MONTHLY MARKET COMMENTARY
January 2020

ECONOMY: Growth Forecasts Uncertain

Q4 GDP SLOWS
The U.S. economy grew 2.1% in Q4, closing out a year in which GDP decelerated to its slowest pace in three years. For the full year, the economy grew 2.3%, below the 2.9% increase in 2018 and the 2.4% gain in 2017, according to the initial estimate from the Commerce Department. Continued gains in consumer spending helped propel the economy to close out the year, while economists view the Q4 numbers as reflective of a broader trend toward steady but slower growth.

FED MAINTAINS PAUSE ON RATES
The Federal Reserve’s first meeting of the year yielded no changes, as the central bank held interest rates steady. The decision was unanimous and marked the second straight meeting with no changes to rates following three consecutive reductions in 2019. The Fed remains committed to getting inflation closer to their 2% target, which they consider healthy for a growing economy.

JOBS REPORT BEATS EXPECTATIONS
The January jobs report was stronger than expected, as the U.S. economy added 225,000 jobs versus economists expectations of 160,000. This marks the 112th month of straight gains. Unemployment ticked up slightly to 3.6%, as the labor force participation rate edged up slightly to 63.4%. Average hourly earnings rose by $0.07 over the past year to $28.44.

PHASE 1 OFFSET BY CORONAVIRUS?
The ISM manufacturing index came in at 50.9 in January after touching the lowest level since the recession in December. Manufacturing has been in contraction territory for five straight months. The Phase 1 trade deal was a positive, offset by the unknown implications on global growth and supply chains from the coronavirus outbreak. The ISM non-manufacturing index (services) remained in expansion territory throughout 2019 and came in at 55.5 in January, with most subcomponents also in expansion territory.

IMF LOWERS EXPECTATIONS
The International Monetary Fund (IMF) has become less optimistic about global growth, warning that the outlook remains weak. In October the IMF forecast a global growth rate of 3% for 2019 and of 3.4% for 2020. The IMF has now revised down those forecasts to 2.9% and 3.3%, respectively.

EU GROWTH WEAK
Q4 GDP rose by 0.1% over the previous quarter in the European Union (EU) according to the initial estimate from Eurostat, the statistical office of the EU. GDP had grown by 0.3% in Q3 and put 2019 economic growth for the region at 1.4%.

BREXIT OFFICIAL?
More than 3 1/2 years after the landmark Brexit referendum, the UK officially exited the European Union (EU) on January 31st. The UK had been an EU member since 1973. The UK and EU will enter a transition period until the end of this year, during which emigration and trade will continue as before. Negotiations over trade will continue before the UK is cut off entirely.

IMPACT LIKELY GREATER THAN SARS
Cases of the new coronavirus continue to climb with the virus now estimated to be responsible for more than 1,300 deaths, spanning 5 continents and at least 25 countries. The outbreak’s economic impact remains uncertain but will likely be greater than the 2003 SARS outbreak, considering China plays a much larger role in the global economy than it did 17 years ago.

RECESSION IN MEXICO
Mexico’s economy entered a recession in 2019 according to data released by the country’s statistics institute. The Mexican economy contracted 0.2% quarter-over-over in Q4, the third quarterly contraction in Mexico in 2019. This follows revised Q3 data indicating the Mexican economy fell into technical recession in the first half of the year, while also indicating the economy contracted for the entire year.
GLOBAL EQUITIES: Market Rally Catches Coronavirus

**Coronavirus Halts Rally**
The Wall Street adage “as January goes, so goes the year,” which has proven to be correct 71.4% of the time, ended with the S&P 500 posting a 0.04% decline for January, despite registering six new closing highs during the month. The U.S. equity markets started the year off strong, extending the positive gains from 2019. Positive earnings and the signing of phase one of the U.S.-China trade deal helped push U.S. equities higher. By month’s end, however, the market succumbed to concerns about the coronavirus outbreak in China and its potential global impact.

**Europe Follows U.S. Pattern**
European markets closely mimicked those in the U.S. After starting the month off strong, due to positive economic and trade news, European markets sold off by month’s end. Increasingly negative news flow from China about the spread and severity of the coronavirus led to a large sell-off across European stock markets. The MSCI Europe Index declined 2.51% for the month. The UK, France, and Germany, which comprise nearly 58% of the index, all declined in excess of 3% for the month.

**The Same Story in EM**
The MSCI Emerging Markets Index declined 4.66% to start that year as fears that the threat of coronavirus contagion could dampen the recovery in global growth. While equity markets in China fell 4.80%, the weakest performers in the Asian region were Thailand (-8.56%) and the Philippines (-8.01%)—both popular tourist destinations. Export-oriented countries such as Taiwan (-4.70%) and Korea (-5.31%) also suffered. Latin America was the worst performing region, down 5.60%, as the commodity price declines impacted the region (only Mexico generated a positive return).
YIELD CURVE FLATTENS...THEN INVERTS
January saw yields decline and the yield curve flatten as the Federal Reserve left rates unchanged and concerns grew over the coronavirus. The benchmark 10yr U.S. Treasury ended the month at 1.52%, down 0.40% from the end of 2019. The yield curve flattened and then inverted by months end with the 3mo Treasury Bill yielding 1.55%, more than the yield on the 10yr U.S. Treasury. Mortgage backed securities gained 2.49% and posted the highest total return to start the year, as demand for high-quality assets was strong. Investment Grade Corporates posted the second-highest total returns, up 2.34%, as long maturities outperformed shorter sectors. High Yield Corporates barely posted positive returns as the sector bore the brunt of virus-related global growth concerns.

MUNICIPAL RALLY CONTINUES
2020 began with a surprisingly strong rally as tax-free yields fell sharply across the curve, pushing long-term, high-grade yields to the lowest levels since the 1950’s. The Barclays Municipal Bond Index returned 1.80% for the month. The municipal yield curve flattened as long-term rates fell more than short-term yields. Demand for municipals was heavy throughout the month as January inflows totaled $12.4B, exceeding the record pace of 2019. Higher risk strategies outperformed for the month and investors who sought more interest rate risk and/or credit exposure were rewarded.
**HEDGE FUNDS CAPITAL SOARS**
The hedge fund industry began the new decade at a record capital level as global equity markets surged to end the decade, driven by investor optimism regarding the U.S economy. Total hedge fund capital surged to $3.32 trillion, representing a quarterly increase of over $80 billion and surpassing the previous record of $3.24 trillion set in mid-2019, according to data from Hedge Fund Research, an established index, analysis and research firm within the global hedge fund industry.

**TOUGH START FOR ENERGY SECTOR**
After underperforming in 2019, the energy sector weakened to start the new year as impacts of the coronavirus weighed on markets and energy prices. Crude oil prices declined 15.6%, the worst month since last May, while the Bloomberg Energy Subsector declined 14.78% and natural gas prices ended the month near a 3-year low. Large-cap energy stocks declined 11.1% on the month and high yield energy bonds declined 1.7%. MLPs continued their 2019 trend of underperforming as the Alerian MLP Index declined 5.61% in January.

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