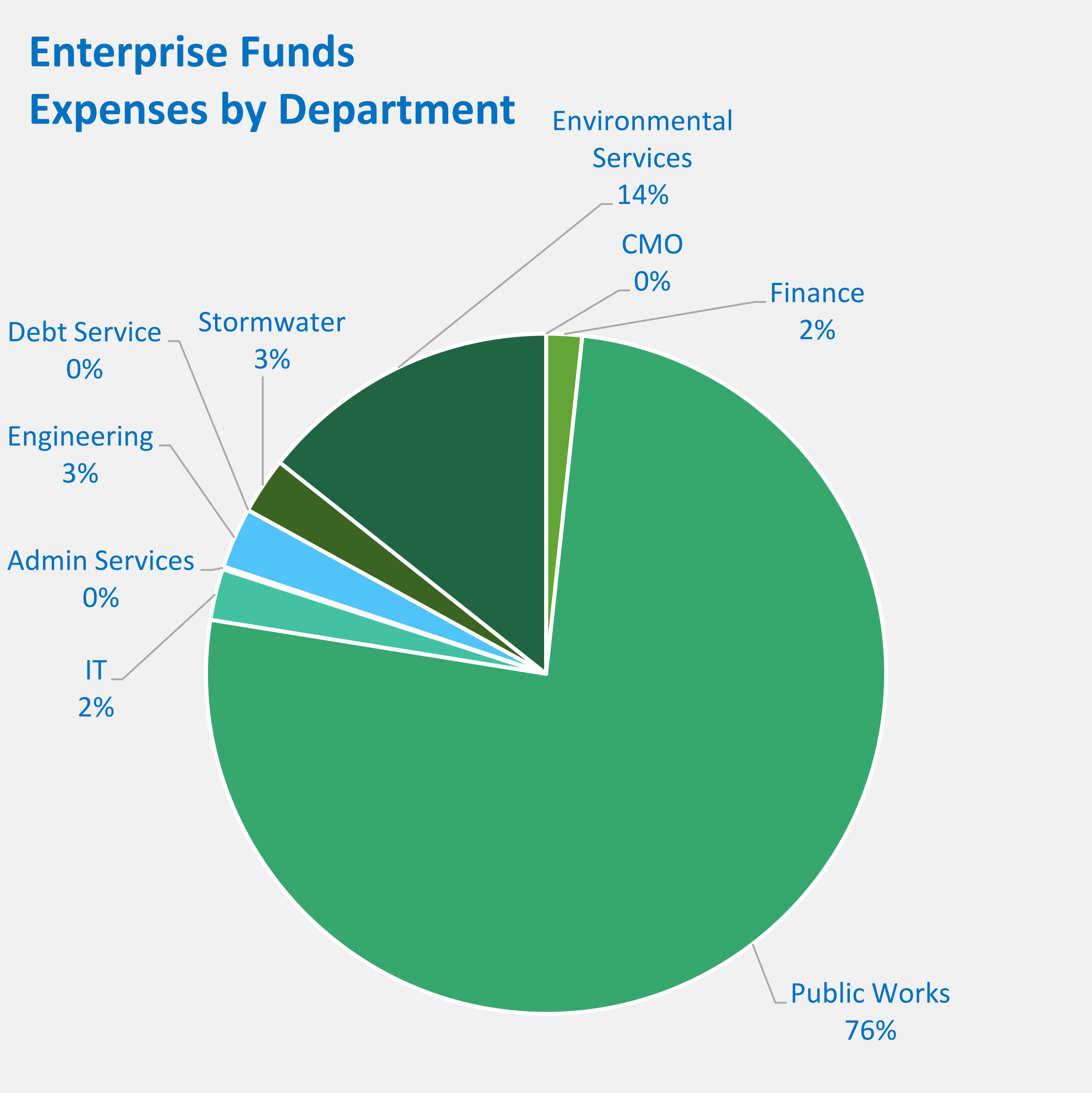
City Portfolio	Balances	Yields
Texpool	$112,698,516	1.6226%
Texstar	$203,169,387	1.5643%
Agencies	$392,940,000	1.9000%
Totals	$708,807,903	
Interest Earned YTD	$ 3,229,528	




