



Price Returns

Index	Close	Week	YTD
Dow Jones Industrial Average	29,348	1.8%	2.8%
S&P 500 Index	3,330	2.0%	3.1%
NASDAQ	9,389	2.3%	4.6%
Russell 2000 Index	1,700	2.5%	1.9%
MSCI EAFE Index	2,058	0.8%	1.0%
10-yr Treasury Yield	1.83%	0.0%	-0.1%
Oil (\$/bbl)	\$58.70	-0.6%	-3.9%
Bonds*	\$113.07	0.1%	0.7%

Source: Bloomberg, 01/17/20

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

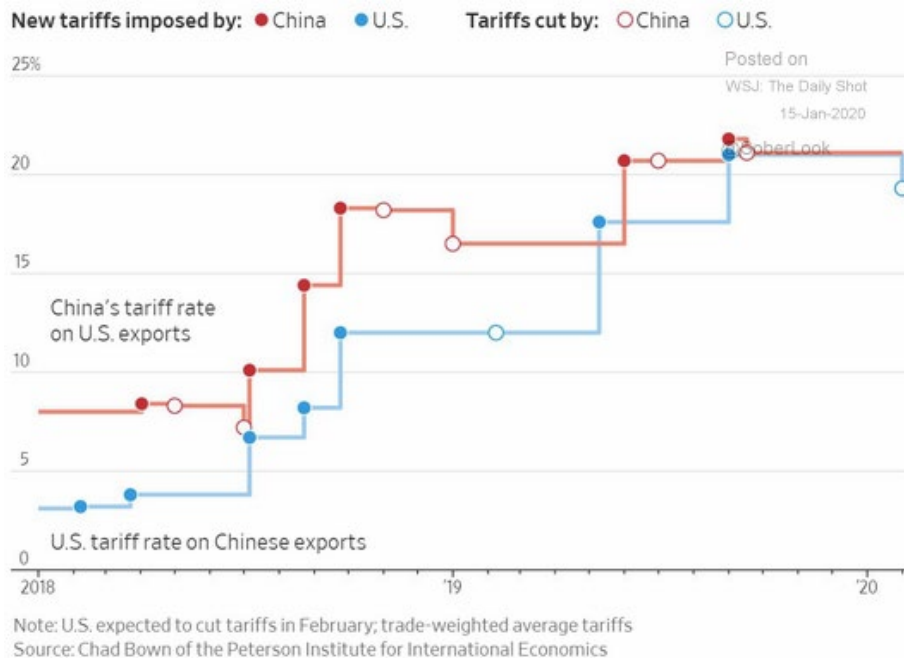
Last Week:

U.S. Equity Markets

- U.S. large cap equities (S&P 500 Index) rose +2% as the U.S. and China signed the phase one trade deal, and several companies reported mixed earnings reports, but maintained positive guidance for an earnings rebound in 2020
 - Utilities (+3.8%), and REITs (+2.5%) outperformed as investors favored sectors with stable cash flows
 - Information technology (+3.0%) outperformed with strength in select semiconductor stocks
 - Materials (2.7%) outperformed with strength in paper and packaging stocks
 - Communication services (+2.4%) outperformed with strength in media and entertainment stocks. Google parent **Alphabet** joined **Microsoft** and Apple in the \$1 trillion market value club
 - Industrials (+2.0%) saw strength in the transportation stocks, despite fairly lackluster Q4.19 earnings reports
 - Consumer staples (+1.9%) performed in-line
 - Health care (+1.6%) underperformed, but had strong gains in pharma and distributors
 - Financials (+1.1%) underperformed with bank weakness amid earnings reports
 - Consumer discretionary (+1.1%) underperformed with weakness in retail as Target's holiday sales were below expectations
 - Energy (-1.1%) underperformed with the price oil falling 0.6%
- NASDAQ turned in its sixth straight weekly gain
- The U.S.-China phase one deal was largely in-line with expectations as China agreed to purchase an additional \$200B of U.S. goods and services over the next two years, which includes \$78B of manufacturing goods, over \$52B of energy products and \$32B in farm and agricultural goods
 - The U.S. agreed to lower the tariff rate on \$100B of imports from China from 15% to 7.5%



- China also agreed not to force U.S. companies to hand over technology as a condition for doing business there or direct Chinese companies to obtain sensitive foreign technology through acquisitions
- Additionally, it highlighted measures to further open up the Chinese financial services sector to U.S. firms and included a pledge by both sides to avoid currency devaluations



