SUMMIT FINANCIAL

Investment Update for the week of February 10th, 2020

- **Global Markets: Markets and yields rose as coronavirus fears subsided**

  - **U.S. Equities** regained or surpassed recent highs fueled by optimism about global growth and lessened fears surrounding the economic impact of the coronavirus. The S&P 500 Index recorded its best weekly gain since last June, rising 3.2%. Within the S&P, more highly valued, often growth-oriented sectors had the best results. This included the IT sector (4.6%) which benefitted from strong showings from Microsoft and Twitter. Rising yields hurt bond-proxies leading to the utility sector (-0.5%) lagging for the week. Unsurprisingly given the above framework, large-caps outpaced small-caps and growth surpassed value.

  - **International Equities** also had an impressive week, with both developed and emerging non-U.S. equities logging gains. The MSCI Emerging Markets Index rose 2.8% while the developed, non-U.S. MSCI EAFE Index increased 1.9%. Within emerging markets, Chinese equities was a powerful source of performance with the MSCI China Index increasing 4.5%.

  - **Credit Market** were mixed as bond yields rose moderately over the week. Notably, yields remain towards the lower end of recent ranges with the U.S. Treasury 10-year yield still sub-1.6%. Higher rates and reduced demand for 'safer' paper resulted in slightly negative returns for treasuries and high-quality municipals. Despite modest negative returns, strong demand for municipals continued with steady inflows. Puerto Rico general obligation ('G.O') bonds also had positive fundamental developments supporting the high-yield municipal space.

- **Economic Data/News: China offers fresh stimulus to combat the impact of the coronavirus**

  - **U.S.:** Trade discussions with China continued down a favorable path as China announced that it will be cutting tariffs on select U.S. imports on February 14th, in-line with the parameters of the 'Phase I' trade deal. The domestic labor market also helped improve sentiment, after ADP reported that the private sector had added 291,000 jobs in January. This represents the largest monthly gain in about five years and was about double consensus. The public sector also had a solid reading in January, adding 225,000 jobs - above estimates. Limited slack in the labor market helped push both wages and the participation rate higher.

  - **International:** In Europe, ECB President Christine Lagarde reiterated that easy monetary policy was necessary to support fragile growth momentum. Slower economic momentum was evidenced by falling industrial production in Germany and France in December. The Bank of Japan (BoJ) also reiterated its support for easy monetary policy and doing whatever it takes to ensure price stability. While China is still combatting the spread of the coronavirus, it is starting to show signs that the virus is partially contained and that there is progress towards a vaccine. The number of new cases has started to decline while the number of recoveries has been increasing. In addition, the People's Bank of China (PBoC) added fresh stimulus to its economy in the form of 30 financial measures aimed at offsetting some of the short-term impact of the virus and ensuring amble liquidity.

- **Odds and Ends: Tesla's stock goes stratospheric, mortgage rates take a nosedive, Google pulls back the YouTube curtain**

  - Despite declining towards the end of the week, there's no denying that **Tesla's** stock has had a wild ride. In a matter of months, the stock has more than tripled - bringing new skeptics to an already controversial stock. New milestones, enthusiasm around EVs, and battery advancements have also made many Tesla short sellers say uncle and wish they never came to the party in the first place. Hype aside, Tesla's current valuation prices in an extreme level of optimism suggesting that the wild ride is still in the beginning stages of its journey.

  - As you might expect with the fall in yields, mortgage rates have returned to the lowest level in three years. This should provide a boost to the housing market ahead of the important spring period. According to the WSJ, the average 30-year fixed mortgage rate dropped to 3.45%, well below the 4.41% average at the same time last year. The 15-year rate has also fallen to a three-year low of 2.97%. While lower rates can help first-time buyers with lower interest on payments, it can also be a double edge sword in pushing purchase prices higher.

  - **Google's** parent company Alphabet reported its fourth quarter earnings early last week. While investors were disappointed with the growth of its core search business, they were given a pleasant surprise in the form of increased financial reporting transparency of YouTube. Alphabet reported that YouTube had more than $15 billion in advertising revenue over 2019, more than ABC, NBC, and Fox combined! Despite this, the stock still fell a few percent that day.

- **Resource of the week:** After a 40-year career on Wall Street, including heading the Investment Management Division at Goldman Sachs and serving as Chairman and CEO of AllianceBernstein, Peter Kraus decided that the active asset management industry needed a makeover. In particular, Peter believed the alignment of interests was off and there was limited trust that investment firms' truly had the client's best interests in mind. In this episode of *Capital Allocators*, Peter discusses how his new firm, Aperture Investors, seeks to fix these problems and bring a strong defense from active management against the rise of passive investing. As always, please feel free to submit suggested resources to smelnick@sfr1.com.

  - Podcast Link: https://capitalallocatorspodcast.com/2020/02/02/kraus/
  - Spotify link: https://open.spotify.com/episode/3f6jDb31gi5ajKLMLX0z6x

Sources: Bloomberg, The WSJ, T. Rowe Price Global Markets Weekly Update