

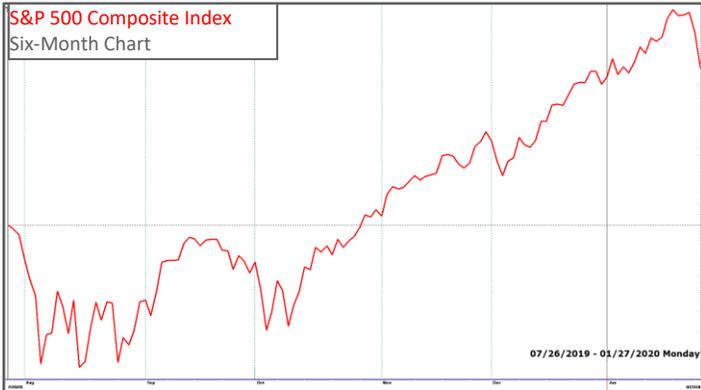


RGB Perspectives

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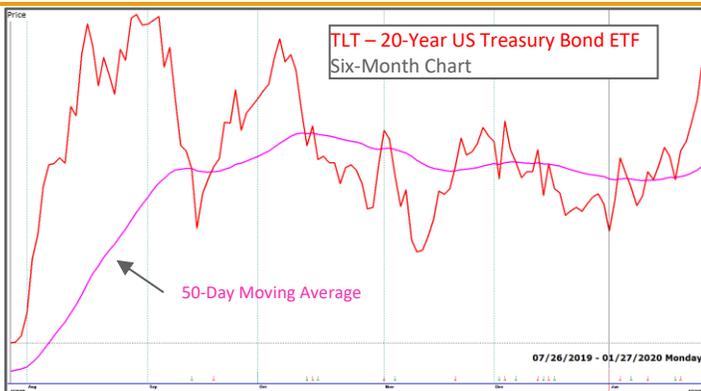
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The market took a breather today as the equity markets sold off. The driving force behind today's selloff, according to the media, was the coronavirus that has spread from China to other countries, including the U.S. Whether it was the coronavirus or some other trigger, the equity market was ripe for some sort of pullback. The **S&P 500 Composite Index** fell -1.6% today and is down 2.6% from its recent high.



One way to assess the overall risk in the market is to watch the behavior of the junk bond market. Traders tend to sell junk bonds when risk rises, which drives junk bond yields higher and junk bond prices lower. The **Merrill Lynch High-Yield Master II Index** fell 0.7% today and is down 1.0% from the high set last week. While the index remains above its 50-day moving average, it is close to crossing below that level which would signal that short-term risk is elevated.



When risk rises so do treasury bond prices. During these times investors tend to sell riskier assets, such as equities and junk bonds, and flee to the relative safety of US Treasuries. **TLT (20-Year US Treasury Bond ETF)** has increased 4.5% over the last week as investors seek the safety of US treasury bonds.

While the short-term trend of the market has changed, the intermediate- and longer-term trends remain up. The market has been in a strong uptrend since October and was considered overbought by most measures so a short-term decline was not surprising. The stock market goes up in a series of stronger up legs followed by weaker down legs and that pattern remains intact. The down leg that started last week is neither surprising nor troubling at this point. If the short-term downtrend turns into something more substantial, I will become more concerned.

I have not made any changes to the RGB Capital Group investment strategies at this point. Some of our junk bond positions (held in our Core and Balanced strategies) have declined over the last few trading days and are close to our preset sell triggers. If the recent decline persists, we will likely start to reduce our exposure to the market.

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