

*This month's Market Minute reflects the views of Clearstead's Research Team and was composed by Tom Seay, Senior Managing Director.*

## OVERVIEW

Financial markets started the year on a strong note but suffered from a virus that not even the fruits of Apple could remedy. We entered the year with many of 2019's problems seeming pale in importance compared to our confident attitude. Boris was victorious, Brexit followed through, and the UK will survive. The impeachment trial commenced, the Senate had a trial, and it's off to the Presidential primary season. An accommodative Fed, a stable economy, and strong consumer sentiment should continue to propel this decades-long economic expansion. But the coronavirus reminded us that there are those unexpected demons lurking out there that have the potential to disrupt our happy days. When markets are priced for perfection, we are prone to suffer from the unknown; but as Apple's earnings reminded us in the long run, it is earnings that count.

## DOMESTIC EQUITY

*As of January 31, 2020*

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-0.9%	-0.9%	-0.9%	15.8%
S&P 500	0.0%	0.0%	0.0%	21.7%
Russell 2000	-3.2%	-3.2%	-3.2%	9.2%
Russell 1000 Growth	2.2%	2.2%	2.2%	27.9%
Russell 1000 Value	-2.2%	-2.2%	-2.2%	14.9%

Despite an initially positive start, investor fears about the coronavirus ultimately overwhelmed markets, resulting in a slightly negative start to the new year. Looking beyond the virus scare, optimism surrounding the completion of the first phase of a US-China trade deal, positive economic news, strong consumer sentiment, and an accommodative Federal Reserve are forces that can continue to push markets higher. Yes, there are areas of concern – elections, Iran, coronavirus – but the underlying fundamentals seem favorable and are ultimately what drive long-term equity returns.

Many of the 2019 patterns persisted as large cap stocks outperformed small caps, growth bested value, and US equities continue to outpace foreign bourses, as seen in the chart above. Although early in the earnings season, information technology companies continue to surprise to the upside as companies like Apple reported revenue and profit significantly higher than what Wall Street analysts expected. We are closely monitoring the headlines to see if corporate America reports the strong earnings necessary to justify current valuations and maintain the positive momentum.



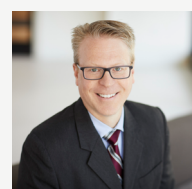
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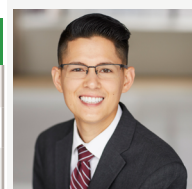
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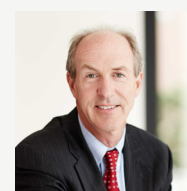
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## INTERNATIONAL EQUITY

As of January 31, 2020

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-2.7%	-2.7%	-2.7%	9.9%
MSCI EAFE	-2.1%	-2.1%	-2.1%	12.1%
MSCI Emerging Markets	-4.7%	-4.7%	-4.7%	3.8%
MSCI EAFE Small Cap	-2.9%	-2.9%	-2.9%	12.3%

Most international equity markets traded lower in January. The MSCI EAFE Index, a common index for equity markets of non-US developed countries, declined by -2.1%, while MSCI Emerging Markets index declined by -4.7%. However, much of these declines were driven by the appreciation of the USD dollar, which rose by 1% against many currencies and proved a headwind to US Dollar-based returns from foreign equity<sup>1</sup>.

Chinese markets suffered the largest setback due to the coronavirus outbreak as the MSCI China Index was down by -4.8% in the month<sup>2</sup>. Current expectation is that the disruptions caused by the virus outbreak will be largely confined to China — with a modest and temporary setback to the earnings of consumer-oriented sectors in China like tourism and retail. The Chinese government has taken steps to mitigate the virus outbreak and to keep it from spreading, but if these measures—restricting travel and closing public spaces—become more widespread in China and remain in place for months, not weeks, the negative impact on the global economy will increase.

## FIXED INCOME

As of January 31, 2020

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	1.9%	1.9%	1.9%	9.6%
BarCap Global Aggregate	1.3%	1.3%	1.3%	6.6%
BarCap US High Yield	0.0%	0.0%	0.0%	9.4%
JPM Emerging Market Bond	1.7%	1.7%	1.7%	11.5%
BarCap Muni	1.8%	1.8%	1.8%	8.6%

A tale of two markets defined January's fixed income markets. Prior to the equity markets decline beginning on January 21st, high yield bonds and emerging market debt (a.k.a. fixed income risk assets) continued to outperform US Treasury securities as investors pursued their search for yield in a low interest rate environment<sup>3</sup>. With the onset of the coronavirus, the benefits of owning US Treasury securities became readily apparent as treasury yields tumbled and risk asset spreads widened<sup>4</sup>. Following the marvelous returns witnessed in 2019, expectations for 2020 are a bit more modest as expectations are for a coupon clipping year which will challenge those willing to stretch for yield in a market that appears fully valued. Our advice remains to maintain a defensive portfolio that reduces upside excess return potential but improves performance in a risk-off environment.

## CLOSING

Positive earnings growth, low interest rates, and a stable US economy should support financial markets in 2020. However, we are in the latter innings of a recovery which history tells us can be a volatile period in the markets. In all likelihood, the coronavirus will not be the beginning of the end, but there are those events we cannot predict that can spoil the party and we need to account for them in our analysis. Our recommendation is unchanged: remain fully invested but defensive.

### Sources:

- 1 Bloomberg: US\$ Index (DXY) 01/01/2020 – 01/31/2020
- 2 Bloomberg: MSCI China Index (MXCN) 01/01/2020 – 01/31/2020
- 3 Bloomberg Barclays Global Family of Indices
- 4 Bloomberg Barclays Global Family of Indices

### Disclosures

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