



Price Returns

Index	Close	Week	YTD
Dow Jones Industrial Average	28,824	0.7%	1.0%
S&P 500 Index	3,265	0.9%	1.1%
NASDAQ	9,179	1.8%	2.3%
Russell 2000 Index	1,657	-0.2%	-0.7%
MSCI EAFE Index	2,036	-0.3%	0.0%
10-yr Treasury Yield	1.82%	0.0%	-0.1%
Oil (\$/bbl)	\$59.14	-6.2%	-3.1%
Bonds*	\$112.98	0.0%	0.4%

Source: Bloomberg, 01/10/20

*Bonds represented by the iShares U.S. Aggregate Bond ETF

Last Week:

U.S. Equity Markets

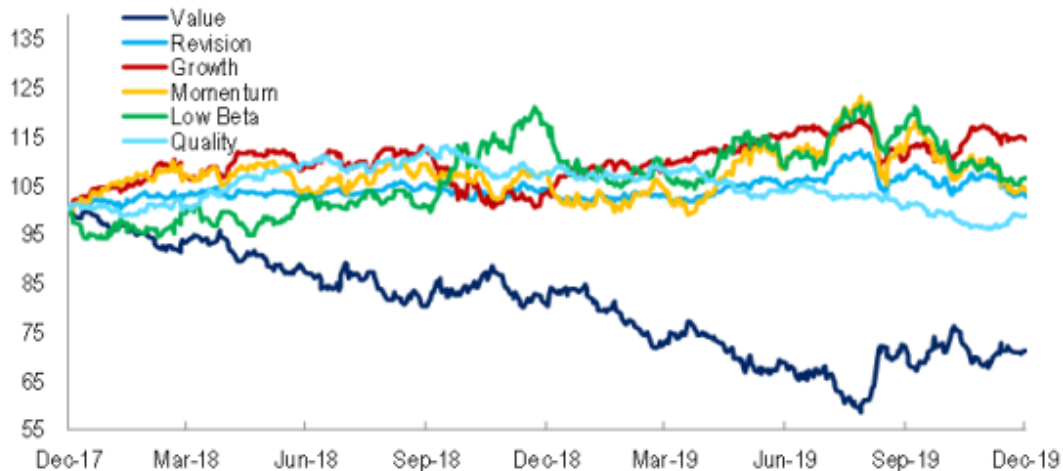
- U.S. large cap equities (S&P 500 Index) rose +0.9% as Iran fired 22 missiles at two military bases in Iraq where American troops are stationed, but no U.S. casualties occurred, and Iran's foreign minister said it "concluded proportionate measures," and does not seek war. The U.S. market benefitted from the ongoing expectation of the U.S.-China phase one trade deal being signed on January 15, and global accommodative monetary policies
 - Information technology (+2.2%) outperformed with strength in hardware and software including Apple (+4.3%)
 - Communication services (+2.0%) outperformed with strength from larger internet stocks including **Alphabet** (+5.0%), **Facebook** (+4.5%) and Twitter (+4%)
 - Health care (+1.5%) outperformed with help from biotech and managed care
 - Utilities (+0.8%), consumer staples (+0.6%), and REITs (+0.4%) underperformed as investors favored less defensive sectors
 - Consumer discretionary (+0.4%) underperformed as autos, lodging, and select retail and apparel and accessories stocks were weak
 - Industrials (-0.2%) underperformed with weakness in the machinery and equipment rental industries
 - Financials (-0.2%) underperformed with bank weakness
 - Materials (-0.3%) underperformed with weakness from DuPont (-3.9%) and Dow (-1.8%)
 - Energy (-1.1%) underperformed with the price oil falling 6.2%
- The S&P 500 Index and the Nasdaq Index continue to hit record highs. The Nasdaq Composite is up over 100% in the past five years, outperforming the S&P 500 by 30% (total-return basis), partially due to the Nasdaq's heavy exposure to the information technology sector



Source: Wall Street Journal, S&P Dow Jones

- Growth stocks, which include a high percentage of the information technology sector, were the place to be for the past several years, although that started to change around August-September

Figure 1. R1 Daily Factor Performance and Volatility 2018 – Dec 2019



Source: Citi

- Meanwhile, small- and mid-cap stocks have continued to lag, with the S&P Smallcap 600 losing -1% for the week, while the Midcap 400 dipped -0.2%



