

January 2020

# Demarche Dashboard

A Flash Report on Markets and the Economy



Data and Commentary for Periods Ended 1/31/2020

## Global Overview

The global capital markets were off to a great start in 2020 until rising fear of a viral pandemic set off a flight to quality. High-quality U.S. bonds and gold were among the biggest benefactors from the increased risk in the month, as these assets are traditionally viewed as a safe-haven during times of distress.

## U.S. Markets & Economy

U.S. equity markets rallied through the first three weeks of January, but as the outbreak of a new coronavirus in China became more widely reported, all of the month's gains were erased in its final week. The U.S. signed two different trade deals during the month, including the first phase of a trade deal with China and the USMCA agreement, which replaced NAFTA. GDP growth figures came in for 2019 and the U.S. saw 2.3% year-over-year growth rate compared to 2.8% in 2018. The U.S. Bureau of Economic Analysis primarily attributed the deceleration of growth in 2019 to slowing non-residential fixed capital investments. The U.S. trade deficit fell for the first time in six years as exports declined due to weak global manufacturing activity, lessening demand for oil, and most importantly, the impacts from tariffs with China. Nearly half of the S&P 500 companies reported earnings during January, with early indications suggesting that earnings have largely beat expectations in Q4 2019. Growth stocks outpaced value stocks across the market capitalization spectrum, continuing the trend from 2019.

- The S&P 500 Index cooled after such a strong end to 2019, finishing flat in the first month of the new decade. Small cap stocks fared worse, however, as the Russell 2000 Index finished January down 3.2%. The energy sector was the biggest detractor in both indexes, with plummeting oil prices proving to be a major drag.
- Typical safe haven assets performed well as uncertainty in equity markets rose sharply. Both investment grade corporate bonds and Treasuries provided positive results in January. The Bloomberg Barclays Aggregate Index produced a robust 1.9% return while the lower-quality high yield bond index finished flat.

## International Markets & Economy

As previously noted, non-U.S. equity markets were severely impacted by the coronavirus outbreak in the month, leading to negative returns in both the MSCI EAFE Index and the MSCI Emerging Market Index. Over three and a half years after the first referendum was voted upon, the UK officially left the European Union on January 31<sup>st</sup>. A transition period will occur throughout 2020, where new free trade agreements will be negotiated by the UK. Growth in the Eurozone remains muted, however, there have been encouraging reports on manufacturing, particularly in Germany and Italy, indicating the two countries have bounced off of production lows. Japanese consumer goods companies saw a spike in demand related to home health products (see face masks), softening the blow of the equity-market sell-off in the month. China's GDP growth was 6.1% in 2019, the slowest rate since 1990. Trade issues weighed heavily on China's GDP during the latter half of the year. On top of all the headlines concerning coronavirus, and trade, and social unrest, a strengthening U.S. dollar and slowing GDP growth expectations further dragged EM equities lower in January. Emerging market debt, on the other hand, continued to perform well as monetary easing efforts being put in place by a number of central banks were a boon for EM Debt, as bond prices rise when sovereign yields fall.

- In January, the MSCI EAFE Index was down 2.1% and the MSCI Emerging Market Index was down 4.7%, as Asia-Pacific nations in particular were severely impacted by the month's sell-off. The UK, France, and Germany led the declines in the EAFE Index while Brazil, Thailand, and China led the declines in the EM Index.

