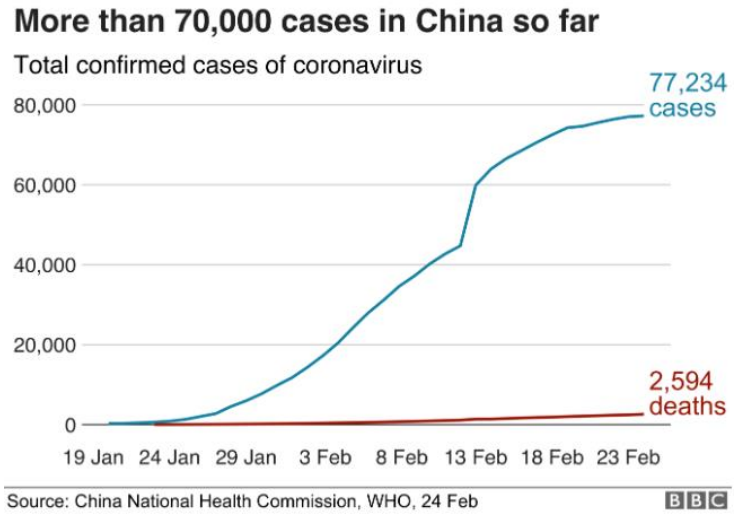
SUMMIT FINANCIAL

Investment Update for the week of February 24th, 2020

- **Coronavirus Update: New cases reported outside China, fueling increased global concerns**

  - **The spread of the coronavirus** has flared up outside of its originating locale, China, reported as of Monday morning. Worldwide there have been more than 77,000 cases reported resulting in almost 2,600 deaths, with new concentrations of the disease recorded in South Korea, Italy, and Japan to start. This widespread disease is starting to have a dramatic impact on global markets most prominently on Monday as broad domestic equity markets are down close to 3%. The most impacted sectors include energy, technology, and consumer discretionary, with the airline industry particularly hard-hit. **It's possible this volatility trend may continue or worsen in the short term before improving, but economists believe the infrastructure is in place to provide a steady upside rebound.** The chart below efficiently showcases the increasing spread of this virus for reference. It's worth noting the vast expansion that took place around February 13th has seemingly tailed off as of late, with the level of new cases flattening out after February 18th:



- **Global Markets: Impact of COVID-19 pulls stocks back from record highs**

  - **U.S. Equities** swiftly retracted last week as the impact of COVID-19 (Coronavirus Disease 2019) once again worried investors. Intra-week, the S&P 500 and Nasdaq reached new record-high levels but have since fallen back resulting in a weekly return of -1.2% and -1.6% respectively. Most sectors were negative while the lone positive performing sector, real estate (+0.1%), benefitted from declining interest rates. On the contrary, the information technology sector fell by about 2.5% over concerns that supply chains in Asia would be disrupted. The communication services sector (-1.2%) also lagged after a steep decline in the price of ViacomCBS which is directly tied to its disappointing earnings announcement. Value outperformed growth stocks while small-caps bested larger market-caps as measured by the respective Russell benchmarks.

- **International Equities** were mixed around the globe. In Europe, equity markets ended the week near their record highs as strong business activity reports eased any COVID-19 related concerns. Separately in Japan, most equities declined as represented by MSCI Japan Index falling by 1.4%. This decline is largely attributable to the 4Q 2019 GDP-change report, producing the worse results in more than five years. Elsewhere, Chinese markets rallied to a one-month high supported by the central bank interest rate cut, and declining numbers of new reported cases of the coronavirus. The developed, international MSCI EAFE Index was down (-1.2%) while the MSCI Emerging Markets Index fared worse, falling by 2.0%.