General Fund
Expenditures
By Category
Capital Outlay 4%
Transfers 1%
Operations 21%
Salaries & Benefits 74%


General Fund
Expenditures
By Department
Development Services 4%
Non-Dept 1%
CMO 5%
Finance 5%
Engineering 2%
Parks & Rec 10%
Library 3%
Admin Services 8%
IT 4%
Public Works 6%
Police 29%
Fire 23%


Enterprise Funds
By Expense Category
Transfers
0%
Capital
Outlay
1%
Salaries &
Benefits
16%
Operations
12%
Cost of Goods
Sold
71%


Enterprise Funds
Expenses by Department
Environmental
Services
14%
CMO
0%
Finance
2%
Debt Service
0%
Stormwater
3%
Engineering
3%
Admin Services
0%
IT
2%
Public Works
76%

Building/Development Fees	Dec Activity
Fees Collected	$607,770
Collin County Permits	658 Total/100 SF*
Denton County Permits	398 Total/86 SF*
Commercial Permits Valuation	$7.5 Million
*SF=Single Family Permits	

Municipal Court	Dec Activity
# of cases filed	1,123
# of cases closed	1,368
# warrants issued/cleared	354/379
% of on-line/phone payments	44%

Utility Billing	Dec Activity
# of active customers	59,323
# new meter sets	215
# new customers	168
# on line pay/% of total pay	15,487/26%

FRISCO

HilltopSecurities
A Hilltop Holdings Company.

2019 Q4 Economic Recap and Rate Outlook

Scott McIntyre, CFA
HilltopSecurities Asset Management
Senior Portfolio Manager
Managing Director
512.481.2009
scott.mcintyre@hilltopsecurities.com

Greg Warner, CTP
HilltopSecurities Asset Management
Senior Portfolio Manager
Director
512.481.2012
greg.warner@hilltopsecurities.com

As December began, there were an unusually high number of potential disruptions capable of derailing an already fragile U.S. economy. The December Fed meeting and a U.K. general election, both key events, took a backseat to impending tariff escalation and the possibility of another government shutdown. But one-by-one, all the concerns eased. The year ended with a prevailing sense of calm. Recession fears have receded. Stocks rallied unimpeded during the final month, shrugging off the House impeachment of President Donald Trump along the way, undaunted by the upcoming Senate trial or the November 2020 elections. The NASDAQ climbed a staggering 35% in 2019, while the S&P 500 and the DOW rose +29% and 22% respectively.

Bond market prices gained on the year, but fell during the fourth quarter with significant volatility…most of it early on. The 10-year Treasury yield bottomed at 1.53% on October 8th after the China trade outlook abruptly soured, but climbed to the quarter's high point of 1.94% on November 8th when U.S. trade representatives announced significant progress and the likely postponement of December tariffs. These off-and-on trade negotiations dominated news headlines and the Twitter-sphere during the quarter, as they had all year.

The December FOMC meeting was expected to be a non-event, and indeed it was. Fed officials voted to hold monetary policy steady following rate cuts at the three previous meetings, while signaling their intent to maintain the current 1.50% - 1.75% overnight target for all of 2020. Committee members clearly prefer to remain on the sidelines during what promises to be a contentious election year, but President Trump believes additional rate cuts are still necessary with foreign central banks providing significantly more accommodation than the Fed.

The December Fed meeting and a U.K. general election, both key events, took a backseat to impending tariff escalation and the possibility of another government shutdown. But one-by-one, all the concerns eased.

Although the European Central Bank also opted to hold key interest rates steady at its December meeting, the ECB bank deposit rate remains negative at -0.50% while QE asset purchases of 20 billion euros per month are slated to continue indefinitely. The updated ECB 2020 GDP outlook for the euro area is a sub-par +1.1% with inflation growth also expected at +1.1%. Higher U.S. interest rates and stronger relative GDP growth in the U.S. suggests a strengthening dollar, which will continue to weigh on multinational companies.

The U.K. elections produced expected results with Boris Johnson's Conservative party claiming a majority in the British Parliament, which should open the door for the United Kingdom to leave the European Union in 2020 …with or without an agreement in place. Although Brexit has suddenly become more certain, that certainty isn't necessarily positive. This story is far from over.

