Parkside Financial
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Monthly Market Update - January 2020

Global Economy

Following the robust returns of 2019, there has been much speculation as to what may precipitate heightened volatility in financial markets. Would it be the US impeachment process, a slowdown in global growth, earnings disappointments, conflict in Iran, or renewed tariff escalation with key trading partners? The first half of January was relatively calm, with US tech stocks leading the way as global equity markets maintained an upward trend. That said, the "unknown unknown" that arrived in the form of the coronavirus outbreak in China led to a volatile back half of the month. Fear and uncertainty stem from a likely slowdown in China as it works to contain the spreading of the virus from Wuhan, the city of its origin. Investor concern resulted in a "flight to quality" that saw the US dollar strengthen while government bonds yields retreated once again.

The Federal Open Market Committee (FOMC) met in January, leaving rates at 1.50% – 1.75%. Comments by Chairman Powell suggest the FOMC may focus on more globally-oriented metrics in determining the path of future interest rates. While the futures market is now pricing in nearly two rate cuts by year-end, with the FOMC presumably acting to offset a pandemic-related slowdown in growth, the relative strength of the US economy argues against any near-term response.

The advance estimate of 4Q-19 real GDP reported an annualized rate of 2.1%, the same rate as the third quarter. Personal consumption continued to be a driver, with contributions also coming from government spending and net exports. Private inventory investment and nonresidential investment were again detractors. The Atlanta Fed's GDPNow estimate is projecting more robust 2.7% growth for 1Q-20, even as the analyst consensus estimate suggests roughly 1.5%.

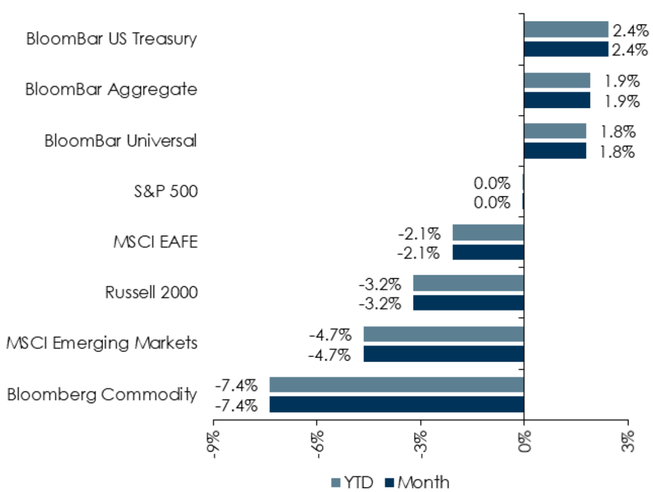
225,000 new jobs were added in January, above expectations, with minor revisions to prior months. The unemployment rate inched up to 3.6%, due in part to an increase in labor force participation. Average hourly wage gains remained moderate, advancing at a year-over-year pace of 3.1%. The Core CPI index remained at 2.3% year-over-year, while the FOMC's preferred measure, the Core PCE index, continued to be anchored at 1.6% year-over-year through December.

	Current	Dec-19
US GDP (%)	2.10	2.10
US Unemployment (%)	3.60	3.50
CPI (Core) (%)	2.30	2.30
Fed Funds (%)	1.50 – 1.75	1.50 – 1.75
10 Year UST Yld (%)	1.51	1.92
S&P 500 Div Yld (%)	1.83	1.82
S&P 500 P/E (Trailing)	21.43	21.60
Gold/oz.	$1,582.90	$1,523.10
Oil (Crude)	$51.56	$61.06
Gasoline (Natl Avg)	$2.60	$2.66
USD/Euro	$1.11	$1.12
USD/GBP	$1.32	$1.33
Yen/USD	¥108.35	¥108.61

Source: Bloomberg

Global Markets

Key Market Indices



Source: Bloomberg

Returns for nearly all major sectors and indexes were negative to start 2020. The S&P 500, which represents large US-based entities, was a relative outperformer despite being essentially flat for the month. Among the benchmark's economic sectors, Utilities (+6.6%), IT (+3.9%) and Real Estate (+1.4%) were the outliers in positive territory, while Energy (-11.2%), Materials (-6.2%), Health Care (-2.9%), and Financials (-2.8%) were notable laggards. Small cap stocks, as represented by the Russell 2000, were down in January (-3.2%), with Utilities (+2.8%) being the only major sector to finish in positive territory. Across the market capitalization spectrum, Growth continued to outpace Value.

In the broad international developed markets, the MSCI EAFE index was down at -2.1%, with returns challenged for US-based investors by increasing strength in the US dollar. Declines were broad based with most countries/regions experiencing declines. Among the major sectors, Utilities (+4.6%) and Health Care (+1.2%) were pockets of strength, with Energy (-8.2%), Materials (-5.2%) and Consumer Discretionary (-4.3%) the worst performers to start the year.

Emerging market stocks, as represented by the MSCI Emerging Markets index, were down most significantly at -4.7% for the month. The medical crisis in China was a notable factor given local market impacts, indirect effects on other areas, and its contribution to risk-off investor sentiment. Chinese equities represent nearly 35% of the benchmark, and were down -4.8% for the month (minimized to an extent by market closures). Across the major sectors, Real Estate (-10.9%) and Energy (-8.4%) were meaningful underperformers, with no category achieving positive returns.

Real estate, as measured by the FTSE EPRA/NAREIT Developed index, was up for the month at +0.9%, buoyed by lower interest rates. The Alerian MLP index felt the impact of lower energy prices and was down -5.6%. The near-month NYMEX oil contract was down -15.6% for the month amid global growth concerns. Gold continued its upward momentum, gaining another +3.9% for the month. The diversified Bloomberg Commodity index was down -7.4% for the month as broad-based demand for most commodities expected to be diminished in the short run.

