MARCH 2, 2020

Weekly Market Update

General Market News

- Global concerns about the spread of the coronavirus pushed yields to historical lows late last week, with the 10-year Treasury yield sinking as low as 1.02 percent on Monday. The 30-year stands at 1.63 percent, which is where the 10-year stood less than two weeks ago. The 2-year opened at 0.72 percent. Currently, there are 19 developed countries with yields lower than the U.S.—Switzerland has one of the world's lowest yields, with its 10-year yielding –0.915 percent. The Federal Open Market Committee is likely to look for a cut in rates at its next meeting on March 18.
- U.S. markets posted their largest weekly decline since October 2008, as the number of coronavirus cases outside of China picked up. This resulted in concern over future earnings growth, as travel restrictions and forced closures of Chinese businesses have wreaked havoc on the global supply chain. The fear over the spread outside of China also battered travel stocks. The S&P 500 dropped 11.4 percent, the Dow Jones Industrial Average dropped 12.3 percent, and the Nasdaq Composite dropped 10.5 percent. Federal Reserve (Fed) Chair Jerome Powell issued a statement on Friday stating that the Fed would "act as appropriate to support the economy."
- The worst-performing sectors on the week were energy, financials, and materials, with WTI crude falling more than 16 percent. The best-performing sectors were communication services, consumer staples, and health care.
- We started the week with Tuesday's release of the Conference Board Consumer Confidence Index for February. Consumer confidence increased modestly from 130.4 in January to 130.7 in February, against expectations for an increase to 132.2. While this moderate increase looks solid at first glance, it actually represents a slight decline from January's initial estimate of 131.6. Despite January's revision, February's result still represents impressively resilient consumer confidence, given the negative headlines from the continued spread of the coronavirus.
- On Wednesday, January's new home sales report was released. New home sales increased by more than expected, rising 7.9 percent against expectations for a 3.5 percent increase. This result brought new home sales up to their highest level since 2007. New home sales rallied considerably in the second half of 2019, as mortgage rates fell. And with Treasury rates setting all-time lows in February, this tailwind appears likely to continue into 2020. Housing has been one of the most impressive sectors in the recent economic expansion, and this report is just another example of the current strength of the housing sector.
- On Thursday, the second estimate of fourth-quarter gross domestic product (GDP) growth was released. The pace of economic growth in the fourth quarter remained at 2.1 percent annualized. This was in line with economist estimates and the 2.1 percent growth rate we saw in the third quarter. Personal consumption was revised down slightly from 1.8 percent to 1.7 percent, which was also in line with economist estimates. Net trade was the major driver of fourth-quarter GDP growth. The economy grew by 2.3 percent during the year, down from the 2.9 percent growth we saw in 2018. While the slowdown in annual growth is slightly disappointing, slow growth is still growth and is certainly better than the alternative.
- Thursday also saw the release of January's preliminary durable goods orders report. Durable goods orders came in better than expected, declining 0.2 percent against expectations for a 1.4 percent drop. Orders

General Market News (continued)

were held back by a fall in defensive aircraft orders, which are typically volatile on a month-to-month basis. Core durable goods orders, which strip out the impact of transportation orders, increased by 0.9 percent during the month, against expectations for 0.2 percent growth. Core orders are often used as a proxy for business investment, so this result is a very positive development. After three straight months of core durable goods orders growth, the slowdown in business investment we saw throughout much of 2019 may be behind us.

- On Friday, January's personal income and personal spending reports were released. Personal income grew by 0.6 percent during the month, while spending increased by 0.2 percent. Economists had forecasted 0.4 percent growth for personal income and 0.3 percent growth for personal spending. Overall, these were solid reports for consumers to start the year, although the miss in personal spending is a bit disappointing, given the high levels of confidence we saw during the month. The better-than-expected result for personal income growth was more encouraging and reflects the benefits of a strong jobs market. Typically, we would expect to see a pickup in spending growth given the strength in income. But the recent negative sentiment driven by the spread of the coronavirus will likely be a headwind for consumers.
- We finished the week with the second and final reading of the University of Michigan consumer sentiment survey. Consumer sentiment came in better than expected, increasing from 100.9 midmonth to 101 at month-end, against expectations for a slight pullback to 100.7. Consumer sentiment has remained resilient despite the spread of the virus, but it should be closely monitored given the escalating nature of the situation and the important relationship between consumer confidence and spending.

Market Index Performance Data

EQUITIES

Index	Week-to-Date %	Month-to-Date %	Year-to-Date %	12-Month %
S&P 500	–11.44	–8.23	–8.27	8.19
Nasdaq Composite	–10.52	–6.27	–4.37	14.94
DJIA	–12.26	–9.75	–10.55	0.44
MSCI EAFE	–9.56	–9.04	–10.94	–0.57
MSCI Emerging Markets	–7.23	–5.27	–9.69	–1.88
Russell 2000	–12.01	–8.42	–11.36	–4.92

Source: Bloomberg

FIXED INCOME

Index	Month-to-Date %	Year-to-Date %	12-Month %
U.S. Broad Market	1.26	3.76	11.68
U.S. Treasury	2.16	5.16	12.15
U.S. Mortgages	0.69	1.74	7.45
Municipal Bond	0.74	3.11	9.46

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 for February. This measure of manufacturer confidence fell by more than expected during the month, from 50.9 in January to 50.1 in February, against expectations for a more modest decline to 50.5. This is a diffusion index, where values above 50 indicate expansion, so the index is still pointing toward growth, albeit at a slow rate. This decline was largely attributable to worries regarding the spread of the coronavirus, with manufacturers citing uncertainty along global supply chains as their primary concern. Despite the disappointing result, the February report represents the second-best reading for the index in seven months. It also marks the second straight month where the index has been in expansionary territory, so things could certainly be worse. We'll continue to monitor this important gauge of manufacturer confidence, to see if the headwinds created by the coronavirus continue in March.

On Wednesday, the ISM Nonmanufacturing index will be released. This survey measures confidence in the service sector, which accounts for the lion's share of economic activity. Economists expect service sector confidence to decrease moderately, from 55.5 in January to 55 in February. As was the case with the manufacturer index, service sector confidence improved by more than expected in January, so this anticipated decline is understandable. If estimates hold, the combined measure of manufacturer and service sector confidence would sit at levels that have historically indicated economic growth between 1 percent and 1.5 percent.

On Friday, we'll get January's international trade report. The trade deficit is expected to shrink modestly, from $48.9 billion in December to $48.5 billion in January. Previously released monthly reports on trade showed a modest drop in exported goods that was more than offset by a larger drop in imports. This report is unlikely to be affected by the concerns over the coronavirus, given that most of the measures taken by countries and businesses to halt the spread of the virus were enacted in February. Trade was a net contributor to economic growth in the fourth quarter, but going forward results will likely be volatile given the global uncertainty regarding the spread of the coronavirus.

We'll finish the week with Friday's release of the February employment report. Economists expect it to show that 175,000 new jobs were created during the month, following January's better-than-expected result of 225,000 new jobs. The underlying data should also show positive momentum, with the unemployment rate expected to decline from 3.6 percent to 3.5 percent. Average hourly earnings growth is set to improve, with January's 0.2 percent gain followed by a 0.3 percent rise in February. If these estimates prove to be accurate, February would represent another solid month of updates for the job market. This sector, which softened at the start of 2019, has shown signs of strength over the past few months.

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