On the U.S. budget front, funding was secured early and with little drama, ensuring the Federal government will continue operating through all of 2020. Recalling the extreme damage caused by last year's 35-day shutdown, both parties were more than willing to kick discussions out into 2021. In the meantime, the Federal budget deficit, which managed to hold just under $1 trillion in FY2019 is projected to top the trillion

Please see analyst certifications and disclosure starting on page 6.

dollar mark in FY2020 for the first time in eight years. Any attempt to rein this in will have to wait until after the November elections. Like Brexit, the swelling federal budget problem will eventually have to be addressed, but for now, it's been relegated to the backburner.

Like Brexit, the swelling federal budget problem will eventually have to be addressed, but for now, it's been relegated to the backburner.

The December game-changer came on the trade front as the administration announced "Phase 1" of a long anticipated trade deal with China just hours before new tariffs were set to kick in on $156 billion of consumer goods imported from China. Investors had apparently expected this painful escalation to be postponed, but the details of the agreement, although sketchy, were more upbeat than expected. According to Administration sources, in exchange for reduced tariffs on some imported products, China pledged to import an additional $200 billion in U.S. goods and services over the next two years, purchasing $40 billion to $50 billion of U.S. agricultural products in 2020 and 2021. China also agreed to "crack-down" on its intellectual property theft and forced technology transfer, and promised it will not intentionally devalue its currency. Chinese officials seemed to have a slightly different take on the key components of the deal, but the markets were starved for positive news and the announcement of de-escalation was welcomed relief. A week later, the Chinese Finance Minister announced his country would be lowering tariffs on 850 products to boost imports and address domestic shortages of goods including pork, avocados, asthma and diabetes medications, and semiconductors.

The deal is expected to be signed in mid-January and "Phase 2" discussions have supposedly already begun. It's tempting to throw cold water on the trade giddiness, but both sides are heavily incentivized to follow through at this point. China, by its slowest economic growth in three decades, and the U.S. by the increasingly frustrated and heavily subsidized farmer.

Chinese officials seemed to have a slightly different take on the key components of the deal, but the markets were starved for positive news and the announcement of de-escalation was welcomed relief.

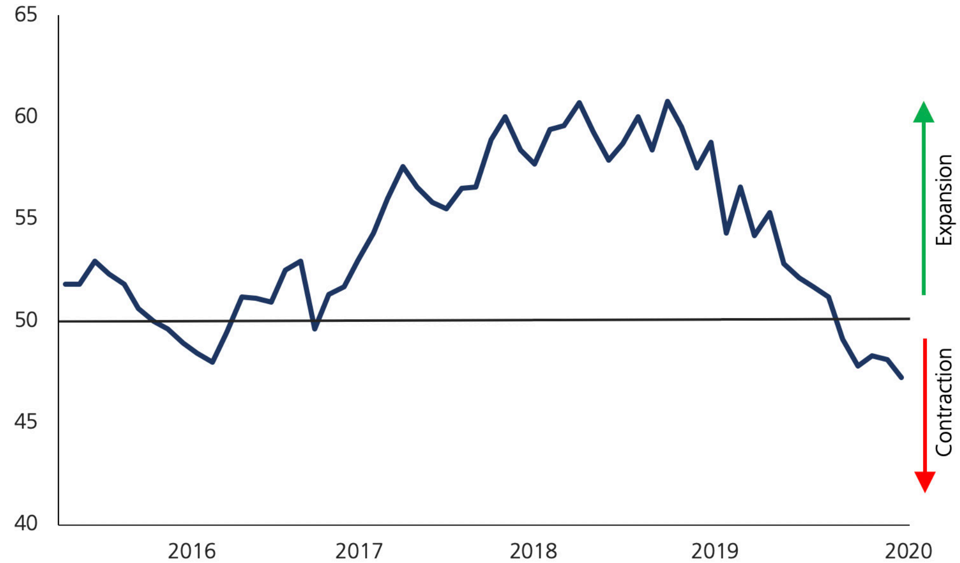
It was almost an afterthought, but days earlier House Democrats signed-off on an amended version of the USMCA trade agreement, and representatives from Canada, Mexico and the United States promptly signed the deal. The Senate will likely vote to ratify in early 2020. The USMCA agreement is seen as a positive, not only as an improvement over NAFTA, but also as an indication that Republicans and Democrats are still capable of working together.

