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In this month's recap: The coronavirus becomes the leading news story in the financial markets, sending stock indices and Treasury yields lower; oil futures slide; consumer confidence, hiring, and manufacturing data offer bright spots.

Monthly Economic Update

Presented by Jason Knox AIF®, CRC®, March 2020

THE MONTH IN BRIEF

In February, anxieties about the novel coronavirus (COVID-19) rippled through stock, bond, and commodity markets. Stories about the disease dominated the news cycle, and concerns that a pandemic might occur hurt equities. The S&P 500 slipped 8.41% for the month, and foreign stock markets also retreated. Oil tumbled below \$50. Away from the trading floors, the latest fundamental economic indicators showed manufacturing and job creation strengthening and consumer confidence at high levels. Data on home sales were mixed; home loans grew less expensive.¹

DOMESTIC ECONOMIC HEALTH

Past the coronavirus headlines, the latest round of U.S. economic indicators appeared largely encouraging.

The Department of Labor's January jobs report topped the expectations of economists surveyed by Bloomberg: while they forecast 165,000 net new hires, the gain was actually 225,000. The labor force participation rate (the percentage of people either working or looking for work) hit 63.4%, a level unseen since 2013. The main jobless rate rose 0.1% to 3.6%, and the U-6 rate, counting the underemployed and the unemployed, rose 0.2% to 6.9%. Hourly wages were up 3.1% year-over-year.²

American manufacturing picked up its pace, according to the Institute for Supply Management (ISM). January's ISM Factory Purchasing Managers Index, or PMI, came in at 50.9, a rise of 3.1 points, which signaled the first sector expansion in six months. ISM data also showed monthly improvements in new orders, prices for manufactured goods, and employment. The Institute's Non-Manufacturing PMI rose half a point to 55.5 in January.^{2,3}

Inflation also rose in January. The annualized rise in the federal government's Consumer Price Index reached 2.5%. Yearly inflation last ran at that pace in October 2018. Core inflation (minus food and energy prices) saw a 12-month advance of 2.3%. All this said, the Federal Reserve prefers to use its core Personal Consumption Expenditures (PCE) price index to track rising consumer costs, and in January, the core PCE index was still under the Fed's 2% yearly inflation target.⁴

Statistics related to consumer spending and sentiment did not hint at economic slowing. Retail sales advanced 0.3% in January; the gain was even larger (0.4%) with gasoline and other automotive purchases removed. Personal spending rose 0.2% in January, and personal incomes improved 0.6%. The University of Michigan's monthly Consumer Sentiment Index went back above 100, finishing February at 101.0. The Conference Board's February Consumer Confidence Index was up at 130.7.⁵

While delivering his semi-annual testimony on monetary policy to Congress on February 11, Federal Reserve Chairman Jerome Powell noted that central bank officials were "carefully" watching coronavirus developments and acknowledged that the global economic effects of the virus could "very likely" impact America. On February 28, Powell stated that central bank policymakers would not be hesitant to "use our tools and act as appropriate to support the economy."^{6,7}

GLOBAL ECONOMIC HEALTH

Analysts attempting to gauge the impact of COVID-19 on the global economy weighed some big questions last month. Could corporations rearrange their supply chains in the near term to be less dependent on China? In the event of a pandemic, would lower interest rates be any kind of meaningful response to interruptions in the flow of goods and services or consumer spending pullbacks? According to the *New York Times*, one respected Wall Street analyst wrote in a research note that he would "rather have a vaccine than a rate cut."⁸

Speaking of cuts (of a different kind), China announced a cut in some of the tariffs it had imposed on U.S. goods. It said that 10% and 5% import taxes on about \$75 billion of U.S. imports would be halved on February 14, the same day on which the U.S. halved tariffs on \$120 billion of Chinese products to 7.5%.⁹

