GBA Financial

Newsletter
February 2020

COMMENTARY

After the S&P 500 broke out to new all-time highs in late October 2019, we became more bullish as we have seen similar setups in previous market advances within this current secular bull market. The S&P 500 advanced pretty swiftly since breaking out and the pace of the advance brought the S&P 500 into an overbought position. This, coupled with other technical indicators, mean we were watching the S&P 500 3300 level for a possible pause in the market as short-term and intermediate-term investors could be looking to take profits from the three-month advance. Coupling the technical indicators with the news of the Coronavirus outbreak and we started to see the stock market sell off. That's where we're at, but let's look at a couple of different scenarios we could see play out over the next few weeks and months:

- Base Case (Blue line) – we expect markets to trade sideways as buyers and sellers adjust to current headline news and profit takers (sellers) trade shares to the "buy-the-dip" crowd. Ultimately, we believe this correction will be more of a time-based correction versus an overall price correction and the market will resolve itself higher.
- Bear Case (Red line) – if the information and spread of the Coronavirus worsens and begins to impact world economies more significantly, the possibility of a price correction increases. If this scenario plays out, we would anticipate support areas near the previous resistance zone and 200-day moving average (yellow line).
- Bull Case (Green line) – if you are paying attention to the news, you are unlikely to hear many people commenting about the possibility that this pullback will be short lived and we'll be breaking out to new all-time highs relatively soon. The contrarian in us isn't letting than option be forgotten.

ECONOMIC HIGHLIGHTS

S&P 500	3,225.52
DIJA	28,256.03
NASDAQ	9,150.94
OIL	$51.56/barrel
GOLD	$1,587.90/ounce
10-YEAR TREASURY FIELD	1.52%
UNEMPLOYMENT	3.50%
GDP	2.10% (Q3 2nd est)
CONSUMER PRICE INDEX (CPI)	0.2% (12 mo change +2.3%)
CORE CPI	0.1% (12 mo change +2.3%)

US Housing starts surged 16.9% to an annual rate of 1.608 million units, reaching a 13-year high. The housing market has been boosted by low mortgage rates, as the 30-year fixed mortgage rate has fallen to 3.65%

GDP grew at 2.1% annual rate in the fourth quarter of 2019. This moderate growth was in line with forecasts.

While the total impact that the Coronavirus will have on the world economy is unknown, we do know that it will likely be a drag on China's economy. As mentioned above, Goldman Sachs is predicting a 40bps hit to their GDP.

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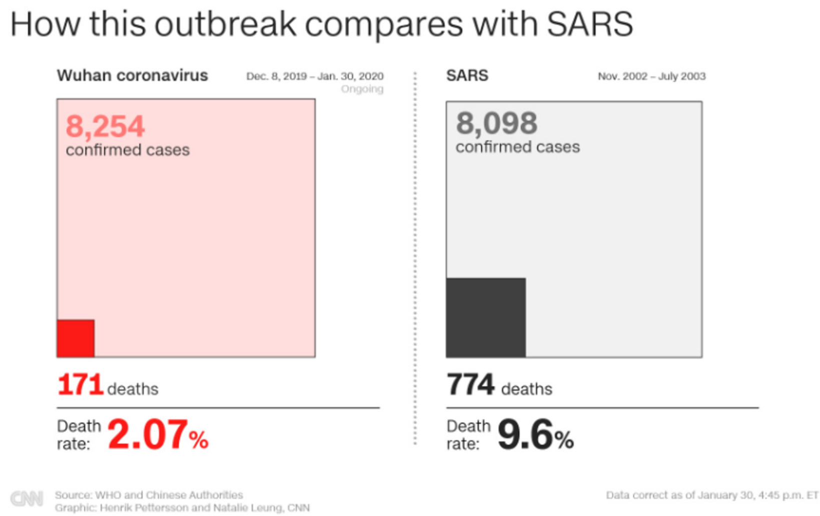
The biggest news from January is the Coronavirus Outbreak. Some updates will be provided here, but the information is changing rapidly so talking points may be outdated by the time you read this.
As of January 30th, there have been over 8,000 confirmed cases of the Coronavirus. With reports constantly changing, it is too soon to determine the impact Coronavirus will have overall. The graph below is helpful in comparing the Coronavirus and SARS. The epicenter of the outbreak is a key hub for China's high-speed rail network and that could increase the spread of the virus. Goldman Sachs predicts a 40 basis point hit to China's GDP, but those numbers could change depending on what happens over the next few weeks.



Our long-term view (multiple years) of equity markets is bullish. The market is still in the middle part of a secular bull market, with the previous two secular bull markets lasting 17 years. Inside of a long-term secular bull market, a bear market and a recession are expected, but we currently do not project either in 2020. Our 2020 year-end S&P 500 target is set at 3900. Global equity markets have lagged the U.S. markets since the Great Financial Crisis, but we believe a well-diversified portfolio benefits investors over the long-term. From a valuations perspective, international equities still look attractive relative to U.S. equities. In Fixed Income, we are starting to shift to a more core/investment grade allocation. We are in the process of moving out of floating rate bonds and allocating more to investment grade quality bonds. This is a more conservative bond position and protects on the downside if our bullish call does not play out. Our research team is constantly evaluating our products and tactical positions inside both the fixed income portfolio and equity portfolio by looking at both larger trends and short-term opportunities. With the daily monitoring of individual accounts, we continue to rebalance accounts when they fall too far from their equity-to-fixed income ratio.

MARKET TRACKER

INDEX	3 MO	1 YR	3 YR	5 YR
S&P 500	6.72%	21.68%	14.54%	12.37%
MSCI EAFE	2.23%	12.10%	7.76%	5.12%
BAR AGG BOND	1.80%	9.94%	4.62%	3.01%

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The Dow Jones Industrial Average (DJIA) is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the Nasdaq. The Nasdaq is a global electronic marketplace for buying and selling securities, as well as the benchmark index for U.S. technology stocks and is also used to refer to the Nasdaq Composite, an index of more than 3,000 stocks listed on the Nasdaq exchange. The MSCI EAFE index is designed to measure the equity market performance of developed markets (Europe, Australasia, Far East) excluding the U.S. and Canada. The Index is market-capitalization weighted. The Barclays Capital U.S. Aggregate Bond Index, which used to be called the 'Lehman Aggregate Bond Index', is a broad base index, maintained by Barclays Capital, and it often used to represent investment grade bonds being traded in the U.S. Barclays Capital (BarCap) U.S. Aggregate Bond Index is made up of the Barclays Capital U.S. Government/Corporate Bond Index, Mortgage-Backed Securities Index, and Asset-Based Securities Index, including securities that are of investment grade quality or better, have at least one year to maturity, and have an outstanding par value of at least $100 million.

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