All this apparent trade success emboldened the Trump administration to reinstate tariffs on steel and aluminum from Argentina and Brazil to combat what the president believes is a "massive currency devaluation." According to the U.S. trade representative, the U.S. will also consider raising tariffs on some European products to spark stalled progress in an ongoing dispute over airplane subsidies. Few expect trade concerns to quietly fade away in 2020.

With hurdles pushed aside in December, more of the market focus can be shifted to actual economic data. The ISM manufacturing index, a reliable leading indicator, signaled *contraction* for the fifth consecutive month in December. The surprising thing to note about the disappointing purchasing manager's report was that the outlook continues to dampen despite a resolution of the 6-week GM strike in late October and the announcement of a China trade deal just weeks before the survey period. This doesn't bode well for first quarter manufacturing.

The USMCA agreement is seen as a positive, not only as an improvement over NAFTA, but also as an indication that Republicans and Democrats are still capable of working together.

ISM Manufacturing Index (Mar. 31, 2015 - Dec. 31, 2019)



Source: Institute for Supply Management, Bloomberg, and HilltopSecurities.

Consumer Spending

In the absence of business investment, consumer spending has accounted for virtually all of GDP growth. One of the big questions going forward is whether U.S. shoppers will continue to carry the load until business spending can regain its footing.

Although the retail sales report for December hasn't been released, the MasterCard SpendingPulse survey reported overall holiday sales were up +3.4% from a year ago. Although a respectable increase, the number falls well short of the +5.1% year-over-year advance reported for 2018. This deceleration is particularly odd when comparing this December's +2.9% S&P 500 gain to the previous year's -9.9% meltdown. One unusual issue consumers will face in early 2020 is a decline in the supply of products available for sale as both imports and production have dropped as a result of the trade war.

One of the big questions going forward is whether U.S. shoppers will continue to carry the load until business spending can regain its footing.

Housing

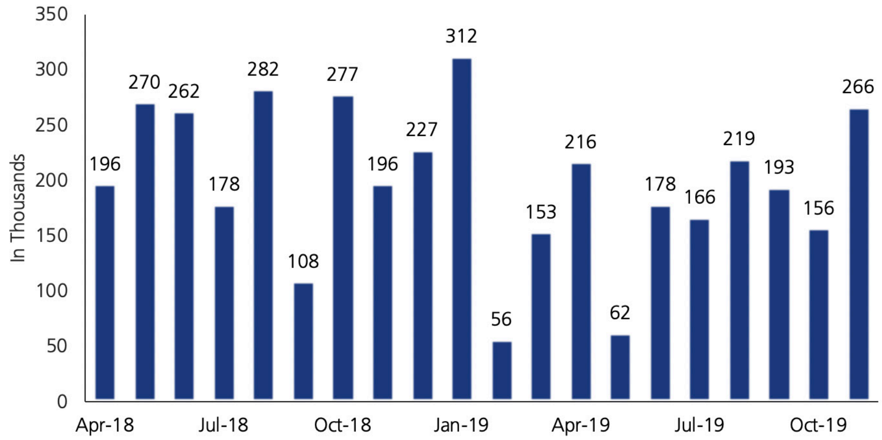
The housing market ended the year on a high note. Existing home sales began the year in a serious slump, but steadily gained momentum as mortgage lending rates fell back below 4.0%. Housing starts jumped from an annualized pace of 1,323k to 1,365k in November, the second best showing in over 12 years, while building permits (a key leading indicator) reached their highest point since June 2007, climbing from 1,461k to 1,482k. Correspondingly, the National Association of Home Builders (NAHB) housing survey revealed a spike in homebuilder confidence from 71 to 76 in December. The housing sector, which made a positive contribution to GDP in the third quarter for the first time in almost two years is poised to continue the feat.

Employment

The labor market's biggest problem, both now and in the foreseeable future, seems to be a lack of qualified and willing workers. Company job creation was surprisingly strong in the final quarter of the year. Not only has the unemployment rate remained near a 50-year low, but nonfarm payrolls unexpectedly added +266k workers in November. When prior month revisions are added to the tally, the six-month average climbs to a quite respectable +196k. There's little point in getting bogged down in the numbers, employment remains on solid footing. The simple fact that mostly everyone who wants to work can find a job is the foundation that promises to keep the U.S. out of recession in 2020.

