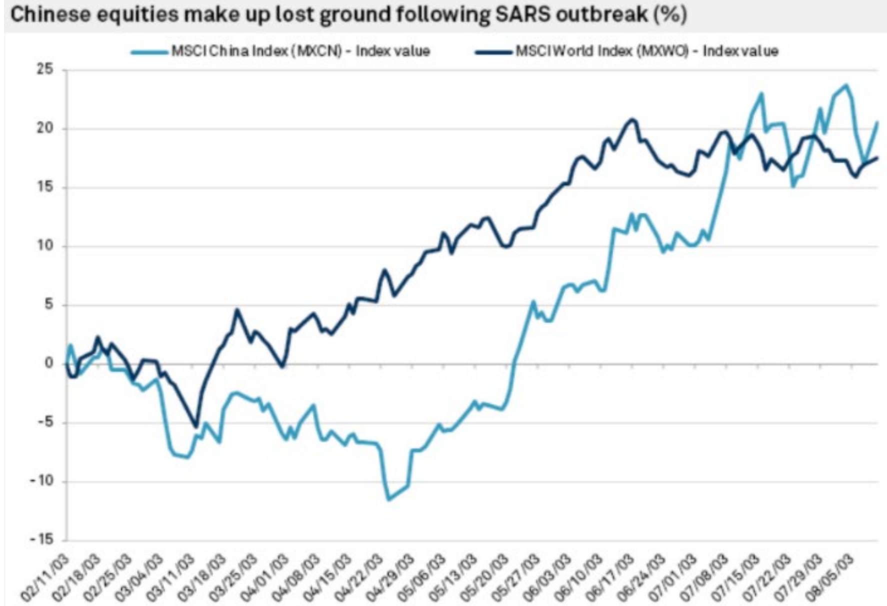
Coronavirus Fears Hit Market

Stocks began the week with a 300+ point rally for the Dow index, rebounding from last weeks 2.5% decline, which was triggered by worries about the spread of the coronavirus in China and beyond. For the year so far, the major indexes are now mostly flat with Treasury yields slipping under 1.80%, from 1.92% at the turn of the year and pushing up bond substitutes such as utility stocks. Utilities Select Sector SPDR (XLU) is up more than 7%. Last week the Federal Reserve indicated it would not raise interest rates or stop its bond buying activity for now. Corporate earnings reports for Q4 2019 which are about halfway done were lackluster, but some signs of life that are emerging indicate a much stronger 2020.

Coronavirus: Correction or Buying Opportunity?

The spread of the coronavirus has already had a tragic human impact, however, the global economic fallout is difficult to measure. One precedent for comparison is the SARS outbreak of 2003. As the chart below shows the market impact of the spread of SARS was relatively small and short-lived. It is also true, however, that the Chinese economy is much larger and more interconnected with the world than it was in 2003. Some U.S. companies including American Airlines, Apple and Starbucks are already feeling the impact from the epidemic. To keep things in perspective, however, an analysis from Barron's noted that it would take a loss of $22 billion in economic activity to move U.S. GDP by just 0.1%. Since the U.S. companies' economic activity slowed by the outbreak is still somewhat limited, the bigger impact on the market is likely to be driven by sentiment rather than underlying economic numbers. Some investors have already identified bargains in high quality oil producers, retailers and travel companies where market fear may be overdone. Of course, it is difficult to say yet whether we have seen the bottom of the sell-off.

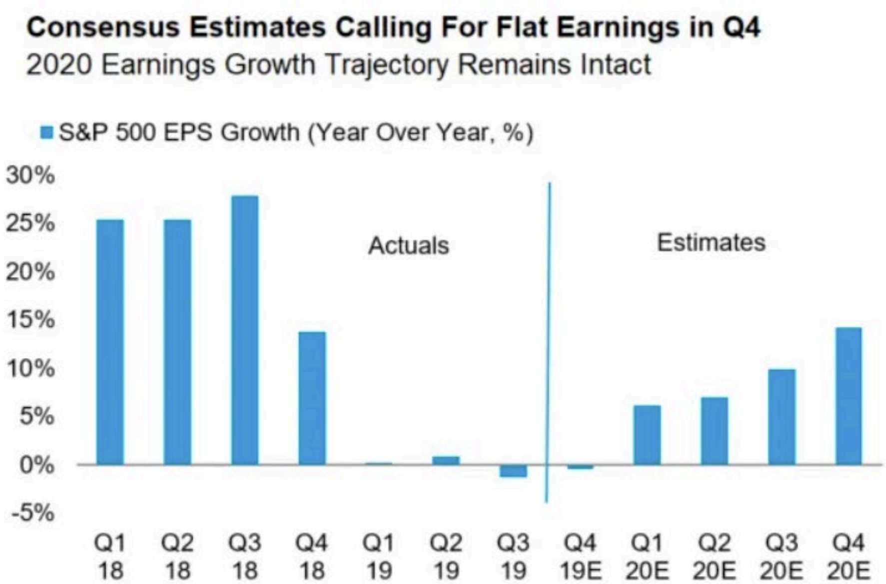
Chinese equities make up lost ground following SARS outbreak (%)