- **Credit Markets** had a small but positive weekly change. All domestic bond yields declined for the week, and the overall curve remained inverted as evidenced by the current 1-year yield of 1.44%, well above the 5-year yield level of 1.32%. The longer-term, 30-year Treasury yields reached a new record low of 1.92%. Since yields and bond prices move in opposite direction, these extremely low yields resulted in a small increase in bond prices and performance. The municipal bond market once again strengthened through the week, led by sensational demand levels. Likewise, investment-grade corporate bonds experienced vigorous new issuance levels, and balanced buying and selling demands, reflected by the Bloomberg Barclays U.S. Investment Grade Corporate Bond Index rising by +0.6%.

- **Economic Data/News: The breadth of coronavirus disruptions is unknown but has global impacts**

  - **U.S.:** Prominent throughout the week, the most notable impact the coronavirus had thus far was felt on Tuesday as Apple stock declined. This came after the company revealed it would miss sales' forecasts and is unsure of the impact on its future supply and demand. Right on the heels of Apple, the auto parts company Aptiv also declared the virus would impact its revenue and operating income bottom-line figures. Somewhat alarming, the IHS Markit Flash Composite Purchasing Managers' Index (PMI) fell into contraction territory, the first decline in U.S. private sector activity since 2013. Offsetting this negative news, there were some surprising increases in localized manufacturing levels and the latest overall home building permits reached a 13-year high according to the U.S. Housing and Urban Development and Commerce Department.

  - **International:** Economic data was mixed around the world in relation to coronavirus impacts. UK inflation increased dramatically to about 1.8% as a result of higher gasoline and airfare prices. In the UK jobs market, data indicates that 180,000 new jobs were created in the 4th quarter of 2019, beating economists' expectations, and the unemployment rate remains near its record-low of 3.8%. In China, rumors circulated that factories may reopen earlier than expected to add a much-needed boost to the industrial production and manufacturing output. There was even mention of a government bailout for struggling airlines. More broadly across other emerging markets including Brazil, Russia, and Turkey, markets mostly declined due to rising political tensions, ultra-low inflation rates, and falling currency valuations versus the U.S. dollar.

- **Odds and Ends: Morgan Stanley to acquire E*Trade, Singapore offers attractive incentives to increase reproductivity, NFL allows teams to accept sportsbooks' sponsorships**

- The M&A business is alive and flourishing as the latest deal announced Thursday in which **Morgan Stanley (MS)** has reached an agreement to purchase the online discount broker **E*Trade** proves. Morgan Stanley CEO James Gorman said his firm can now compete with other discount brokerage behemoths like Fidelity and Schwab, especially after Schwab announced in late 2019 its plan to merge with TD Ameritrade.

- For years **Singapore** has promoted its citizens to have more and more offspring, but seemingly to no avail. Various methods now include cash grants being awarded for new parents, public housing, subsidized preschool tuition, and government assistance for assisted reproduction. However, the offspring ratio remains near the world's lowest at just over one child per woman.

- The **National Football League (NFL)** has taken a large step in the direction of fully welcoming all aspects of sports gambling by allowing teams to accept sponsorships from sportsbooks. The immediate impact is thought to provide new streams of revenue to teams. Still the new rule doesn't allow betting kiosks to be placed inside teams' stadiums, but it may be heading in that direction in the future.

- **Resource of the week:** Brian Deese has an impressive resume to tout, largely because of his previous experience as the former senior adviser for climate change and energy policy to president Barack Obama, helping draft the Paris climate agreement, and now as the Global Head of BlackRock's sustainable investing business. This interview between Brian and Bloomberg columnist Barry Ritholtz gracefully touches on the interesting investment/political dynamic. More specifically they discuss how Brian was part of the team responsible for figuring out how the government should be involved during the financial crisis. As always, please feel free to submit suggested resources to smelnick@sfr1.com.

  - Podcast link: https://www.bloomberg.com/news/audio/2020-02-21/brian-deese-on-what-s-driving-esg-investing-podcast
  - Spotify link: https://open.spotify.com/episode/5gg5ORFOtWM5Xpj7xog3o3?si=nq9tT81fRTisULPFuYGpAg

Sources: Bloomberg, The WSJ, T. Rowe Price Global Markets Weekly Update, British Broadcasting Corporation (BBC)