



## Investment Update for the week of February 3<sup>rd</sup>, 2020

- **Global Markets: Coronavirus concerns weigh on stocks as high-quality demand surges in bonds**
  - **U.S. Equities:** Major U.S. stock market indices fell for the second straight week, as concerns on the impact the coronavirus may have on the economy continued to strengthen. Most large- and all-cap indices fell more than 2% each. In total the coronavirus has reported more than 17,000 cases worldwide, leading the World Health Organization to declare the outbreak a global health emergency. The potential ramifications of the virus supported an even stronger risk-off investment mentality. As a result, bond yields fell again and the utilities sector (0.9%) outperformed relatively speaking, more defensive in nature. The energy sector (-5.6%) lagged as oil prices fell again, another reverberation of the coronavirus given the shrinking tourism expectations. In other areas of U.S. equities, small-cap stocks (-2.9%) lagged large-cap stocks (-2.0%) and value (-2.3%) lagged growth (-1.8%) as reflected by their respective Russell indices.
  - **International Equities:** Developed international equities, as measured by the MSCI EAFE Index, also fell for the second consecutive week (-2.5%). Emerging market equities, measured by the MSCI EM Index, fared much worse (-5.1%). Like in the U.S., the coronavirus was largely responsible for market declines globally. Relatively speaking, Japan had the best weekly performance as measured by the MSCI Japan Index falling only 1.6%. To celebrate the Lunar New Year, Chinese markets had already been planned to be closed for the week. However, as of this morning upon reopening, they've already experienced steep declines, again largely because of the coronavirus concerns. The virus is reported to have originated in mainland China itself.
  - **Credit Markets:** One of the bright spots last week when looking at performance of an asset class, was domestic fixed income, following the decline of most yields. The U.S. Treasury 10-year yield fell to 1.52%, its lowest level since early September 2019. In fact, the yield curve inverted as the three-month bill is yielding 1.55%, higher than the 10-year. The continued risk-off environment supported higher-quality segments of the market, including Treasuries and municipal bonds. Although high yield bonds didn't perform as well represented by Bloomberg Barclays High Yield Index falling by 0.3%, aggregate bond indices fared much better. In the municipal bond market, continued strong demand has pushed yields for the 10- and 30-year bonds to record lows.
- **Economic Data/News: Some normally positive economic news is overshadowed by health concerns**
  - **U.S.:** Despite most major stock indices declining for the week, some of the largest U.S. companies reported positive quarterly earnings, offering some solace. Apple, Microsoft, and Amazon all beat their earnings expectations. Apple had reported very strong iPhone sales, Microsoft supported by its cloud-computing technology, and Amazon's Prime membership program experienced strong growth. Elsewhere, as widely predicted the Federal Reserve voted to keep key interest rates in the 1.50% - 1.75% range. This came as no surprise after their previous meeting in October 2019.
  - **International:** The rest of the world had mixed reports on the economic front. In Europe, consumer prices fell 1% throughout January, while the unemployment rate has fallen to 7.4%, the

lowest rate in 12 years. Like the Federal Reserve, the Bank of England also voted to keep their key interest rate unchanged, believing that investor sentiment and growth forecasts have improved. Supporting the recent positive German economic news, the government raised the 2020 growth forecast to 1.1% supported by an improved trade outlook and strong demand. Intended as an economic stimulus, the Japanese economy received approval to sell additional bonds. Sales' proceeds will be split amongst reinforcement of river facilities, stimulating the overall economy, and supporting small businesses and farmers. Fingers are crossed that the upcoming Tokyo Olympics will provide a welcoming lift the country desperately needs. China has been laser-focused on trying to corral all impacts the coronavirus may have globally.

- **Odds and Ends: Super Bowl-related impressive stats, firms to offer on-site counseling for employees, economic impact of Boeing jet production suspension**
  - Congratulations to the Kansas City Chiefs winning **Super Bowl LIV**. This is their first championship in 50 years. Arguably more amazing than the game itself, is the comparison of Super Bowl-related costs from 50 years ago to today. In 1970 a 30-second TV commercial cost \$78,000 compared to the same length commercial today that runs \$5.6 million, an increase of over 7,000%! The average ticket cost to attend Super Bowl IV was \$15. Take a deep breath before registering that the average cost to attend Sunday's big game was \$9,031, which represents a ticket price increase of 60,000%. These figures seem almost unbelievable at first, but support television's frequently most watched broadcast each year – the Super Bowl.
  - As an unconventional yet terrific idea to foster better performance in a business setting, many large companies will be offering **on-site counseling** for their employees. Up to one-third of all employers with 5,000 employees or more, plan on offering this fantastic service to any employee who chooses to elect it. Employers believe it can help improve employee performance, retention, and even be cost-efficient. Time will tell if this idea is successful and even adopted by more firms.
  - **Boeing** has recently halted production of its best-selling jet, the 737 MAX. Since the company is the nation's top exporter of goods based on revenue, this production halt is expected to unfortunately have a profound impact on growth estimates and reduce the U.S. GDP in the first half of 2020. The firm anticipates receiving regulatory approval to restart production of the jet by midyear, and slowly increase production during the next two years. In total, the forecasted sales of this jet in the first half of 2020 was expected to generate more than \$30 billion for the economy.
- **Resource of the week:** This *Leadership Lounge with Jack Tester* episode involves a conversation with David Goggins, a motivational and inspirational speaker. After a challenging upbringing, David has become an ultra-athlete, Navy SEAL, and best-selling author who advocates discipline, endurance, and pure focus. For anyone who needs to be reinvigorated in their personal or professional life, this is worth a listen. As always, please feel free to submit suggested resources to [smelnick@sfr1.com](mailto:smelnick@sfr1.com).
  - Spotify Link: <https://www.buzzsprout.com/82731/1737787-visualize-the-finish-line-with-david-goggins?play=true>

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