WEEK IN REVIEW

January 24, 2020

The Bottom Line

- Global stocks slumped as China contended with a viral outbreak, the coronavirus, which worsened as the week progressed. Emerging markets were particularly hard hit, while bonds and safe-haven assets led.
- It was a very light week for economic reports. In the U.S., home sales and services activity remains robust while manufacturing activity remains sluggish. Overseas, welcome data showed that the pace of manufacturing contraction slowed in Japan, the U.K. and Europe.
- Overshadowed by the coronavirus, earnings releases this week were decent and guidance has held steady. 85 S&P 500 firms reported so far and 72% have beat estimates.

Stocks drop on coronavirus concerns

There are plenty of anecdotal examples of how the Wuhan, China-based coronavirus had a major impact on capital markets this week, but research firm Cornerstone Macro quantified it. Going back to the beginning of 2019, Cornerstone looked at all events that generated at least 750 Bloomberg news stories on a given trading day. There were only six episodes that triggered that amount of headlines: three were US-China trade war related; another was the Saudi oil bombing; then the Iran bombings; and now the coronavirus. The maximum intraday drawdown for the three trade war days ranged from -2.8% to -3.8%. The Saudi oil bombing saw a max intraday decline of -0.9% and the Iran bombing was merely -0.6%. On Friday the coronavirus-induced decline maxed out at -1.3% but stocks recovered a bit in the afternoon to finish the day down -0.9%. For the week U.S. stocks were down about -1.0%. Emerging markets, with heavy exposure to China, were the hardest hit group this week, losing about -3.5%. U.S. Treasuries advanced steadily as the market become more cautious heading into the weekend. The yield on the benchmark 10-yr Treasury, at 1.69%, is now at its lowest level since early November.

Digits & Did You Knows

SUPER GAME: Super Bowl #54 will be held in Miami on 2/02/20. No team in NFL history has ever played in the Super Bowl on their home field. Next year's game (2021) will be played in Tampa, FL (source: NFL). (source: BTN Research).

CHANGE IN THE LAW: The newly passed SECURE Act allows Americans to withdraw money from a pre-tax 401(k) or IRA without paying a 10% penalty for an "early withdrawal" if the funds are used to cover costs related to childbirth or adoption. The withdrawal would be subject to ordinary income tax. Please consult a tax expert for details (source: SECURE Act, BTN Research).

Market Snapshot	Index Level	1-week Price Return	2020 Price Return
EQUITIES			
S&P 500	3,295.47	-1.03%	+2.00%
Nasdaq Composite	9,314.91	-0.79%	+3.82%
Russell 2000	1,662.23	-2.20%	-0.37%
Nikkei-225 (Japan)	23,827.18	-0.89%	+0.72%
STOXX Europe 600	423.64	-0.22%	+1.88%
RATES			
2-Year UST Note	1.50	-6 bps	-7 bps
10-Year UST Note	1.69	-13 bps	-23 bps

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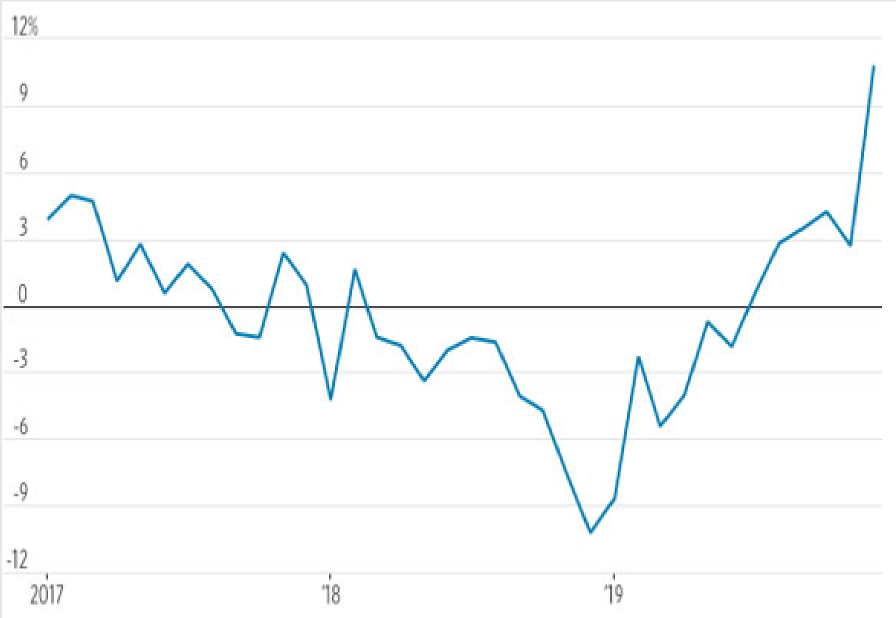
Chart of the Week

U.S. home sales hit their 2019 high mark in December, indicating that advantageous mortgage rates and low unemployment are starting to entice more house hunters back into the market. After a nearly two year downtrend, 2019 brought a pickup in activity that brought total sales of previously owned homes to 5.34 million for the year. That is giving the housing market fresh momentum going into 2020, especially with the economy continuing to grow and borrowing rates remaining attractive. But there's a catch… there aren't enough homes on the market. The inventory of existing homes for sale last month fell to the lowest level on record for data back to 1982. The low inventory may present a challenge for homebuyers, particularly for first-time home buyers, if demand weighs on prices. (Source: The Wall Street Journal)

U.S. home sales hit a high mark in December

U.S. existing-home sales, year-over-year change (seasonally adjusted)