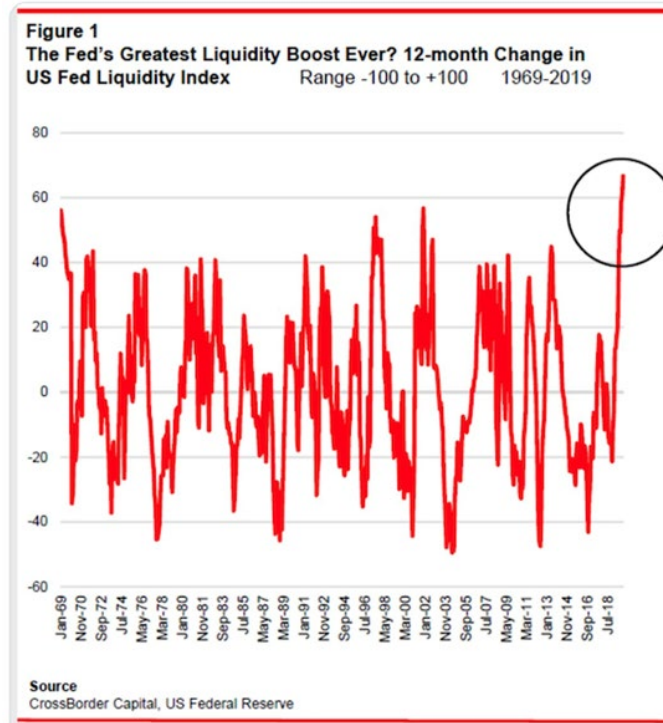
Source: Chad Brown of the Peterson Institute for International Economics

- Part of the support for equities for the previous 6+ months has been the expectations for a U.S.-China trade deal, but also for an earnings recovery in 2020



Source: State Street Global Markets, FactSet

- Equity markets likely also have benefitted from the U.S. Federal Reserve cutting rates three times and significantly increasing global liquidity



Source: CrossBorder Capital, US Federal Reserve

- Investors tend to follow performance, as information technology has seen strong inflows in the past one, three, and 12 months ended December 2019. Despite a steepening yield curve, Financials had their worst monthly outflows of 2019 in December

Sector	Positioning				
	Trailing 1M Flow (\$M)	Trailing 3M Flow (\$M)	Trailing 12M Flow (\$M)	Current Short Interest (%)	1M Prior Short Interest (%)
Consumer Discretionary	(711)	(567)	(1,256)	9.8	9.6
Consumer Staples	211	(1,103)	2,020	6.4	6.4
Energy	1,409	2,907	(3,204)	9.8	11.8
Financial	(2,328)	426	(8,563)	9.9	9.4
Health Care	667	296	(4,744)	16.4	16.1
Industrials	(264)	627	(2,541)	7.8	6.6
Materials	(55)	374	(3,232)	6.7	7.6
Real Estate	(324)	1,162	6,319	4.0	3.9
Technology	1,329	2,770	4,002	4.0	4.0
Communications	149	231	3,635	2.2	2.2
Utilities	(374)	(759)	2,416	13.2	15.0

Source: State Street Global Advisors, SPDR Americas Research, Wall Street Journal



U.S. Economic and Political News

- December Retail Sales increased 0.3%, matching consensus, while the 0.7% gain ex-Autos was above the 0.5% Street forecast
- Weekly Jobless Claims were 204,000, marking a fifth straight weekly decline
- New Home Construction surged to a 13-year high, increasing 17% sequentially in December to 1.61 million annualized units (above the 1.42 million consensus estimate), but permits for new homes dipped 4% to 1.42 million (below the 1.47 million consensus forecast)
- Industrial Production eased -0.3% in December, worse than the -0.1% consensus estimate, marking the third decline in four months. Capacity Utilization of 77.0% likewise came in shy of the 77.2% average Street forecast
- Factory Orders fell -0.7% in November, marking the third decline in four years
- The University of Michigan's Consumer Sentiment index came in at 99.1 in the preliminary January reading, down a couple ticks from 99.3 in December and below the 99.6 Street expectation
- The Consumer Price Index rose 0.2% in December, a tad below the 0.3% consensus forecast. On a year-over-year basis, Consumer prices increased 2.3%. Core CPI (which excludes volatile food and energy components) rose 0.1% for the month and also 2.3% year-over-year
- The Producer Price Index edged up 0.1% in December (below the 0.2% consensus forecast), and just 1.3% for the full year, half of 2018's level. Core PPI also lifted 0.1% for the month, and reflected inflation of 1.5% for the year

Producer prices

Change from previous year, seasonally adjusted



- The Philadelphia Fed index surged to 17.0, well above the 3.7 consensus expectation, and its highest level since May
- The Empire Manufacturing index printed 4.8, topping the 3.5 consensus forecast. Recently that index has diverged from the ISM gauge, for inexplicable reasons