Global Markets (continued)

US Treasury (UST) yields declined across the board in January, with the most dramatic moves taking place in the second half of the month as concerns regarding China's coronavirus outbreak escalated. In what became a favorable environment for fixed income, the high-quality government bond complex returned +2.4% for the month. The yield curve flattened materially, with the 2-year UST yield falling 26 bps while the 10-year UST yield declined 41 bps and settled at its intra-month low of 1.51%. As yields for developed market sovereign bonds outside of the US followed a similar pattern, the global stock of negative yielding debt expanded back to nearly $14 trillion.

The BloomBar US Aggregate Bond index underperformed risk-free US Treasuries on both an absolute and duration-matched basis. That said, with a gain of +1.9% in January, the benchmark's trailing 12-month performance of +9.6% has been quite remarkable given prevailing yield levels. Spreads for IG corporates were 9 bps wider for the month as investors stepped back slightly from credit risk. With the decline in UST yields overwhelming more modest spread widening, the benchmark's yield-to-worst moved 29 bps lower overall, and now resides at just 2.02%.

The BloomBar 1-15-Year Municipal index returned +1.5% in January. With investor cash still flooding into the market, and given the powerful interest rate rally more broadly, tax-exempt yields declined across the curve and established new all-time lows at several key maturity points. The 10-year municipal/UST ratio was relatively steady at ~78%.

The BloomBar US Corporate High Yield index was flat for the month, with results falling between IG bonds and higher-risk equities. Benchmark spreads were 54 bps wider on average, although the credit curve did flatten modestly. All-in yields were higher overall at just over 5.5%. With a relatively strong US dollar, unhedged international bonds underperformed. Local currency emerging market bonds were particularly weak, despite yields continuing to fall in several key countries.

Selected Bond Yields

10 Year Sovereign Bond Yields (%)		
	Current	Dec-19
Japan	-0.07	-0.02
Germany	-0.44	-0.19
France	-0.18	0.12
United Kingdom	0.52	0.82
Spain	0.23	0.46
United States	1.51	1.92
Italy	0.93	1.41
Mexico	6.61	6.89
Brazil	6.71	6.79

Source: Bloomberg

Indices Report (Periods Ending January 31, 2020)

Index Name	1 Month (%)	YTD (%)	1 Year (%)	3 Years (%)	5 Years (%)	10 Years (%)	15 Years (%)
Equity							
S&P 500	-0.04	-0.04	21.68	14.54	12.37	13.97	9.18
Russell 1000	0.11	0.11	21.39	14.33	12.13	13.97	9.32
Russell 1000 Growth	2.24	2.24	27.94	20.04	15.49	15.99	10.91
Russell 1000 Value	-2.15	-2.15	14.88	8.63	8.70	11.87	7.60
Russell 2500	-2.03	-2.03	12.25	9.08	8.93	12.73	8.89
Russell 2000	-3.21	-3.21	9.21	7.28	8.23	11.88	7.99
Russell 2000 Growth	-1.10	-1.10	13.91	11.48	9.60	13.40	9.06
Russell 2000 Value	-5.39	-5.39	4.38	3.10	6.71	10.28	6.81
Wilshire 5000 Cap Wtd	0.01	0.01	20.60	13.85	12.01	13.84	9.30
MSCI ACWI	-1.08	-1.08	16.67	11.62	9.10	9.73	7.50
MSCI ACWI ex US	-2.67	-2.67	10.50	8.14	5.46	5.69	5.66
MSCI EAFE	-2.08	-2.08	12.68	8.30	5.63	6.25	5.31
MSCI EAFE Local Currency	-1.22	-1.22	14.55	7.72	6.35	7.98	6.15
MSCI EAFE Growth	-0.57	-0.57	19.95	11.83	7.74	7.74	6.34
MSCI EAFE Value	-3.60	-3.60	5.55	4.79	3.44	4.68	4.21
MSCI Emerging Markets	-4.66	-4.66	4.21	8.28	4.87	4.14	7.48
Fixed Income							
ICE BofA ML 1-3 Yr Treasury	0.54	0.54	3.83	1.98	1.40	1.20	2.19
BloomBar US Aggregate	1.92	1.92	9.64	4.62	3.01	3.79	4.24
BloomBar Gov't Bond	2.42	2.42	8.90	4.05	2.34	3.13	3.76
BloomBar US Credit	2.34	2.34	13.99	6.45	4.29	5.40	5.21
BloomBar 10 Yr Municipal	1.94	1.94	8.61	5.36	3.66	4.76	4.70
BloomBar US Corp High Yield	0.03	0.03	9.40	5.87	6.00	7.44	7.21
FTSE World Govt Bond	1.62	1.62	6.12	4.33	2.42	2.00	2.94
BloomBar Global Aggregate	1.28	1.28	6.58	4.32	2.60	2.56	3.33
BloomBar Multiverse	1.19	1.19	6.61	4.40	2.79	2.76	3.48
Real Assets							
FTSE NAREIT US Real Estate	1.21	1.21	14.11	8.53	6.08	12.68	8.66
FTSE EPRA/NAREIT Dev RE	0.87	0.87	11.93	9.42	5.69	9.99	7.17
Bloomberg Commodity	-7.36	-7.36	-5.38	-3.47	-4.74	-4.74	-3.11
Cash and Equivalents							
US T-Bills 90 Day	0.13	0.13	2.22	1.70	1.10	0.59	1.40

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