



SUMMIT FINANCIAL

Investment Update for the week of January 27th, 2020

- **Global Markets: Heightened concerns over the Wuhan coronavirus are taking a stronger hold on markets**
 - **U.S. Equities:** U.S. stock markets lost ground late in the week, resulting in a -1.0% weekly loss for the S&P 500 Index. Increasing fears of the potential ramifications of the virus supported more of a risk-off mentality. As a result, bond yields fell and more defensive areas of the market, such as utilities (2.4%) and consumer staples (-0.4%) outperformed on a relative basis. The real estate sector (1.0%) also had strong results stemming from the decline in rates. The energy sector (-4.2%) and associated oil prices fell in-line with falling tourism and travel expectations. Stocks with close association to China - such as gaming conglomerates, were often hit the hardest. Outside of the S&P 500 benchmark, small-caps (Russell 2000 Index) lagged large-caps (Russell 1000 Index) and value (Russell 1000 Value) lagged growth (Russell 1000 Growth).
 - **International Equities:** Developed international equities, as measured by the MSCI EAFE Index, also fell last week (-0.6%). Emerging market equities (as measured by the MSCI EM Index) fared even worse, falling 2.4%. Similar to the U.S., market weakness was associated with global health concerns. China, the epicenter of global concern, was hit the hardest with the MSCI China Index falling 4.8%. Notably, the Shanghai Composite Index had its biggest one-day drop (2.8%) in more than eight months last week.
 - **Credit Markets:** Domestic yields ended the week lower as investors fled to safety. The U.S. Treasury 10-year yield fell to 1.68%, its lowest level in about three months. Falling yields were mostly supportive to less credit sensitive asset classes (governments, municipals, investment grade, etc.), while high yield fared the worst (Bloomberg Barclays High Yield Index fell 0.4%) as spreads widened. High yield energy bonds have been particularly weak stemming from declining commodity prices.
- **Economic Data/News: Favorable economic data was overshadowed by global health concerns**
 - **U.S.:** News of the first domestic cases of the coronavirus clouded a strong start to the year in sentiment backed by positive economic data. Tariff concerns have also reemerged, although this time it's between the U.S. and the European auto industry. On the contrary, last week's economic data releases were mostly positive. Existing home sales rose more than expected in December. Construction activity also has the supportive tailwinds of limited available supply.
 - **International:** Economic data was also strong in Europe. While Brexit uncertainty remains – Germany and France's economies flashed some positive signs. German overall output rose for the second consecutive month, with new orders increasing for the first time since last June. Germany's service sector also expanded more than expected, offsetting a smaller decline in manufacturing. In France, output and new orders both rose for the 10th month in a row. European

data outside of Germany and France was less impressive but these two countries remain the two largest EU economies. Japanese data continued its disappointing trend. Exports fell at a greater than expected 6.3% relative to a year ago, in December. Despite positive trade developments between the U.S. and China, ramifications of prior strife are expected to be felt by Japan in the coming months. In China, the lockdown of several major cities and associated fear of travel are likely to have short-term slowing effects. In particular, offline retail, restaurant and travel are likely to be hit the hardest. While the short-term impact could be significant, it's unlikely to have meaningful long-term effects.

- **Odds and Ends: The world loses an NBA legend, Billie Eilish got 'everything she wanted' at the Grammys, and Delta employees' cash in their reward miles**
 - The world said an unexpected goodbye to a basketball legend on Sunday when news broke that **Kobe Bryant**, his 13-year old daughter, and seven others were tragically killed in a helicopter crash. Bryant and others took off in a Sikorsky helicopter in foggy conditions on Sunday on their way to a basketball practice session. Bryant will be remembered for his more than 20 seasons with the Los Angeles Lakers and his five championship rings. He also is regarded to be among the best to ever play the game.
 - **Billie Eilish**, known for songs including 'Bad Guy' and 'Lovely' was a key winner at the Grammys last night, winning its four most prestigious awards including album of the year, record of the year, best new artist, and song of the year. At only 18 years old, Eilish is now the youngest ever artist to win album of the year, overtaking Taylor Swift's record of winning the award when she was 20. Lizzo also had a strong showing, taking home the award for the best pop solo performance.
 - **Delta** employees are receiving an extra special valentine this year as the company will pay out its largest ever profit-sharing amount of \$1.6 billion. The payment is expected to be equivalent to most employees two-month salary. This is the sixth straight year that Delta has paid out profit sharing bonuses and the company continues to move up in the ranks among airline peers. The company also expects to hire thousands of employees over the next several years.
- **Resource of the week:** This *Invest Like the Best* episode involves a conversation with Rebecca Kaden, a partner at the esteemed venture capital firm, Union Square Ventures ('USV'). USV has a unique focus on a core thesis which has gone through three evolutions since their inception. The third-generation evolution incorporates some unique insights which are a worthwhile insight into the cutting edge of the venture capital world. As always, please feel free to submit suggested resources to smelnick@sfr1.com.
 - Spotify Link: <https://open.spotify.com/show/22fi0RqfoBACCuQDv97wFO>

Sources: Bloomberg, The WSJ, T. Rowe Price Global Markets Weekly Update, Today.com, Business Insider