## In the News

- The coronavirus was undoubtedly the biggest global news story in the month of January. The first case of the potentially-deadly respiratory virus was first reported in Wuhan, China in late-January. Markets sold off severely after the news, particularly within emerging market nations due to both proximity concerns and the interdependency of emerging nations' supply chains with China. U.S. markets were hit as well, especially the airline and travel/leisure industries. During prior pandemics such as SARS, the swine flu, and ebola, market volatility picked up, leading to negative equity returns throughout the duration that the virus was actively spreading. That being said, market impacts in these prior instances have historically been short-lived, as subsequent to these diseases being reigned in, broad market returns rebounded in the 12-months following containment. An important distinction with this pandemic, however, is the current significance of the Chinese economy on a global scale compared to the SARS outbreak of 2003 or the ebola outbreak in 2006. China has become one of the world's most important economies when measured by output, imports/exports, manufacturing, and many other metrics. A meaningful decline in the Chinese economy would certainly have an impact on the overall health of the global economy.
- At one point in January, there were four public U.S. corporations with market values over \$1 trillion: Microsoft, Apple, Alphabet (parent of Google), and Amazon. Microsoft and Apple have breached the \$1 trillion mark in years prior, while the price surge that tipped Alphabet and Amazon over the \$1 trillion mark related to their stellar fourth quarter earnings results, reported in January. The biggest U.S. company to end the previous decade was Exxon Mobile, with a market capitalization at the time of \$369 billion. The meteoric rise in valuations of these technology-based companies is unparalleled by historic standards and should serve as a reminder for the next 10 years that not only can current market value leaders be quickly usurped, but the leaders of the next decade are often unknown.

## Economic Indicators

	GDP			Unemployment Rate	Interest Rates <i>Sovereign Bonds, 10 Year</i>	Exchange Rates <i>per US \$</i>		Inflation <sup>2</sup> <i>(Most recently available)</i>
	Latest	2019 <sup>1</sup>	2020 <sup>1</sup>			Current	1 Year Ago	
<b>United States</b>	2.10	2.32	2.00	3.50	1.76	-	-	2.26
<b>China</b>	6.00	6.16	5.73	3.60	3.02	6.92	6.70	4.41
<b>Japan</b>	1.70	1.02	0.55	2.20	-0.03	108.50	108.84	0.49
<b>United Kingdom</b>	1.10	1.24	1.00	3.80	0.83	1.32	1.31	1.50
<b>Euro Area</b>	1.20	1.10	1.00	7.50	0.37	1.11	1.15	1.31
<b>Germany</b>	0.50	0.60	0.44	3.10	-0.30	1.11	1.15	1.06
<b>France</b>	1.40	1.31	1.20	8.40	0.04	1.11	1.15	1.45
<b>Italy</b>	0.30	0.19	0.42	9.70	1.27	1.11	1.15	0.36
<b>Canada</b>	1.70	1.52	1.62	5.60	1.60	1.32	1.31	2.93
<b>India</b>	4.50	5.76	6.20	7.60	5.40	71.28	70.71	8.61
<b>Mexico</b>	-0.30	0.17	1.24	3.10	7.14	18.89	19.05	2.83
<b>Brazil</b>	1.20	0.83	1.67	11.20	4.48	4.28	3.65	3.27

Sources: (Most recently available data) Standard and Poor's, FTSE/Russell, Morgan Stanley Capital International (MSCI), Bloomberg, Citigroup, St. Louis Federal Reserve, The Conference Board, The Wall Street Journal, OECD, The World Bank, and *The Economist*