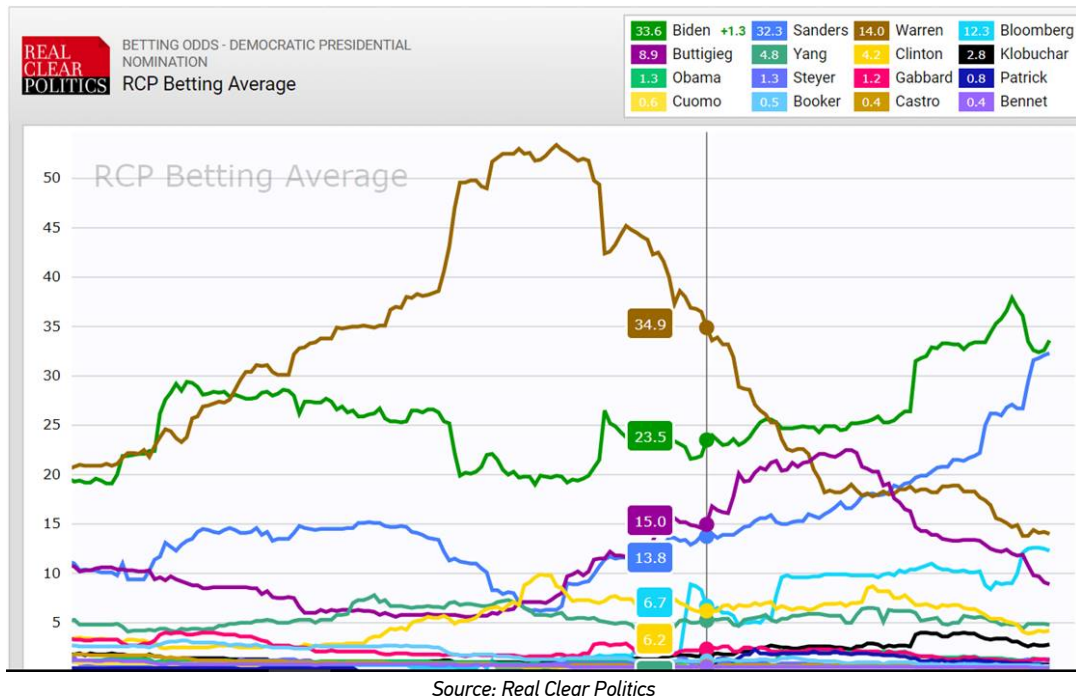
Source: Pantheon Macroeconomics

- Meanwhile, the House of Representatives formally voted to send the articles of impeachment against President Trump to the Senate. The impeachment trial begins today in the Senate
- President Trump's re-election odds recently topped 50% for the first time

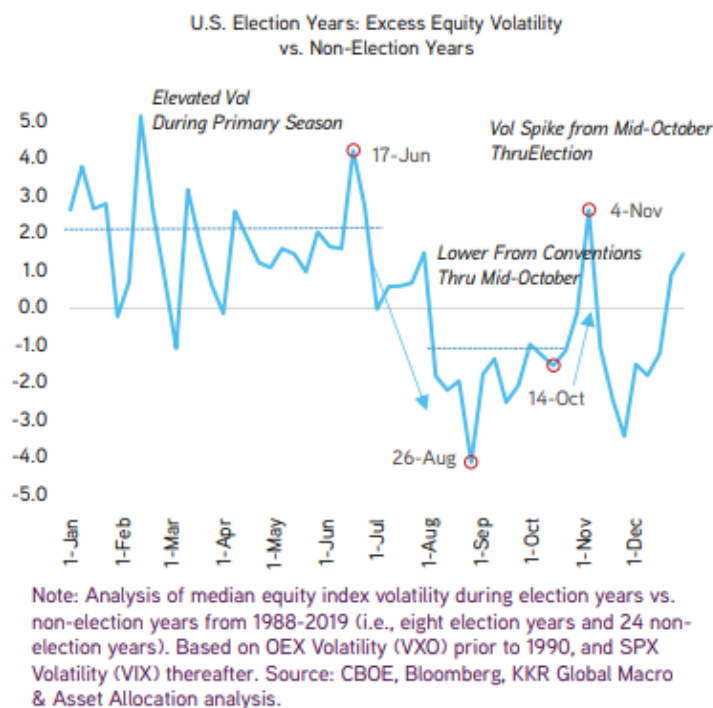
Election Betting Odds - Chance of Winning 2020 Election (%): Donald Trump



- After previously keeping her campaign operating with volunteers, Marianne Williamson dropped out of the Democratic presidential race
- Senator Cory Booker also dropped out of the running
- Senator Bernie Sanders has narrowed the gap to former Vice President Joe Biden, according to the latest betting odds, while Senator Elizabeth Warren continues to drop off steeply



