



Price Returns

Index	Close	Week	YTD
Dow Jones Industrial Average	29,398	1.0%	3.0%
S&P 500 Index	3,380	1.6%	4.6%
NASDAQ	9,731	2.2%	8.5%
Russell 2000 Index	1,700	1.9%	1.9%
MSCI EAFE Index	2,034	0.2%	-0.2%
10-yr Treasury Yield	1.58%	0.0%	-0.3%
Oil (\$/bbl)	\$52.09	3.5%	-14.7%
Bonds*	\$114.28	0.1%	1.8%

Source: Bloomberg, 02/14/20

\*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 +1.6% as coronavirus headlines leaned positive in the first half of the week as Wednesday saw the lowest number of new cases since January, but the Hubei province reported a surge in new cases later in the week. Federal Reserve Chair Powell's testimony was largely upbeat on the U.S. economy and the Fed announced it's accelerating its withdrawal from short-term funding markets faster than expected. Bernie Sanders won the New Hampshire primary and took the lead in some national polls
  - REITs (+5.0%) and utilities (+2.4%) outperformed as investors favored sectors with stable cash flows
  - Consumer discretionary (+2.6%) outperformed with strength from **Amazon** (+2.7%), select restaurants, builders, and auto stocks
  - Information technology (+2.3%) outperformed with strength in semiconductors
  - Communication services (+1.4%) modestly underperformed despite strength in Netflix (+3.7%) and **Alphabet** (+2.7%)
  - Industrials (+1.1%) underperformed despite strength from airlines, distributors, and select machinery stocks
  - Health care (+0.9%) underperformed with weakness in pharmaceutical stocks, partially offset by strength in managed care equities
  - Consumer staples (+0.8%) and materials (+0.7%) underperformed
  - Financials (+0.7%) underperformed with weakness in money center banks amid slumping Treasury yields
  - Energy (+0.3%) underperformed despite the price of oil snapping a five-week decline with an increase of 3.5%

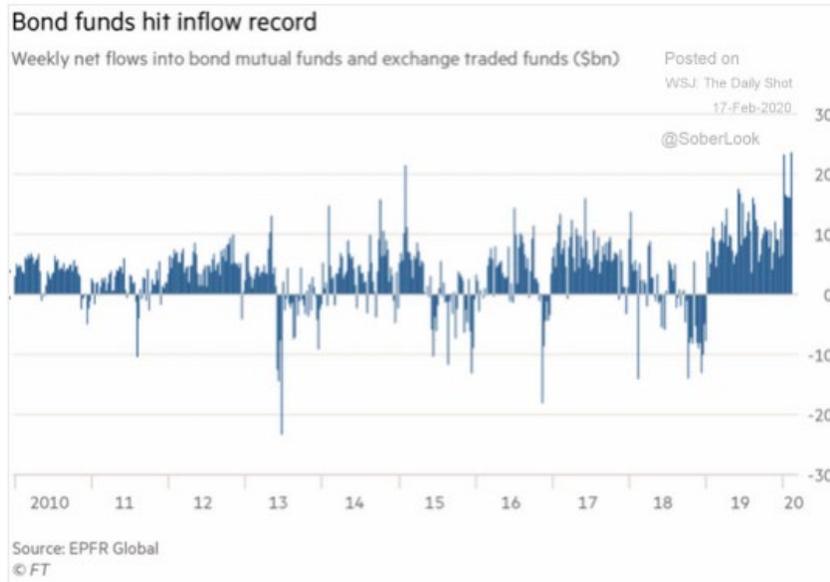


- Historical events like SARS in 2003, Eurozone debt crisis/U.S. Government debt downgrade in 2011, and additional examples shown below created short-term reductions in U.S. GDP, but ultimately were temporary and the S&P 500 Index generated positive returns in the following 12 months. These historical examples suggest that the coronavirus will likely reduce U.S. GDP growth in the short-term, but U.S. GDP will likely recover over the next three quarters similar to the table below

Event	US GDP Growth That Quarter	US GDP Growth in Following 3 Quarters (Avg.)	Market Pullback Around Event	Market Performance Over Next 6 Months	Market Performance Over Next 12 Months
SARS (Q1 2003)	2.2%	5.1%	-3.2%	18.8%	41.0%
Eurozone Debt Crisis, U.S. Gov't Debt Downgrade (Q3 2011)	-0.1%	3.2%	-16.5%	-4.5%	2.4%
Polar Vortex (Q1 2014)	-1.1%	4.3%	-4.9%	8.5%	13.7%
Oil Price Collapse (Q4 2015)	0.1%	2.0%	-11.0%	-1.7%	1.2%
Presidential Election (Q4 2016)	2.0%	2.6%	-1.6%*	0.138	24.2%
Manufacturing Slowdown, Fed Tightening (Q4 2018)	1.1%	2.4%	-19.2%	-0.5%	1.6%