U.S. Economic and Political News

- Factory Orders fell -0.7% in November, marking the third decline in four months
- Durable Goods Orders got revised a tick worse to -2.1% (versus a previous -2.0%), while non-defense orders were revised to +0.2% (versus +0.1% previous)
- ISM Non-Manufacturing printed 55.0 for December, topping the 54.4 consensus

ISM Non Manufacturing (Overall): 1997 - 2019



Source: Bespoke

ISM Composite (Manufacturing & Services): 1997 - 2019

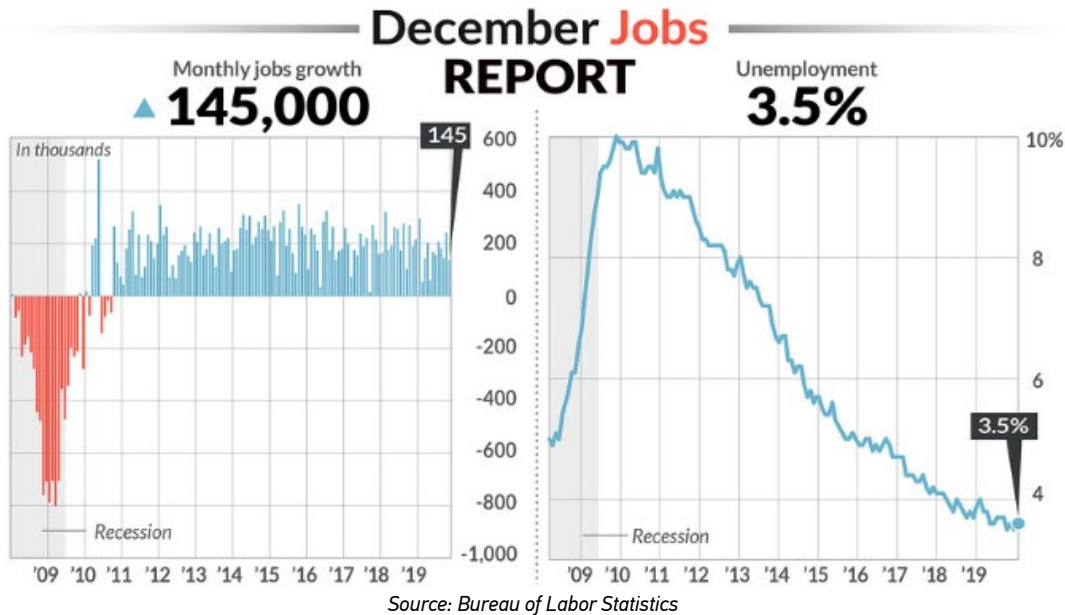


Source: Bespoke

- Weekly Jobless Claims of 214,000 were a bit better than the 225,000 consensus estimate
- ADP Employment reflected a gain of 202,000 gains, far surpassing the 165,000 consensus forecast
- The Non-Farm Payrolls report showed the opposite outcome, printing an increase of 145,000 jobs, below the 160,000 consensus expectation
 - October and November results got revised lower as well
 - Average hourly earnings of \$28.32 slowed to a 2.9% year-over-year increase, with the average length of the work week steady at 34.3 hours



- If wages are growing nearly 3% year-over-year, isn't the Federal Reserve achieving its target of 2%+ inflation?
- The unemployment rate remained at 3.5%



- The Senate Finance Committee voted 25-3 in favor of the United States Mexico Canada trade Agreement, which begs the question, why does a body with 100 members have a committee that contains 28 members? That doesn't seem efficient, does it?
- It will be interesting to see how President Trump's approval rating changes between now and Election Day

