WEEK IN REVIEW

February 28, 2020

The Bottom Line

- There is an old Wall Street maxim that says “Markets takes the stairs up and the elevator down.” Rarely has this been more true. In just 6 days, stocks experienced the fastest 10% correction from all-time highs on record.
- The flight to safety was very pronounced and resulted in government bond yields hitting their lowest levels in history. The U.S. 10-year Treasury yield ended at 1.17%.
- Quick and volatile market episodes like this week reinforce the benefits of diversification and why it is important for investors to not put too many of their “risk” eggs in a single basket.

Coronavirus fears hit stocks

Mounting investor anxiety about the economic fallout from the coronavirus epidemic resulted in stocks having their worst week since the financial crisis. The S&P 500 Index fell -11.5%. The losses were broad based with all 11 sectors falling into correction territory (down more than -10%) and are now negative for the year. In fact, only a single stock in the S&P 500 was positive for the week. Investors flocked to defensive asset classes like bonds, sending yields of government bonds to their lowest levels in history. It was only last week that stocks were setting all-time highs, but investors quickly lost their appetite for risk assets as uncertainty grew about how deep and long the impact of the coronavirus might be. The feeling that it may be a contained, transitory impact lasting just weeks, maybe months, is suddenly being reconsidered as the outbreak grew outside of China, which currently represents about 97% of global fatalities and 94% of confirmed cases worldwide. As the week progressed, the World Health Organization raised its global risk level for the virus, investment banks downgraded their global outlooks, and money markets are now pricing in three Federal Reserve interest-rate cuts this year. Of course the outbreak has also led to lower earnings expectations as companies lowered, and in some cases, withdrew, forward guidance.

Digits & Did You Knows

SMALLER HOUSEHOLD SIZE: There were 2.52 people on average living in every American household in 2019, the lowest average household size in US history. There were 3.33 people on average per household in 1960 (source: Census Bureau, BTN Research).

WE'RE #2: 2019 had the second largest ETF inflows in history. ETFs collected over $333.2 billion in 2019, the second largest yearly net inflows ever, trailing only 2017’s net inflows of $476.1 billion. As of December 31, 2019 there were 2,349 total ETFs, 255 new launches and 145 closures in 2019 (ETF.com, FactSet, Charles Schwab).

Market Snapshot	Index Level	1-week Price Return	2020 Price Return
EQUITIES			
S&P 500	2,954.22	**-11.49%**	**-8.56%**
Nasdaq Composite	8,567.37	**-10.54%**	**-4.52%**
Russell 2000	1,476.43	**-12.04%**	**-11.51%**
Nikkei-225 (Japan)	21,142.96	**-9.59%**	**-10.63%**
STOXX Europe 600	375.65	**-12.25%**	**-9.66%**
RATES			
2-Year UST Note	0.93	-42 bps	-64 bps
10-Year UST Note	1.17	-30 bps	-75 bps

QUALIFIED PLAN ADVISORS

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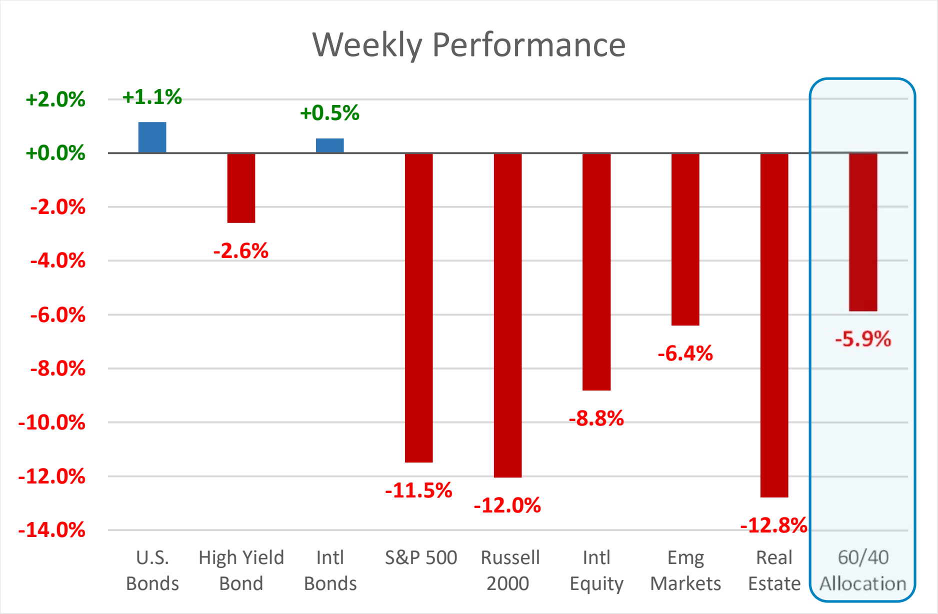
Chart of the Week

Each week this publication concludes with the *Asset Class Performance* "periodic table" on page 3. And each week the message "The Importance of Diversification…" is included with it. Like the benefits of diversification itself, it is likely an overlooked paragraph for many readers. But periods like this past week are precisely why this message is constantly promoted. Markets demonstrated this week, that when risk happens, it can happen fast. It is easy for investors to get impatient when single asset classes sustain material outperformance like equities had done for much of the last year. It's even more difficult when they are regularly setting record highs. But this week was a reminder of the importance of not putting too many of one's "risk" eggs in one basket.

