

Risk markets ended the month with a very different temperature than how they began. Almost to the day the Phase one trade deal was inked, the coronavirus in China reared its head. Global equity markets were up by over 2.5% mid-month but ended down 1.4%. In true risk-off fashion, pro-cyclical assets (oil, stocks, low rated bonds, commodities) gave back early month gains and finished in the red while safe havens (treasuries, gold, U.S. dollar, Yen, Franc) notched solid gains. The 3m/10yr yield curve slope moved from 0.37% to -0.04% during the month as interest rates fell sharply (10yr from 1.92% to 1.51%). Overall, despite a basecase of continued volatility, our view of stabilizing global growth and hopeful resolution to the CoV outbreak has us firmly in the buy the dip camp with respect to risk assets.

Market Anecdotes

- The U.S. and China executed the highly anticipated trade deal on January 15th. China committed to purchasing \$200b of U.S. goods over the next two years and will develop a plan to address IP rights. CoV outbreak has China asking to flex the disaster clause imbedded in the agreement.
- Phase 1 trade deal also changed the way disputes are settled. Rather than arbitration through international institutions (WTO), U.S. and China will negotiate directly leaving both sides the option of reinstating tariffs if not satisfied with the result.
- The CoV outbreak will take time to quantify but based on preliminary indications, state responses, and prior pandemic experiences, the CoV impact on global commerce is likely to be relatively short-lived, which have most strategists in the 'buy the dip' camp.
- January's FOMC meeting produced no moves or surprises. They addressed excess reserves in the U.S. banking system (\$1.5t target) and reiterating patience with regard to inflation.
- The ECB meeting saw Christine Lagarde suggest the ECB isn't ready to follow Sweden's lead in leaving NIRP behind, meaning accommodative measures will remain for the foreseeable.
- The PBoC responded to the economic slowdown and CoV outbreak with stimulus measures including lowering required reserves and injecting over \$130b into the banking system.
- Brexit became official at 11pm London time on January 31st, formally ending a 47-year relationship between the U.K. and the European Union. Negotiations and transition will take place over the remainder of 2020 during which time the U.K. will continue to pay into the EU.
- Plunging yields (CoV) pushed the 30yr bond to its second-best January return since 1973. The 10yr bond also had its best month since last August, leaving the 3m/10yr slope slightly inverted.
- Nearly two-thirds of the S&P 500 have reported 4Q earnings. Beat rates are 71%(e) and 67%(r) with blended growth rates of 0.7%(e) and 3.5%(r), both showing improvement over last week's clip.
- The 3m/10yr curve inverted for only two days at the beginning of the month. A fairly reliable Fed policy bellwether, this continues monitoring given CoV and overall sluggish global growth.

Economic Release Highlights

- January's jobs report easily exceeded expectations (225,000a vs 160,000e). The unemployment rate ticked slightly higher to 3.6% but wages remained very benign at a 3.1% annual growth rate.
- The December JOLTS report continued its noticeable trend lower in job openings (6.423mm) which suggests a future slowing of job creation.
- Core PCE, the Fed's preferred inflation gauge, came in below expectations (1.3a vs 1.6e). Headline and core CPI both came in at a 2.3% annualized clip.

- U.S. GDP for the fourth quarter beat expectations (2.1% v 2.0%) and expectations for first quarter are 2.5%-3.0%.
- January U.S. PMI manufacturing index registered 51.9a vs 51.7e while the ISM manufacturing index beat expectations for the first time in six months (50.9a vs 48.7e). The January ISM non-manufacturing index beat expectations (55.5a vs 55.2e).
- PMIs in both Germany (45.3a vs 45.2e) and the Eurozone (47.9a vs 47.8e) beat expectations.
- January consumer confidence came in at 131.6, beating expectations (128) and moving notably higher over December's reading of 128.2. UofM

consumer sentiment came in above expectations (99.8a vs 99.1e).

- The January housing market index posted one of its strongest reads in 34 years at 75.
- December's housing starts (1.608M) and permits (1.416M) both came in strong. Existing home sales (5.54mm) continued the trend of strong housing market indications.
- December's retail sales report provided a constructive view on consumer spending. Headline number rose 0.3% but all sub-components beat expectations including both ex/autos (+0.7%) and the control group (+0.5%).

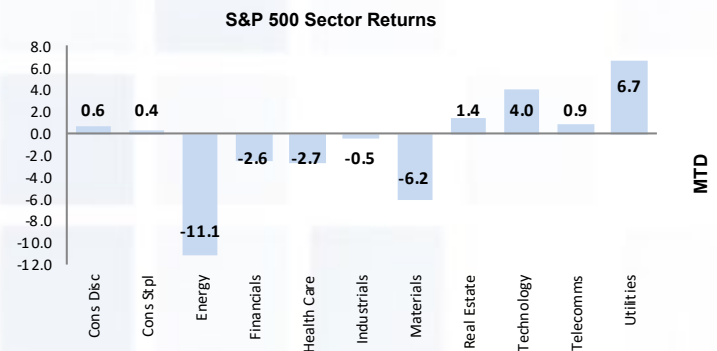
Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	28256	(0.89)	5.11	(0.89)	15.79	15.15
NASDAQ	9151	2.03	10.64	2.03	27.03	18.96
S&P 500	3226	(0.04)	6.72	(0.04)	21.68	14.54
Russell 1000 Growth		2.24	9.99	2.24	27.94	20.04
Russell 1000 Value		(2.15)	3.65	(2.15)	14.88	8.63
Russell 2000		(3.21)	3.68	(3.21)	9.21	7.28
Russell 3000		(0.11)	6.68	(0.11)	20.53	13.82
MSCI EAFE		(2.08)	2.27	(2.08)	12.68	8.30
MSCI Emg Mkts		(4.66)	2.38	(4.66)	4.21	8.28
Fixed Income	Δ Yield	1 Mo	3 Mo	YTD	1 Yr	3 Yr
US Aggregate	2.65	(0.05)	(0.06)	(0.05)	(0.04)	0.26
High Yield	5.46	0.03	(0.11)	0.03	(0.15)	(0.52)
Municipal	2.10	(0.05)	(0.06)	(0.05)	(0.14)	(0.10)

Commodities	1/31/20	11/30/19	8/31/19	5/31/19
Oil (WTI)	49.59	58.12	55.07	53.49
Gold	1584.20	1460.15	1528.40	1295.55
Currencies	1/31/20	11/30/19	8/31/19	5/31/19
USD/Euro (\$/€)	1.11	1.10	1.10	1.12
USD/GBP (\$/£)	1.32	1.29	1.22	1.26
Yen/USD (¥/\$)	108.50	109.47	106.30	108.66
Treasury Rates	1/31/20	11/30/19	8/31/19	5/31/19
3 Month	1.55	1.59	1.99	2.35
2 Year	1.33	1.61	1.50	1.95
5 Year	1.32	1.62	1.39	1.93
10 Year	1.51	1.78	1.50	2.14
30 Year	1.99	2.21	1.96	2.58

Style Returns

	V	B	G
L	-2.15	0.11	2.24
M	-1.95	-0.80	0.94
S	-5.39	-3.21	-1.10

MTD



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L	-2.15	0.11	2.24
M	-1.95	-0.80	0.94
S	-5.39	-3.21	-1.10

YTD





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