FEBRUARY 3, 2020

Weekly Market Update

General Market News

- Rates continued their downward trend last week, with the 10-year Treasury closing at 1.50 percent on Friday. It opened slightly higher at 1.53 percent on Monday. Three weeks ago, it was as high as 1.90 percent. The 30-year yield broke the 2 percent resistance level, hitting 1.99 percent, after being as high as 2.38 percent last month. The short end of the curve remains inverted, with the 2-year at 1.34 percent and the 3-year at 1.32 percent.
- Global markets continued their sell-off, as concerns over the spread of the Wuhan Coronavirus continued to escalate. The World Health Organization declared the outbreak of the virus a public health emergency, and several airlines (including United, Delta, and American) canceled flights to China. The markets took a risk-off approach. WTI crude oil fell by 4.9 percent due to expectations for a short-term decline in oil demand with the numerous travel restrictions in place.
- The worst-performing sectors on the week were energy, materials, and health care. Those among the top performers were utilities, consumer discretionary, and consumer staples. The discretionary sector stood out due to the strong performance of Amazon's cloud division, as well as its growth in Prime subscribership.
- We started off the week with Monday's release of the December new home sales report. New home sales fell 0.4 percent, against expectations for a 1.5 percent increase. New home sales are a relatively small portion of overall sales, and the results can often be more volatile than existing home sales on a monthly basis. Despite the disappointing December result, new home sales continue to exhibit strong growth, with year-over-year sales up 23.7 percent when compared with December 2018.
- On Tuesday, December's durable goods orders report for December was released. Headline durable goods grew by 2.4 percent month-over-month, against expectations for 0.3 percent growth. This better-than-expected result was due to a rebound in volatile defensive aircraft orders—the major cause of November's downwardly revised 3.1 percent decline in orders. Core durable goods orders, which strip out the impact of volatile transportation orders, declined by 0.1 percent during the month, which was below expectations for 0.3 percent growth. This marks the second straight month with declining core orders, as November's core orders declined by 0.4 percent.
- Tuesday also saw the release of the Conference Board Consumer Confidence Index for January. Consumer confidence increased by more than expected during the month, with the index rising from an upwardly revised 128.2 in December to 131.6 in January. Confidence now sits at a four-month high. Improving consumer confidence tends to support additional spending growth, so this was a very encouraging result to start the year.
- On Thursday, the first estimate for fourth-quarter gross domestic product growth was released. The economy grew at an annualized rate of 2.1 percent during the quarter, against economist estimates for a 2 percent growth rate. This was in line with the 2.1 percent growth we saw in the third quarter. Net trade was the major driver of growth in the fourth quarter, as a sharp drop

General Market News (continued)

in imports and a modest increase in exports created a tailwind for domestic growth.

- On Friday, December's personal income and personal spending reports were released. Both income and spending increased during the month, with incomes rising by 0.2 percent while spending grew by 0.3 percent. This marks the 10th straight month with spending growth. Personal income and spending both grew at a similar pace throughout 2019, indicating that the spending growth that occurred during the year was sustainable. On a year-over-year basis, personal income rose by 4.5 percent in 2019, while spending grew by a solid 4 percent.
- Finally, we finished the week with the second and final reading of the University of Michigan consumer sentiment survey. Consumer sentiment increased during the month, up from 99.1 midmonth to 99.8 at month-end. Economists had previously forecasted no changes for the index. This brings the index to an eight-month high, which is very impressive, given that the index hit a three-year low in August. This swift recovery, despite ongoing geopolitical uncertainty, is encouraging for the new year. With both of the major consumer surveys coming in better than expected during the month, the prospects for additional consumer spending growth in the first quarter are strong.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–2.10	–0.04	–0.04	21.56
Nasdaq Composite	–1.75	2.03	2.03	27.35
DJIA	–2.52	–0.89	–0.89	15.49
MSCI EAFE	–2.50	–2.09	–2.09	12.16
MSCI Emerging Markets	–5.09	–4.66	–4.66	3.78
Russell 2000	–2.89	–3.21	–3.21	9.02

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	1.92	1.92	9.92
U.S. Treasury	2.44	2.44	9.26
U.S. Mortgages	0.70	0.70	6.60
Municipal Bond	1.80	1.80	8.68

Source: Morningstar Direct

What to Look Forward To

We started the week with Monday's release of the Institute for Supply Management (ISM) Manufacturing index. This measure of manufacturer confidence rose sharply from 47.2 in December to 50.9 in January, well above the expected increase to 48.4. This is a diffusion index, where values below 50 indicate contraction, so this encouraging result takes manufacturing back to expansion. Manufacturer confidence fell sharply in 2019, and this rebound may be a sign that the phase one trade deal between the U.S. and China is starting to bolster manufacturer confidence.

On Wednesday, December's international trade report is set to be released. Economists expect the trade gap to widen, partially offsetting the November tightening that shrunk the deficit to a three-year low. The November result was due to a sharp drop in imports, caused by businesses preparing for new tariffs on Chinese goods to go into effect in December. According to advanced trade data, however, we'll get a rebound in imported goods in December. Trade data will likely remain volatile as negotiations between the U.S. and China continue. There is some hope, however, that things will settle down slightly with the signing of the phase one trade deal between the two countries in January.

On Wednesday, the ISM Nonmanufacturing index is scheduled to be released. This index, which measures service sector confidence, should increase modestly from 55 in December to 55.1 in January. This is another diffusion index, where values above or below 50 indicate expansion or contraction, respectively. Accordingly, this result would be welcome, especially if manufacturing confidence also rises in January. The ISM Composite index (which combines manufacturer and service sector confidence) currently sits at a four-month high. Increased business confidence supports additional business investment, so further advances in this index would certainly be a positive development.

On Friday, January's employment report is set for release. Economists anticipate that 160,000 new jobs will be added during the month, a step up from the 145,000 created in December. The underlying data is also expected to be solid. The unemployment rate should remain at 3.5 percent, while average hourly earnings growth is likely to increase by 0.3 percent. While the pace of new job creation slowed to start 2019, results in the fourth quarter largely beat expectations. Consumers cited the strong job market as a primary factor for increased confidence in January. Continued strength in employment would be another welcome signal that economic growth has picked up after moderating in 2019.

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