The Power of Portfolio Consistency

A Reminder of the Benefits of Diversification



Source: Bloomberg.

Economic rundown

- The **Chicago Fed National Activity Index (CFNAI)** ticked up, with all four categories increasing for the month. The **Texas Manufacturing General Business Activity Index** also rose. Together they join the Philly and NY regional advances from last week and suggests improved U.S. factory activity. But the Richmond Fed Manufacturing Activity Index fell, though services activity strengthened.
- The **Conference Board Consumer Confidence Index** rose and is now near its highest level since March 2000**.** This level of confidence, and the year-over-year trend, have historically indicated above-trend economic growth.
- Housing remains strong: **The S&P CoreLogic CS Home Price Index** increased 0.5%; the **FHFA Purchase-Only House Price Index** also rose; **New Home Sales** advanced in January; and **Mortgage Applications** rebounded.
- Q4-2019 **Real GDP** growth was in-line with expectation, remaining unchanged at a 2.1%. However CAPEX, was revised down to -2.3% from the initial estimate of -1.5%. It was the third straight drop in CAPEX.
- **Durable Goods Orders** stabilized in Jan. beating forecasts.
- **Personal Income** shot up the most in over a year and **Personal Consumption Expenditures (PCE)** edged up.
- The **Reuters/U. of Michigan Consumer Sentiment Index** rose for the 6th month despite coronavirus fears, but the survey ended Feb. 25, before the steep market selloff.

The Week Ahead

Monday	• Markit US Manufacturing PMI • ISM Manufacturing PMI • Construction Spending
Wednesday	• MBA Mortgage Applications • ADP Employment Change • Markit US Services PMI • ISM Non-Manufacturing Index
Thursday	• Jobless Claims • Factory Orders • Durable Goods Orders • Challenger Job Cuts • Nonfarm Productivity
Friday	• Employment Report • Trade Balance

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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.

	Monday	Tuesday	Wednesday	Thursday	Friday	WEEK	
High	U.S. Bonds 0.32	Intl Bonds 0.39	Emg Markets 0.80	Intl Bonds 0.31	U.S. Bonds 0.74	U.S. Bonds 1.15	High
	Intl Bonds -0.39	U.S. Bonds 0.17	Intl Equity 0.12	U.S. Bonds 0.02	High Yield Bond 0.41	Intl Bonds 0.54	
	High Yield Bond -1.08	High Yield Bond -0.70	High Yield Bond 0.10	High Yield Bond -1.35	Intl Bonds 0.13	High Yield Bond -2.59	
	Real Estate -1.34	Emg Markets -0.79	Intl Bonds 0.09	60/40 Allocation -2.24	Large Growth 0.07	60/40 Allocation -5.88	
	60/40 Allocation -2.00	60/40 Allocation -1.41	Large Growth 0.01	Emg Markets -2.40	60/40 Allocation -0.24	Emg Markets -6.40	
	Mid Value -2.78	Intl Equity -1.65	U.S. Bonds -0.10	Intl Equity -2.96	Emg Markets -0.37	Intl Equity -8.82	
	Large Value -2.90	Real Estate -2.68	60/40 Allocation -0.23	Small Growth -3.44	Mid Growth -0.39	Mid Growth -10.52	
	Small Value -2.96	Large Growth -2.99	Mid Growth -0.72	Mid Growth -3.59	Intl Equity -0.61	Large Growth -10.70	
	Mid Growth -3.02	Large Value -3.12	Small Growth -0.87	Small Value -3.71	Small Growth -0.94	Small Growth -11.32	
	Small Growth -3.08	Mid Growth -3.23	Real Estate -1.05	Mid Value -4.21	Large Value -1.17	Large Value -11.93	
	Large Growth -3.62	Small Value -3.37	Large Value -1.07	Large Value -4.23	Small Value -1.51	Small Value -12.41	
	Emg Markets -3.74	Mid Value -3.46	Mid Value -1.43	Large Growth -4.57	Mid Value -1.56	Mid Value -12.76	
Low	Intl Equity -4.00	Small Growth -3.51	Small Value -1.50	Real Estate -5.24	Real Estate -3.13	Real Estate -12.78	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.