SUMMIT FINANCIAL

Investment Update for the week of February 18th, 2020

- **Global Markets: Further hopes for coronavirus containment pushed stocks to fresh highs**

    - **U.S. Equities** again logged a strong week, with the representative S&P 500 Index rising 1.6%. Equity markets continued to be led by the technology sector. The IT sector (+2.3%) was among the best performing areas of the market for the week and has increased an impressive 11.2% year-to-date. This comes after increasing more than 50% over 2019. The real estate sector (+4.9%) was another strong performer last week, benefitting from positive results from cell phone tower companies structured as REITs. Consumer staples (0.8%) lagged as some of the sector's larger constituents struggled to adjust their business models to evolving buyer preferences (ex. KHC). Growth outpaced value while small-caps bested larger market-caps as measured by the respective Russell benchmarks.

    - **International Equities** were mixed and lagged U.S. counterparts. The developed, international MSCI EAFE Index was roughly flat (-0.1%) while the MSCI Emerging Markets Index fared better – rising 1.5%.

    - **Credit Markets** were little changed last week. Intermediate yields had little movement while longer-term, 30-year Treasury yields reached a record low of just above 2%. Demand remained robust for the municipal market as evidenced by support for new issuance from Texas and heavy trading of Puerto Rican general obligation bonds after a resettlement last week. The high yield sector also received a healthy boost after Sprint bonds traded higher when a federal judge ruled in favor of T-Mobile's takeover of the company.

- **Economic Data/News: The full economic impact of the coronavirus remains uncertain, but the response could include additional stimulus**

    - **U.S.:** The Fed indicated that it was 'closely monitoring' the spread and impact of the coronavirus, suggesting that additional stimulus is possible. In fact, consensus is already starting to price in at least one rate cut in the coming months, with 82% of investors polled by CME Group data believing that there will be at least one cut in 2020. 46% of the same population polled believed that two or more cuts are likely. Outside of the coronavirus, U.S. tensions with China again appear to be rising. First, the Department of Justice ('DoJ') indicted four Chinese military members for an alleged role in the Equifax data breach. Next, the DoJ announced an investigation into Chinese telecom giant, Huawei for supposedly stealing domestic intellectual property.

    - **International:** The week started off with encouraging signs that the spread of the coronavirus was slowing but took a dramatic turn when China announced a sharp rise in the number of reported cases on Thursday. While an additional 15,000 active cases seems alarming, it's likely more of a diagnostic re-classification versus an acceleration of the spreading of the virus. The World Health Organization further quelled fears after it said that new cases outside of virus' origin were falling and the mortality rate in the same regions was sub-0.5%. Though the spread of the disease appears somewhat contained, its impact to global supply chains is more open-ended. In the

Eurozone, economic growth slowed in the fourth quarter of last year. Notably, this was largely expected in-line with contractions within France and Italy. While growth remains slow in the broad region, the German economy has recently demonstrated some positive signs.

- **Odds and Ends: T-Mobile and Sprint (finally) join forces, Tesla sells high, and Pier 1 Imports files for bankruptcy**

    - The U.S. cellphone carrier market is getting a makeover, as **T-Mobile** and **Sprint's** merger finally got approved by a federal judge. The deal was initially blocked after district judges concluded that it would lessen competition by taking the market from four to only three key players (the others being Verizon and AT&T). Sprint's stock rose nearly 80% after the announcement, recouping about $15 billion of lost market-cap.

    - If you've followed the recent meteoritic rise in **Tesla's** stock, then this headline might not surprise you. Tesla is seeking to take advantage of its stock strength by selling more than $2 billion in equity. While this issuance is dilutive to existing shareholders, the news hasn't negatively impacted the stock price as is typical. Perhaps, the comfort of additional cash reserves for tougher times has offset dilution concerns.

    - We might be saying goodbye to another physical retailer, as **Pier 1 Imports** has filed for Chapter 11 bankruptcy protection. The home furnishing chain previously warned of a strained operating environment. The company intends to conduct a supervised sale of the company and maintains that its already in discussions with several potential acquirers, which could take the company out of Chapter 11.

- **Resource of the week:** While this conversation is geared towards financial advisors, the key points are applicable across industries. It focuses on marketing strategies within the broader context of how to build and grow a great practice. For lessons on how to grow without sacrificing culture, consistently deliver ROI on marketing spend, and build a personal brand – give this episode a listen. Hat tip to Brian S. for the recommendation and as always, please feel free to submit suggested resources to smelnick@sfr1.com.

    - Podcast Link: https://bradleyjohnson.com/steve-sanduski-podcast/
    - Spotify link: https://open.spotify.com/episode/2FTaPoDAKUpSCop1W05VWx?si=6rL5YSx_TuK5zqop3uPStA

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