Source: National Association of Realtors, The Wall Street Journal

Economic rundown

- The Conference Board's **Leading Economic Index (LEI)** fell in December and has been down in 4 of the past 5 months, suggesting weaker economic growth in 1H 2020.
- The **Chicago Fed National Activity Index (CFNAI)** fell in December and has been negative in three of the past four months. The results are consistent with slower-than-trend growth and lack of inflationary pressures from economic activity. Three of the four categories decreased at yearend, led by weaker industrial production.
- The **Architecture Billings Index** rose in December to 52.5, its best level since Jan. 2019, indicating a recovery in nonresidential construction spending in the 2H 2020.
- The flash Markit U.S. Services PMI (Purchase Managers Index) picked up in January but the Manufacturing PMI declined. Services have now improved three months straight and confirms the strength of the U.S. consumer. In addition, business optimism is at the best levels since July. On the other hand, the manufacturing PMI hit a three month low, and is below the long-term trend.
- **K.C. Fed manufacturing activity** stabilized in January.
- As mentioned in the Chart of the Week above, **U.S. Existing-Home Sales** wrapped up 2019 on solid note, as home sales rose 3.6% in Dec., the most in 10 months.

The Week Ahead

Monday	• New Home Sales • Dallas Fed Manufacturing Index
Tuesday	• Durable Goods Orders • S&P CoreLogic CS Home Price Index • Conf Board Consumer Confidence • Richmond Fed Manufacturing Index
Wednesday	• MBA Mortgage Applications • Wholesale Inventories • Pending Home Sales • FOMC Rate Decision
Thursday	• Jobless Claims • Gross Domestic Product (GDP) • Personal Consumption
Friday	• Personal Income & Spending • U. of Michigan Consumer Sentiment

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Asset Class Performance

WEEK IN REVIEW

The Importance of Diversification. From period to period there is no certainty what investment will be the best performer… or the worst. Diversification mitigates the risk of relying on any single investment and offers a host of long-term benefits, such as lowering portfolio volatility, improving risk-adjusted returns, and helping investments to compound more effectively.

High

Monday	Tuesday	Wednesday	Thursday	Friday	WEEK
	Real Estate 1.02	Emg Markets 0.82	Real Estate 0.60	U.S. Bonds 0.18	Real Estate 0.81
	Intl Bonds 0.39	Mid Growth 0.21	Mid Value 0.30	Intl Bonds -0.06	U.S. Bonds 0.65
	U.S. Bonds 0.28	Intl Equity 0.20	Mid Growth 0.19	Real Estate -0.23	Intl Bonds -0.15
	Large Growth -0.05	High Yield Bond 0.18	Large Growth 0.17	High Yield Bond -0.42	Mid Growth -0.62
	Mid Growth -0.15	Small Growth 0.12	U.S. Bonds 0.13	60/40 Allocation -0.43	60/40 Allocation -0.70
	High Yield Bond -0.22	60/40 Allocation 0.11	Small Value 0.07	Intl Equity -0.43	Large Growth -0.72
	60/40 Allocation -0.31	Intl Bonds 0.09	Large Value 0.04	Emg Markets -0.80	High Yield Bond -0.76
	Mid Value -0.40	Large Growth 0.07	Small Growth -0.02	Mid Growth -0.87	Large Value -1.24
	Large Value -0.42	U.S. Bonds 0.05	60/40 Allocation -0.06	Large Value -0.89	Intl Equity -1.26
	Small Growth -0.70	Large Value 0.04	Intl Equity -0.24	Large Growth -0.90	Mid Value -1.37
	Intl Equity -0.80	Small Value -0.20	High Yield Bond -0.31	Mid Value -1.05	Small Growth -1.94
	Small Value -0.92	Mid Value -0.22	Intl Bonds -0.56	Small Value -1.35	Small Value -2.38
	Emg Markets -2.53	Real Estate -0.57	Emg Markets -1.03	Small Growth -1.35	Emg Markets -3.53

Low

Source: Bloomberg. Asset-class performance is presented by using market returns from an exchange-traded fund (ETF) proxy that best represents its respective broad asset class. Returns shown are net of fund fees for and do not necessarily represent performance of specific mutual funds and/or exchange-traded funds recommended by the Prime Capital Investment Advisors. The performance of those funds may be substantially different than the performance of the broad asset classes and to proxy ETFs represented here. U.S. Bonds (iShares Core U.S. Aggregate Bond ETF); High-Yield Bond (iShares iBoxx $ High Yield Corporate Bond ETF); Intl Bonds (SPDR® Bloomberg Barclays International Corporate Bond ETF); Large Growth (iShares Russell 1000 Growth ETF); Large Value (iShares Russell 1000 Value ETF); Mid Growth (iShares Russell Mid-Cap Growth ETF); Mid Value (iShares Russell Mid-Cap Value ETF); Small Growth (iShares Russell 2000 Growth ETF); Small Value (iShares Russell 2000 Value ETF); Intl Equity (iShares MSCI EAFE ETF); Emg Markets (iShares MSCI Emerging Markets ETF); and Real Estate (iShares U.S. Real Estate ETF). The return displayed as "Allocation" is a weighted average of the ETF proxies shown as represented by: 30% U.S. Bonds, 5% International Bonds, 5% High Yield Bonds, 10% Large Growth, 10% Large Value, 4% Mid Growth, 4% Mid Value, 2% Small Growth, 2% Small Value, 18% International Stock, 7% Emerging Markets, 3% Real Estate.

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