Source: Facset, Edward Jones calculations. Total return of the S&P 500 Index. Past performance does not guarantee future results. S&P 500 futures premarket activity on November 9th, 2016

- A federal judge somewhat surprisingly gave a green light to T-Mobile and Sprint's proposed merger
- The Federal Trade Commission said it intends to probe a number of smaller acquisitions dating to 2010 consummated by technology titans Apple, **Amazon**, **Microsoft**, **Facebook** and Google parent **Alphabet**. Ex-post-facto antitrust review?
- The annual Mobile World Congress seems to be a victim of the coronavirus outbreak, with the event being completely canceled after numerous attendees ranging from AT&T to **Cisco Systems** backed out
- McClatchy filed for bankruptcy protection, but plans to continue publishing the *Miami Herald*, *Charlotte Observer*, *Sacramento Bee*, and *News & Observer*, among other newspapers
  - We were humored by the company's statement that "while this is a sad milestone after 163 years of family control, McClatchy remains a strong operating company and committed to essential local news and information." Typically speaking, it's been our experience that strong operating companies don't declare bankruptcy
- Newly public Casper Sleep continues to be less than firm, with its share price sinking into single-digit territory early in the week
- BofA Merrill Lynch's Michael Hartnet noted that there have now been 800 rate cuts worldwide since the financial crisis, and fixed income fund have been the big beneficiaries of this trend with a record \$23.6B of inflows this week, with inflows annualizing at nearly \$1T, according to Reuters

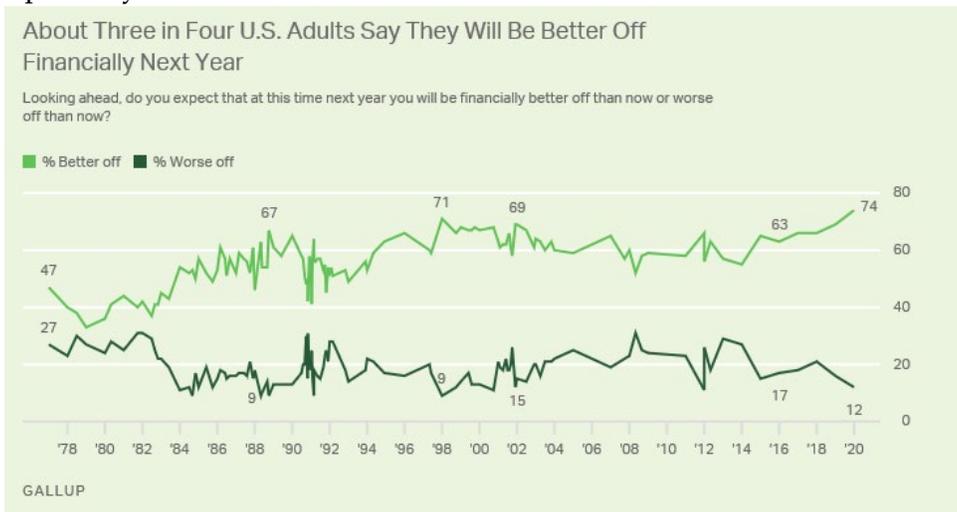


Source: WSJ, EPFR Global

- The FDIC announced the closure of the one-branch Ericson State Bank of Nebraska, the first such closure of 2020

