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Market Update: January 2020

Stock values and Treasury yields both declined in January, mostly due to concerns over the spread of the coronavirus, which the World Health Organization has declared a public-health emergency of international concern. For the month, global stock declines of about one percent were offset by global bond returns of just over one percent. Oil prices tumbled and gold prices rose, as investors contemplated the potential scope of the virus's economic impact.

China currently accounts for 15% of global GDP, compared to only 4% back in 2003. In 2003, it took eight months to contain the SARS virus. The coronavirus may be more infectious than SARS, and the impact on global growth will almost certainly be higher. As we contemplate the problems that could derail global economic growth, the majority of the dangers appear to be residing in China.

> **This is a country with massive economic and financial imbalances, a declining growth profile, and persistent political obstacles to growth, both home and abroad.**
>
> **Bank Credit Analyst's Geopolitical Strategy Team – Barron's 1/31/20**

So far, two-thirds of S&P 500 companies have reported fourth quarter earnings, and results have exceeded estimates. Early forecasts for 2020 are looking for 9% growth … which may prove to be a bit ambitious. Investors should expect mid-single digit growth in 2020. That could lead to modest gains for equity investors, but certainly nothing like the double-digit returns of the past 10-plus years.

> **The median company in the S&P 500 is expected to report 4% earnings growth during the fourth quarter. If anyone knows the ticker (symbol) for this Median Co., I recommend buying shares immediately.**
>
> **Jack Hough – Barron's 1/31/20**

The 10-year U.S. Treasury ended January yielding 1.52%, which is down about 40 basis points for the month. The yield curve actually ended the month inverted, meaning that the 10-year yield closed below the yield on the 3-month Treasury. An inverted yield curve, which has proven to be a strong signal of pending recession, also underscores investors' concerns over the coronavirus.

The Fed lowered rates 3 times last year and has signaled that no increases are on the horizon. In October, they actually started buying $60 billion in Treasuries each month to inject liquidity into the U.S. financial system.

> **We're comfortable with our current policy stance, and we think it's appropriate.**
>
> **Jerome Powell, Fed Chairman – WSJ 1/29/20**

According to a study by Bank of America Merrill Lynch, interest rates are now at 5,000 year lows … yes, that is not a typo. With recession fears fading and no signs of inflation on the horizon, economists are expecting rates to remain relatively low for the foreseeable future.

> **Indeed, if bonds were like the drunken revelers at a surprise party last year – delighting investors by pivoting midyear into a spirited rally – in 2020 they'll be your Uber ride home.**
>
> **Karen Hube – Barron's 1/30/20**

U.S. GDP grew by 2.3% in 2019, according to the Commerce Department's initial estimates … the slowest pace since 2016. The Federal Reserve's preferred inflation gauge, the price index for personal-consumption expenditures, rose 1.6% over the past year. That remains well below the Fed's 2% inflation target.

> **Consumer spending and wage gains eased at the end of the year, signs the U.S. economy is returning to a more moderate pace of growth.**
>
> **Omeokwe/Chaney – WSJ 1/31/20**

The eurozone's economy grew by only 1.2% in 2019, the weakest expansion since 2013. With the U.S. and China also reporting slower growth, the global economy saw its worst year since the global financial crisis.

> **From an economic perspective, the last decade ended with a whimper.**
>
> **Mark Carney, Bank of England – WSJ 1/31/20**

On the last day of the month, the U.K. formally quit the European Union. The EU, which now stands at 27 member nations, is losing its second-largest economy along with a major military force. Britain will be legally outside the bloc, as it continues to negotiate its future EU dealings.

We are about to run a series of unparalleled experiments. We are about to make trade harder.

Anand Menon, King's College London – WSJ 1/31/20

All eyes are on China, as the coronavirus is hurting their already slowing economy and threatening to upend the global growth that everyone expected for 2020. Earlier this month, China reported 2019 GDP growth of 6.1% … the slowest pace in nearly three decades.

The outbreak is exposing the vulnerabilities of China's top-down government, and the damage is spreading far beyond the mainland.

The Editorial Board – WSJ 1/27/20

China has a history of being the primary incubator for flu strains: the 1918-19 Spanish flu, 1957's Asian flu, the Hong Kong flu of 1968, the Russian flu of 1977, and the 2003 SARS outbreak. Deficiencies in China's public health system are pervasive. They have 20% fewer physicians per capita than Mexico, and the number of general practitioners is 70% below World Health Organization standards. The coronavirus speaks to the futility of isolationism and the unhealthy ideology of communism.

We now live in a world in which everything travels everywhere all the time. People, products, ideas and data have become uncontainable. Centuries-long attempts by authorities to control their populations are ending … China has become too complex and too unavoidably open to the world for its people to survive – perhaps literally – under the closed and obviously unhealthy ideology of communism.

Daniel Henninger – WSJ 1/29/20

The coronavirus should continue to drive daily market volatility over the near term. Longer-term, we should expect global growth to stabilize, and hopefully our *plow-horse economy* will continue its slow but steady advance.

Daniel G. Corrigan, CPA/PFS, CFP®