1. Euro Area data forecasted by The World Bank, all other forecasted data from OECD

2. In terms of CPI All Items



**PARTNER**

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## Capital Markets Overview

	TRAILING			ANNUALIZED				
	1-Mo	3-Mo	YTD	1-Yr	3-Yr	5-Yr	10-Yr	
Broad Market	MSCI World NR USD	(0.61)	5.22	(0.61)	17.73	11.45	9.00	9.87
	BBgBarc US Agg Bond TR USD	1.92	1.80	1.92	9.64	4.62	3.01	3.79
	Russell 3000 TR USD	(0.11)	6.68	(0.11)	20.53	13.82	11.85	13.82
	DJ Industrial Average TR USD	(0.89)	5.11	(0.89)	15.79	15.15	13.21	13.69
	NASDAQ Composite PR USD	1.99	10.35	1.99	25.67	17.68	14.57	15.60
	MSCI EAFE NR USD	(2.09)	2.23	(2.09)	12.10	7.76	5.12	5.76
	FTSE Treasury Bill 3 Mon USD	0.13	0.43	0.13	2.18	1.68	1.07	0.57
	Bloomberg Commodity TR USD	(7.36)	(5.18)	(7.36)	(5.38)	(3.47)	(4.74)	(4.74)
Domestic Equities	S&P 500 TR USD	(0.04)	6.72	(0.04)	21.68	14.54	12.37	13.97
	S&P MidCap 400 TR	(2.61)	3.10	(2.61)	11.27	7.70	8.70	12.79
	S&P SmallCap 600 TR USD	(3.97)	1.93	(3.97)	6.57	7.05	9.45	13.28
	Russell 1000 TR USD	0.11	6.89	0.11	21.39	14.33	12.13	13.97
	Russell 1000 Growth TR USD	2.24	9.99	2.24	27.94	20.04	15.49	15.99
	Russell 1000 Value TR USD	(2.15)	3.65	(2.15)	14.88	8.63	8.70	11.87
	Russell Mid Cap TR USD	(0.80)	5.10	(0.80)	16.89	10.87	9.50	13.49
	Russell Mid Cap Growth TR USD	0.94	7.20	0.94	22.64	16.44	12.19	14.81
	Russell Mid Cap Value TR USD	(1.95)	3.73	(1.95)	12.96	6.80	7.50	12.50
	Russell 2000 TR USD	(3.21)	3.68	(3.21)	9.21	7.28	8.23	11.88
	Russell 2000 Growth TR USD	(1.10)	7.12	(1.10)	13.91	11.48	9.60	13.40
	Russell 2000 Value TR USD	(5.39)	0.21	(5.39)	4.38	3.10	6.71	10.28
	International Equities	MSCI ACWI Ex USA NR USD	(2.69)	2.42	(2.69)	9.94	7.62	4.96
MSCI EAFE NR USD		(2.09)	2.23	(2.09)	12.10	7.76	5.12	5.76
MSCI EAFE Growth NR USD		(0.57)	4.10	(0.57)	19.46	11.39	7.33	7.35
MSCI EAFE Value NR USD		(3.62)	0.30	(3.62)	4.87	4.16	2.84	4.09
MSCI Japan NR USD		(1.36)	1.26	(1.36)	11.20	7.11	6.91	6.24
MSCI AC Asia Ex Japan NR USD		(4.45)	2.16	(4.45)	5.22	8.86	5.06	6.21
MSCI Europe NR USD		(2.51)	2.81	(2.51)	13.20	8.10	4.52	5.54
MSCI United Kingdom NR USD		(3.79)	2.90	(3.79)	8.75	6.48	2.67	5.16
MSCI EAFE Small Cap NR USD		(2.90)	3.58	(2.90)	12.30	8.58	8.18	8.53
MSCI EM NR USD		(4.66)	2.31	(4.66)	3.81	7.88	4.48	3.78
Fixed Income	BBgBarc US Govt/Credit TR USD	2.38	2.09	2.38	11.02	5.07	3.18	4.05
	BBgBarc US Govt/Credit Interm TR USD	1.42	1.40	1.42	7.39	3.63	2.52	3.06
	BBgBarc US Govt/Credit Long TR USD	5.22	4.11	5.22	23.08	9.80	5.18	7.93
	ICE BofA US High Yield TR USD	0.00	2.37	0.00	9.39	5.85	5.99	7.34
	Credit Suisse HY USD	0.09	2.54	0.09	9.23	5.58	5.94	7.21
	S&P/LSTA Leveraged Loan TR	0.56	2.76	0.56	6.54	4.35	4.49	4.85
	FTSE WGBI NonUS USD	1.09	0.18	1.09	4.42	4.37	2.41	1.50
	BBgBarc Gbl Agg Ex USD TR	0.76	0.47	0.76	3.95	3.97	2.16	1.61
REITs	FTSE Nareit All REITs TR	1.40	0.81	1.40	16.56	10.73	7.57	13.16
	Wilshire US REIT TR USD	0.76	(1.38)	0.76	13.69	8.15	5.68	12.68

USD - US dollar priced index TR - Total Return PR - Price Return LCL - Local Currency Priced Index NR - Return includes reinvested net dividends

