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Independent Investment Consultants

January 2020: Market Review

The rally in global equity prices stalled in January as the coronavirus outbreak rattled markets. Concerns that the coronavirus would cause a slowdown in economic activity in China pushed bond yields lower and the spread between the 10-Year and 3-Month U.S. Treasury bonds inverted during the month. As expected, the Federal Reserve held rates constant at the January meeting and indicated a stronger commitment to boosting inflation. The S&P 500 Index was relatively flat during the month as the escalation in the coronavirus situation led to the elimination of all year-to-date gains on the last day of the month. The Dow Jones Industrial Average fell -0.90% while the tech-heavy NASDAQ Composite rose +2.0%.

In U.S. economic news, the initial estimate of fourth quarter real GDP grew at a 2.1% annualized rate, driven by a decline of imports and an increase in federal government expenditures. Consumer spending increased at an annualized rate of 1.8%, lower than the two most recent quarters but still stronger than the first and fourth quarters of 2018. Regarding trade developments, the U.S. and China signed the first phase of the trade deal on January 15. The Fed held the Federal Funds target rate range constant during the January meeting but did adjust the interest on excess reserves rate to 1.6%, an increase of 5 bps. The most recent S&P/Case-Shiller National Home Price Index report showed that on a month-over-month basis, home prices were up +0.2% in November, while on a year-over-year basis, prices were +3.5% higher than a year ago. Among commodities, WTI crude oil ended January at $52, sliding from $61 at the end of December due to falling demand from China. Gold rose from $1,520 at the end of 2019 to $1,583 at the end of January.

Within domestic equities, growth stocks outperformed relative to value stocks in all capitalization sizes. Within large cap stocks, the Russell 1000 Growth Index added +2.2% versus a -2.2% return for the Russell 1000 Value Index. In mid cap equities, the Russell Midcap Growth Index gained +0.9% for the month while the Russell Midcap Value Index declined -2.0%. In small cap stocks, the Russell 2000 Growth Index fell -1.1% during the month while the Russell 2000 Value Index slid -5.4%.

Major international indexes posted declines for the month in the risk-off environment caused by the coronavirus. The U.K. formally exited the European Union at the end of January and concerns over new trade deal negotiations remain. The MSCI EAFE Index fell -2.1% while the MSCI Europe Index declined -2.5% for the month. The MSCI Pacific Index decreased -1.5% in January. The MSCI Emerging Markets Index posted the weakest results, returning -4.7% in January. Emerging market monthly returns were negatively impacted by weakness in Brazil (-7.6%), Korea (-5.3%), and China (-4.8%).

U.S. fixed income markets were positive as yields tumbled in January. The yield on the 10-Year Treasury closed at 1.51%, down from last month's close of 1.92%. The spread between the 10-Year and 2-Year yields ended the month at 18 bps, a sharp decline from a spread of 34 bps at the end of December. Furthermore, the spread between the 10-Year and the 3-Month Treasury yields inverted at the end of the month. The Bloomberg Barclays U.S. Aggregate Bond Index added +1.9% for the month. Long-dated bonds were the strongest performers in January as the Bloomberg Barclays Treasury 20+ Year Index increased +7.0%. The Bloomberg Barclays U.S. Treasury Index added +2.4%. High yield bonds were flat for the month, as measured by the Bloomberg Barclays Corporate High Yield Bond Index.

U.S. equity indexes posted modest declines in January as the potential impact of the coronavirus curbed market optimism from the U.S. and China trade deal, leading to equity price declines and increased volatility at the end of the month. The flattening of the yield curve indicates investors' concerns that the coronavirus could be a significant headwind to global economic growth. Despite ongoing warning signs from manufacturing data, non-manufacturing data continues to show strength. Consumers' balance sheets are healthy and the unemployment rate remains low. Furthermore, central banks are set to maintain their accommodative stance. However, risks remain with the potential fallout of the coronavirus outbreak and ongoing uncertainty regarding a longer-term trade agreement between the U.S. and China.