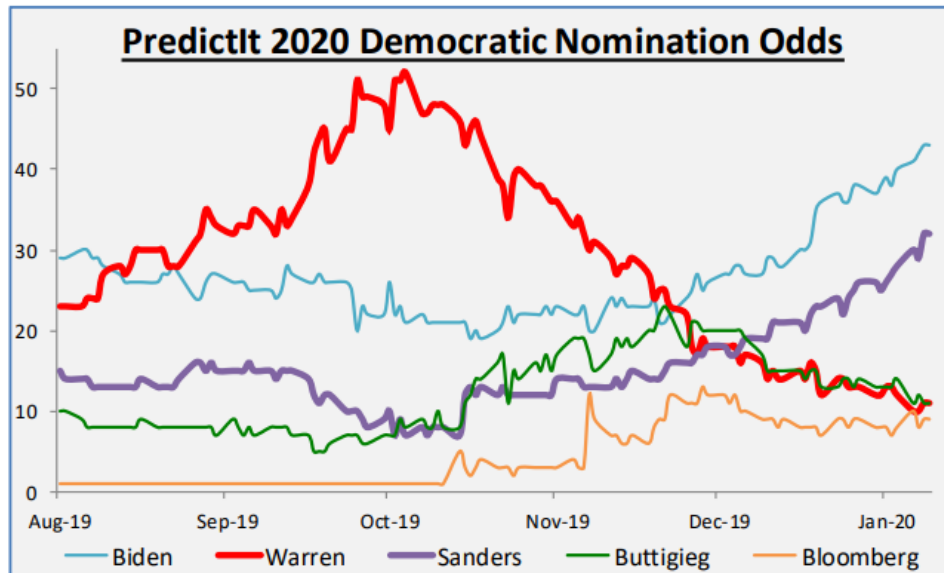
PRESIDENT	ELECTION YEAR	APPROVAL RATING		
		ON JAN. 1	ON ELECTION DAY	CHANGE
Lyndon B. Johnson*	1964	76.0%	74.0%	-2.0
Dwight D. Eisenhower	1956	75.5	67.9	-7.6
George W. Bush	2004	56.7	48.4	-8.3
Jimmy Carter	1980	55.9	37.9	-18.0
Ronald Reagan	1984	54.1	57.9	+3.8
Harry S. Truman*	1948	54.0	39.6	-14.3
Bill Clinton	1996	52.5	54.6	+2.2
Richard Nixon	1972	50.7	61.3	+10.6
George H.W. Bush	1992	48.9	32.6	-16.3
Barack Obama	2012	45.7	49.5	+3.8
Donald Trump	2020	42.6	?	?
Gerald Ford*	1976	39.3	43.6	+4.3

*Acceded to the presidency mid-term. In Johnson's case, he took office mere weeks before the calendar turned to 1964, which also may have affected his numbers.

Source: Marketwatch.com



- Meanwhile, here's how the Democratic candidates stack up against one another, with Iowa and New Hampshire voting dead ahead



Source: Wolfe Research

International Markets and News

- European equities (STOXX Europe 600) rose 0.4% as Middle East tensions faded, investors expected the U.S. and China will sign the phase one deal this week, and Eurozone business activity firmed slightly more than expected
 - Outgoing Bank of England (BoE) Governor Mark Carney said there was a case for cutting UK interest rates promptly if evidence builds that the weakness in activity could persist, and he suggested that, overall, the BoE had at least 250 basis points worth of accommodation left
- The Chinese stock market (Shanghai Composite) rose for the sixth consecutive week as investors expect the signing of the U.S.-China phase one trade deal on January 15, and Chinese equities historically have benefitted from the week-long Lunar New Year holiday with an average increase of around 4% over a 20-day window since 2002
 - Chinese inflation of 4.5% year-over-year in December was below expectations of 4.7%, partially due to lower pork prices
- Japanese equities (Nikkei 225 Index) rose 0.8% as the Bank of Japan is expected to raise its GDP forecast on the positive impact from Prime Minister Abe's \$122B stimulus package

Commodities

- Oil fell -6.2% as tensions in the Middle East eased
- Gold gained 0.5%, its third straight weekly increase



This Week:

- Corporate news flow will begin to pick up this week with notable earnings including, but not limited to: Shaw Communications, Citigroup, **Delta**, First Republic Bank, **IHS Markit**, JP Morgan, **Wells Fargo**, Bank of America, Blackrock, Goldman Sachs, PNC Bank, **UnitedHealth Group**, U.S. Bancorp, Bank of New York Mellon, **Morgan Stanley**, PPG Industries, **Schwab**, CSX Corporation, Bank Ozk, People's United Financial, Citizens Financial, Fastenal, **Kansas City Southern**, Regions Financial, Schlumberger, State Street
- Abroad, the macro-economic calendar will see CPI in Europe, and Trade Balance in China
- U.S. economic data:
 - Monday: Treasury Budget
 - Tuesday: NFIB Small Business Index, CPI ex Food, Energy, CPI
 - Wednesday: MBA Mortgage Purchase Applications, Empire Manufacturing, PPI ex Food, Energy, PPI
 - Thursday: Export Prices, Import Prices, Philadelphia Fed Index, Retail Sales ex Autos, Retail Sales, Business Inventories, NAHB Housing Market Index
 - Friday: Housing Starts, Building Permits, Industrial Production, Capacity Utilization, UMich Sentiment

As always, thank you very much for your interest in our thoughts and support of our services

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