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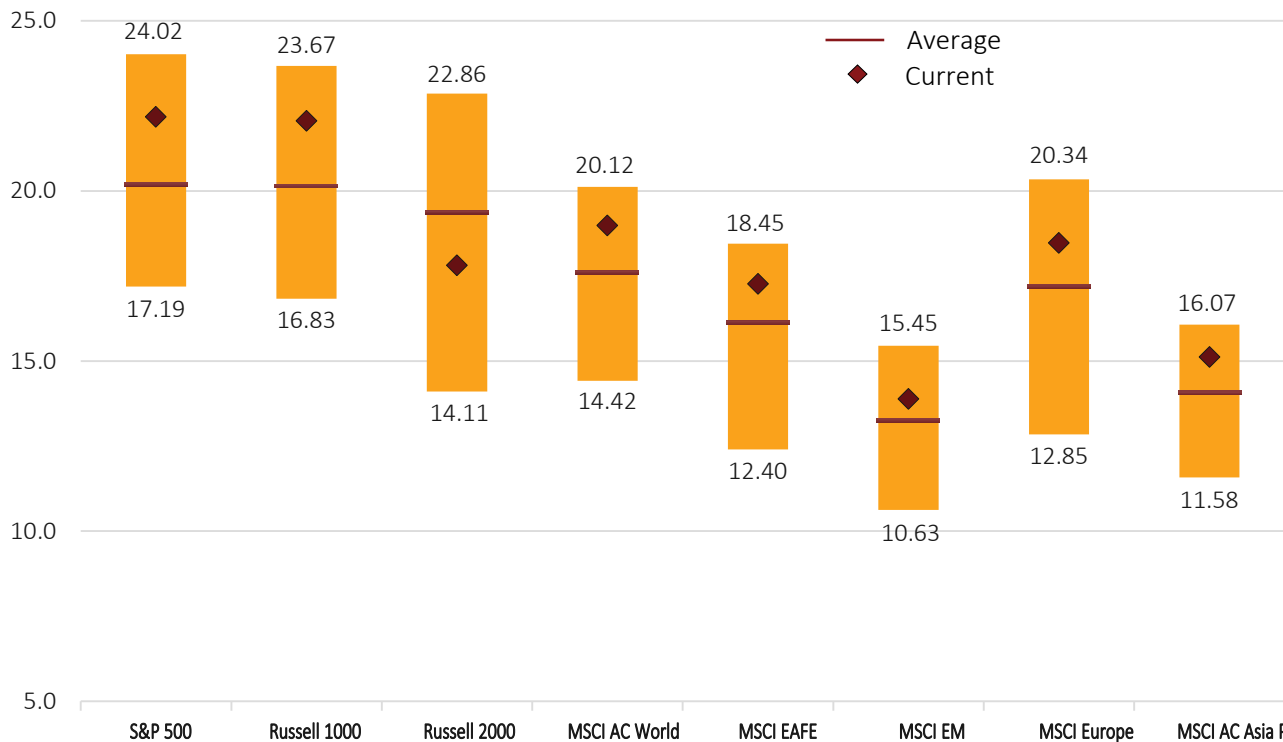
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## S&P 500 Price Level