There's little point in getting bogged down in the numbers, employment remains on solid footing.

Change in Non-Farm Payrolls



Source: Bureau of Labor Statistics, Bloomberg, and HilltopSecurities.

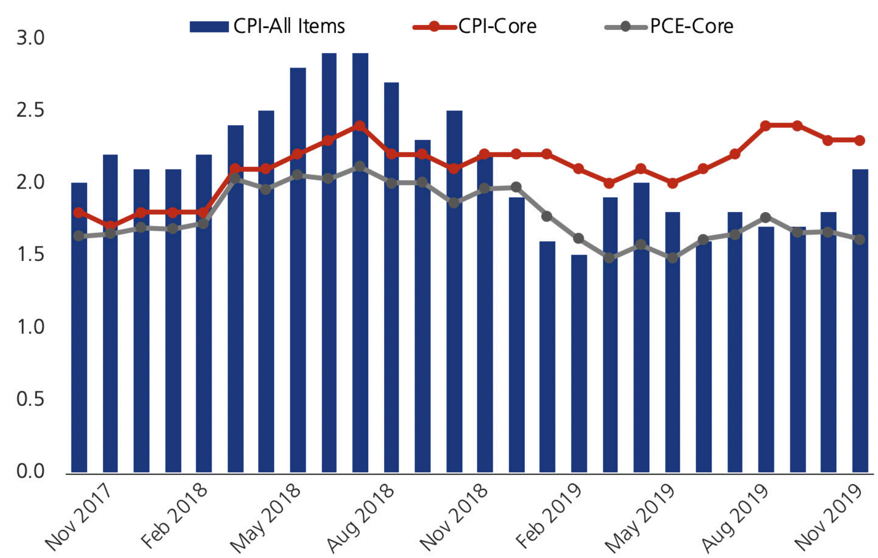
Inflation

One of the most important factors determining Fed interest rate policy in 2020 will be price pressures…or the lack thereof. Before the Fed considers increasing rates, they'll need to see core inflation above 2%. And in fact, several Fed officials have indicated that the committee could allow inflation to run modestly above 2% for a time, especially during periods of below trend growth. At the press conference following the December FOMC meeting, Fed Chairman Powell said, "We would need to see a really significant move up in inflation that's persistent before we would even consider raising rates." This clear statement grants the FOMC additional latitude. It also shines a giant spotlight on prices.

The consumer price index (CPI) has been running a little hot on the surface with the core rate holding steady at +2.3% for the second consecutive month in November, slightly below September's 11-year high of +2.4%. But, the Fed's preferred measure, core personal consumption expenditures (PCE), actually dropped from +1.7% to +1.6% in November. The Fed's latest forecast shows core inflation averaging +1.9% in 2020 and +2.0% each of the next two years. Price pressures will be closely watched. Steady inflation would keep the Fed sidelined, but a significant drop in inflation could reopen the door to more rate cuts.

Steady inflation would keep the Fed sidelined, but a significant drop in inflation could reopen the door to more rate cuts.

Inflation Indicators (Year-Over-Year Percent Change, Oct. 2017 - Nov. 2019)



The consumer price index (CPI) has been running a little hot on the surface with the core rate holding steady at +2.3% for the second consecutive month in November, slightly below September's 11-year high of +2.4%.

Source: Bureau of Labor Statistics, Bureau of Economic Analysis, Bloomberg, and HilltopSecurities.

Q4 Interest Rates

	Fed Funds	3 mo. T-bill	12 mo. T-bill	2 yr. T-note	5 yr. T-note	10 yr. T-note
Last (9/30/2019)	1.75%-2.00%	1.83%	1.77%	1.63%	1.55%	1.67%
High		1.80%	1.73%	1.68%	1.75%	1.94%
Low		1.52%	1.51%	1.39%	1.35%	1.53%
End (12/31/2019)	1.50%-1.75%	1.55%	1.60%	1.57%	1.69%	1.92%

Source: Bloomberg and HilltopSecurities.

The notion that negative growth is less likely in 2020 shouldn't imply robust growth.