As February ended, the latest economic indicators for the 19-country euro area showed unemployment at 7.4% (down nearly half a percentage point from a year earlier), inflation at 1.4%, and gross domestic product (GDP) at just 0.1% for the last quarter of 2019.¹⁰

WORLD MARKETS

Just how did some of the big foreign benchmarks fare in February? Broadly speaking, they fared worse than our major equity indices. Among the least hurt: Hong Kong's Hang Seng, falling 0.43%; China's Shanghai Composite, down 3.23%; Malaysia's KLCI, off 4.45%; India's Nifty 50, slipping 7.08%.^{11,12}

Other losses were steeper. Mexico's Bolsa tumbled 7.59%; Australia's All Ordinaries, 8.27%; South Korea's Kospi, 8.72%; Japan's Nikkei 225, 8.93%. MSCI's multi-regional EAFE index took a 9.23% fall. Double-digit drops came for France's CAC-40 (10.39%), Brazil's Bovespa (10.57%), Germany's DAX (10.76%), and Russia's RTS (17.33%).^{11,13}

COMMODITIES MARKETS

The rollercoaster ride of gold and the fall of oil stood out in the commodities sector last month. Gold jumped above \$1,650 on the New York Mercantile Exchange (NYMEX) late in the month, then abruptly slipped from that level, closing at \$1,585.30 on February 28 and recording a monthly loss of 0.44%. Meanwhile, energy traders grew uneasy about global oil demand in the wake of more COVID-19 cases, and this influenced the performance of West Texas Intermediate crude, which declined 12.73% in February to a month-ending NYMEX price of \$44.97. The U.S. Dollar Index rose 0.24% for the month, closing out February at 98.10.^{14,15}

How did other commodity futures perform? In the energy sector, unleaded gasoline declined just 0.52%, while heating oil fell 8.95%, and natural gas retreated 8.41%. Silver, which ended February at a NYMEX price of \$16.54, sank 7.94%. Platinum dipped 10.48 in February, while copper rose 1.09%. Among ag futures, corn lost 4.06%; wheat, 4.47%; cotton, 3.70%; sugar, 1.51%. Coffee improved 5.53%; cocoa, 2.46%; soybeans, 1.35%.¹⁴

REAL ESTATE

Late last month, 10-year Treasury yields fell to record lows, with positive implications for prospective homebuyers. Mortgage rates tend to move in the direction of Treasury yields. Freddie Mac's February 27 Primary Mortgage Market Survey showed the mean interest rate on a 30-year home loan at 3.45%, down 0.90% across the past 12 months. For the 15-year loan, the number was 2.95%, down 0.82% year-over-year. (In the

January 30 PMMS, the average interest rate for a 30-year mortgage was at 3.51%; the average interest rate for a 15-year mortgage, at 3.00%.)^{16,17}

Data from the National Association of Realtors showed existing home sales retreating 1.3% in January. A seller's market remained firmly in place. There was just 3.1 months of existing home inventory available in the first month of the year, and the median sales price was \$266,300, up 6.8% from a year before. New home sales (which make up a relative sliver of the housing market) advanced 7.9% in January, according to a Census Bureau report.^{5,18}

Another Census Bureau report showed permits for new residential construction increasing 9.2% in January, to a 13-year peak. Housing starts were down 3.6% in January.^{5,19}

TIP OF THE MONTH



Delegation is a key to sustaining a small business. A business owner should try to hand off tasks that can be done easily (or better) by others.