Source: Standard & Poors

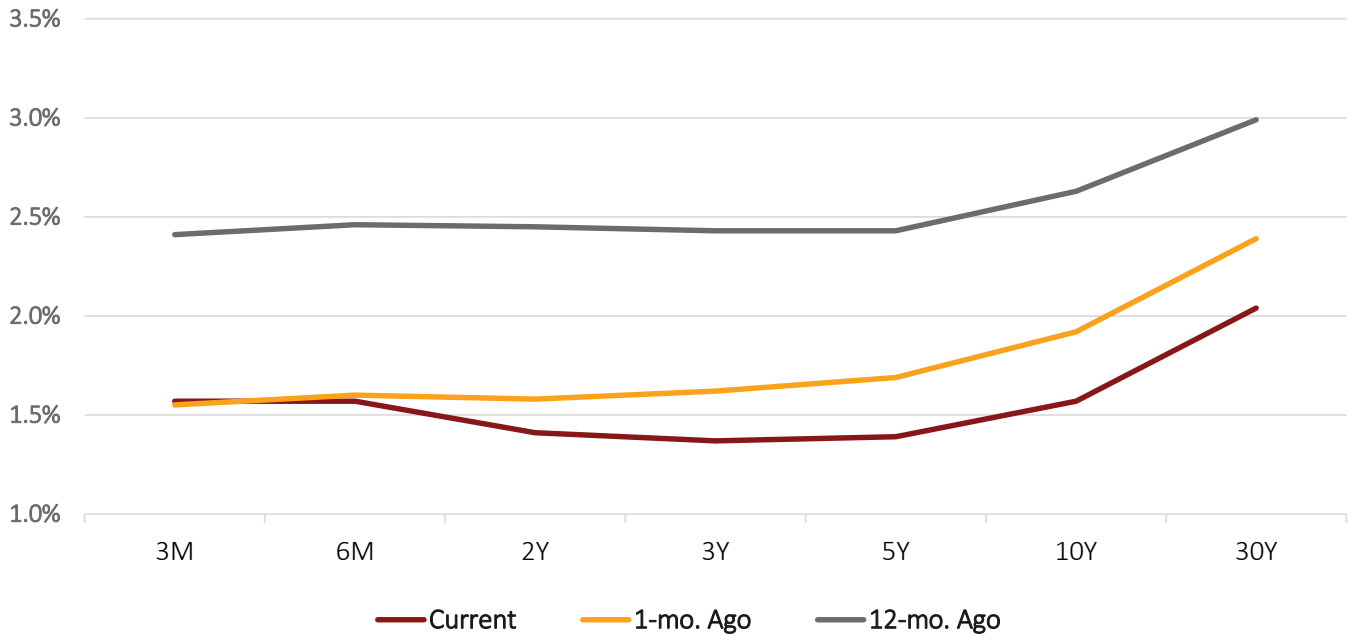
## Current P/E vs. Trailing 5-Year High, Low, Average