Data as of Jan. 22, 2020.
Source: S&P Global Market Intelligence

Earnings Not As Bad as They Look

Most analysts were expecting Q4 reporting season, now about halfway over, to round out a flat year of earnings with a slight decline from the previous year's Q4. So far about two thirds of companies beat estimates, though with low expectations this may not be the best measure. A better sign is that slightly more than half of companies' stocks have popped after reporting. The lackluster numbers were largely due to challenges in the energy sector and a few very large tech stocks such as Facebook that disappointed. Troubled airline company Boeing also weighed down overall numbers. When you take out these big outliers, though, the median company is expected to increase earnings by 4% in Q4, which is not too shabby. Also, as the chart below indicates, the flat year in 2019 has set the stage for an expected rebound in 2020.



Source: LPL Research, FactSet, as of 1/14/20

The economic forecasts may not develop as predicted.

The modern design of the S&P 500 Index was first launched in 1957. Performance before then incorporates the performances of its predecessor index, the S&P 90.

What We're Reading

- ✓ **Everything you need to know about Recessions.** Over the last 65 years, the U.S. has been in an official recession for less than 15% of all months. In addition, the overall economic impact of most recessions is relatively small. The average expansion increased GDP by 24%, whereas the average recession decreased GDP by less than 2%.… (Article)

- ✓ **The Biggest ESG Funds are Beating the Market.** Ethically conscious funds were once thought to be pie-in-the-sky strategies. Now evidence is growing that they can outperform. Nine of the biggest ESG mutual funds in the U.S. outperformed the Standard & Poor's 500 Index last year, and seven of them beat their market benchmarks over the past five years. … (Article)

Market Snapshot

As of 2/3/2020 (Cumulative Returns)[1]

United States Markets	Close	Week	YTD	1-Year
S&P 500	3,249	0.19%↑	0.69%↑	22.44%↑
Dow Jones Industrial Average	28,400	-0.47%↓	-0.38%↓	16.08%↑
The NASDAQ Composite	9,273	-1.76%↓	1.99%↑	25.67%↑

Foreign Markets		Week	YTD	1-Year
Global Stocks		-0.64%↓	-0.86%↓	14.03%↑
Developed Markets		-1.03%↓	-2.45%↓	11.75%↑
Emerging Markets		-3.87%↓	-3.87%↓	0.96%↑

Fixed Income		Week	YTD	1-Year
Corporate Bonds		0.38%↑	1.95%↑	9.95%↑
Muncipal Bonds		0.17%↑	1.83%↑	8.71%↑
High Yield Bonds		0.37%↑	0.09%↑	9.35%↑

Market Indicators	Rate	As of Date	Market Indicators	Value	As of Date
10 Year Treasury	1.54%	2.3.20	WTI Crude Oil	$50.11	2.3.20
Fed Funds Target	1.75%	2.3.20	Gold - Spot Price	$1,574.90	2.3.20
Inflation Rate	2.3%	1.14.20	U.S. Dollar	$97.94	2.3.20
Unemployment Rate	3.5%	2.3.20			

Did You Know?

What does the Chief's Super Bowl win mean for the market? Since the 1970s there was a theory that when the winner was from an original NFL team (like the 49ers) the market would rise, but when the winner was a team originally in the AFL (like the Chiefs) the market would fall. This hasn't panned out in recent years, in fact the opposite has been true. But the theory provides an interesting case study on superstitious investing, something all investors are prone to.… (Article)

Presented by the Investment Committee of Lake Street Financial, LLC; an SEC Registered Investment Adviser

1. *Source – Morningstar, Inc. Global Stocks is represented by MSCI ACWI Index, Developed Markets is represented by MSCI EAFE Index, and Emerging Markets is represented by MSCI EM Index. Corporate Bonds is presented as the Bloomberg-Barclays U.S. Aggregate Bond Market Index. Municipal Bonds is presented as the Bloomberg-Barclays Municipal Bond Market. High Yield Bonds is presented as the Bank of America-Merrill Lynch U.S. High Yield Index. 10 Year Treasury refers to the valuation of a 10 Year Treasury Note, a debt obligation issued by the U.S. Department of the Treasury. Fed Funds Target represents upper limit of the federal funds target range established by the Federal Open Market Committee. Inflation Rate provided for the purposes of this report by the U.S. Bureau of Labor Statistics. Unemployment Rate calculated by the U.S. Bureau of Labor Statistics. WTI Crude Oil refers to the price of a barrel of West Texas Intermediate (NYMEX) Crude Oil. Gold – Spot Price relates to the valuation of an ounce of gold, as traded on the NYSE Arca Exchange. U.S. Dollar refers to the U.S. Dollar Index (DXY). All Returns are denominated in USD (United States Dollar), unless otherwise explicitly noted.*