

## Stock Market Update

January 27, 2020

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Please refer to Appendix – Important Disclosures.

### Volatility on the Rise, But Look Past Headlines

Viewed through the prism of the headlines, stocks, bonds, and commodities are responding to the uncertainty associated with a virus that originated in Wuhan, China and is now being reported around the world. This narrative overlooks two important details.

First, as stocks finished 2019 on a strong note and carried that strength into 2020, investor optimism and complacency became increasingly widespread. After a period of calm, this has left stocks vulnerable to near-term bouts of volatility. [With the underlying momentum trend intact, elevated optimism is not seen as a significant downside threat to stocks.](#)

Second, while stocks were making new highs in January prior to the news out of China, bond yields actually peaked in December. Yields were already moving lower when stocks began reacting to the virus-related headlines and the 10-year T-Note yield has dropped to its lowest level since October. While each individual bond trader might have his/her own cause for concern (geo-political risks, Democrat primary developments, impeachment related-news), the cumulative message from the bond market raises questions about the health of the U.S. and global economy.

Stocks can work through bouts of near-term volatility. This is especially the case if it leaves breadth and momentum trends intact and helps take the edge off of the sentiment indicators. Declining bond yields (and copper prices) reflect a more significant concern for stocks and the prospects for an earnings rebound this year. As discussed in our [2020 outlook](#), bond yields drifting higher over the course of the year would reflect economic strength and have bullish implications for stocks. Declining bond yields could put pressure on the Fed to cut rates again (futures current seeing a 75% chance of at least one rate cut in 2020), which could have negative implications for the economy and the stock market.

**Bottom line:** A continued decline in bond yields raises questions about the health of the economy and prospects for earnings growth in 2020. Headline-related volatility should help relieve investor optimism and has yet to damage the underlying trends for stocks. With popular averages just a few days removed from all-time highs, the benefit of the doubt remains with the bulls.

## Appendix – Important Disclosures and Analyst Certification

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