Source: Standard & Poors, FTSE/Russell, MSCI

## U.S. Treasury Yield Curves

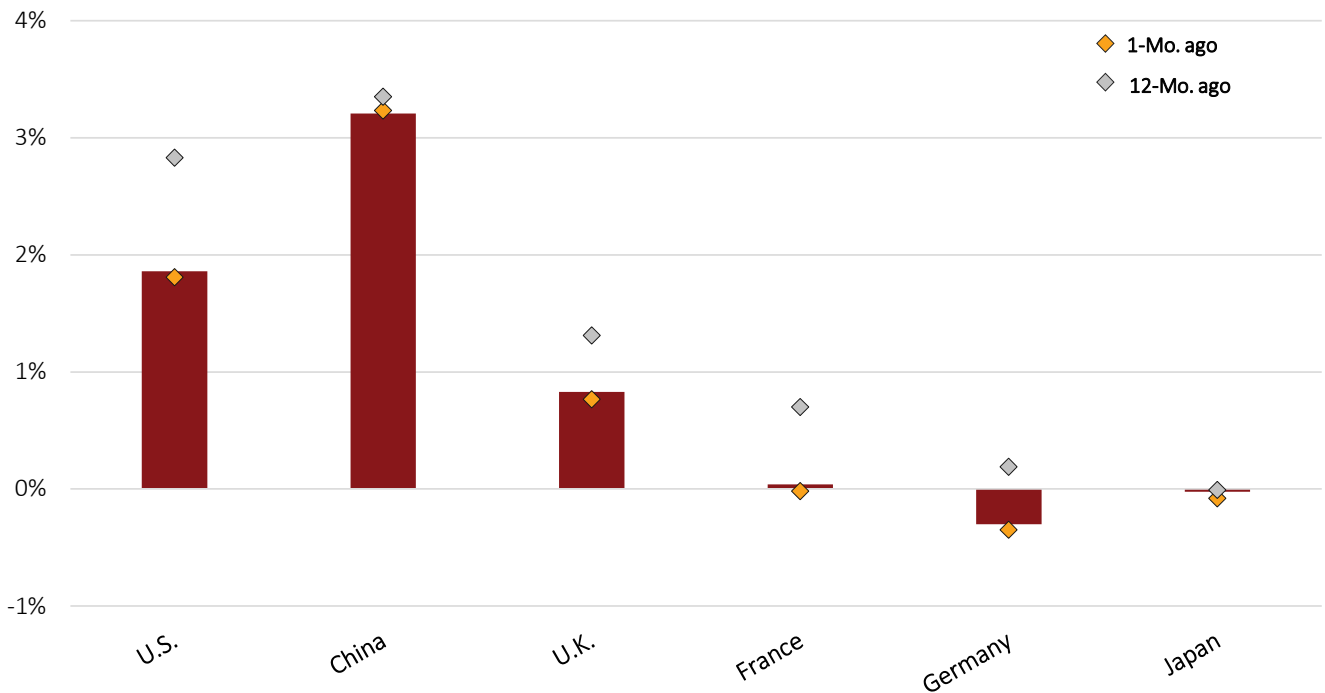
as of 1/31/2020



Source: Federal Reserve Bank of St. Louis

## 10-Year Sovereign Yields

as of 12/31/2019 (most recently available)



Source: Federal Reserve Bank of St. Louis, Wall Street Journal

# DeMarche Dashboard

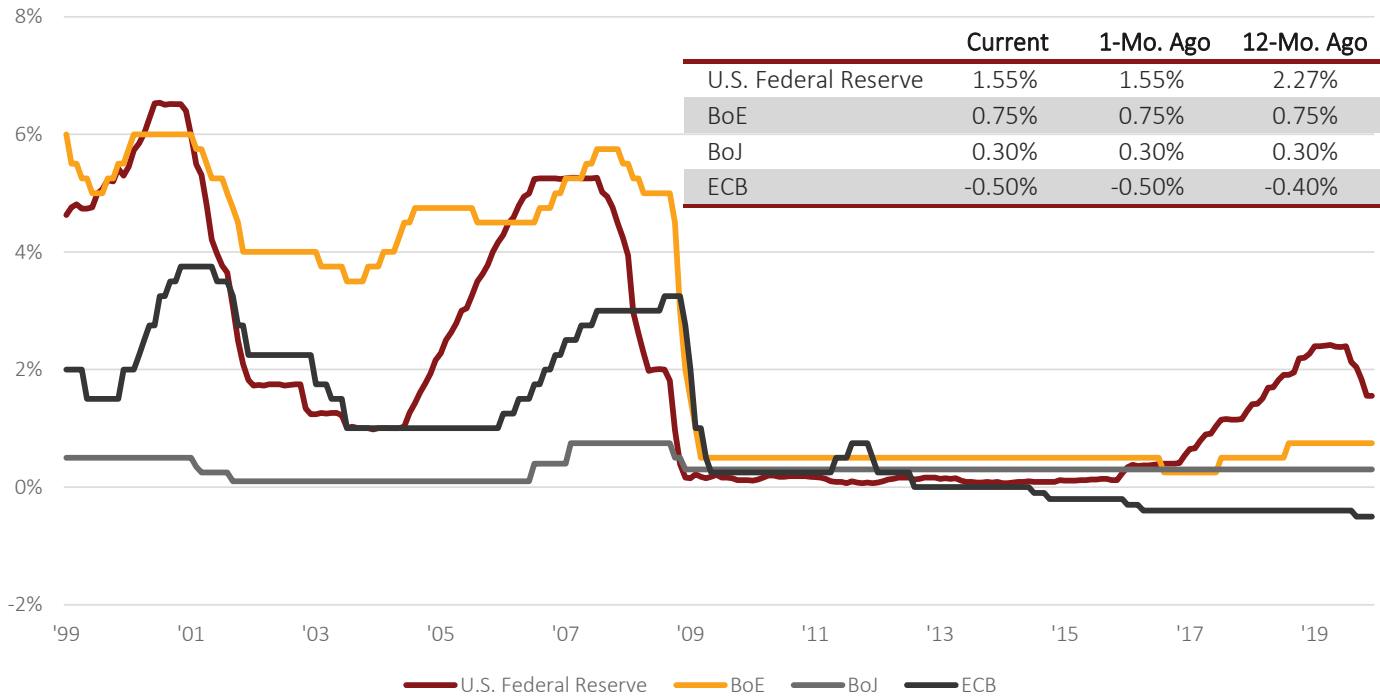
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## Central Bank Policy Rates

as of 12/31/2019 (most recently available )



Source: Federal Reserve Bank, Bank of England, European Central Bank

## Corporate Bond Average Spread (bps)