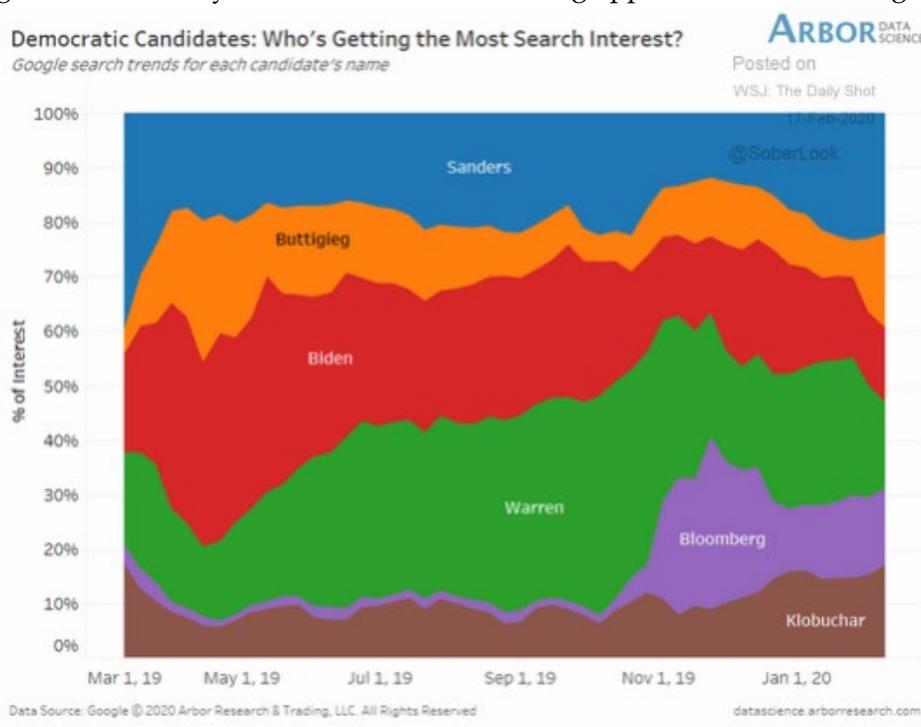
### U.S. Economic and Political News

- Retail Sales rose 0.3% in January, matching the Street forecast
- Industrial Production dipped -0.3% in January, a shade worse than the -0.2% consensus estimate, while Capacity Utilization of 76.8% exactly matched the Street expectation
- The University of Michigan's Consumer Sentiment index printed 100.9 in its preliminary February reading, above the 99.1 consensus estimate
- A record percentage of Americans are optimistic about their future financial condition, according to a recent Gallup survey



Source: Gallup

- Senator Bernie Sanders (D-Vt) narrowly edged past Mayor Pete Buttigieg to win the New Hampshire primary, with Senator Amy Klobuchar (D-Minn) finishing in third place
  - After weak showings in New Hampshire, several candidates “suspended” their campaigns or withdrew from the race (a difference without a distinction, in our view): Andrew Yang, former Governor Deval Patrick, and Senator Michael Bennet (D-Colo)
  - Google search activity for Sanders and Bloomberg appears to be increasing



Source: Arbor, WSJ, Google

**International Markets and News**

- European equities (STOXX Europe 600) rose 1.5% as reports of a slowing number of coronavirus cases were a tailwind earlier in the week. The corporate profit outlook has deteriorated as firms will deal with the delayed effects of the U.S.-China trade tensions and coronavirus impact
  - UK Prime Minister Johnson’s Cabinet reshuffle ended with the surprise resignation of the UK chancellor
  - In Germany, CDU leader Kramp-Karrenbauer stood down following the fallout from a recent state election in Thuringia
- The Chinese stock market (Shanghai Composite) rose +1.4% as President Xi Jinping promised an “all-out war” to defeat the coronavirus outbreak
  - China announced an additional 15,000 cases of COVID-19 due to a diagnostic reclassification, which brought the total number of cases to more than 60,000 and triggered a risk-off response in Asian and global equities Thursday, but global equities recovered relatively quickly



- Investors began to be concerned about global supply chain disruption due to the coronavirus as three South Korean auto manufacturers announced plant closures due to a shortage of key components from China
- Investors are concerned about Chinese small and mid-sized enterprises (SMEs) as a survey by Tsinghua and Beijing Universities found that 34% of Chinese SMEs could only survive for one month without any revenues
- Japanese equities (Nikkei 225 Index) declined -0.6% as most economists believe Japanese GDP contracted about 4% in Q4/2019 due to the October 1 consumption tax hike, the slowdown in global growth, and weather impact including typhoons
  - Prime Minister Abe is urging for 3% annual wage increases to boost consumption, but large companies prefer merit-based increases and have increased worker compensation by only 2% on average over the past six years, according to Bloomberg

#### **Commodities**

- Oil rose 3.5%
- Gold was up +0.8%



This Week:

- Global markets are lower, and U.S. futures are indicating about a half percent drop
- Apple is likely a proximate driver of equity market weakness, after saying the coronavirus and associated manufacturing shutdowns in China will cause it to miss its March quarter financial guidance
- Pier 1 announced it is declaring bankruptcy
- There are still plenty of quarterly earnings reports due this week, including, but not limited to: Transocean, Advance Auto Parts, Allegion, **Ecolab**, Leidos Holdings, **Medtronic**, TransUnion, Vulcan Materials, **Wabtec**, Walmart, Concho Resources, Devon Energy, DISH Network, Wingstop, Cheesecake Factory, Jack in the Box, Mosaic, WEC Energy Group, Dropbox, Hormel Foods, **ViacomCBS**, Colfax, Deere & Co.
- Abroad, the macro-economic calendar will see trade balance numbers in Japan
- U.S. Economic data:
  - Monday: U.S. markets closed for Washington's Birthday
  - Tuesday: Empire Manufacturing, NAHB Housing Market Index, TIC Flows
  - Wednesday: MBA Mortgage Purchase Applications, Building Permits, CPI (y/y), Housing Starts, PPI, FOMC Minutes
  - Thursday: Philadelphia Fed Index, Leading Indicators, Initial Claims, Philadelphia Fed Index, Leading Indicators
  - Friday: Retail sales (m/m), Flash Manufacturing PMI, Flash Services PMI, Existing Home Sales

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

Whitney Stewart, CFA®  
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