Economic and Interest Rate Outlook

U.S. recession risks have dissipated after three consecutive quarter-point rate cuts and an easing of trade tensions. However, the notion that negative growth is *less* likely in 2020 shouldn't imply *robust* growth. There may be a wide range of opinion on the economic outlook over the next decade, but most economists seem to gravitate around +2.0% GDP for 2020. Similarly, a majority expect monetary policy to remain on hold all year. At the December FOMC meeting, committee members forecasted GDP growth to slow to +2.0% in 2020, followed by +1.9% in 2021 and +1.8% in 2022.

The equity market is assuming significant de-escalation with little possibility of re-escalation, but if recent trade history is any indication, this might be wishful thinking.

The Bloomberg survey of the nation's top economists, taken in early December, showed annualized GDP growth ranging from +1.6% to +1.9% over the next two years. Presumably, post-survey trade progress will boost future forecasts a bit, but individual economists don't seem to be sold on the idea that trade problems are behind us. The equity market is assuming significant de-escalation with little possibility of re-escalation, but if recent trade history is any indication, this might be wishful thinking. The reality is that China will have trouble meeting its $40 to $50 billion annual purchase pledge for U.S. agricultural products. According to the USDA, farm exports to China were $9.2 billion in 2018 and will likely be between $10 and $11 billion in 2019. The pre-trade war high point was just $26 billion in 2012. In recent years, China has increased its imports from other countries, most notably Brazil and Russia, to fill in supply gaps. Even if China were to sever these other relationships, and consume four-to-five times the amount of U.S. agricultural products, U.S. farmers aren't likely to have the capability (or confidence) to gear up their production to meet significantly higher demand. China's total commitment to import an additional $200 billion in goods and services over a two-year period may be an even bigger stretch as it struggles with the slowest pace of economic growth in 26 years. Obviously, Chinese consumers will have less money to spend, and the country's economic struggles will be amplified if more and more goods are purchased from foreign, rather than domestic producers. For what it's worth, Chinese trade officials have been vague on the actual commitment numbers. It's possible that the actual agreement terms fall short of U.S. expectations. If the expected deal is signed, tariffs would remain on almost 70% of all US imports from China, and although the average tariff on Chinese imports would drop from 21% to just over 19%, it's still well above the 3% average before the trade war began. Tariffs remain a heavy financial burden for U.S. companies. The trade war with China is far from over and Europe is next in line.

The trade war with China is far from over and Europe is next in line.

As mentioned earlier, growth in Europe is already painfully slow, despite unprecedented stimulus. The European Central Bank has arguably run out of ammunition. Reuters reported in early December that 57%, of the $8 trillion euro bond market was still trading with negative yields…and frankly, this desperate ECB experiment may be doing more harm than good. In an extreme example of how distorted things have become, *Greece* actually sold 3-month bills at a negative yield in October, around the same time the entire German yield curve was negative. Europe probably can't afford to make significant trade concessions to the United States and dodge recession at the same time.

The year begins with a big dose of misplaced trade enthusiasm, record stock prices, modest growth forecasts and a content Fed, but the sense of calm that ended the year has passed.

First quarter growth in the U.S. will be further hampered by Boeing's decision to halt production of 737 MAX planes. According to Bloomberg, this could shave as much as a half percentage point from GDP in Q1, although the shortfall should be recaptured later in the year when Boeing resumes production.

The year begins with a big dose of misplaced trade enthusiasm, record stock prices, modest growth forecasts and a content Fed, but the sense of calm that ended the year has passed. Rising tensions in the Middle East promise to increase uncertainty and market volatility. And, if these tensions were to evolve into a full-blown war (whatever that means), political tensions, both in the U.S. and abroad, could escalate quickly. With President Trump's Senate trial looming, and the Iowa Caucus less than a month away, the political war of words is on the verge of heating up as well.

After swinging and missing wildly on forecasts last year, the Fed and the nation's economists now share a middle-of-the-road, goldilocks' outlook for 2020. It's not clear that these group-think expectations are of much value. There are simply too many wildcards in play, and the number of downside risks seem to far outweigh the upside. The Fed would prefer to hold policy steady at least through the November elections, but this position could easily change as the year unfolds.

There are simply too many wildcards in play, and the number of downside risks seem to far outweigh the upside.