- Many clients have asked about Election Year impacts on the investing landscape. According to the data shown in the chart below, volatility tends to be elevated in the first half of Presidential election years, and then settles down once investors come to grips with greater political certainty





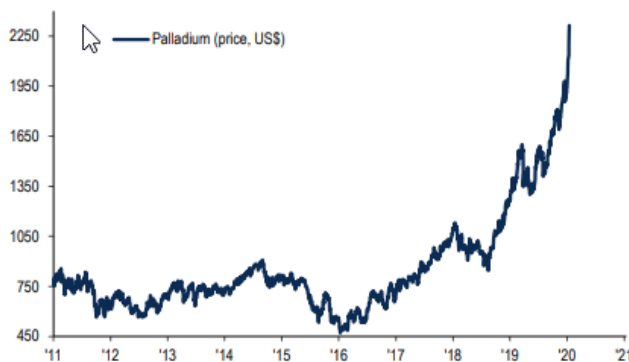
International Markets and News

- European equities (STOXX Europe 600) rose 1.3% as the U.S. and China signed the phase one trade deal, expectations increased for a Bank of England interest rate cut, and European Central Bank minutes suggested a continuation of its expansionary policies
- Russian President Putin unexpectedly announced plans to revamp the constitution with an eye on his political future (term ends in 2024). Prime Minister Medvedev and his government resigned, which he said would give Putin room to carry out the changes, which includes giving more power to Parliament and taking away power from future presidents
- The Chinese stock market (Shanghai Composite) fell -0.8% as investors expected the signing of the U.S.-China phase one trade deal, China's fourth quarter GDP of 6.0% year-over-year (YoY) was as expected. For the year, the country's 6.1% GDP growth was its lowest since 1990, and at the low end of the 6.0-6.5% official target. Industrial production of 6.9% YoY exceeded expectations, and December exports rose 7.6% YoY
 - Local investors may view the phase one deal as a band-aid rather than a solution and may be concerned with China's willingness/ability to reach the \$200B of U.S. imports in two years
- Japanese equities (Nikkei 225 Index) rose 0.8% as January manufacturing survey data was weak, and the Bank of Japan (BoJ) reported that all nine of the nation's regions were either expanding or recovering due to increasing income and spending from the corporate and household sectors, which implies no changes from the BoJ at the next central bank meeting scheduled for today

Commodities

- Oil fell -0.6%
- Gold was little changed for the week, but palladium has skyrocketed, supported by demand to comply with tighter auto emissions standards

Chart 3: Everywhere euphoria...Palladium



Source: BofA Global Investment Strategy, Bloomberg



This Week:

- Stocks are lower globally after Moody's downgraded Hong Kong's credit rating
- France and the United States agreed to postpone incremental tariffs, including a digital tax on internet companies conducting business in France
- How "overbought" are U.S. stocks? According to Macro Risk Advisors, the S&P 500's 10-day moving average is 9.25% above its 200-day moving average, a phenomenon that has occurred just 16 times since 1995. But in those 15 prior occasions, the index averaged nearly a 3% gain in the ensuing three months
- Corporate news flow remains robust this week with notable earnings including, but not limited to: Comerica, Halliburton, TD Ameritrade, **Capital One**, Netflix, Zions Bancorporation, **Abbott Laboratories**, Amphenol, Baker Hughes, BOK Financial, Fifth Third Bancorp, **Johnson & Johnson**, Northern Trust, Rogers Communications, Citrix Systems, **PTC Inc**, Texas Instruments, **Comcast**, Huntington Bancshares, Kimberly Clark, **M&T Bank**, Procter & Gamble, Travelers, Union Pacific, VF Corp, **Discover Financial Services**, E*Trade, Intel, SVB Financial, Skyworks Solutions, Atlassian Corporation, Air Products and Chemicals, American Express, Synchrony Financial
- Abroad, the macro-economic calendar will see Euro-zone Import/Export data out early in the week with ECB Refi Rate and Monetary Policy on Thursday. Market PMI data in Europe at the end of the Week. In Asia look for Japan Trade balance on Tuesday night / Wednesday morning
- U.S. Economic data:
 - Monday: U.S. markets closed in observance of Martin Luther King Jr Day
 - Tuesday: Earnings and Industry Conferences
 - Wednesday: MBA Mortgage Purchase Applications, CPI (y/y), Existing Home Sales
 - Thursday: Leading Indicators, Kansas City Fed Manufacturing Index
 - Friday: Flash Manufacturing PMI, Flash Services PMI

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

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