LOOKING BACK, LOOKING FORWARD

February may be remembered as a month when unease about the coronavirus unsettled the stock market, yet it was also a month that saw the S&P 500 achieve a new record close (3,386.15, on February 19).²⁰

The S&P fell sharply from that lofty height in the last ten days of the month, suffering a correction. The respective February 28 settlements for the major U.S. stock indices: Dow Jones Industrial Average, 25,409.36; S&P 500, 2,954.22; Nasdaq Composite, 8,567.37.²¹

The yield of the 10-year Treasury bond was at 1.13% when February ended, a record low. Bond yields generally fall as bond prices rise, and rising demand for Treasury notes helped to drive Treasury prices higher in global bond markets.¹⁶

MARKET INDEX	Y-T-D CHANGE	1-MO CHANGE	2019
DJIA	-10.96	-10.07	+22.34
NASDAQ	-4.52	-6.38	+35.23
S&P 500	-8.56	-8.41	+28.88

BOND YIELD	2/28 RATE	1 MO AGO	1 YR AGO
10 YR TREASURY	1.13	1.51	2.73

Sources: wsj.com, bloomberg.com, treasury.gov - 2/28/20^{21,22,23}

Indices are unmanaged, do not incur fees or expenses, and cannot be invested into directly. These returns do not include dividends. 10-year Treasury yield = projected return on investment, expressed as a percentage, on the U.S. government's 10-year bond.

When will stocks recover from their deep descent, and when will stock traders reach a point of capitulation? Right now, Wall Street must contend with this unknown and others. The coronavirus outbreak, a black swan event, may suppress bullish sentiment for some time. It is possible that central bank monetary policy adjustments, vaccine progress, or better-than-expected corporate guidance may breed some optimism. At this point, investors in for the long game might want to sit, watch, and wait.

QUOTE OF THE MONTH



*“Let us be **grateful** to people who make us **happy**: They are the charming gardeners who make our souls **blossom.**”*

MARCEL PROUST

UPCOMING RELEASES

Here are some of the economic news items for investors to consider in March: the February Institute for Supply Management Non-Manufacturing Index (3/5), February's Consumer Price Index (3/11), February's Producer Price Index (3/12), the initial March Consumer Sentiment Index from the University of Michigan (3/13), February retail sales (3/17), February housing construction activity (3/18), February existing home sales (3/20), February new home sales (3/24), February durable goods orders (3/25), the third estimate of fourth quarter (and 2019) gross domestic product from the Bureau of Economic Analysis (3/26), February personal spending and income and the final March University of Michigan Consumer Sentiment Index (3/27), and then the Conference Board's March Consumer Confidence Index and the latest S&P/Case-Shiller Home Price Index (3/31).

THE MONTHLY RIDDLE



*What gets **broken** without being **held**?*

LAST MONTH'S RIDDLE: I am soft, and you can serve me indoors or outdoors, but you would not want to eat me. What am I?

ANSWER: A tennis ball.

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The NIFTY 50 (National Index Fifty) is the broad-based stock market index for the Indian equity market. The Mexican Stock Exchange, commonly known as Mexican Bolsa, Mexbol, or BMV, is the only stock exchange in Mexico. Established in January 1980, the All Ordinaries is the oldest index of shares in Australia. It is made up of the share prices for 500 of the largest companies listed on the Australian Securities Exchange. The Korea Composite Stock Price Index, or KOSPI, is the representative stock market index of South Korea, like the S&P 500 in the United States. The Nikkei-225 Stock Average is a price-weighted average of 225 top-rated Japanese companies listed in the First Section of the Tokyo Stock Exchange. The MSCI EAFE Index is an equity index which captures large and midcap representation across 21 developed markets countries around the world, excluding the U.S. and Canada. The CAC-40 Index is a narrow-based, modified capitalization-weighted index of 40 companies listed on the Paris Bourse. The Bovespa Index, best known as Ibovespa, is the benchmark index of about 60 stocks that are traded on the B3 (Brasil Bolsa Balcão). The DAX is a blue-chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange. The RTS Index is a free-float capitalization-weighted index of 50 Russian stocks traded on the Moscow Exchange, calculated in U.S. dollars. The U.S. Dollar Index measures the performance of the U.S. dollar against a basket of six currencies. Additional risks are associated with international investing, such as currency fluctuations, political and economic instability and differences in accounting standards. This material represents an assessment of the market environment at a specific point in time and is not intended to be a forecast of future events, or a guarantee of future results. 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